

BANK OF CHILE
Form 6-K
January 30, 2017
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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, 2017

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.

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Form 20-F Form 40-F

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-

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Consolidated Financial Statements

BANCO DE CHILE AND SUBSIDIARIES

Santiago, Chile

December 31, 2016 and 2015

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BANCO DE CHILE AND SUBSIDIARIES

(Translation of consolidated financial statements originally issued in Spanish)

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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

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For the years ended December 31, 2016 and 2015

(Free translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	2016 MCh\$	2015 MCh\$
ASSETS			
Cash and due from banks	7	1,408,167	1,361,222
Transactions in the course of collection	7	376,252	526,046
Financial assets held-for-trading	8	1,405,781	866,654
Cash collateral on securities borrowed and reverse repurchase agreements	9	55,703	46,164
Derivative instruments	10	939,634	1,127,122
Loans and advances to banks	11	1,172,917	1,395,195
Loans to customers, net	12	24,775,543	23,956,275
Financial assets available-for-sale	13	367,985	1,000,001
Financial assets held-to-maturity	13		
Investments in other companies	14	32,588	28,126
Intangible assets	15	29,341	26,719
Property and equipment	16	219,082	215,671
Current tax assets	17	6,792	3,279
Deferred tax assets	17	306,030	255,972
Other assets	18	462,185	484,498
TOTAL ASSETS		31,558,000	31,292,944
LIABILITIES			
Current accounts and other demand deposits	19	8,321,148	8,327,048
Transactions in the course of payment	7	194,982	241,842
Cash collateral on securities lent and repurchase agreements	9	216,817	184,131
Savings accounts and time deposits	20	10,552,901	9,907,692
Derivative instruments	10	1,002,087	1,127,927
Borrowings from financial institutions	21	1,040,026	1,529,627
Debt issued	22	6,177,927	6,102,208
Other financial obligations	23	186,199	173,081
Current tax liabilities	17	135	27,993
Deferred tax liabilities	17	24,317	32,953
Provisions	24	662,024	639,043
Other liabilities	25	292,026	259,312
TOTAL LIABILITIES		28,670,589	28,552,857
EQUITY			
	27		
Attributable to Bank's Owners:			
Capital		2,138,047	2,041,173
Reserves		486,208	390,616
Other comprehensive income		(19,921)	57,709
Retained earnings:			
Retained earnings from previous periods		16,060	16,060
Income for the period		552,249	558,995
Less:			

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Provision for minimum dividends	(285,233)	(324,469)
Subtotal	2,887,410	2,740,084
Non-controlling interests	1	3
TOTAL EQUITY	2,887,411	2,740,087
TOTAL LIABILITIES AND EQUITY	31,558,000	31,292,944

The accompanying notes 1 to 42 are an integral part of these consolidated financial statements

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

For the years ended December 31, 2016 and 2015

(Free translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	2016 MCh\$	2015 MCh\$
Interest revenue	28	1,911,628	1,899,302
Interest expense	28	(690,259)	(680,169)
Net interest income		1,221,369	1,219,133
Income from fees and commissions	29	441,043	436,076
Expenses from fees and commissions	29	(119,772)	(130,097)
Net fees and commission income		321,271	305,979
Net financial operating income	30	148,883	36,539
Foreign exchange transactions, net	31	12,405	57,318
Other operating income	36	30,866	27,386
Total operating revenues		1,734,794	1,646,355
Provisions for loan losses	32	(309,735)	(303,062)
OPERATING REVENUES, NET OF PROVISIONS FOR LOAN LOSSES		1,425,059	1,343,293
Personnel expenses	33	(417,918)	(381,388)
Administrative expenses	34	(306,344)	(289,974)
Depreciation and amortization	35	(33,289)	(29,537)
Impairment	35	(274)	(263)
Other operating expenses	37	(30,458)	(25,076)
TOTAL OPERATING EXPENSES		(788,283)	(726,238)
NET OPERATING INCOME		636,776	617,055
Income attributable to associates	14	4,513	3,672
Income before income tax		641,289	620,727
Income tax	17	(89,040)	(61,730)
NET INCOME FOR THE PERIOD		552,249	558,997
Attributable to:			
Bank's Owners		552,249	558,995
Non-controlling interests			2
		Ch\$	Ch\$
Net income per share attributable to Bank's Owners:			
Basic net income per share	27	5.66	5.73

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Diluted net income per share	27	5.66	5.73
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The accompanying notes 1 to 42 are an integral part of these consolidated financial statements

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

For the years ended December 31, 2016 and 2015

(Free translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	2016 MCh\$	2015 MCh\$
NET INCOME FOR THE YEAR		552,249	558,997
Other comprehensive income that will be reclassified subsequently to profit or loss			
Net change in unrealized gains (losses) on available for sale instruments	13	(51,571)	8,596
Gains and losses on derivatives held as cash flow hedges	10	(50,481)	9,971
Cumulative translation adjustment	27	(59)	2
Subtotal Other comprehensive income before income taxes		(102,111)	18,569
Income tax		24,481	(4,965)
Total other comprehensive income items that will be reclassified subsequently to profit or loss		(77,630)	13,604
Other comprehensive income that will not be reclassified subsequently to profit or loss			
Loss in defined benefit plans		169	(33)
Subtotal other comprehensive income before income taxes		169	(33)
Income taxes		(45)	9
Total other comprehensive income items that will not be reclassified subsequently to profit or loss		124	(24)
TOTAL CONSOLIDATED COMPREHENSIVE INCOME		474,743	572,577
Attributable to:			
Bank's Owners		474,743	572,575
Non-controlling interests			2
		Ch\$	Ch\$
Net income per share attributable to Bank's Owners:			
Basic net income per share		4.86	5.87
Diluted net income per share		4.86	5.87

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The accompanying notes 1 to 42 are an integral part of these consolidated financial statements

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

For the years ended December 31, 2016 and 2015

(Free translation of financial statements originally issued in Spanish)

(Expressed in millions of Chilean pesos)

Notes	Reserves			Other comprehensive income			Retained earnings				
	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\$	Income Tax	Retained earnings from previous periods MCh\$	Income (losses) for the period MCh\$	Provision for minimum dividends MCh\$	Attributable to equity holders of the parent MCh\$
Balances as of December 31, 2014	1,944,920	31,834	231,424	43,822	12,980	57	(12,754)	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 distribution and paid									(367,444)	324,588	(42,856)
Defined benefit plans adjustment		(24)									(24)
Capital increase investment in other companies		(1)									(1)
Other comprehensive income:											
Cumulative translation adjustment						2					2
Derivatives cash flow hedge, net					9,971		(2,243)				7,728
Valuation adjustment on available-for-sale instruments (net)				8,596			(2,722)				5,874
Income for the period 2015									558,995		558,995
Equity adjustment investment in other companies								(319)			(319)
Provision for minimum dividends										(324,469)	(324,469)
Balances as of December 31, 2015	2,041,173	31,809	358,807	52,418	22,951	59	(17,719)	16,060	558,995	(324,469)	2,740,084
	96,874								(96,874)		

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Capitalization of retained earnings											
Income retention (released) according to law	27		95,467					(95,467)			
Dividends distributions and paid	27							(366,654)	324,469	(42,185)	
Capital increase investment in other			1							1	
Defined benefit plans adjustment			124							124	
Other comprehensive income:	27										
Cumulative translation adjustment						(59)				(59)	
Derivatives cash flow hedge, net					(50,481)	12,115				(38,366)	
Valuation adjustment on available-for-sale instruments (net)					(51,571)	12,366				(39,205)	
Income for the period 2016								552,249		552,249	
Equity adjustment investment in other											
Provision for minimum dividends	27								(285,233)	(285,233)	
Balances As of December 31, 2016		2,138,047	31,934	454,274	847	(27,530)	6,762	16,060	552,249	(285,233)	2,887,410

The accompanying notes 1 to 42 are an integral part of these consolidated financial statements

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

For the years ended December 31, 2016 and 2015

(Free translation of financial statements originally issued in Spanish)

(Expressed in million of Chilean pesos)

	Notes	2016 MCh\$	2015 MCh\$
OPERATING ACTIVITIES:			
Net income for the year		552,249	558,997
Items that do not represent cash flows:			
Depreciation and amortization	35	33,289	29,537
Impairment of intangible assets and property and equipment	35	274	263
Provision for loan losses	32	310,034	319,954
Provision of contingent loans	32	(5,532)	5,136
Additional provisions	32	52,075	30,921
Fair value adjustment of financial assets held-for-trading		(2,394)	1,273
	17	(46,374)	(57,790)
(Gain) loss attributable to investments in other companies	14	(4,019)	(3,243)
(Gain) loss from sales of assets received in lieu of payment net	36	(5,269)	(3,470)
(Gain) loss on sales of property and equipment	36-37	(183)	(204)
Charge-offs of assets received in lieu of payment	37	3,329	1,302
Other charges (credits) to income that do not represent cash flows		(13,704)	(256)
Net changes from foreign exchange transactions of other assets and other liabilities		28,892	(545,380)
Net interest variation, readjustment and accrued fees on assets and liabilities		(142,279)	132,751
Changes in assets and liabilities that affect operating cash flows:			
(Increase) decrease in loans and advances to banks, net		221,396	(239,618)
(Increase) decrease in loans to customers		(1,037,132)	(2,735,942)
(Increase) decrease in financial assets held-for-trading, net		(348,675)	(336,420)
(Increase) decrease in other assets and liabilities		77,547	(112,269)
Increase (decrease) in current account and other demand deposits		(4,536)	1,392,434
Increase (decrease) in payables from repurchase agreements and security lending		21,725	(59,374)
Increase (decrease) in savings accounts and time deposits		635,155	189,893
Proceeds from sale of assets received in lieu of payment		14,513	7,769
Total cash flows from operating activities		340,381	(1,423,736)
INVESTING ACTIVITIES:			
(Increase) decrease in financial assets available-for-sale, net		442,487	439,168
Purchases of property and equipment	16	(27,819)	(31,476)
Proceeds from sales of property and equipment		220	575
Purchases of intangible assets	15	(11,248)	(8,519)
Purchases of investments in other companies	14	(1,129)	(314)
Dividends received from investments in other companies	14	667	663
Total cash flows from investing activities		403,178	400,097
FINANCING ACTIVITIES:			
Redemption of mortgage finance bonds		(8,552)	(13,059)
Proceeds from bond issuances	22	1,420,037	2,470,407

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Redemption of bond issuances		(1,281,182)	(1,292,647)
Dividends paid	27	(366,654)	(367,444)
Increase (decrease) in borrowings from foreign financial institutions		(489,157)	430,098
Increase (decrease) in other financial obligations		17,467	(9,593)
Increase (decrease) in borrowings from Central Bank of Chile		(3)	(3)
Other borrowings long-term		17,808	13,803
Payment of other borrowings long-term		(21,359)	(17,745)
Total cash flows from financing activities		(711,595)	1,213,817

TOTAL NET POSITIVE (NEGATIVE) CASH FLOWS FOR THE YEAR		31,964	190,178
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Net effect of exchange rate changes on cash and cash equivalents		(28,892)	78,152
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Cash and cash equivalents at beginning of year		2,093,908	1,825,578
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Cash and cash equivalents at end of year	7	2,096,980	2,093,908
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	2016 MCh\$	2015 MCh\$
Operational Cash flow interest:		
Interest received	1,816,477	1,687,598
Interest paid	(737,387)	(335,714)

The accompanying notes 1 to 42 are an integral part of these consolidated financial statements

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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.

The Consolidated Financial Statements of Banco de Chile, for the year ended December 31, 2016 were approved for issuance in accordance with the directors on January 26, 2017.

For convenience of 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 (IFRS).

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BANCO DE CHILE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Principles:

(a) **Basis of preparation:**

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 (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.

(b) **Basis of consolidation:**

The financial statements of Banco de Chile as of December 31, 2016 and 2015 have been consolidated with its Chilean subsidiaries and foreign subsidiary using the global integration method (line-by-line). They include preparation of individual financial statements of the Bank and companies that participate in the consolidation, and it include adjustments and reclassifications necessary to homologue accounting policies and valuation criteria applied by the Bank. 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 (assets, liabilities, equity, income, expenses and cash flows) originated in operations performed between the Bank and its subsidiaries and between subsidiaries 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

Consolidated financial statements as of December 31, 2016 and 2015 incorporate financial statements of the Bank and its subsidiaries. According IFRS 10 Consolidated Financial Statements , control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee. Specifically the Bank have power over the investee when has existing rights that give it the ability to direct the relevant activities of the investee.

When the Bank has less than a majority of the voting rights of an investee, but these voting rights are enough to have the ability to direct the relevant activities unilaterally, then conclude the Bank has control. The Bank considers all factors and relevant circumstances to evaluate if their voting rights are enough to obtain the control, which it includes:

- The amount of voting rights that the Bank has, related to the amount of voting rights of the others stakeholders.
- Potential voting rights maintained by the Bank, other holders of voting rights or other parties.
- Rights emanated from other contractual arrangements.
- Any additional circumstance that indicate that the Bank have or have not the ability to manage the relevant activities when that decisions need to be taken, including behavior patterns of vote in previous shareholders meetings.

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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, continued

The Bank reevaluates if it has or has not the control over an investee when the circumstances indicates that exists changes in one or more elements of control listed above.

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

RUT	Subsidiaries	Country	Functional Currency	Direct		Interest Owned Indirect		Total	
				2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
44,000,213-7	Banchile Trade Services Limited (*)	Hong Kong	US\$		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		1.00		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.5 (i)).

(**) On December 30, 2016, the dissolution and merger of the Company was reported. See Note No. 5 letter (q).

(ii) Associates and Joint Ventures:

Associates

An associate is an entity over whose operating and financial management policy decisions the Bank has significant influence, without to have the control over the associate. Significant influence is generally presumed when the Bank holds between 20% and 50% of the voting rights. Other considered factors 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 determine the existence of significant influence over an entity even though the Bank had participation less than 20% of the voting rights.

Investments in associates where exists significant influence, are accounted for using the equity method. 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:

(ii) Associates and Joint Ventures, continued:

Joint Ventures

Joint Ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

According IFRS 11, an entity shall be determining type of joint arrangement: Joint Operation or Joint Venture .

For investments defined like Joint Operation , their assets, liabilities, income and expenses are recognised by their participation in joint operation.

For investments defined like Joint Venture , they will be registered according equity method.

Investments that, for their characteristics, are defined like Joint Ventures are the following:

- Artikos S.A.
- Servipag Ltda.

(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 periodically its consolidation area, considering that the principal criteria are the control that the Bank has in an entity and not its percentage of equity participation.

As of December 31, 2016 and 2015 the Bank does not control and has not created any SPEs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(b) Basis of consolidation, continued:

(v) Fund management

The Bank and its subsidiaries manage and administer assets held in mutual funds and other investment products on behalf of investors, perceiving a paid according to the service provided and according to market conditions. Managed resources are owned by third parties and therefore not included in the Statement of Financial Position.

According to established in IFRS 10, for consolidation purposes is necessary to assess the role of the Bank and its subsidiaries with respect to the funds they manage, must determine whether that role is Agent or Principal. This assessment should consider the following:

- The scope of their authority to make decisions about the investee.
- The rights held by third parties.
- The remuneration to which he is entitled under remuneration arrangements.
- Exposure, decision maker, the variability of returns from other interests that keeps the investee.

The Bank and its subsidiaries manage on behalf and for the benefit of investors, acting in that relationship only as Agent. Under this category, and as provided in the aforementioned rule, do not control these funds when they exercise their authority to make decisions. Therefore, as of December 31, 2016 and 2015 act as agent, and therefore do not consolidate any fund.

(c) Non-controlling interest:

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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.

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

1. Useful lives of intangible assets and property and equipment (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).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(d) Use of estimates and judgments, continued:

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.

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 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 non-complying, according the Circular No. 3,584 of June 22nd, 2015, which requested calibration of models of group provision. The above implied a charge to income of Ch\$13,443 million.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(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) Initial recognition

The Bank and its subsidiaries recognize loans to customers, trading and investment securities, deposits, debt issued and subordinated liabilities and other assets or liabilities on the date of negotiation. 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.

(ii) Classification

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

(iii) Derecognition assets and liabilities

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, *continued*

2. **Summary of Significant Accounting Principles, continued:**

(e) Financial asset and liability valuation criteria, continued:

(iii) Derecognition assets and liabilities, continued:

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

(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 the Bank 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 Bank 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.

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.

(iv) Offsetting

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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

2. Summary of Significant Accounting Principles, continued:

(e) Financial asset and liability valuation criteria, continued:

(vi) Fair value measurements

Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The most objective and common fair value is the price that you would pay 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 techniques 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.

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(e) Financial asset and liability valuation criteria, continued:

(vi) Fair value measurements, continued:

The Bank has financial 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.

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

(f) 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, 2016, 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\$670.40 to US\$1. As of December 31, 2015, the Bank used the observed exchange rate equivalent to Ch\$708.24 to US\$1.

The gain of MCh\$12,405 for net foreign exchange transactions, net (foreign exchange income of MCh\$57,318 in 2015) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(i) Cash and cash equivalents, continued:

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, according to instructions of the SBIF, that are presented under Trading Instruments in the Consolidated Statement of Financial Position.

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

(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 .

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. **Summary of Significant Accounting Principles, continued:**

(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, through of method of amortized cost. According to rules, the Bank not register as own portfolio the instruments bought within resale agreements.

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.

As of December 31, 2016 and 2015 it not exist operations corresponding to securities lending.

(l) **Derivative instruments:**

The Bank maintains contracts of Derivative financial instruments, for cover the exposition of risk of foreign currency and interest rate. These contracts 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**.

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.

In addition, the Bank includes in the valorization of derivatives the **Counterparty Valuation Adjustment (CVA)**, to reflect the counterparty risk in the determination of fair value. This valorization doesn't consider the Bank's own credit risk, known as **Debit Valuation Adjustment (DVA)** in conformity with standards issued by SBIF.

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 the moment of subscription of a derivative contract must be designated by the Bank as a derivative instrument for trading or hedging purposes.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(1) Derivative instruments, continued:

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.

The Bank presents and measures individual hedges (where there is a specific identification of hedged item and hedged instruments) by classification, according to the following criteria:

Fair value hedges: changes in the fair value of a hedged instruments derivative, designed like fair value hedges, are recognized in income under the line Net interest income and/or Foreign exchange transactions, net. Hedged item also is presented to fair value, related to the risk to be hedge. Gains or losses from hedged risk are recognized in income under the line Net interest income and adjust the book value of item hedged.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(l) Derivative instruments, continued:

Cash flow hedge: changes in the fair value of financial instruments derivative designated like cash flow hedge are recognised in Other Comprehensive Income , to the extent that hedge is effective and hedge is reclassified to income in the item Net interest income and/or Foreign exchange transactions, net , when hedged item affects the income of the Bank produced for the interest rate risk or foreign exchange risk , respectively. If the hedge is not effective, changes in fair value are recognised directly in income in the item Net financial operating income .

If the hedged instruments does not comply with criteria of hedge accounting of cash flow, it expires or is sold, it suspend or executed, this hedge must be discontinued prospectively. Accumulated gains or losses recognised previously in the equity are maintained there until projected transactions occur, in that moment will be registered in Consolidated Statement of Income (in te item Net interest income and/or Foreign exchange transactions, net , depend of the hedge), lesser than it foresees that the transaction will not execute, in this case it will be registered immediately in Consolidated Statement of Income (in te item Net interest income and/or Foreign exchange transactions, net , depend of the hedge).

(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 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

Corresponds to invoices and other commercial instruments representative of credit, with or without recourse, received in discount and which are registered to book value plus interest and adjustments until to maturity.

In those cases where the transfer of these instruments it was made without responsibility of the grantor, the Bank assumes the default risk.

(iv) Impairment of loans

The impaired loans include the following assets, according to Chapter B-1 of Accounting rules Compendium of Superintendency of Banks:

a) In case of debtors subject to individual assessment, are considered in impaired portfolio Non-complying loans and the categories B3 y B4 of Substandar loans defined in letter m) v.i).

b) Debtors subject to assessment group evaluation, the impaired portfolio includes all credits of the

Non-complying loans defined in letter m) v. iv).

(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 Superintendency of Banks. The loans are presented net of those allowances and, 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.

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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:

(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 credit quality related to the 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, the banks must be asses the credit quality, then clasify 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.

v.i.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.

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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 (%)
Normal Loans	A1	0.04	90.0	0.03600
	A2	0.10	82.5	0.08250
	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

2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(v) Allowance for loan losses, continued:

(v.i) Allowance for individual evaluations, continued:

v.i.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 financial or real guarantees of the operatios. Also, in some cases, the risk credit of direct debtor can be replaced by credit quality of aval or surety. 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:

$$\text{Provision} = (\text{ESA-GE}) \times (\text{PD debtor} / 100) \times (\text{LGD debtor} / 100) + \text{GE} \times (\text{PD guarantor} / 100) \times (\text{LGD guarantor} / 100)$$

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 0.50% of the Normal Loans (including contingent loans).

v.i.2 Non-complying Loans

The non-complying loans corresponds to borrowers and its credits whose payment capacity is seriously at risk and who have obvious signs that they will not pay in the future. 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 portfolio is composed of the debtors belonging to categories C1 to C6 of the rating scale and all credits, including 100% of the amount of contingent loans, held by those 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:

(v.i) Allowance for individual evaluations, continued:

v.i.2 Non-complying Loans, continued:

For purposes to establish the allowances on the non-complying loans, the Bank disposes 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 financial or real guarantees that to support the operation 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 = $TE \times (AP/100)$

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).

All credits of the debtor must be kept in the Default Portfolio until there is a normalization of their ability or payment behavior, without prejudice to punishment of each particular credit that meets the condition indicated in point (vi) of this letter in order to remove a debtor from the Default Portfolio, once the circumstances that lead to classification in this portfolio according to the present rules have been overcome, at least the following copulative conditions must be met:

- No obligation of the debtor with the bank with more than 30 calendar days overdue.
- No new refinances granted to pay its obligations.
- At least one of the payments includes amortization of capital.
- If the debtor has a credit with partial payment periods less than six months, has already made two payments.
- If the debtor must pay monthly fees for one or more credits, has paid four consecutive dues.
- The debtor does not appear with unpaid debts direct according to the information recast by SBIF, except for insignificant amounts.

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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:

(v.ii) 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.

Banks may use two alternative methods for determining provisions for retail loans that are evaluated as a group.

Under first method, it will be used the experience to explain the payment behavior of each homogeneous group of debtors and recoveries through collateral and of collection process, when it correspond, with objective of to estimate directly a percentage of expected losses that will be apply to the amount of the loans of respective group.

Under second method, the banks will segment to debtors in homogeneous groups, according described above, associating to each group a determined probability of default and a percentage of recovery based in a historic analysis. The amount of provisions to register it will be obtained multiplied the total loans of respective group by the percentages of estimated default and of loss given the default.

In both methods, estimated loss must be related with type of portfolio and terms of operations.

The Bank to determine its provisions has opted for using second method.

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

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(iv) Allowance for loan losses, continued

(v.iii) Standard method of provisions for Mortgage Loans

The provision factor applicable, represented by expected loss over the mortgage loans, it will depend to the past due of each credit and the relation, at the end of month, between outstanding capital and the value of the mortgage guarantees (PVG), according the following table:

Provision factor applicable according past due and PVG

PVG	Concept	Past due days at the end-month				Non Complying Loans
		0	1-29	30-59	60-89	
PVG ≤ 40%	PI (%)	1.0916	21.3407	46.0536	75.1614	100.0000
	PDI (%)	0.0225	0.0441	0.0482	0.0482	0.0537
	PE (%)	0.0002	0.0094	0.0222	0.0362	0.0537
40% < PVG ≤ 80%	PI (%)	1.9158	27.4332	52.0824	78.9511	100.0000
	PDI (%)	2.1955	2.8233	2.9192	2.9192	3.0413
	PE (%)	0.0421	0.7745	1.5204	2.3047	3.0413
80% < PVG ≤ 90%	PI (%)	2.5150	27.9300	52.5800	79.6952	100.0000
	PDI (%)	21.5527	21.6600	21.9200	22.1331	22.2310
	PE (%)	0.5421	6.0496	11.5255	17.6390	22.2310
PVG > 90%	PI (%)	2.7400	28.4300	53.0800	80.3677	100.0000
	PDI (%)	27.2000	29.0300	29.5900	30.1558	30.2436
	PE (%)	0.7453	8.2532	15.7064	24.2355	30.2436

PI : Non-compliance probability

PDI : Loss by non-compliance

PE : Expected loss

PVG : Outstanding Capital of the Credit/Mortgage Guarantee Value

In the event that a single debtor maintains more than one home mortgage loan with the bank and one of them is 90 days or more behind, all such loans will be assigned to the defaulted portfolio, calculating the provisions for each one of them. They agree with their respective percentages of PVG.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(m) Loans to customers, continued:

(iv) Allowance for loan losses, continued

(v.iv) Portfolio in default

The portfolio in default includes all placements and 100% of the amount of the contingent loans, of the debtors that the closing of a month presents a delay equal to or greater than 90 days in the payment of the interest of the capital of any credit. It will also include debtors who are granted a credit to leave an operation that has more than 60 days of delay in their payment, as well as those debtors who were subject to forced restructuring or partial forgiveness of a debt.

They may exclude from the portfolio in default: a) mortgage loans for housing, which delinquent less than 90 days, unless the debtor has another loan of the same type with greater delinquency; and, b) credits for financing higher studies of Law No. 20.027, which do not yet present the non-compliance conditions indicated in Circular No. 3,454 of December 10, 2008.

All credits of the debtor must be kept in the Default Portfolio until there is a normalization of their ability or payment behavior, without prejudice to punishment of each particular credit that meets the condition indicated in point (vi) of this letter in order to remove a debtor from the Default Portfolio, once the circumstances that lead to classification in this portfolio according to the present rules have been overcome, at least the following copulative conditions must be met:

- No obligation of the debtor with the bank with more than 30 calendar days overdue.
- No new refinances granted to pay its obligations.
- At least one of the payments includes amortization of capital.
- If the debtor has a credit with partial payment periods less than six months, has already made two payments.

- If the debtor must pay monthly fees for one or more credits, has paid four consecutive dues.
- The debtor does not appear with unpaid debts direct according to the information recast by SBIF, except for insignificant amounts.

(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.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.
- c) 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.
- d) 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.

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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.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 cannot 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.

(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.

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.

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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:

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.

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.

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, 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 .

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).

As of December 31, 2016 and 2015, the Bank does not held to maturity instruments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(o) Intangible:

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.

Software or computer programs 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.

(p) 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 less depreciation and accumulated impairment. This cost includes expenses that 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 2016 and 2015 are as follows:

- Buildings 50 years
- Installations 10 years
- Equipment 5 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:

(q) **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.

(r) **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 Superintendency of Banks requires regulatory charge-offs if the asset is not sold within a one year of foreclosure.

(s) **Investment properties:**

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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 cost, less accumulated depreciation and impairment and are presented under Other Assets .

(t) Debt issued:

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.

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.

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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.
- 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. 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).

- vi. 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.

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued****2. Summary of Significant Accounting Principles, continued:****(u) Provisions and contingent liabilities, continued:**

vii. **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-3 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) Free disposal lines of credit (*)	35%
f) Other loan commitments	
- College education loans Law No. 20,027	15%
- Others	100%
g) Other contingent loans	100%

(*) See Note No. 2 letter (d).

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(v) Provisions 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.

(w) Employee benefits:

(i) Staff accrued 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:

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(w) Employee benefits, 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 (4.29% as of December 31, 2016 and 4.60% as of December 31, 2015).

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 in Other Comprehensive Income. There are no other additional costs that must 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, 2016 and 2015, the Bank does not have any instruments or contracts that could cause dilutions. Therefore, no adjustments have been made.

(y) Interest revenue and expense:

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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*

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(aa) Identifying and measuring impairment:

Financial assets, different to loans to customers

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 (different to loans to customers) 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 original.

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.

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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.

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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, different to loans to customers, continued

The amount of the reversal is recognized in profit or loss up to the amount previously recognized as impairment.

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.

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.

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 major value between 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.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(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 properties investment 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 future payments guaranteed. As of December 31, 2016 and 2015, 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. The costs which the Bank incurs are recognized over accrual base considering total points that probably, it will be changed over the total points dollars accumulated, and the probability of change.

(ae) 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.

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.

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 result of MCh\$52,075 (MCh\$30,921 in 2015). As of December 31, 2016 the additional provisions amounted MCh\$213,252 (MCh\$161,177 in 2015), which are presents in the item Provisions of the liability in the Consolidated Statement of Financial Position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

2. Summary of Significant Accounting Principles, continued:

(ae) **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, effective January 1, 2016.

This modification implied the reclassification of higher education loans from Consumer Loans to Commercial Loans by an amount of Ch\$42,687 million, as of December 31, 2016. See Note No. 12 (a.i).

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements:

Accounting rules issued by IASB:

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 is not effective as of December 31, 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.

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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.

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

During the year 2016, the Bank and its subsidiaries have completed the stage of analysis of differences between IFRS 9 and the current standards, and is currently evaluating the implementation strategy of the changes required for the adoption of this new standard. As of the date of issuance of these financial statements, it is not possible to quantify the impacts that will result from the adoption of this new standard. To date, these regulations have not yet been approved by the Superintendency of Banks and Financial Institutions, an event that is required for its application

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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 useful information to users of financial statements about the nature, amount, opportunity and uncertainty of the income for ordinary 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 Programs, 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:

- Identify a performance obligation (the promise to transfer a good or service to a customer) in a contract;
- 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
- 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.

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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 Joint Venture and IFRS 10 - Consolidated Financial Statements

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements, continued:

IFRS 2 Share-based payments

In June 2016, the IASB made amendments to IFRS 2 related to the classification and measurement of transactions of share-based payment.

The amendments address the following areas:

- Compliance conditions when share-based payments are settled in cash.
- Classification of share-based transactions, net of withholding of income tax.
- Accounting for changes made to the terms of the contracts which modify the classification of cash-settled payments or settled in equity shares.

The date of application of these amendments is from **January 1, 2018**, earlier application is permitted.

Banco de Chile and its subsidiaries will not have impacts on the consolidated financial statements product that does not have this type of contracts.

IFRS 4 Insurance contracts

In September 2016, the IASB issued an amendment to IFRS 4 Insurance Contracts to address concerns arising from the application of new pronouncements included in IFRS 9, before implementing the new standard insurance contracts.

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The amendments introduce the following two approaches to those entities that issue insurance contracts:

- An overlay approach, will give to all companies that issue insurance contracts the option to recognize in other comprehensive income rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new contract insurance norm is issued; and
- A postponement approach, will give to companies whose activities are largely connected with insurances an optional temporary exemption to the application of IFRS 9 until 2021. The Entities who defer the application of IFRS 9 will continue applying the existing financial instruments norm.

Banco de Chile and its subsidiaries will have no impact on the consolidated financial statements result of the adoption of this legislation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

3. New Accounting Pronouncements, continued:

Annual improvements IFRS 2014-2016 cycle:

In December 2016, the IASB issued the Annual Improvements to IFRS Cycle 2014-2016, which includes amendments to the following regulations:

IFRS 12 Disclosure of Interests in Other Entities.

The amendment specifies the disclosure requirements set forth in IFRS 12 for holdings in entities that are within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The date of application of these amendments is from January 1, 2017.

This change has no impact on the Consolidated Financial Statements of Banco de Chile and its subsidiaries.

IAS 28 Investments in associates and joint ventures.

IAS 28 has been amended to clarify that a venture capital organization or a mutual fund, investment trust and similar entities may choose to account for their investments in joint ventures and associates at fair value or using the equity method. The amendment also makes it clear that the method chosen for each investment should be made at the initial time. The date of application of these amendments is from January 1, 2018.

This change has no impact on the Consolidated Financial Statements of Banco de Chile and its subsidiaries.

IAS 40 Investment Property.

IAS 40 requires that an asset be transferred to (or from), investment property only when there is a change in its use.

The amendment, issued in December 2016, clarifies that a change in management's intentions for the use of a property does not provide, in isolation, evidence of a change in its use. An entity must, therefore, have taken observable actions to support such a change.

The date of application of these amendments is from January 1, 2018.

This change has no significant 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:

IFRIC 22 Foreign Currency Transactions and Advance Consideration.

In December 2016, the IASB issued Interpretation IFRIC 22 Foreign Currency Transactions and Advance Consideration

This Interpretation applies to a foreign currency transaction when an entity recognizes a non-financial asset or non-financial liability arising from the payment or collection of an early consideration before the entity recognizes the related asset, expense or income.

The IFRIC specifies that at the date of the transaction for the purpose of determining the exchange rate to be used in the initial recognition of the related asset, expense or income, it is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability that Arising from the payment or collection of the anticipated consideration. That is, the related income, expenses or assets should not be re-evaluated with changes in the exchange rates between the date of the initial recognition of the early consideration and the date of recognition of the transaction to which said consideration relates .

The date of application of these amendments is from January 1, 2018.

Banco de Chile and its subsidiaries are evaluating the possible impact of the adoption of these regulations.

3.2 Accounting standards issued by the Superintendency of Banks and Financial Institutions (SBIF):

On December 12, 2016, the Superintendency of Banks and Financial Institutions (SBIF) issued Circular No. 3,615, which established that, as from the year 2017, the financial statements referred to as of June 30 of each year must be delivered to the SBIF with the respective review report of the interim financial information issued by its external auditors in accordance with the Generally Accepted Auditing Standards.

4. Changes in Accounting policies and Disclosures:

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During the period ended December 31, 2016, changes have occurred in accounting estimates result of instructions issued by the Superintendency of Banks and Financial Institutions. See Note No. 2 d).

There have been no other significant accounting changes affecting the presentation of these consolidated financial statements.

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, *continued*

5. Relevant Events, continued:

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

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

f) The board meeting held on May 23, 2016, the Board of the subsidiary Socofin S.A. accepted the resignation of the Director Arturo Tagle Quiroz, proceeding to appoint as his replacement Mr. Eduardo Ebensperger Orrego.

g) 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:

a) 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 No.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.

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The issue of bonus shares was registered in the Securities Registry of the aforementioned Superintendency under No. 4/2016, dated June 16, 2016.

b) 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.

c) 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.

d) 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

5. Relevant Events, continued:

e) 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.

h) 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).

i) On July 8, 2016 it is reported that Banco de Chile has learned that the Registrar of Companies of Hong Kong said, from 5 July 2016, formally dissolved the company Banchile Trade Services Limited, which was wholly owned by Banco de Chile and developed support activities to foreign trade with Asian markets.

j) On July 14, 2016 it was reported that Banco de Chile signed with Citigroup Inc. an extension to the contract entitled Master Services Agreement held on September 25, 2009. The referred extension lasts six months from July 1, 2016, expiring consequently on January 1, 2017.

k) The board meeting held on July 22, 2016, the Board of the subsidiary Socofin S.A. accepted the resignation of the Director Mauricio Baeza Letelier, proceeding to appoint as his replacement Mr. Héctor Castagnoli Aracena.

l) During the month of August 2016 it was carried out the processes of collective bargaining between the subsidiary Banchile Administradora General de Fondos and the trade union of Banchile ADM General de Fondos S.A., underwriting with them a collective agreement for a period of three years (2016-2019).

m) During the current exercise was carried out the processes of collective bargaining between the subsidiary Banchile Corredores de Bolsa S.A. and the trade union of Banchile Corredores de Bolsa S.A., underwriting with them a collective agreement for a period of three years (2016-2019).

n) On September 1, 2016, the Extraordinary Shareholders Meeting of the subsidiary Socofin S.A. agreed: 1) the increase capital of two billion pesos through the issue of shares for payment; 2) the amendment of Article 5 of the corporate bylaws about share capital; and 3) the incorporation of a transitional article over payment method of capital. The capital increase was fully subscribed and paid by its shareholders on September 29, 2016.

o) The board meeting held on September 26, 2016, the Board of the subsidiary Banchile Corredores de Bolsa S.A. appointed as new General Manager to Mr. Hernán Arellano Salas.

p) On December 13, 2016, it is reported that, by public deed of December 12, 2016, granted in the Santiago Notarial Office of Mr. René Benavente Cash, Banco de Chile and its subsidiary Banchile Corredores de Seguros Limitada, Banchile Seguros de Vida SA The Collective Insurance Agreement and the Collective Insurance Contract for Total and Permanent Disability and Disability 2/3 for mortgage credit operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

5. Relevant Events, continued:

These Agreements have been subscribed in accordance with the provisions of article 40 of the DFL N ° 251 of 1931, General Rule No. 330 of the Superintendency of Securities and Insurance and Circular No. 3,530 of the Superintendency of Banks and Financial Institutions, both dated March 21, 2012, pursuant to which the public tender of disability and life Insurance and total and permanent disability 2/3 was awarded to Banchile Seguros de Vida SA Who offered the lowest rate in both cases, rising to 0.0115% per month and 0.0124% per month, respectively, which includes the commission of the broker Banchile Corredores de Seguros Limitada of 14.00%

q) On December 30, 2016, Banco de Chile reported as an essential fact that, by public deed dated December 19, 2016, granted in the Santiago Notarial Office of Mr. René Benavente Cash, Banco de Chile has acquired all the shares held by Banchile Asesoría Financiera SA on the company Promarket S.A., a subsidiary of Banco de Chile.

In accordance with the provisions of Article 103 No. 2 of Law 18,046 on Corporations, after an uninterrupted period of more than 10 days, Promarket S.A. has dissolved as a result of Banco de Chile have pooled 100% of the shares its legal continuator.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

6. Segment Reporting:

For management purposes, the Bank is organized into four segments, which are defined based on the types of products and services offered, and the type of client in which focuses as described below:

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:

This segment includes the associated revenues to the management of the investment portfolio and the business of financial transactions and currency trading.

Transactions with 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.
- Socofin 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 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 nine-month period ended December 31, 2016 and 2015.

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 by segment for the year ended 2016 and 2015 for each of the segments defined above:

	Retail		Wholesale		Treasury		Subsidiaries (**)		Subtotal		Consolidation adjustment		Total	
	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$
Net interest income	873,531	840,451	339,980	355,783	11,194	27,942	(4,337)	(6,555)	1,220,368	1,217,621	1,001	1,512	1,221,369	1,219,130
Net fees and commissions income (loss)	170,541	156,936	42,227	43,853	(2,510)	(2,163)	121,383	116,145	331,641	314,771	(10,370)	(8,792)	321,271	305,979
Other operating income	92,434	25,199	43,014	64,861	35,763	10,355	23,923	24,805	195,134	125,220	(2,980)	(3,977)	192,154	121,248
Total operating revenue	1,136,506	1,022,586	425,221	464,497	44,447	36,134	140,969	134,395	1,747,143	1,657,612	(12,349)	(11,257)	1,734,794	1,646,355
Credit risk provisions (*)	(301,491)	(229,669)	(8,243)	(73,510)			(1)	117	(309,735)	(303,062)			(309,735)	(303,062)
Depreciation and amortization	(24,384)	(21,310)	(5,688)	(5,364)	(241)	(267)	(2,976)	(2,596)	(33,289)	(29,537)			(33,289)	(29,537)
Other operating expenses	(507,409)	(471,529)	(149,780)	(138,638)	(5,307)	(4,770)	(104,847)	(93,021)	(767,343)	(707,958)	12,349	11,257	(754,994)	(696,701)
Income attributable to associates	3,073	2,521	921	716	77	34	442	401	4,513	3,672			4,513	3,672
Income before income taxes	306,295	302,599	262,431	247,701	38,976	31,131	33,587	39,296	641,289	620,727			641,289	620,727
Income taxes													(89,040)	(61,730)
Income after income taxes													552,249	558,997

(*) At 31 December 2016, the retail and wholesale segments include additional provisions assigned according to their risk-weighted assets.

(**) On December 30, 2016, the dissolution and merger of the subsidiary Promarket S.A (See Note No. 5 letter (q)) was reported. Given the above and for purposes of an adequate comparison of this disclosure, the figures for the retail segment for the year 2015 have been restated.

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The following table presents assets and liabilities of the year ended 2016 and 2015 by each segment defined above:

	Retail		Wholesale		Treasury		Subsidiaries		Subtotal		Consolidation adjustment		2016 MCh\$
	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	
Assets	15,427,024	14,350,327	11,358,447	11,926,049	4,061,181	4,383,945	535,727	520,385	31,382,379	31,180,706	(137,201)	(147,013)	31,245,000
Current and deferred taxes													312,000
Total assets													31,557,000
Liabilities	10,249,668	9,726,286	10,268,861	9,934,304	7,874,356	8,605,278	390,453	373,056	28,783,338	28,638,924	(137,201)	(147,013)	28,646,000
Current and deferred taxes													24,000
Total liabilities													28,670,000

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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:

	2016 MCh\$	2015 MCh\$
Cash and due from banks:		
Cash (*)	665,464	672,253
Current account with the Chilean Central Bank (*)	118,501	111,330
Deposits in other domestic banks	8,433	9,676
Deposits abroad	615,769	567,963
Subtotal - Cash and due from banks	1,408,167	1,361,222
Net transactions in the course of collection	181,270	284,204
Highly liquid financial instruments	467,593	407,111
Repurchase agreements	39,950	41,371
Total cash and cash equivalents	2,096,980	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:

	2016 MCh\$	2015 MCh\$
Assets		
Documents drawn on other banks (clearing)	191,105	293,908
Funds receivable	185,147	232,138
Subtotal transactions in the course of collection	376,252	526,046
Liabilities		

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Funds payable	(194,982)	(241,842)
Subtotal transactions in the course of payment	(194,982)	(241,842)
Net transactions in the course of collection	181,270	284,204

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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:

	2016 MCh\$	2015 MCh\$
Instruments issued by the Chilean Government and Central Bank of Chile:		
Central Bank bonds	30,546	46,068
Central Bank promissory notes	393,019	103,832
Other instruments issued by the Chilean Government and Central Bank	58,781	100,016
Other instruments issued in Chile		
Bonds from domestic banks	21	21
Deposits in domestic banks	896,534	583,217
Other instruments issued in Chile	672	10,420
Instruments issued by foreign institutions		
Instruments from foreign governments or central banks		
Other instruments issued abroad	385	
Mutual fund investments:		
Funds managed by related companies	25,823	23,080
Funds managed by thirds		
Total	1,405,781	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\$21,789 million as of December 31, 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). Furthermore, are maintained instruments that guarantee margins for offset transactions of derivatives through Comder Contraparte Central S.A. for an amount of \$ 9,945 million as of December 31, 2016.

Other instruments issued in Chile include instruments sold under agreements to repurchase to customers and financial instruments, amounting to Ch\$159,803 million as of December 31, 2016 (Ch\$149,333 million as of December 31, 2015). Agreements to repurchase have an average expiration of 10 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\$19,649 million as of December 31, 2016 (Ch\$25,303 million as of December 31, 2015), 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. 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 December 31, 2016 and 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	
	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\$
Instruments issued by the Chilean Governments and Central Bank of Chile														
Central Bank bonds														
Central Bank promissory notes														
Other instruments issued by the Chilean Government and Central Bank														
Other Instruments issued in Chile														
Deposit promissory notes from domestic banks														
Mortgage bonds from domestic banks														
Bonds from domestic banks														
Deposits in domestic banks		3,461												3,461
Bonds from other Chilean companies	30,963	32,448	21,967	8,704	2,773	1,551							55,703	42,703

Other instruments
issued in Chile

**Instruments
issued by foreign
institutions**

Instruments from
foreign
governments or
central bank

Other instruments

Total	30,963	35,909	21,967	8,704	2,773	1,551		55,703	46,164
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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 December 31, 2016 the Bank and its subsidiaries held securities on resell agreements with a fair value of Ch\$54,499 million (Ch\$46,324 million as of December, 2015).

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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 December 31, 2016 and 2015, the Bank has the following payables resulting from such transactions:

	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	
	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$
Instruments issued by the Chilean Governments and Central Bank of Chile														
Central Bank bonds	10,568	3,052											10,568	3,052
Central Bank promissory notes	16,165	7,301											16,165	7,301
Other instruments issued by the Chilean Government and Central Bank		1,942												1,942
Other Instruments Issued in Chile														
Deposit promissory notes from domestic banks														
Mortgage bonds from domestic banks														
Bonds from domestic banks														
Deposits in domestic banks	174,078	158,156	16,006	13,680									190,084	171,836
Bonds from other Chilean companies														

Other
instruments
issued in Chile

**Instruments
issued by
foreign
institutions**

Instruments from
foreign
governments or
central bank

Other
instruments

Total	200,811	170,451	16,006	13,680		216,817	184,131
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Securities sold:

The fair value of securities lent and of Payables from Repurchase Agreements and Security Lending as of December 31, 2016 is Ch\$223,721 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Derivative Instruments and Accounting Hedges:

(a) As of December 31, 2016 and 2015, the Bank's portfolio of derivative instruments is detailed as follows:

	Notional amount of contract with final expiration date in												Assets	
	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			2016
	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\$	
Derivatives held for hedging purposes														
Cross currency swap													16,721	19,222
Interest rate swap					10,726	14,947	50,213	11,332	19,777	66,504	41,365	81,271	218	
Total derivatives held for hedging purposes					10,726	14,947	50,213	11,332	19,777	66,504	58,086	100,493	218	
Derivatives held as cash flow hedges														
Interest rate swap and cross currency swap				103,638	203,882	201,723	546,729	441,930	30,883	318,240	416,507	306,582	63,482	
Total derivatives held as cash flow hedges				103,638	203,882	201,723	546,729	441,930	30,883	318,240	416,507	306,582	63,482	
Derivatives held-for-trading purposes														
Currency forward	5,464,265	6,361,172	6,186,901	5,658,682	10,373,905	6,392,029	740,167	1,097,148	53,336	79,217	6,704		163,701	
Interest rate swap	1,146,528	1,444,510	4,015,500	3,626,015	7,430,120	8,414,998	10,543,378	9,190,933	4,924,193	5,063,262	6,837,254	5,676,905	253,307	
Cross currency swap	185,592	1,283,607	563,299	835,357	1,512,446	1,369,605	1,999,817	2,370,091	1,641,551	1,513,471	3,239,685	2,394,036	455,784	
Call currency options	31,432	25,127	51,502	69,802	80,547	77,364	10,579	35					1,558	
Put currency options	19,175	16,503	29,093	50,578	63,862	66,038	10,579	35					1,584	
Total derivatives of negotiation	6,846,992	9,130,919	10,846,295	10,240,434	19,460,880	16,320,034	13,304,520	12,658,242	6,619,080	6,655,950	10,083,643	8,070,941	875,934	
Total	6,846,992	9,130,919	10,846,295	10,344,072	19,675,488	16,536,704	13,901,462	13,111,504	6,669,740	7,040,694	10,558,236	8,478,016	939,634	1

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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 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 December 31, 2016 and 2015:

	2016 MCh\$	2015 MCh\$
Hedge element		
Commercial loans	16,721	19,222
Corporate bonds	122,081	174,054
Hedge instrument		
Cross currency swap	16,721	19,222
Interest rate swap	122,081	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 US 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.

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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) 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	
	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\$
Hedge element														
Outflows:														
Corporate Bond EUR					(552)	(602)	(1,105)	(1,207)	(1,105)	(1,207)	(35,467)	(39,340)	(38,229)	(42,356)
Corporate Bond HKD					(12,144)	(12,852)	(76,922)	(25,658)	(21,084)	(79,631)	(338,517)	(368,924)	(448,667)	(487,065)
Corporate Bond PEN					(15,614)	(636)		(16,219)					(15,614)	(16,855)
Corporate Bond CHF Obligation USD	(531)	(678)			(115,113)	(1,736)	(101,478)	(229,377)	(495)	(217,702)	(99,748)		(559,508)	(772,585)
Corporate Bond JPY			(306)	(314)	(623)	(66,316)	(46,415)	(1,901)	(29,418)	(76,302)	(28,866)	(29,853)	(105,628)	(174,686)
Hedge instrument														
Inflows:														
Corporate Bond EUR					552	602	1,105	1,207	1,105	1,207	35,467	39,340	38,229	42,356
Cross Currency Swap HKD					12,144	12,852	76,922	25,658	21,084	79,631	338,517	368,924	448,667	487,065
Cross Currency Swap PEN					15,614	636		16,219					15,614	16,855
Cross Currency Swap CHF	255	1,031	108,678	87,308	166,473	370,926	279,477	495	217,702	99,748			559,508	772,585

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Cross Currency Swap USD	531	678		115,113	1,736	101,478	229,377					217,122	231,791	
Cross Currency Swap JPY			306	314	623	66,316	46,415	1,901	29,418	76,302	28,866	29,853	105,628	174,686
Net cash flows														

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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) 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	
	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$
Inflows:														
Cash flows in CLF	1,155	2,961	2,304	107,007	232,833	231,948	592,204	494,015	54,094	345,015	470,207	359,902	1,352,797	1,540,848
Hedge instrument														
Outflows:														
Cross Currency Swap HKD					(9,253)	(9,062)	(66,278)	(17,999)	(16,091)	(63,301)	(288,322)	(288,281)	(379,944)	(378,643)
Cross Currency Swap PEN					(16,588)	(493)		(16,135)					(16,588)	(16,628)
Cross Currency Swap JPY			(1,043)	(1,024)	(1,867)	(68,015)	(52,107)	(5,660)	(32,878)	(79,042)	(30,761)	(30,716)	(118,656)	(184,457)
Cross Currency Swap USD					(114,210)	(3,866)	(108,690)	(216,820)					(222,900)	(220,686)
Cross Currency Swap CHF	(1,155)	(2,961)	(1,261)	(105,983)	(89,876)	(149,493)	(363,045)	(235,376)	(3,560)	(200,642)	(109,592)		(568,489)	(694,455)
Cross Currency Swap EUR					(1,039)	(1,019)	(2,084)	(2,025)	(1,565)	(2,030)	(41,532)	(40,905)	(46,220)	(45,979)
Net cash flows														

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

10. Derivative Instruments and Accounting Hedges, continued:

(c) Cash flow Hedges, continued:

Respect to in assets denominated in Unidad de Fomento (CLF) 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\$50,481 million charge to equity (Ch\$9,971 million credit to equity as of December 31, 2015) generated from hedging instruments, which has been recorded in equity. The accumulated net effect for deferred taxes as of December 31, 2016 was a charge to equity of Ch\$38,366 million (Ch\$7,728 million credit to equity as of December 31, 2015).

The accumulated amount for this concept net of taxes as of December 31, 2016 correspond to charge to equity amounted Ch\$27,530 million (credit to equity of Ch\$22,951 million as of December 31, 2015).

(c.4) The net effect in income of derivatives cash flow hedges amount to Ch\$135,929 million charged to income in 2016 (Ch\$148,555 million credit to income as of December 31, 2015).

(c.5) As of December 31, 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 December 31, 2016 and 2015, the Bank has not hedges of net investments in foreign business.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

11. Loans and advances to Banks:

(a) As of December 31, 2016 and 2015, amounts are detailed as follows:

	2016 MCh\$	2015 MCh\$
Domestic Banks		
Interbank loans of liquidity	200,019	20,000
Interbank loans	8,384	25,258
Provisions for loans to domestic banks	(100)	(72)
Subtotal	208,303	45,186
Foreign Banks		
Interbank loans	129,904	211,573
Credits with third countries	77,049	91,278
Chilean exports trade loans	57,749	47,355
Provisions for loans to foreign banks	(429)	(630)
Subtotal	264,273	349,576
Central Bank of Chile		
Non-available Central Bank deposits	700,000	1,000,000
Other Central Bank credits	341	433
Subtotal	700,341	1,000,433
Total	1,172,917	1,395,195

(b) The changes in provisions of the credits owed by the banks, during the periods 2016 and 2015, are summarized as follows:

Detail	Bank s Location		Total MCh\$
	Chile MCh\$	Abroad MCh\$	
Balance as of January 1, 2015	61	755	816
Charge-offs			
Provisions established	11		11
Provisions released		(125)	(125)
Balance as of December 31, 2015	72	630	702
Charge-offs			
Provisions established	28		28
Provisions released		(201)	(201)
Balance as of December 31, 2016	100	429	529

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Loans to Customers, net:

(a.i) Loans to Customers:

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

	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\$	
Commercial loans								
Commercial loans	10,603,307	132,308	296,859	11,032,474	(126,704)	(79,780)	(206,484)	10,825,990
Foreign trade loans	1,167,598	47,317	53,702	1,268,617	(74,818)	(3,410)	(78,228)	1,190,389
Current account debtors	209,031	2,499	2,291	213,821	(2,944)	(4,467)	(7,411)	206,410
Factoring transactions	507,807	1,724	809	510,340	(8,671)	(1,953)	(10,624)	499,716
Student loans	41,738		949	42,687		(1,278)	(1,278)	41,409
Commercial lease transactions (1)	1,312,740	12,549	25,823	1,351,112	(7,062)	(10,574)	(17,636)	1,333,476
Other loans and accounts receivable	66,050	418	5,269	71,737	(886)	(3,712)	(4,598)	67,139
Subtotal	13,908,271	196,815	385,702	14,490,788	(221,085)	(105,174)	(326,259)	14,164,529
Mortgage loans								
Mortgage bonds	37,355		2,874	40,229		(45)	(45)	40,184
Transferable mortgage loans	66,385		2,085	68,470		(95)	(95)	68,375
Other residential real estate mortgage loans	6,673,029		130,499	6,803,528		(33,551)	(33,551)	6,769,977
Credits from ANAP	13			13				13
Residential lease transactions								
Other loans and accounts	7,832		114	7,946		(175)	(175)	7,771

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receivable								
Subtotal	6,784,614		135,572	6,920,186		(33,866)	(33,866)	6,886,320
Consumer loans								
Consumer loans in installments	2,266,117		222,826	2,488,943		(201,097)	(201,097)	2,287,846
Current account debtors	326,012		3,163	329,175		(6,139)	(6,139)	323,036
Credit card debtors	1,131,412		24,263	1,155,675		(42,232)	(42,232)	1,113,443
Consumer lease transactions								
Other loans and accounts receivable	9		758	767		(398)	(398)	369
Subtotal	3,723,550		251,010	3,974,560		(249,866)	(249,866)	3,724,694
Total	24,416,435	196,815	772,284	25,385,534	(221,085)	(388,906)	(609,991)	24,775,543

(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, 2016 Ch\$631,500 million correspond to finance leases for real estate and Ch\$719,612 million correspond to finance leases for other assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Loans to Customers net, continued:

(a.i) Loans to Customers, continued:

	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\$	
Commercial loans								
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
Mortgage loans								
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
Consumer loans								
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

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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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Loans to Customers net, continued:

(a.i) Loans to Customers, continued:

The changes in volumes of non-complying portfolio and impaired portfolio, are mainly in the commercial portfolio evaluated individually, as a result of portfolio sales, classification changes and the adoption of the new standard issued by the Superintendency of Banks and Financial Institutions (SBIF).

In relation to the regulatory change, until December 31, 2015, the Bank included in the non-complying portfolio with group evaluation all those operations whose clients met any of the following conditions:

- Past due greater than or equal to 90 days, in some of its credits.
- Overdraft no agreed in current account greater than 30 days (for natural persons without commercial activity).
- Client managed by collection area or judicial collection.
- To get out of non-complying category is required 6 months of internal good behavior (past due less than 30 days).

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

- The portfolio in non-complying includes all loans and 100% of the amount of contingent loans, of the debtors who at the end of a month have an overdue equal to or greater than 90 days in payment of interest or capital of a credit. It will also include debtors who are granted a credit to leave active an operation that has more than 60 days overdue in payment, as well as those debtors who have been subject to forced restructuring or partial debt condonation.

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- To remove a debtor of the non-complying portfolio, once were exceeded the circumstances that led to its classification in this portfolio according to the present standards, at least the following copulative conditions must be met:

- No obligation of the debtor with the bank with more than 30 calendar days overdue.
- No new refinances granted to pay its obligations.
- At least one of the payments includes amortization of capital.
- If the debtor has a credit with partial payment periods less than six months, has already made two payments.
- If the debtor must pay monthly fees for one or more credits, has paid four consecutive dues.
- The debtor does not appear with unpaid debts direct according to the information recast by SBIF, except for insignificant amounts.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Loans to Customers, net, continued:

(a.ii) Impaired Portfolio

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

	Normal Portfolio		Assets before Allowances				Individual Provisions		Group Provisions		Total		Net
	2016	2015	Impaired Portfolio		Total		2016	2015	2016	2015	2016	2015	
	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	
Commercial													
loans	14,022,176	13,871,526	468,612	545,392	14,490,788	14,416,918	(221,085)	(263,719)	(105,174)	(107,080)	(326,259)	(370,799)	14,164,529
Mortgage													
loans	6,784,614	6,287,820	135,572	117,166	6,920,186	6,404,986			(33,866)	(34,952)	(33,866)	(34,952)	6,886,320
Consumer													
loans	3,723,550	3,473,296	251,010	262,841	3,974,560	3,736,137			(249,866)	(196,015)	(249,866)	(196,015)	3,724,694
Total	24,530,340	23,632,642	855,194	925,399	25,385,534	24,558,041	(221,085)	(263,719)	(388,906)	(338,047)	(609,991)	(601,766)	24,775,543

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Loans to Customers, continued:

(b) Credit risk provisions:

The changes in credits risk provisions, during the periods 2016 and 2015, is summarized 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	(13,228)	(44,760)	(57,988)
Mortgage loans		(2,553)	(2,553)
Consumer loans		(196,015)	(196,015)
Total charge-offs	(13,228)	(243,328)	(256,556)
Sales or transfers of credit	(2,690)		(2,690)
Purchase of loans	12,329		12,329
Allowances established	61,286	258,782	320,068
Balance as of December 31, 2015	263,719	338,047	601,766
Balance as of January 1, 2016	263,719	338,047	601,766
Charge-offs:			
Commercial loans	(14,913)	(44,930)	(59,843)
Mortgage loans		(4,190)	(4,190)
Consumer loans		(213,024)	(213,024)
Total charge-offs	(14,913)	(262,144)	(277,057)
Sales or transfers of credit	(24,925)		(24,925)
Allowances established		313,003	313,003
Allowances released	(2,796)		(2,796)
Balance as of December 31, 2016	221,085	388,906	609,991

In addition to these credit risk provisions, also are maintained provisions for country risk to cover foreign operations and additional loan provisions agreed upon by the Board of Directors, which are presented in liabilities under line Provisions (Note No. 24).

Other disclosures:

1. As of December 31, 2016 and 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 No. 12 (e).

2. As of December 31, 2016 and 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 (f)).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Loans to Customers, continued:

(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 (*)	
	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$
Within one year	463,296	460,004	(54,347)	(54,353)	408,949	405,651
From 1 to 2 years	325,230	333,374	(40,166)	(39,913)	285,064	293,461
From 2 to 3 years	223,796	218,308	(26,156)	(27,287)	197,640	191,021
From 3 to 4 years	147,047	152,329	(18,162)	(19,090)	128,885	133,239
From 4 to 5 years	99,992	106,806	(12,698)	(13,652)	87,294	93,154
After 5 years	265,660	281,489	(28,399)	(30,492)	237,261	250,997
Total	1,525,021	1,552,310	(179,928)	(184,787)	1,345,093	1,367,523

(*) The net balance receivable does not include past-due portfolio totaling Ch\$6,019 million as of December 31, 2016 (Ch\$7,533 million as of December 31, 2015).

The Bank maintains financial leasing operations associated with real estate, industrial machinery, vehicles and transportation equipment. These leases have an average useful life between 2 and 17 years.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Loans to Customers, continued:

(d) Loans by industry sector:

The following table details the Bank's loan portfolio (before allowances for loans losses) as of December 31, 2016 and 2015 by the customer's industry sector:

	Chile		Abroad		2016 MCh\$	%	Total	
	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$			2015 MCh\$	%
Commercial loans:								
Commerce	2,182,771	2,265,154	52,456	80,164	2,235,227	8.81	2,345,318	9.55
Financial Services	2,102,582	2,117,466	13,621	13,480	2,116,203	8.34	2,130,946	8.68
Services	1,937,428	1,668,022		324	1,937,428	7.63	1,668,346	6.79
Construction	1,647,862	1,585,940			1,647,862	6.49	1,585,940	6.46
Transportation	1,636,994	1,656,111		12,517	1,636,994	6.45	1,668,628	6.80
Manufacturing	1,517,436	1,534,131	44,301	92,384	1,561,737	6.15	1,626,515	6.62
Agriculture and livestock	1,184,869	1,185,113			1,184,869	4.67	1,185,113	4.83
Electricity, gas and water	566,438	473,172			566,438	2.23	473,172	1.93
Mining	432,822	545,375			432,822	1.70	545,375	2.22
Fishing	264,042	351,531			264,042	1.04	351,531	1.43
Other	907,166	836,034			907,166	3.57	836,034	3.40
Subtotal	14,380,410	14,218,049	110,378	198,869	14,490,788	57.08	14,416,918	58.71
Residential mortgage loans	6,920,186	6,404,986			6,920,186	27.26	6,404,986	26.08
Consumer loans	3,974,560	3,736,137			3,974,560	15.66	3,736,137	15.21
Total	25,275,156	24,359,172	110,378	198,869	25,385,534	100.00	24,558,041	100.00

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Loans to Customers, continued:

(e) Purchase of loan portfolio:

During the period ended December 31, 2016 the Bank acquired loan portfolio, whose nominal value amounted to Ch\$54,969 million. The main transactions corresponded to purchases of portfolios made to local banks (CorpBanca and Rabobank).

During 2015, the Bank acquired the loan portfolio, with a nominal value of \$ 649,144 million. The most important transaction was the purchase of a portfolio from a local bank (Banco Penta).

(f) Sale or transfer of loans from the loan portfolio:

During the period 2016 and 2015 there have been operations of sale or transfer of loan portfolio according to the following:

2016

	Carrying amount MCh\$	Allowances MCh\$	Sale price MCh\$	Effect on income (loss) gain MCh\$
Sale of current loans	130,045	(24,925)	110,050	4,930
Sale of written off loans				
Total	130,045	(24,925)	110,050	4,930

2015

	Carrying amount MCh\$	Allowances MCh\$	Sale price MCh\$	Effect on income (loss) gain MCh\$
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Sale of current loans	89,085	(2,690)	89,085	2,690
Sale of written off loans (**)			1,440	1,440
Total	89,085	(2,690)	90,525	4,130

(*) The nominal value of the credits amounted to MCh\$327,360 million.

(g) Securitization of own assets:

During 2016 and 2015, there is no transactions of securitization of own assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

13, Investment Securities:

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

	Available- for-sale MCh\$	2016 Held to maturity MCh\$	Total MCh\$	Available- for -sale MCh\$	2015 Held to maturity MCh\$	Total MCh\$
Instruments issued by the Chilean Government and Central Bank of Chile						
Bonds issued by the Chilean Government and Central Bank	20,944		20,944	36,258		36,258
Promissory notes issued by the Chilean Government and Central Bank						
Other instruments	38,256		38,256	50,250		50,250
Other instruments issued in Chile						
Deposit promissory notes from domestic banks						
Mortgage bonds from domestic banks	108,933		108,933	87,610		87,610
Bonds from domestic banks	7,973		7,973	83,960		83,960
Deposits from domestic banks	24,032		24,032	450,976		450,976
Bonds from other Chilean companies	29,525		29,525	17,766		17,766
Promissory notes issued by other Chilean companies						
Other instruments	138,322		138,322	191,537		191,537
Instruments issued abroad						
Instruments from foreign governments or Central Banks						
Other instruments				81,644		81,644

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Total	367,985	367,985	1,000,001	1,000,001
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Instruments issued by the Chilean Government and Central Bank include instruments with repurchase agreements sold to clients and financial institutions; totaling Ch\$4,975 million as of December 31, 2016 (Ch\$3,054 million as of December 31, 2015). The repurchase agreements have an average maturity of 7 days as of December 31, 2016 (6 days in December 2015). Additionally, under the same item, are maintained instruments that guarantee margins for offsetting derivative transactions through Comder Contraparte Central S.A. for an amount of \$ 2,099 million as of December 31, 2016.

Instruments of Foreign Institutions include mainly bank bonds and equity investment instruments.

As of December 31, 2016, the portfolio of financial assets available-for-sale includes a net unrealized gain of Ch\$847 million, net of tax (net unrealized gain of Ch\$52,418 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 December 31, 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 nine-month period ended as of December 31, 2016 and 2015 are as follows:

	2016	2015
	MCh\$	MCh\$
Unrealized (losses)/gains during the period	12,440	17,003
Realized losses/gains (reclassified)	(64,011)	(8,407)

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Subtotal	(51,571)	8,596
Income tax	12,366	(2,722)
Total unrealized (losses)/gains during the period	(39,205)	5,874

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

14. Investments in Other Companies:

(a) Investments in other companies include investments in associates, joint ventures and Investments valued at cost by Ch\$32,588 million as of December 31, 2016 (Ch\$28,126 million as of December 31, 2015), detailed as follows:

Company	Shareholder	Ownership Interest		Equity		Book Value		Investment Income (Loss) (***)	
		2016 %	2015 %	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$
Associates									
Transbank S.A.(*)	Banco de Chile	26.16	26.16	49,518	40,302	12,954	10,542	1,363	1,314
Soc. Operadora de Tarjetas de Crédito Nexus S.A.	Banco de Chile	25.81	25.81	10,809	9,472	2,789	2,444	493	449
Administrador Financiero del Transantiago S.A.	Banco de Chile	20.00	20.00	13,907	12,758	2,782	2,552	230	323
Redbanc S.A.	Banco de Chile	38.13	38.13	6,422	5,419	2,449	2,066	425	245
Sociedad Imerc OTC S.A. (**)	Banco de Chile	12.33	11.48	10,991	9,823	1,347	1,128	135	(119)
Centro de Compensación Automatizado S.A.	Banco de Chile	33.33	33.33	3,985	3,252	1,328	1,084	248	211
Sociedad Interbancaria de Depósitos de Valores S.A.	Banco de Chile	26.81	26.81	3,101	2,656	831	712	175	125
Soc. Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A.	Banco de Chile	15.00	15.00	5,472	4,955	821	743	100	136
Subtotal Associates				104,205	88,637	25,301	21,271	3,169	2,684
Joint Ventures									
Servipag Ltda.	Banco de Chile	50.00	50.00	8,596	7,778	4,298	3,889	409	249
Artikos Chile S.A.	Banco de Chile	50.00	50.00	1,431	1,378	715	689	441	310
Subtotal Joint Ventures				10,027	9,156	5,013	4,578	850	559
Subtotal				114,232	97,793	30,314	25,849	4,019	3,243
Investments valued at cost (1)									
Bolsa de Comercio de Santiago S.A.						1,646	1,646	438	370

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Banco Latinoamericano de Comercio Exterior S.A. (Bladex)	309	309	61	59
Bolsa Electrónica de Chile S.A.	257	257		
Sociedad de Telecomunicaciones Financieras Interbancarias Mundiales (Swift)	54	57		
CCLV Contraparte Central S.A.	8	8		
Subtotal	2,274	2,277	499	429
Total	32,588	28,126	4,518	3,672

(1) Income from investments valorized at cost, corresponds to income recognized on cash basis (dividends).

(*) During the period 2016 Transbank S.A. carried out a capital increase for an amount equivalent to MCh \$ 9,041 through the capitalization of profits, greater value in the placement of shares and issue of shares for payment. Banco de Chile made the subscription and payment of shares for a total amount of MCh \$ 1,046 (amount does not include adjustment of MCh \$ 9). The shareholding of Banco de Chile in Transbank S.A. was not changed by this capital increase.

(**) During the month of July 2016, Banco de Chile increased its stake in share capital of the Company Servicio de Infraestructura de Mercado OTC.S.A. through the acquisition of 82 shares

(***) The year 2016 does not include a loss of \$ 5 million reflected by the subsidiary Banchile Asesoría Financiera for the investment held on the subsidiary Promarket SA, which was dissolved on December 30, 2016. See Note No. 5 letter (q).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

14. Investments in Other Companies, continued:

(b) Associates

	Centro de Compensación Automatizado S.A. MM\$	Soc. Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A. MM\$	Soc. Operadora de Tarjetas de Crédito Nexus S.A. MM\$	2016 Sociedad Interbancaria de Depósitos de Valores S.A. MM\$	Redbanc S.A. MM\$	Transbank S.A. MM\$	Administrador Financiero del Transantiago S.A. MM\$	Sociedad Imerc OTC S.A. MM\$	Total
Current assets	1,748	5,731	10,915	71	4,642	647,384	51,803	21,722	744,283
Non-current assets	3,760	368	19,123	3,133	15,285	63,091	819	7,536	113,145
Total Assets	5,508	6,099	30,038	3,204	19,927	710,475	52,622	29,258	857,428
Current liabilities	1,146	627	15,141	103	7,884	660,720	37,912	15,192	738,615
Non-current liabilities	377		4,088		5,621	237	803	3,066	14,132
Total Liabilities	1,523	627	19,229	103	13,505	660,957	38,715	18,258	752,749
Equity	3,985	5,472	10,809	3,101	6,422	49,518	13,907	10,991	104,135
Minority interest								9	
Total Liabilities and Equity	5,508	6,099	30,038	3,204	19,927	710,475	52,622	29,258	857,428
Revenue	2,138	3,142	48,150	2	33,603	156,207	3,292	6,260	252,692
Operating expenses	(1,165)	(2,497)	(45,658)	(30)	(31,686)	(150,785)	(2,142)	(4,953)	(238,414)
Other income (expenses)	(28)	168	(121)	694	(446)	1,047	624	12	1,068
Profit before tax	945	813	2,371	666	1,471	6,469	1,774	1,319	15,412
Income tax	(201)	(156)	(460)		(356)	(1,260)	(624)	(225)	(3,052)
Profit for the year	744	657	1,911	666	1,115	5,209	1,150	1,094	12,360

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	Centro de Compensación Automatizado S.A. MM\$	Soc. Operadora de la Cámara de Compensación de Pagos de Alto Valor S.A. MM\$	Soc. Operadora de Tarjetas de Crédito Nexus S.A. MM\$	Sociedad Interbancaria de Depósitos de Valores S.A. MM\$	Redbanc S.A. MM\$	Transbank S.A. MM\$	Administrador Financiero del Transantiago S.A. MM\$	Sociedad Imerc OTC S.A. MM\$	Tot MM\$
Current assets	1,273	5,329	11,307	100	5,222	549,891	41,203	6,653	620,
Non-current assets	3,875	401	12,776	2,614	15,074	51,736	1,315	10,979	98,
Total Assets	5,148	5,730	24,083	2,714	20,296	601,627	42,518	17,632	719,
Current liabilities	1,370	775	11,065	58	12,360	561,184	29,325	4,814	620,
Non-current liabilities	526		3,546		2,517	141	435	2,987	10,
Total Liabilities	1,896	775	14,611	58	14,877	561,325	29,760	7,801	631,
Equity	3,252	4,955	9,472	2,656	5,419	40,302	12,758	9,823	88,
Minority interest								8	
Total Liabilities and Equity	5,148	5,730	24,083	2,714	20,296	601,627	42,518	17,632	719,
Revenue	1,804	3,062	44,632	4	32,428	133,442	3,168	2,569	221,
Operating expenses	(1,017)	(2,322)	(42,630)	(26)	(31,114)	(128,007)	(1,819)	(4,191)	(211,
Other income (expenses)	(29)	365	62	585	(472)	826	596	33	1,
Profit before tax	758	1,105	2,064	563	842	6,261	1,945	(1,589)	11,
Income tax	(123)	(216)	(323)		(200)	(1,237)	(332)	551	(1,
Profit for the year	635	889	1,741	563	642	5,024	1,613	(1,038)	10,

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

14. Investments in Other Companies, continued:

(c) Joint Ventures:

The Bank has a 50% interest in Servipag Ltda. and a 50% interest in Artikos S.A., two jointly controlled entities. Bank's interest of both entities is accounted for using the equity method in the consolidated financial statements.

Below the summary financial information of the jointly controlled companies:

	Artikos S.A.		Servipag Ltda.	
	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$
Current assets	1,150	1,224	49,477	50,449
Non-current assets	1,028	755	17,350	17,193
Total Assets	2,178	1,979	66,827	67,642
Current liabilities	747	601	53,545	55,127
Non-current liabilities			4,686	4,736
Total Liabilities	747	601	58,231	59,865
Equity	1,431	1,378	8,596	7,778
Total Liabilities and Equity	2,178	1,979	66,827	67,643
Revenue	2,751	3,147	39,587	38,879
Operating expenses	(2,072)	(735)	(38,124)	(37,632)
Other income (expenses)	23	(1,929)	(542)	(797)
Profit (loss) before tax	702	483	921	450
Income tax	180	137	(103)	47
Profit (loss) for the year	882	620	818	497

(d) The reconciliation between opening and ending balance of investments in other companies that are not consolidated in 2016 and 2015 are detailed as follows:

	2016 MCh\$	2015 MCh\$
Initial book value	28,126	25,312

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Acquisition of investments	1,129	314
Participation in net income	4,019	3,243
Dividends receivable	(560)	(535)
Dividends received	(667)	(663)
Payment of dividends	535	405
Others	6	50
Total	32,588	28,126

(e) During periods ended as of December 31, 2016 and 2015 no impairment has incurred in these investments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

15. Intangible Assets:

(a) As of December 31, 2016 and 2015 intangible assets are detailed as follows:

	Years				Gross balance		Accumulated Amortization		Net balance	
	Useful Life		Remaining amortization		2016	2015	2016	2015	2016	2015
	2016	2015	2016	2015	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$	MCh\$
Other Intangible Assets:										
Software or computer programs	6	6	5	4	109,491	100,000	(80,150)	(73,281)	29,341	26,719
Total					109,491	100,000	(80,150)	(73,281)	29,341	26,719

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

15. Intangible Assets, continued:

(b) The change of intangible assets for the years ended December 31, 2016 and 2015 are as follows:

	2016	
	Software or computer programs MCh\$	Total MCh\$
<u>Gross Balance</u>		
Balance as of January 1, 2016	100,000	100,000
Acquisition	11,248	11,248
Disposals/ write-downs	(1,757)	(1,757)
Impairment loss (*)		
Total	109,491	109,491
<u>Accumulated Amortization</u>		
Balance as of January 1, 2016	(73,281)	(73,281)
Amortization for the period (*)	(8,595)	(8,595)
Disposals/ write-downs	1,726	1,726
Total	(80,150)	(80,150)
Balance as of December 31, 2016	29,341	29,341

	2015	
	Software or computer programs MCh\$	Total MCh\$
<u>Gross Balance</u>		
Balance as of January 1, 2015	92,225	92,225
Acquisition	8,519	8,519
Disposals/ write-downs	(685)	(685)
Impairment loss (*)	(59)	(59)
Total	100,000	100,000
<u>Accumulated Amortization</u>		
Balance as of January 1, 2015	(65,632)	(65,632)
Amortization for the year (*)	(8,331)	(8,331)
Disposals/ write-downs	682	682
Total	(73,281)	(73,281)
Balance as of December 31, 2015	26,719	26,719

(*) See Note No. 35 Depreciation, amortization and impairment.

(c) As of December 31, 2016 and 2015, the Bank has the following technological developments:

Detail	Amount of Commitment	
	2016 MCh\$	2015 MCh\$
Software and licenses	3,024	5,779

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

16. Property and equipment:

(a) The composition of properties and equipment as of December 31, 2016 and 2015 are as follow:

	Gross balance		Accumulated depreciation		Net Balance	
	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$	2016 MCh\$	2015 MCh\$
<u>Type Property and equipment:</u>						
Land and Buildings	302,187	292,166	(134,900)	(126,568)	167,287	165,598
Equipment	180,322	167,874	(139,277)	(127,644)	41,045	40,230
Others	50,404	47,960	(39,654)	(38,117)	10,750	9,843
Total	532,913	508,000	(313,831)	(292,329)	219,082	215,671

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

16. Property and equipment, continued:

(b) The changes in properties and equipment for the years ended December 31, 2016 and 2015 are as follows:

	2016			
	Land and Buildings MCh\$	Equipment MCh\$	Others MCh\$	Total MCh\$
Gross Balance				
Balance as of January 1, 2016	292,166	167,874	47,960	508,000
Reclassifications				
Additions	10,174	14,105	3,540	27,819
Disposals/write-downs	(138)	(1,653)	(1,070)	(2,861)
Transfers				
Impairment losses (*) (***)	(15)	(4)	(26)	(45)
Total	302,187	180,322	50,404	532,913
Accumulated Depreciation				
Balance as of January 1, 2016	(126,568)	(127,644)	(38,117)	(292,329)
Reclassifications				
Depreciation charges in the period (*) (**)	(8,470)	(13,268)	(2,588)	(24,326)
Sales and disposals in the period	138	1,653	1,033	2,824
Transfers		(18)	18	
Total	(134,900)	(139,277)	(39,654)	(313,831)
Balance as of December 31, 2016	167,287	41,045	10,750	219,082

	2015			
	Land and Buildings MCh\$	Equipment MCh\$	Other MCh\$	Total MCh\$
Gross Balance				
Balance as of January 1, 2015	285,755	151,911	43,773	481,439
Reclassifications	625		859	1,484
Acquisitions	7,909	18,746	4,821	31,476
Disposals	(2,051)	(2,769)	(1,381)	(6,201)
Transfers		(11)	11	
Impairment losses (*) (***)	(72)	(3)	(123)	(198)
Total	292,166	167,874	47,960	508,000
Accumulated Depreciation				
Balance as of January 1, 2015	(120,084)	(119,842)	(36,110)	(276,036)
Reclassifications	(110)		(882)	(992)

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Depreciation for the year (*) (**)	(8,117)	(10,567)	(2,143)	(20,827)
Disposals and sales of period	1,743	2,764	1,019	5,526
Transfers		1	(1)	
Total	(126,568)	(127,644)	(38,117)	(292,329)
Balance as of December 31, 2015	165,598	40,230	9,843	215,671

(*) See Note No. 35 Depreciation, Amortization and Impairment.

(**) This amount does not include the depreciation of the year of the Investment Properties, amount is included in Other Assets for Ch\$368 million (Ch\$379 million as of December 31, 2015).

(***) This amount does not include charge-offs provision of Property and Equipment of Ch\$229 (Ch\$6 million as of December 31, 2015).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

16. Property and equipment, continued:

(c) As of December 31, 2016 and 2015, the Bank has operating lease agreements in which it acts as lessee that cannot be terminated unilaterally; information on future payments is detailed as follows:

	Expense for the period MCh\$	Up to 1 month MCh\$	Lease Contracts				Over 5 years MCh\$	Total 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\$		
Year 2016	34,490	2,473	4,903	20,327	44,809	36,213	46,902	155,627
Year 2015	30,984	2,401	4,860	19,428	32,798	25,034	44,722	129,243

As these lease contracts are operating leases under IAS 17 the leased assets are not presented in the Bank's Interim Condensed Consolidated Statement of Financial Position.

The Bank has commercial leases of investment properties. These leases have an average life of 5 years. There are no restrictions for the tenant.

(d) As of December 31, 2016 and 2015, the Bank does not have any finance lease agreements, therefore, there are no property and equipment balances to be reported from such transactions as of December 31, 2016 and 2015.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

17. **Current Taxes and Deferred Taxes:**(a) **Current Taxes:**

As of December 31, 2016 and 2015, the Bank and its subsidiaries have constituted a First Category Income Tax Provision, which was determined based on current tax regulations, and has been reflected in the statement of financial position net of taxes to be recovered or payable as applicable, detailed as follows:

	2016 MCh\$	2015 MCh\$
Income taxes	119,123	121,585
Tax on non-deductible expenses (35%)	3,521	2,805
Less:		
Monthly prepaid taxes (PPM)	(126,266)	(94,813)
Credit for training expenses	(2,031)	(1,931)
Contributions Real Estate		(896)
Others	(1,004)	(2,036)
Total	(6,657)	24,714
Tax rate	24,0%	22,5%

	2016 MCh\$	2015 MCh\$
Current tax assets	6,792	3,279
Current tax liabilities	(135)	(27,993)
Total tax receivable (payable)	6,657	(24,714)

(b) **Income Tax:**

The effect of the tax expense during the years between January 1 and December 31, 2016 and 2015, broken down as follows:

	2016 MCh\$	2015 MCh\$
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Income tax expense:		
Current year taxes	131,238	119,342
Tax from previous period	1,030	(1,851)
Subtotal	132,268	117,491
Credit (charge) for deferred taxes:		
Origin and reversal of temporary differences	(34,198)	(42,138)
Effect of exchange rates on deferred tax	(12,176)	(15,652)
Subtotal	(46,374)	(57,790)
Non-deductible expenses (Art. 21 Income Tax Law)	3,521	2,805
Others	(375)	(776)
Net charge to income for income taxes	89,040	61,730

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

17. Current and Deferred Taxes, continued:

(c) Reconciliation of effective tax rate:

The following is a reconciliation of the income tax rate to the effective rate applied to determine the Bank's income tax expense as of December 31, 2016 and 2015:

	2016		2015	
	Tax rate %	MCh\$	Tax rate %	MCh\$
Income tax calculated on net income before tax	24.00	153,909	22.50	139,664
Additions or deductions	(0.33)	(2,103)	(0.05)	(314)
Subordinated debt (*)	(5.32)	(34,092)	(5.10)	(31,638)
Price-level restatement	(3.78)	(24,229)	(4.30)	(26,718)
Tax from previous period	0.16	1,030	(0.30)	(1,851)
Non-deductible expenses tax	0.55	3,521	0.45	2,805
Effect in deferred taxes (changes in tax rate)	(1.90)	(12,176)	(2.52)	(15,652)
Other	0.50	3,180	(0.74)	(4,566)
Effective rate and income tax expense	13.88	89,040	9.94	61,730

(*) The tax benefit associated with the dividend payment made to SAOS, as payment of the subordinated debt held with the Central Bank, should disappear as the liability of SM-Chile with the Central Bank is completely paid off.

The effective rate for income tax for 2016 is 13.88% (9.94% in 2015).

On December 29, 2015, Law 20,780 published in the Official Journal, amended the income tax and introduces various adjustments in the tax system.

On February 8, 2016, it was published Law 20,899, which made changes to the Law 20,780, specifically as it is related to the regime applicable to corporations.

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Article 8 of Law 20,899, it established that corporations must apply the tax regime of first category with partial deduction of the credit in the final taxes. For this scheme, the law 20,780 establishes a gradual increase of tax rates first category according to the following table:

Year	Rate
2014	21.0 %
2015	22.5 %
2016	24.0 %
2017	25.5 %
2018	27.0 %

The effect on income by deferred taxes produced by the tax rate change was a credit in income for an amount of Ch\$12,176 million (Ch\$15,652 million in 2015).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

17. **Current and Deferred Taxes, continued:**

(d) Effect of deferred taxes on income and equity:

The Bank and its subsidiaries have recorded the effects of deferred taxes in their financial statements.

The effects of deferred taxes on assets, liabilities and income accounts are detailed as follows:

	Balances as of December 31, 2015 MCh\$	Income MCh\$	Effect on	Equity MCh\$	Balances as of December 31, 2016 MCh\$
Debit Differences:					
Allowances for loan losses	178,168	25,888			204,056
Personnel provisions	7,867	3,081			10,948
Staff vacation	6,268	406			6,674
Accrued interests and indexation adjustments from impaired loans	4,024	(669)			3,355
Staff severance indemnities provisions	1,352	(337)		(45)	970
Provision of credit cards expenses	13,628	(1,169)			12,459
Provision of accrued expenses	11,788	2,701			14,489
Leasing	18,239	18,880			37,119
Other adjustments	14,638	1,322			15,960
Total debit differences	255,972	50,103		(45)	306,030
Credit Differences:					
Depreciation and price-level restatement of property and equipment	13,163	(1,348)			11,815
Adjustment for valuation of financial assets available-for-sale	12,582			(12,366)	216
Transitory assets	2,640	977			3,617
Loans accrued to effective rate	2,565	(313)			2,252
Other adjustments	2,003	4,413		1	6,417
Total credit differences	32,953	3,729		(12,365)	24,317
Deferred tax assets (liabilities), net	223,019	46,374		12,320	281,713

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

17. Current and Deferred Taxes, continued:

(e) For the purpose of complying with the Circular No. 47 issued by the Chilean Internal Revenue Service (SII) and No. 3,478 issued by the Superintendency of Banks and Financial Institutions, dated August 18, 2009 the movements and effects generated by the application of Article 31, No. 4 of the Income Tax Law are detailed below:

As the circular requires, the information corresponds only to the Bank's credit operations and does not consider operations of subsidiary entities that are consolidated in these consolidated financial statements.

(e.1) Loans to customers as of December 31, 2016

			2016		
	Book value assets (*) MCh\$	Tax value assets MCh\$	Past-due loans with guarantees MCh\$	Tax value assets Past-due loans without guarantees MCh\$	Total Past-due loans MCh\$
Loans and advance to banks	1,172,917	1,173,446			
Commercial loans	12,273,578	12,776,131	22,954	54,044	76,998
Consumer loans	3,724,694	4,262,051	448	22,386	22,834
Residential mortgage loans	6,886,320	6,917,509	7,404	168	7,572
Total	24,057,509	25,129,137	30,806	76,598	107,404

(e.1) Loans to customers as of December 31, 2015

			2015		
	Book value assets (*) MCh\$	Tax value assets MCh\$	Past-due loans with guarantees MCh\$	Tax value assets Past-due loans without guarantees MCh\$	Total Past-due loans MCh\$
Loans and advance to banks	1,395,195	1,395,897			
Commercial loans	12,200,386	12,733,691	29,606	69,942	99,548

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Consumer loans	3,540,122	3,959,497	448	17,298	17,746
Residential mortgage loans	6,370,034	6,402,268	5,803	136	5,939
Total	23,505,737	24,491,353	35,857	87,376	123,233

(*) In accordance with the mentioned Circular and instructions from the SII, the value of financial statement assets, are presented on an individual basis (only Banco de Chile) net of allowance for loan losses and do not include lease and factoring operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

17. Current and Deferred Taxes, continued:

	Balance as of January 1, 2016 MCh\$	Charge-offs against provisions MCh\$	2016 Provisions established MCh\$	Provisions released MCh\$	Balance as of December 31, 2016 MCh\$
(e.2) Provisions on past-due loans					
Commercial loans	69,942	(42,954)	87,648	(60,592)	54,044
Consumer loans	17,298	(209,683)	235,743	(20,972)	22,386
Residential mortgage loans	136	(1,595)	2,187	(560)	168
Total	87,376	(254,232)	325,578	(82,124)	76,598

	Balance as of January 1, 2015 MCh\$	Charge-offs against provisions MCh\$	2015 Provisions established MCh\$	Provisions released MCh\$	Balance as of December 31, 2015 MCh\$
(e.2) Provisions on past-due loans					
Commercial loans	57,350	(41,860)	108,206	(53,754)	69,942
Consumer loans	18,643	(192,746)	213,756	(22,355)	17,298
Residential mortgage loans	93	(921)	1,414	(450)	136
Total	76,086	(235,527)	323,376	(76,559)	87,376

(e.3) Charge-offs and recoveries	2016 MCh\$	2015 MCh\$
Charge-offs Art. 31 No. 4 second subparagraph	15,890	11,908
Write-offs resulting in provisions released	1,149	794
Recovery or renegotiation of written-off loans	45,103	48,696

(e.4) Application of Art. 31 No. 4 first & third subsections	2016 MCh\$	2015 MCh\$
Charge-offs in accordance with first subsection		
Write-offs in accordance with third subsection	1,149	794

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

18. Other Assets:

(a) Item detail:

As of December 31, 2016 and 2015, other assets are detailed as follows:

	2016 MCh\$	2015 MCh\$
Assets held for leasing (*)	103,078	117,332
Assets received or awarded as payment (**)		
Assets awarded in judicial sale	7,282	5,644
Assets received in lieu of payment	6,117	785
Provision for assets received in lieu of payment	(2,104)	(176)
Subtotal	11,295	6,253
Other Assets		
Deposits by derivatives margin	178,529	226,213
Other accounts and notes receivable	52,080	21,644
Trading and brokerage (***)	32,243	30,729
Investment properties	14,674	15,041
Servipag available funds	14,482	13,922
VAT receivable	13,414	10,143
Prepaid expenses	10,740	6,915
Commissions receivable	6,714	7,558
Recoverable income taxes	6,278	8,718
Pending transactions	5,070	3,472
Rental guarantees	1,815	1,743
Materials and supplies	742	643
Recovered leased assets for sale	589	625
Accounts receivable for sale of assets received in lieu of payment	245	752
Others	10,197	12,795
Subtotal	347,812	360,913
Total	462,185	484,498

(*) These correspond to property and equipment to be given under a finance lease.

(**) Assets received in lieu of payment are assets received as payment of customers' past-due debts. The assets acquired must at no time exceed, in the aggregate, 20% of the Bank's effective equity. These assets represent 0.1640% (0.0227% as of December 31, 2015) of the Bank's effective equity.

The assets awarded at judicial sale are assets that have been acquired as payment of debts previously owed towards the Bank. The assets awarded at judicial sales are not subject to the aforementioned requirement. These properties are non-current assets available-for-sale. For most assets, the sale is expected to be completed within one year from the date on which the asset was received or acquired. If the asset in question is not sold within the year, it must be written off.

The provision for assets received in lieu of payment is recorded as indicated in the Compendium of Accounting Standards, Chapter B-5 No.3, which indicates to recognize a provision for the difference between the initial value plus any additions and its realizable value when the former is greater.

(***) This item mainly includes simultaneous operations carried out by the subsidiary Banchile Corredores de Bolsa S.A.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

18. Other Assets, continued:

(b) The changes of the provision for assets received in lieu of payment during the 2016 and 2015 are as follows:

Provision for assets	MCh\$
Balance as of January 1, 2015	207
Provisions used	(181)
Provisions established	150
Provisions released	
Balance as of December 31, 2015	176
Provisions used	(751)
Provisions established	2,679
Provisions released	
Balance as of December 31, 2016	2,104

19. Current accounts and Other Demand Deposits:

As of December 31, 2016 and 2015, current accounts and other demand deposits are detailed as follows:

	2016 MCh\$	2015 MCh\$
Current accounts	6,907,655	6,900,590
Other demand deposits	856,711	892,485
Other demand deposits and accounts	556,782	533,973
Total	8,321,148	8,327,048

20. Savings accounts and Time Deposits:

As of December 31, 2016 and 2015, savings accounts and time deposits are detailed as follows:

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	2016	2015
	MCh\$	MCh\$
Time deposits	10,277,292	9,529,974
Term savings accounts	208,435	205,171
Other term balances payable	67,174	172,547
Total	10,552,901	9,907,692

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

21. Borrowings from Financial Institutions:

(a) As of December 31, 2016 and 2015, borrowings from financial institutions are detailed as follows:

	2016 MCh\$	2015 MCh\$
Domestic banks		
Foreign banks		
Foreign trade financing		
Citibank N.A.	234,629	283,803
Bank of America	169,182	150,208
Sumitomo Mitsui Banking	127,447	35,421
HSBC Bank	114,488	121,027
The Bank of New York Mellon	114,096	149,617
Wells Fargo Bank	67,624	112,933
Mizuho Bank Ltda	60,340	
Standard Chartered Bank	20,554	56,975
Zuercher Kantonalbank	14,107	22,011
Commerzbank A.G.	3,242	1,446
Canadian Imperial Bank of Commerce		166,918
Bank of Nova Scotia		94,298
Bank of Montreal		92,096
Toronto Dominion Bank		63,788
ING Bank		31,873
Others	482	840
Borrowings and other obligations		
Wells Fargo Bank	100,885	106,463
Citibank N.A.	7,776	37,571
Deutsche Bank AG	3,411	
Others	1,760	2,333
Subtotal foreign trade financing	1,040,023	1,529,621
Chilean Central Bank	3	6
Total	1,040,026	1,529,627

(b) Chilean Central Bank Obligations

Debts with the Central Bank of Chile include credit lines for the renegotiation of loans and other Central Bank borrowings.

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The total amounts of the debt to the Central Bank of Chile are as follows:

	2016 MCh\$	2015 MCh\$
Borrowings and other obligations		
Total credit lines for the renegotiation of loans	3	6
Total	3	6

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, continued

22. Debt Issued:

As of December 31, 2016 and 2015, debt issued is detailed as follows:

	2016 MCh\$	2015 MCh\$
Mortgage bonds	32,914	46,381
Bonds	5,431,575	5,270,214
Subordinated bonds	713,438	785,613
Total	6,177,927	6,102,208

During the year ended as of December 31, 2016, Banco de Chile issued bonds by an amount of Ch\$1,420,037 million, of which corresponds to which correspond to Current Bonds, Short-Term Bonds and Subordinated bonds by an amount of Ch\$804,979 million, Ch\$532,852 million and Ch\$82,206 million respectively, according to the following details:

Current Bonds

Serie	Amount MCh\$	Terms Years	Rate %	Currency	Issue date	Maturity date
BCHIAR0613	8,497	10	3.60	UF	29/01/2016	29/01/2026
BCHIAR0613	10,869	10	3.60	UF	18/02/2016	18/02/2026
BCHIBJ0915	53,553	10	2.90	UF	25/05/2016	25/05/2026
BCHIBF0915	79,626	8	2.70	UF	25/05/2016	25/05/2024
BCHIBK0915	53,485	11	2.90	UF	25/05/2016	25/05/2027
BCHIBL1115	79,806	11	2.90	UF	25/05/2016	25/05/2027
BCHIBA0815	53,480	5	2.50	UF	29/06/2016	29/06/2021
BCHIBI1115	80,405	10	2.90	UF	29/06/2016	29/06/2026
BCHIBB0815	6,706	6	2.50	UF	05/07/2016	05/07/2022
BCHIBB0815	46,950	6	2.50	UF	06/07/2016	06/07/2022
BONO USD	19,705	5	1.97	USD	05/08/2016	05/08/2021
BONO USD	68,060	5	1.96	USD	01/09/2016	01/09/2021