

BANK OF CHILE
Form 20-F
April 27, 2018
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As filed with the Securities and Exchange Commission on April 27, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

For the fiscal year ended December 31, 2017

Commission file number 001-15266

BANCO DE CHILE
(Exact name of Registrant as specified in its charter)

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

REPUBLIC OF CHILE
(Jurisdiction of incorporation or organization)

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Banco de Chile

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Santiago, Chile

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(Address of principal executive offices)

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 600 shares of common stock, without nominal (par) value (ADSs)	New York Stock Exchange
Shares of common stock, without nominal (par) value	New York Stock Exchange (for listing purposes only)

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

None
(Title of Class)

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

None
(Title of Class)

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

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Shares of common stock: 99,444,132,192

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

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

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U.S. GAAP

International Financial Reporting Standards as issued by the
International Accounting Standards Board

Other

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

Item 17 Item 18

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

Yes No

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FORWARD-LOOKING STATEMENTS

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

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

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

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

- changes in general economic, business, political or other conditions in Chile, or changes in general economic or business conditions in Latin America, the United States, Europe or Asia;
- changes in capital markets in general that may affect policies or attitudes towards lending to Chile or Chilean companies;
- increased costs;
- increased competition and changes in competition or pricing environments, including the effect of new technological developments;
- unanticipated increases in financing and other costs or the inability to obtain additional debt or equity financing on attractive terms;
- natural disasters;
- the effect of tax laws on our business; and
- the factors discussed under Item 3. Key Information Risk Factors.

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

PRESENTATION OF FINANCIAL INFORMATION

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

Unless otherwise indicated, the financial information included in this annual report with respect to 2013, 2014, 2015, 2016 and 2017 has been derived from financial statements that have been prepared in accordance with IFRS. See Note 2(a) to our audited consolidated financial statements as of and for the year ended December 31, 2017 appearing elsewhere in this annual report. IFRS differs in certain significant respects from Chilean Generally Accepted Accounting Principles (the Chilean GAAP) as issued by the *Superintendencia de Bancos e Instituciones Financieras de Chile* (the Superintendency of Banks and Financial Institutions or SBIF). As a result, our financial information presented under IFRS is not directly comparable to any of our financial information presented under Chilean GAAP. Accordingly, readers should avoid such comparison.

In this annual report, references to \$, U.S.\$, U.S. dollars and dollars are to United States dollars, references to pesos or Ch\$ are to Chilean pesos (see Note 2(t)) to our audited consolidated financial statements as of and for the year ended December 31, 2017 appearing elsewhere in this annual report), and references to UF are to Unidades de Fomento. The UF is an inflation indexed Chilean monetary unit of account with a value in Chilean pesos that is linked to and adjusted daily to reflect changes in the Consumer Price Index (CPI) of the *Instituto Nacional de Estadísticas* (the Chilean National Statistics Institute). As of December 31, 2017 and April 20, 2018, one UF equaled Ch\$26,798.14 and Ch\$26,986.65, respectively.

This annual report contains translations of certain Chilean peso amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations that the Chilean peso amounts actually represent such U.S. dollar amounts, were converted from U.S. dollars at the rate indicated in our audited consolidated financial statements as of and for the year ended December 31, 2017 or could be converted into U.S. dollars at the rate indicated. Until November 30, 2011, Banco de Chile applied the observed exchange rate reported by the *Banco Central de Chile* (the Central Bank) in order to translate its financial statements from Chilean pesos to U.S. dollars. However, beginning December 1, 2011, Banco de Chile adopted the exchange rate of accounting representation, or spot exchange rate, for such matters. This is also described in Item 3. Key Information Selected Financial Data Exchange Rates. Thus, unless otherwise indicated, the U.S. dollar amounts have been translated from Chilean pesos based on the exchange rate of accounting representation as of December 31, 2017 as determined by our Treasury on a daily basis, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. As of December 31, 2017 and April 20, 2018, the exchange rates of accounting representation were Ch\$615.43 = U.S. \$1.00 and Ch\$596.05 = U.S.\$1.00, respectively. As of the same dates, the observed exchange rates, as published by the Central Bank, were Ch\$615.22 = U.S.\$1.00 and Ch\$594.42 = U.S.\$1.00, respectively.

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

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

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

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

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

Certain figures included in this annual report and in our audited consolidated financial statements as of and for the year ended December 31, 2017 have been rounded for ease of presentation. Percentage figures included in this annual report have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this annual report may vary slightly from those obtained by performing the same calculations using the figures in our audited consolidated financial statements as of and for the year ended December 31, 2017. Certain other amounts that appear in this annual report may similarly not sum due to rounding.

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

MACRO-ECONOMIC AND MARKET DATA

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

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Not Applicable.

Item 2 Offer Statistics and Expected Timetable

Not Applicable.

Item 3 Key Information**SELECTED FINANCIAL DATA**

The following tables present historical financial information about us as of the dates and for each of the periods indicated. The following tables should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements as of and for the year ended December 31, 2017 appearing elsewhere in this annual report. The financial information for the years ended December 31, 2013, 2014, 2015, 2016 and 2017 is presented under IFRS.

Our audited consolidated financial statements have been prepared in accordance with IFRS for the years ended December 31, 2013, 2014, 2015, 2016 and 2017.

	2013		2014		For the Year Ended December 31, 2015		2016		2017			
	(in millions of Ch\$, except share and per share data)		(in millions of Ch\$, except share and per share data)		(in millions of Ch\$, except share and per share data)		(in millions of Ch\$, except share and per share data)		(in thousands of U.S.\$)(1)			
IFRS:												
CONSOLIDATED												
STATEMENT OF INCOME												
DATA												
Interest revenue	Ch\$	1,765,942	Ch\$	2,045,604	Ch\$	1,908,457	Ch\$	1,916,992	Ch\$	1,886,700	ThU.S.\$	3,065,661
Interest expense		(704,371)		(788,788)		(680,169)		(690,259)		(652,005)		(1,059,430)
Net interest income		1,061,571		1,256,816		1,228,288		1,226,733		1,234,695		2,006,231
Net fees and commissions income		287,093		272,188		305,979		321,271		347,674		564,929

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Net financial operating income	32,672	35,204	44,412	128,575	(29,661)	(48,195)
Foreign exchange transactions, net	71,457	70,225	57,318	12,405	104,875	170,409
Other operating income	25,884	27,211	25,486	28,575	29,959	48,680
Provisions for loan losses	(221,653)	(261,566)	(246,222)	(259,263)	(221,255)	(359,513)
Total operating expenses	(619,530)	(727,360)	(726,278)	(787,047)	(784,356)	(1,274,485)
Income attributable to associates	1,780	2,486	3,243	4,014	5,511	8,955
Income before income taxes	639,274	675,204	692,226	675,263	687,442	1,117,011
Income taxes	(89,085)	(79,685)	(82,321)	(100,212)	(115,361)	(187,448)
Net income from continued operations, net of taxes	Ch\$ 550,189	Ch\$ 595,519	Ch\$ 609,905	Ch\$ 575,051	Ch\$ 572,081	ThU.S.\$ 929,563
Net income from discontinued operations, net of taxes						
Net income for the year	Ch\$ 550,189	Ch\$ 595,519	Ch\$ 609,905	Ch\$ 575,051	Ch\$ 572,081	ThU.S.\$ 929,563
Attributable to:						
Equity holders of the parent	550,188	595,518	609,903	575,051	572,080	929,561
Non-controlling interest	1	1	2		1	2
Earnings per share(2)	5.54	5.99	6.13	5.78	5.75	0.01
Earnings per ADS	3,494.31	3,774.87	3,806.79	3,534.27	3,451.67	5,608.55
Dividends per share(3)	3.90	3.98	3.88	3.81	3.50	0.01
Weighted average number of shares (in millions)	99,260.54	99,444.13	99,444.13	99,444.13	99,444.13	

(See footnotes below)

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	2013		2014		2015		2016		2017		2017	
			(in millions of Ch\$, except share and per share data)								(in thousands of U.S.\$)	
IFRS:												
CONSOLIDATED STATEMENT OF FINANCIAL POSITION DATA												
Cash and due from banks	Ch\$	873,308	Ch\$	915,133	Ch\$	1,361,222	Ch\$	1,408,167	Ch\$	1,057,393	ThU.S.\$	1,718,137
Transactions in the course of collection		300,026		356,185		319,679		206,972		255,968		415,917
Financial assets held for trading		326,921		293,458		843,574		1,379,958		1,538,578		2,500,005
Cash collateral on securities borrowed and reverse repurchase agreements		82,422		27,661		46,164		55,703		91,641		148,906
Derivative instruments		374,687		832,267		1,127,122		939,649		1,247,941		2,027,755
Loans and advances to banks		1,062,056		1,155,365		1,395,544		1,173,187		760,021		1,234,943
Loans to customers, net		20,441,472		21,400,775		24,022,983		24,843,655		24,955,692		40,550,009
Financial assets available-for-sale		1,681,883		1,608,796		1,007,263		374,470		1,526,315		2,480,079
Investments in other companies		14,407		23,043		25,849		30,314		35,771		58,124
Intangible assets		72,223		66,859		64,700		65,036		72,455		117,731
Property and equipment		197,578		205,403		215,671		219,082		216,259		351,395
Investment properties		16,317		15,936		15,042		14,674		14,306		23,246
Current tax assets								6,657		23,032		37,423
Deferred tax assets, net		56,421		94,240		129,192		176,923		161,265		262,036
Other assets		373,987		586,555		483,591		462,857		604,800		982,728
Total assets	Ch\$	25,873,708	Ch\$	27,581,676	Ch\$	31,057,596	Ch\$	31,357,304	Ch\$	32,561,437	ThU.S.\$	52,908,434
Current accounts and other demand deposits		5,984,332		6,934,373		8,327,048		8,321,148		8,915,706		14,486,954
Transactions in the course of payment		51,898		53,049		35,475		25,702		29,871		48,538
Cash collateral on securities lent and repurchase agreements		256,766		249,482		184,131		216,817		195,392		317,489
Saving accounts and time deposits		10,402,725		9,721,246		9,907,692		10,552,901		10,067,778		16,358,933
Derivative instruments		426,110		827,123		1,079,342		966,509		1,392,995		2,263,450
Borrowings from financial institutions		989,465		1,098,716		1,529,627		1,040,026		1,195,028		1,941,777
Debt issued		4,366,960		5,057,956		6,102,208		6,177,927		6,488,975		10,543,807
Other financial obligations		210,926		186,573		173,081		186,199		137,163		222,873
Currents tax liabilities		7,131		19,030		24,714				3,453		5,611
Deferred tax liabilities, net												
Provisions		154,650		185,643		182,832		187,568		194,537		316,099
Employee benefits		67,944		81,515		74,791		83,345		86,628		140,760
Other liabilities		275,762		255,995		261,330		291,488		308,563		501,378
Total liabilities	Ch\$	23,194,669	Ch\$	24,670,701	Ch\$	27,882,271	Ch\$	28,049,630	Ch\$	29,016,089	ThU.S.\$	47,147,669
Total equity		2,679,039		2,910,975		3,175,325		3,307,674		3,545,348		5,760,765
Total liabilities and equity	Ch\$	25,873,708	Ch\$	27,581,676	Ch\$	31,057,596	Ch\$	31,357,304	Ch\$	32,561,437	ThU.S.\$	52,908,434

(See footnotes below)

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	2013	2014	As of December 31, 2015	2016	2017
IFRS:					
CONSOLIDATED RATIOS					
Profitability and Performance					
Net interest margin(4)	4.67%	5.12%	4.68%	4.41%	4.30%
Return on average total assets(5)	2.25	2.24	2.08	1.86	1.79
Return on average equity(6)	20.67	20.98	19.60	18.00	16.09
Capital					
Average equity as a percentage of average total assets	10.90	10.67	10.63	10.33	11.11
Bank regulatory capital as a percentage of minimum regulatory capital	274.26	279.83	275.34	290.48	304.38
Ratio of liabilities to regulatory capital(7)	10.90	10.65	10.87	10.26	9.76
Credit Quality					
Substandard loans as a percentage of total loans(8)	3.48	3.79	3.83	3.42	3.07
Allowances for loan losses as a percentage of substandard loans(8)	60.52	59.17	58.51	63.91	63.50
Provision for loan losses as a percentage of average loans	1.12	1.21	1.07	1.05	0.87
Allowances for loan losses as a percentage of total loans	2.10	2.24	2.24	2.18	1.95
Operating Ratios					
Operating expenses/operating revenue	41.90	43.77	43.71	45.82	46.48
Operating expenses/average total assets	2.54%	2.73%	2.48%	2.55%	2.45%

(1) Translations of Chilean peso amounts into U.S. dollars are based on the exchange rate of accounting representation, or the spot exchange rate, which is determined on a daily basis by our Treasury, based on the average of the daily closing bid and offer rates reported by Bloomberg for the Santiago Stock Exchange. Thus, amounts stated in U.S. dollars as of and for the fiscal year ended December 31, 2017 have been translated from Chilean pesos based on the spot exchange rate of Ch\$615.43 to U.S. \$1.00 as of December 31, 2017.

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

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

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

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

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

- (7) Total liabilities divided by bank regulatory capital.
- (8) See Item 4. Information on the Company Selected Statistical Information Analysis of Substandard and Past Due Loans.

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

Purchases and sales of foreign exchange are not required to be conducted in the Formal Exchange Market and therefore may be carried out in the *Mercado Cambiario Informal* (the Informal Exchange Market). There are no price limits imposed on transactions carried out in the Informal Exchange Market. On March 31, 2018, the average exchange rate in the Informal Exchange Market was Ch\$603.80 per U.S. \$1.00, or 0.2% lower than the observed exchange rate of Ch\$605.26 per U.S.\$1.00 as reported by the Central Bank on the same date.

The following table sets forth the annual low, high, average and period-end observed exchange rate for U.S. dollars for each referenced period, as reported by the Central Bank:

Year	Daily Observed Exchange Rate Ch\$ per U.S.\$(1)			Period End(4)
	Low(2)	High(2)	Average(3)	
	(in Ch\$)			
2013	466.50	533.95	495.35	523.76
2014	524.61	621.41	570.37	607.38
2015	597.10	715.66	654.07	707.34
2016	645.22	730.31	676.94	667.29
2017	615.22	679.05	648.85	615.22
October 2017	619.68	640.52	629.55	636.49
November 2017	629.21	642.41	633.77	642.41
December 2017	615.22	655.74	636.92	615.22
2018 (through April 20)	588.28	614.75	601.50	594.42
January 2018	599.33	614.75	605.53	604.42
February 2018	588.28	603.25	596.84	589.15
March 2018	593.61	609.58	603.45	605.26
April 2018(through April 20)	594.41	605.17	600.17	594.42

Source: Central Bank.

- (1) Figures are expressed in nominal terms.
- (2) Exchange rates are the actual low and high, on a day-by-day basis for each period.

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- (3) For full years, the average of monthly average rates during the year. For full months, the daily average during the month.
- (4) As reported by the Central Bank on the first business day of the following period.

The observed exchange rate on April 20, 2018 was Ch\$594.42 = U.S.\$1.00.

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

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

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RISK FACTORS

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

We are also subject to market risks that are presented both in this subsection and in Note 42 to our audited consolidated financial statements as of and for the year ended December 31, 2017 appearing elsewhere in this annual report.

Risks Relating to our Operations and the Chilean Banking Industry

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

During the last five years, our total loan portfolio has grown at a compounded average growth rate (CAGR) of 6.3% per year. This expansion has been primarily fostered by growth in both residential mortgage (12.2% per year on average) and consumer loans (7.2% per year on average), and, to a lesser extent, by an expansion in commercial loans (3.5% per year on average). The growth in our loan book has been aligned with our mid-term strategic goals, which aim to diversify our business model by optimizing our risk-return relationship in order to maintain profitable growth. In this regard, we recognize that the expansion experienced by our retail banking segment over the last years may expose us to higher levels of charge-offs and may require us to establish higher levels of allowances for loan losses in the future. For this reason, we are constantly striving to develop and utilize improved scoring and approval models while strengthening our collection procedures in order to mitigate the risks associated with this business growth. For the year ended December 31, 2017, our loan portfolio was Ch\$25,451,513 million, which represented a 0.2% annual increase as compared to the Ch\$25,398,424 million we recorded as of December 31, 2016. Our allowances for loans losses decreased 10.6% from Ch\$554,769 million in 2016 to Ch\$495,821 million in 2017. As a result, our risk-index ratio (allowances for loan losses to total loans) decreased from 2.18% in 2016 to 1.95% in 2017.

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

The loan portfolio of the Chilean banking industry grew at a CAGR of 13.6% during the 10-year period from 2002 to 2012 (excluding the operations of subsidiaries abroad). This expansion was fostered by an overall effort of all market participants to increase banking penetration of lower and middle income segments, as well as small and medium-sized companies by broadening their value offerings. As a result, loan growth was mainly prompted by the expansion in both consumer loans (16.9% per year on average) and mortgage loans (16.0% per year on average), and to a lesser extent by growth in commercial loans (11.4% per year on average). Although these efforts have been supported by the growth of the Chilean gross domestic product (GDP), the deceleration of the local economy over the last five years, and the introduction of diverse reforms on general matters, including both banking and non-banking rules, have

threatened both the pace of growth of the industry and banking penetration rate. In fact, in the five years ended 2017, the loan portfolio of the Chilean banking industry grew at a CAGR of 8.3%, reflecting the decline in investment and lower consumer confidence, as evidenced by indices (*Indice de Percepción Económica de los Consumidores* (IPEC) and *Indice Mensual de Confianza Empresarial* (IMCE)) used by the Central Bank. Accordingly, a sharp slowdown or negative GDP growth, as well as a change in the behavior of banking customers, could adversely affect the growth rate of the industry and, therefore, the expansion of our loan portfolio. Similarly, this could affect our credit quality indicators and, accordingly, lead us to establish higher allowances for loan losses. For more information, see Item 4. Information on the Company Regulation and Supervision and Item 4. Information on the Company Selected Statistical Information.

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

We are subject to regulation by the SBIF. In addition, we are subject to regulation by the Central Bank with respect to certain matters, including interest rates and foreign exchange transactions. See Item 4. Information on the Company Regulation and Supervision.

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

Regarding Basel III, in 2014, the Chilean Ministry of Finance announced an overall review and various modifications to the Chilean Banking Act. Accordingly, during 2015, the Chilean Ministry of Finance convened a working-group of financial experts to analyze and recommend modifications to the General Banking Act. This working-group released a final report in January 2016 recommending that modifications to the General Banking Act should be phased-in. Based on this report, the Ministry of Finance submitted a bill to the Chilean congress on June 12, 2017, modifying the current General Banking Act. The proposed legislation addresses three main topics aimed at modernizing the Chilean banking framework by adopting the Basel III Guidelines; considering a phased-in transition from Basel I, introducing changes to the corporate governance of the local regulator such that certain powers currently vested in the SBIF will be transferred in the future to Chile's Financial Market Commission (CMF), and establishing a resolution regime for Chilean banks in the case of insolvency. The bill also addresses other modifications such as increased deposit insurance for time deposits, stricter requirements for members of banks boards of directors, changes in relation to confidential information of banks' customers, among others. The CMF was established in January 2018, pursuant to Law No. 21,000 and replaced the SVS. It currently oversees the Chilean Financial Market (comprised of publicly traded companies, insurance companies, insurance brokers, mutual funds and investment funds). Upon approval of the reforms to the General Banking Act by the Chilean congress and subsequent enactment by the Chilean government, the CMF is expected to assume supervision of banking activities by replacing and assuming the powers of the SBIF. In January 2018, the proposed bill was passed by the Lower House of the Chilean congress, which introduced certain provisions to the former bill presented by the Chilean government, and is currently being analyzed by the Upper House. If adopted, these rules are expected to be gradually implemented and we cannot rule out whether they will affect our profitability or results of operations in the future.

During 2015, the Central Bank published a final version of new liquidity standards for local banks, based on Basel III guidelines. The SBIF is the institution empowered to put these guidelines into practice and monitor them on an ongoing basis. Accordingly, the SBIF released a set of new liquidity requirements for banks (Circular No. 3,585) on July 31, 2015. These guidelines established reporting requirements for local banks with respect to management and measurement of banks' liquidity position, compelling banks to share financial information with the regulator and the general public regarding liquid assets, liabilities, concentration by type of instrument and counterparty, weighted maturity by type of liability, among others metrics. Also aligned with Basel III, since 2016, banks are required to report and monitor liquidity ratios such as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). These liquidity requirements are aimed at improving information in quantity and quality about the actual situation of banks without imposing specific limits, except liquidity mismatches for 30-day and 90-day periods, for which thresholds with respect to banks' capital, are already in place. Regulatory limits for LCR and NSFR, which could be gradually phased in, are expected to be defined and implemented by the second half of 2018. Since we have no certainty regarding the limits to be imposed by the SBIF on the banking industry and Banco de Chile in particular, we cannot assure you that our results of operations and profitability will not be impacted by actions we may take in order to fulfil new regulatory limits on liquidity. For more information on liquidity matters see Item 4. Information on the Company Regulation and Supervision.

As for credit risk allowances, on December 30, 2014, the SBIF published a set of amendments to the regulations on allowances for potential loan losses establishing a standardized method for calculating loan loss provisions for residential mortgage loans, based on past due behavior and loan-to-value ratios, while providing new and more precise definitions for impaired loans and new requirements to remove loans from such portfolio. This set of rules also addressed the possibility of putting into practice standardized credit risk provisioning models for consumer and commercial loan portfolios, evaluated on a grouped basis, in the future. The new guidelines also introduced changes to the treatment of provisions related to factoring loans and guarantors. This new set of rules went into effect on January 1, 2016 and had no material impact on our

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results prepared under both IFRS and Chilean GAAP for the years ended December 31, 2016 and 2017. Notwithstanding the above, it is important to note that in January 2018, the SBIF published for comment a set of amendments to provisioning rules for commercial loans evaluated on a grouped basis, which are mainly associated with personal businesses, SMEs, student loans, factoring and leasing. Currently, all Chilean banks under supervision of the SBIF, utilize internal models for calculating loan loss provisions for these types of loans. Although the aim of this new regulation is to promote the use of standardized models, the SBIF is also open to continue accepting the use of internal models under certain conditions. The period for public comment of this regulation ended on February 12, 2018 and the final framework will go into effect in January 2019. As there is no certainty regarding the extent and the methodology this regulation will ultimately establish, we cannot assure you it will not have an impact on our results of operations under Chilean GAAP. Similarly, we cannot rule out that future changes in provisioning rules for other types of commercial or consumer loans or related definitions, if introduced, will not affect our results under IFRS or Chilean GAAP, as applicable.

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Additionally, in recent years the Chilean government has focused on matters related to consumer protection. Since 2010 several legal and administrative regulations have been amended and revoked in order to strengthen consumer protection and the relationship between financial institutions and their customers. For example, modifications to the Consumer Protection Law (Law No. 19,496) have been approved by the Chilean congress, that give more powers to the Consumer Protection Agency (SERNAC) by providing SERNAC with the authority to: (i) promulgate regulations and guidelines, (ii) interpret legal or administrative regulations, (iii) preside over proceedings against financial institutions, (iv) impose fines, (v) exercise class actions and (vi) carry out collective mediations, among others. The bill considerably increases the amount associated with fines, up to UTA 45,000 (*Unidades Tributarias Anuales*) that represented approximately U.S.\$41.2 million as of December 31, 2017 for every occurrence. Likewise, clients will be able to seek compensation in the form of damages through class actions, including moral damages. Relevant provisions of the bill were intended to go into effect six months after its enactment. However, after the Chilean congress approved the bill, the Constitutional Court declared certain powers granted to SERNAC in the bill to be unconstitutional. The Constitutional Court excluded the following powers from SERNAC's authority: the power to dictate or interpret provisions, the power to impose sanctions and the power to rule over conflicts between suppliers and clients, as those powers are reserved for the courts. Although the decree of the President of the Republic enabling the bill to be enacted as law is currently before the Office of the Comptroller General of the Republic for its registration, there are ongoing discussions regarding the scope of the judgment by the Constitutional Court and therefore the final content of the law. We cannot assure you when this bill will be enacted or that it will not significantly affect the local banking industry.

In January 2017, a bill was sent to the Chilean congress with the aim of regulating the potential liability for payments providers (such as banks) and clients in cases of fraudulent transactions made with lost or stolen credit or debit cards or any other means of payment (excluding checks and demand deposits), including electronics payments. The bill establishes that a client is not responsible for operations carried out without his or her authorization when the fraud derives from third party use of the necessary data to perform such operations without the client's acknowledgement. The payments provider will then be responsible for proving that the client was aware of the fraudulent operations or that the client acted without due diligence when handling the means of payment. Any agreement between the payments provider and the client to the contrary, will be considered null under this bill. Finally, the bill also establishes obligations on the payments provider to have adequate measures to protect the means of payment in the event of unlawful acts, holding the provider liable for damages caused by deficiencies in security and protection of the technology systems through which services are provided. There is no certainty as to what changes will be made to the bill as it is discussed by the Chilean congress or when it may go into effect. We cannot assure the impact that this assumption of legal responsibility may have on the banking industry or Banco de Chile in particular in the case of fraud and, consequently, the consequences of a potential legal obligation to pay damages to clients.

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

Changes in accounting standards could impact our results.

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

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In this regard, various amendments to IFRS were adopted in 2018 and others are expected during the coming years. First, IFRS 9 Financial Instruments became effective on January 1, 2018. Under this standard, new models of expected loss must be developed by companies in order to determine the impairment of loans and instruments available for sale. Additionally, IFRS 9 provides new guidelines for the valuation and classification of financial instruments. Second, IFRS 15 Revenues from Contracts with Customers became effective on January 1, 2018. This standard establishes a new model for the recognition of recurrent income, which could differ to some extent from the current criteria. Lastly, IFRS 16 Leases will become effective on January 1, 2019. This standard modifies accounting models associated with an entity's role as lessee or tenant in terms of the recognition of assets and liabilities for all leases existing on January 1, 2019. All of these standards require issuers to include new disclosures in the notes to their financial statements. Based on the assessment we carried out for both IFRS 15 and IFRS 16 we have concluded there will be no material impact on our results of operations and financial condition. In the case of the adoption of IFRS 9, we are currently assessing the effect this amendment may have on our results of operations. For more information, see Note 43 to our audited consolidated financial statements as of and for the year ended December 31, 2017 appearing elsewhere in this annual report.

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

Increased competition and industry consolidation may adversely affect our operations.

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

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

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

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

Although we have historically been focused on wholesale banking, over the last five years we have reoriented our commercial strategy to increase penetration of the retail banking segment while maintaining our market-leading position in wholesale banking. In fact, according to our management information systems, the share of the retail banking segment in our total loan book has increased from 46.3% in 2012 to 58.6% in 2017. Although this trend has been associated with expansion in middle and higher income personal banking, our retail banking segment is also composed of small and medium-sized companies (approximately 12.9% of our total loan book as of December 31, 2017, which consists of companies with annual sales of up to Ch\$1,600 million) and, to a lesser extent, of lower-income individuals (approximately 3.0% of our total loan book as of December 31, 2017, which consists of individuals with monthly incomes ranging from Ch\$180,000 to Ch\$500,000). Since these customers are likely to be more severely affected by adverse developments in the Chilean economy than large corporations and higher-income individuals, we may be exposed to higher levels of past due loans and subsequent write-offs, in the future, which could result in materially higher allowances for loan losses that could adversely affect our results of operations.

As of December 31, 2017, our past due loans (loans 90 days or more past due) reached Ch\$302,595 million, which represented a 4.1% annual increase when compared to the Ch\$290,686 million recorded in 2016. These figures translated into past due ratios (loans 90 days or more past due over total loans) of 1.14% in 2016 and 1.19% in 2017. According to our management information systems, as of December 31, 2017 our past due loans (loans 90 days or more past due) were composed of 91.7% retail banking 90 days or more past due loans (consumer and residential mortgage loans to individuals, as well as commercial loans to small and medium sized companies) and 8.3% wholesale banking 90 days or more past due loans (commercial loans to large companies and corporations). During the prior fiscal year, our past due loans (90 days or more) portfolio was composed of 91.3% retail banking past due loans (90 days or more) and 8.7% wholesale banking past due loans (90 days or more).

A combination of various market dynamics affecting our segments may affect our past due loans (loans 90 days or more past due) ratio year over year. In fact, given specific market trends, for the year ended December 31, 2017, we experienced a moderate annual increase of approximately Ch\$10,173 million in past due loans in the retail segment, whereas past due loans (loans 90 days or more past due) in the wholesale banking segment remained relatively flat with a Ch\$319 million decrease, in each case as compared to 2016. The trend for the retail banking past due loans (90 days or more) was primarily explained by an annual increase of Ch\$11,365 million in the amount of past due loans (loans 90 days or more past due) related to the residential mortgage loan book, mainly due to the high growth rates shown by these types of credits over the last five years. On the other hand, the past-due loan book of the wholesale banking segment benefited from improvements in the financial condition of specific wholesale customers, some of them related to the fishing sector, and other clients who settled their loan balances with us. Given the unpredictability of how certain market fluctuations and related changes to macroeconomic indicators may affect our diverse customer segments, we cannot assure you that we will be able to maintain a balanced risk-return equation if global or local economic conditions continue to deteriorate further in the future.

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

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

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Our results of our operations depend to a great extent on our net interest income, which represented 73.2% of our total operating revenues in 2017. Changes in nominal interest rates and inflation could affect the interest rates earned on our interest-earning assets differently from the interest rates paid on our interest-bearing liabilities, resulting in net income reduction. Inflation and interest rates are sensitive to several factors beyond our control, including the Central Bank's monetary policy, deregulation of the Chilean financial sector, local and international economic developments and political conditions, among other factors. In addition, changes in interest rates affect securities and other investments or assets that are recorded at fair value and are therefore exposed to potential negative fair value adjustments. Any volatility in interest rates could have a material adverse effect on our financial condition and results of operations.

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The average annual short-term nominal interest rate in Chile for 90 to 360 day deposits received by Chilean financial institutions was 3.77% in 2015, 4.04% in 2016 and 3.03% in 2017. The average long-term nominal interest rate based on the interest rate of the Central Bank's five-year bonds traded in the secondary market was 4.14% in 2015, 4.09% in 2016 and 3.73% in 2017.

Inflation in Chile has been moderate in recent years, especially in comparison with periods of high inflation experienced in the 1980s and 1990s. High levels of inflation in Chile could adversely affect the Chilean economy, consumer purchasing power, household consumption and investment in machinery and equipment and, therefore, the demand for financing and our business. The annual inflation rate (as measured by annual changes in the CPI and as reported by the Chilean National Institute of Statistics) during the last five years and the first three months of 2018 was:

Year	Inflation (CPI Variation)
2013	3.0
2014	4.6
2015	4.4
2016	2.7
2017	2.3
2018 (through March 31)	0.7%

Source: Chilean National Institute of Statistics

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

For more information, see [Item 5. Operating and Financial Review and Prospects](#) [Operating Results Overview](#) [Inflation](#) and [Item 5. Operating and Financial Review and Prospects](#) [Operating Results Overview](#) [Interest Rates](#).

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

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

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

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

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

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

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

We have access to large amounts of confidential financial information and hold substantial financial assets belonging to our customers as well as to us. In addition, we provide our customers with continuous online access to their accounts and the possibility of transferring substantial financial assets by electronic means while purchasing goods or withdrawing funds, in Chile and abroad with credit and debit cards issued by us. Accordingly, cybersecurity is a material risk for us.

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

We are also exposed to cyber-attacks and other cybersecurity incidents in the normal course of business. There has recently been an increased level of attention focused on cyber-attacks against large corporations that include, but are not limited to, obtaining unauthorized access to digital systems for purposes of misappropriating cash, other assets or sensitive information, corrupting data or causing operational disruption. Cybersecurity incidents such as computer break-ins, phishing, identity theft and other disruptions could negatively affect the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us in excess of insurance coverage, and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of service providers, intend to continuously implement security technology devices and establish operational procedures to prevent such damage, we cannot assure you that these security measures will be successful.

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

Our current credit ratings determine the cost and the terms upon which we are able to obtain funding in the ordinary course of business. Rating agencies regularly evaluate us by taking into account diverse factors, including our financial strength, the business environment and the

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economic backdrop in which we operate. Thus, methodologies used by rating agencies evaluate Chile's sovereign debt ratings when determining our ratings. During 2017, both Standard & Poor's Ratings Service (S&P) and Fitch Ratings Service (Fitch) downgraded Chile's sovereign credit rating, while Moody's Investors Service (Moody's) changed the outlook to negative from stable. Following these rating actions, S&P and Moody's also changed Banco de Chile's ratings. In fact, during 2017 S&P downgraded our credit rating from A+ to A, changing the outlook from negative to stable. On the other hand, Moody's maintained Banco de Chile's credit rating in Aa3, although modified the outlook from neutral to negative. While Chile's current long-term debt credit ratings remain investment grade, these credit ratings may deteriorate further and adversely affect our credit rating.

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

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

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

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

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

Risks Relating to our ADSs

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

As of April 20, 2018, LQ Inversiones Financieras S.A. (LQIF), a holding company beneficially owned by Quiñenco S.A. and Citigroup Chile S.A., holds directly and indirectly approximately 51.20% of the voting rights of our shares. Subject to our bylaws and applicable law, these principal shareholders are in a position to elect a majority of the members of our board of directors and control all matters decided by a shareholder vote, including the approval of fundamental corporate transactions.

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

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

While our ADSs have been listed on the New York Stock Exchange (the NYSE) since the first quarter of 2002, there can be no assurance that an active trading market for our ADSs will be sustained. During 2017, a daily average volume of approximately 44,241 of our American Depositary Receipts (ADRs) were traded on the NYSE, according to data provided by Bloomberg. Although our shares are traded on the Santiago Stock Exchange, the Valparaiso Stock Exchange and the Chilean Electronic Stock Exchange, the Chilean market for our shares in Chile is small and somewhat illiquid. As of April 20, 2018, approximately 31.89% of our outstanding shares were held by shareholders other than our principal shareholders, including LQIF, SM-Chile and SAOS, considering direct ownership and voting rights.

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

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

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

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

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

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

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

The global economy appears to have overcome a long period of turbulence and volatility, which began in 2007 with the subprime mortgage crisis, when many U.S. banks and financial institutions disclosed significant write-downs related to their exposure to mortgage-backed securities and other similar financial instruments. This situation led to significant government intervention for important banks worldwide, bankruptcy for others and active M&A activity intended to rescue failing banks and maintain the confidence of investors and customers while avoiding bank runs. Today, these government actions are less frequent and the U.S. economy in particular is showing solid signs of recovery. Accordingly, in

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December 2015, the U.S. Federal Reserve began to taper its quantitative easing programs undertaken after the subprime crisis. Since then, the U.S. Federal Reserve has gradually increased the marginal standing facility rate from a range of 0%-0.25% to 0.25%-0.50% in December 2015, most recently increasing this range to 1.25%-1.50% in December 2017. Although these increases were expected and perceived as a positive signal worldwide for investors and traders, we cannot assure you that past developments will not occur again in the future or that any future developments in the international markets will not affect us, including our results of operations and, consequently, the market price of our ADSs and shares.

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Additionally, during 2015, new doubts about the financial condition of European banks arose. Similarly, the fiscal condition of many countries remained weak. Even though our exposure to customers from troubled European countries such as PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) only represents 0.07% of our total loans as of December 31, 2017, we cannot assure you that volatility in global financial markets due to the uncertainty regarding the fiscal condition of these or other European countries will not continue and affect the Chilean economy and consequently the financial condition and results of operations of the entire Chilean banking system, including us. Accordingly, the price of our ADS could be adversely affected by a new financial turmoil in the Eurozone, political issues, armed conflicts, uncertainty due to terrorism, a slower than expected recovery, or a deterioration in healthier economies, such as Germany.

Lastly, uncertainty regarding the future of emerging and developed economies remains, given specific issues. For example, recent political developments such as the election of new administrations in developed countries, the upcoming elections in Latin America, the materialization of the exit of Great Britain from the Eurozone, armed conflicts in the Middle East and Asia, escalating tensions between the U.S. and North Korea, terrorism, the global migration crisis and waves of populism looming in different countries, illustrate volatile social and political environments that could harm foreign trade and economic growth. In particular, the U.S. government has begun the renegotiation of or continued to suggest an intention to re-negotiate certain free trade agreements that the U.S. holds with various nations while implementing higher import taxes, among other measures. Although the effects of any of the current or potential renegotiations are still unclear, any policy undertaken by the U.S. government in this respect may have a material adverse effect on global trade and capital markets, which, in turn, could impact the Chilean economy, the local banking industry and, ultimately, our results of operations, financial condition and the price of our ADS. Similarly, following the Brexit referendum in June 2016, the U.K. government initiated the formal process to leave the EU on March 29, 2017, which will result in the U.K. leaving the EU on March 29, 2019 unless the U.K. and the remaining EU member states agree otherwise. The consequences of Brexit, together with the significant uncertainty regarding the terms on which the U.K. will leave the EU, could introduce additional uncertainties into global financial markets. Additionally, developments in the Chinese economy have led to increasing volatility in the financial markets in the past, affecting international commodity prices, including copper which is Chile's main export. Due to the importance of copper exports and overall mining activity to Chilean economic growth, a prolonged slowdown in the Chinese economy, a Chinese-U.S. trade war or other developments may drive copper prices down and adversely affect the Chilean economy. Although our exposure to the Chilean mining sector does not exceed 1.7% in terms of total loans, we cannot assure you that new developments affecting the Chinese economy will not have a material impact on overall Chilean economic activity and, therefore, in the local banking industry which could lead to lower loan growth for us and the Chilean financial industry as a whole, affecting the price of our shares and ADS.

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

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

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

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

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Risks Relating to Chile

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

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

During 2013, the Chilean economy entered into a moderate slowdown by recording a 4.0% GDP expansion, which deepened throughout the following years with GDP recording annual expansions of 1.9%, 2.3% and 1.3% in 2014, 2015 and 2016, respectively. This trend in GDP deceleration was the result of low levels of both corporate and individual confidence, as evidenced by indexes (IPEC and IMCE) used by the Central Bank, due to factors such as slower growth of Chile's main commercial partners, especially China, and uncertainty associated with diverse reforms presented by the administration appointed in 2014. During 2017, the Chilean economy continued to grow slowly by recording a moderate 1.5% expansion, mainly supported by an increase of 2.4% in private consumption that helped offset a 1.1% decrease in investment (understood as fixed capital formation). Although the Chilean economy has growth potential of at least 3.2% per year and GDP expansion continues to be positive, we cannot assure you that the local economy will continue growing in the future or that developments affecting the Chilean economy and the local banking industry will not materially affect our business, financial condition or results of operations. For more information, see Item 5. Operating and Financial Review and Prospects Operating Results Overview .

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

The Chilean government's economic policies and any future changes in the value of the Chilean peso with respect to the U.S. dollar could affect the dollar value of our common stock and our ADSs. Given the floating exchange rate regime that exists in Chile, the Chilean peso has been subject to large fluctuations in the past and this trend could occur again in the future. According to information published by the Central Bank, between December 31, 2016 and December 31, 2017, the value of the U.S. dollar relative to the Chilean peso decreased by approximately 7.8%, as compared to the decrease of 5.7% recorded in the period from December 31, 2015 to December 31, 2016. See Item 3. Key Information Selected Financial Data Exchange Rates.

Chilean trading in the shares underlying our ADSs is conducted in Chilean pesos. Cash dividends associated with our shares of common stock are received in Chilean pesos by the depositary, which then converts such amounts to U.S. dollars at the then-prevailing exchange rate for making payments in respect of our ADSs. If the value of the U.S. dollar increases relative to the Chilean peso, the dollar value of our ADSs and any distributions to be received from the depositary will decrease. In addition, the depositary will incur customary currency conversion costs (to be borne by the holders of our ADSs) in connection with the conversion and subsequent distribution of dividends or other payments. For more information, see Item 10. Additional Information Exchange Controls.

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Our results of operations may be affected by fluctuations in the exchange rates between the Chilean peso and the U.S. dollar despite our policy and Chilean regulations related to the general avoidance of material exchange rate mismatches. In order to reduce the effect of exchange rate mismatches we enter into foreign exchange derivative transactions that hedge our exposure. As of December 31, 2017, our foreign currency-denominated assets and Chilean peso-denominated assets, which contain repayment terms linked to changes in foreign currency exchange rates, exceeded our foreign currency-denominated liabilities and Chilean peso-denominated liabilities, which contain repayment terms linked to changes in foreign currency exchange rates, by an amount of Ch\$2,750 million, or 0.09% of our paid-in capital and reserves.

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

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

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

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

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

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

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

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

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

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

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In August 2017, a reform to the local pension system was presented to the Chilean congress for discussion. The main change to the current system would consist of an increase in the compulsory rate of savings, from the current 10% contribution rate to a 15% rate. The 5% net increase would be paid exclusively by employers. However, in March 2018 the new government announced intentions to introduce changes to the reform. Because the specific contents and extent of the modifications to the reform are unknown, and there is no certainty as to when and how this reform would go into effect, if approved, we cannot yet assess whether this reform would substantially affect our results of operations.

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Item 4 Information on the Company

History and Development of the Bank

Overview

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

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

We are a full service financial institution that provides, directly and indirectly through our subsidiaries, a wide variety of lending and non-lending products and services to all segments of the Chilean financial market, providing our customers with powerful, differentiated and comprehensive value offerings. Our business is not materially affected by seasonality. We organize our operations and deliver our services to our customers through the following four principal business segments:

- (i) retail banking;
- (ii) wholesale banking;
- (iii) treasury and money markets; and
- (iv) subsidiaries.

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

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

In addition to our traditional banking operations, our subsidiaries and affiliates permit us to offer a variety of non-banking but specialized financial services including securities brokerage, mutual funds management, investment banking, insurance brokerage, securitization and collection services.

According to the SBIF, under Chilean GAAP, as of December 31, 2017, we ranked first in the Chilean banking industry in terms of net income attributable to equity holders with a market share of 26.1%. As of the same date and excluding operations of subsidiaries abroad, we continued to be the second largest bank in Chile in terms of total loans with a market share of 17.2%, the largest provider of commercial loans with a market share of 16.8%, the second largest provider of consumer loans with a market share of 19.7% and the second largest private sector bank in terms of residential mortgage loans with a market share of 17.0%. As for liabilities, excluding operations of subsidiaries abroad, we were the largest private bank in Chile in terms of average balances of current accounts and demand deposits with a market share of 23.0% and, more importantly, we ranked first in current account balances held by individuals with a market share of 28.8%, both as reported by the SBIF and as of December 31, 2017.

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Lastly, according to the Chilean Association of Mutual Funds, as of December 31, 2017, we were the largest provider of mutual funds management services in Chile with a market share of 20.9%.

As of December 31, 2017, we had:

- total assets of Ch\$32,561,437 million (approximately U.S.\$52,908.4 million);
- total loans of Ch\$25,451,513 million (approximately U.S.\$41,355.7 million), before deducting allowances for loan losses;
- total deposits of Ch\$18,983,484 million (approximately U.S.\$30,845.9 million), of which Ch\$8,915,706 million (approximately U.S.\$14,487.0 million) correspond to current account and demand deposits;
- equity (including net income, non-controlling interest and provisions for minimum dividends) of Ch\$3,545,348 million (approximately U.S.\$5,760.8 million);
- net income attributable to equity holders of Ch\$572,080 million (approximately U.S.\$929.6 million); and
- market capitalization of approximately Ch\$9,805,191 million (approximately U.S.\$15,932.3 million).

As of December 31, 2017, we had 14,023 employees and delivered financial products and services through a nationwide distribution network of 399 branches and 1,464 automatic teller machines (ATMs). Our ATMs are part of a larger network of 7,434 ATMs operating in Chile, of which 4,583 ATMs operate under a network managed by Redbanc S.A., a company we partly own along with nine other private sector banks).

History

We were founded in 1893 as a result of the merger of Banco Nacional de Chile, Banco Agrícola and Banco de Valparaíso, which created the largest private sector bank in Chile. We have played an important role in the economic history of Chile. Before the creation of the Central Bank

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

In 2013, we completed a very successful year by leading the industry in operating revenues for the first time in our recent history and net income attributable to equity holders, according to information published by the SBIF. These achievements enabled us to remain the most profitable bank in Chile in terms of return on average equity and average assets. Our leading position in net income attributable to equity holders was also a consequence of our market leading performance in expenses, which allowed us to reach the lowest efficiency ratio in the local industry, according to information published by the SBIF. Also, in order to maintain a convenient and well-diversified liability structure, we have continued to seek alternative financing opportunities, especially overseas. In this regard, during 2013 we carried out four placements in Switzerland for a total amount of approximately U.S.\$785 million. Also, we established a medium term notes program (the MTN Program) in Luxembourg. Under this program we issued medium term notes in Hong Kong and Japan for approximately U.S.\$168 million and U.S.\$167 million, respectively.

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

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

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

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

Merger with Banco de A. Edwards

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

Merger with Citibank Chile

On December 27, 2007, our shareholders approved our merger with Citibank Chile, which became effective on January 1, 2008. During 2008, we integrated Citibank Chile's technological platforms with ours and established a new organizational structure in order to satisfy the needs of our customers and to achieve important synergies. We concluded the merger process with the integration of Corporación Financiera Atlas S.A. (Citibank Chile's consumer area) into our consumer finance area (CrediChile), which allowed us to nearly double our customer base and market share in consumer finance. As result of this merger and integration process, we entered into the following agreements with Citigroup Inc. to provide a framework for our relationship with Citigroup Inc., its services and trademarks in Chile: (i) the Global Connectivity Agreement, (ii) the Cooperation Agreement, (iii) the Trademark License Agreement and (iv) the Master Services Agreement. On October 22, 2015, we entered into a new Global Connectivity Agreement, a new Cooperation Agreement and a new Trademark License Agreement with Citigroup Inc. All of these new agreements replaced the original agreements we entered into on December 27, 2008. In addition, on January 26, 2017, we

entered into a new Master Services Agreement with Citigroup Inc. On August 24, 2017, we agreed to extend the Cooperation Agreement dated October 22, 2015 for a period of two years beginning on January 1, 2018, pursuant to which the parties may agree, to extend for another two-year term to commence on January 1, 2020. As a result of the extension of the Cooperation Agreement, the new Global Connectivity Agreement, Trademark License Agreement and Master Services Agreement were extended under the same terms as the Cooperation Agreement. For more information, see Item 7. Major Shareholders and Related Party Transactions Related Party Transactions.

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Technological Projects

During 2015, our efforts were concentrated on providing our customers with ground-breaking mobile applications intended to improve their access to banking products and services. Similarly, we implemented initial stages of various technological projects to support commercial activities while reinforcing operational excellence and security in internet-based transactions. Thus, in 2015, we launched three new smartphone applications, namely, MiCuenta, MiPass and MiSeguro, which allow our customers to execute various banking transactions through their mobile phones, including paying monthly bills, generating secure passwords for electronic money transfers and enrolling in and managing insurance policies offered by our insurance brokerage subsidiary. Due to these applications, and those launched last year, in 2015, we were distinguished as the *Best Consumer Digital Bank in Chile* by *GlobalFinance* and the *Best Mobile Banking and Internet Banking in Chile* by *Global Banking & Finance Review*. Similarly, we implemented the first stage of a new website with diverse functionalities especially designed for the needs of companies in the wholesale banking segment. Additionally, we implemented a new internet-based service for money exchange. From an operational point of view, we took several steps to improve efficiency. Among these accomplishments, we implemented a paperless system for credit risk committees, a new platform for post-sale support for leasing operations and a pilot project for approving and clearing documentation based on images. Also, we focused on reducing the likelihood of electronic fraud and criminality against banking services by setting a new password-generating system for cash management services while replacing approximately 60% of our ATMs with newer devices and more secure infrastructure as required by the SBIF.

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

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

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

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

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

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

The original repayment terms of our Central Bank subordinated debt, which at December 31, 1989 equaled approximately Ch\$1,669,613 million or U.S.\$ 2,713 million, in real terms, as of December 31, 2017, required that a certain percentage of our income before provisions for the subordinated debt be applied to repay this obligation. The Central Bank subordinated debt did not have a fixed maturity, and payments were made only to the extent that we earned income before provisions for the subordinated debt. In 1993 we applied 72.9% of our income before provisions to repay the Central Bank subordinated debt. In 1994 we applied 67.6%, and in 1995 we applied 65.8% of our income before provisions to repay the Central Bank subordinated debt.

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

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

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

Pursuant to SM-Chile's bylaws, that company will exist until the Central Bank subordinated debt has been completely paid off by SAOS. Once SM-Chile is liquidated, shares of Banco de Chile owned by SM-Chile and held by SAOS, and the proceeds obtained from the liquidation of any other assets owned by SAOS, shall be distributed among SM-Chile's shareholders as described in Item 7. Major Shareholders and Related Party Transactions Ownership Structure. At that time, the former SM-Chile shareholders will become direct shareholders of Banco de Chile.

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As a result of our merger with Banco de A. Edwards, the percentage of our shares held by SAOS decreased to 42.0%. Subsequently, as of December 31, 2017 the percentage of our shares held by SAOS declined to 28.8%, as a result of: (i) capital increases agreed to at the Extraordinary Shareholders Meetings held in May 2007, January 2011 and October 2012, (ii) stock dividends paid in May 2006, May 2007, June 2009, April 2011, June 2012, May 2013, July 2014, July 2015, June 2016 and July 2017 and (iii) our merger with Citibank Chile in January 2008.

Dividends received from us are the sole source of SAOS's revenues, to be applied by legal mandate to repay its debt to the Central Bank. SAOS does not have any other material debt, as it is a special purpose legal entity created by Law No. 19,396 whose only business is to own Banco de Chile shares and repay the obligation to the Central Bank. To the extent distributed dividends are not sufficient to pay the amount due on its debt, SAOS is permitted to maintain a cumulative deficit balance with the Central Bank that SAOS commits to pay with future dividends. If the cumulative deficit balance exceeds an amount equal to 20% of our paid in capital and reserves, the Central Bank may require SAOS to sell a sufficient number of shares of our stock to pay the entire accumulated deficit amount. As of March 31, 2018, SAOS maintained a surplus with the Central Bank of Ch\$ Ch\$823,409 million, equivalent to 27.1% of our paid in capital and reserves as of the same date. See Item 3. Key Information Risk Factors Risks Relating to our Operations and the Banking Industry One of our affiliates may be obligated to sell shares of our stock in the public market if we do not pay sufficient dividends.

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

As of March 31, 2018, the outstanding subordinated debt balance held by SAOS was Ch\$235,561 million (including accrued interest). SAOS paid to the Central Bank a total of Ch\$142,856 million in 2015, Ch\$140,614 million in 2016 and Ch\$142,003 million in 2017, exceeding in each of those years the required minimum annual payment. Accordingly, while we cannot offer any assurances, we currently expect SAOS to fully repay the Central Bank subordinated debt in 2019, such that SM-Chile will be liquidated and its shareholders, LQ Inversiones Financieras S.A. and Inversiones LQ SM Ltda, will significantly increase their direct shareholdings in our ordinary shares, as described in Item 7. Major Shareholders and Related Party Transactions Ownership Structure.

As of December 31, 2017, the major shareholder of SM-Chile was LQ Inversiones, which owned, directly and indirectly, 58.24% of SM-Chile's total shares. As of the same date, our major shareholders were SAOS, LQ Inversiones Financieras S.A. and SM-Chile, each having a direct participation of 28.75%, 26.88% and 12.21% in our total common stock, respectively.

Capital Expenditures

The following table sets forth our capital expenditures in each of the three years ended December 31, 2015, 2016 and 2017:

	For the Year Ended December 31,		
	2015	2016	2017

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(in millions of Ch\$)

BANK S INTERNAL REPORTING POLICIES:

Computer equipment	Ch\$	18,746	Ch\$	14,105	Ch\$	8,898
Furniture, machinery and installations		4,257		2,645		2,963
Real estate		7,909		10,174		10,606
Vehicles		564		895		757
Subtotal		31,476		27,819		23,224
Software		8,519		11,248		18,779
Total	Ch\$	39,995	Ch\$	39,067	Ch\$	42,003

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Our budget for capital expenditures for 2018 amounts to approximately Ch\$42,174 million, of which expenditures in information technology investments represent 64.8%, while infrastructure projects represent the remaining 35.2%. The budget for capital expenditures is in line with our mid-term strategic priorities of improving our efficiency and enhancing our customer service capabilities. These capital expenditures will be principally financed by cash on hand and long-term debt financing.

Among the budgeted expenditures for information technology, 83.8% corresponds to new and ongoing IT projects undertaken by Banco de Chile, which are intended to provide us with business solutions for customers, technological stability and improvements in productivity. Of the remaining 16.2% budgeted for IT expenditures, 13.7% consists of investments in technological equipment and system improvements to be carried out by certain subsidiaries and 2.5% is expected to be deployed to further optimize our nationwide ATM network.

Our 2018 budget for infrastructure expenditures includes disbursements associated with renovation and restoration of our corporate buildings (35.2%), renovation of commercial branches (32.1%), general maintenance investments (24.8%), security-related expenditures (7.5%) and other initiatives related to our social commitment (0.4%).

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

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BUSINESS OVERVIEW

Our Competitive Strengths

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

Our main competitive strengths are:

Brand Recognition and Strong Corporate Image

We have operated in the Chilean financial industry for over 120 years under the Banco de Chile brand name. In order to provide our customers with specialized value offerings and a wider range of financial products and services, we have also developed the Banco Edwards-Citi, Banco CrediChile and Banchile brand names. We believe our long standing history in the Chilean market is recognized by our customers and the general public, who associate our brands with value, quality, reliability and social responsibility within the Chilean financial industry, as demonstrated in various polls conducted by well-known market research companies. We believe that our long history in the Chilean banking industry is a key element that differentiates us from our competitors.

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

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

Business Scale and Leading Market Position

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

	As of December 31, 2017	
	Market Share	Market Position
Net Income Attributable to Equity Holders	26.1%	1st
Average Balances of Total Demand Deposits and Current Account(1)	23.0%	1st
Current Accounts Balances held by Individuals	28.8%	1st
Mutual Funds (Assets Under Management)	20.9%	1st
Net Fees and Commissions Income	20.2%	1st

Source: SBIF and Chilean Association of Mutual Funds.

(1) Excluding operations of subsidiaries abroad.

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

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

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

Broad Customer Base and Nationwide Distribution Network

We believe that we have one of the largest customer bases among financial institutions in Chile. In recent years, we have been able to expand our customer base by providing attractive and tailored value offerings based on continuously improving segmentation and by applying sophisticated business intelligence tools. As of December 31, 2017, we had approximately 1,360,000 core clients, which had at least a current account or a loan outstanding with us. However, in regards to main banking products, we serve a broader customer base composed of 1,200,000 borrowers, approximately 850,000 current accounts holders, approximately 135,000 time deposit holders, approximately 150,000 saving account holders and approximately 1,070,000 credit card account holders.

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

In order to better serve our customers, we are present in all regions of Chile and strive to be accessible to every Chilean customer through our large branch network as well as non-physical contact channels. As of December 31, 2017, we had a nationwide branch network of 399 branches, the largest in Chile among private sector banks, according to information published by the SBIF. This network is composed of 253 branches under our Banco de Chile brand name, 41 branches under our Banco Edwards Citi brand name and 105 branches under our Banco CrediChile brand name. We believe that our branch network enables us to develop close relationships with our customers and therefore we are constantly assessing new branch locations throughout Chile.

We have also enhanced our branch network with non-physical remote channels, such as ATMs, internet-based online platforms and mobile banking applications. As of December 31, 2017, we had 1,464 ATMs throughout Chile and we provided our customers with diverse mobile banking applications including MiBanco, MiBeneficio, MiCuenta, MiPago, MiPass, MiInversion and MiSeguro, which jointly had more than 3,226 million downloads as of the same date.

Competitive Funding Structure

We believe that we have a cost effective and highly competitive funding structure based on our leading market position in current accounts and demand deposits, especially among individuals. According to the SBIF, as of December 31, 2017, with a 28.8% market share, we ranked first within the Chilean banking industry in current account and demand deposits held by individuals. Similarly, as of that same date and excluding operations of subsidiaries abroad, we were the principal bank in Chile in terms of average total balances of non-interest bearing current accounts and demand deposits representing 23.0% of the industry, as reported by the SBIF. Also, our total balances of current accounts and demand deposits represented 27.2% of our funding structure as of December 31, 2017, as compared to the 19.4% reported by the Chilean financial industry as a whole, excluding Banco de Chile.

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

We are constantly striving to diversify our liability structure in terms of sources, types of instruments and markets with the aim of maintaining a competitive cost of funding and improving our liquidity. Thus, within a less dynamic landscape and moderate growth posted by our loan book, we continued to strengthen the liability structure by taking advantage of specific windows of opportunity. Although we were less active in terms of debt placements when compared to previous years, we were able to enter into long-term financing arrangements in overseas markets demonstrating, once again, the confidence of foreign investors in Banco de Chile. Under our MTN Program, we placed the following instruments in foreign markets during 2017: (i) a 15-year unsecured euro-denominated bond issued in Germany for approximately U.S.\$73 million, (ii) a 20-year unsecured yen-denominated bond placed in Japan for approximately U.S.\$90 million, and (iii) a five-year unsecured bond in Japan for approximately U.S. \$115 million. Most of these placements were accompanied by cross currency swap hedge arrangements in order to neutralize any effects associated with changes in foreign exchange that could impact our cost of funding. In addition, we continued to utilize short-term funding associated with our commercial paper program, which provides us with premium funding for Trade Finance transactions, and during 2017, we issued a total amount of U.S.\$1.2 billion. As of December 31, 2017 we had an outstanding balance of approximately U.S.\$420 million. In terms of long-term funding in local currency, during 2017 we placed a total amount of UF15 million (approximately U.S.\$653 million) within the local market. These debt placements had maturities ranging from four to 12 years (8.2 years on average) while bearing premium spreads over the relevant benchmark (Central Bank UF-denominated bonds or BCU).

Superior Asset Quality

We are one of the Chilean financial institutions with the highest credit quality and the healthiest loan portfolio in Chile. We believe this asset quality is the result of our well known prudent risk management approach and accurate credit risk models that are continuously being updated and have enabled us to maintain relatively low levels of past due loans (loans 90 days or more past due) and high coverage indicators over the last few years. According to the SBIF, as of December 31, 2017, we had a delinquency ratio (loans 90 days or more past due as a percentage of total loans) of 1.2% which was well below the industry average delinquency ratio of 2.1% posted by the Chilean banking industry (excluding Banco de Chile) as of the same date. Additionally, as of December 31, 2017, we had a coverage ratio (allowances for loan losses over loans 90 days or more past due) of 184.5%, which was well above the industry average coverage ratio of 134.6% as of the same date (excluding Banco de Chile), according to data published by the SBIF and under our internal reporting policies.

International Coverage

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

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

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Our Business Strategy

Mission

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

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

Vision

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

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

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Corporate Values

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

- Integrity

- Commitment

- Respect

- Loyalty

- Prudence

- Responsibility

- Justice

Purpose

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

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

Commitments

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

- **Our Customers**

- Offering innovative and top-quality banking products and financial services.
- Providing customers with excellent service based on customized relationships and a proactive attitude.
- Ensuring the availability and stability of physical and non-physical service channels.
- Maintaining trusted relationships in order to be our customers' main bank.

- **Our Employees**

- Providing employees with career opportunities based on merit.
- Promoting a respectful and friendly work environment.
- Offering competitive compensation and economic benefits.
- Supplying adequate technological tools and infrastructure.

- **Our Community**

- Improving quality of life and managing adversity.
- Strengthening the quality of education in Chile.
- Promoting entrepreneurship.
- Protecting the environment.
- Building strong relationships with suppliers.

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- **Our Shareholders**

- Leading the industry in net income generation and profitability.

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

- Fostering operating efficiency and productivity.

- Developing a prudent approach to risk management.

Strategic Priorities

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

- **Customer Centric Decision Making**

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

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

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We firmly believe that there is room to grow in retail banking. Although Chile's per capita GDP has increased fourfold over the last 30 years, banking penetration is still below that in developed countries, particularly in relation to residential mortgage and consumer loans. In fact, as of December 31, 2017, the loan book of the Chilean banking industry (excluding operations of subsidiaries abroad) represented 82% of Chilean GDP. As of the same date, mortgage and consumer loans represented 24% and 11%, respectively. On the other hand, according to the SBIF, as of December 31, 2017, we had market shares of 17.0% and 19.7% in residential mortgage loans and consumer loans, respectively, both behind the market leader by 3.7% and 2.7% in each case. Given the fierce competition in the Chilean banking industry, in order to take advantage of these opportunities, we are continuously developing innovative products and services to diversify our revenue sources. Accordingly, we have strived to build comprehensive value offerings for our retail segment, prioritizing fee-based income.

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

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

- Main Achievements in 2017

(1) New Internet-based Platform for Companies

In line with our efforts aimed at improving customer experience, we continued to develop new remote channels to satisfy consumer demand for modern, fast and secure financial services. In 2017, we launched a new website for companies, which allows our customers to conduct online most traditional banking transactions. As of December 2017, this new platform had approximately 8,000 active users executing diverse types of transactions and accessing several kinds of services, such as cash management solutions that comprise an online payment channel, trade finance assistance, electronic money transfers, management of liabilities with main suppliers, traditional loan application, tailored value offerings related to insurance, factoring and leasing products, portfolio management functionalities, uploading of financial documentation, and traceability of every operation executed online, among other services. Based on this wide array of features, our new website for companies was distinguished as the best electronic platform for companies and institutional customers in 2017 by Global Finance. During 2017, our wholesale customers (including corporations, large companies and SMEs) performed 15.7 million and 94.6 million monetary and non-monetary transactions, respectively, through the Company's Website. On an annual basis, these figures represented increases of 17.8% and 9.2% in monetary and non-monetary transactions, respectively.

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

In 2017, we continued to widen our digital banking offering by launching the new mobile application called MiInversion, which had 22,000 active downloads as of December 2017. This application aims to be a portfolio management mobile platform for retail customers by enabling them to manage their investments in equity, fixed-income and mutual funds. This new application joined our existing set of applications (including MiBanco, MiCuenta, MiPago, MiPass, MiSeguro and MiBeneficio). In addition, during 2017 we added new functionalities to these mobile applications by incorporating an On/Off service for credit and debit cards in case of theft, misplacement or other security issues detected by the user, authorization of web transactions with MiPass, biometric access to MiBanco through fingerprint, onsite payment in shops and commerce through MiPago, among other features. We received diverse recognitions of our digital banking strategy including Best Digital and Mobile Bank in Chile by Global Banking & Finance Review, Best Place to Innovate in Chile by Adolfo Ibañez University, GFK Adimark and América Retail and we ranked first in mobile banking customer satisfaction. Additionally, toward the end of 2017, we created the Innovation and Digital Banking Division, which aims to continue to enhance our mobile offerings with a customer centric approach. During 2017, our customers conducted 21.7 million monetary transactions using our mobile banking applications, representing a 78.4% annual increase when compared to 2016.

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(3) *Loyalty Program Enhancements*

Transactional services, especially credit cards, constitute a crucial part of our value offering particularly for individual customers. We strongly believe that transactional services are an effective means to improve cross-selling and further penetrate current customers, two key elements to growing profitably in a highly competitive industry. During 2017, we focused on improving benefits to our 1.1 million credit card account holders by widening strategic partnerships with various airlines and adding more alliances with local stores and several other products and service providers. In 2017, we entered into a new partnership with British Airways and GOL airlines. These alliances allow our customers to redeem their credit card points (gained through credit card usage) to purchase flight tickets or miles at special prices. For the year ended December 31, 2017 approximately 23,000 customers were enrolled in the British Airways program while approximately U.S.\$1.2 million had been exchanged for credit card points under the GOL airlines alliance. In addition, we opened our own VIP lounge for customers at the Santiago Airport, which was utilized by approximately 40,000 users throughout the year.

(4) *Sustained Improvement in Service Quality*

We are convinced that in a highly competitive industry such as the Chilean banking system, a customer-centric focus is critical to generating loyalty and creating long-term profitable relationships. We believe that our high service quality is a competitive strength that differentiates us from competitors and supports our long term strategy by responding to the preferences of our current and potential customers. Accordingly, we strive to continuously improve our relationships with customers by developing commercial strategies and value offerings aligned with their needs, as well as improving our response time and customer satisfaction indicators. Consistent with this view, during 2017 we continued to improve customer satisfaction by enhancing our commitment to service quality, improving existing and developing new online channels, such as our internet-based platforms and mobile applications, while promoting organizational changes intended to provide our customers with a more comprehensive approach. These actions, coupled with an organizational culture oriented to customer satisfaction, allowed us to rank first in service quality among our main banking peers in 2017, by posting an average net promoter score of 73% according to a syndicated study performed by an independent provider at the request of the largest Chilean banks. Consistent with our net promoter score, our customer attrition rate was 6.2% in 2017.

• **Operating Efficiency and Productivity**

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

internal processes and consolidate our cost control policy and monitoring procedures.

We are continuously developing and optimizing internal processes in order to reduce and manage our expenses. During 2017 we continued to enhance our IT infrastructure in order to increase stability and efficiency for all of our customers. Over the last three years we invested a total of approximately Ch\$80,295 million in information technology, mainly software and hardware, as we believe this is one of the best ways to improve our operating efficiency while properly meeting customers' needs, which are increasingly linked to IT services. For more information see Item 4. Information on the Company Capital Expenditures.

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In terms of efficiency and cost control, during 2017 our cost base posted a 0.4% annual decrease when compared to 2016. This reduction is the result of a strict cost control policy that has been deployed across our corporate structure. On the other hand, our efficiency ratio posted an increase from 43.7% in 2016 to 45.8% in 2017 primarily as a result of a decrease in operating revenues due to a decrease in non-core or non-customer income steered by lower inflation.

- Main Achievements in 2017

- (1) Advances in New Commercial Platform

During 2017 we continued to develop one of the most ground-breaking projects we have embraced over the last decade. This project, called Business Center , aims to be our new Sales & Customer Relationship Management platform and is expected to support significant improvements in quality and responsiveness of back-office and front-office operating processes with a customer centric vision. Thus, in 2017 we completed new phases while launching new modules associated with this comprehensive system including a 360° Vision for retail customers and improvements to the Time Deposits and Savings module, which tailors offerings to individual customers and a new management system for marketing campaigns.

- (2) Business Intelligence

Over the last years we have focused on developing diverse business intelligence tools in order to better serve current customers while attracting new potential clients. During 2017, we continued to develop this strategic pillar by deploying new analytic tools, which have permitted us to optimize and make our commercial processes and campaigns more efficient while providing our customers with tailored and timely value service and product offerings. Thus, throughout 2017, we implemented Pricing 360°, which is a pricing tool that enables us to personalize and accelerate the credit approval process for individuals by using digital tools that optimize our use of and access to client information.

- (3) Branch Network Optimization

We firmly believe that remote channels are the future of banking, particularly amid new regulatory requirements, intensified competition, the entry of new banking players and higher reputational exposure, all of which translates into higher costs. Similarly, customers are increasingly demanding new and innovative distribution channels and visiting branches less, given lack of time, but mostly due to the massive use of mobile internet and the fast adoption of smartphones. These trends led us to revise our entire branch network in terms of coverage and layout. For instance, during 2017 we developed the concept of dual branches intended to serve both CrediChile s and Banco de Chile s customers. As a result, and based on financial and strategic analyses, we reduced our branch network from 423 locations in 2016 to 399 locations in 2017. Most of this decrease was related to the closure of 19 CrediChile s branches, as a result of decreasing our exposure to the low income segment over the last five years and due to new remote distribution channels put at disposal of those clients.

Commitment to Chile

Banco de Chile is committed to the progress of Chile and development of its individuals and companies by providing innovative tools that contribute to improve their quality of life. In this regard, we firmly believe that modern companies need to create effective mechanisms to build positive connections with all of their stakeholders and the society in which they carry out their business activities. This has become increasingly important in the midst of societal changes in Chile and worldwide.

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

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

- Main Achievements in 2017

- (1) Entrepreneurship Support and Financial Literacy

During 2017, we continued to support diverse social endeavors by collaborating with *Desafío Levantemos Chile*, which is a non-profit organization that aims to promote entrepreneurship throughout Chile and especially within lower income segments. Based on this partnership, we assist people and microbusiness affected by natural disasters occurred in Chile by donating both monetary and non-monetary resources to help re-establish entrepreneurs and families working capacity.

Furthermore, during 2017 we held the second *Entrepreneur Challenge Contest*, which was a joint venture between Banco de Chile and *Desafío Levantemos Chile*, sponsored by the National Development Agency (*Corfo*). This nationwide contest was intended to promote those initiatives that incorporate social factors as drivers of entrepreneurship rather than only maximizing earnings. Accordingly, we convened microentrepreneurs who incorporate a social and sustainable vision as part of their business activities through creativity and innovation. In 2017, we selected approximately 320 ideas out of 23,000 entries in the contest, of which the five most innovative business concepts were rewarded.

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

During 2017, through CrediChile, we held diverse on-site workshops attended by approximately 4,359 people throughout the country. We supplemented these activities with e-learning programs to train approximately 43,155 individuals and entrepreneurs.

- (2) Disability Inclusion

Our commitment to disabled people is permanent. We have been supporting Teleton Foundation for almost 40 years since its establishment, supporting disabled athletes and artists. During 2017 we worked once again alongside Teleton for its annual fund-raising campaign by putting our nationwide distribution network including branches, ATMs, internet-based platforms and mobile applications for smartphones, in addition to other technological resources at Teleton's disposal. At the same time, we also made an important monetary donation.

During 2017 we promoted our Inclusion Policy across the corporation. This policy is intended to improve our knowledge of physical disability and develop higher sensitivity concerning the treatment of handicapped people. We believe this is the first step to improve the service we render to customers who experience this reality while providing our disabled employees with supportive workplace conditions and benefits. We also improved accessibility of many branches for disabled customers and held the First Encounter for Inclusion, in which we committed, together with other 15 companies, to promote the recruitment of handicapped staff. In addition, we launched a new plan of special benefits for our current disabled collaborators while implementing inclusive recruitment processes.

(3) *Emergency and Natural Disasters*

We provide assistance to people and non-governmental organizations in the event of an emergency or natural disaster in our country by arranging fundraising campaigns or establishing working plans to aid affected areas. During 2017, together with Desafío Levantemos Chile, we collected funds in order to face the catastrophe that occurred in Central Chile as a result of widespread wildfires. We donated a fire engine to Santa Olga's community, which was one of the most affected locations due to wildfires.

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Additionally, we created a Corporate Volunteer Program in order to promote participation of our staff in assisting people and organizations during emergencies. Our volunteers received basic training in various first aid techniques while being instructed on rescue procedures.

(4) Other Initiatives

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

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

We also seek to remain one of the most respected employers in Chile. We continue to strengthen our connection to our employees in order to align corporate values and goals with their career development and personal goals. In this regard, we have continued to focus on developing leadership capabilities and overall technical skills through approximately 1,000 training activities that were attended by approximately 10,900 employees. We believe these initiatives are aligned with our strategy and the professional development that our team aspires to achieve.

Finally, during 2017, Banco de Chile was included in the Dow Jones Sustainability Index Chile, which is comprised of companies with leading environmental, social and corporate governance practices.

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Ownership Structure(1)

The following diagram shows our ownership structure as of April 20, 2018:

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

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Principal Business Activities

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

The information related to our business segments presented in this section has been prepared in accordance with our internal reporting policies. See Item 5. Operating and Financial Review and Prospects Operating Results Results of Operations for the Years Ended December 31, 2015, 2016 and 2017 Business Segments and Item 5. Operating and Financial Review and Prospects Operating Results Results of Operations for the Years Ended December 31, 2015, 2016 and 2017 Summary of Differences between Internal Reporting Policies and IFRS for a description of the most significant differences between our internal reporting policies and IFRS.

The following table sets forth information on the composition of our loan portfolio and our consolidated income before income tax in accordance with our internal reporting policies for the year ended December 31, 2017, allocated among our principal business segments:

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	For the Year Ended December 31, 2017		Income before Income Tax(1)
	Total Loans		
	(in millions of Ch\$, except percentages)		
BANK'S INTERNAL REPORTING POLICIES:			
Retail market	15,654,954	61.5%	346,598
Wholesale market	9,771,711	38.4%	264,822
Treasury and money market operations			25,851
Operations through subsidiaries	12,870	0.1%	53,776
Other (adjustments and eliminations)			
Total	25,439,535	100.0%	691,047

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

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

	2015	For the Year Ended December 31,		2017
		2016		
		(in millions of Ch\$)		
BANK'S INTERNAL REPORTING POLICIES:				
Retail market	Ch\$ 1,022,586	Ch\$ 1,137,333	Ch\$ 1,134,443	
Wholesale market	464,497	422,353	399,826	
Treasury and money market operations	36,134	46,488	30,853	
Operations through subsidiaries	134,395	140,969	158,535	
Other (adjustments and eliminations)	(11,257)	(12,349)	(14,387)	
Total Operating Revenues	Ch\$ 1,646,355	Ch\$ 1,734,794	Ch\$ 1,709,270	

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

	2015	For the Year Ended December 31,		2017
		2016		
		(in millions of Ch\$)		
BANK'S INTERNAL REPORTING POLICIES:				
Chile	Ch\$ 1,657,612	Ch\$ 1,747,143	Ch\$ 1,723,657	
Banking operations	1,523,217	1,606,174	1,565,122	
Operations through subsidiaries	134,395	140,969	158,535	
Foreign operations				
Operations through subsidiaries				
Other (adjustments and eliminations)	(11,257)	(12,349)	(14,387)	
Total Operating Revenues	Ch\$ 1,646,355	Ch\$ 1,734,794	Ch\$ 1,709,270	

Retail Banking Segment

Our retail banking segment serves the financial needs of individuals and small and medium sized companies through our branch network. As of December 30, 2017, our retail banking segment managed 294 branches operating under our Banco de Chile and Banco Edwards-Citi brand names and 105 branches within the Banco CrediChile network. As of December 31, 2017, loans granted by our retail banking segment amounted to Ch\$15,654,954 million and represented 61.5% of our total loans as of the same date.

In terms of composition, as set forth in the following table, as of December 31, 2017 our retail segment's loan portfolio was principally focused on residential mortgage loans, which represented 47.7% of the segment's loan book. The remaining loans were distributed between commercial loans (26.7%) and consumer (25.6%).

As of December 31, 2017

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(in millions of Ch\$, except percentages)

BANK'S INTERNAL REPORTING POLICIES:

Commercial loans	Ch\$	4,184,613	26.7%
Residential mortgage loans		7,463,334	47.7
Consumer loans		4,007,007	25.6
Total	Ch\$	15,654,954	100.0%

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

Individual and SME Area

The Individual and SME Area is responsible for offering financial services to individuals with monthly incomes over Ch\$500,000 (or Ch\$6.0 million per year) and to small and medium sized companies with annual sales of up to approximately Ch\$1,600 million. This area manages the portion of our branch network operating under the brand names Banco de Chile and Banco Edwards Citi and had 294 branches as of December 31, 2017.

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

During 2017, the Individual and SME Area continued to focus on targeted growth opportunities while developing new business solutions and benefits for its clients in order to improve our customers' experience. We launched a new mobile application MiInversion, intended to meet retail customers' investment needs by providing a mobile portfolio management platform. This application was a joint development by the Bank and our subsidiaries Banchile Administradora General de Fondos and Banchile Corredora de Bolsa. Similarly, we improved existing applications by introducing new functionalities that permit our customers to conduct transactions via the internet with upgraded security standards like MiPass. Also, customers are able to block credit cards online in case of theft or misplacement by means of an On/Off functionality incorporated in MiBanco. In addition, our enhanced loyalty program added new alliances with GOL Airlines and British Airways and negotiated access to a VIP lounge for customers at the Santiago airport. By the end of 2017, there were approximately 23,000 customers enrolled under the British Airways agreement while roughly U.S.\$1.2 million of benefits had been exchanged under the GOL Airlines program. Lastly, approximately 40,000 users utilized our new VIP lounge at Santiago Airport. We believe that comprehensive value offerings are crucial to both improving customer experience and attracting new customers. In this regard, during 2017, this area increased its customer base by approximately 43,400 current account holders, net of attrition.

As of December 31, 2017, the Individual and SME Area served approximately 962,749 core customers (those holding a current account or a loan outstanding) of which 844,148 were individuals and 118,601 were small and medium sized Chilean companies. This customer base resulted jointly in total loans granted to 817,126 borrowers, which included 121,752 residential mortgage loans debtors, 106,612 commercial loan debtors, 429,845 utilized lines of credit and 309,180 installment loans. As of the same date, the Individual and SME Area held 848,537 current accounts, 116,653 savings accounts and 243,836 time deposits.

As of December 31, 2017, loans granted by the Individual and SME Area amounted to Ch\$14,896,103 million, which represented 58.6% and 95.2% of our total loans and loans granted by our retail market segment, respectively, as a whole. The following table sets forth a breakdown of the unit's loan portfolio by lending product in accordance with our internal reporting policies, as of December 31, 2017:

	As of December 31, 2017 (in millions of Ch\$, except percentages)		
BANK'S INTERNAL REPORTING POLICIES:			
Commercial loans			
Commercial credits	Ch\$	3,397,426	22.8%
Leasing contracts		430,685	2.9
Other loans		319,369	2.1
Total Commercial Loans		4,147,480	27.8

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Residential Mortgage Loans	7,397,936	49.7
Consumer Loans		
Installment loans	1,964,246	13.2
Credit cards	1,070,349	7.2
Lines of credit and other loans	316,092	2.1
Total Consumer Loans	3,350,687	22.5%
Total	Ch\$ 14,896,103	100.0%

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

Installment Loans

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

As of December 31, 2017, we had Ch\$1,964,246 million in installment loans granted by our Individual and SME Area, which accounted for 49.0% of the retail market business segment's consumer loans. Most of these installment loans are denominated in Chilean pesos and are payable monthly.

Residential Mortgage Loans

As of December 31, 2017, we had outstanding residential mortgage loans of Ch\$7,473,006 million (under internal reporting policies considering the Bank as a whole), which represented 29.4% of our total loan book as of the same date. According to information published by the SBIF, as of December 31, 2017, we were Chile's second largest private sector bank in terms of year-end mortgage loans balances, accounting for approximately 17.0% of mortgage loans granted by the Chilean banking industry, excluding operations of banks' subsidiaries operating abroad.

Our residential mortgage loans are generally denominated in UF and have maturities ranging from five to 30 years. As of December 31, 2017, the average residual maturity of our residential mortgage loan portfolio was 17.4 years. Originally, we funded our residential mortgage loans through the issuance of mortgage finance bonds, which are recourse obligations only to us with payment terms that are matched to the residential loans. Also, the mortgage finance bonds bear real market interest rates plus a fixed spread over the variable rate of the UF, which permits us to reduce our exposure to interest rate fluctuations and inflation. Chilean banking regulations allow us to finance up to 100% of a residential mortgage loan with mortgage finance bonds, based on the purchase price of the property securing the loan or the appraised value of such property. In addition, we generally require that the monthly payments on a residential mortgage loan not exceed 25% of the borrower's household after tax monthly income, when the customer belongs to the low income population segment. However, that limit may be adjusted for the middle and high income population segments.

Over the last decade, we have also promoted the expansion of *Mutuos Hipotecarios*, a mortgage lending product, which is not financed by mortgage finance bonds, but instead through our general funds. As of December 31, 2017, our residential mortgage loan portfolio was principally composed of *Mutuos Hipotecarios*, as customers have preferred them due to their flexibility and simplicity (for instance the interest rate is known in advance by the customer, which is not the case for mortgage finance bonds that are traded in the secondary market

and, therefore, subject to discounts), as they are easier to prepay and permit financing of up to 100% of the purchase price, although banks may limit such maximum financing portion if required by internal credit policies.

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

	As of December 31, 2017 (in millions of Ch\$, except percentages)	
BANK'S INTERNAL REPORTING POLICIES:		
Secured Residential Mortgage Loans(1)		
Loans financed with <i>Mortgage Bonds</i>	Ch\$ 29,673	0.4%
<i>Mutuos Hipotecarios</i>	7,443,333	99.6
Total Secured Residential Mortgage Loans	Ch\$ 7,473,006	100.0%

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

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As shown above, as of December 31, 2017 residential mortgage loans related to *Mutuos Hipotecarios* represented 99.6% of our total residential mortgage loan portfolio, while the remaining 0.4% corresponded to mortgage loans financed with *Mortgage Bonds*. As of the same date, the *Mutuos Hipotecarios* portfolio had an average origination period of 5.0 years (the period from the date when the loans were granted to the specified date) and 5.8% of these loans had been granted by CrediChile. Conversely, as of December 31, 2017, loans financed with *Mortgage Bonds* had an average origination period of 16.0 years (the period from the date when the loans were granted) and 5.2% of these loans had been granted by CrediChile. In terms of credit risk, in 2017, loans related to *Mutuos Hipotecarios*, as well as those financed with *Mortgage Bonds*, had low gross (before recoveries) credit risk ratios of 0.04% and (0.03)%, respectively. The difference between both ratios is explained by the previously mentioned factors, particularly by the average origination period, and also by the Bank's stricter requirements to grant *Mutuos Hipotecarios*. It is important to mention that the residential mortgage loan portfolio financed with *Mortgage Bonds* is annually decreasing in amount and as a proportion of the total residential mortgage loan portfolio because it is composed of old loans and the instrument is no longer used by customers that prefer *Mutuos Hipotecarios*. Accordingly, the portfolio of residential mortgage loans financed with *Mortgage Bonds* is expected to have misleadingly increasing gross credit risk ratios over time until its expiration, as the portion of non-performing loans becomes higher as long as creditworthy borrowers pay their outstanding liabilities to the bank, such that the portion of past due loans remaining in the portfolio increase.

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

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

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

New Clients Loan / Property value	Requirements (in millions of Ch\$, except percentages)	
	≤ 80%	> 80%
Employed		
Years employed	> 1 year	> 2 years
Monthly Income	> Ch\$0.5	> Ch\$1.0
Self-Employed		
Years Employed(1)	> 2 years	> 3 years
Monthly Income	> Ch\$0.5	> Ch\$1.2

(1) In the case of self-employed clients, years employed refers to the minimum period of time in which the customer has been filing annual tax declarations with the Chilean Internal Revenue Service.

During 2017, 0.9% of the residential mortgage loans granted to our customers financed between 90% and 100% of the property value. Similarly, during 2017, loans financing between 75% and 90% of the property appraised value represented 37.5% of these loans, loans financing between 50% and 75% of the property value represented 47.2% of these loans, and loans financing less than 50% of the property value represented 14.3% of these loans. During 2017, and according to our prudent risk approach, we continued tightening our credit granting policy for residential mortgage loans by restricting the loan financing limit as a percentage of the property's value from 90% to 80%, although higher financing may be granted to longstanding customers within specific segments. This explains the decrease in the share of residential mortgage loans that financed between 90% and 100% of the property value over the last years, from 14.9% in 2015 to 0.9% in 2017.

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An additional feature of our mortgage loans is that mortgaged property typically secures all of the mortgagor's credit with us, including installment loans and due balances associated with credit cards and credit lines. Our total amount of loans secured by real estate guarantees, their loan to value (LTV) ratio and their relative share in our total loan portfolio, as of December 31, 2017, are depicted in the table below:

	Outstanding Balance	As of December 31, 2017	
		LTV(2)(3)	% of Bank's Total Loans
(in millions of Ch\$, except percentages)			
BANK'S INTERNAL REPORTING POLICIES:			
Secured Loans(1)			
Residential Mortgage Loans	7,473,006	66.6%	29.4%
Other than mortgage loans	880,865	23.5	3.5
Total Secured Loans	8,353,871	74.4%	32.9%

- (1) Corresponds to the Bank's total secured loans and not only those associated with the Individual and SME Area.
- (2) LTV ratio is computed as the amount of secured loans divided by the value of their associated collateral.
- (3) For other-than-mortgage loans, the LTV ratio is computed as the amount of the excess guarantee (after deductions) of the balance of the associated residential mortgage loans, as those guarantees are initially established in order to secure the residential mortgage loan.

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

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

	As of December 31, 2017	
	(in millions of Ch\$, except percentages)	
BANK'S INTERNAL REPORTING POLICIES:		
Secured Other-than-Mortgage Loans(1)		
Consumer Loans	567,439	64.4%
Credit Cards	242,422	27.5
Credit Lines	71,004	8.1
Total Secured Other-than-Mortgage Loans	880,865	100.0%

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

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Unlike in other countries, in addition to the specific legal rights afforded by the mortgage loan (including foreclosure rights), the Bank may collect the pending balance of the mortgage loan over other assets of the mortgage debtor based on certain legal liens provided by law (*derecho de prenda general*). Regarding the foreclosure processes, as permitted by Chilean regulations we may write-off secured loans (such as residential mortgage loans) the earlier of 48 months from the date the loans become overdue and once we have made all efforts for recovering the past due loans without success. This applies to residential mortgage loans financed with mortgage finance bonds as well as for *Mutuos Hipotecarios*. Our foreclosure processes comply with the procedures specified by Chilean regulation. However, as we strive to continuously improve our collection processes, we have achieved average terms of 36 months for foreclosures associated with residential mortgage loans.

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

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

Credit Cards

As of December 31, 2017, we issued both individual and corporate Visa and MasterCard credit cards. In addition to traditional credit cards, our portfolio also includes co-branded cards. As of December 31, 2017, we had two loyalty programs or cobranding agreements, namely Travel Club and Entel Visa. Credit cards issued under these cobranding agreements supplemented the credit cards that we issued under the brand names Banco de Chile, Banco Edwards-Citi and Banco CrediChile. In addition, as of December 31, 2017, we offered seven types of credit cards, targeting diverse types of segments and encompassing different benefits, including: Visa Nacional, Visa Internacional, Visa Dorada, Visa Infinite, Visa Signature, Visa Platinum, Visa Entel Estandar, Visa Entel Signature, MasterCard Nacional, MasterCard Internacional, MasterCard Universal, MasterCard Dorada, MasterCard Platinum and MasterCard Black.

Two of our affiliates, Transbank S.A. and Nexus S.A., provide us with merchant acquisition and credit card processing services. As of December 31, 2017, Transbank S.A. had 12 shareholders (including us) and Nexus S.A. had 12 shareholders (including us), all of which were banks. As of the same date, our equity ownership in Transbank S.A. was 26.16% and our equity ownership in Nexus S.A. was 25.81%.

As of December 31, 2017, we had 1,463,028 valid credit card accounts, with 1,708,176 credit cards issued to individuals and small and medium sized companies, held by 1,069,065 customers (including credit cards issued by CrediChile). Total charges on our credit cards during 2017 amounted to approximately Ch\$3,943,425 million, with Ch\$3,423,788 million corresponding to purchases in Chile and abroad and Ch\$519,636 million corresponding to cash withdrawals both within Chile and abroad. The amount of purchases made by our customers in Chile (which include charges associated with credit cards issued by CrediChile) accounted for 20.1% of the total purchase volume of banks' credit cards in Chile in 2017, according to statistics provided by Transbank S.A.

As of December 31, 2017, our credit card loans to individuals and small and medium sized companies amounted to Ch\$1,070,349 million and represented 26.7% of our retail market business segment's consumer loans.

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

Commercial Credits

Commercial loans granted by our Individual and SME Area mainly consist of project financing and working capital loans granted to small and medium sized companies, which are denominated in Chilean pesos, UF and U.S. dollars and may bear fixed or variable rates of interest and generally mature between one and three months. As of December 31, 2017, our Individual and SME Area had outstanding commercial loans of Ch\$3,397,426 million, representing 21.7% of the retail banking segment's total loans and 13.4% of our total loans as of the same date.

Leasing Contracts

Leasing contracts are financial leases for capital equipment and property. Leasing contracts may bear fixed or variable interest rates and they generally have terms that range from one to five years for equipment and from five to 20 years for properties. Most of these contracts are denominated in UF. As of December 31, 2017, our Individual and SME Area had outstanding leasing contracts of Ch\$430,685 million, representing 2.8% of the retail banking segment's total loans and 1.7% of our total loans as of the same date.

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Non-Residential Mortgage Loans

Non-residential mortgage loans granted to individuals and small and medium sized companies are loans intended to finance the acquisition of offices, land, facilities and other real estate assets. Non-residential mortgage loans are denominated in UF and generally have maturities between eight and 12 years. As of December 31, 2017, our Individual and SME Area had non-residential mortgage loans of approximately Ch\$10,700 million, representing 0.1% of the retail banking segment's total loans.

Debit Cards

We offer different types of debit cards to our customers. Depending on their specifications, these cards can be used for banking transactions at ATMs that operate on the local network provided by Redbanc and the local network of merchants participating in the local Redcompra debit program. Also, our debit cards can be used internationally through the Visa International PLUS network or the international network of merchants associated with the Electron program. We name these debit cards depending on the card's specific features and the link between the brand and target market which they serve. During 2017, we offered the following debit cards: Infinite, Signature, Platinum, Standard and debit cards for companies. As of December 31, 2017, according to monthly statistics provided by Transbank S.A., the Individual and SME Area held a 12.5% market share of debit card transactions (not including debit cards issued by Banco CrediChile, as those are reported under our Consumer Finance Area), which corresponds to approximately 115 million transactions throughout the year.

Lines of Credit

As of December 31, 2017 the Individual and SME Area had approximately 732,085 approved lines of credit to individual customers and small and medium sized companies. Also, the unit had outstanding advances to 429,845 individual customers and small and medium sized companies that totaled Ch\$315,381 million, or 2.0% of the retail banking segment's total loans and 1.2% of our total loans.

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

Deposit Products

We strategically offer deposit products to increase our deposit-taking activities as a means of diversifying our sources of funding. We believe that the deposits of our individual customers provide us with a relatively low-cost, stable source of funding, as well as an opportunity to cross-market our other products and services. In this regard, we offer current accounts, time deposits and savings accounts to our individual customers. Current accounts are Chilean peso-denominated and the majority bear no interest (approximately 0.07% or 626 of our total current accounts are interest-bearing), and savings accounts are denominated in UF and bear a fixed-interest rate. Time deposits may be denominated in Chilean pesos, UF and U.S. dollars and most bear interest at a fixed rate with terms that range between seven to 360 days.

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While demand has historically been focused on UF-denominated deposits during periods of high inflation, demand for Chilean peso-denominated deposits has increased in recent years as a consequence of lower and more stable inflation rates in Chile. This trend also occurred during the financial crisis of 2008 and 2009, when we benefited from a flight-to-quality effect. In fact, amid the high volatility and low interest rates observed in the financial markets throughout 2008 and 2009 (in line with monetary stimulus undertaken by central banks worldwide) customers increasingly deposited their funds in our current accounts, particularly those denominated in Chilean pesos, as they preferred liquidity to investing in products with low profitability. A similar phenomenon has taken place over the last three years as a result of the Central Bank's monetary stimulus plan in response to Chile's economic slowdown towards the end of 2013. Hence, as low interest rates have prevailed in Chile during 2014, 2015 and 2016, interest rates paid on Chilean peso-denominated saving accounts and time deposits have remained low. This trend encouraged investors to opt for current accounts over interest-bearing deposits. As a result, according to our management information system, annual average balances of current accounts and demand deposits managed by our Individual and SME Area increased by 10.3% and 7.7% in 2016 and 2017, respectively.

Table of Contents*Consumer Finance Area (Banco CrediChile)*

The Consumer Finance Area provides loans and other financial services to low and middle income segments (individuals whose monthly incomes range from Ch\$180,000 to Ch\$500,000), which historically have only been partially served by financial institutions. Also, our Consumer Finance Area serves micro businesses. Banco CrediChile represents an alternative delivery channel for our products and services to these segments, maintaining a separate brand supported by a network of 105 Banco CrediChile branches as of December 31, 2017. Banco CrediChile was established in 2004 from what was formerly our consumer banking area. During 2008, Banco CrediChile was merged with the consumer area of Citibank Chile (Corporación Financiera Atlas S.A.) as a consequence of our merger with Citibank Chile.

Banco CrediChile offers its customers a variety of banking products, such as consumer loans, credit cards, residential mortgage loans and a demand deposit account (see CuentaChile Demand Accounts) targeted at lower income customers. As of December 31, 2017, Banco CrediChile had approximately 370,515 core customers (those holding either a current account or a loan with us) and over 500,000 active demand accounts. As of the same date, total loans outstanding managed by CrediChile amounted to Ch\$758,851 million, representing 3.0% of our total loans outstanding as of the same date.

The following table sets forth the composition of Banco CrediChile's loan portfolio in accordance with our internal reporting policies, as of December 31, 2017:

	As of December 31, 2017 (in millions of Ch\$, except percentages)	
BANK'S INTERNAL REPORTING POLICIES:		
Consumer loans		
Installment loans	572,796	75.5%
Credit cards	83,237	11.0
Lines of credit and other consumer loans	287	0.0
Total consumer loans	656,320	86.5
Residential mortgage loans	65,398	8.6
Commercial loans	37,133	4.9
Total	758,851	100.0%

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

In recent years, CrediChile has strived to improve its value offering services by designing and implementing two new financial services, Caja Chile and Microbusiness Banking . The former consists of a limited range of basic financial services (e.g. deposits, withdrawals and bill payments) offered to customers and non-customers through remote IT platforms located in small convenience stores within socially and/or geographically isolated areas of Chile. On the other hand, the

Microbusiness Banking is a specialized portfolio of financial services designed for Microbusiness (generally personal businesses) that includes financial advisory, lending and non-lending products and general financial solutions for a

segment that has been traditionally uncovered by the banking services.

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During 2017, Banco CrediChile continued to enhance these service models in order to penetrate those segments by offering innovative banking solutions. As of December 31, 2017, Banco CrediChile had 2,044 CajaChile locations at various convenience stores located throughout geographically and/or socially isolated areas. Through these networks, CrediChile provides its customers with a basic array of financial services including bill payments, deposits, installments loan payments and cash withdrawals. As of the same date, commercial loans granted to microbusinesses accounted for approximately Ch\$47,720 million, associated with nearly 18,765 borrowers. Given the constrained business expansion in light of the slowdown in the Chilean economy, during 2017, Banco CrediChile continued to focus on operational efficiency, productivity and cost control. Accordingly, CrediChile continued to promote remote contact channels such as internet-based services and mobile banking applications in order to reduce on-site operations at branches. As a result we continued to optimize CrediChile's branch network in 2017.

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

Consumer Lending

Banco CrediChile provides short to medium term consumer loans and credit card services. As of December 31, 2017, Banco CrediChile had approximately 370,450 consumer loan debtors related to installment loans amounting to Ch\$572,796 million. As of the same date, Banco CrediChile had outstanding loan balances related to credit cards of Ch\$83,237 million.

CuentaChile Demand Accounts

Banco CrediChile launched CuentaChile Demand Accounts in 2014, offering its customers a deposit product that is flexible and easy to use. This product allows us to tap into a section of the consumer market that otherwise would not be able to access and participate in the banking system because of its risk profile. The CuentaChile Demand Account is a non-interest bearing demand deposit account without checking privileges that targets customers who want a secure and comfortable means of managing and accessing their money. Customers holding this account may use an ATM card linked to their CuentaChile Demand Account to make deposits or automatic payments to other Banco CrediChile accounts through a network of 7,434 ATMs available throughout Chile as of December 31, 2017. CuentaChile Demand Account holders may execute transactions in all CrediChile branches and carry out basic banking operations in the CajaChile's nationwide network, which is present in most Chilean regions and communities. CuentaChile Demand Account holders are entitled to make use of internet-based banking platforms and mobile applications provided by Banco

CrediChile while also receiving electronic money transfers and benefiting from diverse loyalty programs designed by Banco CrediChile, under the Cuenta Chile Club, which include discounts and special offers for a wide array of stores and services. Banco CrediChile previously offered its customers traditional demand accounts (each known as a CrediChile Demand Account) that entitled its holders to receive payroll deposits, withdraw money from ATMs and perform basic purchasing transactions. The CuentaChile Demand Account replaced and improved the former product offered by CrediChile by increasing benefits to its holders.

As of December 31, 2017, Banco CrediChile had approximately 573,085 active CuentaChile Demand accounts. Holders of these accounts pay an annual fee, based on the number of withdrawals on the account line of credit and interest on any outstanding balance under the line of credit. All fees and interest due on a CuentaChile Demand Account are withdrawn automatically on a monthly basis from funds available in the account. In addition, CuentaChile Demand Accounts allow us to offer our wholesale customers the ability to pay their employees by direct deposit of funds sent to the individual employee's account at Banco CrediChile, thereby increasing the potential for stronger long term relationships with our wholesale customers and their employees.

Table of Contents**Wholesale Banking Segment**

Our wholesale banking segment serves the needs of corporate customers. In 2017, this business segment recorded annual operating revenues of approximately Ch\$399,826 million, which represented 23.4% of our total operating revenues. Also, for the year ended December 31, 2017 this segment recorded an income before income tax of Ch\$264,822 million, which represented 38.3% of our consolidated income before income tax. As of December 31, 2017, loans granted by this business segment amounted to Ch\$9,771,711 million and represented 38.4% of our total loan portfolio.

The following table sets forth the composition of our portfolio of loans to the wholesale market in accordance with our internal reporting policies, as of December 31, 2017:

	As of December 31, 2017 (in millions of Ch\$, except percentages)		
BANK S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch\$	7,160,304	73.3%
Foreign trade loans		906,778	9.3
Leasing loans		950,749	9.7
Factoring loans		567,911	5.8
Other loans		185,969	1.9
Total	Ch\$	9,771,711	100.0%

As of December 31, 2017, we had 10,175 debtors out of a total of 26,856 core customers (those holding either a loan or a current account with us). Our wholesale customers are engaged in a wide range of economic sectors. As of December 31, 2017, loans granted by our wholesale banking segment were mainly related to:

- financial services (approximately 23.5% of all loans granted by this business segment);
- manufacturing (approximately 13.7% of all loans granted by this business segment);
- communication and transportation (approximately 13.5% of all loans granted by this business segment);
- commerce and trade (approximately 13.2% of all loans granted by this business segment);
- construction (approximately 13.0% of all loans granted by this business segment);

- agriculture, forestry and fishing (approximately 7.1% of all loans granted by this business segment);
- utilities (approximately 5.2% of all loans granted by this business segment);
- community, social and personal services (approximately 4.4% of all loans granted by this business segment);
and
- mining (approximately 1.6% of all loans granted by this business segment).

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

Corporate Area

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

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As of December 31, 2017, we had 908 corporations as debtors out of a total of approximately 7,242 core customers (those holding either a current account or a loan with us). Also, this area managed total outstanding loans of Ch\$3,295,344 million, which represented 13.0% of our total loan book as of the same date.

The following table sets forth the composition of our Corporate Area's loan portfolio in accordance with our internal reporting policies, as of December 31, 2017:

	As of December 31, 2017 (in millions of Ch\$, except percentages)		
BANK'S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch\$	2,685,826	81.5%
Foreign trade loans		229,309	7.0
Factoring loans		218,009	6.6
Leasing loans		66,055	2.0
Other loans		96,145	2.9
Total	Ch\$	3,295,344	100.0%

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

In cash management, as of December 31, 2017, we were party to approximately 8,513 payment service contracts and approximately 968 collection service agreements with corporations. We believe that cash management and payment service contracts, in particular, provide us with a source of low cost deposits and the opportunity to cross sell our products and fees to payees, many of whom maintain accounts with us. Under our collection contracts, we act as a collection agent for our corporate customers, providing centralized collection services for their accounts receivable and other similar payments. For the year ended December 31, 2017, joint volumes associated with collection and payment agreements increased by approximately 6.6%.

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

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

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Accordingly, during 2017, our Corporate Area continued to focus on: (i) maximizing cross-selling and profitability at the business relationship level, (ii) improving the customer experience with the bank's diverse distribution channels and (iii) promoting and motivating the area's team to encourage innovation in all the business aspects managed by account officers. These initiatives are intended to optimize the risk-return relationship of this segment through non-lending revenues and customer proximity. In all of these areas, but particularly in cross-selling, the synergies that arise from the Global Connectivity Agreement with Citigroup have been important when assisting our corporate customers with off shore transactions, derivatives structuring and financial advisory services. Undoubtedly, the slowdown in the local economy and, in particular, the significant decrease in overall investment across the country, significantly affected the corporate lending business during 2017. These trends resulted in increased competition for a reduced demand for loans and, therefore, a decrease in lending spreads. As a result, loan balances managed by our Corporate Area declined 14.9% on an annual basis. Under such circumstances, the area focused on increasing cross-selling, such as investment banking services offered through our Investment Banking subsidiary. During 2017, this subsidiary carried out approximately 21 transactions, an increase from the 15 transactions executed in 2016.

Large Companies and Real Estate Area

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

As of December 31, 2017, we had 9,165 large companies and real estate debtors out of a total of 19,078 core customers (those holding either a current account or a loan with us). Loans granted by the Large Companies and Real Estate Area amounted to Ch\$6,024,393 million as of the same date, which represented 23.7% of our total loans.

The following table sets forth the loan portfolio composition of the Large Companies and Real Estate Area, in accordance with our internal reporting policies, as of December 31, 2017:

	As of December 31, 2017 (in millions of Ch\$, except percentages)		
BANK'S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch\$	4,022,641	66.8%
Leasing loans		884,694	14.7
Foreign trade loans		677,469	11.2
Factoring loans		349,902	5.8
Other loans		89,687	1.5
Total	Ch\$	6,024,393	100.0%

Products and services offered by this area are mainly related to commercial loans, lines of credit, trade finance and foreign currency transactions, factoring services, leasing, non-residential mortgage loans, syndicated loans, investment banking and financial advisory services for mergers and acquisitions, debt restructuring assistance, payments and collections services, current accounts and related saving services, corporate credit

cards, cash and investment management, derivative contracts to hedge against currency or interest rate fluctuations, insurance brokerage, among other traditional and tailored services.

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

In 2017, this area continued to prioritize a customer centric approach in order to maintain a market-leading position in commercial banking. The high level of satisfaction, together with high standards achieved in terms of problem solving, allowed the area to face an unfavorable business landscape characterized by a decrease in capital expenditures across all economic sectors and uncertainty regarding the economic outlook. As a result, the area recorded a decrease of 5.4% in average loans in 2017 as compared to 2016. Nevertheless the decrease in the lending business was partially offset by an increase in our non-interest bearing liabilities. Our average demand deposits increased 5.6% in 2017, as compared to the 5.3% increase recorded in 2016. More importantly, the area posted a 7.6% annual increase in demand accounts denominated in local currency during 2017, which benefited our cost of funds and margin.

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Our leasing and factoring businesses are part of the Large Companies and Real Estate Area. During 2017, we were particularly active in terms of factoring loans as demonstrated by the 26.7% increase in year-end balances on an annual basis.

Special Businesses Area

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

As of December 31, 2017, our Special Businesses Area had approximately 102 borrowers out of a total of 536 core customers (those holding either a current account or a loan with us). In addition, as of the same date, loans granted by this area accounted for Ch\$451,974 million, which represented 1.8% of our total loans.

The following table displays the loan portfolio composition of the Special Businesses Area, in accordance with our internal reporting policies, as of December 31, 2017:

	As of December 31, 2017 (in millions of Ch\$, except percentages)		
BANK'S INTERNAL REPORTING POLICIES:			
Commercial credits	Ch\$	451,837	100.0%
Other loans		137	0.0
Total	Ch\$	451,974	100.0%

During 2017 the Special Businesses Area continued to focus on integrating its diverse units while outlining a comprehensive strategy intended to take advantage of opportunities that arise in the local market within the family office sub-segment. In this group of customers, relationships are crucial and, therefore, this area has concentrated on reinforcing the team's capabilities while establishing a collaborative work relationship with our subsidiaries Banchile Administradora General de Fondos and Banchile Corredora de Bolsa in order to put their wide range of mutual funds management and stock brokerage offers at the disposal of these customers. In this regard, the business scope of this area focuses on assets but, more importantly, focuses on the ability to attract liabilities such as deposits and wealth management, which permit us to benefit from funding and cross-selling. Thus, we completed a favorable year in Private Wealth Management by recording a 7.0% increase in number of customers and by 23.0% the level of assets under management.

Treasury and Money Market Operations

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

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

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

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Regarding funding functions carried out by our Treasury, during 2017, we continued to develop a funding diversification strategy by conducting important transactions in Chile and abroad. This strategy is aimed at maintaining a competitive cost of funding that supports the value offerings we provide to our wide customer base and improving our liquidity by issuing debt of longer maturities that match long-term assets. For that reason, we are continually seeking alternative sources, types of instruments and markets. We generally conduct international bond issuances only if the cost (including costs of interest rate swaps and other transactional expenses) is below the cost of raising funds locally and the currency or interest rate exposure is fully hedged via cross currency swaps.

During 2017, although we were less active in terms of debt placements when compared to previous years, we were able to enter into opportunistic long-term financing arrangements in overseas markets demonstrating, once again, the confidence of foreign investors in Banco de Chile. Under our MTN Program, we placed the following instruments in foreign markets during 2017: (i) a 15-year unsecured euro-denominated bond issued in Germany for approximately U.S.\$73 million, (ii) a 20-year unsecured yen-denominated bond placed in Japan for approximately U.S.\$90 million, and (iii) a five-year unsecured bond in Japan for approximately U.S. \$115 million. Most of these placements were accompanied by cross currency swap hedge arrangements in order to neutralize any effects associated with changes in foreign exchange that could impact our cost of funding. In addition, we continued to utilize short-term funding associated with our commercial paper program, which provides us with reliable funding for Trade Finance transactions, and during 2017, we issued a total amount of U.S.\$1.2 billion. As of December 31, 2017 we had an outstanding balance of approximately U.S.\$420 million. In terms of long-term funding in local currency, during 2017 we placed a total amount of UF15 million (approximately U.S.\$653 million) within the local market. These debt placements had maturities ranging from four to 12 years (8.2 years on average) while bearing premium spreads over the relevant benchmark (Central Bank UF-denominated bonds or BCU).

The funding functions carried out by our Treasury area are complemented by our international area, namely International Financial Institutions (IFI), which manages relations with correspondent banks worldwide, facilitating international payments and obtaining foreign currency financing for us. As of December 31, 2017, we have established a network of approximately 600 foreign banks, among which we maintained credit relationships with approximately 150 correspondent banks, from which we maintained 26 account relationships. IFI played an important role in structuring international transactions aimed at diversifying our funding.

Regarding the management of our securities portfolio, as of December 31, 2017, the portfolio amounted to Ch\$3,064,893 million and was composed of available-for-sale securities that totaled Ch\$1,526,315 million and securities held for trading amounting to Ch\$1,538,578 million. As for the type of instruments included in our securities portfolio, as of December 31, 2017, 54.6% consisted of securities issued by the Central Bank and the Chilean government, 41.8% consisted of securities issued by local financial institutions, and 3.6% consisted of securities issued by non-financial Chilean corporate issuers and other securities. Our investment strategy is designed to supplement our expected profitability, risks and economic variable projections while adhering to the regulatory guidelines and internal limits defined by our finance committee. In this regard, neither proprietary trading nor speculation on equity holdings are business goals for us and, therefore, equity instruments only represented 0.3% of our investment portfolio as of December 31, 2017.

Operations through Subsidiaries

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

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The following table sets forth information with respect to our financial services subsidiaries in accordance with our internal reporting policies as of December 31, 2017:

	Assets		Equity (in millions of Ch\$)		Net Income	
BANK S INTERNAL REPORTING POLICIES						
Banchile Corredores de Bolsa S.A.	Ch\$	541,693	Ch\$	88,879	Ch\$	14,880
Banchile Administradora General de Fondos S.A.		69,889		58,203		19,001
Banchile Corredores de Seguros Ltda.		16,094		7,218		4,557