SCOTIABANK CHILE AND SUBSIDIARIES

Financial Statements as of December 31, 2016 and 2015
and for the years then ended

(With Independent Auditor's Report thereon)

SCOTIABANK CHILE AND SUBSIDIARIES

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MCh$	: Amounts expressed in millions of Chilean pesos
US$	: Amounts expressed in United States dollars
ThUS$	: Amounts expressed in thousands of United States dollars
MUS$	: Amounts expressed in millions of United States dollars
UF:	: Amounts expressed in inflation-adjusted units

Independent Auditor's Report

To the Stockholders and Directors of
Scotiabank Chile:

We have audited the accompanying consolidated financial statements of Scotiabank Chile and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of income, other comprehensive income, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting standards and instructions issued by the Superintendence of Banks and Financial Institutions; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scotiabank Chile and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with the accounting standards and instructions issued by the Superintendence of Banks and Financial Institutions.

Other matters

The above translation of the auditor's report is provided as a free translation from the Spanish language original, which is the official and binding version. Such translation has been made solely for the convenience of non-Spanish readers.

Juan Pablo Carreño C.

KPMG Ltda.

Santiago, February 16, 2017

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SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Financial Position
as of December 31, 2016 and 2015

ASSETS	Note	2016 MCh$	2015 MCh$
Cash and deposits in banks	6	588,429	349,545
Transactions pending settlement	6	168,704	331,511
Securities held for trading	7	363,153	305,396
Investments sold under repurchase agreements and securities lending	8	183,677	61,220
Derivative instruments	9	283,650	347,475
Loans and advances to banks	10	12,331	361,137
Loans and advances to customers	11	8,617,253	8,032,259
Available-for-sale investment securities	12	654,863	451,934
Held-to maturity investment securities	12	-	-
Investments in other companies	13	9,910	8,938
Intangible assets	14	136,370	142,460
Property and equipment	15	66,158	64,691
Current tax assets	16	8,579	3,076
Deferred tax assets	16	176,104	167,194
Other assets	17	134,143	172,944
TOTAL ASSETS		**11,403,324**	**10,799,780**

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Financial Position, continued
as of December 31, 2016 and 2015

LIABILITIES	Note	2016 MCh$	2015 MCh$
Deposits and other on-demand liabilities	18	1,152,724	1,081,761
Transactions pending settlement	6	149,635	260,339
Investments sold under repurchase agreements and securities lending	8	12,343	7,090
Time and on-demand deposits	19	4,991,637	4,122,490
Derivative instruments	9	301,590	359,272
Bank borrowings	20	752,185	970,102
Debt securities issued	21	2,851,745	2,876,266
Other financial liabilities	22	61,683	49,921
Current tax assets	16	-	-
Deferred tax assets	16	46,168	43,246
Provisions	23	71,769	64,780
Other liabilities	24	99,001	124,089
TOTAL LIABILITIES		**10,490,480**	**9,959,356**
EQUITY			
Attributable to the owners:			
Capital	26	390,158	390,158
Reserves	26	56,190	56,190
Other comprehensive income	26	(5,820)	2,346
Retained earnings:			
Retained earnings from previous periods	26	327,687	274,202
Profit or loss for the period	26	103,648	76,407
Less: Provision for minimum dividends	26	(31,094)	(22,922)
		840,769	**776,381**
Non-controlling interest	26	**72,075**	**64,043**
TOTAL EQUITY		**912,844**	**840,424**
TOTAL LIABILITIES AND EQUITY		**11,403,324**	**10,799,780**

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Income for the Period
for the years ended December 31, 2016 and 2015

	Note	2016 MCh$	2015 MCh$
Interest and indexation income	27	736,112	626,851
Interest and indexation expenses	27	(368,171)	(314,743)
Net interest and indexation income	27	**367,941**	**312,108**
Fee and commission income	28	115,667	88,030
Fee and commission expenses	28	(29,455)	(26,922)
Net fee and commission income	28	**86,212**	**61,108**
Net gain (loss) from financial operations	29	52,060	(2,353)
Net foreign exchange (loss) income	30	10,417	22,815
Other operating income	35	19,764	26,199
Total operating income		**536,394**	**419,877**
Allowance for credit risk	31	(97,193)	(74,743)
NET OPERATING INCOME		**439,201**	**345,134**
Personnel expenses	32	(151,087)	(136,927)
Administrative expenses	33	(118,142)	(96,544)
Depreciation and amortization	34	(18,076)	(12,549)
Impairment	34	-	-
Other operating expenses	36	(13,892)	(12,838)
TOTAL OPERATING EXPENSES		**(301,197)**	**(258,858)**
OPERATING INCOME		**138,004**	**86,276**
Equity in net income of investees	13	1,033	934
Profit before income tax		**139,037**	**87,210**
Income taxes	16	(24,122)	(7,459)
PROFIT FOR THE PERIOD		**114,915**	**79,751**
Attributable to:			
Owners		103,648	76,407
Non-controlling interest	26	11,267	3,344
		114,915	79,751
Earnings per share attributable to owners:			
Basic and diluted per share		$20.14	$14.84

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Other Comprehensive Income for the Period
for the years ended December 31, 2016 and 2015

	Note	2016 MCh$	2015 MCh$
Consolidated Profit for the Period		**114,915**	**79,751**
Other comprehensive income, net of tax			
Net fluctuation in available-for-sale investment securities		777	(1,515)
Net fluctuation in deferred taxes on available-for-sale investment securities	16	(210)	234
Adjustment of cash flow hedge derivatives		(8,321)	960
Net fluctuation in deferred taxes on cash flow hedge derivatives		(412)	(216)
Total other comprehensive income		**(8,166)**	**(537)**
Consolidated comprehensive income for the period		**106,749**	**79,214**
Attributable to:			
Owners		95,482	75,870
Non-controlling interest		11,267	3,344

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended December 31, 2016 and 2015

	Attributable to equity owners						
	Share capital MCh$	**Reserves MCh$**	**Other comprehensive income MCh$**	**Retained earnings MCh$**	**Total MCh$**	**Non-controlling interest MCh$**	**Total equity MCh$**
Balance as of December 31, 2014	390,158	56,190	2,881	274,202	723,431	26	723,457
Net fluctuation in available-for-sale investment securities, net of taxes	-	-	(1,279)	-	(1,279)	(2)	(1,281)
Adjustments of cash flow hedge derivatives, net of taxes	-	-	744	-	744	-	744
Profit or loss for the period	-	-	-	76,407	76,407	3,344	79,751
Total other comprehensive income for the period	-	-	(535)	76,407	75,872	3,342	79,214
Non-controlling interest on acquisition of new subsidiaries	-	-	-	-	-	30,542	30,542
Capital increase	-	-	-	-	-	30,133	30,133
Dividends paid	-	-	-	-	-	-	-
Provision for minimum dividends	-	-	-	(22,922)	(22,922)	-	(22,922)
Balance as of December 31, 2015	**390,158**	**56,190**	**2,346**	**327,687**	**776,381**	**64,043**	**840,424**
Balance as of December 31, 2015	390,158	56,190	2,346	327,687	776,381	64,043	840,424
Net fluctuation in available-for-sale investment securities, net of taxes	-	-	567	-	567	-	567
Adjustments of cash flow hedge derivatives, net of taxes	-	-	(8,733)	-	(8,733)	-	(8,733)
Profit or loss for the period	-	-	-	103,648	103,648	11,267	114,915
Total other comprehensive income for the period	-	-	(8,166)	103,648	95,842	11,267	106,749
Dividends paid	-	-	-	-	-	(3,235)	(3,235)
Provision for minimum dividends	-	-	-	(31,094)	(31,094)	-	(31,094)
Balance as of December 31, 2016	**390,158**	**56,190**	**(5,820)**	**400,241**	**840,769**	**72,075**	**912,844**

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Cash Flows
for the years ended December 31, 2016 and 2015

	Note	2016 MCh$	2015 MCh$
Cash flows from operating activities:			
Profit or loss for the period		114,915	79,751
Adjustments for:			
Depreciation and amortization	34	18,076	12,549
Allowance for credit risk	31	143,591	117,691
Effect of fair value adjustment on derivative instruments		(6,505)	(2,625)
Loss from sale of property and equipment	35	(3,210)	(3,001)
Net interest and indexation income	27	(367,941)	(312,108)
Equity for investments in related companies	13	(1,033)	(934)
Income tax expense	16	30,848	20,468
Net loss on sale of assets received in lieu of pay	35	(2,197)	(2,504)
Provisions and/or write-off of assets received in lieu of payment	36	2,448	2,266
Other debits		(6,235)	(1,586)
Change in trading assets:			
Securities held for trading		(275)	(142,832)
Loans and advances to banks		348,303	400,019
Loans and advances to customers		(700,235)	(1,945,566)
Deferred tax assets	16	(6,726)	(13,009)
Other assets		42,623	(123,008)
Change in trading liabilities:			
Deposits and other on-demand liabilities		70,817	205,995
Investments sold under repurchase agreements		5,254	(12,394)
Term deposits and savings accounts		873,897	1,179,516
Other liabilities		(32,220)	71,828
Interest and indexation received		681,101	587,839
Interest and indexation paid		(386,331)	(221,917)
Taxes and fines paid		(261)	(68)
Collection of remaining balance of taxes from previous years		37	33
Net cash provided by (used in) operating activities		**818,741**	**(103,597)**
Cash flows from investing activities:			
Acquisition of property and equipment	15	(12,500)	(5,766)
Net change in investment securities		(55,336)	(142,580)
Dividends received	13	265	256
Acquisitions of intangible assets	14	(7,189)	(143,722)
Acquisition of investments in other companies	13	(351)	(104)
Proceeds from sale of investments in companies	13	-	9
Net cash from (used in) investing activities		**(75,111)**	**(291,907)**

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES
Consolidated Statement of Cash Flows, continued
for the years ended December 31, 2016 and 2015

	Note	2016 MCh$	2015 MCh$
Cash flows from financing activities			
Net change in bank borrowings		(217,770)	95,075
Net change in debt instruments		(4,256)	395,925
Net change in other financial liabilities		11,799	(15,342)
Capital increase of non-controlling interests		-	30,133
Dividends paid non-controlling interests	26	(3,235)	-
Dividends paid	26	(22,922)	(30,441)
Net cash provided by financing activities		**(236,384)**	**475,350**
Net cash flows		**507,246**	**79,846**
Cash and cash equivalents as of January 1	6	**625,942**	**546,096**
Cash and cash equivalents as of December 31	6	**1,133,188**	**625,942**

See accompanying notes to the consolidated financial statements.

Note 1 Reporting entity

Background information

Scotiabank Chile (hereinafter the "Bank" or "Parent Bank") is the parent of a group of entities, constituted in Chile as a closely-held corporation. The Bank is primarily involved in the brokerage of money and financial instruments such as personal property, commercial paper or any other credit instrument. As consolidated group, the Bank has subsidiaries supplementing its line of business (Note 2(b)), in accordance with General Banking Law and subject to the supervision of the Superintendence of Banks and Financial Institutions.

At the Extraordinary Stockholders' Meeting of Scotiabank Sud Americano and Banco del Desarrollo, held on July 29, 2009, the new bylaws were established, which were approved by the Superintendence of Banks and Financial Institutions through Resolution No. 196 dated September 2, 2009. The merged entity changed its name to Scotiabank Chile and can also use the names Scotiabank Sud Americano and Scotiabank. The merger between both Banks became effective on November 1, 2009. The Bank's original incorporation was authorized via Decreto Supremo de Hacienda No. 1.389 dated March 29, 1944.

The Bank's registered office is located in Morandé No. 226, Santiago, and its web page is www.scotiabank.cl.

Note 2 Significant accounting policies

(a) Basis of preparation

The consolidated financial statements, which include the Consolidated Statements of Financial Position, Consolidated Statements of Income for the period, Consolidated Statements of Other Comprehensive Income for the period, Consolidated Statements of Changes in Equity and Consolidated Statements of Cash Flows of Scotiabank Chile and its subsidiaries, have been prepared in accordance with accounting practices prescribed by the Superintendence of Banks and Financial Institutions (SBIF) and, in relation to all issues not addressed in them and as long as they are not opposed to the Superintendence's instructions, the Bank must apply the accounting principles issued by the Colegio de Contadores de Chile A.G., which agree with the international accounting and financial reporting standards issued by the International Accounting Standards Board (IASB). Should any discrepancy exist between accounting principles generally accepted in Chile and the accounting standards issued by the Chilean Superintendence of Banks and Financial Institutions, the latter shall prevail.

For this purpose, the accounting policies applied are consistent with those from the prior year, using some estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense and the disclosure of contingencies during the period. Actual results may differ from these estimates.

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Note 2 Significant accounting policies, continued

(b) Basis of consolidation

(i) Subsidiaries

Scotiabank Chile's financial statements as of December 31, 2016 and 2015, have been consolidated with its subsidiaries through the full consolidation method (line-by-line basis). These comprise the preparation of the stand-alone financial statements of the Bank and the subsidiaries included in consolidation, and include adjustments and reclassifications required for the consistent application of accounting policies and measurement criteria applied by the Bank, in accordance with standards established. These financial statements have been prepared using consistent accounting policies for similar transactions and other events for equivalent circumstances.

"Subsidiaries" are considered to be entities on which the Bank has the ability to control them. This ability is generally, but not only, by owning directly or indirectly at least 50% of the voting shares of associates, or even if this percentage is lower or null, if the Bank has been granted such control by an agreement with the shareholders of the subsidiaries. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Thus, an investor controls an investee if and only if the investor has all the following:

- Power over the investee;
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect the amount of the investor's returns.

The Bank reassesses, at least annually, the control over an investee considering the facts and circumstances that might indicate that there are changes to one or more of the three elements of control listed above. In accordance with IFRS 10, as of December 31, 2016, the Bank reassessed the control conclusion for its subsidiaries and associates. As a result, the Bank did not change its control conclusion on them.

The consolidated financial statement as of December 31, 2016 and for the twelve-month period between January 1 and December 31, 2016, were approved by the Company's Board of Directors on February 16, 2017. They are presented in a comparative basis with the same period from the prior year and include the consolidated assets, liabilities, changes in equity, cash flows, income and other comprehensive income of Scotiabank Chile.

Note 2 Significant accounting policies, continued

(b) Basis of consolidation, continued

(i) Subsidiaries, continued

The following subsidiaries, in which the Bank holds the interest with the corresponding equity, are detailed in the chart below.

Company	Direct 2016 %	Indirect 2016 %	Direct 2015 %	Indirect 2015 %
Scotia Corredora de Bolsa Chile S.A.	99.82	-	99.82	-
Scotia Administradora General de Fondos Chile S.A	99.13	0.87	99.13	0.87
Scotia Sud Americano Asesorías Financieras Ltda.	99.00	1.00	99.00	1.00
Scotia Corredora de Seguros Chile Ltda.	99.90	0.10	99.90	0.10
Centro de Recuperación y Cobranza Limitada	99.90	0.10	99.90	0.10
Bandesarrollo Sociedad de Leasing Inmobiliario S.A.	99.91	-	99.91	-
CAT Administradora de Tarjetas S.A. (see Note 40)	51.00	-	51.00	-
CAT Corredores de Seguros y Servicios S.A. (see Note 40)	51.00	-	51.00	-

(ii) Fund management

The Bank, through its subsidiary Scotia Administradora General de Fondos Chile S.A., manages and administers assets held in mutual funds, investment funds and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements.

(c) Non-controlling interest

Non-controlling interest represents the portion of losses and gains and of net assets which the Bank does not control directly or indirectly. Non-controlling interests are presented separately within the consolidated statements of income for the period, the consolidated statements of other comprehensive income for the period and the statements of financial position separate from equity.

(d) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Available-for-sale financial assets through equity.
- Financial instruments held-for-trading through profit or loss.
- Derivative instruments.

Note 2 Significant accounting policies, continued

(e) Business segments

The Bank's business segments are determined based on identifiable components providing products or services related to the business. These business segments deliver products and services subject to risks and yields different from those of other segments and their operating results are reviewed by Management for operating administration and decision-making purposes. Management has agreed on five reporting segments: 'SME and Retail Banking', 'Commercial Banking', 'Personal Banking', 'Financial retail' and 'Other', which are described in Note 5.

(f) Investments in companies

i) Companies in which the Bank has significant influence

Associates are those entities in which the Bank has significant influence, but not control or joint control. In general, this ability relates to interest equal or higher than 20% of voting rights and is measured according to the equity method. Other elements to determine a significant influence on an entity are the Bank's representation in the entity's Board of Directors and existence of material transactions.

These investments are measured through the equity method.

In accordance with the equity method, investments are initially recorded at cost, and then increased or decreased in order to reflect the Bank's proportional equity in the profit or loss of the investee and other changes recognized in its equity. Goodwill arising from the acquisition of a company is included in the carrying amount of the investment netted against any accumulated impairment loss.

ii) Joint ventures

"Joint ventures" are those businesses which are jointly controlled by two or more unrelated entities. This is evidenced by contractual agreements where two or more entities ("venturers") have an interest in entities ("multigroup") or perform transactions or hold assets so that any strategic financial or operating decision affecting them requires the unanimous consent by all the venturers.

These investments are measured through the equity method.

Note 2 Significant accounting policies, continued

(f) Investments in companies, continued

iii) Shares or interests in other companies

Shares or interests in other companies refer to those over which the Bank exerts no control or significant influence. Such shares or interests include interests in the Chilean Electronic Stock Exchange and the Santiago Stock Exchange, which are recorded at fair value through equity. Other interests are recorded at acquisition cost (historical cost).

(g) Interest and indexation income and expenses

Interest income and expense are recognized in the consolidated statements of income for the period using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, in a shorter period) to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, not considering future credit losses.

The calculation of the effective interest rate includes transaction costs, premiums, discounts, as well as all fees and commissions and other concepts paid or received that are directly attributable to the acquisition or issue of a financial asset or liability.

Adjustments are mainly related to the indexation associated with changes in the value of inflation-adjusted units (UF), which was Ch$26,347.98 as of December 31, 2016 (Ch$25,629.09 as of December 31, 2015).

The Bank has adopted the criterion of suspending interest accruals and indexation on outstanding high risk and past-due loans, i.e., it no longer recognizes income on an accrual basis for loans included in the impaired portfolio that meet the following criteria in relation to individual and group assessments performed in order to accrue allowances for credit risk:

Note 2 Significant accounting policies, continued

(g) Interest and indexation income and expense, continued

Loans subject to suspension	Reason for suspension
Individual assessment: Loans classified in categories C5 and C6.	Due to the sole fact of being in the impaired portfolio.
Individual assessment: Loans classified in categories C3 and C4.	For being within the impaired portfolio for three months.
Group assessment: Any loans, with the exception of those containing actual guarantees of at least 80%.	When the loan or one of its payments becomes six months past due.

However, for loans subject to an individual assessment, revenue from the accrual of interests and adjustments can still be recognized for loans paid regularly that represent liabilities with independent cash flows.

(h) Fees and commission

Financial fees and transaction costs directly related to the generation of certain financial assets and liabilities, are a part of the initial valuation of such financial assets and liabilities for the determination of the effective interest rate.

Commission income and expenses not related to the generation of financial assets and liabilities are recognized on an accrual basis.

In general, unearned income and prepayments related to commissions for future services to be provided or received are transferred on a straight-line basis to profit or loss over the period that contractually covers those payments and collections.

Fees and commission income and expense are recognized as the related services are provided.

(i) Functional and presentation currency

Scotiabank Chile has defined the Chilean Peso as its functional currency, as its deposit taking, placement and investment transactions are expressed mainly in such currency. These consolidated financial statements are presented in Chilean pesos. All the information presented in pesos has been rounded to the nearest million.

Note 2 Significant accounting policies, continued

(j) Foreign currency transactions

Transactions in currencies other than the functional currency are considered transactions in foreign currencies and are initially translated into the respective functional at the spot exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate as of the date of the Consolidated Statement of Financial Position. Foreign currency differences arising on translation are recognized with a debit or credit to profit of loss.

Assets and liabilities in foreign currencies are recognized at their equivalent value in Chilean pesos, calculated at the exchange rate of Ch$670.85 per US$1.00 as of December 31, 2016 (Ch$709.85 in 2015).

The balance of MCh$10,417 recorded within “Net foreign exchange gain” (gain of MCh$22,815 in 2015), in the Consolidated Statement of Income for the period includes the recognition of changes in the exchange rate of assets and liabilities in foreign currencies, and the resulting gain or loss from exchange transactions.

(k) Financial assets and liabilities

1. Recognition

The Bank initially recognizes loans and advances to customers, securities held for trading, investments securities, deposits, debt securities issued and subordinated liabilities issued on the date they are originated. Regular purchases and sales of financial assets are recognized on the trade date at which the Bank commits to purchase or sell the asset.

A financial asset or financial liability which is not recognized at fair value through profit or loss is initially measured at fair value plus transactions costs that are directly attributable to its acquisition or issue. Items measured at fair value through profit or loss, are initially measured at fair value, recognizing in profit or loss associated transaction costs.

2. Classification

Accounting policies associated to each classification will be addressed in sections (n), (o), (p), (q), and (r) below.

Note 2 Significant accounting policies, continued

(k) Financial assets and liabilities, continued

3. Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in a transferred financial asset that is created or retained by the Bank is recognized as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain and loss that had been recognized in other comprehensive income is recognized in profit and loss.

The Bank derecognizes a financial liability, or a portion of it, when its contractual obligations are discharged, canceled or expire.

4. Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

5. Measurement at amortized cost

Amortized cost is understood as the acquisition cost of a financial asset or liability adjusted in more or less, as it may apply for capital repayments, more or less the accumulated amortization (measured with the effective interest method) of any difference between initial amount and the reimbursement value in maturity, and less any decrease by impairment.

Note 2 Significant accounting policies, continued

(k) Financial assets and liabilities, continued

6. Measurement at fair value

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are easily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes a maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Periodically, the Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions of the same instrument or based on other available observable market data.

Note 2 Significant accounting policies, continued

(k) Financial assets and liabilities, continued

7. Identification and measurement of impairment

The Bank assesses at each reporting date whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank's assets. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is also objective evidence of impairment.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss.

Impairment losses on available-for-sale investment securities are recognized transferring to profit or loss the accumulated loss that have been recognized directly in the net equity as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Note 2 Significant accounting policies, continued

(l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, excluding deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the Consolidated Statement of Income for the year.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(m) Cash and cash equivalents

For purposes of the Consolidated Statements of Cash Flows, the Bank considers to be cash and cash equivalents the sum of cash in banks and on hand, net debit and credit balances of operations pending settlement as well as those investments in fixed-income mutual funds, securities held for trading, available-for-sale investment securities and investments sold under repurchase agreements with high liquidity and low risk of change in value, with maturities of three months or less from acquisition.

Note 2 Significant accounting policies, continued

(n) Held-for-trading securities

Held-for-trading securities correspond to financial assets acquired for the purpose of generating profits from price fluctuations at short-term or through margins from their brokerage or at amounts that are included in a portfolio for short-term gain taking.

Held-for-trading securities are measured at their fair value in accordance with market prices at the reporting date. Gains or losses resulting from their adjustment to fair value, as well as gains and losses from trading activities are included within the caption "Net trading income (expense)" in the consolidated statement of income for the year.

(o) Derivative instruments

Derivative instruments that include foreign currency, inflation-adjusted units, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other derivatives are initially recognized in the consolidated statement of financial position at their cost (including the transaction costs) and subsequently measured at fair value. Fair value is obtained from market quotes, discounted cash flow models and measurements models for options, as appropriate. Financial derivatives are stated as an asset when their fair value is positive and as a liability when it is negative, within the caption "Derivative instruments."

Certain derivatives embedded in other instruments are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contract and it is not measured at fair value with the related unrealized gains or losses included in profit or loss. As of December 31, 2016 and 2015, the Bank records no separable embedded derivatives.

Note 2 Significant accounting policies, continued

(o) Derivative instruments, continued

Financial derivatives are classified as derivative instruments held for trading or for hedge accounting purposes.

Changes in the fair value of derivative instruments designated as held for trading are recognized in the caption “Net gain (loss) on financial transactions” in the Consolidated Statements of Income for the year.

In this regard, hedge accounting derivatives, are designated as fair value hedges for existing assets or liabilities and firm commitments, or as cash flow hedges for future assets, liabilities or highly probable forecasted transactions, under compliance of each of the following conditions:

- At the inception of the transaction, the hedging relationship is properly documented, indicating the risk management objectives and strategies to be met.

- The hedge is expected to be highly effective;

- The effectiveness of the hedge can be measured reliably; and

- The hedge is highly effective in regard to the risk being hedged continuously throughout the hedging relationship.

Certain derivative transactions that do not qualify for being accounted for as hedging derivatives are treated and reported as trading derivatives, even though they provide effective hedge for the management of risk positions.

When a derivative hedges the exposure to changes in the fair value of an existing asset or liability, such asset or liability is recorded at its fair value with respect to the specific risk hedged. Gains or losses from the measurement at fair value of both, the item hedged and the hedging derivatives, are recognized through profit or loss for the year. The fair value measurement adjustment of the hedged item is presented in the same caption that includes the hedged item.

Note 2 Significant accounting policies, continued

(o) Derivative instruments, continued

If the hedged item in a fair value hedge is a firm commitment, the changes in the fair value of the firm commitment attributable to the hedged risk are recognized as an asset or liability with an effect on profit or loss. Gains or losses from the changes in the fair value of the hedging derivative are recognized in profit or loss for the year. When an asset is acquired or a liability assumed as a result of the commitment, the initial recognition of the asset acquired or liability assumed is adjusted to include the accumulated effect of the measurement at fair value of the firm commitment that was recognized in the balance sheet.

When a derivative hedges the exposure to changes in cash flows of existing assets or liabilities, or highly probable forecasted transactions, the effective portion of changes in the fair value with respect to the risk hedged is recognized in equity. Any ineffective portion is directly recognized in profit or loss for the year.

Amounts recognized directly in equity are subsequently recorded in profit or loss in the same periods in which the hedged assets or liabilities affect profit or loss.

(p) Loans and advances to customers and loans and advances to banks

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intent to sell immediately or in the near term. The caption 'loans and advances to banks' comprises deposits made in the Central Bank of Chile other than on-demand deposits, investments in non-transferable securities and other debts in loans that may originate against the Central Bank of Chile, as well as loans, current account overdrafts, non-transferable deposits and other debts for credits granted to other domestic and foreign banks.

The caption 'loans and advances to customers' comprises balances related to transactions with individuals other than domestic and foreign banks, corresponding to credits, loans and other financing, financing lease agreements and accounts receivable resulting from operations inherent to the banking business.

Note 2 Significant accounting policies, continued

(p) Loans and advances to customers and loans and advances to banks, continued

Third-party financing from debt securities acquired for trading or investment and from repurchase agreements, securities lending and derivatives, are excluded from these captions and reported within different captions in the Consolidated Statements of Financial Position.

Operations included in these captions are initially measured at fair value, including related incremental transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

Impairment is recognized by recording allowances for credit risk, presenting the related balances net of such allowances. In addition, a prudential criterion has been adopted to suspending interest accruals and indexation on high risk impaired loans, which are presented as described in Note 2(g).

Impaired loans are written-off when deemed to be uncollectible or when reasonable time has passed without obtaining recovery. For this purpose, the outstanding balance of the loan recorded within assets is written-off as a debit to the accrued provisions for credit risk. Subsequent payments of written-off loans are credited to the caption ‘Allowance for credit risk’ in the Consolidated Statement of Income for the period.

Note 2 Significant accounting policies, continued

(q) Investment securities

Investment securities are classified in two categories: held-to-maturity investments and available-for-sale securities.

(i) Held-to maturity investment securities

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold until maturity.

Held-to-maturity investments are recorded at amortized cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years, except for the following cases:

- Sales or reclassifications performed on a date that is close to maturity so that changes in the market rate of interest would not have any significant effect on the financial asset's fair value.
- Sales or reclassifications after the Bank have collected substantially the asset's original principal.
- Sales or reclassifications attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

As of December 31, 2016 and 2015, the Bank and its subsidiary maintained no held-to maturity investment securities.

(ii) Available-for-sale investment securities

Available-for-sale investments are investments (not considered as derivative instruments) that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted variable-income investments whose fair value cannot be reliably measured are carried at cost. All other available for sale investments are carried at fair value.

Changes in fair value are recognized directly in equity until the investment is sold or impaired, in that case, accumulated gains and losses previously recorded in the equity are recognized in profit or loss.

Note 2 Significant accounting policies, continued

(8) Repurchase agreements and securities lending

The Bank obtains funds by selling financial instruments and committing to purchase them in the future, plus an interest rate established previously. Likewise, the Bank acquires financial instruments agreeing to resale them at a future date.

Transactions under agreements to resell are performed as investments. Financial instruments are acquired under these agreements, which are included as assets in the caption “Securities sold under repurchase agreements and securities lending” that are measured in accordance with the interest rate in the agreement.

Repurchase agreements operations are also carried out as financing. Investments that are sold subject to a repurchase obligation and used as loan guarantee are part of its respective caption "Securities Held for Trading" or "Available-for-sale investment securities". Investment repurchase obligation is classified within liabilities as "Investments sold under repurchase agreements and securities lending", which is measured in accordance with the interest rate in the agreement.

(s) Intangible assets

Intangible assets are identified as non-monetary assets (separate from other assets) with no physical substance arising as a result of a legal transaction or developed internally. These are assets whose amount can be estimated reliably and for which consolidated entities consider probable that future economic benefits will be recognized.

Intangible assets are recognized initially at its acquisition or production cost and subsequently measured at cost less accumulated amortization and any accumulated impairment loss.

(i) Goodwill

Goodwill represents the acquisition cost excess on ownership fair value of the Bank in subsidiary’s or associates identifiable net assets on the acquisition date

For purposes of calculating goodwill, fair value of assets acquired, liabilities and contingent liabilities are determined by market value reference or discounting future cash flows from its current amount. This discount is performed by applying market rates or using risk-free interest rates, and future cash flows with adjusted risk.

As instructed by the SBIF, assets related to goodwill generated before 2009 are presented at their cost value, less accumulated amortization in accordance with their remaining useful life.

Note 2 Significant accounting policies, continued

(s) Intangible assets, continued

(ii) Software or computer software

The computer programs acquired by the Bank and its subsidiaries are accounted at cost less accumulated amortization of impairment value loss.

The subsequent expense in program assets is capitalized solely when the economic benefits in the specific asset to which they relate increase. All other expenses are recorded as expenditures as incurred.

Amortization is recognized in profit or loss on the basis of an amortization according to the straight-line method considering the useful life of computer programs from the date in which they are available for use. Estimated useful lives of computer programs have been set at 5 years as maximum.

(iii) Other identifiable intangible assets

Corresponds to the identified intangible assets in which the asset cost can be measured reliably and it is likely to generate future economic benefits.

(iv) Intangible assets from business combinations

Relates to intangible assets (other than goodwill) arising from business combinations, which are initially recorded at their fair value. Upon initial recognition, these intangible assets are measured at their cost less accumulated amortization and accumulated impairment losses.

Amortization is recognized in profit or loss on a straight-line basis considering the estimated useful lives of intangible assets (other than goodwill) arising from business combinations. The estimated useful life of these intangible assets is 15 years.

(t) Property and equipment

Buildings and land included in property and equipment acquired until 2007 are presented, net of accumulated depreciation, at fair value as of January 1, 2008 based on independent appraisals. Other property and equipment acquired until 2007 are presented at acquisition cost plus price-level adjustment as of December 31, 2007, net of accumulated depreciation. Property and equipment acquired from 2008 are presented at cost less their depreciation and accumulated impairment.

Note 2 Significant accounting policies, continued

(t) Property and equipment, continued

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the assets, including the related debits to profit or loss within the caption 'Depreciation and amortization' in the consolidated statement of income for the period.

Maintenance and repair costs are debited to profit or loss. The cost of improvements is capitalized when the useful life of assets or their capacity increases significantly.

As of December 31, 2016 and 2015, the estimated useful lives of assets in the Bank's property and equipment are as follows:

Asset group	Useful life
Buildings	80 years
Furniture, machinery, vehicles, other property and equipment	2-10 years
Computer equipment	6 years
Facilities, own property improvements	7-10 years
Leased property improvements	The shorter term of: a) The useful life for the nature of the asset. b) The term of the initial contract plus a renewal period for a maximum of 10 years.

(u) Leased assets - Lessee

(i) Operating leases

When the Bank acts as lessee and the contract qualifies as operating lease, total payments are debited against the operating income of the year as incurred. At the end of the operating lease term, any contract penalty payment required by the lessor is recorded within expenses for the period in which the contract ended. Prepayments under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Note 2 Significant accounting policies, continued

(u) Leased assets - Lessee, continued

(ii) Finance leases

When the Bank acts as lessee, the sum of the present value of minimum lease payments, plus the current purchase option, is recorded as a financial liability. Minimum payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(v) Allowances for credit risk

The Bank has established allowances for potential credit losses from loans and advances to customers, in accordance with the instructions issued by the Chilean Superintendence of Banks and Financial Institutions (SBIF) and its credit risk rating and evaluation models approved by the Board of Directors.

In order to determine its provision for credit risk, the Bank uses models or methodologies based on the individual and collective analyses of debtors to make provisions for loans and receivables from customers, which are defined below.

Provisions for loans by individual evaluation: the individual analysis of debtors is applied to customers, natural persons or legal entities which, due to their size, complexity or exposure level, must be known comprehensively, requiring the assignment of a credit rating for each debtor. The Bank classifies its customers to evaluate them on an individual basis, including customers with authorized exposure over MCh$250, as well as debtors from the Corporate, Large Corporations and Real Estate segment.

In order to record the provisions, the Bank classifies its debtors and their related operations as loans and contingent loans in their corresponding categories, upon assignment of one of the three portfolio segments: Normal Portfolio, Substandard Portfolio, and Default Portfolio, based on the provisions of the Summary of Accounting Standards issued by the SBIF. Based on the debtor rating, the Bank assigns probability of default and loss on default percentages, which result in the expected loss percentage:

Note 2 Significant accounting policies, continued

(v) Allowances for credit risk, continued

Type of portfolio	Debtor category	Probability of default (%)	Loss on default (%)	Expected loss (%)
Regular	A1	0.04	90.0	0.03600
	A2	0.10	82.5	0.08250
	A3	0.25	87.5	0.21875
	A4	2.00	87.5	1.75000
	A5	4.75	90.0	4.27500
	A6	10.00	90.0	9.00000
Substandard	B1	15.00	92.5	13.87500
	B2	22.00	92.5	20.35000
	B3	33.00	97.5	32.17500
	B4	45.00	97.5	43.87500

Type of portfolio	Risk grade	Range of expected loss	Provision (%)
In default	C1	0 - 3 %	2
	C2	3% - 20%	10
	C3	20% - 30%	25
	C4	30% - 50%	40
	C5	50% - 80%	65
	C6	Over 80%	90

Collectively assessed allowances: collective assessment is used to analyze a large number of operations with low individual amounts. The Bank uses a model for commercial exposures under MCh$250 to determine an allowance based on the concept of expected loss of a credit.

Additional allowances: pursuant to the standards issued by the Superintendence of Banks and Financial Institutions (SBIF), the Bank has recorded additional allowances for its individually assessed placement portfolio. Such allowances were established to hedge the Bank from the risk of macroeconomic fluctuations, foresee the reversals of expansive economic cycles that in the future could deteriorate conditions in the economic environment or the situation in a particular economic sector.

Note 2 Significant accounting policies, continued

(w) Income tax and deferred tax

Income tax expense comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The Bank and its subsidiaries recognize, where appropriate, deferred tax assets and liabilities resulting from temporary differences between the financial statement carrying value and tax basis of assets and liabilities (temporary differences). Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax expense is recognized except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

A deferred tax asset is recognized to the extent that is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(x) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the Bank's sources of funding. These financial liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Note 2 Significant accounting policies, continued

(y) Employee benefits and accrued vacations

Short-term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The effect is recognized within “Provisions” in the Consolidated Statement of Financial Position.

At the reporting date, the Bank has no agreements on severance indemnity with its personnel. Therefore; the Bank does not record any provision. The payment is only performed in case of the termination of one of the employees, subject to legal limits set in the Labor Code.

(z) Provision for minimum dividends

In Article No. 79 in Chile's Law of Public Companies it is established that, unless different from the adopted in the meeting and by the issued shares unanimously, public companies will have to distribute annually as dividend in cash to its shareholders, proportionally of its shares or the proportion established by the by-laws at least the 30% of liquid gains of each year, except when accumulated losses coming from previous year are to be absorbed.

Minimum dividends are accounted net of the interim dividend's proportion that have been approved during the year and are registered in caption "Provisions" with a debit to an account included in Net Equity called "Provisions for minimum dividends."

(aa) Provisions and contingent liabilities

Provisions are liabilities of uncertain timing or amount. These provisions are recognized when the following requirements are met in a copulative manner:

a) as a result of a past event, the Bank has a present legal or constructive obligation;

b) it is probable that at the reporting date an outflow of economic benefits will be required to settle the obligation; and

c) the obligation can be estimated reliably.

A contingent liability is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank.

Note 2 Significant accounting policies, continued

(ab) Allowances for contingent loans

Contingent loans are all those operations or commitments in which the Bank assumes a credit risk by having an obligation with a third party upon occurrence of a future event, to make a payment or disbursement that shall be recovered from its customers, as in the case of guarantors, issuance or confirmation of credit letters, issuance of bank guarantee certificates, readily available revolving credit facilities, etc.

Contingent loans are not recorded as assets. However, in order to cover the credit risk, a provision for potential losses is accrued and recorded within ‘Allowances for credit risk’ in the consolidated statement of income.

To estimate allowances on contingent loans as indicated in Chapter B-1 and Chapter B-3 of the Summary of Accounting Standards issued by the SBIF, the amount of the exposure to be considered must be equivalent to the following percentages of contingent loans:

Type of contingent loan	Exposure
a) Co-debt and collateral	100%
b) Foreign confirmed letters of credit	20%
c) Supporting letters of credit issued	20%
d) Bank guarantee certificates*	50%
e) Revolving credit facilities	35%
f) Other commitments:	
- Loans for higher education studies per Law No. 20.027	15%
- Other	100%
g) Other contingent loans	100%

*As of December 31, 2015, readily available revolving credit facilities had an exposure percentage of 50%.

However, when operations are conducted with customers with loans in default, as stated in Chapter B-1 of the Summary of Accounting Standards issued by the Superintendence of Banks and Financial Institutions, the exposure will always be equivalent to 100% of their contingent loans.

Note 2 Significant accounting policies, continued

(ac) Financial guarantees

Financial guarantees are contracts that require the issuer to make specific payments to repay the holder for the loss incurred on specific obligor default according to the conditions of a debt instrument.

Liabilities related to financial guarantees are initially recognized at fair value, and initial fair value is amortized through the life of the financial guarantee. The guaranteed liability is subsequently recorded at the higher of the amortized amount or the present value of any expected payment (when a payment under the guarantee becomes probable). Financial guarantees are included in liabilities.

(ad) Use of estimates and judgments

The preparation of the consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis by the Bank's Senior Management in order to quantify some assets, liabilities, revenues, expenses and uncertainties. Adjustments to accounting estimates are recognized in the period in which the estimate is revised and any future periods affected.

Particularly, the information about significant areas of estimation of uncertainty and critical judgments in the applying accounting policies that have most significant effect on amounts recognized in the consolidated financial statements, are described in the following notes:

- Note 34 : Depreciation, amortization and impairment
- Notes 7 and 9 : Valuation of financial instruments
- Notes 10, 11 and 31 : Allowances for credit risk
- Notes 14 and 15 : Useful life of material and intangible assets
- Notes 23 and 25 : Provisions, contingencies and commitments

(ae) Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

The calculation of diluted earnings per share has been based on the profit attributable to the Bank divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

Note 2 Significant accounting policies, continued

(af) Non-current held-for-sale assets

Non-current assets expected to be recovered principally from sale rather than continuing use are classified as held for sale.

Subsequent to being classified as held for sale, these assets are measured at the lower of their carrying value and fair value less costs to sell.

Impairment losses in the initial classification as non-current assets held for sale and subsequent losses are recognized in profit or loss.

As of December 31, 2016 and 2015, the Bank did not record non-current assets as held for sale.

Assets received in lieu of payment

Assets received in lieu of payment and trade receivables are recorded, in the case of assets received in lieu of payment at the price agreed by the parties, or for those cases where there is no agreement between the parties, at the amount for which the Bank is awarded such assets in a court-ordered public auction.

Subsequently, such assets are measured at the lower of the initial carrying amount or net realizable value, which corresponds to its fair value (liquidity value determined through an independent appraisal) less the related costs to sell. Differences between both amounts are recognized as "Other operating expenses" in the Statement of Income for the period. Assets received in lieu of payment are recorded as "Other assets" net of provisions.

Note 2 Significant accounting policies, continued

(ag) New accounting pronouncements

Adoption of new standards and amendments to IFRS

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied in preparing these consolidated financial statements. These new provisions will be applied starting from their effective date, even when early adoption is permitted.

New IFRS	Mandatory application date
IFRS 9, Financial Instruments	The SBIF has determined that this standard will not be applied while it is not mandatory for all banks.
IFRS 15, Revenues from Contracts with Costumers	Annual periods beginning on or after January 1, 2018. Early adoption is permitted.
IFRS 16, Leases	Annual periods beginning on or after January 1, 2019. Early adoption is permitted
Amendments to IFRS	
IAS 7, Disclosure Initiative	Annual periods beginning on or after January 1, 2017. Early adoption is permitted.
IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses	Annual periods beginning on or after January 1, 2017. Early adoption is permitted.
IFRS 2, Clarifications of Classification and Measurement of Share-based Payment Transactions	Annual periods beginning on or after January 1, 2018. Early adoption is permitted.
IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Mandatory date deferred indefinitely.
IFRS 15, Revenue from Contracts with Customers: clarifying some requirements and providing additional transitional relief for companies that are implementing the new Standard	Annual periods beginning on or after January 1, 2018. Early adoption is permitted.

Note 2 Significant accounting policies, continued

(ag) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

IFRS 9, Financial Instruments: amendments and improvements

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

On November 19, 2013, the IASB issued a new document that expands and amends this and other related standards, Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39. This document includes the new hedge accounting model, allows the early adoption of the requirement of presenting changes in value associated with own credit risk in liabilities designated at fair value through profit or loss, which are recognized in Other Comprehensive Income.

On July 24, 2014, the IASB issued the fourth and latest version of its new standard on financial assets, IFRS 9. The new standard includes guidance on the classification and measurement of financial assets, including impairment, and supplements new hedge accounting principles issued in 2013.

The application date corresponds to Financial Statements issued for period beginning on or after January 1, 2018. Early adoption is permitted.

The adoption and early adoption of this standard is mandatory in Chile for dealers and brokers in accordance with Circular No. 615 issued by the SVS dated June 10, 2010.

With respect to Banks, the Superintendence of Banks and Financial Institutions has resolved that these new standards will not be applied until established as mandatory.

The Bank will apply this standard when the SBIF determines its application. The Bank is currently determining the possible impacts related to the adoption of this standard and its amendments.

Note 2 Significant accounting policies, continued

(ag) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

IFRS 15, Revenues from Contracts with Costumers

Issued on May 28, 2014, this Standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31, Revenue – Barter Transactions Involving Advertising Services.

This new Standard applies to contracts with customers. However, it does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

This Standard contains a single model that applies to contracts with customer and two approaches for recognizing revenue: at a point in time or over time. The model considers an analysis of transactions based on a five-step model to determine whether, how much and when revenue is recognized:

1.- Identify the contract(s) with a customer.

2.- Identify the performance obligations in the contract.

3.- Determine the transaction price.

4.- Allocate the transaction price to the performance obligations in the contract.

5.- Recognize revenue when (or as) the entity satisfies a performance obligation.

This standard is effective for periods beginning on or after January 1, 2018. Early adoption is permitted.

The Bank believes it will adopt this standard on its financial statements for the period beginning on January 1, 2018. The Bank is currently determining the possible impacts related to the adoption of this standard.

Note 2 Significant accounting policies, continued

(ag) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

IFRS 16, Leases

Issued on January 13, 2016, this Standard will require companies to bring all leases on-balance sheet from January 1, 2019. Companies with operating leases will be more asset-rich but also more heavily indebted. The larger the lease portfolio, the greater the impact on key reporting metrics.

This standard is effective for periods beginning on or after January 1, 2019. Early adoption is permitted.

The Bank will adopt this standard on its financial statements for the period beginning on January 1, 2019. The Bank is currently determining the possible impacts related to the adoption of this standard.

Amendments to IAS 7, Statement of Cash Flows: Disclosure initiative

This amendment, issued on February 1, 2016, provides instructions for the disclosure of information that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. One way to fulfill this disclosure requirement is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. However, this objective may also be achieved by other means, which could exempt financial institutions and other entities, as they have improved disclosures in this area.

Even though it is possible to provide disclosures of changes in other assets and liabilities, such supplementary disclosure shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

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

The Bank is currently determining the possible impacts related to the adoption of this standard.

Note 2 Significant accounting policies, continued

(ag) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

Amendment to IAS 12, Income Taxes: Recognition of deferred tax assets for unrealized losses

This amendment, issued on January 19, 2016, clarifies that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount, or the way in which an entity expects to recover the asset. Accordingly, under the assumption that the tax base remains at the original cost of the debt instrument, a temporary difference exists.

An entity may consider recognizing a deferred tax asset if the entity expects a future tax loss related to that asset. Amendments show that the answer is "yes" if certain conditions are met.

The amendments are effective for annual periods beginning on or after January 1, 2017. Early adoption is permitted, but requiring the related disclosures. This amendment is applied prospectively.

The Bank is currently determining the possible impacts related to the adoption of this standard.

Amendments to IFRS 2, Share-based Payments: Clarifications of classification and measurement of share-based payment transactions

The amendments, which were developed through the IFRS Interpretations Committee, provide requirements on the accounting for:

a) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
b) share-based payment transactions with a net settlement feature for withholding tax obligations; and
c) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

This amendment was issued on June 20, 2016, stating that companies are required to apply the amendments for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

Note 2 Significant accounting policies, continued

(ag) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

Amendments to IFRS 2, Share-based Payments: Clarifications of classification and measurement of share-based payment transactions

The Bank is currently determining the possible impacts related to the adoption of these amendments.

Amendments to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures: Sale or contribution of assets between an investor and its associate or joint venture

On September 11, 2014, the IASB issued this amendment that requires that when transferring subsidiaries to an associate or joint venture, the total gain should be recognized when assets transferred meet the definition of “business” under IFRS 3, Business Combinations. This amendment establishes a strong pressure on the definition of “business” for recognition in profit or loss. Also, it introduces new and unforeseen recognition for transactions that partially consider maintenance in assets that are not businesses.

The effective application date has been deferred indefinitely.

The Bank is currently determining the possible impacts related to the adoption of these amendments.

Note 3 Accounting changes

During the period between January 1 and December 31, 2016, no significant accounting changes have been recorded that affect these consolidated financial statements.

Note 4 Significant events

In 2016

At the Ordinary Directors' Meeting No. 2394 held on April 19, 2016, Mr. Carlos González Toboada and Mrs. Vivianne Blanlot Soza resigned as regular directors, and Mr. Guillermo Álvarez-Calderón and Mr. Eduardo Aninat Ureta were appointed as regular directors replacing Mr. González and Mrs. Blanlot, respectively. In addition, Mr. James Meek resigned as Chairman, continuing to serve as Director. At this same meeting Mr. Manuel José Vial was appointed as Chairman replacing Mr. Meek, and Mr. Guillermo Álvarez-Calderón was appointed as Vice Chairman.

In addition, in the aforementioned Ordinary Shareholders' Meeting, the directors agreed to pay a minimum legal dividend equivalent to 30% of profit for 2016 of MCh$22,922, equivalent to Ch$4.45314 per share, in which the remaining balance will be allocated to the shareholders' reserve for undistributed profit.

In 2015

Through Circular No. 04766 dated April 10, 2015, the SBIF approved the partnership between Scotiabank Chile and The Bank of Nova Scotia, and Cencosud S.A., Cencosud Retail S.A., Easy S.A. and Cencosud Fidelidad S.A. (formerly Círculo Mas S.A.), for the joint development of the financial retail business in Chile. This was communicated to the SBIF and the markets through an essential event notification dated June 20, 2014.

On May 1, 2015, as approved by the Bank's Board of Directors at the Extraordinary Directors' Meeting No. 34/14 held on June 20, 2014, the Bank, jointly with its parent, The Bank of Nova Scotia, subscribed a binding partnership agreement with Cencosud S.A. and its subsidiaries, Easy, Cencosud Fidelidad S.A. and Cencosud Retail S.A., which is intended to establish an strategic alliance between the parties for the exclusive joint operation of Cencosud's financial retail business in Chile.

Note 4 Significant events, continued

In 2015, continued

The partnership agreement and all the contracts required to develop the operation have been subscribed, for which all approvals from the Chilean Superintendence of Bank and Financial Institutions and the Canadian Office of the Superintendent of Financial Institutions have been obtained.

The transaction included the acquisition of the 51% of the shares of Cencosud Administradora de Tarjetas de Crédito S.A. ("CAT") and Cencosud Corredores de Seguros y Servicios S.A., as the Sociedad de Inversiones Fintesa Limitada acquisition of the 51% of the shares of other companies related to the financial retail business, i.e. Operadora de Procesos S.A. and Servicios Integrales S.A. Cencosud will maintain the 49% of interest in such companies. The purchase price amounted to MUS$280, which may be subject to adjustments as agreed by the parties.

At the end of the 15-year period and, notwithstanding the extensions or renewals that the parties may agree on, Cencosud S.A. will have the option to acquire 51% of the shares of the companies indicated above.

See Note 40 for further details related to this transaction.

At the Ordinary Directors' Meeting No. 2382 held on April 20, 2015, Mr. Claudio Hernandez Palmieri resigned as regular director of the Bank. At the same meeting, Mrs. Vivianne Blanlot Soza was appointed as Mr. Hernandez' replacement.

At the Ordinary Shareholders' Meeting held on April 21, 2015, the Board of Directors was completely renovated, and Mr. James Meek Tully, Manuel José Vial, Felipe Montt Fuenzalida, Sergio Concha Munilla, Carlos González-Toboada, Juan Antonio Guzmán Molinari, and Mrs. Vivianne Blanlot Soza, were appointed as regular directors, and no alternate directors were appointed.

In addition, in the aforementioned Ordinary Shareholders' Meeting, the directors agreed to pay a minimum legal dividend equivalent to 30% of profit for 2014 of MCh$30,441, equivalent to Ch$5.91381 per share, in which the remaining balance will be allocated to the shareholders' reserve for undistributed profit.

Note 5 Business segments

Scotiabank Chile is a universal bank offering a great variety of products and financial services to various kinds of customers, ranging from major corporations and financial institutions to low/medium income individuals.

Products and services are provided in a broad network of branch offices throughout Chile and by alternative remote channels.

The Bank carries out its business activities by lines of Business, which have been defined based on the target customers: SMEs and Retail Banking, Personal Banking, Business Banking, Financial retail and Other.

Information included in this note is not necessarily comparable to that of other financial institutions as it is based on the internal system of management information according to the segments set up independently by the Bank. Each business segment reflects its gross operating income, supporting expenses and net provisions for risk along with their corresponding assets and liabilities.

As the Bank's business is based in Chile, it is not relevant to present information by Geographical Segments.

1. SME and retail banking

This segment targets individual customers whose income is under US$1,000, individuals engaged in business activities with sales up to US$100,000 and small and medium entities with annual sales up to ThUS$4,000.

Main asset products for individuals are consumer loans, credit cards, education loans and mortgage loans, with or without subsidy. Liability products offered by the Bank include on demand accounts and saving products such as term deposits and saving accounts.

For customers classified as SMEs, the Bank offers working capital financing, foreign trade loans, leasing and factoring. These customers can also access liability products such as current accounts and term deposits.

In addition, the Bank provides this segment with a variety of financial services such as collection, salary payment administration, insurances and foreign currency exchange.

Note 5 Business segments, continued

2. Business banking

This business segment includes enterprise customers with annual sales over ThUS$4,000 and corporate customers with annual sales over ThUS$50,000.

Main products offered by the Bank to this segment include working capital financing, foreign trade loans, leasing, factoring and structured finance (syndicated loans, Project finance, etc.).

These customers also use liability products such as domestic and foreign currency current accounts, term deposits and mutual funds.

Additionally, the Bank provides a wide range of non-credit services such as collection, bill payment, insurance products, salary payment administration, quotation and procurement, electronic invoicing and a wide range of treasury products such as foreign currency exchange, derivative products, foreign currency or interest rate risk hedging and short-term investments.

3. Personal banking

This segment targets individual customers whose income is over US$1,000.

Main products offered by the Bank to this segment include consumer loans, overdraft credit line, credit cards, and mortgage loans. Among liability products, the Bank offers current accounts and diverse saving products such as term deposits, agreements, mutual funds and short-term investments.

In addition, the Bank provides this segment of customers with a variety of financial services such as foreign currency exchange, shares sales, insurance products, and self-service in branch offices where customers can directly perform a series of transactions in their own account.

Finally, the Bank also has a specialized line of products depending on the type of customer, e.g., Cuenta Tradicional (Traditional Account), Cuenta Mujer (Women’s Account), Tarjeta Joven (Young Account), Plan Scotiamax Médico (Scotiamax Medical Plan), which seek to offer a mix of highly customized products for every customer need.

Note 5 Business segments, continued

4. Financial retail

This caption comprises credit cards and consumer loans offered within the framework of the binding partnership agreement with Cencosud S.A., through which the Bank acquired 51% of the shares of Cencosud Administradora de Tarjetas de Crédito S.A. ("CAT") and Cencosud Corredores de Seguros y Servicios S.A., for the exclusive joint operation of Cencosud's financial retail business in Chile.

5. Other

This caption includes all non-recurrent items, treasury income that bears no connection with customer segments and other minor income and expense not related to any of the above mentioned lines of business.

Note 5 Business segments, continued

The following table shows the consolidated income of Scotiabank Chile, for years 2016 and 2015, for each of the above mentioned segments:

Concept	As of December 31, 2016					
	SME and retail banking MCh$	Business banking MCh$	Personal banking MCh$	Financial retail MCh$	Other MCh$	Total MCh$
Net interest and indexation income	85,061	49,506	109,050	124,324	-	367,941
Net fee and commission income	22,215	10,431	27,599	29,057	(3,090)	86,212
Net gain (loss) from financial operations	11,557	7,437	1,341	194	31,531	52,060
Net foreign exchange income (loss)	1,225	3,505	1,666	114	3,907	10,417
Other operating income	3,243	564	1,563	2,327	12,067	19,764
Total operating income	**123,301**	**71,443**	**141,219**	**156,016**	**44,415**	**536,394**
Allowances for credit risk	(15,681)	(7,765)	(35,562)	(38,185)	-	(97,193)
Net operating income	**107,620**	**63,678**	**105,657**	**117,831**	**44,415**	**439,201**
Operating expenses	(79,433)	(34,991)	(86,629)	(88,738)	(11,406)	(301,197)
Segment operating income (loss)	**28,187**	**28,687**	**19,028**	**29,093**	**33,009**	**138,004**
Equity in net income of investees	-	-	1,003	-	30	1,033
Income tax expense	(6,765)	(6,885)	(4,807)	(6,100)	435	(24,122)
Profit or loss for the period	**21,422**	**21,802**	**15,224**	**22,993**	**33,474**	**114,915**
Segment assets	1,846,361	2,684,832	3,527,687	781,461	2,562,983	11,403,324
Segment liabilities	466,683	3,848,828	794,906	84,277	5,295,786	10,490,480

Note 5 Business segments, continued

Concept	As of December 31, 2015					
	SME and retail banking MCh$	Business banking MCh$	Personal banking MCh$	Financial retail MCh$	Other MCh$	Total MCh$
Net interest and indexation income	86,098	51,107	100,923	73,980	-	312,108
Net fee and commission income	21,282	10,243	26,798	5,625	(2,840)	61,108
Net gain (loss) from financial operations	12,004	4,883	10,397	199	(29,836)	(2,353)
Net foreign exchange income (loss)	1,104	2,709	1,483	9	17,510	22,815
Other operating income	4,152	694	1,295	7,998	12,060	26,199
Total operating income	**124,640**	**69,636**	**140,896**	**87,811**	**(3,106)**	**419,877**
Allowances for credit risk	(11,184)	(25,449)	(20,079)	(17,666)	(365)	(74,743)
Net operating income	**113,456**	**44,187**	**120,817**	**70,145**	**(3,471)**	**345,134**
Operating expenses	(75,100)	(30,545)	(75,648)	(63,427)	(14,138)	(258,858)
Profit or loss for the period	**38,356**	**13,642**	**45,169**	**6,718**	**(17,609)**	**86,276**
Equity in net income of investees	-	-	893	-	41	934
Income tax expense	(8,630)	(3,070)	(10,363)	(201)	14,805	(7,459)
Profit or loss for the period	**29,726**	**10,572**	**35,699**	**6,517**	**(2,763)**	**79,751**
Segment assets	1,956,629	2,869,901	2,716,129	626,350	2,630,771	10,799,780
Segment liabilities	197,717	598,110	833,787	73,634	8,256,108	9,959,356

Note 6 Cash and cash equivalents

The detail of cash and cash equivalents is as follows:

	2016 MCh$	2015 MCh$
Cash and deposits in banks		
Cash	43,207	39,989
Deposits in Banco Central de Chile	351,792	166,929
Deposits in domestic banks	18,501	48,481
Deposits in foreign banks	174,929	94,146
Subtotal cash and deposits in banks	588,429	349,545
Net trading operations pending settlement	19,069	71,172
High liquidity financial instruments	342,013	144,005
Repurchase agreements	183,677	61,220
Total cash and cash equivalents	**1,133,188**	**625,942**

The level of funds in cash and in Banco Central de Chile corresponds to reserve regulations that the Bank has to keep as an average in monthly periods.

Trading operations pending settlement correspond to transactions that have been traded but yet are pending settlement which will increase or decrease the funds maintained in Banco Central de Chile or in banks in foreign countries, normally within a period ranging between 12 and 24 working hours, and are detailed as follows:

	2016 MCh$	2015 MCh$
Assets		
Due from banks (interbank)	22,620	33,610
Funds receivable	146,084	297,901
Subtotal assets	168,704	331,511
Liabilities		
Funds payable	(149,635)	(260,339)
Subtotal liabilities	(149,635)	(260,339)
Net trading operations pending settlement	**19,069**	**71,172**

Note 7 Held-for-trading securities

Instruments designated as investment securities held for trading are detailed as follows:

	2016 MCh$	2015 MCh$
Instruments of Government and Banco Central de Chile:		
Instruments issued by Banco Central de Chile	97,675	77,062
Bonds or promissory notes issued by the Treasury	133,676	144,837
Other financial instruments issued by domestic institutions:		
Instruments issued by other domestic banks	27,780	13,514
Other instruments issued in Chile	-	35
Investments in mutual funds:		
Funds managed by related parties	104,022	69,948
Funds managed by third-parties	-	-
Total	**363,153**	**305,396**

As of December 31, 2015, instruments of the Government and Banco Central de Chile include securities sold under repurchase agreement to financial institutions or customers of MCh$107 and average maturity of 8 days. As of December 31, 2016, the Bank records no notes under this caption.

As of December 31, 2016, the caption Financial instruments issued by other domestic institutions includes securities sold under repurchase agreement to financial institutions or customers of MCh$936 (MCh$717 in 2015) with average maturity of 12 days (22 days in 2015).

Note 8 Investments sold under repurchase agreements and securities lending

As of December 31, 2016 and 2015, this caption is detailed as follows:

	2016		2015	
	Rights on purchase commitments MCh$	Obligations on sale commitments MCh$	Rights on purchase commitments MCh$	Obligations on sale commitments MCh$
Transactions with banks:				
Repurchase agreements - Banco Central de Chile	-	-	-	-
Transactions with other entities:				
Repurchase agreements	183,677	12,343	61,220	7,090
Securities loaned	-	-	-	-
Total	**183,677**	**12,343**	**61,220**	**7,090**

Note 9 Derivative instruments and accounting hedge

As of December 31, 2016 and 2015, the Bank uses the following derivative instruments for trading purposes:

As of December 31, 2016

Held-for-trading derivatives	Notional amount of contract with final maturity			Fair value	
	Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Assets MCh$	Liabilities MCh$
Currency forward	9,700,333	4,500,788	667,547	109,861	94,156
Interest rate swaps	970,521	2,195,123	6,185,302	70,380	64,171
Interest rate and currency swaps	42,875	447,027	2,949,842	101,505	124,310
Total	**10,713,729**	**7,142,938**	**9,802,691**	**281,746**	**282,637**

Accounting hedge derivatives	Notional amount of contract with final maturity			Fair value	
	Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Assets MCh$	Liabilities MCh$
Currency forward (*)	-	497,961	-	1,871	21
Interest rate swaps (**)	-	-	4,025	33	-
Interest rate and currency swaps (***)	-	129,636	461,892	-	18,932
Total	**-**	**627,597**	**465,917**	**1,904**	**18,953**

(*) Correspond to derivatives hedging the inflation risk of mortgage loans (notional amount of MCh$497,977).

(**) Correspond to derivatives hedging the fixed interest rate of foreign trade loans (notional amount of MUS$6).

(***) Correspond to derivatives hedging i) the floating interest rate risk of foreign trade loans received (notional amount of MAUD55), ii) the floating interest rate risk of foreign trade loans granted (notional amount of MUS$41), iii) the floating interest rate risk of time deposits (notional amount of MCh$564,885), iv) inflation risk of mortgage loans (notional amount of MCh$577,021).

Note 9 Derivative instruments and accounting hedge, continued

As of December 31, 2015

Held-for-trading derivatives	Notional amount of contract with final maturity Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Fair value Assets MCh$	Liabilities MCh$
Currency forward	8,606,537	4,860,048	162,372	155,533	145,001
Interest rate swaps	1,298,554	2,948,086	7,094,576	48,699	44,174
Interest rate and currency swaps	73,508	381,033	1,956,508	143,243	167,544
Total	**9,978,599**	**8,189,167**	**9,213,456**	**347,475**	**356,719**

Accounting hedge derivatives	Notional amount of contract with final maturity Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Fair value Assets MCh$	Liabilities MCh$
Interest rate and currency swaps (*)	-	-	137,458	-	2,553
Total	-	-	**137,458**	-	**2,553**

(*) Correspond to derivative instruments that simultaneously hedge the interest rate risk of term deposits (notional amount of MCh$137,458) and the inflation risk of mortgage loans (notional amount of MCh$140,960).

Note 9 Derivative instruments and accounting hedge, continued

Accounting hedge derivatives

As derivative instruments are important tools to manage the exchange rate, interest rate and liquidity risks of the Bank's activities, its designation as hedge accounting allows the recognition, under certain circumstances, of the offsetting effects of economic hedges, which reduce the volatility that may arise in profit or loss and cash flows, as through such hedges the gains and losses of the derivative and hedged item are recognized and offset during the same accounting period.

a) Cash flow accounting hedge derivatives

For cash flow hedges, the changes in fair value of the hedging instruments are recorded in equity, to the extent that it is effective, until the corresponding gains or losses associated with the hedged item are recognized in profit or loss. The Bank uses cash flow hedges primarily to hedge the fluctuations in cash flows related to floating rate financial instruments and highly probable projected income. Hedged items include mortgage loans in UF, term deposits at floating rate in Chilean pesos, floating rate foreign currency foreign bank borrowings, and commercial loans granted at floating rate in foreign currency. Hedging instruments include forward contracts and cross-currency interest rate swaps (CCIRS).

As of December 31, 2016, the Bank has recorded a loss of MCh$7,989 (gain of MCh$744 as of December 31, 2015) in equity valuation accounts for the adjustment of cash flow hedging instruments.

As of December 31, 2016, the Bank recorded a loss from cash flow hedging derivatives of MCh$3,484 (MCh$2,244 in 2015).

Note 9 Derivative instruments and accounting hedge, continued

b) Fair value accounting hedge derivatives

For fair value hedges, changes in fair value of hedge instruments are offset in the statement of profit or loss through fair value of the hedged item attributable to the hedged risk. The Bank uses fair value hedges primarily to translate fixed rate financial instruments to floating rate financial instruments. Hedged items include commercial loans granted at fixed rate in foreign currency. Hedge instruments include interest rate swaps (IRS).

c) Market valuation by type of hedge

	2016		2015	
	For MCh$	Against MCh$	For MCh$	Against MCh$
Derivatives designated in fair value hedging relationships	33	-	-	-
Derivatives designated in cash flow hedging relationships	1,871	(18,953)	-	(2,553)
Total derivatives designated in hedging relationships	1,904	(18,953)	-	(2,553)

Note 9 Derivative instruments and accounting hedge, continued

d) Cash flows of hedged items are expected to occur and impact the statement of income for cash flow hedge accounting

As of December 31, 2016	Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Total MCh$
Hedged item (Asset)	4,611	653,763	635,718	1,294,092
Hedged item (Liability)	(6,350)	(661,504)	(588,444)	(1,256,298)
Net cash flows	**(1,739)**	**(7,741)**	**47,274**	**37,794**

As of December 31, 2015	Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Total MCh$
Hedged item (Asset)	508	1,844	160,083	162,435
Hedged item (Liability)	(924)	(3,455)	(172,863)	(177,242)
Net cash flows	**(416)**	**(1,611)**	**(12,780)**	**(14,807)**

Revenue related to cash flow interests is recognized using the effective interest method on the life of the hedged item. Foreign exchange gains or losses related to future cash flows of monetary items are recognized as they are incurred. Forecasted revenue is recognized in the period to which they related.

e) Ineffectiveness of accounting hedges

The Bank recorded the following amounts in profit or loss for the ineffective portion of accounting hedges:

	2016 MCh$	2015 MCh$
Fair value hedges		
Gain (loss) recorded in hedged items	(74)	-
Gain (loss) recorded in hedging instruments	76	-
Ineffectiveness	**2**	**-**
Cash flow hedges		
Ineffectiveness	**480**	**0.4**

Note 10 Composition of loans and advances to banks

a) Composition of loans and advances to banks, continued

As of December 31, 2016 and 2015, this caption comprises the following:

As of December 31, 2016:

	Assets before allowances			Allowances accrued			
	Regular portfolio MCh$	Impaired portfolio MCh$	Total MCh$	Individual allowances MCh$	Collective allowances MCh$	Total MCh$	Net assets MCh$
DOMESTIC BANKS							
Liquidity interbank loans	-	-	-	-	-	-	-
Commercial interbank loans	-	-	-	-	-	-	-
Overdrafts in current accounts	-	-	-	-	-	-	-
Non-transferable deposits in domestic banks	-	-	-	-	-	-	-
Foreign trade loans for domestic exports	-	-	-	-	-	-	-
Foreign trade loans for domestic imports	-	-	-	-	-	-	-
Foreign trade loans between third countries	-	-	-	-	-	-	-
Other receivables from domestic banks	-	-	-	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**	**-**
FOREIGN BANKS							
Liquidity interbank loans	-	-	-	-	-	-	-
Commercial interbank loans	-	-	-	-	-	-	-
Overdrafts in current accounts	-	-	-	-	-	-	-
Non-transferable deposits in foreign banks	-	-	-	-	-	-	-
Foreign trade loans for domestic exports	-	-	-	-	-	-	-
Foreign trade loans for domestic imports	-	-	-	-	-	-	-
Foreign trade loans between third countries	-	-	-	-	-	-	-
Other receivables from foreign banks	12,321	-	12,321	(9)	-	(9)	12,312
Subtotal	**12,321**	**-**	**12,321**	**(9)**	**-**	**(9)**	**12,312**
BANCO CENTRAL DE CHILE							
Unavailable deposits at Banco Central	-	-	-	-	-	-	-
Other receivables from Banco Central	19	-	19	-	-	-	19
Subtotal	**19**	**-**	**19**	**-**	**-**	**-**	**19**
Total	**12,340**	**-**	**12,340**	**(9)**	**-**	**(9)**	**12,331**

Note 10 Loans and advances to banks, continued

a) Composition of loans and advances to banks, continued

As of December 31, 2015:

	Assets before allowances			Allowances accrued			
	Regular portfolio MCh$	Impaired portfolio MCh$	Total MCh$	Individual allowances MCh$	Collective allowances MCh$	Total MCh$	Net assets MCh$
DOMESTIC BANKS							
Liquidity interbank loans	-	-	-	-	-	-	-
Commercial interbank loans	-	-	-	-	-	-	-
Overdrafts in current accounts	-	-	-	-	-	-	-
Non-transferable deposits in domestic banks	-	-	-	-	-	-	-
Foreign trade loans for domestic exports	-	-	-	-	-	-	-
Foreign trade loans for domestic imports	-	-	-	-	-	-	-
Foreign trade loans between third countries	-	-	-	-	-	-	-
Other receivables from domestic banks	-	-	-	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**	**-**
FOREIGN BANKS							
Liquidity interbank loans	-	-	-	-	-	-	-
Commercial interbank loans	-	-	-	-	-	-	-
Overdrafts in current accounts	-	-	-	-	-	-	-
Non-transferable deposits in foreign banks	-	-	-	-	-	-	-
Foreign trade loans for domestic exports	-	-	-	-	-	-	-
Foreign trade loans for domestic imports	-	-	-	-	-	-	-
Foreign trade loans between third countries	-	-	-	-	-	-	-
Other receivables from foreign banks	154,355	-	154,355	(237)	-	(237)	154,118
Subtotal	**154,355**	**-**	**154,355**	**(237)**	**-**	**(237)**	**154,118**
BANCO CENTRAL DE CHILE							
Unavailable deposits at Banco Central	-	-	-	-	-	-	-
Other receivables from Banco Central	207,019	-	207,019	-	-	-	207,019
Subtotal	**207,019**	**-**	**207,019**	**-**	**-**	**-**	**207,019**
Total	**361,374**	**-**	**361,374**	**(237)**	**-**	**(237)**	**361,137**

Note 10 Loans and advances to banks, continued

b) Allowances for credit risk

	Domestic banks MCh$	Foreign banks MCh$	Banco Central de Chile MCh$	Total MCh$
Balance as of January 1, 2015	-	324	-	324
Impaired portfolio write-offs	-	-	-	-
Allowances accrued	-	-	-	-
Allowances released	-	(87)	-	(87)
Balance as of December 31, 2015	-	**237**	-	**237**
Balance as of January 1, 2016	-	237	-	237
Impaired portfolio write-offs	-	-	-	-
Allowances accrued	-	-	-	-
Allowances released	-	(228)	-	(228)
Balance as of December 31, 2016	-	**9**	-	**9**

Note 11 Loans and advances to customers

The following is a detail of Loans and advances to customers, the allowances accrued and grouping of the gross balances as per the economic activity of the debtors, including the remaining maturities related to lease operation.

a) Composition of loans and advances to customers

As of December 31, 2016

	Assets before allowances			Allowances accrued			
	Regular portfolio MCh$	Impaired portfolio MCh$	Total MCh$	Individual allowances MCh$	Collective allowances MCh$	Total MCh$	Net assets MCh$
COMMERCIAL LOANS							
Commercial loans	2,354,631	147,723	2,502,354	(59,338)	(13,940)	(73,278)	**2,429,076**
Foreign trade loans	705,758	13,199	718,957	(16,102)	(311)	(16,413)	**702,544**
Receivables from current accounts	22,887	2,349	25,236	(990)	(991)	(1,981)	**23,255**
Factoring operations	42,484	1,384	43,868	(2,231)	(234)	(2,465)	**41,403**
Student loans	588,011	46,515	634,526	-	(11,551)	(11,551)	**622,975**
Lease operations	206,517	9,478	215,995	(2,741)	(1,769)	(4,510)	**211,485**
Other loans and advances	2,805	545	3,350	(368)	(108)	(476)	**2,874**
Subtotal	**3,923,093**	**221,193**	**4,144,286**	**(81,770)**	**(28,904)**	**(110,674)**	**4,033,612**
MORTGAGE LOANS							
Letter of credit backed loans	130,291	31,302	161,593	-	(2,728)	(2,728)	**158,865**
Endorsable mutual mortgage loans	58,175	9,885	68,060	-	(308)	(308)	**67,752**
Bond funded mutual mortgage loans	-	-	-	-	-	-	**-**
Other mortgage mutual loans	2,724,618	123,362	2,847,980	-	(27,130)	(27,130)	**2,820,850**
Loans from the ANAP	9	-	9	-	-	-	**9**
Lease operations	24,218	5,503	29,721	-	(35)	(35)	**29,686**
Other loans and advances	25,852	7,702	33,554	-	(870)	(870)	**32,684**
Subtotal	**2,963,163**	**177,754**	**3,140,917**	**-**	**(31,071)**	**(31,071)**	**3,109,846**
CONSUMER LOANS							
Consumer loans paid in installments	712,607	44,891	757,498	-	(45,519)	(45,519)	**711,979**
Current account debtors	38,945	1,703	40,648	-	(1,784)	(1,784)	**38,864**
Credit card debtors	713,666	43,309	756,975	-	(34,039)	(34,039)	**722,936**
Lease operations	-	-	-	-	-	-	**-**
Other loans and advances	17	-	17	-	(1)	(1)	**16**
Subtotal	**1,465,235**	**89,903**	**1,555,138**	**-**	**(81,343)**	**(81,343)**	**1,473,795**
Total	**8,351,491**	**488,850**	**8,840,341**	**(81,770)**	**(141,318)**	**(223,088)**	**8,617,253**

Note 11 Loans and advances to customers, continued

a) Composition of loans and advances to customers, continued

As of December 31, 2015

	Assets before allowances			Allowances accrued			
	Regular portfolio MCh$	Impaired portfolio MCh$	Total MCh$	Individual allowances MCh$	Collective allowances MCh$	Total MCh$	Net assets MCh$
COMMERCIAL LOANS							
Commercial loans	2,287,400	176,038	2,463,438	(53,416)	(15,267)	(68,683)	**2,394,755**
Foreign trade loans	822,533	16,415	838,948	(16,787)	(441)	(17,228)	**821,720**
Receivables from current accounts	26,382	2,777	29,159	(451)	(1,253)	(1,704)	**27,455**
Factoring operations	49,674	785	50,459	(1,496)	(365)	(1,861)	**48,598**
Lease operations	194,189	8,637	202,826	(2,015)	(2,355)	(4,370)	**198,456**
Other loans and advances	507,119	55,370	562,489	(297)	(2,786)	(3,083)	**559,406**
Subtotal	**3,887,297**	**260,022**	**4,147,319**	**(74,462)**	**(22,467)**	**(96,929)**	**4,050,390**
MORTGAGE LOANS							
Letter of credit backed loans	134,834	46,248	181,082	-	(4,455)	(4,455)	**176,627**
Endorsable mutual mortgage loans	57,951	16,129	74,080	-	(1,588)	(1,588)	**72,492**
Bond funded mutual mortgage loans	-	-	-	-	-	-	**-**
Other mortgage mutual loans	2,266,011	131,196	2,397,207	-	(16,626)	(16,626)	**2,380,581**
Loans from the ANAP	9	-	9	-	-	-	**9**
Lease operations	26,292	5,785	32,077	-	(56)	(56)	**32,021**
Other loans and advances	25,356	10,996	36,352	-	(1,103)	(1,103)	**35,249**
Subtotal	**2,510,453**	**210,354**	**2,720,807**	**-**	**(23,828)**	**(23,828)**	**2,696,979**
CONSUMER LOANS							
Consumer loans paid in installments	675,424	54,132	729,556	-	(47,970)	(47,970)	**681,586**
Current account debtors	35,369	2,219	37,588	-	(1,768)	(1,768)	**35,820**
Credit card debtors	541,396	50,885	592,281	-	(24,816)	(24,816)	**567,465**
Lease operations	-	-	-	-	-	-	**-**
Other loans and advances	19	1	20	-	(1)	(1)	**19**
Subtotal	**1,252,208**	**107,237**	**1,359,445**	**-**	**(74,555)**	**(74,555)**	**1,284,890**
Total	**7,649,958**	**577,613**	**8,227,571**	**(74,462)**	**(120,850)**	**(195,312)**	**8,032,259**

Note 11 Loans and advances to customers, continued

b) Allowances for credit risk

	Individual allowances MCh$	Collective allowances MCh$	Total MCh$
Balance as of January 1, 2015	51,342	82,274	133,616
Impaired portfolio write-offs:			
Commercial loans	(6,799)	(14,373)	(21,172)
Mortgage loans	-	(3,350)	(3,350)
Consumer loans	-	(70,273)	(70,273)
Total write-offs	(6,799)	(87,996)	(94,795)
Allowances accrued (Note 31)	29,919	83,064	112,983
Allowances released (Note 31)	-	-	-
Acquisition of Banco Paris portfolio	-	25,140	25,140
Acquisition of CAT subsidiary (Note 4)	-	18,581	18,581
Allowance for sale of portfolio used	-	(213)	(213)
Balance as of December 31, 2015	**74,462**	**120,850**	**195,312**
Balance as of January 1, 2016	74,462	120,850	195,312
Impaired portfolio write-offs:			
Commercial loans	(7,014)	(12,404)	(19,418)
Mortgage loans	-	(2,240)	(2,240)
Consumer loans	-	(92,490)	(92,490)
Total write-offs	(7,014)	(107,134)	(114,148)
Allowances accrued (Note 31)	14,322	128,731	143,053
Allowances released (Note 31)	-	-	-
Allowance for sale of portfolio used	-	(1,129)	(1,129)
Balance as of December 31, 2016	**81,770**	**141,318**	**223,088**

In addition to these allowances for credit risk, the Bank maintains additional provisions agreed by the Board of Directors which are recorded within liabilities under the caption Provisions (Note 23).

Note 11 Loans and advances to customers, continued

c) Loans by economic activity

The following table shows loans classified based on the economic activity of customers expressed both in figures and as a percentage of total loans before allowances:

	As of December 31, 2016				As of December 31, 2015			
Commercial loans:	**Domestic loans MCh$**	**Foreign loans MCh$**	**Total MCh$**	**%**	**Domestic loans MCh$**	**Foreign loans MCh$**	**Total MCh$**	**%**
Manufacture	441,878	25,253	467,131	5.28	485,712	8,523	494,235	6.01
Mining	262,126	-	262,126	2.97	336,083	-	336,083	4.08
Electricity, gas and water supply	99,485	-	99,485	1.13	70,332	-	70,332	0.85
Agriculture and livestock farming	142,308	-	142,308	1.61	131,418	-	131,418	1.60
Forestry	54,375	-	54,375	0.62	41,682	-	41,682	0.51
Fishing	37,476	-	37,476	0.42	38,303	-	38,303	0.47
Transport	138,777	-	138,777	1.57	139,020	-	139,020	1.69
Telecommunications	7,081	-	7,081	0.08	7,662	-	7,662	0.09
Construction	141,800	9,243	151,043	1.71	130,252	9,774	140,026	1.70
Commerce	499,869	7,254	507,123	5.74	511,916	772	512,688	6.23
Services	1,551,685	3,326	1,555,011	17.59	1,616,972	-	1,616,972	19.65
Other	722,350	-	722,350	8.16	618,898	-	618,898	7.53
Subtotal	4,099,210	45,076	4,144,286	46.88	4,128,250	19,069	4,147,319	50.41
Mortgage loans	3,140,917	-	3,140,917	35.53	2,720,807	-	2,720,807	33.07
Consumer loans	1,555,138	-	1,555,138	17.59	1,359,445	-	1,359,445	16.52
Total	**8,795,265**	**45,076**	**8,840,341**	**100.00**	**8,208,502**	**19,069**	**8,227,571**	**100.00**

Note 11 Loans and advances to customers, continued

d) Lease operations

Remaining maturities of loans related to finance lease agreements as of December 31, 2016 and 2015 are as follows:

2016 Maturity:	Receivables MCh$	Deferred interest and VAT MCh$	Net balance receivable MCh$
Less than 1 year	100,356	(21,530)	78,826
1 to 5 years	169,826	(42,328)	127,498
Over 5 years	50,608	(11,216)	39,392
Total	**320,790**	**(75,074)**	**245,716**

2015 Maturity:	Receivables MCh$	Deferred interest and VAT MCh$	Net balance receivable MCh$
Less than 1 year	102,779	(22,255)	80,524
1 to 5 years	155,351	(40,199)	115,152
Over 5 years	50,618	(11,391)	39,227
Total	**308,748**	**(73,845)**	**234,903**

Note 11 Loans and advances to customers, continued

e) Acquisition of loan portfolio for financial retail

"CAT Administradora de Tarjetas S.A." acquired the consumer loan area of Banco Paris, as detailed below. As of December 31, 2016, the Bank acquired no portfolio.

Concept	2015 MCh$
Par value	202,671
Provisions for effective loans	(25,140)
Allowance for contingent credit risk	(679)
Additional allowances	(1,923)
Net value of allowance accounts	**174,929**
Purchase value	179,459
Price difference (*)	**4,530**

(*) This price difference was incorporated to the value of the loans acquired for its amortization by the effective interest rate method.

f) Purchase and sale of loan portfolio for Education Law No. 20.027

As set forth in the public bidding process for the awarding of the Financing Service and Management of Loans for Higher Education contained in Law No. 20.027, during 2016 and 2014, the Bank sold to the Chilean Treasury a percentage of the respective loan portfolio, transferring significantly all risks and benefits associated with the loans assigned. The Bank solely maintained services associated with the management of sold transactions, which considers granting new loans and their collection.

The summary of sales performed is as follows:

Concept	2016 MCh$	2015 MCh$
Par value	114,367	93,398
Provisions	(1,129)	(213)
Net value of allowance accounts	**113,238**	**93,185**
Sale value	136,010	116,584
Gain or loss	**22,772**	**23,399**
Gain from sales	**11,545**	**11,591**
Unearned revenue	**11,227**	**11,808**

Note 11 Loans and advances to customers, continued

f) Purchase and sale of loan portfolio for Education Law No. 20.027, continued

Gain on sale is included in the Consolidated Statement of Income for the period in caption "Net gain from financial operations."

Deferred income/revenue corresponds to revenue obtained for the interest rate spread of loans granted at a rate of 2%. Deferred income/revenue is included in caption "Other liabilities" in the Consolidated Statement of Financial Position.

g) Sale of written-off loans

During 2015, the Bank sold written-off loans for MCh$350. As of December 31, 2016, the Bank sold no loans written-off.

Note 12 Investment securities

As of December 31, 2016 and 2015, this caption comprises the following:

Held-for-sale securities:	2016 MCh$	2015 MCh$
Instruments of Government and Banco Central de Chile		
Instruments issued by Banco Central de Chile	115,177	61,880
Instruments issued by Tesorería General de la República (Chilean Treasury)	43,425	-
Other fiscal instruments	239	247
Other instruments issued in Chile		
Instruments issued by other domestic banks	496,022	389,807
Corporate bonds and commercial papers	-	-
Total	**654,863**	**451,934**

As of December 31, 2016, the caption Instruments of the Government and Banco Central de Chile includes securities sold under repurchase agreement to financial institutions or customers of MCh$11,447 (MCh$6,272 in 2015) with average maturity of 4 days (5 days in 2015).

As of December 31, 2016, the portfolio of available-for-sale securities includes an unrealizable net loss of MCh$2,169 (MCh$1,602 in 2015), recorded as valuation adjustments in equity.

As of December 31, 2016 and 2015, the Bank held no investment securities held-to maturity.

Note 13 Investments in other companies

a) The main investments in other companies are detailed as follows:

	Ownership	Investment amount		Net gain (loss)	
	%	2016 MCh$	2015 MCh$	2016 MCh$	2015 MCh$
Investments under equity method:					
Nexus S.A.	12.90	1,395	1,222	246	225
Redbanc S.A.	12.71	816	689	142	82
Transbank S.A (3)	8.72	4,317	3,514	454	438
Combanc S.A. (2)	4.53	248	224	30	40
Subtotal		**6,776**	**5,649**	**872**	**785**
Investments valued at cost:					
Sociedad Interbancaria de Depósitos de Valores		113	113	15	26
Sociedad Servicios de Infraestructura y de Mercado OTC		864	864	-	-
Subtotal		**977**	**977**	**15**	**26**
Investments at fair value:					
Bolsa de Comercio de Santiago (1)		2,008	2,170	146	123
Bolsa Electrónica de Chile (1)		149	142	-	-
Subtotal		**2,157**	**2,312**	**146**	**123**
Total		**9,910**	**8,938**	**1,033**	**934**

(1) Investments in these companies held by Scotia Corredora de Bolsa Chile S.A., are recorded at fair value through equity.
(2) On July 30, 2015, 19 shares were transferred to Corpbanca for MCh$9.
(3) On June 6, 2016, the Bank acquired 1,629,680 shares equivalent to MCh$351.

Note 13 Investments in other companies, continued

b) Changes in investments in other companies are detailed as follows:

	2016 MCh$	2015 MCh$
Opening carrying amount	8,938	8,629
Acquisition of investments	351	104
Sale of investments	-	(9)
Equity in profit for the period	1,033	934
Provisions for minimum dividends	7	(20)
Dividends received	(265)	(256)
Other equity adjustments	(154)	(444)
Total	**9,910**	**8,938**

Note 14 Intangible assets

a) As of December 31, 2016 and 2015, this caption comprises the following:

	Years									
	Useful life		Average remaining amortization		Gross balance		Amortization and cumulative impairment		Net balance	
Intangible assets	2016	2015	2016	2015	2016 MCh$	2015 MCh$	2016 MCh$	2015 MCh$	2016 MCh$	2015 MCh$
Goodwill	10	10	-	-	1,023	1,023	(1,023)	(1,023)	-	-
Computer software	5	5	3	3	23,309	20,684	(9,984)	(10,497)	13,325	10,187
Intangible assets from business combinations (*)	15	15	14	15	138,425	138,425	(15,380)	(6,152)	123,045	132,273
Other intangible assets	5	5	-	-	2,457	2,457	(2,457)	(2,457)	-	-
Total					**165,214**	**162,589**	**(28,844)**	**(20,129)**	**136,370**	**142,460**

Note 14 Intangible assets, continued

b) Changes in intangible assets for 2016 and 2015, are as follows:

	Goodwill MCh$	Computer software MCh$	Intangible assets from business combinations (*) MCh$	Other MCh$	Total MCh$
Gross balance					
Balance as of January 1, 2015	1,023	16,814	-	2,457	20,294
Acquisitions	-	5,297	-	-	5,297
Opening balance of subsidiary acquisition (Note 40)	-	4,883	-	-	4,883
Intangible assets of subsidiary acquisition (Note 40)	-	-	138,425	-	138,425
Disposal of assets	-	(6,399)	-	-	(6,399)
Reclassification of accounts	-	89	-	-	89
Withdrawals	-	-	-	-	-
Total	**1,023**	**20,684**	**138,425**	**2,457**	**162,589**
Accumulated amortization	(1,023)	(14,070)	(6,152)	(2,457)	(23,702)
Reclassification of accounts	-	(89)	-	-	(89)
Disposal of assets	-	6,399	-	-	6,399
Opening balance of subsidiary acquisition (Note 40)	-	(2,737)	-	-	(2,737)
Impairment loss	-	-	-	-	-
Net value as of December 31, 2015	**-**	**10,187**	**132,273**	**-**	**142,460**
Gross balance					
Balance as of January 1, 2016	1,023	20,684	138,425	2,457	162,589
Acquisitions	-	7,189	-	-	7,189
Disposal of assets	-	(4,198)	-	-	(4,198)
Reclassification of accounts	-	(366)	-	-	(366)
Withdrawals	-	-	-	-	-
Total	**1,023**	**23,309**	**138,425**	**2,457**	**165,214**
Accumulated amortization	(1,023)	(14,182)	(15,380)	(2,457)	(33,042)
Disposal of assets	-	4,198	-	-	4,198
Impairment loss	-	-	-	-	-
Net value as of December 31, 2016	**-**	**13,325**	**123,045**	**-**	**136,370**

The debits for the amortization or impairment losses of intangible assets are included in the caption "Depreciation and amortization" of the Consolidated Statement of Income for the period.

(*) Intangible assets acquired in business combinations relate to the intangible assets originated from the acquisition of 51% of the shares of Cencosud Administradora de Tarjetas de Crédito S.A. ("CAT") and Cencosud Corredores de Seguros y Servicios S.A., as detailed in Note 40.

Note 15 Property and equipment

a) Property and equipment and depreciation

As of December 31, 2016 and 2015, property and equipment is detailed as follows:

	Buildings and land MCh$	Leased property improvements MCh$	Equipment MCh$	Other MCh$	Total MCh$
Balance as of January 1, 2015	64,688	5,345	35,496	816	106,345
Acquisition of property and equipment	190	91	5,426	59	5,766
Disposal of assets	-	(897)	(7,942)	(70)	(8,909)
Opening balance of subsidiary acquisition (Note 40)	1	2,195	3,695	-	5,891
Reclassification of accounts	-	-	-	(40)	(40)
Transfer to available for sale	(6,290)	(88)	(1,119)	-	(7,497)
Total	58,589	6,646	35,556	765	101,556
Accumulated depreciation	(10,065)	(2,781)	(20,157)	(74)	(33,077)
Opening balance of subsidiary acquisition (Note 40)	-	(1,767)	(2,061)	-	(3,828)
Reclassification of accounts	-	-	-	40	40
Impairment loss	-	-	-	-	-
Net value as of December 31, 2015	**48,524**	**2,098**	**13,338**	**731**	**64,691**
Balance as of January 1, 2016	58,589	6,646	35,556	765	101,556
Acquisition of property and equipment	-	2,352	10,148	-	12,500
Disposal of assets	(2,346)	(222)	(6,897)	-	(9,465)
Reclassification of accounts	(190)	224	332	-	366
Transfer to available for sale	(4,659)	-	(632)	-	(5,291)
Total	51,394	9,000	38,507	765	99,666
Accumulated depreciation	(9,231)	(5,151)	(19,061)	(65)	(33,508)
Impairment loss	-	-	-	-	-
Net value as of December 31, 2016	**42,163**	**3,849**	**19,446**	**700**	**66,158**

The debits for the amortizations of property and equipment are included in the caption ‘Depreciation and amortization’ in the Consolidated Statement of Income for the period.

Note 15 Property and equipment, continued

b) Use of assets under operating lease agreements

The Bank has operating lease agreements over certain assets. The table below shows the minimum future payments of such irrevocable agreements or those including indemnity clauses:

Property and equipment	Net balance 2016 MCh$	Net balance 2015 MCh$
Less than 1 year	991	978
1 to 5 years	4,958	4,076
Over 5 years	133	586
Total	**6,082**	**5,640**

Lease related expenses for the year ended December 31, 2016, amount to MCh$9,883 (MCh$7,804 in 2015), and are included within 'Administrative expenses' in the Consolidated Statement of Income for the period.

Note 16 Current and deferred tax

a) Current tax assets

	Net balance 2016 MCh$	Net balance 2015 MCh$
Income taxes, tax rate 24% (22.5% in 2015)	28,358	23,550
Income taxes, rate 35%	73	137
Income taxes, absorbed subsidiaries	-	-
Less:		
Monthly provisional income tax payments	(30,481)	(24,058)
Credit for training expenses	(550)	(519)
Credit for real estate contributions	-	-
Prior period tax receivable	(5,979)	(2,186)
Other	-	-
Total current tax liabilities (assets)	**(8,579)**	**(3,076)**

Note 16 Current and deferred tax, continued

b) Net income (loss) for income taxes

Effect of tax expense as of December 31, 2016 and 2015, is detailed as follows:

	2016 MCh$	2015 MCh$
Income tax expenses:		
Current year tax	(30,881)	(20,520)
Surplus (deficit) from prior year provision	668	170
Credit (debit) for deferred taxes:		
Effect and reversal of temporary differences, current year	6,726	12,879
Effect and reversal of temporary differences, previous year	(528)	130
Subtotal	(24,015)	(7,341)
Taxes on non-deductible permanent expenses Article No. 21	(73)	(118)
Other	(34)	-
Net credit (debit) to profit for the period for income taxes	**(24,122)**	**(7,459)**

c) Effect of deferred taxes on equity

Deferred taxes recorded in equity are detailed as follows:

	2016 MCh$	2015 MCh$
Available-for-sale financial investments	(210)	234
Total debit (credit) to equity	**(210)**	**234**

Note 16 Current and deferred tax, continued

d) Deferred tax assets and liabilities

Taxable and deductible differences included in deferred tax balances are detailed as follows:

	2016 MCh$	2015 MCh$
Deferred tax assets		
Collective allowances on loan portfolio	38,595	34,828
Financial securities held for trading	8,211	6,870
Non-taxable write-offs	8,344	12,090
Interest and indexation on risk portfolio	7,167	5,305
Leased assets, net	-	-
Allowance for doubtful accounts	13,808	7,116
Accrued vacations	1,990	1,837
Write-off of assets received in lieu of payment	201	-
Taxable differences on property and equipment	2,206	4,029
Provisions from assets received in lieu of payment	264	237
Assets from factoring business	244	110
Balances arising from merger of subsidiaries	3,759	3,554
Investments in CAT subsidiaries	37,550	37,984
Adjustment for change in rates	11,845	10,118
Tax goodwill adjustment	30,829	31,043
Other provisions	9,584	6,819
Other	1,507	5,254
Total deferred tax assets	176,104	167,194
Deferred tax liabilities		
Leased assets, net	(3,628)	(853)
Deferred expenses	(7,458)	(4,703)
Accelerated depreciation – Building	-	(767)
Intangible assets from acquisition of CAT subsidiaries	(33,084)	(35,298)
Adjustment for change in rates	(1,248)	(1,330)
Other	(662)	(411)
Total deferred tax liabilities	(46,080)	(43,362)
Total net assets (liabilities)	130,024	123,832
Deferred taxes on equity		
Available-for-sale financial investments	(88)	116
Total net assets (liabilities)	**129,936**	**123,948**

Note 16 Current and deferred tax, continued

e) Reconciliation of effective tax rate

As of December 31, 2016 and 2015 the reconciliation between the income tax rate and the effective rate applied for the determination of the income tax expense is as follows:

	Tax rate %	2016 MCh$
Profit before income tax	24.00	(33,369)
Permanent differences	(6.22)	8,647
Taxes not recognized in profit or loss from prior periods	0.06	(81)
Prior year effect	(0.16)	(216)
Adjustment for change in tax rate, Law No. 20.780	(2.15)	2,991
Monthly provisional income tax payments for unabsorbed earnings	0.03	(48)
Hedge accounting in equity	-	-
Other permanent differences	1.42	(1,973)
Effective rate and income tax benefit (expense) current period	16.98	(24,049)
Tax under Article 21	0.05	(73)
Total income tax expense		**(24,122)**

	Tax rate %	2015 MCh$
Profit before income tax	22.50	(19,622)
Permanent differences	(12.12)	10,569
Taxes not recognized in prior year profit or loss	(0.18)	159
Adjustment for change in the tax rate, Law No. 20.780	(3.44)	3,001
Monthly provisional income tax payments for unabsorbed earnings	0.10	(86)
Hedge accounting in equity	(0.25)	216
Other permanent differences	1.82	(1,592)
Effective rate and tax benefit for the year	8.43	(7,355)
Tax under Article 21	0.12	(104)
Total income tax benefit		**(7,459)**

Note 16 Current and deferred tax, continued

f) Deferred tax adjustment according to the gradual increase in the corporate income tax rate Law 20.780 published in the Official Gazette on September 29, 2014

On September 29, 2014, the Tax Reform Law No. 20.780 was enacted, which, among other aspects, defines the by default tax system applicable to the Bank, depending on its corporate and legal structure starting from 2017, and the corporate income tax rate that will be gradually applied to companies between 2014 and 2018, which are different from 2017, depending on whether the Bank applies the Attributed income or Partially-integrated system.

Note that, in accordance with the Tax Reform established by Laws Nos.20.780 and 20.899 the latter simplifying the former, companies could have been, by default or choice, subject to one of these tax systems or regimes established by the new tax regulation. The attributed-income system implies that the companies must pay a corporate tax rate of 25% for 2017. The partially-integrated system, implies that the Company must pay a corporate tax rate of 25.5% for 2017 and 27% for 2018 and thereafter.

Accordingly, and depending on the regime opted or defined by default, the Company or the Group companies, will disclose the income tax and deferred tax rates, considering the tax rate effective at the date of the reversal of temporary differences.

For 2016, the current income tax rate is 24%. The deferred tax rate for companies subject to the attributed income regime is 25%, and 25.5% for companies subject to the partially-integrated system, if the Company expects that temporary differences will reverse during commercial year 2017, and 27% if they are expected to reverse beginning in commercial year 2018 or in subsequent years.

Considering the amendment indicated above, the Company has applied the partially-integrated regime. The effect on profit or loss on deferred taxes from changes in the aforementioned tax rate, generated a credit in profit or loss for the year of MCh$2,991 (MCh$3,001 in 2015).

Note 16 Current and deferred tax, continued

g) Joint Circular No. 47 issued by the SII and No. 3.478 issued by the SBIF

The detail of movements and effects generated by the application of article 31, No. 4 of the Income Tax Law is detailed below. This information relates solely to the Bank's credit operations and does not consider operations of subsidiaries included in these consolidated financial statements.

Loans and advances to customers as of December 31, 2016

Type of loan	Assets at carrying amount MCh$	Assets at tax value Total MCh$	Secured overdue portfolio MCh$	Unsecured overdue portfolio MCh$
Commercial loans	4,488,133	5,804,458	12,829	15,857
Consumer loans	773,677	768,160	-	3,721
Mortgage loans	3,111,203	3,116,292	3,399	5
Total	**8,373,013**	**9,688,910**	**16,228**	**19,583**

Allowances on past due amounts in portfolio as of December 31, 2016

Type of loan	Balance as of December 31, 2015 MCh$	Write-offs against allowances MCh$	Allowances accrued MCh$	Allowances released MCh$	Balance as of December 31, 2016 MCh$
Commercial loans	10,962	(14,484)	30,956	(11,577)	15,857
Consumer loans	3,050	(38,031)	43,117	(4,415)	3,721
Mortgage loans	85	(1,499)	1,543	(124)	5
Total	**14,097**	**(54,014)**	**75,616**	**(16,116)**	**19,583**

Direct write-offs and recoveries as of December 31, 2016	MCh$
Direct write-offs Art. 31 No. 4 second sub paragraph	3.536
Debt forgiveness which resulted in the release of allowances	-
Recoveries or renegotiation of loans written-off	15.950

Application of Art. 31 No. 4 first and third sub paragraphs	MCh$
Write-offs per first sub paragraph	-
Forgiveness per third sub paragraph	-

Note 16 Current and deferred tax, continued

g) Joint Circular No. 47 issued by the SII and No. 3.478 issued by the SBIF, continued

Loans and advances to customers as of December 31, 2015

Type of loan	Assets at carrying amount MCh$	Assets at tax value Total MCh$	Secured overdue portfolio MCh$	Unsecured overdue portfolio MCh$
Commercial loans	4,428,491	4,424,419	7,891	10,962
Consumer loans	682,805	678,364	-	3,050
Mortgage loans	2,688,730	2,694,402	3,368	85
Total	**7,800,026**	**7,797,185**	**11,259**	**14,097**

Allowances on past due amounts in portfolio as of December 31, 2015

Type of loan	Balance as of December 31, 2014 MCh$	Write-offs against allowances MCh$	Allowances accrued MCh$	Allowances released MCh$	Balance as of December 31, 2015 MCh$
Commercial loans	10,396	(15,756)	23,929	(7,607)	10,962
Consumer loans	3,318	(40,956)	44,921	(4,233)	3,050
Mortgage loans	82	(2,164)	2,287	(120)	85
Total	**13,796**	**(58,876)**	**71,137**	**(11,960)**	**14,097**

Direct write-offs and recoveries as of December 31, 2015	**MCh$**
Direct write-offs Art. 31 No. 4 second sub paragraph	4,663
Debt forgiveness which resulted in the release of allowances	-
Recoveries or renegotiation of loans written-off	18,235

Application of Art. 31 No. 4 first and third sub paragraphs	**MCh$**
Write-offs per first sub paragraph	-
Forgiveness per third sub paragraph	-

Note 17 Other assets

As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Accounts and commissions receivable	36,855	44,021
Securitized bonds	15,644	15,393
Assets received in lieu of payment or awarded (*)	3,462	3,262
Repossessed assets on leases	753	1,023
Assets under lease agreements (**)	1,388	589
Items of available-for-sale property and equipment	4,876	6,153
Value-added tax	2,286	2,372
Recoverable taxes	867	439
Cash deposits in guarantee (***)	52,147	75,783
Credit accounts receivable, Law No. 20.027	161	7,000
Credit accounts receivable, Law No. 20.634	2,027	1,683
Pending transactions	5,695	10,304
Accounts receivable from MINVU (the Chilean Ministry of Housing and Urban Development)	4,998	1,645
Prepayments	2,113	2,101
Other	871	1,176
Total	**134,143**	**172,944**

(*) Assets received in lieu of payment or awarded include a provision as of December 31, 2016 for MCh$1,066 (MCh$950 in 2015), determined based on the difference between the initial value plus additions and its net realizable value when the latter is lower.

(**) Correspond to assets available to be delivered under finance leases.

(***) As of December 31, 2016, it comprises cash deposits of MCh$26,015 to operate in the Derivatives Clearing House, and MCh$23,500 in other foreign institutions (MCh$4,683 in the Derivatives Clearing House and MCh$68,685 in other foreign institutions as of December 31, 2015).

Note 18 Deposits and other on-demand liabilities

As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Current accounts	833,325	799,686
Notes on demand	56,345	56,079
Collections payable	20,953	21,235
On-demand deposits	24,169	22,533
Overdue bond and letter of credit coupons	6,837	7,440
Performance bonds payable on demand	36,656	16,570
Payment orders outstanding	13,689	7,004
Extraordinary repayments of letters of credit	1,718	2,488
Locked in balances, Art. 156 L.G.B.	6,335	5,677
Overdue term deposits	1,711	1,627
Other mortgage holders	87,900	91,998
Export returns pending settlement	-	-
Loans granted, Law No. 20.027	1,446	1,733
Payments for credits pending settlement	1,017	955
Funded payment cards	1	-
Other on-demand liabilities	60,622	46,736
Total	**1,152,724**	**1,081,761**

Note 19 Term deposits and savings accounts

As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Term deposits	4,956,396	4,087,104
Term savings accounts	35,241	35,386
Total	**4,991,637**	**4,122,490**

Note 20 Bank borrowings

Bank borrowings with domestic and foreign banks are detailed as follows:

	2016 MCh$	2015 MCh$
Foreign banks		
Foreign trade borrowings	274,802	439,318
Overdrafts in current accounts	70	8,539
Long-term loans	43,747	-
Revolving credit facilities of foreign banks	433,566	522,245
Total	**752,185**	**970,102**

As of December 31, 2016 and 2015, the Bank and its subsidiaries record no liabilities with domestic banks and Banco Central de Chile.

Note 21 Debt securities issued

As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Letters of credit	196,223	230,544
Current bonds	2,460,344	2,452,477
Subordinated bonds	195,178	193,245
Total	**2,851,745**	**2,876,266**

During 2016 and 2015, the following current bonds were issued:

- **Current bonds:**

Year ended December 31, 2016

Series	Issuance date	Amount	Term	Issuance rate
AE	01/01/2016	UF 5,000,000	10.6 years	UF + 3.00% per year
AF	10/01/2016	UF 5,000,000	10.6 years	UF + 2.30% per year

Year ended December 31, 2015

Series	Issuance date	Amount	Term	Issuance rate
AB	01/05/2015	UF 5,000,000	10 years	UF + 3.00% per year
AD	10/01/2015	UF 5,000,000	10 years	UF + 3.00% per year

Note 21 Debt securities issued, continued

- **Subordinated bonds:**

Year ended December 31, 2016
From January 1 through December 31, 2016, the Bank has issued no subordinated bonds.

Year ended December 31, 2015

Series	Issuance date	Amount	Term	Issuance rate
AA	02/01/2015	UF 3,000,000	30 years	UF + 3.50% per year
AC	06/01/2015	UF 3,000,000	20 years	UF + 3.10% per year

Note 22 Other financial liabilities

As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Bonds payable and promissory notes payable	18,596	18,904
Payables to credit card operators	19,698	15,916
Payables to affiliates for credit card use	12,822	2,426
Liabilities in favor of Chilean exporters	1,302	2,562
Other domestic borrowings	9,265	10,113
Total	**61,683**	**49,921**

Note 23 Provisions

a) As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Provision for personnel benefits and expenses	9,253	8,952
Provision for minimum dividends	31,094	22,922
Provisions for contingent loan risk	13,272	12,291
Additional allowances for commercial loans	6,830	1,736
Additional allowances for mortgage loans	102	5,009
Additional allowances for consumer loans	8,856	9,258
Provisions for country risk	37	41
Other provisions for contingencies	2,325	4,571
Total	**71,769**	**64,780**

Note 23 Provisions, continued

b) As of December 31, 2016 and 2015, movements in provisions are as follows:

	Provision for personnel benefits and expenses	Minimum dividends	Contingent risk loans	Additional allowances	Other contingencies	Total
Balance as of January 1, 2015	7,497	30,441	4,216	8,564	1,163	51,881
Opening balance of subsidiary acquisition (Note 4)	717	-	4,215	3,902	2,161	10,995
Acquisition of Banco Paris portfolio	-	-	679	1,923	-	2,602
Allowances accrued	5,153	22,922	3,181	1,614	1,288	34,158
Use of provisions	(4,415)	(30,441)	-	-	-	(34,856)
Release of provisions	-	-	-	-	-	-
Balance as of December 31, 2015	**8,952**	**22,922**	**12,291**	**16,003**	**4,612**	**64,780**
Balance as of January 1, 2016	8,952	22,922	12,291	16,003	4,612	64,780
Allowances accrued	4,499	31,094	981	8,197	-	44,771
Use of provisions	(4,198)	(22,922)	-	-	-	(27,120)
Release of provisions	-	-	-	(8,412)	(2,250)	(10,662)
Balance as of December 31, 2016	**9,253**	**31,094**	**13,272**	**15,788**	**2,362**	**71,769**

Note 24 Other liabilities

As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Accounts and notes payable	63,973	88,894
VAT fiscal debit	4,208	3,264
Pending transactions	992	2,983
Dividends payable	121	115
Unearned revenue	23,371	16,356
Deposits received as collateral	6,252	12,160
Other liabilities	84	317
Total	**99,001**	**124,089**

Note 25 Contingencies and commitments

a) Lawsuits and legal proceedings

At the issue date of these consolidated financial statements there are lawsuits filed against the Bank that are related to its line of business. In the opinion of Bank's management and based on its legal advisors, these lawsuits will not result in significant losses not considered in these financial statements.

b) Contingent loans

The table below shows the contractual amounts of transactions that oblige the Bank to grant credits and the amount of the allowances accounts for credit risk assumed:

	2016 MCh$	2015 MCh$
Readily available revolving credit facilities	2,889,798	2,722,458
Other commitments	220,690	246,819
Bank guarantee certificates	341,860	219,998
Supporting letters of credit issued	24,475	42,466
Co-debt and collateral	113,006	100,165
Foreign confirmed letters of credit	3,091	10,790
Allowances accrued	(13,272)	(12,291)
Total	**3,579,648**	**3,330,405**

Note 25 Contingencies and commitments, continued

c) Responsibilities

The Bank and its subsidiaries have the following responsibilities derived from the normal course of its businesses:

	2016 MCh$	2015 MCh$
Securities under custody	1,756,953	1,475,173
Financial assets transferred to and managed by the Bank	21,453	26,106
Notes for collection	4,093	6,047
Assets pledged as collaterals	20,000	-
Guarantees for housing purchase obligation	386	523
Total	**1,802,885**	**1,507,849**

d) Guarantees

i) At Scotia Corredora de Bolsa Chile S.A.

In order to comply with the requirements of Articles No. 30 and 31 of Law No. 18.045 of having a guarantee equivalent to UF 20,000, Scotia Sud Americano Corredores de Bolsa signed the Bank Guarantee Certificate No. 420001235852 in order to ensure the fulfillment of its obligations as Broker with Scotiabank Chile. This guarantee is valid from April 21, 2016 to April 21, 2017.

In order to comply with the requirements of Stock Exchanges, the Bank contracted for Scotia Sud Americano Corredores de Bolsa S.A. the insurance policy No. 44300403 with Chubb de Chile Compañía de Seguros Generales. The insured amount is US$1,000,000 and the policy is valid from July 9, 2016 through July 9, 2017.

The Company trades shares in the Santiago Stock Exchange and the Chilean Electronic Stock Exchange in order to guarantee time share operations for MCh$8,696 as of December 31, 2016 (MCh$11,093 as of December 31, 2015).

In order to guarantee the operations of the gross liquidation offsetting system pledged securities were delivered to the Stock Exchange. As of December 31, 2016, the present value of those securities amounts to MCh$2,065 (securities amount to MCh$424 and funds in cash amount to MCh$1,500 as of December 31, 2015).

Note 25 Contingencies and commitments, continued

d) Guarantees granted for operations, continued

ii) At Scotia Administradora General de Fondos Chile S.A.

In order to comply with articles 226 et seq. of Law No. 18.045, the Company has appointed Scotiabank Chile as the representative of the beneficiaries. Scotiabank Chile granted bank guarantee certificates for UF 507,317.6338 with maturities due to January 10, 2017.

e) Pledges over stocks in stock exchanges

In conformity with the internal regulations of the Chilean Stock Exchange and the Santiago Stock Exchange, pledges over the stocks of both stock exchanges were granted in order to ensure the adequate performance and fulfillment of the operations of Scotia Corredora de Bolsa Chile S.A.

f) At Scotia Corredora de Seguros Chile Ltda.

As set forth in Article No. 58, letter D of Decree Law 251, as of December 31, 2016, the Bank holds a performance bond that hedges it against possible damages resulting from breaches of the law, regulations and supplementary standards that regulate insurance brokers, and especially when non-compliance originates from acts, errors and omissions by the broker, its representatives, assignees or dependents involved in the brokerage.

Series A	: No. 420001233431
Amount	: UF 60,000
In favor of	: Scotiabank Chile
Purpose	: In favor of insurance brokerage and with the sole purpose of being used as set forth in Article No.58, letter D of Decree Law 251
Term	: Up to April 14, 2017

Note 25 Contingencies and commitments, continued

g) Guarantees on real estate lease operations

As established in the contracts for the "Management of Housing Lease Agreement with Purchase and Sale Promise" signed between Sociedad de Leasing Inmobiliario S.A. and Santander S.A. Sociedad Securitizadora and Securitizadora Bice S.A., the former assumes in favor of the Separate Equities identified below, the obligation for acquiring housing units which are part of the respective Separate Equities, when the related lease agreement is early terminated either through an agreement reached by the parties or through an executed court decision. The price at which Bandesarrollo Sociedad de Leasing Inmobiliario S.A. will have to acquire these housing units is detailed as follows:

Entity	% on the value of the housing unit	Definition of housing unit value
Santander S.A Sociedad Secutirizadora		
Equity No. 2	85	Current commercial value
Equity No. 5	85	Current commercial value
Securitizadora Bice S.A.		
Equity No. 1	85	Current commercial value
Equity No. 2	85	Current commercial value
Equity No. 6	85	Current commercial value
Equity No. 12	80	Price promised in the original agreement
Equity No. 21	80	Price promised in the original agreement
Equity No. 22	60	Price promised in the original agreement

Guarantees over the portfolio agreement in equity No. 21 of Securitizadora Bice S.A. granted for these liabilities are valid through to November 15, 2017.

Note 26 Equity

a) Ownership

As of December 31, 2016 and 2015, the Company's shares composition is as follows:

a.1) Shares subscribed and paid

As of December 31, 2016, the Bank's authorized capital is comprised of 5,147,416,079 shares, from which 5,147,416,079 shares are effectively subscribed and paid.

As of December 31, 2015, the Bank's authorized capital is comprised of 5,147,416,079 shares, from which 5,147,416,079 shares are effectively subscribed and paid.

a.2) Capital increases

As of December 31, 2016 and 2015, the Bank recorded no capital increases.

a.3) Dividends paid and reserves

At the Ordinary Stockholders' meeting held on April 19, 2016, it was agreed to pay minimum dividends of Ch$4.45314 per share, which represents the distribution of 30% of the profit for 2015 for a total amount of MCh$22,922.

At the Ordinary Stockholders' meeting held on April 21, 2015, it was agreed to pay minimum dividends of Ch$5.91381 per share, which represents the distribution of 30% of the profit for 2014 for a total amount of MCh$30,441.

Note 26 Equity, continued

b) Accounting equity

As of December 31, 2016 and 2015, capital, reserves, other comprehensive income and retained earnings attributable to common stockholders are detailed as follows:

	2016 MCh$	2015 MCh$
Capital:		
Paid-in capital	390,158	390,158
Shares acquired by the Bank	-	-
Total	**390,158**	**390,158**
Reserves:		
Share premium	23,673	23,673
Other reserves not related to earnings	10,295	10,295
Reserves from earnings	22,222	22,222
Total	**56,190**	**56,190**
Comprehensive income:		
Adjustment of available-for-sale investments	2,169	1,602
Adjustment of cash flow hedge derivatives	(7,989)	744
Total	**(5,820)**	**2,346**
Retained earnings:		
Retained earnings from previous periods	327,687	274,202
Profit or loss for the period	103,648	76,407
Provisions for minimum dividends	(31,094)	(22,922)
Total	**400,241**	**327,687**

Note 26 Equity, continued

c) Non-controlling interest

The detail of non-controlling interests in subsidiaries is as follows:

As of December 31, 2016

	Non-controlling interest %	Non-controlling interest MCh$	Profit attributable to non-controlling interest MCh$	Payment of dividends to non-controlling interest MCh$
CAT Administradora de Tarjetas S.A.	49%	70,787	10,339	(2,936)
CAT Corredores de Seguros y Servicios S.A.	49%	1,262	927	(299)
Other	0.1%	26	1	-
Total		**72,075**	**11,267**	**(3,235)**

As of December 31, 2015

	Non-controlling interest %	Non-controlling interest MCh$	Profit attributable to non-controlling interest MCh$	Payment of dividends to non-controlling interest MCh$
CAT Administradora de Tarjetas S.A.	49%	63,385	2,805	-
CAT Corredores de Seguros y Servicios S.A.	49%	634	539	-
Other	0.1%	24	-	-
Total		**64,043**	**3,344**	**-**

Note 26 Equity, continued

c) Non-controlling interest, continued

The detail of the Bank's subsidiaries with significant non-controlling interests is as follows:

As of December 31, 2016

	Profit or loss for the year MCh$	Total assets MCh$	Total liabilities MCh$
CAT Administradora de Tarjetas S.A.	21,101	804,483	668,459
CAT Corredores de Seguros y Servicios S.A.	1,892	14,689	12,871

As of December 31, 2015

	Profit or loss for the year MCh$	Total assets MCh$	Total liabilities MCh$
CAT Administradora de Tarjetas S.A.	18,918	708,603	586,814
CAT Corredores de Seguros y Servicios S.A.	1,357	13,724	12,974

Note 27 Interest and indexation

a) Interest and indexation income and expenses are included in the Consolidated Statement of Income and are detailed as follows:

	Interests		Indexation		Total	
Income	**2016 MCh$**	**2015 MCh$**	**2016 MCh$**	**2015 MCh$**	**2016 MCh$**	**2015 MCh$**
Repurchase agreements	3,778	1,417	-	-	3,778	1,417
Loans to banks	1,066	1,547	-	-	1,066	1,547
Commercial loans	198,209	169,370	37,080	49,831	235,289	219,201
Mortgage loans	128,868	113,443	80,026	99,237	208,894	212,680
Consumer loans	244,599	176,178	29	1,753	244,628	177,931
Investment securities	20,678	17,095	1,179	141	21,857	17,236
Interest and indexation income	11,584	12,942	1,821	3,076	13,405	16,018
Gain (loss) from accounting hedges	7,195	-	-	(19,179)	7,195	(19,179)
Total	**615,977**	**491,992**	**120,135**	**134,859**	**736,112**	**626,851**
Expenses						
On-demand deposits	(1,052)	(574)	-	-	(1,052)	(574)
Repurchase agreements	(159)	(320)	-	-	(159)	(320)
Term and on-demand deposits	(163,112)	(99,687)	(7,324)	(15,765)	(170,436)	(115,452)
Bank borrowings	(12,588)	(13,072)	-	(193)	(12,588)	(13,265)
Debt securities issued	(94,407)	(91,179)	(75,081)	(102,647)	(169,488)	(193,826)
Other financial liabilities	(1,013)	(1,298)	(322)	(4,568)	(1,335)	(5,866)
Other interest and indexation expense	(33)	(5)	(2,407)	(2,369)	(2,440)	(2,374)
Gain (loss) from accounting hedges	-	16,934	(10,673)	-	(10,673)	16,934
Total	**(272,364)**	**(189,201)**	**(95,807)**	**(125,542)**	**(368,171)**	**(314,743)**
Net interest and indexation income	**343,613**	**302,791**	**24,328**	**9,317**	**367,941**	**312,108**

Note 27 Interest and indexation, continued

b) Suspended interest and indexation at each year-end are detailed as follows:

	Interests		Indexation		Total	
	2016 MCh$	2015 MCh$	2016 MCh$	2015 MCh$	2016 MCh$	2015 MCh$
Commercial loans	1,257	1,131	1,080	1,273	2,337	2,404
Mortgage loans	1,189	1,247	3,147	3,809	4,336	5,056
Consumer loans	-	1	-	5	-	6
Total	**2,446**	**2,379**	**4,227**	**5,087**	**6,673**	**7,466**

Note 28 Fees and commissions

During 2016 and 2015, the Bank presents the following fees and commissions income and expenses in the consolidated statement of income:

Fee and commission income:	2016 MCh$	2015 MCh$
Collection and payments	32,944	17,833
Investments in mutual fund deposits or other	11,245	12,173
Insurance brokerage	23,692	17,643
Credit card services	19,565	14,567
Account management	7,802	7,231
Guarantees and letters of credit	3,836	3,365
Revolving credit facilities and bank overdrafts	1,001	1,634
Securities brokerage and management	1,555	1,025
Loan management Law No. 20.027	8,488	7,255
Other commissions	5,539	5,304
Total	**115,667**	**88,030**

Fee and commission expenses:	2016 MCh$	2015 MCh$
Debit and ATM card transactions	(5,634)	(5,344)
Credit card transactions	(13,653)	(11,506)
Other security transactions	(3,528)	(4,754)
Brokerage	(1,821)	(1,724)
Deposits and custody of securities	(261)	(222)
Fees and commissions paid for collection management	(1,503)	(1,608)
Other credit card transactions	(241)	(251)
Other	(2,814)	(1,513)
Total	**(29,455)**	**(26,922)**
Net fee and commission income	**86,212**	**61,108**

Note 29 Gain or loss on financial transactions

Revenue and expenses included in the caption "Gain or loss on financial transactions" in the Consolidated Statement of Income for the period, correspond to the following:

	2016 MCh$	2015 MCh$
Net income from financial instruments held for trading:		
Interest and indexation	7,950	5,289
Fair value adjustments	2,706	(946)
Gain on sales	5,749	2,349
Loss on sales	(1,686)	(1,379)
Gain on investments in mutual funds	2,068	1,526
Gain on financial instruments held for trading	16,787	6,839
Net (loss) gain on financial derivative instruments held for trading:		
Gain on derivative instruments	1,048,803	1,158,862
Loss on derivative instruments	(1,027,415)	(1,180,439)
Net gain (loss) on financial derivative instruments held for trading	21,388	(21,577)
Sale of available-for-sale securities:		
Changes in fair value transferred to profit or loss	-	-
Gain on sale	3,298	477
Loss on sales	(273)	(18)
Net loss on sale of available-for-sale securities	3,025	459
Net gain on sale of loan and receivables portfolio	11,638	12,035
Net profit or loss on other transactions		
Letters of credit issued by the Bank	5	6
Income from ineffective hedges	-	5
Expense from ineffective hedges	(480)	(5)
Other income	16	-
Other expenses	(319)	(115)
Net gain on other transactions	(778)	(109)
Net gain (loss) from financial operations	**52,060**	**(2,353)**

Note 30 Net foreign exchange income (expense)

Foreign exchange gain or loss at the end of each year is as follows:

	2016 MCh$	2015 MCh$
Foreign currency exchange difference:		
Foreign currency exchange gain, net - exchange position	6,285	31,906
Other	4,134	(10,741)
Subtotal	10,419	21,165
Adjustable items in foreign currency:		
Loans to clients	(2)	1,650
Subtotal	(2)	1,650
Total	**10,417**	**22,815**

Note 31 Allowances for credit risk

Allowances for credit risk included in the Consolidated Statement of Income for the period are detailed as follows:

For the year ended December 31, 2016

	Loans and advances to banks MCh$	Loans and advances to customers: Commercial loans MCh$	Loans and advances to customers: Mortgage loans MCh$	Loans and advances to customers: Consumer loans MCh$	Contingent loans MCh$	Other loans MCh$	Total MCh$
Allowances accrued:							
Individual allowances	-	(14,322)	-	-	(449)	-	(14,771)
Collective allowances	-	(19,970)	(9,483)	(99,278)	(532)	(8,197)	(137,460)
Net gain (loss) from allowances accrued	-	(34,292)	(9,483)	(99,278)	(981)	(8,197)	(152,231)
Release of allowances:							
Individual allowances	228	-	-	-	-	-	228
Collective allowances	-	-	-	-	-	8,412	8,412
Net gain (loss) on release of allowances	228	-	-	-	-	8,412	8,640
Net gain (loss) on allowances	**228**	**(34,292)**	**(9,483)**	**(99,278)**	**(981)**	**215**	**(143,591)**
Recovery of assets written-off	-	9,786	3,400	33,212	-	-	46,398
Net gain (loss)	**228**	**(24,506)**	**(6,083)**	**(66,066)**	**(981)**	**215**	**(97,193)**

Note 31 Allowances for credit risk, continued

For the year ended December 31, 2015

	Loans and advances to banks MCh$	Loans and advances to customers: Commercial loans MCh$	Mortgage loans MCh$	Consumer loans MCh$	Contingent loans MCh$	Other loans MCh$	Total MCh$
Allowances accrued:							
Individual allowances	-	(29,919)	-	-	-	-	(29,919)
Collective allowances	-	(14,128)	(2,499)	(66,437)	(3,210)	(1,614)	(87,888)
Net gain (loss) from allowances accrued	-	(44,047)	(2,499)	(66,437)	(3,210)	(1,614)	(117,807)
Release of allowances:							
Individual allowances	87	-	-	-	29	-	116
Collective allowances	-	-	-	-	-	-	-
Net gain (loss) on release of allowances	87	-	-	-	29	-	116
Net gain (loss) on allowances	**87**	**(44,047)**	**(2,499)**	**(66,437)**	**(3,181)**	**(1,614)**	**(117,691)**
Recovery of assets written-off	-	12,001	4,337	26,610	-	-	42,948
Net gain (loss)	**87**	**(32,046)**	**1,838**	**(39,827)**	**(3,181)**	**(1,614)**	**(74,743)**

Note 32 Personnel expenses

The following expenses derived from the relationship between the Bank as employer and its employees, which correspond to remunerations, compensations and other expenses have been accrued or paid to personnel during the years ended December 31, 2016 and 2015:

	2016 MCh$	2015 MCh$
Payroll	81,113	87,297
Bonuses	49,773	29,705
Severance indemnity payments	7,952	8,668
Training expenses	974	591
Other personnel expenses	11,275	10,666
Total	**151,087**	**136,927**

The average number of employees during 2016 was 3,816 (3,858 in 2015).

Note 33 Administrative expenses

Administrative expenses of the Bank and its subsidiaries included in the caption 'Administrative expenses' in the Consolidated Statement of Income for the period are detailed as follows:

	2016 MCh$	2015 MCh$
Administrative expenses		
Maintenance and repair of property and equipment	2,449	2,062
Office leases	9,179	7,094
Equipment leases	704	710
Insurance premiums	1,335	993
Office stationary	2,155	2,335
IT and communication expenses	17,123	13,976
Electricity, heating and other services	4,359	4,090
Security patrol and security transport services	1,243	1,187
Representation expenses and personnel transportation	125	107
Legal and notary expenses	5,411	4,284
Professional services fees	1,937	1,464
Fines imposed by the SBIF	-	-
Fines imposed by other entities	261	26
Other general administrative expenses	23,036	17,551
Subcontracted services		
Data processing	606	587
Other	22,761	15,398
Board of Directors expenses		
Directors' fees	404	344
Other Directors' expenses	2	61
Publicity and advertising	19,518	19,421
Taxes and contributions		
Real estate	650	654
Patents	1,153	965
Other taxes	700	623
Contributions to the SBIF	3,031	2,612
Total	**118,142**	**96,544**

Note 34 Depreciation, amortization and impairment

The caption 'Depreciation, amortization and impairment' in the Consolidated Statement of Income for the period is composed of the following expenses incurred during the years ended December 31, 2016 and 2015:

	2016 MCh$	2015 MCh$
Depreciation of property and equipment	5,163	4,746
Amortization of intangible assets	12,913	7,803
Impairment	-	-
Total	**18,076**	**12,549**

Note 35 Other operating income

As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Other operating income:		
Income from assets received in lieu of payment	2,197	2,504
Loss from sale of property and equipment	3,210	3,001
Other income from lease operations	565	735
Income from ANAP UR portfolio not capitalized	57	65
Income from advisory services	5,943	4,589
Grants received from Minvu (the Housing Ministry)	60	-
Leases received	280	351
Other income, subsidiary Corredora de Seguros	502	1,263
Recovery of expenses	2,056	9,604
Release of provisions for contingencies	1,553	2,738
Release of other provisions	-	-
Insurance company compensation payments	-	360
Income from prescribed obligations	1,354	-
Incentives received from credit card brands	1,312	401
Other operating income	675	588
Total	**19,764**	**26,199**

Note 36 Other operating expenses

As of December 31, 2016 and 2015, this caption comprises the following:

	2016 MCh$	2015 MCh$
Other operating expenses:		
Provision for assets received in lieu of payment or awarded	1,546	1,541
Write-off of assets received in lieu of payments or awarded	902	725
Maintenance expenses from assets received in lieu of payment or awarded	162	227
Restructuring costs	-	239
Expenses related to provisions for securitized bonds	3,254	3,364
Write-off of recovered leased assets	266	435
Provisions for recovered leased assets	342	693
Provisions for contingencies	-	-
Leased asset expenses	784	368
Expenses for legal settlements	106	176
Other unforeseen events	134	866
Expenses related to sale of goods in lieu of payment	128	241
Disallowed expenses under Income Law Art. 21	185	183
Correspondent bank expenses	353	379
Expenses related to operational risk	3,242	1,677
Clearing House Services	838	523
Donations	413	315
Expenses arising from sale of property and equipment	71	105
Return of prior year commissions	285	294
Other operating expenses	881	487
Total	**13,892**	**12,838**

Note 37 Transactions with related parties

Related parties are persons or entities that, directly or through third parties, hold an interest in the Bank's ownership when such interest exceeds 1 % of the shares, as well as persons who, without holding an interest in the Bank's ownership, have authority and responsibility in the planning, management and control of the Bank's activities or its subsidiaries'. Persons or entities related to the Bank holding, directly, through third parties or both, a share higher than 5% are also considered related parties or where they act as director, general manager or other equivalent position.

Article 89 of the Law on Public Companies, also applied to banks, establishes that any transaction with a related party should be performed in fair conditions, similar to the ones commonly prevailing in the market.

On the other hand, Article 84 of the General Banking Law establishes the limits for the loans that can be granted to related parties and the prohibition to grant loans to the directors, managers or general representatives of the Bank.

a) Loans to related parties

Loans and receivables, contingent loans and assets related to securities and investments held for trading with related parties are as follows:

As of December 31, 2016	Operating companies MCh$	Investment companies MCh$	Individuals MCh$
Loans and accounts receivable			
Commercial loans	43,896	80	6,341
Mortgage loans	-	-	26,862
Consumer loans	-	-	8,382
Gross loans	43,896	80	41,585
Provisions for loans	(207)	(1)	(212)
Net loans	43,689	79	41,373
Contingent loans:			
Total contingent loans	13,463	47,663	9,583
Allowances for contingent loans	(12)	(17)	(19)

Note 37 Transactions with related parties, continued

a) Loans to related parties, continued

As of December 31, 2015	Operating companies MCh$	Investment companies MCh$	Individuals MCh$
Loans and accounts receivable			
Commercial loans	52,817	270	5,113
Mortgage loans	-	-	20,209
Consumer loans	-	-	6,287
Gross loans	52,817	270	31,609
Provisions for loans	(391)	(3)	(152)
Net loans	52,426	267	31,457
Contingent loans:			
Total contingent loans	16,422	7,511	8,612
Allowances for contingent loans	(13)	(21)	(28)

b) Other assets and liabilities with related parties

	2016 MCh$	2015 MCh$
Assets:		
Derivative instruments	133,161	85,739
Other assets	615	99
Liabilities		
Derivative instruments	132,559	158,819
On-demand deposits	9,855	6,524
Term and on-demand deposits	195,131	219,530
Other liabilities	1,872	1,581

Note 37 Transactions with related parties, continued

c) Income or expenses from transaction with related parties

	For the years ended			
	12/31/2016		12/31/2015	
	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$
Interest and indexation income and expenses	3,077	6,164	2,931	7,292
Fee and commission income and expenses	243	5,212	191	4,378
Gain or loss from trading activities	-	-	-	-
Gain or loss from other financial transactions	31	-	144	-
Operating support expenses	-	4,154	-	4,094
Other income and expenses	1,778	374	1,995	577
Total	**5,129**	**15,904**	**5,261**	**16,341**

d) Contracts with related parties

For the years ended on December 31, 2016 and 2015, no contracts with related parties have been signed for transactions other than the normal operations of the line of business.

e) Directors and key management personnel compensation

As approved at Stockholders' Meetings, during 2016 the Bank and its Subsidiaries have paid to the Board of Directors or accrued with a debit to profit for the period the amount of MCh$406 (MCh$405 in 2015). This amount has been paid for compensation, fees and other expenses related to their functions.

The remunerations of key management personnel are detailed as follows:

	2016 MCh$	2015 MCh$
Short-term benefits	5,664	4,535
Severance indemnity payments	-	335
Total	**5,664**	**4,870**

Note 38 Fair value of financial assets and liabilities

Determination of the fair value of financial instruments

The following is a comparison between the carrying amount of the Bank's financial assets and liabilities and their corresponding fair value as of December 31, 2016 and 2015:

	2016		2015	
	Carrying amount MCh$	Estimated fair value MCh$	Carrying amount MCh$	Estimated fair value MCh$
Assets				
Cash and deposits in banks	588,429	588,429	349,545	349,545
Transactions pending settlement	168,704	168,704	331,511	331,511
Securities held for trading	363,153	363,153	305,396	305,396
Investments sold under repurchase agreements and securities lending	183,677	183,525	61,220	61,221
Derivative instruments	283,650	283,650	347,475	347,475
Loans and advances to banks	12,331	12,341	361,137	362,460
Loans and advances to customers	8,617,253	8,913,460	8,032,259	8,101,218
Available-for-sale investment securities	654,863	654,863	451,934	451,934
Financial instruments included in other assets	15,644	15,423	15,393	15,761
Liabilities:				
Deposits and other on-demand liabilities	1,152,724	1,152,724	1,081,761	1,081,761
Transactions pending settlement	149,635	149,635	260,339	260,339
Investments sold under repurchase agreements	12,343	12,343	7,090	7,087
Time and on-demand deposits	4,991,637	4,994,214	4,122,490	4,122,311
Derivative instruments	301,590	301,590	359,272	359,272
Bank borrowings	752,185	744,708	970,102	964,915
Debt securities issued	2,851,745	3,026,901	2,876,266	2,987,349
Other financial liabilities	61,683	61,683	49,921	49,921

In addition, the estimated fair values presented above are not intended to estimate neither the value of the Bank's earnings generated by its business nor future business activities and, therefore, they do not represent the Bank's value as a going concern.

Calculation analysis and explanation

For assets that are recognized at amortized cost to determine their fair value, the Bank used the market curve for each currency plus an estimate of the spread for each of the main types of products as of December 2016 and 2015. Highest differences are recorded in the mortgage portfolio and bonds issued as they relate to long-term balances. This has an influence on two key aspects:

- Old placements/issues performed at rates other than those currently in force.
- Their amount is much more sensitive to rate fluctuations.

Note 38 Fair value of financial assets and liabilities, continued

Determining fair value and hierarchy

IAS 39 establishes a fair value hierarchy that segregates inputs and/or estimates used in measuring the fair value of financial instruments. The hierarchy assigns the most significant priority to quoted market price (unadjusted) in active markets for identical assets or liabilities (Level 1) and the less significant priority to valuation techniques using significant unobservable inputs (Level 3). The three fair value hierarchy levels are the following:

- Level 1: fair value measurements using quoted prices (unadjusted) in active markets for identical assets and liabilities, for which the Bank has the ability to access at the measurement date.

- Level 2: fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3: fair value measurements using unobservable inputs for the asset or liability.

The level in the hierarchy at which a measurement is classified is based on the lowest level of the input that is significant for the measurement of the entire fair value. The table below presents the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2016 and 2015:

		Fair value measurements		
As of December 31, 2016	Carrying amount MCh$	Level 1 MCh$	Level 2 MCh$	Level 3 MCh$
Assets				
Securities held for trading	363,153	333,125	30,028	-
Available-for-sale investment securities	654,863	124,504	530,359	-
Derivative instruments	283,650	-	283,650	-
Total	**1,301,666**	**457,629**	**844,037**	**-**
Liabilities				
Derivative instruments	301,590	-	301,590	-
Total	**301,590**	**-**	**301,590**	**-**

Note 38 Fair value of financial assets and liabilities, continued

Determining fair value and hierarchy, continued

As of December 31, 2015	Carrying amount MCh$	Fair value measurements Level 1 MCh$	Level 2 MCh$	Level 3 MCh$
Assets				
Securities held for trading	305,396	291,846	13,550	-
Available-for-sale investment securities	451,934	61,880	390,054	-
Derivative instruments	347,475	-	347,475	-
Total	**1,104,805**	**353,726**	**751,079**	**-**
Liabilities				
Derivative instruments	359,272	-	359,272	-
Total	**359,272**	**-**	**359,272**	**-**

Note 39 Risk management

1) Introduction

Risk Management is intended to support the strategic objectives of the Bank by identifying, assessing and communicating comprehensively and effectively the risk profile related to the business.

Principles:

- The Bank and its subsidiaries manage their risks (credit, financial and operational) under a comprehensive approach.
- Risk management policies are aligned to the guidelines of our Parent Bank.
- The methodologies and tools are in compliance with local regulations and our Parent Bank’s good practices.
- There is a clear segregation of duties that ensures the value creation process.
- There is a permanent monitoring of the exposures and their compliance.
- Senior Management's commitment in managing risk related to corporate businesses in Chile, generating those resources required and involvement by all areas to ensure comprehensive and effective application.

Note 39 Risk management, continued

2) Risk management framework

a) Board of Directors

The Bank's Board of Directors is responsible for approving policies and implementing the adequate strategy framework for the efficient management of the different risks faced by the Bank as a result of the performance of its activities. The Board of Directors is informed on the main aspects of the risks of the Bank and its Subsidiaries.

b) Market Risk Management Policy Committee (MRMPC)

The Market Risk Management Policy Committee is the department in charge of monitoring the Bank's compliance with the basic standards related to market risk. Its responsibilities include advising and counseling the limit proposals and changes to policies, as well as establishing the measurement and/or reports the Bank needs to perform.

c) Asset and Liability Committee (ALCO)

The strategic Liquidity Management for managing liquidity and market risks is commissioned to the ALCO and, therefore, this committee is responsible for market and liquidity risks. This Committee's members are the Bank's Division Managers, is chaired by the General Manager. Its responsibilities include the following:

- Analyzing and issuing comments on the country's political and economic scenarios and on any exposure to risk that could arise from changes in these areas.
- Assessing strategies to manage assets and liabilities, taking into consideration their impact on the Bank's performance, marketing and financial position goals.
- Continuously establishing and reviewing the overall parameters for pricing loans, deposits, interest rate margins and funding, as well as designing pricing strategies to improve the Bank's market share and competitive position.
- Determining the general implications of changes to the volumes and interest rates associated with the most significant categories of assets and liabilities, and creating business strategies to encourage profitable growth.
- Establishing guidelines for proper combination of assets and liabilities, liquidity strategies, and funding and trading activities.
- Overseeing and analyzing the sensitivity of economic capital and financial margin to different interest rate scenarios.

Note 39 Risk management, continued

2) Risk management framework, continued

c) Asset and Liability Committee (ALCO), continued

- Assessing the Bank's structural risk profile and defining adjustments to comply with the risk goals and policies determined by the Board of Directors.
- Assessing liquidity strategies, business development activities and funding programs.

d) Operational Risk Committee

The purpose of this Committee is to provide high level oversight of as well as establish and reinforce policies to mitigate operational risk and foster the consistent and collaborative application of the operational risk management principles at the Bank and its subsidiaries, as well as providing a forum for communication and cooperation between the areas of the Bank and its subsidiaries who have responsibility for the administration, investigation, monitoring and prevention of losses due to operational risk.

The jurisdiction of the Operational Risk Committee and the actions that it exercises covers the Bank and all its subsidiaries.

The members of this Committee include the General Manager and each Division Manager, and Risk Division Manager as President of the Committee, in addition to regular involvement by the Operational Risk Manager, the Compliance Manager and the Safety and Special Investigations Manager.

e) Risk Division

The Bank's Risk Division will revise and recommend for approval by the Local *Board of Directors, the Credit Risk Policy, the Credit Risk Strategy, the Risk Appetite Framework* and the *Credit Risk Provision* Policies. The Risk Division will ensure that all the significant aspects of such policies meet the local regulatory framework provided by the SBIF and the General Banking Law and are consistent with The Bank of Nova Scotia (Parent Company)'s credit risk management principles.

Note 39 Risk management, continued

2) Risk management framework, continued

f) Market risk management

Market Risk Management reports to the Risk Division and its main function is identifying, measuring and controlling market and liquidity risk, communicating risk profiles to the Senior Management and Parent Bank on a regular basis, as well as anticipating any situations which may compromise the Bank and Subsidiaries' liquidity and equity position.

The Market Risk area is responsible for regulatory and internal compliance in respect to market risks, ensuring the implementation of the standards and recommendations of the Parent Bank, the SBIF and all good practices provided by the Basel Committee.

g) Operational risk management

The Bank has a Central Operational Risk Management responsible for providing independent monitoring and objectively testing the first line of defense, as well as carrying out monitoring, risk control and develop methodologies, policies, processes and tools that support the Operational Risk Management Policy and Framework.

It is also responsible for generating policies and procedures; managing the implementation of operational risk assessments; implementing operational key risk indicators (KRI); collecting and analyzing loss data events due to operational risk (monetary and non-monetary), key risk assessments and indicators; generating periodic reports to the Operational Risk Committee, Audit Committee, Senior Management, Board and Executive Committees; performing the calculation of capital for operational risk and spreading the culture of operational risk.

3) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises mainly from loans and advances to customers and other banks, and investment securities.

The Bank manages credit risk through different tools that include procedures, models, controls, behavior monitoring, etc. This is framed within a global strategy. Limits and differentiated models in function of client's characteristics and in function of the operating environment are established.

Note 39 Risk management, continued

3) Credit risk, continued

The process used by the Bank to apply its policies and controls includes the following features:

- Centralized awarding process, where all attributions lie on the Credit Committees.
- Clearly established credit discretionary limits.
- Credit Committees specialized by business segments.
- Credit Committees specialized by sectors in the economic activity.

The main controls established by the Bank include:

- Control and follow-up of authorized credit limits by economic activity sector.
- Preparation of credit management reports.
- Early warnings of the commercial portfolio.
- Calculation and monthly control of provisions.
- Follow-up of the impaired portfolio.
- Control of write-offs control and loan recoveries.

The Bank has differentiated models to establish the appropriate amount of potential losses, based on the following models for the individual and collective evaluation of debtors.

Individual assessment

Individual assessments are performed to portfolios with authorized exposure over MCh$250 and to all debtors assigned to the Corporate, Large Corporations and Real Estate Division. In accordance with the SBIF in Chapter B-1 of the Compendium of Accounting Standards, the individual assessment considers the following segments:

a) Normal Portfolio: includes those customers whose payment capacity allows them complying with their financial obligations and covers categories from A1 to A6.

b) Substandard Portfolio: includes those debtors with financial problems or default issues exceeding 30 days and covers categories from B1 to B4.

c) Default Portfolio: includes all debtors with insufficient payment under foreseeable situations. Categories include a range from C1 to C6.

Additionally, for each of these segments, the new standards consider the calculation of specific allowances, stating probabilities for default, expected loss and/or percentage of allowance for each category.

Note 39 Risk management, continued

3) Credit risk, continued

Collective assessment

For customers whose debt is lower than MCh$250, separating customers in the commercial loan portfolio from customers in the retail portfolio (customers paying other than commercial loans). Customers whose debt exceeds MCh$250 are assessed individually.

Collective Commercial Model

Customers are assessed at Tax Identification Number level, grouped as follows:

Not Renegotiated: Customers that present no renegotiated operations or whose greatest debt product relates to several debtors.

Renegotiated: Customers that present renegotiated operations but whose greatest debt product does not relate to several debtors.

MD: customers whose greatest debt product refers to miscellaneous debtors (MD).

Allowances are calculated based on the estimated Expected Loss for each debtor, which is composed of three elements: Probability of Default (PD), Loss Given Default (LGD) and Exposure or Debt. In general, the formula for the calculation of provisions is as follows:

$$\boxed{EL = PD * LGD * Exposure}$$

Where:

- **EL:** correspond to expected loss.
- **PD:** correspond to probability of default.
- **Exposure:** correspond to debt.
- **LGD:** correspond to loss given default.

Note 39 Risk management, continued

3) Credit risk, continued

Collective Allowance Model – Retail Segment

For the calculation of retail portfolio allowances, the same formula for the collective commercial model is used based on a statistic model which is aligned with Basel II and which proposes an estimate of Probability of Default and Loss Given Default. PD is defined as the probability that a customer ceases to meet its loan obligations, whereas Loss Given Default is the loss rate that a customer may be exposed in the event of not meeting its obligations.

The Bank groups together customers with similar characteristics to calculate PD and LGD, which allows determining that groups are homogeneous internally and heterogeneous among them.

Depending on the customer's balance aging, PD can be estimated by an Application or Behavior model. Application models gather the customer's demographic characteristics and financial behavior, whereas Behavior models look for information on the internal behavior of the Bank and financial institutions. In other words, Application models look for customer's characteristics, and Behavior models look for the customer's internal credit behavior.

To estimate LGD, the portfolio is segmented considering customer's products and related guarantees to obtain amounts according to each customer's behavior characteristics.

Currently, the Subsidiary CAT Administradora de Tarjetas has no models for expected loss at customer level similar to those presented for Scotiabank Chile but it works with models of provisions based on roll rates for credit card portfolio and vintage projection for the consumer loans.

The current administration, which begins with the alliance between Scotiabank and Cencosud, inherits and continues with these models, which will be modified according to the standards of Scotiabank Chile and the new Annex No. 1 and No. 2 of the Compendium of Accounting Standards issued by the SBIF. Currently, this new methodology will commence a validation process by an external entity.

Note 39 Risk management, continued

3) Credit risk, continued

The loan portfolio over which the above-mentioned methodologies and policies are applied presents the following structure based on the risk categories defined in the local regulation:

Loan quality per class of financial asset

As of December 31, 2016

Individual assessment:	Loans and advances to banks MCh$	Commercial loans MCh$	Commercial lease MCh$	Factoring MCh$	Consumer loans MCh$	Mortgage loans MCh$	Contingent loans	Total MCh$
A1	8,321	10,090	-	-	-	-	60,211	78,622
A2	2,047	953,232	4,382	-	-	-	280,844	1,240,505
A3	1,953	266,165	7,058	1,477	-	-	19,830	296,483
A4	-	890,457	115,257	21,228	-	-	47,116	1,074,058
A5	-	337,758	47,290	13,878	-	-	19,048	417,974
A6	-	160,973	9,050	4,702	-	-	4,514	179,239
B1	-	40,880	4,634	234	-	-	286	46,034
B2	-	17,952	903	22	-	-	302	19,179
B3	-	19,065	1,985	-	-	-	505	21,555
B4	-	48,024	240	-	-	-	1,271	49,535
C1	-	10,201	1,418	-	-	-	-	11,619
C2	-	6,648	817	-	-	-	-	7,465
C3	-	1,921	238	-	-	-	-	2,159
C4	-	16,783	1,226	14	-	-	-	18,023
C5	-	4,004	680	-	-	-	5	4,689
C6	-	14,234	476	1,055	-	-	2,997	18,762
Total	**12,321**	**2,798,387**	**195,654**	**42,610**	**-**	**-**	**436,929**	**3,485,901**
Collective assessment:	-	1,086,037	20,340	1,259	1,555,138	3,140,917	1,016,408	**6,820,099**
Total	**12,321**	**3,884,424**	**215,994**	**43,869**	**1,555,138**	**3,140,917**	**1,453,337**	**10,306,000**

Note 39 Risk management, continued

3) Credit risk, continued

Loan quality per class of financial asset, continued

As of December 31, 2015

Individual assessment:	Loans and advances to banks MCh$	Commercial loans MCh$	Commercial lease MCh$	Factoring MCh$	Consumer loans MCh$	Mortgage loans MCh$	Contingent loans	Total MCh$
A1	719	-	-	1,295	-	-	21,638	23,652
A2	72,974	1,620,555	3,877	10,017	-	-	285,323	1,992,746
A3	80,662	287,551	9,925	353	-	-	38,258	416,749
A4	-	911,989	105,659	19,980	-	-	53,520	1,091,148
A5	-	280,888	37,735	11,679	-	-	10,761	341,063
A6	-	117,447	9,959	3,066	-	-	1,598	132,070
B1	-	29,057	3,635	-	-	-	230	32,922
B2	-	15,047	266	-	-	-	323	15,636
B3	-	50,554	1,740	71	-	-	540	52,905
B4	-	50,122	351	-	-	-	10	50,483
C1	-	12,899	1,074	-	-	-	19	13,992
C2	-	3,093	424	-	-	-	-	3,517
C3	-	3,104	32	2	-	-	120	3,258
C4	-	5,055	170	-	-	-	-	5,225
C5	-	4,700	-	-	-	-	-	4,700
C6	-	9,629	807	391	-	-	6	10,833
Total	**154,355**	**3,401,690**	**175,654**	**46,854**	**-**	**-**	**412,346**	**4,190,899**
Collective assessment:	-	492,344	27,172	3,605	1,359,445	2,720,807	1,356,811	**5,960,184**
Total	**154,355**	**3,894,034**	**202,826**	**50,459**	**1,359,445**	**2,720,807**	**1,769,157**	**10,151,083**

Note 39 Risk management, continued

4) Operational risk

Operational risk is the risk of direct or indirect loss at which the Bank and/or Subsidiaries is exposed due to external events, human errors or the lack or failure of processes, procedures, systems or controls. Operational risk includes the legal risk but excludes the strategic and reputational risk.

Operational risk, in some of its forms, exists in each business and support activity of the Bank and its Subsidiaries and might generate financial losses, regulatory sanctions or damage to the reputation of the Bank and/or subsidiary.

Operational risk management

Operational risk management is an ongoing and cross-cutting process to the organization performed by people at all levels within the Bank and its subsidiaries.

The process is designed to identify, evaluate, mitigate, and report risks and current and potential events, as well as provide reasonable assurance to the Board of Directors and Senior Management as to the exposure and operational risk management status of the Bank and its subsidiaries.

The Bank and its subsidiaries have a clear, effective and strong structure together with well-defined, transparent and coherent accountabilities.

The first line of defense are the employees, and the Management of Business and Support Units, which have direct influence on the operations. They are responsible for identifying and managing risks in products, activities, processes and systems under their oversight.

The second line of defense is composed of the Operational Risk Management and control functions, such as Risk Management, Compliance, Human Resources, Legal Advisory, Technology, Security and Investigation, etc. The duties of the second line of defense are (i) providing leadership and knowledge, and (ii) effectively testing Operational Risk Management activities.

Note 39 Risk management, continued

4) Operational risk, continued

The third line of defense is composed of the Internal Audit Department, which provides Senior Management and the Board of Directors with a level of independent and objective security with respect to the effectiveness of the Operational Risk Management Framework. Several key aspects of the Operational Risk Management Framework are included in such Management's audit coverage. In addition, as part of its auditing procedures, Internal Audit Management may test the design and operating effectiveness of certain key operational controls. The Bank's Internal Audit Management is independent from the functions it audits and has no line responsibilities. In addition, the Internal Audit Management has no direct Operational Risk management responsibilities.

The internal governance structure for managing Operational Risk within the Bank is composed of the Operational Risk Management and Control areas, the Operational Risk Committee and the Board of Directors, which has delegated the responsibility of managing operational risk to the management committees.

Operational risk identification and assessment

The identification of operational risk includes understanding business strategies, products and services, processes, systems and activities, environment characteristics of the relevant business, including all types of significant operational risks to which the line of business is exposed. In addition, the identification includes developing common definitions of operational risk categories, grouping data to develop a sound view of controls and exposures to operational risk, using risk assessment tools. The Bank's operational risk inventory is a key component of all operational risk management tools. The Bank has implemented the following programs to guarantee consistent and effective operational risk identification system throughout the organization.

The Bank and its subsidiaries implemented a Risk Control Assessment (RCA) program comprising qualitative and quantitative components that is an integral part of the Bank's general Operational Risk Management Framework. Such program allows the Bank and its subsidiaries to establish a systematic approach to coordinate its risk identification and management initiatives and improve the understanding, control and oversight of operational risks. In addition, the resulting operational risk profile includes an assessment of the business environment in the future.

Note 39 Risk management, continued

4) Operational risk, continued

In addition, the Bank and its subsidiaries perform operational risk assessment on its products, activities, processes and systems using other supplementary risk self-assessment tools such as due diligence and risk matrices. In addition, the Bank has a specific policy for approving new products and initiatives which include a risk self-assessment process.

a) Key Risk Indicators Program

The Key Risk Indicators Program establishes a systematic approach to coordinate the oversight of key determinants of operational risk, and provides an approach, structure and common terminology to implement and manage the selection of Key Risk Indicators throughout the Bank.

The Key Risk Indicators Program covers risk indicators at all levels in the Bank. Key Risk Indicators exist at the Bank level and subdivision (or lines of business) level.

Operational risk measurement

The operational risk measurement may be qualitative and quantitative. The Bank and its subsidiaries have implemented programs to guarantee the timely measurement of operational risk in order to provide support on effective tactical or strategic decision-making at all levels in the Bank.

a) Operational risk loss data

The Bank and its subsidiaries follow-up relevant operational risk loss data, based on the amounts established by line of business, in conformity with the types of Basel loss events. Losses are reported to the Bank's Operational Risk Management and used as components for such risk monitoring and control. The Operational Risk Management then reports the operational loss data on a monthly basis considering certain limits established to BNS's Global Operational Risk and International Banking Compliance and Operational Risk for entry to the centralized BNS operational loss database. The operational loss database includes the following types of losses:

- External and internal thefts and fraud;
- Labor practices and workplace security;
- Customers, products and business practices;
- Damages to physical assets;
- Business disruptions and system failure; and
- Process performance, delivery and management.

Note 39 Risk management, continued

4) Operational risk, continued

Business Units and Centralized Specialized Units are also required to submit data on quasi losses to Global Operational Risk to include them in the quarterly report.

5) Market risk

Market risk is the risk of adverse changes in market prices. It relates to financial market volatility and reflects the uncertainty faced by a financial entity when confronted with possible adverse effects in risk factors (market interest rates, exchange rates and prices) on its assets, liabilities and equity. It is classified as follows:

- Interest rate risk

Interest rate risk corresponds to the risk of losses due to adverse changes in the interest rate structure. This arises from falls or rises in the yield curve.

- Spread risk - Basis

Spread risk is the risk of losses related to adverse changes in spreads existing in the yield of different financial assets and liabilities. These might reflect particular liquidity conditions of assets, credits and/or specific prepayment clauses whose exercise can result in impairment in the ability to generate future margin.

- Currency risk

Currency risk is the risk of losses due to adverse changes in exchange rates. This risk arises from financial mismatches between assets and liabilities both effective and contingent.

- Options risk

Risk of financial losses related to positions in explicit or implicit options, whether purchased or delivered such as those contained in mortgage loans and education loans.

Balance sheet management

The Bank assets are mainly comprised of mortgage loans (mainly denominated at a fixed rate), commercial loans (including those destined to the financing of foreign trade operations), education loans and consumer loans.

Note 39 Risk management, continued

5) Market risk, continued

The Bank manages its balance sheet in order to maximize its net interest and indexation income by holding a high proportion of on-demand deposits for which no interests are paid and short-term deposits, thus granting long-term loans that allow taking advantage of the yield curve within a financial risk management context agreed.

The main balance sheet risks are the interest rate risk produced by long-term assets funded with short-term liabilities, and the inflation risk, as the Bank grants loans in UF and funds those loans using Chilean pesos. In order to mitigate the balance sheet risks, the Bank has short-term interest and inflation rate risk limits, as well as long-term interest rate limits in order to maintain desired risk level by the institution.

The Bank manages a portfolio of non-derivative financial instruments with the purpose of using the difference in the yield curve as well as maintaining positions in liquid financial instruments to cover possible needs for resources.

In addition, the Bank enters into hedging derivative contracts to manage risks arising from its mortgage portfolio, its deposits portfolio, and specific cases.

The Bank's available-for-sale portfolio is as follows:

As of December 31, 2016 (Individual Bank)

	Purchase value MCh$	Purchase IRR %	Market value MCh$	Market IRR %	Unrealized gain (loss) MCh$
Notes expressed in Ch$	**526,410**	**3.90**	**526,646**	**3.75**	**236**
PDBC	34,096	3.35	34,098	3.27	2
BCP	58,855	3.63	58,958	3.46	103
BTP	33,661	3.53	33,660	3.53	-1
Time deposits in Ch$	399,798	4.02	399,930	3.85	132
Notes expressed in UF	**83,998**	**1.31**	**84,220**	**1.49**	**222**
BCU	21,857	1.50	22,122	0.74	265
BTU	9,688	1.14	9,765	0.85	77
Time deposits in UF	52,453	1.27	52,333	1.93	-120
Own letters	-	-	-	-	-
Notes expressed in US$	**43,771**	**1.01**	**43,760**	**1.03**	**-11**
Time deposits in US$	43,771	1.01	43,760	1.03	-11
Total notes	**654,179**	**3.37**	**654,626**	**3.28**	**447**

Note 39 Risk management, continued

5) Market risk, continued

As of December 31, 2015 (Individual Bank)

	Purchase value MCh$	Purchase IRR %	Market value MCh$	Market IRR %	Unrealized gain (loss) MCh$
Notes expressed in Ch$	**428,160**	**4.30**	**427,682**	**4.63**	**(478)**
PDBC	-	-	-	-	-
BCP	40,449	4.26	40,418	4.33	(31)
BTP	-	-	-	-	-
Time deposits in Ch$	387,711	4.30	387,264	4.66	(447)
Notes expressed in UF	**24,011**	**1.30**	**24,004**	**1.49**	**(7)**
BCU	21,464	1.16	21,462	1.16	(2)
BTU	-	-	-	-	-
Time deposits in UF	2,547	2.45	2,542	4.27	(5)
Own letters	-	-	-	-	-
Notes expressed in US$	**-**	**-**	**-**	**-**	**-**
Time deposits in US$	-	-	-	-	-
Total notes	**452,171**	**4.14**	**451,686**	**4.46**	**(485)**

Trading/Client activities

The Bank has a trading area responsible for the active trading of highly liquid instruments, whether Banco Central, bank's and/or corporate papers, derived from interest rate and/or currency (including inflation-adjusted units). This area is responsible for finding earning opportunities in a short-term horizon, taking advantage of temporary disarbitration in the prices and differences in the yield curve (base and spreads), but also, is responsible for providing financial solutions to the Bank's clients.

Value at Risk

The Bank uses Value at Risk (VaR) tools for quantifying the risk related to trading portfolio positions. This includes notes and derivatives classified in the trading portfolio, as well as the exchange risk derived from foreign currency mismatches from operations with clients and currency proprietary positions.

Note 39 Risk management, continued

5) Market risk, continued

Aligned with the Bank's Parent, Market Risk Department uses the historical simulation method with a level of trust of 99% and 300 days of observations.

Also, the Market Risk Department regularly uses contrast tests in order to establish the predictive quality of its value at risk model (a test of the frequency of excesses).

As of December 31, 2016, value at risk amounted to MCh$449 (MCh$748 in 2015).

Sensitivity of Equity and Financial Margin

The Bank uses the sensitivity of Equity and Financial Margin in order to quantify the interest rate risk of the balance sheet. Both measures include the total assets and liabilities, except for trading portfolios.

Items sensitive to interest rates are presented as follows:

- At contract maturity in the case of fixed rate products.
- Next repricing date in the case of variable rate products.
- Duration as determined by the internal models in the case of products with no contract maturity (for example, checking accounts, credit cards, lines of credit among others).

Non-remunerable assets and non-cost liabilities are recorded as sensitive to interest rate:

- Cash on hand
- Other assets and liabilities
- Overdue portfolio
- Provisions
- Capital and reserves

The change in the equity value is determined assuming a parallel fall or rise of 100 bp (basis point) in the interest rate structure. The calculation is made separately for domestic currency (UF+Ch$) and foreign currency (US$ and remaining currencies). The total risk will be the sum of the impact considering the most adverse scenario for the group of currencies with which the Bank operates.

Note 39 Risk management, continued

5) Market risk, continued

The effect on the present value by currency of a parallel movement of 100 points, is as follows:

As of December 31, 2016

	NPV	NPV + 1%	NPV - 1%
Ch$	51,281	8,861	(9,424)
UF	702,590	(64,693)	76,718
US$	(303,747)	326	(391)
FC	7,376	234	(246)
Use	55,272		

As of December 31, 2015

	NPV	NPV + 1%	NPV - 1%
Ch$	67,529	1,486	(1,520)
UF	150,023	(67,042)	79,261
US$	(15,114)	1,049	(1,128)
FC	1,283	91	(92)
Use	64,416		

The effect on the financial margin by currency of a parallel movement of 100 points is as follows:

As of December 31, 2016

	Net present value				Financial margin			
	Ch$ MCh$	UF MCh$	US$ MCh$	FC MCh$	Ch$ MCh$	UF MCh$	US$ MCh$	FC MCh$
1 day	1,079,187	(23,660)	(422,079)	9,413	(10,341)	227	4,045	(90)
1 month	(60,266)	196,882	53,588	2,843	578	(1,888)	(515)	(27)
2 months	(344,600)	122,799	2,490	7,018	3,015	(1,074)	(22)	(61)
3 months	(197,618)	111,188	(90,063)	(29)	1,564	(880)	713	-
4 months	(239,177)	65,352	(33,417)	(24)	1,694	(463)	237	-
5 months	150,443	(52,346)	105,955	(24)	(940)	327	(662)	-
6 months	(170,981)	32,203	33,283	(5,166)	926	(174)	(180)	28
7 months	(15,299)	54,679	10,086	(24)	70	(251)	(46)	-
8 months	(192,527)	(80,969)	42,982	(24)	722	304	(161)	-
9 months	118,141	9,168	(19,295)	(24)	(345)	(27)	56	-
10 months	(79,757)	(2,065)	(24,079)	(24)	166	4	(50)	-
11 months	6,075	(257,393)	5,868	(24)	(8)	322	(7)	-
12 months	79,209	(175,142)	14,262	(24)	(33)	73	(6)	-
					(2,932)	(3,500)	3,402	(150)
Exposure to inflation						5,094		
Use	**8,973**							

Note 39 Risk management, continued

5) Market risk, continued

As of December 31, 2015

	Net present value				Financial margin			
	Ch$ MCh$	**UF MCh$**	**US$ MCh$**	**FC MCh$**	**Ch$ MCh$**	**UF MCh$**	**US$ MCh$**	**FC MCh$**
1 day	257,900	(23,964)	35,607	1,220	2,579	(240)	356	12
1 month	237,914	(76,160)	(198,894)	54,459	2,181	(698)	(1,823)	499
2 months	(203,423)	76,468	52,906	(113)	(1,695)	637	441	(1)
3 months	(197,861)	73,362	85,043	(54,110)	(1,484)	550	638	(406)
4 months	98,677	(148,433)	16,339	(69)	658	(990)	109	-
5 months	(152,360)	(4,000)	26,230	(69)	(889)	(23)	153	-
6 months	(91,766)	(76,666)	31,218	321	(459)	(383)	156	2
7 months	27,900	(19,124)	(2,651)	(69)	116	(80)	(11)	-
8 months	(160,721)	(80,678)	12	(69)	(536)	(269)	-	-
9 months	(29,550)	(7,791)	(1,263)	(69)	(74)	(19)	(3)	-
10 months	140,831	(61,872)	(36,659)	(69)	235	(103)	(61)	-
11 months	(21,229)	36,381	(1,825)	(69)	(18)	30	(2)	-
12 months	77,288	(19,454)	(3,088)	(69)	-	-	-	-
					614	(1,588)	(47)	106
Exposure to inflation						3,282		
Use	**4,198**							

Net present value: net present value of asset and liability flows
Ch$: Ledger in Chilean pesos
UF: Adjustable ledger UF, AVI and CPI
US$: Ledger in U.S. dollars
FC: Ledger in foreign currency other than US dollars

Stress Tests

Risk Management Department develops and reports regularly to the ALCO and the Local Board of Directors stress tests, which include parallel and non-parallel movements of the yield curve, volatility shocks and historical scenarios.

Exposures

Currency risk

The Bank is exposed to the volatility in exchange rates in which its financial positions and cash flows are expressed or indexed. Every year, the ALCO and the Parent Bank review the limits for net exposure levels for currency and the total positions during the day and at the closing, which are daily monitored by Market Risk Management.

The Bank actively operates in positions expressed in US dollars, as well as in other currencies as a result of product requirements by clients.

Note 39 Risk management, continued

5) Market risk, continued

The summary of exposures to the different currencies, whether from banking or derivative products in its equivalent in local currency, is as follows:

2016	Assets MCh$	Liabilities: MCh$	Net MCh$
US$	10,554,745	10,556,431	(1,686)
CAD	8,718	9,402	(684)
BRL	17,119	17,183	(64)
AUD	61,394	61,395	(1)
GBP	31,394	31,396	(2)
DKK	3	-	3
NOK	618	607	11
SEK	4,800	4,776	24
CHF	73	73	-
COP	19,684	19,695	(11)
JPY	42,608	42,405	203
EUR	294,326	293,290	1,036
MXN	45,998	45,794	204
PEN	9,036	9,036	-
NZD	8	8	-

2015	Assets MCh$	Liabilities: MCh$	Net MCh$
US$	9,621,446	9,635,789	(14,343)
CAD	5,333	5,884	(551)
BRL	13,030	13,082	(52)
AUD	54,108	54,185	(77)
GBP	35,467	35,445	22
DKK	2	-	2
NOK	568	564	4
SEK	3,104	3,084	20
CHF	69	66	3
COP	2,619	2,619	-
JPY	195,611	195,346	265
EUR	184,602	184,123	479
MXN	37,854	37,740	114

Note 39 Risk management, continued

5) Market risk, continued

Interest rate risk of the banking records

The Bank is exposed to the volatility in the structure of market interest rates over its structural exposures. As a result of the changes in interest rates, margins may increase, but also can be reduced and even cause losses in case adverse movements occur.

The Board of Directors establishes the limits for the purposes of mismatches in the Banking Book (including all those positions that are not for trading) above the financial margin and the economic value of its equity, which compliance should be reported to the Superintendence of Banks and Financial Institutions on a monthly basis.

The table below shows the structural exposure for interest rate of assets and liabilities, considering the terms for changes or renewals in rates; otherwise, the transactions maturity dates are considered.

Note 39 Risk management, continued

5) Market risk, continued

Interest rate risk of the banking records, continued

2016	Term mismatch			
Days	Ch$	UF	US$	FC (*)
00001-00001	1,079,187	(23,660)	(422,079)	9,413
00002-00030	(60,266)	196,882	53,588	2,843
00031-00060	(344,600)	122,799	2,490	7,018
00061-00090	(197,618)	111,188	(90,063)	(29)
00091-00120	(239,177)	65,352	(33,417)	(24)
00121-00150	150,443	(52,346)	105,955	(24)
00151-00180	(170,981)	32,203	33,283	(5,166)
00181-00210	(15,299)	54,679	10,086	(24)
00211-00240	(192,527)	(80,969)	42,982	(24)
00241-00270	118,141	9,168	(19,295)	(24)
00271-00300	(79,757)	(2,065)	24,079	(24)
00301-00330	6,075	(257,393)	5,868	(24)
00331-00360	79,209	(175,142)	14,262	(24)
00361-00720	(50,013)	44,960	(6,963)	(283)
00721-01080	92,854	45,331	(9,305)	(5,262)
01081-01440	29,131	267,840	(9,611)	(283)
01441-01800	(17,801)	96,837	(10,744)	(283)
01801-02160	(56,940)	(9,958)	23,768	(283)
02161-02520	(82,679)	(38,839)	(10,053)	(283)
02521-02880	(69,151)	(75,979)	(10,053)	(283)
02881-03240	6,548	(144,531)	-	-
03241-03600	19,740	(50,718)	-	-
03601-05400	5,454	434,977	-	-
05401-07200	86	160,916	-	-
07201-09000	3	87,126	-	-
09001-10800	-	20,986	-	-
10800->>>>>	-	449	-	-
NRS	(623,175)	124,003	12,225	2,229

(*) FC: Any foreign currency different from the US dollar.

Note 39 Risk management, continued

5) Market risk, continued

Interest rate risk of the banking records, continued

2015	Term mismatch			
Days	Ch$	UF	US$	FC (*)
00001-00001	257,900	(23,964)	35,607	1,220
00002-00030	237,914	(76,160)	(198,894)	54,459
00031-00060	(203,423)	76,468	52,906	(113)
00061-00090	(197,861)	73,362	85,043	(54,110)
00091-00120	98,677	(148,433)	16,339	(69)
00121-00150	(152,360)	(4,000)	26,230	(69)
00151-00180	(91,766)	(76,666)	31,218	321
00181-00210	27,900	(19,124)	(2,651)	(69)
00211-00240	(160,721)	(80,678)	12	(69)
00241-00270	(29,550)	(7,791)	(1,263)	(69)
00271-00300	140,831	(61,872)	(36,659)	(69)
00301-00330	(21,229)	36,381	(1,825)	(69)
00331-00360	77,288	(19,454)	(3,088)	(69)
00361-00720	118,392	(17,715)	5,574	-
00721-01080	145,250	(161,376)	2,974	-
01081-01440	78,216	10,945	232	-
01441-01800	(346,063)	201,864	(25,518)	-
01801-02160	32,296	48,723	-	-
02161-02520	14,780	(29,018)	(3,636)	-
02521-02880	10,185	17,457	-	-
02881-03240	8,121	(97,306)	-	-
03241-03600	5,371	(101,434)	-	-
03601-05400	8,866	542,519	-	-
05401-07200	109	130,077	-	-
07201-09000	-	82,517	-	-
09001-10800	-	13,796	-	-
10800->>>>>	2,358	262	-	-
NRS	(621,348)	188,584	8,467	1,951

(*) FC: Any foreign currency different from the US dollar.

Note 39 Risk management, continued

5) Market risk, continued

Regulatory limits

The table below indicates the regulatory measure of the interest risk rate and long-term and short-term banking book adjustments.

	Amount	
	2016 MCh$	2015 MCh$
SHORT-TERM (Margin)		
Short-term interest rate risk	15,674	16,315
Indexation risk	34,917	18,910
Lower income from sensitive commissions	-	-
Short-term total risk	**50,591**	**35,225**
Short-term risk limit (35% of margin)	84,457	82,390
Percentage of use of short-term limit	59,9%	42,8%
LONG-TERM (Value)		
Long-term interest rate risk	136,461	151,929
Interest rate optionality risk	-	-
Long-term total risk	**136,461**	**151,929**
Long-term limit (30% of capital)	327,105	303,115
Percentage of use of long-term limit	41.72%	50.12%

Balance sheet exposure (banking)

Market risks arise from exposures to interest rate and price risks in trading positions and the currency risk in global positions.

Banco Central de Chile establishes a regulatory limit for the sum of interest rate risk in trading positions (including derivatives) and currency risk. The Bank must observe these limits constantly and report weekly to the Superintendence of Banks and Financial Institutions about its positions at risk and compliance with those limits. Also, on a monthly basis, the Bank must report on its consolidated risk exposure with its subsidiaries and foreign branches to the Superintended of Banks and Financial Institutions. The regulatory limit provides that effective equity must be sufficient to cover 8% of assets weighted for credit and market risk.

Note 39 Risk management, continued

5) Market risk, continued

Regulatory limits, continued

The following table indicates the regulating measure of trading book risks:

	Amount 2016 MCh$	Amount 2015 MCh$
Interest rate risk	28,285	24,402
Currency risk	228	1,216
Interest rate optionality risk	5	7
Currency optionality risk	-	-
Total trading book market risk	**28,518**	**25,625**
Weighted assets by consolidated risk	8,931,467	8,851,540
Credit risk regulatory capital (8% APR)	714,517	687,122
Market risk regulatory capital	28,518	25,625
Total regulatory capital	743,035	712,747
Effective consolidated equity	1,090,349	1,017,584
Consumption % (includes CR and MR)	68.15%	70.04%
Basel index (including market risk)	12.10%	11.50%

6) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in:

- Meeting contractual obligations in a timely manner.
- Settling positions without incurring in significant losses occasioned by anomalous operation volumes.
- Avoiding regulatory sanctions due to the non-compliance with regulatory indexes.
- Funding commercial and treasury activities competitively.

There are two sources of liquidity risk:

(i) Endogenous: risk situations derived from controllable corporate decisions.

- High liquidity reached by a reduced base of liquid assets or mismatches in significant assets and liabilities.
- Low diversification or high concentration of financial and commercial assets in terms of issuers, deadlines and risk factors.

Note 39 Risk management, continued

6) Liquidity risk, continued

(i) Endogenous, continued

- Deficient management of value, flow or credit hedging in terms of the hedge's efficiency, the correlation of value changes, sensitivity ratios of the hedged item and the derivative, among others.
- Adverse corporate reputation effects that result in a non-competitive access to funding, or the lack of it.

(ii) Exogenous: risk situations resulting from movements in uncontrollable financial markets.

- Extreme movements or unexpected corrections/events in international and local markets.
- Regulatory changes, interventions by the monetary authority, among others.

The tools used for measuring and controlling the liquidity risk are:

a) Accumulated mismatches at different terms.
b) Proportion of Liquid Assets/Enforceable Liabilities.
c) Concentration of depositors.
d) Liquidity stress testing.
e) Measurement of liquidity ratios as the rate of liquidity coverage and net stable funding.

Lastly, and based on an ongoing oversight, the Bank reviews all the aspects of the Liquidity Management in the light of potential risks to which it is exposed on this matter. The liquidity contingency planning is an integral component of this review and its purpose is to provide a framework that allows establishing appropriate actions in case of a liquidity crisis. For this purpose, the Bank has a "Liquidity Contingency Plan" which is reviewed and approved annually by the Local Board of Directors and is recommended by its Parent Bank.

Liquidity risk management is the process used to identify measure, limit and control liquidity risk, based on a group of policies which set the criteria, defines the metrics, organizes the activities and imposes the procedures the Bank should follow for appropriate management.

Note 39 Risk management, continued

6) Liquidity risk, continued

The Board of Directors of Scotiabank Chile approves this Liquidity Management Policy and oversees its compliance through the Bank's Audit Division. Also, it is responsible for defining the liquidity risk appetite and for periodically reviewing the Bank's liquidity strategy.

As the main responsible for managing the Bank's liquidity risk, the General Manager needs to lead the business within the current legal framework, and following the established policies, limits and procedures. The General Manager acts as the chairman of the Asset and Liability Committee, where he is actively involved in managing the liquidity risk. The General Manager delegates authority for managing the liquidity risk to other members of the Senior Management, Committees and appropriate Departments.

The Treasury is in charge of the daily liquidity management, in particular ALM Management, which needs to implement efficient investment and funding strategies in relation to our relevant competitors. For such purposes, it needs to adjust the maturity profiles of the liabilities taking into consideration the income, capital and liquidity of the current and foreseen scenarios, minimizing the risk arising from an excessive mismatch or a high concentration of liabilities.

In order to know and quantify the risk profile, the management is focused on maturity flows, concentration of funding, maintaining sufficient liquid assets, quantifying the committed assets, and liquidity stress tests. The development, implementation and quantification of metrics are performed by the Market Risk Management with A&C from the Global Risk Management Market Risk Management (GRM MRM).

The established limit structure and its daily control ensure that liquidity management is within the limits established by the ALCO and approved by the Board of Directors. This is improved by a proper segregation between functions, accountability and the dual control defined in the organizational structure of the Bank and Subsidiaries, which allow the liquidity management to be performed without conflict of interest.

In addition to Liquidity Management, liquidity stress tests are also performed. These tests assess the impact different internal, systematic and global liquidity scenarios have on the Bank and Subsidiaries' funding, through the analysis of liquidity gaps, hedging of liquid assets, amount of extra funding, survival horizon, and status of internal and normative limits.

Note 39 Risk management, continued

6) Liquidity risk, continued

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

As of December 31, 2016	Up to 1 month MCh$	Up to 3 months MCh$	Up to 1 year MCh$	To maturity MCh$
Asset	**2,792,240**	**3,668,635**	**5,671,191**	**13,849,144**
Cash in hand	577,103	577,103	577,103	577,103
Effective placements	442,163	1,066,454	2,655,412	9,492,735
Loans in adjustable mortgage letters of credit	4,178	9,628	33,814	274,056
Lease contracts	8,015	24,827	93,614	309,595
Agreements	181,075	181,075	181,075	181,075
Financial investments	991,432	991,435	991,435	991,435
Other assets	588,274	818,113	1,138,738	2,023,145
Liabilities	**(3,114,651)**	**(4,905,787)**	**(8,044,740)**	**(12,336,931)**
On-demand liabilities	(1,070,807)	(1,070,807)	(1,070,807)	(1,070,807)
Deposits, bonds and other obligations	(1,358,617)	(2,776,699)	(5,153,619)	(7,937,481)
Agreements	(11,402)	(11,402)	(11,402)	(11,402)
Liabilities for adjustable mortgage letters of credit	(7,412)	(8,674)	(31,849)	(265,225)
Domestic liabilities	(9,411)	(9,479)	(10,699)	(30,156)
Foreign liabilities	(54,295)	(123,993)	(581,633)	(785,605)
Other liabilities	(602,707)	(904,733)	(1,184,731)	(2,236,255)
Accumulated gaps	**(322,411)**	**(1,237,152)**	**(2,373,549)**	**1,512,213**

As of December 31, 2015	Up to 1 month MCh$	Up to 3 months MCh$	Up to 1 year MCh$	To maturity MCh$
Asset	**2,513,634**	**3,745,317**	**6,102,719**	**13,169,990**
Cash in hand	540,397	540,397	540,397	540,397
Effective placements	570,145	1,274,901	3,070,396	9,009,506
Loans in adjustable mortgage letters of credit	5,441	11,649	39,244	326,037
Lease contracts	6,645	20,185	74,746	227,880
Agreements	62,314	62,314	62,314	62,314
Financial investments	718,792	718,792	718,792	718,792
Other assets	609,900	1,117,079	1,596,830	2,285,064
Liabilities	**(3,076,301)**	**(4,934,560)**	**(7,874,589)**	**(11,632,170)**
On-demand liabilities	(983,912)	(983,912)	(983,912)	(983,912)
Deposits, bonds and other obligations	(1,375,391)	(2,604,604)	(4,520,229)	(7,008,853)
Agreements	(6,284)	(6,284)	(6,284)	(6,284)
Liabilities for adjustable mortgage letters of credit	(8,752)	(10,834)	(37,112)	(310,958)
Domestic liabilities	(9,930)	(9,999)	(11,196)	(31,908)
Foreign liabilities	(123,233)	(234,734)	(843,221)	(981,530)
Other liabilities	(568,799)	(1,084,193)	(1,472,635)	(2,308,725)
Accumulated gaps	**(562,667)**	**(1,189,243)**	**(1,771,870)**	**1,537,820**

Note 39 Risk management, continued

7) Counterparty risk

As a result of the activity with clients, the Bank has counterparty exposures due to the probability that its debtors do not comply with the payments arising from financial derivative contracts. The Bank structures credit risk levels by setting limits for the exposure to risks in terms of individual debtors, which are subsequently classified by groups of debtors, industry and country segments. Such risks are monitored regularly by the Risk Division, and the limits per debtor, group of debtors, products, industry and country are reviewed at least once a year and approved by the Board of Directors and the Senior Risk Committee.

The exposure to credit risks is managed through regular analyses of the ability of debtors and potential debtors to comply with the payments pursuant to the contract terms of the loans and is mitigated by obtaining admissible guarantees.

The Bank controls its positions in derivative contracts with its counterparties. This exposure to credit risk is managed as part of limits for loans to costumers and potential exposures to market fluctuations. Likewise, the Bank adjusts the valuation of contracts based on the creditworthiness of the counterparty and the expected exposure to credit risk given the contracts currently in force.

2016	Fair value	Credit risk adjustment
Total	283,650	(1,218)

2015	Fair value	Credit risk adjustment
Total	347,475	(2,546)

8) Capital management

The Bank has a Capital Management Department – which reports to the Manager of the Finance Division - responsible for the follow-up and permanent control of capital availability. This unit is responsible for assuring capital levels that allow a sustained and profitable growth of the business unit.

All the aspects relevant to capital management are contained in the Capital Management Policy, which includes a permanent internal evaluation process for the availability of capital, the definition of standards for conducting stress tests and the calculation of regulatory and internal capital.

Note 39 Risk management, continued

8) Capital management, continued

In accordance with the General Banking Law, a bank's minimum basic capital may not be less than 3% of its consolidated assets, while its effective equity may not be less than 8% of its risk-weighted assets, net of the provisions required. For these purposes, effective equity is based on the Capital and Reserve or the Basic Capital together with the following adjustments:

a) Subordinated Bonds are added up to 50% of that basic capital.
b) Additional provisions are added up to 1.25% of risk weighted assets.
c) Less the balance of assets corresponding to goodwill or premiums paid to investments in other companies which are not part of the consolidation.

Assets are weighted according to risk categories, which are assigned a risk percentage according to the capital necessary to support each one of those assets. Five risk categories are applied (0%, 10%, 20%, 60% and 100%). For example, cash, deposits in other Banks and financial instruments issued by the Banco Central de Chile, have a 0% risk, which means that, according to current regulations, no capital is necessary to support these assets. Property, plant and equipment have a 100% risk, which means that the minimal capital required shall be equivalent to 8% of these assets.

All derivative instruments traded through over-the-counter transactions are considered for the determination of risk assets with a conversion factor over notional values, to derive in the amount of the exposure to credit risk (or "credit equivalent"). Contingent credits are also considered to be "credit equivalents" for weighing purposes.

Note 39 Risk management, continued

8) Capital management, continued

As of December 31, 2016 and 2015, minimum basic capital and effective equity are the following:

As of December 31, 2016

Balance sheet assets (net of allowances)	Consolidated assets MCh$	Risk weighted assets MCh$
Cash and deposits in banks	588,429	-
Transactions pending settlement	168,704	43,278
Securities held for trading	363,153	122,946
Investments purchased under repurchase agreements and securities lending	183,677	183,677
Derivatives	329,114	174,829
Loans and advances to banks	12,331	12,312
Loans and advances to customers	8,617,253	7,129,107
Available-for-sale investment securities	654,863	103,571
Held-to-maturity investment securities	-	-
Investments in other companies	9,910	9,910
Intangible assets	136,370	136,370
Property and equipment	66,158	66,158
Current tax assets	8,579	858
Deferred tax assets	176,104	17,610
Other assets	134,143	134,143
Off-balance assets		
Contingent loans	1,327,830	796,698
Total risk-weighted assets		**8,931,467**

	Amount MCh$	Ratio %
Basic capital	840,769	6.58
Effective equity	1,090,349	12.21

Note 39 Risk management, continued

8) Capital management, continued

As of December 31, 2015

Balance sheet assets (net of allowances)	Consolidated assets MCh$	Risk weighted assets MCh$
Cash and deposits in banks	349,545	-
Transactions pending settlement	331,511	104,531
Securities held for trading	305,396	87,142
Investments purchased under repurchase agreements and securities lending	61,220	61,220
Derivatives	411,438	256,097
Loans and advances to banks	361,137	154,118
Loans and advances to customers	8,032,259	6,736,892
Available-for-sale investment securities	451,934	77,986
Held-to-maturity investment securities	-	-
Investments in other companies	8,938	8,938
Intangible assets	142,460	142,460
Property and equipment	64,691	64,691
Current tax assets	3,076	308
Deferred tax assets	167,194	16,719
Other assets	172,944	172,944
Off-balance assets		
Contingent loans	1,612,489	967,494
Total risk-weighted assets		**8,851,540**

	Amount MCh$	Ratio %
Basic capital	776,381	6.22
Effective equity	1,017,584	11.50

Note 40 Acquisition of Cencosud's financial business

As detailed in Note 4, on May 1, 2015, the Bank, together with its parent The Bank of Nova Scotia, entered into a binding agreement partnership with Cencosud S.A. and its subsidiaries Easy, Cencosud Fidelidad S.A. and Cencosud Retail S.A., for the joint and exclusive development of retail financial business of Cencosud in Chile, for a period of 15 years.

As a result of this agreement and on the same date, the Bank acquired 51 % of the equity of the companies Cencosud Administradora de Tarjetas de Crédito S.A. (currently CAT Administradora de Tarjetas S.A.) and Cencosud Corredores de Seguros y Servicios S.A. (currently CAT Corredores de Seguros y Servicios S.A.), gaining control of these entities and therefore including them in these financial statements.

Such control is based on the following:

1. The bank has the majority of voting rights, since it owns 51 % of the equity of the acquired entities.
2. The Board of Directors of the companies is composed of six regular members and six alternate members. Three regular members and three alternate members are appointed by the Bank and the other remaining regular members and alternate members are appointed by Cencosud.
3. The Chairman is elected by the Bank; and
4. The Chairman has a casting vote for the decisions on the ordinary course of business, and for other relevant decisions relating to financing activities, human resources policies, customer service model, credit policies, etc., thus acquiring the Bank rights that provide the ability to direct the relevant activities of the acquired entities.

The price paid by the Bank in cash amounted to MCh$170,214, price that as mentioned above, represents the following:

- Net assets acquired from 2 entities, CAT Administradora de Tarjetas S.A. and CAT Corredores de Seguros y Servicios S.A., collectively referred to as CAT; and
- A 15 years partnership agreement between Cencosud and the Bank to manage the credit card and consumer loans business.

<u>Net acquired assets and consolidation of the financial statements</u>

Since the Bank has control of the acquired companies, net assets of the 2 entities have been included in these financial statements at 100% of their fair value at the acquisition date, recognizing 49% of this value as non-controlling interest.

Note 40 Acquisition of Cencosud's financial business, continued

15-year partnership agreement and Intangible assets

As stated above, a considerable part of the amount paid to Cencosud (the minority shareholder) is for an association agreement that essentially represents an exclusivity agreement between Cencosud and the Bank for a period of 15 years; i.e., most of the acquisition value is attributable to the exclusivity agreement with Cencosud to manage the credit card and consumer loans business.

In this regard, it has been identified and recognized an intangible asset that arises from contractual or other legal rights, which will be fully amortized during the term of the partnership (15 years).

Regarding its valuation, the intangible asset has been valued based on the 51 % ownership interest the Bank has in the acquired business as it represents the value of the right to receive 51% of the flows of credit cards and consumer loans for a period of 15 years.

At the end of 15 years, there are only three alternatives:

- The first is that the original 15-year agreement ends, entities are dissolved and a new partnership is agreed at a fixed price negotiated by both parties. In such event, the new agreement could lead to other intangible asset separately identified in the agreement entered into.
- The second alternative is that at the end of the 15 years, Cencosud exercises an option to acquire the Bank's interest, thus ending the partnership.
- The third alternative is that Cencosud exercises no option to acquire 51 % of CAT, in which case the bank has the right to acquire CAT credits at the carrying amount, up to the liability amount of CAT with the Bank at that time. Under this option, the agreement also expires at the end of the 15 years.

In relation to the identification and recognition of fair value of identifiable assets and liabilities, the analysis resulted in the recognition of intangible assets "Exclusivity Agreement" and "Cencosud Brand", a deferred tax asset associated with the temporary difference between the financial and tax value of the investment in the companies acquired and a deferred tax liability originated from the recognition of the above-mentioned intangible assets.

For other assets acquired and liabilities assumed we have estimated as fair value the carrying amounts recognized in the acquired companies, resulting in the following summary showing the values of the initial recognition at the acquisition date:

Note 40 Acquisition of Cencosud's financial business, continued

Concept	Amount MCh$
Amount paid plus non-controlling interest	**200,756**
Price paid	170,214
Non-controlling interest	30,542
Equity at accounting value	**62,331**
Income withheld prior to acquisition	58,303
Capital	4,028
Adjustment at fair value	**138,425**
Intangible assets	138,425
Deferred tax liabilities	(36,683)
Deferred tax assets	36,683
Goodwill (profit)	**-**

With respect to the valuation of non-controlling interest, it has been measured using the option based on the average ownership interest (49 %) that the non-controlling interest (Cencosud S.A.) has on net assets of the companies acquired.

The assets and liabilities included in the equity acquired are as follows:

	Amount MCh$
Assets	**403,386**
Cash and deposits in banks	2,702
Securities held for trading	12,600
Loans on credit cards	360,594
Provision for loans on credit cards	(26,699)
Intangible assets	2,252
Property and equipment	1,959
Deferred tax assets	12,364
Other assets	37,614
Liabilities	**341,055**
Deposits and other on-demand liabilities	800
Bank borrowings	635
Other financial liabilities	316,577
Current tax assets	186
Provisions	2,901
Other liabilities	19,956

Note 41 Subsequent events

Acquisition of assets and liabilities of Banco Paris

Through Letter No. 17758 of December 28, 2016, the SBIF authorized Scotiabank Chile to acquire the assets and liabilities of Banco Paris, under the terms and conditions of the "Contract for the Purchase and Assignment of the Asset Portfolio and the Transfer and Assumption of Liabilities" entered into on December 15, 2016, by both banks, in conformity with the provisions of number 11 of Article 49 of the General Banking Law.

As a result of this authorization, the sale, assignment and transfer of assets and liabilities from Banco Paris to Scotiabank Chile, for all applicable legal, accounting, financing and tax purposes, Scotiabank Chile will be deemed as the owner and holder of each and every asset and liability comprising the portfolio under the aforementioned "Contract for the Purchase and Assignment of the Asset Portfolio and the Transfer and Assumption of Liabilities", starting from 00:01 of January 1, 2017.

As of December 31, 2016, the estimated fair value of the assets and liabilities associated with this acquisition amounted to MCh$12,288 and MCh$9,350, respectively. The price of the transaction and the cash paid amounted to MCh$975.

Between January 1, 2017 and the date of issuance of these consolidated financial statements, there have been no other subsequent events that could significantly affect their presentation.

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