2018

ANNUAL REPORT

BANCO security

CONTENTS

BANCO security

01 OUR BANK

Our strategy and organizational culture highly value the integral development of people, while always focused on service quality.

BANCO security


security
FACTORING
GREAT PLACE TO WORK

FINANCIAL SUMMARY

MCH$72,656

PROFIT FOR THE YEAR

MCH$5,346,034

TOTAL LOANS IN 2018

3.27%

MARKET SHARE IN LOANS

EXCLUDING FOREIGN SUBSIDIARIES AND BRANCHES AND LOANS AND ADVANCES TO BANKS

1,268

EMPLOYEES · DEC 2018

56.6% ARE WOMEN

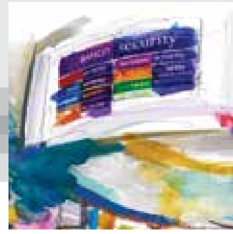
CONSOLIDATED FINANCIAL SUMMARY BANCO SECURITY AND SUBSIDIARIES

FIGURES IN MILLIONS OF CHILEAN PESOS FOR EACH YEAR

RESULTS FOR THE YEAR	2007 (3)	2008 (3)
Total Operating Income (Gross Margin)	85,234	77,397
Management Expenses	45,255	50,191
Net Operating Income (Net Margin)	39,979	27,206
Profit for the Year	27,250	14,332

YEAR-END BALANCES	2007 (3)	2008 (3)
Loans (1)	1,735,299	2,084,693
Financial Investments	600,702	796,434
Interest-Earning Assets	2,336,001	2,881,127
PP&E and Investments in Other Companies	25,720	28,837
Total Assets	2,615,515	3,238,938
Current Accounts and Other Demand Deposits	184,270	221,397
Savings Accounts and Time Deposits	1,466,375	1,720,452
Foreign Liabilities	160,623	292,091
Provisions for At-Risk Assets	18,969	22,730
Capital and Reserves (2)	140,083	170,459
Equity	167,400	184,865

RATIOS	2007 (3)	2008 (3)
Return on Equity	16.28%	7.75%
Return on Total Assets	1.04%	0.44%
Interest-Earning Assets / Total Assets	89.31%	88.95%
Basel Index	10.84	11.48



RESULTS FOR THE YEAR	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Operating Income (Gross Margin)	78,515	99,085	107,953	131,693	128,583	169,925	163,694	238,753	253,946	268,564
Management Expenses	50,885	60,343	67,283	89,848	89,354	105,383	106,622	154,523	131,065	134,370
Net Operating Income (Net Margin)	27,630	38,742	40,670	41,845	39,229	64,542	57,072	84,230	122,881	134,194
Profit for the Year	23,039	33,710	35,020	35,229	32,801	55,908	47,429	50,606	63,026	72,656

YEAR-END BALANCES	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Loans (1)	2,189,085	1,988,633	2,614,571	3,021,457	3,340,912	3,715,964	4,056,096	4,462,332	4,834,290	5,346,034
Financial Investments	946,676	729,465	791,479	706,586	579,000	716,401	749,103	977,681	905,731	1,007,566
Interest-Earning Assets	3,135,761	2,718,098	3,406,050	3,728,044	3,919,912	4,421,627	4,805,199	5,440,013	5,740,021	6,353,600
PP&E and Investments in Other Companies	23,112	23,316	24,215	25,131	25,646	25,683	28,649	29,211	26,178	24,751
Total Assets	3,452,372	3,123,518	3,911,365	4,179,893	4,395,535	5,010,707	5,584,680	6,090,850	6,441,383	6,933,775
Current Accounts and Other Demand Deposits	255,777	285,464	353,615	395,301	425,450	512,242	583,856	570,018	673,475	654,814
Savings Accounts and Time Deposits	1,651,418	1,696,711	2,038,762	2,306,100	2,298,991	2,541,909	2,717,668	3,051,820	2,927,755	2,964,066
Foreign Liabilities	132,120	155,982	289,277	232,399	193,206	146,429	228,156	158,757	188,346	223,071
Provisions for At-Risk Assets	31,218	37,904	35,858	41,815	46,087	59,044	74,300	80,651	80,508	90,152
Capital and Reserves (2)	174,750	172,737	232,443	248,364	275,562	323,143	360,912	411,131	489,997	504,990
Equity	197,854	206,447	267,463	283,593	308,362	379,051	408,340	461,737	553,023	577,646

RATIOS	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Profit / Equity	11.64%	16.33%	13.09%	12.42%	10.64%	14.75%	11.61%	10.96%	11.40%	12.58%
Return on Total Assets	0.67%	1.08%	0.90%	0.84%	0.75%	1.12%	0.85%	0.83%	0.98%	1.05%
Interest-Earning Assets / Total Assets	90.83%	87.02%	87.08%	89.19%	89.18%	88.46%	86.04%	89.31%	89.11%	91.63%
Basel Index	12.56	12.45	12.03	11.92	12.19	12.47	12.10	13.22	14.02	13.22

SOURCE: BANCO SECURITY

NOTES:
(1) INCLUDES LOANS AND ADVANCES TO BANKS. CONTINGENCY LOANS ARE NOT INCLUDED FROM 2007. ACCORDING TO THE NEW RULES THEY DO NOT FORM PART OF LOANS.
(2) INCLUDES OTHER EQUITY ACCOUNTS.
(3) FROM JANUARY 2008 THE STATEMENTS OF FINANCIAL POSITION AND INCOME WERE ADAPTED TO THE IFRS FORMAT DEFINED BY THE SBIF IN THE COMPENDIUM OF ACCOUNTING STANDARDS ISSUED UNDER CIRCULAR 3,410. THEREFORE, FIGURES FROM 2007 ONWARDS ARE NOT COMPARABLE WITH PRIOR YEAR FINANCIAL INFORMATION. THE FIGURES REPORTED FOR 2007 AND 2008 INCORPORATE SUBSEQUENT ADJUSTMENTS TO ALIGN THEM WITH CHANGES IN STANDARDS, AND MAKE THEM MORE COMPARABLE. SINCE JANUARY 2009 ADJUSTMENTS FOR INFLATION HAVE BEEN ELIMINATED.

FINANCIAL SUMMARY

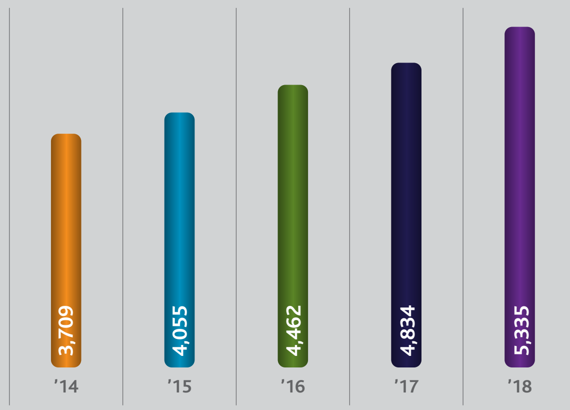
CONSOLIDATED FINANCIAL SUMMARY BANCO SECURITY AND SUBSIDIARIES

FIGURES IN MILLIONS OF CHILEAN PESOS FOR EACH YEAR

TOTAL LOANS

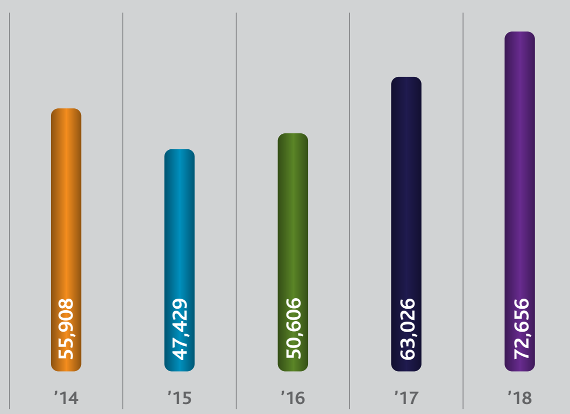
(BCH$)

EXCLUDES LOANS AND ADVANCES TO BANKS



PROFIT FOR THE YEAR

(BCH$)



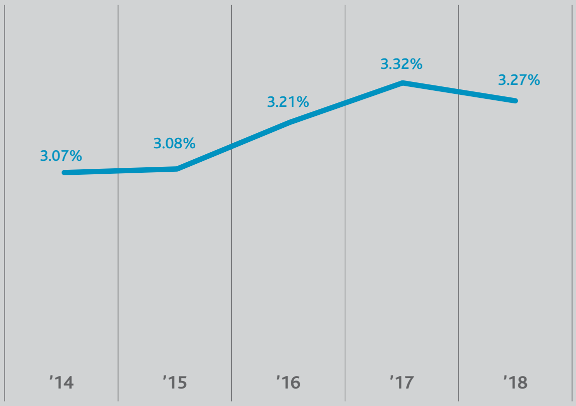
12.58%

ROE 2018

11.55% ROE 2018 FOR THE INDUSTRY

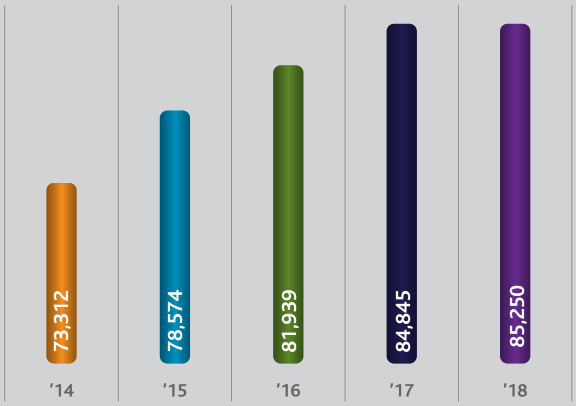
MARKET SHARE

EXCLUDES FOREIGN BRANCHES AND SUBSIDIARIES AND LOANS AND ADVANCES TO BANKS · %



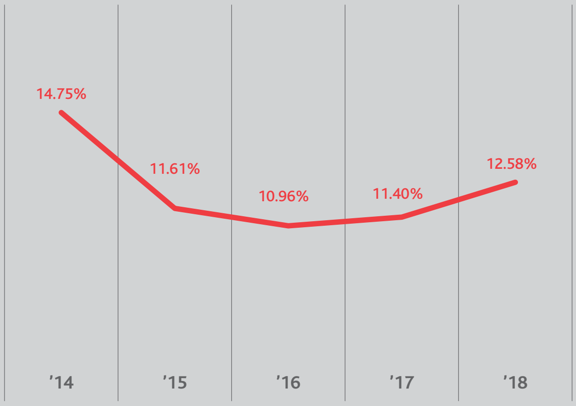
CURRENT ACCOUNTS

NUMBER



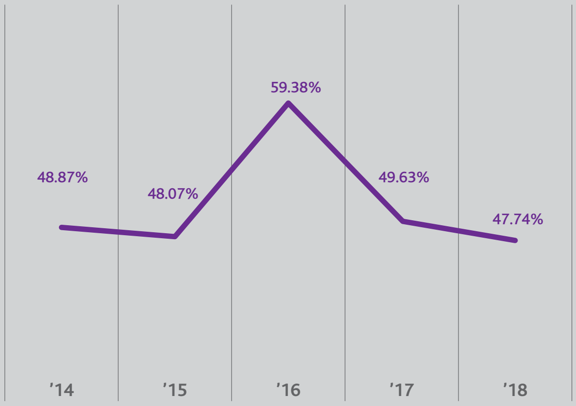
ROE

%



EFFICIENCY

%



FINANCIAL SUMMARY

CONSOLIDATED FINANCIAL SUMMARY BANCO SECURITY AND SUBSIDIARIES

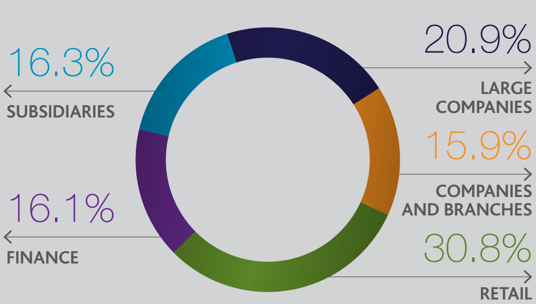
FIGURES IN MILLIONS OF CHILEAN PESOS FOR EACH YEAR

LOAN PORTFOLIO

*EXCLUDES LOANS AND ADVANCES TO BANKS

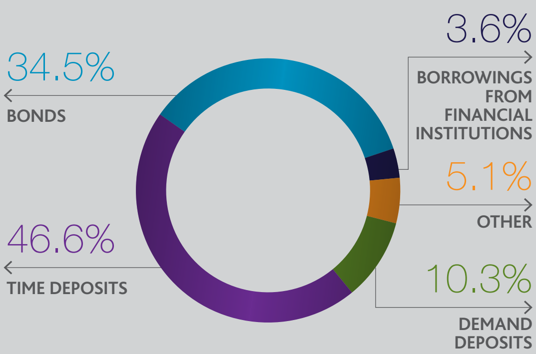
	2018	2017	GROWTH COMPARED TO 2017
COMMERCIAL	4,227	3,775	11.97%
CONSUMER	497	440	12.78%
MORTGAGE	612	619	-1.14%

REVENUE DISTRIBUTION

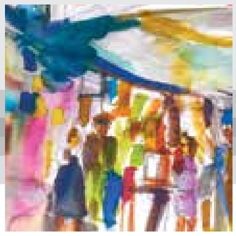


			GROWTH COMPARED TO 2017
LARGE COMPANIES			
	2018	58,668	
	2017	53,925	8.80%
COMPANIES AND BRANCHES			
	2018	44,734	
	2017	40,429	10.65%
RETAIL			
	2018	86,361	
	2017	83,393	3.03%
FINANCE			
	2018	45,246	
	2017	48,393	-6.50%
SUBSIDIARIES			
	2018	45,825	
	2017	43,753	4.74%

LIABILITY DISTRIBUTION



			GROWTH COMPARED TO 2017
TIME DEPOSITS			
	2018	2,965,403	
	2017	2,927,755	1.29%
DEMAND DEPOSITS			
	2018	654,815	
	2017	673,475	-2.77%
BONDS			
	2018	2,191,825	
	2017	1,768,665	23.93%
BORROWINGS FROM FINANCIAL INSTITUTIONS			
	2018	223,071	
	2017	221,418	18.44%



LETTER FROM THE CHAIRMAN

DEAR SHAREHOLDERS

It is my pleasure to present Banco Security's annual report for 2018.

The year was characterized by a profound political change in Chile, accompanied by a new impetus that put our economy back on its feet and overcame four years of low growth and falling investment. However, the external situation was severely affected by the trade war between the United States and China, with the consequent threats to global growth and harmony. As a result, markets were unstable and highly volatile.

Nevertheless, Chile's economic recovery has been even better than was expected at the end of 2017, as the year ended with GDP growth of 4%. Accordingly, Chile is leaving behind the strong stagnation of previous years, and has found a new opportunity to resume its development.

Everything suggests that economic recovery is underway, prospects are favorable and risks are balanced, as indicated by the International Monetary Fund at the end of the year.

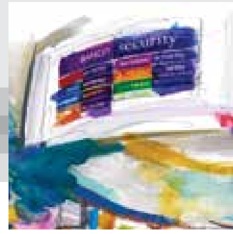
As both people and a pleasant, safe working environment are very important to Banco Security, our employees are at the center of the business. This was reflected in our third place position in the Great Place to Work ranking for the eighteenth consecutive year for Banco Security, together with other companies in the Group, making us one of the best companies to work for in Chile. This distinction has been achieved by all our employees, and demonstrates the sustained commitment to balancing work and family life over the years that we have participated in this study.

We are convinced that our teams are one of the strongest components of our identity. Therefore, their satisfaction is radiated in their behavior and customer approach, by transmitting the values that move us: closeness, transparency and professionalism.

As a result of our efforts, Grupo Security also received the IMPULSA Prize, a distinction awarded by the ChileMujeres Foundation, PwC Chile and La Tercera Pulso to companies who promote employing women in Chile. The award recognized us as the best company in the Banking and Financial Services sector, highlighting our workforce of 64% women.

We also made significant progress in digitalizing our business during the year, which will have a favorable impact on its growth and development. This is an irreversible process, which challenges our growth and competitiveness.

Inversiones Security earned several asset management awards during the year, including first place in Chile in the "Capital Markets Company of the Year" and "Investment Management



PROFIT FOR 2018

MCH$72,656

Company of the Year" categories, presented by The European at the Global Business & Finance Awards 2018.

FINANCIAL PERFORMANCE IN 2018

Banco Security achieved profit of MCH$72,656 during 2018, which represents annual growth of 15.3%. This is more than double the growth achieved by the industry as a whole, which came to 7.1%. This growth was due to improved performances from the Commercial and Retail divisions, while contributions from the Finance Division and subsidiaries fell back slightly due to financial market conditions.

Loans grew by 10.4% over 12 months, which was slightly below the 11.9% growth achieved by the industry over the same period, excluding foreign branches and subsidiaries. However, industry growth was influenced by adding the CMR and Líder credit card portfolios into Banco Falabella and BCI, respectively.

The Bank also achieved efficiency of 47.76% at the end of the year, which was aligned with the average efficiency for the industry of 47.6% over the same period. This is the result of updates and improvements in the Bank's technological platform in recent years.

The subsidiaries Valores Security S.A. Corredores de Bolsa and Administradora General de Fondos Security S.A. contributed profit of MCH$8,683 to the Bank, which is 4.8% lower than the previous year. This is explained primarily by the brokerage subsidiary generating lower transactional revenue.

We are convinced that Banco Security's value proposition is highly valued by the market, and our challenge is to extend it over the long-term, and adapt and improve it to address increasingly rapid change and progress within the industry. Our objectives have always been to provide an excellent service experience for each customer, to generate a working environment that values the capabilities of our employees, to ensure that everyone is fully committed, and to take advantage of every opportunity to add value for our shareholders. We thank each person for their vast and valuable confidence that we can overcome these challenges.

We will continue contributing from our sector to help Chile to continue to progress and reinforce its needed growth.

FRANCISCO SILVA S.

Chairman Banco Security

HISTORY

_1981

In August 1981, Banco Urquijo de Chile was created, as a subsidiary of Spain's Banco Urquijo.

_1987

In 1987, Security Pacific Corporation, a subsidiary of Security Pacific National Bank in Los Angeles, California, acquired 100% of the shares of Banco Urquijo of Chile, renaming the Bank Banco Security Pacific.

Security Pacific National Bank created a securities agency and stock brokerage firm in the same year. It is currently a Bank subsidiary called Valores Security, Corredores de Bolsa.

_1990

Leasing Security was created in 1990 as a subsidiary of Banco Security to provide lease finance.

_1991

In June 1991, Security Pacific Overseas Corporation sells 60% of the bank's share capital to Grupo Security's current controlling shareholders, changing the bank's name to Banco Security.

_1992

The asset management subsidiary, Administradora de Fondos Mutuos Security, was created as a subsidiary of Banco Security in 1992.

_1994

Bank of America, the successor of Security Pacific National Bank, sold the remaining 40% shareholding in Banco Security to Grupo Security in 1994.

_2001

The subsidiary Leasing Security was incorporated into Banco Security as a business unit in April 2001.

_2003

The subsidiary Administradora de Fondos Mutuos Security S.A. extended its business scope and changed its name to Administradora General de Fondos Security S.A. in September 2003.

_2004

In June 2004, Grupo Security acquired a 99.67% stake in Dresdner Bank Lateinamerika, Chile, and on October 1, 2004, it merged with Banco Security.

_2004 CONTINUED

Also in June 2004, the Bank exceeded 1 billion pesos in loans.

_2006

The Retail Banking project led to the launch of four new branches in 2006: at Plaza Constitución, Alcántara and Estoril in the Metropolitan Region and at Viña del Mar in the Fifth Region.

_2007

Two new branches were opened this year: Chicureo and Los Cobres in the Metropolitan Region.

_2008

The branch network continued to expand and branches were opened at Santa Maria and Los Trapenses in 2008.

_2011

A new plan to grow and expand the branch network began, with the opening of three new branches: at Presidente Riesco in Santiago, and at La Serena and Rancagua outside of Santiago.

_2012

Three new branches were inaugurated: at La Reina, Moneda and Talca. Retail Banking reached 50,000 current accounts, and 'Business Banking' exceeded 2 billion pesos in loans.

_2013

A new branch was opened in Copiapó in December 2013, and Retail Banking exceeded one billion pesos in loans.

_2014

Our first Representative Office abroad was opened in Hong Kong in June 2014, making us the only Chilean bank with an office in that city.

AGF Security merged with Administradora General de Fondos Cruz del Sur in December 2014, to command a strong market position in this industry.

_2015

In March 2015, Valores Security merged with the Cruz del Sur brokerage subsidiary. In July 2015, an agreement was reached with Banco Penta to acquire its asset management and brokerage subsidiaries.

_2016

The respective mergers of Penta Administradora General de Fondos S.A with Administradora General de Fondos Security S.A., and Penta Corredores de Bolsa S.A. with Valores Security S.A. Corredores de Bolsa were completed in February.

RECOGNITION

GREAT PLACE TO WORK

Once again, Banco Security, along with other companies in Grupo Security, was distinguished in the Great Place To Work ranking as one of the best companies to work for in Chile, moving up this year to an outstanding and historic third place, an improvement of four positions with respect to the previous year.

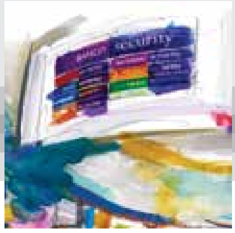
This award is the result of an organizational strategy and culture that values the integral development of individuals and their families. While this award has already become somewhat of a tradition for us, it nevertheless fill us with pride and satisfaction, and motivates us to continue working in harmony with the Grupo Security values.

IMPULSA AWARDS 2018

In June 2018, Grupo Security was distinguished as the best company in the Banking and Financial Services sector with the Impulsa Award 2018. This award is presented by Fundación Chile Mujeres, PwC Chile and Pulso. It is the very first prize in Chile that rewards companies for promoting employment for women in Chile.

The Impulsa Award aims to encourage cultural change within companies, and rewards those that drive female talent by recruiting more women and developing them. The selection method analyses two factors: the total number of women employed and salary equality between men and women.

We are proud to receive this award, which recognizes our constant concern for the women in our organization, who represent 64.4% of our workforce.



SALMON AWARDS 2018

Administradora General de Fondos Security earned new awards in the 2018 Salmon Awards. These were presented by Diario Financiero and LVA Indices. We won one award in the Mutual Funds category and two in Pension Funds Management. The Security Index Fund US Series B Mutual Fund achieved second place in the U.S. Equity Fund category in April. Then in November, the Security Mid Term Series I-APV Mutual Fund achieved first place in the Domestic Debt Fund under 365 days category, and the Security Gold Series I-APV Mutual Fund attained second place in the Domestic Debt Fund under 365 days in UF for less than 2 years category.

PRO PLATINUM FUND PERFORMANCE AWARD

Administradora General de Fondos Security earned a new award for our mutual funds in March 2018. This time, our Security Strategic Growth Mutual Fund was honored as one of the best mutual funds in Chile. This award is presented by Fund Pro Latin America (FPLA) each year.

BEST WEALTH MANAGEMENT COMPANY CHILE 2018

Inversiones Security has been selected as "the best wealth management company in Chile" due to outstanding achievements by its wealth management services. This award was presented by Global Banking & Finance Review (GABF), an English online magazine and leader in its field, which honors institutions around the world with outstanding performance within the banking and financial industry.

MORNINGSTAR AWARDS 2018

Administradora General de Fondos Security was recognized by Morningstar Chile in 2018. Around 90 industry funds competed in the "mixed" category (conservative, moderate and aggressive) and the winner was our Security Strategic Balance Series B Mutual Fund.

THE EUROPEAN GLOBAL BUSINESS & FINANCE AWARDS 2018

Inversiones Security received two awards from The European on-line magazine in 2018 : Capital Markets Company of the Year Chile 2018 and Investment Management Company of the Year Chile 2018.

WORLD FINANCE BANKING AWARDS 2018

The Wealth Management department at Inversiones Security was recognized as the best Private Bank in Chile in June 2018, by the prestigious magazine World Finance.

02 CORPORATE GOVERNANCE

Our management is underpinned by solid and efficient corporate governance, which delivers value and trust by incorporating best practice.

BANCO security

BOARD OF DIRECTORS

The Banco Security Board is composed of 7 directors and 2 alternates, who are actively involved in the Bank's decisions. They ensure that the business is effectively managed and its risks controlled, thus creating value for shareholders and securing an internal balance within the organization.

→ 9 MEMBERS

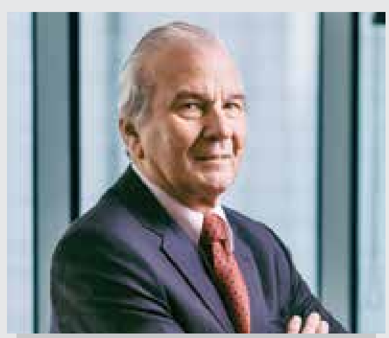
→ 18 BOARD MEETINGS

FRANCISCO SILVA S.
CHAIRMAN

GUSTAVO PAVEZ R.
VICE-CHAIRMAN

JORGE MARÍN C.
DIRECTOR

HERNÁN FELIPE ERRÁZURIZ C.
DIRECTOR



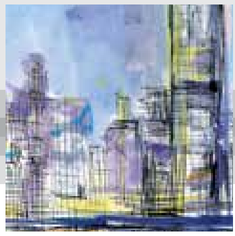
RENATO PEÑAFIEL M.
DIRECTOR

HORACIO PAVEZ G.
DIRECTOR

RAMÓN ELUCHANS O.
DIRECTOR

MARIO WEIFFENBACH O.
ALTERNATE DIRECTOR

IGNACIO RUIZ TAGLE V.
ALTERNATE DIRECTOR



MANAGEMENT

SENIOR MANAGEMENT

CHIEF EXECUTIVE OFFICER
Bonifacio Bilbao H.

GENERAL COUNSEL
Enrique Menchaca O.

CHIEF ECONOMIST
Felipe Jaque S.

PLANNING AND CONTROL DIVISION MANAGER
Manuel Widow L.

CORPORATE CULTURE MANAGER
Karin Becker S.

CONTROLLER
Alfonso Verdugo R.

OPERATIONAL RISK DIVISION MANAGER
Luis Reyes Escatell M.

COMPLIANCE MANAGER
Mauricio Parra L.

SUPPORT AREAS

RISK DIVISION MANAGER
Jose Miguel Bulnes Z.

COMMERCIAL RISK MANAGER
Alejandro Vivanco F.

LOAN RESTRUCTURING MANAGER
René Melo B.

RETAIL RISK MANAGER
Roberto Guajardo J.

LOAN ORIGINATION AND POLICY MANAGER
Jorge Herrera P.

RETAIL COLLECTIONS MANAGER
Fernando Contreras F.

FINANCIAL RISK MANAGER
Antonio Alonso M.

OPERATIONS AND IT MANAGER
Gonzalo Ferrer A.

IT AND PROCESS MANAGER
Raúl Levi S.

CENTRAL AND BRANCH OPERATIONAL PROCESSES MANAGER
Jorge Oñate G.

BUSINESS AREAS

COMMERCIAL DIVISION

COMMERCIAL BANKING DIVISION MANAGER
Christian Sinclair M.

BUSINESS DEVELOPMENT AND PRODUCT MANAGER
Sergio Cavagnaro R.

SPECIALIZED PRODUCTS AND BUSINESS MANAGER
Jorge Verdugo G.

LARGE COMPANIES AND REAL ESTATE

LARGE COMPANIES AND REAL ESTATE MANAGER
Alejandro Arteaga I.

LARGE COMPANIES MANAGER
Rodrigo Tornero J.

LARGE COMPANIES MANAGER
Felipe Oliva L.

REAL ESTATE AND CONSTRUCTION MANAGER
Alberto Apel O.

COMPANIES BANKING AND REGIONAL BRANCHES

COMPANIES BANKING AND REGIONAL BRANCH AFFAIRS MANAGER
Hernán Buzzoni G.

COMPANIES BANKING MANAGER
Patricio Melej R.

COMPANIES BANKING MANAGER
Alberto Leighton P.

STRUCTURED FINANCING

STRUCTURED FINANCING MANAGER
José Antonio Delgado A.

BUSINESS MANAGER
Fabián Videla O.

BUSINESS MANAGER
José M. Costas F.

BUSINESS MANAGER
Sebastián Laso R.

REPRESENTATIVE OFFICE IN HONG KONG

CHIEF REPRESENTATIVE OFFICER IN HONG KONG
Juan Lago H.

RETAIL BANKING DIVISION

RETAIL BANKING DIVISION MANAGER
Hitoshi Kamada

BUSINESS DEVELOPMENT AND PRODUCT MANAGER
Ramón Bustamante F.

BRANCH AFFAIRS AND REMOTE BANKING MANAGER
Rodrigo Reyes M.

EASTERN AREA MANAGER
Annelore Bittner A.

NORTH CENTRAL AREA MANAGER
Rodrigo Matzner B.

SOUTH CENTRAL AREA MANAGER
Tatiana Dinamarca G.

REMOTE BANKING MANAGER
Samuel Ovalle N.

LIABILITY AND INSURANCE PRODUCT MANAGER
María Soledad Ruiz S.

ASSET PRODUCT MANAGER
Nicolás Moreno D.

FINANCE DIVISION AND FINANCIAL BANKING

FINANCE DIVISION AND FINANCIAL BANKING MANAGER
Nicolás Ugarte B.

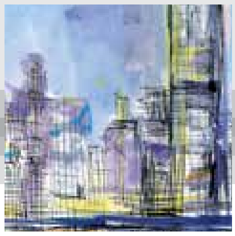
TRADE DESK

ASSET & LIABILITY AND LIQUIDITY MANAGER
Sergio Bonilla S.

INVESTMENT AND TRADING MANAGER
Ricardo Turner O.

DISTRIBUTION MANAGER
Ricardo Santa Cruz R-T

MARKET MAKING AND FINANCIAL BANKING MANAGER
Francisco Forster S.



CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

A. SHAREHOLDERS' MEETINGS →
B. BOARD OF DIRECTORS →
C. COMMITTEES →

- C.1 BOARD CREDIT COMMITTEE
- C.2 EXECUTIVE CREDIT COMMITTEE
- C.3 FINANCE COMMITTEE
- C.4 ASSET AND LIABILITY COMMITTEE (ALCO)
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- C.6 OTHER COMMITTEES

A. SHAREHOLDERS' MEETINGS

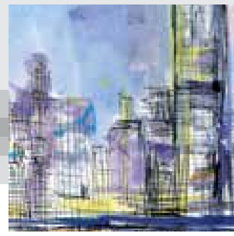
Shareholders' meetings are the highest level of corporate governance regulated by the Corporations Law. Their main functions are to elect the Board of Directors; appoint external auditors and risk rating agencies; approve the annual report, financial statements, profit distributions and capital increases and set fees for the Board of Directors and the Directors' Committee.

B. BOARD OF DIRECTORS

This is the main level of corporate governance. The Board plays a key role in the organization, which includes managing the Company; establishing, approving and overseeing implementation of institutional values and strategic guidelines; and establishing internal control mechanisms and policies to ensure compliance with internal and external regulations to guide the Company's actions.

The Board of Directors of Banco Security is composed of seven directors and two alternate directors. All directors are elected every three years. The last election took place on March 22, 2016, when shareholders re-elected all current directors for a new term. According to the law and our by-laws, ordinary board meetings must be held at least once a month. Extraordinary meetings may be called by the Chairman of the Board or at the request of one or more directors. Sixteen ordinary board meetings have been scheduled for 2019, although this does not include any special meetings that may arise.

The Board is regularly briefed on the Bank's operations, progress and compliance with strategic plans, financial results, compliance with policies and procedures, the results of audits and the status of customer complaints, among other matters. Board members also sit on several committees, which enables them to be involved, understand the Bank's operations in detail and guarantee compliance with established policies.



C1. BOARD CREDIT COMMITTEE

This committee analyzes, evaluates and approves or rejects the most important loan applications, submitted directly by sales areas. This committee examines all Commercial Banking lines of credit greater than approximately UF 30,000 and UF 40,000, depending on guarantees, and Retail Banking lines of credit greater than approximately UF 25,000 and UF 27,000. Its credit authority has no limit other than those established by current regulations and the policies defined by the Board of Directors itself.

The standing members of this committee are:

- FRANCISCO SILVA S.
  Chairman
- RAMÓN ELUCHANS O.
  Director
- MARIO WEIFFENBACH O.
  Alternate Director
- IGNACIO RUIZ TAGLE V.
  Alternate Director
- BONIFACIO BILBAO H.
  Chief Executive Officer
- JOSÉ MIGUEL BULNES Z.
  Risk Division Manager
- CHRISTIAN SINCLAIR M.
  Commercial Banking Division Manager

C2. EXECUTIVE CREDIT COMMITTEE

This committee complements the functions of the former, and analyzes, evaluates and approves or rejects smaller credit requests, and as before, these are submitted directly by the commercial areas.

The committee members depend on the area to which the customer belongs, as detailed below:

COMMERCIAL BANKING

- ALEJANDRO VIVANCO F.
  Commercial Risk Manager
- CHRISTIAN SINCLAIR M.
  Commercial Banking Division Manager
- HERNÁN BUZZONI G.
  Companies Banking and Branch Affairs Manager
- ALEJANDRO ARTEAGA
  Large Companies Manager

RETAIL BANKING

- ROBERTO GUAJARDO J.
  Retail Risk Manager
- JORGE HERRERA P.
  Loan Origination and Policy Manager
- HITOSHI KAMADA
  Retail Banking Division Manager

Additionally, managers, deputy managers, agents or account executives who present credit requests on behalf of their customers may attend.

C3. FINANCE COMMITTEE

The objective of this committee is to jointly evaluate the financial instrument positions and market risks taken by Banco Security and its subsidiaries, defining strategies and ensuring that these are fulfilled.

Its main functions include reporting on the status of each business unit in relation to profits and margins compared to budget, aligning strategies and escalating investment or disinvestment decisions.

The Financial Committee is also responsible for proposing policies and methodologies for managing financial assets to the Board and ensuring compliance with market risk limits set by the Board and regulators.

The members of this committee are:

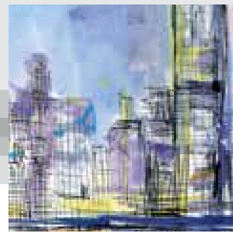
- FRANCISCO SILVA S.
  Chairman
- RENATO PEÑAFIEL M.
  Director
- RAMÓN ELUCHANS O.
  Director
- FELIPE JAQUE S.
  Chief Economist
- BONIFACIO BILBAO H.
  Chief Executive Officer
- NICOLÁS UGARTE B.
  Finance and Corporate Division Manager
- RICARDO TURNER O.
  Investment and Trading Manager
- MANUEL WIDOW L.
  Planning and Control Division Manager
- ANTONIO ALONSO M.
  Financial Risk Manager
- ANDRÉS PÉREZ L.
  Chief Financial Officer, Valores Security
- CÉSAR GUZMÁN B.
  Macroeconomic Manager

C4. ASSET AND LIABILITY COMMITTEE (ALCO)

This committee is responsible for managing and controlling the Bank's (1) structural matching by maturity and currency within the balance sheet, (2) liquidity, (3) net interest margin and (4) capital.

The standing members of this committee are:

- FRANCISCO SILVA S.
  Chairman
- RENATO PEÑAFIEL M.
  Director
- RAMÓN ELUCHANS O.
  Director
- IGNACIO RUIZ TAGLE
  Alternate Director
- BONIFACIO BILBAO H.
  Chief Executive Officer
- NICOLÁS UGARTE B.
  Finance and Corporate Division Manager
- MANUEL WIDOW L.
  Planning and Control Division Manager
- ANTONIO ALONSO M.
  Financial Risk Manager
- SERGIO BONILLA S.
  Asset & Liability and Liquidity Manager
- CHRISTIAN SINCLAIR M.
  Commercial Banking Division Manager
- HITOSHI KAMADA
  Retail Banking Division Manager



C5. AUDIT COMMITTEE

This committee's main objectives are to ensure that the internal controls of the Bank and its subsidiaries are applied, operated and maintained; to monitor that standards and procedures governing their practice are complied with; to review, evaluate, control and support the internal audit function and its independence from management; and to coordinate external and internal audit functions, liaising between them and the Boards of the Bank and its subsidiaries.

The standing members of this committee are:

- HERNÁN FELIPE ERRÁZURIZ C.
  Director and Chairman
- Jorge Marín C.
  DIRECTOR
- Horacio Pavez G
  DIRECTOR

Standing participants:

- BONIFACIO BILBAO H.
  Chief Executive Officer
- ALFONSO VERDUGO R.
  Controller
- ENRIQUE MENCHACA O.
  General Counsel

Additionally special guests may be invited to review particular issues.

The committee's roles and responsibilities include:

A) Proposing a short-list of external auditors to the Directors' Committee, or in its absence to the Board.

B) Establishing a business relationship with the external audit firm selected, and clarifying the audit terms and scope before work begins. Any discrepancy or difference in interpretation with respect to the audit terms should be resolved as soon as possible.

C) Proposing a short-list of risk rating agencies to the Directors' Committee, or in its absence to the Board.

D) Understanding and analyzing the results of audits and internal reviews.

E) Coordinating the work of internal auditors with the external auditors' reviews.

F) Analyzing the interim financial statements and the annual accounts and reporting to the Board.

G) Analyzing the external auditors' reports, and the content, procedures and scope of their reviews. Also, these auditors should be granted access to the committee meeting minutes to provide them with the details of situations that might be relevant for audit purposes.

H) Analyzing external risk rating reports and the procedures they applied.

I) Assessing the effectiveness and reliability of internal control systems and procedures. Therefore, the committee should be familiar with the risk management methods and systems used by the Bank and its subsidiaries.

J) Analyzing the adequacy, reliability and effectiveness of information systems, and their value to decision making.

K) Ensuring that corporate policies adhere to the laws, regulations, and internal standards that the organization must abide by.

L) Understanding and resolving conflicts of interest and investigating fraud and suspicious behavior.

M) Analyzing instructions and presentations from regulators and analyzing inspection visit reports.

N) Understanding, analyzing and verifying compliance with the annual internal audit program.

C5. AUDIT COMMITTEE · (CONTINUED)

O) Requesting a report every six months from the Chief Compliance Officer to understand the structure, planning, results and management of that area.

P) Informing the Board of any changes in accounting policy and their effects.

Q) Evaluating the controller of the Banks and subsidiaries on an annual basis and reporting the results of this evaluation to the Chairman.

R) Escalating to the Board any important or material matters that the committee believes should be resolved by the Board.

S) Understanding the court cases and any other legal contingencies that may affect the Bank.

T) Understanding, analyzing and resolving any other issues that one or more members may submit.

The committee met ten times during 2018, where the following complementary issues were addressed:

A) Analyzed the 2017 Financial Statements.

B) Analyzed the external auditors' letters regarding internal controls and adequacy of provisions for 2017.

C) Analyzed the process to appoint external auditors and risk rating agencies for 2018, in order to report to the Board of Directors at its March meeting, so that it may make a recommendation to the corresponding annual general shareholders' meeting.

D) Received reports on internal audits of the Bank and its subsidiaries, and other related reviews.

E) Received reports on semiannual regulatory audits (SBIF).

F) Coordinated between the Controller's functions and external auditors reviews.

G) Analyzed SBIF letters reporting on the outcome of their 2018 visits (Operational Risk, Financial Risk and Governance Issues).

H) Analyzed the reports, contents, procedures and scope of the external auditors' reviews, and the corresponding action plans.

I) Analyzed the reports and review procedures issued by the external risk rating agencies.

J) Reviewed the changes in standards that affect the Bank and its subsidiaries, and discussed their implications.

K) Reviewed risk reprogramming, action plans and acceptance.

L) Reviewed and analyzed legal and regulatory developments.

M) Reviewed the court cases and other legal contingencies affecting the Bank.

N) Monitored the 2018 annual audit plan for the Bank and its subsidiaries. In December 2018 the Audit Committee reviewed the Audit Plan proposal for 2019, which was submitted to the Board.

O) Analyzed the implementation of action plans prepared by the Bank and its subsidiaries arising from SBIF, FMC, internal, external and regulatory audit reports.

P) Heard presentations by CEOs at subsidiaries to review the management of their action plans.

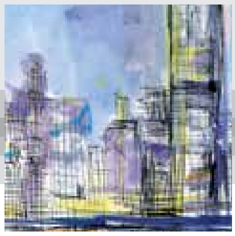
Q) Reviewed and monitored operational risk losses.

R) Analyzed the Management and Solvency Self-assessment 2018 (RAN Chapter 1-13) with an internal audit opinion, prior to submitting it to the Board.

S) Reviewed complaints by reporting source and product/service.

T) Heard presentation by division managers regarding their organization, functions, risks and the status of their action plans covering: accounting, compliance, operational risk, finance, planning and management, risks, companies and individuals. (RAN, Chapter 1-15, Audit Committees, Section 6.1.1).

U) Analyzed the interim financial statements.



C6. OTHER COMMITTEES	OBJECTIVES
STRATEGY	→ Defines strategic guidelines, risk appetite and capital management
COMMERCIAL / RETAIL SALES MANAGEMENT	→ Review compliance with budget, deviations and mitigations, and progress on sales initiatives.
OPERATIONAL RISK	→ Analyze comprehensive management of operational risks. → Disseminate and monitor operational risk policies.
INVESTMENTS IN PP&E AND TECHNOLOGY	→ Review and approve the annual investment budget → Review and approve individual projects and monitor progress.
PREVENTION, ANALYSIS AND RESOLUTION OF ASSET LAUNDERING	→ Publish, implement and monitor policies that prevent asset laundering → Analyze cases involving asset laundering.
RISK	→ Review and monitor all matters related to effective credit risk management.
WATCH	→ Review higher-risk loans, monitor their status and take action.
RECLASSIFICATION	→ Review the details of customers likely to be reclassified based on the latest available information, discuss and decide on reclassification in each case.
MODELS	→ Review and monitor models currently used for credit risk management. Submit new models for approval and monitor progress.
LOAN RESTRUCTURING	→ Analyze the management of the Loan Restructuring Area relating to recoveries, uncollectables, revenue, Credit Committee submissions, among others.
PHYSICAL SECURITY	→ Report and analyze the comprehensive management of physical security at the Bank, adopt measures that are relevant, and monitor security policies, standards and procedures.
NEW PRODUCTS	→ Present and analyze new products, including an impact evaluation on each area of the Bank and a financial evaluation, and submit them for approval and implementation.
REGULATORY	→ Understand and analyze the scope and impact of new regulations issued by the various regulatory entities, and ensure that they are correctly implemented by the Bank and its subsidiaries.

03 STRATEGY AND PERFORMANCE

We strive every day to become a bank that is preferred by our customers, the best place to work and a model for the community.

BANCO security

BUSINESS STRATEGY

The strategy employed by Banco Security and its subsidiaries is aligned with the guidelines issued by Grupo Security, a niche financial group based in Chile, which aims to position itself as a comprehensive provider of financial services across its various business areas.

Since its formation, Banco Security has placed people at the core of its business, which has enabled it to remain competitive and achieve reasonable profitability in an increasingly competitive market.

VISION →	TO STRENGTHEN ITS POSITION AS A NICHE BANK AND LEADER IN SERVICE QUALITY BY PROVIDING FINANCIAL PRODUCTS AND SERVICES TAILORED TO EACH CUSTOMER AND ALWAYS PLACING PEOPLE AT THE CENTER OF ITS BUSINESS.
MISSION →	TO MEET THE FINANCIAL NEEDS OF LARGE AND MEDIUM-SIZED COMPANIES AND HIGH-INCOME INDIVIDUALS, BY DELIVERING EXCEPTIONAL INTEGRATED SERVICES IN ORDER TO BUILD LONG-TERM RELATIONSHIPS WITH EACH CUSTOMER. TO ALWAYS BE GENUINELY CONCERNED FOR INDIVIDUALS AND THEIR FAMILIES AND RECOGNIZED AS A GREAT PLACE TO WORK. TO ACCOMPLISH THIS, THE BANK PROVIDES A COMPLETE RANGE OF PRODUCTS AND SERVICES, BACKED BY FIRST-CLASS TECHNOLOGICAL SUPPORT, APPROPRIATE RISK POLICIES, EXCELLENT PROFESSIONAL STAFF AND SUPPORT FROM GRUPO SECURITY.

Banco Security ensures that these objectives are fulfilled, with a special emphasis on its six strategic pillars: Service excellence, focus on target segment, products and services, customer loyalty, efficiency and people. The entire bank, and particularly the sales areas, have defined specific strategic objectives and the most appropriate structure to implement them.

PILLARS

SERVICE EXCELLENCE	THIS IS THE BANK'S DISTINGUISHING FEATURE, WHICH IS RECOGNIZED AND APPRECIATED BY CUSTOMERS AND THE MARKET, AND REFLECTS THE BANK'S CONSTANT CONCERN TO ENSURE THAT IT COMPLIES WITH THE SERVICE QUALITY STANDARDS THAT CHARACTERIZE THE SECURITY BRAND.
FOCUS ON TARGET SEGMENT	BANCO SECURITY HAS BEEN ABLE TO GROW WHILE MAINTAINING ITS FOCUS ON ITS TARGET SEGMENTS IN COMMERCIAL AND RETAIL BANKING. THIS HAS BEEN FUNDAMENTALLY IMPORTANT, TO AVOID COMPROMISING SERVICE QUALITY.
PRODUCTS AND SERVICES	THE BANK IS CONCERNED WITH KEEPING OUR PRODUCTS AND SERVICES UP TO DATE WITH RESPECT TO OTHER BANKS. WE DIFFERENTIATE OURSELVES BY OUR ABILITY TO ADAPT OUR PRODUCTS AND SERVICES TO THE SPECIFIC REQUIREMENTS OF EACH CUSTOMER, AND BY THE COMPREHENSIVE PACKAGE THAT WE OFFER TOGETHER WITH OTHER COMPANIES WITHIN GRUPO SECURITY.
CUSTOMER LOYALTY	THE SALES TEAM CONTINUALLY ENCOURAGES CUSTOMERS TO EXPAND THE RANGE OF PRODUCTS AND SERVICES THEY USE AT THE BANK AND AT OTHER COMPANIES WITHIN GRUPO SECURITY, BUILDING ON THE PREMIUM QUALITY SERVICES PROVIDED BY THE BANK.
EFFICIENCY	ONE OF THE BANK'S STRATEGIC OBJECTIVES IS TO MAINTAIN THE FLEXIBILITY INHERENT IN A SMALL BANK, WHILE ALWAYS AIMING TO ACHIEVE THE EFFICIENCY OF LARGER BANKS.
PEOPLE	CONCERN FOR PEOPLE AND THEIR FAMILIES IS A CORE ELEMENT OF THE BANK'S STRATEGY. SERVICE EXCELLENCE IS BASED ON COURTESY TOWARDS AND A CLOSE RELATIONSHIP WITH CUSTOMERS. ONE KEY TO ACCOMPLISHING THIS IS HAVING EMPLOYEES COMMITTED TO AND IMMERSED IN THE SECURITY CULTURE.

COMMERCIAL BANKING

"We want to be the leader in commercial banking in Chile and the bank our customers prefer"

Three models of customer service have been identified to address the profiles of our customers in our target commercial banking segment, with an emphasis on the value proposition that each sub-segment considers most important:

LARGE COMPANIES AND REAL ESTATE

This model targets companies that are looking for a bank that acts as an advisor and understands their business as well as they do, and consequentially understands their financial requirements and the best way to meet them. This model is divided into three sub-segments, depending on their size, in addition to specialized areas such as:

→ REAL ESTATE AREA

This area has extensive experience in the market providing custom financing to real estate projects.

→ AGRICULTURAL AREA

Finance is granted to this sector of the economy that is adapted to the requirements of product varieties and their agricultural maturity, and customers are attended by specialized professionals.

→ MULTINATIONAL AREA

Focuses on all the companies that directly or indirectly belong to any foreign multinational company. These financial products and specialized services are managed by executives with vast experience.

→ ENERGY AND CONCESSIONS AREA

This area provides customized finance to each energy project and to concessions.

COMMERCIAL BANKING

COMPANIES BANKING AND REGIONAL BRANCHES	This model targets companies looking for the best overall service for their financial requirements. This service is improved by dividing customers into two sub-segments by size and an additional sub-segment serving regional customers.
FINANCIAL BANKING	This model targets corporate and institutional customers, who require highly sophisticated products and services. They are very demanding in terms of speed and cost, but are not willing to sacrifice service quality. These three aspects need to be combined seamlessly, so this area was incorporated into the Finance Division and its executives work closely with our Trade Desk.

THESE ARE COMPLEMENTED BY AREAS PROVIDING SPECIALIZED PRODUCTS SUCH AS:

STRUCTURED FINANCING AND FINANCIAL ADVISORY	This area has highly trained professionals and provides advice for project finance, restructuring liabilities, syndicated loans, and corporate acquisitions, and other services.
FOREIGN TRADE AND INTERNATIONAL SERVICES	Banco Security has made this a strategic area in the value proposition for our customers, and for this reason our proximity to customers and the effectiveness of our processes and products, particularly the electronic platform E-Comex, are strengths that are widely recognized in the market. These services were strengthened when Banco Security opened a representative office in Hong Kong in June 2014, making us the only Chilean bank with a presence in this important global financial center and a trade bridge with China.
LEASING	This area is fundamental within the value-added services provided to the Bank's business customers, because it provides financing for companies to enable them to continue growing and improve their competitiveness, either through asset or real estate leases or lease-back.

The portfolio of products and services offered by the Bank to business customers includes a complete range of credit products in local and foreign currencies, financial advice, structured finance, mortgage financing, leasing, current accounts in local and foreign currencies, foreign trade, purchase and sale of foreign currencies, payment options, payment services, derivatives (exchange rate hedges, inflation hedges, swaps), deposits, investments and others.

RETAIL BANKING

"We want to provide our customers the best service experience through preferential, specialized advising because we believe that where there's a will, there's a way."

The target segment for Retail Banking at Banco Security is the socioeconomic sector ABC1. We have identified three models of customer care that have been adapted to the profile and requirements of customers in each target segment, to achieve greater specialization with high standards of service quality.

PRIVATE BANKING AND PREMIER BANKING →	This area targets high-income and high net-worth customers, who require personalized, specialized investment care, extensive advising from their account executive and a unique range of products and services tailored to their requirements.
PREFERENTIAL BANKING →	This area targets customers looking for traditional financial products and services to support their projects at different stages in their lives. They expect timely financial solutions and first-class personalized attention.
ENTREPRENEUR BANKING →	This area targets entrepreneurs that need both retail and commercial banking services, with annual revenues under UF 35,000. For this segment, the Bank has designed a flexible offering of financial products and services with ongoing advising from a network of specialized executives.

Always focused on providing our customers comprehensive service, the Bank offers a range of products and services for these segments, which includes current accounts in local and foreign currencies, a wide variety of credit products, mortgage financing, purchase and sale of foreign currencies, payment options (credit and debit cards), payment services, insurance, investment instruments and others.

Banco Security has developed a series of remote customer service channels to provide its customers quick and easy access to their products and services without going to a branch.

TRADE DESK

The Trade Desk has always been considered an essential complement of our traditional banking business. This area focuses on institutional customers, and provides them with a wide range of financial products along with advice whenever needed, and manages their investment portfolios. In addition, this area is responsible for managing matching and liquidity at the Bank, according to guidelines from the ALCO. Therefore, the area is composed of:

DISTRIBUTION SERVICES →	All the financial products managed by the Trade Desk are offered to our customers, such as: trading foreign currency, time deposits, foreign exchange and inflation hedges, swaps and other financial derivatives, and combinations of these products structured according to each customer's specific requirements.
TRADING SERVICES →	Management of a portfolio of short-term investments.
ASSET MANAGEMENT SERVICES →	Management of a portfolio of medium and long-term investments.
ASSET & LIABILITY AND LIQUIDITY SERVICES →	This area is in charge of managing interest rate risk and currency and liquidity gaps generated by structural mismatches in the balance sheet, following guidelines provided by the ALCO.

ASSET MANAGEMENT

The mission of Inversiones Security is to support and guide its customers while identifying and implementing the best investment solutions for their asset management requirements.

The vision of Investment Security is to be a leader in consulting and asset management for high-net-worth customers and institutional investors, while conducting our business in a consistent and complementary manner to Grupo Security's value proposition.

Administradora General de Fondos Security (AGF), with over 25 years' experience and a prestigious market reputation, serves diverse customer segments, including mid-sized investors, high-net-worth individuals, companies and institutional investors in need of specialized, professional asset management services.

Valores Security S.A. Corredores de Bolsa works to understand its customers' needs and proactively assist them in selecting from among the different investment alternatives available in the market. It accomplishes this through its international business platform and a team of highly trained professionals, which make global investing straightforward and transparent. Valores Security is a major player in domestic debt trading for the institutional market.

ECONOMIC AND FINANCIAL CONTEXT

OVERVIEW

The year 2018 was characterized by considerable economic and financial uncertainty. This was due to a number of factors beginning to take shape that pushed volatility indicators upwards. Global growth was losing strength, although the U.S. had a relatively better performance, and in a context of excess demand the Federal Reserve continued to trigger increases in interest rates. This context of moderation in global growth expectations, and similarly in corporate profits, and an appreciating U.S. dollar that created a poor outlook for emerging economies, was exacerbated by the escalation of a trade war between the two global powers, the U.S. and China.

A variable that reflected this rise in uncertainty was the currency volatility index, which almost doubled from its position at the beginning of the year. The U.S. dollar closed the year 4.4% above developed currencies (measured by the DXY index) and 10.7% above a basket of emerging currencies (EMCI index). This drove down raw material prices. Copper fell by 10.4% during the course of the year, although the WTI crude oil price rose by 27% (albeit with higher volatility, as it started at US$60, rose to US$75 in the third quarter and then fell to US$45 by the end of the year), which together generated a deterioration of 2% in terms of trade. Finally, global equities also performed poorly, with an 11% drop measured by the global MSCI index.

The Federal Reserve continued to slowly but steadily withdraw monetary stimulus, moving very gradually to a more restrictive policy in line with the upturn in the U.S. economy, leading to less favorable external financial conditions.

GLOBAL GROWTH

Global GDP grew by 3.6% in 2018, with a very similar context to the previous year when it expanded by 3.7%. Developed countries grew by 2.2% (2.3% in 2017), while emerging economies grew by 4.6% (4.7% in 2017).

DEVELOPED NATIONS

The United States grew by 2.2% in 2017 and by 2.9% in 2018, driven by strong private consumption (which was up 2.6%), which arose from a strong labor market and significant growth in non-residential industrial investment, which grew by 7%. This was largely due to tax cuts, which had greater effects than anticipated.

The Eurozone moderated its pace of growth with GDP growing by 1.8%, below the 2017 figure of 2.5%, which was even more pronounced than expected. This is partially explained by monetary policy becoming slightly less expansionary. However, it continued to grow above potential (1% - 1.5%). Confidence indicators that had reached very high levels at the beginning of 2018 then eased over subsequent months. Furthermore, the region is not oblivious to greater aversion to global risk, reflected in the 17% drop in stock markets, as measured by the MSCI Europe index.

EMERGING NATIONS

During 2018, China was more of a protagonist than usual, given its size in the world economy. Despite GDP growth in line with expectations at 6.6%, the signs of a deeper moderation in its

economy triggered a rise in global uncertainty, which increased during the year as the trade conflict with the U.S. escalated. This was reflected in its stock market, which declined 20% in the year.

GDP for Latin America grew at a similar rate to the previous year of 1% and 1.2%, respectively, but with differences in composition. Peru and Chile accelerated their pace of expansion, while Mexico and Brazil maintained an increase of 2% and 1.2%, respectively, while Argentina grew by 3% in 2017 then contracted by 2.5% in 2018.

EQUITY AND DEBT MARKETS

This backdrop of a stronger U.S. dollar and greater uncertainty resulted in widespread losses among risky assets. As already mentioned, the global stock market fell by 11% in U.S. dollar terms, measured by the MSCI index. Emerging nations reported an decrease of 17% while in developed nations the fall was 10%.

Within emerging nations, China reported a fall of 20% and Chile 21%, while Latin America recorded a fall of 9%, due to improved relative performance from Brazil with a fall of 4%, as a result of idiosyncratic factors such as improved expectations following the inauguration of a new government. Within developed nations, U.S. shares fell by 6%, although this was substantially less than falls registered in the Eurozone of 19% and Japan 15%.

This lower risk appetite was also reflected in the bond market where U.S. bonds with higher risk (high yield) fell 2.1% and the most secure (high grade) dropped 0.5%. Sovereign bonds from emerging countries (EMBI) fell by 4.6%, while corporate bonds (CEMBI) declined by 1.2%.

GLOBAL GDP (% CHANGE)	
2018	3.6%
2017	3.7%

U.S. GDP (% CHANGE)	
2018	2.9%
2017	2.2%

EUROZONE GDP (% CHANGE)	
2018	1.8%
2017	2.5%

LATIN AMERICAN GDP (% CHANGE)	
2018	1.0%
2017	1.2%

CHILE

This was a year of moderate optimism for Chile, since its economic recovery was even better than expected, but the deteriorating global outlook eroded expectations. In fact, GDP growth reached 4%, which was well above the 3% expected at the end of 2017. The indicators of economic expectations for consumers and business reached a peak during the first half of 2018 and then moderated over subsequent months, as the global outlook deteriorated.

This good performance was caused by accelerating investment, partially as a result of expectations from the new government, and continuing dynamism within private consumption. In the third quarter of 2018 there were specific factors that undermined economic performance, mainly in manufacturing and mining, but these partially reversed in the last quarter of the year.

SPENDING

Domestic demand grew by 4.7% during the year, which was driven by private consumption with a 3.9% increase, while investment reversed four consecutive years of contraction and expanded by 5.5%, also above expectations at the beginning of the year. There was also evidence of accumulating inventory, contributing almost 0.2% to growth.

GROWTH BY INDUSTRY

Every economic sector increased with respect to 2017. Industries with particularly strong performances include fisheries with 5.4%, agriculture with 5%, trade with 5% and mining with 4.7%. Despite this good economic performance, job creation rose slowly at 1.4%, which was less than the 2% achieved in the previous year, and resulted in a slight increase in the average unemployment rate from 6.7% to 7%. However, the composition of employment was better than the previous year, as the creation of salaried jobs accelerated from 0.9% in 2017 to 2%, while self-employment moderated from 5.2% to 0.9% in the same period.

FOREIGN TRADE

Exports totaled US$75.5 billion, an increase over the US$69.2 billion exported in 2017. Practically half of these exports were copper shipments, totaling US$36.5 billion. Export volumes increased by 5%, with similar behavior from copper at 4.8% compared to other products at 5.7%. Imports totaled US$ 70.1 billion, driven by a 28% rise in fuel imports including oil, followed by capital assets at 12% and consumer goods at 8%. Total import volumes rose 9%. Therefore, the year-end balance of trade was US$5.3 billion. After the negative GDP balance in 2017 of 2.8%, the fiscal result for the year closed with a deficit of 1.7% of GDP, as a result of greater economic dynamism and the rise in copper prices, which increased tax revenue and offset higher government spending.

PRICE INDEXES

Inflation remained stable throughout the year, fluctuating around the lower end of its target range of 2% to 4%, and

its acceleration from 2% to 3% over subsequent months was mainly due to an increase in the prices for volatile commodities such as food and energy, which tended to moderate towards the end of the year. Core inflation (IPCSAE), which excludes these components, increased very gradually from 1.6% at the beginning of 2018 to 2.3% in December. This was due to the gradual elimination of excess output in the economy. The CPI for tradables increased by 1.8% in the year, while the CPI for non-tradables reached 3.5%.

REFERENCE INTEREST RATES

As the economy was gradually recovering, the Chilean Central Bank maintained significant monetary stimulus for the majority of the year and, as the recovery became increasingly sustainable, it began to very cautiously withdraw its stimulus, with an increase of 25 basis points in October and a restrictive bias. Thus, the reference interest rate ended the year at 2.75%.

EXCHANGE RATES

Movements in exchange rates during 2018 flowed in two different directions. At first, global weakness in the U.S. dollar that began in 2017 continued, and the remaining currencies appreciated (the U.S. dollar/Chilean peso exchange rate reached $585). But then increasing global uncertainty and Federal Reserve decisions reversed this trend and the U.S. dollar began to appreciate. The Chilean peso was no exception with its parity rising to about $700 at year end, equivalent to depreciation of around 20%.

CHILEAN GDP (% CHANGE)	
2018	4.0%
2017	3.0%

UNEMPLOYMENT RATE (%)	
2018	7.0%
2017	6.7%

EXCHANGE RATE (Y/E CH$/US$)	
2018	696
2017	615

ANNUAL INFLATION (%)	
2018	2.6%
2017	2.3%

PERU

THE ECONOMY

The economy grew by 4.4% during the first half of the year, and then moderated in the third quarter to 2.3%, due to tempering investment and falling commodity prices, coupled with greater uncertainty. However, it recovered in the fourth quarter, which led to GDP growth of 4% for the year as a whole. This good performance was due to recovering domestic demand, which grew at 4.4% in 2018 following only 1.4% in 2017, with its main components accelerating their pace of growth, specifically private consumption from 2.5% to 3.7%, private investment from 0.2% to 4.7% and public investment from -2.3% to 10%.

BALANCE OF TRADE

The trade balance reached a surplus of US$7 billion in 2018. This was due to exports increasing by 8% to US$48.9 billion, while imports increased by 8% to US$41.9 billion. Terms of trade remained practically stable in 2018, as the rise in export prices of 6.3% was similar to that of imports at 6.5%. The current account deficit on the balance of payments was 2% of GDP in the year, in line with the average since 2006.

INFLATION

The inflation rate fell from 1.4% in December 2017 to 0.4% in the first quarter of 2018, and then begin a gradual recovery to finish the year at 2.2%, which reversed the supply effects in the previous year. Inflation excluding food and energy remained at around 2% throughout the year. Both measures remained within their target range of 1% to 3%.

REFERENCE INTEREST RATES

The Peruvian Central Reserve Bank reduced the reference rate twice, in January and March 2018, to arrive at 2.75%, and it did not change for the remainder of the year. This delivered a stimulus to counteract moderation in the economy, while inflation remained under control at under 2% for most of the year, inflation expectations were stable and the output gap was negative.

EXCHANGE RATES

In line with trends in other Latin American currencies, the exchange rate depreciated 4% from 3.24 soles per dollar in late 2017 to 3.37 soles per dollar by the end of 2018. The Peruvian Central Reserve Bank used intervention instruments in the foreign exchange market, mainly in the second half of the year, to reduce volatility during this period.

MAIN ECONOMIC INDICATORS

MAIN ECONOMIC INDICATORS CHILE	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP (MUS$)	173	219	252	267	278	261	244	250	277	296
GDP per Capita (US$)	10,235	12,807	14,619	15,313	15,805	14,649	13,578	13,763	15,042	15,781
GDP (% change)	-1.6	5.8	6.1	5.3	4.0	1.8	2.3	1.3	1.5	4.0
Domestic Spending (% change)	-6.5	13.6	9.4	7.2	3.6	-0.5	2.5	1.4	3.1	4.7
Private Consumption	-0.9	10.7	8.2	6.1	4.6	2.7	2.1	2.2	2.4	3.9
Fixed Capital Investment	-13.3	13.1	16.1	11.3	3.3	-4.8	-0.3	-0.7	-1.1	5.4
Exports (% change, in real terms)	-4.2	2.3	5.5	0.4	3.3	0.3	-1.7	-0.1	-0.9	5.3
Imports (% change, in real terms)	-16.6	-25.7	15.2	5.2	2.0	-6.5	-1.1	0.2	4.7	9.2
Global Growth PPP (%)	0.0	5.4	4.1	3.4	3.3	3.6	3.4	3.1	3.7	3.6
Copper Price (average US$ /pound, in cents)	234	342	400	361	332	311	250	221	280	296
WTI Oil Price (average US$/per barrel)	62	79	95	94	98	93	49	43	51	65
Federal Funds Rate (Y/E, %)	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.8	1.5	2.5
180-day LIBOR Rate (Y/E, %)	0.4	0.5	0.8	0.5	0.3	0.3	0.8	1.3	1.8	2.7
10-year U.S. Treasury Bonds (Y/E, %)	3.8	3.3	1.9	1.8	2.9	2.2	2.2	2.5	2.4	2.8
Euro (Y/E, US$)	1.43	1.34	1.30	1.32	1.37	1.21	1.09	1.05	1.18	1.14
Yen (Y/E, ¥/US$)	93	81	77	87	105	120	122	116	113	112
Balance of Trade (MUS$)	15.3	15.9	10.8	2.6	2.0	6.5	3.4	5.4	7.9	5.4
Exports (MUS$)	55.5	71.1	81.4	78.1	76.8	75.1	62.0	60.7	69.2	75.5
Imports (MUS$)	40.1	55.2	70.7	75.5	74.8	68.6	58.6	55.3	61.3	70.1
Current Account (MUS$)	3.2	3.1	-4.1	-10.5	-11.2	-4.3	-5.5	-3.5	-4.1	-8.7
Current Account (% of GDP)	1.9	1.4	-1.6	-3.9	-4.0	-1.6	-2.3	-1.4	-1.5	-2.9
Central Government Balance (% of GDP)	-4.3	-0.5	1.3	0.6	-0.6	-1.6	-2.1	-2.7	-2.8	-1.7
CPI Dec-Dec (%)	-1.4	3.0	4.4	1.5	3.0	4.6	4.4	2.7	2.3	2.6
Core CPI (CPIXfn) Dec-Dec (%)	-2.8	1.5	2.4	1.5	2.1	4.3	4.7	2.8	1.9	2.3
Chilean Central Bank International Inflation (% average)	-7.2	6.0	9.9	-0.2	0.4	-1.1	-9.8	-2.8	3.9	2.4
Monetary Policy Rate, TPM (Y/E, % in CH$)	0.5	3.3	5.3	5.0	4.5	3.0	3.5	3.5	2.5	2.8
BCP-10 365d Bonds (Y/E, % in CH$)	6.4	6.1	5.3	5.6	5.2	4.4	4.7	4.4	4.7	4.4
BCU-10 365d Bonds (Y/E, % in UF)	3.3	2.9	2.7	2.6	2.2	1.5	1.6	1.5	1.9	1.6
Official Exchange Rate (Y/E, CH$/US$)	506	468	521	479	524	607	707	667	615	696
Official Exchange Rate (average, CH$/US$)	560	510	484	486	495	570	654	677	649	641
Job Growth (%)	0.1	7.4	5.0	1.9	2.1	1.5	1.6	1.1	2.0	1.4
Labor Force Growth (%)	1.9	4.2	3.8	1.1	1.6	2.0	1.4	1.4	2.2	1.7
Unemployment Rate (average %)	10.8	8.1	7.1	6.4	5.9	6.4	6.2	6.5	6.7	7.0
Salary Growth in Real Terms (average %)	3.8	2.2	2.6	3.3	3.9	2.2	1.9	1.5	2.5	2.0

THE BANKING INDUSTRY

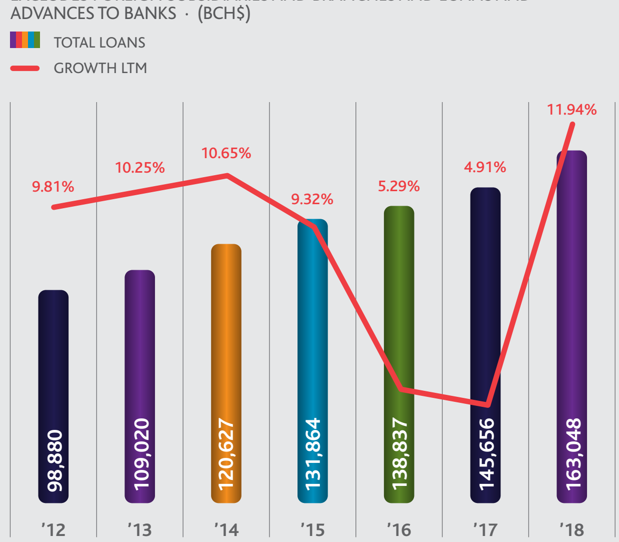
LOANS

As of December 2018, banking industry loans reached MCH$177,028,608 (excluding loans and advances to banks), growing in twelve months by 13.13%, much faster than in 2017, which reached 4.63%, which reflects improved economic performance in Chile for 2018. Accordingly, the three portfolios achieved higher growth, with the consumer portfolio reaching 20.21% in 12 months (6.01% in 2017), the commercial portfolio 12.30% (1.94% in 2017) and to a lesser extent the mortgage portfolio, which reached 11.42% (9.72% in 2017).

Excluding foreign branches and subsidiaries, loans reached MCH$163,048,373 as of December 31, 2018 (excluding loans and advances to banks), with an annual growth rate of 11.94% (4.91% in 2017), where the consumer portfolio grew by 21.95% (7.15% in 2017) and the commercial portfolio by 10.81% (1.80% in 2017), while mortgage loans slightly decelerated by 9.40% (10.08% in 2017).

LOAN GROWTH - BANKING INDUSTRY

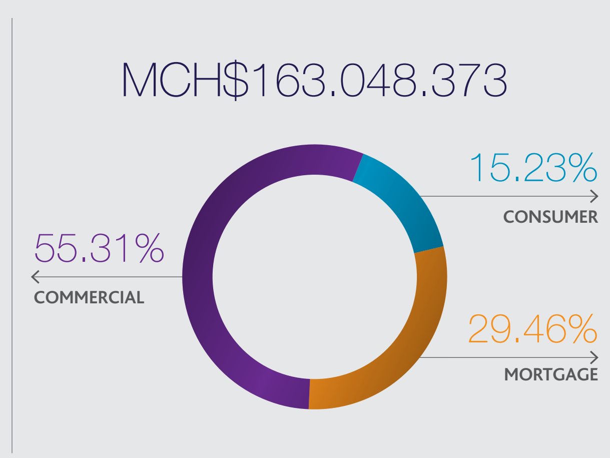
EXCLUDES FOREIGN SUBSIDIARIES AND BRANCHES AND LOANS AND ADVANCES TO BANKS · (BCH$)



SOURCE: SBIF

LOAN PORTFOLIO

EXCLUDES FOREIGN SUBSIDIARIES AND BRANCHES AND LOANS AND ADVANCES TO BANKS
TOTAL AS OF DECEMBER 2018



SOURCE: SBIF

BANKING INDUSTRY LOANS

EXCLUDES FOREIGN SUBSIDIARIES AND BRANCHES AND LOANS AND ADVANCES TO BANKS

COMMERCIAL	2018	MCH$90,182,774	10.81% GROWTH COMPARED TO 2017
	2017	MCH$81,386,504	
CONSUMER	2018	MCH$24,826,671	21.95% GROWTH COMPARED TO 2017
	2017	MCH$20,358,801	
MORTGAGE	2018	MCH$48,038,928	9.40% GROWTH COMPARED TO 2017
	2017	MCH$43,911,040	

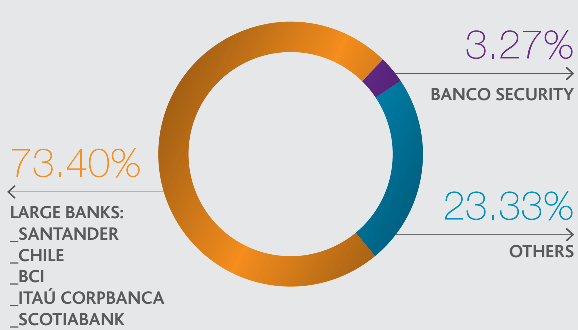
SOURCE: SBIF

Scotiabank Chile merged with Scotiabank Azul (formerly BBVA Chile) in the third quarter of 2018, leaving a market composed of 19 financial institutions, where the five largest banks--Santander Chile, Banco de Chile, BCI, Itaú CorpBanca and Scotiabank Chile--represent 73.40% of total industry loans (excluding foreign subsidiaries and branches, and loans and advances to banks).

Banco Security achieved a market share of 3.27% as of December 2018 (excluding foreign subsidiaries and branches, and loans and advances to banks), down 5 basis points with respect to December 2017.

MARKET SHARE 2018

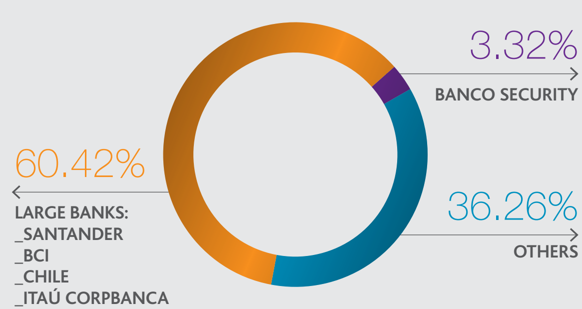
EXCLUDES FOREIGN SUBSIDIARIES AND BRANCHES AND LOANS AND ADVANCES TO BANKS



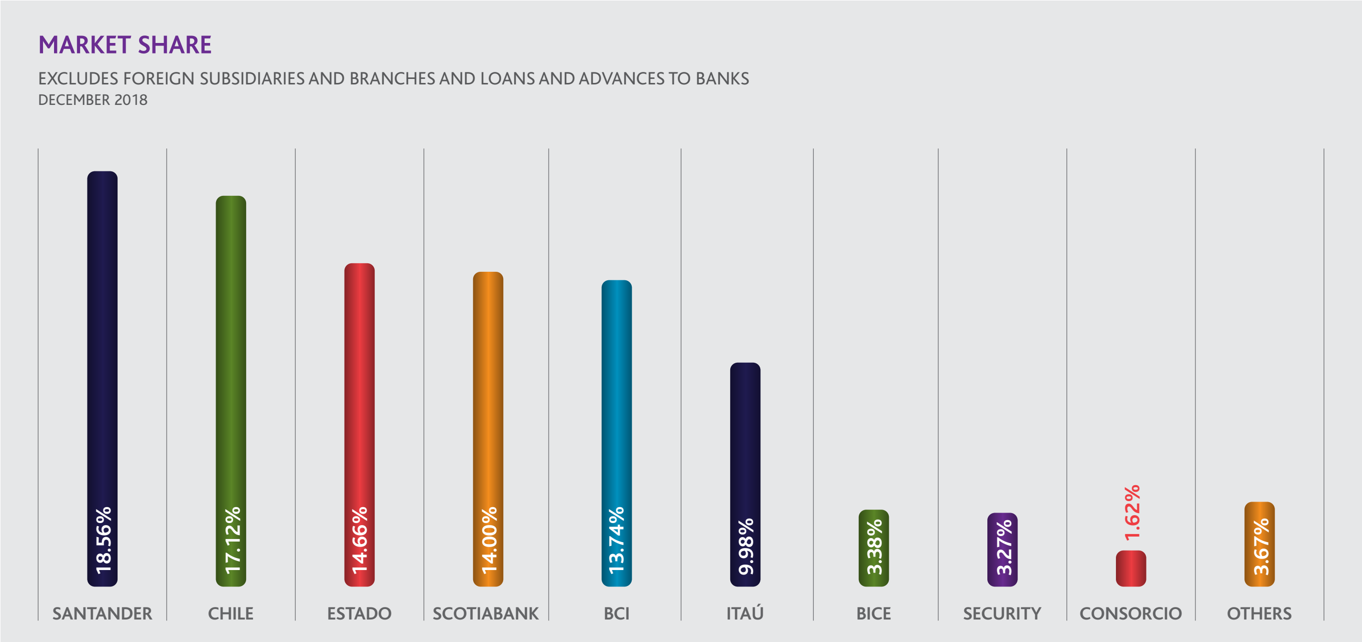
SOURCE: SBIF

MARKET SHARE 2017

EXCLUDES FOREIGN SUBSIDIARIES AND BRANCHES AND LOANS AND ADVANCES TO BANKS



SOURCE: SBIF



SOURCE: SBIF

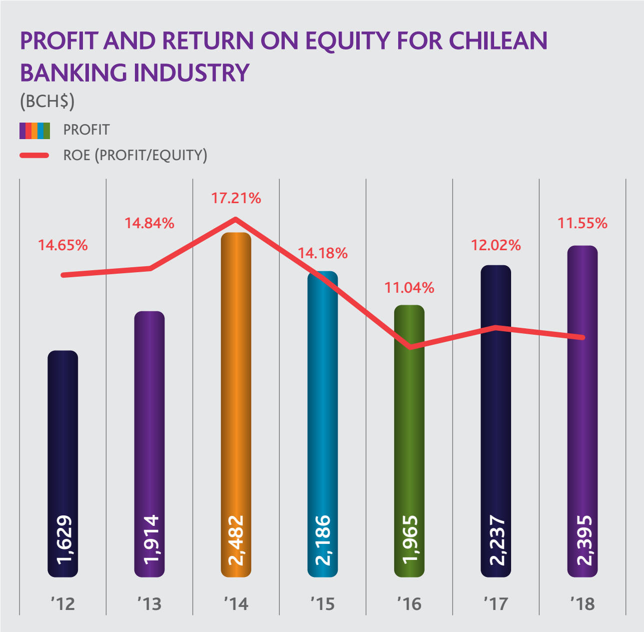
RESULTS

The Chilean banking market earned profit of MCH$2,395,359 for 2018, which represents growth of 7.08% with respect to 2017, mainly due to higher interest margins (8.5%), higher income from financial transactions (38.1%) and higher commissions (8.0%), offset by greater foreign exchange losses, higher provisions and higher operating expenses.

Total equity reached BCH$20,735, growing by 11.45% during the year. However, the merger between Scotiabank and BBVA required recording BBVA's profit for the period in the consolidated bank's equity, so the figures are not entirely comparable. The market's ROE of 11.55% is slightly lower than the return for 2017 of 12.02%. The ROE for Banco Security of 12.58% exceeded the industry average and is only surpassed by Banco Santander with 18.15%, Banco de Chile with 18.00%, and Banco Ripley with 17.97%.

Meanwhile, return on total assets was 0.97% (1.02% in 2017).

The following graph illustrates profit for the year and return on equity for the industry.



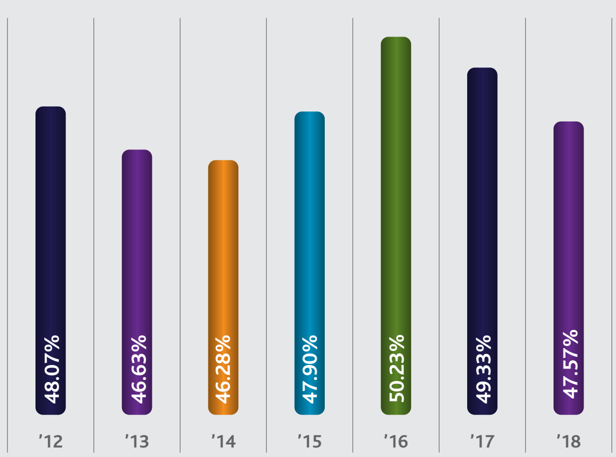
SOURCE: SBIF

OPERATING EXPENSES

Operating expenses for 2018 increased by 3.79% over 2017 to MCH$4,900,213, explained mainly by increases in depreciation and amortization (8.52%), payroll and personnel expenses (5.09%), and, to a lesser extent, administrative expenses (1.08%). Given these results, the efficiency ratio (measured as operating expenses divided by gross operating income) reached 47.57%, less than the 2017 figure of 49.41%. This improvement is explained by a larger rise in gross operating income (7.80%), which offset the increase in operating expenses with respect to 2017.

EFFICIENCY RATIO FOR CHILEAN BANKING INDUSTRY

PERCENTAGE



SOURCE: SBIF

EFFICIENCY RATIO

	DEC 2018	DEC 2017
BANCO SANTANDER-CHILE	38.15%	39.07%
BANCO DE CHILE	42.77%	43.82%
SCOTIABANK CHILE	47.95%	46.03%
BCI	51.55%	50.67%
ITAÚ CORPBANCA	55.30%	65.22%
LARGE BANKS	**47.14%**	**48.96%**
BANCO CONSORCIO	37.59%	31.28%
BANCO SECURITY	47.74%	49.63%
BANCO BICE	49.86%	49.64%
MEDIUM BANKS	**45.06%**	**43.52%**
BANKING INDUSTRY	**47.57%**	**49.33%**

SOURCE: SBIF

Banco Santander continues to maintain its leadership in 2018 as the most efficient large bank, with an efficiency of 38.15%, with an improvement of 8 basis points with respect to 2017 (39.07%), followed by Banco de Chile, who also improved with respect to 2017 to reach 42.77%. The most efficient medium-sized bank is Consorcio with an index of 37.59% for 2018, rising 630 basis points with respect to 2017, and even surpassing Santander. Banco Security follows with an improvement of 189 basis points to reach 47.74% in 2018 compared to 49.63% in 2017, and BICE with an increase of 22 basis points to reach 49.86% in 2018.

RISK

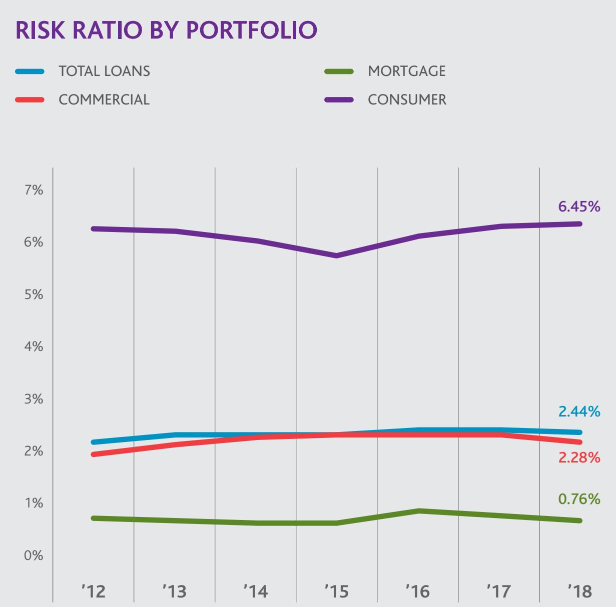
The risk ratio for the industry (loan loss provisions/total loans) as of December 31, 2018, reached 2.44%, a reduction of 5 basis points with respect to December 31, 2017, when it was 2.49%. This is mainly due to the index for the commercial portfolio, which decreased from 2.41% to 2.28%, and the index for the mortgage portfolio, which decreased from 0.86% to 0.76%. This was partially offset by an increase of 6 basis points in the index for the consumer portfolio from 6.39% in 2017 to 6.45% in 2018.

The ratio of non-performing loans over total loans fell from 1.93% in 2017 to 1.90% at the end of 2018, mainly due to reductions in these indices for the consumer and commercial portfolios, which fell from 2.14% to 2.08%, and from 1.70% to 1.65%, respectively. The index for the mortgage portfolio remained the same.

The ratio of impaired portfolio to total loans fell 22 basis points from 5.21% in 2017 to 4.99% at the close of 2018, mainly due to decreases in the indices for the commercial and consumer portfolios, and to a lesser extent the index for the mortgage portfolio.

CREDIT RISK INDICATORS

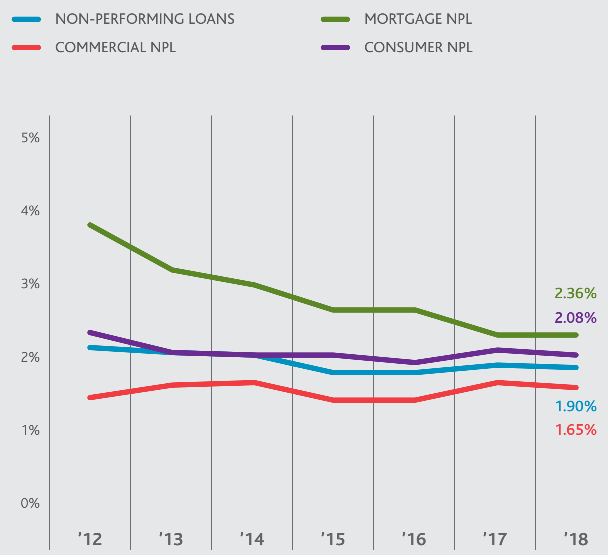
	DEC-2017	DEC-2018
LOAN LOSS PROVISIONS / TOTAL LOANS	2.49%	2.44%
Commercial LLP / Commercial Loans	2.41%	2.28%
Retail LLP / Retail Loans	2.65%	2.69%
Mortgage LLP / Mortgage Loans	0.86%	0.76%
Consumer LLP / Consumer Loans	6.39%	6.45%



SOURCE: SBIF

	DEC-2017	DEC-2018
NON-PERFORMING LOANS / TOTAL LOANS (EXCLUDING LOANS AND ADVANCES TO BANKS)	**1.93%**	**1.90%**
Non-performing Commercial Loans / Commercial Loans	1.70%	1.65%
Non-performing Retail Loans / Retail Loans	2.29%	2.27%
Non-performing Consumer Loans / Consumer Loans	2.14%	2.08%
Non-performing Mortgage Loans / Mortgage Loans	2.36%	2.36%

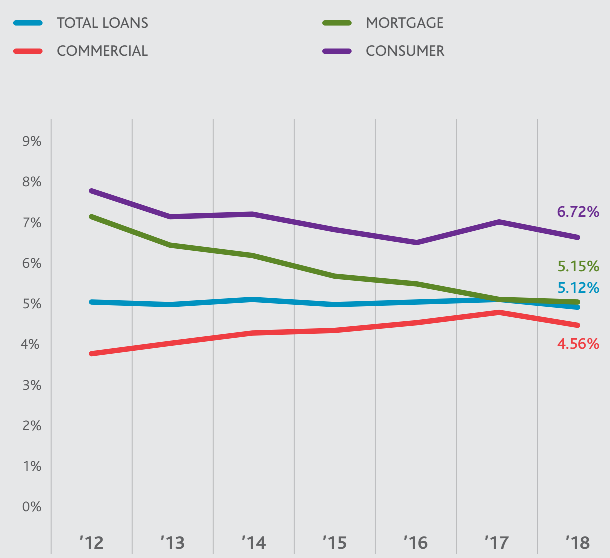
NPL RATIO



SOURCE: SBIF

	DEC-2017	DEC-2018
IMPAIRED LOANS / TOTAL LOANS	**5.21%**	**4.99%**
Impaired Commercial Loans / Commercial Loans	4.86%	4.56%
Impaired Retail Loans / Retail Loans	5.79%	5.67%
Impaired Consumer Loans / Consumer Loans	7.07%	6.72%
Impaired Mortgage Loans / Mortgage Loans	5.19%	5.12%

IMPAIRED PORTFOLIO RATIO



SOURCE: SBIF

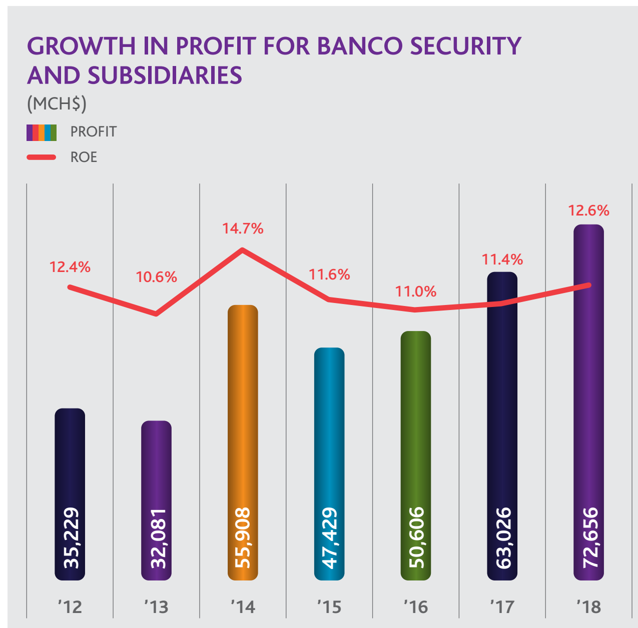
(1) NON-PERFORMING LOANS: A STRESSED MEASUREMENT OF THE FORMER OVERDUE PORTFOLIO INDICATOR. INCLUDES TOTAL LOANS WITH PAYMENTS OVER 90 DAYS PAST DUE, EVEN WHEN ONLY ONE OR SOME LOAN REPAYMENT INSTALLMENTS (PRINCIPAL OR INTEREST) ARE OVERDUE. IT ALSO FORMS PART OF THE IMPAIRED PORTFOLIO AND IS PUBLISHED FROM JANUARY 2009 ONWARDS.

BANCO SECURITY RESULTS

RESULTS

Banco Security posted consolidated profit of MCH$72,653 for the year ended December 2018, which represents an annual increase of 15.3%. Banco Security's stand-alone profit (excluding the subsidiaries AGF Security and Valores Security Corredores de Bolsa) reached MCH$63,970 for 2018, up 18.7% with respect to 2017.

The average profitability of Banco Security is measured as its profit for the last 12 months over equity as of December 31 and reached 12.58%, which is an increase of 118 basis points with respect to 2017. If this is measured as its profit for the last 12 months over average equity it becomes 12.9%.



SOURCE: SBIF

BUSINESS SEGMENTS

The Bank has structured its business into four segments, in order to properly manage its business. These segments provide a full range of financial products and services to individuals and companies. These segments are: Commercial Banking, Retail Banking, Treasury and Subsidiaries.

	NET INTEREST MARGIN	NET FEES AND COMMISSIONS	NET FOREIGN EXCHANGE AND OTHER INCOME	LOSSES FROM RISK AND REPOSSESSED ASSETS	TOTAL OPERATING INCOME NET OF PROVISIONS	OPERATING EXPENSES	NET OPERATING INCOME	PROFIT	RESULTS BY SEGMENT
Commercial Banking	84,864	18,648	8,306	-19,711	92,107	-37,075	55,032	42,883	59.0%
Retail Banking	64,743	22,627	2,295	-22,401	67,265	-56,673	10,592	8,253	11.4%
Treasury	20,365	-361	14,852	-46	34,810	-12,145	22,664	17,662	24.3%
Other	-1,330	-1,305	-6,599	-631	-9,865	3,651	-6,214	-4,828	-6.6%
Total Bank	168,642	39,609	18,855	-42,789	184,316	-102,242	82,074	63,970	88.0%
Subsidiaries	-417	29,145	7,923	0	36,651	-26,081	10,570	8,683	12.0%
TOTAL CONSOLIDATED	**168,225**	**68,754**	**26,778**	**-42,789**	**220,967**	**-128,323**	**92,644**	**72,653**	**100%**

SOURCE: BANCO SECURITY
NOTE: MORE INFORMATION AVAILABLE IN CHAPTER ON BANK'S RESULTS.


COMMERCIAL BANKING

Banco Security's Commercial Banking Division targets companies with annual sales above US$ 1.2 million. While Banco Security's core business targets large companies, efforts have been made in recent years to strengthen the medium-sized company segment by tailoring services to its needs. This strategy is designed to diversify our customer base and improve returns in each segment.

As of December 2018, commercial loans had expanded 12.0% with respect to 2017, to BCH$4,227. The banking industry's commercial loans grew by 10.8% per annum. Including foreign subsidiaries, the industry's commercial loans grew 12.3% per annum. The Bank achieved a market share of 6.5% in its target segment of medium and large companies as of December 2018. The Commercial Banking Division had 9,040 customers as of December 2018 (+6.2% compared to 2017).

The Commercial Banking Division posted profit of MCH$42,883 for 2018 (+MCH$5,185, +13.8% compared to 2017). This is explained by a higher net interest margin of MCH$84,864 in 2018 (+MCH$6,657, +8.5% compared to 2017), due to increased commercial loans (+12.0% compared to 2017) and a larger average annual spread. The division also reported higher net fees and commissions of MCH$18,648 in 2018 (+MCH$3,299, +21.5% compared to 2017), due to increased commercial activity. Operating expenses reached MCH$37,075 in 2018 (-0.4% compared to 2017), as a result of reduced administrative expenses, which are distributed across all the standalone Bank's business segments, partially offset by higher personnel expenses because of increased commercial activity. These effects did not offset the drop in net foreign exchange and other income, which totaled MCH$8,306 (-19.3% compared to 2017). In addition, the division reported greater provision expenses of MCH$19,711 for 2018 (+9.5% compared to 2017), due to a few impaired customers in the energy sector towards the end of the year.

RETAIL BANKING

Banco Security's Retail Banking Division targets high-income individuals. In recent years, the retail division has focused on expanding consumer products while conservatively managing risk, resulting in average annual loan growth of 15% since 2013.

As of December 2018, the Bank had total retail loans (consumer + mortgage) of BCH$1,108 (+4.6% compared to 2017), driven by consumer loans (+12.8% compared to 2017) and partially offset by mortgage loans (-1.1% compared to 2017). The industry's retail loans increased by 13.4% compared to 2017, driven by consumer loans (+21.9% compared to 2017) and, to a lesser extent, mortgage loans (+9.4% compared to 2017). Including foreign subsidiaries, the industry's retail loans grew +14.3% compared to 2017. The Bank achieved a market share of 6.0% in its target segment of high-income individuals as of December 2018. The Retail Banking Division had 70,726 customers as of December 2018 (-0.2% compared to 2017).

The Retail Banking Division reported a profit of MCH$8,253 in 2018 (+MCH$1,845, +28.8% compared to 2017), explained by higher net interest margins of MCH$64,743 (+MCH$2,107, +3.4% compared to 2017), due to an increase in loans (+4.6% compared to 2017). In addition, risk expenses reached MCH$22,401 (-5.9% compared to 2017), due to strengthened risk and collections processes and structures. The division had higher operating expenses of MCH$56,673 (+2.4% compared to 2017), due to increased personnel expenses explained by increased commercial activity, partially offset by reduced administrative expenses, which are distributed across all the standalone Bank's business segments.

TREASURY

As of December 2018, this division posted profit of MCH$17,662 (-18.3% compared to 2017), due to a drop in net foreign exchange and other income (net financial operating income + net foreign exchange + other income), which amounted to MCH$14,852 in 2018 (-30.8% compared to 2017). Although 2018 saw increased income from distributing structured products, driven by greater commercial activity towards year end, it is important to remember that 2017 is a high basis of comparison due to strong performances from foreign currency derivatives.

These effects did not offset a higher net interest margin of MCH$20,366 for 2018 (+6.6% compared to 2017), due to growth in the Bank's assets resulting from its favorable funding structure, the use of accounting hedges, and liabilities that matured in late 2017 and early 2018 being renewed under better financial conditions.

The treasury division consists of trading, investment, distribution and asset and liability management (ALM) operations. The ALM desk manages financial investments used to stabilize the net interest margin, manage interest rate risk in the balance sheet, manage liquidity and efficiently fund the Bank's loan portfolio. For 2018, ALM represented 57.8% of treasury income. The investment and trading desks manage the Bank's own portfolio of primarily Chilean Central Bank notes and corporate bonds and represent 16.1% of treasury income. The remaining 26.1% of treasury income comes from the distribution desk, which brokers specialized products for commercial banking customers (currency, forwards and structured products).

SUBSIDIARIES

The subsidiaries consolidated by Banco Security (Valores Security S.A. Corredores de Bolsa (99.88%) and Administradora General Fondos Security S.A. (99.99%)), contributed profit of MCH$8,686 to the Bank's results in 2018, a decrease of 4.8% over their contribution in 2017.

Administradora General Fondos Security S.A. achieved profit of MCH$6,563 and a market share of 6.6%, which was lower than at the end of 2017 at 7.3%.

IN MCH$	2018	2017	% CHANGE
Assets under management (AUM)	4,506,967	3,643,266	19.5%
Profit - Administradora General de Fondos Security	6,563	6,666	-1.5%
Mutual funds under management	2,496,079	2,558,301	-2.4%
Market share - mutual funds	6.6%	7.3%	-70 p

SOURCE: BANCO SECURITY

Valores Security achieved a market share of 4.6% by value of shares traded, ranking it eighth on Santiago Exchange and the Chilean Electronic Stock Exchange, and reported profit of MCH$2,123 for 2018.

IN MCH$	2018	2017	% CHANGE
Profit - Valores Security Corredores de Bolsa	2,123	2,458	-13.6%
Value of shares traded	2,707,465	3,139,690	-13.8%
Market share - stocks	4.6%	6.1%	-148 p

SOURCE: BANCO SECURITY

CONSOLIDATED STATEMENT OF INCOME

IN MCH$	2018	2017	% CHANGE
Net interest margin	168,225	154,687	8.8%
Net fees and commissions	68,754	64,835	6.0%
Net financial operating income	23,736	34,226	-30.6%
Net foreign exchange transactions	3,215	-4,073	-
Recovery of written-off loans	6,287	2,553	146.3%
Other net operating loss	-1,413	-3,203	-55.9%
TOTAL OPERATING INCOME	**268,804**	**249,025**	**7.9%**
Credit risk provisions	-47,837	-44,579	7.3%
Administrative expenses	-128,323	-123,591	3.8%
NET OPERATING INCOME	**92,644**	**80,855**	**14.6%**
Income attributable to investments in other companies	18	26	-29.8%
PROFIT BEFORE TAX	**92,662**	**80,881**	**14.6%**
Income tax expense	-20,006	-17,855	12.0%
PROFIT FOR THE YEAR	**72,656**	**63,026**	**15.3%**

SOURCE: BANCO SECURITY


The Bank reported a net interest margin of MCH$168,225 for 2018 (+8.8% compared to 2017), explained mainly by an increase in total loans (+10.6% compared to 2017). Interest and indexation income reached MCH$375,166 (+13.2% compared to 2017), due to a rise in total loans and higher inflation than last year. Interest and indexation expense totaled MCH$206,941 in 2018 (+17.1% compared to 2017), due to 23.4% annual growth in debt issued by the Bank and higher inflation.

Net fees and commissions totaled MCH$68,764 in 2018 (+6.0% compared to 2017), due to increased commercial activity in the Commercial Banking Division and greater fund management income from the asset management subsidiaries.

Financial income, which is the sum of net financial operating income and net foreign exchange income, totaled MCH$26,951 (-10.6% compared to 2017). Although 2018 saw increased income from distributing structured products, driven by greater commercial activity towards year end, it is important to remember that 2017 is a high basis of comparison due to strong performances from foreign currency derivatives.

The recovery of written-off loans was up by MCH$3,734, reaching MCH$6,287, due to a stronger collections structure in the Retail Banking Division. Credit risk provision expenses for 2018 totaled MCH$47,837, (+7.3% compared to 2017), due to impairment of some Commercial Banking Division customers in the energy sector late in the year, which was only partially offset by stronger risk processes and structures in the Retail Banking Division.

Operating expenses totaled MCH$128,323 (+3.8% compared to 2017), due to higher personnel expenses resulting from increased commercial activity in the standalone bank and the asset management subsidiaries, partially offset by reduced administrative, depreciation and amortization expenses at the Bank.

The division reported other net operating losses of MCH$1,413, down from a loss of MCH$3,203 last year, explained by a lower basis of comparison due to intangible assets impaired in 2017.

Income tax expense for 2018 totaled MCH$20,006 (+12.0% compared to 2017), due to increased profit before tax (+14.6% compared to 2017).

OPERATING EXPENSES AND EFFICIENCY

IN MCH$	2018	2017	% CHANGE
Personnel expenses	-58,089	-52,309	11.1%
Administrative expenses	-65,049	-65,661	-0.9%
Depreciation and amortization	-5,185	-5,621	-7.8%
TOTAL OPERATING EXPENSES	**-128,323**	**-123,591**	**3.8%**
EFFICIENCY RATIO	**47.7%**	**49.63%**	**-189 p**

SOURCE: BANCO SECURITY

Banco Security's efficiency ratio, measured as operating expenses + other operating expenses over gross operating income, was 47.7% as of December 2018 (-189 basis points compared to 2017). This ratio compares to 47.6% for the banking industry as of December 2018, and 45.6% for peer banks (the average for BICE, Consorcio and Security).

Operating expenses were MCH$128,323 as of December 2018 (+3.8% over 2017). Personnel expenses were MCH$58,089 as of December 2018 (+11.1% compared to 2017), as a result of increased commercial activity, while administrative expenses were CH$65,049 (-0.9% compared to 2017). Depreciation and amortization expense was MCH$5,185 (-7.8% compared to 2017), as intangible assets reached the end of their useful lives in 2017.

LOANS

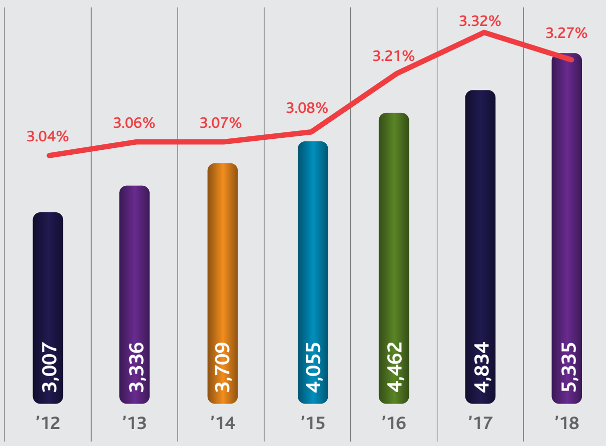
Banco Security's total loans reached MCH$5,335,304 as of December 2018 (excluding loans and advances to banks), an annual increase of +10.36%, while the banking industry's loans increased by +11.94%, and +13.1% if foreign interests are included. Commercial loans grew 11.97% to MCH$4,227,198 as of December 2018 (79.2% of the Bank's total loan portfolio), while retail loans (consumer + mortgage) reached MCH$1,108,106, a change of 4.65% compared to 2017. The 20 largest borrowers represent 10.5% of the Bank's total loan portfolio.

LOAN GROWTH - BANCO SECURITY

(BCH$) · EXCLUDES LOANS AND ADVANCES TO BANKS

LOANS

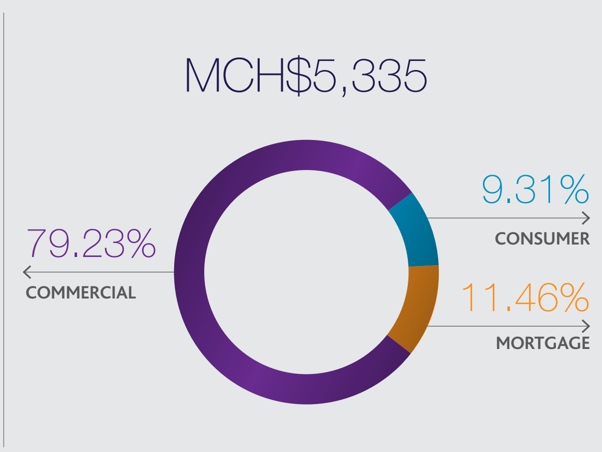
MARKET SHARE (EXCLUDES FOREIGN SUBSIDIARIES)



SOURCE: BANCO SECURITY

LOAN PORTFOLIO BANCO SECURITY 2018

TOTAL LOANS 2018



SOURCE: BANCO SECURITY

TOTAL LOANS

IN MCH$	2018	2017	% CHANGE
Consumer	496,523	440,241	12.78%
Mortgage	611,583	618,630	-1.14%
Mortgage + Consumer	1,108,106	1,058,871	4.65%
No. of customers	70,726	70,862	-0.19%
Commercial	4,227,198	3,775,419	11.97%
No. of customers	9,040	8,513	6.19%
TOTAL LOANS	**5,335,304**	**4,834,290**	**10.6%**
MARKET SHARE	**3.27%**	**3.32%**	**-5 p**

SOURCE: BANCO SECURITY

ASSET QUALITY

Given Banco Security's exposure to corporate and high-income customers, its risk ratios are among the lowest in the industry.

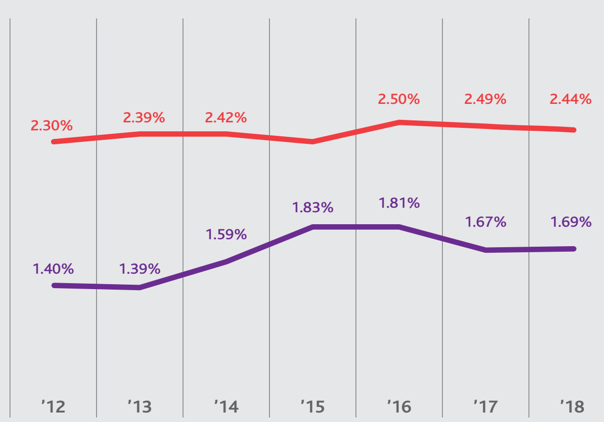
As of December 2018, Banco Security's risk index reached 1.69%, slightly above the 1.67% posted as of December 2017. The nonperforming loan portfolio reached 1.50%, which is above the 1.38% recorded as of December 2017. The resulting NPL coverage ratio was 112.5%.

RISK RATIO BANCO SECURITY VS. INDUSTRY

PROVISIONS/LOANS

BANCO SECURITY

CHILEAN BANKING INDUSTRY



The ratio of provisions net of recovery over total loans for 2018 was 0.78% (-9 basis points compared to 2017), as loan growth (+10.6% compared to 2017) exceeded the rise in credit risk provision expenses (+7.4% compared to 2017).

Also, risk expense for the first quarter of 2017 includes a one-time effect of MCH$1,969 for an adjustment to the provisioning model for consumer loans implemented in January 2017, and, therefore, is a high basis for comparison.

CREDIT RISK

	CREDIT RISK (%)								
	PROVISIONS / LOANS					NON-PERFORMING LOANS			
	MORTGAGE	CONSUMER	TOTAL	COMMERCIAL	TOTAL	MORTGAGE	CONSUMER	COMMERCIAL	TOTAL
Banco Security	0.20	3.97	1.77	1.64	1.67	1.01	1.24	1.46	1.38
Peer banks*	0.44	3.97	1.69	1.81	1.81	1.21	1.34	1.12	1.18
Banking Industry	0.86	6.39	2.65	2.41	2.49	2.36	2.14	1.70	1.93

* AVERAGE FOR BICE, CONSORCIO AND SECURITY

FUNDING SOURCES

IN MCH$	2018		2017		CHANGE
Demand deposits	654,815	9.4%	673,475	10.5%	-2.8%
Time deposits	2,965,403	42.8%	2,927,755	45.5%	1.3%
Total deposits	3,620,218	52.2%	3,601,230	55.9%	0.5%
Bonds	2,205,499	31.8%	1,786,574	27.7%	23.4%
Borrowings from financial institutions	223,071	3.2%	188,346	2.9%	18.4%
Other liabilities*	308,677	4.5%	312,210	4.8%	-1.1%
TOTAL LIABILITIES	**6,357,465**	**92%**	**5,888,360**	**91%**	**8.0%**
Total equity	577,647	8.3%	553,023	8.6%	4.5%
LIABILITIES + EQUITY	**6,935,112**	**100%**	**6,441,383**	**100%**	**7.7%**

* INCLUDES THE FOLLOWING ACCOUNTS: TRANSACTIONS PENDING SETTLEMENT, REPO AGREEMENTS, FINANCIAL DERIVATIVE INSTRUMENTS, OTHER FINANCIAL LIABILITIES, CURRENT TAXES, DEFERRED TAXES, PROVISIONS AND OTHER LIABILITIES.

DEMAND AND TIME DEPOSITS

Total deposits were MCH$3,620,218 (+0.5% compared to 2017), while the industry increased by +6.0%, and +7.1% if foreign interests are included. Banco Security's time deposits consisted of 34.9% retail deposits and 65.1% institutional deposits. The 15 largest depositors represent 23.7% of the Bank's total deposits. The loan to deposit ratio was 148% as of December 2018, compared to 134% as of December 2017.

Banco Security has a strategy to diversify funding sources using sales incentives to increase its retail deposit base. Banco Security strictly controls and monitors liquidity risk, striving to diversify funding sources while applying strict limits to asset/liability mismatches, maintaining liquid assets and lengthening liabilities to increase funding terms. It is important to note that the Bank’s exposure from asset and liability mismatches is among the industry’s lowest. As of December 2018, the ratio of long-term interest rate risk to regulatory capital was 2.58%. As of December 31, 2018, liquid assets represented 48% of demand and other time deposits.

DEBT ISSUED

SERIES	SBIF REGISTRATION NUMBER	SBIF REGISTRATION DATE	CURRENCY	AMOUNT REGISTERED	ANNUAL INTEREST RATE	DURATION (YEARS)	MATURITY
S1	3/1997	Mar-01-97	UF	800,000	5.50	20	Mar-01-17
S2	3/1997	Mar-01-97	UF	200,000	5.50	20	Mar-01-17
H1	3/2007	Jan-25-07	UF	3,000,000	3.00	23	Dec-01-29
K1	1/2008	Jan-04-08	UF	3,000,000	3.00	10	Jan-01-18
M1	1/2009	May-19-09	UF	3,000,000	3.00	10.5	Jul-01-19
N1	1/2009	May-19-09	UF	3,000,000	3.00	105	Jul-01-19
R1	10/2011	Oct-06-11	UF	3,000,000	3.00	10	Jun-01-21
K2	1/2012	Mar-14-12	UF	4,000,000	3.25	10	Nov-01-21
B2	1/2013	Feb-26-13	UF	4,000,000	3.25	5	Nov-01-17
K3	1/2013	Feb-26-13	UF	4,000,000	3.50	10	Nov-01-22
K4	10/2013	Nov-06-13	UF	5,000,000	3.60	10	Oct-01-23
B3	14/2014	Oct-09-14	UF	5,000,000	2.50	5	Jun-01-19
K5	14/2014	Oct-09-14	UF	5,000,000	2.75	10	Jun-01-24
B4	05/2015	Apr-01-15	UF	5,000,000	2.25	5	Jun-01-20
K6	05/2015	Apr-01-15	UF	5,000,000	2.75	10	Mar-01-25
K7	05/2015	Apr-01-15	UF	5,000,000	2.75	10	Sep-01-25
Z1	10/2015	Sep-01-15	CH$	75,000,000,000	5.25	5	Jul-01-20
B5	11/2016	Oct-03-16	UF	5,000,000	2.40	5	Aug-01-21
K8	12/2016	Oct-03-16	UF	5,000,000	2.80	10	Oct-01-26
Z2	13/2016	Oct-03-16	CH$	75,000,000,000	5.30	5.5	Feb-01-22
B6	6/2017	Jul-11-17	UF	5,000,000	2.25	5.5	Oct-01-22
X1	2/2018	Feb-02-18	US$	50,000,000	3.50	5	Jan-15-23
Z3	8/2018	May-19-18	CH$	75,000,000,000	4.80	5.5	Jun-01-23
K9	8/2018	May-19-18	UF	5,000,000	2.75	10.5	Jul-01-28
B7	8/2018	May-19-18	UF	4,000,000	2.20	5.5	Aug-01-23

CAPITALIZATION

As of December 2018, Banco Security's equity attributable to its owners totaled MCH$577,588 (+4.5% compared to 2017). For some years now, Banco Security has been preparing for the implementation of Basel III. Therefore, Banco Security completed a capital increase of MCH$50,000 on December 21, 2017, issuing 17,523,256 new shares at a value of approximately CH$2,853 per share.

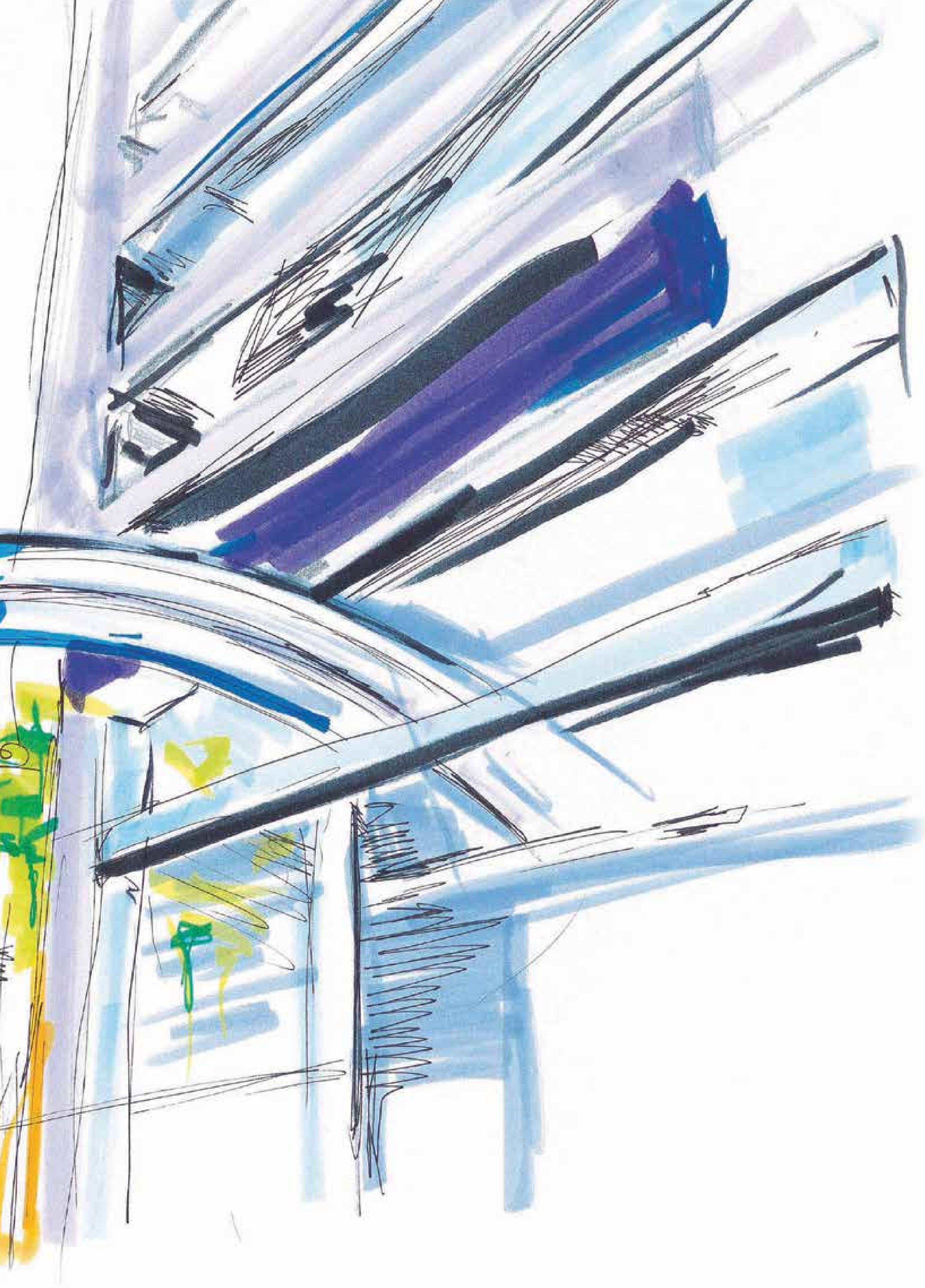
IN MCH$	2018	2017	% CHANGE
Capital	302,047	252,047	19.8%
Reserves and valuation accounts	30,204	27,978	8.0%
Retained earnings	220,716	181,662	21.5%
EQUITY ATTRIBUTABLE TO OWNERS	**552,967**	**461,688**	**19.8%**
Core capital	552,967	461,687	19.8%
Regulatory capital	751,457	663,808	13.2%
Minimum required capital	428,810	401,638	6.8%
Risk-weighted assets	5,360,129	5,020,477	6.8%
Regulatory capital / Risk-weighted assets	14.02%	13.22%	80 p
Core capital / Total assets	8.10%	7.10%	99 p

The Bank's capital adequacy ratio as of December 2018, calculated as regulatory capital over risk-weighted assets, reached 14.02% (with a regulatory minimum of 8%), -80 basis points compared to 2017. The ratio of core capital to total assets reached 8.10%, -99 basis points compared to 2017. Both ratios fell this year as a result of growth in assets, driven by greater total loans (+10.6% compared to 2017).

04 GENERAL BANK INFORMATION

Third place in the Great Place To Work ranking, which demonstrates our continuing commitment to the integrated development of our personnel.

BANCO security



GENERAL BANK INFORMATION

INFORMATION

COMPANY IDENTIFICATION

LEGAL NAME
BANCO SECURITY

TYPE OF COMPANY
Banking corporation.

SECURITIES REGISTRATION
Banco Security is not registered in the Securities Registry.

CORPORATE PURPOSE
To engage in the business, contracts, transactions and operations permitted for a commercial bank in accordance with current legislation.

CHILEAN TAX ID
97.053.000-2

LEGAL ADDRESS
Av. Apoquindo 3100, Las Condes, Santiago, Chile

TELEPHONE
(56-2) 2584 4000

FAX
(56-2) 2584 4001

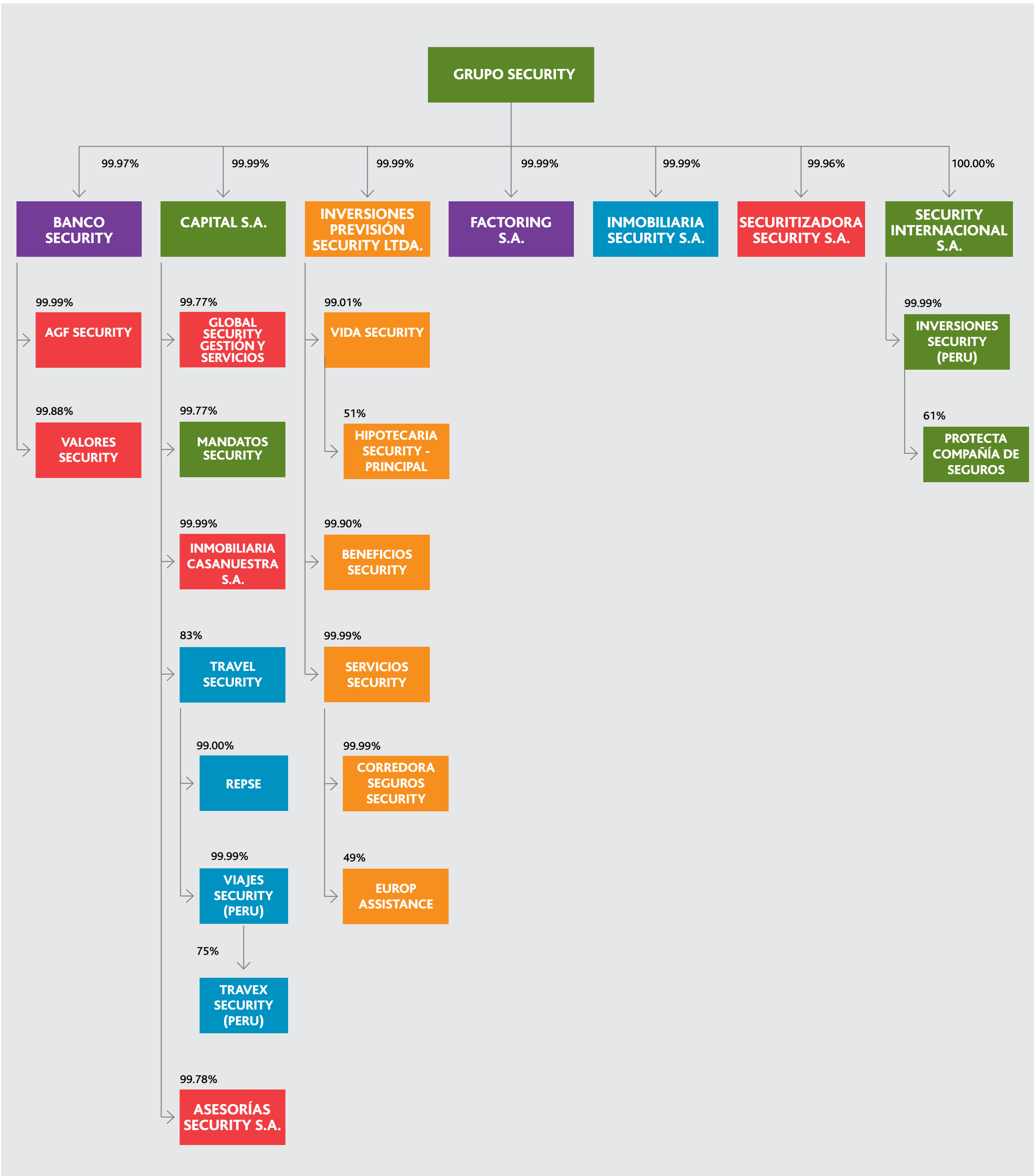
E-MAIL
banco@security.cl

WEB PAGE
www.security.cl

ARTICLES OF INCORPORATION
The company was formed by public instrument on August 26, 1981, signed before notary public Enrique Morgan Torres. The respective extract of the articles of incorporation was published in the Official Gazette on September 23, 1981.

OWNERSHIP AND ORGANIZATIONAL STRUCTURE

Banco Security is controlled by Grupo Security, which owned 99.9748% of its shares as of December 31, 2018.



PERSONNEL AND COMPENSATION

As of December 31, 2018, Banco Security and its subsidiaries had a total of 1,268 employees, up 1.3% from December 2016, of which 56.6% were women. Total compensation paid by the Bank to its executives during the year was CH$7,333,849,073, and severance indemnities totaled CH$367,391,628.

The following table details employee distribution by company:

BANCO SECURITY AND SUBSIDIARIES	EXECUTIVES	PROFESSIONALS	EMPLOYEES	OVERALL TOTAL
ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.	5	33	16	54
VALORES SECURITY S.A.	12	60	17	89
BANCO SECURITY	46	746	333	1,125
TOTAL	**63**	**839**	**366**	**1,268**

The Bank and its subsidiaries have a significant incentive program, as do all companies within Grupo Security. The program is based on achieving targets for return on capital and reserves, and meeting annual budgets. Each company directly incurs the expenses associated with its incentive plan.

MANAGEMENT POLICIES

The Bank's Board approves diverse policies and procedures that contain the general corporate governance principles for Banco Security.

In terms of dividend policies, Banco Security defines the amount to be distributed on a yearly basis, based on the capital required to support growth, aimed at keeping the solvency index at levels desired by the Board and senior management.

The following table details the dividends paid by the Bank to its shareholders since the year 2000, and their corresponding percentage of profit:

DATE	COMPANY PAYING DIVIDEND	AMOUNT (MCH$)	PROFIT FOR THE YEAR (MCH$)	% PROFIT FOR PRIOR YEAR
February-2000	Banco Security	4,254.4	8,508.8	50.0%
February-2001	Banco Security	7,344.0	9,644.1	76.2%
February-2002	Banco Security	8,749.7	9,722.0	90.0%
February-2003	Banco Security	9,061.7	10,068.6	90.0%
February-2004	Banco Security	13,326.1	13,326.1	100.0%
February-2005	Banco Security	11,219.1	14,023.8	80.0%
March-2006	Banco Security	20,014.3	20,014.3	100.0%
March-2007	Banco Security	20,498.0	20,498.0	100.0%
March-2008	Banco Security	13,625.0	27,250.0	50.0%
March-2009	Banco Security	7,720.0	14,430.1	53.5%
March-2010	Banco Security	23,040.2	23,040.2	100.0%
March-2011	Banco Security	20,223.5	33,710.0	60.0%
March-2012	Banco Security	21,009.8	35,016.4	60.0%
April-2013	Banco Security	35,227.0	35,226.9	100.0%
March-2014	Banco Security	9,839.3	32,797.8	30.0%
March-2015	Banco Security	16,770.7	55,902.3	30.0%
March-2016	Banco Security	14,227.2	47,423.9	30.0%
March-2017	Banco Security	20,241.6	50,604.1	40.0%
March-2018	Banco Security	37,812.9	63,025.8	60.0%


Some of the Bank's management policies are summarized in the following table:

PP&E AND TECHNOLOGY INVESTMENT POLICY

This policy defines the process for evaluating projects and establishes an authorization hierarchy based on the amount of the investment (Management Committee or Board). Investments are aligned with our business strategy and in recent years have been focused mainly on physical and technological infrastructure. Initiatives have been designed to strengthen our ability to provide our customers with comprehensive, first-class service, and to use resources more efficiently.

OPERATIONAL RISK POLICY

This policy defines a framework for operational risk management at Banco Security and its subsidiaries. This includes establishing principles for identifying, assessing, controlling and mitigating such risk in order to reduce losses from operational risk, thus complying with corporate objectives and providing a suitable level of exposure to operational risk. The Board of Directors and senior management serve an important role in approving and supervising compliance with this policy. The risk management areas are: products/processes, suppliers, business continuity and information security.

ANTI-MONEY LAUNDERING AND TERRORISM FINANCING POLICY

This policy establishes the general guidelines for mitigating reputational and legal risk stemming from the use of its products and services to commit the crimes of money laundering and terrorism financing. It complies with local regulations and international standards on the matter. The policy is based on the "Know Your Customer" principle and is part of a comprehensive prevention system that includes, among other aspects, drafting policies and procedures, appointing a compliance officer, training personnel, defining risk criteria, ongoing monitoring and audit functions.

CAPITAL MANAGEMENT POLICY

This policy is one of the Bank's many internal management tools designed to guarantee optimal use of capital and regulatory capital. This means maintaining sufficient basic and regulatory capital levels to absorb unexpected losses, while maximizing shareholder returns and guaranteeing legal/regulatory compliance with current Chilean laws. This policy is updated every year by the Planning Division and approved by the Bank's Board.

CREDIT RISK POLICIES

The Bank's Credit Risk Policy is divided into three levels:

1. POLICY COMPENDIUM, which defines the Bank's credit risk management policies in seven chapters, separated by credit process and including risk management topics applicable to all processes such as Body of Policies, Corporate Governance and Credit Risk Committees, Companies Loan Origination, Retail Loan Origination, Administration, Classifying Credit Risk and Provisions, Controlling and Monitoring Credit Risk, Loan Restructuring and Country Risk.
2. MARGIN CONTROL POLICIES, which provide guidelines for the Bank and its subsidiaries regarding maximum margin control, as established in articles 84 and 85 of the General Banking Law.
3. CREDIT OPERATIONS RISK POLICIES RELATED TO FINANCIAL DERIVATIVES.

FINANCIAL RISK POLICIES

The Bank has three Financial Risk Policies:

1. BANK LIQUIDITY POLICY: This policy identifies the different liquidity risks faced by the Bank and its subsidiaries, the strategies used for liquidity management such as asset-liability matching, investment strategies, funding and creditor diversification. It also establishes different methodologies, assumptions and limits for managing this risk, from both an internal and regulatory perspective, instituting early warning indicators that help identify and prevent emerging risk.
2. VALUATION POLICY: This policy details the roles and responsibilities of the areas within the Bank and its subsidiaries that participate in the daily process of valuing financial instruments (proprietary) at market price (execution/controls). It defines methodologies, criteria and sources for determining prices, as well as treatments of different adjustments established in international accounting standards.
3. MARKET RISK POLICY: This policy defines the different sources of risk faced by the Bank and its subsidiaries, due to its proprietary positions in financial investments and asset-liability maturity mismatches in the banking book. It also details the methodologies and control limits for the different risk factors in order to keep exposure in line with Board-defined risk appetite.

SUPPLIER AND SERVICE MANAGEMENT POLICY

As providers of financial services, Banco Security and its subsidiaries may choose to outsource part or all of certain business processes and/or projects in search of improved efficiency and customer service levels. In this context, this policy establishes the obligation for all units within the Bank and its subsidiaries to continuously evaluate financial and risk aspects of outsourcing to prevent potentially adverse situations from arising in operational, strategic, reputation, compliance and other areas. This analysis must be authorized by the appropriate levels within the organization, documenting all internal procedures and agreements with service providers.

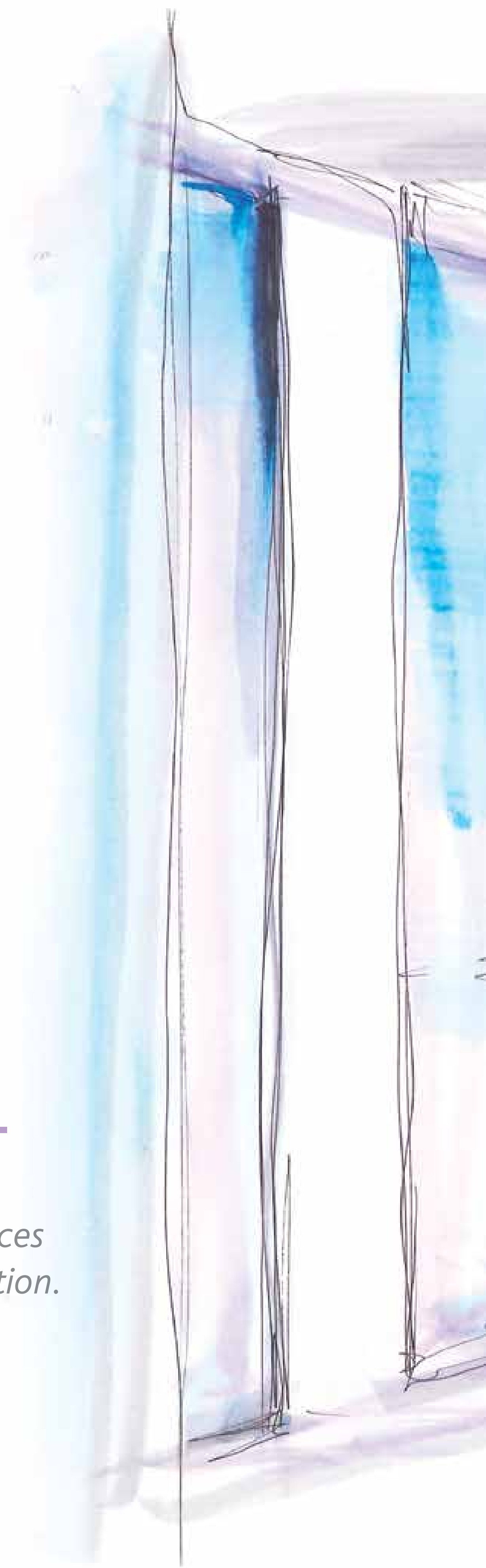
RISK RATING

Banco Security's liabilities carried the following local risk ratings at the end of 2018:

	DEMAND AND OTHER DEPOSITS REPRESENTATIVE OF BORROWINGS		LETTERS OF CREDIT	BANK BONDS	SUBORDINATED BONDS	OUTLOOK
	SHORT-TERM	LONG-TERM				
ICR	Level 1 +	AA	AA	AA	AA -	Stable
Fitch Ratings	Level 1 +	AA -	AA -	AA -	A	Positive

In addition, the Bank carried the following international risk rating provided by Standard & Poor's. As of December 31, 2017, our risk rating was as follows:

	GLOBAL SCALE LOCAL CURRENCY	GLOBAL SCALE FOREIGN CURRENCY
Standard & Poor's	BBB/Negative/A-2	BBB/Negative/A-2



05 SUBSIDIARIES

In 2018 several of our funds received important acknowledgments and new technological advances were implemented to improve customer satisfaction.

BANCO security

ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.

BOARD OF DIRECTORS

CHAIRMAN:

Francisco Silva S.

DIRECTORS:

Bonifacio Bilbao H.
Gonzalo Baraona B.
Carlos Budge C.
Renato Peñafiel M.

MANAGEMENT

CHIEF EXECUTIVE OFFICER:

Juan Pablo Lira T.

CHIEF INVESTMENT OFFICER:

Felipe Marín V.

TYPE OF COMPANY

Corporation, subsidiary of Banco Security.

SECURITIES REGISTRATION

The company is registered under number 0112.

CORPORATE PURPOSE

General fund administrator (asset management).

ARTICLES OF INCORPORATION

The company was formed by public instrument on May 26, 1992, and was licensed to operate by the Securities and Insurance Supervisor (SVS) in Ruling No. 0112 dated June 2, 1992.

The funds managed by the company are subject to the special legal regulations contained in Decree Law 1,328 and its corresponding regulations, which are monitored by the SVS.

The mutual fund industry recorded annual growth of 7.4% over the last 12 months, measured in terms of average assets under management. The growth by the domestic fixed-income funds under 90 days was outstanding. This asset class recorded an annual increase of 12.9%. Domestic fixed-income funds over 365 days (UF over 3 years) and flexible source fixed-income funds over 1 year increased by 26.8% and 33.8%, respectively.

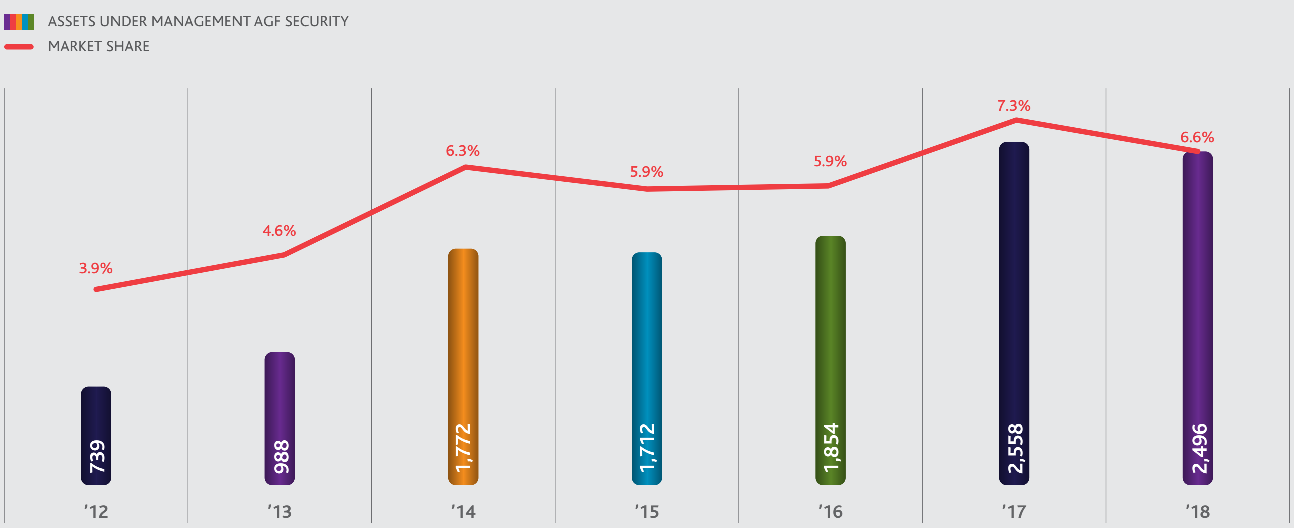
In contrast, international fixed-income funds (emerging markets) declined the most during the year (57.7%).

Administradora General de Fondos Security achieved assets under management in mutual funds of MCH$2,496,079 as of December 2018, which represents a decrease of 2.4% compared to 2017, mainly due to a fall in international fixed-income (emerging markets) mutual funds.

The subsidiary reported profit of MCH$6,563 for 2018, down 1.5% compared to 2017, due mainly to increased administrative expenses.

AGF SECURITY ASSETS UNDER MANAGEMENT AND MARKET SHARE

(NOMINAL MCH$)



NOTE: FIGURES DO NOT INCLUDE INVESTMENT FUNDS.

VALORES SECURITY S.A. CORREDORES DE BOLSA

BOARD OF DIRECTORS

CHAIRMAN:
Enrique Menchaca O.

DIRECTORS:
Máximo Hitoshi Kamada
Fernando Salinas P.

MANAGEMENT

CHIEF EXECUTIVE OFFICER:
Rodrigo Fuenzalida B.

CHIEF OPERATING OFFICER:
Juan Adell S.

CHIEF FINANCIAL OFFICER:
Andrés Perez L.

CHIEF COMMERCIAL OFFICER:
Piero Nasi T.

TYPE OF COMPANY
Corporation, subsidiary of Banco Security.

SECURITIES REGISTRATION
The company is registered under number 0111.

CORPORATE PURPOSE
To engage in various businesses, including trading equities (stock brokerage), fixed income instruments and foreign currency; portfolio management and financial advisory services.

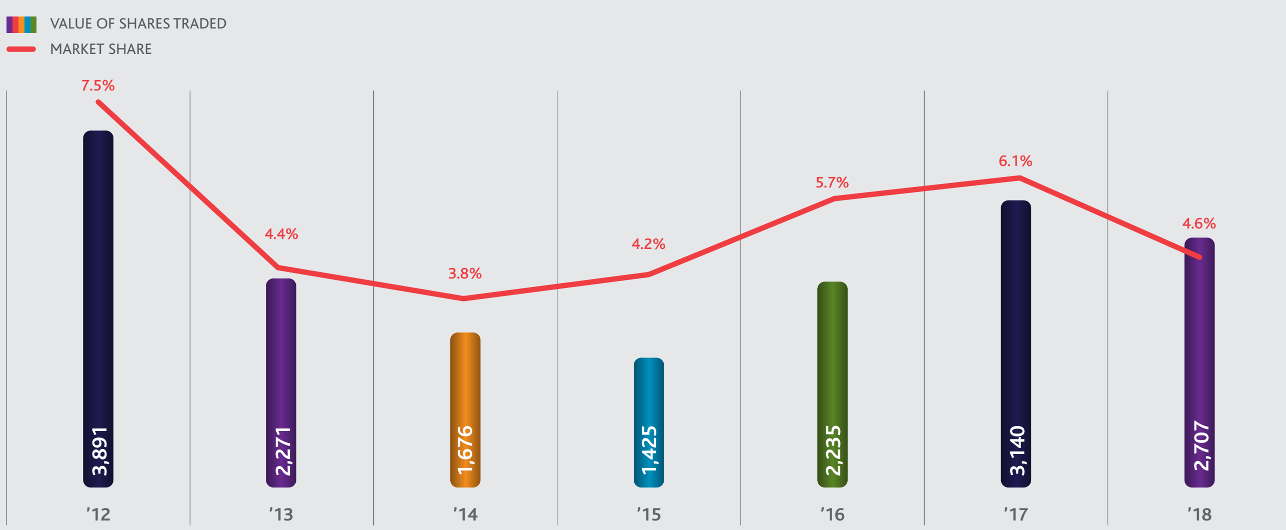
ARTICLES OF INCORPORATION

The company was formed by public instrument on April 10, 1987, signed before notary public Enrique Morgan Torres.

The value of shares traded on Santiago Exchange and the Chilean Electronic Stock Exchange in 2018 increased by 14.6% compared to 2017. Valores Security reported shares traded of MCH$2,707,465, which represented a decline of -13.8% compared to 2017. This performance earned it eighth place on the ranking of brokers with a market share of 4.6%. Valores Security generated profits of MCH$2,123 for 2018, which represents a decrease of 13.6% compared to 2017, mainly due to a decrease in operating revenue.

VALORES SECURITY VALUE OF SHARES TRADED AND MARKET SHARE

(NOMINAL MCH$)



06 STATEMENTS FINANCIAL

We achieved excellent results in 2018, and reached annual growth of 15.3%, more than double the growth within the industry and the fourth most profitable bank.

BANCO security

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Chile
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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of
Banco Security

We have audited the accompanying consolidated financial statements of Banco Security and its subsidiaries ("the Bank"), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Accounting Standards and Instructions issued by the Superintendency of Banks and Financial Institutions. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Security and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with Accounting Standards and Instructions issued by the Superintendency of Banks and Financial Institutions.

Other Matter

The accompanying consolidated financial statements have been translated into English solely for the convenience of readers outside Chile.

Deloitte

February 28, 2019
Santiago, Chile

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2018 AND 2017
FIGURES IN MILLIONS OF CHILEAN PESOS - MCH$

	NOTE	DECEMBER 31, 2018 MCH$	DECEMBER 31, 2017 MCH$
ASSETS			
Cash and due from banks	6	394,332	497,423
Transactions pending settlement	6	35,628	76,271
Financial instruments held for trading	7	106,095	94,439
Receivables from resale agreements and securities borrowing	8	-	-
Financial derivative instruments	9	150,265	132,750
Loans and advances to banks	10	10,730	-
Loans to customers	11	5,245,152	4,753,782
Investments available for sale	12	751,206	678,542
Investments held to maturity		-	-
Investments in other companies	13	2,095	2,094
Intangible assets	14	46,624	47,589
Property, plant and equipment	15	22,656	24,084
Current tax assets	16	2,053	1,417
Deferred tax assets	16	23,248	20,694
Other assets	17	143,691	112,298
TOTAL ASSETS		6,933,775	6,441,383
LIABILITIES			
Current accounts and other demand deposits	18	654,814	673,475
Transactions pending settlement	6	16,903	25,838
Payables from repurchase agreements and securities lending	8	34,003	14,147
Savings accounts and time deposits	18	2,964,066	2,927,755
Financial derivative instruments	9	117,962	101,554
Borrowings from financial institutions	19	223,071	188,346
Debt issued	20	2,205,499	1,786,574
Other financial liabilities	20	11,963	22,967
Current tax liabilities	16	358	2,403
Deferred tax liabilities	16	530	-
Provisions	21	38,532	36,745
Other liabilities	22	88,428	108,556
TOTAL LIABILITIES		6,356,129	5,888,360
EQUITY			
Attributable to owners of the Bank:			
Capital		302,047	302,047
Reserves	24	25,654	26,246
Valuation accounts	24	243	3,958
Retained earnings			
Retained earnings from prior periods		198,786	176,601
Profit for the year		72,653	63,022
Less: Minimum dividend provision		(21,796)	(18,907)
		577,587	552,967
Non-controlling interests		**59**	**56**
TOTAL EQUITY		577,646	553,023
TOTAL LIABILITIES AND EQUITY		6,933,775	6,441,383

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED
FIGURES IN MILLIONS OF CHILEAN PESOS - MCH$

	NOTE	DECEMBER 31, 2018 MCH$	DECEMBER 31, 2017 MCH$
Interest and indexation income	25	375,166	331,383
Interest and indexation expense	25	(206,941)	(176,696)
Net interest and indexation income		**168,225**	**154,687**
Fee and commission income	26	82,314	77,563
Fee and commission expense	26	(13,560)	(12,728)
Net fee and commission income		**68,754**	**64,835**
Net financial operating income	27	23,736	34,226
Net foreign exchange transactions	28	3,215	(4,073)
Other operating income	34	4,634	4,271
Total operating income		**268,564**	**253,946**
Credit risk provisions	29	(41,550)	(42,026)
OPERATING INCOME, NET OF CREDIT RISK PROVISIONS		227,014	211,920
Payroll and personnel expenses	30	(58,089)	(52,309)
Administrative expenses	31	(65,049)	(65,661)
Depreciation and amortization	32	(5,185)	(5,621)
Impairment	33	(498)	(3,876)
Other operating expenses	34	(5,549)	(3,598)
TOTAL OPERATING EXPENSES		(134,370)	(131,065)
NET OPERATING INCOME		92,644	80,855
Income attributable to investments in other companies	13	18	26
Profit before tax		92,662	80,881
Income tax expense	16	(20,006)	(17,855)
Profit from continuing operations		72,656	63,026
Profit from discontinued operations		-	-
CONSOLIDATED PROFIT FOR THE YEAR		72,656	63,026
Attributable to:			
Owners of the Bank		72,653	63,022
Non-controlling interests		3	4
Earnings per share attributable to owners of the Bank:			
		CH$	CH$
Basic earnings per share	24	318	297
Diluted earnings per share	24	318	297

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED
FIGURES IN MILLIONS OF CHILEAN PESOS - MCH$

	DECEMBER 31, 2018 MCH$	DECEMBER 31, 2017 MCH$
CONSOLIDATED PROFIT FOR THE YEAR	**72,656**	**63,026**
OTHER COMPREHENSIVE INCOME		
Valuation of investments available for sale	(8,064)	1,813
Valuation of accounting hedges	2,976	(691)
Other comprehensive income	-	-
Other comprehensive income before tax	(5,088)	1,122
Income taxes related to other comprehensive income	1,373	(432)
Total other comprehensive income (loss)	(3,715)	690
CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR	**68,941**	**63,716**
Attributable to:		
Owners of the Bank	68,938	63,712
Non-controlling interests	3	4
Comprehensive earnings per share attributable to owners of the Bank:	CH$	CH$
Basic earnings per share	**302**	**300**
Diluted earnings per share	**302**	**300**

The accompanying notes are an integral part of these consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY

DECEMBER 31, 2018 AND 2017
FIGURES IN MILLIONS OF CHILEAN PESOS - MCH$

	ATTRIBUTABLE TO OWNERS OF THE BANK								
				RETAINED EARNINGS					
	PAID-IN CAPITAL MCH$	RESERVES MCH$	VALUATION ACCOUNTS MCH$	PRIOR YEARS MCH$	PROFIT FOR THE YEAR MCH$	MINIMUM DIVIDEND PROVISION MCH$	TOTAL MCH$	NON-CONTROLLING INTERESTS MCH$	TOTAL MCH$
Balances as of January 1, 2017	**252,047**	**24,710**	**3,268**	**146,239**	**50,604**	**(15,181)**	**461,687**	**50**	**461,737**
Reclassification of profit for the year	-	-	-	50,604	(50,604)	-	-	-	-
Dividends paid	-	-	-	(20,242)	-	-	(20,242)	-	(20,242)
Minimum dividend provision	-	-	-	-	-	15,181	15,181	-	15,181
Other equity movements	-	1,536	-	-	-	-	1,536	2	1,538
Capital increase	50,000	-	-	-	-	-	50,000	-	50,000
Investments available for sale	-	-	1,194	-	-	-	1,194	-	1,194
Accounting hedges	-	-	(504)	-	-	-	(504)	-	(504)
Profit for the year	-	-	-	-	63,022	-	63,022	4	63,026
Minimum dividend provision	-	-	-	-	-	(18,907)	(18,907)	-	(18,907)
Balances as of December 31, 2017	**302,047**	**26,246**	**3,958**	**176,601**	**63,022**	**(18,907)**	**552,967**	**56**	**553,023**
Balances as of January 1, 2018	**302,047**	**26,246**	**3,958**	**176,601**	**63,022**	**(18,907)**	**552,967**	**56**	**553,023**
Reclassification of profit for the year	-	-	-	63,022	(63,022)	-	-	-	-
Dividends paid	-	-	-	(37,813)	-	-	(37,813)	-	(37,813)
Minimum dividend provision	-	-	-	-	-	18,907	18,907	-	18,907
Adjustment for IFRS adoption	-	-	-	(3,174)	-	-	(3,174)	-	(3,174)
Other equity movements	-	(592)	-	150	-	-	(442)	-	(442)
Capital increase	-	-	-	-	-	-	-	-	-
Investments available for sale	-	-	(5,887)	-	-	-	(5,887)	-	(5,887)
Accounting hedges	-	-	2,172	-	-	-	2,172	-	2,172
Profit for the year	-	-	-	-	72,653	-	72,653	3	72,656
Minimum dividend provision	-	-	-	-	-	(21,796)	(21,796)	-	(21,796)
Balances as of December 31, 2018	**302,047**	**25,654**	**243**	**198,786**	**72,653**	**(21,796)**	**577,587**	**59**	**577,646**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED
FIGURES IN MILLIONS OF CHILEAN PESOS - MCH$

	NOTE	DECEMBER 31, 2018 MCH$	DECEMBER 31, 2017 MCH$
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated profit before tax		**92,662**	**80,881**
Charges (credits) to profit that do not represent cash flows:			
Credit risk provisions	29	41,550	42,026
Depreciation and amortization	32	5,185	5,621
Impairment	33	498	3,876
Other provisions	34	1,843	1,502
Operational write-offs	34	137	46
Changes in deferred tax assets and liabilities		(2,050)	(152)
Valuation of investments in trading book		15	1,458
Valuation of trading derivatives		(1,107)	(14,315)
Income attributable to investments in other companies	13	(18)	(26)
Gain on sales of repossessed assets		(269)	(30)
Net fee and commission income	26	(68,754)	(64,835)
Net interest and indexation income	25	(161,630)	(154,687)
Other credits that do not represent cash flows		(7,509)	(262)
Changes in operating assets and liabilities:			
(Increase) decrease in loans and advances to banks		(10,693)	238
(Increase) in loans to customers		(475,766)	(379,891)
(Increase) decrease in investments		(85,567)	105,376
(Increase) decrease in leased assets		(8,693)	14,935
Sale of repossessed assets		1,041	317
Increase (decrease) in current accounts and other demand deposits		(18,655)	103,439
Increase (decrease) in sales with resale agreements and securities lending		19,830	(12,861)
Increase (decrease) in savings accounts and time deposits		36,358	(114,976)
Net change in letters of credit		(3,055)	(5,073)
Net change in senior bonds		402,168	221,877
Increase in other assets and liabilities		(53,115)	(22,610)
Recovered taxes		543	24
Interest and indexation received		357,777	341,955
Interest and indexation paid		(242,916)	(184,235)
Fees and commissions received		82,314	69,709
Fees and commissions paid		(13,560)	(12,728)
Net cash flows provided by (used in) operating activities		**(111,436)**	**26,599**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	**15**	**(2,192)**	**(985)**
Acquisition of intangible assets	14	(2,739)	(1,608)
Sale of property, plant and equipment	15	1,676	-
Net cash flows used in investing activities		**(3,255)**	**(2,593)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in borrowings from domestic financial institutions		(115)	110
Increase in borrowings from foreign financial institutions		34,526	29,703
Variation in Central Bank obligations		-	-
Increase (decrease) in other financial liabilities		(10,914)	3,774
Net change in subordinated bonds		(5,789)	(6,868)
Capital increase		-	50,000
Dividends paid	24	(37,813)	(20,242)
Net cash flows provided by (used in) financing activities		**(20,105)**	**56,477**
TOTAL POSITIVE (NEGATIVE) NET CASH FLOWS		**(134,796)**	**80,483**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6	547,856	467,377
EFFECT OF NON-CONTROLLING INTERESTS		(3)	(4)
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**413,057**	**547,856**

The accompanying notes are an integral part of these consolidated financial statements.


NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FIGURES IN MILLIONS OF CHILEAN PESOS - MCH$

1. BUSINESS DESCRIPTION

Banco Security (hereinafter the "Bank") is a corporation regulated by the Superintendency of Banks and Financial Institutions (hereinafter the "SBIF"). The Bank is headquartered at Apoquindo 3,100, Las Condes, Santiago.

The Bank's main target markets include medium-sized and large companies and individuals in the high-income segment. It also offers international banking and treasury services. In addition, through its subsidiaries Valores S.A. Corredores de Bolsa and Administradora General de Fondos Security S.A., the Bank offers its customers securities brokerage, asset management and retirement advisory services, as well as voluntary pension savings products.

Grupo Security is the controller of Banco Security, as demonstrated in the following tables:

AS OF DECEMBER 31, 2018

SHAREHOLDERS	NO. OF SHARES	OWNERSHIP INTEREST (%)
Grupo Security	228,419,192	99.97
Minority interests	57,552	0.03
Total	228,476,744	100.00

AS OF DECEMBER 31, 2017

SHAREHOLDERS	NO. OF SHARES	OWNERSHIP INTEREST (%)
Grupo Security	228,419,192	99.97
Minority interests	57,552	0.03
Total	228,476,744	100.00

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Superintendency of Banks and Financial Institutions (SBIF) regulations contained in the Compendium of Accounting Standards and specific instructions issued by that entity. In all matters not addressed in the compendium, the Bank applies the technical standards issued by the Chilean Institute of Accountants, which coincide with International Financial Reporting Standards (IFRS). Should any discrepancies arise between these accounting principles and the accounting criteria issued by the SBIF (Compendium of Accounting Standards), the latter shall take precedence.

A) ASSET AND LIABILITY VALUATION CRITERIA

The following valuation criteria are used for assets and liabilities recognized in these financial statements:

- ### AMORTIZED COST

  Amortized cost is the amount at which an asset or liability is measured at initial recognition, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount.

  In the case of financial assets, amortized cost includes corrections for any impairment that may have occurred.

- ### FAIR VALUE MEASUREMENT

  Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

  When an instrument's market is not active, the Bank determines fair value using techniques to approximate a fair price such as interest rate curves based on market transactions or comparison with similar instruments.

- ### ACQUISITION COST

  Acquisition cost is defined as the cost of the transaction to acquire the asset, less any impairment losses that may have occurred.

  The consolidated financial statements have been prepared using the amortized cost criteria except for:

- Derivative financial instruments measured at fair value.
- Financial instruments held for trading measured at fair value.
- Financial assets available for sale measured at fair value.
- Certain real estate items within property, plant and equipment for which senior management decided to use its appraised value as deemed cost on first-time adoption in accordance with the SBIF Compendium of Accounting Standards.

B) FUNCTIONAL CURRENCY

In accordance with IAS 21, the items included in the financial statements of the Bank and its subsidiaries are measured using the currency of the primary economic environment in which the Bank operates (functional currency). The functional currency of the Bank and its subsidiaries is the Chilean peso. All figures are rounded to millions of Chilean pesos. All balances and transactions in currencies other than the Chilean peso are considered foreign currency.

C) USE OF ESTIMATES AND JUDGMENT

In preparing the financial statements in accordance with the SBIF Compendium of Accounting Standards, the Bank requires management to make certain estimates, judgments and assumptions that have an impact in the reported statements. Actual results in subsequent periods may differ from the estimates used.

- These relevant estimates and assumptions are reviewed regularly by the Bank's senior management in order to quantify the effects on asset, liability and profit or loss accounts.

- Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future period that is affected.

The most significant areas of estimates of uncertainties and judgments in applying accounting criteria or policies are:

- Measurement of financial instruments and derivatives
- Provisions for loan losses
- Impairment losses on loans and receivables from customers and other assets
- The useful life of tangible and intangible assets
- Contingencies and commitments

D) CONSOLIDATION CRITERIA

- **SUBSIDIARIES**

  Subsidiaries are entities controlled by the Bank. Control exists when the Bank has power over the financial and operating policies of an entity for the purpose of profiting from its activities. The financial statements of subsidiaries are included in the consolidated financial statements as of the date on which control begins.

  The Bank's financial statements have been consolidated with those of its subsidiaries. All significant balances between the Bank and its subsidiaries or among subsidiaries as well as income and expenses arising from transactions with subsidiaries have been eliminated upon consolidation.

- **INVESTMENTS IN ASSOCIATES**

  Associates are entities over which the Bank has the ability to exercise significant influence, but not control. Usually, this ability manifests itself through an ownership interest of 20% or more of the entity's voting rights and it is accounted for using the equity method, with profit or loss being recognized on an accrual basis.

- **INVESTMENTS IN OTHER COMPANIES**

  Investments in other companies are entities in which the Bank does not have significant influence. They are presented at acquisition value. Revenue is recognized in profit or loss as received.

  Third-party interests in the Bank's equity are presented separately in the statement of financial position as “non-controlling interest” and are presented in the statement of income after profit or loss attributable to the equity holders of the Bank.

  Non-controlling interest represents the equity of a subsidiary that is not directly or indirectly attributable to the controller.

  The following table details the Bank's ownership interest in its consolidated subsidiaries.

	OWNERSHIP INTEREST 2018 %	OWNERSHIP INTEREST 2017 %
Valores Security S.A. Corredores de Bolsa	99.88	99.88
Administradora General de Fondos Security S.A.	99.99	99.99

E) OPERATING SEGMENTS

The Bank's operating segments are components that engage in business activities from which they may earn revenue and incur expenses. Each segment's operating results are reviewed regularly by the Bank's highest decision-making authority for operating decisions, to decide about resource allocation for the segment and evaluate its performance; separate financial reporting is available.

Note 5 to the consolidated financial statements details the Bank's main operating segments: Commercial Banking, Retail Banking, Treasury, Subsidiaries and Other.

F) INTEREST AND INDEXATION INCOME AND EXPENSES

Interest and indexation income and expenses are presented on an accrual basis until year end, using the effective interest method, which is a discount rate that exactly matches the estimated cash flows to be received or paid over the expected life of the transaction.

However, for impaired loans, accrual is suspended as defined by the SBIF in Chapter B-2 of the Compendium of Accounting Standards, using the following criteria:

LOANS SUBJECT TO SUSPENSION:	SUSPENDED:
INDIVIDUAL ASSESSMENT: Loans classified in C5 and C6	For simply being in the impaired portfolio.
INDIVIDUAL ASSESSMENT: Loans classified in C3 and C4	For having been in the impaired portfolio for three months.
GROUP ASSESSMENT: Loans with less than 80% collateral	When the loan or one of its installments is six months past due.

G) FEE AND COMMISSION INCOME AND EXPENSES

Fee and commission income and expenses that are part of the effective interest rate of a financial asset or liability are recognized in profit or loss over the life of the transactions from which they arise.

Fee and commission income and expenses generated by providing a given service are recognized in profit or loss as the services are provided. Those involving financial assets and liabilities are recognized when collected.

H) TRANSLATION OF FOREIGN CURRENCY TO FUNCTIONAL CURRENCY

The Bank's functional currency is the Chilean peso. Transactions in foreign currency carried out by the Bank are translated to Chilean pesos at the exchange rate in force on the transaction date.

As of December 31, 2018 and 2017, monetary items in foreign currency are translated using the year-end exchange rates of CH$692.92 and CH$615.40 per US$ 1 respectively, which does not differ significantly from the exchange rates applied by the subsidiaries regulated by the Financial Market Commission of CH$694.77 as of December 31, 2018 and CH$614.75 as of December 31, 2017.

The net foreign exchange gains of MCH$9,810 and MCH$(4,073) for the years ended December 31, 2018 and 2017, respectively, shown in the consolidated statement of income, include both the result of foreign exchange transactions and the effects of exchange rate variations on foreign-currency-denominated assets and liabilities of the Bank and its subsidiaries.

I) CONVERSION

Assets and liabilities denominated in unidades de fomento (UF) are presented using the rates in effect as of December 31, 2018 and 2017, of CH$27,565.79 and CH$26,798.14, respectively.

J) FINANCIAL INVESTMENTS

Financial investments are classified and measured as follows:

J.1) FINANCIAL INSTRUMENTS HELD FOR TRADING:

Financial instruments held for trading are securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or securities included in a portfolio in which there is a pattern of short-term profit-making.

Financial instruments held for trading are recognized at fair value based on year-end market prices. Gains or losses from fair value adjustments, as well as gains or losses from trading activities and accrued interest and indexation, are included in "financial instruments held for trading" within "net financial operating income" in the statement of income, as specified in detail in Note 27 to the consolidated financial statements.

All purchases or sales of financial instruments held for trading that must be delivered within a period of time established by regulations or market conventions are recognized on the trading date, which is the date on which the purchase or sale of the asset is agreed upon. Any other purchase or sale is treated as a derivative (forward) until settlement occurs.

J.2) INVESTMENT SECURITIES:

Investment securities are classified into two categories: Held to maturity and available for sale. Investments held to maturity are those instruments that the Bank has the ability and intent to hold to maturity. All other investment securities are considered as held for sale. As of the date of issuance of these financial statements, the Bank does not have any investments held to maturity.

Investment securities are initially measured at cost, including transaction costs.

Investments available for sale are subsequently recognized at fair value based on market prices or valuations obtained from models. Unrealized gains or losses arising from changes in their fair value are recognized with a charge or credit to equity accounts. When these investments are disposed of or impaired, the amount of the fair value adjustments accumulated in equity is transferred to profit or loss and reported in "sale of investments available for sale" in "net financial operating income" in the statement of income, as specified in detail in Note 27 to the consolidated financial statements.

Investments held to maturity are recognized at cost plus accrued interest and indexation, less any impairment provisions made when the amount recognized is greater than the estimated recoverable amount. As of December 31, 2018 and 2017, the Bank did not have any investments held to maturity.

Interest and indexation on held-to-maturity and available-for-sale instruments are included in "interest and indexation income", as specified in detail in Note 25 to the consolidated financial statements.

Investment securities used as accounting hedges are adjusted under hedge accounting rules.

All purchases or sales of investment securities that must be delivered within a period of time established by regulations or market conventions are recognized on the trading date, which is the date on which the purchase or sale of the asset is agreed upon. Any other purchase or sale is treated as a derivative (forward) until settlement occurs.

K) FINANCIAL DERIVATIVE INSTRUMENTS

Derivative instruments, which include foreign currency and UF forwards, interest rate futures, currency and interest rate swaps and options, and other financial derivative instruments, are recognized initially in the statement of financial position at cost (including transactions costs) and subsequently measured at fair value. Fair value is obtained from market quotes, discounted cash flow models and option valuation models, as appropriate. Derivative instruments are reported as an asset when their fair value is positive and as a liability when negative, under "financial derivative instruments".

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

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

Changes in fair value of derivative instruments held for trading purposes are included under "trading derivatives" in "net financial operating income (loss)", in the consolidated statement of income.

If a derivative instrument is classified as a hedging instrument, it can be: (1) a hedge of the fair value of existing assets or liabilities or firm commitments, or (2) a hedge of cash flows related to existing assets or liabilities or forecasted transactions. A hedge relationship for hedge accounting purposes must meet all of the following requirements: (a) at its inception, the hedge relationship has been formally documented; (b) it is expected that the hedge will be highly effective; (c) the effectiveness of the hedge can be measured reasonably; and (d) the hedge is highly effective with respect to the hedged risk, continuously throughout the entire hedge relationship.

Certain derivative transactions that do not qualify for hedge accounting are treated and reported as derivatives for trading purposes, even though they provide an effective hedge for managing risk positions.

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

Should the hedged item in a fair value hedge be a firm commitment, changes in the fair value of the commitment with respect to the hedged risk are recognized as an asset or liability against profit for the year. Gains or losses from fair value adjustments of the derivative instrument are recognized in profit or loss. When an asset or liability is acquired as a result of the commitment, the initial recognition of the asset or liability acquired is adjusted to incorporate the accumulated effect of the valuation at fair value of the firm commitment, which was previously recognized in the statement of financial position.

When a derivative hedges the risk of changes in the cash flows of existing assets or liabilities or forecasted transactions, the effective portion of changes in the fair value related to the hedged risk is recognized in equity.

Any ineffective portion is directly recognized in profit or loss. The accumulated amounts recognized in equity are transferred to profit or loss when the hedged item affects profit or loss.

When an interest rate fair value hedge is performed on a portfolio basis and the hedged item is an amount instead of individualized assets or liabilities, gains or losses from fair value adjustments, for both the hedged portfolio and the derivative instrument, are recognized in profit or loss for the year, but the fair value adjustment of the hedged portfolio is reported in "financial derivative instruments", either in assets or liabilities, according to the position of the hedged portfolio at that moment in time.

When a cash flow hedge is used to hedge exposure to changes in cash flows that are attributed to a particular risk related to an asset or liability involved in a transaction that is predicted to be highly likely, the effective portion of changes in the fair value with respect to the hedged risk is recognized in equity, while the ineffective portion is recognized in profit or loss for the year.

L) OPERATIONS WITH RESALE/REPURCHASE AGREEMENTS AND SECURITIES BORROWING/ LENDING

The Bank engages in repurchase and resale agreements for funding purposes. The Bank's investments that are sold with a repurchase obligation and that serve as a guarantee for the loan are included in "financial instruments held for trading" and the obligation is recognized in liabilities under "payables from repurchase agreements and securities lending". When financial instruments are purchased with a resale obligation, they are included within assets under "receivables from resale agreements and securities borrowing".

Repurchase and resale agreements are valued at amortized cost based on the transaction's IRR.

M) DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

The Bank derecognizes a financial asset only when the contractual rights to the cash flows of the financial asset have expired or when the contractual rights to receive the cash flows of the financial asset are transferred during a transaction in which all risks and rewards are transferred.

The Bank derecognizes a financial liability only when the obligation specified in the corresponding contract has been extinguished (i.e. paid or settled).

N) IMPAIRMENT

N.1) FINANCIAL ASSETS:

As of each reporting date, the Bank assesses whether there is objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset is impaired and a loss will arise if objective evidence of impairment exists.

Financial assets carried at amortized cost show evidence of impairment when the present value of the estimated future cash flows, discounted at the asset's original effective interest rate, is less than the asset's carrying amount.

An impairment loss for available-for-sale financial assets is calculated using its fair value.

Financial assets that are individually significant are assessed individually to determine whether objective evidence of impairment exists. Financial assets that are not individually significant and have characteristics similar to other assets are assessed as a group.

All impairment losses are recognized in profit or loss. An impairment loss can only be reversed if it can be related objectively to an event occurring after the impairment loss was recognized.

N.2) NON-FINANCIAL ASSETS:

As of each reporting date, the Bank reviews the carrying amount of its non-financial assets to determine if objective evidence of impairment exists. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is reversed if there has been a change in the estimations used to determine the recoverable amount.

O) REPOSSESSED ASSETS

Repossessed assets are classified within "other assets" at the lesser of their foreclosure cost and their fair value less required regulatory write-offs and are presented net of provisions.

The SBIF requires regulatory write-offs if the asset is not sold within one year of foreclosure.

P) LEASE AGREEMENTS

Lease receivables, included in "loans to customers", are periodic payments from lease agreements that meet certain requirements to qualify as finance leases and they are presented at nominal value net of unaccrued interest at year-end.

Q) PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are measured at cost minus accumulated depreciation and impairment losses.


Depreciation is recognized in the statement of income on a straight-line basis over the useful life of the respective asset.

For certain real estate properties, the Bank recognized their fair values, based on independent appraisals, as their costs upon first-time adoption of IFRS.

The estimated useful lives of property, plant and equipment are as follows:

ASSET	USEFUL LIFE (YEARS)
Buildings	60 years
Plant and equipment	5 years
Supplies and accessories	2 years

R) INTANGIBLE ASSETS

R.1) SOFTWARE:

Expenses for in-house developed software are recognized as an asset when the Bank is able to demonstrate its intent and ability to complete development and use it within the organization to generate future economic benefits and can reliably measure the costs of completing development.

Capitalized costs of in-house developed software include all costs directly attributable to developing the software and they are amortized over their useful lives.

Computer software purchased by the Bank is recognized at cost less accumulated amortization and impairment losses.

Any subsequent expenses in software assets are capitalized only when they increase the future economic benefit for the specific asset. All other expenses are recognized in profit or loss when incurred.

Useful life has been determined based on the period of time over which economic benefits are expected. The amortization period and method are reviewed annually, and any change is treated as a change in when estimate.

R.2) GOODWILL:

Goodwill generated upon consolidation represents the difference between the acquisition cost and Banco Security's share of the fair value of identifiable assets and liabilities of a subsidiary or jointly controlled entity as of the acquisition date.

Any goodwill generated is valued at acquisition cost and is tested as of each reporting date for any impairment that reduces its recoverable amount to below its carrying amount. If appropriate, this difference is recognized in the consolidated statement of income under "administrative expenses", in accordance with IFRS 3. Goodwill recognized as of December 31, 2018, is detailed in Notes 2.ac) and 14.b) of the consolidated financial statements.

S) PROVISIONS FOR ASSETS AT RISK

Provisions required to cover risk of loan losses have been recognized in accordance with standards and specific instructions from the SBIF. Effective loans are presented net of such provisions, while contingent loan provisions are presented in liabilities (Note 21).

The Bank uses models or methods based on individual and group analyses of debtors to establish provisions for loan losses. These models and methods are in accordance with SBIF guidance and instructions.

T) LOANS TO CUSTOMERS, PROVISIONS AND WRITE-OFFS

Loans to customers, both originally granted by the Bank and acquired, are non-derivative financial assets with fixed or defined charges that are not quoted on an active market and that the Bank has no intention of selling immediately or in the short term. They are valued initially at fair value plus incremental transaction costs and subsequently measured at amortized cost using the effective interest method.

IMPAIRED PORTFOLIO:

The impaired portfolio includes loans for which concrete evidence exists that the borrowers will not meet some of their obligations in the agreed upon payment terms, regardless of the possibility of recovering amounts owed from collateral, through court collections or by negotiating different terms.

Within this context, the Bank will keep these loans in the impaired portfolio until the payment capacity or behavior has returned to normal. However, the Bank may continue to write off any individual loans.

T.1) PROVISIONS ON LOANS ASSESSED INDIVIDUALLY

An individual debtor assessment is used when the Bank needs to understand and analyze a customer, whether an individual or legal entity, in detail because of its size, complexity or exposure level. It requires a risk rating for each debtor.

For provisioning purposes, the Bank categorizes debtors and their loans and contingent loans into the appropriate category after assigning them to either the normal, substandard or default portfolio, which are defined as follows:

- NORMAL AND SUBSTANDARD PORTFOLIO

PORTFOLIO TYPE	DEBTOR CATEGORY	PROBABILITY OF DEFAULT (%)	LOSS GIVEN DEFAULT (%)	EXPECTED LOSS (%)
NORMAL PORTFOLIO	A1	0.04	90.00	0.03600
	A2	0.10	82.50	0.08250
	A3	0.25	87.50	0.21875
	A4	2.00	87.50	1.75000
	A5	4.75	90.00	4.27500
	A6	10.00	90.00	9.00000
SUBSTANDARD PORTFOLIO	B1	15.00	92.50	13.87500
	B2	22.00	92.50	20.35000
	B3	33.00	97.50	32.17500
	B4	45.00	97.50	43.87500

Nevertheless, the Bank must maintain a minimum provision of 0.50% on loans and contingent loans in the normal portfolio.

- DEFAULT PORTFOLIO

PORTFOLIO TYPE	SCALE OF RISK	RANGE OF EXPECTED LOSS	PROVISION (%)
DEFAULT PORTFOLIO	C1	Up to 3%	2
	C2	More than 3% up to 20%	10
	C3	More than 20% up to 30%	25
	C4	More than 30 % up to 50%	40
	C5	More than 50% up to 80%	65
	C6	More than 80%	90

T.2) PROVISIONS ON LOANS ASSESSED AS A GROUP

Group assessments are used to analyze a large number of transactions with small individual amounts. For these purposes, the Bank uses models based on the characteristics of debtors and their loans, as well as models based on the behavior of a group of loans. In group assessments, provisions for the consumer portfolio will always be recognized according to expected loss based on the models used by the Bank. Provisions are made for the commercial and mortgage portfolios using incurred loss methodologies.

T.3) ADDITIONAL LOAN PROVISIONS

According to SBIF instructions, the Bank may establish additional provisions on its individually assessed loan portfolio based on the expected impairment of that portfolio. This provision is calculated based on the Bank's past experience and potential adverse macroeconomic scenarios or circumstances that may affect a particular sector, industry, debtor group or project.

As of December 31, 2018 and 2017, the Bank had not recognized any additional provisions.

T.4) WRITE-OFFS

Loans are written off when recovery efforts have been exhausted in accordance with timetables issued by the SBIF, as follows:

TYPE OF LOAN	TERM
Consumer loans with or without collateral	6 months
Other operations without collateral	24 months
Commercial loans with collateral	36 months
Residential mortgage loans	48 months
Consumer leases	6 months
Other non-real-estate leases	12 months
Real estate leases (commercial and residential)	36 months

RECOVERY OF WRITTEN-OFF LOANS:

Subsequent repayments on written-off loans are recognized directly in profit or loss under "recovery of written-off loans" in "credit risk provisions".

As of December 31, 2018 and 2017, recoveries of written-off loans totaled MCH$6,291 and MCH$2,554, respectively, and are presented in provisions recognized during the year under "credit risk provisions" in the consolidated statement of income, as detailed in Note 29 to the financial statements.

U) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of balances of cash, bank deposits, net transactions pending settlement and operations with repurchase agreements, as stipulated in the SBIF Compendium of Accounting Standards. These items are subject to insignificant risk of changes in their fair value.

The Bank prepares its cash flow statement using the indirect method. This method begins with profit for the year and incorporates non-monetary transactions such as income and expenses that gave rise to cash flows, all grouped according to the following concepts:

- CASH FLOWS
  These are inflows and outflows of highly-liquid, short-term investments with insignificant risk, grouped under cash and cash equivalents.

- OPERATING ACTIVITIES
  These are transactions related to the Bank's normal operations and its main source of revenue.

- INVESTING ACTIVITIES
  These cash flows represent disbursements that have been made that will produce income and cash flows over the long term.

- FINANCING ACTIVITIES
  These cash flows represent the activities and cash needs to cover commitments to those contributing funding or capital to the entity.

V) TIME DEPOSITS, DEBT ISSUED

Deposits used as funding by the Bank, whatever the instrument or term, are valued at amortized cost. Other debt instruments issued are valued as of the placement date, including transaction costs, and subsequently valued at amortized cost using the effective interest method.

W) CURRENT AND DEFERRED INCOME TAXES

The Bank determines its income tax expense in accordance with the Income Tax Law and for this purpose establishes a provision against profit or loss. Deferred taxes are recognized for the temporary differences between the book and tax basis of assets and liabilities. The effect is recognized in the statement of income when the differences come from equity.

X) EMPLOYEE BENEFITS

X.1) EMPLOYEE VACATION

The annual cost of employee vacation is recognized on an accrual basis.

X.2) SHORT-TERM BENEFITS

The Bank has a yearly bonus plan for its employees that may be given based on their performance and ability to meet targets. They are provisioned based on the estimated amount to be distributed.

X.3) SEVERANCE INDEMNITIES

The Bank has not agreed to any severance indemnities that will be payable no matter the reason for terminating employment and, as a result, has not made any such provisions. Any such expenses are recognized in profit or loss as incurred.

Y) MINIMUM DIVIDENDS

As of December 31, 2018 and 2017, the Bank recognized a liability (provision) for minimum or mandatory dividends. This provision is based on article 79 of the Corporations Law and is also reflected in the Bank's dividend policy. This policy stipulates that at least 30% of profit for the year shall be distributed unless the shareholders representing all issued shares unanimously agree otherwise.

Z) EARNINGS PER SHARE

The Bank records basic earnings per share of its common shares, which is calculated by dividing the profit attributable to common shareholders by the weighted average number of outstanding common shares during the respective year.

Diluted earnings per share are calculated by dividing the profit attributable to the Bank by the average weighted number of outstanding shares adjusted for stock options, warrants and convertible debt. Since the Bank does not have this type of option, basic earnings per share are the same as diluted earnings per share.

AA) LEASES

The Bank has lease agreements classified as operating leases for which an expense is recognized as of the date of payment.

When the Bank assumes substantially all risks and rewards of ownership, they are classified as finance leases.

AB) PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognized only if, as a result of a past event, the Bank has a legal or constructive obligation that can be estimated, or an outflow of economic benefits to settle the obligation is likely and the amount of these resources can be reliably measured.

A contingent asset or liability is any right or obligation arisen from past events whose existence will be confirmed only if one or more uncertain future events, not under the Bank's control, occur.

AC) BUSINESS COMBINATIONS

Banco Security has purchased interests in companies that qualify as a business combination and, therefore, must apply standards for business combinations.

The PPA valuation was completed on February 15, 2017, within the term stipulated in IFRS 3, and the fair values of the identified assets and liabilities were recognized as the final values. As of December 31, 2017, the Company's accounting reflects the final values of these items (See Note 14b).

2.2 NEW ACCOUNTING PRONOUNCEMENTS

B.1) GUIDANCE ISSUED BY THE SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS

RULING NO. 3,621

On July 6, 2018, the Superintendency of Banks and Financial Institutions issued a Ruling related to Chapter B-1 of the Compendium of Accounting Standards, which establishes the standard methods to be used by banking entities to estimate credit risk provisions for commercial portfolios in group analysis.

The Bank's management is evaluating the impact of these regulatory amendments.

RULING NO. 3,634

On March 9, 2018, the Superintendency of Banks and Financial Institutions issued a Ruling related to Chapters 12-1 and 12-3 of the Updated Compilation of Standards, in order for banks to recognize the effects of risk mitigation mechanisms within clearing and settlement systems administered by Central Counterparty Entities (CCP), which are constituted under Law 20,345 of the SBIF.

The Bank's management has implemented these regulatory amendments in its consolidated financial statements as of December 31, 2018.

RULING NO. 3,621

On March 15, 2017, the Superintendency of Banks and Financial Institutions issued this ruling related to chapters B1 and C3 of the Compendium of Accounting Standards. It complements instructions for calculating and accounting for provisions on loans guaranteed by the School Infrastructure Guarantee Fund stipulated in Law 20,845.

The Bank's management has implemented these regulatory amendments in its consolidated financial statements as of December 31, 2018.

B.2) INTERNATIONAL ACCOUNTING STANDARDS BOARD

B.2.1) THE FOLLOWING NEW IFRS AND IFRS AMENDMENTS AND INTERPRETATIONS HAVE BEEN ADOPTED IN THESE CONSOLIDATED FINANCIAL STATEMENTS.

NEW IFRS	MANDATORY EFFECTIVE DATE
IFRS 9 Financial Instruments	Annual periods beginning on or after January 1, 2018.
IFRS 15 Revenue from Contracts with Customers	Annual periods beginning on or after January 1, 2018.
AMENDMENT TO IFRS	MANDATORY EFFECTIVE DATE
Classification and Measurement of Share-Based Payment Transactions (amendments to IFRS 2)	Annual periods beginning on or after January 1, 2018.
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (amendments to IFRS 4)	Overlay approach when applying IFRS 9 for the first time. Temporary exemption to delay application for annual periods beginning on or after January 1, 2018, and only available for three years after that date.
Transfers of Investment Property (amendments to IAS 40)	Annual periods beginning on or after January 1, 2018.
Annual Improvements Cycle 2014-2016 (amendments to IFRS 1 and IAS 28)	Annual periods beginning on or after January 1, 2018.
NEW INTERPRETATIONS	MANDATORY EFFECTIVE DATE
IFRIC 22 Foreign Currency Transactions and Advance Considerations	Annual periods beginning on or after January 1, 2018.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for classifying and measuring financial liabilities and for de-recognition, and in November 2013 to include new requirements for general hedge accounting. Another version of IFRS 9 was issued in July 2014, mainly to include a) impairment requirements for financial assets and b) limited amendments to classification and measurement requirements by introducing a "fair value through other comprehensive income" measurement category for certain uncomplicated debt instruments.

The key requirements of IFRS 9 are:

CLASSIFICATION AND MEASUREMENT:

- AMORTIZED COST:
  Financial assets that give rise solely to payments of interest and principal and are held within a business model whose objective is to hold financial assets in order to collect cash flows are measured at amortized cost.

- FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME:
  Financial assets that give rise solely to payments of interest and principal and are held in a business model whose objective is achieved by both collecting cash flows and selling financial assets are measured at fair value through other comprehensive income.

- FAIR VALUE THROUGH PROFIT AND LOSS:
  Other financial assets are measured at fair value through profit or loss.

Upon initial recognition, any financial asset can be irrevocably designated as at fair value through profit or loss if such designation eliminates an inconsistency in measurement or recognition.

IMPAIRMENT:

Regarding impairment of financial assets, IFRS 9 requires the use of a model of expected credit losses versus the model of incurred credit losses under IAS 39. The model of expected credit losses requires an entity to account for expected credit losses and changes in these expected credit losses as of each reporting date to reflect changes in credit risk since initial recognition. In other words, a credit event does not have to occur in order for credit losses to be recognized.

HEDGE ACCOUNTING:

The new general requirements for hedge accounting maintain intact the three types of hedge accounting mechanisms currently available in IAS 39. IFRS 9 introduces greater flexibility to the types of transactions eligible for hedge accounting. Specifically, it broadens the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting.

In addition, effectiveness testing has been reviewed and replaced by the 'economic relationship' principle. A retrospective evaluation of the effectiveness of a hedge is no longer required. It also introduced improved disclosure requirements for an entity's risk management activities.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is allowed.

Management evaluated the impact of adopting IFRS 9 at Administradora General de Fondos Security S.A. and Valores Security S.A. Corredores de Bolsa and determined that it has no impact. Furthermore, the Bank cannot adopt this standard, as expressly mandated by the SBIF in its Compendium of Accounting Standards.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On May 28, 2014, the IASB published IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a sole comprehensive model for entities to use to account for revenue from contracts with customers. When adoption of IFRS 15 becomes effective, it will replace the current revenue recognition guidance in IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The core principle of IFRS 15 is that an entity must recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach for recognizing revenue:

- STEP 1: Identify the contract with a customer;
- STEP 2: Identify the performance obligations in the contract;
- STEP 3: Determine the transaction price;
- STEP 4: Allocate the transaction price to the performance obligations in the contract;
- STEP 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) it satisfies a performance obligation (i.e. when 'control' of the goods or services underlying the particular performance obligation is passed to the customer). More prescriptive guidance has been added in IFRS 15 for treatment specific scenarios. More extensive disclosures are also required.

In April 2016, the IASB published Clarifications to IFRS 15 related to the identification of performance obligations, principal versus agent considerations and application guidance for licensing.

IFRS 15, including the clarifications issued in April 2016, is effective for annual periods beginning on or after January 1, 2018. Early adoption is allowed. Entities can choose to apply IFRS 15 retrospectively or to use a modified transition approach, which consists of applying IFRS 15 retrospectively only to contracts that were complete as of the date of initial application.

The Bank's Management has evaluated the impact of applying this standard and concluded that the application of IFRS 15 had an impact on the statement of financial position of MCH$3,174, net of deferred taxes upon adoption. This was recognized against reserves, see Note 24.g).

CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS (AMENDMENTS TO IFRS 2)

On June 20, 2016, the IASB published final amendments to IFRS 2 Share-Based Payment that clarifies the classification and measurement of share-based payment transactions. The amendments address several requests that the IASB and the IFRS Interpretations Committee received and that the IASB decided to deal with in one, combined, narrow-scope project.

The amendments are effective for annual periods beginning on or after January 1, 2018. Early adoption is allowed. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The Bank's management considers that these amendments have not affected the consolidated financial statements, since the Bank does not have any share-based payment agreements.

APPLYING IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4 INSURANCE CONTRACTS (AMENDMENTS TO IFRS 4)

The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4: An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach, and an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

In accordance with SBIF instructions, the Bank's management has decided not to adopt this standard. It will be adopted in the Bank's consolidated financial statements once authorized by the SBIF.

TRANSFERS OF INVESTMENT PROPERTY (AMENDMENTS TO IAS 40)

On December 8, 2016, the IASB issued Transfers of Investment Property (Amendments to IAS 40) to clarify transfers of property to, or from, investment property.

The amendments to IAS 40 Investment Property are:

- Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of evidence in paragraph 57 a) – d) was designated as a non-exhaustive list of examples instead of the previous detailed list.

The amendments are effective for annual periods beginning on or after January 1, 2018. Early adoption is allowed.

The Bank's management believes that adopting these amendments did not have any effect on the Bank's consolidated financial statements.

ANNUAL IMPROVEMENTS CYCLE 2014 - 2016

On December 8, 2016, the IASB issued Annual Improvements Cycle 2014-2016. Annual improvements include amendments to IFRS 1 First Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures.

The amendments to IFRS 1 eliminated the exceptions contained in paragraphs E3-E7.

The amendments to IAS 28 clarify that the option for a venture capital organization or other qualifying entity of measuring investments in associates and joint ventures at fair value through profit and loss is available on an investment-by-investment basis for each associate or joint venture and the choice must be made upon initial recognition of the associate or joint venture. An entity which is not itself an investment entity, but has an interest in a joint venture or associate that is an investment entity, has the option of keeping the fair value measurement applied by its associate. The amendments make a similar clarification that this election is available for each associate and joint venture that is an investment entity. The amendments apply retrospectively and early adoption is allowed.

The Bank's management believes that adopting these amendments has no effect on its consolidated financial statements.

IFRIC 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATIONS

On December 8, 2016, the IASB issued IFRIC 22 Foreign Currency Transactions and Advance Considerations. IFRIC 22 establishes how to determine the 'date of the transaction' for the purpose of determining the exchange rate to use in the initial recognition of an asset, expense or income when the consideration for that item has been paid or received in advance in foreign currency, which results in recognition of a non-monetary asset or non-monetary liability (e.g. a non-reimbursable deposit or deferred income).

The interpretation specifies that the date of the transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability that arises from the advanced payment or receipt of the consideration. If there are multiple payments or receipts in advance, the interpretation requires the entity to determine a date of transaction for each payment or receipt.

The Bank's management believes that applying this new interpretation did not have any effect on the Bank's consolidated financial statements.

B.2.2) THE FOLLOWING STANDARDS AND IFRS AMENDMENTS AND INTERPRETATIONS HAVE BEEN ISSUED BUT APPLICATION IS NOT YET MANDATORY:

NEW IFRS	MANDATORY EFFECTIVE DATE
IFRS 16 Leases	Annual periods beginning on or after January 1, 2019.
IFRS 17 Insurance Contracts	Annual periods beginning on or after January 1, 2021.
AMENDMENT TO IFRS	**MANDATORY EFFECTIVE DATE**
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Effective date deferred indefinitely.
Prepayment Features with Negative Compensation (amendments to IFRS 9)	Annual periods beginning on or after January 1, 2019.
Long-term Interests in Associates and Joint Ventures (amendments to IAS 28)	Annual periods beginning on or after January 1, 2019.
Annual Improvements Cycle 2015-2017 (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)	Annual periods beginning on or after January 1, 2019.
Modifications to plan, reductions and settlements (amendments to IAS 19)	Annual periods beginning on or after January 1, 2019.
Definition of a Business (amendments to IFRS3)	Annual periods beginning on or after January 1, 2020.
Definition of Material (amendments to IAS 1 and IAS 8)	Annual periods beginning on or after January 1, 2020.
Revised Conceptual Framework for Financial Reporting	Annual periods beginning on or after January 1, 2020
NEW INTERPRETATIONS	**MANDATORY EFFECTIVE DATE**
IFRIC 23 Uncertainty over Income Tax Treatments	Annual periods beginning on or after January 1, 2019.

IFRS 16, LEASES

On January 13, 2016, the IASB published IFRS 16 Leases. IFRS 16 sets out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. When adoption of IFRS 16 becomes mandatory, it will replace the current guidelines for leases, including IAS 17 Leases and related interpretations.

IFRS 16 makes a distinction between leases and service contracts on the basis of whether an identified asset is controlled by a customer. The distinction between operating lease (off-balance-sheet) and finance lease is removed for lessees and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized by lessees for all leases, except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid as of that date. Subsequently, the lease liability is adjusted to account

for interest and lease payments as well as modifications to the lease, among others. In addition, the classification of cash flows will also be affected since under IAS 17 operating lease payments are presented as operating cash flows, while under the model in IFRS 16, lease payments will be divided between principal payments and interest, which will be presented as financing and operating cash flows, respectively.

In contrast with accounting for lessees, the accounting requirements for lessors in IAS 17 remain virtually intact in IFRS 16, which continues to require lessors to classify leases as either operating or financial leases.

In addition, IFRS 16 requires more extensive disclosures.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is allowed for entities that apply IFRS 15 on or before the initial application date of IFRS 16. Entities can apply IFRS 16 using either a full retrospective approach or a modified retrospective approach. The Bank has chosen to apply the modified retrospective approach. Therefore, it is not required to restate comparative financial information and the cumulative effect of initially applying IFRS 16 should be presented as an adjustment to the opening balance of retained earnings (or other equity component, when appropriate).

As of December 31, 2018, the Bank has non-cancellable operating lease commitments of MCH$8,415. IAS 17 does not require the right to use an asset or a liability for future payments to be recognized for these leases. Instead, certain information is disclosed as operating lease commitments in Note 15. A preliminary assessment indicates that these lease agreements will comply with the definition of a finance lease under IFRS 16. Therefore, the Bank will recognize the right to use an asset and a corresponding liability with respect to all these leases, unless they qualify as low-value or short-term leases under IFRS 16. The new requirement to recognize the right to use an asset and a corresponding lease liability is expected to have a significant impact on the Bank's consolidated financial statements, and management is currently evaluating this potential impact.

The Bank has decided to apply the modified retrospective approach, which will result in an increase of between MCH$7,700 and MCH$9,800 in assets and a related increased liability, based on preliminary analyses.

In contrast, for finance leases where the Bank acts as lessee, since the Bank has already recognized an asset and corresponding lease liability for the lease agreement, and in cases where the Bank acts as lessor (for both operating and finance leases), the Bank’s management does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the Bank's consolidated financial statements.

IFRS 17 INSURANCE CONTRACTS

On May 18, 2017, the IASB published IFRS 17 Insurance Contracts. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents rights and obligations arising from insurance contracts it issues.

IFRS 17 establishes a general model, which is modified for insurance contracts with discretionary participation features, described as the “Variable Fee Approach”. The general model is simplified if certain criteria are met by measuring the liability for the remaining coverage using the “Premium Allocation Approach”.

The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and will explicitly measure the cost of that uncertainty; they take into account market interest rates and the impact of options and guarantees of policyholders.

IFRS 17 is effective for annual periods beginning on or after January 1, 2021, with earlier adoption allowed. It should be applied retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

For the purposes of transition requirements, the date of initial application is the beginning of the annual financial report in which the entity first applies the standard and the date of transition is the beginning of the period immediately preceding the date of initial application.

The Bank's management estimates that this new standard will not impact the consolidated financial statements, since the consolidated companies do not issue insurance contracts.

SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE (AMENDMENTS TO IAS 10 AND IAS 28)

On September 11, 2014, the IASB published Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). Amendments to IFRS 10 and IAS 28 address situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments provide that gains or losses resulting from the loss of control of a subsidiary that does not constitute a business in a transaction with an associate or joint venture that is accounted for using the equity method are recognized in the parent company's profit or loss only to the extent of the unrelated investors' interest in that associate or joint venture.

In addition, if the parent retains an investment in the former subsidiary and the former subsidiary is now an associate or joint venture that is accounted for using the equity method, the gain or loss resulting from the remeasurement at fair value of the investment retained should be recognized in profit or loss only to the extent of the unrelated investors' interest in the new associate or joint venture.

The effective date of the amendments has not yet been defined by the IASB. However, early adoption of the amendments is allowed.

The Bank's management has not yet evaluated the potential impact of adopting these amendments.

PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION (AMENDMENTS TO IFRS 9)

On October 12, 2017, the IASB published Prepayment Features with Negative Compensation (amendments to IFRS 9) to address certain topics related to the classification of certain specific prepayable financial assets under IFRS 9, amending the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

The amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2019. Early application is allowed so entities can apply the amendments together with IFRS 9 if they wish so.

In accordance with SBIF instructions, the Bank's management has decided not to adopt this standard early. It will be adopted in the Bank's consolidated financial statements once authorized by the SBIF.

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES (AMENDMENTS TO IAS 28)

On October 12, 2017 the IASB published Long-term Interests in Associates and Joint Ventures (amendments to IAS 28) The amendments clarify that IFRS 9 and its impairment requirements apply to long-term interests. Moreover, when applying IFRS 9 to long-term interests, an entity does not take into consideration any adjustments to its book values required by IAS 28 (i.e. adjustments to the book values of long-term interests that arise from the allocation of investment losses or impairment testing in accordance with IAS 28).

The amendments apply retrospectively to annual periods beginning on or after January 1, 2019. Early adoption is allowed. Specific transitional provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The Bank's management has not yet evaluated the potential impact of adopting these amendments.

ANNUAL IMPROVEMENTS CYCLE 2015-2017 (AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS, IFRS 11 JOINT ARRANGEMENTS, IAS 12 INCOME TAXES, AND IAS 23 BORROWING COSTS)

On December 12, 2017, the IASB issued Annual Improvements Cycle 2015-2017. The annual improvements include amendments to four standards.

IAS 12 INCOME TAXES

The amendments clarify that an entity should recognize the income tax consequences of dividends in the statements of income, other comprehensive income or changes in equity, depending on where the transactions that generated the distributable profits were originally recognized. This is regardless of whether different tax rates were applied to distributed and undistributed profits.

IAS 23 BORROWING COSTS

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IFRS 3 BUSINESS COMBINATIONS

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity should apply the requirements for a business combination achieved in stages, including the remeasurement at fair value of the previously held interest in that joint venture. A previously held interest includes any unrecognized assets, liabilities and goodwill related to the joint venture.

IFRS 11 JOINT ARRANGEMENTS

The amendments to IFRS 11 clarify that when a party has an interest in but not joint control of a joint operation that is a business, and obtains joint control of such a joint operation, the entity does not have to remeasure its previously held interest in the joint venture.

The amendments are effective for annual periods beginning on or after January 1, 2019, and generally require prospective application. Early adoption is allowed.


The Bank’s management has not yet evaluated the potential impact of adopting these amendments.

PLAN AMENDMENT, CURTAILMENT AND SETTLEMENT (AMENDMENTS TO IAS 19)

On February 7, 2018, the IASB published amendments to IAS 19 Employee Benefits. The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2019, and early adoption is allowed.

The Bank’s management does not expect the application of this new interpretation to have a significant impact on its financial statements.

DEFINITION OF A BUSINESS (AMENDMENTS TO IFRS3)

On October 22, 2018, the IASB published Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.

The amendments are changes to Appendix A Defined terms, the application guidance and the illustrative examples of IFRS 3. The amendments mainly:

- Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.
- Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2010 and to asset acquisitions that occur on or after the beginning of that period. Early adoption is allowed.

The Bank's management has not yet evaluated the potential impact of adopting these amendments.

DEFINITION OF MATERIAL (AMENDMENTS TO IAS 1 AND IAS 8)

On October 31, 2018, the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8) to clarify the definition of "material" and to align the definition used in the Conceptual Framework and the standards themselves.

The changes all relate to a revised definition of "material" which is quoted below from the final amendments: *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity"*.

Three new aspects of the new definition are particularly important.

OBSCURING:

The existing definition only focused on omitting or misstating information, however, the IASB concluded that obscuring material information with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A).

COULD REASONABLY BE EXPECTED TO INFLUENCE:

The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.

PRIMARY USERS:

The existing definition referred only to 'users' which again the IASB feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

The new definition of material and the accompanying explanatory paragraphs can be found in IAS 1, Presentation of Financial Statements. The definition of material in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors has been replaced with a reference to IAS 1.

The amendments are effective for annual periods beginning on or after January 1, 2020. Early adoption is allowed.

The Bank's management does not expect the application of this amendment to have a significant impact on its consolidated financial statements.

REVISED CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

On March 29, 2018, the IASB published its revised Conceptual Framework for Financial Reporting (the "Conceptual Framework"). The Conceptual Framework is not a standard and none of its concepts override any standard or the requirements in any standard. The


main purpose of the Conceptual Framework is to guide the IASB when it develops International Financial Reporting Standards. The Conceptual Framework can also be helpful for preparers when there are no specific or similar standards that address a particular issue. The new Conceptual Framework has an introduction, eight chapters and a glossary. Five of the chapters are new, or have been revised substantially.

THE NEW CONCEPTUAL FRAMEWORK:

- Introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument.
- Removes from the asset and liability definitions references to the expected flow of economic benefits. This lowers the hurdle for identifying the existence of an asset or liability and puts more emphasis on reflecting uncertainty in measurement.
- Discusses historical cost and current value measures, and provides some guidance on how the IASB would go about selecting a measurement basis for a particular asset or liability.
- States that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances will the IASB use other comprehensive income and only for income or expenses that arise from a change in the current value of an asset or liability.
- Discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements

The new Conceptual Framework is effective immediately since publication on March 29, 2018,

The IASB has also published a separate document "Updated References in the Conceptual Framework", which contains the corresponding amendments to the affected Standards so that they will now refer to the new Conceptual Framework. These amendments are effective for annual periods beginning on or after January 1, 2020, and early adoption is allowed.

The Bank's management has not had the opportunity to evaluate the potential impact of adopting the new Conceptual Framework.

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

On June 7, 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments. IFRIC 23 establishes how to determine a tax position when there is uncertainty over income tax treatments.

IFRIC 23 requires an entity to:

(i) determine whether uncertain tax positions should be evaluated independently or together.

(ii) evaluate whether the taxation authority will accept an uncertain tax treatment that an entity used or plans to use in its income tax returns.

a) If accepted, the entity must determine its book-basis tax position consistently with the tax treatment it used or plans to use in its income tax declarations.

b) If not accepted, the entity must reflect the effect of the uncertainty in the calculation of its book-basis tax position.

IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Entities may apply IFRIC 23 using a full retrospective approach, or a modified retrospective approach without restating comparatives.

IFRIC 23 is not expected to have any effect. However, the effects of this interpretation cannot be reasonably estimated until management performs a detailed review. Management does not expect that adopting any other standards, amendments or interpretations will have a significant effect on the Bank's consolidated financial statements.

3. ACCOUNTING CHANGES

On January 8, 2018, the SBIF issued Management Letter 21 to complement instructions on current and deferred taxes in accordance with IAS 12, indicating that assets and liabilities resulting from these taxes must be presented net in the consolidated financial statements with effect from December 2017.

There were no accounting changes in the consolidated financial statements as of December 31, 2018, compared to the previous year.

4. MATERIAL EVENTS

BANCO SECURITY

On July 30, 2018, the SBIF was informed that the Bank's Board appointed Mr. Ignacio Ruiz Tagle Vergara as second Alternate Director, as agreed in Banco Security's extraordinary shareholder's meeting No. 25.

On December 28, 2017, the Bank increased its capital by MCH$50,000. All of these shares were acquired by Grupo Security.

ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.

An extraordinary board meeting of Administradora General de Fondos Security S.A. was held on May 22, 2018, where Mr. Felipe Marin Viñuela was appointed Chief Investment Officer.

Mr. Pablo Jacque Sahr resigned from the position of Chief Investment Officer of Administradora General de Fondos Security S.A. on May 10, 2018. He will continue to serve as an advisor to the company, in order to achieve an appropriate transition.

The 26th annual general shareholders' meeting was held on March 21, 2018, at which shareholders approved the annual report and consolidated financial statements for the year ended December 31, 2018, the external auditors report for the same period, the distribution of profits and dividends, and in general all matters within its jurisdiction in accordance with the law.

During the period from January 1 to December 31, 2018, Administradora General de Fondos Security S.A. has not filed any material events that must be reported.

VALORES SECURITY S.A. CORREDORES DE BOLSA

During the period from January 1 to December 31, 2018, Valores Security S.A. Corredores de Bolsa has not filed any material events that must be reported.

At an ordinary board meeting held on July 14, 2017, the Board agreed to appoint Mr. Enrique Menchaca Olivares as Chairman of the Board.

At an ordinary board meeting held on June 20, 2017, the Board received a letter of resignation from the Chairman Mr. Ramón Eluchans Olivares, which took effect immediately. Another director has not yet been appointed to replace him.

5. OPERATING SEGMENTS

The Bank's senior management makes decisions based on the following segments or business areas, defined as follows:

COMMERCIAL BANKING:

Commercial portfolio of customers within the target segment of medium and large companies with sales in excess of CH$1.5 billion. The main products and services offered to this segment include commercial loans in local currency, foreign currency, leases, foreign trade, current accounts and asset management services.

RETAIL BANKING:

Portfolio of customers within the target segment of high-income individuals (socioeconomic category ABC1). The main products and services offered to this segment are current accounts, lines of credit, consumer and mortgage loans and asset management services, among others.

TREASURY:

The business of distributing foreign currency and financial products to customers, brokering financial instruments and managing the Bank's own positions, balance sheet, mismatches and liquidity. The main products and services offered to customers include currency trading, exchange rate and inflation insurance and other derivative products.

SUBSIDIARIES:

The business of managing funds, brokering equities and managing the Bank's own positions. These activities are carried out through the Bank's subsidiaries Administradora General de Fondos Security S.A. and Valores Security S.A. Corredora de Bolsa.

OTHERS:

These are non-recurring and other income and expenses that cannot be allocated to any of the above segments.

The following table illustrates assets, liabilities and profit/loss by segment as of December 31, 2018 and 2017.

Most of the revenue from the Bank's segments comes from interest. Operational decision making, segment performance and decisions regarding allocation of resources are based on net interest income. As a result, segment revenue takes interest margins into consideration.

A) ASSETS AND LIABILITIES BY OPERATING SEGMENT

	COMMERCIAL BANKING		RETAIL BANKING		TREASURY		OTHERS		TOTAL BANK		SUBSIDIARIES		TOTAL CONSOLIDATED	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
ASSETS														
Gross loans	3,741,127	3,270,092	1,597,216	1,564,193	7,728	5	-	-	5,346,071	4,834,290	-	-	5,346,071	4,834,290
Credit risk provisions	(55,297)	(49,539)	(34,859)	(30,969)	(33)	-	-	-	(90,189)	(80,508)	-	-	(90,189)	(80,508)
Net loans	3,685,830	3,220,553	1,562,357	1,533,224	7,695	5	-	-	5,255,882	4,753,782	-	-	5,255,882	4,753,782
Financial transactions	-	-	-	-	768,999	699,206	-	-	768,999	699,206	86,275	73,775	855,274	772,981
Other assets	-	-	-	-	143,176	122,933	577,465	678,122	720,641	801,055	101,978	113,565	822,619	914,620
Total assets	3,685,830	3,220,553	1,562,357	1,533,224	919,870	822,144	577,465	678,122	6,745,522	6,254,043	188,253	187,340	6,933,775	6,441,383
LIABILITIES														
Liabilities	3,368,141	2,929,343	1,453,771	1,421,417	873,718	769,109	577,405	678,066	6,273,035	5,797,935	83,094	90,425	6,356,129	5,888,360
Equity	317,689	291,210	108,586	111,807	46,152	53,035	1	-	472,428	456,052	105,159	96,915	577,587	552,967
Non-controlling interests				-	-	-	59	56	59	56		-	59	56
Total liabilities	3,685,830	3,220,553	1,562,357	1,533,224	919,870	822,144	577,465	678,122	6,745,522	6,254,043	188,253	187,340	6,933,775	6,441,383

B) RESULTS BY OPERATING SEGMENT

	COMMERCIAL BANKING		RETAIL BANKING		TREASURY		OTHERS		TOTAL BANK		SUBSIDIARIES		TOTAL CONSOLIDATED	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
OPERATING INCOME														
Net interest margin (1)	84,864	78,206	64,743	62,636	20,365	19,106	(1,330)	(4,786)	168,642	155,162	(417)	(475)	168,225	154,687
Net commissions	18,648	15,349	22,627	22,513	(361)	(472)	(1,305)	(620)	39,609	36,770	29,145	28,065	68,754	64,835
Net foreign exchange and other income (2)	8,306	10,289	2,295	2,266	14,852	21,464	(6,599)	(14,654)	18,854	19,365	7,923	7,471	26,777	26,836
Loan losses and repossessed assets (3)	(19,711)	(18,000)	(22,401)	(23,804)	(46)	(12)	(631)	(96)	(42,789)	(41,912)	-	-	(42,789)	(41,912)
Total operating income, net of provisions	92,107	85,844	67,264	63,611	34,810	40,086	(9,865)	(20,156)	184,316	169,385	36,651	35,061	220,967	204,446
Operating expenses (4)	(37,075)	(37,239)	(56,673)	(55,349)	(12,145)	(12,209)	3,651	4,884	(102,242)	(99,913)	(26,081)	(23,678)	(128,323)	(123,591)
Net operating income	55,032	48,605	10,591	8,262	22,665	27,877	(6,214)	(15,272)	82,073	69,472	10,570	11,383	92,644	80,855
Income attributable to investments in other companies	-	-	-	-	-	-	18	26	18	26	-	-	18	26
Profit (loss) before taxes	55,032	48,605	10,591	8,262	22,665	27,877	(6,196)	(15,246)	82,092	69,498	10,570	11,383	92,662	80,881
Income taxes	(12,149)	(10,907)	(2,338)	(1,854)	(5,003)	(6,256)	1,368	3,421	(18,122)	(15,596)	(1,884)	(2,259)	(20,006)	(17,855)
Consolidated profit (loss) for the year	42,883	37,698	8,253	6,408	17,662	21,621	(4,828)	(11,825)	63,970	53,902	8,686	9,124	72,657	63,026
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3)	(4)	(3)	(4)
Attributable to owners of the Bank	42,883	37,698	8,253	6,408	17,662	21,621	(4,828)	(11,825)	63,970	53,902	8,683	9,120	72,653	63,022

(1) Net interest and indexation income.
(2) Includes net financial operating income, net foreign exchange transactions, other income and expenses and other contingency provisions.
(3) Includes credit risk provisions, net income from repossessed assets, impairment of investment securities and intangible assets and net country risk, special and additional provisions.
(4) Payroll and personnel expenses, administrative expenses, depreciation and amortization.

6. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
CASH AND DUE FROM BANKS		
Cash	11,870	11,904
Deposits in the Chilean Central Bank	216,361	326,350
Deposits in domestic banks	4,165	13,645
Foreign deposits	161,936	145,524
Subtotal - cash and due from banks	394,332	497,423
Transactions pending settlement, net	18,725	50,433
Repurchase agreements	-	-
Total cash and cash equivalents	413,057	547,856

Funds in cash and deposits in the Chilean Central Bank are in response to monthly average matching regulations that the Bank must meet.

Transactions pending settlement consist of transactions awaiting settlement to increase or decrease funds in the Chilean Central Bank or foreign banks, normally within 12 to 24 business hours, and are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
ASSETS		
Outstanding notes from other banks	20,552	19,355
Funds receivable	15,076	56,916
Subtotal - assets	35,628	76,271
LIABILITIES		
Funds payable	(16,903)	(25,838)
Subtotal - liabilities	(16,903)	(25,838)
Transactions pending settlement, net	18,725	50,433

7. FINANCIAL INSTRUMENTS HELD FOR TRADING

As of December 31, 2018 and 2017, the Bank and its subsidiaries recognize the following balances in financial instruments held for trading:

	UP TO ONE YEAR		FROM ONE TO THREE YEARS		FROM THREE TO SIX YEARS		MORE THAN SIX YEARS		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
CHILEAN GOVERNMENT AND CENTRAL BANK INSTRUMENTS										
Chilean Central Bank instruments	2,606	1,817	913	3,367	1,433	7,934	-	-	4,952	13,118
Chilean Treasury instruments	927	62	2,138	1,915	874	8,733	695	1,370	4,634	12,080
Other government instruments	15	62	-	14	62	89	8,294	4,066	8,371	4,231
Subtotal	3,548	1,941	3,051	5,296	2,369	16,756	8,989	5,436	17,957	29,429
OTHER FINANCIAL INSTRUMENTS										
Notes for deposits in domestic banks	22,328	13,984	4,715	2,834	-	-	-	-	27,043	16,818
Mortgage bonds in domestic banks	18	13	-	168	75	78	4,193	2,725	4,287	2,984
Bonds from domestic banks	21,228	7,477	385	16,249	6,692	7,073	-	4	28,304	30,803
Other instruments issued in Chile	8,559	7,835	-	-	-	-	-	-	8,559	7,835
Mutual funds	19,945	6,570	-	-	-	-	-	-	19,945	6,570
Subtotal	72,078	35,879	5,100	19,251	6,767	7,151	4,193	2,729	88,138	65,010
Total financial instruments held for trading	75,626	37,820	8,151	24,547	9,136	23,907	13,182	8,165	106,095	94,439

As of December 31, 2018 and 2017, the Bank has issued its own mortgage bonds for MCH$948 and MCH$1,378, respectively, which are offset by the mortgage bonds issued by the Bank in liabilities.

8. OPERATIONS WITH RESALE/REPURCHASE AGREEMENTS AND SECURITIES BORROWING/LENDING

A) RIGHTS WITH PROMISE OF SALE

The Bank purchases financial instruments under agreements to sell them at a future date. As of December 31, 2018 and 2017, rights with resell commitments, classified by type of debtor and maturity, are as follows:

	FROM ONE DAY TO THREE MONTHS		FROM THREE MONTHS TO ONE YEAR		MORE THAN ONE YEAR		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Domestic banks	-	-	-	-	-	-	-	-
Other entities	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

B) OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The Bank sells financial instruments under agreements to repurchase them at a future date plus preset interest. As of December 31, 2018 and 2017, obligations with repurchase commitments, classified by type of debtor and maturity, are as follows:

	FROM ONE DAY TO THREE MONTHS		FROM THREE MONTHS TO ONE YEAR		MORE THAN ONE YEAR		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Domestic banks:								
Chilean Central Bank	10,440	2,488	-	-	-	-	10,440	2,488
Other banks	11,689	-	-	-	-	-	11,689	-
Other entities	11,874	11,659	-	-	-	-	11,874	11,659
Total	34,003	14,147	-	-	-	-	34,003	14,147

The instruments that guarantee the obligation for these repurchase agreements are included in the portfolio of financial instruments held for trading.

9. DERIVATIVE INSTRUMENTS AND ACCOUNTING HEDGES

A) A summary of the derivatives transactions as of each year end is as follows.

	CASH FLOW (CF) OR FAIR VALUE (FV) HEDGE	NOTIONAL AMOUNT OF CONTRACT MATURING IN						FAIR VALUE			
		LESS THAN THREE MONTHS		FROM THREE MONTHS TO ONE YEAR		MORE THAN ONE YEAR		ASSETS		LIABILITIES	
		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
		2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
TRADING DERIVATIVES											
Currency forwards		266,117	261,953	162,131	282,083	26,589	26,307	67,456	69,772	(66,960)	(56,560)
Interest rate swaps		87,663	474,568	259,037	813,321	2,195,216	1,882,011	30,061	28,271	(21,542)	(23,028)
Currency swaps		44	74,024	108,091	341,657	783,677	982,454	44,941	34,137	(28,070)	(21,023)
Interest rate put options		-	-	-	-	-	-	-	-	-	(6)
Total assets (liabilities) for trading derivatives		353,824	810,545	529,259	1,437,061	3,005,482	2,890,772	142,458	132,180	(116,572)	(100,617)
HEDGE ACCOUNTING DERIVATIVES											
Currency forwards		-	-	-	-	-	-	-	-	-	-
Interest rate swaps	(FV)	-	-	-	-	-	-	-	-	-	-
Currency swaps	(CF)	268,038	72,350	-	-	350,723	149,220	7,807	570	(1,390)	(937)
Total assets (liabilities) for hedge accounting derivatives		268,038	72,350	-	-	350,723	149,220	7,807	570	(1,390)	(937)
Total assets (liabilities) for derivative instruments		621,862	882,895	529,259	1,437,061	3,356,205	3,039,990	150,265	132,750	(117,962)	(101,554)

B) HEDGE ACCOUNTING

As of December 31, 2018 and 2017, the Bank had a cash flow hedge, which increased comprehensive income by MCH$2,976 and reduced it by MCH$691, respectively.

10. LOANS AND ADVANCES TO BANKS

A) Credit risk for loans and advances to banks as of December 31, 2018 and 2017, is evaluated individually for each transaction. This account is as follows:

	ASSETS BEFORE PROVISIONS						PROVISIONS							
	NORMAL AND SUBSTANDARD PORTFOLIO		DEFAULT PORTFOLIO		TOTAL		NORMAL AND SUBSTANDARD PORTFOLIO		DEFAULT PORTFOLIO		TOTAL		NET ASSETS	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Domestic banks	7,159	-	-	-	7,159	-	6	-	-	-	6	-	7,153	-
Foreign banks	3,608	-	-	-	3,608	-	31	-	-	-	31	-	3,577	-
Total loans and advances to banks	10,767	-	-	-	10,767	-	37	-	-	-	37	-	10,730	-

B) Provisions for balances of loans and advances to banks are detailed as follows:

MOVEMENT:	MCH$
BALANCE AS OF JANUARY 1, 2017	-
Write-offs of impaired portfolio	-
Provisions recognized	(1)
Reversal of provisions	1
Balance as of December 31, 2017	-
BALANCE AS OF JANUARY 1, 2018	-
Write-offs of impaired portfolio	-
Provisions recognized (Note 29)	(46)
Reversal of provisions (Note 29)	9
Balance as of December 31, 2018	(37)

11. LOANS TO CUSTOMERS

A) Loans to Customers

	ASSETS BEFORE PROVISIONS						PROVISIONS							
	NORMAL AND SUBSTANDARD PORTFOLIO		DEFAULT PORTFOLIO		TOTAL		INDIVIDUAL PROVISIONS		GROUP PROVISIONS		TOTAL		NET ASSETS	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
COMMERCIAL LOANS:														
Commercial loans	3,449,632	3,091,646	159,690	127,785	3,609,322		50,429	46,526	5,184	4,555	55,613	51,081	3,553,709	3,168,350
Foreign trade loans	215,888	176,988	3,337	2,486	219,225	179,474	3,609	3,020	12	15	3,621	3,035	215,604	176,439
Current account overdrafts	48,828	52,174	3,685	3,193	52,513	55,367	3,319	3,090	132	120	3,451	3,210	49,062	52,157
Factored receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Student loans	5,024	5,281	88	35	5,112	5,316	-	-	102	129	102	129	5,010	5,187
Lease transactions	313,317	294,013	21,079	14,489	334,396	308,502	4,596	3,060	38	69	4,634	3,129	329,763	305,373
Other loans and receivables	5,217	5,972	1,391	1,357	6,607	7,329	1,378	1,150	14	19	1,392	1,169	5,215	6,160
Subtotal	4,037,906	3,626,074	189,270	149,345	4,227,175	3,775,419	63,331	56,846	5,482	4,907	68,813	61,753	4,158,363	3,713,666
MORTGAGE LOANS:														
Loans funded with mortgage bonds	2,581	3,578	59	310	2,640	3,888	-	-	1	4	1	4	2,639	3,884
Loans funded with own resources	157,978	154,210	2,166	1,200	160,144	155,410	-	-	291	189	291	189	159,853	155,221
Other mortgage loans	442,326	453,530	5,180	5,799	447,506	459,329	-	-	773	1,072	773	1,072	446,733	458,257
Lease transactions	1,293	3	-	-	1,293	3	-	-	10	-	10	-	1,283	3
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	604,178	611,321	7,405	7,309	611,583	618,630	-	-	1,075	1,265	1,075	1,265	610,508	617,365
CONSUMER LOANS:														
Consumer installment loans	289,339	235,773	12,152	8,295	301,491	244,068	-	-	12,924	9,679	12,924	9,679	288,567	234,389
Current account overdrafts	79,298	74,648	3,738	2,488	83,036	77,136	-	-	4,121	4,088	4,121	4,088	78,915	73,048
Credit card debtors	109,531	117,214	2,455	1,807	111,986	119,021	-	-	3,216	3,722	3,216	3,722	108,770	115,299
Consumer lease transactions	10	6	-	10	10	16	-	-	3	1	3	1	7	15
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	478,178	427,641	18,345	12,600	496,523	440,241	-	-	20,264	17,490	20,264	17,490	476,259	422,751
TOTAL	5,120,262	4,665,036	215,020	169,254	5,335,281	4,834,290	63,331	56,846	26,821	23,662	90,152	80,508	5,245,130	4,753,782
ACCOUNTING HEDGES:														
Commercial loans													22	-
Subtotal													22	-
Total loans to customers													5,245,152	4,753,782

B) PROVISION MOVEMENTS

Movements in provisions in 2018 and 2017 are as follows:

	INDIVIDUAL PROVISIONS MCH$	GROUP PROVISIONS MCH$	TOTAL MCH$
BALANCE AS OF JANUARY 1, 2017	61,728	18,923	80,651
Write-offs of impaired portfolio:			
Commercial loans	(23,973)	-	(23,973)
Mortgage loans	-	(480)	(480)
Consumer loans	-	(17,743)	(17,743)
Total write-offs	(23,973)	(18,223)	(42,196)
Provisions recognized	72,645	53,332	125,977
Reversal of provisions	(53,554)	(30,370)	(83,924)
Balance as of December 31, 2017	56,846	23,662	80,508
BALANCE AS OF JANUARY 1, 2018	56,846	23,662	80,508
Write-offs of impaired portfolio:			
Commercial loans	(18,789)	-	(18,789)
Mortgage loans	-	(569)	(569)
Consumer loans	-	(18,590)	(18,590)
Total write-offs	(18,789)	(19,159)	(37,948)
Provisions recognized (Note 29)	79,811	59,727	139,538
Reversal of provisions (Note 29)	(54,537)	(37,409)	(91,946)
Balance as of December 31, 2018	63,331	26,821	90,152

In addition to these provisions for loan losses, the Bank also establishes country risk provisions to hedge foreign operations, as well as additional provisions agreed upon by the Board of Directors, detailed in Note 19.a) of the consolidated financial statements.

As of December 31, 2018 and 2017, loans to customers present no impairment.

C) GROSS LOANS BY INDUSTRY

The following table details loans by industry, expressed as an amount and as a percentage of total loans before provisions:

	DOMESTIC LOANS DECEMBER 31,		FOREIGN LOANS DECEMBER 31,		TOTAL DECEMBER 31,			
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 %	2017 %
COMMERCIAL LOANS								
Manufacturing	197,529	162,490	-	1,231	197,529	163,721	3.70	3.39
Mining	20,869	26,500	-	-	20,869	26,500	0.39	0.55
Utilities	167,057	165,051	-	-	167,057	165,051	3.13	3.41
Agriculture and livestock	154,722	139,820	-	-	154,722	139,820	2.90	2.89
Forestry	13,019	15,439	-	-	13,019	15,439	0.25	0.32
Fishing	51,406	63,023	-	-	51,406	63,023	0.96	1.30
Transportation	179,402	188,954	-	-	179,402	188,954	3.36	3.91
Telecom	4,387	27,081	-	-	4,387	27,081	0.08	0.56
Construction	266,999	272,504	-	-	266,999	272,504	5.00	5.64
Wholesale and retail trade	1,398,568	1,170,891	933	5	1,399,501	1,170,896	26.23	24.22
Financial services and insurance	1,132,284	876,536	2,432	924	1,134,716	877,460	21.27	18.15
Real estate	6,907	9,414	-	-	6,907	9,414	0.13	0.19
Corporate services	123,579	74,125	-	-	123,579	74,125	2.32	1.53
Social services	341,709	447,441	-	-	341,709	447,441	6.41	9.26
Other	159,109	133,990	6,264	-	165,373	133,990	3.10	2.77
Subtotal	4,217,546	3,773,259	9,629	2,160	4,227,175	3,775,419	79.23	78.10
Mortgage loans	611,583	618,630	-	-	611,583	618,630	11.46	12.80
Consumer loans	496,523	440,241	-	-	496,523	440,241	9.31	9.10
Total	5,325,652	4,832,130	9,629	2,160	5,335,281	4,834,290	100.00	100.00

12. INVESTMENT SECURITIES

As of December 31, 2018 and 2017, the Bank and its subsidiaries recognize the following balances within investment securities using the fair value method:

INVESTMENTS AVAILABLE FOR SALE

	UP TO ONE YEAR		FROM ONE TO THREE YEARS		FROM THREE TO SIX YEARS		MORE THAN SIX YEARS		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Chilean Government and Central Bank instruments										
Chilean Central Bank instruments	442,928	358,801	-	23,928	-	-	-	-	442,928	382,729
Chilean Treasury instruments	-	-	-	-	-	-	-	-	-	-
Subtotal	442,928	358,801	-	23,928	-	-	-	-	442,928	382,729
Other financial instruments										
Notes for deposits in domestic banks	37,313	9,249	38,150	5,139	16,273	-	740	-	92,476	14,388
Mortgage bonds in domestic banks	29	44	221	220	2,432	2,409	16,709	15,547	19,390	18,220
Bonds from domestic companies	9,835	22,611	2,592	64,154	23,575	36,879	12,151	13,844	48,153	137,488
Other instruments issued in Chile	-	-	-	-	-	-	-	3,062	-	3,062
Other instruments issued abroad	-	-	8,467	4,518	50,656	64,437	89,136	53,700	148,259	122,655
Subtotal	47,177	31,904	49,430	74,031	92,936	103,725	118,736	86,153	308,278	295,813
Total investments available for sale	490,105	390,705	49,430	97,959	92,936	103,725	118,736	86,153	751,206	678,542

Transactions with repurchase agreements with customers and the Chilean Central Bank in the portfolio of investments available for sale as of December 31, 2018 and 2017, amount to MCH$10,440 and MCH$2,488, respectively.

As of December 31, 2018 and 2017, the portfolio of financial assets available for sale includes an unrealized loss of MCH$(1,425) and an unrealized gain of MCH$4,462, respectively, which is presented in equity net of deferred taxes (Note 24).

As of December 31, 2018 and 2017, the Bank does not have any investments held to maturity.

13. INVESTMENTS IN OTHER COMPANIES

Investments in other companies correspond to shares and rights in banking support companies valued at cost. Details of the value of each investment and the income received (dividends or profit distributions) are as follows:

			INVESTMENT VALUE							
	OWNERSHIP INTEREST		BALANCE AS OF JANUARY 1,		BUY/SALE		BALANCE AS OF DECEMBER 31,		INCOME AS OF DECEMBER 31,	
	2018 %	2017 %	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Imer Otc Sa	6.89	6.89	864	864	-	-	864	864	-	-
Santiago Exchange	-	-		-	-	-	-	-	-	-
Electronic Stock Exchange	-	-		-	-	-	-	-	-	-
Combanc S.A.	4.17	5.49	171	171	-	-	171	171	-	-
Depósitos Central de Valores S.A.	3.60	3.60	58	58	-	-	58	58	-	-
Other investments in other companies	-	-	47	47	955	954	1,002	1,001	18	26
Total investments in other companies			1,140	1,140	955	954	2,095	2,094	18	26

The Bank has not recognized any impairment related to these assets.

14. INTANGIBLE ASSETS

As of December 31, 2018 and 2017, intangible assets are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Software or computer programs	33,585	34,550
Goodwill	13,039	13,039
Total intangible assets	46,624	47,589

The details for the above items are as follows:

A) SOFTWARE OR COMPUTER PROGRAMS

A.1) The intangible assets of the Bank and its subsidiaries as of December 31, 2018 and 2017, are in-house developed programs that are either in production or under development:

	AVERAGE USEFUL LIFE (YEARS)		AVERAGE REMAINING LIFE (YEARS)		GROSS ASSETS		ACCUMULATED AMORTIZATION		NET ASSETS	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
TYPE OF INTANGIBLE ASSET:	2018	2017	2018	2017	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Acquired		-		-		-		-	-	-
Developed in-house	10.89	8.00	10.21	8.00	64,580	62,339	(30,995)	(27,789)	33,585	34,550
Total					64,580	62,339	(30,995)	(27,789)	33,585	34,550

A.2) The intangible assets of the Bank and its subsidiaries as of December 31, 2018 and 2017, are in-house developed programs that are either in production or under development:

	MOVEMENTS IN INTANGIBLE ASSETS			
	INTANGIBLE ASSETS			
	ACQUIRED MCH$	DEVELOPED IN-HOUSE MCH$	ACCUMULATED AMORTIZATION MCH$	TOTAL MCH$
BALANCE AS OF JANUARY 1, 2017	-	64,607	(24,361)	40,246
Additions	-	1,608	-	1,608
Transfer to intangible assets in operation	-	-	-	-
Derecognition	-	-	-	-
Amortization for the year	-	-	(3,428)	(3,428)
Impairment for the year	-	(3,876)	-	(3,876)
Balance as of December 31, 2017	-	62,339	(27,789)	34,550
BALANCE AS OF JANUARY 1, 2018	-	62,339	(27,789)	34,550
Additions	-	2,739	-	2,739
Transfer to intangible assets in operation	-	-	-	-
Derecognition	-	-	-	-
Amortization for the year	-	-	(3,206)	(3,206)
Impairment for the year	-	(498)	-	(498)
Balance as of December 31, 2018	-	64,580	(30,995)	33,585


B) GOODWILL

B.1) Goodwill as of December 31, 2018 and 2017, is as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Goodwill	13,039	13,039
Total	13,039	13,039

B.2) Movements in goodwill in the year ended December 31, 2018, are as follows:

	MOVEMENTS IN GOODWILL 12.31.2018 MCH$				
	NET OPENING BALANCE	ADDITIONS	IMPAIRMENT LOSSES RECOGNIZED IN EQUITY	IMPAIRMENT LOSSES RECOGNIZED IN PROFIT (LOSS)	NET CLOSING BALANCE
Goodwill Administradora General de Fondos Security S.A.	9,209	-	-	-	9,209
Goodwill Valores Security S.A. Corredores de Bolsa	3,830	-	-	-	3,830
Total	13,039	-	-	-	13,039

15. PROPERTY, PLANT AND EQUIPMENT

A) PROPERTY, PLANT AND EQUIPMENT

	MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT									
	BUILDINGS AND LAND			EQUIPMENT			OTHER PROPERTY, PLANT AND EQUIPMENT			
	GROSS ASSETS	ACCUMULATED		GROSS ASSETS	ACCUMULATED		GROSS ASSETS	ACCUMULATED		NET ASSETS
		DEPRECIATION	IMPAIRMENT		DEPRECIATION	IMPAIRMENT		DEPRECIATION	IMPAIRMENT	
	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$
BALANCE AS OF JANUARY 1, 2017	19,849	(3,201)	-	7,849	(6,729)	-	15,958	(8,667)	-	25,059
Additions	643	-	-	242	-	-	100	-	-	985
Disposals / write-offs	-	-	-	-	-	-	(27)	-	-	(27)
Depreciation for the year	-	(310)		-	(433)	-	-	(1,190)	-	(1,933)
Impairment for the year	-	-	-	-	-	-	-	-	-	-
Balance as of December 31, 2017	20,492	(3,511)	-	8,091	(7,162)	-	16,031	(9,857)	-	24,084
BALANCE AS OF JANUARY 1, 2018	20,492	(3,511)	-	8,091	(7,162)	-	16,031	(9,857)	-	24,084
Additions	1,729	-	-	368	-	-	95	-	-	2,192
Disposals / write-offs	(1,622)	-	-	-	-	-	(54)	-	-	(1,676)
Depreciation for the year	-	(1,261)	-	-	(650)	-	-	(33)	-	(1,944)
Impairment for the year	-	-	-	-	-	-	-	-	-	-
Balance as of December 31, 2018	20,599	(4,772)	-	8,459	(7,812)	-	16,072	(9,890)	-	22,656

B) FUTURE OPERATING LEASE PAYMENTS

Minimum future payments as of December 31, 2018 and 2017, that must be disbursed for operating lease agreements and cannot be unilaterally rescinded without compensating the other party are as follows:

	FUTURE LEASE CASH FLOWS							
	LESS THAN ONE YEAR		FROM ONE TO FIVE YEARS		MORE THAN FIVE YEARS		TOTAL	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Operating lease agreements	1,607	1,963	4,822	5,219	1,986	9,817	8,415	16,999

C) LEASE EXPENSES

Expenses for operating leases for the agreements described in letter b) for 2018 and 2017 are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Operating lease expenses	2,878	3,033

As of December 31, 2018 and 2017, the Bank does not have any finance leases.

16. CURRENT AND DEFERRED TAXES

A) CURRENT TAXES

Current tax assets and liabilities as of December 31, 2018 and 2017, are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Current income taxes	(19,467)	(17,532)
Tax on disallowed expenses (35%)	(33)	-
Less:		
Monthly provisional tax payments	19,725	14,920
Credits for training expenses	157	141
Other	126	68
Total	508	(2,403)
Recoverable taxes for the year		-
Income taxes payable	(358)	(2,403)
Current tax liability	(358)	(2,403)
Balance of current tax liability	866	-
Recoverable taxes for the year	77	342
Recoverable taxes from prior years	1,110	1,075
Current tax asset	2,053	1,417

B) INCOME TAX EXPENSE

The Bank's tax expense recognized for the years ended December 31, 2018 and 2017, is as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
INCOME TAX EXPENSE:		
Current year taxes	19,467	17,532
Single tax for the year	119	189
Tax expense adjustment (prior period)	203	904
Subtotal	19,789	18,625
CREDIT (CHARGE) FOR DEFERRED TAXES:		
Origin and reversal of temporary differences	217	(770)
Effect of change in tax rate	-	-
Net charge to profit for income taxes	20,006	17,855


C) DEFERRED TAXES

The table below details deferred taxes arising from the following temporary differences:

C.1) EFFECT OF DEFERRED TAXES ON EQUITY:

	AS OF DECEMBER 31 2018 MCH$	AS OF DECEMBER 31 2017 MCH$
Investments available for sale	527	(1,650)
Tax goodwill	1,231	1,437
Cash flow hedge	(617)	187
First adoption adjustment MC points	1,174	-
Other	(697)	(597)
Total	1,618	(623)

C.2) EFFECT OF DEFERRED TAXES:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
DEFERRED TAX ASSETS:		
Global portfolio provisions	21,431	20,305
Goodwill portfolio provisions	(45)	20
Vacation and other provisions	849	799
Fair value investments	41	236
Contingency provisions	45	45
Global provisions on recovered assets	31	3
Projects and development	6,483	7,817
Suspended interest	782	607
Other	5,845	6,716
Total deferred tax assets through profit and loss	35,462	36,548
Effect on equity (debtor balance)	534	841
Total deferred tax assets	35,996	37,389
DEFERRED TAX LIABILITIES:		
Assets for leasing	-	-
Lease agreements	941	1,248
Depreciation of property, plant and equipment	(5,937)	(6,008)
Effective rate	(186)	(180)
Deferred revenue and expenses	-	-
Projects and development	(8,279)	(8,736)
Other	(901)	(1,555)
Total deferred tax liabilities through profit and loss	(14,362)	(15,231)
Effect on equity (creditor balance)	1,084	(1,464)
Total deferred tax liabilities	(13,278)	(16,695)
Total asset through profit and loss	21,100	21,317

C.3) TOTAL DEFERRED TAXES:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Effect of deferred taxes on equity	2,315	(623)
Effect of deferred taxes on equity (Valores Security)	(697)	-
Subtotal	1,618	(623)
Effect of deferred taxes on profit (loss)	20,933	20,941
Effect of deferred taxes on profit (loss) (Valores Security)	167	376
Subtotal	21,100	21,317
Deferred tax assets	23,248	20,694
Deferred tax liabilities (Valores Security)	(530)	-

C.4) RECONCILIATION OF TAX RATES:

The following table reconciles the income tax rate to the effective rate applied to determine the Bank's income tax expense as of December 31, 2018 and 2017.

	AS OF DECEMBER 31, 2018		AS OF DECEMBER 31, 2017	
	TAX RATE	AMOUNT MCH$	TAX RATE	AMOUNT MCH$
Profit before tax	27.0%	(25,019)	25.5%	(20,625)
Permanent differences	-5.8%	5,335	-6.3%	5,067
Additions or deductions				
Single tax (disallowed expenses)	0.1%	(119)	0.3%	(213)
Amortization of deferred tax complementary accounts	0.0%	-	0.0%	-
Non-deductible expenses (financial, non-tax expenses)	0.0%	-	0.0%	-
Prior period adjustments	0.2%	(203)	1.1%	(905)
Effect of change in tax rate	0.0%	-	1.5%	(1,179)
Other	0.0%	-	0.0%	-
Effective rate and income tax expense	21.5%	(20,006)	22.1%	(17,855)

Deferred taxes arising from temporary differences and other events that generate differences between the carrying amount for financial reporting purposes and tax bases of assets and liabilities are recognized in accordance with IAS 12 Income Taxes.

D) JOINT GUIDANCE: SBIF RULING NO. 3,478 AND CHILEAN INTERNAL REVENUE SERVICE RULING NO. 47

The tax treatment of provisions, write-offs, renegotiations and remissions of loans granted by the Bank (excluding subsidiaries) as of December 31, 2018 and 2017, is as follows:

D.1) LOANS TO CUSTOMERS AS OF DECEMBER 31:

	ASSETS AT CARRYING AMOUNT		ASSETS AT TAX VALUE					
			TOTAL		SECURED PAST-DUE PORTFOLIO		UNSECURED PAST-DUE PORTFOLIO	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Commercial loans	3,892,802	3,466,917	3,895,082	3,469,269	11,746	7,508	13,334	8,081
Consumer loans	496,513	440,225	496,513	440,225	51	115	2,230	2,242
Residential mortgage loans	610,290	618,627	610,290	618,627	403	439	4	53
Loans and advances to banks	-	-	-	-	-	-	-	-
Total	4,999,605	4,525,769	5,001,885	4,528,121	12,200	8,062	15,568	10,376

D.2) PROVISIONS FOR PAST-DUE PORTFOLIO:

	BALANCE AS OF JANUARY 1,		WRITE-OFFS AGAINST PROVISIONS		PROVISIONS		REVERSAL OF PROVISIONS		BALANCE AS OF DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Commercial loans	13,334	7,741	(15,164)	(10,180)	20,417	7,847	-	-	18,587	5,408
Consumer loans	2,230	1,896	(18,100)	(9,995)	18,088	6,725	-	-	2,218	(1,374)
Residential mortgage loans	4	8	(495)	(89)	446	45	-	-	(45)	(36)
Loans and advances to banks	-	-		-		-	-	-	-	-
Total	15,568	9,645	(33,759)	(20,264)	38,951	14,617	-	-	20,760	3,998

D.3) WRITE-OFFS, CANCELLATIONS AND RECOVERIES:

	AS OF DECEMBER 31,			AS OF DECEMBER 31,	
DIRECT WRITE-OFFS AND RECOVERIES	2018 MCH$	2017 MCH$	APPLICATION OF ART. 31 NO. 4 SECTIONS ONE AND THREE	2018 MCH$	2017 MCH$
Direct write-offs Art. 31, No. 4, section two	3,619	22,036		-	-
Cancellations that resulted in reversals of provisions	-	-		-	-
Recovery or renegotiation of written-off loans	160	1,353		-	-


17. OTHER ASSETS

A) As of December 31, 2018 and 2017, other assets are detailed as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
LEASED ASSETS	13,090	4,397
Repossessed or awarded assets		
Repossessed assets	-	2,633
Assets awarded in court-ordered public auction	925	162
Provisions for repossessed assets	(5)	(2)
Subtotal - repossessed or awarded assets	920	2,793
OTHER ASSETS		
Cash deposits as collateral	33,134	4,537
VAT tax credit	2,873	1,336
Prepaid expenses	1,069	1,357
Recovered leased assets for sale	2,953	1,337
Brokerage receivables	57,901	64,755
Treasury receivables	23,039	22,711
Other	8,712	9,075
Subtotal - Other assets	129,681	105,108
Total other assets	143,691	112,298

Leased assets include assets available for finance leases.

The Bank does not have any property, plant and equipment available for sale that should be presented in this account.

B) The following table details movements in provisions for repossessed assets during the years ended December 31, 2018 and 2016, recognized in accordance with SBIF standards:

MOVEMENT:		MCH$
BALANCE AS OF JANUARY 1, 2017		(220)
Recognized:	Provision	(103)
	Impairment	-
Reversal:	Provision	321
	Impairment	-
Balance as of December 31, 2017		(2)
BALANCE AS OF JANUARY 1, 2018		(2)
Recognized:	Provision	(278)
	Impairment	-
Reversal:	Provision	275
	Impairment	-
Balance as of December 31, 2018		(5)

18. DEPOSITS

Obligations for deposits held by the Bank are classified as demand or time deposits; details are as follows.

A) CURRENT ACCOUNTS AND OTHER DEMAND DEPOSITS

As of December 31, 2018 and 2017, current accounts and other demand deposits are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
CURRENT ACCOUNTS:		
Current accounts of domestic banks	-	-
Current accounts of other legal entities	374,092	366,478
Current accounts of individuals	170,808	154,214
Subtotal	544,900	520,692
OTHER DEMAND DEPOSITS AND ACCOUNTS		
Cashier's checks	51,887	55,272
Demand deposits	2,494	2,195
Subtotal	54,381	57,467
OTHER DEMAND BALANCES PAYABLE:		
Deposits for court allocations	-	-
Performance bonds payable on demand	7,455	7,817
Collections made but not yet received	8,326	9,318
Export returns to settle	376	42
Pending payment orders	3,049	2,847
Payments on behalf of loans to be settled	6,211	2,366
Frozen assets (art 156 of General Banking Law)	1,191	1,400
Expired time deposits	2,847	4,335
Other demand balances	26,078	67,191
Subtotal	55,533	95,316
Total	654,814	673,475

B) SAVINGS ACCOUNTS AND TIME DEPOSITS

Savings accounts and time deposits as of December 31, 2018 and 2017, are classified by maturity; details are as follows:

	UP TO ONE YEAR		FROM ONE TO THREE YEARS		FROM THREE TO SIX YEARS		MORE THAN SIX YEARS		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
TIME DEPOSITS										
Domestic banks	124,565	144,391		-	-	-	-	-	124,565	144,391
Other legal entities	2,592,104	2,471,694	77,455	165,877	-	-	-	-	2,669,558	2,637,571
Individuals	169,688	145,579	255	214	-	-	-	-	169,943	145,793
Subtotal	2,886,357	2,761,664	77,710	166,091	-	-	-	-	2,964,066	2,927,755

19. BORROWINGS FROM FINANCIAL INSTITUTIONS

As of December 31, 2018 and 2017, interbank loans are as follows:

	UP TO ONE YEAR		FROM ONE TO THREE YEARS		FROM THREE TO SIX YEARS		MORE THAN SIX YEARS		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
DOMESTIC BANKS:										
Current account overdrafts	-	115	-	-	-	-	-	-	-	115
Long-term borrowings		-	-	-	-	-	-	-	-	-
Subtotal	-	115	-	-	-	-	-	-	-	115
FOREIGN BANKS:										
Financing for Chilean exports	90,323	80,180	13,974	12,377	-	-	-	-	104,297	92,557
Financing for Chilean imports	72,063	46,365	6,962	21,600	-	-	-	-	79,025	67,965
Obligations for transactions between third-party countries	-	-	31,203	15,385	-	12,324	-	-	31,203	27,709
Loans and other obligations	147	-	8,399	-	-	-	-	-	8,546	-
Subtotal	162,533	126,545	60,538	49,362	-	12,324	-	-	223,071	188,231
Chilean Central Bank	-	-	-	-	-	-	-	-	-	-
Total	162,533	126,660	60,538	49,362	-	12,324	-	-	223,071	188,346

20. DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL LIABILITIES

Debt instruments issued as of December 31, 2018 and 2017, are detailed by maturity in the following table:

A) DEBT INSTRUMENTS ISSUED

	UP TO ONE YEAR		FROM ONE TO THREE YEARS		FROM THREE TO SIX YEARS		MORE THAN SIX YEARS		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
LETTERS OF CREDIT:										
Letters of credit for residential purposes	151	145	71	215	916	1,260	766	1,258	1,904	2,878
Letters of credit for general purposes	23	173	26	358	523	456	11,198	14,044	11,770	15,031
Subtotal	174	318	97	573	1,439	1,716	11,964	15,302	13,674	17,909
BONDS:										
Senior bonds	209,210	81,603	488,328	425,000	644,570	552,546	615,333	472,115	1,957,441	1,531,264
Subordinated bonds	7,476	9,831	15,600	14,742	19,894	21,120	191,414	191,708	234,384	237,401
Subtotal	216,686	91,434	503,928	439,742	664,464	573,666	806,747	663,823	2,191,825	1,768,665
Total	216,860	91,752	504,025	440,315	665,903	575,382	818,711	679,125	2,205,499	1,786,574

B) OTHER FINANCIAL LIABILITIES

	UP TO ONE YEAR		FROM ONE TO THREE YEARS		FROM THREE TO SIX YEARS		MORE THAN SIX YEARS		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
PUBLIC-SECTOR OBLIGATIONS:										
CORFO financing	672	126	3,256	4,950	1,452	2,562	1,812	10,058	7,192	17,696
Subtotal	672	126	3,256	4,950	1,452	2,562	1,812	10,058	7,192	17,696
OTHER CHILEAN OBLIGATIONS:										
Payables to credit card operators	4,771	5,271	-	-	-	-	-	-	4,771	5,271
Obligations in favor of Chilean exporters		-	-	-	-	-	-	-	-	-
Subtotal	4,771	5,271	-	-	-	-	-	-	4,771	5,271
Total	5,443	5,397	3,256	4,950	1,452	2,562	1,812	10,058	11,963	22,967

21. PROVISIONS

A) As of December 31, 2018 and 2017, the Bank and its subsidiaries recognized the following provisions:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
PROVISIONS FOR PAYROLL AND EMPLOYEE BENEFITS		
Provision for other employee benefits	-	274
Vacation provisions	3,078	2,879
Subtotal - Provisions for payroll and employee benefits	3,078	3,153
MINIMUM DIVIDEND PROVISION	21,796	18,907
CONTINGENT CREDIT RISK PROVISIONS		
Guarantees and pledges	93	73
Issued foreign letters of credit	45	28
Performance and bid bonds	4,056	4,351
Unrestricted lines of credit	3,150	3,404
Subtotal - Contingent loan risk	7,344	7,856
CONTINGENCY PROVISIONS		
Country risk provisions	262	215
Minimum provision adjustment	981	259
Other contingency provisions	5,071	6,355
Subtotal - Contingency provisions	6,314	6,829
Total other provisions	38,532	36,745

In the opinion of the Bank's management, the provisions recognized cover all potential losses that may arise from not recovering assets, based on the information examined by the Bank and its subsidiaries.

B) In 2018 and 2017, provision movements are detailed as follows:

	PAYROLL AND EMPLOYEE BENEFITS MCH$	MINIMUM DIVIDENDS MCH$	CONTINGENT LOAN RISK MCH$	CONTINGENCIES MCH$	TOTAL MCH$
BALANCE AS OF JANUARY 1, 2017	2,783	15,181	5,588	8,084	31,636
Provisions recognized	1,000	17,158	11,903	4,992	35,053
Reversal of provisions	(630)	(13,432)	(9,635)	(6,247)	(29,944)
Balance as of December 31, 2017	3,153	18,907	7,856	6,829	36,745
BALANCE AS OF JANUARY 1, 2018	3,153	18,907	7,856	6,829	36,745
Provisions recognized	820	19,231	9,341	2,491	31,883
Reversal of provisions	(895)	(16,342)	(9,853)	(3,006)	(30,096)
Balance as of December 31, 2018	3,078	21,796	7,344	6,314	38,532

22. OTHER LIABILITIES

Other liabilities as of December 31, 2018 and 2017, are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Accounts and notes payable	34,667	39,677
Dividends payable	26	26
Unearned revenue	1,795	703
Short sales	-	1
Payables to customers for brokerage services	28,814	32,191
Payables to brokers for brokerage services	5,660	10,899
Funds retained current account guarantee	-	12,247
Comder guarantee	6,486	5,975
Bilateral guarantees	4,629	751
Other liabilities	6,351	6,086
Total	88,428	108,556

23. CONTINGENCIES AND COMMITMENTS

A) LAWSUITS AND LEGAL PROCEEDINGS

LEGAL CONTINGENCIES WITHIN THE ORDINARY COURSE OF BUSINESS

As of the date of issuance of these consolidated financial statements, some legal actions have been filed against the Bank and its subsidiaries involving its normal operations. Management and its legal counsel do not believe that the Bank and its subsidiaries are exposed to any potential significant losses not disclosed in these financial statements.


B) CONTINGENT LOANS

The following note contains the amounts for which the Bank is contractually obliged to provide loans and the amount of credit risk provisions recognized:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Performance and bid bonds	256,442	224,979
Immediately available credit lines	907,445	824,139
Letters of credit	35,453	14,960
Guarantees and pledges	18,814	4,892
Provisions recognized	(7,344)	(7,856)
Total	1,210,810	1,061,114

C) LIABILITIES

The Bank and its subsidiaries are liable for the following as a result of their normal course of business:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Securities and bonds provided as guarantee	5,701,903	5,373,637
Instruments in custody	2,706,083	1,805,392
Loans approved but not disbursed	528,360	483,620
Signed lease agreements	30,224	13,765
Notes in collections	107,482	76,853
Total	9,074,052	7,753,267

D) GUARANTEES FURNISHED

As of December 31, 2018 and 2017, the Bank does not have any assets furnished as guarantees.

As of December 31, 2018, Valores Security S.A. Corredora de Bolsa, in compliance with articles 30 and 31 of Law No. 18,045 (Securities Market Law), has established a guarantee of UF 20,000 maturing April 22, 2020, through MAPFRE Garantías y Crédito S.A., designating Santiago Exchange as the depositary and custody institution.

With respect to the ruling issued by Santiago Exchange requiring all brokers to have comprehensive insurance coverage beginning February 1, 1998, Valores Security S.A. Corredora de Bolsa has a comprehensive banking insurance policy with Liberty Compañía de Seguros Generales S.A. for UF 100,000, maturing August 31, 2019, which provides all of the coverage required by that ruling.

In order to guarantee forward transactions, Valores Security S.A. Corredores de Bolsa has deposited stocks in custody of Santiago Exchange totaling MCH$23,161 and MCH$24,140 as of December 31, 2018 and 2017, respectively.

In order to guarantee transactions in the settlement clearing system, Valores Security S.A. Corredores de Bolsa has deposited financial instruments as guarantees with CCLV Contraparte Central totaling MCH$2,896 and MCH$2,777 as of December 31, 2018 and 2017, respectively.

In compliance with FMC General Standard 1898, Valores Security S.A. Corredores de Bolsa has contracted an insurance policy for UF10,000 expiring on January 7, 2019, through Compañía de Seguros de Crédito Continental S.A., in favor of holders of voluntary retirement savings plans.

In compliance with General Standard 363 of April 30, 2014, which refer to a guarantee for correct professional performance in accordance with Law 20,712 on managing third-party funds and individual portfolios, Valores Security S.A. Corredores de Bolsa has taken out insurance for UF 247,641 through Compañía de Seguros Continental expiring on March 31, 2019.

24. EQUITY

A) The Bank's authorized capital is comprised of 246,000,000 single-series shares, of which 228,476,744 are fully subscribed and paid.

Movements of issued and paid-in shares are as follows:

	COMMON SHARES		PREFERENTIAL SHARES	
	2018	2017	2018	2017
Opening balance	228,476,744	210,953,488	-	-
Payment of subscribed shares	-	17,523,256	-	-
Balance	228,476,744	228,476,744	-	-

As of the end of this reporting period, the Bank's shareholders are as follows:

	2018		2017	
SHAREHOLDERS	NO. OF SHARES	OWNERSHIP INTEREST (%)	NO. OF SHARES	OWNERSHIP INTEREST (%)
Grupo Security	228,419,192	99.97	228,419,192	99.97
Other	57,552	0.03	57,552	0.03
Total	228,476,744	100.00	228,476,744	100.00

B) As of December 31, 2018 and 2017, earnings per share is detailed as follows:

ATTRIBUTABLE TO OWNERS OF THE BANK:

	DECEMBER	
	2018	2017
Profit for the year	MCH$72,653	MCH$63,022
Average outstanding shares	228,476,744	212,413,759
EARNINGS PER SHARE:		
Basic	CH$318	CH$297
Diluted	CH$318	CH$297

C) Reserve accounts within the statement of changes in equity are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Opening balance	26,246	24,710
Other equity movements (*)	(592)	1,536
Closing balance	25,654	26,246
(*) Detail of other equity movements		
Movement subsidiary Administradora General de Fondos Security S.A.	(206)	(195)
Movement subsidiary Valores Security S.A. Corredora de Bolsa	(386)	1,731
Total	(592)	1,536

D) Valuation accounts within the statement of changes in equity are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
INSTRUMENTS AVAILABLE FOR SALE:		
Valuation	(1,952)	6,112
Deferred taxes	527	(1,650)
Subtotal	(1,425)	4,462
ACCOUNTING HEDGES:		
Valuation	2,285	(691)
Deferred taxes	(617)	187
Subtotal	1,668	(504)
Total	243	3,958

E) For the years ended December 31, 2018 and 2017, the following dividend was declared and paid:

DESCRIPTION	DISTRIBUTABLE PROFIT MCH$	DIVIDENDS MCH$	RESERVES MCH$	DIVIDEND PER SHARE CH$
2017 Fiscal Year Shareholders' meeting No. 36	63,026	37,813	25,213	165.5
2016 Fiscal Year Shareholders' meeting No. 35	50,606	20,242	30,362	95.95

As of December 31, 2018 and 2017, the Bank recognized a provision for minimum dividends in accordance with Law No. 18,046 on Corporations and chapter B4 of the SBIF Compendium of Accounting Standards, amounting to MCH$21,796 and MCH$18,907, respectively.

F) BASIC AND REGULATORY CAPITAL: In accordance with the General Banking Law, a financial institution must have a minimum basic capital of no less than 3% of total assets and a regulatory capital of not less than 8% of its risk-weighted assets. As of December 31, 2018, Banco Security has basic capital of 7.79% (8.10% in December 2017) and 13.22% (14.02% in December 2017), respectively.

G) As of January 1, 2018, IFRS 15 began to be applied, recognizing a provision adjustment for the potential use of accumulated points from the credit card loyalty program, "Security Pesos", for an amount of MM$3,174 net of deferred taxes, against other reserves.


25. INTEREST AND INDEXATION

Interest and indexation accrued and received for the years ended December 31, 2018 and 2017, are as follows:

A) INTEREST AND INDEXATION INCOME

	INTEREST		INDEXATION		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
REPURCHASE AGREEMENTS	12	83	-	-	12	83
LOANS AND ADVANCES TO BANKS	721	1,049	-	-	721	1,049
COMMERCIAL LOANS:						
Commercial loans	167,134	160,469	40,099	20,053	207,233	180,522
Foreign trade loans	8,796	7,365	491	288	9,287	7,653
Current account loans	7,639	7,745	-	-	7,639	7,745
Student loans	276	290	142	83	418	373
Commercial lease agreements	16,951	18,232	8,801	3,493	25,752	21,725
Prepayment commissions on commercial loans	-	-	2,283	2,333	2,283	2,333
Total income from commercial loans	200,796	194,101	51,816	26,250	252,612	220,351
MORTGAGE LOANS:						
Loans funded with mortgage bonds	142	189	88	74	230	263
Commissions on loans funded with mortgage bonds	27	32	-	-	27	32
Loans funded with own resources	5,174	4,285	4,510	2,170	9,684	6,455
Other mortgage loans	15,891	16,696	12,753	7,638	28,644	24,334
Total income from mortgage loans	21,234	21,202	17,351	9,882	38,585	31,084
CONSUMER LOANS:						
Consumer installment loans	22,650	20,907	(1)	-	22,649	20,907
Current account loans	18,416	17,630	-	-	18,416	17,630
Credit card loans	12,538	11,599	-	-	12,538	11,599
Consumer leases	-	1	-	-	-	1
Prepayment commissions on consumer loans	-	-	4	2	4	2
Total income from consumer loans	53,604	50,137	3	2	53,607	50,139
INVESTMENT SECURITIES:						
Investments available for sale	20,494	22,138	2,681	1,613	23,175	23,751
Total income from investment securities	20,494	22,138	2,681	1,613	23,175	23,751
Other interest or indexation income:	6,525	4,835	191	93	6,716	4,928
Loss from accounting hedges	(262)	(2)	-	-	(262)	(2)
Total interest and indexation income	303,124	293,543	72,042	37,840	375,166	331,383

Suspended interest and indexation on loans included in the impaired portfolio totaled MCH$(56) and MCH$(1,096), as of December 31, 2018 and 2017, respectively.

B) INTEREST AND INDEXATION EXPENSE FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	INTEREST		INDEXATION		OTHER		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
DEPOSITS								
Demand deposits	(159)	(74)	(117)	(68)	-	-	(276)	(142)
Time deposits	(82,930)	(82,859)	(5,245)	(6,337)	-	-	(88,175)	(89,196)
Total expenses for deposits	(83,089)	(82,933)	(5,362)	(6,405)	-	-	(88,451)	(89,338)
Repurchase agreements	(592)	(823)	-	-	-	-	(592)	(823)
Borrowings from financial institutions	(5,777)	(3,061)	-	-	-	-	(5,777)	(3,061)
DEBT INSTRUMENTS ISSUED								
Interest on letters of credit	(641)	(889)	(436)	(371)	-	-	(1,077)	(1,260)
Interest on senior bonds	(49,501)	(45,341)	(43,527)	(22,102)	-	-	(93,028)	(67,443)
Interest on subordinated bonds	(9,361)	(9,712)	(6,584)	(4,045)	-	-	(15,945)	(13,757)
Total expenses for debt issued	(59,503)	(55,942)	(50,547)	(26,518)	-	-	(110,050)	(82,460)
Other interest or indexation expenses	(505)	(369)	(235)	(195)	-	-	(740)	(564)
Loss from accounting hedges	(1,331)	(450)	-	-	-	-	(1,331)	(450)
Total interest and indexation expenses	(150,797)	(143,578)	(56,144)	(33,118)	-	-	(206,941)	(176,696)

26. FEES AND COMMISSIONS

Fee and commission income and expenses for the years ended December 31, 2018 and 2017, which are presented in the consolidated statement of income, consist of the following items:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
FEE AND COMMISSION INCOME		
Lines of credit and overdrafts	1,304	1,957
Guarantees and letters of credit	5,566	5,110
Card services	8,714	8,601
Account maintenance	4,196	3,254
Collections and payments	14,003	14,053
Securities brokerage and management	13,354	14,653
Mutual funds and other investments	24,853	23,015
Other fees and commissions earned	10,324	6,920
Total fee and commission income	82,314	77,563
FEE AND COMMISSION EXPENSES		
Securities transactions fees and commissions	(2,987)	(2,686)
Sales service fees and commissions	(7,756)	(7,456)
Other fees and commissions	(2,817)	(2,586)
Total fee and commission expenses	(13,560)	(12,728)
Total net fee and commission income	68,754	64,835


27. NET FINANCIAL OPERATING INCOME

Net financial operating income for the years ended December 31, 2018 and 2017, is as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
FINANCIAL INSTRUMENTS HELD FOR TRADING		
Interest and indexation	3,653	3,961
Fair value adjustment	(15)	(1,458)
Gain on sale	2,147	5,241
Loss on sale	(602)	(1,387)
Gain on mutual fund investments	1,646	1,975
Subtotal	6,829	8,332
TRADING DERIVATIVES		
Gain on derivative instruments	430,283	356,470
Loss on derivative instruments	(418,519)	(334,368)
Subtotal	11,764	22,102
SALE OF INVESTMENTS AVAILABLE FOR SALE		
Fair value adjustments transferred to profit (loss)	749	(128)
Gain on sale	2,193	4,059
Loss on sale	(241)	(590)
Subtotal	2,701	3,341
Sale of loan portfolio	1,326	1,030
NET GAIN (LOSS) FROM OTHER TRANSACTIONS		
Purchases of letters of credit issued by the Bank	(2)	(2)
Other income	3,742	3,536
Other expenses	(2,624)	(4,113)
Subtotal	1,116	(579)
Total net financial operating income	23,736	34,226

28. NET FOREIGN EXCHANGE TRANSACTIONS

For the years ended December 31, 2018 and 2017, net foreign exchange transactions for the Bank and its subsidiaries are as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
NET FOREIGN EXCHANGE TRANSACTIONS:		
Net gain (loss) on currency positions	9,485	(4,523)
Other currency gains	953	40
Subtotal	10,438	(4,483)
NET GAIN FOR EXCHANGE RATE ADJUSTMENTS		
Indexation of loans to customers	-	-
Indexation of other liabilities	(628)	410
Subtotal	(628)	410
NET GAIN (LOSS) ON HEDGING DERIVATIVES		
Net loss on asset positions	(6,595)	-
Subtotal	(6,595)	-
Total	3,215	(4,073)

29. CREDIT RISK PROVISIONS

Movements in credit risk provisions for the years ended December 31, 2018 and 2017, are as follows:

	LOANS AND ADVANCES TO BANKS		LOANS TO CUSTOMERS						CONTINGENT LOANS		TOTAL	
			COMMERCIAL LOANS		MORTGAGE LOANS		CONSUMER LOANS					
	DECEMBER		DECEMBER		DECEMBER		DECEMBER		DECEMBER		DECEMBER	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
PROVISIONS RECOGNIZED:												
Individual provisions	(46)	(1)	(79,811)	(72,645)	-	-	-	-	(4,342)	(7,180)	(84,199)	(79,826)
Group provisions	-	-	(4,386)	(4,621)	(2,147)	(2,741)	(53,195)	(45,970)	(4,999)	(4,723)	(64,727)	(58,055)
Minimum provision adjustment	(3)	-	(665)	(239)	-	-		-	(55)	(20)	(723)	(259)
Total provisions recognized	(49)	(1)	(84,862)	(77,505)	(2,147)	(2,741)	(53,195)	(45,970)	(9,396)	(11,923)	(149,649)	(138,140)
REVERSAL OF PROVISIONS:												
Individual provisions	9	1	54,537	53,554	-	-	-	-	4,434	5,164	58,980	58,719
Group provisions	-	-	3,798	4,002	1,778	2,377	31,833	23,991	5,419	4,471	42,828	34,841
Minimum provision adjustment	-	-	-	-	-	-	-	-	-	-	-	-
Total provisions reversed	9	1	58,335	57,556	1,778	2,377	31,833	23,991	9,853	9,635	101,808	93,560
Recovery of written-off assets	-	-	2,706	790	397	3	3,188	1,761	-	-	6,291	2,554
Provisions, net	(40)	-	(23,820)	(19,159)	28	(361)	(18,174)	(20,218)	457	(2,288)	(41,550)	(42,026)

In management's opinion, the credit risk provisions recognized for the years ended December 31, 2018 and 2017, cover the potential losses that may arise from not recovering these assets.

30. PAYROLL AND PERSONNEL EXPENSES

Payroll and personnel expenses consist of expenses accrued during the year for remunerations and compensation of employees and other expenses derived from the employee-employer relationship.

A) Expenses for these items for the years ended December 31, 2018 and 2017, are detailed as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
Payroll	(38,414)	(35,819)
Bonuses	(12,840)	(9,940)
Severance indemnities	(1,321)	(1,259)
Training expenses	(221)	(537)
Other benefits	(5,293)	(4,754)
Total	(58,089)	(52,309)

B) Other personnel expenses recognized during the years ended December 31, 2018 and 2017, are as follows:

	NO. OF EMPLOYEES RECEIVING BENEFIT		NATURE OF BENEFIT	TOTAL	
	2018	2017		2018 MCH$	2017 MCH$
BONUSES					
Productivity bonus	935	998	Voluntary	8,319	5,697
Legal bonuses and employer contributions	1,403	1,401	Contractual	2,865	2,716
Other bonuses	1,149	1,151	Contractual	1,656	1,527
Total bonuses				12,840	9,940
OTHER BENEFITS					
Health insurance.	1,381	1,353	Contractual	1,432	1,264
Life insurance	313	320	Contractual	159	142
Meal allowance	1,396	1,387	Contractual	1,608	1,549
Annual events	-	-	Voluntary	-	-
Childcare	108	128	Birth of child	259	278
Other benefits	1,398	1,390	Voluntary	1,834	1,521
Total other benefits				5,293	4,754

31. ADMINISTRATIVE EXPENSES

For the years ended December 31, 2018 and 2017, details are as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
GENERAL ADMINISTRATIVE EXPENSES		
Maintenance and repair of property, plant and equipment	(4,808)	(4,174)
Office leases	(2,878)	(3,062)
Equipment leases	(859)	(768)
Insurance premiums	(339)	(255)
Office supplies	(379)	(417)
IT and communications expenses	(5,409)	(5,210)
Lighting, heating and other utilities	(474)	(494)
Security services and armored transport	(134)	(141)
Travel and entertainment expenses	(697)	(609)
Court and notary expenses	(1,195)	(1,017)
Fees for technical reports	(12,423)	(11,236)
Fees for financial statement audit	(208)	(225)
Securities rating fees	(140)	(91)
SBIF fines	-	-
Other regulatory fines	(8)	(63)
Banking expenses	(301)	(370)
Advisory expenses	(6,123)	(4,498)
Building fees	(910)	(848)
Postage and mail	(158)	(149)
Other general administrative expenses	(8,356)	(9,523)
Subtotal	(45,799)	(43,150)
OUTSOURCED SERVICES:		
Data processing	(7,728)	(10,579)
Other	(1,951)	(1,985)
Subtotal	(9,679)	(12,564)
Board of directors' fees	(965)	(961)
Advertising	(5,634)	(6,219)
TAXES, PROPERTY TAXES AND CONTRIBUTIONS:		
Property taxes	(220)	(194)
Municipal business permits	(840)	(784)
Other taxes	(73)	(82)
Contribution to SBIF	(1,839)	(1,707)
Subtotal	(2,972)	(2,767)
Total	(65,049)	(65,661)

32. DEPRECIATION AND AMORTIZATION

A) DEPRECIATION AND AMORTIZATION

Depreciation and amortization by type of asset charged to profit or loss for the years ended December 31, 2018 and 2017, are as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
Depreciation of property, plant and equipment	(1,944)	(1,933)
Amortization and impairment of intangible assets	(3,241)	(3,688)
Total depreciation, amortization and impairment	(5,185)	(5,621)

33. IMPAIRMENT

• INVESTMENTS AVAILABLE FOR SALE

The Bank and its subsidiaries regularly test for objective evidence of impairment of their financial investments not carried at fair value through profit and loss.

Assets are impaired if there is objective evidence that shows that a loss event has occurred after the initial recognition of the asset and the loss event has an impact on the estimated future cash flows of the financial asset.

Objective evidence includes financial difficulty of the counterparty, breach of contractual clauses, granting of concessions or advantages that would not have been granted if the counterparty had not shown evidence of impairment, a measurable reduction in the asset's estimated future cash flows and, in the case of financial investments, the disappearance of an active or liquid market.

As of December 31, 2018 and 2017, no impairment losses were recognized for investments available for sale.

• INTANGIBLE ASSETS

As of December 31, 2018 and 2017, there were expected losses on certain intangible assets. Accordingly the Bank's management recognized impairment losses of MCH$498 and MCH$3,876.

34. OTHER OPERATING INCOME AND EXPENSES

A) OTHER OPERATING INCOME

Details of other operating income recognized in the consolidated statement of income are as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
Income from repossessed assets	468	62
Release of provisions for contingencies	136	110
Gain on sale of property, plant and equipment	487	998
Insurance claims	27	-
Rental payments received	155	149
Recovery of written-off repossessed assets	-	414
Recovery of expenses	1,785	479
Other income	1,576	2,059
Total other operating income	4,634	4,271

B) OTHER OPERATING EXPENSES

Details of other operating expenses recognized in the consolidated statement of income are as follows:

	FOR THE YEAR ENDED DECEMBER 31, 2018 MCH$	FOR THE YEAR ENDED DECEMBER 31, 2017 MCH$
Provisions for repossessed assets (*)	(4)	-
Write-offs of repossessed assets (*)	(1,569)	(1,181)
Maintenance expenses for repossessed assets (*)	(87)	(89)
Contingency provisions (*)	(183)	(232)
Operating write-offs (**)	(137)	(46)
Mortgage costs	(1,340)	(718)
Operating expenses	(1,853)	(872)
Other expenses	(376)	(460)
Total other operating expenses	(5,549)	(3,598)

(*) In the consolidated statement of cash flows, the concept other provisions consists of the items provisions, write-offs and expenses for repossessed assets and contingency provisions.
(**) Operating write-offs are presented in the consolidated statement of cash flow under the same heading.

35. RELATED PARTY TRANSACTIONS

Related parties are defined as persons or entities having an interest either directly or through third parties in the ownership of the Bank and its subsidiaries that exceeds 1% of shares or 5% of publicly-traded shares as well as persons without an ownership interest that have authority and responsibility in planning, management and control of the Bank's activities and those of its subsidiaries. Companies in which one of the Bank's related parties, related either through ownership or management, has a share greater than or equal to 5% or in which they exercise the role of director, CEO or its equivalent, are also considered to be related companies.

Article 89 of the Corporations Law, which also applies to banks, provides that any transaction with a related party must take place under arm's length conditions similar to those prevailing in the market.

Moreover, Article 84 of the General Banking Law establishes limits on loans granted to related parties and prohibits the granting of loans to the Bank's directors, managers and general representatives.


A) RELATED PARTY LOANS

The following table details loans and accounts receivable, contingent loans and assets related to trading and investment securities, corresponding to related entities.

	PRODUCERS OF GOODS AND SERVICES		INVESTMENT COMPANIES		INDIVIDUALS		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
LOANS AND RECEIVABLES:								
Commercial loans	60,365	46,425	58	62	3,132	3,326	63,555	49,813
Mortgage loans	-	-	-	-	8,567	9,507	8,567	9,507
Consumer loans	-	-	-	-	1,981	2,134	1,981	2,134
Gross loans and receivables	60,365	46,425	58	62	13,680	14,968	74,103	61,454
Credit risk provisions	(123)	(131)	-	-	(78)	(92)	(201)	(223)
Net loans and receivables	60,242	46,294	58	62	13,602	14,876	73,902	61,231
CONTINGENT LOANS:								
Total contingent loans	26,372	20,756	59	59	3,761	3,485	30,192	24,300
Contingent loan provisions	(40)	(33)	-	-	(6)	(7)	(46)	(40)
Net contingent loans	26,332	20,723	59	59	3,755	3,478	30,146	24,260
INVESTMENTS:								
Held for trading	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-
Total investments	-	-	-	-	-	-	-	-
	86,574	67,017	117	121	17,357	18,354	104,048	85,491

B) OTHER ASSETS AND LIABILITIES WITH RELATED PARTIES

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
ASSETS		
Financial derivative instruments	28,606	10,596
Total other assets with related parties	28,606	10,596
LIABILITIES		
Financial derivative instruments	31,555	12,228
Demand deposits	14,750	32,687
Savings accounts and time deposits	252,719	322,978
Total other liabilities with related parties	299,024	367,893

C) GAIN (LOSS) ON TRANSACTIONS WITH RELATED PARTIES

	GAIN (LOSS)	
	DECEMBER 31,	
	2018 MCH$	2017 MCH$
Net interest and indexation income	(656)	(462)
Net fee and commission income	2,116	3,385
Net foreign exchange transactions	598	302
Operating support expenses	(63,724)	(32,403)
Operating support income	12,078	18,534
Other income and expenses	(4,158)	(5,240)
Total loss from related party transactions	(53,746)	(15,884)

RELATED PARTY CONTRACTS

These include any contract entered into each year that does not involve habitual transactions within the Bank's line of business with general customers and is for more than UF 3,000.

These contracts are as follows:

LEGAL NAME	DESCRIPTION	CREDITS TO PROFIT		CHARGES TO PROFIT	
		DECEMBER 31,		DECEMBER 31,	
		2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Capital S.A. (Formerly Inversiones Invest Security Ltda.)	Service contract	-	-	22,329	11,015
Travel Security S.A.	Office lease and air tickets	800	801	3,868	3,222
Seguros Vida Security Previsión S.A.	Insurance	11,278	11,007	5,448	2,507
Global Security Gestión y Servicios Ltda.	Service contract	-	-	17,681	7,277
Securitizadora Security S.A.	Advisory services	-	-	-	-
Mandatos Security Ltda.	Service contract	-	-	8,635	3,557
Inmobiliaria Security S.A.	Service contract	-	-	-	-
Asesorías Security S.A.	Advisory services	-	-	211	456
Redbanc S.A.	Service contract	-	-	525	480
Cía. de Seguros Generales Penta Security S.A.	Service contract	-	-	-	-
Transbank S.A.	Service contract	-	6,523	3,670	3,717
ENEL S.A. (formerly Chilectra S.A.)	Sale of electric power	-	-	143	172
Cía. de Seguros Penta Security	Insurance	-	-	-	-
Factoring Security Ltda.	Advisory services and leases	-	100	-	-
Inmobiliaria Security Once	Advisory services	-	-	-	-
Inmobiliaria Security Siete	Advisory services	-	-	-	-
Bice Inversiones Corredores de Bolsa S.A.	Service contract	-	103	-	-
Santiago Exchange	Service contract	-	-	449	-
Comder Contraparte Central S.A.	Service contract	-	-	378	-
Soc Operador De La Camara De Compensación	Service contract	-	-	189	-
Bolsa de Valores de Chile	Service contract	-	-	100	-
Asesoria e Inverisones RTM Ltda.	Advisory services	-	-	98	-
		12,078	18,534	63,724	32,403

D) PAYMENTS TO BOARD OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

In 2018 and 2017, the following payments were made to members of the Board and key management personnel and charged to profit or loss.

	DIRECTORS		CEOS		DIVISION MANAGERS		DEPARTMENT MANAGERS	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
Short-term compensation	768	745	1,012	990	1,401	1,387	2,730	2,840
Severance indemnities	-	-	-	-	-	-	94	-
No. of executives	7	7	3	3	6	7	17	17


36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

A) FAIR VALUE ASSETS AND LIABILITIES

The following table summarizes the fair values of the Bank's main financial assets and liabilities, including those not recognized at fair value in the statement of financial position. The values shown in this note do not attempt to estimate the value of the Bank's income-generating assets, nor forecast their future behavior. As of December 31, 2018 and 2017, the estimated fair values of the Bank's financial instruments are as follows:

	CARRYING AMOUNT		ESTIMATED FAIR VALUE	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
ASSETS				
Cash and due from banks	394,332	497,423	394,332	497,423
Transactions pending settlement	35,628	76,271	35,628	76,271
Financial instruments held for trading	106,095	94,439	106,095	94,439
Receivables from resale agreements and securities borrowing	-	-	-	0
Financial derivative instruments	150,265	132,750	150,265	132,750
Loans and advances to banks	10,730	-	10,718	-
Loans to customers	5,245,152	4,753,782	5,237,466	4,773,796
Investments available for sale	751,206	678,542	751,206	678,542
Investments held to maturity	-	-	-	-
LIABILITIES				
Current accounts and other demand deposits	654,814	673,475	654,814	673,475
Transactions pending settlement	16,903	25,838	16,903	25,838
Payables from repurchase agreements and securities lending	34,003	14,147	33,992	14,143
Savings accounts and time deposits	2,964,066	2,927,755	2,961,405	2,925,989
Financial derivative instruments	117,962	101,554	117,962	101,554
Borrowings from financial institutions	223,071	188,346	218,056	184,433
Debt instruments issued	2,205,499	1,786,574	2,229,134	1,862,070
Other financial liabilities	11,963	22,967	11,849	23,378

The fair value of assets not recognized at that value in the statement of financial position is derived from estimated cash flows the Bank expects to receive, discounted using the relevant market interest rate for each type of transaction.

The fair value of liabilities without market quotes is based on discounted cash flows using the interest rate for similar maturity terms.

Therefore, the largest differences between the carrying amount and the fair value occur in more long-term assets (commercial loans) and liabilities (debt issued) and, inversely, short-term items present a smaller or no difference between these values (e.g. transactions pending settlement and cash).

B. FAIR VALUE DETERMINATION

The Bank uses the following criteria to calculate and classify the market value of financial instruments.

- **LEVEL 1:**
  Observable prices in active markets for the specific type of instrument or transaction to be measured.

- **LEVEL 2:**
  Valuation techniques based on observable factors. This category includes instruments valued using: Quoted prices for similar instruments, either in active or less active markets. Other valuation techniques when all significant inputs are directly or indirectly observable based on market data.

- **LEVEL 3:**
  Valuation techniques that use significant unobservable factors. This category includes all instruments where the valuation technique includes factors that are not based on observable data and the unobservable factors can have a significant effect on the valuation of the instrument. This category contains instruments that are valued based on quoted prices for similar instruments that require adjustments or significant unobservable assumptions to reflect the differences between them.

The valuation techniques employed are based on estimates of market factors using mathematical and statistical models widely used in financial literature, which are backtested.

All these techniques are based on policies reviewed by the corresponding committees and Boards at least once per year, or more frequently if the need arises.

Level 3 includes price estimates for swaps with a yield curve based on the TAB rate (Chilean pesos and Unidad de Fomento), since a yield curve is not observable in the market as a result of its illiquidity.

The same level includes options embedded in variable-rate mortgage loans that have a ceiling rate. Although they are part of a loan agreement that is accounted for on an accrual basis, the value of the option is estimated and recognized separately from the host contract in the trading book as per regulatory requirements, despite the fact that it is not a standalone financial instrument for which market prices exist.

The following table details the classification of financial instruments by level within the fair value hierarchy as of December 31, 2018 and 2017, respectively.


	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
FINANCIAL ASSETS								
FINANCIAL INSTRUMENTS HELD FOR TRADING:								
CHILEAN GOVERNMENT AND CENTRAL BANK INSTRUMENTS								
Chilean Central Bank instruments	688	5,915	4,264	7,203	-	-	4,952	13,118
Chilean Treasury instruments	1,313	11,235	3,321	845	-	-	4,634	12,080
Other government instruments	-	-	8,371	4,231	-	-	8,371	4,231
Subtotal	2,001	17,150	15,956	12,279	-	-	17,957	29,429
OTHER FINANCIAL INSTRUMENTS								
Notes for deposits in domestic banks	-	-	27,043	16,818	-	-	27,043	16,818
Mortgage bonds in domestic banks	-	-	4,287	2,984	-	-	4,287	2,984
Bonds from domestic banks	6,344	7,292	21,960	23,511	-	-	28,304	30,803
Other instruments issued in Chile	1,430	202	7,129	7,633	-	-	8,559	7,835
Mutual funds	17,918	5,952	2,027	618	-	-	19,945	6,570
Subtotal	25,692	13,447	62,446	51,564	-	-	88,138	65,010
Total	27,693	30,596	78,402	63,843	-	-	106,095	94,439
TRADING DERIVATIVES:								
Currency forwards	2,901	6,669	64,555	63,103	-	-	67,456	69,772
Interest rate swaps	-	-	29,319	27,369	742	902	30,061	28,271
Currency swaps	-	-	39,207	27,678	5,734	6,459	44,941	34,137
Total assets for trading derivatives	2,901	6,669	133,081	118,150	6,476	7,361	142,458	132,180
HEDGE ACCOUNTING DERIVATIVES:								
Currency swaps	-	-	7,807	570	-	-	7,807	570
Total assets for hedge accounting derivatives	-	-	7,807	570	-	-	7,807	570
Total assets for financial derivatives	2,901	6,669	140,888	118,720	6,476	7,361	150,265	132,750
INVESTMENTS AVAILABLE FOR SALE:								
CHILEAN GOVERNMENT AND CENTRAL BANK INSTRUMENTS								
Chilean Central Bank instruments	192,728	121,544	250,200	261,185	-	-	442,928	382,729
Chilean Treasury instruments		-		-	-	-	-	-
Subtotal	192,728	121,544	250,200	261,185	-	-	442,928	382,729
OTHER FINANCIAL INSTRUMENTS:								
Notes for deposits in domestic banks	-	-	92,476	14,388	-	-	92,476	14,388
Mortgage bonds in domestic banks	-	-	19,390	18,220	-	-	19,390	18,220
Bonds from domestic companies	9,744	38,133	38,409	99,355	-	-	48,153	137,488
Other instruments issued in Chile	-	-	-	3,062	-	-	-	3,062
Foreign government and central bank instruments	-	-	-	-	-	-	-	-
Other instruments issued abroad	148,259	122,618	-	37	-	-	148,259	122,655
Subtotal	158,003	160,751	150,275	135,061	-	-	308,278	295,813
Total	350,731	282,295	400,475	396,247	-	-	751,206	678,542
TOTAL FAIR VALUE ASSETS	381,325	319,560	619,765	578,810	6,476	7,361	1,007,566	905,731
FINANCIAL LIABILITIES								
TRADING DERIVATIVES:								
Currency forwards	(3,336)	(5,494)	(63,624)	(51,066)	-	-	(66,960)	(56,560)
Interest rate swaps		-	(21,014)	(22,225)	(528)	(803)	(21,542)	(23,028)
Currency swaps		-	(28,070)	(21,023)	-	-	(28,070)	(21,023)
Interest rate put options		-	-	-	-	(6)	-	(6)
Total liabilities for trading derivatives	(3,336)	(5,494)	(112,708)	(94,314)	(528)	(809)	(116,572)	(100,617)
HEDGE ACCOUNTING DERIVATIVES:								
Interest rate swaps	-	-	(1,390)	(937)	-	-	(1,390)	(937)
Total liabilities for hedge accounting derivatives	-	-	(1,390)	(937)	-	-	(1,390)	(937)
Total liabilities for financial derivatives	(3,336)	(5,494)	(114,098)	(95,251)	(528)	(809)	(117,962)	(101,554)
TOTAL FAIR VALUE LIABILITIES	(3,336)	(5,494)	(114,098)	(95,251)	(528)	(809)	(117,962)	(101,554)

37. RISK MANAGEMENT

I. RISK MANAGEMENT OBJECTIVES
II. RISK MANAGEMENT STRUCTURE
III. CREDIT RISK
IV. FINANCIAL RISK
V. OPERATIONAL RISK
VI. RISK COMMITTEE
VII. CAPITAL REGULATORY REQUIREMENTS

I. RISK MANAGEMENT OBJECTIVES

Banco Security considers risk management to be a critical component in guaranteeing business continuity, achieving necessary solvency and ensuring sustainable results. Risk management is intended to minimize losses from risk and optimize the risk-return ratio and growth (risk appetite) defined by senior management.

In order to achieve this, the Bank has made a considerable effort to optimize risk management. Therefore, risk management is separated into three specific divisions by type of risk: Credit Risk, Financial Risk and Operational Risk.

Through this structure, the Bank can properly and timely identify, measure, value and monitor all kinds of risk that Banco Security may face.

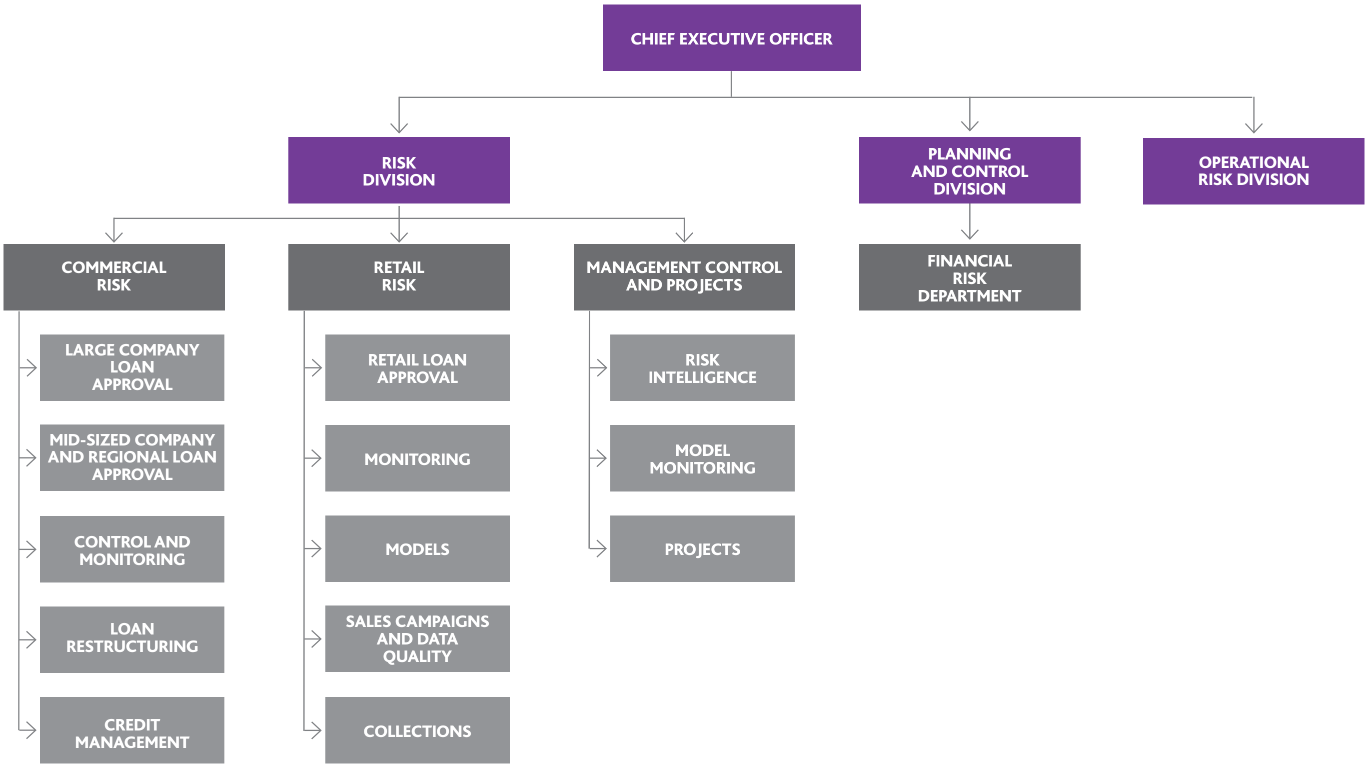
II. RISK MANAGEMENT STRUCTURE

Risk management is carried out through four divisions that report to the Chief Executive Officer: The Risk Division (credit risk); the Planning and Control Division (financial risk), the Operational and Cyber-security Risk Division and the Compliance Division, all of which operate independently from other business areas and serve as a counterbalance on the Bank's various committees.

The Risk Division is focused on credit risk management and is divided into three areas: Commercial Risk, Retail Risk and Management Control and Projects.

The Financial Risk Department now reports to the Planning and Control Division. Financial risk was transferred to this division, which is also in charge of financial control and capital management, to take advantage of synergies that can be generated.

The Bank's risk division is structured as follows:



Another important component of this structure is the Office of the Controller, which is responsible for regularly and independently evaluating whether the defined risk policies enable effective management and meet regulatory requirements. It is also responsible for conducting audits to verify compliance. The conclusions of these audits are analyzed by the Audit Committee and included in a written report submitted to the Bank's CEO and the department managers involved in the review. The reports provide conclusions from the evaluation and a work plan for resolving the observations made.

DEPARTMENT DESCRIPTIONS:

1) CREDIT RISK:

COMMERCIAL RISK:

This department is in charge of risk for entire credit process for customers in the Commercial Banking and Finance divisions. In this role, the department is responsible for defining the policies and procedures for this process and ensuring compliance, all in line with defined risk appetite. It is also responsible for monitoring operations, ensuring risk is correctly classified and maximizing recovery through the collections department. To accomplish this, the department is structured as follows:

A. LARGE COMPANY LOAN APPROVAL DEPARTMENT:

Department in charge of analyzing risk during customer assessment for the large companies and finance segments. as well as evaluating and controlling the Bank’s exposure in foreign markets.

This department also participates in decision-making committees for its segment, such as the Circulating Folder Committee and the Managers Committee; and acts as secretary for the Board Credit Committee.


The Real Estate Analysis Department is within this department, which is responsible for analyzing this portfolio and generating warning reports used by the monitoring department to control real estate customers.

B. MID-SIZED COMPANY AND REGIONAL LOAN APPROVAL DEPARTMENT:

Department in charge of analyzing risk during customer assessment of mid-sized and regional companies. It is also responsible for standardizing and analyzing the financial statements for the entire portfolio,

This department also participates in decision-making committees, such as the Circulating Folder Committee and the Managers Committee; and acts as secretary for the Board Credit Committee. It manages all record keeping and procedures related to loan decision making for Commercial Banking.

C. CREDIT MANAGEMENT DEPARTMENT:

The Credit Management Department is responsible for credit management, particularly changes in portfolio classification and the provisioning process (at month end). It also oversees credit management tasks such as supervising appraisers.

D. CREDIT RISK MONITORING DEPARTMENT:

The Credit Risk Monitoring Department is responsible for three functions:

Early detection, which helps the Bank more efficiently recover amounts owed by customers.

Consolidating customer and loan information, which provides data for the ongoing reclassification process to ensure that customer classifications faithfully reflect potential losses.

It is also responsible for controlling compliance with credit risk policies, and managing the pre-court collections process for Commercial Banking.

It also controls and monitors progress on real estate projects using reports prepared by the Real Estate Analysis Department.

E. LOAN RESTRUCTURING DEPARTMENT:

This department is responsible for the collections process and for efficiently recovering amounts owed by customers with payment problems. It also manages collections once a loan enters the past-due portfolio, including court and out-of-court collections (defined as sale of the written-off portfolio once all collections alternatives have been exhausted).

In addition, this department manages repossessed assets for the entire division.

RETAIL RISK:

This department is in charge of risk for entire credit process with customers in the Retail Banking Divisions. In this role, the department is responsible for defining the policies and procedures for this process and ensuring compliance, all in line with defined risk appetite. It is also responsible for monitoring operations, ensuring risk is correctly classified and maximizing recovery through the collections department. To accomplish this, the department is structured as follows:

A. RETAIL LOAN APPROVAL DEPARTMENT:

Department in charge of risk for loan approval process (initiation, assessment and decision) with customers in the Retail Banking Division. In this role, it is responsible for defining the policies and procedures for this process and ensuring compliance, all in line with the defined risk appetite.

B. SALES CAMPAIGN AND DATA QUALITY DEPARTMENT:
Department in charge of generating sales campaigns and monitoring outcomes.

It is also responsible for the process of validating and maintaining data for the entire Risk Division,

as well as validating regulatory reports for which the Risk Division is responsible.

C. MODELS DEPARTMENT:
Department in charge of generating and maintaining models in accordance with the Bank's requirements and guidelines from the Model Monitoring Department.

D. CREDIT RISK MONITORING DEPARTMENT:
The Credit Risk Monitoring Department is responsible for three functions:

Early detection, which helps the Bank more efficiently recover amounts owed by customers.

Consolidating customer and loan information, which provides data for the ongoing reclassification process to ensure that customer classifications faithfully reflect potential losses.

E. COLLECTIONS DEPARTMENT:
This department is responsible for the collections process and for efficiently recovering amounts owed by customers with payment problems. It also manages pre-court, court and out-of-court collections (defined as sale of the written-off portfolio once all collections alternatives have been exhausted).

MANAGEMENT CONTROL AND PROJECTS DEPARTMENT:

This department is in charge of three functions: Risk intelligence, model monitoring and global credit risk management processes:

It is responsible for the following central processes:
- Interpreting and implementing regulatory modifications.
- Updating, coordinating and communicating credit risk policies and their related procedures.
- Managing the Risk Committee.

It also provides internal support such as:
- Managing projects for the division and others related to credit risk management.
- Conducting training.
- Controlling internal targets.
- Managing the division's budget and director plan.

A. RISK INTELLIGENCE DEPARTMENT:
This department is in charge of continuously monitoring risk indicators, generating risk management and analysis reports and monitoring limits and concentration in order to more efficiently manage risk in accordance with the Bank's defined risk appetite.

It is also responsible for monitoring new market trends in credit risk management in search of new tools and processes to attain its objectives.

B. MODEL MONITORING DEPARTMENT:
This department is in charge of continuously monitoring all of the Bank's models and making recommendations regarding any deviations detected.

It must also monitor the adequacy of provisions on the Bank's portfolios.

2) FINANCIAL RISK:

FINANCIAL RISK DEPARTMENT

Department in charge of ensuring financial risk is effectively managed, which is staffed by nine employees. Further information on its functions is available in section IV.

3) OPERATIONAL RISK:

OPERATIONAL RISK

Department in charge of ensuring operational risk, business continuity, information security and suppliers are effectively managed. It serves as a second line of defense and is staffed by 11 employees. Further information on its functions is available in section V.

III. CREDIT RISK

A. CREDIT RISK MANAGEMENT OBJECTIVES

The Risk Division is responsible for managing credit risk through the Credit Risk Department. The objective of this department is to complete the six-stage loan approval process: Target market; analysis and assessment; decision; management; monitoring and control; and collections.

The above must be carried out in accordance with the risk tolerance (appetite) defined by senior management.

B. CREDIT RISK STRUCTURE

The Credit Risk Department has numerous departments that participate throughout the entire loan approval process, supporting the Bank's sales departments at all times and acting as an independent counterweight during the loan decision-making process.

This department is made up of:

- Commercial Risk.
- Retail Risk.
- Management Control and Projects.

C. CREDIT RISK PROCESS:

The following chart details the six stages of the loan approval process and the departments that participate in each stage.

LOAN APPROVAL PROCESS	COMMERCIAL BANKING	RETAIL BANKING
Target Market	Commercial Risk Management	Retail Risk Management
Credit Analysis and Assessment		
Loan Decision		
Credit Management		
Credit Monitoring and Control		
Collections		

C.1 CREDIT RISK STAGES

1. TARGET MARKET:

Although the Bank's senior management is responsible for defining the target market, this decision is based on a proposal prepared jointly by the sales and risk departments after having analyzed the opportunities available in the market and the risks of the different segments. This proposal is contained in the Bank's Credit Risk Policy Manual.

2. CREDIT ANALYSIS AND ASSESSMENT:

The tools used to analyze and assess a customer depend on the customer's market. For example, a scoring system is used in retail banking (individuals and companies), while a case-by-case analysis prepared by a credit risk expert is utilized in commercial banking.

3. LOAN DECISION:

The credit risk department acts as a counterweight in the loan decision process in all committees on which it sits. It also defines the approval limits for commercial departments and may intervene if risk standards are surpassed at any time.

There are mainly two types of committees, separated by the way they operate: circulating folder or meeting. In the first case, which involves smaller amounts, a folder is passed from one level to the next until it reaches the required level. In the second case, for larger amounts, a meeting is held where an account executive presents the loan to members of the committee for their approval. Meeting committees are also divided by amount.

Of these loan committees, the most important is the Board Credit Committee, which includes two directors, two advisors to the Board, the Bank's CEO, the Risk Division Manager and the Commercial Loan Approval Manager. This committee analyzes the most important loans, assessing close to 70% of loans in terms of amount and 5% in terms of number of customers.

4. CREDIT MANAGEMENT:

This department works to ensure proper customer classification, which begins with executives, followed by reclassifications made mainly by the Monitoring and Control Department, committees and the Loan Restructuring Department, and ends with the Reclassification Committee. The latter body executes and carries out the classification and provisioning process in order to ensure the Bank is operating correctly and to reflect the reality of its portfolio.

It also works with sales departments to keep the number of expired and/or overdrawn lines of credit within expected parameters, and it maintains strict control of appraisals of assets provided to guarantee loans.

5. COLLECTIONS:

Specialized Collections (Retail Risk) and Loan Restructuring (Commercial Risk) departments perform a variety of activities to collect on loans, including out-of-court and court collections.

6. MONITORING AND CONTROL:

This stage aims to maintain an overall vision of how the above-mentioned loan processes are functioning. Its involvement includes reviewing and auditing current credit policies, monitoring the performance of the analysis departments and committees, and properly managing credit.

It relies on various sources of information to fulfill its duties, including reports provided by the Credit Risk Intelligence Department and information on portfolio behavior. It uses this information to strictly monitor and control the Bank's portfolio and, as a result, it is the department that proposes most of the potential customer reclassifications.

This function is separated into two departments that serve the Commercial and Retail Banking divisions.

D. RISK RATING AND PROVISIONS:

Risk rating and assessments for provisioning purposes depend on customer and product type. Customers can be rated individually or as a group, as detailed below:

INDIVIDUAL RATING		GROUP RATING	
CUSTOMER TYPE	METHODOLOGY	CUSTOMER TYPE	METHODOLOGY
Companies (includes individuals with business accounts)	Commercial matrix and business rules	Individuals with commercial loans	Guidelines
Real estate	Manual	Small businesses	Guidelines/Matrix
OTHER · Banks · Restructuring of retail and commercial loans · Non-profit · Special leasing group	Manual	Investment companies	Guidelines/Matrix
		Residential mortgage loans	Model
		Consumer loans	Internal model

D.1 RATING INDIVIDUAL CUSTOMERS:

This group includes all customers (individuals or legal entities) that the Bank needs to understand and analyze in detail because of their size, complexity or exposure level.

As a result, Banco Security individually rates all entities with annual sales over MCH$1,000 and debt over MCH$200, as well as real estate projects, institutional companies, non-profit organizations and bankrupt entities, among others.

D.2 RATING GROUP LOANS:

Group assessments are used for customers that tend to behave similarly. Thus, they are assessed using methodologies and models to analyze operations related to the same product, based on customer type, as indicated below:

1. COMMERCIAL PRODUCTS:
   a. Individuals
   b. Restructuring of retail loans
   c. Small businesses
   d. Investment companies

2. CONSUMER PRODUCTS:
   a. Individuals

3. MORTGAGE PRODUCTS:
   a. Individuals

D.3 DISTRIBUTION OF LOAN PORTFOLIO:

The Bank's portfolio is distributed as follows, based on the type of risk assessment used (i.e. group or individual):

ASSESSMENT BY CUSTOMER TYPE

NUMBER OF CUSTOMERS

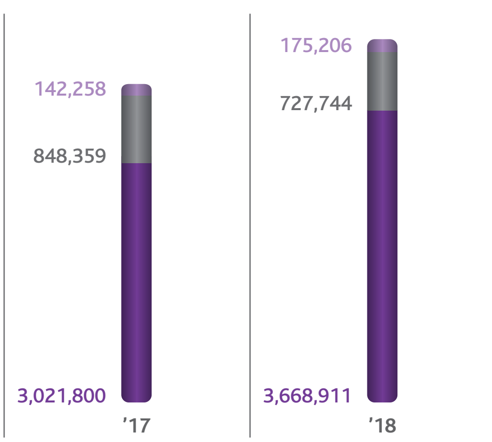
GROUP
INDIVIDUAL

Individually rated loans are distributed by category (normal, substandard and default) using the following criteria:

DISTRIBUTION OF INDIVIDUALLY ASSESSED LOANS

AMOUNT OF LOANS - MCH$

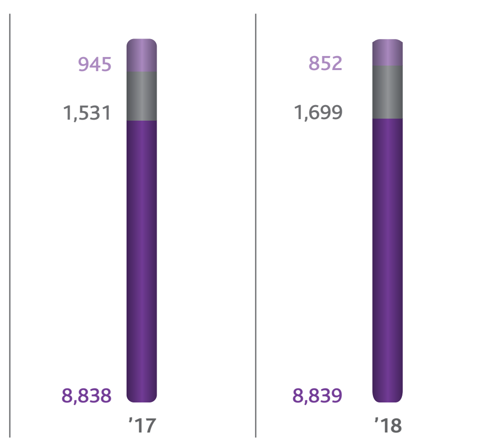
NORMAL SUBSTANDARD DEFAULT



DISTRIBUTION OF INDIVIDUALLY ASSESSED LOANS

NUMBER OF CUSTOMERS - DEC 2017-2018

NORMAL SUBSTANDARD DEFAULT



IV. FINANCIAL RISK

A. FINANCIAL RISK MANAGEMENT OBJECTIVES

For the organization, financial activities are defined as all transactions that are closed by the Bank and its subsidiaries Valores Security and Administradora General de Fondos, either on their own account or on behalf of third parties.

In general, financial transactions include operations involving foreign currency, loans, financing instruments, fixed-income instruments, derivatives and stocks.

The strategic objectives of financial activities include:

- Strengthening and expanding the Bank's position, consolidating and developing long-term relationships with customers and different market players, and providing a full range of investment banking products.

- Improving and ensuring the stability of long-term returns and effectively managing the different potential risks.

Financial activities are limited to previously-approved strategic product areas and will only be carried out within the overall risk guidelines defined by the Bank's Board of Directors.

In managing the portfolio of financial investments, the organization will actively manage positions based on an ongoing analysis of economic and financial conditions. Therefore, positions in financial instruments will be in line with the consensus for the macroeconomic outlook. However, short-term trading positions can also be taken to capitalize on a one-time misalignment of a market variable.

In order to achieve the objectives established in the Bank's investment strategies, a broad range of currencies and products can be traded, always in accordance with current applicable regulations.

The Bank is primarily engaged in trading non-derivative fixed-income financial instruments, interbank funding, transactions with repo agreements, foreign currency spot sales and purchases, currency and interest rate derivatives (forwards and swaps), stocks and simultaneous operations.

Treasury products can be geared towards different objectives, such as profiting from short or medium-term variations in market factors, making returns by generating spreads with respect to the financing rate of positions, leveraging maturity mismatches and slopes of interest rate structures or exchange rate differentials, engaging in economic and/or accounting hedges and distributing treasury products through the Bank's sales network.

Derivatives are particularly used to hedge risks, for market arbitrage some market or to take certain proprietary positions.

Hedge management using derivatives can use economic or accounting hedges, depending on the defined strategy.

Strategies with derivatives with accounting hedges can be used to hedge cash flows or the fair value of any item in the statement of financial position or expected transaction that generates risk or volatility in profit or loss, in compliance with international accounting standards. These strategies must meet all requirements included in current regulations and their effectiveness is reviewed at least monthly for each hedge.

Risk management and control take place through policies, procedures, methodologies and limits, which create value for shareholders and the market in general, guaranteeing adequate solvency levels.

These internal limits, defined by portfolio type, maturity mismatches, currency and instrument type based on the Bank's risk appetite, allow the Bank to control risk levels and diversify investment portfolios.

The Bank's policies also allow it to require guarantees under certain circumstances, mainly for derivative transactions, in order to mitigate credit risk.

B. FINANCIAL RISK STRUCTURE

The Board of Directors is responsible for approving risk management policies, limits and structures for the Bank and its subsidiaries. To accomplish this, it has set up several committees to monitor compliance with defined policies and limits. These committees are made up of directors and executives and provide the Board with regular reports on risk exposure.

The following committees currently analyze matters related to financial risk:

- Finance Committee: Controls and manages financial investments from a short and medium-term trading perspective and the risks associated with these portfolios.

- Asset and Liability Committee: Controls and manages the risk of mismatches in assets and liabilities in order to stabilize and protect and control the Bank's financial margin and economic value. It also monitors liquidity gaps, diversification of funding sources, highly-liquid assets and risk-adjusted capital limits (solvency).

The objective of the Bank's financial risk management policies is to identify and analyze the risks faced by the Group, set concentration limits and put ongoing controls in place to monitor compliance.

The committees regularly revise these policies in order to incorporate changes in market conditions and the Bank's activities. Once revised, the changes are submitted to the Board for its approval.

The Financial Risk Department, which reports to the Planning and Control Division, is charged with monitoring and controlling risks and is independent from the business areas that take and manage the risks.

This department is specifically responsible for:

- Centralizing efforts to control and measure the different risks affecting the Bank and its subsidiaries by applying uniform policies and controls.

- Ensuring that risk managers, senior management and the Board of Directors are kept informed of key matters regarding market and liquidity risk.

- Assuring that recommendations from regulators and internal auditors are followed and appropriately implemented.

- Reporting and monitoring market risk and liquidity and limit compliance on a daily basis for the Bank and its subsidiaries.

- Developing and reviewing the effectiveness of methods and procedures for measuring risk.

Risk is measured and controlled on a daily basis using risk reports used by senior management to make decisions. These reports include VaR measurements and rate sensitivity for both the investment portfolio and the banking book as a whole, risk exposure by portfolio, instrument, risk factors and concentration and compliance with internal limits.

C. FINANCIAL RISK PROCESS

Risk measurements are based on automated systems used to monitor and control the risk to which the Bank and its subsidiaries are exposed on a daily basis, thus allowing for proper decision-making.

The Treasury is in charge of taking positions and risks within the limits defined by senior management. It is responsible for managing financial risks arising from positions in investment books, from structural asset/liability mismatches and from managing liquidity gaps and also for adequately funding operations.

The Internal Audit Department regularly assesses risk processes. The general risk structure is continuously being evaluated by the SBIF, the Bank's external auditors, and other independent entities.

D. DEFINITION OF FINANCIAL RISKS

A) MARKET RISK

Market risk represents the potential loss that can result from changes in market prices over a certain period of time as a result of variations in interest rates, foreign currencies, indexation and stock prices. These losses affect the value of financial instruments held for trading and available for sale, both for the Bank and its subsidiaries.

MARKET RISK METHODOLOGY

Market risk is measured using the Value at Risk (VaR) methodology, which allows the different risks and types of operations to be standardized, modeling the collective relationship of these factors in a single risk measurement.

VaR provides an estimate of the maximum potential loss from treasury positions of financial assets or liabilities in the event of an adverse, yet normal, scenario.

The methodology used to calculate VaR is a parametric technique that assumes that the price returns on investments follow a normal distribution using a threshold of 95% confidence, a maintenance horizon of 1 day and a historical data sample of 250 days adjusted using statistical techniques to assign greater weight to more recent developments, in order to quickly capture increases in market volatilities.

The assumptions on which the model is based have some limitations, including:

- A maintenance period of one day assumes that the positions can be covered or disposed of within that period. However, investment portfolios held for trading are comprised of highly-liquid instruments.
- A confidence level of 95% does not reflect the losses that could occur in the remaining 5% of the distribution.
- Value at risk is calculated with positions at the end of the day and does not reflect the exposure that could arise during the trading day.
- The use of historical information to determine possible ranges of future outcomes may not cover all possible scenarios, especially exceptional circumstances.
- Market price returns of financial instruments can present abnormal probability distributions.

The limitations of the assumptions used by the VaR model are minimized using nominal limits for investment concentration and sensitivity to specific risk factors.

The reliability of the VaR methodology used is verified using backtesting, which is contrasted with the actual results obtained to determine whether they are consistent with the methodological assumptions within the given confidence levels. Ongoing monitoring of these tests allows the Bank to confirm the validity of the assumptions and hypothesis used in the model.

Control of financial risk is complemented with specific simulation exercises and stress testing to analyze different financial crises that have occurred in the past and the effect they may have on current investment portfolios.

These risks are monitored on a daily basis. Risk levels incurred and compliance with limits established for each unit are reported to risk managers and senior management.

Banco Security and its subsidiaries measure and limit Value at Risk in their investment portfolios (trading and available for sale) by risk factor, interest rates, currencies, instrument type and portfolio type.

Details of the market risks of the different investment portfolios by type of risk are as follows:

	VAR BY TYPE OF RISK	
	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
TRADING:		
Fixed income	59	103
Derivatives (excl. options)	48	410
Embedded options	0	1
FX	41	26
Shares	22	58
Diversification effect	(63)	(342)
Total portfolio	107	255
AVAILABLE FOR SALE:		
Rate	349	232
Total portfolio	349	232
Total diversification	(17)	(368)
Total VaR	502	462

B) STRUCTURAL INTEREST RATE RISK

This risk stems mainly from commercial activity (commercial loans v/s deposits), caused by the effects of variations in interest rates and/or the slopes of interest rate curves to which assets and liabilities are indexed. When these show temporary repricing or maturity gaps, they can impact the stability of results (financial margin) and solvency levels (economic value of equity).

To do this, the Bank establishes internal limits using sensitivity techniques for interest rate structures. The Bank also uses stress testing to evaluate the sensitivity of interest rates, currency repricing, changes in stock prices, changes in underlying assets for options and changes in commissions that may be sensitive to interest rates. This stress testing enables the Bank to measure and control the impact of sudden movements in the different risk factors that affect its solvency ratio, the financial margin and the economic value of equity.

Compliance with limits established by the Bank, in accordance with the definitions established by the Chilean Central Bank in Chapter III.B.2.21 of the Compendium of Financial Standards and by the Superintendency of Banks and Financial Institutions in Chapter 12-21 of the Updated Standards, is also monitored on a daily basis. The Bank also files a weekly report with the SBIF on the risk positions of the investment portfolio within the trading book and limit compliance. It also files a monthly report with the SBIF on the consolidated positions at risk (including subsidiaries) for the trading book and individually for the banking book, which includes sensitivity to market risk in the available-for-sale portfolio and the commercial book.

In accordance with the methodology defined in Chapter III.B.2.2 of the Compendium of Financial Standards of the Chilean Central Bank, market risk is as follows:

	MARKET RISK TRADING BOOK	
	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
MARKET RISK		
Interest rate risk	9,307	9,227
Currency risk	1,162	1,163
Options risk	1	7
Total risk	10,470	10,397
Consolidated risk-weighted assets	5,862,058	5,360,108
Regulatory capital (RC)	774,770	751,267
Basel limit	8.00%	8.00%
Basel with market risk	12.93%	13.69%
Basel I	13.22%	14.02%

	MARKET RISK BANKING BOOK	
	DECEMBER 31, 2018 MCH$	DECEMBER 31, 2017 MCH$
SHORT-TERM		
Interest rate risk (short-term)	9,610	5,671
UF mismatch	813	1,313
Sensitive commissions	175	166
Total risk	10,598	7,150
Limit 35% margin (Board)	61,633	50,735
Surplus (Board)	51,035	43,585
LONG-TERM		
Interest rate risk	19,984	16,975
Limit 25% RC (Board)	193,693	187,864
Surplus (Board)	173,709	170,890

C) LIQUIDITY RISK

Liquidity risk represents the possibility of not fulfilling obligations when they mature as a result of the inability to liquidate assets or obtain funds, or not being able to dispose of them easily or offset exposure without significantly reducing prices due to insufficient market depth (market liquidity).

The following concepts are involved with liquidity risk.

- Maturity risk: The risk arising from having cash inflows and outflows with different maturity dates.
- Collection risk: The risk of being unable to collect any cash inflow as a result of stoppage of payment, default or delay.
- Funding risk: The risk of being unable to raise market funds, either in the form of debt or capital, or only being able to do so by substantially raising the cost of funds, thus affecting the financial margin.
- Concentration risk: the risk from concentrating funding or revenue sources in a few counterparties that may bring about an abrupt change in the matching structure.
- Market liquidity risk: This risk is linked to certain products or markets and arises from not being able to close or sell a particular position at the last quoted market price (or a similar price) due to low liquidity.

LIQUIDITY RISK METHODOLOGY

The methodologies used to control liquidity are the liquidity gap, which considers probable behavior scenarios for assets and liabilities, stress testing, liability concentration limits and early warning indicators.

The liquidity gap provides information regarding contractual cash inflows and outflows (i.e. those that will occur at a given future time according to asset and liability contracts). For items without contractual maturities, simulations are created based on statistical studies to infer maturity behavior.

Based on these scenarios, assumptions for normal operating conditions are established. These omit items (mainly assets) that create a set of conservative liquidity management conditions from daily management. They are limited through minimum mismatching margins per control segment defined on a weekly and monthly basis over a horizon of one year.

This is supplemented by special procedures to face a liquidity crisis and early warning indicators that can identify any potential risk.

A series of ratios and funding concentration limits by creditor and maturity are also controlled. This enables the Bank to keep its funding sources organized and diversified.

The Bank uses the contractual maturity methodology to comply with the regulatory liquidity limits established in Chapter III.B.2.1 of the Chilean Central Bank's Compendium of Financial Standards and Chapter 12-20 of the SBIF's Updated Compilation of Standards.

Mismatches and compliance with consolidated regulatory limits by the Bank and its subsidiaries are reported to the SBIF every three days.

Details of regulatory liquidity gaps as of December 31, 2018 and 2017, in all currencies presented in MCH$, are as follows.

	< 1 MONTH		1 - 3 MONTHS		3 MONTHS - 1 YEAR		1 - 3 YEARS		3 - 6 YEARS		> 6 YEARS		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Available funds	440,133	575,762	-	-	-	-	-	-	-	-	-	-	440,133	575,762
Financial investments	817,417	719,336	33,371	40,236	795	10,257	676	623	617	568	830	764	853,706	771,784
Loans to other domestic banks	3,172	-	3,879	-	108	-	-	-	-	-	-	-	7,159	-
Commercial and consumer loans	418,386	292,130	501,375	493,942	1,370,613	1,206,076	923,625	834,367	843,366	761,863	1,133,823	1,024,251	5,191,188	4,612,629
Lines of credit and overdrafts	391,636	317,120	787,546	619,568	661,792	603,689	-	-	-	-	-	-	1,840,974	1,540,377
Residential mortgage loans	4,703	4,695	8,555	8,491	38,587	38,679	241,875	250,773	220,857	228,982	296,920	307,843	811,497	839,463
Other assets	91,477	104,682	2,316	-	388	-	-	-	-	-	-	-	94,181	104,682
Derivatives	73,999	155,253	113,330	97,832	126,743	94,799	161,227	93,638	147,217	85,501	197,919	114,948	820,435	641,971
	2,240,923	2,168,978	1,450,372	1,260,069	2,199,026	1,953,500	1,327,403	1,179,401	1,212,057	1,076,914	1,629,492	1,447,806	10,059,273	9,086,668
Current accounts and other demand deposits	656,065	671,042	-	-	-	-	-	-	-	-	-	-	656,065	671,042
Domestic interbank loans	9,811	8,145	-	-	-	-	-	-	-	-	-	-	9,811	8,145
Savings accounts and time deposits	685,848	555,904	965,308	837,844	1,265,259	1,393,502	25,196	53,997	25,229	54,068	31,263	66,999	2,998,103	2,962,314
External funding	23,424	2,262	25,042	41,784	118,388	84,846	19,489	19,929	19,515	19,955	24,182	24,727	230,040	193,503
Letters of credit	392	587	130	191	1,391	1,910	4,579	5,974	4,585	5,982	5,682	7,413	16,759	22,057
Bonds	9,719	90,681	10,699	9,323	271,985	65,376	687,876	589,581	688,772	590,348	853,498	731,535	2,522,549	2,076,844
Lines of credit and overdrafts	392,717	319,782	784,319	621,782	654,805	607,866	-	-	-	-	-	-	1,831,841	1,549,430
Other liabilities	153,790	169,705	4,347	12,144	8,041	5,846	1,389	5,416	1,391	5,424	1,724	6,721	170,682	205,256
Derivative instruments	89,798	144,565	119,298	94,882	109,037	95,932	154,452	89,824	154,653	89,940	191,640	111,450	818,878	626,593
	2,021,564	1,962,673	1,909,143	1,617,950	2,428,906	2,255,278	892,981	764,721	894,145	765,717	1,107,989	948,845	9,254,728	8,315,184
Net cash flow	219,359	206,305	(458,771)	(357,881)	(229,880)	(301,778)	434,422	414,680	317,912	311,197	521,503	498,961	804,545	771,484
Accumulated net cash flow	219,359	206,305	(239,412)	(151,576)	(469,292)	(453,354)	(34,870)	(38,674)	283,042	272,523	804,545	771,484	1,609,090	1,542,968
Regulatory limit	(577,587)	(553,157)	(1,155,174)	(1,106,313)										
Limit exceeded by	(796,946)	(759,462)	(915,762)	(954,737)										

Regulatory liquidity gap as of December 31, 2018 and 2017, in foreign currency presented in MCH$

	< 1 MONTH		1 - 3 MONTHS		3 MONTHS - 1 YEAR		1 - 3 YEARS		3 - 6 YEARS		> 6 YEARS		TOTAL	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Available funds	147,741	236,876	4,206	-	-	-	-	-	-	-	-	-	151,947	236,876
Financial investments	3,172	125,227	3,879	-	108	-	-	-	-	-	-	-	7,159	125,227
Commercial and consumer loans	70,126	51,322	89,613	75,409	135,637	129,504	102,741	91,019	93,814	83,110	126,123	111,733	618,054	542,097
Lines of credit and overdrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	1,381	-	-	-	-	-	-	-	-	-	-	-	1,381
Derivatives	43,215	48,060	49,736	7,079	58,218	39,238	86,528	57,912	79,009	52,880	106,220	71,092	422,926	276,261
	264,254	462,866	147,434	82,488	193,963	168,742	189,269	148,931	172,823	135,990	232,343	182,825	1,200,086	1,181,842
Current accounts and other demand deposits	-	133,932	-	-	-	-	-	-	-	-	-	-	-	133,932
Domestic interbank loans	-	6,563	-	-	-	-	-	-	-	-	-	-	-	6,563
Savings accounts and time deposits	23,424	125,143	25,042	158,007	118,388	67,279	19,489	-	19,515	-	24,182	-	230,040	350,429
External funding	104,285	2,262	-	41,784	-	84,846	-	19,929	-	19,955	-	24,727	104,285	193,503
Other liabilities	-	25,613	-	-	-	-	-	-	-	-	-	-	-	25,613
Derivative instruments	126,454	90,179	274,712	70,165	48,266	24,722	-	31,910	-	31,952	-	39,594	449,432	288,522
	254,163	383,692	299,754	269,956	166,654	176,847	19,489	51,839	19,515	51,907	24,182	64,321	783,757	998,562
Net cash flow	10,091	79,174	(152,320)	(187,468)	27,309	(8,105)	169,780	97,092	153,308	84,083	208,161	118,504	416,329	183,280
Accumulated net cash flow	10,091	79,174	(142,229)	(108,294)	(114,920)	(116,399)	54,860	(19,307)	208,168	64,776	416,329	183,280	832,658	83,230
Regulatory limit	10,091	79,174												
Limit exceeded by														


To supplement these gap analyses, several ratios are monitored to control the amount of liquid assets that back net cash outflows over a 30-day horizon under stress scenarios, as well as ratios that allow the Bank to ensure an adequate relationship between stable or long-term funding and long-term funding needs.

HEDGE ACCOUNTING

The Bank hedges assets or liabilities in the statement of financial position using derivatives in order to minimize the effects on profit or loss of possible variations in their market value or estimated cash flows.

At the inception of the hedge relationship, the Bank formally documents the relationship between hedging instruments and the hedged item, as well as the hedge's strategies and objectives and the methodologies for testing its effectiveness.

The effectiveness of the hedge relationship is tested using prospective and retrospective evaluations. The hedge is deemed highly effective if the results of the tests are between 80% and 125%.

As of December 31, 2018, the Bank has four hedge accounting strategies to cover the following risks:

1) Cash Flow Hedging Strategy, to hedge the future cash flow risk of UF liabilities arising from bonds placed in UF.

2) Cash Flow Hedging Strategy, to hedge the future cash flow risk of UF assets arising from mortgages in UF.

3) Cash Flow Hedging Strategy, to hedge the future cash flow risk of loans in US$.

4) Fair Value Hedging Strategy, to hedge the risk of volatility in base interest rates on UF, arising from commercial loans placed in UF.

EMBEDDED DERIVATIVES

These derivatives can be embedded in another contractual agreement (or host contract) and, therefore, are accounted for at market price separately from the host contract when it is not recognized at fair value since the characteristics and economic risks of the embedded derivative are not related to the characteristics and economic risks of the host contract.

Currently, the Bank carries at fair value through profit and loss embedded derivatives arising from variable rate mortgage loans that incorporate a fixed rate after a certain amount of time or a rate ceiling used by customers to obtain an option in their favor. These will generate negative effects for the Bank when market rates are above the rate ceiling on these loans. This effect is determined on a daily basis using sophisticated methodologies to evaluate options, and the change in fair value is treated as profit or loss for the year (increases in the theoretical value of that derivative are a loss for the Bank).

Relevant data on these embedded derivatives are as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
Balance MUF mortgage portfolio	61	90
Rate ceiling (average)	7.0%	6.8%
Option value MCH$	0.2	5

V. OPERATIONAL RISK

A. DEFINITION

The Bank and its subsidiaries define operational risk as the risk of losses resulting from inadequate or faulty processes, staff and internal systems, or due to external incidents. This definition includes legal and reputational risks but excludes strategic risks.

Furthermore, loss (write-off) is defined as negative financial effects on the physical, financial or intangible assets of the Bank and its subsidiaries caused by events related to an operational risk. If this event does not generate negative financial effects, it will not be considered "an incident ".

B. MAIN OBJECTIVES AND PRINCIPLES

The objective of operational risk management is to define a framework for managing operational risk in Banco Security and its subsidiaries. This includes establishing principles for identifying, assessing, controlling and mitigating such risk in order to reduce losses from operational risk, thus complying with corporate objectives, its risk appetite and providing a suitable level of exposure to and management of operational risk.

The following principles govern the operational risk management efforts of Banco Security and its subsidiaries:

- Operational risk is defined as a category apart from traditional banking risks and requires proactive management to identify, assess, control and mitigate such risk.
- A clear definition of operational risk must exist and it must be classified based on the guidelines established in the Basel capital agreements and current regulations.
- The Board of Directors and senior management serve an important role in approving and supervising compliance with the operational risk management policy and strategy.
- Specific definitions must exist for operational loss and tolerance levels set by the Bank and its subsidiaries.
- An individual with an independent, specific position should be in charge of the operational risk function.
- Consistency with current regulations and best practices in its regard.

C. OPERATIONAL RISK MANAGEMENT STRATEGY

The operational risk management strategy, carried out by the Operational Risk Division, must be consistent with the volume and complexity of the activities of the Bank and its subsidiaries. To accomplish this, it defines lines of action for operational risk management in the following areas: Products or processes, suppliers, business continuity and information security. These lines are implemented throughout the Bank and its subsidiaries.

The strategy must set a tolerance level for operational risk assumed by the Bank and its subsidiaries that enables it to manage mitigation efforts and monitor risks with exposure greater than or equal to this set tolerance. The strategy must be implemented throughout the entire Bank and its subsidiaries, which means that all levels of personnel must understand and accept their responsibilities regarding the management of this risk.

At a minimum, the strategy should address the following areas: Yearly planning, operational risk models and methodologies and a tool for consolidating all operational risks for the Bank and its subsidiaries.

D. OPERATIONAL RISK STRUCTURE

The Operational Risk Division reports to the Chief Executive Officer.

According to the operational risk policy approved by the Board of Directors, risk management is based on: those responsible for and carrying out processes, who are the primary risk managers; the operational risk department, who is in charge of operational risk management and monitoring; the Board of Directors and the Operational Risk Committee, who are responsible for ensuring that the Bank has an operational risk management framework in accordance with defined objectives and good practices, as well as ensuring that the Bank has the trained personnel, organizational structure, and budget to implement this framework. Three lines of defense model.

E. OPERATIONAL RISK MANAGEMENT

In order to properly manage risk and comply with the objectives defined by the Bank in its Operational Risk Policy, a series of activities have been developed and are described below:

The Operational Risk Management Framework is based on three basic pillars:

- CULTURE:
  Raising awareness of the importance of operational risk management across the entire organization at all levels.

- QUALITATIVE MANAGEMENT:
  Managing by detecting present and potential risks in order to manage them effectively (i.e. avoiding, transferring, mitigating or accepting these risks). Qualitative management is based on the following activities:

  - Database of losses and incidents
  - Identification and self-assessment of operational risks
  - Key risk indicators
  - Critical supplier reviews
  - Project reviews
  - Process reviews
  - Reviews of procedures and operating manuals
  - Others

- Quantitative Management:

  Managing by creating awareness in the organization of the level and nature of operational loss events. This enables the Bank to allocate funds through provisions for expected losses and to efficiently allocate capital for unexpected losses. Quantitative management is based on the following activities:

  - Gathering and managing data.
  - Integrating qualitative and quantitative management.

F. OPERATIONAL RISK MANAGEMENT FRAMEWORK

The Operational Risk Management Framework is applied in the following stages:

- ESTABLISHING THE CONTEXT:

  Setting the strategic, organizational and risk management context within which the process will take place. The Bank must stipulate the criteria for assessing risks and define the analysis structure.

- IDENTIFYING RISKS:

  Associating risks with the numerous processes and/or procedures executed as part of the various activities carried out by the Bank.

- ANALYZING RISKS:

  Specifically analyzing each of the risks detected based on the context set to determine whether that risk has an associated control or requires an action or mitigation plan. This situation will be established in accordance with the Bank's priorities.

- ASSESSING RISKS:

  Assessing each of the risks based on the probability of occurrence and the level of impact.

- MITIGATING RISKS:

  Once risks have been detected and assessed, an analysis will be performed. To accomplish this, the Bank will define an action plan, assign an individual in charge of executing it and set a date for its resolution.

- MONITORING AND REVIEWING:

  Monitoring, reviewing and updating the risk survey and resolution commitments from the person in charge.

- COMMUNICATING AND CONSULTING:

  Communicating and consulting with internal and external stakeholders, as appropriate, in each stage of the risk management process, considering the process as a whole.

- CULTURE:

  Developing various initiatives that help the organization to understand every aspect of operational risk, in order to make the model sustainable and appropriately manage operational risk.


VI. RISK COMMITTEES

In order to correctly manage risks, Banco Security has set up several risk committees, as described briefly below:

A. CREDIT RISK COMMITTEES

COMPOSITION OF CREDIT RISK COMMITTEE:

The Board Credit Committee is made up of three directors, one advisor to the Board, the Bank's CEO, the Risk Division Manager and the Commercial Loan Approval Manager. The Circulating Folder Credit Committee consists of various sales managers and the deputy manager from the appropriate division (Retail or Commercial Banking).

MATTERS ADDRESSED:
These committees are responsible for approving or rejecting the loan applications submitted to the appropriate committee based on the loan amount and conditions.

FREQUENCY:
The Board Credit Risk Committee meets every Tuesday and Thursday (except the second Thursday of each month) while the Executive Credit Risk Committee meets every Wednesday. The Circulating Folder Credit Risk Committee operates mainly on Monday and Thursday mornings.

BOARD INVOLVEMENT:
The Board is highly involved in the credit risk process through the Board Credit Risk Committee. Two directors and the Chairman of the Board sit on this committee, which is the Bank's main credit risk body and is responsible for approving the most important transactions.

B. CREDIT RISK RECLASSIFICATION COMMITTEE

This committee's objective is to review customer risk classifications in light of new developments that may downgrade or upgrade their risk rating provided by the rating system.

This committee meets monthly and is comprised of:

- Chief Executive Officer
- Risk Division Manager
- Commercial Division Manager (depending on the case being assessed)
- Retail Division Manager (depending on the case being assessed)
- Commercial Risk Manager
- Retail Risk Manager
- Commercial Division Agents (depending on the case being assessed)
- Company Control and Monitoring Deputy Manager
- Retail Credit Risk Control and Monitoring Manager

C. WATCH COMMITTEE

This committee is responsible for monitoring and controlling operations and customers by reviewing information on potential future problems (asymptomatic), non-evident variables and evident variables. It also monitors any previously given instructions.

There are three types of committees:

- The BOARD WATCH COMMITTEE for customers with overall BS credit line over MCH$500 (Approx. UF 20,000) Meets quarterly.
- The MONITORING or MANAGER WATCH COMMITTEE for customers with overall BS credit line under MCH$500 (Approx. UF 20,000) Meets every two months.
- The RETAIL WATCH COMMITTEE for retail customers with overall BS credit line over MCH$20 (Approx. UF800). Meets monthly.

D. MODELING COMMITTEE

This committee meets to review and monitor all models used for credit risk management. It is also charged with approving new models and monitoring progress. It also reviews the different credit risk methodologies that the Bank uses or is considering using.

E. RISK COMMITTEE

This committee's objective is to thoroughly review all the risks faced by the Bank and those that may impact it in the future. Based on this review, it generates guidelines and approves action plans in order to meet the objectives outlined in the budget based on the defined risk appetite.

This committee also reviews credit risk policies and processes and lending authority and any proposed amendments.

It also analyzes the matters and resolutions discussed by the remaining credit risk committees.

Lastly, this committee is in charge of presenting topics, committee resolutions and policies to the Board for its approval.

This committee meets monthly and its members are:

- One director
- Chief Executive Officer
- Division managers (Commercial, Risk, Finance, Operations and Planning)
- Commercial Risk Manager
- Retail Risk Manager
- Risk and Project Management Control Deputy Manager


F. FINANCE COMMITTEE

This committee's objective is to jointly evaluate positions in financial investments and risks taken by the Bank and its subsidiaries, defining strategies to be adopted and validating compliance.

Its main duties include reporting on each unit's performance regarding profits and margins versus budget, aligning strategies and escalating investment and divestiture decisions.

The Financial Committee is also responsible for proposing risk management policies and methodologies for managing financial assets to the Board and ensuring compliance with market risk limits.

This committee is comprised of:

- Two Banco Security Directors
- Chief Executive Officer at Banco Security
- Finance Division Manager at Banco Security
- Planning and Control Division Manager at Banco Security
- Chief Financial Officer at Valores Security

G. OPERATIONAL RISK COMMITTEES

COMPOSITION OF OPERATIONAL RISK COMMITTEE

The members of the Operational Risk Committee are a Director (Chairman), Chief Executive Officer (Vice Chairman), Operational Risk Division Manager (Secretary), Operations and IT Division Manager. (Replacement for the Vice Chairman), Operational Risk Division Manager - Secretary, Commercial Banking Division Manager, Retail Banking Division Manager, Finance and Corporate Division Manager, Planning and Control Division Manager, Credit Risk Division Manager, Representative from the Legal Department, Information Security and BCP Officer, Internal Controller, Compliance and Control Deputy Manager - MF, Operational Risk Manager

The Controller for Grupo Security must attend committee meetings but does not have any responsibility for risk management. His or her purpose is to ensure that any potential corrective measures in response to observations on audited areas are properly implemented.

MATTERS ADDRESSED
The committee is also in charge of disseminating the operational risk policy, evaluating identified risks and defining action plans based the Bank's risk profile.

FREQUENCY
The Operational Risk Committee meets regularly, ideally monthly or as otherwise needed.

BOARD INVOLVEMENT
The Board is informed about the implementation of the Operational Risk Policy, as well as the detection of incidents, potential risks and measurements of operational risks (i.e. severity and frequency of loss). New product and service approval.

H. ASSET AND LIABILITY COMMITTEE

This committee is responsible for managing and controlling (1) structural maturity and currency mismatches in the statement of financial position, (2) liquidity and (3) the Bank's financial margin and stability, as well as for (4) defining and controlling capital management policies.

The standing members of this committee are:

- Two directors
- Chief Executive Officer
- Finance and Corporate Division Manager
- Risk Division Manager
- Financial Risk Manager
- Planning and Control Manager
- Trading Desk and Investment Manager
- Distribution Desk Manager
- Asset and Liability Management Desk Manager
- Commercial Banking Division Manager
- Retail Banking Division Manager
- Foreign Trade and International Services Manager

VII. CAPITAL REGULATORY REQUIREMENTS

In accordance with the General Banking Law, the Bank must maintain a minimum ratio of Regulatory Capital to Consolidated Risk-Weighted Assets of 8%, net of required provisions, and a minimum ratio of Basic Capital to Total Consolidated Assets of 3%, net of required provisions. To accomplish this, Regulatory Capital is determined based on Capital and Reserves and Basic Capital with the following adjustments: a) Adding subordinate bonds limited to 50% of Basic Capital and b) subtracting the asset balance of goodwill or premiums paid and unconsolidated investments in companies.

Assets are weighted using risk categories, which are assigned a risk percentage based on the capital needed to back up each asset. There are 5 risk categories (0%, 10%, 20%, 60% and 100%). For example, cash, due from banks and financial instruments issued by the Chilean Central Bank have 0% risk, which means that, in accordance with current standards, no capital is required to back up assets. Property, plant and equipment have 100% risk, which means that a minimum capital equivalent to 8% of the value of these assets is needed.

All derivative instruments traded off-market are taken into account to determine risk assets using conversion factors over notional values, thus calculating the value of the credit risk exposure (or "credit equivalent"). For weighting purposes, "credit equivalent" also considers off-balance sheet contingent loans.


Levels of Basic and Regulatory Capital as of December 31, 2018 and 2017, are as follows:

	CONSOLIDATED ASSETS		RISK-WEIGHTED ASSETS	
	2018 MCH$	2017 MCH$	2018 MCH$	2017 MCH$
BALANCE SHEET ASSETS (NET OF PROVISIONS)				
Cash and due from banks	394,332	497,423	-	-
Transactions pending settlement	35,628	76,271	5,102	50,064
Financial instruments held for trading	106,095	94,439	42,789	26,727
Receivables from resale agreements and securities borrowing	-	-	-	-
Financial derivative instruments	160,726	120,775	115,248	91,888
Loans and advances to banks	10,730	-	5,008	-
Loans to customers	5,245,152	4,753,782	5,000,949	4,506,816
Investments available for sale	751,206	678,542	218,786	269,726
Investments held to maturity	-	-	-	-
Investments in other companies	2,095	2,094	2,095	2,094
Intangible assets	46,624	47,589	33,585	34,550
Property, plant and equipment	22,656	24,084	22,656	24,084
Current tax assets	2,053	1,417	205	142
Deferred tax assets	23,248	20,694	2,325	2,069
Other assets	143,691	112,298	134,678	111,368
OFF-BALANCE-SHEET ASSETS	-			
Contingent loans	462,360	400,966	278,632	240,580
Total risk-weighted assets	7,406,596	6,830,374	5,862,058	5,360,108

	AMOUNT	AMOUNT	RATIO	RATIO
	2018 MCH$	2017 MCH$	2018 %	2017 %
Core capital	577,587	552,967	7.80%	8.10%
Regulatory capital	774,770	751,267	13.22%	14.02%

Regulatory capital is calculated as follows:

	AS OF DECEMBER 31, 2018 MCH$	AS OF DECEMBER 31, 2017 MCH$
CORE CAPITAL	577,587	552,967
Subordinated bonds	210,163	211,283
Tax guarantees	-	-
Equity attributable to non-controlling interests	59	56
Goodwill subsidiaries	(13,039)	(13,039)
Regulatory capital	774,770	751,267

38. SUBSEQUENT EVENTS

On January 11, 2019, Banco Security received Ruling 228 issued by the SBIF, which applied a fine of UF 696 due to events that the SBIF believes breaches Articles 6 and 6 ter of Law 18,010.

Between January 1, 2019, and the date these consolidated financial statements were issued, there have been no other subsequent events that significantly affect them.

39. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors in an ordinary meeting on February 28, 2019.

OMAR K. ABUSADA G.
Deputy Accounting Manager

BONIFACIO BILBAO H.
Chief Executive Officer