

BANK OF CHILE
Form 6-K
October 28, 2016

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 October, 2016

Commission File Number 001-15266

BANK OF CHILE
(Translation of registrant's name into English)

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

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

Form 20-F 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):

Edgar Filing: BANK OF CHILE - Form 6-K

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

BANCO DE CHILE
REPORT ON FORM 6-K

Attached is a Press Release issued by Banco de Chile (the Bank) on October 28th, 2016, regarding its financial results for the Third Quarter 2016.

Key highlights

When looking at our results, I conclude the 3Q16 was a very positive quarter. In fact, we were able to record a bottom line of Ch\$145 Bn. in the 3Q16, which outreached by 8% the amount posted a year earlier and translated into a 20% ROAE. We believe this is a strong figure amid a scenario characterized by sliding inflation and tempered loan growth.

The contained annual expansion in assets has been the result of a combination of factors. On the one hand, we have witnessed the expected deceleration in mortgage loans as a result of the end of tax shields that boosted the demand for housing in the past. On the other hand, we have been selective when growing in consumer loans in view of concerns regarding the effect of potential deterioration of certain macro variables particularly unemployment on some specific segments. Also, we have continued to prioritize our risk-return relationship in commercial loans. All of these dynamics have allowed us to maintain healthy credit quality indicators while benefiting from a solid trend in customer income.

This is particularly important in light of the modest signs of recovery we are seeing in terms of economic activity and business sentiment. Actually, diverse market analysts point out that economic deceleration would have bottomed out and, therefore, better economic figures though moderate yet are forecasted for next year.

Moreover, in the last quarters we continued to enhance competitive strengths in crucial fields, including service quality, online banking and corporate culture. Thanks to these actions, in the 3Q16 we added 28,400 checking account holders to our customer base, posted the highest NPS indicator among comparable banks and were recognized for second year in a row as the best digital bank in Chile. All of these attainments permit us to be confident to successfully overcome the business backdrop ahead.

Eduardo Ebensperger CEO

Financial Snapshot

(In billions of Ch\$, except for %)

Economic Outlook

- Although latest data continues to depict the landscape of recent quarters in terms of sluggish GDP growth, both market and official perspectives suggest a modest recovery for 2017, based on better outlooks for trade partners and a weaker currency.
- GDP growth in the third quarter likely increased by 1.6% YoY according to the Central Bank's expectations survey. Households remain watchful about the economy and their spending keeps mostly focused on non-durable goods. Their confidence, however, still dwells on pessimistic ground. Business confidence remains subdued, and the Central Bank expects investment to shrink by 1.5% this year. From a sectoral vantage point, the service sector keeps driving local growth.
- Latest expectations survey of the Central Bank foresees a GDP expansion of 1.7% for this year, while GDP is expected to grow between 1.75 and 2.75% in 2017.
- The unemployment rate stood at 6.9% in August and the latest 1.1% annual employment growth was mainly driven by self-employed workers; salaried job creation, in turn, stalled in the margin. Real wages nonetheless, seem to gain momentum: they increased 2.1% in August, a year-and-a-half maximum.
- Regarding fiscal policy, the government continues to adjust spending to lower copper prices and the cyclical position of the economy. The Ministry of Finance recently announced a 2.7% YoY spending growth for 2017 the lowest since 2003 in order to deal with lower copper revenues and reaffirm the goal of reducing the structural deficit in the future.
- Inflation kept moderating in the third quarter: both headline and core inflation not only came back to target range, but they almost reached the 3% midpoint. Even though the recently appreciation of Chilean currency helped this trend, September data revealed a uniform lower-than-expected inflation across the CPI basket, which in turn suggests the Central Bank could eventually change its current neutral bias towards accommodation in the following quarters. Accordingly, market perspectives expect a 50 bp drop in the monetary policy rate during 2017.
- Trends in the local economy are well reflected by banking loans. In fact, business sentiment has conducted stagnation in investment projects. This effect, together with a stronger Chilean peso in 2016, has produced a progressive deceleration in commercial loans. In addition, the end of the tax shield for real estate developers has lessened the demand for mortgage loans. Unlike, consumer loans continue to be resilient to the cycle, though displaying YoY growth rates well below figures posted in the past. All in all, the industry showed a 3.7% YoY real

growth in loans in the 3Q16, as compared to the 6.0% reached a year earlier.

- As for results, the industry posted a bottom line of Ch\$1,419 Bn as of Aug.16. This denotes a 4.2% YoY drop, primarily explained by an increased cost base (+6.7% YoY), whereas operating revenues and credit risk charges remained almost flat YoY.

GDP

(YoY)

Inflation & Monetary Policy Rate

(12m % change and %)

Loan Growth(1)(2)(3)

(12m% change as of Aug16, in real terms)

(1) Figures do not include operations of subsidiaries abroad.

(2) 12-month growth rates for the 3Q16 correspond to YoY variations as of August 2016.

(3) Commercial and consumer loans annual growth adjusted by reclassification effects starting January 2016.

Third Quarter Results

Operating Revenues

Our operating revenues totalled Ch\$428.2 Bn. in the 3Q16, denoting a slight decrease of Ch\$3.7 Bn. (0.9%) when compared to the 3Q15. Nevertheless, this decline was explained by a combination of increasing customer income and a decrease in non-customer revenues.

On the positive side, the main affects influencing revenues were:

- A 5.5% YoY growth in average loans, primarily due to a 12.0% YoY expansion in retail banking loans, resulting in additional income of approximately Ch\$15.9 Bn.
- Positive impact of Credit Value Adjustment for derivatives by roughly Ch\$8.3 Bn, mostly due to Ch\$ appreciation of 0.9% in the 3Q16 as compared to the depreciation of 9.0% seen in the 3Q15.

- Fee income increasing by Ch\$5.0 Bn. primarily fostered by higher revenues from transactional services (checking accounts, credit cards and ATM usage) amounting to Ch\$4.8 Bn. YoY. This was mainly attributable to a positive FX impact on USD-denominated expenses associated with our credit card loyalty program. We also posted YoY increments in fees related to insurance brokerage and securities brokerage (Ch\$2.2 Bn. and Ch\$1.5 Bn., respectively). Nonetheless, these effects were somewhat offset by lower income from financial advisory and credits, jointly amounting to Ch\$5.3 Bn.
- Higher income from sales of AFS instruments by roughly Ch\$4.5 Bn. YoY. This decision was made in view of the expectations on interest rates, which are likely to increase in the future.
- Higher contribution of DDAs by approximately Ch\$1.2 Bn. mostly explained by average balances growing 9.0% YoY.

However, the effects mentioned above were more than offset by:

- A UF increasing by 0.7% during the 3Q16, as compared to 1.5% in the 3Q15. This change had a negative impact on the contribution of our UF net asset exposure, which translated into a lower income of nearly Ch\$30.4 Bn. YoY.
- A decrease of roughly Ch\$12.4 Bn. due to shifts in FX. This was associated with the USD asset position that hedges our exposure to USD denominated expenses and as previously mentioned trends followed by the exchange rate.

Based on the aforesaid, our net interest margin reached 4.43% during the 3Q16. Although this figure was 31bp. below the ratio posted in the 3Q15, it continued to favorably compare to the NIM of the industry.

On an YTD basis, our operating revenues recorded an increase of Ch\$82.6 Bn. equivalent to 6.7% YoY. The main positive factors were related to customer income, as follows: (i) higher income from loans by roughly Ch\$33.8 Bn. associated with an increase of 7.4% in average loans, (ii) fees and commissions increasing Ch\$15.8 Bn. YoY, (iii) greater contribution of DDAs by Ch\$7.0 Bn. primarily as a result of growth in balances. On the other hand, the change in non-customer income was composed of diverse effects, such as: (i) income from sales of AFS instruments increasing by Ch\$55.6 Bn., (ii) lower contribution of our UF net asset exposure by Ch\$25.6 Bn. given by a decrease in inflation, and (iii) changes in exchange rate that reduced revenues from our USD asset position that hedges USD-denominated expenses by roughly Ch\$28.3 Bn. YoY.

Operating Revenues

(In billions of Ch\$)

Edgar Filing: BANK OF CHILE - Form 6-K

	Quarters		Year End	
	3Q15	3Q16	Sep-15	Sep-16
Net Interest Income	319	309	907	915
Net Fees and Commissions	77	82	223	240
Net Financial Operating Income	5	29	37	129
Foreign Exchange Transactions	24	1	45	7
Other Operating Income	7	7	21	23
Total	432	428	1,232	1,315

Customer / Non-Customer Income

(In billions of Ch\$)

Net Interest Margin(1)

(1) The industry ratio for the 2Q16 has been computed in a pro-forma basis in order to adjust the effect of Itau-Corpbanca merger.

Third Quarter Results

Loan Loss Provisions and Allowances

During the 3Q16, our loan loss provisions had a significant decrease of Ch\$39.5 Bn. (37.9%) from Ch\$104.2 Bn. in the 3Q15 to Ch\$64.7 Bn. in the 3Q16. This YoY change was mainly explained by the following factors:

- The establishment of additional allowances in the 3Q15, by approximately Ch\$30.9 Bn. This decision was made in light of the prevailing outlook for the local economy at that moment and our prudent approach to business-related risks.
- Opposite FX effects on loans loss allowances denominated in USD that resulted in lower credit risk expenses by roughly Ch\$12.4 Bn. YoY. This was caused by a 9.0% depreciation of the Ch\$ in the 3Q15 as compared to a 0.9% appreciation in the 3Q16.

- Net credit quality improvement of nearly Ch\$2.5 Bn. YoY. This advance mainly relied on the wholesale segment, which had higher provisions in the 3Q15 due to of specific customers experiencing financial difficulties. This effect was partly offset by a tempered deterioration in the retail segment.

However, these positive effects on risk changes were partly counterbalanced by:

- An increase in loan loss provisions of approximately Ch\$6.3 Bn. explained by loan growth (volume and mix effects). This expansion was primarily concentrated on the retail banking segment, with average balances increasing by 12.0% YoY.

Concerning our ratio of loan loss provisions to average loans, during the 3Q16 we posted a substantial reduction of 73 bps., from 1.78% in the 3Q15 to 1.05% this quarter. Similarly, our quarterly figure compares favorably to the 1.17% reached by the industry. It is worth noting that by adjusting non-recurrent effects (additional provisions and FX) this ratio remains almost flat YoY (1.06% in the 3Q15 and 1.07% in the 3Q16).

On an YTD basis, our loan loss provisions decreased 2.9%, equivalent to Ch\$6.6 Bn. from Ch\$229.1 Bn. as of Sep15 to Ch\$222.4 Bn. as of Sep16. This result was influenced by the following positive effects: (i) divergent FX impacts on US\$-denominated loan loss allowances due to a 7.2% appreciation of the Ch\$ as of Sep16, as compared to a depreciation of 14.9% as of Sep15, all of which resulted in lower provisions by roughly Ch\$28.3 Bn., (ii) net credit quality improvement of approximately Ch\$21.7 Bn. YoY, which was mainly explained by wholesale segment, as mentioned earlier. On the other hand, these factors were partly offset by: (i) higher loan loss provisions due to loan growth and mix effect by nearly Ch\$22.9 Bn., given an increase of 7.4% in average loans, and (ii) greater additional allowances set in 2016 by Ch\$21.2 Bn. as compared to the previous year.

Loan Loss Provisions and Allowances

(In billions of Ch\$)

	Quarters		Year End	
	3Q15	3Q16	Sep-15	Sep-16
Loan Loss Allowances				
Initial Allowances	(542.1)	(599.3)	(528.6)	(601.8)
Charge-offs	62.5	66.6	198.8	199.2
Sales of Loans	2.4	19.6	2.7	24.9
Loan Portfolio Acquisition	(12.3)	0.0	(12.3)	0.0
Provisions established, net	(82.3)	(76.4)	(232.4)	(211.7)
Final Allowances	(571.8)	(589.5)	(571.8)	(589.4)
Provisions Established	82.3	76.4	232.4	211.7
Prov. Financial Guarantees	(4.6)	(0.1)	(5.3)	8.5
Additional Provisions	(30.9)	0.0	(30.9)	(52.1)
Recoveries	13.6	11.7	39.6	32.8
Loan Loss Provisions	60.4	88.0	235.8	200.9
Credit Quality Ratios				
Allowances / Total loans	2.38%	2.36%	2.38%	2.36%

Edgar Filing: BANK OF CHILE - Form 6-K

Allowances / Total Past Due	1.84x	1.95x	1.84x	1.95x
Provisions / Avg. Loans	1.78%	1.05%	1.36%	1.21%
Charge-offs / Avg. Loans	1.07%	1.08%	1.18%	1.08%
Total Past Due / Total Loans	1.29%	1.21%	1.29%	1.21%
Recoveries / Avg. Loans	0.23%	0.19%	0.24%	0.18%

Provisions / Avg. Loans (1)

(1) The industry ratio for the 2Q16 has been computed in a pro-forma basis in order to adjust the effect of Itau-Corpbanca merger.

Third Quarter Results

Operating Expenses

As compared to the 3Q15, our operating expenses recorded a slight increase of 6.0% during the current quarter, from Ch\$186.4 Bn. to Ch\$197.7 Bn. This change was principally the result of:

- Personnel expenses increasing 10.9% or Ch\$10.3 Bn. YoY due to: (i) an annual increment in salaries of Ch\$3.5 Bn., primarily explained by the recognition of inflation, (ii) a non-recurrent effect of roughly Ch\$2.0 Bn. related to a special bonus granted to the staff of two of our subsidiaries, due to the successful completion of a collective bargaining process in the 3Q16, (iii) higher variable compensation by roughly Ch\$1.8 Bn. YoY, (iv) further staff benefits (health insurance) and severance payments by Ch\$1.4 Bn. YoY, and other personnel expenses increasing by Ch\$1.5 Bn. YoY on an annual basis.

- A YoY rise of 6.6% or Ch\$4.9 Bn. in administrative expenses. This increase was principally the consequence of: (i) greater expenses related to IT by approximately Ch\$3.2 Bn. YoY, (ii) an increment of Ch\$1.0 Bn. in building-related expenses and utilities, and (iii) higher marketing expenses by roughly Ch\$0.7 Bn. YoY.

- Depreciations and amortizations going up by 14.3%, equivalent to Ch\$1.0 Bn. This figure has been mainly explained by higher expenses related the replacement of ATM devices, in line with regulatory requirements, IT implementations and refurbishment of private banking branches.

All of these increments were partially counterbalanced by a decrease in other operating expenses by roughly Ch\$4.9 Bn. This drop was primarily explained by greater non-credit related allowances set in the 3Q15 by approximately Ch\$4.5 Bn.

Based on the above, our efficiency ratio reached 46.2% in the 3Q16. Although this figure represents a seemingly deterioration when compared to the ratio posted in the 3Q15 (43.2%), this trend was highly influenced by the effect of inflation on revenues. This is somehow reflected by our cost-to-assets ratio, which remained almost flat YoY. Also, our cost-to-income ratios continued to positively compare to the indicator posted by the industry.

On an YTD basis, our cost base totalled Ch\$597.4 Bn., equivalent to an increment of 11.0% YoY. In line with the previous explanation, this change was the result of: (i) personnel expenses going up by Ch\$32.8 Bn. YoY, as a consequence of higher salaries by Ch\$10.4 Bn., influenced by inflation effect and an increase in bonuses due to compensation granted to the staff of three of our subsidiaries as a result of the completion of bargaining processes in 2016, higher provisions related to performance bonuses by Ch\$3.8 Bn. and, to a lesser extent, by other benefits such as health insurance increasing by Ch\$1.2 Bn., (ii) administrative expenses increasing 11.8% (Ch\$23.5), mainly as a result of IT expenses growing Ch\$7.3 Bn., greater other general expenses by Ch\$5.5 Bn., a rise of Ch\$3.4 Bn. in marketing expenses and higher building-related costs and utilities by roughly Ch\$3.3 Bn., and (iii) a YoY increment of Ch\$2.9 Bn. in depreciation and amortizations, mainly attributable to ATMs, IT projects and branches.

Operating Expenses

(In billions of Ch\$)

	Quarters		Year End	
	3Q15	3Q16	Sep-15	Sep-16
Personnel expenses	(94.3)	(104.6)	(278.4)	(311.2)
Administrative expenses	(74.8)	(79.7)	(214.2)	(237.7)
Depreciation and Amort.	(7.3)	(8.3)	(22.0)	(24.9)
Impairments	(0.1)	0.0	(0.1)	(0.0)
Other Oper. Expenses	(9.9)	(5.0)	(23.6)	(23.6)
Total Oper. Expenses	(186.4)	(197.6)	(538.3)	(597.4)
Additional Information				
Op. Exp. / Op. Rev.	43.2%	46.2%	43.7%	45.5%
Op. Exp. / Avg. Assets	2.5%	2.6%	2.5%	2.6%
Headcount (#)	14,993	14,840	14,993	14,840
Branches (#)	421	421	421	421

Efficiency Ratio (1)

Operating Expenses / Operating Revenues

(1) The industry ratio for the 2Q16 has been computed in a pro-forma basis in order to adjust the effect of Itau-Corpbanca merger

Results by Business Segments

During the 3Q16, Retail Banking continued to represent the most significant segment in terms of results by holding a 49.6% stake of consolidated income before income tax. This share was followed by Wholesale Banking, which contributed 38.6% to the total amount and, to a lesser extent, by our Treasury and Subsidiaries segments, adding 6.8% and 5.0% respectively.

The retail banking segment recorded a YoY increment of Ch\$11.7 Bn. (16.4%) in income before income tax, from Ch\$71.3 Bn. in the 3Q15 to Ch\$83.0 Bn. in the 3Q16. This surge was mainly explained by higher operating revenues, explained by an expansion in average loans and greater income from fees (largely related to transactional services). These effects permitted to more than offset the impact of lower inflation on the UF net asset exposure allocated to the segment. Furthermore, provisions for loan losses dropped, principally owing to additional allowances set in the 3Q15 that were

partially allocated to this segment. Both of these positive effects were somewhat counterbalanced the YoY rise in operating expenses.

The wholesale segment recorded an increase of Ch\$10.7 Bn. (18.8%) in income before income tax, from Ch\$54.3 Bn. in the 3Q15 to Ch\$64.6 Bn. in the 3Q16. In this case, the advance was principally steered by lower provisions for loan losses. This change in credit risk expenses was principally caused by higher additional allowances established in the 3Q15 (partly allocated to this segment). This positive effect allowed us to totally offset the reduction posted by operating revenues as a consequence of a tempered decrease in average loans and lower income from fees. Whereas the former was attributable to a less dynamic activity related to investment projects across the country, the later had mainly to do with lower revenues from investment banking and credit-related fees. In addition, there was a negative inflation effect on the UF net asset exposure allocated to the segment.

Regarding our Treasury segment, the bottom line increased by Ch\$4.5 Bn. YoY. This was attributable to a positive effect associated with counterparty value adjustment for derivatives, mainly prompted by shifts in FX and improved probabilities of default of some of the counterparties. This effect permitted the segment to offset lower sales of AFS securities (Ch\$4.5 Bn. YoY) and the impact of lower inflation on the accrual of certain UF-denominated assets.

As for Subsidiaries, the aggregate income before income tax decreased by Ch\$1.2 Bn. YoY (12.1%). This YoY variation was principally explained by lower results generated by our securities brokerage and investment banking subsidiaries, driven by sluggish local stock market and financial deals. These performances were partly offset by higher income before income tax posted by our mutual funds and insurance brokerage subsidiaries. It is worth noting that during the 3Q16 two of our subsidiaries incurred non-recurrent disbursements associated with the special bonus related to the completion of collective bargaining processes.

Income before Income Tax by Business Segment

Operating Expenses / Operating Revenues

Additional Information

	3Q15	3Q16
Efficiency Ratio		
Retail	47.8%	48.1%
Wholesale	28.9%	35.9%
Provisions/Avg. Loans		
Retail	2.1%	1.7%
Wholesale	1.5%	0.2%
Lending/Non-Lending		
Retail	0.7x	0.7x
Wholesale	1.5x	1.5x
Borrowers		
Retail	1,153,599	1,170,134
Wholesale	9,672	9,501

Third Quarter Results**Loan Portfolio**

As of Sep16, our loan book reached Ch\$25,004 Bn., increasing 4.1% YoY. Nonetheless, this figure was influenced by a loan portfolio acquisition of Ch\$564 Bn. carried out in the 3Q15. When isolating this effect, the YoY growth would have been 5%. As mentioned in the previous report, loan expansion continued to be steered by retail rather than wholesale banking. This has been aligned with stagnated investment as a result of a business sentiment that remains in pessimistic territory. As of Aug16 (latest available data), we ranked second in total loans by holding an 18% market share.

The performance of our retail banking book in the 3Q16 relied on:

- An 11.8% YoY growth in loans related to middle and upper income individuals. This has been prompted by a YoY expansion of 10.6% in mortgage loans, equivalent to Ch\$648.9 Bn. Albeit this increase is still influenced by the impact of VAT on construction, mortgage loans have started to display signs of deceleration by posting a 1.8% QoQ growth in the 3Q16, denoting the slowdown in the demand for housing. On the other hand, banks partly encouraged by new regulations are also tightening their assessment processes by setting stricter loan-to-value ratios and financial burden requirements.
- Concerning SMEs, loans most of them commercial loans recorded a YoY rise of 9.2% in the 3Q16. Despite the economic environment, SMEs show a steady trend in loan growth, based on strategies that aim to keep credit risk under control. Although we recognize this segment is sensitive to the economic cycle, we have reinforced cross-sell and upsell among known customers while making use of government-backed credits. Consequently, the SME segment has been the main driver explaining our organic expansion in commercial loans.

Edgar Filing: BANK OF CHILE - Form 6-K

- A tempered YoY increase of 1.3% in loans managed by our Consumer Finance division. As mentioned in prior reports, we have dampened our expansion in this segment in view of the economic deceleration and second-round effects expected on employment. In addition, previously passed reforms cutting interest rates caps also lessened our risk appetite for doing business in this segment.

The loan book of the wholesale segment, scaled down by 3.6% YoY in the 3Q16 (Ch\$394 Bn.). This shrink was mostly caused by:

- A 5.6% appreciation of the Ch\$ with a net effect of roughly Ch\$163 Bn. on US\$-denominated balances of commercial loans.
- The loan book purchase executed a year ago, which slightly increased the basis for comparison.

When isolating the above factors, our wholesale banking book would have dwindled by only 0.5% YoY. This figure includes a YoY expansion of 3.7% in loans managed by our Large Companies & Real Estate division on a regular basis (adjusted by the factors mentioned earlier). Conversely, the loan book managed by our Corporate division decreased by 6.8% YoY. This was result of several factors including sluggish investment and a highly competitive market.

Loans by Segment

(In Billions of Ch\$ and %)

Market Share (1)

(1) Market share ratios for the 3Q16 consider month-end balances as of Aug. 31 2016 (latest data). Figures do not include operations of subsidiaries abroad.

Funding Structure

Our funding structure remains strong and aligned with our business strategy. Based on a proactive management, we are continuously looking for opportunities in order to minimize our cost of funding while optimizing the duration of our liabilities. In order to accomplish this goal, we strive to properly combine diverse sources of funding, including retail deposits, wholesale / institutional deposits and senior debt, among others.

Accordingly, retail deposits have continued to be a main source of funding by representing around 27% of our balance sheet. This figure has been steered by a market-leading position in total demand deposits, reflected by a 23.5% market share as of Aug.16 (latest available data). In this figure, our stake of 28.8% in checking accounts balances held by individuals is crucial and permits us to lead the industry. It is also important to point out that amid a scenario of low interest rates, customers continued to prefer Banco de Chile when saving their funds.

On the other hand, we keep on taking advantage of our excellent credit ratings in order to place senior and subordinated bonds in Chile and abroad. During the 3Q16 we were very keen to reinforce our liability structure by:

- Placing two 5-Year unsecured bonds in Japan under the MTN program registered in Luxembourg, both denominated in USD. We placed USD30 million in August and USD100 million in September at low spreads over the benchmark.
- Issuing a total amount of Ch\$82.2 Bn. (~USD125 million) in UF-denominated subordinated bonds in the local market, with an average tenor of 25 years. The issuance of subordinated bonds pursues a twofold aim: On the one hand, they allow us to finance long-term assets. On the other hand, they permit us to reinforce our capital adequacy as they can be computed as Tier2 capital.
- Carrying out three UF-denominated senior bonds placements within the local market for an amount of Ch\$138 Bn. (~USD210 million). These bonds have durations ranging from six to 12 years.
- Utilizing the commercial paper program registered in the US. As of Sep16 we had an outstanding balance of ~USD355 million.

Regarding the use of these debt placements, we continue to replace less stable funding sources with long-term liabilities. In fact, deposits from wholesale customers represent 31% of our total balance sheet, which compared to 39% in Sep.12. In addition, long-term bonds permit us to lengthen the duration of our liabilities. This particularly significant in light of new liquidity measures that the Chilean regulator is intended to implement in the near future.

Edgar Filing: BANK OF CHILE - Form 6-K

Based on the above, our cost of funding continues to be very competitive in both local and foreign currency when compared to the main Chilean banking players. This strength permits us to display operating margins above our main and comparable peers.

Main Funding Sources

(As a % of Total Assets)

Annualized Cost of Funding by Currency (1)

(As of Aug30, 2016)

(1) Ratios have been computed in a pro-forma basis in order to adjust the effect of Itau-Corpbanca merger, when applicable.

Capital Adequacy & Other Topics

Our equity amounted to Ch\$2,853 Bn. as of September 30, 2016. This figure represented a 6.9% YoY increase and was fostered by diverse actions intended to bolster our capital adequacy. Thus, the main drivers explaining the increase in our equity were, as follows:

- Capitalization of approximately Ch\$96.9 Bn. associated with the retention of part (30%) of our net distributable earnings for the FY2015. As a result, our paid-in capital went up from Ch\$2,041.2 Bn. to Ch\$2,138.0 Bn. on a YoY basis.
- Nearly Ch\$95.5 Bn. of additional reserves resulting from the recognition of the effect of inflation on our shareholders' equity in order to maintain the real value of our capital.
- A YoY increase of roughly Ch\$34.0 Bn. in net income (net of provisions for minimum dividends). On the one hand, our bottom line posted an annual increment of Ch\$9.3 Bn. YoY. On the other hand, the amount provisioned for dividend distribution decrease by approximately Ch\$24.7 Bn. YoY, as a consequence of a reduction in the pay-out ratio from 70% in 2015 to 60% in 2016.
- In opposition to the above factors, there was a decrease of Ch\$41.0 Bn. in other accounts, mainly related to OCI line items. Actually, the cumulative fair value associated with Available-for-Sale instruments dwindled by Ch\$35.5 Bn. YoY, mainly due to sales of investment securities. Additionally, fair value of derivatives held for hedge accounting purposes decreased by nearly Ch\$5.3 Bn. YoY.

As a result of the aforesaid and also given a moderate expansion in terms of balance sheet and loans in particular, we posted YoY upsurges in capital adequacy ratios during the 3Q16. In fact, as of September 30, 2016 our BIS ratio stood at 13.8%, which outreached by 145 bps the figure posted a year earlier. Similarly, our Tier1 ratio (on RWA) grew from 9.8% in the 3Q15 to 10.7% in the 3Q16.

The improvement evidenced by our capital adequacy ratios has been fostered in addition to tempered growth in assets and earnings retention by the combination of the following factors:

- The decision made by the Chilean regulator in order to reduce the credit conversion factors for some types of contingent loans from 50% to 35%,

- The issuance of subordinated bonds by approximately USD106 million in the 3Q16, which contributed to bolster our total regulatory capital, and;
- The establishment of additional allowances by approximately Ch\$52 Bn. in the 2Q16, which can be computed as Tier 2 capital.

Equity & Capital Adequacy

(In Billions of Ch\$ and %)

Equity	Sep-15	Sep-16
Capital & Reserves		
Capital	2,041.2	2,138.0
Reserves	390.6	486.1
Other Accounts	42.9	1.9
Earnings		
Retained Earnings	16.1	16.1
Income for the Period	418.9	428.2
Provisions for Min. Dividends	(241.8)	(217.1)
Minority Interest		
Minority Interest		
Total Equity	2,667.9	2,853.2

Edgar Filing: BANK OF CHILE - Form 6-K

Consolidated Statement of Income (Chilean-GAAP)

(In millions of Chilean pesos (MCh\$) and millions of US dollars (MUS\$))

	Quarters						Year Ended			
	3Q15 MCh\$	2Q16 MCh\$	3Q16 MCh\$	3Q16 MUS\$	% Change 3Q16/3Q15	% Change 3Q16/2Q16	Sep-15 MCh\$	Sep-16 MCh\$	Sep-16 MUS\$	% Change Sep-16/Sep-15
Interest revenue and expense										
Interest revenue	522,305	498,709	477,705	726.7	(8.5)%	(4.2)%	1,396,266	1,446,143	2,200.0	3.6%
Interest expense	(203,497)	(193,608)	(168,719)	(256.7)	(17.1)%	(12.9)%	(489,714)	(530,885)	(807.6)	8.4%
Net interest income	318,808	305,101	308,986	470.1	(3.1)%	1.3%	906,552	915,258	1,392.4	1.0%
Fees and commissions										
Income from fees and commissions	114,902	108,967	111,045	168.9	(3.4)%	1.9%	320,520	327,648	498.5	2.2%
Expenses from fees and commissions	(37,537)	(28,620)	(28,655)	(43.6)	(23.7)%	0.1%	(97,361)	(87,501)	(133.1)	(10.1)%
Net fees and commissions income	77,365	80,347	82,390	125.3	6.5%	2.5%	223,159	240,147	365.3	7.6%
Net Financial Operating Income	5,350	61,576	29,314	44.6	447.9%	(52.4)%	36,923	128,574	195.6	248.2%
Foreign exchange transactions, net	23,699	18,395	728	1.1	(96.9)%	(96.0)%	44,598	7,131	10.8	(84.0)%
Other operating income	6,614	10,160	6,735	10.2	1.8%	(33.7)%	20,742	23,474	35.7	13.2%
Total Operating Revenues	431,836	475,579	428,153	651.4	(0.9)%	(10.0)%	1,231,974	1,314,584	1,999.9	6.7%
Provisions for loan losses	(104,242)	(92,929)	(64,695)	(98.4)	(37.9)%	(30.4)%	(229,051)	(222,454)	(338.4)	(2.9)%
Operating revenues, net of provisions for loan losses	327,594	382,650	363,458	552.9	10.9%	(5.0)%	1,002,923	1,092,130	1,661.5	8.9%
Operating expenses										
Personnel expenses	(94,320)	(101,322)	(104,614)	(159.1)	10.9%	3.2%	(278,386)	(311,234)	(473.5)	11.8%
Administrative expenses	(74,786)	(81,738)	(79,695)	(121.2)	6.6%	(2.5)%	(214,171)	(237,653)	(361.5)	11.0%
Depreciation and amortization	(7,307)	(8,590)	(8,349)	(12.7)	14.3%	(2.8)%	(21,999)	(24,915)	(37.9)	13.3%
Impairments	(86)				(100.0)%		(144)	(4)	(0.0)	(97.2)%
Other operating expenses	(9,934)	(13,980)	(5,022)	(7.6)	(49.4)%	(64.1)%	(23,591)	(23,614)	(35.9)	0.1%
Total operating expenses	(186,433)	(205,630)	(197,680)	(300.7)	6.0%	(3.9)%	(538,291)	(597,420)	(908.9)	11.0%
Net operating income	141,161	177,020	165,778	252.2	17.4%	(6.4)%	464,632	494,710	752.6	6.5%
Income attributable to affiliates	960	1,164	1,542	2.3	60.6%	32.5%	2,705	3,373	5.1	24.7%
Income before income tax	142,121	178,184	167,320	254.5	17.7%	(6.1)%	467,337	498,083	757.7	6.6%
Income tax	(8,321)	(27,199)	(22,617)	(34.4)	171.8%	(16.8)%	(48,439)	(69,868)	(106.3)	44.2%
Net Income for the period	133,800	150,985	144,703	220.1	8.1%	(4.2)%	418,898	428,215	651.4	2.2%
Non-Controlling interest							1			
Net Income attributable to bank owners	133,800	150,985	144,703	220.1	8.1%	(4.2)%	418,897	428,215	651.4	2.2%

These results have been prepared in accordance with Chilean GAAP on an unaudited, consolidated basis.

Edgar Filing: BANK OF CHILE - Form 6-K

All figures are expressed in nominal Chilean pesos (historical pesos), unless otherwise stated. All figures expressed in US dollars (except earnings per ADR) were converted using the exchange rate of Ch\$657.33 per US\$1.00 as of September 30, 2016. Earnings per ADR were calculated considering the nominal net income, the exchange rate and the number of shares outstanding at the end of each period.