BANK OF CHILE
Form 20-F
April 26, 2019
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As filed with the Securities and Exchange Commission on April 26, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

Commission file number 001-15266

BANCO DE CHILE

(Exact name of Registrant as specified in its charter)

BANK OF CHILE
(Translation of Registrant s name into English)

REPUBLIC OF CHILE
(Jurisdiction of incorporation or organization)

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

(562) 2637-1111
(Address of principal executive offices)

Rolando Arias Sánchez

Banco de Chile

Paseo Ahumada 251

Santiago, Chile

Telephone: (562) 2653-3535

E-mail: rarias@bancochile.cl
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 200 shares of common stock, without nominal (par) value (ADSs)	New York Stock Exchange
Shares of common stock, without nominal (par) value	New York Stock Exchange (for listing purposes only)

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

None
(Title of Class)

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

None
(Title of Class)

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

Shares of common stock: 101,017,081,114

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Emerging growth company o

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other o

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

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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FORWARD-LOOKING STATEMENTS

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

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

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

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

- changes in general economic, business, political or other conditions in Chile, or changes in general economic or business conditions in Latin America, the United States, Europe or Asia;

- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;

- increased costs;

- increased competition and changes in competition or pricing environments, including the effect of new technological developments;

- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;

- natural disasters;

- the effect of tax laws on our business; and

- the factors discussed under Item 3. Key Information Risk Factors.

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

PRESENTATION OF FINANCIAL INFORMATION

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

Unless otherwise indicated, the financial information included in this annual report with respect to 2014, 2015, 2016, 2017 and 2018 has been derived from financial statements that have been prepared in accordance with IFRS. See Note 2(a) to our audited consolidated financial statements as of and for the year ended December 31, 2018 appearing elsewhere in this annual report. IFRS differs in certain significant respects from Chilean Generally Accepted Accounting Principles (the Chilean GAAP) as issued by the *Superintendencia de Bancos e Instituciones Financieras de Chile* (the Superintendency of Banks and Financial Institutions or SBIF). As a result, our financial information presented under IFRS is not directly comparable to any of our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

In this annual report, references to $, U.S.$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch$ are to Chilean (see Note 2(r)) to our audited consolidated financial statements as of and for the year ended December 31, 2018 appearing elsewhere in this annual report), and references to UF are to Unidades de Fomento. The UF is an inflation indexed Chilean monetary unit of account with a value in Chilean pesos that is linked to and adjusted daily to reflect changes in the Consumer Price Index (CPI) of the *Instituto Nacional de Estadísticas* (the Chilean National Statistics Institute). As of December 31, 2018 and April 18, 2019, one UF equaled Ch$27,565.79 and Ch$27,607.04, respectively.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in our audited consolidated financial statements as of and for the year ended December 31, 2018 or could be converted into U.S. dollars at the rate indicated. Until November 30, 2011, Banco de Chile applied the observed exchange rate reported by the *Banco Central de Chile* (the Central Bank) in order to translate its financial statements from Chilean pesos to U.S. dollars. However, beginning December 1, 2011, Banco de Chile adopted the exchange rate of accounting representation, or spot exchange rate, for such matters. This is also described in Item 3. Key Information Selected Financial Data Exchange Rates. Thus, unless otherwise indicated, the U.S. dollar amounts have been translated from Chilean pesos based on the exchange rate of accounting representation as of December 28, 2018 as determined by our Treasury on a daily basis, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. As of December 28, 2018 (the latest practicable date, as December 31, 2018 was a banking holiday in Chile) and April 18, 2019, the exchange rates of accounting representation were Ch$693.60 = U.S. $1.00 and Ch$662.40 = U.S.$1.00, respectively. As of the same dates, the observed exchange rates, as published by the Central Bank, were Ch$695.69 = U.S.$1.00 and Ch$660.48 = U.S.$1.00, respectively.

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

Unless otherwise specified, all references in this annual report to total loans are to loans to customers before deducting allowances for loan losses, and they do not include loans to banks or contingent loans. In addition, all market share data and financial indicators for the Chilean banking system as compared to Banco de Chile s financial information presented in this annual report are based on information published periodically by the SBIF which is published under Chilean GAAP and prepared on a consolidated basis, unless otherwise indicated. For more information see Item 4. Information on the Company Business Overview Competition.

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

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

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

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

Certain figures included in this annual report and in our audited consolidated financial statements as of and for the year ended December 31, 2018 have been rounded for ease of presentation. Percentage figures included in this annual report have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this annual report may vary slightly from those obtained by performing the same calculations using the figures in our audited consolidated financial statements as of and for the year ended December 31, 2018. Certain other amounts that appear in this annual report may similarly not sum due to rounding.

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

MACRO-ECONOMIC AND MARKET DATA

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

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PART I

Item 1 Identity of Directors, Senior Management and Advisors

Not Applicable.

Item 2 Offer Statistics and Expected Timetable

Not Applicable.

Item 3 Key Information

SELECTED FINANCIAL DATA

The following tables present historical financial information about us as of the dates and for each of the periods indicated. The following tables should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2018 appearing elsewhere in this annual report. The financial information for the years ended December 31, 2014, 2015, 2016, 2017 and 2018 is presented under IFRS.

Our audited consolidated financial statements have been prepared in accordance with IFRS for the years ended December 31, 2014, 2015, 2016, 2017 and 2018.

	For the Year Ended December 31,					
	2014	2015	2016	2017	2018(1)	2018
	(in millions of Ch$, except share and per share data)					(in thousands of U.S.$)(1)
IFRS:						
CONSOLIDATED STATEMENT OF INCOME DATA						
Interest revenue	Ch$ 2,045,604	Ch$ 1,908,457	Ch$ 1,916,992	Ch$ 1,886,700	Ch$ 2,000,617	US$ 2,884,396
Interest expense	(788,788)	(680,169)	(690,259)	(652,005)	(679,640)	(979,873)
Net interest income	1,256,816	1,228,288	1,226,733	1,234,695	1,320,977	1,904,523
Net fees and commissions income	272,188	305,979	321,271	347,674	359,955	518,966
Net financial operating income	35,204	44,412	128,575	(29,661)	117,142	168,890
Foreign exchange transactions, net	70,225	57,318	12,405	104,875	2,701	3,894

Other operating income		27,211		25,486		28,575		29,959		45,295		65,304
Provisions for loan losses		(261,566)		(246,222)		(259,263)		(221,255)		(251,323)		(362,346)
Total operating expenses		(727,360)		(726,278)		(787,047)		(784,356)		(838,156)		(1,208,414)
Income attributable to associates		2,486		3,243		4,014		5,511		6,811		9,820
Income before income taxes		675,204		692,226		675,263		687,442		763,402		1,100,637
Income taxes		(79,685)		(83,321)		(100,212)		(115,361)		(159,768)		(230,346)
Net income from continued operations, net of taxes	Ch$	595,519	Ch$	609,905	Ch$	575,051	Ch$	572,081	Ch$	603,634	US$	870,291
Net income from discontinued operations, net of taxes												
Net income for the year	Ch$	595,519	Ch$	609,905	Ch$	575,051	Ch$	572,081	Ch$	603,634	US$	870,291
Attributable to:												
Equity holders of the parent		595,518		609,903		575,051		572,080		603,633		870,290
Non-controlling interest		1		2				1		1		1
Earnings per share(2)		5.90		6.04		5.69		5.66		5.98		0.01
Earnings per ADS		1,258.29		1,268.93		1,178.09		1,150.56		1,195.11		1,723.05
Dividends per share(3)		3.98		3.88		3.81		3.50		3.76		0.01
Weighted average number of shares (in millions)		101,017.08		101,017.08		101,017.08		101,017.08		101,017.08		

(1) IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy. The application of this standard as of January 1, 2018 has had an impact on our consolidated financial statements at that date. The effect of the first application of IFRS 9 is detailed in Note 5 Transition Disclosures to our audited consolidated financial statements.

	For the Year Ended December 31,					
	2014	2015	2016	2017	2018(1)	2018 (in thousands of U.S.$)
	(in millions of Ch$, except share and per share data)					
IFRS:						
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA (1) (2) (3)						
Cash and due from banks	Ch$ 915,133	Ch$ 1,361,222	Ch$ 1,408,167	Ch$ 1,057,393	Ch$ 880,081	US$ 1,268,860
Transactions in the course of collection	356,185	319,679	206,972	255,968	289,194	416,946
Financial assets held for trading	293,458	843,574	1,379,958	1,538,578	1,745,366	2,516,387
Cash collateral on securities borrowed and reverse repurchase agreements	27,661	46,164	55,703	91,641	97,289	140,267
Derivative instruments	832,267	1,127,122	939,649	1,247,941	1,513,947	2,182,738
Loans and advances to banks	1,155,365	1,395,544	1,173,187	760,021	1,494,384	2,154,533
Loans to customers, net	21,400,775	24,022,983	24,843,655	24,955,692	27,341,254	39,419,340
Financial assets available-for-sale and financial assets at fair value through other comprehensive income	1,608,796	1,007,263	374,470	1,526,315	1,053,191	1,518,441
Investments in other companies	23,043	25,849	30,314	35,771	42,252	60,917
Intangible assets	66,859	64,700	65,036	72,455	85,471	123,228
Property and equipment	205,403	215,671	219,082	216,259	215,872	311,234
Investment properties	15,936	15,042	14,674	14,306	13,938	20,095
Current tax assets			6,657	23,032	677	976
Deferred tax assets, net	94,240	129,192	176,923	161,265	192,840	278,028
Other assets	586,555	483,591	462,857	604,800	651,691	939,578
Total assets	**Ch$ 27,581,676**	**Ch$ 31,057,596**	**Ch$ 31,357,304**	**Ch$ 32,561,437**	**Ch$ 35,617,447**	**U.S.$ 51,351,567**
Current accounts and other demand deposits	6,934,373	8,327,048	8,321,148	8,915,706	9,584,488	13,818,466
Transactions in the course of payment	53,049	35,475	25,702	29,871	44,436	64,066
Cash collateral on securities lent and repurchase agreements	249,482	184,131	216,817	195,392	303,820	438,034
Saving accounts and time deposits	9,721,246	9,907,692	10,552,901	10,067,778	10,656,174	15,363,573
Derivative instruments	827,123	1,079,342	966,509	1,392,995	1,528,234	2,203,336
Borrowings from financial institutions	1,098,716	1,529,627	1,040,026	1,195,028	1,516,759	2,186,792
Debt issued	5,057,956	6,102,208	6,177,927	6,488,975	7,475,552	10,777,901
Other financial obligations	186,573	173,081	186,199	137,163	118,014	170,147
Currents tax liabilities	19,030	24,714		3,453	20,924	30,167
Deferred tax liabilities, net						
Provisions	185,643	182,832	187,568	194,537	203,946	294,040
Employee benefits	81,515	74,791	83,345	86,628	92,579	133,476
Other liabilities	255,995	261,330	291,488	308,563	398,805	574,978
Total liabilities	**Ch$ 24,670,701**	**Ch$ 27,882,271**	**Ch$ 28,049,630**	**Ch$ 29,016,089**	**Ch$ 31,943,731**	**U.S.$ 46,054,976**
Total equity	**2,910,975**	**3,175,325**	**3,307,674**	**3,545,348**	**3,673,716**	**5,296,591**
Total liabilities and equity	**Ch$ 27,581,676**	**Ch$ 31,057,596**	**Ch$ 31,357,304**	**Ch$ 32,561,437**	**Ch$ 35,617,447**	**US$ 51,351,567**

(1) IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy. The application of this standard as of January 1, 2018 has had an impact on our consolidated financial statements at that date. The effect of the first application of IFRS 9 is detailed in Note 5 Transition Disclosures to our audited consolidated financial statements.

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	As of December 31,				
	2014	2015	2016	2017	2018(4)
IFRS:					
CONSOLIDATED RATIOS					
Profitability and Performance					
Net interest margin(5)	5.12%	4.68%	4.41%	4.30%	4.35%
Return on average total assets(6)	2.24	2.08	1.86	1.79	1.76
Return on average equity(7)	20.98	19.60	18.00	16.09	16.78
Capital					
Average equity as a percentage of average total assets	10.67	10.63	10.33	11.11	10.51
Bank regulatory capital as a percentage of minimum regulatory capital	279.83	275.34	290.48	304.38	287.32
Ratio of liabilities to regulatory capital(8)	10.65	10.87	10.26	9.76	10.40
Credit Quality					
Substandard loans as a percentage of total loans(9)	3.79	3.83	3.42	3.07	2.96
Allowances for loan losses as a percentage of substandard loans(9)	59.17	58.51	63.91	63.50	70.87
Provision for loan losses as a percentage of average loans	1.21	1.07	1.05	0.87	0.95
Allowances for loan losses as a percentage of total loans	2.24	2.24	2.18	1.95	2.10
Operating Ratios					
Operating expenses/operating revenue	43.77	43.71	45.82	46.48	45.40
Operating expenses/average total assets	2.73%	2.48%	2.55%	2.45%	2.45

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(1) Translations of Chilean peso amounts into U.S. dollars are based on the exchange rate of accounting representation, or the spot exchange rate, which is determined on a daily basis by our Treasury, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. Thus, amounts stated in U.S. dollars as of and for the fiscal year ended December 31, 2018 have been translated from Chilean pesos based on the spot exchange rate of Ch$693.60 to U.S. $1.00 as of December 31, 2018.

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

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

(4) IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy. The application of this standard as of January 1, 2018 has had an impact on our consolidated financial statements at that date. The effect of the first application of IFRS 9 is detailed in Note 5 Transition Disclosures to our audited consolidated financial statements.

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

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

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

(8) Total liabilities divided by bank regulatory capital.

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

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Exchange Rates

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

Purchases and sales of foreign exchange are not required to be conducted in the Formal Exchange Market and therefore may be carried out in the *Mercado Cambiario Informal* (the Informal Exchange Market). There are no price limits imposed on transactions carried out in the Informal Exchange Market. On April 18, 2019, the average exchange rate in the Informal Exchange Market was Ch$669.0 per U.S. $1.00, or 1.29% higher than the observed exchange rate of Ch$660.48 per U.S.$1.00 as reported by the Central Bank on the same date.

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

The observed exchange rate on April 18, 2019 was Ch$660.48 = U.S.$1.00. As of the same date, the exchange rate of accounting representation, or spot exchange rate, was Ch$662.40 = U.S.$1.00.

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

RISK FACTORS

The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties that we do not know about or that we currently think are immaterial may also impair our business operations in the future. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, prospects and financial condition.

We are also subject to market risks that are presented both in this subsection and in Note 43 to our audited consolidated financial statements as of and for the year ended December 31, 2018 appearing elsewhere in this annual report.

Risks Relating to our Operations and the Chilean Banking Industry

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

During the last five years, our total loan portfolio has grown at a compounded average growth rate (CAGR) of 6.0% per year. This expansion has been primarily fostered by growth in both residential mortgage (11.2% per year on average) and consumer loans (7.6% per year on average), and, to a lesser extent, by an expansion in commercial loans (3.4% per year on average). The growth in our loan book has been aligned with our mid-term strategic goals, which aim to diversify our business model by optimizing our risk-return relationship in order to maintain profitable growth. In this regard, we recognize that the expansion experienced by our retail banking segment over the last years may expose us to higher levels of charge-offs and may require us to establish higher levels of allowances for loan losses in the future. For this reason, we are constantly striving to develop and utilize improved scoring and approval models while strengthening our collection procedures in order to mitigate the risks associated with this business growth. For the year ended December 31, 2018, our loan portfolio was Ch$27,926,632 million, which represented a 9.7% annual increase as compared to the Ch$25,451,513 million we recorded as of December 31, 2017. Our allowances for loans losses increased 18.4% from Ch$495,821 million in 2017 to Ch$585,378 million in 2018, mainly attributable to the adoption of IFRS 9 in our consolidated financial statements. As a result, our risk-index ratio (allowances for loan losses to total loans) increased from 1.95% in 2017 to 2.10% in 2018.

Our loan portfolio may not continue to grow at the same or similar rates as it has in the past.

After a decade of double-digit loan growth, particularly fostered by increased banking penetration of lower and middle income segments, as well as small and medium-sized companies, resulting in a marked expansion in consumer, mortgage and commercial loans, the deceleration of the local economy from 2013 to 2017, and the introduction of diverse reforms on general matters, including both banking and non-banking rules, have threatened both the pace of growth of the industry and banking penetration rate. In fact, in the five years ended 2017, the loan portfolio of the Chilean banking industry grew at a CAGR of 8.3%, reflecting the decline in investment and lower consumer confidence, as evidenced by indices (*Indice de Percepción Económica de los Consumidores* (IPEC) and *Indice Mensual de Confianza* Empresarial (IMCE) used by the Central Bank. This trend appears to have shifted in 2018, particularly toward the end of the year, when a rebound in investment spending prompted a recovery of commercial loans, all of which resulted in an 11.9% annual growth of loan balances managed by the local banking industry in Chile as a whole. Despite this recovery, given the cyclical nature of the banking business, a slowdown or negative GDP growth, changes in household or investment spending, as well as a change in the behavior of banking customers, could adversely affect the growth rate of the industry and, therefore, the expansion of our loan portfolio. Similarly, this could affect our credit quality indicators and, accordingly, lead us to establish higher allowances for loan losses. For more information, see Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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

We are subject to regulation by the SBIF. In addition, we are subject to regulation by the Central Bank with respect to certain matters, including liquidity management, among others. See Item 4. Information on the Company Regulation and Supervision.

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

In 2014, the Chilean Ministry of Finance announced an overall review and various modifications to the Chilean Banking Act. After convening a working-group of experts to address diverse topics related to the banking business and international evidence on capital adequacy matters, the Ministry of Finance submitted a bill to the Chilean congress on June 12, 2017, modifying the current General Banking Act. The bill was passed by the Chilean congress on October 3, 2018 and, following that, Law No. 21,130 (the Modernization of Banking Legislation) was enacted on December 27, 2018 and published on January 12, 2019. The new law addresses four main topics aimed at modernizing the Chilean banking framework by adopting the Basel III Guidelines (considering a phased-in transition from Basel I to be completed four years after the new specific banking framework is issued by the regulator), introducing changes to the corporate governance of the local regulator such that all the powers currently vested in the SBIF will be transferred in the future to Chile s Financial Market Commission (CMF), establishing a resolution regime for Chilean banks in the case of insolvency, and introducing changes in relation to confidential information of banks customers, among others topics. According to the phase in period set by the law, the current SBIF has a maximum period of 12 months to merge into the CMF and within the 18 months following that integration, the specific regulation for the implementation of Basel III must be issued by the new regulator. Prior to that date, no additional capital requirements to those currently in force, will be imposed on local banks. In addition, there is no certainty yet regarding the methodologies that will be used by the regulator in order to set potential buffers to local banks (countercyclical, D-SIB or pillar II), which will be defined once the specific regulation is released (no later than 18 months after the integration of the SBIF into the CMF). The CMF was established in January 2018, pursuant to Law No. 21,000 and replaced the Superintendency of Securities and Insurance (SVS). It currently oversees the Chilean Financial Market (comprised of publicly traded companies, insurance companies, insurance brokers, mutual funds and investment funds). Since we have no certainty regarding the limits that will be finally imposed by the CMF to the banking industry and us in particular, either in terms of potential capital buffers and the precise timing for fulfilling them, we cannot assure you that our profitability will not be impacted by actions we may take in order to fulfil new regulatory thresholds. For more information see Item 4. Information on the Company Regulation and Supervision New General Banking Act

During 2015, the Central Bank published a final version of new liquidity standards for local banks, based on Basel III guidelines. The SBIF is the institution empowered to put these guidelines into practice and monitor them on an ongoing basis. The SBIF released a set of new liquidity requirements for banks (Circular No. 3,585) on July 31, 2015, which established reporting requirements for local banks with respect to management and measurement of banks liquidity position. Accordingly, since 2016, banks are required to report and monitor liquidity ratios such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Aligned with this requirement, on May 4, 2018 the Chilean Central Bank published for comment an amendment to Chapter III.B.2.1 of *Compendio de Normas Financieras* (the Compendium of Financial Norms), which is primarily focused on proposing a minimum requirement for the LCR, considering a phase-in period of five years, starting at 60% in 2019 and reaching the final limit of 100% in 2023 (with annual increments of 10% between 2019 and 2023). Aligned with this new framework, on October 2, 2018 the SBIF published for comment new amendments to Chapter 12-20 of Recopilación Actualizada de Normas (which addresses the management and measurement of banks liquidity position) while establishing a new report on liquidity matters (C49) intended to refine the measurement of the LCR and the NFSR. Given the phase-in period established for the LCR limit, we do not see any significant impact on our financial condition, results of operation or profitability in the medium term. Nevertheless, we cannot comment as to whether any other new liquidity requirements, if any, would have a material adverse effect on us. For more information on liquidity matters see Item 4. Information on the Company Regulation and Supervision.

As for credit risk allowances, on December 30, 2014, the SBIF published a set of amendments to the regulations on allowances for potential loan losses establishing a standardized method for calculating loan loss provisions for residential mortgage loans, based on past due behavior and loan-to-value ratios, while providing new and more precise definitions for impaired loans and new requirements to remove loans from such portfolio. This set of rules also addressed the possibility of putting into practice standardized credit risk provisioning models for consumer and commercial loan portfolios, evaluated on a grouped basis, in the future. The new guidelines also introduced changes to the treatment of provisions related to factoring loans and guarantors. This new set of rules went into effect on January 1, 2016 and had no material impact on our results prepared under both IFRS and Chilean GAAP for the years ended December 31, 2017 and 2018. Notwithstanding the above, it is important to note that in January 2018, the SBIF published for comment a set of amendments to provisioning rules for commercial loans evaluated on a grouped basis. Following this announcement, on July 6, 2018 the SBIF published the final amendments to the provisioning rules for commercial loans evaluated on a group basis by establishing standardized models for leasing loans, student loans and other commercial loans (not included in the former categories). In addition, the new set of rules also addressed other topics related to loan provisioning. The new provisioning criteria will go into effect in July 2019. Based on our assessment the change is not expected to have a material impact on our results of operations under both Chilean GAAP and IFRS. Nevertheless we cannot rule out that future changes in provisioning rules for other types of loans or related definitions, if introduced, will not affect our results under IFRS or Chilean GAAP, as applicable.

Additionally, in recent years the Chilean government has focused on matters related to consumer protection. Since 2010 several legal and administrative regulations have been amended and revoked in order to strengthen consumer protection and the relationship between financial institutions and their customers. On March 14, 2019, Law 21,081 became effective, amending the Consumer Protection Law (Law No. 19,496). This amendment aims to strengthen consumer protection by granting new powers to the Consumer Protection Agency (SERNAC) in matters of oversight, such as the authority to initiate collective voluntary proceedings. In addition, this law increases fines up to the maximum amount of UTA 45,000 *(Unidades Tributarias Anuales)* that represented approximately Ch$26,110.6 million (or U.S$38.4 million) as of March 31, 2019. For further information, see Item 4. Information on the Company Regulation and Supervision Consumer Oriented Regulation . We cannot assure you whether this new law will or will not significantly affect the local banking industry.

Since January 2017, a bill has been under consideration in the Chilean congress with the aim of regulating the possible liability for payment service providers (such as banks) and for customers of such services, in case of fraudulent transactions carried out with credit or debit cards, including electronic transactions. The bill establishes that funds charged to credit or debit cards associated with transactions that are not recognized by the customer must be returned to the holder of the card or account. It will be up to the service provider to prove either that the customer took part in the fraudulent payment, that the customer obtained an unlawful profit, or that the customer acted fraudulently or with gross negligence facilitating its completion, in which case the bank may request the return of the funds. The bill also contemplates not allowing for fraud insurance to be offered. The bill also establishes obligations for the payment provider to have adequate measures to protect the payment services in case of unlawful acts, holding them liable for damages caused by security and protection deficiencies in their technological systems through which such services are provided. We cannot assure the impact that this law may have in the banking industry or in Banco de Chile, particularly in cases of electronic fraud and, therefore, the consequences of a possible legal obligation to pay compensation for damages to customers.

On August 23, 2018 the Chilean government presented a bill intended to modernize the Chilean tax system. The proposed bill considers a return to the integrated system by permitting that 100% of the income tax borne by corporations be used as a tax credit by the final taxpayer (individuals). In addition, the proposal incorporates a series of modifications to the tax system, including a new taxation regime levied on digital services, the introduction of some tax benefits for SMEs, the simplification of requisites to recognize expenses that may be deducted from taxable income, an update to the Chilean Internal Revenue Service procedures and the creation of a Taxpayer Protection & Advisory agency, among other matters. For more information see Item 5. Operating and Financial Review and Prospects Operating Results Results of Operations for the Years Ended December 31, 2016, 2017 and 2018 Income Tax .

Lastly, we cannot assure you that regulators will not impose more restrictive limitations in the future on the activities of banks, including us, than those that are currently in effect. Any such change in terms of capital adequacy, liquidity, credit risk provisioning, consumer protection, bankruptcy, taxation, among other matters, could have a material adverse effect on our results of operations or financial condition in a fashion that we cannot determine in advance. For more information, see Item 4. Information on the Company Regulation and Supervision.

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Changes in accounting standards could impact our results.

The IASB, or other regulatory bodies, periodically introduce modifications to financial accounting and reporting standards under which we prepare our consolidated financial statements. These changes can materially impact the means by which we report financial information, affecting our results of operations. Also, we could be required to apply new or revised standards retroactively.

In this regard, various amendments to IFRS were adopted in 2018 and others are expected during the coming years. First, IFRS 9 Financial Instruments became effective on January 1, 2018. Under this standard, new models of expected loss must be developed by companies in order to determine the impairment of loans and instruments available for sale. Additionally, IFRS 9 provides new guidelines for the valuation and classification of financial instruments. Second, IFRS 15 Revenues from Contracts with Customers became effective on January 1, 2018. This standard establishes a new model for the recognition of recurrent income, which could differ to some extent from the current criteria. Lastly, IFRS16 Leases became effective on January 1, 2019. This standard modifies accounting models associated with an entity s role as lessee or tenant in terms of the recognition of assets and liabilities for all leases existing on January 1, 2019. All of these standards require issuers to include new disclosures in the notes to their financial statements. Since becoming effective, IFRS 15 had no material impact on our results of operations and financial condition for the year ended December 31, 2018. Additionally, the first time application of IFRS 9, including the valuation of loans and financial assets, had a total negative effect of Ch$62,726 million (after taxes) that was recognized in equity accounts. For more information, see Note 5(c) to our audited consolidated financial statements as of and for the year ended December 31, 2018 appearing elsewhere in this annual report. Finally, IFRS 16 is not expected to have a material impact on our results of operations or financial condition.

Currently, we cannot assure you that future changes in financial accounting and reporting standards will not substantially affect our results of operations or performance indicators, as we do not know the extent of future standards.

Increased competition and industry consolidation may adversely affect our operations.

The Chilean market for financial services is highly competitive. We compete with Chilean and foreign banks, with Banco del Estado de Chile, which is state-owned, and with others providers of financial services that are not part of the banking industry. In addition, the retail segment (which encompasses individuals and small and medium-sized companies) has become the target market of several banks, since banking penetration is still in progress in Chile, particularly in this segment. Accordingly, competition within this market is increasing as banks are continuously incorporating new and tailored products and services, while striving to improve service quality. As a result, net interest margins (once deducted provisions for loan losses) in these sub-segments are likely to decline over time.

We also face competition from non-banking competitors in some of our credit products, especially credit cards and installment loans. In these markets, competition from non-banking companies like large department stores, private compensation funds and saving and credit cooperatives has become increasingly significant. In addition, we face competition from other types of lenders, such as non-banking leasing, crowdfunding, factoring and automobile financing companies (especially in credit products), as well as mutual funds, pension funds and insurance companies within the market for savings products and mortgage loans. It is important to note that some of these non-banking competitors are not regulated by the SBIF and, therefore, they are not subject to the same specific solvency or liquidity requirements, among other requisites, as banks. Nevertheless, banks continue to be the main suppliers of leasing, factoring and mutual fund management, while growing quickly in insurance brokerage services. However, we cannot assure you that this trend will continue in the future.

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Lastly, in the past, increasing competition within the Chilean banking industry has been accompanied by a consolidation wave and the entry of international players to the system through multiple mergers and acquisitions. We expect these trends will continue and result in the creation of larger and stronger banking conglomerates offering a wide range of products and services while targeting most of the segments in the Chilean banking market. These trends may adversely impact our results of operations as they may translate into higher interest rates paid on deposits and lower interest rates earned on loans, resulting in decreased net interest margins. For more detail regarding past and recent changes in the Chilean banking industry see Item 4. Information on the Company Business Overview Competition.

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

Although we have historically been focused on wholesale banking, over the last years we have continued to reorient our commercial strategy to increase penetration of the retail banking segment while maintaining our market-leading position in wholesale banking. In fact, according to our management information systems, the share of the retail banking segment in our total loan book has increased from 46.6% in 2013 to 59.4% in 2018. Although this trend has been associated with expansion in middle and higher income personal banking, our retail banking segment is also composed of small and medium-sized companies (approximately 13.7% of our total loan book as of December 31, 2018, which consists of companies with annual sales of up to Ch$1,600 million) and, to a lesser extent, of lower-income individuals (approximately 2.4% of our total loan book as of December 31, 2018, which consists of individuals with monthly incomes ranging from Ch$180,000 to Ch$500,000). Since these customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and higher-income individuals, we may be exposed to higher levels of past due loans and subsequent write-offs, in the future, which could result in materially higher allowances for loan losses that could adversely affect our results of operations.

As of December 31, 2018, our past due loans (loans 90 days or more past due) reached Ch$305,530 million, which represented a 1.0% annual increase when compared to the Ch$302,595 million recorded in 2017. These figures translated into past due ratios (loans 90 days or more past due over total loans) of 1.19% in 2017 and 1.09% in 2018. According to our management information systems, as of December 31, 2018 our past due loans (loans 90 days or more past due) were composed of 94.8% retail banking 90 days or more past due loans (consumer and residential mortgage loans to individuals, as well as commercial loans to small and medium sized companies) and 5.2% wholesale banking 90 days or more past due loans (commercial loans to large companies and corporations). During the prior fiscal year, our past due loans (90 days or more) portfolio was composed of 91.7% retail banking past due loans (90 days or more) and 8.3% wholesale banking past due loans (90 days or more).

A combination of various market dynamics affecting our segments may affect our past due loans (loans 90 days or more past due) ratio year over year. In fact, given specific market trends, for the year ended December 30, 2018, we experienced a moderate annual increase of approximately Ch$10,276 million in past due loans in the retail segment, whereas past due loans (loans 90 days or more past due) in the wholesale banking segment decreased by Ch$9,215 million, in each case as compared to 2017. The trend for the retail banking past due loans (90 days or more) was primarily explained by an annual increase of Ch$11,942 million in the amount of past due loans (loans 90 days or more past due) related to the commercial loans granted to small and medium enterprises in the retail segment (SMEs) primarily, mainly due to the high growth rates shown by these types of credits over the last years. On the other hand, the past-due loan book of the wholesale banking segment benefited from improvements in the financial condition of specific wholesale customers and moderate loan growth. Given the unpredictability of how certain market fluctuations and related changes to macroeconomic indicators may affect our diverse customer segments, we cannot assure you that we will be able to maintain a balanced risk-return equation if global or local economic conditions deteriorate in the future. In this regard, economic recessions or market volatility could adversely affect the financial condition of our borrowers, which could translate into an increase in our non-performing loans, impair our loan portfolio and result in lower demand for our loans. Any of these trends could have a material adverse effect on our business, financial condition and results of operations.

For more information on past due loans, see Item 4. Information on the Company Selected Statistical Information Analysis of Substandard and Past due Loans.

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

Our results of our operations depend to a great extent on our net interest income, which represented 71.6% of our total operating revenues in 2018. Changes in nominal interest rates and inflation could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, resulting in net income reduction. Inflation and interest rates are sensitive to several factors beyond our control, including the Central Bank s monetary policy, deregulation of the Chilean financial sector, local and international economic developments and political conditions, among other factors. In addition, changes in interest rates affect securities and other investments or assets that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Any volatility in interest rates could have a material adverse effect on our financial condition and results of operations.

The average annual short-term nominal interest rate in Chile for 90 to 360 day deposits received by Chilean financial institutions was 4.04% in 2016, 3.03% in 2017 and 2.97% in 2018. The average long-term nominal interest rate based on the interest rate of the Central Bank s five-year bonds traded in the secondary market was 4.09% in 2016, 3.73% in 2017 and 4.07% in 2018.

Inflation in Chile has been moderate in recent years, especially in comparison with periods of high inflation experienced in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy, consumer purchasing power, household consumption and investment in machinery and equipment and, therefore, the demand for financing and our business. The annual inflation rate (as measured by annual changes in the CPI and as reported by the Chilean National Institute of Statistics) during the last five years and the first three months of 2019 was:

Year	**Inflation (CPI Variation)**
2014	4.6
2015	4.4
2016	2.7
2017	2.3
2018	2.6
2019 (through March 31)	0.6%

Source: Chilean National Institute of Statistics

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

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

Part of the information included in our financial statements considers assumptions, estimates and modeling which, if inaccurate, could have a material impact on our results of operations and financial position.

The preparation of our financial statements requires management to make judgments and estimates that affect the amounts of assets, liabilities, income and expenses reported in our financial statements. Estimates and assumptions are based on historical experience, expert judgment and other factors, including expectations of future developments under certain alternative scenarios. Although assumptions and estimates are evaluated and revised on a continuous basis, we cannot rule out that projected scenarios could dramatically change in the short term, causing a severe impact on fundamentals and estimates.

We are also subject to model risk since the valuation of financial instruments relies on models and inputs, which in some cases are not observable. Accordingly, computed values for securities and financial instruments may be inaccurate or subject to change, since the inputs used for specific models may not be available, particularly for illiquid assets or under scenarios of financial turmoil. In these cases, we will make assumptions and judgments in order to establish the fair value of certain instruments, which involves uncertainty and may translate into inaccurate estimates of actual results.

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In this regard, the replacement of certain market indices or benchmarks extensively used in by financial markets for valuation purposes, such as for interest rates or foreign exchange rates indices could also impact the accuracy of the estimates we include in our financial statements. In fact, after 2021 banks will not be required to submit rates for the calculation of the London interbank offered rate (LIBOR) benchmark, which could produce changes in the LIBOR rate as we currently know it, affecting its precision or comprehensiveness when representing the worldwide fixed-income market. This reform and other changes in the same way may result in diverse risks for the financial and banking business, including but not limited to: (i) changes in the valuation of financial instruments; (ii) changes in pricing procedures for some instruments; (iii) misunderstandings with customers or counterparties; (iv) necessity of adapting current IT systems, trading platforms, financial reporting infrastructure and clearing processes; among others. The implementation of alternative benchmark rates may have an adverse effect on our business, results of operations or financial condition that we are not able to determine in advance. Although we expect to adapt our valuation processes, IT infrastructure and pricing systems as new information arises, we can neither assure you nor calculate the impact this could have in our business and results of operations, if any.

The main accounting items subject to risk of incorrect valuation include impairment of loans and advances, valuation of financial instruments, impairment of available-for-sale securities, deferred tax assets and provisions for liabilities. If our judgment, assumptions or models used in valuing these items are inaccurate, there could be a material effect on our results, funding requirements and capital ratios.

Market turmoil could result in material negative adjustments to the fair value of our financial assets, which could translate into a material effect on our results or financial condition.

Over the last decade worldwide financial markets have been subject to stress that has resulted in sharp temporary changes in interest rates and credit spreads. We have material exposures to debt securities issued by the local government and the Central Bank and other fixed-income investments in securities issued by local and foreign issuers, all of which are booked at fair value with direct impact on our profit and loss statement or in equity through other comprehensive income. These positions, therefore, expose us to potential negative fair value adjustments in the short or medium term and to impairments in the long-run, due to dramatic and unexpected changes in short- or long-term local and foreign interest rates and credit spreads. Any of these factors could have a material adverse effect on our results of operations and financial condition.

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

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

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

We have access to large amounts of confidential financial information and hold substantial financial assets belonging to our customers as well as to us. In addition, we provide our customers with continuous online access to their accounts and the possibility of transferring substantial financial assets by electronic means while purchasing goods or withdrawing funds, in Chile and abroad with credit and debit cards issued by us. Among the most significant cyber-attack risks that we are constantly facing are internet fraud and loss of sensitive information, both from our customers and ourselves. In particular, loss from internet fraud occurs when cyber criminals extract funds directly from clients or our accounts using fraudulent schemes that may include internet-based fund transfers. We are also exposed to cyber-attacks, hacking and other cybersecurity incidents in the normal course of business. Thus, as a financial institution, we are under a constant threat of suffering losses due to such reasons. In addition, our risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, our plans to continue to provide and to enhance internet banking and mobile banking channels, and our plans to develop additional remote connectivity solutions to serve our customers. Accordingly, cybersecurity is a material risk for us.

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There has recently been an increased level of attention focused on cyber-attacks against large corporations that include, but are not limited to, obtaining unauthorized access to digital systems for purposes of misappropriating cash, other assets or sensitive information, corrupting data or causing operational disruption. Cybersecurity incidents such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us in excess of insurance coverage, which may carry low coverage limits, and may cause that existing and potential customers to refrain from doing business with us. Additionally, cyber-attacks on our network or other systems could have a material adverse effect on our business and results of operations, due to, among other things, financial losses, losses of sensitive information, interruption or delays in our business and operations, regulatory fines, reimbursement or other compensation costs, compliance costs and reputational damage.

On May 24, 2018, we suffered a cybersecurity incident by international cyber-criminals involving the theft of funds that subsequently resulted in an operational write-off of approximately Ch$6,900 million (or U.S.$ 9.9 million). The incident also caused temporary interruptions to some of our operations, which during a short period of time affected the quality of certain services provided to our customers. In summary, our systems, some of our servers and part of the workstations deployed in our headquarters and a network were infected by zero-day malware that was introduced in our systems and scheduled to activate at a certain point of time. The damage caused by this malware on computers and servers was intended to distract us from the real objective of this attack, which was to obtain access to our swift system. When accessing this key platform, various international fund transfers were executed with charges to our accounts. Following the incident, we took immediate action to effectively contain and eradicate any disruption in our operations. At the same time, we took appropriate measures to recover the stolen funds, including but not limited to, (i) contacting our international network of correspondent banks to which some of the funds had been transferred without our approval, which enabled us to successfully recover significant part of the funds just hours after the incident , (ii) applying for the redemption of an insurance policy we hold for these issues, and (iii) requesting advice and technical support to restore our operating capacity while rebooting computers and servers, see Item 5. Operating Results Results of Operations for the Years Ended December 31, 2016, 2017 and 2018 Other Income (Loss), Net and Item 5. Operating Results Results of Operations for the Years Ended December 31, 2016, 2017 and 2018 Operating Expenses . In spite of this incident and the temporary damage to our IT infrastructure, we were able to deploy a contingency plan, which allowed us: (i) to maintain the continuity of our operations and customer assistance in branches and through remote channels, (ii) to take immediate measures in order to assure that the funds of our customers were absolutely secured, and (iii) to comply with our short-term financial commitments with third parties and customers based on liquidity management. Furthermore, in line with enhancements in our cybersecurity standards that were performed during the last years, and to further improve our protections against events such as the one that occurred in May 2018, during 2018 we put significant efforts and took steps in order to enhance our data security and IT infrastructure, including, among others, the purchase of protection systems and world-class infrastructure. In addition, we reinforced our organizational structure by creating the Cybersecurity Division in June 2018, which replaced our former Technological Security Area, whose main role is to be the first line of defense and be in charge of mitigating and managing cybersecurity threats, while at the same time improving cybersecurity policies, spreading related knowledge among our bank, customers and developing competences that all our employees must possess on this regard, see Item 4. Information about the Company Our Business Strategy Operating Efficiency and Productivity . However, notwithstanding every measure taken to address cybersecurity matters and although we have not experienced any material losses relating to this incident and are currently performing our best efforts to prevent them, we cannot assure you that we will not suffer additional losses in the future related to these kind of events.

The occurrence of any cyber-attack or information security breach could result in material adverse consequences to us including damage to our reputation and the loss of customers. We could also face litigation or additional regulatory scrutiny. Litigation or regulatory actions in turn could lead to significant liability or other sanctions, including fines and penalties or reimbursement of customers adversely affected by this security breach. As mentioned above, although we did not suffer any material adverse effects as a result of the cyber-attack, successful attacks or systems failures at our bank or at other financial institutions could lead to a general loss of customer confidence in financial institutions, including us.

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

Although we have substantially increased measures to address cybersecurity during the last year and, with the help of service providers, intend to continuously implement security technology devices and establish operational procedures to prevent such damage, we cannot assure you that these security measures will be successful.

Any downgrade in Chile s or our credit rating could increase our cost of funding, affecting our interest margins, results of operations and profitability.

Our current credit ratings determine the cost and the terms upon which we are able to obtain funding in the ordinary course of business. Rating agencies regularly evaluate us by taking into account diverse factors, including our financial strength, the business environment and the economic backdrop in which we operate. Thus, methodologies used by rating agencies evaluate Chile s sovereign debt ratings when determining our ratings. During 2018, both Standard & Poor s Ratings Service (S&P) and Fitch Ratings Service (Fitch) did not change Chile s sovereign credit rating, while Moody s Investors Service (Moody s) downgraded Chiles s credit rating from Aa3 to A1 and updated the outlook from negative to stable. Following these rating actions, Moody s also modified our credit rating from Aa3 to A1 and changed our outlook from negative to stable, in a similar fashion that the rating action for Chile s sovereign debt. On the other hand, S&P and Fitch maintained our credit rating at A+ and A, respectively. While Chile s current long-term debt credit ratings remain investment grade, these credit ratings may deteriorate further and adversely affect our credit rating.

Any downgrade in our debt credit ratings could result in higher borrowing costs for us while requiring us to post additional collateral or limiting our access to capital markets. All of these factors could adversely impact our commercial business by affecting our ability to: (i) sell or market our products, (ii) obtain long-term debt and engage in derivatives transactions, (iii) retain customers who need minimum ratings thresholds to operate with us, (iv) maintain derivative contracts that require us to have a minimum credit rating and (v) enter into new derivative contracts, which could impact our market risk profile, among other effects. Any of these factors could have an adverse effect on our liquidity, results of operations and financial condition.

Due to the recent volatility in the financial markets and concerns about the soundness of developed and emerging economies, we cannot assure you that rating agencies will maintain our and Chile s sovereign debt current ratings and outlooks.

As a financial institution, we are subject to reputational risk that could materially affect our results of operations or financial condition

Corporate reputation is a crucial competitive advantage for us, as it allows us to attract and retain customers, appeal to investors and avoid employee attrition. Also, reputation is a key element in banking since access to funding is driven by the confidence of depositors and the opinion of ratings agencies on the value of our franchise. Therefore, any disreputable event, including employee misconduct, legal proceedings, regulatory sanctions, failure to deliver minimum standards of service quality, failure to comply with regulatory requirements, unethical behavior by our staff or involvement in political issues or public scandals (or gossip related thereto) could damage our reputation and produce significant harm to our results of operations or financial condition. Furthermore, our reputation is highly aligned with the reputation of the banking industry in which we participate and, therefore, actions by other providers of financial services or the banking industry as a whole could also harm our own reputation.

Similarly, the ability to manage potential conflicts of interest has become increasingly important factor for our business given our widespread operations in many economic sectors with diverse third parties. Accordingly, the failure to address or even the perceived failure to address conflicts of interest could affect the willingness of customers and investors to work with us, or could lead to legal actions against us. In order to address and avoid these potential events we are continuously improving our corporate governance standards by detecting potential failures and adopting world-class principles and procedures. Nevertheless, we cannot assure you that we will not face reputational events in the future that could harm our prospects or the value of our franchise. For more information on corporate governance, see Item 6. Directors, Senior Management and Employees Board Practices.

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Risks Relating to our ADSs

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

As of April 18, 2019, LQ Inversiones Financieras S.A. (LQIF), a holding company beneficially owned by Quiñenco S.A. and Citigroup Chile S.A., holds directly and indirectly approximately 51.15% of the voting rights of our shares. Subject to our bylaws and applicable law, these principal shareholders are in a position to elect a majority of the members of our board of directors and control all matters decided by a shareholder vote, including the approval of fundamental corporate transactions.

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

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

While our ADSs have been listed on the New York Stock Exchange (the NYSE) since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2018, a daily average volume of approximately 37,973 of our American Depositary Receipts (ADRs) were traded on the NYSE, according to data provided by Bloomberg. Although our shares are traded on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange, the Chilean market for our shares in Chile is small and somewhat illiquid. As of April 18, 2019, approximately 32.2% of our outstanding shares were held by shareholders other than our principal shareholders, including LQIF (and the participation of LQ-SM), SM-Chile and SAOS, considering direct ownership and voting rights.

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

ADS holders may be unable to exercise voting rights at shareholders meetings and preemptive rights.

ADS holders may exercise voting rights associated with common stock only in accordance with the deposit agreement governing our ADSs. Accordingly, ADS holders will face practical limitations when exercising their voting rights because ADS holders must first receive a notice of a shareholders meeting from the Depositary and may then exercise their voting rights by instructing the Depositary, on a timely basis, on how they wish to vote. This voting process necessarily will take longer for ADS holders than for direct common stock holders, who are able to exercise their vote by attending our shareholders meetings. Therefore, if the Depositary fails to receive timely voting instructions from some or all ADS holders, the Depositary will assume that ADS holders agree to give a discretionary proxy to a person designated by us to vote their ADSs on their behalf. Furthermore, ADS holders may not receive voting materials in time to instruct the Depositary to vote. Accordingly, ADS holders may not be able to properly exercise their voting rights.

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

We may elect not to make a registration statement available with respect to the preemptive rights and the common stock, in which case you may not be able to exercise your preemptive rights. If a registration statement is not filed, the depositary will sell such holders preemptive rights and distribute the proceeds thereof if a premium can be recognized over the cost of any such sale.

Developments in international financial markets may adversely affect the market price of the ADSs and shares

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

The global economy appears to have overcome a long period of turbulence and volatility, which began in 2007 with the subprime mortgage crisis, when many U.S. banks and financial institutions disclosed significant write-downs related to their exposure to mortgage-backed securities and other similar financial instruments. This situation led to significant government intervention for important banks worldwide, bankruptcy for others and active M&A activity intended to rescue failing banks and maintain the confidence of investors and customers while avoiding bank runs. Today, these government actions are less frequent and the U.S. economy has shown signs of recovery such that in December 2015, the U.S. Federal Reserve began to taper its quantitative easing programs undertaken after the subprime crisis. Since then, the U.S. Federal Reserve has gradually increased the marginal standing facility rate from 0.50% in December 2015 to 2.5% in December of 2018. Investor sentiment around the marginal increases has fluctuated and we cannot assure you that past developments will not occur again in the future or that recent volatility in the international markets will not affect us, including our results of operations and, consequently, the market price of our ADSs and shares.

Additionally, during 2015, new doubts about the financial condition of European banks arose. Similarly, the fiscal condition of many countries remained weak. We cannot assure you that volatility in global financial markets due to the uncertainty regarding the fiscal condition of some European countries will not continue and affect the Chilean economy and consequently the financial condition and results of operations of the entire Chilean banking system, including us. Accordingly, the price of our ADS could be adversely affected by a new financial turmoil in the Eurozone, political issues, armed conflicts, uncertainty due to terrorism, a slower than expected recovery, or a deterioration in healthier economies.

Lastly, uncertainty regarding the future of emerging and developed economies remains and continues to be a source of instability worldwide. For example, the recent trade war between the United States and China, by which the U.S. administration seeks to revise tariffs on Chinese imported goods and China seeks to impose revised tariffs on imported U.S. goods, political and social instability in Latin America (particularly focused on Venezuela), the materialization of the exit of Great Britain from the Eurozone, armed conflicts in the Middle East and Asia, ongoing negotiations between the U.S. and North Korea, terrorism, the global migration crisis and waves of populism looming in different countries, illustrate volatile social and political environments that could harm foreign trade and economic growth for both developed and developing countries and also generate significant volatility in international markets and commodity prices. In this regard, deceleration in developed countries and Chile s commercial partners and global volatility could adversely impact the local economy, the local banking industry and, ultimately, our results of operations, financial condition and the price of our ADS. Additionally, the slowdown of the Chinese economy have led to increasing volatility in the financial markets in the past, affecting international commodity prices, including copper which is Chile s main export. Due to the importance of copper exports and overall mining activity to Chilean economic growth, a prolonged slowdown in the Chinese economy, a Chinese-U.S. trade war or other developments may drive copper prices down and adversely affect the Chilean economy. Although copper prices have not been affected by the effect of economic slowdown in China or the Chinese-U.S. trade war (given optimism regarding negotiations between the Chinese and U.S. governments), our exposure to the Chilean mining sector does not exceed 1.6% in terms of total loans, we cannot assure you that new developments affecting the Chinese economy will not have a material impact on overall Chilean economic activity and, therefore, in the local banking industry which could lead to lower loan growth for us and the Chilean financial industry as a whole, affecting the price of our shares and ADS.

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While we are not experiencing any immediate adverse impact on our financial condition as a direct result of Brexit, adverse consequences such as deterioration in economic conditions, volatility in currency exchange rates or other adverse changes such as reduced growth and higher volatility in global capital markets all of which could adversely affect the price of our ADSs.

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

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

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

Risks Relating to Chile

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

Our core business and transactions are with customers doing business in Chile. Accordingly, our ability to grow our business volumes and results of operations, as well as enhance our financial condition, in general, depends on the dynamism of the Chilean economy and specific macroeconomic variables such as inflation, unemployment, interest rates, consumption and investment. The global financial crisis of 2008 that dramatically affected the economic growth in developed countries also affected the Chilean economy by the end of 2008 and during the first three quarters of 2009. This translated into a subsequent slowdown in the local banking industry due to lower levels of consumption and deteriorated credit quality in loan portfolios prompted by unemployment and financial stress experienced by certain economic sectors. Conversely, between 2010 and 2012 the local economy and the banking industry evidenced a significant upturn, fostered by real GDP growth that averaged 5.7% per year, mainly as a result of the recovery in consumption and investment, as well as higher fiscal spending associated with the reconstruction process after a significant earthquake in 2010.

During 2013, the Chilean economy entered into a moderate slowdown, recording only a 4.0% GDP growth, which deepened throughout the following years with GDP annual expansions of just 1.9%, 2.3%, 1.3% and 1.5% in 2014, 2015, 2016 and 2017, respectively. This trend in GDP deceleration was the result of low levels of both corporate and individual confidence, as evidenced by indexes (IPEC and IMCE) used by the Central Bank, due to factors such as slower growth of Chile s main commercial partners, especially China, and uncertainty associated with diverse reforms presented by the administration appointed in 2014. During 2018, however, the Chilean economy showed positive signs of recovery, when compared to the last four years, by recording a 4.0% annual expansion of GDP, mainly supported by a similar increase of 4.0% in private consumption, better performance of some key trade partners and a strong recovery in investment spending (understood as fixed capital formation), which experienced a 4.7% annual increase, which in turn was primarily the result of the recovery of copper prices that translated into new investment projects undertaken in the mining sector. Although the Chilean economy has growth potential of at least 3.2% per year and GDP behaved in line with that potential in 2018, we cannot assure you that the local economy will continue growing in the future or that developments affecting the Chilean economy and the local banking industry will not materially affect our business, financial condition or results of operations. For more information, see Item 5. Operating and Financial Review and Prospects Operating Results Overview.

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

The Chilean government s economic policies and any future changes in the value of the Chilean peso with respect to the U.S. dollar could affect the dollar value of our common stock and our ADSs. Given the floating exchange rate regime that exists in Chile, the Chilean peso has been subject to large fluctuations in the past and this trend could occur again in the future. According to information published by the Central Bank, between December 31, 2017 and December 31, 2018, the value of the U.S. dollar relative to the Chilean peso increased by approximately 13.1%, as compared to the decrease of 7.8% recorded in the period from December 31, 2016 to December 31, 2017. Chilean trading in the shares underlying our ADSs is conducted in Chilean pesos. Cash dividends associated with our shares of common stock are received in Chilean pesos by the depositary, which then converts such amounts to U.S. dollars at the then-prevailing exchange rate for making payments in respect of our ADSs. If the value of the U.S. dollar increases relative to the Chilean peso, the dollar value of our ADSs and any distributions to be received from the depositary will decrease. In addition, the depositary will incur customary currency conversion costs (to be borne by the holders of our ADSs) in connection with the conversion and subsequent distribution of dividends or other payments. For more information, see Item 10. Additional Information Exchange Controls.

Our results of operations may be affected by fluctuations in the exchange rates between the Chilean peso and the U.S. dollar despite our policy and Chilean regulations related to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into foreign exchange derivative transactions that hedge our exposure. As of December 31, 2018, our foreign currency-denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency-denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by an amount of Ch$1,851 million, or 0.06% of our paid-in capital and reserves.

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

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

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

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

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

Our business growth, asset quality and profitability may be affected by political and social developments in Chile in the long run.

Our operations are highly dependent on the Chilean political and social environment, as most of our customers and borrowers do business in Chile. Thus our results of operations could be negatively impacted by unfavorable political and diplomatic developments, social instability or unrest, as well as dramatic changes in public policies, including expropriation, nationalization, international ownership legislation, interest rate caps and tax policy. Although Chile has a tradition of compliance with the rule of law, we cannot assure you that this trend will continue in the future.

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Reforms to labor and pension laws as well as labor strikes or slowdowns could adversely affect our results of operations.

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

On September 8, 2016 the Chilean government passed a law reforming the Chilean labor framework, which went into effect on April 1, 2017. This law enhances and empowers labor unions negotiation position through amendments to the collective bargaining process, such as (i) a prohibition against replacing employees during a strike, (ii) the authorization for inter-company unions to collectively bargain in specific cases, (iii) the extension of a union s access to information, such as the employer s financial information and labor conditions, among others, (iv) the establishment of minimum threshold requirements for the terms and conditions of the collective bargaining process, which cannot be more restrictive than the previous collective agreement, and (v) the definition of a company s minimum services and emergency teams by the applicable labor regulator after negotiations between a company and each labor union prior to the commencement of a collective bargaining process. With respect to clause (v), minimum services refer to those functions of a company which must continue to be provided during a strike because they have been determined to be essential to protect assets and facilities, to prevent accidents, guarantee public utility services, meet the basic needs of the population and prevent environmental damage or harm to health. A company s emergency teams are made up of workers assigned by each union to fulfill such minimum services. As further explained in Item 8 Financial Information Legal Proceedings Setting of Minimum Services and Emergency Teams in Case of a Strike , we are currently in the process of challenging the minimum services and emergency teams that have been assigned to us. As of the date of this annual report, we cannot offer any assurance as to the final outcome of these legal proceedings. To the extent we are not able to prevail, in the event of futures strikes, we could face operational disruption due to an inadequate number of minimum services and insufficient staff for the emergency teams.

In August 2017, a reform to the local pension system was presented by the former Chilean government to the Chilean congress for discussion. The main change to the current system would consist of an increase in the compulsory rate of savings, from the current 10% contribution rate to a 15% rate. The 5% net increase would be paid exclusively by employers. However, in October 2018 the current government announced several changes to said reform, which were presented to the Chilean congress by the beginning of November, 2018. The main changes proposed in the current bill are the increase in the compulsory rate of savings, from the current contribution rate of 10% to 14%, of which 4% of the net increase would also be paid by the employer but gradually applied over a period of eight years upon the passage of the bill and the increase of the state contribution for low income pensioners by means of enhancing public expenditure for these purposes. The bill also includes the opening of the pension fund management industry to new actors, lowering entrance barriers to this market, enhancing the powers of the Superintendency of Pensions and introduces the CMF as a supervisory entity, among other reforms. Because there is no certainty as to when and how this reform would go into effect, if approved, we cannot yet assess whether this reform would substantially affect our results of operations.

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Item 4 **Information on the Company**

History and Development of the Bank

Overview

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

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

We are a full service financial institution that provides, directly and indirectly through our subsidiaries, a wide variety of lending and non-lending products and services to all segments of the Chilean financial market, providing our customers with powerful, differentiated and comprehensive value offerings. In addition to our traditional banking operations, our subsidiaries and affiliates permit us to offer a variety of non-banking but specialized financial services including securities brokerage, mutual funds management, investment banking, insurance brokerage, securitization and collection services.

Our business is not materially affected by seasonality.

We organize our operations and deliver our services to our customers through the following four principal business segments:

(i) retail banking;

(ii) wholesale banking;

(iii) treasury and money markets; and

(iv) subsidiaries.

Through our retail banking segment, we provide our individual customers with credit cards, installment loans and residential mortgage loans, as well as traditional deposit services, such as current accounts, demand deposits, demand accounts, savings accounts and time deposits. We and our subsidiaries also offer financial solutions such as insurance brokerage, securities brokerage, mutual funds management, among others. In addition to personal banking, our retail segment comprises micro, small and medium sized companies that we serve by providing them with short and long term financing, deposit and cash management solutions, in addition to an array of financial services, such as insurance brokerage. In addition, our banking services for wholesale customers include commercial loans (including factoring and leasing), trade finance, capital markets services, cash management and non-lending services, such as payroll, payment and collection services, as well as a wide range of treasury, financial advisory and risk management products.

In 2008, we enhanced our value offerings by entering into a strategic partnership with Citigroup Inc., as a result of our merger with Citibank Chile. We also offer international banking services through our representative office in Beijing and a worldwide network of correspondent banks.

According to the SBIF, under Chilean GAAP, as of December 31, 2018, we ranked first in the Chilean banking industry in terms of net income attributable to equity holders with a market share of 25.3%. As of the same date and excluding operations of subsidiaries abroad, we were the second largest bank in Chile in terms of total loans with a market share of 16.9%, the largest provider of commercial loans with a market share of 16.7%, the second largest provider of consumer loans with a market share of 17.9% and the third largest private sector bank in terms of residential mortgage loans with a market share of 16.8%. As for liabilities, excluding operations of subsidiaries abroad, we were the largest bank in Chile in terms of current accounts and demand deposit balances with a market share of 22.2% and, more importantly, we ranked first in current account balances held by individuals with a market share of 27.2%, both as reported by the SBIF and as of December 31, 2018. Lastly, according to the Chilean Association of Mutual Funds, as of December 31, 2018, we were the largest provider of mutual funds management services in Chile with a market share of 21.1%.

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As of December 31, 2018, we had:

- total assets of Ch$35,617,447 million (approximately U.S.$ 51,351.6 million);

- total loans of Ch$27,926,632 million (approximately U.S.$ 40,263.3 million), before deducting allowances for loan losses;

- total deposits of Ch$20,240,662 million (approximately U.S.$ 29,182.0 million), of which Ch$9,584,488 million (approximately U.S.$ 13,818.5 million) correspond to current account and demand deposits;

- equity (including net income, non-controlling interest and provisions for minimum dividends) of Ch$3,673,716 million (approximately U.S.$ 5,296.6 million);

- net income attributable to equity holders of Ch$603,633 million (approximately U.S.$ 870.3 million); and

- market capitalization of approximately Ch$10,017,864 million (approximately U.S.$14,443.2 million).

As of December 31, 2018, we had 11,381 employees and delivered financial products and services through a nationwide distribution network of 390 branches and 1,485 automatic teller machines (ATMs). Our ATMs are part of a larger network of 7,254 ATMs operating in Chile, of which 4,385 ATMs operate under a network managed by Redbanc S.A., a company we partly own along with nine other private sector banks.

History

We were founded in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, which created the largest private sector bank in Chile. We have played an important role in the economic history of Chile. Before the creation of the Central Bank in 1926 and prior to the enactment of the General Banking Act, we were the main stabilization agent of the Chilean banking system, a role that is now performed by the Central Bank. Beginning in the early 1970s, the Chilean government assumed control of a majority of Chilean banks, and all but one of the foreign banks that were operating at that time closed their branches and offices within the country. Throughout this era, we remained as a private sector bank, with the exception of a portion of our shares owned by the Chilean government that were sold to private investors in 1975. Throughout our history we have developed a well-recognized brand name in Chile and expanded our operations in foreign markets, where we developed an extensive network of correspondent banks. In the early twentieth century, we established a representative office in London, which we maintained until 1985, when our operations in Europe were moved to Frankfurt. The office in Frankfurt was closed in 2000, when our foreign operations were centralized at the New York branch. In 1987 and 1988, we established four subsidiaries to provide a full range of specialized financial products and services as permitted by the General Banking Act. In 1999, we widened our scope of specialized financial services by creating our insurance brokerage and factoring subsidiaries. According to our estimates, we remained the largest private bank in Chile until 1996. During the early 2000s, the Chilean banking industry witnessed intense merger and acquisition activity. In 2002, we merged with Banco de A. Edwards, which allowed us to expand our business to new customer segments. In 2008, we sold our U.S. branch to Citigroup in connection with our merger with Citibank Chile that was carried out during the same year. As a result of these consolidations, we currently operate a distribution network that is composed of three brand names, namely, Banco de Chile (which operates throughout Chile), Banco Edwards-Citi (which is primarily oriented to higher income segments) and Banco CrediChile (which is focused on consumer loans and demand accounts for lower and middle income segments).

During 2014, the Chilean economy entered into a slowdown cycle, which affected investment and the growth of commercial loans. Amid this slowdown, we took advantage of our competitive strengths and continued to optimize our risk-return relationship by keeping our credit risk under control and developing innovative commercial strategies. As a result, we remained at the top of the industry in terms of net income generation and return on average equity, according to information published by the SBIF as of December 31, 2014. In order to achieve these goals, we improved customer experience by launching cutting-edge mobile banking solutions and applying world-class business intelligence methodologies. Furthermore, we continued to diversify our funding structure by issuing long term bonds in Switzerland, Japan and Hong Kong, while taking advantage of our U.S.$1,000 million commercial paper program, which was established in 2010 (the Commercial Paper Program) to raise short-term funds. Lastly, we recorded a 15.9% annual expansion in current accounts and demand deposit (year-end balances) that enabled us to rank first in these liabilities within the local banking industry, according to information released by the SBIF as of December 31, 2014. These figures were reflected by the interest of investors in Banco de Chile s stock, which recorded an 86.5% annual increase in trading volumes (excluding the effect of the LQIF secondary offering), the highest increase among all publicly listed Chilean banks.

During 2015, the economic backdrop remained a leading challenge for the banking industry. However, we remained the most profitable bank in Chile (in terms of return of return on average capital and reserves and return of average assets for banks with market share in loans above 3.0%) and the first bank in net income attributable to equity holders. These accomplishments were due to diverse initiatives implemented during the year, including innovation in IT solutions for our customers, which has become one of our main goals. Due to these initiatives, we were recognized as the *Best Consumer Digital Bank in Chile* by *GlobalFinance* and as the *Best Internet and Mobile Bank in Chile* by *Global Banking & Finance Review* in 2015. In addition, we entered into two strategic partnerships with both a local and an international airline, which will benefit our 1.5 million credit card holders. We also acquired a commercial loan portfolio from a local bank amounting to approximately Ch$564 billion. Moreover, 2015 was a record year for Banco de Chile in terms of bond placements amounting to approximately Ch$1,342 billion, of which Ch$156 billion were placed abroad under the U.S.$3 billion MTN Program we maintain in Luxembourg.

Throughout 2016 we continued to face economic headwinds as the local economy s growth continued to slowdown. Amid this environment, we focused on growing profitably by concentrating on those segments with a more balanced risk-return relationship. Thus, in spite of recording a moderate annual expansion of 3.4% in total loans, we managed to remain first in terms of net income attributable to equity holders and profitability (for banks with market share above 3.0% in total loans) within the local banking industry, with a market share of 28.4% and a ROAE of 19.6%, both under our internal reporting policies. Our customer-centric approach has been crucial to these achievements and we believe our service quality makes a difference when compared to our competition. During 2016 we accomplished significant advances on this matter such as attaining the highest net promotion score among the main Chilean banks for first time in our recent history while also reducing our attrition rate. We believe these achievements were the result of diverse projects and strategies intended to enhance customer proximity. Thus, during 2016 we launched a new personal banking website, with improved functionalities and enhanced our mobile banking solutions by adding new applications for smartphones. In terms of service quality, we revised and updated our portfolio of high income customers, opened new specifically-oriented branches for preferential customers and set up a new service model for premium customers called Private Wealth Management. Lastly, we continued to strengthen the benefits associated with our loyalty program for credit card users by adding new alliances, such as Iberia Airlines, to the package of already existing services and providers. Based on all of these initiatives, during 2016 we were recognized by various specialized publications covering multiple areas of banking activity including Most Valuable Banking Brand in Chile by The Banker, Most Innovative Banking Solutions in Chile by Global Business Outlook, Best Consumer Digital Bank in Chile by Global Finance and Best Bank in Chile by World Finance.

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During 2017, we were first in terms of net income and profitability within the local banking industry, with a market share of 26.1% and a ROAE of 19.3%, both under our internal reporting policies. These achievements were attained during a difficult economic landscape, which resulted in a significant slowdown of the corporate lending business that impacted certain macroeconomic indicators such as unemployment, which adversely affected the credit quality of our personal banking business. Amid this environment, we maintained our customer-centric approach and focused on developing new ways to enhance the customer experience by expanding our service offerings, business platforms and benefits to our loyalty program. For example, we launched a new website for companies, aimed at serving corporates, other large companies and SME customers. Similarly, we created a new mobile application and upgraded existing ones. We released MiInversion which serves as a portfolio management platform for retail customers and developed an On/Off functionality for the MiBanco application that enables customers to block/unblock their credit cards in case of theft or misplacement. We believe remote channels are the future of banking and are continuously promoting their use among customers while seeking new solutions to offer banking products through mobile or internet technologies. This strategy boosted demand for mobile and internet services that during 2017 reflected increases of 78% and 11% in monetary transactions using these means, respectively. In addition, our enhanced loyalty program added new alliances with GOL Airlines and British Airways and negotiated access to a VIP lounge for customers at the Santiago airport. These initiatives continue to demonstrate our commitment to superior customer service and have allowed us to obtain a 73.3 % average net promoter score in 2017, as measured by a syndicated study conducted by Consultores Asociados de Marketing Cadem S.A., or CADEM, the highest among our relevant peers. We also undertook transformational changes by assessing relevant processes in terms of efficiency, cost control and operational risk. We believe these actions are necessary to maintain our market leading position in an increasingly competitive banking industry. Lastly, we received recognition for our business performance and digital strategy including being recognized as the Best Bank in Chile, Best Digital Bank for Companies in Chile and Best Sub-Custodian Bank in Chile by Global Finance and being named the Best Mobile and Digital Bank in Chile and the Best Investment Bank in Chile by Global Banking & Finance Review.

Throughout 2018, we continued to show outstanding performance when compared to our main competitors. We led the market in terms of net income attributable to equity holders with a 25.3% market share, which translated into an above-average ROAE of 19% (both figures under Chilean GAAP). Thanks to this performance, we were able to earn sufficient income to fully repay the subordinated debt held by SAOS with the Central Bank in April 2019. This is a significant milestone in our history, since we were able to pay off this debt 17 years before the original maturity date. In 2018, the Chilean economy maintained the trend shown by the end of 2017. Thus, GDP grew solidly at 4.0%, primarily due to the rebound of private investment. Amid this scenario, our loan book increased 9.7%, thanks to record sales in installment and mortgage loans while also adding a record amount of new current account holders. Moreover, the wholesale segment achieved a significant recovery by the end of the year, after two consecutive years of contraction.

During 2018, we continued to focus on superior customer service, attaining first place in service quality among our peers by posting an average net promoter score of 71.2%, as measured by a syndicated study conducted by CADEM, and an attrition rate of only 6.2%, according to our management information system. Based on these attributes we received the National Customer Satisfaction Award and the Consumer Loyalty Award in 2018. Aligned with this view, we continued to develop our digital strategy in order to assure stability and efficiency on our diverse platforms while innovating in new products and services provided online. Thus, we added new functionalities to some of our applications (MiBanco, MiPago and MiInversion), which allow our customers to perform new transactions through their smartphones including time deposits, money exchange and the RedGiro service. Due to these improvements the amount of mobile transactions in our mobile platforms increased to 35.1 million in 2018, which represents an annual increase of 60.8%. Also, thanks to our digital banking strategy we were once again recognized as the Best Digital and Mobile Bank in Chile by Global Banking & Finance Review and Innovative Digital Bank of the year in Chile by The European Magazine. Cybersecurity was also a central point of attention for us in 2018. After the cyber-attack occurred in May 2018, on which we timely reacted based on solid security protocols, we decided to enhance our organizational structure and IT infrastructure by creating the new Cybersecurity Division. This new division took various actions in order to promote a cybersecurity culture across the company, while spreading the knowledge that all of our employees should have in respect to this important topic.

Merger with Banco de A. Edwards

On December 6, 2001, our shareholders approved our merger with Banco de A. Edwards, which became effective on January 1, 2002. Banco de A. Edwards had been listed on the NYSE since 1995, and since January 2002, we have been listed on the NYSE under the symbol BCH. We concluded the merger process with the consolidation of a new corporate structure and the integration of our technological platforms.

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Merger with Citibank Chile

On December 27, 2007, our shareholders approved our merger with Citibank Chile, which became effective on January 1, 2008. During 2008, we integrated Citibank Chile s technological platforms with ours and established a new organizational structure in order to satisfy the needs of our customers and to achieve important synergies. We concluded the merger process with the integration of Corporación Financiera Atlas S.A. (Citibank Chile s consumer area) into our consumer finance area (CrediChile), which allowed us to nearly double our customer base and market share in consumer finance. As result of this merger and integration process, we entered into the following agreements with Citigroup Inc. to provide a framework for our relationship with Citigroup Inc., its services and trademarks in Chile: (i) the Global Connectivity Agreement, (ii) the Cooperation Agreement, (iii) the Trademark License Agreement and, (iv) the Master Services Agreement. On October 22, 2015, we entered into a new Global Connectivity Agreement, a new Cooperation Agreement and a new Trademark License Agreement with Citigroup Inc. All of these new agreements replaced the original agreements we entered into on December 27, 2008. In addition, on January 26, 2017, we entered into a new Master Services Agreement with Citigroup Inc. On August 24, 2017, we agreed to extend the Cooperation Agreement dated October 22, 2015 for a period of two years beginning on January 1, 2018, pursuant to which the parties may agree, to extend for another two-year term to commence on January 1, 2020. As a result of the extension of the Cooperation Agreement, the new Global Connectivity Agreement, Trademark License Agreement and Master Services Agreement were extended under the same terms as the Cooperation Agreement. For more information, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

Technological Projects

In 2016 we undertook diverse technological initiatives intended to adequately support our core business and improve our operating efficiency. Our main initiative to support to our core business was the implementation of a new internet-based platform for personal banking with a friendlier design and more efficient architecture that boosted online transactions, increased customer satisfaction and decreased web surfing time. Furthermore, we implemented the first stage of a new commercial platform, called Business Center, which includes a new system aimed at integrating the sale and post-sale process. Business Center will also become our CRM system in the future. We also put into practice a modern platform for our leasing business. In addition, we continued to enhance the capabilities of our Treasury by upgrading the Murex system, completing a new phase of the platform that allows us to clear derivatives with other Chilean banks while setting up diverse IT solutions to clear derivatives contracts with European counterparties (EMIR). We also continued to reinforce our mobile offerings by improving the mass-market appeal of MiPass, originally introduced in 2015. In addition, we implemented online notifications of payments, money transfers and credit card charges, which are received by customers on their smartphones at the moment of transaction. In regard to efficiency, during 2016 we completed several projects intended to digitalize documents, reports and forms in order to avoid printing and implemented a new image-based model for controlling operations carried out by tellers and representative officers. Similarly, we automated diverse form filling procedures for operations related to personal banking and SMEs and set up platforms and procedures for pre-approval operations. Finally, we continued to develop the last stages of our ATM replacement schedule by renewing 96% of our total network, in accordance with the requirements imposed by the Chilean regulator.

During 2017 we continued to develop the Business Center project, which is our new Sales & Customer Relationship Management tool. This system is expected to support significant improvements in the quality and responsiveness of our back-office and front-office operating processes to enhance our customer centric vision. In response to a 360-degree survey of our customer base, we launched, developed and completed various modules of our CRM platform which positioned us for the successful implementation of a new pricing model that enabled us to provide tailored lending solutions to our diversified customer base. We also upgraded the Time Deposits and Savings module, which permits account officers to tailor offerings to personal banking customers. Moreover, we completed the renewal of our ATM network to meet the new security and quality standards required by the SBIF. Additionally, we launched two new platforms for companies. We renewed the website business platform for these customers by adding new functionalities, security standards and the ability to conduct paperless transactions. We implemented a new electronic platform for factoring, which is aimed at improving the interaction with customers by making transactions easier while also upgrading the middle and back-office systems for this business. In personal banking, we maintained our focus on innovation and digital banking by adding new functionalities to existing mobile applications including the authorization of web transactions through MiPass application, access to

MiBanco by means of fingerprint scanner, e-commerce payments through MiPago and an On/Off functionality for credit cards in MiBanco.

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During 2018, we continued to enhance our diverse IT infrastructure and digital platforms in order to assure stability and efficiency to our processes, attract new potential clients while continuously improving the service provided to our current customers. To this extent, we focused on continued developing new stages of our new CRM system and sales platform by introducing a new pricing tool for individuals (Pricing 360°) that allow our account officers to easily use and access to our customers information. The CRM system is a key project for us and we expect to keep on developing new functionalities over the next years. Moreover, we intensified our efforts to expand and improve our remote channels given the massive use of internet and fast adoption of smart phones. In that direction, we added new functionalities to some of our applications, and expanded our RedGiro service to the mobile banking, only available on our website until 2017.

In May 2018 we suffered a cyber-attack involving the theft of funds that subsequently resulted in an operational write-off of approximately Ch$6,900 million or U.S.$ 9.9 million (mostly recovered from the redemption of an insurance policy). Even though this incident temporarily affected certain services provided to our customers, we were able to maintain the continuity of our operations. In addition, as of this date, based on our internal analysis we have found no evidence whatsoever that our customers were affected by this incident in terms of misappropriation of funds. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry Cybersecurity events could negatively affect our reputation or results of operations and may result in litigation. This cybersecurity incident, although successfully overcome, posed new challenges for us in terms of cybersecurity infrastructure, controls and procedures. Thus, as part of the efforts to improve our cybersecurity risk management, we created the Cybersecurity Division in June 2018, which replaced our former Technological Security Area. The new division is the first line of defense for us on these matters and is in charge of mitigating and managing cybersecurity threats. The division is composed of two areas, the Cybersecurity Engineering Area and the Cyberdefense Area, in addition to diverse units that are focused on managing projects aimed at improving our cybersecurity protocols and procedures. During 2018, the Cybersecurity Division undertook diverse IT projects in order to reinforce our infrastructure and cybersecurity capabilities, acquiring world-class protection software and firewalls while investing in specialized platforms to address this significant topic. During 2018, we invested approximately Ch$9,915 million in cybersecurity equipment and software and incurred approximately Ch$9,847 million in operating expenses related to cybersecurity matters. These disbursements almost doubled the total amount incurred in 2017.

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

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

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

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

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch$1,716,705 million or U.S.$2,475 million, in real terms, as of December 31, 2018, required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions to repay the Central Bank subordinated debt. In 1994 we applied 67.6%, and in 1995 we applied 65.8% of our income before provisions to repay the Central Bank subordinated debt.

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

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

In exchange for assuming the Central Bank debt, SAOS received from SM-Chile 63.6% of our shares as collateral. Although shares held by SAOS as collateral have economic rights that belong to the Central Bank, their voting rights are exercised by SM-Chile s shareholders.

Pursuant to SM-Chile s bylaws, that company will exist until the Central Bank subordinated debt has been completely paid off by SAOS. Once SM-Chile is liquidated, shares of Banco de Chile owned by SM-Chile and held by SAOS, and the proceeds obtained from the liquidation of any other assets owned by SAOS, shall be distributed among SM-Chile s shareholders as described in Item 7. Major Shareholders and Related Party Transactions Ownership Structure. At that time, the former SM-Chile shareholders will become direct shareholders of Banco de Chile. As noted below, while we cannot offer any assurances, that fact pattern is expected to occur in 2019.

As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Subsequently, as of December 31, 2018 the percentage of our shares held by SAOS declined to 28.3%, as a result of: (i) capital increases agreed to at the Extraordinary Shareholders Meetings held in May 2007, January 2011 and October 2012, (ii) stock dividends paid in May 2006, May 2007, June 2009, April 2011, June 2012, May 2013, July 2014, July 2015, June 2016, July 2017 and July 2018 and (iii) our merger with Citibank Chile in January 2008.

Dividends received from us are the sole source of SAOS s revenues, to be applied by legal mandate to repay its debt to the Central Bank. SAOS does not have any other material debt, as it is a special purpose legal entity created by Law No. 19,396 whose only business is to own Banco de Chile shares and repay the obligation to the Central Bank. To the extent distributed dividends are not sufficient to pay the amount due on its debt, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our paid in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock to pay the entire accumulated deficit amount. As of March 31, 2019, SAOS maintained a surplus with the Central Bank of Ch$955,913 million, equivalent to 30.6% of our paid in capital and reserves as of the same date.

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

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As of March 31, 2019, the outstanding subordinated debt balance held by SAOS was Ch$ 89,640.2 million (including accrued interest). SAOS paid to the Central Bank a total of Ch$140,614 million in 2016, Ch$142,003 million in 2017 and Ch$152,930 million in 2018, exceeding in each of those years the required minimum annual payment. SAOS will fully repay the Central Bank subordinated debt in April 30, 2019 based on the dividend it received from us from our net distributable earnings for the year ended December 31, 2018. As a consequence of such full payment, SM-Chile and SAOS will be liquidated and its shareholders, LQ Inversiones Financieras S.A. and Inversiones LQ SM Ltda, will increase their direct ownership in Banco de Chile, from current shareholdings of 27.18% and 0.29%, respectively, to 46.34% and 4.81% in each case. Similarly, other shareholders of SM-Chile will become our shareholders, which will significantly increase the public float of stock. For more information, see Item 7. Major Shareholders and Related Party Transactions Ownership Structure.

As of December 31, 2018, the major shareholder of SM-Chile was LQ Inversiones, which owned, directly and indirectly, 58.24% of SM-Chile s total shares. As of the same date, our major shareholders were SAOS, LQ Inversiones Financieras S.A. and SM-Chile, each having a direct participation of 28.31%, 27.18% and 12.02% in our total common stock, respectively. Following the liquidation of SM-Chile and the dissolution of SAOS, LQ Inversiones Financieras will be the major direct shareholder of Banco de Chile with a shareholding of 46.3%. See Item 7. Major Shareholders and Related Party Transactions Ownership Structure and Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

Capital Expenditures

The following table sets forth our capital expenditures in each of the three years ended December 31, 2016, 2017 and 2018:

	For the Year Ended December 31,					
	2016		2017		2018	
	(in millions of Ch$)					
BANK S INTERNAL REPORTING POLICIES:						
Computer equipment	Ch$	14,105	Ch$	8,898	Ch$	12,702
Furniture, machinery and installations		2,645		2,963		2,409
Real estate		10,174		10,606		12,589
Vehicles		895		757		365
Subtotal		27,819		23,224		28,065
Software		11,248		18,779		23,512
Total	**Ch$**	**39,067**	**Ch$**	**42,003**	**Ch$**	**51,577**

Our budget for capital expenditures for 2019 amounts to approximately Ch$72,421 million, of which expenditures in information technology investments represent 72%, while infrastructure projects represent the remaining 28%. The budget for capital expenditures is in line with our mid-term strategic priorities of improving our efficiency and enhancing our customer service capabilities with a firm focus on digitalization. These capital expenditures will be principally financed by cash on hand and long-term debt financing.

Among the budgeted expenditures for information technology, 51% corresponds to new and ongoing IT projects undertaken by Banco de Chile, which are intended to provide us with business solutions for customers, technological stability and improvements in productivity. Of the remaining 49% budgeted for IT expenditures, 19% is expected to be deployed to further optimize our nationwide ATM network through a long-term joint venture with a local retailer, another 19% consists of investments in technological equipment and system improvements to be carried out by certain subsidiaries and the remaining 11% is intended to reinforce our cybersecurity infrastructure and systems.

Our 2019 budget for infrastructure expenditures includes disbursements associated with renovation and restoration of our corporate buildings (45%), renovation of some of our branches particularly as a result of a new customer service model we are deploying in some of our locations (34%), general maintenance investments (15%), security-related expenditures (5%) and other initiatives related to our social commitment (1%).

All of the aforementioned investments have been or will be made in Chile.

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BUSINESS OVERVIEW

Our Competitive Strengths

Building on our knowledge of the Chilean financial market, we have historically been able to develop significant competitive advantages based on our strong brand recognition, our widespread branch network, the diversity and relative size of our customer base, our highly competitive funding structure, the superior asset quality of our loan portfolio as compared to our peers in Chile, an attractive risk-return relationship and our market leadership in a diverse range of financial products and services.

Our main competitive strengths are:

Brand Recognition and Strong Corporate Image

We have operated in the Chilean financial industry for over 125 years under the Banco de Chile brand name. In order to provide our customers with specialized value offerings and a wider range of financial products and services, we have also developed the Banco Edwards-Citi , Banco CrediChile and Banchile brand names. We believe our long standing history in the Chilean market is recognized by our customers and the general public, who associate our brands with value, quality, reliability and social responsibility within the Chilean financial industry, as demonstrated in various polls conducted by well-known market research companies. We believe that our long history in the Chilean banking industry is a key element that differentiates us from our competitors.

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

We also believe that our strong corporate image is further strengthened by our commitment to social responsibility, which includes supporting the Teleton Foundation (a non-governmental organization dedicated to assisting and treating disabled Chilean children), our partnership with institutions dedicated to improving the quality of Chilean education, our participation in campaigns intended to improve the quality of life of needy people, our commitment to supporting and sponsoring diverse monetary and non-monetary campaigns for recovery efforts from natural disasters in Chile, including wildfires, earthquakes, floods and tsunamis, and the development of other initiatives intended to strengthen our role in, and contribution to, Chilean society.

Business Scale and Leading Market Position

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

	As of December 31, 2018	
	Market Share	Market Position
Net Income Attributable to Equity Holders	25.3%	1st
Total Balances of Demand Deposits and Current Account (1)	22.2%	1st
Current Accounts Balances held by Individuals	27.2%	1st
Mutual Funds (Assets Under Management)	21.1%	1st
Net Fees and Commissions Income	19.4%	1st
Net Income of Securities Brokerage Subsidiary (2)	31.4%	1st

Source: SBIF, Chilean Association of Mutual Funds and the Financial Market Commission (CMF).

(1) Excluding operations of subsidiaries abroad and net of clearings.

(2) Including the whole market and not only subsidiaries of local banks.

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

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

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

Broad and Diversified Customer Base

We believe that we have one of the largest customer bases among financial institutions in Chile. In recent years, we have been able to expand our customer base by providing attractive and tailored value offerings based on continuously improving segmentation and by applying sophisticated business intelligence tools. As of December 31, 2018, we had approximately 1,393,000 core clients, which had at least a current account or a loan outstanding with us. However, in regards to main banking products, we serve a broader customer base composed of 1,215,000 borrowers, approximately 915,000 current accounts holders, approximately 140,000 time deposit holders, approximately 125,000 saving account holders and approximately 1,100,000 credit card account holders.

We believe that our broad customer base is both an essential driver of our business and a valuable asset that enables us to cross-sell our traditional lending products and services along with non-lending services provided primarily through our subsidiaries, including our securities brokerage, mutual funds management, securitization, financial advisory, insurance brokerage and collection services.

Multichannel Distribution Approach

In order to better serve our customers, we offer a distribution approach composed of both physical and non-physical channels.

We are present in all regions of Chile and strive to be accessible to every Chilean customer through our large branch network as well as non-physical contact channels. As of December 31, 2018, we had a nationwide branch network of 390 branches, the largest in Chile among private sector banks, according to information published by the SBIF. This network is composed of 245 branches under our Banco de Chile brand name, 41 branches under our Banco Edwards Citi brand name and 104 branches under our Banco CrediChile brand name. We believe that our branch network enables us to develop close relationships with our customers and therefore we are constantly assessing new branch locations throughout Chile.

We have also complemented our branch network with non-physical remote channels, such as ATMs, internet-based online platforms and mobile banking applications. As of December 31, 2018, we had 1,485 ATMs throughout Chile and we provided our customers with specialized internet websites for each of the segments we target, coupled with diverse mobile banking applications, including MiBanco, MiBeneficio, MiCuenta, MiPago, MiPass, MiInversion and MiSeguro. During 2018, 70.0% of the total transactions carried out by customers and non-customers in our distribution channels were performed through non-physical remote channels.

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Competitive Funding Structure

We believe that we have a cost effective and highly competitive funding structure based on our leading market position in current accounts and demand deposits, especially among individuals. According to the SBIF, as of December 31, 2018, with a 27.2% market share, we ranked first within the Chilean banking industry in current account and demand deposits held by individuals. Similarly, as of that same date and excluding operations of subsidiaries abroad, we were the principal bank in Chile in terms of total balances of non-interest bearing current accounts and demand deposits representing 22.2% of the industry (net of clearing), as reported by the SBIF. Also, our total balances of current accounts and demand deposits represented 26.7% of our funding structure as of December 31, 2018 (under Chilean GAAP), as compared to the 19.8% reported by the Chilean financial industry as a whole, excluding Banco de Chile. In addition, we have a solid base of funding from retail customers, who held demand deposits and time deposits that jointly represented 41% of our total funding as of December 31, 2018. This characteristic provides us with a stable source of funding that is reflected by a 30-day moving average renewal rate of retail time deposits which reached around 70% as of December 31, 2018.

We are constantly striving to diversify our liability structure in terms of sources, types of instruments and markets with the aim of maintaining a competitive cost of funding and improving our liquidity. Thus, given the tempered growth recorded by our total loan book in 2018, we were more cautious and less active than previous years in terms of long-term debt placements, particularly in overseas markets due to the steady increase in foreign interest rates. Instead, we continued to strengthen our liability structure by taking advantage of specific windows of opportunity abroad while prioritizing issuances in the local debt market, against a low interest rate environment given the expansionary policy set by the Chilean Central Bank. As a result, in 2018 we carried out the following debt placements:

- Approximately U.S.$1,580 million (mostly denominated in UF) within the local market. These debt placements had maturities ranging from four to 12 years (eight years on average) while bearing premium spreads over the relevant benchmark (Central Bank UF-denominated bonds or BCU rates).

- A 10-year fixed rate U.S. dollar-denominated unsecured bond in Japan for approximately U.S.$50 million and

- A 5-year fixed rate CHF-denominated unsecured bond in Switzerland for approximately U.S.$115 million.

The debt placements carried out in foreign markets above were accompanied by cross currency swap hedge arrangements in order to neutralize any effects associated with changes in foreign exchange that could impact our cost of funding.

In addition, we continued to utilize short-term funding associated with our commercial paper program, which provides us with premium funding for Trade Finance transactions, and during 2018, we issued a total amount of approximately U.S.$1,450 million. As of December 31, 2018 we had an outstanding balance of approximately U.S.$367.1 million.

In summary, our funding structure provides us with a cost advantage over many of our competitors (which use a higher proportion of interest bearing liabilities), as current accounts and demand deposits are non-interest bearing in Chile. Our solid market position in demand deposits, together with our high international credit ratings, translated into one of the lowest costs of funding from liabilities associated with interest bearing deposits and long-term debt, among the five largest banks in Chile.

Superior Asset Quality

We are one of the Chilean financial institutions with the highest credit quality and the healthiest loan portfolio in Chile. We believe this asset quality is the result of our well known prudent risk management approach and accurate credit risk models that are continuously being updated and have enabled us to maintain relatively low levels of past due loans (loans 90 days or more past due) and high coverage indicators over the last few years. According to the SBIF, and under our internal reporting policies, as of December 31, 2018, we had a delinquency ratio (loans 90 days or more past due as a percentage of total loans) of 1.1% which was well below the industry average delinquency ratio of 2.1% posted by the Chilean banking industry (excluding Banco de Chile) as of the same date. Additionally, according to data published by the SBIF, as of December 31, 2018, we had a coverage ratio (allowances for loan losses over loans 90 days or more past due) of 198.7%, which was well above the industry average coverage ratio of 121.4% as of the same date (excluding Banco de Chile).

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Over the last years, the utilization of business intelligence tools has also contributed to an improvement in our credit risk management. In this regard, during 2018 we successfully re-launched our pre-approved loan program through which we target a select group of retail customers to help them meet their borrowing needs depending on their life cycle stage and credit profile.

International Coverage

In 2008 we enhanced our value offerings by entering into a strategic partnership with Citigroup Inc., as a result of our merger with Citibank Chile, effective on January 1, 2008. As result of the merger and integration process, we entered into various agreements with Citigroup Inc. to establish a framework for our relationship with Citigroup Inc., including the services to be rendered by each party and the use of trademarks in Chile. For more information, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

This strategic alliance, backed by a Global Connectivity Agreement with Citigroup Inc., has allowed us to broaden our service offerings by adding a comprehensive portfolio of international financial services that previously we could only partially provide. Based on this relationship, we are able to provide our local customers with world-class financial services and participate with them in their international ventures. Furthermore, we provide a reliable business platform for Citibank s customers who aim to operate in Chile.

Our Business Strategy

Mission

We are a leading and globally-connected corporation with a prestigious business tradition. We provide excellent financial services to all of our customer segments by offering creative and effective solutions while at the same time ensuring that we add value for our shareholders, employees and community as a whole.

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

Vision

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

Our mission and vision commits us to all of the diverse stakeholders related to our business, including customers, employees, investors and the community. Thus, our vision is shared and internalized by all areas across the corporation, senior management and the board of directors while also constituting the basis for our strategic objectives. This vision requires initiatives to achieve comprehensive excellence in management, with customer satisfaction as our major goal. For this reason, we apply high industry standards in information technology, business models and service quality, all of which are summarized by the value creation cycle below:

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Corporate Values

Our way of thinking is reflected by a set of values that are shared by our employees and shareholders, which are aimed at providing our customers with world-class financial solutions and quality standards.

- Integrity
- Commitment
- Respect
- Loyalty

- Prudence

- Responsibility

- Justice

Purpose

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

In order to accomplish this, we have made commitments to all of our stakeholders, since we are convinced that we will achieve excellence in all of our businesses and projects as long as we are able to satisfy stakeholders in their interactions with us.

Commitments

We aim to satisfy the expectations of the following stakeholders by:

- **Our Customers**

- Offering innovative and top-quality banking products and financial services.

- Providing customers with excellent service based on customized relationships and a proactive attitude.

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- Ensuring the availability and stability of physical and non-physical service channels.
- Maintaining trusted relationships in order to be our customers main bank.
- **Our Employees**
- Providing employees with career opportunities based on merit.
- Promoting a respectful and friendly work environment.
- Offering competitive compensation and economic benefits.
- Supplying adequate technological tools and infrastructure.
- **Our Community**
- Improving quality of life and managing adversity.
- Strengthening the quality of education in Chile.
- Promoting entrepreneurship.
- Protecting the environment.
- Building strong relationships with suppliers.

- **Our Shareholders**

- Leading the industry in net income generation and profitability.

- Maintaining a strong market position in terms of business volume.

- Fostering operating efficiency and productivity.

- Developing a prudent approach to risk management.

Strategic Priorities

Our long-term strategy is intended to maintain profitable growth by placing the customer at the center of all of our decisions and continuously improving efficiency and productivity in all of our processes and procedures while maintaining a strong commitment to the country. These are our strategic priorities and we aspire to attain them through collaboration and teamwork.

- **Customer Centric Decision Making**

We aim to support our customers and meet their needs throughout their lives. In order to achieve this goal we strive to promote customer proximity and reliability, while providing our customers with the best service quality within the local market.

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

We firmly believe that there is room to grow in retail banking. Although Chile s per capita GDP has increased fourfold over the last 30 years, banking penetration is still below that in developed countries, particularly in relation to residential mortgage and consumer loans. In fact, as of December 31, 2018, the loan book of the Chilean banking industry (excluding operations of subsidiaries abroad) represented 86% of Chilean GDP. As of the same date, mortgage and consumer loans represented 25% and 13%, respectively. On the other hand, according to the SBIF, as of December 31, 2018, we had market shares of 16.8% and 17.9% in residential mortgage loans and consumer loans, respectively, both behind the market leader by 4.4% and 1.8% in each case. Given the fierce competition in the Chilean banking industry, in order to take advantage of these opportunities, we are continuously developing innovative products and services to diversify our revenue sources. Accordingly, we have strived to build comprehensive value offerings for our retail segment in order to continue enhancing our fee-based income by promoting digitalization of products and services provided to these customers while improving benefits related to our customer loyalty programs.

Similarly, in our wholesale banking segment (which targets companies with annual sales over Ch$1,600 million), we aim to maintain a market-leading position in loans while growing profitably in a market that is characterized by low margins and fierce competition. We intend to accomplish these goals by increasing our cross-selling of non-lending products and services. For this reason, we are focused on improving our cash management services, enhancing our internet-based services, increasing the penetration of products designed by our treasury and money market operations segment, strengthening our presence in certain lending products such as leasing and factoring and promoting international businesses by taking advantage of the Global Connectivity Agreement we maintain with Citigroup and the specialized array of financial services offered by our subsidiaries, such as securities brokerage, mutual funds management and financial advisory in order to meet the needs of certain niches within this business segment. The success of our wholesale banking segment is critical to our ability to maintain sustainable growth in revenues, particularly in fee-based income. Thus, cross-selling is one of our main priorities in this segment.

In our treasury and money market operations segment, we intend to take advantage of our specialized knowledge in order to increase the penetration of widely-used products in our current customer base while offering innovative products to potential clients. Also, we continuously seek newer and more convenient funding choices, locally and internationally, in order to support our long term business strategy by promoting an adequate diversification of our funding structure.

- Main Achievements in 2018

(1) Record Sales of Retail Loans and Current Accounts

In 2018, we achieved record sales in many lending and saving products, particularly in the retail banking segment, based on our commitment to customer service, excellent brand recognition and solid reputation. We achieved the highest amount of sales of installments loans in our history by granting Ch$2,102,664 million in new credits, representing an annual increase of 25.2%. In terms of mortgage loans, we granted new loans amounting to Ch$1,244,742 million in 2018, a 10.8% annual increase as compared to 2017. As for savings accounts, we added approximately 118,000 new current account holders, which is the highest amount ever achieved and represented 25.9% increase when compared to 2017.

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(2) Mobile and Digital Banking: New Applications and Functionalities

In 2018, we continued to enhance our digital banking offering by introducing new functionalities to our existing set of mobile applications: MiBanco, MiCuenta, MiPago, MiPass, MiSeguro, MiInversion and MiBeneficio. In particular, our upgraded MiBanco application now allows our retail customers to easily reset their internet password. We also expanded the RedGiro service (an electronic money transfer that allows the recipient to withdraw money from our ATM network), formerly available on our website only, to permit our clients to perform transactions through their smartphones. In addition, during 2018 we added new functionalities to MiInversion, launched in 2017, through which our customers are able to invest in time deposits while performing foreign currency exchanges.

Once again, we received diverse recognitions of our digital banking strategy including Best Digital and Mobile Bank in Chile by Global Banking & Finance Review and Innovative Digital Bank of the year in Chile by The European Magazine. Additionally, we continued to enhance our Innovation and Digital Banking Area, which was created at the end on 2017 and aims to further enhance our mobile offerings with a customer centric approach. During 2018, our customers conducted 35.1 million monetary transactions using our mobile banking applications, representing a 60.8% annual increase when compared to 2017.

(3) Loyalty Program Enhancements

Transactional services, especially credit cards, constitute a crucial part of our value offering particularly for individual customers. We strongly believe that transactional services are an effective means to improve cross-selling and further penetrate current customers, two key elements to growing profitably in a highly competitive industry. During 2018, we focused on improving benefits to our 1,1 million credit card account holders by widening strategic partnerships and adding more alliances with local stores and several other products and service providers.

In 2018, we continued strengthening our loyalty program by entering into new partnerships in order to widen the array of benefits to our customers, including discounts and other benefits for music shows and festivals in Chile for the next three years.

Furthermore, we continually strive to improve benefits for our credit card account holders and other customers by widening strategic partnership and alliances with airlines or local stores in order to offer several product and service discounts related to airline tickets or miles, among other benefits. In 2018, 119,912 customers made use of their benefits by exchanging their Dolares-Premio (a credit card points system) for airline tickets, discounts or other benefits.

(4) Improvements in Service Quality

We are convinced that in a highly competitive industry such as the Chilean banking system, a customer-centric focus is critical to generating loyalty and creating long-term profitable relationships. We believe that our high service quality is a competitive strength that differentiates us from competitors and supports our long term strategy by responding to the preferences of our current and potential customers. Accordingly, we strive to continuously improve our relationships with customers by developing commercial strategies and value offerings aligned with their needs, as well as improving our response time and customer satisfaction indicators. Consistent with this view, during 2018 we continued to improve customer satisfaction by enhancing our commitment to service quality, improving existing and developing new online channels, such as our internet-based platforms and mobile applications, while promoting organizational changes intended to provide our customers with a more comprehensive approach.

These actions, coupled with an organizational culture oriented to customer satisfaction, allowed us to rank first in brand recognition, recommendations among customers in the banking industry and service quality among our main banking peers in 2018, by posting an average net promoter score of 71.2% according to a syndicated study performed by an independent provider at the request of the largest Chilean banks. Consistent with our net promoter score, our customer attrition rate was 6.2% in 2018. We believe our low attrition rate and superior customer service were reflected in the diverse distinctions we received during 2018, including the National Customer Satisfaction Award provided by ProCalidad and the Consumer Loyalty Award granted by ALCO (an independent customer experience management consulting company).

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- **Operating Efficiency and Productivity**

We believe that efficiency and productivity are key competitive strengths that we have to maintain in order to sustain profitable growth. Accordingly, we aim to become a productive and efficiency-oriented organization in all business aspects by developing simple, effective, secure and low-cost processes while maintaining the tightest cost control in the industry. We believe these elements will be increasingly important in our efforts to maintain high profitability ratios in a changing business environment that is under increasing regulatory focus. To accomplish these goals, we have invested in information technology and the development of simpler, more manageable, secure and modern business processes and platforms to attain faster response times and higher productivity. We also continue to enhance our strategic development capabilities, increase our business scale, develop economies of scope by incorporating new financially related products and services, optimize our branch network, enhance our remote transactional channels, improve our credit processes, develop a higher level of automation in our internal processes and consolidate our cost control policy and monitoring procedures.

We are continuously developing and optimizing internal processes in order to reduce and manage our expenses. During 2018 we continued to enhance our IT infrastructure in order to increase stability and efficiency for all of our customers. Over the last three years we invested a total of approximately Ch$89,244 million in information technology, mainly related to the acquisition of software and hardware, as well as internal developments to enhance current platforms or building new systems. Particularly, in 2018, we disbursed important financial resources in order to reinforce our IT infrastructure in respect of cybersecurity matters, which included the purchase of systems and equipment. We firmly believe that investment in IT is one of the best ways to improve our operating efficiency and enhance cybersecurity standards while properly meeting customers needs, which are increasingly linked to digital channels. For more information see Item 4. Information on the Company Capital Expenditures.

In terms of cost control, during 2018 our cost base posted a 7.3% annual increase when compared to 2017, mainly as a result of non-recurring effects such as collective bargaining agreements achieved with our unions, internal projects related to risk modeling, enhancement of our cybersecurity architecture and standards, among others. When isolating those effects, our cost base is aligned with our strict cost control policy that has been deployed across our corporate structure. With respect to operating efficiency, our cost-to-income ratio improved from 46.5% in 2017 to 45.4% in 2018. For more information, see Item 5. Operating and Financial Review and Prospects Results of Operations for the Years Ended December 31, 2016, 2017 and 2018 Operating Expenses.

- Main Achievements in 2018

(1) *Business & Risk Intelligence*

Over the last years we have focused on developing diverse business intelligence tools in order to better serve current customers while attracting new potential clients. During 2018, we continued to develop this strategic pillar by deploying new and enhancing existing analytic tools, which have permitted us to optimize and make our commercial processes and campaigns more efficient while providing our customers with tailored and timely value service and product offerings.

Throughout 2018, we continued to develop our new CRM system and sales platform, which includes Pricing 360°, a pricing tool that enables us to personalize and accelerate the credit approval process for individuals by using digital tools that optimize our use of and access to client information. This new system is intended to be our main analytical platform in the future for sales and postsales management and, accordingly, we are increasingly introducing new functionalities designed to meet our needs.

Additionally, we have significantly increased our productivity in certain commercial processes. For example, in 2018 we increased the amount of monthly current accounts sales by employee, from 3.5% in 2017 to 3.9% in 2018, an annual increase of 11%.

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In 2018, we also successfully re-launched our pre-approved consumer loan program pursuant to which we target a selected group of retail customers in order to meet their borrowing needs based on their risk profile, financial condition and spending patterns. During 2018, 37.6% of our total sale of consumer loans (including the upper, medium and lower income segment) was associated with pre-approved loans. We expect to spread this model to other lending products and clusters of customers as we believe it can continue to have a positive impact on productivity.

(2) Branch Network Optimization

We firmly believe that remote channels are the future of banking, particularly amid new regulatory requirements, intensified competition, the entry of new banking players and higher reputational exposure, all of which translates into higher costs. Similarly, customers are increasingly demanding new and innovative distribution channels and visiting branches less, given lack of time, but mostly due to the massive use of internet and the fast adoption of smartphones. These trends led us to revise our entire branch network in terms of location, layout and services offered through these channels. Therefore, during 2018 we continued developing the concept of dual branches intended to serve both CrediChile s and Banco de Chile s customers, targeting certain locations. As a result, and based on financial and strategic analyses, we reduced our branch network from 399 locations in 2017 to 390 locations in 2018. Most of this decrease was related to the closure of eight Banco de Chile branches and one CrediChile branch. We expect to continue revising and optimizing our nationwide branch network during 2019 and 2020.

(3) Enhancement of Cybersecurity Capabilities

In 2018, approximately 70% of our customers transactions were carried out through our digital platforms (including smartphones and website). This imposes new challenges related to cybersecurity. As part of the efforts to improve our cybersecurity risk management, we created the Cybersecurity Division in June 2018, which replaces our former Technological Security Area. The new division is the first line of defense and is in charge of mitigating and managing cybersecurity threats. The new division s mission is to build the new Banco de Chile Cybersecurity Center, which is expected to enable the division to undertake actions and develop projects that were formerly outsourced. The division is composed of two areas, the Cybersecurity Engineering Area and the Cyberdefense Area, in addition to diverse units that are focused on managing projects aimed at improving our cybersecurity protocols and procedures.

During 2018, the Cybersecurity Division took various actions in order to promote a cybersecurity culture across the company while spreading the knowledge and developing competences that all of our employees should have in respect of cybersecurity.

- **Commitment to Chile**

Banco de Chile is devoted to the progress of its customers by means of providing them with a wide array of services while supporting their funding needs. As an extension of this view, Banco de Chile is committed to the development of Chile and its individuals and companies by providing innovative tools that contribute to improve their quality of life. In this regard, we firmly believe that modern companies need to create effective mechanisms to build positive connections with all of their stakeholders and the society in which they carry out their business activities. This has become increasingly important in the midst of societal changes in Chile and worldwide.

This view is shared by the Bank and its employees, who support the development of Chile through diverse methods such as promoting social progress, contributing to environmental protection, decreasing extreme poverty, providing high-quality education to needy people, assisting disabled young people, fostering cultural development and embracing campaigns intended to overcome the effects of specific adverse events such as natural disasters.

- Main Achievements in 2018

(1) Entrepreneurship Support and Financial Literacy

During 2018, we continued to support diverse social endeavors by collaborating with Desafío Levantemos Chile , which is a non-profit organization that aims to promote entrepreneurship throughout Chile and especially within lower income segments. Based on this partnership, we assist people and microbusiness affected by natural disasters occurred in Chile by donating both monetary and non-monetary resources to help re-establish entrepreneurs and families working capacity.

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Furthermore, during 2018 we held the third Entrepreneur Challenge Contest , which was a joint venture between Banco de Chile and Desafío Levantemos Chile . This nationwide contest aims to promote those initiatives that incorporate social factors as drivers of entrepreneurship rather than only maximizing earnings. Accordingly, we convened microentrepreneurs who incorporate a social and sustainable vision as part of their business activities through creativity and innovation. In 2018, more than 30,000 entrepreneurs participated in the contest, of which the five most innovative business concepts were rewarded.

Also, with the aim of improving the quality of life of people and supporting microentrepreneurs in their ventures, we held several workshops across the country, together with the Financial Literacy Program promoted by the SBIF, gathering over 10,000 participants during 2018. The main objective of this program is to motivate people to change their consumption behavior, when necessary. Thus, we provide them with specific information and knowledge intended to improve their economic situation by promoting savings and avoiding over-borrowing.

Finally, during 2018, through CrediChile, we held diverse on-site workshops attended by approximately 1,170 people throughout the country. We supplemented these activities with e-learning programs to train approximately 10,196 individuals and entrepreneurs.

(2) *Disability Inclusion*

Our commitment to disabled people is permanent. During 2018 we worked once again alongside Teleton for its annual fund-raising campaign by putting our nationwide distribution network including branches, ATMs, internet-based platforms and mobile applications for smartphones, in addition to other technological resources at Teleton s disposal. At the same time, we also made an important monetary donation. We have been supporting the Teleton Foundation since its establishment 40 years ago, supporting disabled athletes and artists.

During 2018 we continued to promote our Inclusion Policy across the corporation. This policy is intended to improve our knowledge of physical disability and develop higher sensitivity concerning the treatment of disabled people. We believe this is the first step to improve the service we render to customers who experience this reality while providing our disabled employees with supportive workplace conditions and benefits. We also improved accessibility of many branches for disabled customers and held the Expo Inclusión 2018 , a recruitment fair through which we aim to strengthen our commitment to the disabled. As a result, since 2018 over 1% of our staff identify as disabled employees, which is above the minimum required by the Chilean law. In addition, we launched a new plan of special benefits for our current disabled collaborators while implementing inclusive recruitment processes.

(3) *Corporate Volunteer Program*

We continued to promote the participation of our staff in assisting people and organizations during emergencies through our Corporate Volunteer Program. Together with *Desafío Levantemos Chile*, we provide assistance to people and non-governmental organizations in the event of an emergency or natural disaster in our country by arranging fundraising campaigns, donating both monetary and non-monetary resources to help re-establish entrepreneurs and families working capacity or establishing working plans to aid affected areas. Our volunteers received basic training in various first aid techniques, were instructed in rescue procedures, protection and guidance for citizens, mitigation of losses in the emergency and providing support in reconstruction activities.

Based on this partnership, in October 2018, and after 11 hard-working months, we inaugurated a new educational establishment located in Santa Olga, one of the communities most affected by wildfires in 2017. This achievement was coupled with the building of more than 240 houses in the same area.

Also, in association with *Desafío Levantemos Chile* we committed to building a new school in Callaqui, within the Bio Bio Region (Central Chile), since the former school was completely destroyed by a devastating fire in early 2018.

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Overall, during 2018 we carried out more than 150 activities of voluntary service related to diverse topics ranging from Teleton to environmental conservation, which were attended by more than 11,000 participants.

(4) *Other Initiatives*

We continued to make charitable contributions to improve the quality of education across lower income segments through the Astoreca Foundation.

Also, we have reinforced our commitment to the wellness of our employees through the BiciChile Program , which provides our staff located in the city center with bicycle parking racks. As a result of this initiative, for the fourth year in a row we ranked first in the competition Cool Place to Bike, which aims to encourage the use of bikes while recognizing companies that promote this practice among their collaborators.

Bici Chile, in addition to other initiatives such as a paperless program for diverse documents, permitted us to motivate our staff in order to help reduce our carbon footprint.

- **Teamwork**

One of the main goals of any corporation is to align employees perspectives with the company s culture. In Banco de Chile, every worker has a crucial role in allowing us to achieve our strategic goals. In exchange for that, we believe all of our staff receives fair compensation and have access to benefits and policies that enable them to expand their professional capabilities in a work environment is committed to remain free of accidents, professional illnesses, work harassment, mobbing and discrimination. This strategy allowed us to be one of the Best Places to Work in 2018 according to Forbes.

In order to consolidate profitable growth, achieve high standards of service quality, attain operating efficiency and maintain a commitment to the country over the long run, we must have a motivated and highly qualified workforce committed to our corporate values. Accordingly, we strive to develop a distinctive culture among our employees by promoting: (i) a clear focus on the customer, (ii) confidence and responsibility, (iii) leadership and empowerment, (iv) collaboration and teamwork and (v) innovation and continuous improvement.

- Main Achievements in 2018

(1) *Collective Bargaining Processes*

During 2018 we successfully completed a collective bargaining negotiation with all of our unions by entering into medium-term agreements that provide a wide range of monetary and non-monetary benefits to our employees. As of December 2018, we and our subsidiaries had 9,876 unionized employees. For more information, see Item 6. Directors, Senior Management and Employees Employees.

(2) *Collaboration*

During 2018 we carried out an internal campaign to recognize those employees who significantly contribute to our collaboration efforts. As a result, more than 1,000 employees were rewarded and publicly congratulated by their colleagues.

(3) Other initiatives

We also seek to remain one of the most respected employers in Chile. We continue to strengthen our connection to our employees in order to align corporate values and goals with their career development and personal goals. In this regard, we have continued to focus on developing leadership capabilities and overall technical skills through approximately 1,100 training activities that were attended by approximately 28,000 attendees. We believe these initiatives are aligned with our strategy and the professional development that our team aspires to achieve.

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Ownership Structure(1)

The following diagram shows our ownership structure as of April 18, 2019:

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

SAOS will fully repay the Central Bank subordinated debt in April 2019. See Item 4. Information on the Company History and Development of the Bank The 1982-1983 Economic Crisis and the Central Bank Subordinated Debt. As a consequence of such full payment, SAOS and SM-Chile will be liquidated and SM-Chile s shareholders will become our direct shareholders, which will significantly increase our public float. Also, LQ Inversiones Financieras S.A. and Inversiones LQ SM Ltda. will increase their direct shareholdings in our ordinary shares from current direct participations of 27.18% and 0.29%, respectively, to 46.34% and 4.81% in each case. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

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Principal Business Activities

We are a full-service financial institution that provides, directly and indirectly through our subsidiaries and affiliates, a wide variety of lending and non-lending products and services to all segments of the Chilean financial market. Accordingly, for management purposes we organize our operations in the following four business segments:

The information related to our business segments presented in this section has been prepared in accordance with our internal reporting policies. See Item 5. Operating and Financial Review and Prospects Operating Results Results of Operations for the Years Ended December 31, 2016, 2017 and 2018 Business Segments and Item 5. Operating and Financial Review and Prospects Operating Results Results of Operations for the Years Ended December 31, 2016, 2017 and 2018 Summary of Differences between Internal Reporting Policies and IFRS for a description of the most significant differences between our internal reporting policies and IFRS.

The following table sets forth information on the composition of our loan portfolio and our consolidated income before income tax in accordance with our internal reporting policies for the year ended December 31, 2018, allocated among our principal business segments:

	For the Year Ended December 31, 2018		
	Total Loans		Income before Income Tax(1)
	(in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Retail market	17,251,289	61.8%	324,947
Wholesale market	10,639,057	38.1%	311,925
Treasury and money market operations			52,819
Operations through subsidiaries	23,976	0.1%	61,713
Other (adjustments and eliminations)			
Total	**27,914,322**	**100.0%**	**751,404**

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

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The following table sets forth our consolidated operating revenues in accordance with our internal reporting policies, allocated among our principal business segments, for the years indicated:

	For the Year Ended December 31, 2016		2017 (in millions of Ch$)		2018	
BANK S INTERNAL REPORTING POLICIES:						
Retail market	Ch$	1,137,333	Ch$	1,133,683	Ch$	1,197,745
Wholesale market		422,353		400,586		462,993
Treasury and money market operations		46,488		30,853		57,484
Operations through subsidiaries		140,969		158,535		170,050
Other (adjustments and eliminations)		(12,349)		(14,387)		(14,989)
Total Operating Revenues	**Ch$**	**1,734,794**	**Ch$**	**1,709,270**	**Ch$**	**1,873,283**

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

	For the Year Ended December 31, 2016		2017 (in millions of Ch$)		2018	
BANK S INTERNAL REPORTING POLICIES:						
Chile	Ch$	1,747,143	Ch$	1,723,657	Ch$	1,888,272
Banking operations		1,606,174		1,565,122		1,718,222
Operations through subsidiaries		140,969		158,535		170,050
Foreign operations						
Operations through subsidiaries						
Other (adjustments and eliminations)		(12,349)		(14,387)		(14,989)
Total Operating Revenues	**Ch$**	**1,734,794**	**Ch$**	**1,709,270**	**Ch$**	**1,873,283**

Retail Banking Segment

Our retail banking segment serves the financial needs of individuals and small and medium sized companies through our branch network. As of December 30, 2018, our retail banking segment managed 286 branches operating under our Banco de Chile and Banco Edwards-Citi brand names and 104 branches within the Banco CrediChile network. As of December 31, 2018, loans granted by our retail banking segment amounted to Ch$17,251,289 million and represented 61.8% of our total loans as of the same date.

In terms of composition, as set forth in the following table, as of December 31, 2018 our retail segment s loan portfolio was principally focused on residential mortgage loans, which represented 46.6% of the segment s loan book. The remaining loans were distributed between commercial loans (27.7%) and consumer (25.7%).

As of December 31, 2018
(in millions of Ch$, except percentages)

BANK S INTERNAL REPORTING POLICIES:			
Commercial loans	Ch$	4,786,082	27.7%
Residential mortgage loans		8,035,543	46.6
Consumer loans		4,429,664	25.7
Total	**Ch$**	**17,251,289**	**100.0%**

We serve the retail market through two different and specialized areas: (i) the Individual and SME Area and (ii) the Consumer Finance Area (or Banco CrediChile).

Individual and SME Area

The Individual and SME Area is responsible for offering financial services to individuals with monthly incomes over Ch$500,000 (or Ch$6.0 million per year) and to small and medium sized companies with annual sales of up to approximately Ch$1,600 million. This area manages the portion of our branch network operating under the brand names Banco de Chile and Banco Edwards Citi and had 286 branches as of December 31, 2018.

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

During 2018, the Individual and SME Area continued to focus on targeted growth opportunities while developing new business solutions and benefits for its clients in order to improve our customers experience. We also improved existing applications by introducing new functionalities. For instance, we expanded our RedGiro service (an electronic money transfer that allows the recipient to withdraw money from our ATM network), formerly available on our website only, to permit our clients to perform transactions through their smartphones. Similarly, in 2018 we added new functionalities to our MiInversion application for smart phones, launched in 2017, through which our customers are able to invest in time deposits while exchanging foreign currency from their mobile device. In addition, our enhanced loyalty program added new alliances with entertainment service providers, allowing our customers to make use of discounts and receive other benefits over the next three years at various music shows and festivals. We believe that comprehensive value offerings are crucial to both improving customer experience and attracting new customers.

In 2018, the Individual and SME Area achieved significant sales goals in terms of lending and saving products. In this regard, throughout the year it increased its customer base by approximately 120,000 new current account holders and attained record sales of new installment and residential mortgage loans granted to its customers.

As of December 31, 2018, the Individual and SME Area served approximately 1,056,991 core customers (those holding a current account or a loan outstanding) of which 896,746 were individuals and 160,245 were small and medium sized Chilean companies. This customer base resulted jointly in total loans granted to 894,889 borrowers, which included 126,987 residential mortgage loans debtors, 114,291 commercial loan debtors, 452,978 utilized lines of credit and 367,324 installment loans. As of the same date, the Individual and SME Area held 913,970 current accounts, 114,561 savings accounts and 262,211 time deposits.

As of December 31, 2018, loans granted by the Individual and SME Area amounted to Ch$16,580,142 million, which represented 59.4% and 96.1% of our total loans and loans granted by our retail market segment, respectively, as a whole. The following table sets forth a breakdown of the unit s loan portfolio by lending product in accordance with our internal reporting policies, as of December 31, 2018:

		As of December 31, 2018 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:			
Commercial loans			
Commercial credits	Ch$	3,868,445	23.3%
Leasing contracts		498,290	3.0
Other loans		381,293	2.3
Total Commercial Loans		**4,748,028**	**28.6**

Residential Mortgage Loans		**7,982,358**	**48.1**
Consumer Loans			
Installment loans		2,447,904	14.8
Credit cards		1,089,632	6.6
Lines of credit and other loans		312,220	1.9
Total Consumer Loans		**3,849,756**	**23.2%**
Total	**Ch$**	**16,580,142**	**100.0%**

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

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Installment Loans

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

As of December 31, 2018, we had Ch$2,447,904 million in installment loans granted by our Individual and SME Area, which accounted for 55.3% of the retail market business segment s consumer loans. Most of these installment loans are denominated in Chilean pesos and are payable on a monthly basis.

Residential Mortgage Loans

As of December 31, 2018, we had outstanding residential mortgage loans of Ch$8,047,708 million (under internal reporting policies considering the Bank as a whole), which represented 28.8% of our total loan book as of the same date. According to information published by the SBIF, as of December 31, 2018, we were Chile s third largest private sector bank in terms of year-end mortgage loans balances, accounting for approximately 16.8% of mortgage loans granted by the Chilean banking industry, excluding operations of banks subsidiaries operating abroad.

Our residential mortgage loans are generally denominated in UF and have maturities ranging from five to 30 years. As of December 31, 2018, the average residual maturity of our residential mortgage loan portfolio was 18.2 years. Originally, we funded our residential mortgage loans through the issuance of mortgage finance bonds, which are recourse obligations only to us with payment terms that are matched to the residential loans. Also, the mortgage finance bonds bear real market interest rates plus a fixed spread over the variable rate of the UF, which permits us to reduce our exposure to interest rate fluctuations and inflation. Chilean banking regulations allow us to finance up to 100% of a residential mortgage loan with mortgage finance bonds, based on the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower s household after tax monthly income, when the customer belongs to the low income population segment. However, that limit may be adjusted for the middle and high income population segments.

Over the last decade, we have also promoted the expansion of *Mutuos Hipotecarios*, a mortgage lending product, which is not financed by mortgage finance bonds, but instead through our general funds. As of December 31, 2018, our residential mortgage loan portfolio was principally composed of *Mutuos Hipotecarios*, as customers have preferred them due to their flexibility and simplicity (for instance the interest rate is known in advance by the customer, which is not the case for mortgage finance bonds that are traded in the secondary market and, therefore, subject to discounts), as they are easier to prepay and permit financing of up to 100% of the purchase price (as stated by the applicable local regulation), although banks may limit such maximum financing portion based on internal credit policies and economic cycles, among others.

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

		As of December 31, 2018 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:			
Secured Residential Mortgage Loans(1)			
Loans financed with *Mortgage Bonds*	Ch$	21,397	0.3%
Mutuos Hipotecarios		8,026,311	99.7
Total Secured Residential Mortgage Loans	**Ch$**	**8,047,708**	**100.0%**

(1) Corresponds to the Bank s total secured residential mortgage loans and not only those associated with the Individual and SME Area.

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As shown above, as of December 31, 2018 residential mortgage loans related to *Mutuos Hipotecarios* represented 99.7% of our total residential mortgage loan portfolio, while the remaining 0.3% corresponded to mortgage loans financed with *Mortgage Bonds*. As of the same date, the *Mutuos Hipotecarios* portfolio had an average origination period of 5 years (the period from the date when the loans were granted to the specified date) and 6.1% of these loans had been granted by CrediChile. Conversely, as of December 31, 2018, loans financed with *Mortgage Bonds* had an average origination period of 17 years (the period from the date when the loans were granted) and 4.8% of these loans had been granted by CrediChile. In terms of credit risk, in 2018, loans related to *Mutuos Hipotecarios*, as well as those financed with *Mortgage Bonds*, had low gross (before recoveries) credit risk ratios of (0.05)% and 0.00 %, respectively. The difference between both ratios is explained by the previously mentioned factors, particularly by the average origination period, and also by the Bank s stricter requirements to grant *Mutuos Hipotecarios*. It is important to mention that the residential mortgage loan portfolio financed with *Mortgage Bonds* is annually decreasing in amount and as a proportion of the total residential mortgage loan portfolio because it is composed of old loans and the instrument is no longer used by customers that prefer *Mutuos Hipotecarios*. Accordingly, the portfolio of residential mortgage loans financed with *Mortgage Bonds* is expected to have misleadingly increasing gross credit risk ratios over time until its expiration, as the portion of non-performing loans becomes higher as long as creditworthy borrowers pay their outstanding liabilities to the bank, such that the portion of past due loans remaining in the portfolio increase.

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

For those loans that finance a higher portion of the property appraised value, we demand that customers comply with stricter requirements, which are verified during the credit assessment stage. These requirements are related to: (i) the history of the relationship between the Bank and the customer (new or current client), (ii) credit risk scores, (iii) monthly income, (iv) type of job (employed or self-employed) and (v) years employed. In order to illustrate the above mentioned, the table below sets forth an example of requirements for residential mortgage loans that finance up to 80% and more than 80% of the property value, with a common term and granted to employed as well as self-employed new customers.

Credit granting Requirements
(in millions of Ch$, except percentages)

	Requirements (in millions of Ch$, except percentages)	
Loan to Value Ratio	**≤ 80%**	**> 80%**
New Customers (1)		
Employed		
Years employed	> 1 year	> 1 year
Monthly Income	> Ch$0.5	> Ch$2.2
Self-Employed		
Years Employed (2)	> 2 years	> 2 year
Monthly Income	> Ch$0.5	> Ch$2.2
New Customers with a University degree (3)		
Employed		

Years employed	> 1 year	> 1 year
Monthly Income	> Ch$0.5	> Ch$1.8
Self-Employed		
Years Employed(2)	> 2 years	> 2 year
Monthly Income	> Ch$0.5	> Ch$1.8

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(1) Refers to customers with or without university degree, who do not supplement income with a guarantor s income.

(2) In the case of self-employed customers, years employed refers to the minimum period of time in which the customer has filed annual tax bills with the Chilean Internal Revenue Service.

(3) Refers to customers with university degree awarded by a group of universities according to our internal credit approval process.

During 2018, only 0.5% of the residential mortgage loans granted to our customers financed between 90% and 100% of the property value. Similarly, during 2018, loans financing between 75% and 90% of the property appraised value represented 45.0% of these loans, loans financing between 50% and 75% of the property value represented 41.0% of these loans, and loans financing less than 50% of the property value represented 13.5% of these loans. According to our prudent risk approach, we continued tightening our credit granting policy for residential mortgage loans by restricting the loan financing limit as a percentage of the property s value, although higher financing may be granted to longstanding customers within specific segments. This explains the decrease in the share of residential mortgage loans that financed between 90% and 100% of the property value over the last years, from 14.9% in 2015 to 0.5% in 2018.

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An additional feature of our mortgage loans is that mortgaged property typically secures all of the mortgagor s credit with us, including installment loans and due balances associated with credit cards and credit lines. Our total amount of loans secured by real estate guarantees, their loan to value (LTV) ratio and their relative share in our total loan portfolio, as of December 31, 2018, are depicted in the table below:

	As of December 31, 2018		
	Outstanding Balance	**LTV(2)(3)**	**% of Bank s Total Loans**
	(in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Secured Loans(1)			
Residential Mortgage Loans	8,047,709	65.6%	28.8%
Other than mortgage loans	999,382	23.7	3.6
Total Secured Loans	**9,047,091**	**73.7%**	**32.4%**

(1) Corresponds to the Bank s total secured loans and not only those associated with the Individual and SME Area.

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

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

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

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

	As of December 31, 2018 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Secured Other-than-Mortgage Loans(1)		
Consumer Loans	677,485	67.8%
Credit Cards	249,020	24.9
Credit Lines	72,876	7.3
Total Secured Other-than-Mortgage Loans	**999,381**	**100%**

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

Unlike in other countries, in addition to the specific legal rights afforded by the mortgage loan (including foreclosure rights), the Bank may collect the pending balance of the mortgage loan over other assets of the mortgage debtor based on certain legal liens provided by law (*derecho de prenda general*). Regarding the foreclosure processes, as permitted by Chilean regulations we may write-off secured loans (such as residential mortgage loans) the earlier of 48 months from the date the loans become overdue and once we have made all efforts for recovering the past due loans without success. This applies to residential mortgage loans financed with mortgage finance bonds as well as for *Mutuos Hipotecarios*. Our foreclosure processes comply with the procedures specified by Chilean regulation. However, as we strive to continuously improve our collection processes, we have achieved average terms of 11 months for foreclosures associated with residential mortgage loans.

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

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

Credit Cards

As of December 31, 2018, we issued both individual and corporate Visa and MasterCard credit cards. In addition to traditional credit cards, our portfolio also includes co-branded cards. As of December 31, 2018, we had two loyalty programs or cobranding agreements, namely Travel Club and Entel Visa . Credit cards issued under these cobranding agreements supplemented the credit cards that we issued under the brand names Banco de Chile, Banco Edwards-Citi and Banco CrediChile. In addition, as of December 31, 2018, we offered seven types of credit cards, targeting diverse types of segments and encompassing different benefits, including: Visa Corporate, Visa Dorada, Visa Infinite, Visa Internacional, Visa Platinum, Visa Platinum Pyme, Visa Pyme/Empresarial, Visa Signature, Visa Signature Corporate, Visa Signature Entel, MasterCard Black, MasterCard Dorada, MasterCard Internacional, MasterCard Platinum, MasterCard Corporate and MasterCard Corporate Executive.

Two of our affiliates, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2018, Transbank S.A. had 12 shareholders (including us) and Nexus S.A. had six shareholders (including us), all of which were banks. As of the same date, our equity ownership in Transbank S.A. was 26.16% and our equity ownership in Nexus S.A. was 25.81%.

As of December 31, 2018, we had 1,451,994 valid credit card accounts, with 1,641,607 credit cards issued to individuals and small and medium sized companies, held by 1,089,782 customers (including credit cards issued by CrediChile). Total charges on our credit cards during 2018 amounted to approximately Ch$4,385,687 million, with Ch$3,925,840 million corresponding to purchases in Chile and abroad and Ch$459,847 million corresponding to cash withdrawals both within Chile and abroad. The amount of purchases made by our customers in Chile (which include charges associated with credit cards issued by CrediChile) accounted for 19.0% of the total purchase volume of banks credit cards in Chile in 2018, according to statistics provided by Transbank S.A.

As of December 31, 2018, our credit card loans to individuals and small and medium sized companies amounted to Ch$1,089,633 million and represented 24.6% of our retail market business segment s consumer loans.

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

Commercial Credits

Commercial loans granted by our Individual and SME Area mainly consist of project financing and working capital loans granted to small and medium sized companies, which are denominated in Chilean pesos, UF and U.S. dollars and may bear fixed or variable rates of interest and generally mature between one and three months. As of December 31, 2018, our Individual and SME Area had outstanding commercial loans of Ch$3,868,445 million, representing 22.4% of the retail banking segment s total loans and 13.9% of our total loans as of the same date.

Leasing Contracts

Leasing contracts are financial leases for capital equipment and property. Leasing contracts may bear fixed or variable interest rates and they generally have terms that range from one to five years for equipment and from five to 20 years for properties. Most of these contracts are denominated in UF. As of December 31, 2018, our Individual and SME Area had outstanding leasing contracts of Ch$498,290 million, representing 2.9% of the retail banking segment s total loans and 1.8% of our total loans as of the same date.

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Lines of Credit

As of December 31, 2018 the Individual and SME Area had approximately 783,703 approved lines of credit to individual customers and small and medium sized companies. Also, the unit had outstanding advances to 452,978 individual customers and small and medium sized companies that totaled Ch$311,568 million, or 1.8% of the retail banking segment s total loans and 1.1% of our total loans.

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

Debit Cards

We offer different types of debit cards to our customers. Depending on their specifications, these cards can be used for banking transactions at ATMs that operate on the local network provided by Redbanc and the local network of merchants participating in the local Redcompra debit program. Also, our debit cards can be used internationally through the Visa International PLUS network or the international network of merchants associated with the Electron program. We name these debit cards depending on the card s specific features and the link between the brand and target market which they serve. During 2018, we offered the following debit cards: Visa Infinite, Visa Estándar, Visa Signature, Visa Platinum, Chilecard and debit cards for companies. As of December 31, 2018, according to monthly statistics provided by Transbank S.A., the Individual and SME Area held a 12.4% market share of debit card transactions (not including debit cards issued by Banco CrediChile, as those are reported under our Consumer Finance Area), which corresponds to approximately 149 million transactions throughout the year.

Deposit Products

We strategically offer deposit products to increase our deposit-taking activities as a means of diversifying our sources of funding. We believe that the deposits of our individual customers provide us with a relatively low-cost, stable source of funding, as well as an opportunity to cross-market our other products and services. In this regard, we offer current accounts, time deposits and savings accounts to our individual customers. Current accounts are Chilean peso-denominated and the majority bear no interest (approximately 0.07% or 657 of our total current accounts are interest-bearing), and savings accounts are denominated in UF and bear a fixed-interest rate. Time deposits may be denominated in Chilean pesos, UF and U.S. dollars and most of them bear interest at a fixed rate with terms that range between seven to 360 days.

While demand has historically been focused on UF-denominated deposits during periods of high inflation, demand for Chilean peso-denominated deposits has increased in recent years as a consequence of lower and more stable inflation rates in Chile.

In the last few years, we have seen an important increase in demand deposits. In fact, amid the high volatility and low interest rates observed in the financial markets throughout 2008 and 2009 (in line with monetary stimulus undertaken by central banks worldwide to overcome the financial crisis), we benefited from a flight-to-quality effect, since customers increasingly deposited their funds in their current accounts managed by us, particularly those denominated in Chilean pesos, as they preferred liquidity to investing in products with low profitability. A similar phenomenon has taken place over the last four years as a result of the Central Bank s monetary stimulus plan in response to (i) Chile s economic slowdown towards the end of 2013 and (ii) inflation below the Central Bank s target. Hence, as low interest rates have prevailed in

Chile between 2014 and 2018, interest rates paid on Chilean peso-denominated saving accounts and time deposits have remained low. This trend has encouraged investors to opt for current accounts over interest-bearing deposits. As a result, according to our management information system, annual average balances of current accounts and demand deposits managed by our Individual and SME Area increased by 7.7% and 7.2% in 2017 and 2018, respectively.

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Consumer Finance Area (Banco CrediChile)

The Consumer Finance Area provides loans and other financial services to low and middle income segments (individuals whose monthly incomes range from Ch$180,000 to Ch$500,000), which historically have only been partially served by financial institutions. Also, our Consumer Finance Area serves micro businesses. Banco CrediChile represents an alternative delivery channel for our products and services to these segments, maintaining a separate brand supported by a network of 104 Banco CrediChile branches as of December 31, 2018. Banco CrediChile was established in 2004 from what was formerly our consumer banking area. During 2008, Banco CrediChile was merged with the consumer area of Citibank Chile (Corporación Financiera Atlas S.A.) as a consequence of our merger with Citibank Chile.

Banco CrediChile offers its customers a variety of banking products, such as consumer loans, credit cards, residential mortgage loans and a demand deposit account (see CuentaChile Demand Accounts) targeted at lower income customers. As of December 31, 2018, Banco CrediChile had approximately 308,036 core customers (those holding either a current account or a loan with us) and 497,713 active demand accounts. As of the same date, total loans outstanding managed by CrediChile amounted to Ch$671,147 million, representing 2.4% of our total loans outstanding as of the same date.

The following table sets forth the composition of Banco CrediChile s loan portfolio in accordance with our internal reporting policies, as of December 31, 2018:

	As of December 31, 2018 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:		
Consumer loans		
Installment loans	507,785	75.7%
Credit cards	71,949	10.7
Lines of credit and other consumer loans	174	0.0
Total consumer loans	**579,908**	**86.4**
Residential mortgage loans	**53,185**	**7.9**
Commercial loans	38,054	5.7
Total	**671,147**	**100.0%**

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

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

During 2018, Banco CrediChile continued to enhance these service models in order to penetrate those segments by offering innovative banking solutions. As of December 31, 2018, Banco CrediChile had 683 CajaChile locations at various convenience stores located throughout geographically and/or socially isolated areas. Through these networks, CrediChile provides its customers with a basic array of financial services including bill payments, deposits, installments loan payments and cash withdrawals. As of the same date, commercial loans granted to microbusinesses accounted for approximately Ch$48,758 million, associated with 16,997 borrowers. Given the moderate recovery in the Chilean economy during 2018, in particular during the last quarter, Banco CrediChile continued to focus on operational efficiency, productivity and cost control. However, notwithstanding the tempered economic recovery, unemployment recorded a slight deterioration, which translates into a higher perception of risk for these types of customers. This element, combined with the prevailing interest rates caps, led us to achieve moderate loan growth in our consumer finance division. In this context, during 2018, CrediChile continued to focus on the promotion of remote contact channels such as internet-based services and mobile banking applications in order to improve productivity and efficiency by reducing on-site operations at branches. At the same time, we have launched a dual attention model by optimizing our branch network and combining branches in certain locations for Banco de Chile and CrediChile customers.

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

Consumer Lending

Banco CrediChile provides short to medium term consumer loans and credit card services. As of December 31, 2018, Banco CrediChile had approximately 308,020 consumer loan debtors related to installment loans amounting to Ch$507,785 million. As of the same date, Banco CrediChile had outstanding loan balances related to credit cards of Ch$71,949 million.

CuentaChile Demand Accounts

Banco CrediChile launched CuentaChile Demand Accounts in 2014, offering its customers a deposit product that is flexible and easy to use. This product allows us to tap into a section of the consumer market that otherwise would not be able to access and participate in the banking system because of its risk profile. The CuentaChile Demand Account is a non-interest bearing demand deposit account without checking privileges that targets customers who want a secure and comfortable means of managing and accessing their money. Customers holding this account may use an ATM card linked to their CuentaChile Demand Account to make deposits or automatic payments to other Banco CrediChile accounts through a network of 7,254 ATMs available throughout Chile as of December 31, 2018. CuentaChile Demand Account holders may execute transactions in all CrediChile branches and carry out basic banking operations in the CajaChile s nationwide network, which is present in most Chilean regions and communities. CuentaChile Demand Account holders are entitled to make use of internet-based banking platforms and mobile applications provided by Banco CrediChile while also receiving electronic money transfers and benefiting from diverse loyalty programs designed by Banco CrediChile, under the Cuenta Chile Club, which include discounts and special offers for a wide array of stores and services. Banco CrediChile previously offered its customers traditional demand accounts (each known as a CrediChile Demand Account) that entitled its holders to receive payroll deposits, withdraw money from ATMs and perform basic purchasing transactions. The CuentaChile Demand Account replaced and improved the former product offered by CrediChile by increasing benefits to its holders.

As of December 31, 2018, Banco CrediChile had approximately 497,713 active CuentaChile Demand accounts. Holders of these accounts pay an annual fee, based on the number of withdrawals on the account line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a CuentaChile Demand Account are withdrawn automatically on a monthly basis from funds available in the account. In addition, CuentaChile Demand Accounts allow us to offer our wholesale customers the ability to pay their employees by direct deposit of funds sent to the individual employee s account at Banco

CrediChile, thereby increasing the potential for stronger long term relationships with our wholesale customers and their employees.

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Wholesale Banking Segment

Our wholesale banking segment serves the needs of corporate customers. In 2018, this business segment recorded annual operating revenues of approximately Ch$462,993 million, which represented 24.7% of our total operating revenues. Also, for the year ended December 31, 2018 this segment recorded an income before income tax of Ch$311,925 million, which represented 41.5% of our consolidated income before income tax. As of December 31, 2018, loans granted by this business segment amounted to Ch$10,639,057 million and represented 38.1% of our total loan portfolio.

The following table sets forth the composition of our portfolio of loans to the wholesale market in accordance with our internal reporting policies, as of December 31, 2018:

	As of December 31, 2018 (in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch$	7,612,333	71.6%
Foreign trade loans		1,205,329	11.3
Leasing loans		1,073,235	10.1
Factoring loans		608,430	5.7
Other loans		139,730	1.3
Total	**Ch$**	**10,639,057**	**100.0%**

As of December 31, 2018, we had 10,222 debtors out of a total of 27,427 core customers (those holding either a loan or a current account with us). Our wholesale customers are engaged in a wide range of economic sectors. As of December 31, 2018, loans granted by our wholesale banking segment were mainly related to:

- financial services (approximately 21.7% of all loans granted by this business segment);
- manufacturing (approximately 10.9% of all loans granted by this business segment);
- construction (approximately 9.7% of all loans granted by this business segment);
- commerce and trade (approximately 9.4% of all loans granted by this business segment);
- communication and transportation (approximately 8.7% of all loans granted by this business segment);

- agriculture, forestry and fishing (approximately 5.5% of all loans granted by this business segment);

- utilities (approximately 3.4% of all loans granted by this business segment);

- community, social and personal services (approximately 2.3% of all loans granted by this business segment); and

- mining (approximately 1.4% of all loans granted by this business segment).

In line with our strategy of identifying and differentiating market segments in order to provide improved value propositions for a diversified customer base, three of our areas provide our wholesale customer base with banking and financial products and services: (i) the Corporate Area and (ii) the Large Companies and Real Estate Area and (iii) the Special Businesses Area.

Corporate Area

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

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As of December 31, 2018, we had 958 corporations as debtors out of a total of approximately 7,606 core customers (those holding either a current account or a loan with us). Also, this area managed total outstanding loans of Ch$3,652,527 million, which represented 13.1% of our total loan book as of the same date.

The following table sets forth the composition of our Corporate Area s loan portfolio in accordance with our internal reporting policies, as of December 31, 2018:

		As of December 31, 2018 (in millions of Ch$, except percentages)	
BANK S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch$	2,836,779	77.7%
Foreign trade loans		428,913	11.7
Factoring loans		204,963	5.6
Leasing loans		110,323	3.0
Other loans		71,549	2.0
Total	**Ch$**	**3,652,527**	**100.0%**

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

In cash management, as of December 31, 2018, we were party to approximately 8,640 payment service contracts and approximately 964 collection service agreements with corporations. We believe that cash management and payment service contracts, in particular, provide us with a source of low cost deposits and the opportunity to cross sell our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our corporate customers, providing centralized collection services for their accounts receivable and other similar payments. For the year ended December 31, 2018, joint volumes associated with collection and payment agreements increased by approximately 16.6%.

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

In recent years, the market for loans to corporations in Chile has been characterized by reduced margins due to increasing competition and moderate expansion in terms of borrowing. This fierce competition has involved not only local banking players but also, increasingly, overseas lenders who are eager to lend to Chilean companies that hold high credit ratings supported by a high sovereign credit rating. For this reason, we have focused on optimizing the profitability in this segment by enhancing our cross selling through the generation and enhancement of fee-based services, such as payroll processing, dividend payments and billing services, as well as computer banking services. This strategy has enabled us to maintain profitable and long-term relationships with our corporate customers while preserving the ability to grant loans when appropriate business opportunities arise.

Accordingly, during 2018, our Corporate Area continued to focus on: (i) maximizing cross-selling and profitability at the business relationship level, (ii) improving the customer experience with the bank s diverse distribution channels and (iii) promoting and motivating the area s team to encourage innovation in all the business aspects managed by account officers. These initiatives are intended to optimize the risk-return relationship of this segment through non-lending revenues and customer proximity. In all of these areas, but particularly in cross-selling, the synergies that arise from the Global Connectivity Agreement with Citigroup have been important when assisting our corporate customers with off shore transactions, derivatives structuring and financial advisory services.

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The slowdown evidenced in the local economy over the last four years and, in particular, the significant decrease in overall investment spending across the country, significantly affected the corporate lending business. In 2018, however, driven by the rebound in local investment spending, our Corporate Area began to record quarterly improvements to its loan growth and ended the year with a 10.8% increase in loan balances. In addition, the Corporate Area was able to deal with the effect of increased competition on lending margins by focusing on cross-selling, such as investment banking services offered through our investment banking subsidiary. During 2018, this subsidiary carried out approximately 28 transactions, an increase from the 21 transactions executed in 2017. Also, the subsidiary ranked first in terms of equity and international debt placement deals in the local market while being distinguished as the Best Investment Bank of the Year in Chile by LatinFinance.

The foreign trade business is also managed by our Corporate Area, although balances and results are allocated to different business areas depending on the customer who performs the transaction. It is worth mentioning that during 2018, the foreign trade business recorded a 33.4% increase in loan balances for the Bank as a whole and a 72.2% expansion in the Corporate Area in particular.

Large Companies and Real Estate Area

Our Large Companies and Real Estate Area provides companies with annual sales that range from approximately Ch$1,600 million to approximately Ch$70,000 million with a broad range of financial products and services. Customers served by this area are those related to the commercial, manufacturing, agricultural, forestry, fishing, infrastructure and real estate sectors, among others.

As of December 31, 2018, we had 9,155 large companies and real estate debtors out of a total of 19,241 core customers (those holding either a current account or a loan with us). Loans granted by the Large Companies and Real Estate Area amounted to Ch$6,410,947 million as of the same date, which represented 23.0% of our total loans.

The following table sets forth the loan portfolio composition of the Large Companies and Real Estate Area, in accordance with our internal reporting policies, as of December 31, 2018:

	As of December 31, 2018 (in millions of Ch$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch$	4,200,059	65.5%
Leasing loans		962,904	15.0
Foreign trade loans		776,416	12.1
Factoring loans		403,467	6.3
Other loans		68,101	1.1
Total	**Ch$**	**6,410,947**	**100.0%**

Products and services offered by this area are mainly related to commercial loans, lines of credit, trade finance and foreign currency transactions, factoring services, leasing, non-residential mortgage loans, syndicated loans, investment banking and financial advisory services for mergers and acquisitions, debt restructuring assistance, payments and collections services, current accounts and related saving services, corporate credit cards, cash and investment management, derivative contracts to hedge against currency or interest rate fluctuations, insurance brokerage, among other traditional and tailored services.

The Large Companies and Real Estate Area aims to provide its customers with excellent service based on proactive financial support that enhances long term relationships with customers. Over time, the area has developed service models intended to take advantage of synergies arising from the interaction of account and specialized support executives responsible for ensuring comprehensive customer service. These models have enabled the Large Companies and Real Estate Area to strengthen customer relationships and product offerings.

In 2018, the Large Companies and Real Estate Area continued to prioritize a customer centric approach in order to maintain a market-leading position in commercial banking. In addition, during 2018, the Large Companies and Real Estate Area benefited from the moderate recovery in local investment spending and an improvement in business sentiment and consumer confidence, all of which resulted in an increase of 12.0% or Ch$684,728 million, in year-end loan balances granted by the Large Companies and Real Estate Area, especially increasing such balances over the last two quarters, as compared to the decrease of approximately 5.9% in 2017.

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In addition to economic recovery, a solid strategy aimed at finding new business opportunities while maintaining a high level of customer satisfaction also contributed to loan growth achieved by the Large Companies and Real Estate Area, with an increase of 18.0% in foreign trade loans balances on an annual basis and an increase of 11.7% in commercial credits.

Our leasing and factoring businesses are part of the Large Companies and Real Estate Area. During 2018, we were particularly active in factoring loans as demonstrated by the 12.3% annual increase in year-end balances recorded by the Bank as a whole, which was primarily due to the 12.9% annual increase posted by the Large Companies and Real Estate area in particular.

Special Businesses Area

Our Special Businesses Area aims to provide tailored financial products and services to family offices representing the interests of the wealthiest local families. Thus, in addition to traditional lending products, this area offers a wide range of non-lending services related to project finance, deal structuring associated with business acquisitions, cash management, deposits and funds administration, financial advisory, among others. Also, this area is in charge of coordinating and overseeing our Trade Finance Unit and our International Private Banking Unit.

As of December 31, 2018, our Special Businesses Area had approximately 109 borrowers out of a total of 580 core customers (those holding either a current account or a loan with us). In addition, as of the same date, loans granted by this area accounted for Ch$575,583 million, which represented 2.1% of our total loans.

The following table displays the loan portfolio composition of the Special Businesses Area, in accordance with our internal reporting policies, as of December 31, 2018:

[redacted]		
BANK S INTERNAL REPORTING POLICIES:		
[redacted]		
Other loans	88	0.0
[redacted]		

During 2018 the Special Businesses Area continued to focus on strengthening a comprehensive strategy intended to take advantage of opportunities that arise in the local market within the family office sub-segment. In this group of customers, relationships are crucial and, therefore, this area has concentrated on reinforcing the team s capabilities while establishing a collaborative work relationship with our subsidiaries Banchile Administradora General de Fondos and Banchile Corredora de Bolsa (jointly Banchile Inversiones) in order to put their wide range of wealth management services and products at the disposal of these customers. As a result, the number of customers managed by the Special Businesses Area that hold commercial relationship with Banchile Inversiones increased by 2.4% on an annual basis. In addition, the Special Businesses Area managed to record an annual increase of 11.5% in total loans during 2018, particularly concentrated in commercial credits and lines of credit.

Treasury and Money Market Operations

Our Treasury and Money Market Operations business segment provides a wide range of financial services to our customers, including currency intermediation, forward contracts, interest rate swaps, transactions under repurchase agreements and investment products based on bonds, mortgage finance bonds and deposits.

In addition, our Treasury and Money Market Operations business segment is focused on managing our currency, interest rate and maturity gaps, ensuring adequate liquidity levels, managing our investment portfolio and performing the intermediation of fixed-income instruments, currencies and derivatives. Interest rate gap management is aimed at generating an adequate funding structure, prioritizing our capitalization and asset and liability cost structure and funding source diversification.

The Treasury and Money Market Operations business segment is also responsible for: (i) the issuance of short- and long-term senior bonds, as well as long-term subordinated bonds, in Chile or abroad, (ii) monitoring compliance with regulatory deposit limits, technical reserves and maturity and rate matches/mismatches, (iii) monitoring our adherence to the security margins defined by regulatory limits, and risk limits for interest rate, currency and investment gaps. This segment continually monitors the Bank s cost of funding by benchmarking with the rest of the local financial system and financing alternatives in Chile or abroad.

Regarding funding functions carried out by our Treasury, during 2018, we continued to develop a funding diversification strategy by conducting important transactions in Chile and abroad. This strategy is aimed at maintaining a competitive cost of funding that supports the value offerings we provide to our wide customer base and improving our liquidity by issuing debt of longer maturities that match long-term assets. For that reason, we are continually seeking alternative sources, types of instruments and markets. We generally conduct international bond issuances only if the cost (including costs of interest rate swaps and other transactional expenses) is below the cost of raising funds locally and the currency or interest rate exposure is fully hedged via cross currency swaps.

We are constantly striving to diversify our liability structure in terms of sources, types of instruments and markets with the aim of maintaining a competitive cost of funding and improving our liquidity. Thus, given the tempered recovery shown by our total loan book by the end of the year, we were more cautious and less active than previous years in terms of long-term debt placements, particularly in overseas markets in view of the steady increase in foreign interest rates. Instead, we continued to strengthen our liability structure by taking advantage of specific windows of opportunity abroad while prioritizing issuances in the local debt market, against a low interest rate environment given the expansionary policy set by the Chilean Central Bank. As a result, in 2018 we carried out the following debt placements:

- Approximately U.S.$1,580 million (mostly denominated in UF) within the local market. These debt placements had maturities ranging from four to 12 years (eight years on average) while bearing premium spreads over the relevant benchmark (Central Bank UF-denominated bonds or BCU rates).

- A 10-year fixed rate U.S. dollar-denominated unsecured bond in Japan for approximately U.S.$50 million and

- A 5-year fixed rate CHF-denominated unsecured bond in Switzerland for approximately U.S.$115 million.

The debt placements carried out in foreign markets above were accompanied by cross currency swap hedge arrangements in order to neutralize any effects associated with changes in foreign exchange that could impact our cost of funding.

In addition, we continued to utilize short-term funding associated with our commercial paper program, which provides us with premium funding for Trade Finance transactions, and during 2018, we issued a total amount of approximately U.S.$1,450 million. As of December 31, 2018 we had an outstanding balance of approximately U.S.$367.1 million.

The funding functions carried out by our Treasury area are complemented by our international area, namely International Financial Institutions (IFI), which manages relations with correspondent banks worldwide, facilitating international payments and obtaining foreign currency financing for us. As of December 31, 2018, we have established a network of approximately 600 foreign banks, among which we maintained credit relationships with approximately 140 correspondent banks, from which we maintained 25 account relationships. IFI played an important role in structuring international transactions aimed at diversifying our funding.

Regarding the management of our securities portfolio, as of December 31, 2018, the portfolio amounted to Ch$2,798,487 million and was composed of available-for-sale securities that totaled Ch$1,053,191 million and securities held for trading amounting to Ch$1,745,366 million. As for the type of instruments included in our securities portfolio, as of December 31, 2018, 60.3 % consisted of securities issued by the Central Bank and the Chilean government, 27.8% consisted of securities issued by local financial institutions, and 11.9% consisted of securities issued by non-financial Chilean corporate issuers and other securities. Our investment strategy is designed to supplement our expected profitability, risks and economic variable projections while adhering to the regulatory guidelines and internal limits defined by our finance committee. In this regard, neither proprietary trading nor speculation on equity holdings are business goals for us and, therefore, equity instruments only represented 0.3% of our investment portfolio as of December 31, 2018.

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Operations through Subsidiaries

We have made several strategic long-term investments in financial services companies that are engaged in activities complementary to our commercial banking activities. In making these investments our goal is to develop a comprehensive financial group capable of meeting the diverse financial needs of our current and potential clients by offering traditional banking products and specialized financial services through our different subsidiaries.

The following table sets forth information with respect to our financial services subsidiaries in accordance with our internal reporting policies as of December 31, 2018:

	Assets		Equity (in millions of Ch$)		Net Income	
BANK S INTERNAL REPORTING POLICIES						
Banchile Corredores de Bolsa S.A.	Ch$	827,686	Ch$	93,406	Ch$	19,355
Banchile Administradora General de Fondos S.A.		71,538		59,256		20,505
Banchile Corredores de Seguros Ltda.		17,861		7,594		4,376
Socofin S.A.		10,069		2,250		727
Banchile Asesoria Financiera S.A		2,660		2,067		1,888
Banchile Securitizadora S.A		370		302		(118)
Total	**Ch$**	**930,184**	**Ch$**	**164,875**	**Ch$**	**46,733**

The following table sets forth information with respect to our ownership interest in our financial services subsidiaries as of December 31, 2018:

	Direct (%)	Ownership Interest Indirect (%)	Total (%)
Banchile Administradora General de Fondos S.A.	99.98	0.02	100.00
Banchile Asesoría Financiera S.A.	99.96		99.96
Banchile Corredores de Seguros Ltda.	99.83	0.17	100.00
Banchile Corredores de Bolsa S.A.	99.70	0.30	100.00
Banchile Securitizadora S.A.	99.01	0.99	100.00
Socofin S.A.	99.00	1.00	100.00

During 2014, we began a voluntary dissolution process for Banchile Trade Services Limited in Hong Kong, which was formally declared dissolved on July 5, 2016.

On December 19, 2016, Banco de Chile acquired all of the shares of Promarket S.A. and that subsidiary was dissolved.

Securities Brokerage Services

We provide securities brokerage services through Banchile Corredores de Bolsa S.A. is registered as a securities broker with the CMF, the regulator of Chilean publicly listed companies, and is a member of the Santiago Stock Exchange and the Chilean Electronic Stock Exchange. Since it was founded in 1989, Banchile Corredores de Bolsa S.A. has provided stock brokerage services, fixed income investments and foreign exchange products to individuals and companies through our branch network. In early 2009, Citibank Agencia de Valores S.A. merged with Banchile Corredores de Bolsa S.A.

During the year ended December 31, 2018, Banchile Corredores de Bolsa S.A. recorded an aggregate stock trading turnover on the Santiago Stock Exchange and the Chilean Electronic Stock Exchange that amounted to approximately Ch$11,145,022 million, which represented a 13.5% market share within the Chilean stock market.

Also, as of December 31, 2018, Banchile Corredores de Bolsa S.A. had equity amounting to Ch$93,406 million and, for the year ended December 31, 2018, recorded net income of Ch$19,355 million, which represented 3.2% of our consolidated net income for that period (under the bank s internal reporting policies).

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Mutual and Investment Fund Management

Since 1980, we have provided mutual fund management services through Banchile Administradora General de Fondos S.A. (formerly Banchile Administradora de Fondos Mutuos S.A.). As of December 31, 2018, according to data published by the Chilean Mutual Funds Association, Banchile Administradora General de Fondos S.A. was the largest mutual fund manager in Chile, managing approximately 21.1% of all Chilean mutual funds assets. Also, as of December 31, 2018, Banchile Administradora General de Fondos S.A. operated 58 mutual funds and had Ch$6,958,141 million in assets under management owned by 597,754 corporate and individual investors. As of the same date, Banchile Administradora General de Fondos S.A. operated 30 public investment funds. Banchile managed Ch$1,348,038 million in net assets associated with these public investment funds on behalf of 1,469 participants. As of December 31, 2018, Banchile did not manage private investment funds. During 2018, Banchile Administradora General de Fondos S.A. created four new mutual funds and seven new public investment funds.

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The following table sets forth information regarding the various mutual funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2018:

Name of Fund	Type of Fund	As of December 31, 2018 Net Asset Value (in millions of Ch$)	Number of Investors
Ahorro	Fixed income (medium/long term)	306,043	33,218
Alianza	Fixed income (medium/long term)	97,890	30,432
Asia	Equity	8,171	10,955
Asiatico Accionario	Equity	13,568	10,775
Banchile-Acciones	Equity	40,504	6,583
Booster Acciones Europa Iii	Structured	2,212	87
Capital Efectivo	Fixed income (short term)	464,762	7,921
Capital Empresarial	Fixed income (short term)	1,264,214	15,391
Capital Financiero	Fixed income (short term)	672,254	17,105
Chile 18 Q	Equity	34,581	13,889
Corporate Dollar	Fixed income (short term)	471,433	22,113
Crecimiento	Fixed income (medium/long term)	88,368	31,618
Deposito Xxi	Fixed income (medium/long term)	290,362	40,548
Deuda Dolar	Fixed income (medium/long term)	25,617	780
Deuda Estatal Uf 3-5	Fixed income (medium/long term)	18,565	23,497
Disponible	Fixed income (short term)	61,482	34,761
Emerging	Equity	22,370	15,396
Emerging Market	Equity	6,447	792
Estrategia Agresiva	Blend	6,938	756
Estrategia Cons	Blend	30,759	2,575
Estrategia Moderada	Blend	35,392	2,553
Estrategico	Fixed income (medium/long term)	757,486	28,738
Europa Desarrollada	Equity	25,832	15,161
Fondo Mutuo Booster Acciones Brasil	Structured	4,991	204
Fondo Mutuo Booster Acciones Emerg Ii	Structured	2,822	124
Fondo Mutuo Booster Acciones Emergentes	Structured	3,549	143
Fondo Mutuo Booster Acciones Europa Ii	Structured	7,976	365
Fondo Mutuo Booster Acciones Japón Ii	Structured	4,344	149
Fondo Mutuo Chile Blue Chip Index Fund	Equity	12,978	5
Fondo Mutuo Cobertura Deuda Global	Fixed income (medium/long term)	14,557	13,515
Fondo Mutuo Depósito Plus Viii	Structured	8,098	425
Fondo Mutuo Estructurado Bonos Uf Plus I	Structured	10,133	374
Global Dollar	Equity	16,150	442
Global Mid Cap	Equity	8,625	1,145
Horizonte	Fixed income (medium/long term)	310,140	30,369
Inversion Brasil	Equity	3,979	728
Inversion China	Equity	2,374	559
Inversion Usa	Equity	60,112	16,007
Inversiones Alternat	Blend	22,924	13,577
Inversionista I	Equity	38,657	406
Japón Accionario	Equity	5,932	13,851
Latam Corporate Investment Grade	Fixed income (medium/long term)	34,530	1,638
Latam Mid Cap	Equity	14,331	16,162
Liquidez 2000	Fixed income (short term)	529,857	52,330
Mid Cap	Equity	15,235	3,015
Port Act Agresivo	Blend	18,432	1,114
Port Act Controlado	Blend	80,484	2,087
Port Act Defensivo	Fixed income (medium/long term)	269,336	6,829

Port Act Equilibrado	Blend	86,187	3,225
Port Act Moderado	Blend	198,110	5,558
Port Act Potenciado	Blend	29,581	1,923
Quant Global	Blend	1,460	211
Renta Futura	Fixed income (medium/long term)	191,424	8,303
Retorno L.P. Uf	Fixed income (medium/long term)	90,500	25,815
Second Best Acciones Latam - Asia Emerg	Structured	4,808	143
U.S. Dollar	Equity	14,998	603
Us Mid Cap	Equity	14,376	1,385
Utilidades	Fixed income (medium/long term)	80,898	9,381
Total		**6,958,141**	**597,754**

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The following table sets forth information regarding the public investment funds managed by Banchile Administradora General de Fondos S.A. as of December 31, 2018:

Name of Fund	As of December 31, 2018 Net Asset Value (in millions of Ch$)	Number of Investors
Small Cap	198,428	18
Latam Small Mid Cap	15,538	4
Banch. Plusvalia Eficiente	16,988	19
Banchile Rentas Inmobiliarias I	36,617	110
Inmobiliario VI	1,477	4
Inmobiliario VII	1,130	14
Latam Corp.High Yield	13,089	151
Minero Asset Chile	82	29
Renta Habitacionales	3,017	55
Deuda Chilena	510,552	275
Deuda Global	3,969	6
Inmobiliario VIII	11,862	2
Market Plus Global	63,589	4
Market Plus EEUU	23,090	2
Usa Equity	29,576	6
Europe Equity	13,739	6
Deuda Corp. 3-5 Años	58,531	26
Emerging Equity	10,125	3
Estrategias Alternativas	4,636	2
Deuda Argentina	7,453	7
Deuda Alto Rendimiento	122,737	11
Desarr.Y Rtas.Resid.	5,936	284
Inver.Inmobiliario IX	14,833	303
Marketplus Europa	5,839	2
United States Property Fund VI	2,109	16
Marketplus Emergente	4,942	3
Desarrollo Inmobiliario Peru-Colombia	7,020	10
Chile Blend	137,831	18
Inmob.Capitolio	13,592	29
Rentas Inmob. Jda 700 Peru	9,711	50
Total	**1,348,038**	**1,469**

As of December 31, 2018, Banchile Administradora General de Fondos S.A. had equity of Ch$59,256 million and, for the year ended December 31, 2018, net income of Ch$20,505 million, which represented 3.4% of our 2018 consolidated net income (under the bank s internal reporting policies).

Insurance Brokerage

We provide insurance brokerage services to our customers through Banchile Corredores de Seguros Limitada (Banchile Corredores de Seguros LTDA.). In 2000, we began to offer life insurance policies associated with consumer loans and non-credit related insurance to our individual customers and the general public. As of December 31, 2018, Banchile Corredores de Seguros Limitada had equity of Ch$7,594 million and, for the year ended December 31, 2018 it recorded net income of Ch$4,376 million, which represented 0.7% of our 2018 consolidated net income (under the bank s internal reporting policies). According to data published by the CMF, as of December 31, 2018, Banchile Corredores de Seguros Limitada had a 5.3% market share in the total amount of life and casualty insurance policies (in Chilean pesos) sold by insurance brokerage companies in Chile, excluding life annuities.

Financial Advisory Services

We provide financial advisory and other investment banking services to our customers through Banchile Asesoría Financiera S.A. The services offered by Banchile Asesoría Financiera S.A. are primarily targeted to our corporate customers and include advisory services concerning mergers and acquisitions, restructuring, project finance and strategic alliances. As of December 31, 2018, Banchile Asesoría Financiera S.A. had equity of Ch$2,067 million and, for the year ended December 31, 2018, recorded net income of Ch$1,888 million, which represented 0.3% of our 2018 consolidated net income (under the bank s internal reporting policies).

Securitization Services

We offer investment products to meet the needs of institutional investors, such as private pension funds and insurance companies, through Banchile Securitizadora S.A. This subsidiary securitizes financial assets, and issues debt instruments with credit ratings that can be traded in the Chilean marketplace, backed by a bundle of revenue producing assets of the client company. As of December 31, 2018, Banchile Securitizadora S.A. had equity of Ch$302 million and, for the year ended December 31, 2018, the subsidiary reported a net loss of Ch$118 million (under bank s internal reporting policies). Also as of December 31, 2018, Banchile Securitizadora S.A. had a 14.5% market share in the total volume of assets securitized in Chile. This market share refers to the percentage of existing stock of securitized assets as of the mentioned date.

Collection Services

Socofin S.A. provides judicial and extra judicial loan collection services to the Bank. As of December 31, 2018, Socofin S.A. had equity of Ch$2,250 million and, for the year ended December 31, 2018, net income of Ch$727 million (under the bank s internal reporting policies).

Distribution Channels and Electronic Banking

Our distribution network provides integrated financial services and products to our customers through a wide range of channels. The network includes ATMs, branches, internet-based banking platforms, mobile banking applications and call centers.

As of December 31, 2018, we had a network of 390 retail branches throughout Chile. Our branch system serves as a distribution network for all of the products and services offered to our customers. Our full-service branches accept deposits, cash withdrawals, offer the full range of our retail banking products, such as consumer loans, credit cards, mortgage loans and current accounts, and provide financial and non-financial information to current and potential customers. As of December 31, 2018, we had 1,485 ATMs that were part of a larger network of 7,254 ATMs operating in Chile, of which 4,583 ATMs operate under a network managed by Redbanc S.A.

We also offer electronic banking services to our customers 24 hours a day through our website, www.bancochile.cl, which has tailored homepages for the different segments we serve. Thus, by accessing our website, our individual customers may execute electronic money transfers, access their account balances, pay utilities bills, apply for loans, make time deposits, purchase insurance premiums, invest in mutual funds, and so on. On the other hand, our corporate homepage offers a broad range of services, including the payment of bills, electronic fund transfers, non-charge orders, as well as a wide variety of account inquiries. These services include our office banking service, Banconexion Web for Enterprises, which enables our corporate customers to perform all of their banking transactions from their offices. Our homepage also offers products with exclusive benefits provided by our customer loyalty marketing programs, which enhance our relationships with customers. Through the jointly administered website of Banchile Administration General de Fondos and Banchile Corredora de Bolsa, our mutual funds and securities brokerage subsidiaries, respectively, we also provide customers interested in investing and saving their funds with an internet-based platform on which they can trade stocks and currencies, make time deposits and take positions in mutual funds, foreign stock markets, investments funds and derivatives. Our foreign trade customers can rely on our international business homepage, www.bancochile.com, which enables them to inquire about the status of their foreign trade transactions and perform transactions, such as opening letters of credit, recording import collection and hedging on instructions and letters of credit.

Also, we provide our customers with access to a 24-hour phone-bank through which they can access account information and execute certain transactions. This service, through which we receive over 476,449 calls per month on average, has enabled us to develop customer loyalty campaigns, sell financial products and services, answer specialized inquiries and receive and resolve complaints by customers and non-customers.

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Lastly, over the last four years we have devoted efforts to enhance our mobile banking platforms by developing and launching diverse applications. In 2014, we released the mobile applications MiBanco | MiPago | MiBeneficio. Similarly, in 2015 we launched MiCuenta | MiPass | MiSeguro. MiBanco is a mobile banking platform that enables our customers to perform most of the operations they can execute on our website, such as accessing their account balances, making bill payments and electronic money transfers, carrying out cash advances from credit cards to checking accounts. MiPago is a specialized mobile application that permits requests for reimbursements from other Banco de Chile s customers and performs the transaction by generating and scanning a QR code, which reinforces the security standards for these types of operations. MiCuenta is a mobile application that enables users to make monthly payments associated with utility bills and other types of services. MiPass is a password-generating application that, among other features, allows users to set a list of money transfer recipients to make transfers without requiring another password-generating device. In 2017, we continued to expand our digital banking offerings by launching the new mobile application called MiInversion. This application serves as a portfolio management mobile platform for retail customers by enabling them to manage their investments in equity, fixed-income and mutual funds. Furthermore, in 2017 we added new functionalities to these mobile applications by incorporating an On/Off service for credit and debit cards in case of theft, misplacement or other security issues detected by the user, authorization of web transactions with MiPass, biometric access to MiBanco through fingerprint, onsite payment in shops and commerce through MiPago, among other features. Likewise, in 2018, we also added new functionalities by expanding our RedGiro service to permit our clients to perform transactions through their smartphones and added new functionalities to MiInversion, launched in 2017, through which our customers are able to invest in time deposits while exchanging foreign currency.

The following table sets forth information regarding the evolution of the amount of transactions carried out by customers and non-customers in our diverse distribution channels, as of December 31, 2016, 2017 and 2018:

	For the Year Ended December 31,			**% Increase (Decrease)**	
	2016	**2017**	**2018**	**2016/2017**	**2017/2018**
		(in millions of transactions)			
BANK S MANAGEMENT INFORMATION SYSTEM					
Teller	42.7	40.2	40.3	(5.8)%	0.1%
ATMs	107.3	116.2	125.3	8.4	7.8
Website					
Monetary Transactions	37.7	42.0	45.7	11.4	8.9
Non-monetary transactions	318.3	295.5	305.4	(7.2)	3.4
Mobile Banking	12.2	21.8	35.1	79.5	60.8%
Total	**518.2**	**515.7**	**551.8**	**(0.5)%**	**7.0%**

Competition

Overview

The Chilean market for banking and other financial services is highly and increasingly competitive and consists of various market sectors. The most important sector is commercial banking with total loans (excluding operations of subsidiaries abroad) representing 86.9% of the Chilean GDP as of December 31, 2018. As of the same date, the Chilean banking industry consisted of 19 banks, 18 of which were private sector banks and one state-owned bank, namely, Banco del Estado. As of December 31, 2018, the six largest Chilean banks accounted for approximately

87.6% of all outstanding loans granted by Chilean financial institutions (excluding operations of subsidiaries abroad): Banco Santander Chile (18.3%), Banco de Chile (16.9%), Banco del Estado (14.5%), Banco de Crédito e Inversiones (BCI) (13.9%), Scotiabank (13.8%) and Banco Itaú-Corpbanca (10.2%).

We face significant and increasing competition in all market segments in which we operate. As a comprehensive commercial bank that offers a wide range of services to all types of enterprises and individual customers, we deal with a variety of competitors, ranging from large private sector commercial banks to more specialized entities, such as niche banks. We also increasingly face competition, from non-banking companies like large department stores, private compensation funds, and saving and credit cooperatives with respect to some of our credit products, such as credit cards and consumer loans. Furthermore, in recent years and given the outstanding credit rating held by the country, as well as the liquidity observed in overseas markets, local middle market, corporations and multinational branches in Chile have increasingly replaced loans rendered by local banks with off-shore long-term debt. In addition, we face competition from other types of competitors, such as leasing, factoring and automobile financing companies (especially in lending products), as well as mutual funds, pension funds and insurance companies, within the market for savings and mortgage loans. Nevertheless, banks continue to be the main suppliers of leasing, factoring and mutual funds, while the insurance brokerage business has become an important component of the value offerings provided by banks.

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Within the local banking industry, our primary competitors are the main private sector commercial banks in Chile, namely, Banco Santander Chile, BCI, Scotiabank, and Itaú-Corpbanca. Nevertheless, we also face competition from Banco del Estado, a state-owned bank, which has a larger customer base than we do. Banco del Estado, which operates under the same regulatory regime as Chilean private sector banks, was the third largest bank in Chile as of December 31, 2018, with outstanding total loans of Ch$23,934,547 million, representing a 14.5% market share (excluding operations of subsidiaries abroad), according to data published by the SBIF.

In the retail market, we compete with other private sector Chilean banks, as well as with Banco del Estado, which has a large individual customer base. Among private sector banks, we believe our strongest competitors in this market are Banco Santander Chile, Scotiabank and BCI, as these banks have developed diversified business strategies focused on both small and medium-sized companies and lower to middle income segments of the Chilean population. In addition, we believe our strongest competitors in the high income individual segment are Banco Santander Chile, Banco Itaú-Corpbanca, Banco Bice and Banco Security, as these banks rely on specialized business models that provide wealth management and traditional banking services, as we do.

Historically, commercial banks in Chile have competed in the retail market against each other, and finance companies and department stores, with the latter two having traditionally been focused on consumer loans to low and middle-income segments. However, finance companies gradually disappeared between the 1990s and 2000s, as most of them merged into the largest commercial banks that dominate the Chilean banking industry today. Also, by the end of 1990s, the Chilean financial industry witnessed the rise of non-traditional banking competitors, such as large department stores. During the 2000s, these players gained increasing significance in the consumer lending sector, as they were permitted to issue financial products such as credit cards. Currently, there are two consumer oriented banks affiliated with Chile s largest department stores: Banco Falabella and Banco Ripley. Although these banks had a combined market share (excluding operations of subsidiaries abroad) of only 2.7% as of December 31, 2018, according to the SBIF, the presence of these banks is likely to make consumer banking more competitive over the next few years, especially within the lower income segment. As of December 31, 2018, the consumer loans granted jointly by these banks represented a 15.9% of the total consumer loans rendered by the industry (excluding operations of subsidiaries abroad).

In the wholesale market, we believe our strongest competitors are also Banco Santander Chile, BCI, Itaú-Corpbanca and Scotiabank. Similarly, we believe these banks are our most significant competitors in the small and medium sized companies business segment.

We also compete, mainly through our subsidiaries, with companies that offer non-banking specialized financial services in the high-income individuals segment and the middle market and corporate segment such as Larrain Vial, BTG Pactual and IM Trust, whose core businesses are stock brokerage, financial advisory and wealth management services. Other Chilean commercial banks also compete in these markets of specialized financial services, but they are less focused on such businesses.

The Chilean banking industry has experienced increased levels of competition in recent years from domestic as well as foreign banks. This phenomenon has triggered a consolidation wave within the industry and the creation of more comprehensive banking entities that participate in most of our markets. Consequently, banks strategies have been increasingly focused on reducing costs and improving efficiency standards in order to compete effectively with the larger banks. Although we are making our best efforts in order to operate within this competitive environment, we acknowledge that our income may decrease as a result of increasing competition.

Mergers and Acquisitions

Regarding mergers and acquisitions events in the local banking industry, most of these transactions have involved international players seeking to participate in the local market.

In recent years, for example, in 2013 Corpbanca s controlling shareholders announced their intention to sell part of their stake to a local or international player. On January 29, 2014, Corpgroup (the controlling shareholder of Corpbanca) accepted the bid of Brazil s Itau Unibanco, through which Itau merged its own Chilean and Colombian subsidiaries with Corpbanca. The merger was approved by the SBIF in September 2015 and Banco Itaú Chile became Banco Itaú-Corpbanca. The merged company started operations on April 1, 2016. As of December 31, 2018, the merged bank, which finally adopted the brand name Banco Itaú Corpbanca, had a 10.2% market share, excluding operations of subsidiaries abroad.

In addition, consolidation and overseas expansion has emerged as a means of inorganic growth for local banks. For example, in 2012, Corpbanca, ranked fourth among Chilean private sector banks in terms of total loans as of December 31, 2011, acquired a former Santander Group s subsidiary in Colombia and consolidated its balance sheet and results of operations beginning May 31, 2012. Also, by the end of 2012, Corpbanca made a bid for acquiring Helm Bank in Colombia. According to publicly available information, the bid process was completed and fully authorized by the SBIF in July 2013 and Corpbanca started to consolidate the balance sheet of this new subsidiary beginning August 31, 2013. Given the merger between Banco Itaú Chile and Corpbanca in 2016, assets held by former Corpbanca subsidiaries in Colombia were integrated into the merged bank. Hence, as of December 31, 2018, loans associated with Banco Itaú-Corpbanca s operations in Colombia amounted to Ch$4,698,880 million and represented 2.8% of the industry s total loans.

Similarly, by the end of May 2013, BCI the third largest private sector bank in Chile in terms of total loans as of December 31, 2018, with a 13.9% market share (excluding operations of subsidiaries abroad) announced the acquisition of the City National Bank (CNB), headquartered in the United States. According to public information published by the SBIF, the process was fully authorized and completed in October 2015 and BCI started to consolidate the balance sheet on the same date. Furthermore, in December 2017, BCI through CNB announced its intention to acquire the 100% of Totalbank (based in the United States) shares from Banco Santander for an amount of approximately U.S.$530 million. This acquisition was formally completed in June 2018, resulting in BCI recording a notable increase in its international presence in terms of total loans. As of December 31, 2018, loans associated with BCI s operation in the United States amounted to Ch$7,191,342 million and represented 4.4% of the industry s total loans.

On December 5, 2017, Scotiabank Chile announced that BBVA formally accepted Scotiabank Chile s bid to acquire 68.2% of BBVA Chile shares for an amount of approximately U.S.$2,200 million. In January 2018, Scotiabank requested the SBIF s authorization for this transaction, which was granted in March 2018. The merger was completed in September 2018 after receiving SBIF approval at the end of August 2018. As of December 31, 2018, the market share of the merged bank in terms of total loans was 13.8%, excluding foreign subsidiaries.

In addition, over the last two years, some of our banking competitors have acquired the lending business of certain non-banking credit card issuers, primarily related to credit cards, as permitted by the Chilean regulator since 2018. For example, on December 19, 2017, BCI agreed to acquire Walmart Chile Servicios Financieros for an amount of approximately U.S.$148 million. Walmart Chile Servicios Financieros managed two types of credit cards and had approximately 1.4 million credit card holders. The SBIF approved this acquisition in November 2018. Similarly, on May 31, 2018, Promotora CMR Falabella S.A. merged into Banco Falabella. By means of this acquisition, Banco Fallabella added approximately 1.2 million credit account holders The SBIF approved this transaction in October 2018 and the integration process was fully completed in December 2018. As a result, as of December 31, 2018, Banco Falabella became the largest bank in Chile in terms of issued credit cards.

On March 27, 2019 Banco Santander Chile announced that it had entered into an agreement with SKBergé Financiera S.A. to acquire a 49% of the ownership of Santander Consumer Chile S.A. for an amount of approximately Ch$59,063.5 million. The remaining 51% is, and will remain owned, by Banco Santander S.A. (Spain), which is the parent company of Banco Santander Chile. As a result of this transaction, Banco Santander Chile will enter into the automotive financing business. The transaction is still pending approval by the regulatory authorities.

Changes in Banking Players

During 2014 the Chilean banking industry witnessed the entry of new market players and changes in the ownership structure of certain competitors. By the end of August 2014, Banco International announced the intention of Inversiones la Construcción (ILC) to take control of the bank by acquiring a 50.1% stake from the controlling shareholder, Baninter . Banco Internacional is a small bank within the Chilean banking industry and is mostly focused on the wholesale banking segment. As of December 31, 2018, Banco Internacional s loan book represented 1.0%

of the total outstanding loans of the industry (excluding operations of subsidiaries abroad).

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Furthermore, on May 30, 2014, the SBIF authorized the existence and approved the bylaws of Banco BTG Pactual Chile. This bank, a Chilean subsidiary of Brazil-based bank BTG Pactual, was already operating in the Chilean financial industry since 2012, providing stock brokerage, mutual funds management and investment banking services. Banco BTG Pactual Chile received the final authorization to operate as a commercial bank on December 31, 2014 and officially started its commercial operations on January 23, 2015. As of December 31, 2018, the loan book of Banco BTG Pactual Chile represented only 0.27% of the total outstanding loans of the industry (excluding operations of subsidiaries abroad).

In 2016, Deustche Bank Chile closed its operations in many Latin American countries including Chile. Deustche Bank s participation in the Chilean Banking industry accounted for 0.5% in terms of total assets as of December 31, 2015. Similarly, in 2018, the SBIF approved Banco de la Nación Argentina s request to close its business in Chile.

On the other hand, it is worth noting that since 2014 two Chinese banks have requested SBIF authorizations for starting operations in Chile. In May 2016, the China Construction Bank Corporation received final approval from the SBIF to open a branch in Chile under the brand name China Construction Bank, Agencia en Chile . This was the first branch established by this bank in Latin America. Similarly, in November 2016, the Bank of China received provisional authorization and installation authorization from the SBIF to open a branch in Chile under the brand name Bank of China Limited. Finally, on March 13, 2018 the SBIF definitively authorized Bank of China to start operations in Chile under the brand name Bank of China Limited .

We expect these trends of increasing competition and consolidation to continue, particularly in connection with the formation of new large financial groups and the creation of new niche banks. Although we believe that we are currently large enough to compete effectively in all of our target markets, any further consolidation in the Chilean financial services industry may adversely affect our competitive position. We are working on developing and enhancing our competitive strengths to ensure our sustainability.

Below there is a set of tables and figures for the years ended December 31, 2016, 2017 and 2018 that show our position within the Chilean financial industry. The market information is set forth under Chilean GAAP as published by the SBIF and unless otherwise indicated excludes data related to operations of subsidiaries abroad. Also, as a result of the merger between Banco Itaú Chile and Corbanca, and between Scotiabank Chile and BBVA, figures for years before 2017 and 2018, respectively, unless otherwise indicated have been computed on a pro forma basis.

Balance Sheet

The following table sets forth certain statistical information on the Chilean financial system as of December 31, 2018, according to information published by the SBIF under Chilean GAAP:

	As of December 31, 2018 (in millions of Ch$, except percentages)							
	Assets		Loans(1)(2)		Deposits(2)		Equity(3)	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
CHILEAN GAAP:								
Private sector banks	206,058,409	83.7%	141,203,839	85.5%	100,550,839	79.0%	19,076,935	91.8%
Banco del Estado	40,221,529	16.3%	23,934,547	14.5%	26,687,785	21.0%	1,713,584	8.2%

Total banking system	**246,279,938**	**100.0%**	**165,138,386**	**100.0%**	**127,238,624**	**100.0%**	**20,790,519**	**100.0%**

Source: SBIF

(1) Loans to customers. Interbank loans are not included.

(2) Excludes operations of subsidiaries abroad.

(3) For purposes of this table, equity includes capital and reserves, net income for the period and provisions for minimum dividends.

Loans

We had total loans of Ch$27,914,322 million as of December 31, 2018, according to information published by the SBIF under Chilean GAAP. The following table sets forth our market share and the market share of our principal private sector competitors in terms of total loans, as of the dates indicated, according to information published by the SBIF under Chilean GAAP:

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	Total Loans(1)(2)(3)(4) As of December 31, 2016	2017	2018
CHILEAN GAAP:			
Banco Santander Chile	19.1%	18.7%	18.3%
Banco de Chile	18.0	17.2	16.9
Banco de Crédito e Inversiones	13.3	13.6	13.9
Scotiabank	12.8	13.7	13.8
Banco Itaú-Corpbanca	11.4	10.8	10.2
Total market share	**74.6%**	**74.0%**	**73.1%**

Source: SBIF

(1) Allowances for loan losses not deducted.

(2) Excludes operations of subsidiaries abroad.

(3) Itaú-Corpbanca in pro forma basis for 2016.

(4) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

Credit Quality

The following table sets forth the ratio of allowances to total loans of the largest private banks in Chile and that of the Chilean financial system as a whole (including such banks) as of December 31, 2016, 2017 and 2018, according to information published by the SBIF under Chilean GAAP:

	Allowances to Total Loans(1)(2)(3) As of December 31, 2016	2017	2018
CHILEAN GAAP:			
Banco de Crédito e Inversiones	1.66%	1.63%	1.85%
Scotiabank	2.00	2.09	2.16
Banco de Chile	2.40	2.19	2.17
Banco Santander Chile	3.05	2.96	2.63
Banco Itaú-Corpbanca	2.84	3.29	3.10
Financial system	**2.53%**	**2.51%**	**2.46%**

Source: SBIF

(1) Includes operations of subsidiaries abroad.

(2) Itaú-Corpbanca in pro forma basis for 2016.

(3) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

The following table sets forth the ratio of past due loans (90 days or more) over total loans for the largest private banks in Chile as of December 31, 2016, 2017 and 2018 on an individual basis, according to information published by the SBIF under Chilean GAAP:

	Past Due Loans to Total Loans(1)(2)(3) As of December 31,		
	2016	**2017**	**2018**
CHILEAN GAAP:			
Banco de Chile	1.15%	1.19%	1.09%
Banco de Crédito e Inversiones	1.44	1.41	1.37
Scotiabank	2.47	2.41	1.66
Banco Santander-Chile	2.09	2.30	2.09
Banco Itaú-Corpbanca	1.68	2.26	2.10
Financial system	**1.87%**	**1.95%**	**1.91%**

Source: SBIF

(1) Past Due loans refer to loans 90 days or more past due, including installments that are overdue and the remaining amount of principal and interest.

(2) Itaú-Corpbanca in pro forma basis for 2016.

(3) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

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Deposits

We had total deposits (including demand deposits and time deposits) of Ch$20,240,662 million as of December 31, 2018, according to information published by the SBIF under Chilean GAAP. The following table sets forth the market shares in terms of total deposits for private banks as of December 31, 2016, 2017 and 2018 on a consolidated basis, according to information published by the SBIF under Chilean GAAP:

	Total Deposits(1)(2)(3) As of December 31,		
	2016	2017	2018
CHILEAN GAAP:			
Banco Santander Chile	18.0%	16.6%	17.1%
Banco de Chile	16.4	16.0	15.9
Banco de Crédito e Inversiones	12.5	13.0	13.1
Scotiabank	11.3	11.7	11.7
BBVA Itaú-Corpbanca	9.8	8.7	8.3
Total market share	**68.0%**	**66.0%**	**66.1%**

Source: SBIF

(1) Excludes operations of subsidiaries abroad.

(2) Itaú-Corpbanca in pro forma basis for 2016.

(3) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

Capital and Reserves

The following table sets forth year-end balances of capital and reserves for the largest private banks in Chile as of December 31, 2016, 2017 and 2018 according to information published by the SBIF under Chilean GAAP:

	Capital and Reserves(1)(2)(3)(4) As of December 31,		
	2016	2017	2018
CHILEAN GAAP:			
Banco Itaú-Corpbanca	Ch$ 3,403,266	Ch$ 3,359,617	Ch$ 3,427,179
Banco de Crédito e Inversiones	2,280,605	2,468,304	3,181,307
Banco de Chile	2,620,395	2,842,610	3,014,690
Banco Santander - Chile	2,567,396	2,712,692	2,871,378
Scotiabank	1,613,476	1,749,850	2,034,269

Source: SBIF

(1) Capital and Reserves equals to total equity before provisions for minimum dividends and net income for the period.

(2) Includes operations of subsidiaries abroad.

(3) Itaú-Corpbanca in pro forma basis for 2016.

(4) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

Net Income attributable to equity holders

The following table sets forth the market shares in net income attributable to equity holders for private sector banks as of December 31, 2016, 2017 and 2018, according to information published by the SBIF under Chilean GAAP:

	Net Income(1)(2)(3) As of December 31,		
	2016	**2017**	**2018**
CHILEAN GAAP:			
Banco de Chile	28.4%	26.1%	25.3%
Banco Santander Chile	24.3	25.6	25.2
Banco de Crédito e Inversiones	17.5	16.9	16.9
Banco Itaú-Corpbanca	0.1	2.6	7.3
Scotiabank	9.5	9.5	5.5
Total Market Share	**79.8%**	**80.7%**	**80.2%**

Source: SBIF

(1) Includes operations of subsidiaries abroad.

(2) Itaú-Corpbanca in pro forma basis for 2016.

(3) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

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Return on Capital and Reserves

The following table sets forth our return attributable to equity holders on capital and reserves and the returns attributable to equity holders on capital and reserves of our principal private sector competitors and the Chilean banking industry as a whole, in each case as of December 31, 2016, 2017 and 2018, according to information published by the SBIF under Chilean GAAP:

	Return on Capital and Reserves(1)(2)(3)(4) Year Ended December 31,		
	2016	**2017**	**2018**
CHILEAN GAAP:			
Banco Santander Chile	18.4%	20.8%	20.6%
Banco de Chile	21.1	20.3	19.7
Banco de Crédito e Inversiones	14.9	15.0	12.4
Scotiabank	11.4	12.0	6.4
Banco Itaú-Corpbanca	0.1	1.7	5.0
Financial System average	**11.7%**	**12.8%**	**12.2%**

Source: SBIF

(1) Corresponds to net income attributable to equity holders divided by the year-end balance of Capital and Reserves.

(2) Includes operations of subsidiaries abroad.

(3) Itaú-Corpbanca in pro forma basis for 2016.

(4) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

Operating Revenues

The following table sets forth the market shares in terms of operating revenues for private banks as of December 31, 2016, 2017 and 2018, on a consolidated basis, according to information published by the SBIF under Chilean GAAP:

	Operating Revenues(1)(2)(3) As of December 31,		
	2016	**2017**	**2018**
CHILEAN GAAP:			
Banco de Chile	19.5%	18.0%	18.3%
Banco Santander Chile	19.1	19.2	18.1
Banco de Crédito e Inversiones	14.5	14.6	15.5
Banco Itaú-Corpbanca	9.6	11.1	12.2
Scotiabank	10.6	11.0	8.3

Total Market Share	**73.2%**	**73.9%**	**72.4%**

Source: SBIF

(1) Includes operations of subsidiaries abroad.

(2) Itaú-Corpbanca in pro forma basis for 2016.

(3) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

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Operating Margin

The following table sets forth the operating margins for private banks as of December 31, 2016, 2017 and 2018, on a consolidated basis, according to information published by the SBIF under Chilean GAAP:

	Operating Margin(1)(2)(3) As of December 31, 2016	2017	2018
CHILEAN GAAP:			
Banco de Chile	5.9%	5.9%	6.1%
Banco Santander Chile	5.6	5.9	5.6
Banco Itaú-Corpbanca	4.2	4.4	5.1
Banco de Crédito e Inversiones	4.9	4.9	4.8
Scotiabank	4.4	4.6	3.4
Financial System average	**4.8%**	**5.1%**	**5.1%**

Source: SBIF

(1) Includes operations of subsidiaries abroad.

(2) Itaú-Corpbanca in pro forma basis for 2016.

(3) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

Operating Expenses

The following table sets forth the market shares in terms of operating expenses for private sector banks as of December 31, 2016, 2017 and 2018, on a consolidated basis, according to information published by the SBIF under Chilean GAAP:

	Operating Expenses(1)(2)(3) As of December 31, 2016	2017	2018
CHILEAN GAAP:			
Scotiabank	6.2%	6.2%	8.3%
Banco Itaú-Corpbanca	12.8	14.4	14.3
Banco Santander Chile	15.9	16.0	14.6
Banco de Chile	16.3	15.6	16.2
Banco de Crédito e Inversiones	14.4	14.7	16.5
Total Market Share	**65.6%**	**66.9%**	**69.9%**

Source: SBIF

(1) Includes operations of subsidiaries abroad.

(2) Itaú-Corpbanca in pro forma basis for 2016.

(3) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

Efficiency

The following table sets forth the efficiency ratios of the largest private Chilean banks as of December 31, 2016, 2017 and 2018, according to information published by the SBIF under Chilean GAAP:

	Efficiency Ratio(1)(2)(3)(4) As of December 31,		
	2016	**2017**	**2018**
CHILEAN GAAP:			
Banco Santander Chile	45.6%	44.3%	41.5%
Banco de Chile	45.4	46.2	45.3
Scotiabank	58.6	53.0	51.5
Banco de Crédito e Inversiones	54.2	53.7	54.5
Banco Itaú-Corpbanca	72.7	69.2	60.2
Financial System average	**54.5%**	**53.2%**	**51.3%**

Source: SBIF

(1) Operating expenses divided by operating revenue.

(2) Includes operations of subsidiaries abroad.

(3) Itaú-Corpbanca in pro forma basis for 2016.

(4) Scotiabank on pro forma basis for 2016 and 2017 following the merger with BBVA Chile.

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REGULATION AND SUPERVISION

General

In Chile, only banks may maintain current accounts for their customers and, together with certain other specific non-banking financial institutions, may accept time deposits. The principal authorities that regulate financial institutions in Chile are the SBIF and the Central Bank. Chilean banks are primarily subject to the General Banking Act and secondarily, to the extent not inconsistent with that law, the provisions of the Chilean Corporations Law governing publicly listed corporations, except for certain provisions that are expressly excluded.

The Chilean banking system dates back to 1925 and has been characterized by periods of substantial regulation and government intervention, as well as periods of deregulation. The most recent period of deregulation commenced in 1975 and culminated in the adoption of a series of amendments to the General Banking Act. In 2004, amendments to the General Banking Act granted additional powers to banks, including general underwriting powers for new issuances of certain debt and equity securities and the power to create subsidiaries to engage in activities related to banking, such as brokerage, investment advisory, mutual fund services, investment fund management, factoring, securitization products and financial leasing services. Prior to 2006, banks had the option of distributing less than 30% of their earnings as dividends in any given year, subject to approval of the holders of at least two-thirds of the bank s common stock. In 2006, however, the General Banking Act was amended to eliminate this alternative.

Following the Chilean banking crisis of 1982 and 1983, the SBIF assumed control of banks representing approximately 51% of the total loans in the banking system. As part of the assistance that the Chilean government provided to Chilean banks, the Central Bank permitted banks to sell to it a certain portion of their non-performing loan portfolios at book value. Each bank then repurchased such loans at their economic value (which, in most cases, was substantially lower than the book value at which the Central Bank had acquired them), with the difference to be repaid to the Central Bank out of future income. Pursuant to Law No. 18,818, which was passed in 1989, this difference was converted into subordinated debt.

The Central Bank

The Central Bank is an autonomous legal entity created under the framework of the Chilean Constitution. It is subject to its *Ley Orgánica Constitucional* (the Organic Constitutional Law) and the Chilean Constitution. To the extent not inconsistent with its Organic Constitutional Law or the Chilean Constitution, the Central Bank is also subject to general laws applicable to the private sector, but is not subject to the laws applicable to the public sector. The Central Bank is directed and administered by a board of directors composed of five members designated by the President of Chile, subject to Senate approval.

The legal purpose of the Central Bank is to maintain the stability of the Chilean peso and the orderly functioning of Chile s internal and external payment systems. The Central Bank s powers include setting reserve requirements, regulating the amount of money and credit in circulation, and establishing regulations and guidelines regarding financial companies, foreign exchange (including the Formal Exchange Market) and bank deposit-taking activities.

The Superintendency of Banks (SBIF)

As of this date, Chilean banks are supervised and regulated by the SBIF, a Chilean governmental agency. In accordance with recent modifications introduced to the General Banking Law, the Financial Market Commission (CMF) will assume all the powers and authorities currently vested on the SBIF and replace it as the Chilean banking regulator no later than January 2020. For more information on the timeframe for such replacement and further amendments introduced to the General Banking Act, see Item 4. Information on the Company Regulation and Supervision New Modifications to the General Banking Act

The SBIF authorizes the creation of new banks and has broad powers to interpret and enforce legal and regulatory requirements applicable to banks and financial institutions. Furthermore, in cases of noncompliance with its legal and regulatory requirements, the SBIF has the ability to impose sanctions. In extreme cases, it can appoint, with the prior approval of the board of directors of the Central Bank, a provisional administrator to manage a bank. It also has the mandate to approve any amendment to a bank s bylaws or any increase in its capital.

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The SBIF examines all banks from time to time, usually at least once a year or more often if necessary under certain circumstances. Banks are required to submit unaudited financial statements to the SBIF on a monthly basis and to publish their unaudited financial statements at least four times a year in a newspaper of national circulation. A bank s financial statements as of December 31 of each year must be audited and submitted to the SBIF together with the opinion of its independent auditors. Also, since 2017, banks are required by the SBIF to include in mid-year financial statements (as of June 30 of every fiscal year) an auditor s review statement in accordance with Chilean GAAP). In addition, banks are required to provide extensive information regarding their operations at various periodic intervals to the SBIF.

Any person wishing to acquire, directly or indirectly, 10% or more of the share capital of a bank must obtain prior approval from the SBIF. Without such approval, the holder will not have the right to vote such shares. The SBIF may only refuse to grant its approval based on specific grounds set forth in the General Banking Act.

According to Article 35 bis of the General Banking Act, the prior authorization of the SBIF is required for each of the following:

- the merger of two or more banks;
- the acquisition of all or a substantial portion of a bank s assets and liabilities by another bank;
- the control by the same person, or controlling group, of two or more banks; or
- a substantial increase in the share ownership of a bank by a controlling shareholder of that bank.

Such prior authorization may be granted or rejected by the SBIF, which is further authorized to set rules or specific requirements on that regard.

Pursuant to the regulations of the SBIF, the following ownership disclosures are required:

- banks must disclose to the SBIF the identity of any person owning, directly or indirectly, 5% or more of its shares;
- holders of ADSs must disclose to the depositary the identity of beneficial owners of ADSs registered under such holders names;

- the depositary must disclose to the bank the identity of beneficial owners of ADSs which the depositary has registered, and the bank, in turn, must disclose to the SBIF the identity of the beneficial owners of the ADSs representing 5% or more of such bank s shares; and

- bank shareholders who individually hold 10% or more of a bank s capital stock and who are controlling shareholders must periodically inform the SBIF of their financial condition.

The Financial Market Commission

Our subsidiaries Banchile Corredores de Bolsa S.A., Banchile Administradora General de Fondos S.A., Banchile Securitizadora S.A. and Banchile Corredores de Seguros Ltda. are supervised by the Financial Market Commission.

The CMF was established in January 2018, pursuant to Law No. 21,000 and replaced the Superintendency of Securities and Insurance (SVS). Specifically, the CMF must regulate, oversee, sanction and administer the operation, stability and development of the Chilean financial market by easing the participation of market agents while keeping public trust. In order to do so, the CMF must have an overall and systemic vision by protecting interests of investors and insured agents. The CMF also the ability to impose sanctions over the supervised entities.

The CMF is a professional and technical institution, led by a board of five members whose chairman is appointed by the Chilean government. The CMF framework includes a special financial prosecutor who is responsible for identifying, investigating, and prosecuting potential infringements of the rules that govern the markets and industries regulated by the CMF. In addition to the powers formerly held by the SVS, the CMF has additional powers that should improve the supervision of the Chilean financial markets while providing due process for regulated companies by incorporating new tools that promote the cooperation of companies purportedly involved with infringements of applicable rules.

The CMF s powers include the authority to require information of banking transactions of specific persons, even those subject to secrecy or confidentiality provisions; interception of all kind of communications and requesting telecommunication companies any communication transmitted or received by them, and order other public agencies to provide background information, even when such information is confidential or classified. These measures, among others, are subject to control and prior authorization of the Santiago Court of Appeal.

The CMF currently oversees the Chilean Financial Market (comprised of publicly traded companies, insurance companies, insurance brokers, mutual funds and investment funds). Based on several modifications to the General Banking Law, the CMF will assume the supervision and regulation of banking activities by replacing and assuming the powers of the SBIF. Therefore, all references to the powers currently vested in the SBIF, and to the SBIF itself, should be understood to be under responsibility of the CMF once this regulatory agency replaces the SBIF. For more information on the timeframe for such replacement and further amendments introduced to the General Banking Act, see Item 4. Information on the Company Regulation and Supervision New Modifications to the General Banking Act .

Limitations on Types of Activities

Chilean banks can only conduct those activities allowed by the General Banking Act, including loan placements, factoring and leasing activities, accepting deposits and, subject to certain limitations, making investments and performing financial services. Investments are restricted to real estate for the bank s own use, gold, foreign exchange and debt securities. Through subsidiaries, banks may also engage in other specific financial service activities such as securities brokerage services, mutual fund management, investment fund management, foreign capital fund management, financial advisory, securitization and factoring activities. Subject to specific limitations and the prior approval of the SBIF and the Central Bank, Chilean banks may own majority or non-controlling interests in foreign banks.

In March 2002, the Central Bank authorized banks to pay interest on current accounts and the SBIF published guidelines permitting banks to offer and charge fees for the use of a current account product that pays interest. Under these guidelines, these accounts may be subject to a minimum balance and different interest rates depending on average balances held in the account. The Central Bank has imposed additional caps on the interest rate that can be charged by banks with a solvency score of less than A.

In June 2007, the Chilean government passed Law No. 20,190, which amended various aspects of Chile s capital markets regulatory framework, such as the General Banking Act, Securities, Insurance, Venture Capital and Tax law. Law No. 20,190 is aimed at improving the access to financing for start-up companies and small businesses in order to strengthen confidence in the stock market and to stimulate the development of the financial market in general. The General Banking Act was amended to achieve these goals by, among other things, revising regulations concerning demand deposits, increasing certain credit limits, and redefining the calculations to determine the proper amount for a bank s reserves. In addition, the General Banking Act was amended to allow local banks to engage in derivatives such as options, swaps and forward contracts, thereby eliminating prior existing legal impediments to those practices.

As a consequence of Chile s accession to the Organization for Economic Co-operation and Development, the Chilean congress introduced new corporate governance regulations in 2009. The Chilean Corporations Law and the Chilean Securities Markets Law were amended such that public companies with capital above 1,500,000 UF (Ch$41,348.7 million or U.S.$59.6 million as of December 31, 2018) that have at least 12.5% of their voting shares owned by shareholders representing less than 10% of the voting shares are required to have at least one independent director in their board of directors. In order to assure the independence of this director, certain requirements were established to protect minority shareholders decisions. In addition, regulation was passed to expand the disclosure requirements of publicly-held companies and to hold members of boards of directors liable for not complying with such disclosure obligations.

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Deposit Insurance

According to the General Banking Act, local or foreign currency denominated deposits at banks or financial companies are insured as described below.

The Chilean government guarantees up to 100% of the principal amount of the following deposits:

- deposits in current accounts;
- deposits in savings accounts of demand deposits;
- other demand deposits; and
- deposits in savings accounts with unlimited withdrawals.

In addition, the Chilean government guarantees up to 90% of the principal amount of time deposits held by individuals in the Chilean banking system. This guarantee on time deposits, however, covers a maximum amount of UF 108 per person (Ch$2,977,105.3 or U.S.$4,292.3 as of December 31, 2018) in the Chilean banking system as a whole, regardless of whether the obligation held by the bank exceeds that amount.

The new modifications to the General Banking Act contemplates a modification to current deposit insurance for time deposits such that the principal amount of time deposits would be 100% guaranteed by the Chilean government with a limit of UF 200 UF per person (Ch$5,513,158.0 or U.S.$7,948.6 as of December 31, 2018) in a single bank and UF400 per person (Ch$11,026,316.0 or U.S.$15,897.2 as of December 31, 2018) in the Chilean banking system as a whole. For further information see Item 4. Information on the Company Regulation and Supervision New Modifications to the General Banking Act .

Reserve Requirements

Deposits are subject to a reserve requirement of 9.0% for demand deposits and 3.6% for time deposits (with terms of less than one year). The Central Bank has statutory authority to increase these percentages to as much as 40% for demand deposits and as much as 20% for time deposits, to implement monetary policy.

In addition, Chilean banks must hold a certain amount of assets in cash or highly liquid instruments. This reserve requirement is equal to the amount by which the daily balance of deposits payable on demand, net of clearing, exceeds 2.5 times the amount of the bank s Regulatory Capital. Deposits payable on demand include the following:

- deposits in current accounts;
- other demand deposits or obligations payable on demand and incurred in the ordinary course of business;
- saving deposits that allow unconditional withdrawals that bear a stated maturity; and
- other deposits unconditionally payable immediately.

As of December 31, 2018, Banco de Chile fully complied with these reserve requirements.

In accordance with modifications recently introduced to the General Banking Act, if a Chilean bank or a foreign bank operating in Chile is defined to be a domestic-systemically important bank by the new regulator, it may be subject one or a combination of restrictions, including but not limited to, more restrictive reserve requirements. In this regard, the new banking framework establishes that under certain conditions a systemically important bank may be required to hold assets in cash or highly liquid instruments for the amount by which the daily balance of deposits payable on demand, net of clearing, exceeds 1.5 times the amount of the bank s Regulatory Capital. As of this date, however, there is no certainty regarding neither the criteria by which the new regulator will determine whether a Bank is systemically important or not, nor the requirements the regulator will impose on those banks, from the array of potential requirements defined in the law.

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Minimum Capital

Under the General Banking Act, a bank must have a minimum paid in capital and reserves of UF 800,000 (Ch$22,052.6 million or U.S.$31.8 million as of December 31, 2018). However, a bank may begin its operations with 50% of such amount, provided that it has a Regulatory Capital ratio (defined as Regulatory Capital as a percentage of risk weighted assets) of not less than 12%. When such a bank s paid in capital reaches UF 600,000 (Ch$16,539.5 million or U.S.$23.8 million as of December 31, 2018), the Regulatory Capital ratio requirement is reduced to 10%.

As of December 31, 2018, Banco de Chile fully complied with such minimum capital requirements.

Capital Adequacy Requirements

According to the General Banking Act, each bank should have Regulatory Capital (or Total Capital) of at least 8% of its risk-weighted assets, net of required allowances. This percentage may be increased by the regulators according to what has been previously stated.

Banks should also comply with a leverage ratio, which means Basic Capital (Common Equity Tier 1) of at least 3% of their total assets, net of required allowances.

Some banks, however, given specific characteristics and based on the judgement of the SBIF, may be required to fulfil stricter thresholds in terms of capital adequacy. This is the case of Banco de Chile, which is subject to a Regulatory Capital (or Total Capital) ratio of at least 10% on risk-weighted assets. Nonetheless, in terms of the leverage ratio, Banco de Chile is required to comply with the same limit imposed on the whole banking system.

As of December 31, 2018, Banco de Chile fully complied with such capital adequacy requirements by holding a Regulatory Capital ratio of 13.9% on risk-weighted assets and a Basic Capital or leverage ratio of 8.3%.

Capital requirements for Chilean banks and foreign banks operating in Chile will change over the next years in accordance with modifications recently introduced to the General Banking Act. For further information as to when or how these modifications will go into effect, please see Item 4. Information on the Company Regulation and Supervision New Modifications to the General Banking Act .

The terms Regulatory Capital and Basic Capital are defined under Presentation of Financial Information at the beginning of this annual report.

New Modifications to the General Banking Act

In 2014, the Chilean Ministry of Finance announced an overall review and various modifications to the Chilean Banking Act. After convening a working-group of experts to address diverse topics related to the banking business and international evidence on capital adequacy matters, the Ministry of Finance submitted a bill to the Chilean congress on June 12, 2017, modifying the current General Banking Act. The bill was passed by the congress on October 3, 2018 and, following that, Law No. 21,130 (Modernization of Banking Legislation) was enacted on December 27, 2018 and published on January 12, 2019.

The new legal framework modifies the current General Banking Act (*Decreto con Fuerza de Ley No. 3*) by addressing four main topics on banking regulation and supervision, as follows:

- **Adoption of Basel III guidelines on capital adequacy.** Under this modification, the new law introduces minimum capital levels in line with the main standards of Basel III Pillar I which must be fulfilled by Chilean banks, considering a phased-in transition from Basel I lasting four years after the specific regulatory framework is issued by the regulator. Likewise, the new legal framework establishes additional potential capital requirements associated with Pillar II of Basel III for those Banks having objective deficiencies in terms of coverage and management of banking-related risks. The main capital requirements introduced by this new regulation, are:

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- Common Equity Tier 1 (CET1) above 4.5% of risk-weighted assets
- Common Equity Tier 1 + Additional Tier 1 (Tier 1 both together) above 6.0% of risk-weighted assets
- Tier 1 + Tier2 above 8.0% of risk-weighted assets
- Conservation Buffer of 2.5% of risk-weighted assets
- Potential Countercyclical Buffer of up to 2.5% of risk-weighted assets
- Potential Systemically-Important Banks (D-SIB) Buffer in the range of 1.0% to 3.5% of risk-weighted assets
- Potential Pillar II Buffer of up to 4.0% of risk-weighted assets

Most of these thresholds, with exception of Pillar II, will be required to be fulfilled with Common Equity Tier 1 capital. However, the Pillar II buffer, if any, could be met with Common Equity Tier 1, Additional Tier 1 Capital (perpetual bonds or preferred stocks) or Tier 2 Capital (subordinated bonds or disclosed reserves).

- **Changes to the corporate governance of the SBIF**. According to these modifications, the SBIF will be abolished and all of its powers, authority and personnel will be transferred to the CMF. Thus, the CMF will oversee the local banking business and that should occur not later than January 2020. This means that the local supervision model will change from a specific regulator to an integrated supervision model where the regulators oversight extends to the financial market as a whole, including the securities market, insurance companies and brokers and the banking industry. For further information on the description of this new banking regulator, see Item 4. Information on the Company Regulation and Supervision The Financial Market Commission.

- **Establishment of a new banking resolution regime for the Chilean banks in the case of insolvency**. The new banking framework outlines specific actions to be taken under scenarios of insolvency or signs of financial distress. In this regard, the General Banking Act, as modified, established the possibility of undertaking an early regularization plan in case of signs of financial weakness, capitalization in the form of loans to be granted by other banks or forced liquidation in case of insolvency. For each scenario, the appointment of a delegated inspector, a provisional administrator or a liquidator, among other elements, are introduced. For further information on the description of this new regime, see Item 4. Information on the Company Regulation and Supervision Legal Provisions Regarding Banking Institutions with Economic Difficulties.

• **The modifications to the General Banking Act also address other matters such as increased deposit insurance for time deposits, stricter requirements for members of banks boards of directors, changes in relation to confidential information of bank customers, among others.** With regards to confidentiality of customers, the new modifications set forth certain conditions of access to information subject to banking secrecy, upon special request of the Financial Analysis Unit (responsible for watching anti-money laundering activities) in the case of an investigation or prosecution.

According to the phase in period set in the modifications, within the 18 months following that integration, the specific regulation for the implementation of Basel III must be issued by the new regulator. Prior to that date, no additional capital requirements to those currently in force, will be imposed to local banks. In addition, there no certainty yet regarding the methodologies that will be used by the regulator in order to set potential buffers to local banks (countercyclical, D-SIB or pillar II), which will be defined once the specific regulation is released. Furthermore, in accordance with the modifications to the General Banking Act, the authorization or report from the Chilean Central Bank will be necessary for the implementation of several Basel III guidelines for capital adequacy set forth in these modifications.

Market Risk Regulations

In September 2005, the SBIF introduced new regulations for measuring market risks (e.g., price and liquidity risks). This entity introduced standardized methodologies based on Basel Market Risk Measurement models for measuring and reporting price risks. These methodologies allow local banks to determine interest rate, foreign exchange (FX) and options risks (for FX and interest rate transactions) taken in both their trading and accrual books. Additionally, this entity provided funding liquidity risk measurements standards which included the alternative to model the maturity tenor of some balance sheet items following behavioral assumptions.

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The trading book is composed of portfolios of debt and equity instruments that have a liquid secondary market and therefore their valuation at market prices and the corresponding profit and losses impact is representative of market conditions. In addition, all derivative transactions and the FX mismatches are also part of the trading book. The accrual book comprises all of the asset and liability balance sheet items that are not part of the trading book.

The regulation provides that 8% of the sum of the credit risk-weighted assets and the price risk of the trading book may not be higher than Regulatory Capital. In light of the merger between Banco de Chile and Banco A. Edwards in 2002, the SBIF raised the requirement of credit risk-weighted assets for us from 8% to 10%. As of December 31, 2018, the price risk of our trading book totaled Ch$122,437 million. Based on this amount, the following table shows our regulatory risk availability, computed as the difference between the Total Risk, composed of credit risk (or 10% of our risk-weighted assets) and market risk (or trading price risk) and our Regulatory Capital, as of December 31, 2018:

	As of December 31, 2018 (in millions of Ch$, except percentage)
(a) 10% risk-weighted assets	2,969,530
(b) Trading price risk	122,437
(c = a + b) Total Risk	**3,091,967**
(d) Regulatory Capital	4,129,999
(e = d c) Risk Availability	**1,038,032**
(f = c/d) Use of Regulatory Limit (as a % of Regulatory Capital)	**74.9%**

Interest rate risk generated by the accrual book is measured against a self-imposed (internal) limit equal to the lesser of 12-month rolling net revenues and our Basic Capital.

In June 2006, the SBIF introduced new regulations relating to (i) the valuation process of debt instruments and (ii) the measurement and reporting of credit risk generated by derivative transactions.

Prior to June 2006, the SBIF allowed banks to classify debt instruments for accounting and business purposes as either Trading or Held-to-Maturity only. Starting in June 2006, a new alternative classification was added (Available-for-Sale). No changes to the classification system have occurred since June 2006.

Credit risk for derivative transactions, for regulatory purposes, must be measured and reported as:

Derivatives Credit risk = Current Mark-to-Market (if positive) + Credit Risk Factor (%) * Notional Amount

The Current Mark-to-Market (CMTM) of the transaction, if positive, reflects the amount of money owed by the counterparty today, e.g. corresponding to the amount the counterparty would pay us if the transaction were unwound today. As we are interested in measuring the maximum amount of money that the customer would owe us within the life of the transaction, the maximum potential future value of the transaction is added to the CMTM. This potential value is measured as the Credit Risk Factor multiplied by the Notional Amount. Hence, the Credit Risk Factor reflects the potential value that the transaction may take in favor of the bank (under some confidence level) within its remaining tenor. The regulator determines the Credit Risk Factor by considering market factors (three categories: interest rates, FX rates or equity prices) involved in the respective transactions and the remaining tenor. In addition, banks usually develop their own Credit Risk Factors models to assess credit risk not only under regulatory guidelines. Netting and credit mitigation schemes, such as recouping, early termination, margins, etc. have been allowed by regulators so that banks can better manage their credit risk.

In 2018 the SBIF introduced amendments to Chapters 12-1 and 12-3 of *Recopilación Actualizada de Normas* (the Revised Compilation of Norms) in order to set specific guidelines for calculation of risk-weighted assets associated with derivative instruments for capital adequacy purposes, specifically for those derivative contracts cleared and settled through a Central Counterparty Entity (CCP). Likewise, the amendments include general clarifications on the treatment of operations with intermediate settlement and the calculation of guarantees. In brief, the regulatory amendment establishes a risk-weighting of 2% over the amount of Derivatives Credit Risk, as defined above for regulatory purposes, for those derivative contracts cleared through a CCP. Also, due to the original interbank nature of the derivative instruments, exposures to CCPs are considered to be subject to the 30% limit on regulatory capital, as defined above.

Liquidity Risk Regulations

The guidelines for measuring liquidity risk are mainly focused on constructing an expected cash flow analysis for the following 30 and 90 days, broken down by currency. Net outflows may not exceed the amount of our Basic Capital for the following 30 days or two times that amount for the following 90 days. Subject to approval of the SBIF, the cash flow analysis may include behavioral run-off assumptions for some specific liability balance sheet items (demand deposits, time deposits, etc.) and behavioral roll-over assumptions for some asset items of the consolidated statement of financial position (loans, etc.). This guidance used to be called the C08 index but was replaced by the C46 index in 2015, although both were aimed at the same purpose.

In 2014, the Central Bank released a proposal for new liquidity standards for local banks based on Basel III guidelines. After receiving comments, the Central Bank published a final version in January 2015. The SBIF is the institution empowered to put these guidelines into practice and monitor them on an ongoing basis. Accordingly, in February 2015, the SBIF introduced a draft of these rules for comment and discussion. On July 31, 2015, the SBIF released a new set of liquidity requirements for banks (Circular No. 3,585) establishing reporting requirements for local banks with respect to management and measurement of each bank s liquidity position. Thus, in March 2016, the Chilean regulator began to require C47 and C48 reports. The C47 report focuses on liabilities analysis from the concentration, maturity and renewal perspectives. On the other hand, the C48 report gauges Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), aligned with the Basel framework for these purposes.

The first stage of these requirements seeks to improve the information in quantity and quality about the actual status of banks liquidity position without imposing specific limits for LCR and NSFR, with the exception of cash flows mismatches for 30-day and 90-days periods, for which regulatory limits existed before these new guidelines. Under these limits, mismatches between modeled cash inflows and cash outflows over 30-day and 90-day periods must not exceed one time and two times the amount of Basic Capital (or Tier 1 capital) held by any bank, respectively. For the year ended December 31, 2018 there were no regulatory limits for LCR or NSFR.

Accordingly, as of December 31, 2018 Banco de Chile fully complied with all regulatory limits related to liquidity risk.

On May 4, 2018 the Chilean Central Bank published for comment an amendment to Chapter III.B.2.1 of *Compendio de Normas Financieras* (the Compendium of Financial Norms) by which this regulator outlines the main guidelines for banks to follow in order to measure and control their liquidity position. The amendment is primarily focused on proposing a minimum requirement for the LCR, considering a phase-in period of five years, starting at 60% in 2019 and reaching the final limit of 100% in 2023 (with annual increments of 10% between 2019 and 2023). Aligned with this new framework, on October 2, 2018 the SBIF published for comment certain amendments to Chapter 12-20 of *Recopilación Actualizada de Normas* (which addresses the management and measurement of banks liquidity position) while establishing a new report on liquidity matters (C49) intended to refine the measurement of the LCR and the NFSR as defined by the current C48 report. Overall, the new framework: (i) introduces some adjustments to the formulae used to compute high-quality-liquid-assets for the LCR, (ii) clarifies the treatment of derivatives on the measurement of a bank s liquidity position, (iii) widens the extent of some liability concentration metrics and (iv) specifies that only accrued interest, rather than total interest, must be considered for the NSFR calculation, among other topics. On December 28, 2018 Circular No. 3,585 was endorsed by circular No. 3,644 by which the SBIF established April 4, 2019 as the date that Chilean banks must start the submission of C49 report and comply with the LCR limit of 60% determined by the Chilean Central Bank. The C49 report will be submitted in parallel with the C48 report during four month starting on April 4,

2019. Thereafter, the C49 report is expected to replace the C48 report.

Lending Limits

Under the General Banking Act, Chilean banks are subject to certain lending limits, including the following material limits:

- A bank may not extend to any entity or individual, directly or indirectly, unsecured credit in an amount that exceeds 10% of the bank s Regulatory Capital, or in an amount that exceeds 30% of its Regulatory Capital if the excess over 10% is secured by certain assets with a value equal to or higher than such excess.

- In the case of financing infrastructure projects built through the concession mechanism, the 10% ceiling for unsecured credits is raised to 15% if secured by a pledge over the concession, or if granted by two or more banks or financial companies which have executed a credit agreement with the builder or holder of the concession.

- A bank may not extend loans to another financial institution subject to the General Banking Act in an aggregate amount exceeding 30% of its Regulatory Capital.

- A bank may not extend to any individual or entity that is, directly or indirectly, related to the ownership or management of the bank, credit under more favorable terms with respect to repayment conditions, interest rates or collateral than those granted to third parties in similar transactions. The aggregate amount of such credits granted to related persons may not exceed 5% of the bank s Regulatory Capital. The 5% unsecured ceiling is raised to 25% of the bank s Regulatory Capital if the excess over 5% is secured by certain assets with a value equal to or higher than such excess. In any case, the aggregate amount of these credits granted by the bank may not exceed the bank s Regulatory Capital.

- A bank may not directly or indirectly grant a loan, the purpose of which is to allow an individual or entity to acquire shares of the lender bank.

- A bank may not lend, directly or indirectly, to a director or any other person who has the power to act on behalf of the bank.

- A bank may not grant loans to related parties (including holders of more than 1% of its shares or 5% of its shares if these are actively traded stocks) on more favorable terms than those generally offered to non-related parties. Loans granted to related parties are subject to the limitations above. The aggregate amount of loans to related parties may not exceed a bank s Regulatory Capital.

As of December 31, 2018, Banco de Chile fully complied with the lending limits established by the General Banking Act.

Among the amendments to the General Banking Act published in January 12, 2019, another limitation states that a bank may not extend loans in an aggregate of 30% of its Regulatory Capital to a group of persons or entities belonging to the same economic group (*grupo empresarial*) as defined in the Securities Market Act. This limitation became applicable upon the effectiveness of said amendments, i.e. January 12, 2019.

Classification of Banks

The SBIF regularly examines and evaluates each bank s solvency and credit management process, including its compliance with loan classification guidelines. On the basis of this evaluation, it classifies banks into various categories.

Solvency and Management

In accordance with amended regulations of the SBIF effective as of January 1, 2004, banks are classified into categories I through V based upon their solvency and management ratings. This classification is confidential.

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Category I:	This category is reserved for financial institutions that have been rated level A in terms of solvency and management.
Category II:	This category is reserved for financial institutions that have been rated (i) level A in terms of solvency and level B in terms of management, (ii) level B in terms of solvency and level A in terms of management, or (iii) level B in terms of solvency and level B in terms of management.
Category III:	This category is reserved for financial institutions that have been rated (i) level B in terms of solvency and level B in terms of management for two or more consecutive review periods, (ii) level A in terms of solvency and level C in terms of management, or (iii) level B in terms of solvency and level C in terms of management.
Category IV:	This category is reserved for financial institutions that are rated level A or B in terms of solvency and have been rated level C in terms of management for two or more consecutive review periods.
Category V:	This category is reserved for financial institutions that have been rated level C in terms of solvency, irrespective of their rating level of management.

A bank s solvency rating is determined by its Regulatory Capital (after deducting accumulated losses during the financial year) to risk-weighted assets ratio. This ratio is equal to or greater than 10% for level A banks, equal to or greater than 8% and less than 10% for level B banks and less than 8% for level C banks. However, this criteria is expected to be revised by the new regulator once new capital requirements set forth in the recent modifications to the General Banking Law are implemented. For more information on these new rules on capital requirements and the timeframe for t implementation, see Item 4. Information on the Company Regulation and Supervision New Modifications to the General Banking Act .

With respect to a bank s management rating, level A banks are those that are not rated as level B or C. Level B banks display some weakness in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios. Level C banks display significant deficiencies in internal controls, information systems, response to risk, private risk rating or ability to manage contingency scenarios.

In November 2016 the SBIF issued Circular No. 3,612, which added regulations related to Business Continuity Management and established a set of guidelines and good practices to be considered by banks in the management of business continuity risks, taking into account the volume and complexity of their operations. The corresponding adherence to these practices will be considered in the management evaluation Solvency and Management Classification carried out by the SBIF.

Obligations Denominated in Foreign Currencies

Foreign currency-denominated obligations of Chilean banks are subject to two requirements:

- a reserve requirement of 9% for demand deposits and 3.6% for time deposits (see Reserve Requirements); and

- net foreign currency outflows may not exceed the amount of the Basic Capital for the following 30 days or two times that amount for the following 90 days.

Capital Markets

Under the General Banking Act, banks in Chile may purchase, sell, place, underwrite and act as paying agents with respect to certain debt securities. Likewise, banks in Chile may place and underwrite certain equity securities. Bank subsidiaries may also engage in debt placement and dealing, equity issuance advice and securities brokerage, as well as mutual fund and investment fund administration, factoring, investment advisory services and merger and acquisition services. The SBIF generally regulates these subsidiaries. However, the CMF regulates some of these subsidiaries. The CMF is the regulator of the Chilean securities market and publicly-held corporations.

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Legal Provisions Regarding Banking Institutions with Economic Difficulties

The General Banking Act provides that if specified adverse circumstances exist at any bank, it must promptly inform to the banking regulator (the SBIF as of today and the CMF once it replaces the SBIF) and must shortly present them an early regularization plan duly approved by its board of directors. If the plan is approved by the regulator, which may also require additional measures, the bank must report periodically to the regulator regarding the implementation of such plan. All the communications between a bank with economic difficulties and the regulator regarding this matter are reserved. If, among the measures addressed by the early regularization plan, a capital increase is required, the board of directors must call for an extraordinary shareholders meeting setting forth the conditions of such capital increase, which must be approved by the banking regulator. Another measure that may be included in the early regularization plan is that the bank may receive a loan of up to three-year term from other bank(s). The terms and conditions of such loan must be approved by the board of directors of both banks, as well as by the banking regulator, but need not be submitted to the borrowing bank s shareholders for their approval. A creditor bank may not grant such interbank loans to an insolvent bank in an amount exceeding 25% of the creditor bank s Regulatory Capital. Such loan may only be repaid if the borrowing bank complies with certain capital requirements. If this loan is not repaid timely, the General Banking Law provides the possibility that such loan may be capitalized by the lending banks in the form of equity of the borrowing bank.

The banking regulator may further impose certain prohibitions to banks with economic difficulties such as prohibitions on granting loans to related parties, renewing any loan in excess of 180 days, releasing guarantees, acquiring or selling certain assets, granting unsecured loans, investing in any securities other than instruments issued by the Chilean Central Bank or by the Chilean Treasury, among others. Furthermore, if the bank with economic difficulties does not present an early regularization plan (or if it is unfulfilled or breached by this bank, among other reasons provided by the General Banking Act), the banking regulator may appoint a delegate inspector to oversee the bank s operations or a provisional administrator (appointment to be approved by the Chilean Central Bank as well) who will take over the powers and authority of the bank s board of director and chief executive officer; however, the provisional administrator authority is limited to the extent provided by the General Banking Act and should always be in line with the interests of depositors, creditors and those of the general public related to financial stability.

Dissolution and Liquidation of Banks

The banking regulator may establish that a bank should be liquidated for the benefit of its depositors or other creditors when the bank does not have the necessary solvency to continue its operations. In which case, the SBIF must revoke the bank s authorization to exist and order its mandatory liquidation, subject to the agreement of the Central Bank. The General Banking Act establishes certain criteria by which it will be deemed that a bank does not have the necessary solvency or that the safety of its depositors may be jeopardized, such as when it does not reach certain minimum or regulatory capital thresholds, upon aggregate and consecutive losses, when urgency credits with the Central Bank are due and when it has suspended the repayment of its obligations. The resolution of the banking regulator must state the reason for ordering the liquidation and must name a liquidator. When a liquidation is declared, all current accounts, other demand deposits received in the ordinary course of business, other deposits unconditionally payable immediately or that have a maturity of no more than 30 days, and any other deposits and receipts payable within 10 days of its maturity date, are required to be paid by using the bank s existing funds, its deposits with the Central Bank, or its investments in instruments that represent its reserves. If these funds are insufficient to pay these obligations, the liquidator may seize the bank s remaining assets, as needed. If necessary, and in specified circumstances, the Central Bank will lend the bank the funds necessary to pay these obligations. Any such loans are preferential to any claims of other creditors of the liquidated bank.

Investments in Foreign Securities

Under current Chilean banking regulations, banks in Chile may grant loans to foreign individuals and entities and invest in certain foreign currency securities. Chilean banks may only invest in equity securities of foreign banks and certain other foreign companies which may be affiliates of the bank or which would support the bank s business if such companies were incorporated in Chile. Banks in Chile may also invest in debt securities traded in formal secondary markets. Such debt securities shall qualify as (i) securities issued or guaranteed by foreign sovereign states or their central banks or other foreign or international financial entities, and (ii) bonds issued by foreign companies. Such foreign currency securities must have a minimum rating as indicated in the table below and, if the investments in these securities and the loans referred to above exceed 70% of the Regulatory Capital of the bank, an allowance for 100% of the excess shall be established:

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Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P2	Baa3
Standard and Poor s (S&P)	A2	BBB
Fitch Rating Service (Fitch)	F2	BBB
Dominion Bond Rating Service (DBRS)	R2	BBB(low)

A Chilean bank may invest in securities having a minimum rating as follows, provided that if the total amount of these investments and the loans referred to above exceed 20% (or 30% in certain cases) of the Regulatory Capital of the bank, an allowance of 100% of the excess shall be established by the bank:

Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P2	Ba3
Standard and Poor s (S&P)	A2	BB
Fitch Rating Service (Fitch)	F2	BB
Dominion Bond Rating Service (DBRS)	R2	BB(low)

However, a Chilean bank may invest in securities up to an additional amount of 70% of the bank s Regulatory Capital without having to establish an additional allowance, if such securities have a minimum rating of:

Rating Agency	Short Term	Long Term
Moody s Investor Service (Moody s)	P1	Aa3
Standard and Poor s (S&P)	A1+	AA
Fitch Rating Service (Fitch)	F1+	AA
Dominion Bond Rating Service (DBRS)	R1(high)	AA(low)

Subject to specific conditions, a bank may grant loans in U.S. dollars to subsidiaries or branches of Chilean companies located abroad, to companies listed on foreign stock exchanges located in countries with an international risk rating no less than BB- or its equivalent and, in general, to individuals and entities residing or domiciled abroad.

Procedures for the Management of Information of Interest to the Market

In order to ensure compliance with the provisions of the *Ley de Mercado de Valores* No. 18,045 (the Chilean Securities Market Law) and regulations, issued by the CMF and the SBIF, our board of directors approved, on January 29, 2010, the Manual for the Management of Information of Interest to the Market (the Manual).

The Manual s main objective is to provide timely disclosure of our policies and internal regulations in connection with the disclosure of information to the public and the systems that have been implemented by us.

In addition, these policies and internal regulations establish codes of conduct that our employees and other persons with access to certain information must comply with in order to protect information related to us.

The Manual is available to the general public on our web page at www.bancochile.cl.

Prevention of Money Laundering and the Financing of Terrorism

On December, 18, 2003, Law No. 19,913 created the Financial Analysis Unit and enacted new rules regarding money laundering. On March 6, 2006, the SBIF issued regulations governing the requirements applicable to banks with respect to prevention of money laundering and terrorism financing. The regulations, as amended, are aimed at incorporating international anti-money laundering (AML) and terrorism financing laws to the Chilean banking industry. Pursuant to these regulations, the SBIF requires that banks implement an Anti-Money Laundering and Terrorism Financing system based mainly on the know your customer and source of wealth concepts. Moreover, these policies and procedures must be approved by the board of directors of each bank and must take into account the volume and complexity of its operations and other related parties.

Based on these requirements, a Customer Identification Program (as part of the Anti-Money Laundering and Terrorism Financing system) is needed to enable a bank to establish the reasonable belief that it knows the true identity of its customers. In general, the program includes controls and procedures to:

- properly identifying customers, including their background, source and amount of funds, country of origin and other risk factors;
- identifying and monitoring what the SBIF has defined as politically exposed persons (PEPs) both within Chile and abroad; and
- ensuring a safe and suitable account opening process, with different documentation requirements needed for different types of accounts and products.

The Anti-Money Laundering and Terrorism Financing system required by local regulations must also include the following components:

- AML policies and procedures aimed at preventing a bank from being used as an intermediary to carry out money laundering operations;
- appointment of a compliance officer on a senior management level who is responsible for coordinating and monitoring day-to-day AML compliance;
- establishment of an AML Committee for the purposes of planning and coordinating compliance with AML policies and procedures;
- use of software tools to detect, monitor and report unusual operations related to transactions made by customers on different products;
- implementation of personnel selection policies and a training program, in order to prevent money laundering;

- establishment of a Code of Conduct in order to, among other things, guide employee behavior and prevent possible conflicts of interest; and

- independent testing by the compliance department, which must be conducted by a bank s internal audit department.

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On December 1, 2015, the SBIF introduced a new set of rules regarding the PEPs. The new set of rules relate to the bank s obligation to keep specific PEPs policy and procedures in place to grant certain loans to PEPs, as well as to carry out controls procedures associated with service providers when PEPs are involved therewith.

New Legal Provisions for the Prevention, Detection and Prosecution of Corruption.

Law No. 21,121, which came into force on November 20, 2018, amends the Criminal Code, Law No. 20,393 on Criminal Liability of Legal Entities, and Law No. 19,913 that creates the Financial Analysis Unit and deals with Money Laundering, addresses business-to-business bribery and discretion abuse, increasing prison time and pecuniary penalties and criminalizing corruption and unfair administration affecting private individuals and companies, among other matters. For the first time, our legislation criminalizes the behavior of private businesses with the aim of regulating transparency between them, without the need for a public official to participate in the crime, and with a very wide range of alternatives that could configure the crime. Particularly, with respect to the crime of unfair administration, this law incorporates a penalty for anyone who, being responsible for the management of third party assets, commits abusive acts or omissions that damage the owner of those assets.

Consumer-Oriented Regulation

On December 5, 2011, Law No. 20,555 was published in the Diario Oficial, amending the Chilean Consumer Protection Law. The most significant changes enacted by Law No. 20,555 were:

- new agreements entered into by banks and consumer must fully disclose the costs that the consumer assumes, as well as the periodicity, and the mechanisms to modify them. In addition, new agreements must fully disclose all terms, events of default, events of early termination, and automatic payments;

- banks must inform consumers periodically as to the complete, detailed cost of the banking product, as well as of the cost of the services rendered. The information must include the cost that the consumer will assume if he terminates the agreement before the end of its term;

- before rendering a service or delivering a product, banks must give the consumer a quote, which must include costs, rates, and conditions;

- if the consumer so wishes banks must terminate the rendering of a service;

- banks must inform guarantors as to their rights and obligations before they assume the role of guarantor;

- irrevocable mandates and mandates in blank are prohibited by the law;

- when consumers execute standard form contracts, banks must explain, in writing, the main provisions of the agreement; and

- banks may only modify fees and costs of services and banking products if the mechanisms to modify them are based on objective and verifiable factors previously agreed to in the agreement. In addition, the cost of banking services and products may not be modified without the consent of the consumer.

This amendment became effective on March 5, 2012; however, with regards to banking product agreements entered into before such date, the amendment does not affect the substantive rights acquired by the parties in those agreements. This amendment created a new legal framework, Sernac Financiero , whose purpose is to monitor and oversee the relationship between customers and financial institutions, with a particular focus on lending activities and contracts.

In July 2012, the government enacted the regulations that implement Law No. 20,555, which address mortgage loans, consumer loans, credit cards, the *Sello Sernac* (Sernac Seal), and other financial products and services. The new regulations govern, among other matters, the form and content of communications that financial institutions must periodically provide to their customers. Likewise, the new regulations implement the so-called *Hoja Resumen* (Summary Sheet)), which must precede the contracts that consumers enter into with financial institutions. The Summary Sheet is intended to provide a clear and understandable summary of the terms and conditions that govern financial products and services.

The Sernac Seal is a new concept introduced by Law No. 20,555 and consists of a non-mandatory certification granted by the Chilean government agency in charge of consumer protection (*Servicio Nacional del Consumidor,* Sernac), by which that agency confirms that the contracts used by a financial institution when providing products and services comply with the Consumer Protection Act. In this regard, the new regulation establishes the specific requirements for financial institutions to obtain such certification as well as the events that may lead to its termination. Among the requirements to obtain the certification, financial institutions must provide a consumer service and adopt a dispute resolution procedure as defined by Law No. 20,555 and its regulation.

All of these regulations are already implemented by Banco de Chile, except Sernac Seal, which is not mandatory.

On December 19, 2013, the Ministry of Economy published a regulation for the manner and conditions under which consumers validly express their consent to financial contracts. Additionally, this regulation established the effects of a customer s rejection or non-acceptance of an amendment proposed by the bank or other supplier. However, this regulation was revoked on March 26, 2014.

On March 17, 2015, the SBIF released Circular No. 3,578, which provides a new set of minimum standards for the availability of banks ATM networks. These rules impose minimum levels of uptime for ATMs belonging to each institution in order to ensure desired levels of performance and service quality. Also, the SBIF has urged local banks to include the management of their ATM networks within their service policies and has required that they report relevant information periodically.

Law 21,081, which came into force on March 14, 2019, amended the Consumer Protection Law (Law No. 19,496). This amendment aims to strengthen consumer protection, granting new powers to SERNAC in matters of oversight. Likewise, fines are increased and the authority of SERNAC is reinforced in the scope of collective actions and collective voluntary procedures. The main reforms affecting banks as financial services providers are, among others:

- SERNAC inspectors shall be empowered to request the assistance of public force to be granted by local courts, in the event that the provider does not provide access to its facilities to SERNAC.

- SERNAC is granted authority to initiate collective voluntary procedures.

- Fines for adhesion contract infringement and misleading advertising are increased to up to 1,500 UTM (*Unidades Tributarias Mensuales*) which, as of March 31, 2019, would amount to approximately Ch$72.5 million (approximately U.S.$106,705).

- For the determination of fines, within the framework of collective actions, mitigating and aggravating circumstances and the number of affected consumers will be weighted. In case of full and effective compensation damages for all consumers, a lump sum will be applied as a fine, which may not exceed 30% of the sales of the product or service line made in the period of the infringement, or double the economic benefit obtained as a result of it. In any case, the fine may not exceed 45,000 UTA (*Unidades Tributarias Anuales*) for each event, which as of March 31, 2019 amounted to approximately Ch$26,110.6 million (approximately U.S.$38.4 million).

- In collective lawsuits, in addition to the material damage, moral damage may be also sought, and the judge may establish a common minimum amount.

- The court is empowered to increase the amount of the compensation granted by 25% in case of aggravating circumstances, established in the Consumer Protection Law.

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For more information, see Item 3. Key Information Risk Factors Risks Relating to our Operations and the Chilean Banking Industry Restrictions imposed by banking regulations may constrain our operations and thereby adversely affect our financial condition and results.

Insurance Brokerage Regulations

On December 1, 2013, a new regulation affecting all insurance brokerage businesses in Chile became effective. This regulation is a result of Law No. 20,667 that was enacted on May 9, 2013 and Circular No. 2114 issued by the SVS (the predecessor to the CMF) on July 26, 2013. This regulation establishes that, in the case of early termination of an insurance policy paid for in advance (for example, because of the early repayment of the related loan), all unearned premiums must be refunded to the customer by the company that issued the policy. This refund obligation includes both the unearned premiums and commissions relating to the remaining policy period, such as brokerage fees (e.g., the fees of our subsidiary Banchile Corredores de Seguros Limitada) and any other commissions. The premiums and commissions subject to refund will be calculated in proportion to the unlapsed period. This refund obligation applies with respect to insurance policies issued after this regulation became effective. Prior to this regulation, unearned premiums were refunded only if the early termination took place within the later of 45 days after the issuance of the insurance policy, or one-tenth of the total term of the insurance policy (from the date of issuance). These refund obligations did not have a material effect on our results of operations in 2017 and 2018.

Maximum Legal Interest Rates

On December 13, 2013, Law No. 20,715 regulating maximum interest rates became effective upon publication in the Chilean Official Gazette. This legislation affects all Chilean businesses that charge interests (including all banks, department stores and any other commerce or financial provider) on loans up to UF 200 (approximately U.S.$ 7,948.6 as of December 31, 2018), including installment loans, credit cards and credit lines related loans, as well as overdue loans. This regulation established among other things, a new methodology for calculating the maximum legal interest rate for loans not indexed to inflation longer than a 90-day term, which resulted in a reduction of the maximum legal interest rate applicable to such debtors. This law did not have a material effect on our results of operations during the transition or implementation period (from 2014 to 2015).

Credit Risk Provisioning

On December 18, 2013, the SBIF published for comments a set of amendments to the regulations on allowances for loan losses and credit risk matters. A revised and final version of these guidelines was published on December 30, 2014 by the SBIF (Circular No. 3,573).

The final version of the guidelines established a standardized method for calculating provisions for loan losses for residential mortgage loans, including the effects of past due behavior and loan-to-value ratios, while providing new and more precise definitions for impaired loans and new requirements to remove loans from such portfolio. In addition, this set of rules addressed the possibility of implementing standardized credit risk provisioning models for consumer and commercial loan portfolios, evaluated on a grouped basis, in the future. However, the circular clarified that standardized methods for evaluating commercial and consumer loans on a group basis, as well as the requirements for banks internally developed models, would be discussed and analyzed afterwards.

Lastly, the new guidelines also introduced changes for the treatment of factoring loans from the provisioning point of view, by taking into account the credit risk associated with the billed company.

On June 22, 2015, the SBIF published a set of amendments to existing rules on loan provisioning and treatment of impaired loans to explain and ensure the right application of the rules released on December 30, 2014, which went into effect on January 1, 2016.

On December 24, 2015, the SBIF published new guidelines (Circular No. 3,598) regulating the use of internally-developed credit risk models by Chilean banks. These guidelines enclosed in two appendices that complement the existing credit risk provisioning rules establish a framework and requirements that all Chilean banks must comply to shift from standardized credit risk provisioning models to internally-developed credit risk models. The new framework establishes general and specific requirements. Regarding general requirements, the SBIF states that banks should: (i) have independent and specialized areas in charge of developing, validating and monitoring internally-developed methodologies, (ii) have adequate control procedures for technological platforms and systems to ensure stability and reliability of processes supporting internally-developed methodologies, (iii) maintain backup of information, variables, validation and monitoring activities associated with modeling internally-developed methodologies to enable counterparties to replicate the developed methodologies, if necessary and (iv) generate detailed technical documentation of analysis and decisions made in the process of building internal methodologies. In addition, the SBIF requires specific requirements for setting-up internally-developed methodologies, which will depend on the type of method chosen by each bank, as disclosed in Circular No. 3,598.

On March 29, 2016, the SBIF published an amendment (Circular No. 3,604) to Chapter B-3 of *Compendio de Normas Contables*, modifying the credit conversion or credit exposure factors for certain contingent loans. In particular, the aforesaid circular established a decrease in the conversion factor for fully available lines of credit, from 50% to 35%, when the borrower maintains non-performing loans with the banking institution. This rule did not have a material impact on our results of operations.

On July 6, 2018 the SBIF published a set of amendments (Circular No. 3,638) to Chapter B-1 of *Compendio de Normas Contables* introducing changes to provisioning rules for commercial loans evaluated on a group basis. From the SBIF s point of view, these new rules are aimed at supplementing the changes introduced in 2014 (Circular No. 3,573 mentioned above) by establishing a standardized methodology to compute minimum acceptable level of loan loss allowances for commercial loans evaluated on a group basis that banks should recognize on their balance sheet. The new framework is composed of three methods depending on the type of loans, as follows: (i) leasing loan allowances will be set by taking into account delinquency the type of asset underlying the contract and the ratio of present value to book value, (ii) student loan allowances will be based on the type of loan (government-backed or not), if the loan is callable or not and delinquency, and (iii) other commercial loan allowances will be set based on delinquency, guarantees backing the loan and the loan to guarantee ratio. In addition, the new set of rules also addressed other topics related to loan provisioning, including (i) a minimum risk index of 0.5% for other-than-past-due loans that a bank must hold on an individual basis and on a consolidated basis considering both operations in Chile and abroad, (ii) the establishment that allowances for leasing residential loans must be in consistency with residential mortgage loans managed by the same bank, and (iii) that non-performing residential mortgage loans will drag into the same condition other credits owed by the same debtor for provisioning purposes. The new provisioning criteria will go into effect in July 2019.

It is important to mention that the implementation of standardized credit risk provisioning models would only have an effect, if any, on our results of operations or financial condition prepared under Chilean GAAP. The adoption of these guidelines will not have any impact on our results of operations or financial condition under IFRS.

Amendments to the Reform that Modified the Chilean Tax System

In September 2014, the Chilean congress approved a law reforming the Chilean tax system. This tax reform (Law No. 20,780) gradually increases the first category tax or corporate tax rate between 2014 and 2018 while establishing two alternative tax regimes from 2017 onwards: (i) the Semi-Integrated Regime and (ii) the Attribution Regime. The tax reform increases the statutory corporate tax rate from 20.0% in 2013 to 21.0% in 2014, 22.5% in 2015 and 24.0% in 2016. From 2017 onwards, the statutory corporate tax rate will depend on the tax regime chosen by the owners of the taxpayer (the company). If the Semi-Integrated Regime is selected, the company will be subject to a statutory corporate tax rate of 25.5% in 2017 and 27.0% from 2018 onwards. If, instead, the Attribution Regime is selected, the company will be subject to a statutory corporate tax rate of 25.0% from 2017 onwards.

Notwithstanding the above, in February 2016, a new tax law was enacted (Law No. 20,899), which simplified the previously mentioned reform by limiting the possibility of choosing between the two alternative tax regimes. In fact, according to this new amendment to the Chilean tax system, publicly-traded companies will only be subject to the Semi-Integrated Regime. Consequently, the statutory corporate tax rate for Banco de Chile will be 25.5% in 2017 and 27.0% from 2018 onwards.

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The tax reform also affects the taxes levied on dividends received by investors that hold shares of common stock or ADS from 2017 onwards. Under the Semi-Integrated Regime, holders of shares or ADS will pay taxes on the dividends effectively received from the company (withholding tax of 35% for foreign investors and a general regime tax for local investors). Foreign investors from Double Taxation Avoidance Treaty (DTAT) countries will be able to use 100% of the corporate tax paid by the company as a tax credit. However, local investors and holders from non-DTAT countries will be permitted to use only 65% of the corporate tax paid by the company as a tax credit.

However, in order to provide evidence of their tax residence, foreign holders of our ADSs or of our shares of common stock must send to Banco de Chile a certificate of residence issued by their local tax authority. This certificate must be legalized or apostilled and valid at the moment of the distribution of dividends, otherwise the Tax credit will be 65%.

In addition, Law No. 20,899 enacted on February 8, 2016, permits investors to use 100% of the corporate tax paid by the company as a tax credit, if investors reside in countries that were part of DTAT before January 1, 2017, even though the DTAT was not in force from 2017 onwards. However, this special treatment will only apply until December 31, 2019.

Consequently, Law No. 21,047 enacted on November 23, 2017 extended the previously mentioned exemption until December 31, 2021, with regard to double taxations treaties signed through January 1, 2019 and pending to enter into force as of December 31, 2021.

Based on the above, the effective tax rate paid by local (individual) investors or foreign holders from non-DTAT countries would increase up to 44.45%. This would be the effect of adding together both taxes paid by the company on earnings before distributing dividends and taxes paid by this type of investor when receiving those dividends, given the inability to use 100% of the corporate tax expense as tax credit.

Lastly, under the new amendments to the Chilean tax system, stock dividends (distributions on fully paid-in shares) are tax exempt when distributed. Furthermore, the new tax income law introduces certain changes to the treatment of capital gains associated with the sale of shares received as stock dividends.

On August 23, 2018 the Chilean government sent a bill to the Chilean congress, which is intended to modernize the Chilean tax system by introducing a set of technical adjustments in order to simplify the current tax system while incorporating new regulations. The bill is currently under consideration by the lower house. For more information, see Item 3. Risk Factors Risks Relating to our Operations and the Chilean Banking Industry Restrictions imposed by regulations may constrain our operations and thereby adversely affect our financial condition and results.

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

Law Regulating the Release of Mortgages and Pledges without Conveyance (Law No. 20,855)

Law No. 20,855 was enacted on September 25, 2015 and went into effect on January 23, 2016. This law seeks to regulate the release of mortgages used as collateral for loans granted to individuals or SMEs customers. This regulation supplements the Consumer Protection Act (Law No. 19,496) or the SERNAC Act. In addition, Law No. 20,855 regulates the release of *prendas sin desplazamiento* (pledges without conveyance) used as collateral for loans granted to individuals, SMEs or any type of company as defined by Law No. 20,190.

For loans paid-off after January 23, 2016, Law No. 20,855 establishes requirements and time limits for banks to release mortgages (within 45 days) and inform customers of such release (within 30 days). On the other hand, for loans paid-off before January 23, 2016, Law No. 20,855 requires banks to release the mortgages within a 3-year period for loans paid-off up to six years before this law becomes effective and to release the pledges without conveyance within an 18-month period for loans paid-off up to four years before this law becomes effective. Notwithstanding the aforementioned, for loans paid-off before January 23, 2016, customers may also require the release of mortgages or pledges without conveyance, which should be executed by the bank within 45 days. Also, the bank should provide the customer with this information within a 30-day period. Costs associated with this process will be incurred by banks.

In addition, for monitoring purposes, the bank must inform the SERNAC, on a semi-annual basis, about: (i) the criteria used to comply with Law No. 20,855, (ii) the progress in implementing the proposed changes, (iii) the efforts taken to release mortgages used as collateral on already paid-off loans and (iv) the advertising used to inform customers about their rights regarding the release of mortgages once the related loan has been paid-off.

Bankruptcy Law

On October 10, 2014, a new Bankruptcy Law that aims to promote agreements and avoid liquidations became effective. Among the main changes introduced by this law is Article 57, which is intended to protect debtors and provides that, during a 30-day term beginning on the date of the appointment of observers:

(i) the creditors of a debtor may not request its liquidation;

(ii) no proceeding seeking the issuance of a warrant of attachment, execution or similar process may be initiated against a debtor;

(iii) no proceeding seeking the restitution of leased assets may be initiated against a debtor;

(iv) all proceedings referred to in (ii) and (iii) directly above will be suspended, as well as the term of the statute of limitations;

(v) all the agreements entered into by a debtor will remain valid and effective and its payments terms and conditions will remain in force. Consequently, these agreements may not be early terminated without the consent of the debtor nor be enforced, even if the commencement of a reorganization proceeding under the Bankruptcy Law constitutes an event of default under such agreement. Thus, any guarantees granted to secure the obligations of the debtor may not be enforced; and

(vi) if a debtor forms part of a public registry as a contractor or service provider, and it is in compliance with its obligations with the relevant principal, it cannot be excluded from such public registry and may not be prohibited from participating in any relevant bidding process.

Reporting of Operational and Cybersecurity Incidents

On March 23, 2015, the SBIF issued a new regulation on the reporting of operational incidents (Circular No. 3,579). According to this regulation, which modified the Chapter 20-8 of *Recopilación Actualizada de Normas*, banks must report immediately to the SBIF certain types of significant operational incidents in order to keep the regulator properly informed. For purposes of the regulation, an operational incident is deemed significant if the event affects the business continuity, information security or reputation of the bank.

Throughout 2018, the SBIF introduced modifications (Circular No. 3,633 and Circular No. 3,640) to the regulation associated with the management of operational risk by supplementing Chapters 1-13 and 20-8 of *Recopilación Actualizada de Normas* with specific guidelines on cybersecurity matters. Under this amendment, the SBIF widens its scope of supervision by incorporating cybersecurity matters through the continuous assessment of banks critical technological infrastructure that exposes banks to risks of data integrity, data availability and confidentiality of clients information. Also, the SBIF created a dedicated digital platform through which banks should report directly to the regulator within a 30-minute time frame the occurrence of an incident and requires the appointment of the bank s representative to be in charge of the communication with the SBIF for these purposes. Similarly, banks are required to timely inform customers and users about cybersecurity incidents affecting quality and continuity of services, as well as incidents that are publicly known. In addition, under these guidelines, banks are compelled to maintain an alert system at an industry level in order to share information about incidents and measures that should be taken in order to mitigate widespread impact.

Volcker Rule

The Volcker Rule became effective during 2015 in the United States as part of the Dodd Frank Wall Street Reform and Consumer Protection Act. Among other topics, the Volcker Rule limits proprietary trading and positions taken by banks in covered funds by establishing specific conditions for carrying out these activities. Also, this regulation establishes specific corporate governance measures for conducting these businesses to avoid conflict of interest and high-risk trading strategies by banks.

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Section No. 619 of the Volcker Rule is applicable to Citigroup. Since we and our subsidiaries are considered as Citigroup s subsidiaries, during 2015, we comprehensively revised our internal policies and procedures to establish, maintain, enforce, test and modify our Volcker Rule Compliance Program to enable Citigroup to comply with its regulatory requirements.

Auditor Review of Interim Financial Statements

On December 12, 2016 the SBIF published an amendment (Circular No. 3,615) to Chapter C-2 of *Compendio de Normas Contables*. Through this document, the SBIF required local banks to include in mid-year financial statements (as of June 30 of every fiscal year) an auditor s review statement in accordance with GAAP. Whereas the financial statements with notes must be sent to the SBIF on the same date they are released to the market, the auditor s report on such financials must be sent to the regulator before August 15.

ORGANIZATIONAL STRUCTURE

The following diagram presents our current corporate structure, including our subsidiaries and their respective direct ownership interests, as of April 18, 2019:

All of the subsidiaries presented above have their jurisdiction of incorporation in the Republic of Chile. See Business Overview Principal Business Activities Operations through Subsidiaries for more information on our subsidiaries.

In 2014, we began a voluntary dissolution process for Banchile Trade Services Limited in Hong Kong, which was formally declared dissolved as of July 5, 2016

On December 19, 2016, Banco de Chile acquired all of the shares of the Promarket S.A. and that subsidiary was dissolved.

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PROPERTY, PLANT AND EQUIPMENT

We are based in Chile and own the building located at Paseo Ahumada 251, Santiago, Chile, that is approximately 77,500 square meters and serves as the headquarters for the Bank and its subsidiaries. In addition, we own both office and parking space in four other buildings located at Huerfanos 740, Agustinas 733, Andrés Bello 2687 and El Bosque 500, Santiago, Chile where the remainder of our executive offices are located. The total area we own in these buildings is equivalent to approximately 46,300 square meters.

As of December 31, 2018, we owned the properties on which 172 of our full-service branches and other points of sale are located (approximately 112,600 square meters of office space). Also, as of December 31, 2018, we had leased office space for 207 of our full-service branches with office space of approximately 60,650 square meters. Lastly, the 14 remaining branches and other points of sale were managed through a combined model by which part of the branch surface is owned and the remaining branch surface is under a leasing contract. Also, in some cases, we entered into special partnership agreements with the property s owners.

We also own properties throughout Chile for back office and administrative operations, as well as for storage of documents and other purposes. We believe that our facilities are adequate for our present needs and suitable for their intended purposes.

As of December 31, 2018, we also owned approximately 134,250 square meters in mainly recreational physical facilities in Chile, which we use to assist our employees in maintaining a healthy work and life balance and which we use for incentive and integration activities.

Our 2018 budget for infrastructure expenditures amounts to approximately Ch$20,394 million. This is intended to finance disbursements associated with renovation and restoration of our main buildings (27.3%), implementation of branches (18.8%), general maintenance for buildings and distribution network (15.1%), among other disbursements (38.7%).

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SELECTED STATISTICAL INFORMATION

The following information is included for analytical purposes and should be read in conjunction with our audited consolidated financial statements as of and for the year ended December 31, 2018 appearing elsewhere in this annual report and Item 5. Operating and Financial Review and Prospects.

Average Balance Sheets, Interest Earned on Interest Earning Assets and Interest Paid on Interest Bearing Liabilities

The average balances for interest-earning assets and interest-bearing liabilities, including interest and readjustments received and paid, were calculated on the basis of our daily balances and on the basis of monthly balances for our subsidiaries. These average balances are presented in Chilean pesos (Ch$), in UF and in foreign currencies (principally the U.S. dollar). The UF is an inflation-indexed Chilean monetary unit of account with a value in Chilean pesos which is linked to, and which is adjusted daily to reflect changes in, the CPI of the Chilean National Institute of Statistics.

The nominal interest rate has been calculated by dividing the amount of interest and inflation adjustment gain or loss during the period by the related average balance, both amounts expressed in Chilean pesos.

Foreign exchange gains or losses on foreign currency-denominated assets and liabilities have not been included in interest revenue or expense. Interest received on past due loans includes interest on such loans from the original maturity date. For our impaired portfolio and high risk loans, we apply a conservative approach of discontinuing accrual-basis recognition of interest revenue in the income statement and they are only recorded once received.

Included in cash and due from banks are current accounts maintained in the Central Bank and overseas banks. Such assets have a distorting effect on the average interest rate earned on total interest earning assets because of balances maintained in:

- the Central Bank, only the portion that is legally required to be held for liquidity purposes earns interest; and
- overseas banks earn interest on certain accounts in certain countries.

Consequently, the average interest earned on such assets is comparatively low. These deposits are maintained by us in these accounts to comply with statutory requirements and to facilitate international business, rather than to earn income.

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The following tables set forth, by currency of denomination, average balances and, where applicable, interest amounts and nominal rate for our assets and liabilities under IFRS for the years ended December 31, 2016, 2017 and 2018:

	For the Year Ended December 31,								
	2016			2017			2018 (1)		
	Average Balance	Interest Earned(2)	Average Nominal Rate	Average Balance	Interest Earned(2)	Average Nominal Rate	Average Balance	Interest Earned(2)	Average Nominal Rate
	(In millions of Ch$, except percentages)								
IFRS:									
Assets									
Interest earning assets									
Financial Investments									
Ch$	1,221,189	47,963	3.93	1,943,209	67,330	3.46	1,940,757	65,890	3.40
UF	430,986	21,770	5.05	474,719	15,070	3.17	675,769	23,906	3.54
Foreign currency	227,665	10,138	4.45	119,414	5,792	4.85	195,455	8,280	4.24
Total	**1,879,840**	**79,871**	**4.25**	**2,537,342**	**88,192**	**3.48**	**2,811,981**	**98,076**	**3.49**
Loans in advance to Banks									
Ch$	974,059	32,280	3.31	535,050	15,024	2.81	830,763	24,138	2.91
UF									
Foreign currency									
Total	**974,059**	**32,280**	**3.31**	**535,050**	**15,024**	**2.81**	**830,763**	**24,138**	**2.91**
Commercial loans									
Ch$	6,638,123	447,116	6.74	6,854,249	471,849	6.88	7,025,701	447,268	6.37
UF	5,123,123	270,624	5.28	5,227,029	274,522	5.25	5,428,982	264,467	4.87
Foreign currency	2,524,203	62,054	2.46	2,146,715	61,145	2.85	2,085,578	81,033	3.89
Total	**14,285,449**	**779,794**	**5.46**	**14,227,993**	**807,516**	**5.68**	**14,540,261**	**792,768**	**5.45**
Consumer Loans									
Ch$	3,717,567	609,175	16.39	3,820,048	609,017	15.94	4,055,947	607,729	14.98
UF	55,514	4,787	8.62	70,103	5,376	7.67	64,615	5,564	8.61
Foreign currency	29,913			32,691			36,433		
Total	**3,802,994**	**613,962**	**16.14**	**3,922,842**	**614,393**	**15.66**	**4,156,995**	**613,293**	**14.75**
Residential mortgage loans									
Ch$									
UF	6,634,968	447,582	6.75	7,220,433	401,862	5.57	7,683,061	502,832	6.54
Foreign currency									
Total	**6,634,968**	**447,582**	**6.75**	**7,220,433**	**401,862**	**5.57**	**7,683,061**	**502,832**	**6.54**
Repurchase agreements									
Ch$	43,583	1,690	3.88	60,319	1,714	2.84	81,947	2,767	3.38
UF									
Foreign currency									
Total	**43,583**	**1,690**	**3.88**	**60,319**	**1,714**	**2.84**	**81,947**	**2,767**	**3.38**
Other assets									
Ch$	54,383	1,951	3.59	32,072	1,194	3.72	58,905	2,575	4.37
UF									
Foreign currency	171,209	674	0.39	164,289	1,656	1.01	237,631	4,598	1.93

Total	**225,592**	**2,625**	**1.16**	**196,361**	**2,850**	**1.45**	**296,536**	**7,173**	**2.42**
Total interest earning assets									
Ch$	12,648,904	1,140,175	9.01	13,244,947	1,166,128	8.80	13,994,020	1,150,367	8.22
UF	12,244,591	744,763	6.08	12,992,284	696,830	5.36	13,852,427	796,769	5.75
Foreign currency	2,952,990	72,866	2.47	2,463,109	68,593	2.78	2,555,097	93,911	3.68
Total	**Ch$ 27,846,485**	**Ch$ 1,957,804**	**7.03%**	**Ch$ 28,700,340**	**Ch$ 1,931,551**	**6.73%**	**Ch$ 30,401,544**	**Ch$ 2,041,047**	**6.71%**

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(1) IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy. The application of this standard as of January 1, 2018 has had an impact on our consolidated financial statements at that date. The effect of the first application of IFRS 9 is detailed in Note 5 Transition Disclosures to our audited consolidated financial statements.

(2) Interest earned includes interest accrued on trading securities.

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	For the Year Ended December 31,								
	2016			2017			2018 (1)		
	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned	Average Nominal Rate	Average Balance	Interest Earned	Average Nominal Rate
	(In millions of Ch$, except percentages)								
IFRS:									
Assets									
Non-interest earning assets									
Cash and due from banks									
Ch$	791,357			857,485			946,735		
UF									
Foreign currency	523,866			532,728			537,005		
Total	**1,315,223**			**1,390,213**			**1,483,740**		
Transactions in the course of collection									
Ch$	357,625			373,471			389,132		
UF									
Foreign currency	200,034			201,466			250,634		
Total	**557,659**			**574,937**			**639,766**		
Allowances for loan losses									
Ch$	(539,032)			(521,280)			(544,386)		
UF									
Foreign currency									
Total	**(539,032)**			**(521,280)**			**(544,386)**		
Derivatives									
Ch$	921,775			981,436			1,206,498		
UF									
Foreign currency	153,811			95,960			128,207		
Total	**1,075,586**			**1,077,396**			**1,334,705**		
Investments in Other Companies									
Ch$	34,537			41,771			47,990		
UF									
Foreign currency	55			53			61		
Total	**34,592**			**41,824**			**48,051**		
Intangible assets									
Ch$	63,422			65,804			78,882		
UF									
Foreign currency									
Total	**63,422**			**65,804**			**78,882**		
Fixed assets									
Ch$	217,220			217,357			214,980		
UF									
Foreign currency									
Total	**217,220**			**217,357**			**214,980**		
Current tax assets									
Ch$	2,233			21,956			25,183		
UF									
Foreign currency									

Total	**2,233**			**21,956**			**25,183**		
Deferred tax assets									
Ch$	139,195			165,707			180,101		
UF									
Foreign currency									
Total	**139,195**			**165,707**			**180,101**		
Other assets									
Ch$	139,741			250,413			337,309		
UF	61,297			9,530			11,355		
Foreign currency	10,500			13,097			16,272		
Total	**211,538**			**273,040**			**364,936**		
Total non-interest earning assets									
Ch$	2,128,073			2,454,120			2,882,424		
UF	61,297			9,530			11,355		
Foreign currency	888,266			843,304			932,179		
Total	**3,077,636**			**3,306,954**			**3,825,958**		
Total Assets									
Ch$	14,776,977	1,140,175		15,699,067	1,166,128		16,876,444	1,150,367	
UF	12,305,888	744,763		13,001,814	696,830		13,863,782	796,769	
Foreign currency	3,841,256	72,866		3,306,413	68,593		3,487,276	93,911	
Total	**Ch$ 30,924,121**	**Ch$ 1,957,804**		**Ch$ 32,007,294**	**Ch$ 1,931,551**		**Ch$ 34,227,502**	**Ch$ 2,041,047**	

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	For the Year Ended December 31,								
	2016			2017			2018 (1)		
	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate
	(In millions of Ch$, except percentages)								
IFRS:									
Liabilities									
Interest bearing liabilities									
Savings accounts									
Ch$	7,500,508	270,387	3.60%	7,485,981	293,848	3.93%	7,633,698	189,933	2.49%
UF	2,070,071	83,277	4.02	1,743,278	52,943	3.04	1,775,455	71,442	4.02
Foreign currency	964,997	4,928	0.51	1,094,613	10,670	0.97	1,095,441	25,562	2.33
Total	**10,535,576**	**358,592**	**3.40**	**10,323,872**	**357,461**	**3.46**	**10,504,594**	**286,937**	**2.73**
Repurchase agreements									
Ch$	190,464	6,211	3.26	193,497	5,177	2.68	350,110	8,889	2.54
UF	167	10	5.99						
Foreign currency	2,137	2	0.09	4,645	16	0.34	15,195	12	0.08
Total	**192,768**	**6,223**	**3.23**	**198,142**	**5,193**	**2.62**	**365,305**	**8,901**	**2.44**
Borrowings from financial institutions									
Ch$	38,395	848	2.21	98,092	2,397	2.44	125,380	1,754	1.40
UF	5			1					
Foreign currency	1,182,072	12,656	1.07	1,056,238	16,858	1.60	1,064,968	27,521	2.58
Total	**1,220,472**	**13,504**	**1.11**	**1,154,331**	**19,255**	**1.67**	**1,190,348**	**29,275**	**2.46**
Debt issued									
Ch$									
UF	4,538,941	282,620	6.23	4,935,458	239,794	4.86	5,451,255	318,219	5.84
Foreign currency	1,524,902	26,969	1.77	1,549,535	28,409	1.83	1,552,006	34,132	2.20
Total	**6,063,843**	**309,589**	**5.11**	**6,484,993**	**268,203**	**4.14**	**7,003,261**	**352,351**	**5.03**
Other financial obligations									
Ch$	124,419	1,424	1.14	95,602	1,382	1.45	102,683	1,297	1.26
UF	12,716	872	6.86	16,444	481	2.93	10,912	810	7.42
Foreign currency	28,386	55	0.19	29,786	30	0.10	34,665	69	0.20
Total	**165,521**	**2,351**	**1.42**	**141,832**	**1,893**	**1.33**	**148,260**	**2,176**	**1.47**
Total interest bearing liabilities									
Ch$	7,853,786	278,870	3.55	7,873,172	302,804	3.85	8,211,871	201,873	2.46
UF	6,621,900	366,779	5.54	6,695,181	293,218	4.38	7,237,622	390,471	5.40
Foreign currency	3,702,494	44,610	1.20	3,734,817	55,983	1.50	3,762,275	87,296	2.32
Total	**Ch$ 18,178,180**	**Ch$ 690,259**	**3.80%**	**Ch$ 18,303,170**	**Ch$ 652,005**	**3.56%**	**Ch$ 19,211,768**	**Ch$ 679,640**	**3.54%**

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	For the Year Ended December 31,								
	2016			2017			2018 (1)		
	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate	Average Balance	Interest paid	Average Nominal Rate
	(In millions of Ch$, except percentages)								
IFRS:									
Liabilities									
Non-interest bearing liabilities									
Current account and demand deposits									
Ch$	6,089,301			6,552,864			7,351,150		
UF	223,395			279,690			309,574		
Foreign currency	1,348,922			1,341,644			1,249,877		
Total	**7,661,618**			**8,174,198**			**8,910,601**		
Transactions in the course of payment									
Ch$	195,806			255,226			300,006		
UF									
Foreign currency	209,656			185,723			187,877		
Total	**405,462**			**440,949**			**487,883**		
Derivatives									
Ch$	896,551			1,048,935			1,342,155		
UF									
Foreign currency	151,409			87,799			119,596		
Total	**1,047,960**			**1,136,734**			**1,461,751**		
Current tax liabilities									
Ch$									
UF									
Foreign currency									
Total									
Deferred tax liabilities									
Ch$									
UF									
Foreign currency									
Total									
Provisions									
Ch$	154,399			128,353			192,130		
UF									
Foreign currency									
Total	**154,399**			**128,353**			**192,130**		
Other liabilities									
Ch$	255,935			256,415			343,554		
UF	16,023			2,679			1,804		
Foreign currency	10,410			8,898			19,775		
Total	**282,368**			**267,992**			**365,133**		
Equity									
Ch$	3,194,134			3,555,898			3,598,236		
UF									
Foreign currency									
Total	**3,194,134**			**3,555,898**			**3,598,236**		
Total non-interest bearing liabilities and equity									
Ch$	10,786,126			11,797,691			13,127,231		
UF	239,418			282,369			311,378		
Foreign currency	1,720,397			1,624,064			1,577,125		
Total	**12,745,941**			**13,704,124**			**15,015,734**		
Total liabilities and equity									
Ch$	18,639,912	278,870		19,670,863	302,804		21,339,102	201,873	
UF	6,861,318	366,779		6,977,550	293,218		7,549,000	390,471	
Foreign currency	5,422,891	44,610		5,358,881	55,983		5,339,400	87,296	
Total	**30,924,121**	**690,259**		**32,007,294**	**652,005**		**34,227,502**	**679,640**	

(1) IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy. The application of this standard as of January 1, 2018 has had an impact on our consolidated financial statements at that date. The effect of the first application of IFRS 9 is detailed in Note 5 Transition Disclosures to our audited consolidated financial statements.

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Interest Earning Assets and Net Interest Margin

The following table sets forth, by currency of denomination, the levels of our average interest earning assets and net interest, and illustrates the comparative margins obtained, for the years ended December 31, 2016, 2017 and 2018:

	For the Year Ended December 31,					
		2016		2017		2018 (3)
	(in millions of Ch$, except percentages)					
IFRS:						
Total average interest earning assets						
Ch$	Ch$	12,648,904	Ch$	13,244.947	Ch$	13,994,020
UF		12,244,591		12,992,284		13,852,427
Foreign currency		2,952,990		2,463,109		2,555,097
Total		**27,846,485**		**28,700,340**		**30,401,544**
Net interest earned (including interest earned on trading securities)(1)						
Ch$		861,305		863,324		948,494
UF		377,984		403,612		406,298
Foreign currency		28,256		12,610		6,615
Total	**Ch$**	**1,267,545**	**Ch$**	**1,279,546**	**Ch$**	**1,361,407**
Net interest margin, nominal basis(2)						
Ch$		6.81%		6.52%		6.78%
UF		3.09		3.11		2.93
Foreign currency		0.96		0.51		0.26
Total		**4.55%**		**4.46%**		**4.48%**

(1) Net interest earned is defined as interest revenue earned less interest expense incurred.

(2) Net interest margin, nominal basis is defined as net interest earned divided by average interest earning assets.

(3) IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy. The application this standard as of January 1, 2018 has had an impact on our consolidated financial statements at that date. The effect of the of IFRS 9 is detailed in note 5 Transition Disclosures to our audited consolidated financial statements

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Changes in Net Interest Income Volume and Rate Analysis

The following tables compare, by currency of denomination, changes in our net interest revenue between 2016 and 2017, as well as 2017 and 2018, caused by (i) changes in the average volume of interest earning assets and interest bearing liabilities and (ii) changes in their respective nominal interest rates. Volume and rate variances were calculated based on movements in average balances over the period and changes in nominal interest rate, average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change in volume and the change in rate.

	Increase (Decrease) from 2016 to 2017 due to changes in Volume	Rate	Net Change from 2016 to 2017	Increase (Decrease) from 2017 to 2018 due to changes in Volume	Rate	Net Change from 2017 to 2018
			(in millions of Ch$)			
IFRS:						
Assets						
Interest earning assets						
Financial investments						
Ch$	Ch$ 25,572	Ch$ (6,205)	Ch$ 19,367	Ch$ (85)	Ch$ (1,355)	Ch$ (1,440)
UF	2,033	(8,733)	(6,700)	6,957	1,879	8,836
Foreign currency	(5,183)	837	(4,346)	3,299	(811)	2,488
Total	**22,422**	**(14,101)**	**8,321**	**10,171**	**(287)**	**9,884**
Loans in advance to bank						
Ch$	(12,878)	(4,378)	(17,256)	8,566	548	9,114
UF						
Foreign currency						
Total	**(12,878)**	**(4,378)**	**(17,256)**	**8,566**	**548**	**9,114**
Commercial loans						
Ch$	14,749	9,984	24,733	11,581	(36,162)	(24,581)
UF	5,464	(1,566)	3,898	10,339	(20,394)	(10,055)
Foreign currency	(9,994)	9,085	(909)	(1,787)	21,675	19,888
Total	**10,219**	**17,503**	**27,722**	**20,133**	**(34,881)**	**(14,748)**
Consumer loans						
Ch$	16,564	(16,722)	(158)	36,463	(37,751)	(1,288)
UF	1,160	(571)	589	(441)	629	188
Foreign currency						
Total	**17,724**	**(17,293)**	**431**	**36,022**	**(37,122)**	**(1,100)**
Residential mortgage loans						
Ch$						
UF	37,178	(82,898)	(45,720)	26,957	74,013	100,970
Foreign currency						
Total	**37,178**	**(82,898)**	**(45,720)**	**26,957**	**74,013**	**100,970**
Repurchase agreement						
Ch$	547	(523)	24	690	363	1,053
UF						
Foreign currency						
Total	**547**	**(523)**	**24**	**690**	**363**	**1,053**
Other Assets						
Ch$	(828)	71	(757)	1,143	238	1,381
UF						
Foreign currency	(28)	1,010	982	961	1,981	2,942
Total	**(856)**	**1,081**	**225**	**2,104**	**2,219**	**4,323**

Total interest earning assets												
Ch$		43,726		(17,773)		25,953		58,358		(74,119)		(15,761)
UF		45,835		(93,768)		(47,933)		43,812		56,127		99,939
Foreign currency		(15,205)		10,932		(4,273)		2,473		22,845		25,318
Total	**Ch$**	**74,356**	**Ch$**	**(100,609)**	**Ch$**	**(26,253)**	**Ch$**	**104,643**	**Ch$**	**4,853**	**Ch$**	**109,496**

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	Increase (Decrease) from 2016 to 2017 due to changes in Volume	Rate	Net Change from 2016 to 2017	Increase (Decrease) from 2017 to 2018 due to changes in Volume	Rate	Net Change from 2017 to 2018
			(in millions of Ch$)			
IFRS:						
Liabilities						
Interest bearing liabilities						
Savings accounts and time deposits						
Ch$	Ch$ (525)	Ch$ 23,986	Ch$ 23,461	Ch$ 5,690	Ch$ (109,605)	Ch$ (103,915)
UF	(11,884)	(18,450)	(30,334)	994	17,505	18,499
Foreign currency	739	5,003	5,742	8	14,884	14,892
Total	**(11,670)**	**10,539**	**(1,131)**	**6,692**	**(77,216)**	**(70,524)**
Repurchase agreements						
Ch$	97	(1,131)	(1,034)	3,989	(277)	3,712
UF	(5)	(5)	(10)			
Foreign currency	4	10	14	15	(19)	(4)
Total	**96**	**(1,126)**	**(1,030)**	**4,004**	**(296)**	**3,708**
Borrowing from financial institutions						
Ch$	1,450	99	1,549	554	(1,197)	(643)
UF						
Foreign currency	(1,465)	5,667	4,202	140	10,523	10,663
Total	**(15)**	**5,766**	**5,751**	**694**	**9,326**	**10,020**
Debt issued						
Ch$						
UF	23,146	(65,972)	(42,826)	26,785	51,640	78,425
Foreign currency	441	999	1,440	45	5,678	5,723
Total	**23,587**	**(64,973)**	**(41,386)**	**26,830**	**57,318**	**84,148**
Other financial obligation						
Ch$	(370)	328	(42)	98	(183)	(85)
UF	206	(597)	(391)	(206)	535	329
Foreign currency	3	(28)	(25)	6	33	39
Total	**(161)**	**(297)**	**(458)**	**(102)**	**385**	**283**
Total interest bearing liabilities						
Ch$	652	23,282	23,934	10,331	(111,262)	(100,931)
UF	11,463	(85,024)	(73,561)	27,573	69,680	97,253
Foreign currency	(278)	11,651	11,373	214	31,099	31,313
Total	**Ch$ 11,837**	**Ch$ (50,091)**	**Ch$ (38,254)**	**Ch$ 38,118**	**Ch$ (10,483)**	**Ch$ 27,635**

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Financial Investments

Financial assets held for trading:

The following table sets forth a breakdown of instruments classified as financial assets held for trading, included in our investment portfolio:

		2016		As of December 31, 2017 (in millions of Ch$)		2018 (1)	Weighted Average Nominal Rate as of December 31, 2018 %
IFRS:							
Instruments issued by the Chilean Government and the Central Bank:							
Central Bank bonds	Ch$	30,546	Ch$	400,368	Ch$	24,906	3.49%
Central Bank promissory notes		393,019		662,190		1,410,080	2.59
Other instruments issued by the Chilean Government and the Central Bank		58,781		254,606		88,486	2.23
Other securities issued in Chile:							
Mortgage bonds from domestic banks							
Bonds from domestic banks		21		2,070		20,186	0.82
Deposits in domestic banks		896,534		218,307		100,226	2.97
Bonds from other Chilean companies						7,532	3.31
Other instruments issued in Chile		672		715		1,663	
Instruments issued by foreign institutions:							
Instruments from foreign governments or central banks							
Other instruments issued abroad		385		322		4,446	
Mutual fund investments:							
Funds managed by related companies						87,841	
Total	**Ch$**	**1,379,958**	**Ch$**	**1,538,578**	**Ch$**	**1,745,366**	**2.58%**

(1) IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy. The application of this standard as of January 1, 2018 has had an impact on our consolidated financial statements at that date. The effect of the first application of IFRS 9 is detailed in note 5 Transition Disclosures to our audited consolidated financial statements.

Other securities issued in Chile includes instruments sold under repurchase agreements with customers and financial instruments, amounting to Ch$159,803 million as of December 31, 2016, Ch$158,731 million as of December 31, 2017 and Ch$99,268 million as of December 31, 2018. Instruments issued by the Chilean government and the Central Bank include instruments sold under agreements to repurchase to customers and financial institutions. For these instruments, there was a total balance of Ch$21,789 million for the year ended December 31, 2016, Ch$5,096 million for the year ended December 31, 2017 and Ch$115,749 million as of December 31, 2018.

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Investment Portfolio:

The detail of instruments classified as financial assets available-for-sale and as financial assets held-to-maturity is as follows:

Financial Assets at Fair Value through Other Comprehensive Income

(Formerly Available-for-Sale Assets)

	As of December 31, 2016		As of December 31, 2017 (in millions of Ch$)		As of December 31, 2018	Weighted average nominal rate as of December 31, 2018 %
IFRS:						
Debt instruments at fair value through Other Comprehensive Income						
Instruments issued by the Chilean Government and the Central Bank:						
Bonds issued by the Chilean Government and the Central Bank	Ch$ 20,944		Ch$ 204,128		Ch$ 135,145	3.70%
Promissory notes issued by the Chilean Government and the Central Bank			3,346			
Other instruments	38,256		148,894		29,077	2.10
Other instruments issued in Chile:						
Mortgage bonds from domestic banks	108,933		99,572		92,491	2.89
Bonds from domestic banks	7,973		5,415		5,351	4.62
Deposits from domestic banks	24,032		956,733		559,108	3.42
Bonds from other Chilean companies	29,525		14,969		6,599	4.20
Other instruments	138,322		83,006		107,125	4.83
Instruments issued by Foreign Institutions:						
Instruments from foreign governments or central banks					108,544	3.98
Subtotal	**367,985**		**1,516,063**		**1,043,440**	**3.55**
Equity instruments at fair value through Other Comprehensive Income						
Equity instruments issued in Chile	5,258		9,218		8,939	
Equity instruments issued by foreign institutions	1,227		1,034		812	
Subtotal	**6,485**		**10,252**		**9,751**	
Total	**Ch$ 374,470**		**Ch$ 1,526,315**		**Ch$ 1,053,191**	**3.55%**

The portfolio of financial assets available-for-sale included net unrealized gains of Ch$13,770 million and Ch$3,649 million as of December 31, 2017, and 2018, respectively, in each case recorded in other comprehensive income within equity.

Financial assets held to maturity

There were no securities reported under this category as of December 31, 2016, 2017 and 2018.

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Maturity of Financial Investments:

The maturities of financial assets held for trading and financial assets available-for-sale as of December 31, 2016, 2017 and 2018 were as follows:

	As of December 31, 2016								
	Due within 1 year	**Weighted Average Nominal Rate**	**Due after 1 year but within 5 years**	**Weighted Average Nominal Rate**	**Due after 5 year but within 10 years**	**Weighted Average Nominal Rate**	**Due after 10 years**	**Weighted Average Nominal Rate**	**Total**
	(millions of Ch$, except percentages)								
Financial assets held for trading:									
Instruments issued by the Chilean Government and the Central Bank:									
Central Bank bonds	Ch$ 30,546	2.02%	Ch$	%	Ch$	%	Ch$	%	Ch$ 30,546
Central Bank promissory notes	393,019	3.33							393,019
Other instruments issued by the Chilean Government and the Central Bank	58,781	2.09							58,781
Other securities issued in Chile:									
Mortgage bonds from domestic banks									
Bonds from domestic banks	21	4.46							21
Deposits in domestic banks	896,534	3.64							896,534
Bonds from other Chilean companies									
Other instruments issued in Chile	672								672
Instruments issued by foreign institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad	385								385
Total	**Ch$ 1,379,958**	**3.45%**	**Ch$**		**Ch$**	**%**	**Ch$**	**%**	**Ch$ 1,379,958**

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	As of December 31, 2017												
	Due within 1 year		Weighted Average Nominal Rate	Due after 1 year but within 5 years		Weighted Average Nominal Rate	Due after 5 year but within 10 years		Weighted Average Nominal Rate	Due after 10 years		Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)												
Financial assets held for trading:													
Instruments issued by the Chilean Government and the Central Bank:													
Central Bank bonds	Ch$	400,368	2.72%	Ch$		%	Ch$		%	Ch$		%	Ch$ 400,368
Central Bank promissory notes		662,190	2.39										662,190
Other instruments issued by the Chilean Government and the Central Bank		254,606	2.72										254,606
Other securities issued in Chile:													
Mortgage bonds from domestic banks													
Bonds from domestic banks		2,070	4.52										2,070
Deposits in domestic banks		218,307	2.50										218,307
Bonds from other Chilean companies													
Other instruments issued in Chile		715											715
Instruments issued by foreign institutions:													
Instruments from foreign governments or central banks													
Other instruments issued abroad		322											322
Total	**Ch$**	**1,538,578**	**2.55%**	**Ch$**			**Ch$**		**%**	**Ch$**		**%**	**Ch$ 1,538,578**

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	As of December 31, 2018								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets held for trading:									
Instruments issued by the Chilean Government and the Central Bank:									
Central Bank bonds	Ch$ 24,906	3.49%	Ch$	%	Ch$	%	Ch$	%	Ch$ 24,906
Central Bank promissory notes	1,410,080	2.59							1,410,080
Other instruments issued by the Chilean Government and the Central Bank	88,486	2.23							88,486
Other securities issued in Chile:									
Mortgage bonds from domestic banks									
Bonds from domestic banks	20,186	0.82							20,186
Deposits in domestic banks	100,226	2.97							100,226
Bonds from other Chilean companies	7,532	3.31							7,532
Other instruments issued in Chile	1,663								1,663
Instruments issued by foreign institutions:									
Instruments from foreign governments or central banks									
Other instruments issued abroad	4,446								4,446
Mutual fund investments									
Funds managed by related companies	87,841								87,841
Total	**Ch$ 1,745,366**	**2.58%**	**Ch$**	**%**	**Ch$**	**%**	**Ch$**	**%**	**Ch$ 1,745,366**

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	As of December 31, 2016								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial Assets at Fair Value through Other Comprehensive Income:									
Debt instruments at fair value through Other Comprehensive Income									
Instruments issued by the Chilean Government and the Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 12,186	3.46%	Ch$ 8,758	3.52%	Ch$	%	Ch$	%	Ch$ 20,944
Promissory notes issued by the Chilean Government and the Central Bank									
Other instruments	9,880	1.84	27,912	2.47	464	2.77			38,256
Other instruments issued in Chile:									
Mortgage bonds from domestic banks	11,497	3.41	41,606	3.57	34,396	3.52	21,434	3.42	108,933
Bonds from domestic banks	2,670	4.86	4,901	4.67	402	2.91			7,973
Deposits from domestic banks	24,032	3.99							24,032
Bonds from other Chilean companies	2,842	3.66	11,367	3.66	8,765	3.07	6,551	3.41	29,525
Other instruments	11,070	6.84	81,812	5.96	42,340	5.55	3,100	7.17	138,322
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks									

Subtotal	74,177	3.97	176,356	4.54	86,367	4.46	31,085	3.79	367,985
Equity instruments at fair value through Other Comprehensive Income									
Equity instruments issued in Chile							5,258		5,258
Equity instruments issued by foreign institutions							1,227		1,227
Subtotal							6,485		6,485
Total	**Ch$ 74,177**	**3.97%**	**Ch$ 176,356**	**4.54%**	**Ch$ 86,367**	**4.46%**	**Ch$ 37,570**	**3.79%**	**Ch$ 374,470**

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	As of December 31, 2017								
	Due within 1 year	**Weighted Average Nominal Rate**	**Due after 1 year but within 5 years**	**Weighted Average Nominal Rate**	**Due after 5 year but within 10 years**	**Weighted Average Nominal Rate**	**Due after 10 years**	**Weighted Average Nominal Rate**	**Total**
	(millions of Ch$, except percentages)								
Financial Assets at Fair Value through Other Comprehensive Income:									
Debt instruments at fair value through Other Comprehensive Income									
Instruments issued by the Chilean Government and the Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 98,528	3.04%	Ch$ 100,649	3.81%	Ch$ 4,951	3.96%	Ch$	%	Ch$ 204,128
Promissory notes issued by the Chilean Government and the Central Bank	3,346	2.35							3,346
Other instruments	53,341	2.87	94,868	3.31	685	2.00			148,894
Other instruments issued in Chile:									
Mortgage bonds from domestic banks	13,515	2.75	39,171	2.83	29,479	2.90	17,407	3.05	99,572
Bonds from domestic banks	1,257	3.82	4,158	4.37					5,415
Deposits from domestic banks	871,608	2.71	85,125	2.70					956,733
Bonds from other Chilean companies	1,833	3.97	7,079	3.87	4,817	3.57	1,240	4.35	14,969
Other instruments	1,404	7.30	39,656	5.87	41,946	4.71			83,006
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks									

Subtotal	1,044,832	2.76	370,706	3.55	81,878	3.92	18,647	2.02	1,516,063
Equity instruments at fair value through Other Comprehensive Income									
Equity instruments issued in Chile							9,218		9,218
Equity instruments issued by foreign institutions							1,034		1,034
Subtotal							10,252		10,252
Total	**Ch$ 1,044,832**	**2.76%**	**Ch$ 370,706**	**3.55%**	**Ch$ 81,878**	**3.92%**	**Ch$ 28,899**	**2.02%**	**Ch$ 1,526,315**

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	As of December 31, 2018								
	Due within 1 year	Weighted Average Nominal Rate	Due after 1 year but within 5 years	Weighted Average Nominal Rate	Due after 5 year but within 10 years	Weighted Average Nominal Rate	Due after 10 years	Weighted Average Nominal Rate	Total
	(millions of Ch$, except percentages)								
Financial assets available-for-sale:									
Instruments issued by the Chilean Government and the Central Bank:									
Bonds issued by the Chilean Government and the Central Bank	Ch$ 58,658	3.44%	Ch$ 76,487	3.89%	Ch$	%	Ch$	%	Ch$ 135,145
Promissory notes issued by the Chilean Government and the Central Bank									
Other instruments	14,149	2.10	14,748	2.10	180	2.17			29,077
Other instruments issued in Chile:									
Equity instruments valued at fair value									
Mortgage bonds from domestic banks	10,823	2.81	40,336	2.83	27,455	2.89	13,877	3.11	92,491
Bonds from domestic banks	1,622	4.61	3,729	4.63					5,351
Deposits from domestic banks	507,617	3.37	51,491	3.96					559,108
Bonds from other Chilean companies	1,146	4.42	4,583	4.42	712	2.70	158	2.70	6,599
Other instruments	12,865	5.98	15,177	5.63	79,083	4.49			107,125
Instruments issued by Foreign Institutions:									
Instruments from foreign governments or central banks					108,544	3.98			108,544
Subtotal	606,880	3.40	206,551	3.73	215,974	4.02	14,035	1.84	1,043,440
Equity instruments at fair value through Other Comprehensive Income									
Equity instruments issued in Chile							8,939		8,939
Equity instruments issued by foreign institutions							812		812
Subtotal							9,751		9,751

Total	**Ch$ 606,880**	**3.40%**	**Ch$ 206,551**	**3.73%**	**Ch$ 215,974**	**4.02%**	**Ch$ 23,786**	**1.84%**	**Ch$ 1,053,191**

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Loan Portfolio

The following table sets forth our loans by type of loan and risk classification. All loan amounts stated below are before deduction of allowances for loan losses.

		2014		2015		As of December 31, 2016 (in millions of Ch$)		2017		2018
IFRS:										
Commercial loans:										
Commercial loans	Ch$	9,626,704	Ch$	10,818,501	Ch$	11,039,827	Ch$	10,568,435	Ch$	11,496,591
Foreign trade loans		1,266,799		1,443,245		1,269,022		983,796		1,313,001
Current account debtors		310,135		239,228		213,849		270,968		222,218
Factoring transactions		478,735		486,833		510,341		646,835		701,005
Student loans(1)						42,687		46,024		51,919
Commercial lease transactions		1,381,522		1,375,056		1,351,112		1,381,516		1,571,999
Other loans and accounts receivable		46,851		58,302		72,197		63,244		81,665
Subtotal		13,110,746		14,421,165		14,499,035		13,960,818		15,438,398
Mortgage loans:										
Mortgage bonds		70,104		53,620		40,505		29,784		21,443
Endorsable mortgage loans		104,175		84,644		68,558		54,079		42,313
Other residential real estate mortgage loans		5,237,631		6,257,907		6,807,744		7,384,797		7,978,092
Credits from ANAP		21		17		13		8		6
Other loans and accounts receivable		6,692		8,798		7,946		8,568		10,219
Subtotal		5,418,623		6,404,986		6,924,766		7,477,236		8,052,073
Consumer loans:										
Consumer loans in installments		2,206,324		2,433,236		2,488,960		2,538,740		2,957,493
Current account debtors		271,820		296,859		329,220		316,678		312,783
Credit card debtors		883,010		1,016,349		1,155,676		1,157,131		1,165,064
Consumer lease transactions										9
Other loans and accounts receivable		810		831		767		910		812
Subtotal		3,361,964		3,747,275		3,974,623	Ch$	4,013,459		4,436,161
Total loans	**Ch$**	**21,891,333**	**Ch$**	**24,573,426**	**Ch$**	**25,398,424**	**Ch$**	**25,451,513**	**Ch$**	**27,926,632**

(1) Prior to 2016, student loans were allocated within consumer loans. Since January 1, 2016, the SBIF requested a change in the classification of this type of loan.

The loan categories are as follows:

- Commercial Loans are loans and accounts receivable from clients not included within the mortgage or consumer loans categories.

- Mortgage Loans include mortgage loans granted to individuals to acquire, expand, repair or build a home, issued as mortgage bonds, endorsable mortgage loans or by other methods. It also includes supplementary loans for the same purposes and bridge loans granted before the mortgage loan has been settled. This subcategory also includes residential real estate lease transactions and other accounts receivable.

- Consumer Loans are all loans granted to individuals to be used for purchasing goods or services. These include different types of loans (either installments or revolving), as well as balances from credit card transactions or overdrafts on current accounts belonging to individuals. Consumer loans also include consumer lease transactions and other accounts receivable. Consumer loans do not include loans granted to finance business activities that the debtor is developing or that it may develop.

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Maturity and Interest Rate Sensitivity of Loans as of December 31, 2018

The following table sets forth an analysis by type and time remaining to maturity of our loans as of December 31, 2018:

	Balances as of December 31, 2018	Due within 1 month	Due after 1 month but within 6 months	Due after 6 months but within 12 months (in millions of Ch$)	Due after 1 year but within 3 years	Due after 3 years but within 5 years	Due after 5 years
IFRS:							
Commercial Loans:							
Commercial loans	11,496,591	1,220,971	2,468,217	1,595,901	2,818,714	1,412,318	1,980,470
Foreign trade loans	1,313,001	338,186	763,644	180,131	20,892	10,043	105
Current account debtors	222,218	222,218					
Factoring loans	701,005	395,743	286,156	8,630	10,443	33	
Student loans	51,919	1,711	12,033	6,006	10,342	8,565	13,262
Leasing loans	1,571,999	42,354	200,076	217,593	568,591	238,511	304,874
Other loans	81,665	81,507	158				
Subtotal	**15,438,398**	**2,302,690**	**3,730,284**	**2,008,261**	**3,428,982**	**1,669,470**	**2,298,711**
Mortgage Loans:							
Mortgage bonds	21,443	813	2,488	3,011	8,082	4,055	2,994
Endorsable mortgage loans	42,313	888	3,290	3,626	11,800	9,046	13,663
Residential mortgage loans	7,978,092	47,406	188,138	228,213	932,514	955,910	5,625,911
Credits from ANAP	6		1	1	4		
Other loans	10,219	2,992	4,975	2,252			
Subtotal	**8,052,073**	**52,099**	**198,892**	**237,103**	**952,400**	**969,011**	**5,642,568**
Consumer Loans:							
Consumer loans	2,957,493	141,161	451,718	469,839	1,345,280	495,126	54,369
Current accounts debtors	312,783	312,783					
Credit cards	1,165,064	1,144,593	20,471				
Consumer lease transactions	9		1	1	7		
Other loans	812	812					
Subtotal	**4,436,161**	**1,599,349**	**472,190**	**469,840**	**1,345,287**	**495,126**	**54,369**
Total Loans	**27,926,632**	**3,954,138**	**4,401,366**	**2,715,204**	**5,726,669**	**3,133,607**	**7,995,648**

The following table sets forth a breakdown by variable and fixed rate of our outstanding loans due after one year as of December 31, 2018:

		As of December 31, 2018 (in millions of Ch$)
IFRS:		
Variable rate		
Ch$	Ch$	579,516
UF		701,057
Foreign currency		591,669
Total		**1,872,242**
Fixed rate		
Ch$		3,822,943
UF		11,084,289
Foreign currency		76,450

Total		**14,983,682**
Total	**Ch$**	**16,855,924**

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Loans by Economic Activity

The following table sets forth, as of each date, an analysis of our loan portfolio based on the borrower s principal economic activity. Loans to individuals for business purposes are allocated to their respective economic activity. Loan amounts below are presented before deduction of loan loss allowances.

	As of December 31,								
	2014		2015		2016		2017		201
	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfolio	% of Loan Portfolio	Loan Portfoli
	(in millions of Ch$, except percentages)								
IFRS:									
Agriculture, Livestock, Forestry, Agribusiness, Fishing:									
Agriculture and livestock	Ch$ 452,077	2.07%	Ch$ 519,828	2.12%	Ch$ 496,354	1.95%	Ch$ 509,815	2.00%	Ch$ 592,60
Fruit	381,528	1.74	528,295	2.15	558,276	2.20	590,568	2.32	734,16
Forestry and wood extraction	118,034	0.54	136,990	0.56	130,239	0.51	253,686	1.00	255,75
Fishing	261,375	1.19	351,531	1.42	264,042	1.04	145,266	0.57	156,47
Subtotal	1,213,014	5.54	1,536,644	6.25	1,448,911	5.70	1,499,335	5.89	1,738,99
Mining and Petroleum:									
Mining and quarries	362,276	1.65	545,375	2.22	432,822	1.70	422,176	1.66	453,54
Natural gas and crude oil extraction									
Subtotal	362,276	1.65	545,375	2.22	432,822	1.70	422,176	1.66	453,54
Manufacturing:									
Tobacco, food and beverages	510,127	2.33	481,634	1.96	491,813	1.94	541,359	2.13	526,56
Textiles, clothing and leather goods	56,036	0.26	51,413	0.21	58,740	0.23	49,521	0.19	55,08
Wood and wood products	60,603	0.28	58,536	0.24	53,696	0.21	51,059	0.20	64,94
Paper, printing and publishing	49,948	0.23	42,387	0.17	38,254	0.15	36,779	0.14	41,22
Oil refining, carbon and rubber	338,582	1.55	480,180	1.95	418,376	1.65	265,135	1.04	333,13
Production of basic metal, non-mineral, machine and equipment	363,444	1.66	349,691	1.42	333,112	1.31	274,239	1.08	349,14
Other manufacturing industries	127,852	0.58	162,675	0.67	167,746	0.66	181,600	0.71	209,38
Subtotal	1,506,592	6.89	1,626,516	6.62	1,561,737	6.15	1,399,692	5.49	1,579,47
Electricity, Gas and Water:									

Electricity, gas and water	442,068	2.02	473,172	1.93	566,438	2.23	565,695	2.22	461,35
Subtotal	442,068	2.02	473,172	1.93	566,438	2.23	565,695	2.22	461,35
Construction:									
Residential buildings	1,365,105	6.24	1,511,259	6.15	1,574,923	6.20	1,415,951	5.56	1,654,09
Other constructions	69,405	0.32	74,681	0.30	72,939	0.29	77,422	0.30	98,14
Subtotal	1,434,510	6.56	1,585,940	6.45	1,647,862	6.49	1,493,373	5.86	1,752,23
Commerce:									
Wholesale	1,220,832	5.58	1,270,802	5.17	1,149,473	4.53	1,053,645	4.14	1,319,76
Retail, restaurants and hotels	1,194,009	5.45	1,078,762	4.39	1,094,001	4.31	981,484	3.86	1,004,55
Subtotal	2,414,841	11.03	2,349,564	9.56	2,243,474	8.84	2,035,129	8.00	2,324,32
Transport, Storage and Communications:									
Transport and storage	1,610,818	7.36	1,627,835	6.62	1,590,546	6.26	1,540,719	6.05	1,459,42
Communications	59,673	0.27	40,793	0.17	46,448	0.18	72,211	0.28	38,72
Subtotal	1,670,491	7.63	1,668,628	6.79	1,636,994	6.44	1,612,930	6.33	1,498,14
Financial Services:									
Financial and insurance companies	1,811,389	8.27	2,048,001	8.33	2,058,774	8.11	1,774,736	6.97	2,010,18
Real estate and other financial services	87,727	0.40	82,945	0.34	57,429	0.22	76,913	0.30	112,41
Subtotal	1,899,116	8.67	2,130,946	8.67	2,116,203	8.33	1,851,649	7.27	2,122,59
Community, Social and Personal Services:									
Community, social and personal services	1,587,473	7.25	1,668,346	6.79	1,937,428	7.63	1,964,238	7.72	2,109,49
Subtotal	1,587,473	7.25	1,668,346	6.79	1,937,428	7.63	1,964,238	7.72	2,109,49
Others	580,365	2.65	836,034	3.41	907,166	3.57	1,116,601	4.39	1,398,23
Consumer Loans	3,361,964	15.36	3,747,275	15.25	3,974,623	15.65	4,013,459	15.78	4,436,16
Residential Mortgage Loans	5,418,623	24.75	6,404,986	26.06	6,924,766	27.27	7,477,236	29.39	8,052,07
Total	**Ch$ 21,891,333**	**100.00%**	**Ch$ 24,573,426**	**100.00%**	**Ch$ 25,398,424**	**100.00%**	**Ch$ 25,451,513**	**100.00%**	**Ch$ 27,926,63**

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Foreign Country Outstanding Loans

Our cross-border outstanding loans are principally trade-related. These loans include loans granted to foreign financial institutions and foreign corporations, some of which are guaranteed by their Chilean parent company. The table below lists under IFRS the total amounts outstanding to borrowers in certain foreign countries as of the dates indicated, and thus does not include foreign trade-related loans to domestic borrowers.

	As of December 31, 2014		2015		2016 (in millions of Ch$)		2017		2018	
IFRS:										
Brazil	Ch$	33,295	Ch$	23,333	Ch$	14,075	Ch$		Ch$	348
Canada				22,715						
China		22,857								
Colombia		6,075						3,393		4,515
India		18,284								
Mexico		61,225		69,670		44,301		30,402		34,614
Netherlands		18,108		35,234		33,527				
Panama						809		3,118		3,536
Peru		33,233		13,177		4,180		21,389		50,531
Spain				13,480		13,486				
United States				21,261						
Total	**Ch$**	**193,077**	**Ch$**	**198,870**	**Ch$**	**110,378**	**Ch$**	**58,302**	**Ch$**	**93,544**

Credit Review Process

Credit risk is the risk that we will incur a loss because our customers or counterparties do not comply with their contractual obligations.

This risk is managed using a global, unified and forward-looking strategy, which recognizes the current and projected economic environment of the markets and segments in which our different businesses are developing and grants appropriate credit treatment to each such market or segment by using risk limits that we are willing to accept from counterparties.

Managing credit risk is, therefore, inherent to our business and must be incorporated into each segment in which we do business. In this way, we may achieve an optimum balance between assumed risks and attained returns and properly allocate capital to each business line while complying with regulations and criteria defined by our board of directors in order to ensure that we have an appropriate capital base for potential losses that may arise from our credit exposure.

Counterparty limits are established by analyzing financial information, risk ratings, the nature of the exposure, documentation, guarantees, market conditions and the pertinent industry sector, among other factors. The process of monitoring credit quality also includes identifying in advance any possible changes in a counterparty s payment capacity, which enables us to evaluate the potential loss from these risks and take corrective actions.

Approval Process

The Bank analyzes its loan portfolio on a segmented basis and the same approach is used for approval purposes by taking into account the characteristics of each particular targeted group of customers. Given the diversity of the bank s loan book, we utilize different techniques in order to evaluate the credit quality, payment capacity and financial structure of every type of customer.

It is important to note that Banco de Chile organizes its lending business in two business segments, namely, retail banking and wholesale banking. Accordingly, for risk management purposes, Banco de Chile has specialized processes and knowledgeable teams for credit approval in each of these segments.

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Retail Banking Segment

Credit risk assessment is carried out through automated models for personal banking and parametric models for SME banking. These models allow us to determine suitable levels of financial burden, payment capacity and desired exposure to credit risk. These are build-in models that depend on information associated with customers payment behavior, customers borrowings with other banks, similarity to the target market and income segment for personal banking. In the case of SME banking, we add information related to the customer s main commercial activity and diverse financial information. Based on the accuracy we have achieved with these models over time, we are able to provide our commercial areas with timely responses to customer requests.

We have continued to work and focus on the improvement of our retail lending analytics process, covering several elements, such as: (i) data management and data governance, (ii) scoring and loan loss provisioning models, (iii) validation standards and procedures, and (iv) an ongoing monitoring of models and portfolios, among others. These efforts are aimed at enhancing our market-leading position in risk management matters, maintaining a competitive risk-return relationship while reinforcing our governance and regulatory compliance.

Wholesale Banking Segment

Within wholesale banking, credit risk assessment is executed by means of a case-by-case approach, which is based on subjective credit analysis supported by the judgement of specialized officers. This approach consists of a comprehensive individualized review that considers, among other factors, the credit exposure, the loan tenor, the type of loan, the customer s financial soundness and collaterals that could be used to back the loan. All of these quantitative and objective factors are supplemented by a SWOT analysis of the customer and projections for the industry in which the company operates. This process is supported by a credit rating model that enables us to homogeneously evaluate each customer while establishing approval attributions depending on the credit exposure.

Although the Bank has dedicated monitoring teams within the loan approval areas, monitoring efforts are also carried out collectively by the credit risk and commercial areas, which track operations from application to collection, in order to avoid unexpected risks.

Also, we have set approval attributions that are limited by the total customer credit risk. We define total customer credit risk as the sum of the customer s loans and other financial obligations in which the customer is the indebted party, the loans and other financial obligations from a third party that are guaranteed by the customer, the customer s contingent loans and any of the customer s credit facilities. Also, if the customer is part of an economic group, then the total customer credit risk will also include the total amount of the items described above corresponding to all the parties that make up the economic group.

Transactions in which the total customer credit risk is more than Ch$20,674 million require approval from a credit committee, composed of three members of the board of directors and our chief executive officer. Transactions in which the total customer credit risk is equal to or less than Ch$20,674 million may be approved by other risk officers, depending on the amount involved, as follows:

Approved by	**Limit in Ch$**
Credit committee, including members of the board of directors	up to legal limits

Chief executive officer, chairman and chief risk officer	up to Ch$20,674 million
Chief executive officer, chairman or chief risk officer (any two of the three)	up to Ch$13,783 million
Chief risk officer and executive vice president of corporate/wholesale banking	up to Ch$11,026 million
Executive credit risk officers and executive vice president of corporate/wholesale banking	up to Ch$9,648 million
Executive credit risk officers and corporate/wholesale area s executive managers	up to Ch$8,270 million
Senior credit risk officers and corporate/wholesale area s senior managers	up to Ch$5,513 million
Senior credit risk officers and corporate/wholesale area s junior managers	up to Ch$2,757 million
Senior credit risk officers and corporate/wholesale area s department heads	up to Ch$1,654 million
Other department heads	up to Ch$1,013 million
Other officers	up to Ch$276 million

In addition to reviewing the credit limit, the business segment extending the credit must review the terms of the loan, the interest rate and any security to be obtained.

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Control and Follow-up

The ongoing control and follow-up of credit risk is the basis for proactive portfolio management and enables us to recognize risk opportunely while detecting and avoiding potential write-offs in advance. In line with the guidelines we follow for credit assessment purposes, we also utilize control and follow-up procedures in accordance with our main business segments.

Retail Banking Segment

We control credit risk in this segment by continuously monitoring customers and market trends. This approach permits us to take corrective measures and implement necessary adjustments in order to keep credit risk aligned with desired levels. In order to achieve this goal, we generate a wide set of management reports addressing the evolution of portfolio expected loss, vintage analysis, past due at the level of product and segment, in addition to approval guidelines. Further, we have developed statistical models for this segment, which are intended to support the credit assessment process. These models are continuously monitored through back-testing, variable and segmentation stability, among other techniques. This approach enables us to assure the models predictive capability over time.

Wholesale Banking Segment

For wholesale banking segment, we control and monitor credit quality by means of a specialized unit, which has developed diverse methodologies and tools that enable us to carry out a centralized systematic monitoring of thresholds on financial ratios, behavior variables and credit ratings. Thus, for companies reporting risk alerts, we execute a focused follow-up that allows us to take corrective measures in advance.

In addition, portfolio follow-up responsibilities include monitoring of conditions established during the assessment process, such a covenants, collateral, specific restrictions for credit approval and borrowing caps, among others.

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Analysis of Our Loan Classification

The following tables provide statistical data under IFRS regarding the classification of our loans as of the dates indicated. As discussed above, our risk analysis system requires that loans to all customers be classified.

	As of December 31, 2014								
		Commercial Loans		Residential Mortgage Loans		Consumer Loans		Total Loans	Percentage Loans of Classified
	(in millions of Ch$, except percentages)								
IFRS:									
Bank s Credit Rating:									
A1	Ch$	20,405	Ch$		Ch$		Ch$	20,405	0.19%
A2		2,211,120						2,211,120	20.19
A3		2,389,952						2,389,952	21.82
A4		2,372,714						2,372,714	21.66
A5		2,563,562						2,563,562	23.40
A6		1,018,489						1,018,489	9.30
Normal Portfolio		10,576,242						10,576,242	96.56
B1		73,569						73,569	0.67
B2		20,126						20,126	0.18
B3		10,372						10,372	0.09
B4		72,815						72,815	0.66
Substandard Portfolio		176,882						176,882	1.60
C1		40,844						40,844	0.37
C2		36,257						36,257	0.33
C3		9,028						9,028	0.08
C4		21,697						21,697	0.20
C5		71,134						71,134	0.65
C6		21,710						21,710	0.21
Non-complying Portfolio		200,670						200,670	1.84
Total Individual Classified Loans	**Ch$**	**10,953,794**					**Ch$**	**10,953,794**	**100.00%**
Normal Portfolio		1,942,685		5,325,029		3,124,586		10,392,300	
Non-complying Portfolio		214,267		93,594		237,378		545,239	
Total Group Classified Loans	**Ch$**	**2,156,952**	**Ch$**	**5,418,623**	**Ch$**	**3,361,964**	**Ch$**	**10,937,539**	
Total loans	**Ch$**	**13,110,746**	**Ch$**	**5,418,623**	**Ch$**	**3,361,964**	**Ch$**	**21,891,333**	
Percentage of Individual Classified Loans		**83.55%**		**%**		**%**		**50.04%**	

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	As of December 31, 2015				
	Commercial Loans	**Residential Mortgage Loans**	**Consumer Loans**	**Total Loans**	**Percentage Loans of Classified**
	(in millions of Ch$, except percentages)				
IFRS:					
Bank s Credit Rating:					
A1	Ch$ 11,388	Ch$	Ch$	Ch$ 11,388	0.09%
A2	2,390,222			2,390,222	19.93%
A3	2,230,099			2,230,099	18.59%
A4	2,686,228			2,686,228	22.40%
A5	2,802,031			2,802,031	23.36%
A6	1,423,297			1,423,297	11.86%
Normal Portfolio	11,543,265			11,543,265	96.23%
B1	75,932			75,932	0.63%
B2	41,224			41,224	0.34%
B3	3,883			3,883	0.03%
B4	54,027			54,027	0.45%
Substandard Portfolio	175,066			175,066	1.45%
C1	37,111			37,111	0.31%
C2	37,364			37,364	0.31%
C3	10,530			10,530	0.09%
C4	60,259			60,259	0.50%
C5	113,274			113,274	0.94%
C6	19,172			19,172	0.17%
Non-complying Portfolio	277,710			277,710	2.32%
Total Individual Classified Loans	**Ch$ 11,996,041**			**Ch$ 11,996,041**	**100.00%**
Normal Portfolio	2,211,104	6,287,820	3,473,296	11,972,220	
Non-complying Portfolio	214,020	117,166	273,979	605,165	
Total Group Classified Loans	**Ch$ 2,425,124**	**Ch$ 6,404,986**	**Ch$ 3,747,275**	**Ch$ 12,577,385**	
Total loans	**Ch$ 14,421,165**	**Ch$ 6,404,986**	**Ch$ 3,747,275**	**Ch$ 24,573,426**	
Percentage of Individual Classified Loans	**83.18%**	**%**	**%**	**48.82%**	

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	As of December 31, 2016				
	Commercial Loans	**Residential Mortgage Loans**	**Consumer Loans**	**Total Loans**	**Percentage Loans of Classified**
	(in millions of Ch$, except percentages)				
IFRS:					
Bank s Credit Rating:					
A1	Ch$ 30,169	Ch$	Ch$	Ch$ 30,169	0.26%
A2	1,921,212			1,921,212	16.30%
A3	2,313,419			2,313,419	19.62%
A4	2,524,878			2,524,878	21.41%
A5	3,074,587			3,074,587	26.08%
A6	1,525,998			1,525,998	12.94%
Normal Portfolio	11,390,263			11,390,263	96.61%
B1	82,158			82,158	0.70%
B2	31,754			31,754	0.27%
B3	2,884			2,884	0.02%
B4	80,019			80,019	0.68%
Substandard Portfolio	196,815			196,815	1.67%
C1	27,265			27,265	0.23%
C2	39,269			39,269	0.33%
C3	16,380			16,380	0.14%
C4	52,701			52,701	0.45%
C5	51,284			51,284	0.44%
C6	14,891			14,891	0.13%
Non-complying Portfolio	201,790			201,790	1.72%
Total Individual Classified Loans	**Ch$ 11,788,868**			**Ch$ 11,788,868**	**100.00%**
Normal Portfolio	2,518,008	6,784,614	3,723,550	13,026,172	
Non-complying Portfolio	192,159	140,152	251,073	583,384	
Total Group Classified Loans	**Ch$ 2,710,167**	**Ch$ 6,924,766**	**Ch$ 3,974,623**	**Ch$ 13,609,556**	
Total loans	**Ch$ 14,499,035**	**Ch$ 6,924,766**	**Ch$ 3,974,623**	**Ch$ 25,398,424**	
Percentage of Individual Classified Loans	**81.31%**	**%**	**%**	**46.42%**	

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	As of December 31, 2017				
	Commercial Loans	Residential Mortgage Loans	Consumer Loans	Total Loans	Percentage Loans of Classified
	(in millions of Ch$, except percentages)				
IFRS:					
Bank s Credit Rating:					
A1	Ch$ 34,870	Ch$	Ch$	Ch$ 34,870	0.32%
A2	1,411,451			1,411,451	13.01%
A3	2,202,736			2,202,736	20.30%
A4	2,457,834			2,457,834	22.65%
A5	3,019,729			3,019,729	27.83%
A6	1,459,326			1,459,326	13.45%
Normal Portfolio	10,585,946			10,585,946	97.56%
B1	69,989			69,989	0.65%
B2	29,137			29,137	0.27%
B3	1,005			1,005	0.01%
B4	1,122			1,122	0.01%
Substandard Portfolio	101,253			101,253	0.94%
C1	25,533			25,533	0.24%
C2	34,021			34,021	0.31%
C3	3,516			3,516	0.03%
C4	56,127			56,127	0.52%
C5	28,845			28,845	0.27%
C6	13,872			13,872	0.13%
Non-complying Portfolio	**161,914**			**161,914**	**1.50%**
Total Individual Classified Loans	**Ch$ 10,849,113**			**Ch$ 10,849,113**	**100.00%**
Normal Portfolio	2,908,182	7,316,969	3,760,472	13,985,623	
Non-complying Portfolio	203,523	160,267	252,987	616,777	
Total Group Classified Loans	**Ch$ 3,111,705**	**Ch$ 7,477,236**	**Ch$ 4,013,459**	**Ch$ 14,602,400**	
Total loans	**Ch$ 13,960,818**	**Ch$ 7,477,236**	**Ch$ 4,013,459**	**Ch$ 25,451,513**	
Percentage Classified	**77.71%**	**%**	**%**	**42.63%**	

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	As of December 31, 2018 (1)					
	Stage 1	Stage 2	Stage 3	POCI	Total Loans	Percentage Loans of Classified
	(in millions of Ch$, except percentages)					
Bank s Credit Rating:						
Commercial Loans						
Individual						
A1	31,169				31,169	0.27%
A2	1,541,158	59,343			1,600,501	13.70%
A3	2,275,574	21,458			2,297,032	19.66%
A4	2,544,661	79,434			2,624,095	22.46%
A5	3,033,858	328,848			3,362,706	28.78%
A6		1,550,871			1,550,871	13.28%
Normal Portfolio	9,426,420	2,039,954			11,466,374	98.15%
B1		57,463			57,463	0.49%
B2		35,446			35,446	0.30%
B3		333			333	0.00%
B4		1,652			1,652	0.01%
Substandard Portfolio		94,894			94,894	0.80%
C1			25,065	267	25,332	0.22%
C2			29,868		29,868	0.26%
C3			7,952		7,952	0.08%
C4			22,419	319	22,738	0.19%
C5			21,000		21,000	0.18%
C6			14,260	29	14,289	0.12%
Non-Complying Portfolio			120,564	615	121,179	1.05%
Subtotal individual loans	**9,426,420**	**2,134,848**	**120,564**	**615**	**11,682,447**	100.00%
Group						
Normal portfolio	3,049,264	447,225	6,702		3,503,191	93.27%
Non-complying portfolio		13,026	239,734		252,760	6.73%
Subtotal group loans	**3,049,264**	**460,251**	**246,436**		**3,755,951**	100.00%
Total Commercial Loans	**12,475,684**	**2,595,099**	**367,000**	**615**	**15,438,398**	
Residential Mortgage Loans						
Group						
Normal portfolio	6,893,619	993,085	513		7,887,217	97.95%
Non-complying portfolio			164,856		164,856	2.05%
Subtotal group loans	**6,893,619**	**993,085**	**165,369**		**8,052,073**	100.00%
Total Residential Mortgage Loans	**6,893,619**	**993,085**	**165,369**		**8,052,073**	
Consumer Loans						
Group						
Normal portfolio	3,166,290	975,898	24,579		4,166,767	93.93%
Non-complying portfolio			269,394		269,394	6.07%
Subtotal group loans	**3,166,290**	**975,898**	**293,973**		**4,436,161**	100.00%
Total Consumer Loans	**3,166,290**	**975,898**	**293,973**		**4,436,161**	
Total Individual Loans	9,426,420	2,134,848	120,564	615	11,682,447	41.83%
Total Group Loans	13,109,173	2,429,234	705,778		16,244,185	58.17%
Total Loans	**22,535,593**	**4,564,082**	**826,342**	**615**	**27,926,632**	**100.00%**
Percentage Individual Classified	**41.83%**	**46.77%**	**14.59%**	**100%**	**41.83%**	

(1) IFRS 9 replaced IAS 39 for financial statements from January 1, 2018 onwards and includes new classification and measurement requirements for financial assets and liabilities, impairment requirements for financial assets and hedge accounting policy. The application of this standard as of January 1, 2018 has had an impact on our consolidated financial statements at that date. The effect of the first application of IFRS 9 is detailed in Note 5 Transition Disclosures to our audited consolidated financial statements.

Classification of Loan Portfolio

Individual Classified Loans

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. For purposes of establishing the appropriate allowances, the Bank classifies debtors and their operations related to loans into one of three categories of loans portfolio: Normal, Substandard and Non-Complying Loans.

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