2016
ANNUAL REPORT

BANCO security

BANCO security





CHAPTER

01

OUR BANK

Over the last 10 years, Banco Security has posted average annual growth of 11.7%.

FINANCIAL SUMMARY

STAFF HEADCOUNT

TOTAL 2016

→ 1,230

PROFIT FOR THE YEAR 2016

IN MILLIONS OF NOMINAL CHILEAN PESOS

→ 50,606

LOANS • 2016

IN MILLIONS OF NOMINAL CHILEAN PESOS

→ 4,462,332

CONSOLIDATED FINANCIAL SUMMARY BANCO SECURITY

(Figures in millions of Chilean pesos of each year)

PROFIT FOR THE YEAR	2005	2006
Gross Operating Income (Gross Margin)	61,395	65,047
Management Expenses	30,566	36,099
Net Operating Income (Net Margin)	30,830	28,948
Profit for the Year	20,014	20,498

YEAR-END BALANCES	2005	2006
Loans (1)	1,354,331	1,610,864
Financial Investments	388,625	317,441
Interest-Earning Assets	1,742,956	1,928,305
PP&E and Investments in Subsidiaries	23,042	23,445
Total Assets	2,003,297	2,134,186
Current Accounts and Other Demand Deposits	104,331	108,224
Savings Accounts and Time Deposits	1,067,659	1,210,311
Foreign Liabilities	192,116	112,615
Provisions for At-Risk Assets	19,512	16,437
Capital and Reserves (2)	130,259	132,546
Equity	150,273	153,044

RATIOS	2005	2006
Return on Equity	13.3%	13.4%
Return on Total Assets	1.0%	1.0%
Interest-Earning Assets / Total Assets	87.0%	90.4%
Basel Index	12.26	11.59

PROFIT FOR THE YEAR	2007 [3]	2008 [3]	2009	2010	2011	2012	2013	2014	2015	2016
Gross Operating Income (Gross Margin)	85,234	77,397	78,515	99,085	107,953	131,693	128,583	169,925	163,694	238,753
Management Expenses	45,255	50,191	50,885	60,343	67,283	89,848	89,354	105,383	106,622	21,100
Net Operating Income (Net Margin)	39,979	27,206	27,630	38,742	40,670	41,845	39,229	64,542	57,072	217,653
Profit for the Year	27,250	14,332	23,039	33,710	35,020	35,229	32,801	55,908	47,429	50,606

YEAR-END BALANCES	2007 [3]	2008 [3]	2009	2010	2011	2012	2013	2014	2015	2016
Loans [1]	1,735,299	2,084,693	2,189,085	1,988,633	2,614,571	3,021,457	3,340,912	3,656,920	4,056,096	4,462,332
Financial Investments	600,702	796,434	946,676	729,465	791,479	706,586	579,000	716,401	749,103	977,669
Interest-Earning Assets	2,336,001	2,881,127	3,135,761	2,718,098	3,406,050	3,728,044	3,919,912	4,373,321	4,805,199	5,440,001
PP&E and Investments in Subsidiaries	25,720	28,837	23,112	23,316	24,215	25,131	25,646	25,683	28,649	29,211
Total Assets	2,615,515	3,238,938	3,452,372	3,123,518	3,911,365	4,179,893	4,395,535	5,010,707	5,584,680	6,090,826
Current Accounts and Other Demand Deposits	184,270	221,397	255,777	285,464	353,615	395,301	425,450	512,242	583,856	570,018
Savings Accounts and Time Deposits	1,466,375	1,720,452	1,651,418	1,696,711	2,038,762	2,306,100	2,298,991	2,541,909	2,717,668	3,051,820
Foreign Liabilities	160,623	292,091	132,120	155,982	289,277	232,399	193,206	146,429	228,156	158,757
Provisions for At-Risk Assets	18,969	22,730	31,218	37,904	35,858	41,815	46,087	59,044	74,300	80,651
Capital and Reserves [2]	140,083	170,459	174,750	172,737	232,443	248,364	275,562	323,143	360,912	411,175
Equity	167,400	184,865	197,854	206,447	267,463	283,593	308,362	379,051	408,340	461,783

RATIOS	2007 [3]	2008 [3]	2009	2010	2011	2012	2013	2014	2015	2016
Return on Equity	16.3%	7.8%	11.6%	16.3%	13.1%	12.4%	10.6%	14.7%	11.6%	11.0%
Return on Total Assets	1.0%	0.4%	0.7%	1.1%	0.9%	0.8%	0.7%	1.1%	0.8%	0.8%
Interest-Earning Assets / Total Assets	89.3%	89.0%	90.8%	87.0%	87.1%	89.2%	89.2%	87.3%	86.0%	89.3%
Basel Index	10.84	11.48	12.56	12.45	12.03	11.92	12.19	12.47	12.10	13.22

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 BALANCE SHEET INFORMATION AND INCOME STATEMENTS WERE ADAPTED TO THE IFRS FORMAT DEFINED BY THE SBIF IN THE COMPENDIUM OF ACCOUNTING STANDARDS ISSUED UNDER CIRCULAR NO. 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

(Figures in millions of Chilean pesos of each year)

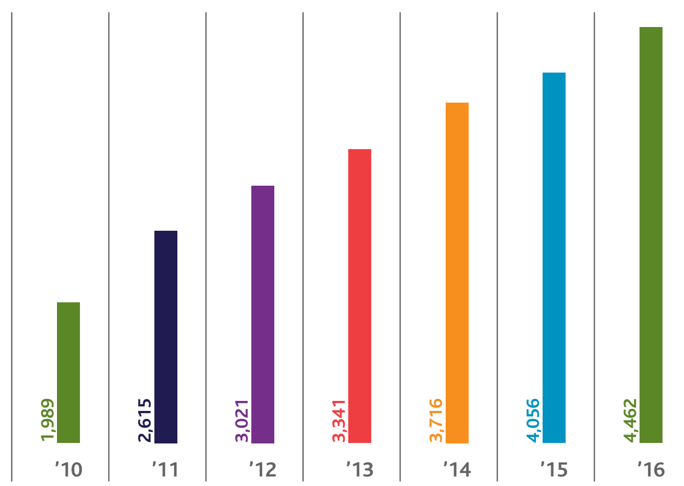
CURRENT ACCOUNTS • 2016

NUMBER

→ 84,597

TOTAL LOANS

(BCH$)



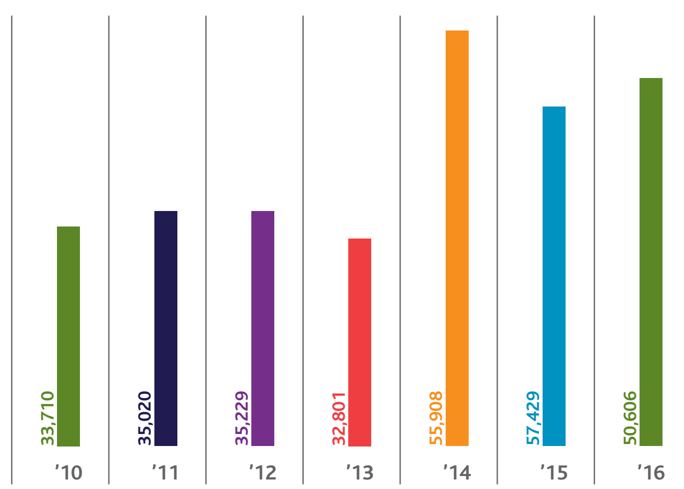
ROE · 2016

PORCENTAGE

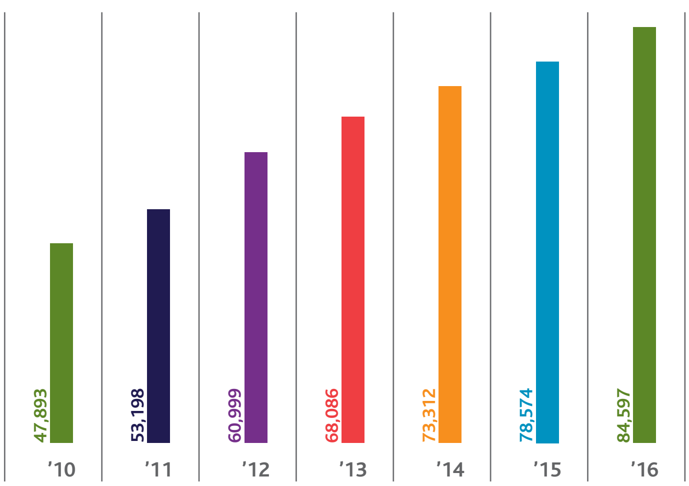
→ 11.0%

PROFIT FOR THE YEAR

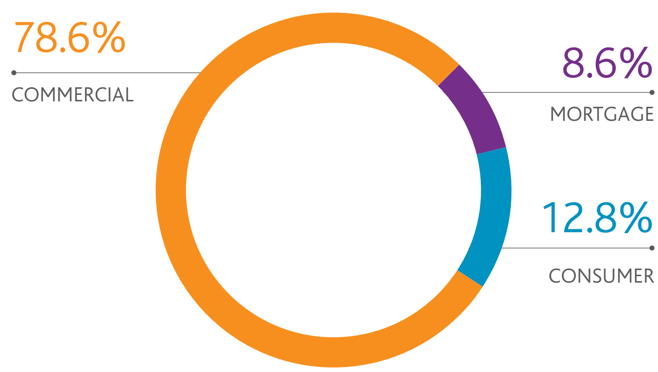
(MCH$)



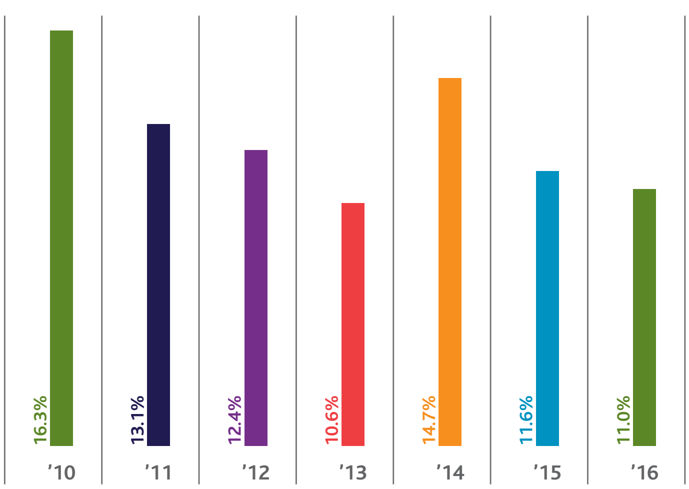
CURRENT ACCOUNTS
NUMBER



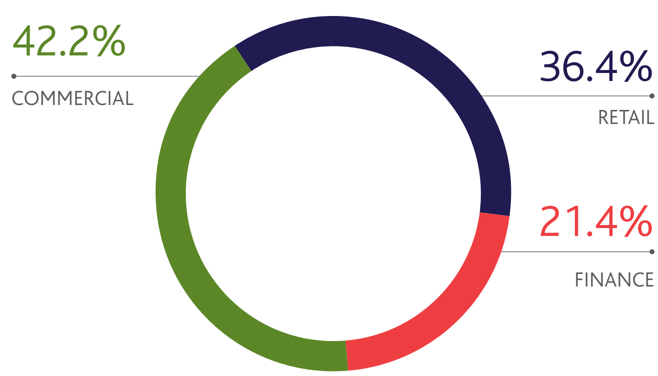
LOAN PORTFOLIO



ROE
%



REVENUE DISTRIBUTION



LETTER FROM THE CHAIRMAN

DEAR SHAREHOLDERS:

It is once again my pleasure to present Banco Security's annual report for 2016.

Regrettably, the year 2016 was marked by weak economic growth, falling investment levels and alarming advances in the legislative agenda, with a clear ideological bias towards strengthening the government's role to the detriment of the private sector.

Furthermore, political tension and a lack of leadership involving the public agenda were a constant throughout the year. Congressional approval of the Labor Reform and continuous setbacks with the Educational Reform did nothing more than generate uncertainty, frustration and public rejection of these badly designed and poorly implemented initiatives. We hope that voices emerge that can provide coherent, rational solutions to the country's problems.

In this challenging environment, Banco Security continued doing business, providing financial products and services with the quality for which it has always been known and for which it is widely recognized by the market. Proof of this lies in the Bank's repeat win of the National Customer Satisfaction Award, which recognizes it as the company in Chile with the best service quality in the category of customers under contract. We are very proud of this award, which encourages us to continue to strive to be the best.

In 2016, Banco Security and Grupo Security proudly celebrated 25 years in business. Ours is a relatively brief history, but one that is full of successes and constant growth. This is the product of a strategic vision and steadfast effort to achieve the objectives we have set along the way.

In terms of earnings, last year Banco Security posted consolidated profit of CH$50,606 million, up 6.7% over the prior year, which compares favorably with the 10.1% decrease seen in the Chilean banking industry as a whole. As of year-end, the Bank had total loans of CH$4,462 billion, an increase of 10.0% over December 2015, while the industry expanded only 5.3%. The Bank had total equity of CH$461,687 million and a Basel Index of 13.22%, which is a clear indication of its solvency. The Bank's subsidiaries (Valores Security Corredores de Bolsa and Administradora General de Fondos Security) reported profit for the year of CH$1,233 million and CH$6,939 million, respectively.

One of the year's most significant accomplishments was the successful implementation of a comprehensive new operating system, which will generate greater efficiencies and operational security for the Bank. I cannot neglect to recognize and extend my thanks for the considerable effort and commitment of the Bank's entire staff, particularly the team that worked directly on the project.

Another distinctive quality of Banco Security and Grupo Security has been their ability to maintain optimum employee relations, strengthening each team member's professional development with policies designed to make work compatible with family commitments. In 2017, we were recognized for the sixteenth year in a row as a Great Place to Work in Chile, placing eighth on this year's ranking.

Once more, I would like to thank our shareholders for their support over the years, which has ensured that we have resources to finance the Bank's continued growth and to generate attractive returns for them. As a result, Grupo Security's stock has increased

“The Bank received the National Customer Satisfaction Award, which recognizes it as the company in Chile with the best service quality in the category of customers under contract.”

in value 13.6% (annual average) since its IPO more than 20 years ago, while the Chilean selective stock index (IPSA) has grown merely 6.5% per year in the same period.

In closing, I would like to express my concern for the situation our country is experiencing. Leading into the final period of the current administration, it is evident that the Chilean populace is deeply disappointed by the many campaign promises that have been broken. This is demonstrated by the systematic rejection of the government by an overwhelming majority of Chileans, as is reflected in public opinion polls.

Unfortunately, no one is addressing this dire situation or the dismal growth levels achieved in 2016, which does not even exceed Chile’s rate of natural increase, and directly impacts society’s most vulnerable sectors. In short, our country is not growing and, along with this, inequality is persistently increasing, as reported by broad political sectors.

We must not settle for these results and instead continue with our quest to achieve growth, which is the only thing that will allow us to make our country a developed nation and give all Chileans access to the kind of benefits such status can provide.

FRANCISCO SILVA SILVA
Chairman
Banco Security

TWENTY-FIVE YEARS IN BUSINESS

STAFF HEADCOUNT

1991
→ 144

2016
→ 1,230

PROFIT

YEAR 1991
→ US$ 7,608 MILLION

YEAR 2016
→ US$ 75,554 MILLION

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.

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.

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

2011

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

2012

Three new branches were inaugurated: La Reina, Moneda and Talca. Retail Banking reached 50,000 current accounts, and Commercial Banking exceeded CH$2 billion in loans.

2013

A new branch was opened in Copiapó in December 2013, and Retail Banking exceeded CH$ 1 billion in loans.

OUR HISTORY

1991

Security Pacific Overseas Corporation sold their 60% shareholding in Banco Security to Grupo Security in June 1991, 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.

2006

The Retail Banking project led to the launch of four new branches in 2006: Plaza Constitución, Alcántara and Estoril in the Metropolitan Region and Viña del Mar in the 5th Region.

2007

Two new branches were opened in 2007: 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.

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

Valores Security merged with the Cruz del Sur brokerage subsidiary in March 2015, and in July an agreement was reached with Banco Penta to acquire their asset management and stock 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

FOR THE SIXTEENTH YEAR IN A ROW, BANCO SECURITY AND SEVERAL OTHER COMPANIES FROM GRUPO SECURITY WERE DISTINGUISHED AMONG THE BEST COMPANIES TO WORK FOR IN CHILE, EARNING EIGHTH PLACE IN THE GREAT PLACE TO WORK RANKING. IN ADDITION TO BEING CAUSE FOR GREAT PRIDE, THIS RECOGNITION MOTIVATES US TO CONTINUE STRENGTHENING THE SECURITY CULTURE, THE COMPANY'S DISTINCTIVE HALLMARK.

CUSTOMER SERVICE EXPERIENCE AWARD

PRAXIS XPERIENCE INDEX HONORED BANCO SECURITY WITH THE SERVICE EXPERIENCE AWARD, A MEASUREMENT BASED ON THE CUSTOMER EXPERIENCE WITH A PRODUCT OR SERVICE THAT EVALUATES THREE COMPONENTS: FUNCTIONAL, OPERATIONAL AND EMOTIONAL. THESE COMPONENTS ARE USED TO DETERMINE WHETHER A SERVICE IS EFFECTIVE, EASY AND SATISFACTORY.

NEARLY 100 BRANDS FROM SERVICE COMPANIES IN CHILE WERE EVALUATED BETWEEN JULY 2015 AND JUNE 2016, INCLUDING BANKS, HEALTH INSURANCE PROVIDERS (ISAPRES), EDUCATIONAL ESTABLISHMENTS, PENSION FUND ADMINISTRATORS (AFPS), MOBILE TELEPHONY AND INTERNET SERVICE PROVIDERS, ETC.

PROCALIDAD AWARD FOR SERVICE QUALITY EXCELLENCE 2016

AS A REFLECTION OF THE BANK'S COMMITMENT TO ITS CORE VALUE OF PROVIDING CUSTOMERS WITH THE BEST SERVICE, BANCO SECURITY ONCE AGAIN EARNED FIRST PLACE IN THE NATIONAL CUSTOMER SATISFACTION AWARD IN THE CATEGORY OF CUSTOMERS UNDER CONTRACT, AN ACCOLADE IT ALSO WON IN 2013 AND 2014. THIS AWARD, WHICH IS GIVEN BY PROCALIDAD IN CONJUNCTION WITH UNIVERSIDAD ADOLFO IBÁÑEZ, RECOGNIZES THE NO. 1 COMPANY IN SERVICE QUALITY IN CHILE.

THE SURVEY MEASURES CUSTOMERS' SATISFACTION WITH COMPANIES IN THE AREAS OF CUSTOMER SERVICE MODEL, PRICE-SERVICE SATISFACTION AND COMPLAINT RATES.

MORNINGSTAR AWARD

THE SECURITY GOLD B SERIES MUTUAL FUND WAS RECOGNIZED BY MORNINGSTAR AS THE BEST CLP MEDIUM TERM BOND FUND.

THE AIM OF THESE AWARDS IS TO REWARD THOSE FUNDS THAT HAVE CONTRIBUTED MOST VALUE TO INVESTORS OVER THE PAST THREE YEARS. THEREFORE, THE CONSISTENCY OF FUND PERFORMANCE OVER THE LONG TERM IS ESSENTIAL TO WINNING THIS RECOGNITION.

SALMON AWARDS 2016 · MUTUAL FUNDS

IN APRIL 2016, ADMINISTRADORA GENERAL DE FONDOS SECURITY WAS RECOGNIZED WITH A SALMON AWARD, GIVEN BY THE FINANCIAL NEWSPAPER DIARIO FINANCIERO AND THE CHILEAN MUTUAL FUND ASSOCIATION.

THE FUND "SECURITY INDEX FUND US" RECEIVED THE AWARD IN THE US EQUITIES CATEGORY.

SALMON AWARDS 2016 · APV

IN NOVEMBER, SEVERAL FUNDS WERE AWARDED APV SALMON AWARDS (FOR VOLUNTARY PENSION SAVINGS FUNDS): "SECURITY INDEX FUND US" IN THE US EQUITIES CATEGORY; "SECURITY GLOBAL MUTUAL FUND" IN THE DEVELOPED EQUITIES CATEGORY; AND "SECURITY GOLD MUTUAL FUND" IN THE DOMESTIC DEBT IN UF OVER 365 DAYS UNDER THREE YEARS CATEGORY.

CHAPTER

02

CORPORATE GOVERNANCE

The Bank is always concerned with incorporating best practices.

BOARD AND MANAGEMENT

BOARD OF DIRECTORS

→ **CHAIRMAN**
Francisco Silva S.

→ **DIRECTORS**
Hernán Felipe Errázuriz C.
Jorge Marín C.
Gustavo Pavez R.
Renato Peñafiel M.
Horacio Pavez G.
Ramón Eluchans O.
Mario Weiffenbach O. (Alternate director)

CORPORATE MANAGEMENT

→ **CHIEF EXECUTIVE OFFICER**
Bonifacio Bilbao H.

→ **CHIEF LEGAL OFFICER**
Enrique Menchaca O.

→ **CHIEF ECONOMIST**
Felipe Jaque S.

→ **CHIEF PLANNING AND OPERATIONS OFFICER**
Manuel Widow L.

→ **CHIEF CULTURE OFFICER**
Karin Becker S.

→ **CHIEF COMPLIANCE OFFICER**
Alfonso Verdugo R.

→ **CHIEF COMPLIANCE OFFICER**
Mauricio Parra L.

SUPPORT AREAS

→ **RISK DIVISION MANAGER**
José Miguel Bulnes Z.

→ **RISK MANAGEMENT MANAGER**
Alejandro Pinto P.

→ **LOAN RESTRUCTURING MANAGER**
René Melo B.

→ **COMMERCIAL LOAN APPROVAL MANAGER**
Alejandro Vivanco F.

→ **RETAIL LOAN APPROVAL MANAGER**
Jorge Herrera P.

→ **FINANCIAL RISK MANAGER**
Antonio Alonso M.

→ **OPERATIONS AND IT DIVISION MANAGER**
Gonzalo Ferrer A.

→ **IT AND PROCESSES MANAGER**
Raúl Levi S.

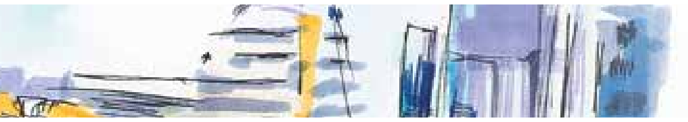
→ **CENTRAL AND BRANCH OPERATIONAL PROCESSES MANAGER**
Jorge Oñate G.

BUSINESS AREAS

COMMERCIAL DIVISION

→ **COMMERCIAL BANKING DIVISION MANAGER**
Christian Sinclair M.

→ **BUSINESS DEVELOPMENT AND PRODUCT MANAGER**
Sergio Cavagnaro R.



LARGE COMPANIES AND REAL ESTATE

→ LARGE COMPANIES AND REAL ESTATE MANAGER
Alejandro Arteaga I.

→ LARGE COMPANIES MANAGER
Alberto Apel O.

→ LARGE COMPANIES MANAGER
Felipe Oliva L.

→ STRUCTURED FINANCE MANAGER
José Antonio Delgado A.

→ PROJECT FINANCE MANAGER
Juan Lago H.

→ BUSINESS MANAGER
José M. Costas F.

→ BUSINESS MANAGER
Sebastián Laso R.

COMPANIES BANKING AND REGIONAL BRANCHES

→ COMPANIES BANKING AND REGIONAL BRANCH AFFAIRS MANAGER
Hernán Buzzoni G.

→ COMPANIES BANKING MANAGER
Francisco Cardemil K.

SPECIALIZED PRODUCTS AND SERVICES

→ SPECIALIZED PRODUCTS AND BUSINESS MANAGER
Andrés Fabregat F.

REPRESENTATIVE OFFICE IN HONG KONG

→ CHIEF REPRESENTATIVE OFFICER IN HONG KONG
Mario Artaza L.

→ REPRESENTATIVE/DIRECTOR
Ewald Doerner C.

RETAIL BANKING DIVISION

→ RETAIL BANKING DIVISION MANAGER
Hitoshi Kamada

→ BUSINESS DEVELOPMENT AND PRODUCT MANAGER
Ramón Bustamante F.

→ BRANCH AFFAIRS MANAGER
Rodrigo Reyes M.

FINANCE DIVISION AND FINANCIAL BANKING

→ FINANCE DIVISION AND FINANCIAL BANKING MANAGER
Nicolás Ugarte B.

TRADE DESK

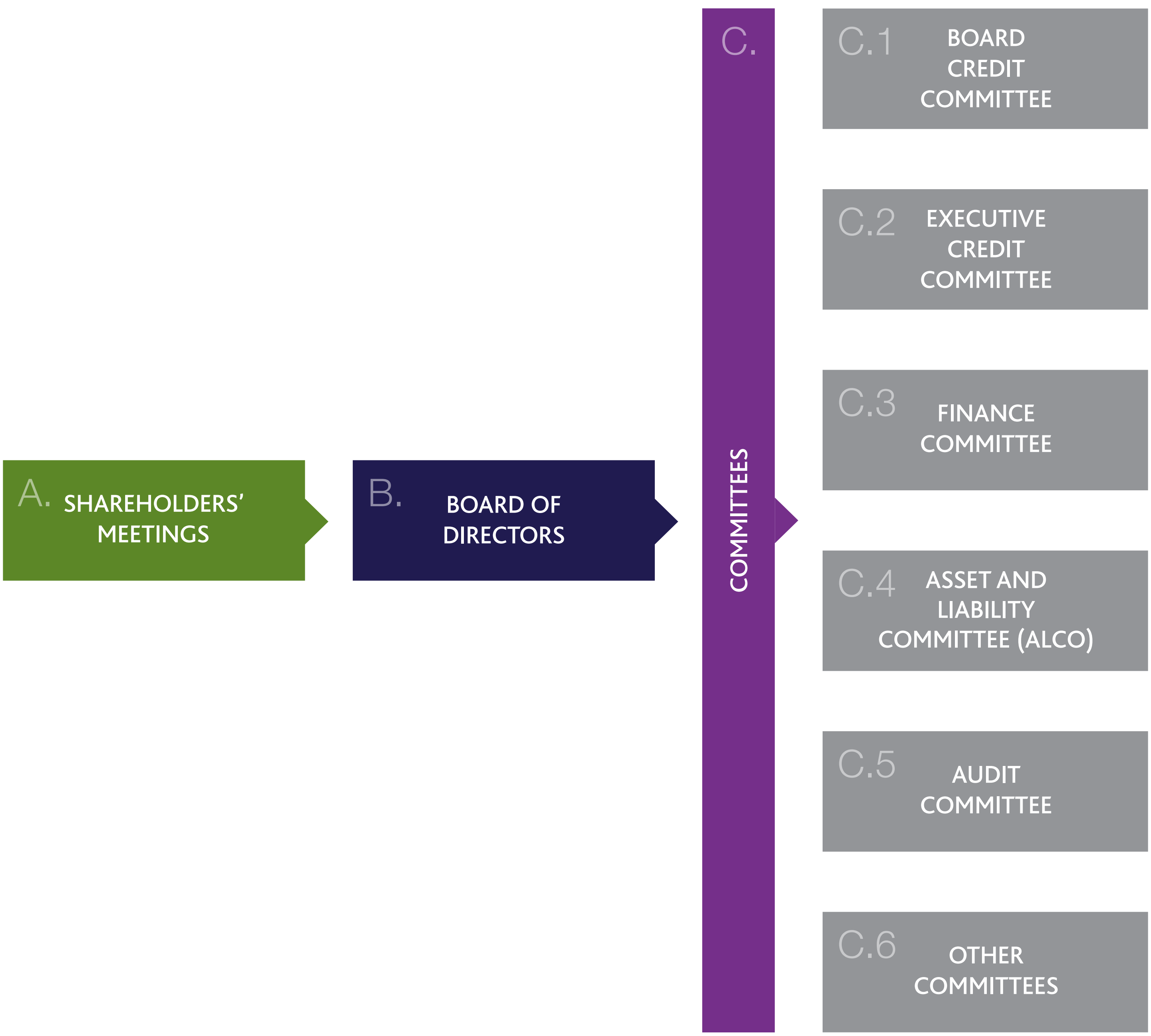
→ ASSET & LIABILITY AND LIQUIDITY MANAGER
Sergio Bonilla S.

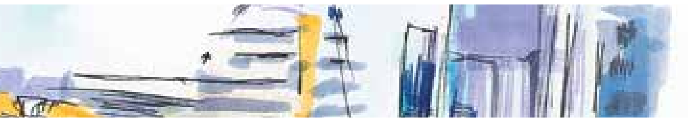
→ DISTRIBUTION AND FINANCIAL BANKING MANAGER
Ricardo Santa Cruz R-T

→ TRADING AND INVESTMENT MANAGER
Ricardo Turner O.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE





A. SHAREHOLDERS' MEETINGS

Shareholders' meetings are the highest level of corporate governance according to 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 Director's 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 one alternate. 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. Currently, the Board has 16 ordinary meetings per year.

The Board is regularly informed about progress and compliance with strategic plans, financial results, compliance with the comprehensive risk management policy, audit compliance and the status of customer complaints, among other matters.

C.1 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.

The members of this committee are:

- Francisco Silva S.
  Chairman
- Ramón Eluchans O.
  Director
- Mario Weiffenbach O.
  Alternate Director
- Bonifacio Bilbao H.
  CEO
- José Miguel Bulnes Z.
  Risk Division Manager

C.2 EXECUTIVE CREDIT COMMITTEE

This committee complements the functions of the Board Credit Committee, and analyzes, evaluates and approves or rejects smaller loan applications, which are also submitted directly by sales areas.

The members of this committee are:

- José Miguel Bulnes Z.
  Risk Division Manager

The remaining members depend on the area to which the customer belongs, and these are:

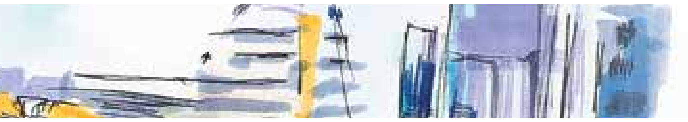
COMMERCIAL BANKING

- Christian Sinclair M.
  Commercial Banking Division Manager
- Hernán Buzzoni G.
  Companies Banking and Regional Branch Affairs Manager
- Alejandro Vivanco F.
  Commercial Loan Approval Manager

RETAIL BANKING

- Hitoshi Kamada
  Retail Banking Division Manager
- Jorge Herrera P.
  Retail Loan Approval Manager

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



C.3 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 Finance Committee is also charged with 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.
  CEO
- Nicolás Ugarte B.
  Finance Division and Financial Banking Manager
- Sergio Bonilla S.
  Asset & Liability and Liquidity Manager
- Ricardo Turner O.
  Trading and Investment Manager
- Manuel Widow L.
  Chief Planning and Operations Officer
- José Miguel Bulnes Z.
  Risk Division Manager
- Antonio Alonso M.
  Financial Risk Manager
- Andrés Pérez L.
  Chief Financial Officer, Valores Security

C.4 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, and
(3) financial margin to ensure that it remains stable.

The standing members of this committee are:

- Francisco Silva S.
  Chairman
- Renato Peñafiel M.
  Director
- Ramón Eluchans O.
  Director
- Bonifacio Bilbao H.
  CEO
- Nicolás Ugarte B.
  Finance Division and Financial Banking Manager
- José Miguel Bulnes Z.
  Risk Division Manager
- Manuel Widow L.
  Chief Planning and Operations Officer
- Antonio Alonso M.
  Financial Risk Manager
- Sergio Bonilla S.
  Asset & Liability and Liquidity Manager
- Ricardo Turner O.
  Trading and Investment Manager
- Christian Sinclair M.
  Commercial Banking Division Manager
- Hitoshi Kamada
  Retail Banking Division Manager

C.5 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 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 Committee Chairman
- Jorge Marín C.
  Director
- Horacio Pavez G
  Director

PERMANENT PARTICIPANTS

- Bonifacio Bilbao H.
  CEO
- Alfonso Verdugo R.
  Controller
- Enrique Menchaca O.
  Chief Legal Officer

Additionally, special participants may be invited to review particular issues.

The committee's roles and responsibilities are:

a) To propose to the Director's Committee, or in its absence to the Board, a short-list of external auditors.

b) To establish a business relationship with the external audit firm selected, and clarify the audit terms and scope before it begins. Any discrepancy or difference in interpretation with respect to the audit terms should be resolved as soon as possible.

c) To propose to the Director's Committee, or in its absence to the Board, a short-list of risk rating firms.

d) To understand and analyze the results of audits and internal reviews.

e) To co-ordinate the work of the internal auditors with the external auditors' reviews.

f) To analyze the interim financial statements and the annual accounts and report to the Board.

g) To analyze 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) To analyze the external risk assessor reports and the procedures they applied.

i) To assess 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) To analyze the adequacy, reliability and effectiveness of information systems, and their value to decision making.

k) To ensure that Company policies adhere to the laws, regulations, and internal standards that the organization must abide by.

l) To understand and resolve conflicts of interest and to investigate fraud and suspicious behavior.

m) To analyze instructions and presentations from regulators and analyze inspection visit reports.

n) To understand, analyze and verify compliance with the annual internal audit program.

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

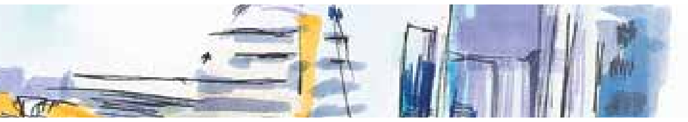
p) To inform the Board of any changes in accounting policy and their effects.

- **q)** To understand the court cases and any other legal contingencies that may affect the Bank.
- **r)** To understand, analyze and resolve any other issues that one or more members may submit.
- **s)** To evaluate the controller of the Banks and subsidiaries on an annual basis and report the results of this evaluation to the Chairman.
- **t)** To escalate to the Board any important or material matters that the committee believes should be resolved by the Board.

The committee met on nine occasions during 2016, eight were scheduled meetings plus an additional meeting, where the following issues were addressed:

- **a)** Received reports on internal audits of the Bank and its subsidiaries, and other associated revisions.
- **b)** Coordinated the work of the Controller with reviews by the external auditors.
- **c)** Received a letter from the SBIF reporting on the results of the 2016 visit.
- **d)** Analyzed the financial statements for 2015, with the assistance of the external audit partner.
- **e)** Analyzed the external auditor's letters regarding internal controls and adequacy of provisions.
- **f)** Analyzed the reports, contents, procedures and scope of the external auditor's reviews, and the action plans to resolve the issues identified.
- **g)** Prepared a Board proposal on external auditors and risk rating agencies.
- **h)** Analyzed the reports and procedures issued by the external risk rating agencies.
- **i)** Analyzed the interim financial statements.
- **j)** Reviewed the changes in standards that affect the Bank and its subsidiaries, and discussed the implications. The same applies for management letters copied to the Controller.
- **k)** Reviewed the court cases and other legal contingencies affecting the Bank.
- **l)** Monitored the annual audit plan for the Bank and its subsidiaries. In December 2016, the Audit Committee reviewed the proposed audit plan for 2017, which was submitted to the Board.
- **m)** Reviewed the internal audit reports.
- **n)** Analyzed progress on the action plan for the Bank and its subsidiaries arising from internal regulatory audit reports, specifically the very high and high priority plans linked to high risks.
- **o)** Reviewed and monitored operational risk losses.
- **p)** Reviewed and analyzed the Management and Solvency Self-Assessment for 2016 RAN Chap. 1-13, at an additional committee meeting.
- **q)** Reviewed personnel movements within the Office of the Controller.
- **r)** Reviewed claims by reporting source and product/service.
- **s)** Heard a presentation on the implementation of the new IBS technology platform.
- **t)** Reviewed relevant incidents and measures taken by management.
- **u)** Heard a presentation on the organization, operation and risks within the Accounting, Compliance and Operational Risk, Finance, Planning and Operations, Risk, Commercial Banking and Retail Banking divisions.
- **v)** Analyzed insurance coverage taken out by the Bank and subsidiaries.
- **w)** Reviewed the action plan reprogramming and risk acceptance approved by the Operational Risk Committee.
- **x)** Regularly monitored commitments related to SBIF Letters following annual inspection visits.

C.6 OTHER COMMITTEES	OBJECTIVES
STRATEGY	DEFINE 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.
STRATEGIC PROJECTS (OPERATIONS AND IT)	MONITOR, ANALYZE, EVALUATE AND COORDINATE PROGRESS ON TECHNOLOGICAL PROJECTS. REVIEW GENERAL MATTERS, PLAN AND MONITOR OPERATIONAL ISSUES.
ANTI-MONEY LAUNDERING	PUBLISH, IMPLEMENT AND MONITOR POLICIES THAT PREVENT ASSET LAUNDERING. ANALYZE CASES.
RISK	REVIEW GENERAL RISK STRATEGIES AND BEHAVIOR WITHIN THE BANK.



C.6 OTHER COMMITTEES	OBJECTIVES
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.
MODELING	REVIEW AND MONITOR EXISTING MODELS USED FOR CREDIT RISK MANAGEMENT. SUBMIT NEW MODELS FOR APPROVAL AND MONITOR PROGRESS.
LOAN RESTRUCTURING	ANALYZE THE MANAGEMENT OF THE LOAN RESTRUCTURING DEPARTMENT RELATING TO RECOVERIES, UNCOLLECTABLES, REVENUE, CREDIT COMMITTEE SUBMISSIONS, AMONG OTHERS. ALSO, IDENTIFY CASES THAT SHOULD BE SUBMITTED TO THE RECLASSIFICATION COMMITTEE.
PHYSICAL SECURITY	REPORT AND ANALYZE THE COMPREHENSIVE MANAGEMENT OF PHYSICAL SECURITY AT THE BANK, ADOPT MEASURES THAT ARE RELEVANT, AND DISSEMINATE AND MONITOR SECURITY POLICIES, REGULATIONS AND PROCEDURES.
NEW PRODUCTS	SUBMIT PROPOSALS FOR NEW PRODUCTS TO DIVISION MANAGEMENT, THE CHIEF EXECUTIVE OFFICER AND GROUP DIRECTORS. PROPOSALS SHOULD INCLUDE AN ASSESSMENT OF THE COMMERCIAL, OPERATIONAL, CREDIT, LEGAL, ACCOUNTING, TECHNOLOGICAL AND SECURITY ISSUES, TOGETHER WITH AN EVALUATION OF OVERALL INCOME AND EXPENDITURES, FOR APPROVAL AND IMPLEMENTATION.

CHAPTER

03

STRATEGY AND MANAGEMENT

The Bank has made great strides in diversifying revenue.

BUSINESS STRATEGY

Banco Security's strategy is aligned with the guidelines issued by Grupo Security, which aims to position itself as a comprehensive provider of financial services across its various business areas.

The Bank's mission is to meet the financial needs of large and medium-sized companies and high-income individuals, by delivering exceptional service in order to build long-term relationships. To accomplish this, the Bank has an exceptional team of professional relationship managers who provide a broad range of products and services, supported by the latest technology in all areas and the backing of Grupo Security, to ensure that our customers are fully satisfied.

In an increasingly competitive and regulated market, Banco Security is strengthening its position as a niche bank, exploring and developing new specializations, which will reinforce its differentiating feature of service excellence, and improve its flexibility and agility to respond to the particular needs of each customer.

The pillars of our business strategy are:

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.
BROAD RANGE OF PRODUCTS AND SERVICES	We have always been concerned with keeping our products and services up to date with respect to other banks. We differentiate ourselves by our ability to adapt each one 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.
EFFICIENT USE OF RESOURCES	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. Therefore, we are constantly searching for new ways to be more efficient.

The entire Bank, and particularly the sales areas, has defined specific strategic objectives and the most appropriate structure to implement them, while ensuring that these are aligned with the Bank's mission and overall strategy.

COMMERCIAL BANKING

- LARGE COMPANIES AND REAL ESTATE
- COMPANIES BANKING AND REGIONAL BRANCHES
- FINANCIAL BANKING
- FOREIGN TRADE AND INTERNATIONAL SERVICES
- LEASING DIVISION

RETAIL BANKING

- PRIVATE BANKING AND PREMIER BANKING
- PREFERENTIAL BANKING
- ENTREPRENEUR BANKING

TRADE DESK

- DISTRIBUTION SERVICES
- TRADING SERVICES
- ASSET MANAGEMENT SERVICES
- ASSET & LIABILITY AND LIQUIDITY SERVICES

ASSET MANAGEMENT

- ADMINISTRADORA GENERAL DE FONDOS SECURITY (AGF),
- VALORES SECURITY S.A. CORREDORES DE BOLSA

COMMERCIAL BANKING

"We want to be the bank for business 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 needs and the best way to meet them. This customer service model divides customers into the following three sub-segments by size and two specialized areas:

→ **REAL ESTATE AREA:**
This area has extensive experience in the market, and provides custom financing to real estate projects.

→ **FINANCIAL ADVISORY AND STRUCTURED FINANCE AREA:**
This area has highly trained professionals and provides advice and financing for project finance, restructuring liabilities, syndicated loans, and corporate acquisitions, among other transactions.

→ COMPANIES BANKING AND REGIONAL BRANCHES

This model targets companies looking for the best overall service for their financial needs. 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:

→ 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 DIVISION

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 with preferential, personalized and transparent service, that differentiates us from our competition"

The target segment for retail banking at Banco Security is high-income individuals (socioeconomic sector ABC1). The customer service model has been separated to match customer profiles in each target segment, as well as to maximize specialization and customer satisfaction:

→ PRIVATE BANKING AND PREMIER BANKING

This model targets high-income and high net-worth customers, who require specialized investment care, extensive advice from their relationship manager executive and a range of products and services tailored to satisfy their requirements.

→ PREFERENTIAL BANKING

This model targets customers who require traditional financial products and services, and expect first-class personalized attention.

→ ENTREPRENEUR BANKING

This model targets entrepreneurs that need both retail and commercial banking services, with annual revenues under UF 35,000, and access to specialized financial products and services provided with Banco Security's hallmark service quality.

The Bank is always focused on providing our customers comprehensive service. It offers a wide variety 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 implemented cutting-edge technologies that provide quick and easy access for customers to their products and services through various online channels.

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 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

This area offers a broad range of products and services that efficiently meet the savings and investment needs of individuals, companies and institutional investors. Inversiones Security has acquired growing importance in the market, with complete solutions for stock broking, advisory services and third-party asset management.

Administradora General de Fondos Security (AGF Security), with over 15 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.

BANCO SECURITY AND ITS ENVIRONMENT

ECONOMIC AND FINANCIAL CONTEXT

GDP GROWTH

GLOBAL · 2016 →	3.0%
GLOBAL · 2015 →	3.2%
UNITED STATES · 2016 →	1.6%
UNITED STATES · 2015 →	2.6%
EURO ZONE · 2016 →	1.7%
EURO ZONE · 2015 →	2.1%
LATIN AMERICA· 2016 →	-0.1%
LATIN AMERICA · 2015 →	-1.0%

DEPRECIATION OF POUND STERLING 2016

-15%

DECREASE IN AVERAGE COPPER PRICE

-12%

The year 2016 marked the beginning of a new global economic cycle influenced by a renewal in political trends, especially in the developed world.

It was the start of a more positive period for emerging markets, favored by a more stable dollar. Although this currency began 2016 at near 10-year maximum levels, it then entered a phase of greater stability and even depreciation (multilateral) in the margin.

However, the U.S. presidential election in November caused strong shocks to outlooks and assets and left behind high uncertainty in the aftermath. The dollar once again gained strength, and emerging markets were the most affected.

GLOBAL GROWTH

In these circumstances, global GDB expanded 2.9% in 2016, falling slightly over 2015 (3.2%). In fact, after several years of divergence between developed and emerging economies, where the former had an advantage, the U.S. economy slowed in 2016 along with countries in the euro zone, while emerging markets maintained their growth pace at around 4%. There were differences between emerging nations. Latin America was the hardest hit region with a fall of -1% in its GDP, affected mainly by the strong 3.5% deterioration in Brazil.

In the United States, GDP expanded 1.6% as compared to 2.6% the prior year, largely affected by drops in investment levels, down 2.2%, as opposed to average growth of 5% in 2015. These

conditions arose amidst strong consumption and labor markets, which are the main drivers of the U.S. economy.

The dollar's stability helped raw material prices recover. Copper rose 22% throughout the year, although it averaged US$ 2.2/ pound, 12% less than 2015. Likewise, the price of WTI crude oil rose from US$ 31 per barrel to US$ 52, even though the average dropped 11% (US$ 43 vs US$ 49 per barrel).

EUROPE

Although GDP growth slowed in the euro zone as compared to 2015 (1.7% vs. 2.1%), broken down by country, the most important nations (Germany, France, Spain and Italy) almost maintained their growth pace, and even accelerated from 0.6% to 1%. In June, the Brexit victory largely surprised the consensus and, although the outcome initially brought volatility, it was quickly reversed thanks to liquidity provided by central banks and the fact that the United Kingdom's exit was seen as less beneficial for the country itself than for others, as reflected in the depreciation of the pound sterling (-15%). The repercussions were definitely more political than economic in nature. However, beyond the one-time fact that the outcome of the Brexit vote was unexpected, it serves as one more sign of a growing political movement that approaches populist and protectionist ideas. These political trends represent one of the main risks today within the euro zone as they limit new reforms that support the growth of the region as a whole.

In this context, the European Central Bank continued to provide monetary stimulus, although it has been demonstrating greater willingness to moderate stimulus packages as inflation expectations have begun to recover.

CHINA

China, in turn, has continued to internalize its reduced growth after reorienting its economy from external trade to internal consumption with major support from economic policies (monetary and fiscal). This has translated to a gradual slowing of GDP growth from 7.7% in 2013 to 7.3% in 2014, 6.8% in 2015 and 6.7% in 2016.

EQUITY AND DEBT MARKETS

A more stable dollar for most of the year led investors to take more risks and, consequently, global stock markets posted a 5.6% rise in dollars (measured by the MSCI index). Emerging countries reported an increase of 8.6% and developed economies a rise of 5.3%. Among emerging nations, Latin America showed a 28% recovery, driven by a rise of over 60% in Brazil, while China fell by -1.4%.

In the second group, U.S. equity markets grew 10%, while their Japanese counterparts expanded 2.5%. In contrast, the euro zone slowed 5.3% during the year.

This greater appetite for risk was also reflected in bond market performances: U.S. bonds with higher risk (high yield) grew 19% and the most secure (high grade) expanded 5.9%. Likewise, both sovereign bonds (EMBI) and corporate bonds (CEMBI) in emerging countries rose by over 10%.

CHILE: DOMESTIC CONTEXT

This year was a period of prolonged domestic weakness for Chile. In the first quarter, the scene was slightly more positive, backed by more favorable financial conditions due mainly to a somewhat weaker dollar. This led to a recovery in commodities prices, improvements in terms of exchange for exporting countries, capital inflows to emerging economies, etc. However, the second, third and fourth quarters confirmed that the local economy's sustained weakness had extended into 2016. In figures, the year ended with GDP growth of 1.5% over 2015.

SPENDING

From a spending perspective, deceleration was mostly in response to investment, while private and government consumption reported slight growth. Therefore, the gross formation of fixed capital has been declining from its peak at the end of 2012, ending 2016 at practically the same level as 2015. The reasons for this meager performance include a mature mining investment cycle and continued weak business expectations.

GROWTH BY INDUSTRY

Broken down by industry, the fishing sector boasted an increase of 5.7%, following a reduction of 3% in 2015. The transport industry also performed well, up 4%, while the utilities and agriculture and livestock sectors grew 3.2% and 3.1%, respectively. In contrast, with respect to the tradable sector, manufacturing and mining industries contracted -3% and -1.5%, respectively.

This weak economic performance translated into a gradual deterioration in the labor market. Job creation grew by 1.2%, although in part supported by public sector recruitment. The workforce expanded by 1.5% over the entire year, with the average unemployment rate increasing from 6.2% to 6.5%.

FOREIGN TRADE

Exports totaled US$ 60 billion, equivalent to a decrease of -3.7% compared to 2015. This comprises falls of -7% in mining exports (copper -9%) and -2.3% in industrial exports, partially offset by an 11% rise in agricultural exports. However, export volumes expanded 2% since the -3% contraction in copper volumes was offset by an increase of 6% in other exports.

Imports declined in value (13%) reaching only US$55 billion, arising from an abrupt fall in oil imports (-21%), other fuels (-11%) and consumer goods (-1%), and no change in capital goods. The volume of imported goods fell by 2%. With that, the year-end balance of trade was a positive US$ 4,600 million.

After the slightly negative GDP balance in 2015 of -2.2%, the fiscal result for the year closed with a greater deficit of -3.2% of GDP, as a result of the slowdown in economic activity and the fall in copper prices, which reduced tax revenue.

PRICE INDEXES

The CPI was up 2.7% by the end of the year measured over the prior twelve months. A large part of this behavior was in response to the deceleration of the tradable component (given the appreciation of the Chilean peso), in a context of slight moderation of the non-tradable segment (deceleration in salaries, rising unemployment). The underlying indicators CPIX (standard CPI excluding fuel, fresh fruits and vegetables), CPIX-1 (CPIX excluding other volatile prices), and IPCSAE (CPI excluding food and energy) closed at 2.9%, 2.5% and 2.8%, respectively.

REFERENCE INTEREST RATES

Although the Chilean Central Bank did not modify its reference interest rate (MPR) in 2016, the context of prolonged economic weakness—growing below potential once again—together with swiftly decelerating inflation, led the institution to shift from a restrictive bias early in the year to a neutral bias mid-year and an expansionary bias towards the end.

EXCHANGE RATES

During 2016, the Chilean peso exchange rate—with some ups and downs—followed the downward trend exhibited by the dollar at the global level. At the beginning of 2016 the Chilean peso exchange rate was around CH$720 per USD, and it finished the year around CH$670, thus appreciating by 7%.

GDP GROWTH

1.5%

DROP IN EXPORTS

-3.7%

CURRENCY APPRECIATION (CLP/USD)

7%

MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015 (P)	2016 (P)
GDP (MUS$)	172	218	251	265	277	259	241	245
GDP per Capita (US$)	10,180	12,726	14,542	15,240	15,781	14,608	13,480	13,601
GDP (% change)	-1.0	5.8	5.8	5.4	4.1	1.8	2.3	1.5
Domestic Spending (% change)	-5.7	13.5	9.4	7.3	3.6	-0.3	2.0	1.2
Private Consumption	-0.8	10.8	8.9	6.1	5.5	2.4	1.9	2.1
Fixed Capital Investment	-12.1	11.6	15.0	11.6	2.2	-4.2	-1.5	0.1
Exports (% change, in real terms)	-4.5	2.3	5.5	0.1	3.3	1.1	-1.9	2.2
Imports (% change, in real terms)	-16.2	25.5	16.0	4.8	2.1	-5.7	-2.8	-3.0
Global Growth PPP (%)	0.0	5.4	4.1	3.4	3.3	3.5	3.2	2.9
Terms of Trade (2008 = 100)	105.1	123.3	123.0	117.3	113.9	111.9	106.9	104.2
Copper Price (average US$ /pound, in cents)	234	342	400	361	332	311	250	221
WTI Oil Price (average US$/per barrel)	62	79	95	94	98	93	49	43
Federal Funds Rate (Y/E, %)	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.8
180-day LIBOR Rate (Y/E, %)	0.4	0.5	0.8	0.5	0.3	0.3	0.8	1.4
10-year U.S. Treasury Bonds (Y/E, %)	3.8	3.3	1.9	1.8	2.9	2.2	2.2	2.5
Euro (Y/E, US$)	1.43	1.34	1.30	1.32	1.37	1.21	1.09	1.05
Yen (Y/E, ¥/US$)	93.0	81.1	76.9	86.8	105.3	119.8	121.7	116.0
Balance of Trade (MUS$)	15.4	15.9	11.0	2.3	1.7	6.3	3.5	4.6
Exports (MUS$)	55.5	71.1	81.4	77.8	76.4	74.9	62.2	59.9
Imports (MUS$)	40.1	55.2	70.4	75.5	74.7	68.6	58.7	55.4
Current Account (MUS$)	3.5	3.8	-3.1	-9.4	-10.3	-3.3	-4.8	-4.4
Current Account (% of GDP)	2.0	1.7	-1.2	-3.5	-3.7	-1.3	-2.0	-1.8
Total Savings (Domestic + External), % of GDP	20.3	22.3	23.7	25.5	24.4	22.2	22.4	22.4
Gross Domestic Savings	22.5	24.3	22.9	22.4	21.1	21.3	20.7	20.4
Central Government	-2.4	1.4	3.2	2.5	1.0	0.1	-0.3	-2.0
Private Sector	24.9	22.9	19.7	19.9	20.1	21.1	21.0	22.4
External Savings (Current Account Deficit)	-2.2	-2.0	0.8	3.2	3.3	0.9	1.6	2.0
Central Government Balance (% of GDP)	-4.2	-0.4	1.3	0.6	-0.6	-1.6	-2.2	-3.2
CPI Dec-Dec (%)	-1.4	3.0	4.4	1.5	3.0	4.6	4.4	2.7
Underlying CPI (CPIXfn) Dec-Dec (%)	-1.8	2.5	3.3	1.3	2.4	5.1	4.7	2.9
Inflationary Trend (CPIX1fn) Dec-Dec (%)	-1.1	0.0	2.5	1.8	2.5	4.6	4.7	2.5
Chilean Central Bank International Inflation (% average)	-7.2	6.0	9.9	-0.2	0.4	-1.1	-9.8	-2.7
Monetary Policy Rate, TPM (Y/E, %, in CH$)	0.5	3.3	5.3	5.0	4.5	3.0	3.5	3.5
BCP-10 365d Bonds (Y/E, % in CH$)	6.4	6.1	5.3	5.6	5.2	4.4	4.7	4.5
BCU-10 365d Bonds (Y/E, % in UF)	3.3	2.9	2.7	2.6	2.2	1.5	1.6	1.5
Official Exchange Rate (Y/E CH$/US$)	506	468	521	479	524	607	707	667
Official Exchange Rate (avg, CH$/US$)	560	510	484	486	495	570	654	677
Job Growth (%)	0.1	7.4	5.0	1.9	2.1	1.5	1.6	1.2
Labor Force Growth (%)	1.9	4.2	3.8	1.1	1.6	2.0	1.4	1.5
Unemployment Rate (average %)	10.8	8.1	7.1	6.4	5.9	6.4	6.2	6.5
Salary Growth in Real Terms (average %)	3.8	2.2	2.6	3.4	3.9	2.2	1.8	1.5
External Debt (% of GDP)	19.6	14.3	13.8	15.3	13.5	14.0	18.3	22.6
Total Net External Debt (MUS$)	22.6	29.6	31.7	43.9	39.2	38.4	43.2	47.5
Total Net External Debt (% of GDP)	13.1	13.6	12.6	16.5	14.2	14.8	17.9	19.4
Total Net External Debt (% of Exports)	35.3	36.0	33.5	48.6	44.2	44.7	59.9	68.5
Net International Reserves (MUS$)	25.4	27.9	42.0	41.6	41.1	40.4	38.6	40.5

THE BANKING INDUSTRY

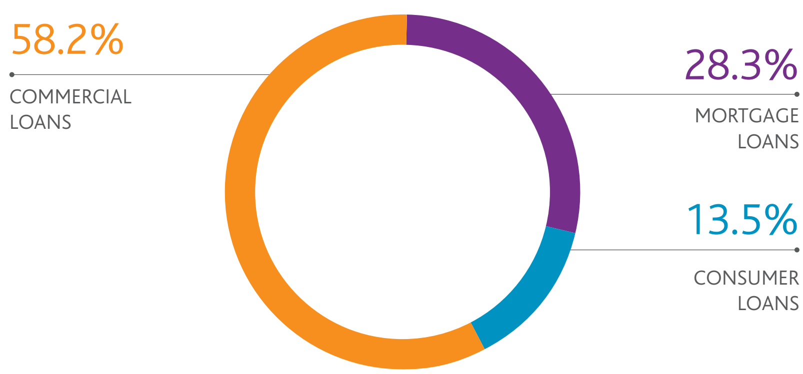
LOANS

Total industry loans reached CH$149,556,407 million at the close of 2016 (CH$140,932,918 million excluding foreign subsidiaries of local banks), which represents growth of 5.34% compared to 2015 (5.27% excluding foreign subsidiaries of local banks). This is below the growth seen in 2015 (12.8%), which is explained by economic deceleration, falling exchange rates and Scotiabank's purchase of a loan portfolio in 2015, among other factors.

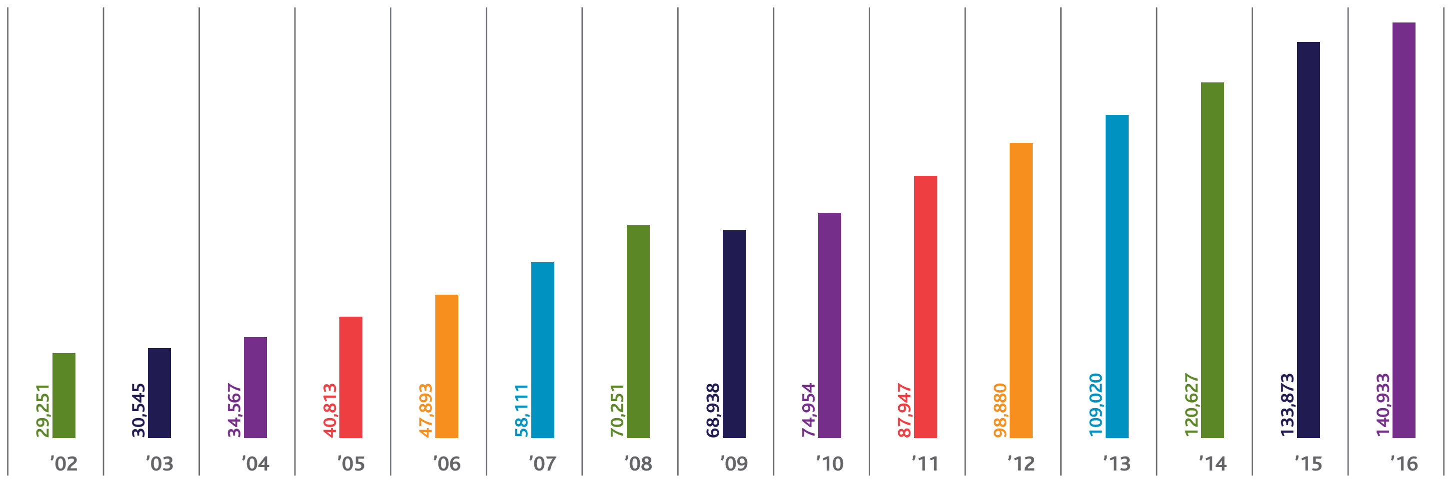
Broken down by type of loan, this growth can be explained by increases of 9.4% in mortgage loans, 6.1% in consumer loans and 3.4% in commercial loans (excluding foreign subsidiaries of local banks these percentages are: 9.5%, 6.7% and 3.0%, respectively).

The distribution of total loans (excluding foreign subsidiaries of local banks) as of year-end 2016 is illustrated in the following figure:

LOAN PORTFOLIO
EXCLUDING FOREIGN SUBSIDIARIES OF LOCAL BANKS



TOTAL INDUSTRY LOAN GROWTH
(BCH$)

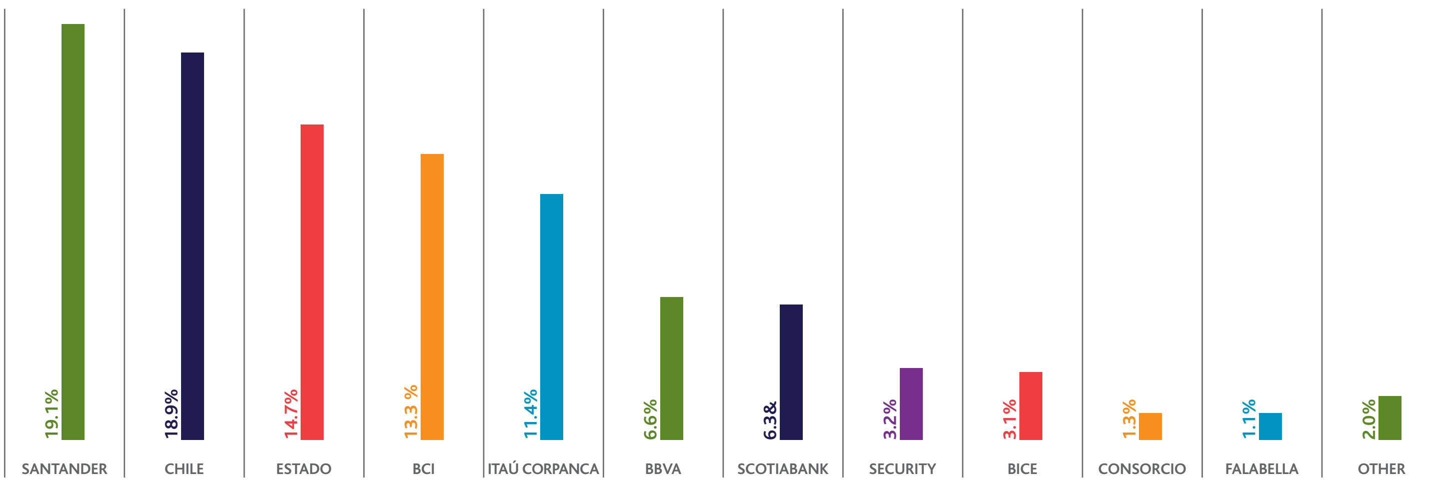


SOURCE: SBIF
NOTE: EXCLUDES LOANS AND ADVANCES TO BANKS AND FOREIGN SUBSIDIARIES OF LOCAL BANKS. ALSO, CONTINGENT LOANS WERE EXCLUDED FROM HISTORICAL LOANS, AS THESE MUST BE EXCLUDED WITH EFFECT FROM JANUARY 2008, IN ACCORDANCE WITH NEW STANDARDS.

The three largest banks by market share are: Banco de Chile, Santander and BCI, which account for 51.84% of total industry loans (excluding foreign subsidiaries of local banks), up from their combined market share of 50.12% in 2015. As of December 2016, Banco Security had a market share of 3.17%, excluding loans and advances to banks and foreign subsidiaries of local banks, reflecting an increase of 3.03% over the prior year.

MARKET SHARE

DECEMBER 2016 · EXCLUDING FOREIGN SUBSIDIARIES OF LOCAL BANKS



SOURCE: SBIF

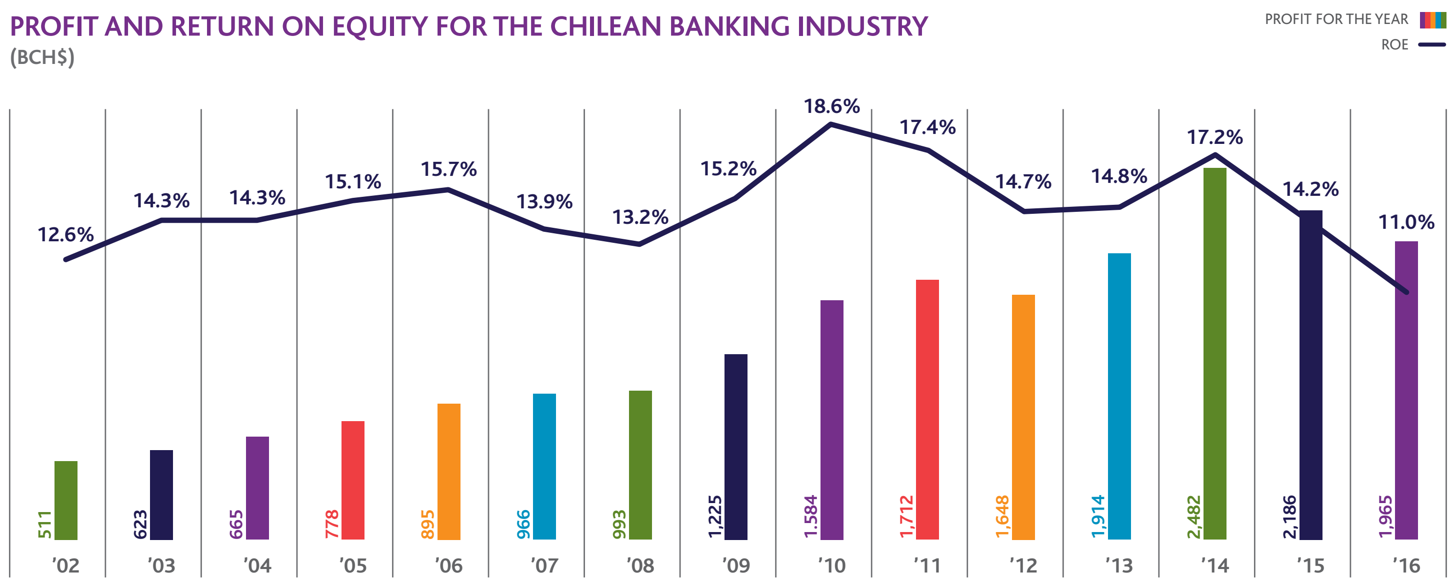
RESULTS

The banking industry posted profit for the year ended December 31, 2016, of CH$ 1,964,924 million (approximately US$ 2.9 billion), which represents a nominal contraction of 10.1% over 2015. This negative change in results can be explained primarily by increased operating expenses (5.4%) and practically no variation in the net interest margin (0.9%). Likewise, the gross operating margin fell 0.6%, explained by a decrease in net financial operating income (-60.6%) and an increase in other operating expenses (42.8%, basically due to an increase in contingency provisions), which were only partially offset by an increase in net foreign exchange transactions.

Total equity grew by 15.5% in the year, reaching CH$17,803 billion, giving a return on equity of 11.04%, which is less than the 14.18% recorded last year. Meanwhile, return on total assets was 0.93% (1.07% for the previous year). These indicators were negatively affected by the merger of Itaú and Corpbanca (April 2016), which resulted in a decrease in system profit and an increase in its capital base. A group of banks reported losses for the year 2016 totaling MCH$45,179.

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

PROFIT AND RETURN ON EQUITY FOR THE CHILEAN BANKING INDUSTRY
(BCH$)

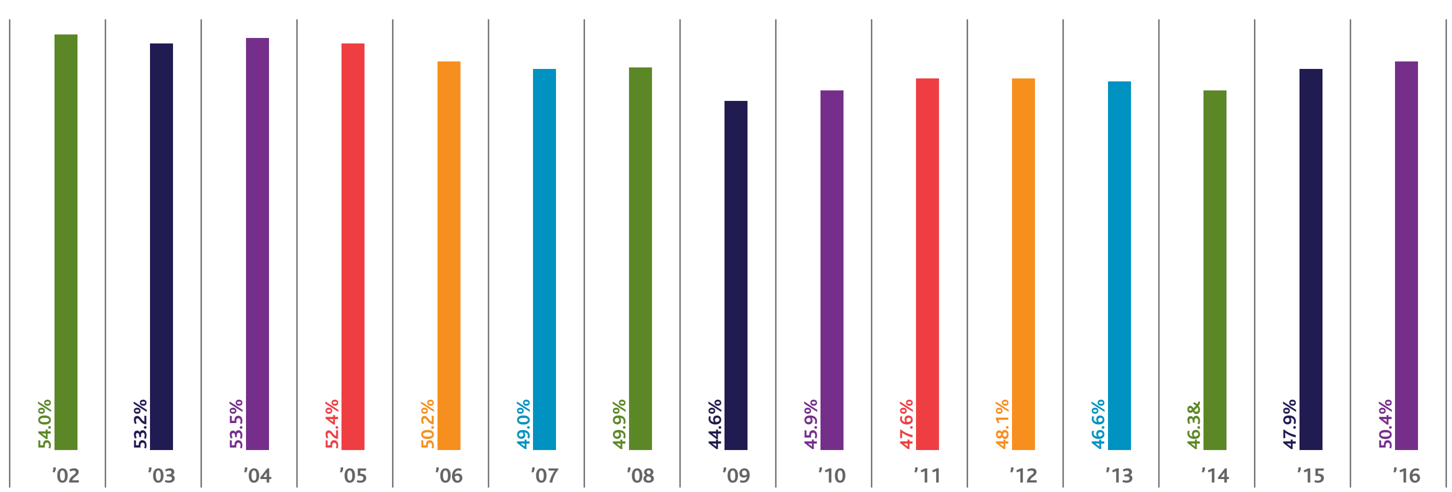


SOURCE: SBIF

OPERATING EXPENSES

Expenses for 2016 increased by 5.4% over 2015, explained mainly by increases in depreciation expenses (20.2%), payroll and personnel expenses (6.0%), and, to a lesser extent, administrative expenses (1.8%). This growth in expenses, combined with the fall in gross operating income (-0.6%), resulted in a deterioration in the efficiency ratio for the financial sector (measured as operating expenses divided by total gross operating income), which rose from 47.9% in 2015 to 50.4% in 2016.

EFFICIENCY RATIO
%



SOURCE: SBIF

Banco Santander remained the most efficient among the large and mid-sized banks, with a ratio of 39.9%, up from the previous year of 40.5%, followed by Banco de Chile with an efficiency ratio of 44.6% (42.7% for the previous year). Among the mid-sized banks, Bice stood out with 48.7%, followed by Scotiabank with 50.5% and BBVA with 55.9% (Banco Security had 59.3%).

RISK

The risk ratio for the financial sector was 2.50% of loans at the end of December 2016, a deterioration in relation to 2015 when it was 2.38%. Provisions as a percentage of commercial loans were 2.42%, while mortgage and consumer loan provisions reached 0.94% and 6.19%, respectively.

The ratio of nonperforming loans to total loans has steadily declined since December 2011. The ratio for the financial sector (total portfolio) reached 1.85% as of year-end 2016 (1.86% in 2015). Broken down by type of loan, this figure was 2.00% for consumer loans (2.08% in 2015), 2.71% for mortgage loans (2.69% in 2015) and 1.46% for commercial loans (1.47% in 2015).

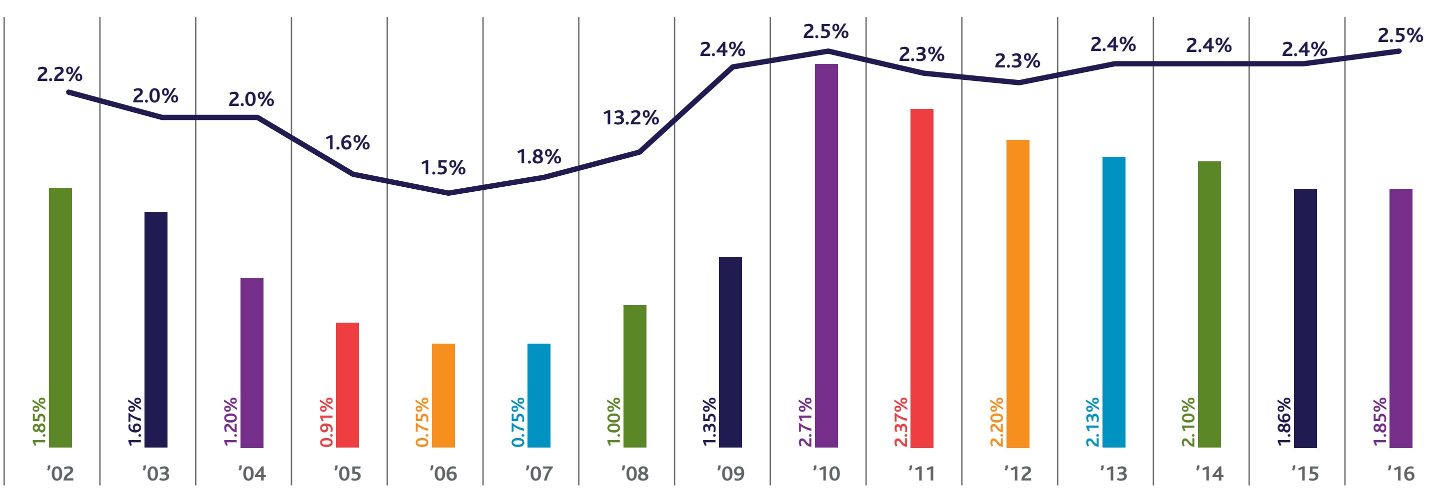
CREDIT RISK RATIOS	DEC-12	DEC-13	DEC-14	DEC-15	DEC-16
LOAN LOSS PROVISIONS / TOTAL LOANS	2.27%	2.39%	2.42%	2.38%	2.50%
NONPERFORMING LOANS(1) / TOTAL LOANS EXCLUDING LOANS AND ADVANCES TO BANKS	2.20%	2.13%	2.10%	1.86%	1.85%
COMMERCIAL LLP / COMMERCIAL LOANS	2.00%	2.20%	2.36%	2.38%	2.42%
RETAIL LLP / RETAIL LOANS	2.77%	2.78%	2.59%	2.44%	2.67%
MORTGAGE LLP / MORTGAGE LOANS	0.79%	0.75%	0.70%	0.70%	0.94%
CONSUMER LLP / CONSUMER LOANS	6.36%	6.31%	6.11%	5.84%	6.19%

SOURCE: SBIF
(1) NONPERFORMING LOANS: A STRESSED MEASUREMENT OF THE FORMER PAST-DUE PORTFOLIO INDICATOR. INCLUDES THE TOTAL AMOUNT OF THE NONPERFORMING LOAN (> 90 DAYS PAST DUE) EVEN WHEN ONLY ONE OR SOME LOAN INSTALLMENTS (PRINCIPAL AND/OR INTEREST) ARE DELINQUENT. THEY ARE ALSO PART OF THE IMPAIRED PORTFOLIO AND PUBLISHED BEGINNING JANUARY 2009.

RISK RATIO FOR CHILEAN BANKING INDUSTRY

%

NON-PERFORMING LOANS (FORMERLY PAST-DUE LOANS) / TOTAL LOANS
PROVISIONS / LOANS



SOURCE: SBIF

BANCO SECURITY MANAGEMENT RESULTS

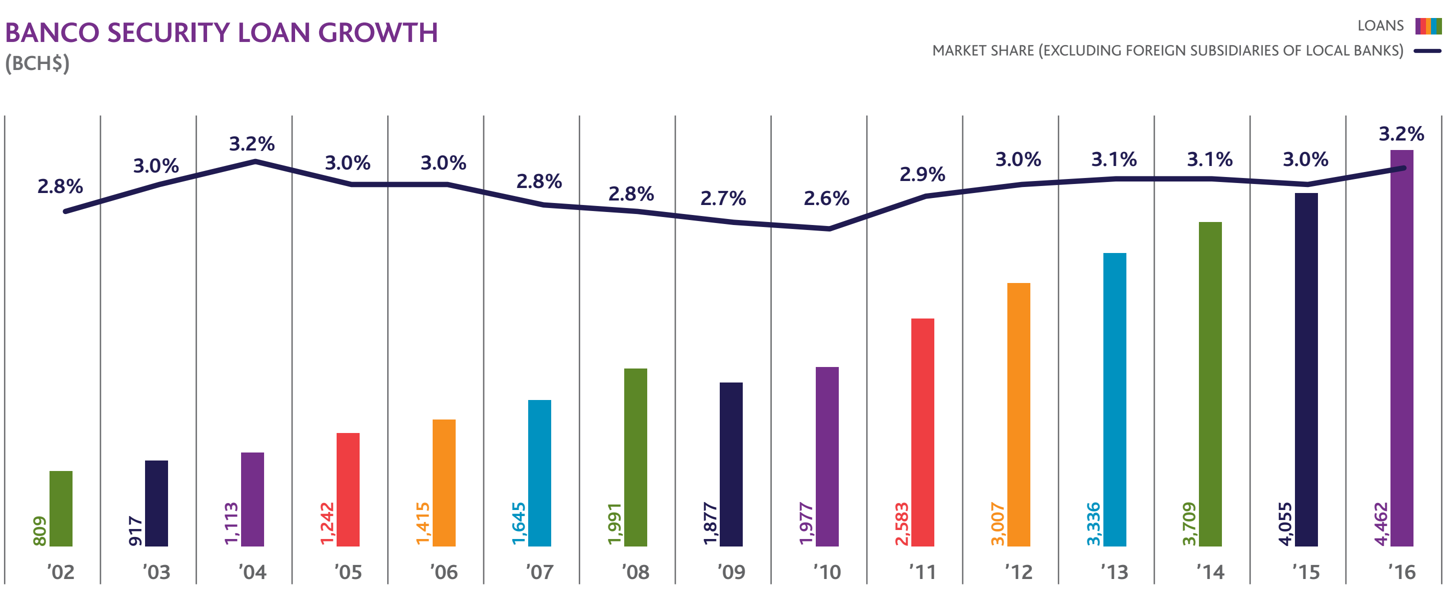
LOANS

Banco Security has reported consistent growth in loans in recent years, boasting an accumulated growth rate above the industry. In other words, in the last five years, Banco Security's loan portfolio expanded 11.5%, while the industry grew 9.5% (excluding foreign subsidiaries of local banks).

As of year-end 2016, the Bank had total loans of CH$4,462 billion (excluding loans and advances to banks), ranking eighth among Chilean banks (industry figures exclude loans and advances to banks and foreign subsidiaries of local banks), with 10.0% growth during the year while the industry as a whole expanded 5.3%.

The Bank's market share has gradually increased, posting 3.17% in 2016 (3.07% in 2015), excluding foreign subsidiaries of local banks. Loan growth can be explained by increases of 11.8% in commercial loans, 5.8% in consumer loans and 2.9% in mortgage loans.

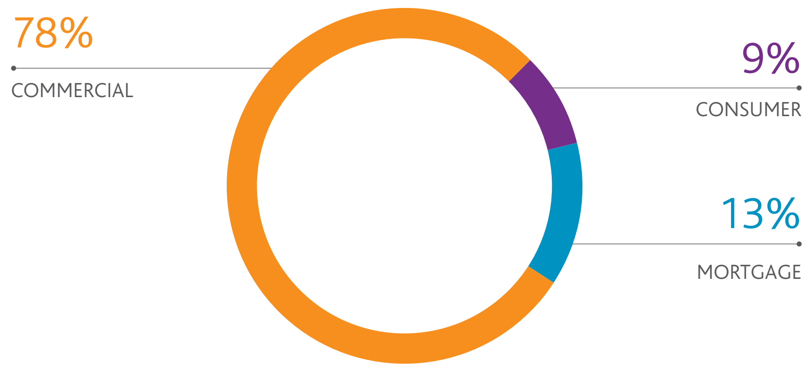
BANCO SECURITY LOAN GROWTH
(BCH$)



SOURCE: SBIF
NOTE: CONTINGENT LOANS WERE EXCLUDED FROM HISTORICAL LOANS, AS THESE MUST BE EXCLUDED WITH EFFECT FROM JANUARY 2008, IN ACCORDANCE WITH NEW STANDARDS. ALSO EXCLUDES LOANS AND ADVANCES TO BANKS.

The loan portfolio as of December 31, 2016, was similar to the portfolio as of December 31, 2015, and is illustrated in the following figure:

PORTFOLIO COMPOSITION
2016



SOURCE: SBIF

RESULTS

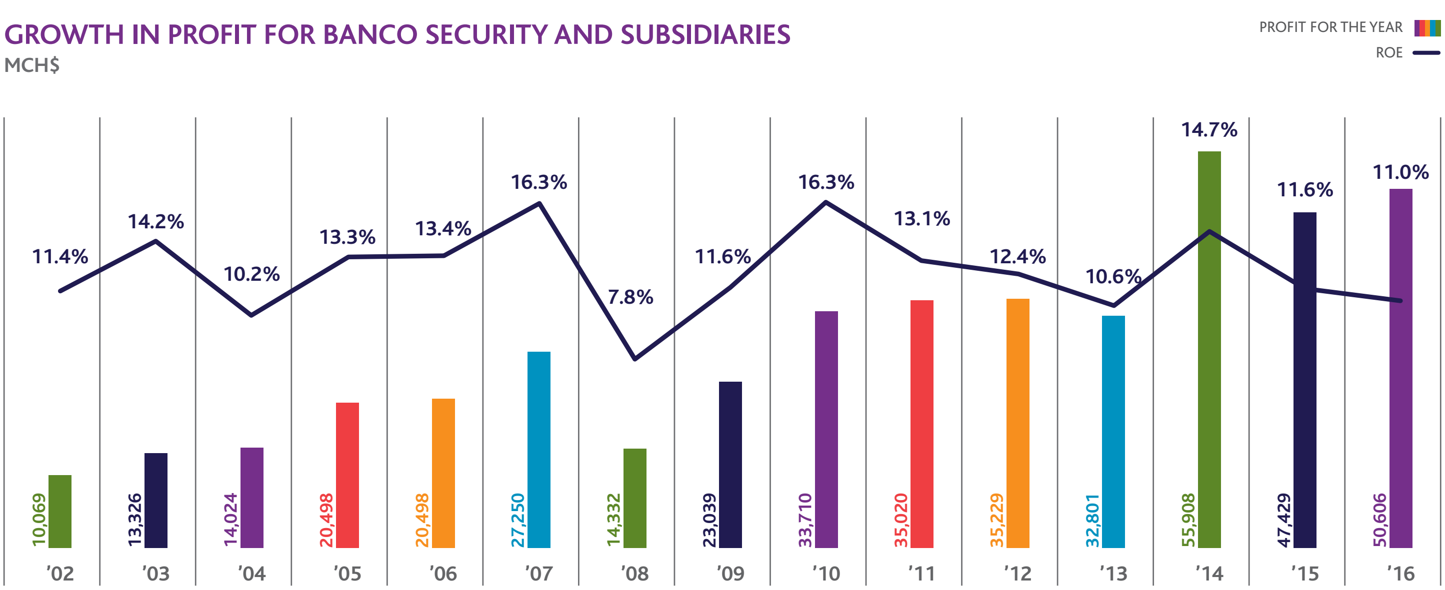
Profit for the year 2016 for Banco Security and its subsidiaries amounted to CH$50,606 million, up 6.7% from last year. Profit by business segment is disclosed in Note 5 to the financial statements. There is a greater contribution from the Commercial Banking Division of MCH$22,621, explained by a 76.9% drop in loan losses. This was partially offset by reduced contributions from the Retail Banking Division of MCH$3,705 (-5.6%), the Financial Banking Division of MCH$770 and the Bank's subsidiaries of MCH$2,285 (-21.8%).

Our operating expenses rose by 31.6% (compared to an industry average of 5.4%), due mainly to technological development expenses and greater depreciation because of an adjustment in accounting policies, as well as an increase in transaction volumes.

In addition, gross operating income was affected by significant impairment of intangible assets, which explains how the efficiency ratio reached 59.3%. Excluding these effects, the efficiency ratio would have been 46.5%.

The Bank's return on equity was 11.0% (compared to 11.6% in 2015), ranking us ninth in the industry.

GROWTH IN PROFIT FOR BANCO SECURITY AND SUBSIDIARIES
MCH$



SOURCE: SBIF

SUBSIDIARIES

The subsidiaries consolidated by Banco Security—Valores Security S.A. Corredores de Bolsa (99.88%) and AGF Security S.A. (99.99%)—contributed profit of CH$8,170 million in 2016, a decrease of 21.8% over last year.

The process of integrating and merging the Banco Penta subsidiaries (Penta Administradora General de Fondos S.A and Penta Corredores de Bolsa S.A.) with Administradora General de Fondos Security S.A., and Valores Security S.A. Corredores de Bolsa was successfully completed in 2016.

AGF Security posted profit of CH$6,939 million and a market share of 6.0% at the close of 2016, which was very similar to the 5.9% at the close of 2015. Valores Security achieved a market share of 5.7% by trading value, ranking it sixth by share trading value on the Santiago and Electronic Stock Exchanges, and reported profit of CH$1,233 million at the close of 2016.

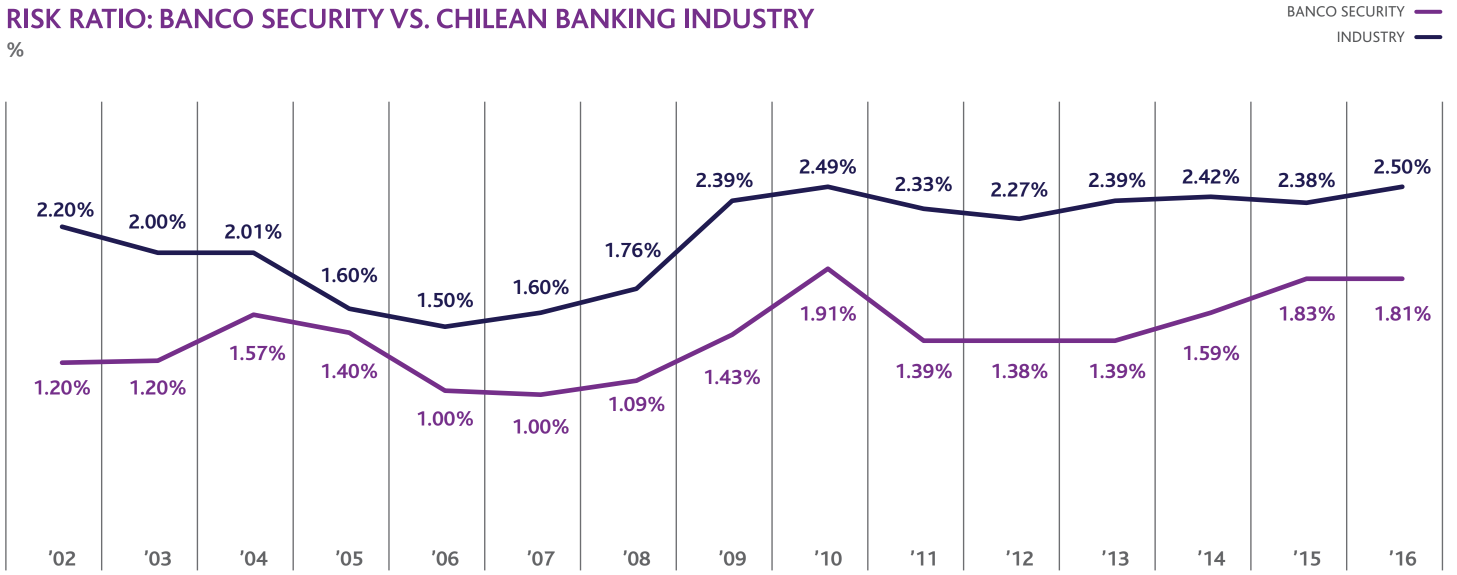
RISK

Among other duties, Banco Security's management is responsible for properly managing the different risks inherent to the business (credit, market, liquidity and operational risk) in order to optimize its risk-return ratio. This is achieved by establishing clear policies and a defined structure, with risk being controlled by individuals independent of those who manage it. Over the past few years, the Bank has been developing new risk models to accurately calculate and manage credit, market and operational risks, and it has designed and implemented various mechanisms to promptly manage risks as they arise.

Therefore, these models, together with a conservative risk management policy and coordination with sales departments, have enabled the Bank to manage the loan origination process, for both the commercial and retail loan portfolios. This has resulted in credit risk indicators that continue to compare favorably with the industry.

As of December 31, 2016, the risk ratio for Banco Security was 1.81%, which is lower than year-end 2015 (1.83%). This is explained by a decrease in the ratio for commercial loans (from 1.99% to 1.88%), which offsets the increase in customer risk in the Retail Banking Division, up 1.28% in 2015 to 1.53% as of year-end 2016 (mainly because of greater risk in consumer loans). Despite this, the rate remains below the average for the industry at 2.50%. Likewise, the Bank's non-performing portfolio indicators for its 90-day non-performing loans was 1.43% compared to 1.85% for the industry, and for its impaired portfolio was 4.35% compared to 5.10% for the industry, both outperforming the financial sector.

RISK RATIO: BANCO SECURITY VS. CHILEAN BANKING INDUSTRY
%



SOURCE: SBIF

CAPITALIZATION

The Bank aims to continually achieve a ratio of regulatory capital to risk-weighted assets higher than 10%, and to remain at or above 12% most of the time. Successive capital contributions (CH$87,000 million between August 2011 and November 2014 and CH$10,000 in March 2016) and the capitalization of earnings each year reflect the shareholders' continued commitment and support, which has strengthened the Bank's capital base in order to position it to better address the challenges associated with loan and asset growth, and to gradually adopt the stricter basic capital requirements under the Basel III rules.

As of December 2016, the Bank's Basel Index was 13.22%, somewhat below the industry average of 13.78% as of the same date.

BANCO security

CHAPTER

04

GENERAL INFORMATION

Banco Security grew from 144 employees in 1991 to 1,230 as of year-end 2016.

ANTECEDENTES GENERALES

COMPANY INFORMATION

→ LEGAL NAME
BANCO SECURITY

→ TYPE OF COMPANY
Banking corporation

→ SECURITIES REGISTRATION
Banco Security is not listed on 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

→ ADDRESS
Av. Apoquindo 3150, Floor 15, Las Condes, Santiago, Chile

→ TELEPHONE
(56-2) 2584 4000

→ FAX
(56-2) 2584 4001

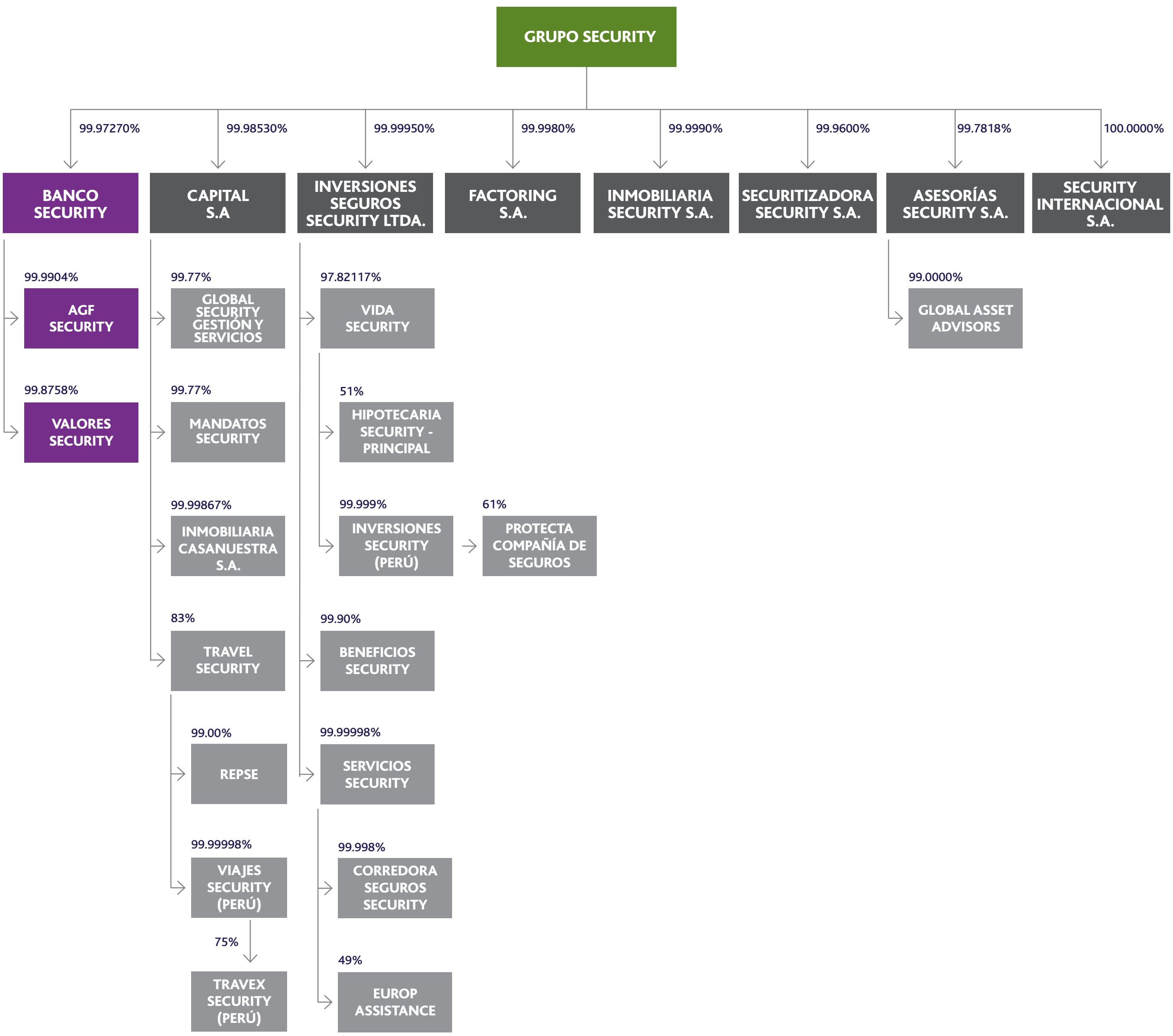
→ EMAIL
banco@security.cl

→ WEB
www.security.cl

→ INCORPORATION
The Company was formed by public instrument on August 26, 1981, before the Public Notary Mr. 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 99.9727% of its shares, as of December 31, 2016



PERSONNEL AND COMPENSATION

As of December 31, 2016, Banco Security and its subsidiaries had a total of 1,230 employees, down 2.2% from December 2015, and 57.3% of which were women. Total compensation paid by the Bank to its executives during the year was CH$5,518.4 million, and termination benefits totaled CH$112.0 million.

The following table details employee distribution by company:

COMPANY	EXECUTIVES	PROFESSIONALS	WORKERS	TOTAL
ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.	3	27	20	50
VALORES SECURITY CORREDORES DE BOLSA S.A.	8	41	17	66
BANCO SECURITY	33	794	287	1,114
TOTAL	44	862	324	1,230

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

PP&E AND TECHNOLOGY INVESTMENT POLICY

Banco Security has a policy for investing in property, plant and equipment (PP&E) and technology that defines the project evaluation process. Project approval depends on the value of the investment:

- Investments from UF 3,000 up to UF 10,000 must be approved by a committee of managers.
- Investments from UF 10,000 up to UF 30,000 must be approved by an executive committee together with the Chief Executive Officer.
- Investments exceeding UF 30,000 must be approved by the Board.

Investments are aligned with our business strategy and 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.

FINANCING POLICY

Banco Security has defined the general guidelines for managing the matching of maturities and currencies, liquidity and concentration by creditor. These are all aimed at limiting the risks inherent to the banking business, above and beyond the requirements established by current regulations.

DIVIDEND POLICY

Banco Security does not have an established a dividend policy. The amount to be distributed each year depends on the capital required to support growth, aimed at keeping the solvency index at the level desired by the Board and senior management.

The following table details the dividends paid by the Bank to its shareholders from 2000 onwards, and their corresponding percentage of net income:

DATE	COMPANY PAYING DIVIDEND	AMOUNT (MCH$)	% OF PROFIT FOR PRIOR YEAR
Feb-2000	Banco Security	4,254.4	50.0%
Feb-2001	Banco Security	7,344.0	76.2%
Feb-2002	Banco Security	8,749.7	90.0%
Feb-2003	Banco Security	9,061.7	90.0%
Feb-2004	Banco Security	13,326.1	100.0%
Feb-2005	Banco Security	11,219.1	80.0%
Mar-2006	Banco Security	20,014.3	100.0%
Mar-2007	Banco Security	20,498.0	100.0%
Mar-2008	Banco Security	13,625.0	50.0%
Mar-2009	Banco Security	7,720.0	53.5%
Mar-2010	Banco Security	23,040.2	100.0%
Mar-2011	Banco Security	20,223.5	60.0%
Mar-2012	Banco Security	21,009.8	60.0%
apr-2013	Banco Security	35,227.0	100.0%
Mar-2014	Banco Security	9,839.3	30.0%
Mar-2015	Banco Security	16,770.7	30.0%
Mar-2016	Banco Security	14,227.2	30.0%

RISK RATING

Banco Security's liabilities carried the following local risk ratings at the end of 2016:

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

In addition, the Bank carried the following international risk rating provided by Standard & Poor's. As of December 31, 2016, our risk rating was as follows:

	GLOBAL SCALE LOCAL CURRENCY	GLOBAL SCALE FOREIGN CURRENCY
Standard & Poor's	BBB- /Stable/A-3	BBB- /Stable/A-3

CHAPTER

05

SUBSIDIARIES

The focus over the last two years has been on completing the mergers with Cruz del Sur and Penta.

ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.

→ BOARD OF DIRECTORS

→ CHAIRMAN
Francisco Silva S.

→ DIRECTORS
Bonifacio Bilbao H.
Carlos Budge C.
Felipe Larraín M.
Renato Peñafiel M.

→ MANAGEMENT

→ CHIEF EXECUTIVE OFFICER
Juan Pablo Lira T.

→ CHIEF INVESTMENT OFFICER
Pablo Jaque S.

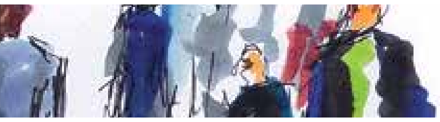
→ TYPE OF COMPANY
Corporation, subsidiary of Banco Security

→ SECURITIES REGISTRATION
The company is registered under number 0112

→ CORPORATE PURPOSE
General fund manager.

→ 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 No. 1,328 and its corresponding regulations, which are monitored by the SVS.



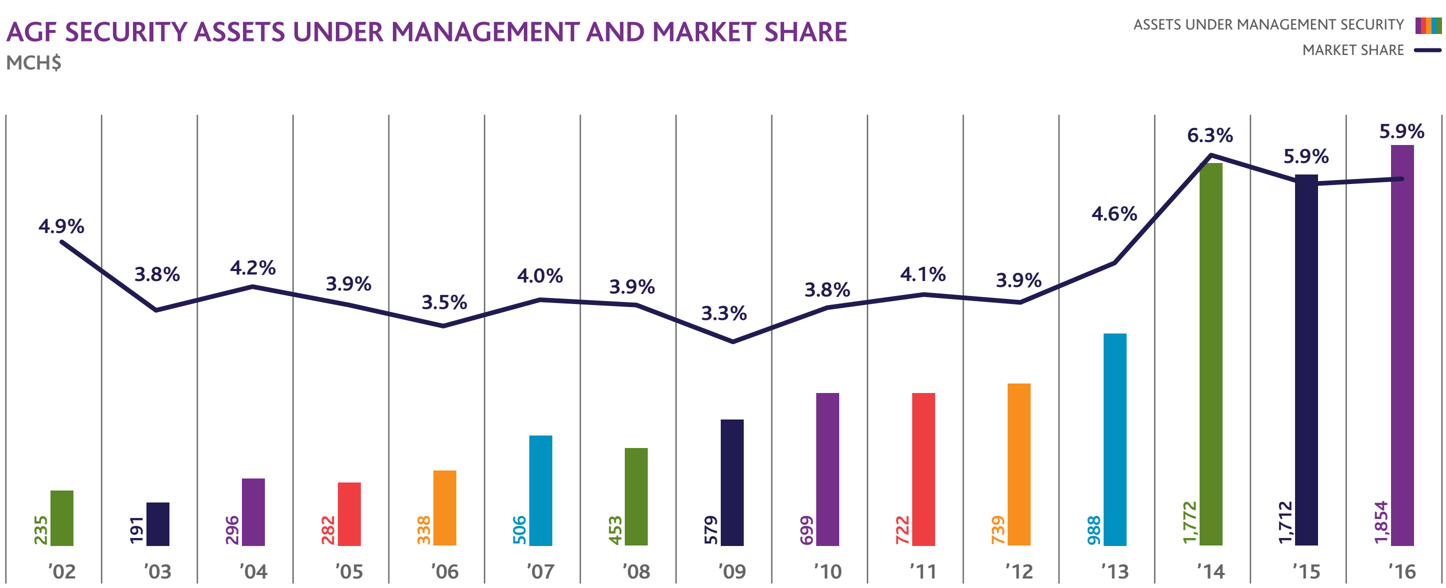
The Chilean mutual fund industry expanded 7.0% during 2016, closing the year with CH$31,194,215 million in assets under management. However, several contrasting trends were observed in the different types of funds: bond funds reported considerable growth, while equity funds fell significantly and money market funds (accounting for 44% of total assets under management) grew 7.5%, in line with the industry. This change of mix, which reflects a search for more conservative assets, translated into reduced fees for fund management companies.

As of year-end 2016, AGF Security had CH$1,854,062 million in assets under management, up 8.3% over year-end 2015. This figure surpasses industry growth (it is important to remember that the merger with Penta Administradora General de Fondos S.A. was completed in February 2016).

AGF Security began 2016 with 24 mutual funds, 6 investment funds and 2 closed investment funds. As of year-end 2016, as a result of the merger of several Penta mutual funds and the closure of some investment funds, Security ended the year managing 26 mutual funds, 14 open investment funds and 3 closed investment funds.

The subsidiary's profit for the year 2016 was 19.2% less than in 2015, mainly because of reduced income earned during the year as a result of lower average fees and higher sales and administrative expenses.

AGF SECURITY ASSETS UNDER MANAGEMENT AND MARKET SHARE
MCH$



NOTE: THE FIGURES DO NOT INCLUDE THE INVESTMENT FUNDS.

VALORES SECURITY S.A. CORREDORES DE BOLSA

→ BOARD OF DIRECTORS

→ CHAIRMAN
Ramón Eluchans O.

→ DIRECTORS
Enrique Menchaca O.
Fernando Salinas P.
Nicolás Ugarte B.
Hitoshi Kamada

→ MANAGEMENT

→ CHIEF EXECUTIVE OFFICER
Rodrigo Fuenzalida B.

→ CHIEF OPERATING OFFICER
Juan Adell S.

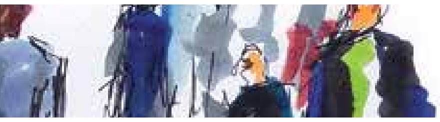
→ CHIEF FINANCIAL OFFICER
Andrés Pérez L.

→ 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.

→ INCORPORATION
The company was formed by public instrument on April 10, 1987, before the Public Notary Mr. Enrique Morgan Torres.



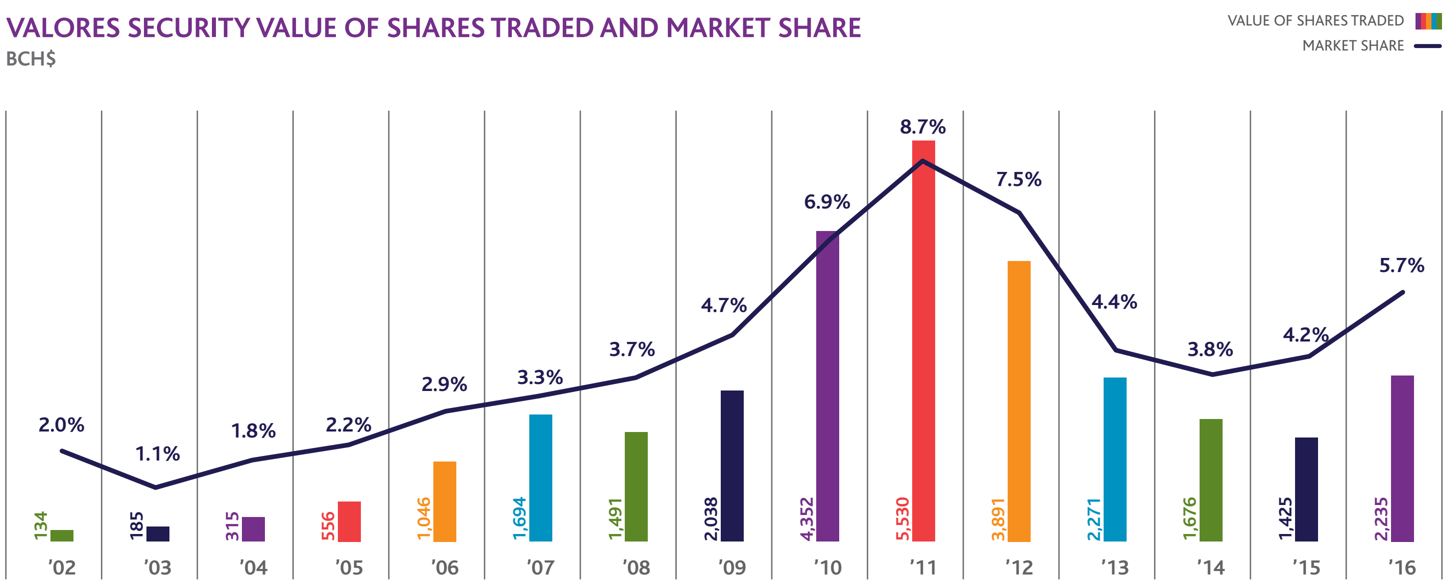
One of the year's most important milestones was the successful completion of the merger of Valores Security and Penta Corredores de Bolsa in February 2016.

During the year, value of shares traded on the Santiago and Electronic Stock Exchanges was CH$39,223,552 million for the industry, representing growth of 16.0% over 2015. Valores Security reported value of shares traded of CH$2,235,026 million with growth of 56.8%. This performance earned it sixth place on the ranking of brokers and a market share of 5.7% (vs. 4.2% as of year-end 2015).

The subsidiary posted profit for the year 2016 of CH$1,233 million, down 34.1% from 2015. This fall can be explained by the sale of one share in the Santiago Stock Exchange in 2015, generating an extraordinary gain of CH$1,497 million.

VALORES SECURITY VALUE OF SHARES TRADED AND MARKET SHARE

BCH$

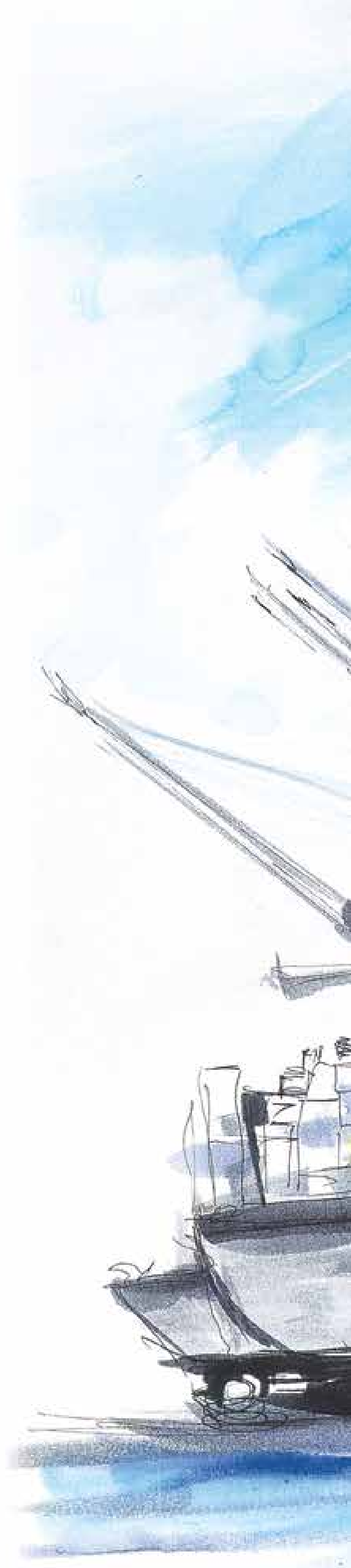


CHAPTER

06

CONSOLIDATED FINANCIAL STATEMENTS

The Bank has significantly improved its capital ratios.



Deloitte.

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, 2016 and 2015, and the related consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S 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 auditors' 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, 2016 and 2015, 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.

EMPHASIS OF A MATTER

As indicated in Note 2ac) to the consolidated financial statements, on February 15, 2016, Banco Security acquired 99.999992% of Penta Corredores de Bolsa S.A. and 99.99980% of Penta Administradora General de Fondos S.A. Following these acquisitions, Banco Security contributed these companies to its subsidiaries Valores Security S.A. Corredores de Bolsa and Administradora General de Fondos Security S.A., respectively, in order to increase the capital of both subsidiaries, resulting in the merger of each company with the respective subsidiary. These entities have been consolidated in these financial statements as of the acquisition date. The fair value of the identifiable assets and liabilities consolidated in these financial statements has been determined on a provisional basis as indicated in Note 2ac) to the consolidated financial statements, which is within the framework of IFRS 3, that permits said calculation subject to possible variations during one year.

OTHER MATTER

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

Deloitte

January 19, 2017
Santiago, Chile

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF
FIGURES IN MILLIONS OF CHILEAN PESOS - MCH$

	NOTE	DECEMBER 31, 2016 MCH$	DECEMBER 31, 2015 MCH$
ASSETS			
Cash and due from banks	6	441,177	561,624
Transactions pending settlement	6	32,185	41,092
Financial instruments held for trading	7	267,099	188,758
Receivables from repurchase agreements and securities borrowing	8	-	-
Financial derivative instruments	9	99,887	139,322
Loans and advances to banks	10	238	713
Loans to customers	11	4,381,443	3,981,083
Investments available for sale	12	610,695	421,023
Investments held to maturity		-	-
Investments in other companies	13	4,152	3,048
Intangible assets	14	53,285	67,861
Property, plant and equipment	15	25,059	25,601
Current tax assets	16	1,086	2,877
Deferred tax assets	16	35,992	31,825
Other assets	17	138,552	119,853
TOTAL ASSETS		6,090,850	5,584,680
LIABILITIES			
Current accounts and other demand deposits	18	570,018	583,856
Transactions pending settlement	6	5,985	13,565
Payables from repurchase agreements and securities lending	8	27,008	34,492
Savings accounts and time deposits	18	3,051,820	2,717,668
Financial derivative contracts	9	83,006	138,969
Borrowings from financial institutions	19	158,757	228,156
Debt issued	20	1,571,273	1,344,873
Other financial obligations	20	20,139	22,647
Current tax liabilities	16	208	-
Deferred tax liabilities	16	15,146	16,538
Provisions	21	31,636	27,300
Other liabilities	22	94,117	48,276
TOTAL LIABILITIES		5,629,113	5,176,340
EQUITY			
Attributable to equity holders of the bank:			
Capital		252,047	242,047
Reserves	24	24,710	23,950
Valuation accounts	24	3,268	(3,986)
Retained earnings			
Retained earnings from prior periods		146,239	113,042
Profit for the year		50,604	47,424
Less: Provision for minimum dividends		(15,181)	(14,227)
		461,687	408,250
Non-controlling interests		**50**	**90**
TOTAL EQUITY		461,737	408,340
TOTAL LIABILITIES AND EQUITY		6,090,850	5,584,680

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, 2016 MCH$	DECEMBER 31, 2015 MCH$
Interest and indexation income	25	329,711	316,810
Interest and indexation expenses	25	(193,787)	(183,407)
Net interest and indexation income		**135,924**	**133,403**
Fee and commission income	26	63,940	57,198
Fee and commission expenses	26	(10,537)	(8,864)
Net fee and commission income		**53,403**	**48,334**
Net financial operating income (loss)	27	38,383	(4,676)
Net foreign exchange transactions	28	1,456	21,355
Other operating income	34	9,587	9,396
Total operating income		**238,753**	**207,812**
Credit risk provisions	29	(27,777)	(44,118)
OPERATING INCOME, NET OF CREDIT RISK PROVISIONS		210,976	163,694
Payroll and personnel expenses	30	(54,724)	(41,358)
Administrative expenses	31	(59,010)	(49,691)
Depreciation and amortization	32	(15,201)	(6,793)
Impairment	33	(21,100)	(1,557)
Other operating expenses	34	(4,488)	(7,223)
TOTAL OPERATING EXPENSES		(154,523)	(106,622)
NET OPERATING INCOME		56,453	57,072
Income attributable to investments in other companies	13	320	260
Profit before tax		56,773	57,332
Income tax expense	16	(6,167)	(9,903)
Profit from continuing operations		50,606	47,429
Profit from discontinued operations		-	-
PROFIT FOR THE YEAR		50,606	47,429
Attributable to:			
Equity holders of the bank		50,604	47,424
Non-controlling interest		2	5
Earnings per share attributable to equity holders of the bank:		CH$	CH$
Basic earnings per share	24	**241**	**230**
Diluted earnings per share	24	**241**	**230**

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

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

	DECEMBER 31, 2016 MCH$	DECEMBER 31, 2015 MCH$
PROFIT FOR THE YEAR	50,606	47,429
OTHER COMPREHENSIVE INCOME		
Valuation of investments available for sale	9,442	(4,747)
Valuation of accounting hedges	-	-
Other comprehensive income	-	-
Other comprehensive income (loss) before taxes	9,442	(4,747)
Income taxes related to other comprehensive income (loss)	(2,188)	1,068
Total other comprehensive income (loss)	7,254	(3,679)
CONSOLIDATED COMPREHENSIVE INCOME FOR THE YEAR	57,860	43,750
Attributable to:		
Equity holders of the bank	57,858	43,745
Non-controlling interest	2	5
Comprehensive earnings per share attributable to equity holders of the bank:	CH$	CH$
Basic	**275**	**212**
Diluted	**275**	**212**

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

STATEMENT OF CHANGES IN EQUITY

DECEMBER 31, 2016 AND 2015
FIGURES IN MILLIONS OF CHILEAN PESOS - MCH$

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK								
				RETAINED EARNINGS					
	PAID-IN CAPITAL MCH$	RESERVES MCH$	VALUATION ACCOUNTS MCH$	PRIOR YEARS MCH$	PROFIT FOR THE YEAR MCH$	PROVISION FOR MINIMUM DIVIDENDS MCH$	TOTAL MCH$	NON-CONTROLLING INTEREST MCH$	TOTAL MCH$
Balances as of December 31, 2014	**242,046**	**24,190**	**(307)**	**73,906**	**55,902**	**(16,771)**	**378,966**	**85**	**379,051**
Reclassification of profit for the year	-	-	-	55,902	(55,902)	-	-	-	-
Dividends paid	-	-	-	(16,771)		-	(16,771)	-	(16,771)
Provision for minimum dividends	-	-	-	-	-	16,771	16,771	-	16,771
Other equity movements	-	(240)	-	5	-	-	(235)	-	(235)
Capital increase	1	-	-	-	-	-	1	-	1
Investments available for sale	-	-	(3,679)	-	-	-	(3,679)	-	(3,679)
Profit for the year	-	-	-	-	47,424	-	47,424	5	47,429
Provision for minimum dividends	-	-	-	-	-	(14,227)	(14,227)	-	(14,227)
Balances as of December 31, 2015	**242,047**	**23,950**	**(3,986)**	**113,042**	**47,424**	**(14,227)**	**408,250**	**90**	**408,340**
Reclassification of profit for the year	-	-	-	47,424	(47,424)	-	-	-	-
Dividends paid	-	-	-	(14,227)	-	-	(14,227)	-	(14,227)
Provision for minimum dividends	-	-	-	-	-	14,227	14,227	-	14,227
Other equity movements	-	760	-	-	-	-	760	(42)	718
Capital increase	10,000	-	-	-	-	-	10,000	-	10,000
Investments available for sale	-	-	7,254	-	-	-	7,254	-	7,254
Profit for the year	-	-	-	-	50,604	-	50,604	2	50,606
Provision for minimum dividends	-	-	-	-	-	(15,181)	(15,181)	-	(15,181)
Balances as of December 31, 2016	**252,047**	**24,710**	**3,268**	**146,239**	**50,604**	**(15,181)**	**461,687**	**50**	**461,737**

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, 2016 MCH$	DECEMBER 31, 2015 MCH$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Consolidated profit before tax		**56,773**	**57,332**
Charges (credits) to profit that do not represent cash flows:			
Credit risk provisions		27,777	44,118
Depreciation and amortization		15,201	6,793
Impairment		21,100	1,557
Other provisions		640	2,402
Operational charge-offs		2,627	3,055
Changes in deferred tax assets and liabilities		(5,559)	(4,454)
Valuation of investments in trading book		(1,892)	(2,616)
Valuation of trading derivatives		(16,528)	5,423
Income attributable to investments in other companies		(320)	(260)
Gain on sales of assets received in lieu of payment		(177)	(378)
Net fee and commission income		(53,403)	(48,334)
Net interest and indexation income		(135,924)	(133,403)
Other credits that do not represent cash flows		(1,977)	(20,793)
Changes in operating assets and liabilities:			
Decrease in loans and advances to banks		474	6,467
Increase in loans to customers		(365,644)	(355,316)
(Increase) decrease in investments		(267,400)	19,881
(Increase) decrease in leased assets		16,953	(22,153)
Sale of assets received in lieu of payment		132	737
Increase (decrease) in current accounts and other demand deposits		(13,838)	71,607
Decrease in sales with repurchase agreements and securities lending		(7,484)	(21,746)
Increase in savings accounts and time deposits		318,010	193,079
Net change in letters of credit		(3,350)	(4,954)
Net change in senior bonds		163,576	186,016
Increase in other assets and liabilities		(18,487)	(19,542)
Recovered taxes		4,183	-
Interest and indexation received		287,145	325,080
Interest and indexation paid		(156,147)	(159,096)
Fees and commissions received		63,940	57,198
Fees and commissions paid		(10,537)	(8,864)
Net cash flows from (used in) operating activities		**(80,136)**	**178,836**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	15	(1,461)	(3,034)
Acquisition of intangible assets	14	(8,719)	(12,189)
Net cash flows used in investing activities		**(10,180)**	**(15,223)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Decrease in domestic interbank loans		(510)	(575)
Increase (decrease) in foreign interbank loans		(69,026)	82,312
Decrease in other financial liabilities		(2,184)	(1,591)
Net change in subordinated bonds		44,491	(4,494)
Capital increase		10,000	1
Dividends paid	24	(14,227)	(16,771)
Net cash flows from (used in) financing activities		**(31,456)**	**58,882**
TOTAL POSITIVE (NEGATIVE) NET CASH FLOWS		(121,772)	222,495
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6	589,151	366,661
EFFECT OF NON-CONTROLLING INTEREST		(2)	(5)
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	467,377	589,151

The accompanying notes are an integral part of these 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 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, 2016

SHAREHOLDERS	NO. OF SHARES	% OWNERSHIP INTEREST
Grupo Security	210,895,936	99.97
Minority interests	57,552	0.03
Total	210,953,488	100

AS OF DECEMBER 31, 2015

SHAREHOLDERS	NO. OF SHARES	% OWNERSHIP INTEREST
Grupo Security	205,936,986	99.97
Minority interests	57,940	0.03
Total	205,994,926	100.00

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with 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 recorded in these financial statements:

- **VALUATION AT 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.

- **VALUATION AT ACQUISITION COST**

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

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

- Derivative instruments measured at fair value.
- Instruments held for trading measured at fair value.
- Investments available for sale measured at fair value.
- Some real estate within property, plant and equipment for which senior management has decided to use its appraised value as the deemed cost for first-time adoption in conformity with the SBIF Compendium of Accounting Standards.

B) FUNCTIONAL CURRENCY

In accordance with IAS 21, the items included in the financial statements of each of the Bank's entities and its subsidiaries are valued using the currency of the primary economic environment in which it 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 some estimates, judgments and assumptions that impact 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:

- Valuation of financial instruments and derivatives
- Impairment losses on loans to customers and other assets
- The useful life of material 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, except for the share of the Santiago Stock Exchange, which is presented at fair 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 2016 %	OWNERSHIP INTEREST 2015 %
Valores Security S.A. Corredores de Bolsa (*)	99.88	99.76
Administradora General de Fondos Security S.A. (**)	99.99	99.99

(*) As indicated in Note 4 to the consolidated financial statements, on February 15, 2016, the purchase of the Penta companies was completed after having obtained authorization from the Superintendency of Banks and Financial Institutions. The Company purchased 99.999992% of Penta Corredores de Bolsa S.A. for MCH$34,208 and 99.99980% of Penta Administradora General de Fondos S.A. for MCH$1,828. After the transaction, these companies were contributed to their respective subsidiaries, Administradora General de Fondos Security S.A. and Valores Security S.A. Corredores de Bolsa, as part of the capital increase of both companies, thus resulting in the merger of each respective company.

(**) As indicated in Note 4 to the consolidated financial statements, in an extraordinary meeting of the Board of Directors of Valores Security S.A., Corredores de Bolsa, held on March 17, 2015, the Board agreed to approve the related party transaction, whereby Valores Security S.A., Corredores de Bolsa would acquire 100% of the shares of Cruz del Sur Corredora de Bolsa S.A. ("CdS Corredora"), from Capital S.A. and Inversiones Seguros Security Limitada.

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 on the transaction date. As of December 31, 2016 and 2015, monetary items in foreign currency are translated using the year-end exchange rates of CH$669.80 and CH$708.70 per US$1, respectively, which does not differ significantly from the exchange rates of CH$669.47 and CH$710.16 as of December 31, 2016 and 2015, applied by the subsidiaries regulated by the SVS.

The net foreign exchange gains of MCH$1,456 and MCH$21,355 for the years ended December 31, 2016 and 2015, 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) TRANSLATION

Assets and liabilities expressed in unidades de fomento (UF-Chilean inflation index-linked unit of account) are presented using the rates in effect as of December 31, 2016 and 2015, of CH$ 26,347.98 and CH$ 25,629.09, respectively.

J) FINANCIAL INVESTMENTS

Financial investments are classified and valued as follows:

J.1) FINANCIAL INSTRUMENTS HELD FOR TRADING:

Financial instruments held for trading are securities that 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 recorded at fair value based on market prices at year-end. Gains or losses that have resulted from adjustments in fair value, 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 committed to. 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 available 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 recorded at fair value based on market prices or valuations obtained using 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 recorded at cost plus accrued interest and indexation, less impairment provisions recorded when the amount recorded is greater than the estimated recoverable amount. As of December 31, 2016 and 2015, the Bank did not have any investments held to maturity.

Interest and indexation on held-to-maturity and available-for-sale instruments are included within "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 committed to. Any other purchase or sale is treated as a derivative (forward) until settlement occurs.

K) 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 recorded 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 recorded 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", 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 comply with all of the following conditions: (a) at its inception, the hedge relationship has been formally documented; (b) it is expected that the hedge will be highly effective; (c) the effectiveness of the hedge can be measured 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 recorded 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 recorded 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 for the year. 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 recorded 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 recorded in equity.

Any ineffective portion is directly recorded in profit or loss. The accumulated amounts recorded 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 recorded 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 REPURCHASE AGREEMENTS AND SECURITIES BORROWING/LENDING

The Bank engages in operations with repurchase and resale agreements as a funding tool. The Bank's investments that are sold with a repurchase obligation and that serve as a guarantee for the loan are included within "financial instruments held for trading" and the obligation is recorded within 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 repurchase 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) ASSETS RECEIVED IN LIEU OF PAYMENT

Assets received in lieu of payment are classified within "other assets" at the lesser of their foreclosure cost and their fair value less regulatory write-offs required 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 recorded 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:

TYPE OF 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 internally developed software are recognized as an asset when the Bank is able to demonstrate its intent and ability to complete development and use it internally to generate future economic benefits and can reliably measure the costs of completing development. Capitalized costs of internally 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 recorded 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 recorded in profit or loss as incurred.

Useful life has been determined based on the period of time over which economic benefits are expected to be obtained. The amortization period and method are reviewed annually, and any change is treated as a change in an 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 recorded in the consolidated statement of income under "administrative expenses", in accordance with IFRS 3. Goodwill recorded as of December 31, 2016, is detailed in Note 14.b) of the consolidated financial statements.

S) PROVISIONS FOR ASSETS AT RISK

Provisions required to cover risk of loan losses have been recorded 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 standards 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 in 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 IN 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 also be recorded 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.

Beginning January 1, 2016, the Bank uses the standard provisioning method for residential mortgages established by the Superintendency of Banks and Financial Institutions in Circular No 3,573.

The impact of this standard (MCH$969) was recorded in credit risk provisions in the income statement. See Note 29 "Credit Risk Provisions".

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, 2016 and 2015, the Bank had not recorded 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 transactions without collateral	24 months
Commercial loans with collateral	36 months
Residential mortgage loans	48 months
Consumer leases	6 months
Other non-real estate lease transactions	12 months
Real estate leases (commercial and residential)	36 months

RECOVERY OF WRITTEN-OFF LOANS:
Subsequent payments on written-off loans are recorded directly in profit or loss under "recovery of written-off loans" in "credit risk provisions".

As of December 31, 2016 and 2015, recoveries of written-off loans totaled MCH$3,981 and MCH$4,491, respectively, and are presented within provisions recorded 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
  are inflows and outflows of highly-liquid, short-term investments with insignificant risk, grouped under cash and cash equivalents.

- OPERATING ACTIVITIES
  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 INSTRUMENTS 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 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 carrying and tax basis of assets and liabilities. The effect is recorded in the statement of income when the differences stem from equity.

X) EMPLOYEE BENEFITS

X.1) EMPLOYEE VACATION

The annual cost of employee vacations is recorded 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 unconditional severance indemnities for its employees and, as a result, has not made any provisions for this concept. Any such expenses are recorded in profit or loss as incurred.

Y) MINIMUM DIVIDENDS

As of December 31, 2016 and 2015, the Bank recorded 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 implicit 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.

On February 15, 2016, Banco Security acquired a total of 24,478,816 shares of Penta Corredores de Bolsa S.A., equivalent to 99.999992% of its share capital for a total of MCH$34,208 and 999,998 shares of Penta Administradora General de Fondos S.A., equivalent to 99.99980% of its share capital for a total of MCH$1,828. On the same date, Valores Security S.A. Corredores de Bolsa acquired a total of 2 shares of Penta Corredores de Bolsa S.A., equivalent to 0.000008% of its share capital, and Administradora General de Fondos Security S.A. purchased 2 shares of Penta Administradora General de Fondos S.A., equivalent to 0.0002% of its share capital.

On the same date, Valores Security S.A. Corredores de Bolsa and Administradora General de Fondos Security S.A. carried out capital increases, and Banco Security subscribed and paid these increases by contributing its respective shares of Penta Corredores de Bolsa S.A. and Penta Administradora General de Fondos S.A.

At this point, the subsidiaries of Banco Security, Valores Security S.A. Corredores de Bolsa and Administradora General de Fondos Security S.A., possessed 100% of the shares of Penta Corredores de Bolsa S.A. and Penta Administradora General de Fondos S.A., respectively, and, therefore, these companies merged.

ITEM	MCH$
Amount paid for shares of Empresas Penta	36,036
Fair value of purchased assets	31,674
Goodwill calculated	4,362

The fair value of identifiable assets and liabilities in these financial statements has been determined provisionally, in accordance with IFRS 3, which allows adjustments to the provisional amounts within a period of one year.

3. ACCOUNTING CHANGES

During the period from January 1 to December 31, 2016, there were no changes in accounting policy that affect their comparison with the same period in the prior year.

4. MATERIAL EVENTS

BANCO SECURITY

On February 15, 2016, the purchase of the Penta companies was completed after having obtained authorization from the Superintendency of Banks and Financial Institutions. The Company purchased 99.999992% of Penta Corredores de Bolsa S.A. for MCH$34,208 and 99.99980% of Penta Administradora General de Fondos S.A. for MCH$1,828. After the transaction, these companies were contributed to their respective subsidiaries, Administradora General de Fondos Security S.A. and Valores Security S.A. Corredores de Bolsa, as part of the capital increase of both companies, thus resulting in the merger of each respective company.

On December 10, 2015, the SBIF authorized the acquisition and merger of the companies Penta Corredores de Bolsa S.A. and Penta Administradora General de Fondos S.A., in accordance with the terms set by the regulator.

On September 11, 2015, Banco Security and Banco Penta reported that they had signed an agreement to purchase the companies Penta Corredores de Bolsa S.A. and Penta Administradora General de Fondos S.A., and that the merger would take place between December 31, 2015, and February 28, 2016.

ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.

On December 30, 2016, in accordance with articles 9 and 10-2 of Law No. 18,045 on the Securities Market, and article 18 of Law No. 20,712, the following is communicated regarding completion of the liquidation of the Security Emergente Protegido Investment Fund.

On December 28, 2016, at an extraordinary meeting of the unitholders of the Security Capital Preferente Investment Fund, the following agreements were reached: A mandatory capital reduction was approved for a total of CH$440,000,000, payable in cash to all unitholders, prorated based on the fund units they hold, in one or more successive payments no later than January 27, 2017; one component of the fund manager's proposal to amend the internal regulations was rejected. This proposed amendment would have established the possibility for the capital reductions to be made in up to two annual payments of up to 50% of the Fund's subscribed and paid-in units. In its place, the unitholders agreed to amend section J of the Fund's internal regulations, establishing a policy for the fund to make mandatory capital reductions on a monthly basis for up to 50% of the Fund's initially subscribed and paid-in units, under the terms indicated; they also approved the amended text of the Fund's internal regulations, which must be deposited by the Fund manager within 15 business days after the date of the meeting.

On December 19, 2016, in accordance with articles 9 and 10-2 of Law No. 18,045 on the Securities Market, and article 18 of Law No. 20,712, the Company communicated the dissolution of the Security Emergente Protegido Investment Fund and that the fund manager has been appointed to carry out the process of liquidating the fund.

On December 2, 2016, at an extraordinary meeting of the unitholders of the Security Pagaré Automotrices I Investment Fund, the following agreements were adopted: Unitholders were briefed on the asset liquidation process, expense payments and capital distributions; the unitholders will be refunded the value of their units for a final amount of CH$32,402,413, which will be distributed based on each investor's interest in the Fund; the Fund's final account at the end of its liquidation was approved; the Fund's liquidation was completed on December 28, 2016, and unitholders will be refunded the balance of their investment in the Fund; a fund manager was designated to inform the SVS and the Chilean Internal Revenue Service of the fund's close of business, once the funds have been distributed.

On November 21, 2016, in accordance with articles 9 and 10-2 of Law No. 18,045 on the Securities Market, and article 18 of Law No. 20,712, the Company communicated the dissolution of the Security Pagaré Automotrices I Investment Fund and that the fund manager has been appointed to carry out the process of liquidating the fund.

On October 27, 2016, in accordance with articles 9 and 10-2 of Law No. 18,045 on the Securities Market, and article 18 of Law No. 20,712, the Company communicated the payment of interim dividends by the Security Oaktree Opportunities – Debt II Investment Fund for a total of USD$1,163,899.97 with a charge to net profit for 2016.

On September 9, 2016, as part of the process to liquidate the Security Pagarés Automotrices I Investment Fund, the entire portfolio of automotive loans held by the Fund was transferred to Tanner Servicios Financieros S.A., as agreed by public instrument on July 29, 2016, drawn up and executed by Santiago notary public Carmen Sosa Muñoz.

On March 2, 2016, the Company reported that, in a meeting of the Board of Directors of Administradora General de Fondos Security S.A. on February 29, 2016, the Board agreed to call an annual shareholders' meeting for March 18, 2016, at 9 a.m. in the Company's offices located at Av. Apoquindo 3150, floor 7, Las Condes, Santiago. The following matters were to be addressed at the annual shareholders' meeting:

- Approval of the annual report, balance sheet and financial statements for the year ended December 31, 2015, including the independent auditors' report for that year;
- Profit distribution and dividend payments;
- Board fees for 2016;
- Board expenses in 2015;
- Appointment of the Company's independent external auditors;
- Information on related party transactions in conformity with the Corporations Law.
- Designation of the newspaper for legal publications;
- In general, all other matters that should be addressed at an annual shareholders' meeting according to law.

At the aforementioned Board meeting, the Board agreed to propose to shareholders at the annual meeting a dividend of CH$124,992.1064 per share charged to profit for the year 2015.

On February 15, 2016, the Company completed the merger and take over by Administradora General de Fondos Security S.A. of Penta Administradora General de Fondos S.A., as follows:

A) Banco Security purchased and acquired 999,998 shares of Penta Administradora General de Fondos S.A. from Banco Penta, equivalent to a 99.99980% interest in that company, for CH$1,828,330,276;

B) Administradora General de Fondos Security, in turn, purchased and acquired 2 shares of Penta Administradora General de Fondos S.A. from Messrs. Carlos Alberto Délano Abbott and Carlos Eugenio Lavín García Huidobro, equivalent to the remaining 0.0002% interest in that company, for CH$3,656. As a result, Banco Security and Administradora General de Fondos Security S.A. together purchased and acquired 100% of the shares of Penta Administradora General de Fondo S.A. for CH$1,828,333,932, equivalent to equity of CH$1,305,542,551, which is backed by highly-liquid instruments valued at market value and negative goodwill of CH$522,791,381.

C) Immediately after completing the aforementioned acquisitions and in the same act, Banco Security proceeded to contribute to Administradora General de Fondos Security S.A. all 999,998 shares of Penta Administradora General de Fondos S.A. as payment towards the capital increase of Administradora General de Fondos Security S.A. that was agreed at the extraordinary shareholders' meeting on January 5, 2016, and approved via SVS Exempt Resolution No. 251 dated February 5, 2016; and

D) Both the contribution and the valuation of the contributed shares, as stipulated above, were duly and unanimously approved by all issued shares of Administradora General de Fondos Security S.A. at the extraordinary shareholders' meeting.

Pursuant to the above, and having obtained the relevant authorization from the Superintendency of Securities and Insurance on February 15, 2016, in accordance with article 107 of Law No. 18,046, and with Administradora General de Fondos Security S.A. having expressly waived the term indicated in article 103, number 2 of Law No. 18,046, on that same date the Company proceeded to register 100% of the shares of Penta Administradora General de Fondos S.A. in the shareholders register of Administradora General de Fondos Security S.A., and, therefore, Penta Administradora General de Fondos S.A. was automatically and legally dissolved under the terms of article 103 of Law 18,046, and Administradora General de Fondos

Security S.A. became the legal successor of the dissolved company for all intents and purposes, assuming all of its rights and obligations and acquiring all of its assets and liabilities.

On January 15, 2016, in accordance with articles 9 and 10-2 of Law 18,045 and General Character Standard No. 30, the Company reported as an essential event that, in an ordinary Board meeting on the same date, Mr. Felipe Larraín Melo resigned as director and Mr. Gonzalo Baraona Bezanilla was appointed to replace him.

On January 5, 2016, at an extraordinary shareholders' meeting called by the shareholders as established in article 60 of Law 18,046 on Corporations, the following was unanimously agreed:

A) To update and amend the Company's statutory capital without issuing new shares, in order to capitalize and recognize the price-level restatement of paid-in capital as of December 31, 2010, all based on the Company's statement of financial position as of that date, which was approved at the annual shareholders' meeting on April 5, 2011. As a result, the Company's capital as of that date totals CH$1,525,292,745, divided into 10,000 registered, common, no-par-value shares, all fully subscribed and paid in.

B) To increase the Company's capital as of that date from CH$1,525,292,745, divided into 10,000 registered, single-series, common, no-par-value shares, to CH$3,825,292,745, divided into 10,560 registered, single-series, common, no-par-value shares, by issuing 560 new registered, common, no-par-value shares of the same existing series through a rights issue, which shall be issued, subscribed and paid in within a period of three years from that date, either in cash or in kind.

C) In order to execute, implement and comply with the agreements reached at the extraordinary shareholders' meeting, the shareholders agreed to specifically authorize the Board to carry out each and every one of the formalities, procedures and acts necessary to formalize the capital increase and other agreements adopted at the meeting. The Board was specifically authorized to adopt agreements, once the amended by-laws had been approved by the SVS, in order to: (i) proceed with the issuance and placement of 560 new, registered, single-series, common, no-par-value shares through a rights issue, all charged to the agreed-upon capital increase; (ii) comply with the legal preferential subscription right for the Company's shares; (iii) offer the Company's shareholders or, in the event of total or partial waiver of these preferential subscription rights, offer third parties, the new shares at a price of CH$4,107,142.857142860 per share, which may be paid in cash or in kind; and (iv) adopt all agreements required or deemed necessary to carry out and complete the capital increase under the terms proposed above and proceed with the issuance, placement, subscription and payment of the shares issued as part of the capital increase agreed by the shareholders.

D) At the meeting, the shareholders agreed to grant the following powers and authority:

- To authorize the CEO, Mr. Juan Pablo Lira Tocornal, and the director Carlos Budge Carvallo, to act individually and indistinctly to request SVS approval of the amended by-laws as agreed at the shareholders' meeting and to agree upon, subscribe, implement and execute, on behalf of the Company and the shareholders, all amendments, rectifications or supplements that may be relevant or necessary in response to any comment or observation made by the SVS, and all public or private instruments in which the respective amendments are made or extended for such purpose; and

- To authorize the bearer of the certificate issued by the SVS with the respective abstract to request any publications, registrations, subregistrations and annotations necessary..

Pursuant to these agreements, to substitute permanent article five and the third transitory article in the corporate by-laws.

In an ordinary Board meeting on November 13, 2015, the Board approved amendments to its "Policy on Customary Transactions Within its Line of Business with Related Parties ("Customary Transactions Policy"), as required by article 147 letter b) of Law No. 18.046 on Corporations.

On September 3, 2015, pursuant to article 18 of Law 20,712 on Management of Third-Party Funds and Individual Portfolios, and articles 9 and 10 of Law 18,045 on the Securities Market, the company reported the takeover merger of the funds indicated herein, as approved by the Board on May 15, 2015.

ABSORBED FUND	SUCCESSOR FUND
M.F. Security Asiático.	M.F. Security Asia Emergente.
M.F. Security Previsión.	M.F. Security Corporativo.
M.F. Security Emergente.	M.F. Security Emerging Markets.
M.F. Security Nominal.	M.F. Security First.
M.F. Security Protección UF.	M.F. Security Gold.
M.F. Security Latinoamericano. M.F. Security Brasil.	M.F. Security Index Fund Latham Small Cap.
M.F. Security Estados Unidos	M.F. Security Index Fund US.
M.F. Security Diversificación	M.F. Security Income
M.F. Security Bonos Latinoamericanos.	M.F. Security Deuda Corporativa Latinoamericana.
M.F. Security Confianza Dólar.	M.F. Security Deuda Corporativa Latinoamericana I.G.
M.F. Security Confianza.	M.F. Security Mid Term
M.F. Security Index Fund Chile Mid & Small Cap.	M.F. Security Index Fund Chile.
M.F. Security Fundación.	M.F. Security Selectivo.

On August 24, 2015, pursuant to article 18 of Law 20,712 on Management of Third-Party Funds and Individual Portfolios, and articles 9 and 10 of Law 18,045 on the Securities Market, the company reported the merger of the Security Liquidez Mutual Fund, which was taken over by the successor fund, as approved by the Board in an ordinary meeting on May 15, 2015.

An annual general shareholders' meeting was called for April 29, 2015, at 9:30 a.m. in order to address and vote on the following matters: To approve the annual report and balance sheet for the year ended December 31, 2014, distribution of profits for the year, board fees, appointment of the company's independent auditors, designation of the newspaper to be used for official publications and other routine business to be decided by shareholders.

On March 6, 2015, the company filed the new amended text of the Internal Regulations for the Security Oaktree Opportunities Investment Fund, now called the Security Oaktree Opportunities – Debt Investment Fund (the "Fund"), agreed in an extraordinary meeting of fund unitholders on March 2, 2015, held in order to adapt the Fund to the provisions of Law 20,712 on Management of Third-Party Funds and Individual Portfolios (the "Law") and other related regulations that have been issued, and to make other modifications, because the fund has been classified as a non-redeemable investment fund.

VALORES SECURITY S.A. CORREDORES DE BOLSA

On March 16, 2016, Valores Security S.A. Corredores de Bolsa renewed a professional liability insurance policy for UF 204,091 through Compañía de Seguros Continental to guarantee correct professional performance, in accordance with law 20,712 on managing third-party funds and individual portfolios. This policy is in effect from June 30, 2016 to June 30, 2017.

At the fourteenth extraordinary shareholders' meeting on March 15, 2016, the shareholders agreed to pay a dividend of CH$54,708.515017 per share, payable the following day, to the shareholders in the respective shareholder registry when the meeting was called to order.

At the twenty-ninth annual shareholders' meeting on March 15, 2016, the shareholders agreed to pay a dividend of CH$3,699.221364 per share, payable the following day, to the shareholders registered in the respective Shareholder Registry when the meeting was called to order.

On February 15, 2016, the Company completed the merger and take over by Valores Security of Penta Corredores de Bolsa S.A., as follows:

A) Banco Security purchased and acquired 24,478,816 shares of Penta Corredores de Bolsa S.A. from Banco Penta, equivalent to a 99.999992% interest in that company, for CH$34,208,152,255;

B) Valores Security S.A. Corredores de Bolsa purchased and acquired 2 shares of Penta Corredores de Bolsa S.A. from Messrs. Carlos Alberto Délano Abbott and Carlos Eugenio Lavín García-Huidobro, equivalent to the remaining 0.000008 % interest in that company, for CH$2,794.

C) As a result, Banco Security and Valores Security S.A. Corredores de Bolsa together purchased and acquired 100% of the shares of Penta Corredores de Bolsa S.A. for CH$34,208,155,049 equivalent to equity of CH$29,503,032,616, which was backed by highly-liquid instruments valued at market value and negative goodwill of CH$4,705,122,433.

Immediately following the aforementioned acquisitions and on February 15, 2016, an extraordinary meeting of the Company's shareholders was held, at which time the shareholders unanimously agreed, among other matters, to:

A) Increase the Company's capital to CH$36,393,566,514, divided into a total of 505,750 registered, common, single-series, no-par-value shares, by issuing 116,940 new shares through a rights issue;

B) Approve the subscription of all new shares by Banco Security and the payment in kind for those shares and those issued as part of the capital increase that was agreed at the extraordinary shareholders' meeting on January 20, 2016, by contributing all 24,478,816 shares of Penta Corredores de Bolsa S.A. held by Banco Security;

C) Value the shares contributed at CH$34,208,152,255, in accordance with article 15 of Law No. 18,046; and

D) Pursuant to these agreements, to substitute permanent article five and the transitory article in the corporate by-laws.

Pursuant to the above and having expressly waived the term indicated in article 103, number 2 of Law No. 18,046, on that same date Valores Security S.A. Corredores de Bolsa proceeded to register 100% of the shares of Penta Corredores de Bolsa S.A. in the shareholders register of Valores Security S.A., and, therefore, Penta Corredores de Bolsa S.A. was automatically and legally dissolved under the terms of article 103 of Law 18,046, and Valores Security S.A. became its legal successor for all intents and purposes, assuming all of its rights and obligations and acquiring all of its assets and liabilities.

At the twelfth annual shareholders' meeting held on January 20, 2016, the shareholders agreed, among other matters, to increase the Company's capital from MCH$2,185,414, divided into 258,942 fully subscribed and paid-in, registered, single-series, common, no-par-value shares, to MCH$20,185,414, divided into 388,810 registered, single-series, common, no-par-value shares by issuing 128,868 new shares through a rights issue, which shall be issued, subscribed and paid in within a period of three years from January 20, 2016, either in cash or in kind.

On December 24, 2015, Mr. Gonzalo Baraona Bezanilla submitted his resignation as Director of Valores Security S.A. Corredores de Bolsa.

On May 6, 2015, the company sold one share of the Santiago Stock Exchange that enabled it to participate directly in brokerage activities. It maintained the share purchased through the merger with Cruz del Sur Corredores de Bolsa

An annual general shareholders' meeting was called for April 29, 2015, at 9:30 a.m., in order to address and vote on the following matters: To approve the annual report and balance sheet for the year ended December 31, 2014, distribution of profits for the year, Board fees, appointment of the company's independent auditors, designation of the newspaper to be used for official publications and other routine business to be decided by the shareholders.

In light of this approval, on March 20, 2015, Capital S.A. and Inversiones Seguros Security Limitada, as sellers, and Valores Security S.A. C.de B., as buyer, signed a public share purchase agreement for the shares of CdS Corredora, detailed as follows: (a) Capital S.A. sold the Company 9,183,515 shares of CdS Corredora, at a total price of CH$3,242,972,647; and (b) Inversiones Seguros Security Limitada sold the Company 1 share of CdS Corredora, at a total price of CH$353.

As a result, and since 100% of the shares of CdS Corredora have been registered in the Shareholders Register of that company in the name of Valores Security S.A., and since the latter has expressly waived the term set forth in article 103, number 2 of Law 18,046, CdS Corredora has been automatically dissolved under the terms of Article 103 of Law 18,046, making Valores Security S.A. C. de B. the legal successor of CdS Corredora for all intents and purposes, whereby it acquires all of its rights, obligations, assets and liabilities.

In an extraordinary Board meeting held on March 17, 2015, the Board agreed, among other matters, to approve the related party transaction, whereby Valores Security S.A., Corredores de Bolsa would acquire 100% of the shares of Cruz del Sur Corredora de Bolsa S.A. ("CdS Corredora") from Capital S.A. and Inversiones Seguros Security Limitada.

5. OPERATING SEGMENTS

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

COMMERCIAL BANKING:

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 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.

OTHER:

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, 2016 and 2015.

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 SEGMENT

	COMMERCIAL BANKING		RETAIL BANKING		TREASURY		OTHER		TOTAL BANK		SUBSIDIARIES		TOTAL CONSOLIDATED	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
ASSETS														
Gross loans	3,076,647	2,780,323	1,385,421	1,275,267	26	505	-	1	4,462,094	4,056,096	-	-	4,462,094	4,056,096
Credit risk provisions	(56,285)	(53,955)	(24,366)	(20,116)	-	-	-	(229)	(80,651)	(74,300)	-	-	(80,651)	(74,300)
Net loans	3,020,362	2,726,368	1,361,055	1,255,151	26	505	-	(228)	4,381,443	3,981,796	-	-	4,381,443	3,981,796
Financial transactions	-	-	-	-	813,298	536,785	-	-	813,298	536,785	64,496	72,996	877,794	609,781
Other assets	-	-	-	-	97,635	135,761	614,435	786,925	712,070	922,686	119,543	70,417	831,613	993,103
Total assets	3,020,362	2,726,368	1,361,055	1,255,151	910,959	673,051	614,435	786,697	5,906,811	5,441,267	184,039	143,413	6,090,850	5,584,680
LIABILITIES														
Liabilities	2,778,281	2,521,799	1,273,802	1,181,188	860,078	620,614	614,385	786,606	5,526,546	5,110,207	102,567	66,133	5,629,113	5,176,340
Equity	242,081	204,569	87,253	73,963	50,881	52,437	-	1	380,215	330,970	81,472	77,280	461,687	408,250
Non-controlling interest		-	-	-	-	-	50	90	50	90	-	-	50	90
Total liabilities	3,020,362	2,726,368	1,361,055	1,255,151	910,959	673,051	614,435	786,697	5,906,811	5,441,267	184,039	143,413	6,090,850	5,584,680

B) RESULTS BY OPERATING SEGMENT

	COMMERCIAL BANKING		RETAIL BANKING		TREASURY		OTHER		TOTAL BANK		SUBSIDIARIES		TOTAL CONSOLIDATED	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
OPERATING INCOME														
Net interest margin [1]	73,693	64,980	57,926	51,273	8,048	21,297	(2,184)	(2,191)	137,483	135,359	(1,559)	(1,956)	135,924	133,403
Net commissions	16,623	15,292	20,360	15,843	(523)	(719)	(1,295)	1,528	35,165	31,944	18,238	16,390	53,403	48,334
Net foreign exchange and other income [2]	9,470	9,977	1,792	879	25,686	9,308	(26,384)	(11,967)	10,564	8,197	12,989	10,766	23,553	18,963
Losses from risk and assets received in lieu of payment [3]	(7,708)	(33,321)	(19,181)	(14,316)	64	(30)	(667)	1,481	(27,492)	(46,186)	-	400	(27,492)	(45,786)
Total operating income, net of provisions	92,078	56,928	60,897	53,679	33,275	29,856	(30,530)	(11,149)	155,720	129,314	29,668	25,600	185,388	154,914
Operating expenses [4]	(39,033)	(31,651)	(57,285)	(45,502)	(15,318)	(10,926)	2,807	3,487	(108,829)	(84,592)	(20,106)	(13,250)	(128,935)	(97,842)
Net operating income	53,045	25,277	3,612	8,177	17,957	18,930	(27,723)	(7,662)	46,891	44,722	9,562	12,350	56,453	57,072
Income attributable to investments in other companies	-	-	-	-	-	-	18	31	18	31	302	229	320	260
Profit before tax	53,045	25,277	3,612	8,177	17,957	18,930	(27,705)	(7,631)	46,909	44,753	9,864	12,579	56,773	57,332
Income taxes	(9,885)	(4,738)	(673)	(1,533)	(3,346)	(3,548)	9,425	2,034	(4,479)	(7,785)	(1,688)	(2,118)	(6,167)	(9,903)
Consolidated profit for the year	43,160	20,539	2,939	6,644	14,611	15,382	(18,280)	(5,597)	42,430	36,968	8,176	10,461	50,606	47,429
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	(2)	(5)	(2)	(5)
Profit attributable to equity holders of the bank	43,160	20,539	2,939	6,644	14,611	15,382	(18,280)	(5,597)	42,430	36,968	8,174	10,456	50,604	47,424

(1) Corresponds to 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 assets received in lieu of payment, impairment of investment securities and intangible assets and net country risk, special and additional provisions.
(4) Corresponds to 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, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
CASH AND DUE FROM BANKS		
Cash	9,054	9,822
Deposits in the Chilean Central Bank	253,388	327,765
Deposits in domestic banks	15,388	7,191
Foreign deposits	163,347	216,846
Subtotal - cash and due from banks	441,177	561,624
Transactions pending settlement, net	26,200	27,527
Repurchase agreements	-	-
Total cash and cash equivalents	467,377	589,151

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, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
ASSETS		
Outstanding notes from other banks	22,260	30,884
Funds receivable	9,925	10,208
Subtotal - assets	32,185	41,092
LIABILITIES		
Funds payable	(5,985)	(13,565)
Subtotal - liabilities	(5,985)	(13,565)
Transactions pending settlement, net	26,200	27,527

7. FINANCIAL INSTRUMENTS HELD FOR TRADING

As of December 31, 2016 and 2015, the Bank and its subsidiaries record 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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
CHILEAN GOVERNMENT AND CENTRAL BANK INSTRUMENTS										
Chilean Central Bank instruments	9,522	2,187	34,914	2,337	24,155	9,164	1,567	7,142	70,158	20,830
Chilean Treasury instruments	5,154	-	13,024	169	12,475	81,682	28,472	3,954	59,125	85,805
Other government instruments	-	-	863	-	57	256	-	52	920	308
Subtotal	14,676	2,187	48,801	2,506	36,687	91,102	30,039	11,148	130,203	106,943
OTHER FINANCIAL INSTRUMENTS										
Notes for deposits in domestic banks	85,807	50,977	11,519	3,648	-	-	-	-	97,326	54,625
Mortgage bonds in domestic banks	79	1	199	43	127	145	1,990	1,045	2,395	1,234
Bonds from domestic banks	11,753	3,262	3,740	7,466	12,898	10,718	2,553	2,607	30,944	24,053
Other instruments issued in Chile	2,009	149	3,245	-	-	-	-	-	5,254	149
Mutual funds	977	1,754	-	-	-	-	-	-	977	1,754
Subtotal	100,625	56,143	18,703	11,157	13,025	10,863	4,543	3,652	136,896	81,815
Total financial instruments held for trading	115,301	58,330	67,504	13,663	49,712	101,965	34,582	14,800	267,099	188,758

As of December 31, 2016 and 2015, the Bank has issued its own mortgage bonds for MCH$1,580 and MCH$1,662, respectively, which are offset by the mortgage bonds issued by the Bank in Liabilities.

As of December 31, 2016 and 2015, the instruments "BLAPO-F" and "BLAPO-G" remain in the portfolio of financial instruments held for trading. They total MCH$4 and implied a charge to the consolidated statement of income of MCH$4.

8. OPERATIONS WITH 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, 2016 and 2015, 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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Domestic banks	-	-	-	-	-	-	-	-
Other entities	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

B) OBLIGATIONS WITH PURCHASE COMMITMENTS

The Bank sells financial instruments under agreements to repurchase them at a future date plus preset interest. As of December 31, 2016 and 2015, 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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Domestic banks:								
Chilean Central Bank	-	-	-	-	-	-	-	-
Other banks	-	-	-	-	-	-	-	-
Other entities	25,776	540	1,232	232	-	33,720	27,008	34,492
Total	25,776	540	1,232	232	-	33,720	27,008	34,492

The instruments that guarantee the obligation for these repurchase agreements are included in the portfolio of financial instruments held for trading in Note 7.

9. DERIVATIVE INSTRUMENTS AND ACCOUNTING HEDGES

A) The following table summarizes the Bank's currency trading, futures trading and other transactions with derivative instruments as of each year-end:

	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		FROM THREE MONTHS TO ONE YEAR		ASSETS		LIABILITIES	
		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
		2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
TRADING DERIVATIVES											
Currency forwards	(VR)	48,274	6,123,315	96,108	3,083,342	27,136	643,734	28,103	67,648	(30,579)	(77,332)
Interest rate swaps	(VR)	234,721	680,441	1,106,246	543,749	2,350,711	1,347,621	32,794	28,167	(28,560)	(25,473)
Currency swaps	(VR)	8,468	13,710	68,379	44,317	379,735	396,464	38,990	43,507	(23,269)	(35,807)
Interest rate put options	(VR)	-	-	-	-	-	-	-	-	(9)	(11)
Total assets (liabilities) for trading derivatives		291,463	6,817,466	1,270,733	3,671,408	2,757,582	2,387,819	99,887	139,322	(82,417)	(138,623)
HEDGE ACCOUNTING DERIVATIVES											
Currency forwards	(F)	-	-	-	-	-	-	-	-	-	-
Interest rate swaps	(F)	-	-	-	-	18,938	19,222	-	-	(589)	(346)
Currency swaps	(F)	-	-	-	-	-	-	-	-	-	-
Total assets (liabilities) for hedge accounting derivatives		-	-	-	-	18,938	19,222	-	-	(589)	(346)
Total assets (liabilities) for derivative instruments		291,463	6,817,466	1,270,733	3,671,408	2,776,520	2,407,041	99,887	139,322	(83,006)	(138,969)

B) HEDGE ACCOUNTING

As of December 31, 2016, the Bank has an accounting hedge with a negative fair value of MCH$546 recorded in interest and indexation expense along with a gain of MCH$25. The account interest and indexation income also includes an accounting hedge with a negative fair value of MCH$244 and a gain of MCH$587, as a result of an adjustment to the hedged asset. As of December 31, 2015, the Bank has an accounting hedge with a negative fair value of MCH$432 recorded in interest and indexation expense and a gain of MCH$47, as a result of an adjustment to the hedged asset.

10. LOANS AND ADVANCES TO BANKS

A) Credit risk for loans and advances to banks as of December 31, 2016 and 2015 is assessed individually for each transaction. This account is as follows:

	ASSETS BEFORE PROVISIONS						PROVISIONS RECORDED						NET ASSETS	
	NORMAL AND SUBSTANDARD PORTFOLIO		DEFAULT PORTFOLIO		TOTAL		NORMAL AND SUBSTANDARD PORTFOLIO		DEFAULT PORTFOLIO		TOTAL			
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Domestic banks	238	411	-	-	238	411	-	-	-	-	-	-	238	411
Foreign banks	-	302	-	-	-	302	-	-	-	-	-	-	-	302
Total loans and advances to banks	238	713	-	-	238	713	-	-	-	-	-	-	238	713

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

MOVEMENT:	MCH$
BALANCE AS OF JANUARY 1, 2015	(15)
Write-offs of impaired portfolio	-
Provisions recorded	(7)
Provisions released	22
Balance as of December 31, 2015	-
BALANCE AS OF JANUARY 1, 2016	-
Write-offs of impaired portfolio	-
Provisions recorded (Note 29)	(2)
Provisions released (Note 29)	2
Balance as of December 31, 2016	-

11. LOANS TO CUSTOMERS, NET

A) Loans to customers

	ASSETS BEFORE PROVISIONS						PROVISIONS RECORDED							
	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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
COMMERCIAL LOANS:														
Commercial loans	2,830,725	2,467,411	127,276	104,383	2,958,001	2,571,794	50,840	47,022	3,790	2,752	54,630	49,774	2,903,371	2,522,020
Foreign trade loans	182,396	217,403	6,101	6,701	188,497	224,104	5,800	7,629	7	37	5,807	7,666	182,690	216,438
Current account overdrafts	38,240	45,547	2,312	2,068	40,552	47,615	2,363	2,067	170	179	2,533	2,246	38,019	45,369
Factored receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Student loans (*)	5,151	4,987	30	61	5,181	5,048	-	-	141	56	141	56	5,040	4,992
Lease transactions	291,473	270,302	15,433	17,052	306,906	287,354	1,960	2,302	54	49	2,014	2,351	304,892	285,003
Other loans and receivables	6,030	5,985	927	453	6,957	6,438	765	459	127	28	892	487	6,065	5,951
Subtotal	3,354,015	3,011,635	152,079	130,718	3,506,094	3,142,353	61,728	59,479	4,289	3,101	66,017	62,580	3,440,077	3,079,773
MORTGAGE LOANS:														
Loans funded with mortgage bonds	4,743	5,923	151	73	4,894	5,996	-	-	4	8	4	8	4,890	5,988
Loans funded with own resources	112,292	86,741	1,036	1,111	113,328	87,852	-	-	129	60	129	60	113,199	87,792
Other mortgage loans	447,407	453,524	5,425	7,391	452,832	460,915	-	-	1,247	905	1,247	905	451,585	460,010
Lease transactions	5	8	-	-	5	8	-	-	-	4	-	4	5	4
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	564,447	546,196	6,612	8,575	571,059	554,771	-	-	1,380	977	1,380	977	569,679	553,794
CONSUMER LOANS:														
Consumer installment loans	219,293	215,595	5,525	4,589	224,818	220,184	-	-	7,566	6,338	7,566	6,338	217,252	213,846
Current account overdrafts	66,671	60,159	2,202	2,037	68,873	62,196	-	-	3,133	2,597	3,133	2,597	65,740	59,599
Credit card debtors	89,240	75,047	1,419	825	90,659	75,872	-	-	2,555	1,808	2,555	1,808	88,104	74,064
Consumer lease transactions	-	3	-	-	-	3	-	-	-	-	-	-	-	3
Other loans and receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	375,204	350,804	9,146	7,451	384,350	358,255	-	-	13,254	10,743	13,254	10,743	371,096	347,512
TOTAL	4,293,666	3,908,635	167,837	146,744	4,461,503	4,055,379	61,728	59,479	18,923	14,821	80,651	74,300	4,380,852	3,981,079
ACCOUNTING HEDGES:														
Commercial loans													591	4
Subtotal													591	4
TOTAL LOANS TO CUSTOMERS													4,381,443	3,981,083

(*) In accordance with Bank Circular No. 3,583 of May 25, 2015, higher education loans regulated by Law No. 20,027 must be presented as commercial loans. For the periods 2016 and 2015, these loans totaled MCH$5,181 and MCH$5,048, respectively.

B) PROVISION MOVEMENTS

Movements in provisions in 2016 and 2015 are as follows:

	INDIVIDUAL PROVISIONS MCH$	GROUP PROVISIONS MCH$	TOTAL MCH$
BALANCE AS OF JANUARY 1, 2015	46,515	12,529	59,044
Write-offs of impaired portfolio:			
Commercial loans	(18,641)	-	(18,641)
Mortgage loans	-	(116)	(116)
Consumer loans	-	(12,462)	(12,462)
Total write-offs	(18,641)	(12,578)	(31,219)
Provisions recorded	78,336	35,533	113,869
Provisions released	(46,731)	(20,663)	(67,394)
Balance as of December 31, 2015	59,479	14,821	74,300
BALANCE AS OF JANUARY 1, 2016	59,479	14,821	74,300
Write-offs of impaired portfolio:			
Commercial loans	(11,187)	-	(11,187)
Mortgage loans	-	(226)	(226)
Consumer loans	-	(14,709)	(14,709)
Total write-offs	(11,187)	(14,935)	(26,122)
Provisions recorded (Note 29)	55,716	45,013	100,729
Provisions released (Note 29)	(42,280)	(25,976)	(68,256)
Balance as of December 31, 2016	61,728	18,923	80,651

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, which are presented in liabilities in "provisions" (Note 21).

As of December 31, 2016 and 2015, 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,			
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 %	2015 %
COMMERCIAL LOANS								
Manufacturing	151,436	175,935	5,528	5,712	156,964	181,647	3.52	4.48
Mining	46,375	49,822	-	-	46,375	49,822	1.04	1.23
Utilities	164,550	134,889	-	-	164,550	134,889	3.69	3.33
Agriculture and livestock	124,217	147,731	-	-	124,217	147,731	2.78	3.64
Forestry	17,402	20,214	-	-	17,402	20,214	0.39	0.50
Fishing	73,852	64,821	-	-	73,852	64,821	1.66	1.60
Transportation	163,979	122,702	-	-	163,979	122,702	3.68	3.03
Telecom	45,639	25,939	-	-	45,639	25,939	1.02	0.64
Construction	277,002	262,722	-	-	277,002	262,722	6.21	6.48
Wholesale and retail trade	1,031,987	930,852	210	-	1,032,197	930,852	23.14	22.95
Financial services and insurance	788,560	643,325	-	-	788,560	643,325	17.67	15.86
Real estate	7,446	6,099	-	-	7,446	6,099	0.17	0.15
Corporate services	60,462	109,901	-	-	60,462	109,901	1.36	2.71
Social services	405,232	339,108	-	-	405,232	339,108	9.08	8.36
Other	142,217	102,581	-	-	142,217	102,581	3.19	2.53
Subtotal	3,500,356	3,136,641	5,738	5,712	3,506,094	3,142,353	78.59	77.49
Mortgage loans	571,059	554,771	-	-	571,059	554,771	12.80	13.68
Consumer loans	384,350	358,255	-	-	384,350	358,255	8.61	8.83
Total	4,455,765	4,049,667	5,738	5,712	4,461,503	4,055,379	100.00	100.00

12. INVESTMENT SECURITIES

As of December 31, 2016 and 2015, the Bank and its subsidiaries record the following balances within investment securities using the fair value method:

INVESTMENTS AVAILABLE FOR SALE

	UP TO ONE YEAR DECEMBER 31,		FROM ONE TO THREE YEARS DECEMBER 31,		FROM THREE TO SIX YEARS DECEMBER 31,		MORE THAN SIX YEARS DECEMBER 31,		TOTAL DECEMBER 31,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Chilean Government and Central Bank instruments										
Chilean Central Bank instruments	281,379	81,876	12,506	34,834	-	-	-	-	293,885	116,710
Chilean Treasury instruments	-	-	-	-	-	-	-	-	-	-
Subtotal	281,379	81,876	12,506	34,834	-	-	-	-	293,885	116,710
Other financial instruments										
Notes for deposits in domestic banks	14,027	9,742	4,209	1,050	-	-	-	-	18,236	10,792
Mortgage bonds in domestic banks	38	33	405	455	1,501	801	18,632	21,611	20,576	22,900
Bonds from domestic companies	33,032	6,447	25,710	19,182	35,200	34,183	25,365	26,652	119,307	86,464
Other instruments issued abroad	2,807	11,980	18,790	24,182	83,497	75,709	53,597	72,286	158,691	184,157
Subtotal	49,904	28,202	49,114	44,869	120,198	110,693	97,594	120,549	316,810	304,313
Total investments available for sale	331,283	110,078	61,620	79,703	120,198	110,693	97,594	120,549	610,695	421,023

Operations with repurchase agreements with customers and the Chilean Central Bank within the portfolio of investments available for sale as of December 31, 2016 and 2015 amount to MCH$1,005 and MCH$539, respectively.

As of December 31, 2016 and 2015, the portfolio of investments available for sale includes an unrealized loss of MCH$3,268 and MCH$(3,986), respectively, which is presented in equity net of deferred taxes (Note 24).

As of December 31, 2016 and 2015, 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:

	OWNERSHIP INTEREST		INVESTMENT VALUE						INCOME AS OF DECEMBER 31,	
			BALANCE AS OF JANUARY 1,		BUY/SALE		BALANCE AS OF DECEMBER 31,			
	2016 %	2015 %	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Imer Otc Sa	6.67	6.67	864	864	-	-	864	864	-	-
Santiago Stock Exchange (*)	2.08	2.08	1,887	305	108	1,582	1,995	1,887	292	199
Electronic Stock Exchange	2.44	2.44	61	61	-	-	61	61	-	-
Combanc S.A.	3.96	3.96	131	102	40	29	171	131	12	20
Depósitos Central de Valores S.A.	3.60	3.60	58	58	-	-	58	58	5	10
Other investments in other companies			47	47	956	-	1,003	47	11	31
Total investments in other companies			3,048	1,437	1,104	1,611	4,152	3,048	320	260

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

(*) In 2015, the subsidiary Valores Security S.A. Corredores de Bolsa sold one share of the Santiago Stock Exchange recorded at cost. The same subsidiary merged with Cruz del Sur Corredores de Bolsa S.A. (CdS Corredora) and acquired its share of the Santiago Stock Exchange valued at fair value.

14. INTANGIBLE ASSETS

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

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Software or computer programs	40,246	59,184
Goodwill	13,039	8,677
Total intangible assets	53,285	67,861

The above concepts are as follows:

A) SOFTWARE OR COMPUTER PROGRAMS

A.1) The intangibles of the Bank and its subsidiaries as of December 31, 2016 and 2015 are internally developed programs that are either in production or under development:

	USEFUL LIFE (YEARS)		REMAINING LIFE (YEARS)		GROSS ASSETS		ACCUMULATED AMORTIZATION		NET ASSETS	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
TYPE OF INTANGIBLE ASSET:	2016	2015	2016	2015	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Acquired	-	-	-	-	-	-	-	-	-	-
Developed internally	6,15	9,00	14,00	6,84	64,607	76,988	(24,361)	(17,804)	40,246	59,184
Total					64,607	76,988	(24,361)	(17,804)	40,246	59,184

A.2) The intangibles of the Bank and its subsidiaries as of December 31, 2016 and 2015 are internally developed programs that are either in production or under development:

	MOVEMENTS IN INTANGIBLE ASSETS			
	INTANGIBLE ASSETS			
	ACQUIRED MCH$	DEVELOPED INTERNALLY MCH$	ACCUMULATED AMORTIZATION MCH$	TOTAL MCH$
BALANCE AS OF JANUARY 1, 2015	-	68,245	(16,688)	51,557
Additions	-	12,189	-	12,189
Transfer to intangible assets in operation	-	(1,889)	3,835	1,946
Amortization for the year	-	-	(4,951)	(4,951)
Impairment for the year	-	(1,557)	-	(1,557)
Balance as of December 31, 2015	-	76,988	(17,804)	59,184
BALANCE AS OF JANUARY 1, 2016	-	76,988	(17,804)	59,184
Additions	-	8,719	-	8,719
Transfer to intangible assets in operation	-	-	-	-
Amortization for the year	-	-	(13,198)	(13,198)
Impairment for the year	-	(21,100)	6,641	(14,459)
Balance as of December 31, 2016	-	64,607	(24,361)	40,246

In 2016 and 2015, the Bank recorded charges of MCH$21,100 and MCH$1,557 (Note 33) for impairment, respectively.

B) GOODWILL

B.1) Goodwill as of December 31, 2016 and 2015 is as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Goodwill	13,039	8,677
Total	13,039	8,677

B.2) Movements in goodwill in the year ended December 31, 2016 are as follows:

	"MOVEMENTS IN GOODWILL 12.31.2016 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.	8,677	532	-	-	9,209
Goodwill Valores Security S.A. Corredores de Bolsa	-	3,830	-	-	3,830
Total	8,677	4,362	-	-	13,039

As explained in Note 4 to the consolidated financial statements, on February 15, 2016, Banco Security acquired Penta Corredores de Bolsa S.A. and Penta Administradora General de Fondos S.A., giving rise to goodwill of MCH$3,830 and MCH$532, respectively, as detailed in Note 2 ac) of the consolidated financial statements.

The fair value of identifiable assets and liabilities consolidated in these financial statements has been determined provisionally, in accordance with IFRS 3, which allows adjustments to the provisional amounts within a period of one year.

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			NET ASSETS
	GROSS ASSETS	DEPRECIATION ACCUMULATED	IMPAIRMENT ACCUMULATED	GROSS ASSETS	DEPRECIATION ACCUMULATED	IMPAIRMENT ACCUMULATED	GROSS ASSETS	DEPRECIATION ACCUMULATED	IMPAIRMENT ACCUMULATED	
	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$	MCH$
BALANCE AS OF JANUARY 1, 2015	18,906	(2,586)	-	6,995	(5,765)	-	13,260	(6,564)	-	24,246
Additions	730	-	-	512	-	-	1,792	-	-	3,034
Disposals / write-offs	-	-	-	-	67	-	-	96	-	163
Depreciation for the year	-	(267)	-	-	(588)	-	-	(987)	-	(1,842)
Impairment for the year	-	-	-	-	-	-	-	-	-	-
Balance as of December 31, 2015	19,636	(2,853)	-	7,507	(6,286)	-	15,052	(7,455)	-	25,601
BALANCE AS OF JANUARY 1, 2016	19,636	(2,853)	-	7,507	(6,286)	-	15,052	(7,455)	-	25,601
Additions	213	-	-	342	-	-	906	-	-	1,461
Disposals / write-offs	-	-	-	-	-	-	-	-	-	-
Depreciation for the year	-	(348)	-	-	(443)	-	-	(1,212)	-	(2,003)
Impairment for the year	-	-	-	-	-	-	-	-	-	-
Balance as of December 31, 2016	19,849	(3,201)	-	7,849	(6,729)	-	15,958	(8,667)	-	25,059

B) FUTURE OPERATING LEASE PAYMENTS

Minimum future payments as of December 31, 2016 and 2015, which 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 5 YEARS		TOTAL	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Operating lease agreements	291	146	10,246	11,589	10,227	11,257	20,764	22,992

C) LEASE EXPENSES

Expenses for operating leases for the agreements described in letter b) for 2016 and 2015 are as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Operating lease expenses	3,158	3,215

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

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Current income taxes	(14,178)	(13,505)
Tax on disallowed expenses (35%)		-
Less:		
Monthly provisional tax payments	13,796	15,630
Credits for training expenses	114	113
Other	60	47
Total	(208)	2,285
Recoverable taxes for the year	(208)	-
Income taxes payable	-	-
Current tax liability	(208)	-
Recoverable taxes for the year	-	2,285
Recoverable taxes from prior years	1,086	592
Current tax asset	1,086	2,877

B) INCOME TAX EXPENSE

The Bank's tax expense recorded for the years ended December 31, 2016 and 2015 is as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
INCOME TAX EXPENSE:		
Current year taxes	14,178	13,505
Single tax for the year	49	12
Tax expense adjustment (prior period)	151	840
Subtotal	14,378	14,357
CREDIT (CHARGE) FOR DEFERRED TAXES:		
Origin and reversal of temporary differences	(6,128)	(3,833)
Effect of change in tax rate	(2,083)	(621)
Net charge to profit for income taxes	6,167	9,903

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, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Financial assets available for sale	(1,031)	1,157
Tax goodwill	1,671	1,827
Other	(277)	31
Total	363	3,015

C.2) EFFECT OF DEFERRED TAXES:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
DEFERRED TAX ASSETS:		
Global portfolio provisions	19,460	15,844
Goodwill portfolio provisions	458	473
Vacation and other provisions	937	927
Fair value investments	285	369
Contingency provisions	3	3
Global provisions on recovered assets	28	355
Projects and development	7,238	6,231
Suspended interest	963	562
Other	5,226	5,203
Total deferred tax assets through profit and loss	34,598	29,967
Effect on equity (debtor balance)	1,394	1,858
Total deferred tax assets	35,992	31,825
DEFERRED TAX LIABILITIES:		
Lease agreements	662	(1,259)
Depreciation of property, plant and equipment	(6,201)	(6,296)
Effective rate	(184)	(175)
Deferred revenue and expenses	-	(1,944)
Projects and development	(7,346)	(7,163)
Other	(1,046)	(858)
Total deferred tax liabilities through profit and loss	(14,115)	(17,695)
Effect on equity (creditor balance)	(1,031)	1,157
Total deferred tax liabilities	(15,146)	(16,538)
Total asset through profit and loss	20,483	12,272

C.3) TOTAL DEFERRED TAXES:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Effect of deferred taxes on equity	363	3,015
Effect of deferred taxes on profit (loss)	20,483	12,272
Total asset, net	20,846	15,287

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, 2016 and 2015.

	AS OF DECEMBER 31, 2016		AS OF DECEMBER 31, 2015	
	TAX RATE	AMOUNT MCH$	TAX RATE	AMOUNT MCH$
Profit before taxes	24.0%	13,626	22.5%	12,900
Permanent differences	-9.8%	(5,576)	-5.6%	(3,228)
Additions or deductions				
Single tax (disallowed expenses)	0.1%	49	0.0%	12
Prior period adjustments	0.3%	151	1.4%	789
Effect of change in tax rate	-3.7%	(2,083)	-1.1%	(621)
Other	0.0%	-	0.1%	51
Effective rate and income tax expense	10.9%	6,167	17.3%	9,903

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 recorded in accordance with IAS 12 Income Taxes..

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The tax treatment of provisions, write-offs, renegotiations and remissions of loans granted by the Bank (excluding subsidiaries) as of December 31, 2016 and 2015, is as follows:

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

			ASSETS AT TAX VALUE					
	ASSETS AT CARRYING AMOUNT		TOTAL		SECURED PAST-DUE PORTFOLIO		UNSECURED PAST-DUE PORTFOLIO	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
LOANS TO CUSTOMERS:	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Commercial loans	3,199,789	2,855,030	3,203,532	2,852,400	9,006	5,413	7,741	8,846
Consumer loans	384,350	358,252	384,350	363,300	59	56	1,896	1,182
Residential mortgage loans	571,055	554,763	571,055	554,763	449	489	8	-
Loans and advances to banks	238	712	238	712	-	-	-	-
Total	4,155,432	3,768,757	4,159,175	3,771,175	9,514	5,958	9,645	10,028

D.2) PROVISIONS FOR PAST-DUE PORTFOLIO:

	BALANCE AS OF JANUARY 1,		WRITE-OFFS AGAINST PROVISIONS		PROVISIONS RECORDED		PROVISIONS RELEASED		BALANCE AS OF DECEMBER 31,	
PROVISIONS FOR PAST-DUE LOANS	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
Commercial loans	8,846	15,592	(7,507)	(13,556)	6,402	6,810	-	-	7,741	8,846
Consumer loans	1,182	837	(6,379)	(5,658)	7,093	6,003	-	-	1,896	1,182
Residential mortgage loans	-	-	-	-	8	-	-	-	8	-
Loans and advances to banks	-	-	-	-	-	-	-	-	-	-
Total	10,028	16,429	(13,886)	(19,214)	13,503	12,813	-	-	9,645	10,028

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

	AS OF DECEMBER 31,			AS OF DECEMBER 31,	
DIRECT WRITE-OFFS AND RECOVERIES	2016 MCH$	2015 MCH$	APPLICATION OF ARTICLE 31 NO. 4 SECTIONS ONE AND THREE	2016 MCH$	2015 MCH$
Direct write-offs Art. 31, No. 4, section two	11,718	11,647		-	-
Cancellations that resulted in releasing provisions	-	-		-	-
Recovery or renegotiation of written-off loans	3,737	4,281		-	-

17. OTHER ASSETS

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

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
LEASED ASSETS	19,332	36,285
Assets received or awarded in lieu of payment:		
Assets received in lieu of payment	95	1,052
Assets awarded in court-ordered public auction	1,232	392
Provisions for assets received in lieu of payment	(220)	(145)
Subtotal - Assets received or awarded in lieu of payment	1,107	1,299
OTHER ASSETS		
Cash deposits as collateral	11,257	21,113
VAT tax credit	2,383	1,275
Prepaid expenses	1,162	1,070
Recovered leased assets for sale	675	1,388
Brokerage receivables	70,960	36,173
Treasury receivables	18,954	11,099
Other	12,722	10,151
Subtotal - Other assets	118,113	82,269
Total other assets	138,552	119,853

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 assets received in lieu of payment during the years ended December 31, 2016 and 2015, recorded in accordance with SBIF standards:

MOVEMENT:		MCH$
BALANCE AS OF JANUARY 1, 2015		(44)
Recorded:	Provision	(201)
	Impairment	-
Released::	Provision	100
	Impairment	-
Balance as of December 31, 2015		(145)
BALANCE AS OF JANUARY 1, 2016		(145)
Recorded:	Provision	(295)
	Impairment	-
Released::	Provision	220
	Impairment	-
Balance as of December 31, 2016		(220)

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, 2016 and 2015, current accounts and other demand deposits are as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
CURRENT ACCOUNTS:		
Current accounts of domestic banks	5,534	11
Current accounts of other legal entities	310,160	337,230
Current accounts of individuals	152,293	139,217
Subtotal	467,987	476,458
OTHER DEMAND DEPOSITS AND ACCOUNTS		
Cashier's checks	35,736	34,100
Demand deposits	2,180	2,493
Subtotal	37,916	36,593
OTHER DEMAND BALANCES PAYABLE:		
Deposits for court allocations	84	5
Performance bonds payable on demand	7,355	7,095
Collections made but not yet received	8,316	11,477
Export returns to settle	53	18
Pending payment orders	3,216	2,707
Payments on behalf of loans to be settled	4,816	2,982
Frozen assets (art 156 of General Banking Law)	999	931
Lapsed time deposits	2,354	2,567
Other demand balances	36,922	43,023
Subtotal	64,115	70,805
Total	570,018	583,856

B) SAVINGS ACCOUNTS AND TIME DEPOSITS

Savings accounts and time deposits as of December 31, 2016 and 2015, 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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
TIME DEPOSITS										
Domestic banks	204,115	198,227	5,006	-	-	-	-	-	209,121	198,227
Other legal entities	2,592,533	2,358,317	97,502	19,638	-	-	-	-	2,690,035	2,377,955
Individuals	152,426	141,251	46	52	192	183	-	-	152,664	141,486
Subtotal	2,949,074	2,697,795	102,554	19,690	192	183	-	-	3,051,820	2,717,668

19. BORROWINGS FROM FINANCIAL INSTITUTIONS

As of December 31, 2016 and 2015, 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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
DOMESTIC BANKS:										
Current account overdrafts	5	515	-	-	-	-	-	-	5	515
Subtotal	5	515	-	-	-	-	-	-	5	515
FOREIGN BANKS:										
Financing for Chilean exports	100,656	123,383	-	-	-	-	-	-	100,656	123,383
Financing for Chilean imports	10,728	68,287	16,779	-	-	-	-	-	27,507	68,287
Obligations for transactions between third-party countries	-	-	16,745	17,718	13,413	-	-	-	30,158	17,718
Loans and other obligations	431	18,253	-	-	-	-	-	-	431	18,253
Subtotal	111,815	209,923	33,524	17,718	13,413	-	-	-	158,752	227,641
Chilean Central Bank:	-	-	-	-	-	-	-	-	-	-
Total	111,820	210,438	33,524	17,718	13,413	-	-	-	158,757	228,156

20. DEBT INSTRUMENTS ISSUED AND OTHER FINANCIAL LIABILITIES

Debt instruments issued and other financial liabilities as of December 31, 2016 and 2015, 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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
LETTERS OF CREDIT:										
Letters of credit for residential purposes	244	1,017	494	1,548	576	1,718	2,371	626	3,685	4,909
Letters of credit for general purposes	417	2,546	844	4,561	2,888	5,579	16,787	11,211	20,936	23,897
Subtotal	661	3,563	1,338	6,109	3,464	7,297	19,158	11,837	24,621	28,806
BONDS:										
Senior bonds	106,638	102,168	296,651	219,564	415,247	291,241	482,996	505,268	1,301,532	1,118,241
Subordinated bonds	11,979	8,608	16,877	21,211	22,388	21,455	193,876	146,552	245,120	197,826
Subtotal	118,617	110,776	313,528	240,775	437,635	312,696	676,872	651,820	1,546,652	1,316,067
Total	119,278	114,339	314,866	246,884	441,099	319,993	696,030	663,657	1,571,273	1,344,873

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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
PUBLIC-SECTOR OBLIGATIONS:										
CORFO financing	402	501	2,538	1,260	6,888	10,741	3,828	3,985	13,656	16,487
Subtotal	402	501	2,538	1,260	6,888	10,741	3,828	3,985	13,656	16,487
OTHER CHILEAN OBLIGATIONS:										
Payables to credit card operators	6,483	6,160	-	-	-	-	-	-	6,483	6,160
Obligations in favor of Chilean exporters	-	-	-	-	-	-	-	-	-	-
Subtotal	6,483	6,160	-	-	-	-	-	-	6,483	6,160
Total	6,885	6,661	2,538	1,260	6,888	10,741	3,828	3,985	20,139	22,647

21. PROVISIONS

A) As of December 31, 2016 and 2015, the Bank and its subsidiaries recorded the following provisions:

	AS OF DECEMBER 31 2016 MCH$	AS OF DECEMBER 31 2015 MCH$
PROVISIONS FOR PAYROLL AND EMPLOYEE BENEFITS		
Provision for other employee benefits	149	-
Vacation provisions	2,634	2,660
Subtotal - Provisions for payroll and employee benefits	2,783	2,660
MINIMUM DIVIDEND PROVISION	15,181	14,227
CONTINGENT CREDIT RISK PROVISIONS		
Guarantees and pledges	74	140
Issued foreign letters of credit	25	14
Performance and bid bonds	2,263	2,526
Unrestricted lines of credit	3,226	3,623
Subtotal - Contingent loan risk	5,588	6,303
CONTINGENCY PROVISIONS		
Country risk provisions	93	189
Minimum provision adjustment	-	16
Other contingency provisions	7,991	3,905
Subtotal - Contingency provisions	8,084	4,110
Total other provisions	31,636	27,300

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

B) In 2016 and 2015, provision movements are as follows:

	PAYROLL AND EMPLOYEE BENEFITS MCH$	MINIMUM DIVIDENDS MCH$	CONTINGENT LOAN RISK MCH$	CONTINGENCIES MCH$	TOTAL MCH$
BALANCE AS OF JANUARY 1, 2015	2,809	16,771	4,170	9,070	32,820
Provisions recorded	736	12,576	10,038	1,101	24,451
Provisions released	(885)	(15,120)	(7,905)	(6,061)	(29,971)
Balance as of December 31, 2015	2,660	14,227	6,303	4,110	27,300
BALANCE AS OF JANUARY 1, 2016	2,660	14,227	6,303	4,110	27,300
Provisions recorded	906	13,059	8,867	9,796	32,628
Provisions released	(783)	(12,105)	(9,582)	(5,822)	(28,292)
Balance as of December 31, 2016	2,783	15,181	5,588	8,084	31,636

22. OTHER LIABILITIES

Other liabilities as of December 31, 2016 and 2015, are as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Accounts and notes payable	45,952	20,252
Dividends payable	31	20
Unearned revenue	511	2,149
Short sales	4	-
Payables to customers for brokerage services	33,343	18,191
Payables to brokers for brokerage services	10,862	4,854
Other liabilities	3,414	2,810
Total	94,117	48,276

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, no 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 recorded:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Performance and bid bonds	215,371	229,696
Immediately available credit lines	835,941	797,626
Letters of credit	13,251	15,031
Guarantees and surety bonds	5,347	6,199
Provisions	(5,588)	(6,303)
Total	1,064,322	1,042,249

C) LIABILITIES

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

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Securities and bonds provided as guarantee	4,483,875	3,782,803
Instruments in custody	1,569,110	1,154,175
Loans approved but not disbursed	476,501	474,216
Signed lease agreements	43,498	61,363
Notes in collections	51,237	43,565
Total	6,624,221	5,516,122

D) GUARANTEES FURNISHED

As of December 31, 2016 and 2015, the Bank does not have any assets furnished as guarantee.

As of December 31, 2016, 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, 2018, through MAPFRE Garantías y Crédito S.A., designating the Santiago Stock Exchange as the depositary and custody institution.

With respect to the circular issued by the Santiago Stock 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 Compañía de Seguros Generales Penta Security, for UF 300,000, maturing July 31, 2017, which provides all of the coverage required by that circular.

In order to guarantee forward transactions, Valores Security S.A. Corredores de Bolsa has deposited stocks in custody of the Santiago Stock Exchange totaling MCH$24,850 and MCH$12,729 as of December 31, 2016 and 2015, 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 Countraparte Central totaling MCH$2,956 and MCH$1,424 as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, Valores Security S.A. Corredores de Bolsa did not have any instruments in custody to guarantee proprietary short sales and securities loans. As of December 31, 2015, the subsidiary had recorded MCH$1,201 for this concept.

In compliance with SVS Circular 1898, Valores Security S.A. Corredores de Bolsa has contracted an insurance policy for UF10,000 expiring on January 7, 2017, 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 refers 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 204,091 through Compañía de Seguros Continental, expiring on March 31,

24. EQUITY

A) The Bank's authorized capital is comprised of 215,000,000 single-series shares, of which 210,953,488 are fully subscribed and paid in.

On March 15, 2016, 4,958,562 shares of Banco Security were subscribed and paid in at a price of CH$2,016.714096 per share.

Movements of issued and paid in shares are as follows:

	COMMON SHARES		PREFERENTIAL SHARES	
	2016	2015	2016	2015
Opening balance	205,994,926	205,993,449	-	-
Payment of subscribed shares	4,958,562	1,477	-	-
Balance	210,953,488	205,994,926	-	-

A la fecha de cierre de los estados financieros la distribución de la propiedad del Banco era la siguiente:

	2016		2015	
SHAREHOLDERS	NO. OF SHARES	OWNERSHIP INTEREST (%)	NO. OF SHARES	OWNERSHIP INTEREST (%)
Grupo Security	210,895,936	99.97	205,936,986	99.97
Other	57,552	0.03	57,940	0.03
Total	210,953,488	100.00	205,994,926	100.00

B) As of December 31, 2016 and 2015, earnings per share are as follows:

ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE BANK:

	DECEMBER	
	2016	2015
Profit for the year	MCH$ 50,604	MCH$ 47,424
Average outstanding shares	210,127,061	205,994,926
EARNINGS PER SHARE:		
Basic	CH$ 241	CH$ 230
Diluted	CH$ 241	CH$ 230

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

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Opening balance	23,950	24,190
Other equity movements (*)	760	(240)
Closing balance	24,710	23,950
(*) Opening balance of other equity movements		
Movement subsidiary Administradora General de Fondos Security S.A.	(156)	(117)
Movement subsidiary Valores Security S.A. Corredora de Bolsa	916	(123)
Total	760	(240)

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

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
INSTRUMENTS AVAILABLE FOR SALE:		
Valuation	4,299	(5,143)
Deferred taxes	(1,031)	1,157
Subtotal	3,268	(3,986)
ACCOUNTING HEDGES:		
Valuation	-	-
Deferred taxes	-	-
Subtotal	-	-
Total	3,268	(3,986)

E) For the years ended December 31, 2016 and 2015, the following dividend was declared and paid:

DESCRIPTION	DISTRIBUTABLE PROFIT MCH$	DIVIDENDS MCH$	RESERVESMCH$	DIVIDENDS PER SHARE CH$
2015 Fiscal Year Shareholders' meeting No. 34	47,424	14,227	37,197	67.44
2014 Fiscal Year Shareholders' meeting No. 33	55,902	16,771	39,131	81.41

As of December 31, 2016 and 2015, the Bank recorded 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$15,181 and MCH$14,227, respectively.

F) Basic and regulatory capital: In accordance with the General Banking Law, a financial institution must have minimum basic capital of not less than 3% of total assets, and regulatory capital of not less than 8% of its risk-weighted assets. As of December 31, 2016, Banco Security has basic capital of 7.10% (6.63% in December 2015) and 13.22% (12.10% in December 2015), respectively.

25. INTEREST AND INDEXATION

Interest and indexation accrued and received for the years ended December 31, 2016 and 2015, are as follows:

A) INTEREST AND INDEXATION INCOME

	INTEREST		INDEXATION		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
REPURCHASE AGREEMENTS	63	97	-	-	63	97
Loans and advances to banks	1,010	456	-	-	1,010	456
COMMERCIAL LOANS:						
Commercial loans	151,866	125,870	27,839	36,638	179,705	162,508
Foreign trade loans	6,617	7,304	22	-	6,639	7,304
Current account loans	7,058	7,064	-	-	7,058	7,064
Student loans	305	-	138	-	443	-
Commercial lease agreements	17,227	15,380	5,966	12,403	23,193	27,783
Prepayment commissions on commercial loans	-	-	1,540	-	1,540	-
Total income from commercial loans	183,073	155,618	35,505	49,041	218,578	204,659
MORTGAGE LOANS:						
Loans funded with mortgage bonds	232	295	151	261	383	556
Commissions on loans funded with mortgage bonds	40	42	-	-	40	42
Loans funded with own resources	3,775	2,475	2,819	2,688	6,594	5,163
Other mortgage loans	17,360	18,095	12,575	18,301	29,935	36,396
Total income from mortgage loans	21,407	20,907	15,545	21,250	36,952	42,157
CONSUMER LOANS:						
Consumer installment loans	22,142	21,686	-	190	22,142	21,876
Current account loans	12,399	14,877	-	-	12,399	14,877
Credit card loans	9,832	8,054	-	-	9,832	8,054
Prepayment commissions on consumer loans	-	-	5	-	5	-
Total income from consumer loans	44,373	44,617	5	190	44,378	44,807
INVESTMENT SECURITIES:						
Investments available for sale	21,583	17,351	1,949	2,919	23,532	20,270
Total income from investment securities	21,583	17,351	1,949	2,919	23,532	20,270
Other interest or indexation income:	4,644	4,170	211	241	4,855	4,411
Gain (loss) from accounting hedges (*)	343	(47)	-	-	343	(47)
Total interest and indexation income	276,496	243,169	53,215	73,641	329,711	316,810

Suspended interest and indexation on loans included in the impaired portfolio totaled MCH$471 and MCH$957, as of December 31, 2016 and 2015, respectively.

(*) Loss on accounting hedges explained in Note 9 to the financial statements.

B) INTEREST AND INDEXATION EXPENSES

For the years ended December 31, 2016 and 2015, interest and indexation expenses are as follows:

	INTEREST		INDEXATION		OTHER		TOTAL	
	DECEMBER 31,		DECEMBER 31,		DECEMBER 31,		DECEMBER 31,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
DEPOSITS								
Demand deposits	(396)	(480)	(145)	(73)	-	-	(541)	(553)
Time deposits	(90,960)	(75,022)	(8,496)	(10,805)	-	-	(99,456)	(85,827)
Total expenses for deposits	(91,356)	(75,502)	(8,641)	(10,878)	-	-	(99,997)	(86,380)
Repurchase agreements	(1,226)	(1,516)	-	-	-	-	(1,226)	(1,516)
Borrowings from financial institutions	(1,742)	(1,078)	-	-	-	-	(1,742)	(1,078)
DEBT INSTRUMENTS ISSUED								
Interest on letters of credit	(1,048)	(1,269)	(721)	(1,241)	-	-	(1,769)	(2,510)
Interest on senior bonds	(40,153)	(33,928)	(32,101)	(39,866)	-	-	(72,254)	(73,794)
Interest on subordinated bonds	(9,357)	(8,717)	(6,004)	(7,725)	-	-	(15,361)	(16,442)
Total expenses for debt issued	(50,558)	(43,914)	(38,826)	(48,832)	-	-	(89,384)	(92,746)
Other interest or indexation expenses	(505)	(588)	(412)	(667)	-	-	(917)	(1,255)
Loss from accounting hedges (*)	(521)	(432)	-	-	-	-	(521)	(432)
Total interest and indexation expenses	(145,908)	(122,598)	(47,879)	(60,377)	-	-	(193,787)	(183,407)

(*) Loss on accounting hedges explained in Note 9 to the financial statements.

26. FEES AND COMMISSIONS

Fee and commission income and expenses for the years ended December 31, 2016 and 2015, which are presented in the consolidated statement of income, consist of the following concepts:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
FEE AND COMMISSION INCOME		
Lines of credit and overdrafts	2,008	1,962
Guarantees and letters of credit	4,935	5,320
Card services	7,378	6,870
Account management	3,025	2,762
Collections and payments	13,109	10,666
Securities brokerage and management	4,812	2,841
Mutual funds and other investments	20,389	20,204
Financial advisory services	-	54
Other fees and commissions earned	8,284	6,519
Total fee and commission income	63,940	57,198
FEE AND COMMISSION EXPENSES		
Securities transactions fees and commissions	(1,111)	(490)
Sales service fees and commissions	(6,706)	(6,546)
Other fees and commissions	(2,720)	(1,828)
Total fee and commission expenses	(10,537)	(8,864)
Total net fee and commission income	53,403	48,334

27. NET FINANCIAL OPERATING INCOME

Net financial operating income for the years ended December 31, 2016 and 2015, is as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
FINANCIAL INSTRUMENTS HELD FOR TRADING		
Interest and indexation	7,535	9,580
Fair value adjustment	1,892	2,616
Gain on sale	3,887	7,724
Loss on sale	(892)	(7,260)
Gain on mutual fund investments	2,563	1,945
Subtotal	14,985	14,605
TRADING DERIVATIVES		
Gain on derivative instruments	297,438	348,917
Loss on derivative instruments	(279,507)	(366,853)
Subtotal	17,931	(17,936)
SALE OF INVESTMENTS AVAILABLE FOR SALE		
Fair value adjustments transferred to profit (loss)	859	(1,479)
Gain on sale	2,647	1,587
Loss on sale	(299)	(3,709)
Subtotal	3,207	(3,601)
Sale of loan portfolio	451	(181)
NET GAIN (LOSS) FROM OTHER TRANSACTIONS		
Purchases of letters of credit issued by the bank	(2)	(3)
Other income	4,484	4,961
Other expenses	(2,673)	(2,521)
Subtotal	1,809	2,437
Total net financial operating income (loss)	38,383	(4,676)

28. NET FOREIGN EXCHANGE TRANSACTIONS

For the years ended December 31, 2016 and 2015, net foreign exchange transactions for the Bank and its subsidiaries are as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
NET FOREIGN EXCHANGE TRANSACTIONS:		
Net gain on currency positions	1,219	20,466
Other currency gains	231	838
Subtotal	1,450	21,304
NET GAIN FOR EXCHANGE RATE ADJUSTMENTS		
Indexation of loans to customers	6	51
Indexation of other liabilities	-	-
Subtotal	6	51
Total	1,456	21,355

29. CREDIT RISK PROVISIONS

Movements in credit risk provisions for the years ended December 31, 2016 and 2015, 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	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
PROVISIONS RECORDED:												
Individual provisions	(2)	(7)	(55,716)	(78,336)	-	-	-	-	(4,428)	(5,314)	(60,146)	(83,657)
Group provisions (*) (***)	-	-	(4,775)	(3,177)	(3,252)	(1,881)	(36,986)	(30,475)	(4,439)	(4,724)	(49,452)	(40,257)
Minimum provision adjustment	-	-	-	(14)	-	-	-	-		(2)	-	(16)
Total provisions recorded	(2)	(7)	(60,491)	(81,527)	(3,252)	(1,881)	(36,986)	(30,475)	(8,867)	(10,040)	(109,598)	(123,930)
PROVISIONS RELEASED:												
Individual provisions	2	22	42,280	46,731	-	-	-	-	4,705	3,645	46,987	50,398
Group provisions (**) (***)	-	-	3,535	3,003	2,619	1,508	19,822	16,152	4,877	4,260	30,853	24,923
Minimum provision adjustment	-	-	-	-	-	-	-	-	-	-	-	-
Total provisions released	2	22	45,815	49,734	2,619	1,508	19,822	16,152	9,582	7,905	77,840	75,321
Recovery of written-off assets	-	-	1,816	1,149	-	93	2,165	3,249	-	-	3,981	4,491
Profit for the period	-	15	(12,860)	(30,644)	(633)	(280)	(14,999)	(11,074)	715	(2,135)	(27,777)	(44,118)

In management's opinion, the credit risk provisions recorded for the years ended December 31, 2016 and 2015, cover the potential losses that may arise from not recovering these assets.

(*) Group provisions are equal to the sum of MCH$4,775, MCH$3,252 and MCH$36,986.
(**) Group provisions are equal to the sum of MCH$3,535, MCH$2,619 and MCH$19,822.
(***) The impact of SBIF Circular No. 3,573 of MCH$969 is recorded within Residential mortgage loans.

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 the years ended December 31, 2016 and 2015, for these concepts are as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Payroll	(30,864)	(27,718)
Bonuses	(15,720)	(7,462)
Severance indemnities	(2,852)	(1,894)
Training expenses	(480)	(469)
Other benefits	(4,808)	(3,815)
Total	(54,724)	(41,358)

B) Other personnel expenses recorded during the years ended December 31, 2016 and 2015, are as follows:

	NO. OF EMPLOYEES RECEIVING BENEFIT		REASON FOR BENEFIT	TOTAL	
	2016	2015		2016 MCH$	2015 MCH$
BONUSES					
Productivity bonus	1,094	1,214	Voluntary	11,586	4,665
Legal bonuses and employer contributions	1,428	1,368	Contractual	2,566	2,178
Other bonuses	1,262	1,236	Contractual	1,568	619
Total bonuses				15,720	7,462
OTHER BENEFITS					
Health insurance	1,396	1,337	Contractual	1,261	1,118
Life insurance	332	341	Contractual	106	60
Meal allowance	1,420	1,363	Contractual	1,544	1,218
Annual events	636	26	Voluntary	83	75
Childcare	152	137	Birth of child	288	172
Other benefits	1,420	1,345	Voluntary	1,526	1,172
Total other benefits				4,808	3,815

31. ADMINISTRATIVE EXPENSES

As of December 31, 2016 and 2015, details are as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
GENERAL ADMINISTRATIVE EXPENSES		
Maintenance and repair of property, plant and equipment	(3,919)	(3,301)
Office leases	(2,975)	(2,910)
Equipment leases	(837)	(614)
Insurance premiums	(426)	(262)
Office supplies	(464)	(524)
IT and communications expenses	(1,794)	(1,752)
Lighting, heating and other utilities	(2,925)	(559)
Security services and armored transport	(179)	(190)
Travel and entertainment expenses	(557)	(600)
Court and notary expenses	(988)	(820)
Fees for technical reports	(13,891)	(12,648)
Fees for financial statement audit	(350)	(332)
Securities rating fees	(43)	(39)
SBIF fines	(55)	(20)
Other regulatory fines	(186)	(42)
Banking expenses	(363)	(99)
Advisory expenses	(5,014)	(2,977)
Building fees	(459)	(818)
Postage and mail	(170)	(30)
Other general administrative expenses	(11,184)	(9,370)
Subtotal	(46,779)	(37,907)
OUTSOURCED SERVICES:		
Data processing	(848)	(742)
Other	(1,951)	(3,661)
Subtotal	(2,799)	(4,403)
Board of directors' fees	(1,123)	(917)
Advertising	(5,836)	(3,855)
TAXES, PROPERTY TAXES AND CONTRIBUTIONS:		
Property taxes	(181)	(337)
Municipal business permits	(690)	(740)
Other taxes	(49)	(107)
Contribution to SBIF	(1,553)	(1,425)
Subtotal	(2,473)	(2,609)
Total	(59,010)	(49,691)

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, 2016 and 2015, are as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Depreciation of property, plant and equipment	(2,003)	(1,842)
Amortization of intangible assets	(13,198)	(4,951)
Total depreciation, amortization and impairment	(15,201)	(6,793)

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.

The 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.

For the years ended December 31, 2016 and 2015, no impairment losses were recorded for investments available for sale.

• INTANGIBLE ASSETS

Impairment testing indicated some intangible assets with expected losses. As a result, the Bank's management recorded impairment of MCH$21,100 and MCH$1,557 for the years ended December 31, 2016 and 2015, respectively, as mentioned in Note 14 to the consolidated financial statements.

34. OTHER OPERATING INCOME AND EXPENSES

A) OTHER OPERATING INCOME

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

	AS OF DECEMBER 31, 2016 MCH$	DECEMBER 31, DE 2015 MCH$
Income from assets received in lieu of payment	21	13
Release of contingency provisions	345	546
Gain on sale of property, plant and equipment	666	883
Rental payments received	181	71
Recovery of written-off assets received in lieu of payment	84	-
Recovery of expenses	1,933	2,726
Other income	6,357	5,157
Total other operating income	9,587	9,396

B) OTHER OPERATING EXPENSES

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

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Provisions and expenses for assets received in lieu of payment	(392)	(1,932)
Contingency provisions (*)	(248)	(470)
Operating write-offs	(2,627)	(3,055)
Other expenses	(1,221)	(1,766)
Total other operating expenses	(4,488)	(7,223)

(*) In the consolidated statement of cash flows, the concept other provisions consists of provisions and expenses for assets received in lieu of payment and contingency provisions.

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,	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
LOANS AND RECEIVABLES								
Commercial loans	25,225	33,424	71	84	1,986	2,521	27,282	36,029
Mortgage loans	-	-	-	-	7,277	7,165	7,277	7,165
Consumer loans	-	-	-	-	1,763	1,486	1,763	1,486
Gross loans and receivables	25,225	33,424	71	84	11,026	11,172	36,322	44,680
Credit risk provisions	(196)	(59)	-	-	(65)	(54)	(261)	(113)
Net loans and receivables	25,029	33,365	71	84	10,961	11,118	36,061	44,567
CONTINGENT LOANS								
Total contingent loans	6,971	144,419	64	66	3,049	2,691	10,084	147,176
Contingent loan provisions	(19)	(67)	-	-	(7)	(8)	(26)	(75)
Net contingent loans	6,952	144,352	64	66	3,042	2,683	10,058	147,101
INVESTMENTS								
Held for trading	-	-	-	-	-	-	-	-
Available for sale	-	-	-	-	-	-	-	-
Total investments	-	-	-	-	-	-	-	-
Total	31,981	177,717	135	150	14,003	13,801	46,119	191,668

B) OTHER ASSETS AND LIABILITIES WITH RELATED PARTIES

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
ASSETS		
Financial derivative instruments	25,163	2,302
Total other assets with related parties	25,163	2,302
LIABILITIES		
Financial derivative instruments	27,526	1,155
Demand deposits	23,858	23,218
Savings accounts and time deposits	405,334	442,496
Total other liabilities with related parties	456,718	466,869

C) GAIN (LOSS) ON TRANSACTIONS WITH RELATED PARTIES

	GAIN (LOSS)	
	DECEMBER 31, DE	
	2016 MCH$	2015 MCH$
Net interest and indexation income	287	299
Net fee and commission income	1,301	1,032
Net foreign exchange transactions	682	510
Operating expenses	(32,305)	(32,214)
Other income and expenses	153	2,857
Total loss from related party transactions	(29,882)	(27,516)

D) RELATED PARTY CONTRACTS

These include any contract entered into during 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:

COMPANY	DESCRIPTION	CREDITS TO PROFIT DECEMBER 31, 2016 MCH$	CREDITS TO PROFIT DECEMBER 31, 2015 MCH$	CHARGES TO PROFIT DECEMBER 31, 2016 MCH$	CHARGES TO PROFIT DECEMBER 31, 2015 MCH$
Capital S.A. (formerly Inversiones Invest Security Ltda.)	Service contract	-	133	13,472	13,407
Travel Security S.A.	Office lease and air tickets	675	-	2,593	1,160
Seguros Vida Security Previsión S.A.	Insurance	7,221	5,928	2,224	2,642
Global Security Gestión y Servicios Ltda.	Service contract	-	-	6,710	6,951
Mandatos Security Ltda.	Service contract	-	-	3,159	3,577
Inmobiliaria Security S.A.	Service contract	-	-	-	-
Asesorías Security S.A.	Advisory services	-	-	343	388
Redbanc S.A.	Service contract	-	-	408	432
Cía. de Seguros Generales Penta Security S.A.	Service contract	230	1,221	278	354
Transbank S.A.	Service contract	5,444	5,661	2,923	2,974
ENEL S.A. (formerly Chilectra S.A.)	Sale of electric power	-	-	195	243
Factoring Security Ltda.	Advisory services and leases	260	-	-	-
Inmobiliaria Security Once	Advisory services	-	-	-	86

E) PAYMENTS TO BOARD OF DIRECTORS AND KEY MANAGEMENT PERSONNEL

In 2016 and 2015, the following payments were made to members of the Board and key management personnel and charged to profit or loss.

	DIRECTORS DECEMBER 31, 2016 MCH$	DIRECTORS DECEMBER 31, 2015 MCH$	CEOS DECEMBER 31, 2016 MCH$	CEOS DECEMBER 31, 2015 MCH$	DIVISION MANAGERS DECEMBER 31, 2016 MCH$	DIVISION MANAGERS DECEMBER 31, 2015 MCH$	AREA MANAGERS DECEMBER 31, 2016 MCH$	AREA MANAGERS DECEMBER 31, 2015 MCH$
Short-term compensation	640	498	919	961	1,317	1,753	2,752	3,442
Severance indemnities	-	-	-	-	-	860	527	1,320
No. of executives	7	7	3	3	7	7	21	26

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 recorded 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, 2016 and 2015, the estimated fair values of the Bank's financial instruments are as follows:

	CARRYING AMOUNT		ESTIMATED FAIR VALUE	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
ASSETS				
Cash and due from banks	441,177	561,624	441,177	561,624
Transactions pending settlement	32,185	41,092	32,185	41,092
Financial instruments held for trading	267,099	188,758	267,099	188,758
Receivables from repurchase agreements and securities borrowing	-	-	-	-
Financial derivative instruments	99,887	139,322	99,887	139,322
Loans and advances to banks	238	713	237	709
Loans to customers	4,381,443	3,981,083	4,617,570	4,130,088
Investments available for sale	610,695	421,023	610,695	421,023
Investments held to maturity	-	-		-
LIABILITIES				
Current accounts and other demand deposits	570,018	583,856	570,018	583,856
Transactions pending settlement	5,985	13,565	5,985	13,565
Payables from repurchase agreements and securities lending	27,008	34,492	27,012	34,540
Savings accounts and time deposits	3,051,820	2,717,668	3,056,486	2,719,471
Financial derivative instruments	83,006	138,969	83,006	138,969
Borrowings from financial institutions	158,757	228,156	161,325	228,691
Debt issued	1,571,273	1,344,873	1,649,670	1,432,339
Other financial liabilities	20,139	22,647	21,532	25,152

The fair value of assets not recorded 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. DETERMINATION OF FAIR VALUE

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 tested using backtesting.

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 rate ceiling. Although they are part of a loan agreement that is accounted for on an accrual basis, the value of the option is estimated and recorded 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.

Sensitivity to factors that determine the price of level 3 instruments is low. For example, the sensitivity to a parallel movement of 1 basis point in the structure of TAB rates is estimated to be MCH$2.8 as of December 31, 2016.

As of December 31, 2016, the Bank has applied valuation techniques to determine the fair value of the financial instruments "BLAPO-F" and "BLAPO-G". For the La Polar bonds, that valuation (prepared by RiskAmerica) considers the rate from the date the debt was renegotiated, which gives a price close to zero given their maturity. If traded (complying with the minimum trade restriction of UF 500), the transaction price is included as the official price.

The following table details the classification of financial instruments by level within the fair value hierarchy as of December 31, 2016 and 2015, respectively.

	LEVEL 1		LEVEL 2		LEVEL 3		TOTAL	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
FINANCIAL ASSETS								
FINANCIAL INSTRUMENTS HELD FOR TRADING:								
CHILEAN GOVERNMENT AND CENTRAL BANK INSTRUMENTS								
Chilean Central Bank instruments	42,670	1,535	27,488	19,295	-	-	70,158	20,830
Chilean Treasury instruments	41,609	595	17,516	85,210	-	-	59,125	85,805
Other government instruments	-	-	920	308	-	-	920	308
Subtotal	84,279	2,130	45,924	104,813	-	-	130,203	106,943
OTHER FINANCIAL INSTRUMENTS								
Notes for deposits in domestic banks	2,648	5,475	94,678	49,150	-	-	97,326	54,625
Mortgage bonds in domestic banks	-	-	2,395	1,234	-	-	2,395	1,234
Bonds from domestic banks	10,507	5,824	20,437	18,229	-	-	30,944	24,053
Other instruments issued in Chile	1,435	15	3,819	134	-	-	5,254	149
Mutual funds	977	1,754	-	-	-	-	977	1,754
Subtotal	15,567	13,068	121,329	68,747	-	-	136,896	81,815
Total	99,846	15,198	167,253	173,560	-	-	267,099	188,758
TRADING DERIVATIVES:								
Forward de monedas	14,095	28,361	14,008	39,287	-	-	28,103	67,648
Swap de tasa de interés	-	-	31,742	27,575	1,052	592	32,794	28,167
Swap de monedas	-	-	31,102	35,020	7,888	8,487	38,990	43,507
Total assets for trading derivatives	14,095	28,361	76,852	101,882	8,940	9,079	99,887	139,322
Total assets for financial derivatives	14,095	28,361	76,852	101,882	8,940	9,079	99,887	139,322
INVESTMENTS AVAILABLE FOR SALE:								
CHILEAN GOVERNMENT AND CENTRAL BANK INSTRUMENTS								
Chilean Central Bank instruments	199,800	-	94,085	116,710	-	-	293,885	116,710
Chilean Treasury instruments	-	-	-	-	-	-	-	-
Subtotal	199,800	-	94,085	116,710	-	-	293,885	116,710
OTHER FINANCIAL INSTRUMENTS								
Notes for deposits in domestic banks	2,327	-	15,909	10,792	-	-	18,236	10,792
Mortgage bonds in domestic banks	94	-	20,482	22,900	-	-	20,576	22,900
Bonds from domestic companies	11,117	-	108,190	86,464	-	-	119,307	86,464
Other instruments issued abroad	158,691	184,157	-	-	-	-	158,691	184,157
Subtotal	172,229	184,157	144,581	120,156	-	-	316,810	304,313
Total	372,029	184,157	238,666	236,866	-	-	610,695	421,023
TOTAL FAIR VALUE ASSETS	485,970	227,716	482,771	512,308	8,940	9,079	977,681	749,103
FINANCIAL LIABILITIES								
TRADING DERIVATIVES:								
Currency forwards	(15,309)	(36,293)	(15,270)	(41,039)	-	-	(30,579)	(77,332)
Interest rate swaps	-	-	(27,504)	(24,593)	(1,056)	(880)	(28,560)	(25,473)
Currency swaps	-	-	(23,269)	(35,807)	-	-	(23,269)	(35,807)
Interest rate put options	-	-	-	-	(9)	(11)	(9)	(11)
Total liabilities for trading derivatives	(15,309)	(36,293)	(66,043)	(101,439)	(1,065)	(891)	(82,417)	(138,623)
HEDGE ACCOUNTING DERIVATIVES:								
Interest rate swaps	-	-	(589)	(346)	-	-	(589)	(346)
Total liabilities for hedge accounting derivatives	-	-	(589)	(346)	-	-	(589)	(346)
Total liabilities for financial derivatives	(15,309)	(36,293)	(66,632)	(101,785)	(1,065)	(891)	(83,006)	(138,969)
TOTAL FAIR VALUE LIABILITIES	(15,309)	(36,293)	(66,632)	(101,785)	(1,065)	(891)	(83,006)	(138,969)

37. RISK MANAGEMENT

I. RISK MANAGEMENT OBJECTIVES

Banco Security considers risk management to be a vital component in guaranteeing business continuity, achieving necessary solvency and ensuring sustainable results. Its objective is 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 put forth 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 opportunely identify, measure, value and monitor all kinds of risk that Banco Security may incur.

II. RISK MANAGEMENT STRUCTURE

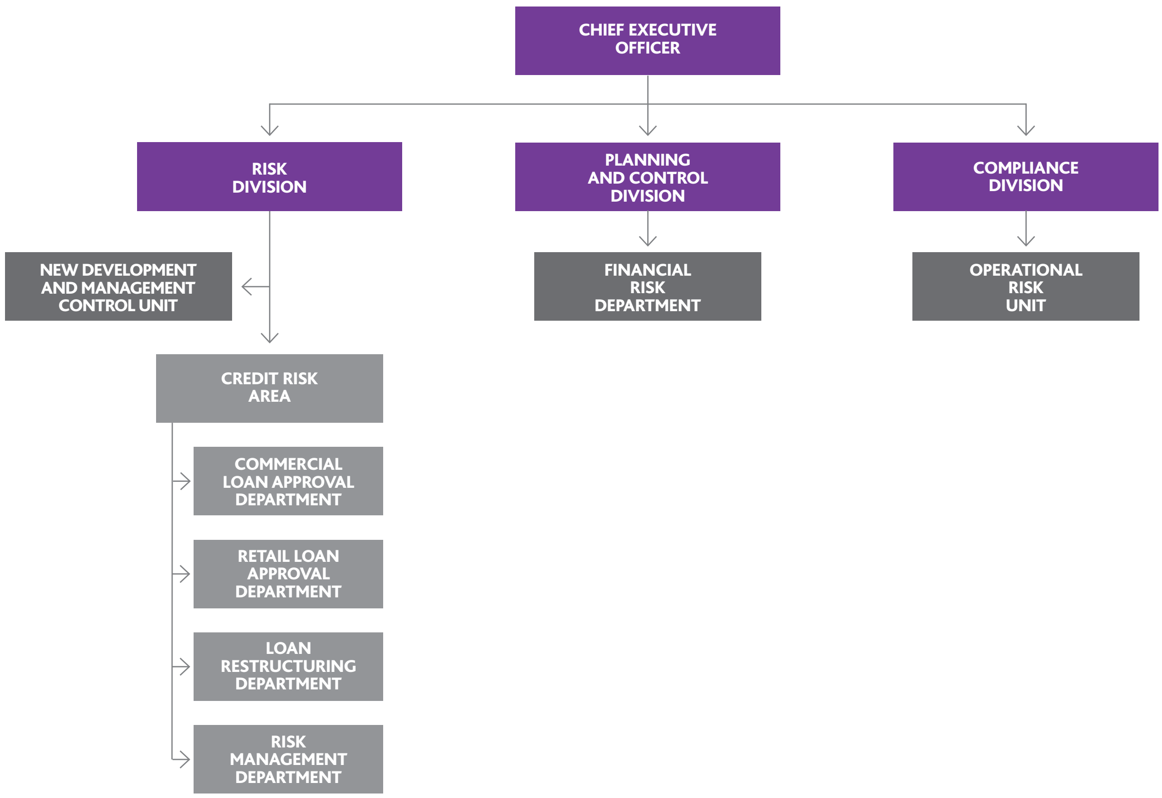
Risk management is carried out through three divisions that report to the Chief Executive Officer: The Risk Division (credit risk); the Planning and Control Division (financial risk) and the Compliance Division (operational risk), all of which operate independently from other business areas and serve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

The Risk Division is structured as follows: Credit risk is conducted by the Commercial Loan Approval Department, the Retail Loan Approval Department, the Loan Restructuring Department and the Risk Management Department, while the New Development and Management Control Unit is in charge of bank-wide risk management issues and effective management of all risks.

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.

Finally, the Operational Risk Unit is part of the Compliance Division. This structure helps create complete independence from possible sources of operational risk.

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 area managers involved in the review. The reports provide conclusions from the evaluation and a work plan for resolving the observations made.

AREA DESCRIPTIONS:

1) CREDIT RISK:

RETAIL LOAN APPROVAL DEPARTMENT

The Retail Loan Approval Department participates in the first three stages of the loan process in the retail segment. Its main responsibilities include making loan decisions as part of the different levels of loan committees and defining their lending authority levels. This department also plays a key role in establishing credit policies..

COMMERCIAL LOAN APPROVAL DEPARTMENT

This is the largest department within the Risk Division. It is further subdivided into units that are responsible for analyzing and making loan decisions for three separate segments: Medium-sized companies; large companies and institutional customers.

Each unit participates in the first two stages of the process for its specific segment, focusing particular effort on the second stage of analyzing and assessing customers. Its main function is to prepare the different types of financial analyses on customers depending on their size, complexity and amount. These analyses are adapted to the needs of the sales areas in terms of depth and response time in order to keep the Bank competitive in the market. They are also responsible for preparing sector reports, optimum sector portfolio analyses and country risk studies (Financial Analysis Unit).

The Commercial Loan Approval Manager and the Deputy Risk Manager for Medium-sized Companies also have decision-making authority on the different committees on which they sit. They can also participate in the drafting of credit risk policies and processes.

LOAN RESTRUCTURING DEPARTMENT

This department is responsible for recovering loans with payment problems. Its skilled staff is supported by lawyers and collection companies in order to properly carry out its work. This department is also in charge of managing assets received by the Bank in lieu of payment.

It is subdivided into three areas: One in charge of retail banking collections, another for commercial banking collections and the third to manage assets received in lieu of payment.

CREDIT RISK MANAGEMENT DEPARTMENT

This department is in charge of managing, monitoring and controlling credit risk, as well as preparing business intelligence and credit risk models.

Its main responsibility involves provisions, appraisals and monitoring lines of credit.

The department, which is responsible for monitoring and controlling risk, is charged with reviewing proper compliance with policies and procedures, as well as the evolution and monitoring of the portfolio from a risk perspective, issuing warnings when necessary.

It also fulfills a business intelligence role where it defines risk tolerance (appetite), actively participating in defining the target market, generating the optimal portfolio and acting as a counterweight for intelligence areas from the sales areas. Lastly, it is responsible for generating all reports on portfolios and trends regarding products, provisions, returns, segmentation, etc. It is, therefore, the Bank's main supplier of credit risk information for the Risk Division, as well as other areas.

The Modeling Area is in charge of building statistical models for managing credit risk, for regulatory purposes as well as provisioning, loan approval and collection processes. The main responsibilities of this department include:

- Building risk models
- Managing the "risk laboratory" data repository
- Risk management

In 2016, the Bank created the Credit Monitoring and Control Unit, which reports to the Risk Management Division. This unit is charged with ensuring that models function properly, setting guidelines for corrections (if necessary), guaranteeing compliance with standards and policies and reporting to the Modeling and Risk Committee on the performance of models.

This department also collaborates with credit risk management efforts by providing information to departments regarding risk policies, loan approval, monitoring, intelligence and collections.

NEW DEVELOPMENT AND MANAGEMENT CONTROL UNIT

This unit is responsible for supporting all risk management departments, keeping comprehensive control of risks to the Bank and managing projects for the credit risk division, including regulatory initiatives. It is also charged with centralizing risk policies and standards, training division employees and monitoring goals.

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 UNIT

Unit in charge of ensuring operational risk, business continuity and information security are effectively managed, which is staffed by nine 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 Area. The objective of this area 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 Area has numerous departments that participate throughout the entire loan approval process, supporting the Bank's sales areas at all times and acting as an independent counterweight during the loan decision-making process.

This area is made up of:

- Commercial Loan Approval Department
- Retail Loan Approval Department
- Risk Management
- Loan Restructuring Department

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 Loan Approval Department	Retail Loan Approval Department
Credit Analysis and Assessment		
Loan Decision		
Credit Management	Risk Management Department	
Credit Monitoring and Control		
Collections	Loan Restructuring Department	

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 areas 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 area acts as a counterweight in the loan decision process in all committees on which it sits. It also defines the approval limits for commercial areas 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 area 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 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 areas 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:
In this stage, the specialized Loan Restructuring Department performs 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 areas 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 Area 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 area that proposes most of the potential customer reclassifications.

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 group leasing	Manual	Holding 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

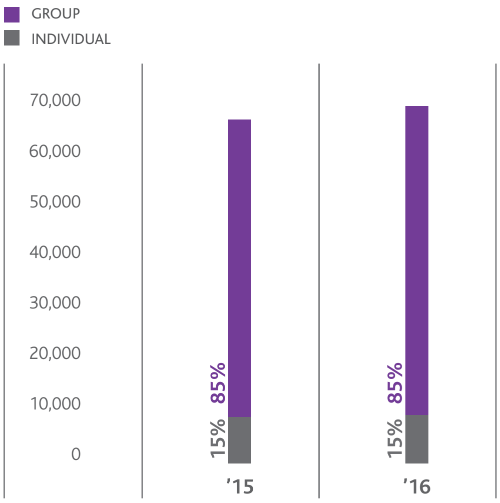
3. MORTGAGE PRODUCTS:
   a. Individuals

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

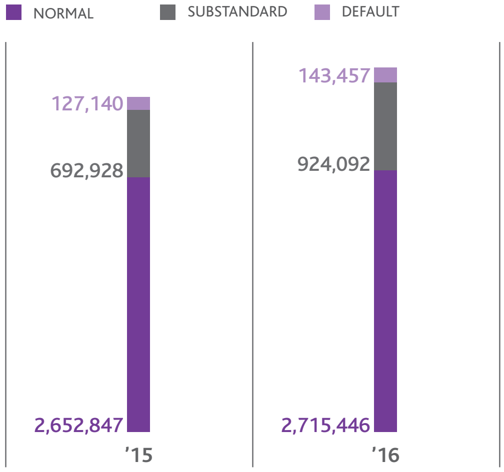
N° OF CUSTOMERS



Individually rated loans are distributed by category (normal, substandard and default) using the following criteria:

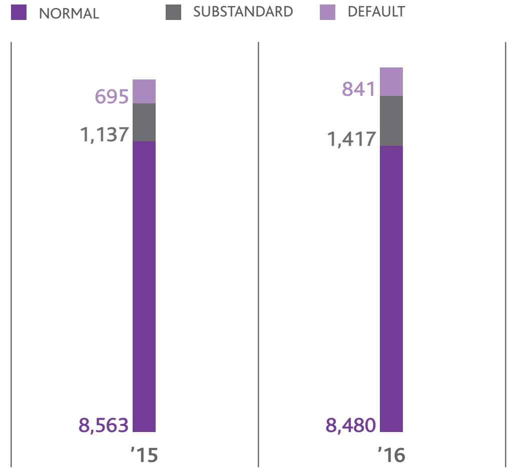
DISTRIBUTION OF INDIVIDUALLY RATED LOANS

AMOUNT OF LOANS, MCH$



DISTRIBUTION OF INDIVIDUALLY RATED LOANS

NUMER OF INDIVIDUAL CUSTOMERS, DEC 2015-2016



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 equities.

The strategic objectives of financial activities include:

- Strengthening and expanding the Bank's position, consolidating and developing long-term relationships with counterparties 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 trades of 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), equities 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, to arbitrate some market or to take certain proprietary positions.

Hedge management using derivatives can use economic or accounting hedges, depending on the strategy defined.

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, 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.

- Ensuring that recommendations from regulators and internal auditors are followed and appropriately implemented.

- Reporting and monitoring market and liquidity risk and limit compliance on a daily basis.

- 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 independent auditors, and other external 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 movements in interest rates, foreign currencies, indexation indices 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 using end-of-day positions 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	
	DECEMBER 31, 2016 MCH$	DECEMBER 31, 2015 MCH$
TRADING:		
Fixed income	308	139
Derivatives (excl. options)	141	394
Embedded options	1	1
FX	49	53
Equities	21	-
Diversification effect	(216)	(11)
Total portfolio	305	576
AVAILABLE FOR SALE:		
Interest rate	556	394
Total portfolio	556	394
Total diversification	(360)	(260)
Total VaR	716	721

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 of the Compendium of Financial 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 of the Compendium of Financial Standards of the Chilean Central Bank, market risk is as follows:

	MARKET RISK TRADING BOOK	
	DECEMBER 31, 2016 MCH$	DECEMBER 31, 2015 MCH$
MARKET RISK		
Interest rate risk	12,019	20,592
Currency risk	1,603	1,498
Options risk	11	7
Total risk	13,633	22,097
Consolidated risk-weighted assets	5,020,480	4,704,745
Regulatory capital (RC)	663,763	569,288
Basel limit	8.00%	8.00%
Basel with market risk	12.70%	11.43%
Basel I	13.22%	12.10%

	MARKET RISK BANKING BOOK	
	DECEMBER 31, 2016 MCH$	DECEMBER 31, 2015 MCH$
SHORT-TERM		
Interest rate risk (short-term)	11,435	12,238
UF mismatch	4,694	3,952
Sensitive commissions	61	59
Total risk	16,190	16,249
Limit 35% margin (Board)	51,500	51,428
Clearance/(excess) (Board)	35,310	35,179
LONG-TERM		
Interest rate risk	49,180	54,787
Limit 25% RC (Board)	165,138	142,322
Clearance/(excess) (Board)	115,958	87,535

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.

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, 2016 and 2015, 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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Available funds	470,748	585,596	-	-	-	-	-	-	-	-	-	-	470,748	585,596
Financial investments	873,081	605,397	24	6,195	1,491	4,643	4,991	-	-	-	-	-	879,587	616,235
Loans to other domestic banks	-	-	238	-	-	411	-	-	-	-	-	-	238	411
Commercial and consumer loans	371,567	366,036	420,753	413,179	1,143,185	986,457	892,705	809,836	726,125	628,952	755,029	619,362	4,309,364	3,823,822
Lines of credit and overdrafts	213,315	55,804	409,447	62,723	569,301	202,119	-	-	-	-	-	608	1,192,063	321,254
Residential mortgage loans	4,360	4,164	7,892	7,619	35,767	34,461	94,462	91,049	136,887	132,523	515,854	510,560	795,222	780,376
Other assets	102,192	94,673	2	1	-	-	-	-	-	-	-	-	102,194	94,674
Derivative contracts	103,593	123,496	50,809	114,291	93,081	160,958	72,616	253,940	109,237	178,755	36,211	39,512	465,547	870,952
	2,138,856	1,835,166	889,165	604,008	1,842,825	1,389,049	1,064,774	1,154,825	972,249	940,230	1,307,094	1,170,042	8,214,963	7,093,320
Current accounts and other demand deposits	575,597	588,504	-	-	-	-	-	-	-	-	-	-	575,597	588,504
Domestic interbank loans	5	510	-	-	-	-	-	-	-	-	-	-	5	510
Savings accounts and time deposits	638,197	716,033	1,134,088	975,490	1,209,718	1,035,938	111,851	22,726	208	202	-	-	3,094,062	2,750,389
External funding	22,315	51,649	34,480	49,249	56,459	109,820	35,069	556	14,126	17,811	-	-	162,449	229,085
Letters of credit	804	860	319	371	2,921	3,452	6,635	7,883	8,110	9,164	11,374	13,703	30,163	35,433
Bonds	9,956	8,124	7,108	6,082	170,256	137,545	411,076	311,657	512,699	394,672	750,269	749,193	1,861,364	1,607,273
Lines of credit and overdrafts	216,316	50,659	416,171	52,859	567,067	154,570	-	-	-	-	-	568	1,199,554	258,656
Other liabilities	144,661	110,330	4,239	865	5,122	3,373	7,080	7,263	3,853	7,125	1,535	705	166,490	129,661
Derivative instruments	106,974	122,986	52,813	113,731	94,475	169,791	65,901	172,107	99,446	122,925	27,953	36,129	447,562	737,669
	1,714,825	1,649,655	1,649,218	1,198,647	2,106,018	1,614,489	637,612	522,192	638,442	551,899	791,131	800,298	7,537,246	6,337,180
Net cash flow	424,031	185,511	(760,053)	(594,639)	(263,193)	(225,440)	427,162	632,633	333,807	388,331	515,963	369,744	677,717	756,140
Accumulated net cash flow	424,031	185,511	(336,022)	(409,128)	(599,215)	(634,568)	(172,053)	(1,935)	161,754	386,396	677,717	756,140	1,355,434	1,512,280
Regulatory limit	(461,686)	(408,250)	(923,372)	(816,500)										
Clearance / (excess)	(885,717)	(593,761)	(587,350)	(407,372)										

Regulatory liquidity gap as of December 31, 2016 and 2015, in foreign currency presented in MCH$.

	< 1 MONTH		1 - 3 MONTHS		3 MONTHS - 1 YEAR		1 - 3 YEARS		3 - 6 YEARS		> 6 YEARS		TOTAL	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Available funds	211,395	264,025	-	-	-	-	-	-	-	-	-	-	211,395	264,025
Financial Investments	164,570	182,981	-	-	-	-	-	-	-	-	-	-	164,570	182,981
Commercial and consumer loans	54,761	105,073	77,268	76,940	125,380	142,451	96,416	87,879	78,472	67,811	127,903	91,738	560,200	571,892
Lines of credit and overdrafts	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	15,878	-	-	-	-	-	-	-	-	-	-	-	15,878	-
Derivative contracts	60,989	77,882	25,794	48,014	57,442	78,851	37,167	88,429	54,250	51,113	22,590	22,051	258,232	366,340
	507,593	629,961	103,062	124,954	182,822	221,302	133,583	176,308	132,722	118,924	150,493	113,789	1,210,275	1,385,238
Current accounts and other demand deposits	103,828	111,202	-	-	-	-	-	-	-	-	-	-	103,828	111,202
Domestic interbank loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Savings accounts and time deposits	124,906	140,235	228,433	251,693	52,662	57,970	7	-	-	-	-	-	406,008	449,898
External funding	22,315	51,649	34,480	49,249	56,459	109,820	35,069	556	14,126	17,811	-	-	162,449	229,085
Other liabilities	18,598	5,670	-	-	-	-	-	-	-	-	-	-	18,598	5,670
Derivative instruments	93,809	72,877	36,643	66,046	36,302	64,899	25,112	28,270	44,119	45,793	20,176	22,628	256,161	300,513
	363,456	381,633	299,556	366,988	145,423	232,689	60,188	28,826	58,245	63,604	20,176	22,628	947,044	1,096,368
Net cash flow	144,137	248,328	(196,494)	(242,034)	37,399	(11,387)	73,395	147,482	74,477	55,320	130,317	91,161	263,231	288,870
Accumulated net cash flow	144,137	248,328	(52,357)	6,294	(14,958)	(5,093)	58,437	142,389	132,914	197,709	263,231	288,870	526,462	577,741
Regulatory limit	144,137	248,328												
Clearance / (excess)														

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 movements 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, 2016, the Bank has five accounting hedges under the same strategy of hedging the volatility of the fair value of commercial loans as a result of variations in the base interest rate in UF. This hedge seeks to modify the effective cost of loans from a fixed to a variable interest rate. The hedge object is an interest rate swap for which the liability is a fixed rate in UF and the asset is a daily variable rate in UF (TRA).

HEDGE	
Hedge type	Fair value
Hedged object	Assets at fixed rate in UF
Derivative	Interest rate swaps in UF
Purpose	Reduce fair value risk
Maturity	25-06-2028
Retrospective effectiveness	100.0%

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 recorded 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, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
Balance MUF mortgage portfolio	115	150
Rate ceiling (average)	6.9%	6.9%
Option value MCH$	9	11

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 risks but excludes strategic and reputation 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 and providing a suitable level of exposure to 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.
- A strategy must be defined for operational risk management that responds to the relative importance and volume of transactions at the Bank and its subsidiaries.
- 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 Unit, 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 Control Unit reports to the Bank's Compliance and Operational Risk Division, which reports directly to the Risk Division Manager.

In accordance with the operational risk policy approved by the Board of Directors, risk management is carried out by the individuals responsible for processes and those who execute them, who are the main risk managers; by the operational risk area, which is in charge of managing and monitoring operational risk; by the Board of Directors and the Operational Risk Committee, which is responsible for ensuring that the Bank's operational risk management framework is in line with defined objectives and best practices, and that the necessary conditions exist (trained personnel, organizational structure, budget) to implement this framework.

E. OPERATIONAL RISK

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.
- Calculating capital with regulator-defined models and, when conditions permit, using advanced models.
- 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.

VI. RISK COMMITTEES

In order to correctly manage risks, Banco Security has set up several risk committees, as described briefly below:

A. CREDIT RISK COMMITTEE:

There are three credit risk committees: the Board Credit Committee, the Executive Credit Committee and the Circulating Folder Credit Committee. The Bank's retail banking and commercial banking credit risk policies clearly specify the criteria used to identify which committee should analyze each transaction. The sales areas have almost no lending authority on their own and must almost always obtain approval from the credit risk areas or the respective committees in order to approve loans.

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.

PERIODICITY:
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)
- Risk Management Manager
- Commercial Division Agents (depending on the case being assessed)
- Head of Credit Risk Control and Monitoring

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 each month 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 comprehensively review risks faced throughout 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.

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).
- Credit Risk Management Manager.
- Financial Risk Manager.
- Operational Risk Deputy Manager.
- Risk and Project Management Control Deputy Manager.

F. FINANCIAL RISK COMMITTEES

This committee's objective is to evaluate positions 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 Risk Committee is also charged with proposing policies and methodologies for managing financial assets to the Board and ensuring compliance with market and liquidity risk limits set by the Board and regulators.

This committee is comprised of:

- Committee chairs:
  - Bank's Chief Executive Officer
  - Bank's Chairman
  - Group's Chief Executive Officer

- Planning and Management Manager
- Group's Chief Economist
- Risk Division Manager
- Financial Risk Manager
- Finance and Corporate Division Manager
- Trading and Investment Manager
- Chief Executive Officer Valores Security
- Investment Manager Valores Security
- Investment Manager AGF

G. OPERATIONAL RISK COMMITTEES

COMPOSITION OF OPERATIONAL RISK COMMITTEE

The Operational Risk Committee is comprised of the Chief Executive Officer or a director of the Bank and its subsidiaries, the Operations and IT Division Manager, the Risk Control Manager, a representative from the General Counsel's office, the Mutual Fund Operations Manager, the Information Security Officer, the Bank's Risk Division Manager and the Deputy Manager of Operational Risk.

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.

PERIODICITY
The Operational Risk Committee meets periodically, ideally bimonthly 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).

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 Management Manager
- Trading Desk and Investment Manager
- Distribution Desk Manager
- Asset and Liability Management Desk Manager
- Corporate 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.

As of December 31, 2016, the Bank has applied valuation techniques to determine the fair value of the financial instruments "BLAPO-F" and "BLAPO-G". For the La Polar bonds, that valuation (prepared by RiskAmerica) considers the rate from the date the debt was renegotiated, which gives a price close to zero given their maturity. If traded (complying with the minimum trade restriction of UF 500), the transaction price is included as the official price.

Levels of Basic and Regulatory Capital as of December 31, 2016 and 2015, are as follows:

	CONSOLIDATED ASSETS		RISK-WEIGHTED ASSETS	
	2016 MCH$	2015 MCH$	2016 MCH$	2015 MCH$
BALANCE SHEET ASSETS (NET OF PROVISIONS)				
Cash and due from banks	441,177	561,624	-	-
Transactions pending settlement	32,185	41,092	9,566	5,799
Financial instruments held for trading	267,099	188,758	41,812	27,214
Receivables from repurchase agreements and securities borrowing	-	-	-	-
Financial derivative instruments	105,111	198,215	78,332	125,728
Loans and advances to banks	238	713	48	383
Loans to customers	4,381,443	3,981,083	4,153,569	3,759,571
Investments available for sale	610,695	421,023	285,760	277,359
Investments held to maturity	-	-	-	-
Investments in other companies	4,152	3,048	4,152	3,048
Intangible assets	53,285	67,861	40,247	59,184
Property, plant and equipment	25,059	25,601	25,059	25,603
Current tax assets	1,086	3,403	109	340
Deferred tax assets	35,992	31,825	3,599	3,183
Other assets	138,552	119,853	136,618	107,394
OFF-BALANCE-SHEET ASSETS				
Contingent loans	402,681	516,564	241,609	309,939
Total risk-weighted assets	6,498,755	6,160,663	5,020,480	4,704,745

	AMOUNT	AMOUNT	RATIO	RATIO
	2016 MCH$	2015 MCH$	2016 %	2015 %
Basic capital	461,687	408,250	7.10%	6.63%
Regulatory capital	663,763	569,288	13.22%	12.10%

Regulatory capital is calculated as follows:

	AS OF DECEMBER 31, 2016 MCH$	AS OF DECEMBER 31, 2015 MCH$
CORE CAPITAL	461,687	408,250
Subordinated bonds	215,065	169,625
Tax guarantees	-	-
Equity attributable to non-controlling interest	50	90
Goodwill subsidiaries	(13,039)	(8,677)
Regulatory capital	663,763	569,288

38. NEW ACCOUNTING PRONOUNCEMENTS IN 2016

As of the date of issuance of these financial statements, the following new accounting pronouncements have been issued by the SBIF and the IASB:

I) SUPERINTENDENCY OF BANKS AND FINANCIAL INSTITUTIONS

The following section describes the circulars issued by the SBIF that are related to this year's consolidated financial statements:

A) The following new standards and interpretations have been adopted in these financial statements.

CIRCULAR NO. 3,601

On February 18, 2016, the SBIF issued instructions for quantifying operational risk and identifying exposure using Basel guidelines. This data must be included with the supplementary information sent each month in the MC1 and MC2 files. This requirement will apply for the first time for reports as of March 31, 2016.

CIRCULAR NO. 3,602

On March 8, 2016, the SBIF modified the code for the item "Recovery of expenses for the period" in order to correct the duplication of two new codes recently added to Chapter C-3, section V, No. 1 involving results related to operational risk exposure and other individual supplementary information.

CIRCULAR NO. 3,604

On March 29, 2016, the SBIF modified the percentage of credit equivalent for unrestricted lines of credit to 35% of the available amount for credit risk provisioning standards when the debtor has no loan defaults. This modification took effect in May 2016.

BANK CIRCULAR 3,583

May 25, 2015, "Monthly Position Statements for SBIF." The accounting information sent monthly to the SBIF includes higher education loans regulated by Law 20,027 as one item within commercial loans and all other student loans within consumer loans, without differentiating them from other loans. In order to apply the same treatment to all loans granted to finance higher education, the SBIF issued Circular 3,583 on May 25, 2015, and modified the corresponding texts in Chapter C-3 of the Compendium of Accounting Standards, requiring all student loans to be reported within Commercial Loans. The amendments in this circular come into effect for reporting as of January 1, 2016.

CIRCULAR 3,584

June 22, 2015, the SBIF issued a circular related to Chapter B-1 of the Compendium of Accounting Standards to provide specific instructions on modifying the provision calculation established in Circular 3,573 as mentioned above.

CIRCULAR 3,598

December 24, 2015, the SBIF complemented the instructions in Chapters B-1 of the Compendium of Accounting Standards to add provisions for the use of internal methodologies to determine credit risk provisions.

CIRCULAR 3,573

December 30, 2014, the SBIF issued a circular related to Chapters B-1, B-2 and E of the Compendium of Accounting Standards. This circular establishes the standard method for provisioning for residential mortgage loans to be applied beginning in 2016. It complements and specifies instructions on provisions and loans within the impaired portfolio.

Management believes that these amendments have had no impact on the accounting policies for the year.

B) The following new standards and interpretations have been issued but are not yet in effect:

CIRCULAR NO. 3,615

On December 12, 2016, in order to enhance the transparency of financial information provided by banks, the SBIF published a circular requiring a review of interim financial reporting to be performed on financial statements as of June 30, and a review opinion to be issued by the entity's external auditors in accordance with Chilean Generally Accepted Auditing Standards (NAGA No. 63, Section AU 930; or the international equivalent; SAS No. 122, Section AU-C 930). This report and the respective review opinion from the external auditors must be submitted no later than August 15, 2017.

Management has evaluated and estimated these modifications, which will begin to be applied for the financial statements issued in June 2017.

II) INTERNATIONAL ACCOUNTING STANDARDS BOARD

A) The following new standards and interpretations have been adopted in these financial statements:

NEW IFRS	MANDATORY EFFECTIVE DATE
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	Annual periods beginning on or after January 1, 2016
Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)	Annual periods beginning on or after January 1, 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	Annual periods beginning on or after January 1, 2016
Disclosure Initiative (Amendments to IAS 1)	Annual periods beginning on or after January 1, 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	Annual periods beginning on or after January 1, 2016
Annual Improvements Cycle 2012-2014 Amendments to Four IFRS.	Annual periods beginning on or after January 1, 2016

ACCOUNTING FOR ACQUISITIONS OF INTERESTS IN JOINT OPERATIONS (AMENDMENTS TO IFRS 11

On May 6, 2014, the IASB issued Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11). These amendments clarify the accounting for acquisitions of an interest in a joint operation, when the operation constitutes a business.

It amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:

- Apply all of the business combinations' accounting principles in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in IFRS 11;

- Disclose the information required by IFRS 3 and other IFRS for business combinations.

The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is allowed but corresponding disclosures are required. The amendments apply prospectively.

Management believes that these amendments have had no impact on the accounting policies for the year.

CLARIFICATION OF ACCEPTABLE METHODS OF DEPRECIATION AND AMORTIZATION (AMENDMENTS TO IAS 16 AND IAS 38)

On May 12, 2014, the IASB published Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38). The amendments provide additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. They are effective for annual periods beginning on or after January 1, 2016; early adoption is allowed.

Management believes that these amendments have had no impact on the accounting policies for the year.

EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS (AMENDMENTS TO IAS 27)

On August 18, 2014, the IASB published Equity Method in Separate Financial Statements (Amendments to IAS 27). The amendments restore the option to use the equity method of accounting in separate financial statements for investments in subsidiaries, joint ventures and associates.

The amendments allow the entity to account for investments in subsidiaries, joint ventures and associates in their separate financial statements:

- at cost

- in accordance with IFRS 9 Financial Instruments: (or IAS 39 Financial Instruments: Recognition and Measurement of entities that have not yet adopted IFRS 9), or

- using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by investment category.

In addition to the modifications to IAS 27, modifications were made to IAS 28 to avoid a possible conflict with IFRS 10 Consolidated Financial Statements and IFRS 1 First-time Adoption of International Financial Reporting Standards.

The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is allowed. The amendments must be applied retroactively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Management believes that these amendments have had no impact on the accounting policies for the year.

DISCLOSURE INITIATIVE (AMENDMENTS TO IAS 1)

On December 18, 2014, the IASB added an initiative on disclosure to its work program in 2013 to supplement the work done in the Conceptual Framework project. The initiative is made up of a number of smaller projects that aim to explore opportunities to see how presentation and disclosure principles and requirements in existing standards can be improved.

These amendments are effective for annual periods beginning on or after January 1, 2016; early adoption is allowed.

Management believes that these amendments have had no impact on the accounting policies for the year.

INVESTMENT ENTITIES: APPLYING THE CONSOLIDATION EXCEPTION (AMENDMENTS TO IFRS 10, IFRS 12 AND IAS 28).

On December 18, 2014, the IASB published Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (2011) to address issues that have arisen in the context of applying the consolidation exception for investment entities.

These amendments are effective for annual periods beginning on or after January 1, 2016; early adoption is allowed.

Management believes that these amendments have had no impact on the accounting policies for the year.

ANNUAL IMPROVEMENTS CYCLE 2012 - 2014

STANDARD	TOPIC	AMENDMENTS
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Changes in methods of disposal.	Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution to owners or vice versa and cases in which held-for-distribution accounting is discontinued. The amendments are effective for annual periods beginning on or after January 1, 2016, and early adoption is allowed.
IFRS 7 Financial Instruments: Disclosures: (with consequential amendments to IFRS 1)	Servicing contracts	Adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements. The amendments are effective for annual periods beginning on or after January 1, 2016, and early adoption is allowed.
IAS 19 Employee Benefits	Discount rate	Clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level). The amendments are effective for annual periods beginning on or after January 1, 2016, and early adoption is allowed.
IAS 34 Interim Financial Reporting	Disclosure of information 'elsewhere in the interim financial report'	Clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference. The amendments are effective for annual periods beginning on or after January 1, 2016, and early adoption is allowed.
The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is allowed.		

Management believes that these amendments have had no impact on the accounting policies for the year.

B) The following new standards and interpretations have been issued but are not yet in effect:

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
IFRS 16 Leases	Annual periods beginning on or after January 1, 2019

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.
Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)	Annual periods beginning on or after January 1, 2017
Disclosure Initiative (Amendments to IAS 7)	Annual periods beginning on or after January 1, 2017
Clarifications to IFRS 15 Revenue from Contracts with Customers	Annual periods beginning on or after January 1, 2018
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, IFRS 12 and IAS 28)	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendment to IFRS 12 is for annual periods beginning on or after January 1, 2017.

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

In 2014, the IASB issued the final version of IFRS 9, which contains the accounting requirements for financial instruments and supersedes IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

CLASSIFICATION AND MEASUREMENT

Financial assets are classified on the basis of the business model in which they are held and contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a measurement category known as "fair value through other comprehensive income" for certain debt instruments. Financial liabilities are classified similarly to IAS 39 Financial Instruments: Recognition and Measurement, but there are differences in the requirements applicable to the measurement of an entity's own credit risk.

IMPAIRMENT:

The 2014 version of IFRS 9 introduces an "expected credit losses" model for measuring financial asset impairment. Therefore, a credit loss event does not need to occur before credit losses can be recognized.

HEDGE ACCOUNTING:

It introduces a new model that is designed to align hedge accounting more closely with risk management activities when they hedge exposure to financial and non-financial risk.

DERECOGNITION:
The requirements for derecognizing financial assets and liabilities are the same as the existing requirements in IAS 39 Financial Instruments: Recognition and Measurement.

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

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On May 28, 2014, the IASB has published its new standard, IFRS 15 Revenue from Contracts with Customers. At the same time, the Financial Accounting Standards Board (FASB) has published its equivalent revenue standard, ASU 2014-09.

The new standard provides a single, principles based five-step model to be applied to all contracts with customers: i) Identify the contract with the customer, ii) identify the performance obligations in the contract, iii) determine the transaction price, iv) allocate the transaction price to the performance obligations in the contracts, v) recognize revenue when (or as) the entity fulfills a performance obligation.

It also provides guidance on topics such as: The point at which revenue is recognized, variable considerations, costs incurred to fulfill or obtain a contract and several related matters. The standard also introduces new disclosure requirements on revenue.

IFRS 15 must be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is allowed. An entity that chooses to apply IFRS 15 earlier than January 1, 2016 must disclose this fact.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

IFRS 16 LEASES

On January 13, 2016, the IASB published a new standard, IFRS 16 Leases. The new standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged, and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective for periods beginning on or after January 1, 2019; early adoption is allowed if IFRS 15 Revenue from Contracts with Customers has also been applied.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE (AMENDMENTS TO IFRS 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). The amendments address the conflict between the requirements of IAS 28

Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements and clarify the accounting for the sale or contribution of assets by an investor to its associate or joint venture, as follows:

- they require full recognition in the investor's financial statements of gains and losses arising from the sale or contribution of assets that constitute a business (based on the definition in IFRS 3 Business Combinations),
- they require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognized only to the extent of the unrelated investors' interests in that associate or joint venture.

On December 17, 2015, the IASB published the final amendments to Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments defer the effective date until the research project on equity accounting has concluded.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALIZED LOSSES (AMENDMENTS TO IAS 12)

On January 19, 2016, the IASB published final amendments to IAS 12 Income Taxes.

The amendments clarify the following aspects:

L• Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference, regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.

- The carrying amount of an asset does not limit the estimation of probable future taxable profits.

- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is allowed.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

DISCLOSURE INITIATIVE (AMENDMENTS TO IAS 7)

The amendments are part of the IASB's disclosure initiative project and introduce additional requirements intended to address investors' concerns that financial statements currently do not provide an understanding of an entity's cash flows;

particularly regarding the management of financing activities. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Although no specific format is required to comply with the new requirements, the amendments include illustrative examples to show how an entity can fulfill the objective of these amendments.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is allowed.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

CLARIFICATIONS TO IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On April 12, 2016, the IASB published final clarifications to IFRS 15 Revenue from Contracts with Customers.

These clarifications focus on the following areas:

- Identifying performance obligations,
- Principal versus agent considerations, and
- Licensing.

The amendments are effective for annual periods beginning on or after January 1, 2018 (same date as IFRS 15). Early adoption is allowed.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

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.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

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

On September 12, 2016, the IASB published “Applying IFRS 9, Financial Instruments with IFRS 4, Insurance Contracts”. The amendments are intended to address concerns about the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard (expected as IFRS 17 within the next six months).

As it has become obvious that the effective date of IFRS 17 can no longer be aligned with the effective date of IFRS 9 Financial Instruments, there have been calls for the IASB to delay application of IFRS 9 for insurance activities and align the effective date of IFRS 9 for those activities with the effective date of the new insurance contracts standard.

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.

An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements.

An entity applies the deferral approach for annual periods beginning on or after January 1, 2018. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following January 1, 2018.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

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 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 exhaustive list.

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

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

ANNUAL IMPROVEMENTS CYCLE 2014 - 2016

On December 8, 2016, the IASB issued "Annual Improvements Cycle 2014-2016." This pronouncement contains amendments to three IFRS as a result of the IASB's annual improvements cycle:

NIIF	SUBJECT OF THE AMENDMENT
IFRS 1 First-time Adoption of International Financial Reporting Standards	Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
IFRS 12 Disclosure of Interests in Other Entities	Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5.
IAS 28 Investments in Associates and Joint Ventures	Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendment to IFRS 12 is for annual periods beginning on or after January 1, 2017.

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

IFRIC 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATIONS

On December 8, 2016, the IASB issued IFRIC 22 "Foreign Currency Transactions and Advance Considerations" developed by the IFRS Interpretation Committee to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The main contents of IFRIC 22 are:

SCOPE OF THE INTERPRETATION:

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency,
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

CONSENSUS:

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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

Management has not had the opportunity to evaluate the potential impact of adopting these amendments.

39. SUBSEQUENT EVENTS

Between January 1, 2017, and the date of issuance of these financial statements, there have been no subsequent events that significantly affect the presentation and/or results of the financial statements.

40. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors in an ordinary meeting on January 19, 2017.

MIGUEL A. MORALES C.
Deputy Accounting Manager

BONIFACIO A. BILBAO H.
Chief Executive Officer

VALORES SECURITY S.A. CORREDORES DE BOLSA

AS OF DECEMBER 31, 2016 AND 2015

	12-31-2015 MCH$	12-31-2015 MCH$
ASSETS		
Cash and cash equivalents	21,536	10,079
Financial instruments	63,278	68,254
Brokerage receivables	45,376	24,627
Investments in companies	2,060	1,952
Property, plant and equipment	156	162
Other assets	13,512	6,951
TOTAL ASSETS	145,918	112,025
LIABILITIES AND SHAREHOLDER'S EQUITY		
Financial liabilities	28,075	42,130
Brokerage payables	46,863	23,726
Other liabilities	33,172	10,552
TOTAL LIABILITIES	108,110	76,408
Capital and reserves	36,575	33,746
Net Income for the period	1,233	1,871
TOTAL LIABILITIES AND EQUITY	145,918	112,025

	12-31-2015 MCH$	12-31-2015 MCH$
STATEMENT OF INCOME		
Income from brokerage	5,162	1,674
Income from services	1,585	1,164
Income from financial instruments	8,536	6,260
Income from financing operations	(1,643)	(1,975)
Administration and trade expenses	(13,510)	(7,935)
Other income	1,575	2,894
Income before income tax	1,705	2,082
Income taxes	(472)	(211)
NET INCOME (LOSS) FOR THE PERIOD	1,233	1,871

ADMINISTRADORA GENERAL DE FONDOS SECURITY S.A.

AS OF DECEMBER 31, 2016 AND 2015

	12-31-2015 MCH$	12-31-2015 MCH$
ASSETS		
Cash and cash equivalents.	1,639.8	2,544.6
Other financial assets, current	35,060.3	28,587.1
Other current assets	2,633.8	1,857.5
Non-Current Assets	11,482.7	11,613.1
TOTAL ASSETS	**50,816.6**	**44,602.3**
LIABILITIES		
Current liabilities	2,371.1	2,939.8
Non-current liabilities		
Issued Capital	3,353.6	1,525.3
Other Reserves	1,109.3	1,788.4
Retained earnings	43,982.6	38,348.8
TOTAL LIABILITIES AND EQUITY	**50,816.6**	**44,602.3**

	12-31-2015 MCH$	12-31-2015 MCH$
STATEMENT OF INCOME		
Operating income	22,211.3	22,522.6
Administrative expenses	(15,372.1)	(13,142.1)
Financial Costs	(609.1)	(697.0)
Other Net Income	2,316.9	1,806.7
Income before Income Taxes	8,547.0	10,490.2
Income Tax	(1,607.7)	(1,905.9)
NET INCOME FOR THE YEAR	**6,939.3**	**8,584.3**

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Call Banking Emergencies line: 800 200717
To call from cellular phones: (56-2) 2462 2117,
or Transbank (56-2) 2782 1386
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