SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Financial Statements
as of December 31, 2017 and 2016
and for the years then ended

(With Independent Auditor's Report thereon)

SCOTIABANK CHILE AND SUBSIDIARIES

CONTENTS

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

KPMG

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, 2017 and 2016, 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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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, 2017 and 2016, 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.

Emphasis of matter

As described in Note 3 to the consolidated financial statements, during the first half of 2017, the Bank and its subsidiary CAT Administradora de Tarjetas S.A. implemented new internal models to determine the allowance on the collective portfolio. Our opinion is not modified with respect to this matter.

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.

Ernesto Guzman V. KPMG Ltda.

Santiago, Chile, February 22, 2018

SCOTIABANK CHILE AND SUBSIDIARIES

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SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Financial Position
as of December 31, 2017 and 2016

ASSETS	Note	2017 MCh$	2016 MCh$
Cash and deposits in banks	6	453,789	588,429
Transactions pending settlement	6	293,483	168,704
Securities held for trading	7	331,063	363,153
Investments sold under repurchase agreements and securities lending	8	224,189	183,677
Derivative instruments	9	541,641	283,650
Loans and advances to banks	10	34	12,331
Loans and advances to customers	11	10,170,696	8,617,253
Available-for-sale investment securities	12	933,011	654,863
Held-to maturity investment securities	12	-	-
Investments in other companies	13	10,191	9,910
Intangible assets	14	134,668	136,370
Property and equipment	15	65,589	66,158
Current tax assets	16	8,152	8,579
Deferred tax assets	16	133,894	129,936
Other assets	17	178,411	134,143
TOTAL ASSETS		**13,478,811**	**11,357,156**

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Financial Position, continued

as of December 31, 2017 and 2016

LIABILITIES	**Note**	**2017 MCh$**	**2016 MCh$**
Deposits and other on-demand liabilities	18	1,539,852	1,152,724
Transactions pending settlement	6	191,790	149,635
Investments sold under repurchase agreements and securities lending	8	44,258	12,343
Time and on-demand deposits	19	5,484,907	4,991,637
Derivative instruments	9	577,582	301,590
Bank borrowings	20	1,261,842	752,185
Debt securities issued	21	3,079,840	2,851,745
Other financial liabilities	22	63,992	61,683
Current tax liabilities	16	-	-
Deferred tax liabilities	16	-	-
Provisions	23	63,996	71,769
Other liabilities	24	176,757	99,001
TOTAL LIABILITIES		**12,484,816**	**10,444,312**
EQUITY			
Attributable to the owners:			
Capital	26	390,158	390,158
Reserves	26	56,190	56,190
Other comprehensive income	26	(2,430)	(5,820)
Retained earnings:			
Retained earnings from previous periods	26	400,211	327,687
Profit or loss for the period	26	103,299	103,648
Less: Provision for minimum dividends	26	(30,990)	(31,094)
		916,438	**840,769**
Non-controlling interest	26	**77,557**	**72,075**
TOTAL EQUITY		**993,995**	**912,844**
TOTAL LIABILITIES AND EQUITY		**13,478,811**	**11,357,156**

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, 2017 and 2016

	Note	2017 MCh$	2016 MCh$
Interest and indexation income	27	798,723	736,112
Interest and indexation expenses	27	(365,390)	(368,171)
Net interest and indexation income	27	**433,333**	**367,941**
Fee and commission income	28	137,427	115,667
Fee and commission expenses	28	(32,211)	(29,455)
Net fee and commission income	28	**105,216**	**86,212**
Net gain (loss) from financial operations	29	37,436	52,060
Net foreign exchange (loss) income	30	3,935	10,417
Other operating income	35	19,390	19,764
Total operating income		**599,360**	**536,394**
Allowance for credit risk	31	(150,190)	(97,193)
NET OPERATING INCOME		**449,170**	**439,201**
Personnel expenses	32	(153,151)	(151,087)
Administrative expenses	33	(124,664)	(118,142)
Depreciation and amortization	34	(19,151)	(18,076)
Impairment	34	-	-
Other operating expenses	36	(14,789)	(13,892)
TOTAL OPERATING EXPENSES		**(311,755)**	**(301,197)**
OPERATING INCOME		**137,415**	**138,004**
Equity in net income of investees	13	478	1,033
Profit before income tax		**137,893**	**139,037**
Income taxes	16	(23,450)	(24,122)
PROFIT FOR THE PERIOD		**114,443**	**114,915**
Attributable to:			
Owners		103,299	103,648
Non-controlling interest		11,144	11,267
		114,443	114,915
Earnings per share attributable to owners:			
Basic and diluted per share		$20.07	$20.14

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, 2017 and 2016

	Note	2017 MCh$	2016 MCh$
Consolidated Profit for the Period		**114,443**	**114,915**
Other comprehensive income, net of tax			
Net fluctuation in available-for-sale investment securities		(1,846)	777
Net fluctuation in deferred taxes on available-for-sale investment securities	16	501	(210)
Adjustment of cash flow hedge derivatives		6,144	(8,321)
Net fluctuation in deferred taxes on cash flow hedge derivatives		(1,409)	(412)
Other adjustments to equity		(58)	-
Total other comprehensive income		**3,332**	**(8,166)**
Consolidated comprehensive income for the period		**117,775**	**106,749**
Attributable to:			
Owners		106,659	95,482
Non-controlling interest		11,116	11,267

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

for the years ended December 31, 2017 and 2016

	Note	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, 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	26	-	-	-	-	-	(3,235)	(3,235)
Provision for minimum dividends	26	-	-	-	(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**
Balance as of December 31, 2016		390,158	56,190	(5,820)	400,241	840,769	72,075	912,844
Net fluctuation in available-for-sale investment securities, net of taxes		-	-	(1,345)	-	(1,345)	-	(1,345)
Adjustments of cash flow hedge derivatives, net of taxes		-	-	4,735	-	4,735	-	4,735
Other adjustments to equity	26	-	-	-	(30)	(30)	(28)	(58)
Profit or loss for the period		-	-	-	103,299	103,299	11,144	114,443
Total other comprehensive income for the period		-	-	(3,390)	103,299	106,659	11,116	117,775
Dividends paid	26	-	-	-	-	-	(5,634)	(5,634)
Provision for minimum dividends	26	-	-	-	(30,990)	(30,990)	-	(30,990)
Balance as of December 31, 2017		**390,158**	**56,190**	**(2,430)**	**472,520**	**916,438**	**77,557**	**993,995**

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Cash Flows

for the years ended December 31, 2017 and 2016

	Note	2017 MCh$	2016 MCh$
Cash flows from operating activities:			
Profit or loss for the period		114,443	114,915
Adjustments for:			
Depreciation and amortization	34	19,151	18,076
Allowance for credit risk	31	194,990	143,591
Effect of fair value adjustment on derivative instruments		23,571	(6,505)
Loss from sale of property and equipment	35/36	(10)	(3,210)
Net interest and indexation income	27	(433,333)	(367,941)
Equity for investments in related companies	13	(478)	(1,033)
Income tax expense	16	26,886	30,848
Net loss on sale of assets received in lieu of pay	35	(2,099)	(2,197)
Provisions and/or write-off of assets received in lieu of payment	36	3,726	2,448
Other debits		(30,412)	(6,235)
Change in trading assets:			
Securities held for trading		26,148	(275)
Loans and advances to banks		12,297	348,303
Loans and advances to customers		(1,733,153)	(700,235)
Deferred tax assets	16	(3,436)	(6,726)
Other assets		(42,535)	42,623
Change in trading liabilities:			
Deposits and other on-demand liabilities		387,175	70,817
Investments sold under repurchase agreements		31,901	5,254
Term deposits and savings accounts		494,999	873,897
Other liabilities		74,040	(32,220)
Interest and indexation received		779,788	681,101
Interest and indexation paid		(357,243)	(386,331)
Taxes and fines paid		(84)	(261)
Collection of remaining balance of taxes from previous years		4	37
Net cash provided by (used in) operating activities		**(413,664)**	**818,741**
Cash flows from investing activities:			
Acquisition of property and equipment	15	(7,566)	(12,500)
Net change in investment securities		(272,685)	(55,336)
Dividends received	13	198	265
Acquisitions of intangible assets	14	(11,391)	(7,189)
Acquisition of investments in other companies	13	(13)	(351)
Proceeds from sale of investments in companies	13	-	-
Net cash from (used in) investing activities		**(291,457)**	**(75,111)**

See accompanying notes to the consolidated financial statements.

SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statement of Cash Flows, continued

for the years ended December 31, 2017 and 2016

	Note	2017 MCh$	2015 MCh$
Cash flows from financing activities			
Net change in bank borrowings		510,167	(217,770)
Net change in debt instruments		221,340	(4,256)
Net change in other financial liabilities		2,360	11,799
Capital increase of non-controlling interests		-	-
Other adjustments to equity		(58)	-
Dividends paid non-controlling interests	26	(5,634)	(3,235)
Dividends paid	26	(31,094)	(22,922)
Net cash provided by financing activities		**697,081**	**(236,384)**
Net cash flows		**(8,040)**	**507,246**
Cash and cash equivalents as of January 1	6	**1,133,188**	**625,942**
Cash and cash equivalents as of December 31	6	**1,125,148**	**1,133,188**

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, Consolidated Statements of Other Comprehensive Income, 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.

The translation of these financial statements 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.

Note 2 Significant accounting policies, continued

(b) Basis of consolidation

(i) Subsidiaries

Scotiabank Chile's financial statements as of December 31, 2017 and 2016, have been consolidated with its subsidiaries in accordance with International Financial Reporting Standards (IFRS) 10 "Consolidated Financial Statements." 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 when it has interest that provide it with the ability to direct the subsidiary's significant activities,;
- Exposure, or rights, to variable returns from its involvement with the subsidiary; 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, 2017, 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, 2017 and 2016 and for the twelve-month periods between January 1 and December 31, 2017 and 2016, were approved by the Company's Board of Directors on February 22, 2018. 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 2017 %	Indirect 2017 %	Direct 2016 %	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.	51.00	-	51.00	-
CAT Corredores de Seguros y Servicios S.A.	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 and investment funds. 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$26,798.14 as of December 31, 2017 (Ch$26,347.98 as of December 31, 2016).

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 dollars are recognized at their equivalent value in Chilean pesos, calculated at the exchange rate of Ch$614.75 per US$1.00 as of December 31, 2017 (Ch$670.85 in 2016).

The balance of MCh$3,985 recorded within “Net foreign exchange gain” (gain of MCh$10,417 in 2016), 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 similar, 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, 2017 and 2016, 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.

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, , except when the Bank defines certain loans as hedged, which are measured at fair value through profit or loss as described in letter (o) in this note.

Impairment is recognized by recording allowances for credit risk, presenting the related balances net of such allowances, as described in note 2 (q). 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.

(q) 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.

Note 2 Significant accounting policies, continued

(q) Provisions for credit risk, continued

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, Real Estate and Medium-Sized Entities segments.

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:

Type of portfolio	Debtor category	Default Probability (%)	Loss Given Default (%)	Expected loss (%)
Normal Portfolio	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 Portfolio	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

Note 2 Significant accounting policies, continued

(q) Provisions for credit risk, continued

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

Provisions for loans by collective evaluation: Collective evaluation is used to analyze a high number of uniform transactions whose individual amounts are low. For commercial exposures below MCh$250 the Bank uses a model which determines the provision based on the loan expected loss concept (see Note 39 number 3).

Additional provisions for loans: In conformity with the standards issued by the Chilean Superintendence of Banks and Financial Institutions (SBIF), the Bank has made additional provisions on its loan portfolio to hedge against the risk of unpredictable adverse economic fluctuations that may affect the macroeconomic environment or the situation in a specific economic sector (see Note 23).

(r) 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.

Note 2 Significant accounting policies, continued

(r) Investment securities

(i) Held-to maturity investment securities

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, 2017 and 2016, 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

(s) 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.

(t) 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) 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.

Note 2 Significant accounting policies, continued

(t) Intangible assets, continued

(ii) 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.

(iii) 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.

(u) 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.

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.

Note 2 Significant accounting policies, continued

(u) Property and equipment, continued

As of December 31, 2017 and 2016, 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.

(v) 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.

(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.

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%

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, 9, 12 and 38: Valuation of financial instruments
- Notes 10, 11 and 31 : Allowances for credit risk
- Notes 14 and 15 : Useful life of material and intangible assets
- Note 16: : Deferred taxes
- 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, 2017 and 2016, 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) Reclassifications

Certain reclassifications have been made on some items in the consolidated statement of financial position as of December 31, 2016 to conform and maintain adequate comparison to the consolidated statement of financial position as of December 31, 2017.

With respect to the foregoing, the presentation of current and deferred taxes has been reclassified to comply with the instructions issued by the SBIF in its Latter to the Management No. 00021 of January 8, 2018, where it requests that each entity included in the consolidation of the Parent Bank, including the Bank as stand-alone entity, must analyze whether assets can be set off with liabilities in the captions “Current taxes" and "Deferred taxes."

Accordingly, reclassifications for comparative purposes are as follows:

Caption	December 31, 2016	Reclassifications	December 31, 2016, reclassified
Assets			
Deferred taxes	176,104	(46,168)	129,936
Total assets	**11,403,324**	**(46,168)**	**11,357,156**
Liabilities			
Deferred taxes	46,168	(46,168)	-
Total liabilities	**10,490,480**	**(46,168)**	**10,444,312**

Note 2 Significant accounting policies, continued

(ah) 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, 2018, 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 for entities that apply IFRS 15 on or before that date.
IFRS 16, Leases	Annual periods beginning on or after January 1, 2019. Early adoption is permitted
New interpretations	
IFRIC 22: Foreign Currency Transactions and Advance Consideration	Annual periods beginning on or after January 1, 2018. Early adoption is permitted.
IFRIC 23: Uncertainty over Income Tax Treatments	Annual periods beginning on or after January 1, 2019. Early adoption is permitted.

Note 2 Significant accounting policies, continued

(ah) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

New IFRS	Mandatory application date
IAS 28: Long-Term Interests in Associates and Joint Ventures	Annual periods beginning on or after January 1, 2019. Early adoption is permitted.
IAS 40: Transfers of Investment Property (Amendments to IAS 40, Investment Property).	Annual periods beginning on or after January 1, 2018.
IFRS 2: Share-based Payments: Clarifies the accounting for of certain types of share-based payments transactions.	Annual periods beginning on or after January 1, 2019. Early adoption is permitted
IFRS 9: Prepayment features with negative compensation	Annual periods beginning on or after January 1, 2019. 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: Amendment clarifying requirements and providing additional transition relief for entities implementing the new standard.	Annual periods beginning on or after January 1, 2018. Early adoption is permitted.
2014-2016 Annual Improvements Cycle to IFRSs. Amendments to IFRS 1 and IAS 28.	Annual periods beginning on or after January 1, 2018. Early adoption is permitted.

Note 2 Significant accounting policies, continued

(ah) 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.

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.

Note 2 Significant accounting policies, continued

(ah) 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 consolidated financial statements for the period beginning on January 1, 2018. The Bank does not expect material impacts from the adoption of this standard. In addition, the Bank is assessing the additional disclosure required by the adoption of this Standard.

Note 2 Significant accounting policies, continued

(ah) 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 consolidated 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.

IFRIC 22: Foreign Currency Transactions and Advance Consideration

Such interpretation clarifies the accounting for transactions including the receipt or payment of an advance consideration in a foreign currency.

It covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income.

It is not applicable if an entity measures the related asset, expense or income at the fair value of the consideration received or paid on a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. In addition, the application of this Interpretation is not necessary to income taxes, insurance contracts or reinsurance contracts.

The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If multiple advance payments or receipts exist, a date of transaction is established for each payment or receipt.

Note 2 Significant accounting policies, continued

(ah) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

IFRIC 22: Foreign Currency Transactions and Advance Consideration, continued

In other words, when an exchange difference exists which is different between the date in which an advance is made or received and the date in which the related asset, expense or income is recognized, the exchange rate of the date in which the advance(s) is made or received must be considered.

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

The Bank believes these amendments will be adopted in its financial statements for the period beginning on January 1, 2018. The Bank expects no material impacts from the adoption of such amendments as it maintains no non-monetary assets or liabilities in foreign currency.

IFRIC 23: Uncertainty over Income Tax Treatments

This Interpretation, issued on June 7, 2017, provides guidance on determining taxable profits (losses), taxable bases, unused tax losses, unused tax credits, and tax rates when there is an uncertainty with respect to the treatments for income tax under IAS 12.
Specifically, it considers:
- Whether tax treatments should be considered collectively.
- Assumptions related to the inspection by the tax authority.
- The determination of the tax profit (loss) taxable bases, unused tax losses, unused tax credits and tax rates.
- The effect of changes in facts and circumstances.

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

The Bank believes these amendments will be adopted in its financial statements for the period beginning on January 1, 2019. The Bank is currently determining the possible impacts related to the adoption of these amendments.

Note 2 Significant accounting policies, continued

(ah) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

IAS 28, Long-Term Interests in Associates and Joint Ventures

This amendment contemplates:
- The incorporation of paragraph 14A which clarifies that an entity applies IFRS 9, including the impairment requirements to long-term interests in an associate of joint venture which is a part of the net investment in the associate or joint venture but to which the equity method of accounting is not applied.
- The elimination of paragraph 41 as the Board considered it reiterated requirements in IFRS 9 generating confusion as to the accounting for long-term interests.

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

The Bank believes these amendments will be adopted in its financial statements for the period beginning on January 1, 2019. The Bank expects no material impacts from the adoption of these amendments. As of December 31, 2017, no such investments are held.

IAS 40, Transfer to investment property

This Interpretation, issued on December 8, 2016, amends paragraph 57 to establish that an entity shall transfer a property to, or from, investment property if and only if, evidence exists of a change in use.

The change in use shall consist of the property meeting, or ceasing to meet, the definition of investment property.

A change in Management's intent related to the use of a property does not constitute evidence in itself of a change in use.

The list of examples in paragraphs 57(a) to 57(d) is now presented as a non-exhaustive list of examples, replacing the previous exhaustive list.

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

Note 2 Significant accounting policies, continued

(ah) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

IAS 40, Transfer to investment property, continued

The Bank believes these amendments will be adopted in its financial statements for the period beginning on January 1, 2019. The Bank expects no impacts from the adoption of these amendments as it maintains no investment property as of December 31, 2017.

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.

The Bank expects no material impacts from the adoption of the amendments to this Standard.

Note 2 Significant accounting policies, continued

(ah) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

Amendment to IFRS 9, Financial Instruments: Prepayment Features with Negative Compensation

On October 12, 2017, this amendment was issued, which changes the requirements existing in IFRS 9 related to termination rights to allow the measurement at amortized cost (or, depending on the business model, at fair value through Other comprehensive income) even in the case of negative compensation payments.

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

The Bank will apply this standard when the SBIF determines its application.

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.

Note 2 Significant accounting policies, continued

(ah) New accounting pronouncements, continued

Adoption of new standards and amendments to IFRS, continued

Amendment to IFRS 15, Revenue from Contracts with Customers: Clarifying requirements and provision to improve the ease of the transition.

Amendment clarifying requirements and providing additional transition relief for entities implementing the new standard.

This amendment is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted, and it is an integral part of IFRS 15.

The Bank expects no material impacts from the adoption of the amendments to this Standard.

Annual Improvements Cycle 2014-2016: IFRS 1 and IAS 28

IFRS 1: This amendment deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

IAS 28, Investments in associates: A venture capital organization, or other qualifying entity, may choose to measure its investments in related parties and joint ventures at fair value through profit or loss. Such selection is applicable on an investment-by-investment basis.

A non-investment entity investor may opt to retain the accounting recognition at fair value applied by an investment entity that is an associate or joint venture, to its subsidiaries. Such selection can be made separately for each investment entity, associate or joint venture.

The amendments are effective for annual periods beginning on or after January 1, 2018. This amendment to IAS 28 is applied retrospectively. Early adoption of the amendment to IAS 28 is permitted.

The Bank will continue to recognize its investments in associates under the equity method of accounting and accordingly, it is not impacted by the adoption of the amendments to this standard.

Note 3 Accounting changes

a) With the purpose of achieving higher accuracy in estimating the expected loans in the loan portfolio and in accordance with the requirements issued by the Chilean Superintendence of Banks and Financial Institutions, the Bank and its subsidiaries adjusted the collective portfolio credit risk models for the calculation of provisions.

   These models were approved by the Board of Directors in May 2017. The implementation of these models, meant, for the Bank, a debit to profit or loss in the caption Allowance for credit risk for the year as of December 31, 2017 of MCh$9,770 and MCh$8,539 for the subsidiary CAT Administradora de Tarjetas S.A.

b) As detailed in Note 13, the beginning in April 2017 the Bank ceased to have a significant influence on the investments in four business support entities and, accordingly, it discontinued their measurement at equity value and commenced the valuation of such investments at amortized cost. Accordingly, as of December 31, 2017, no profits or loss have been recognized from the interest in such entities.

Note 4 Significant events

2017

a) In conformity with Article 44 of the General Banking Law and articles Nos. 9 and 10 of Law No. 18.045 with respect to the provisions of Chapter No. 18-10 of the Updated Summary of Standards issued by the Chilean Superintendence of Banks and Financial Institutions, the Bank communicated that on April 13, 2017, Mr. Felipe Montt Fuenzalida has resigned to his position of Director of the Bank.

b) At the Ordinary Shareholders' Meeting of April 21, 2017, the shareholders fully renewed the Board of Directors appointing as Directors Messrs. James Meek Tully, Manuel José Vial Vial, Sergio Concha Munilla, Juan Antonio Guzmán Molinari, Eduardo Aninat Ureta, Guillermo Álvarez - Calderón and Ms. Fernanda Vicente Mendoza without appointing any replacement directors.

   Likewise, at the Ordinary Shareholders' Meeting referred to above, the shareholders agreed to the payment of a legal minimum dividend equivalent to 30% of profit for the year 2016 for MCh$31,094, equivalent to Ch$6.04078 per share, allocating the remaining balance to the undistributed profit reserve fund.

   Finally, at the Board of Directors' Meeting held on the same date, Mr. Manuel José Vial was appointed as the Chairman of the Board and Mr. Guillermo Álvarez - Calderón was appointed as the Vice-Chairman taking office from such same date.

c) At the Extraordinary Meeting of August 8, 2017, the Bank's Board was informed that The Bank of Nova Scotia, the indirect Parent of Scotiabank Chile has maintained non-binding communications and preliminary negotiations with Banco Bilbao Vizcaya Argentaria S.A. related to the possible acquisition, whether directly and/or through the direct parent of Scotiabank Chile, of Banco Bilbao Vizcaya Argentaria Chile (BBVA Chile), its subsidiaries and certain related companies.

d) On November 28, 2017, The Bank of Nova Scotia, the indirect Parent of Scotiabank Chile, informed that it has submitted a binding offer to Banco Bilbao Vizcaya Argentaria S.A. to acquire the latter's shares maintained in BBVA Chile.

Note 4 Significant events, continued

2017, continued

e) On December 5, 2017, The Bank of Nova Scotia, the indirect parent of Scotiabank Chile, informed that Banco Bilbao Vizcaya Argentaria S.A. (BBVA), has formally accepted its offer for the acquisition of 68.19% of the shares it holds in BBVA Chile, as well as its interest in certain subsidiaries for approximately US$ 2,200 million (CAD$ 2,900 million). Scotiabank has entered into a final agreement with BBVA and foresees the merger of BBVA Chile into its operations in Chile (Scotiabank Chile) subject to the approval by the regulatory agencies.

The Said family, the owner of 31.62% of BBVA Chile waived its preference right for the acquisition of the shares owned by BBVA in BBVA Chile, but reserved the right to bid all or a portion of its shares in the mandatory acquisition public offering that will be performed by Scotiabank. The Said family has expressed its intention to continue participating in the business; if so, it will invest approximately US$ 500 million (CAD$ 650 million) to become the owner of up to 25% of the combined business, upon merger by Scotiabank Chile and BBVA Chile. In this case and if the operation is ended, the impact on the Common Equity Tier 1 capital ratio of Scotiabank would be approximately 135 basis points if the operation is completed and the Said family sells all its shares to Scotiabank.

Such transaction is consistent with Scotiabank's strategy of increasing the scope in the Chilean banking sector and in the Pacific Alliance countries. It will double the market share of Scotiabank in Chile to approximately 14% and will make it become the third most important private bank in Chile. The Bank is estimating the effect that this transaction will have on profit or loss.

Subsidiary Scotia Corredora de Bolsa Chile S.A.

a) On August 10, 2017, the Company exchanged 1 share the Company had with 100,000 shares as a result of the demutualization of the Bolsa Electronica de Chile S.A., which is in conformity with the amendment in its Regulations, which have been approved by the Chilean Superintendence of Securities and Insurance.

b) On April 21, 2017, Bolsa de Comercio de Santiago (the Santiago Stock Exchange) decreed the demutualization of its shares, where the transformation of the ownership of the Stock Exchange is announced, separating the interest in the brokerage activities and becoming an entity registered in the securities market.

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.

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 2017 and 2016, for each of the above mentioned segments:

Concept	As of December 31, 2017					
	SME and retail banking MCh$	Business banking MCh$	Personal banking MCh$	Financial retail MCh$	Other MCh$	Total MCh$
Net interest and indexation income	84,084	58,606	127,571	153,148	9,924	433,333
Net fee and commission income	23,324	12,963	27,864	42,213	(1,148)	105,216
Net gain (loss) from financial operations	8,604	15,170	1,230	244	12,188	37,436
Net foreign exchange income (loss)	1,175	3,446	2,032	(151)	(2,517)	3,985
Other operating income	2,631	806	2,214	1,464	12,275	19,390
Total operating income	**119,818**	**90,991**	**160,911**	**196,918**	**30,722**	**599,360**
Allowances for credit risk	(19,998)	(4,276)	(51,669)	(74,247)	-	(150,190)
Net operating income	**99,820**	**86,715**	**109,242**	**122,671**	**30,722**	**449,170**
Operating expenses	(77,728)	(36,651)	(89,078)	(94,228)	(14,070)	(311,755)
Segment operating income (loss)	**22,092**	**50,064**	**20,164**	**28,443**	**16,652**	**137,415**
Equity in net income of investees	-	-	472	-	6	478
Segment income (loss) before tax	**22,092**	**50,064**	**20,636**	**28,443**	**16,658**	**137,893**
Income tax expense						(23,450)
Profit or loss for the period						**114,443**
Segment assets	2,003,500	3,316,215	4,144,213	984,275	3,030,608	13,478,811
Segment liabilities	568,468	4,332,372	1,029,909	98,114	6,455,953	12,484,816

Note 5 Business segments, continued

	As of December 31, 2016					
Concept	**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
Segment income (loss) before tax	**28,187**	**28,687**	**20,031**	**29,093**	**33,039**	**139,037**
Income tax expense						(24,122)
Profit or loss for the period						**114,915**
Segment assets	1,846,361	2,684,832	3,527,687	781,461	2,516,815	11,357,156
Segment liabilities	466,683	3,848,828	794,906	84,277	5,249,618	10,444,312

Note 6 Cash and cash equivalents

The detail of cash and cash equivalents is as follows:

	2017 MCh$	2016 MCh$
Cash and deposits in banks		
Cash	48,013	43,207
Deposits in Banco Central de Chile	290,739	351,792
Deposits in domestic banks	10,974	18,501
Deposits in foreign banks	104,063	174,929
Subtotal cash and deposits in banks	453,789	588,429
Net trading operations pending settlement	101,693	19,069
High liquidity financial instruments	345,534	342,013
Repurchase agreements	224,132	183,677
Total cash and cash equivalents	**1,125,148**	**1,133,188**

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:

	2017 MCh$	2016 MCh$
Assets		
Due from banks (interbank)	25,076	22,620
Funds receivable	268,407	146,084
Subtotal assets	293,483	168,704
Liabilities		
Funds payable	(191,790)	(149,635)
Subtotal liabilities	(191,790)	(149,635)
Net trading operations pending settlement	**101,693**	**19,069**

Note 7 Held-for-trading securities

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

	2017 MCh$	2016 MCh$
Instruments of Government and Banco Central de Chile:		
Instruments issued by Banco Central de Chile	24,341	97,675
Bonds or promissory notes issued by the Treasury	57,371	133,676
Other government instruments	362	-
Other financial instruments issued by domestic institutions:		
Instruments issued by other domestic banks	144,181	27,780
Other instruments issued in Chile	423	-
Investments in mutual funds:		
Funds managed by related parties	104,385	104,022
Funds managed by third-parties	-	-
Total	**331,063**	**363,153**

As of December 31, 2017, instruments of the Government and Banco Central de Chile include securities sold under repurchase agreement to financial institutions or customers of MCh$163 and average maturity of 19 days. As of December 31, 2016, the Bank records no notes under this caption.

As of December 31, 2017, the caption Financial instruments issued by other domestic institutions includes securities sold under repurchase agreement to financial institutions or customers of MCh$850 with average maturity of 12 days (MCh$936 with average maturity of 12 days in 2016).

Note 8 Investments sold under repurchase agreements and securities lending

As of December 31, 2017 and 2016, this caption is detailed as follows:

	2017		2016	
	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	224,132	42,672	183,677	12,343
Securities loaned	57	1,586	-	-
Total	**224,189**	**44,258**	**183,677**	**12,343**

Note 9 Derivative instruments and accounting hedge

As of December 31, 2017 and 2016, the Bank uses the following derivative instruments for trading purposes:

As of December 31, 2017

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	10,101,899	7,377,704	2,549,487	269,457	301,180
Interest rate swaps	1,757,483	4,513,300	11,485,902	80,384	71,679
Interest rate and currency swaps	332,851	739,996	5,880,816	175,443	162,215
Subtotal	**12,192,233**	**12,631,000**	**19,916,205**	**525,284**	**535,074**

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$
Currency forward (*)	-	107,193	-	1,337	5
Interest rate swaps (**)	-	99,443	232,389	460	1,072
Interest rate and currency swaps (***)	-	66,966	1,512,627	14,560	41,431
Subtotal	**-**	**273,602**	**1,745,016**	**16,357**	**42,508**
Total				**541,641**	**577,582**

(*) Correspond to derivatives hedging the inflation risk of mortgage loans (notional amount of MCh$107,193).

(**) Correspond to derivatives hedging: i) fixed interest rate risk in foreign trade loans granted (notional amount of MUS$36), ii) floating interest rate risk of term deposits (notional amount of MCh$309,700).

(***) Correspond to derivatives simultaneously hedging i) Foreign currency risk in foreign trade loans received (notional amount of MAUD43), ii) Foreign currency risk of foreign trade loans granted (notional amount MUS$32), iii) Foreign currency risk of foreign trade loan received (notional amount of MUS$250), iv) floating interest rate risk of term deposits (notional amount of MCh$689,894), v) mortgage loan inflation risk (notional amount of MCh$1,451,110) vi) debt bonds inflation risk (BTU) (notional amount of MCh$7,978).

Derivatives exist covering the mortgage loan inflation risk (notional amount of MCh$107,216) starting on a future date.

Note 9 Derivative instruments and accounting hedge, continued

As of December 31, 2016

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	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
Subtotal	**10,713,729**	**7,142,938**	**9,802,691**	**281,746**	**282,637**

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$
Currency forward (*)	-	497,961	-	1,871	21
Interest rate swaps (**)	-	-	4,025	33	-
Interest rate and currency swaps (***)	-	129,636	461,892	-	18,932
Subtotal	**-**	**627,597**	**465,917**	**1,904**	**18,953**
Total				**283,650**	**301,590**

(*) 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

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, foreign currency 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 (CCS and IRS).

As of December 31, 2017, the Bank has recorded a loss of MCh$3,254 (loss of MCh$7,989 as of December 31, 2016) in equity valuation accounts for the adjustment of cash flow hedging instruments.

As of December 31, 2017, the Bank recorded a gain from cash flow hedging derivatives of MCh$9,830 (MCh$3,484 in 2016).

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). Additionally, the Bank uses fair value hedges to hedge the effect of inflation of debt instruments held for the sale of the Chilean General Treasury bonds in UF (BTU).

c) Market valuation by type of hedge

	2017		2016	
	For MCh$	Against MCh$	For MCh$	Against MCh$
Derivatives designated in fair value hedging relationships	92	(74)	33	-
Derivatives designated in cash flow hedging relationships	16,265	(42,508)	1,871	(18,953)
Total derivatives designated in hedging relationships	16,357	(42,508)	1,904	(18,953)

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, 2017	Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Total MCh$
Hedged item (Asset)	116,100	303,854	2,215,270	2,635,224
Hedged item (Liability)	(120,949)	(326,611)	(2,134,299)	(2,581,859)
Net cash flows	**(4,849)**	**(22,757)**	**80,971**	**53,365**

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**

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:

	2017 MCh$	2016 MCh$
Fair value hedges		
Gain (loss) recorded in hedged items	(110)	(74)
Gain (loss) recorded in hedging instruments	124	76
Ineffectiveness	**14**	**2**
Cash flow hedges		
Ineffectiveness	**(246)**	**480**

Note 10 Composition of loans and advances to banks

a) Composition of loans and advances to banks, continued

As of December 31, 2017 and 2016, this caption comprises the following:

As of December 31, 2017:

	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	34	-	34	-	-	-	34
Subtotal	**34**	**-**	**34**	**-**	**-**	**-**	**34**
BANCO CENTRAL DE CHILE							
Unavailable deposits at Banco Central	-	-	-	-	-	-	-
Other receivables from Banco Central	-	-	-	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**34**	**-**	**34**	**-**	**-**	**-**	**34**

Note 10 Loans and advances to banks, continued

a) Composition of loans and advances to banks, continued

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

b) Allowances for credit risk

	Domestic banks MCh$	Foreign banks MCh$	Banco Central de Chile MCh$	Total MCh$
Balance as of January 1, 2016	-	237	-	237
Impaired portfolio write-offs	-	-	-	-
Allowances accrued (Note 31)	-	25	-	25
Allowances released (Note 31)	-	(253)	-	(253)
Balance as of December 31, 2016	**-**	**9**	**-**	**9**
Balance as of January 1, 2017	-	9	-	9
Impaired portfolio write-offs	-	-	-	-
Allowances accrued (Note 31)	-	9	-	9
Allowances released (Note 31)	-	(18)	-	(18)
Balance as of December 31, 2017	**-**	**-**	**-**	**-**

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, 2017

	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	2,968,586	144,682	3,113,268	(55,116)	(14,858)	(69,974)	3,043,294
Foreign trade loans	826,469	9,362	835,831	(13,838)	(78)	(13,916)	821,915
Receivables from current accounts	23,451	2,841	26,292	(1,515)	(1,043)	(2,558)	23,734
Factoring operations	38,382	316	38,698	(1,299)	(38)	(1,337)	37,361
Student loans	575,349	55,689	631,038	-	(20,526)	(20,526)	610,512
Lease operations	213,578	9,013	222,591	(2,816)	(1,415)	(4,231)	218,360
Other loans and advances	2,856	8,127	10,983	(7,320)	(48)	(7,368)	3,615
Subtotal	**4,648,671**	**230,030**	**4,878,701**	**(81,904)**	**(38,006)**	**(119,910)**	**4,758,791**
MORTGAGE LOANS							
Letter of credit backed loans	120,345	30,404	150,749	-	(4,018)	(4,018)	146,731
Endorsable mutual mortgage loans	52,337	9,142	61,479	-	(1,230)	(1,230)	60,249
Bond funded mutual mortgage loans	-	-	-	-	-	-	-
Other mortgage mutual loans	3,294,578	139,384	3,433,962	-	(25,466)	(25,466)	3,408,496
Loans from the ANAP	-	-	-	-	-	-	-
Lease operations	21,821	5,133	26,954	-	(431)	(431)	26,523
Other loans and advances	24,518	7,716	32,234	-	(1,011)	(1,011)	31,223
Subtotal	**3,513,599**	**191,779**	**3,705,378**	**-**	**(32,156)**	**(32,156)**	**3,673,222**
CONSUMER LOANS							
Consumer loans paid in installments	773,326	56,291	829,617	-	(55,514)	(55,514)	774,103
Current account debtors	42,263	2,690	44,953	-	(2,707)	(2,707)	42,246
Credit card debtors	938,869	50,667	989,536	-	(67,219)	(67,219)	922,317
Lease operations	-	-	-	-	-	-	-
Other loans and advances	17	1	18	-	(1)	(1)	17
Subtotal	**1,754,475**	**109,649**	**1,864,124**	**-**	**(125,441)**	**(125,441)**	**1,738,683**
Total	**9,916,745**	**531,458**	**10,448,203**	**(81,904)**	**(195,603)**	**(277,507)**	**10,170,696**

Note 11 Loans and advances to customers, continued

a) Composition of loans and advances to customers, continued

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

b) Allowances for credit risk

	Individual allowances MCh$	Collective allowances MCh$	Total MCh$
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**
Balance as of January 1, 2017	81,770	141,318	223,088
Impaired portfolio write-offs:			
Commercial loans	(11,930)	(11,020)	(22,950)
Mortgage loans	-	(2,691)	(2,691)
Consumer loans	-	(120,832)	(120,832)
Total write-offs	(11,930)	(134,543)	(146,473)
Allowances accrued (Note 31)	12,728	191,194	203,922
Allowances released (Note 31)	-	-	-
Acquisition of Banco Paris portfolio	-	154	154
Allowance for sale of portfolio used	(664)	(2,520)	(3,184)
Balance as of December 31, 2017	**81,904**	**195,603**	**277,507**

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, 2017				As of December 31, 2016			
Commercial loans:	Domestic loans MCh$	Foreign loans MCh$	Total MCh$	%	Domestic loans MCh$	Foreign loans MCh$	Total MCh$	%
Manufacture	586,955	29,544	616,499	5.90	441,878	25,253	467,131	5.28
Mining	295,329	-	295,329	2.83	262,126	-	262,126	2.97
Electricity, gas and water supply	202,471	-	202,471	1.94	99,485	-	99,485	1.13
Agriculture and livestock farming	138,804	-	138,804	1.33	142,308	-	142,308	1.61
Forestry	57,260	-	57,260	0.55	54,375	-	54,375	0.62
Fishing	27,423	-	27,423	0.26	37,476	-	37,476	0.42
Transport	139,334	-	139,334	1.33	138,777	-	138,777	1.57
Telecommunications	36,690	-	36,690	0.35	7,081	-	7,081	0.08
Construction	132,352	8,475	140,827	1.35	141,800	9,243	151,043	1.71
Commerce	544,983	6,385	551,368	5.28	499,869	7,254	507,123	5.74
Services	1,889,786	3,775	1,893,561	18.12	1,551,685	3,326	1,555,011	17.59
Other	779,135	-	779,135	7.46	722,350	-	722,350	8.16
Subtotal	4,830,522	48,179	4,878,701	46.69	4,099,210	45,076	4,144,286	46.88
Mortgage loans	3,705,378	-	3,705,378	35.46	3,140,917	-	3,140,917	35.53
Consumer loans	1,864,124	-	1,864,124	17.84	1,555,138	-	1,555,138	17.59
Total	**10,400,024**	**48,179**	**10,448,203**	**100.00**	**8,795,265**	**45,076**	**8,840,341**	**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, 2017 and 2016 are as follows:

2017 Maturity:	Receivables MCh$	Deferred interest and VAT MCh$	Net balance receivable MCh$
Less than 1 year	100,622	(21,227)	79,395
1 to 5 years	177,541	(42,167)	135,374
Over 5 years	43,833	(9,057)	34,776
Total	**321,996**	**(72,451)**	**249,545**

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**

Note 11 Loans and advances to customers, continued

e) Acquisition of portfolio

During the period between January 1 and December 31, 2017, the Bank acquired mortgage portfolios for MCh$ 9,973 and commercial loans totaling MCh$ 337,060. As of December 31, 2016, the Bank acquired no portfolio.

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 2017 and 2016, 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	2017 MCh$	2016 MCh$
Par value	103,264	114,367
Provisions	(2,520)	(1,129)
Net value of allowance accounts	**100,744**	**113,238**
Sale value	119,270	136,010
Gain or loss	**18,526**	**22,772**
Gain from sales	**9,675**	**11,545**
Unearned revenue	**8,851**	**11,227**

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.

Note 12 Investment securities

As of December 31, 2017 and 2016, this caption comprises the following:

Held-for-sale securities:	**2017 MCh$**	**2016 MCh$**
Instruments of Government and Banco Central de Chile		
Instruments issued by Banco Central de Chile	18,924	115,177
Instruments issued by Tesorería General de la República (Chilean Treasury)	269,206	43,425
Other fiscal instruments	237	239
Other instruments issued in Chile		
Instruments issued by other domestic banks	644,644	496,022
Corporate bonds and commercial papers	-	-
Total	**933,011**	**654,863**

As of December 31, 2017, the caption Instruments of the Government and Banco Central de Chile includes securities sold under repurchase agreement to financial institutions or customers of MCh$21,752 (MCh$11,447 in 2016) with average maturity of 5 days (4 days in 2016).

As of December 31, 2017, the portfolio of available-for-sale securities includes an unrealizable net loss of MCh$824 (MCh$2,169 in 2016), recorded as valuation adjustments in equity.

As of December 31, 2017 and 2016, 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 2017 MCh$	Investment amount 2016 MCh$	Net gain (loss) 2017 MCh$	Net gain (loss) 2016 MCh$
Investments under equity method:					
Nexus S.A.	12.90	-	1,395	107	246
Redbanc S.A.	12.71	-	816	48	142
Transbank S.A (3)	8.72	-	4,317	127	454
Combanc S.A. (2)	4.53	-	248	7	30
Subtotal		**-**	**6,776**	**289**	**872**
Investments valued at cost:					
Sociedad Interbancaria de Depósitos de Valores		113	113	27	15
Sociedad Servicios de Infraestructura y de Mercado OTC		864	864	-	-
Nexus S.A. (4)		1,470	-	-	-
Redbanc S.A. (4)		860	-	-	-
Transbank S.A (4)		4,432	-	-	-
Combanc S.A. (4)		264	-	-	-
Subtotal		**8,003**	**977**	**27**	**15**
Investments at fair value:					
Bolsa de Comercio de Santiago (1)		2,033	2,008	160	146
Bolsa Electrónica de Chile (1)		155	149	2	-
Subtotal		**2,188**	**2,157**	**162**	**146**
Total		**10,191**	**9,910**	**478**	**1,033**

(1) Investments in these companies held by Scotia Corredora de Bolsa Chile S.A., are recorded at fair value through equity. The result from the investment relates to dividends received.
(2) On June 6, 2016, the Bank acquired 1,629,680 shares equivalent to MCh$351.
(3) On February 14, 2017, 22 shares were subscribed for MCh$13.
(4) In accordance with the instructions issued by the SBIF through Circular No. 3.618 of February 2017, where the following restriction is introduced: "the managers or employees of a financial institution which are shareholders or partners of a business support entity, will not be able to take office as directors of business support entities that are not subsidiaries of a bank and in their turn, provide services linked to payment systems" and accordingly, beginning in April 2017, these investments are reclassified as investments measured at cost because of not holding a significant influence on the investees, which gave rise to disrupting the application of the equity method of accounting beginning on such date.

Note 13 Investments in other companies, continued

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

	2017 MCh$	2016 MCh$
Opening carrying amount	9,910	8,938
Acquisition of investments	13	351
Sale of investments	-	-
Equity in profit for the period	478	1,033
Provisions for minimum dividends	(44)	7
Dividends received	(198)	(265)
Other equity adjustments	32	(154)
Total	**10,191**	**9,910**

Note 14 Intangible assets

a) As of December 31, 2017 and 2016, this caption comprises the following:

	Years									
	Useful life		Average remaining amortization		Gross balance		Amortization and cumulative impairment		Net balance	
Intangible assets	2017	2016	2017	2016	2017 MCh$	2016 MCh$	2017 MCh$	2016 MCh$	2017 MCh$	2016 MCh$
Computer software	5	5	2	3	34,215	23,309	(13,363)	(9,984)	20,852	13,325
Intangible assets from business combinations (*)	15	15	13	14	138,425	138,425	(24,609)	(15,380)	113,816	123,045
Other intangible assets	5	5	-	-	2,457	2,457	(2,457)	(2,457)	-	-
Total					**175,097**	**164,191**	**(40,429)**	**(27,821)**	**134,668**	**136,370**

Note 14 Intangible assets, continued

b) Changes in intangible assets for 2017 and 2016, are as follows:

	Computer software MCh$	Intangible assets from business combinations (*) MCh$	Other MCh$	Total MCh$
Gross balance				
Balance as of January 1, 2016	20,684	138,425	2,457	161,566
Acquisitions	7,189	-	-	7,189
Disposal of assets	(4,198)	-	-	(4,198)
Reclassification of accounts	(366)	-	-	(366)
Withdrawals	-	-	-	-
Total	**23,309**	**138,425**	**2,457**	**164,191**
Accumulated amortization	(14,182)	(15,380)	(2,457)	(32,019)
Disposal of assets	4,198	-	-	4,198
Impairment loss	-	-	-	-
Net value as of December 31, 2016	**13,325**	**123,045**	**-**	**136,370**
Gross balance				
Balance as of January 1, 2017	23,309	138,425	2,457	164,191
Acquisitions	11,391	-	-	11,391
Disposal of assets	(495)	-	-	(495)
Reclassification of accounts	10	-	-	10
Withdrawals	-	-	-	-
Total	**34,215**	**138,425**	**2,457**	**175,097**
Accumulated amortization	(13,859)	(24,609)	(2,457)	(40,925)
Reclassification of accounts	1	-	-	1
Disposal of assets	495	-	-	495
Impairment loss	-	-	-	-
Net value as of December 31, 2017	**20,852**	**113,816**	**-**	**134,668**

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.

(*) 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.

Note 15 Property and equipment

a) Property and equipment and depreciation

As of December 31, 2017 and 2016, 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, 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**
Balance as of January 1, 2017	51,394	9,000	38,507	765	99,666
Acquisition of property and equipment	-	185	7,381	-	7,566
Disposal of assets	(780)	(2,009)	(2,513)	-	(5,302)
Reclassification of accounts	-	371	(381)	-	(10)
Transfer to available for sale	(2,065)	(53)	(253)	-	(2,371)
Total	48,549	7,494	42,741	765	99,549
Accumulated depreciation	(9,509)	(3,875)	(20,490)	(85)	(33,959)
Reclassification of accounts	-	-	(1)	-	(1)
Impairment loss	-	-	-	-	-
Net value as of December 31, 2017	**39,040**	**3,619**	**22,250**	**680**	**65,589**

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

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 2017 MCh$	Net balance 2016 MCh$
Less than 1 year	1,058	991
1 to 5 years	4,052	4,958
Over 5 years	7	133
Total	**5,117**	**6,082**

Lease related expenses for the year ended December 31, 2017, amount to MCh$10,384 (MCh$9,883 in 2016), and are included within 'Administrative expenses' in the Consolidated Statement of Income.

Note 16 Current and deferred tax

a) Current tax assets

	Net balance 2017 MCh$	Net balance 2016 MCh$
Income taxes, tax rate 25.5% (24% in 2016)	35,873	28,358
Income taxes, rate 35%	92	73
Income taxes, absorbed subsidiaries	-	-
Less:		
Monthly provisional income tax payments	(31,106)	(30,481)
Credit for training expenses	(557)	(550)
Credit for real estate contributions	(350)	-
Prior period tax receivable	(12,104)	(5,979)
Other	-	-
Total current tax liabilities (assets)	**(8,152)**	**(8,579)**

Note 16 Current and deferred tax, continued

b) Net income (loss) for income taxes

Effect of tax expense as of December 31, 2017 and 2016, is detailed as follows:

	2017 MCh$	2016 MCh$
Income tax expenses:		
Current year tax	(34,455)	(30,881)
Surplus (deficit) from prior year provision	(991)	668
Prior year tax	8,649	-
Credit (debit) for deferred taxes:		
Effect and reversal of temporary differences, current year	11,456	6,726
Effect and reversal of temporary differences, previous year	(8,019)	(528)
Subtotal	(23,360)	(24,015)
Taxes on non-deductible permanent expenses Article No. 21	(90)	(73)
Other	-	(34)
Net credit (debit) to profit for the period for income taxes	**(23,450)**	**(24,122)**

c) Effect of deferred taxes on equity

Deferred taxes recorded in equity are detailed as follows:

	2017 MCh$	2016 MCh$
Available-for-sale financial investments	501	(210)
Total debit (credit) to equity	**501**	**(210)**

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:

	2017 MCh$	2016 MCh$
Deferred tax assets		
Collective allowances on loan portfolio	45,145	38,595
Financial securities held for trading	9,184	8,211
Non-taxable write-offs	3,208	8,344
Interest and indexation on risk portfolio	8,466	7,167
Leased assets, net	429	-
Allowance for doubtful accounts	20,516	13,808
Accrued vacations	2,384	1,990
Write-off of assets received in lieu of payment	302	201
Taxable differences on property and equipment	6,036	2,206
Provisions from assets received in lieu of payment	339	264
Assets from factoring business	298	244
Balances arising from merger of subsidiaries	3,803	3,759
Investments in CAT subsidiaries	35,059	37,550
Adjustment for change in rates	9,458	11,845
Tax goodwill adjustment	30,238	30,829
Other provisions	8,612	9,584
Other	1,237	1,507
Total deferred tax assets	184,714	176,104
Deferred tax liabilities		
Leased assets, net	(1,429)	(3,628)
Deferred expenses	(12,826)	(7,458)
Accelerated depreciation – Building	(991)	-
Intangible assets from acquisition of CAT subsidiaries	(29,023)	(33,084)
Adjustment for change in rates	(2,799)	(1,248)
Other	(4,137)	(662)
Total deferred tax liabilities	(51,205)	(46,080)
Total net assets (liabilities)	133,509	130,024
Deferred taxes on equity		
Available-for-sale financial investments	385	(88)
Total net assets (liabilities)	**133,894**	**129,936**

Note 16 Current and deferred tax, continued

e) Reconciliation of effective tax rate

As of December 31, 2017 and 2016 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 %	2017 MCh$
Profit before income tax	25.5	(35,163)
Permanent differences	(3.48)	4,795
Taxes not recognized in profit or loss from prior periods	0.06	(79)
Prior year effect	(2.06)	2,836
Adjustment for change in tax rate, Law No. 20.780	(2.35)	3,238
Monthly provisional income tax payments for unabsorbed earnings	-	-
Hedge accounting in equity	-	-
Other permanent differences	(0.73)	1,014
Effective rate and income tax benefit (expense) current period	16.94	(23,359)
Tax under Article 21	0.07	(91)
Total income tax expense		**(23,450)**

	Tax rate %	2016 MCh$
Profit before income tax	24.00	(33,369)
Permanent differences	(6.22)	8,647
Taxes not recognized in prior year profit or loss	0.06	(81)
Prior year effect	(0.16)	(216)
Adjustment for change in the 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 tax benefit for the year	16.98	(24,049)
Tax under Article 21	0.05	(73)
Total income tax benefit		**(24,122)**

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 Official Gazette issued Law No. 20.780 on the Tax Reform amending the income taxation system and introducing several adjustments to the tax system, which in Article Four on transitional provisions establishes the effective term of the change in the corporate income tax rate and its gradual increase, beginning on commercial year 2014.

Commercial year	Effective corporate income tax rate
2014	21.0%
2015	22.5%
2016	24.0%
2017 (*)	25.0% - 25.5%
2018 (*)	25.0% - 27.0%

(*) Beginning in commercial year 2017, the new tax regimes became effective considering the Partially-Integrated regime (article 14 B of the Income Tax Law) on the basis of income subject to tax in the year in which they are effectively distributed. The partially-integrated system considers a transitional corporate income tax rate of 25.5% in 2017, and a rate of 27% starting from 2018.

Considering the amendment indicated above, 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$3,238 (MCh$2,991 in 2016).

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, 2017

Type of loan	Assets at carrying amount MCh$	Assets at tax value Total MCh$	Assets at tax value Secured overdue portfolio MCh$	Assets at tax value Unsecured overdue portfolio MCh$
Commercial loans	5,400,448	5,442,816	10,729	26,897
Consumer loans	879,849	873,725	16	6,046
Mortgage loans	3,678,425	3,683,072	3,838	3
Total	**9,958,722**	**9,999,613**	**14,583**	**32,946**

Allowances on past due amounts in portfolio as of December 31, 2017

Type of loan	Balance as of December 31, 2016 MCh$	Write-offs against allowances MCh$	Allowances accrued MCh$	Allowances released MCh$	Balance as of December 31, 2017 MCh$
Commercial loans	15,857	(8,447)	29,071	(9,584)	26,897
Consumer loans	3,721	(12,021)	20,066	(5,720)	6,046
Mortgage loans	5	**(2)**	55	**(55)**	3
Total	**19,583**	**(20,470)**	**49,192**	**(15,359)**	**32,946**

Direct write-offs and recoveries as of December 31, 2017	**MCh$**
Direct write-offs Art. 31 No. 4 second sub paragraph	52,599
Debt forgiveness which resulted in the release of allowances	-
Recoveries or renegotiation of loans written-off	15,163

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, 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 17 Other assets

As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Accounts and commissions receivable	39,167	36,855
Securitized bonds	16,595	15,644
Assets received in lieu of payment or awarded (*)	4,071	3,462
Repossessed assets on leases	1,060	753
Assets under lease agreements (**)	781	1,388
Items of available-for-sale property and equipment	2,405	4,876
Value-added tax	3,175	2,286
Recoverable taxes	9,450	867
Cash deposits in guarantee (***)	78,328	52,147
Credit accounts receivable, Law No. 20.027	25	161
Credit accounts receivable, Law No. 20.634	3,700	2,027
Pending transactions	8,680	5,695
Accounts receivable from MINVU (the Chilean Ministry of Housing and Urban Development)	7,841	4,998
Prepayments	1,833	2,113
Other	1,300	871
Total	**178,411**	**134,143**

(*) Assets received in lieu of payment or awarded include a provision as of December 31, 2017 for MCh$1,087 (MCh$1,066 in 2016), 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, 2017, it mainly comprises cash deposits of MCh$19,275 to operate in the Derivatives Clearing House, and MCh$54,338 in other foreign institutions (MCh$26,015 in the Derivatives Clearing House and MCh$23,500 in other foreign institutions as of December 31, 2016).

Note 18 Deposits and other on-demand liabilities

As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Current accounts	1,025,069	833,325
Notes on demand	53,376	56,345
Collections payable	20,161	20,953
On-demand deposits	203,589	24,169
Overdue bond and letter of credit coupons	6,496	6,837
Performance bonds payable on demand	21,958	36,656
Payment orders outstanding	3,882	13,689
Extraordinary repayments of letters of credit	1,932	1,718
Locked in balances, Art. 156 L.G.B.	9,128	6,335
Overdue term deposits	2,007	1,711
Other mortgage holders	114,307	87,900
Export returns pending settlement	-	-
Loans granted, Law No. 20.027	51	1,446
Payments for credits pending settlement	1,618	1,017
Funded payment cards	1	1
Other on-demand liabilities	76,277	60,622
Total	**1,539,852**	**1,152,724**

Note 19 Term deposits and savings accounts

As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Term deposits	5,449,939	4,956,396
Term savings accounts	34,968	35,241
Total	**5,484,907**	**4,991,637**

Note 20 Bank borrowings

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

	2017 MCh$	2016 MCh$
Domestic banks		
Interbank loans	-	-
Foreign banks		
Foreign trade borrowings	621,443	274,802
Overdrafts in current accounts	-	70
Long-term loans	35,010	43,747
Revolving credit facilities of foreign banks	605,389	433,566
Total	**1,261,842**	**752,185**

Obligations with foreign banks assumed at long-term correspond to loans obtained by virtue of a diversification strategy for financing in more favorable conditions.

As of December 31, 2017 and 2016, the Bank and its subsidiaries record no liabilities with Banco Central de Chile.

Note 21 Debt securities issued

As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Letters of credit	176,497	196,223
Current bonds	2,709,185	2,460,344
Subordinated bonds	194,158	195,178
Total	**3,079,840**	**2,851,745**

During 2017 and 2016, the following current bonds were issued:

- **Letters of credit:**

During the period between January 1 and December 31, 2017 and January 1 and December 31, 2016, no new letters of credit have been placed.

- **Current bonds:**

During the period between January 1 and December 31, 2017 and January 1 and December 31, 2016, the following new bonds have been placed:

Year ended December 31, 2017

Series	Amount	Term (years)	Annual issuance rate	Currency	Issuance date	Maturity date
AG	5,000,000	15	2.30	UF	01/01/2017	01/01/2032
AH	5,000,000	15	2.30	UF	03/01/2017	03/01/2032
AI	5,000,000	15.5	2.25	UF	07/01/2017	01/01/2033
AJ	5,000,000	15	2.20	UF	07/01/2017	07/01/2032

Year ended December 31, 2016

Series	Amount	Term (years)	Annual issuance rate	Currency	Issuance date	Maturity date
AE	5,000,000	10.6	3.00	UF	01/01/2016	07/01/2026
AF	5,000,000	10.6	2.30	UF	10/01/2016	04/01/2027

- **Subordinated bonds:**

During the period between January 1 and December 31, 2017 and January 1 and December 31, 2016, no new subordinated bonds have been placed.

Note 22 Other financial liabilities

As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Bonds payable and promissory notes payable	18,304	18,596
Payables to credit card operators	28,119	19,698
Payables to affiliates for credit card use	9,250	12,822
Liabilities in favor of Chilean exporters	34	1,302
Other domestic borrowings	8,285	9,265
Total	**63,992**	**61,683**

Note 23 Provisions

a) As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Provision for personnel benefits and expenses	10,267	9,253
Provision for minimum dividends	30,990	31,094
Provisions for contingent loan risk	20,112	13,272
Additional allowances for commercial loans	23	6,830
Additional allowances for mortgage loans	-	102
Additional allowances for consumer loans	2	8,856
Provisions for country risk	206	37
Other provisions for contingencies	2,396	2,325
Total	**63,996**	**71,769**

Note 23 Provisions, continued

b) As of December 31, 2017 and 2016, movements in provisions are as follows:

	Provision for personnel benefits and expenses MCh$	Minimum dividends MCh$	Contingent risk loans MCh$	Additional allowances MCh$	Other contingencies MCh$	Total MCh$
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**
Balance as of January 1, 2017	9,253	31,094	13,272	15,788	2,362	71,769
Allowances accrued	5,479	30,990	6,840	2,152	240	45,701
Use of provisions	(4,465)	(31,094)	-	-	-	(35,559)
Release of provisions	-	-	-	(17,915)	-	(17,915)
Balance as of December 31, 2017	**10,267**	**30,990**	**20,112**	**25**	**2,602**	**63,996**

Note 24 Other liabilities

As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Accounts and notes payable	68,435	63,973
VAT fiscal debit	4,672	4,208
Pending transactions	1,226	992
Dividends payable	120	121
Unearned revenue	28,250	23,371
Deposits received as collateral	73,549	6,252
Other liabilities	505	84
Total	**176,757**	**99,001**

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. As of December 31, 2017. The Bank and its subsidiaries made provisions for legal contingencies of MCh$3,427 (MCh$4,831 in December 2016), which are a part of the caption "Provisions" in the statement of financial position.

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:

	2017 MCh$	2016 MCh$
Readily available revolving credit facilities	3,198,511	2,889,798
Other commitments	166,578	220,690
Bank guarantee certificates	285,501	341,860
Supporting letters of credit issued	49,004	24,475
Co-debt and collateral	85,185	113,006
Foreign confirmed letters of credit	10,850	3,091
Allowances accrued	(20,112)	(13,272)
Total	**3,775,517**	**3,579,648**

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:

	2017 MCh$	2016 MCh$
Securities under custody	2,374,793	1,756,953
Financial assets transferred to and managed by the Bank	16,154	21,453
Notes for collection	3,216	4,093
Assets pledged as collaterals	33,943	20,000
Guarantees for housing purchase obligation	-	386
Total	**2,428,106**	**1,802,885**

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. 420001370512 in order to ensure the fulfillment of its obligations as Broker with Scotiabank Chile. This guarantee is valid from April 21, 2017 to April 21, 2018.

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. 09-0011984 with ACE Seguros S.A. The insured amount is US$1,000,000 and the policy is valid from July 9, 2017 through July 9, 2018.

The Company trades shares in the Santiago Stock Exchange and the Chilean Electronic Stock Exchange in order to guarantee time share operations for MCh$ 10,524 as of December 31, 2017 (MCh$8,696 as of December 31, 2016).

In order to guarantee the operations of the gross liquidation offsetting system pledged securities were delivered to the Stock Exchange. As of December 31, 2017, the present value of those securities amounts to MCh$2,498 and cash funds of MCh$1,525 (securities pledged as collateral of MCh$2,065 and cash funds of MCh$0 as of December 31, 2016).

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 442,970.41 with maturities due to January 10, 2018.

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, 2017, 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. 420001365885
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, 2018

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

Note 26 Equity

a) Ownership

As of December 31, 2017 and 2016, the Company's shares composition is as follows:

a.1) Shares subscribed and paid

As of December 31, 2017 and 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.

a.2) Capital increases

As of December 31, 2017 and 2016, the Bank recorded no capital increases.

a.3) Dividends paid and reserves

At the Ordinary Shareholders' Meeting of Scotiabank Chile held on April 21, 2017, the shareholders agreed to pay a dividend in cash of Ch$6.04078 per share representing the distribution of 30% of its profits for 2016 totaling MCh$31,094.

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.

Note 26 Equity, continued

b) Accounting equity

As of December 31, 2017 and 2016, capital, reserves, other comprehensive income and retained earnings attributable to common stockholders are detailed as follows:

	2017 MCh$	2016 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	824	2,169
Adjustment of cash flow hedge derivatives	(3,254)	(7,989)
Total	**(2,430)**	**(5,820)**
Retained earnings:		
Retained earnings from previous periods (*)	400,211	327,687
Profit or loss for the period	103,299	103,648
Provisions for minimum dividends	(30,990)	(31,094)
Total	**472,520**	**400,241**
Profit or loss for the period – Non-controlling interest	77,557	72,075
Total	**77,557**	**72,075**

(*) The Chilean Superintendence of Securities and Insurance through Reserved Official Communication No. 1372 of December 21, 2017, provided instructions to the subsidiary CAT Corredores de Seguros y Servicios S.A. to make a provision for the refund of commissions for life and unemployment insurance policies retrospectively for 2016 of MCh$58, which were reflected as a distribution of equity as of December 31, 2017 in particular MCh$ 30 with a debit to Retained earnings and MCh$ 28 to Non-controlling interests.

Note 26 Equity, continued

c) Non-controlling interest

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

As of December 31, 2017

	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%	74,932	9,314	(5,169)
CAT Corredores de Seguros y Servicios S.A.	49%	2,599	1,829	(464)
Scotia Corredora de Bolsa Chile S.A.	0.2%	17	-	-
Bandesarrollo Leasing Inmobiliario S.A.	0.1%	9	1	(1)
Total		**77,557**	**11,144**	**(5,634)**

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)
Scotia Corredora de Bolsa Chile S.A.	0.2%	17	-	-
Bandesarrollo Leasing Inmobiliario S.A.	0.1%	9	1	-
Total		**72,075**	**11,267**	**(3,235)**

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, 2017

	Profit or loss for the year MCh$	Total assets MCh$	Total liabilities MCh$
CAT Administradora de Tarjetas S.A.	19,007	1,011,127	865,810
CAT Corredores de Seguros y Servicios S.A.	3,733	16,471	12,660

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

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	**2017 MCh$**	**2016 MCh$**	**2017 MCh$**	**2016 MCh$**	**2017 MCh$**	**2016 MCh$**
Repurchase agreements	4,078	3,778	-	-	4,078	3,778
Loans to banks	85	1,066	-	-	85	1,066
Commercial loans	211,423	198,209	23,684	37,080	235,107	235,289
Mortgage loans	146,164	128,868	57,876	80,026	204,040	208,894
Consumer loans	289,875	244,599	8	29	289,883	244,628
Investment securities	23,090	20,678	926	1,179	24,016	21,857
Interest and indexation income	8,965	11,584	971	1,821	9,936	13,405
Gain (loss) from accounting hedges	31,578	7,195	-	-	31,578	7,195
Total	**715,258**	**615,977**	**83,465**	**120,135**	**798,723**	**736,112**
Expenses						
On-demand deposits	(8,051)	(1,052)	-	-	(8,051)	(1,052)
Repurchase agreements	(1,124)	(159)	-	-	(1,124)	(159)
Term and on-demand deposits	(157,866)	(163,112)	(1,179)	(7,324)	(159,045)	(170,436)
Bank borrowings	(25,673)	(12,588)	-	-	(25,673)	(12,588)
Debt securities issued	(95,148)	(94,407)	(51,074)	(75,081)	(146,222)	(169,488)
Other financial liabilities	(985)	(1,013)	182	(322)	(803)	(1,335)
Other interest and indexation expense	(129)	(33)	(2,689)	(2,407)	(2,818)	(2,440)
Gain (loss) from accounting hedges	-	-	(21,654)	(10,673)	(21,654)	(10,673)
Total	**(288,976)**	**(272,364)**	**(76,414)**	**(95,807)**	**(365,390)**	**(368,171)**
Net interest and indexation income	**426,282**	**343,613**	**7,051**	**24,328**	**433,333**	**367,941**

Note 27 Interest and indexation, continued

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

	Interests		Indexation		Total	
	2017 MCh$	2016 MCh$	2017 MCh$	2016 MCh$	2017 MCh$	2016 MCh$
Commercial loans	1,299	1,257	946	1,080	2,245	2,337
Mortgage loans	1,349	1,189	2,771	3,147	4,120	4,336
Consumer loans	-	-	-	-	-	-
Total	**2,648**	**2,446**	**3,717**	**4,227**	**6,365**	**6,673**

Note 28 Fees and commissions

During 2017 and 2016, the Bank presents the following fees and commissions income and expenses in the consolidated statement of income:

Fee and commission income:	2017 MCh$	2016 MCh$
Collection and payments	41,896	32,944
Investments in mutual fund deposits or other	10,515	11,245
Insurance brokerage	28,524	23,692
Credit card services	23,548	19,565
Account management	8,601	7,802
Guarantees and letters of credit	3,610	3,836
Revolving credit facilities and bank overdrafts	1,149	1,001
Securities brokerage and management	1,962	1,555
Loan management Law No. 20.027	9,214	8,488
Other commissions	8,408	5,539
Total	**137,427**	**115,667**

Fee and commission expenses:	2017 MCh$	2016 MCh$
Debit and ATM card transactions	(6,220)	(5,634)
Credit card transactions	(14,488)	(13,653)
Other security transactions	(4,429)	(3,528)
Brokerage	(2,001)	(1,821)
Deposits and custody of securities	(246)	(261)
Fees and commissions paid for collection management	(2,002)	(1,503)
Other credit card transactions	(211)	(241)
Other commissions	(2,614)	(2,814)
Total	**(32,211)**	**(29,455)**
Net fee and commission income	**105,216**	**86,212**

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:

	2017 MCh$	2016 MCh$
Net income from financial instruments held for trading:		
Interest and indexation	6,527	7,950
Fair value adjustments	(1,493)	2,706
Gain on sales	6,165	5,749
Loss on sales	(5,878)	(1,686)
Gain on investments in mutual funds	1,901	2,068
Gain on financial instruments held for trading	7,222	16,787
Net (loss) gain on financial derivative instruments held for trading:		
Gain on derivative instruments	1,228,731	1,048,803
Loss on derivative instruments	(1,210,576)	(1,027,415)
Net gain (loss) on financial derivative instruments held for trading	18,155	21,388
Sale of available-for-sale securities:		
Changes in fair value transferred to profit or loss	-	-
Gain on sale	2,465	3,298
Loss on sales	(154)	(273)
Net loss on sale of available-for-sale securities	2,311	3,025
Net gain on sale of loan and receivables portfolio	9,677	11,638
Net profit or loss on other transactions		
Letters of credit issued by the Bank	(16)	5
Income from ineffective hedges	770	-
Expense from ineffective hedges	(524)	(480)
Other income	970	16
Other expenses	(1,129)	(319)
Net gain on other transactions	71	(778)
Net gain (loss) from financial operations	**37,436**	**52,060**

Note 30 Net foreign exchange income (expense)

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

	2017 MCh$	2016 MCh$
Foreign currency exchange difference:		
Foreign currency exchange gain, net - exchange position	1,747	6,285
Other	5,879	4,134
Subtotal	7,626	10,419
Adjustable items in foreign currency:		
Loans to clients	(811)	(2)
Subtotal	(811)	(2)
Hedge accounting:		
Gain from hedge of assets	11,851	-
Loss from hedge of assets	(2,489)	-
Gain from hedge of liabilities	34	-
Loss from hedge of liabilities	(12,226)	-
Subtotal	(2,830)	-
Total	**3,985**	**10,417**

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, 2017

	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	(9)	(12,728)	-	-	(175)	-	(12,912)
Collective allowances	-	(22,642)	(3,622)	(164,930)	(12,285)	(2,152)	(205,631)
Net gain (loss) from allowances accrued	(9)	(35,370)	(3,622)	(164,930)	(12,460)	(2,152)	(218,543)
Release of allowances:							
Individual allowances	18	-	-	-	454	-	472
Collective allowances	-	-	-	-	5,166	17,915	23,081
Net gain (loss) on release of allowances	18	-	-	-	5,620	17,915	23,553
Net gain (loss) on allowances	**9**	**(35,370)**	**(3,622)**	**(164,930)**	**(6,840)**	**15,763**	**(194,990)**
Recovery of assets written-off	-	9,109	3,305	32,386	-	-	44,800
Net gain (loss)	**9**	**(26,261)**	**(317)**	**(132,544)**	**(6,840)**	**15,763**	**(150,190)**

Note 31 Allowances for credit risk, continued

For the year ended December 31, 2016

		Loans and advances to customers					
	Loans and advances to banks MCh$	Commercial loans MCh$	Mortgage loans MCh$	Consumer loans MCh$	Contingent loans MCh$	Other loans MCh$	Total MCh$
Allowances accrued:							
Individual allowances	(25)	(14,322)	-	-	(579)	-	(14,926)
Collective allowances	-	(19,970)	(9,483)	(99,278)	(5,116)	(8,197)	(142,044)
Net gain (loss) from allowances accrued	(25)	(34,292)	(9,483)	(99,278)	(5,695)	(8,197)	(156,970)
Release of allowances:							
Individual allowances	253	-	-	-	130	-	383
Collective allowances	-	-	-	-	4,584	8,412	12,996
Net gain (loss) on release of allowances	253	-	-	-	4,714	8,412	13,379
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 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, 2017 and 2016:

	2017 MCh$	2016 MCh$
Payroll	85,674	81,113
Bonuses	48,124	49,773
Severance indemnity payments	6,226	7,952
Training expenses	1,282	974
Other personnel expenses	11,845	11,275
Total	**153,151**	**151,087**

The average number of employees during 2017 was 5,771 (5,888 in 2016).

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:

	2017 MCh$	2016 MCh$
Administrative expenses		
Maintenance and repair of property and equipment	2,403	2,449
Office leases	9,628	9,179
Equipment leases	756	704
Insurance premiums	1,604	1,335
Office stationary	1,988	2,155
IT and communication expenses	18,041	17,123
Electricity, heating and other services	4,499	4,359
Security patrol and security transport services	1,454	1,243
Representation expenses and personnel transportation	304	125
Legal and notary expenses	4,720	5,411
Professional services fees	2,059	1,937
Fines imposed by the SBIF	-	-
Fines imposed by other entities	84	261
Other general administrative expenses	23,028	23,036
Subcontracted services		
Data processing	619	606
Other	28,019	22,761
Board of Directors expenses		
Directors' fees	428	404
Other Directors' expenses	5	2
Publicity and advertising	19,749	19,518
Taxes and contributions		
Real estate	529	650
Patents	1,166	1,153
Other taxes	233	700
Contributions to the SBIF	3,348	3,031
Total	**124,664**	**118,142**

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, 2017 and 2016:

	2017 MCh$	2016 MCh$
Depreciation of property and equipment	6,048	5,163
Amortization of intangible assets	13,103	12,913
Impairment	-	-
Total	**19,151**	**18,076**

Note 35 Other operating income

As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Other operating income:		
Income from assets received in lieu of payment	2,099	2,197
Loss from sale of property and equipment	357	3,210
Other income from lease operations	659	565
Income from ANAP UR portfolio not capitalized	-	57
Income from advisory services	7,427	5,943
Grants received from Minvu (the Housing Ministry)	-	60
Leases received	213	280
Other income, subsidiary Corredora de Seguros	-	502
Recovery of expenses	2,635	2,056
Release of provisions for contingencies	198	1,553
Release of other provisions	-	-
Insurance company compensation payments	-	-
Income from prescribed obligations	21	1,354
Incentives received from credit card brands	1,246	1,312
Compensation received	3,147	-
Other operating income	1,388	675
Total	**19,390**	**19,764**

Note 36 Other operating expenses

As of December 31, 2017 and 2016, this caption comprises the following:

	2017 MCh$	2016 MCh$
Other operating expenses:		
Provision for assets received in lieu of payment or awarded	2,157	1,546
Write-off of assets received in lieu of payments or awarded	1,569	902
Maintenance expenses from assets received in lieu of payment or awarded	191	162
Restructuring costs	16	-
Loss for sale of property and equipment	347	-
Expenses related to provisions for securitized bonds	2,543	3,254
Write-off of recovered leased assets	168	266
Provisions for recovered leased assets	306	342
Provisions for contingencies	169	-
Leased asset expenses	278	784
Expenses for legal settlements	342	106
Other unforeseen events	113	134
Expenses related to sale of goods in lieu of payment	148	128
Disallowed expenses under Income Law Art. 21	184	185
Correspondent bank expenses	565	353
Expenses related to operational risk	3,370	3,242
Clearing House Services	1,061	838
Donations	317	413
Expenses arising from sale of property and equipment	145	71
Return of prior year commissions	177	285
Other operating expenses	623	881
Total	**14,789**	**13,892**

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, 2017	Operating companies MCh$	Investment companies MCh$	Individuals MCh$
Loans and accounts receivable			
Commercial loans	17,988	403	8,939
Mortgage loans	-	-	33,330
Consumer loans	-	-	9,428
Gross loans	17,988	403	51,697
Provisions for loans	(56)	(5)	(355)
Net loans	17,932	398	51,342
Contingent loans:			
Total contingent loans	13,268	46,587	15,188
Allowances for contingent loans	(12)	(66)	(45)

Note 37 Transactions with related parties, continued

a) Loans to related parties, continued

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)

b) Other assets and liabilities with related parties

	2017 MCh$	2016 MCh$
Assets:		
Derivative instruments	183,183	133,161
Other assets	645	615
Liabilities		
Derivative instruments	134,632	132,559
On-demand deposits	13,321	9,855
Term and on-demand deposits	223,819	195,131
Other liabilities	1,080	1,872

Note 37 Transactions with related parties, continued

c) Income or expenses from transaction with related parties

	For the years ended			
	12/31/2017		12/31/2016	
	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$
Interest and indexation income and expenses	3,267	7,522	3,077	6,164
Fee and commission income and expenses	269	5,669	243	5,212
Gain or loss from trading activities	-	-	-	-
Gain or loss from other financial transactions	34	-	31	-
Operating support expenses	-	4,122	-	4,154
Other income and expenses	2,568	1,015	1,778	374
Total	**6,138**	**18,328**	**5,129**	**15,904**

d) Contracts with related parties

For the years ended on December 31, 2017 and 2016, 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 2017 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$433 (MCh$406 in 2016). 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:

	2017 MCh$	2016 MCh$
Short-term benefits	6,065	5,692
Severance indemnity payments	404	-
Total	**6,469**	**5,692**

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, 2017 and 2016:

	2017		2016	
	Carrying amount MCh$	Estimated fair value MCh$	Carrying amount MCh$	Estimated fair value MCh$
Assets				
Cash and deposits in banks	453,789	453,789	588,429	588,429
Transactions pending settlement	293,483	293,483	168,704	168,704
Securities held for trading	331,063	331,063	363,153	363,153
Investments sold under repurchase agreements and securities lending	224,189	224,011	183,677	183,525
Derivative instruments	541,641	541,641	283,650	283,650
Loans and advances to banks	34	34	12,331	12,341
Loans and advances to customers	10,170,696	10,484,509	8,617,253	8,913,460
Available-for-sale investment securities	933,011	933,011	654,863	654,863
Securitized bonds	16,595	17,926	15,644	15,423
Liabilities:				
Deposits and other on-demand liabilities	1,539,852	1,539,852	1,152,724	1,152,724
Transactions pending settlement	191,790	191,790	149,635	149,635
Investments sold under repurchase agreements	44,258	44,243	12,343	12,343
Time and on-demand deposits	5,484,907	5,484,941	4,991,637	4,994,214
Derivative instruments	577,582	577,582	301,590	301,590
Bank borrowings	1,261,842	1,244,800	752,185	744,708
Debt securities issued	3,079,840	3,181,786	2,851,745	3,026,901
Other financial liabilities	63,992	63,992	61,683	61,683

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 2017 and 2016. 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

Fair value and fair value hierarchy measurement

The Bank 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. Inputs required to measure at market value the instruments in this category are available on a daily basis and used directly. For currency, shares and mutual fund deposits, prices are directly observed in OTC markets and Stock Exchanges. Such prices correspond to the values by which exactly the same assets are traded and accordingly, the measurement of the portfolio does not require any type of assumption or model.

- Level 2: Financial instruments the fair value of which is realized using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices). In this category the instruments that are measured through the discount of contractual cash flows based on a zero-coupon yield curve determined through prices of instruments of similar characteristics and issuer risk. The income approach is used consisting of converting future to present quantities. For derivative instruments in such category OTC quoted transactions are observed that are informed to the most relevant brokers in the Chilean market and from the Bloomberg platform. Inputs observed are forward prices and interest rates. From such inputs, market curves are calculated which represent in numbers the costs of timing of cash flows from the instrument or associated with the volatility of an asset's price, where finally cash flows are discounted. For brokerage securities, the prices of same type of security transactions are observed at similar terms in the Stock Exchange and market curves are calculated from these.

- Level 3: the fair value is based on models which use significant inputs that are not based on observable inputs. This is used when prices or inputs are unobservable either directly or indirectly for similar instruments for the asset or liability at the valuation date. Such valuation models at fair value are of a subjective nature. Accordingly, they base their estimation of prices on a range of assumptions which are widely accepted in the market.

Note 38 Fair value of financial assets and liabilities, continued

Fair value and fair value hierarchy measurement, continued

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, 2017 and 2016:

		Fair value measurements		
As of December 31, 2017	Carrying amount MCh$	Level 1 MCh$	Level 2 MCh$	Level 3 MCh$
Assets				
Securities held for trading	331,063	184,004	147,059	-
Available-for-sale investment securities	933,011	273,142	659,869	-
Derivative instruments	541,641	-	541,641	-
Investments in companies at fair value	2,188	-	-	2,188
Securitized bonds	16,595	-	-	16,595
Total	**1,824,498**	**457,146**	**1,348,569**	**18,783**
Liabilities				
Derivative instruments	577,582	-	577,582	-
Total	**577,582**	**-**	**577,582**	**-**

		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
Investments in companies at fair value	2,157	-	-	2,157
Securitized bonds	15,644	-	-	15,644
Total	**1,319,467**	**457,629**	**844,037**	**17,801**
Liabilities				
Derivative instruments	301,590	-	301,590	-
Total	**301,590**	**-**	**301,590**	**-**

Note 39 Risk management

1) Introduction

The main objectives of risk management is to guarantee that the results of the activities that imply assuming a risk are consistent with the Bank's strategies and risk appetite and that adequate balance exists between the risk and benefit in order to maximize the value for the shareholders.

Principles:

The activities that imply assuming and managing risks at the Bank are guided by the following principles:

- Risk and benefit: Business decisions are consistent with the strategies and risk appetite and adequate balance exists between the risk and benefit to maximize the value for the shareholders.

- Understanding the risks: The Bank limits its risk assumption activities to those that are well understood and when sufficient experience, resources and infrastructure exist to efficiently measure and control risks. All significant risks are identified, measured and controlled.

- Forward-looking thinking: The forward-looking thinking and stress tests are used to proactively identify the emerging risks and potential vulnerabilities.

- All are risk managers: Each employee's shared responsibility for controlling risk is within the Bank's risk control structure.

- Protecting our brand: All risk assumption activities must be consistent with the risk appetite, Code of Conduct, values and principles in policies which are established to guide the risk assumption conduct and protect the Bank's brand.

Note 39 Risk management, continued

2) Risk management structure

The Bank has a risk control structure which is well established and includes an active and committed Board of Directors, which is supported by an experienced Senior Management team. Decision making is centralized in several committees related to risk management.

The Bank's Risk Management is supported by the three lines of defense model. Within such model. The First Line of Defense assumes risks and manages it, whereas the Second Line of Defense provides independent supervision and objective challenge for the First Line of Defense, as well as supervision and risk control. The Internal Audit (the Third Line of Defense) provides independent assurance at institutional level on the design and operation of the Bank's internal control, risk management and control processes through the first and second lines of defense. In this risk control structure, employees in each area within the organization are responsible for managing risks.

Board of Directors
Because the Board of Directors is the highest level in the Bank's risk management structure, it provides supervision, either directly or through its committees, to ensure that decisions made are consistent with the Bank's strategies and risk appetite. The Board of Directors receives regular updates on key risks, including a summary of the Bank's risk profile and the performance of the portfolio compared to the goals established and the key risk policies approved, limits and the Risk Appetite framework.

Certain examples of Risk Management Committee are as follows:

- **Risk Committee**
  Helps the Board Directors of Scotiabank Chile with the supervision of risk management including institutional risk, credit risk, market risk and operational risk to which Scotiabank Chile is exposed to improve the ease of its monitoring and oversight. Likewise, it provides the Board of Directors with updated information on the Bank's risk management.

- **Asset and Liability Management Committee**
  This Committee has the mission of providing strategic guidelines that allow properly managing the Bank's financial structure consistent with the objectives established by the Board of Directors and the policies of Scotiabank Chile.

Note 39 Risk management, continued

2) Risk management structure, continued

- **Operational Risk Committee**
  This Committee provides 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.

- **Model Committee**
  The Model Committee is an instance formed to approve and define the preparation, application and follow up on the models used in risk management for the Personal Banking, Consumer Finance - SME and Commercial Banking segments. It also includes the Assumption Models of the aforementioned segments.

- **Committee for Preventing Money Laundering and the Financing of Terrorism of Scotiabank Chile and subsidiaries**
  Promoting and improving compliance by the Bank and its subsidiaries of the regulations and best practices to prevent, detect and report unusual transactions that may be linked to Money Laundering.

- **Committee on New Products and Initiatives of Scotiabank Chile and subsidiaries**
  This Committee is intended to approve the new products and initiatives that generate or modify the risks for the Bank and its subsidiaries.

- **Liquidity Contingency Committee**
  The Liquidity Contingency Committee is the highest resolver within the organization during a liquidity stress event, being the contact and consultation point for the Bank's different areas.

- **Audit Committee**
  The Audit Committee is intended to oversee the efficiency of the Bank's internal control systems and compliance with its regulations and other internal standards. In addition, it must be responsible for the oversight of the different aspects involved in the maintenance, application and operation of the Bank's internal controls.

Risk Division
This Division supports the Bank's objectives and must maintain an efficient and ongoing management framework at all the Bank's levels. The Risk Division is responsible to provide a reasonable guarantee to the Senior Management, Board of Directors and Shareholders that risks have been duly identified, controlled and communicated to the key stakeholders. This is achieved by the efficient and timely submission of information. The Risk Division's mission is to guarantee that the results of the risk assumption activities are consistent with the Bank's strategies and risk appetite and that a reasonable balance exists between the risk and benefit to maximize the value for the shareholders.

Note 39 Risk management, continued

2) Risk management structure, continued

Certain key risk management activities performed by the risk division are but are not limited to:

Retail Loan Management

- The assessment of the exceptional credit risk and other credit transactions of the different customer service channels for the Consumer Finance, Personal Banking, Financial Retail and SME Banking.
- The comprehensive management of collections together with compliance with the policies, as well as leading projects for the automation of or improvements in collection systems.

Commercial risk

- Assessing loans, exceptions and other transactions of the different customer service channels for the Commercial, Large Companies, Commercial, and Corporate and Real Estate.

Company Normalization and BRP

- Manages borrowers transferred from the Commercial Divisions, (Corporate, Large Companies, Real Estate and Businesses), including the Lease and factoring operations portfolio which show issues in completion with the obligations with the Bank or show evidence of impairment in their economic or financial position. Note that this Management is also responsible for managing assets recovered in lieu of payment.

Market risk

- Measuring and communicating to the Senior Management the risks assumed by the Scotiabank Group in Chile because of changes in prices or liquidity so that these are administered in accordance with the risk appetite and existing expectations.

Note 39 Risk management, continued

2) Risk management structure, continued

Enterprise Risk

- Developing and implementing methods for identifying, assessing, measuring and monitoring operational risks and reporting the results to the Senior Management and Board of Directors.
- Proposing, documenting and implementing policies and guidelines for the Risk Division, guaranteeing its alignment, dissemination and compliance with the Parent Bank's policies (BNS), local regulations and good market practices.
- Implementing the Risk Management Framework and Risk Appetite Frameworks responsible for the Risk Culture and Crisis Recovery Plan, coordinating reports to the Board of Directors and Rusk Committee.

Compliance

- Ensuring compliance with the standards issued by the regulating agencies and corporate procedures issued by Scotiabank Chile and Subsidiaries through promoting ethical behavior in businesses and supporting Senior Management in identifying and managing compliance risk.
- Ensuring that a crime prevention model is implemented in conformity with Law 20.393 on the Legal Responsibility of Legal entities and ensuring its effective implementation and application.

Preventing Money Laundering and the Financing of Terrorism

- Preventing the use of the products of the Bank and its Subsidiaries for crimes associated with Money Laundering and the Financing of Terrorism decreasing the associated reputation 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, Real Estate and Medium-sized 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

This assessment is applied to natural persons, small-sized entities, micro companies, separating customers in the commercial loan portfolio from customers in the retail portfolio (customers who have assumed loans other than commercial loans). Commercial customers recording sales exceeding MUS$1 or debt exceeding 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 and its subsidiary CAT

For the calculation of retail and CAT 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 or subsidiary, as applicable, 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.

Note that in May 2017, the subsidiary CAT Administradora de Tarjetas transferred to production its new provision methodology based on the Summary of Accounting Standards issued by the local regulating agency. The effect of such changes on risk rates was from 7.24% to 8.73%. During such month, the Bank adjusted its retail models, adding new periods to the calculation of PD and LGD and including effective payment information on LGD. The transfer to production of such adjustments mainly affected the risk rates of the Consumption and Education Loan models per Law No. 20027 the variances of which are recorded below.

Risk rate	Apr-17	May-17
Consumption model	4.19%	4.65%
Model per Law No. 20.027	1.50%	2.73%

For further detail on the adjustment of credit risk models for the calculation of provisions. See Note 3.

Note 39 Risk management, continued

3) Credit risk, continued

Loan quality per class of financial asset

As of December 31, 2017

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	34	-	-	-	-	-	73,729	73,763
A2	-	1,374,083	3,425	809	-	-	251,325	1,629,642
A3	-	332,600	6,193	-	-	-	10,731	349,524
A4	-	965,586	117,777	22,008	-	-	39,976	1,145,347
A5	-	474,612	52,406	10,424	-	-	14,988	552,430
A6	-	201,714	15,403	4,255	-	-	4,449	225,821
B1	-	30,223	2,587	126	-	-	265	33,201
B2	-	21,053	3,132	-	-	-	291	24,476
B3	-	10,002	1,880	-	-	-	253	12,135
B4	-	50,103	182	-	-	-	162	50,447
C1	-	13,672	1,955	61	-	-	10	15,698
C2	-	4,511	1,179	-	-	-	-	5,690
C3	-	4,279	334	-	-	-	-	4,613
C4	-	6,353	651	7	-	-	2	7,013
C5	-	2,543	447	-	-	-	92	3,082
C6	-	23,170	469	214	-	-	2,063	25,916
Total	**34**	**3,514,504**	**208,020**	**37,904**	**-**	**-**	**398,336**	**4,158,798**
Collective assessment:	-	1,102,909	14,570	794	1,864,124	3,705,378	1,112,546	**7,800,321**
Total	**34**	**4,617,413**	**222,590**	**38,698**	**1,864,124**	**3,705,378**	**1,510,882**	**11,959,119**

Note 39 Risk management, continued

3) Credit risk, continued

Loan quality per class of financial asset, continued

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**

Risk and allowance rates	2017 MCh$	2016 MCh$
Total allowance for loans	277,507	223,088
Total loans	10,448,203	8,840,341
Allowance / Loans percentage	37.65	39.63

Note 39 Risk management, continued

4) Operational risk

Operational risk is the risk of loss, whether direct or indirect, to which the Bank is exposed due to inadequate or failed internal processes or systems, human error, or external events. Such definition also includes legal risk but excludes strategic a reputation risks.

Operational risk is inherent to all products, activities, process and systems, unlike financial risks, such as credit risk and market risk, which tend to relate solely to the Bank's specific business activities.

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 adopted a three line of defense model consistent with the Bank's Risk Management Framework, which establishes the related responsibilities for managing Operational Risk.

The first line of defense (typically composed of the lines of business and most significant corporate support functions) assumes and is responsible for the Operational Risk inherent to its activities, processes, products and systems.

The second line of defense (composed of the Operational Risk and other control functions) provides independent supervision and objective assessment, including challenging the first line of defense, as well as monitors Operational Risk management.

The third line of defense (Internal Audit Department) provides an independent security with respect to the design and operation of internal control processes, Operational Risk Management and internal governance through the first and second line of defense.

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

Note 39 Risk management, continued

4) Operational risk, continued

Operational risk identification and assessment

The identification and assessment of Operational Risk and related control activities must reflect the present environment and be forward-looking, improving the ease for early identifying issues that could expose the Bank to an Operational Risk event using the Operational Risk management tools (e.g., control and risk self-assessment).

The process for identifying and assessing must consider both the Bank's internal and external environment and must be facilitated by sufficient knowledge on the business model (business strategies, products or services, processes, activities and systems), as well as the characteristics of the industry's external environment.

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.

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.

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 and its subsidiaries.

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.

Note 39 Risk management, continued

4) Operational risk, continued

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.

Operational risk loss data

The Bank and its subsidiaries follow-up relevant operational risk loss data, based on the amounts established as risk appetite, in conformity with the types of Basel loss events. Losses are reported to the Bank's Enterprise Risk Management and used as components for such risk monitoring and control. The 1B Operational Risk and Regulatory Programs Management then reports the operational loss data on a monthly basis considering certain limits established to BNS's International Operations & Shared Services for entry to the centralized BNS operational loss database. The operational loss database includes the following types of losses:

- Customers, products and business practices.
- Employee practices and safety in the workplace.
- Internal fraud.
- Business interruption and system failure.
- Process performance, delivery and management.
- External fraud.
- Damage to physical assets.

As of December 31, 2017, the Bank has recognized ThCh$3,370 associated with operational risk expenses (MCh$3,242 in 2016). See Note 36.

Note 39 Risk management, continued

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, 2017 (Individual Bank)

	Purchase value MCh$	Purchase IRR %	Market value MCh$	Market IRR %	Unrealized gain (loss) MCh$
Notes expressed in Ch$	**853,662**	**3.22**	**852,592**	**3.34**	**(1,070)**
PDBC	14,987	2.50	14,987	2.52	-
BCP	1,047	3.97	1,051	3.40	4
BTP	203,977	3.96	203,125	4.09	(852)
Time deposits in Ch$	633,651	2.99	633,429	3.13	(222)
Notes expressed in UF	**69,407**	**1.02**	**68,966**	**1.23**	**(441)**
BCU	2,891	1.14	2,886	1.21	(5)
BTU	66,516	1.01	66,080	1.23	(436)
Time deposits in UF	-	0.00	-	0.00	-
Notes expressed in US$	**11,213**	**1.01**	**11,216**	**1.49**	**3**
Time deposits in US$	11,213	1.01	11,216	1.49	3
Total notes	**934,282**	**3.37**	**932,774**	**3.37**	**(1,508)**

Note 39 Risk management, continued

5) Market risk, continued

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
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**

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, 2017, total VaR (including rate and currency) amounted to MCh$460 (MCh$449 in 2016).

The impact by risk factor on VaR for each year is shown below.

	2017 MCh$	2016 MCh$
Bonds in UF	48	168
Derivatives in UF	67	9
Bonds in Ch$	6	213
Derivatives in Ch$	1	66
Derivatives in US$	328	(20)
Basis USDCLP	15	57
Basis L3L6	6	-
Basis L3L1	3	-
FX	(14)	(44)
Total	**460**	**449**

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).

Note 39 Risk management, continued

5) Market risk, continued

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.

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

During 2017, the Bank amended the methodology used for the calculation, including the interest for future cash flows (the measurement was previously conducted only using principal owed amounts). Accordingly, all the tables containing the figures for 2016 were amended using the same methodology for 2017, which results in greater impacts on 2016 that can be compared to those of 2017.

As of December 31, 2017

	NPV	NPV + 1%	NPV - 1%
Ch$	372,720	(40,844)	44,653
UF	593,475	(23,280)	25,381
US$	(86,132)	(2,903)	3,020
FC	40,980	41	(42)
Use	66,986		

As of December 31, 2016

	NPV	NPV + 1%	NPV - 1%
Ch$	270,788	1,139	(1,224)
UF	1,312,665	(106,543)	124,453
US$	(50,876)	59	(106)
FC	9,276	223	(234)
Use	105,121		

Note 39 Risk management, continued

5) Market risk, continued

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

As of December 31, 2017

	Net present value				Financial margin			
	Ch$ MCh$	UF MCh$	US$ MCh$	FC MCh$	Ch$ MCh$	UF MCh$	US$ MCh$	FC MCh$
1 month	893,161	2,164	(220,113)	48,306	8,559	21	(2,109)	463
2 months	(380,969)	48,579	(69,125)	4,654	(3,333)	425	(605)	41
3 months	(267,840)	40,806	(74,469)	(7,190)	(2,120)	323	(590)	(57)
4 months	(321,587)	(86,764)	56,617	-	(2,278)	(615)	401	-
5 months	(392,943)	64,413	86,456	45	(2,456)	403	540	-
6 months	(203,455)	(57,512)	113,107	6	(1,102)	(312)	613	-
7 months	70,127	48,769	1,737	-	321	224	8	-
8 months	(134,485)	60,812	14,010	(125)	(504)	228	53	-
9 months	18,115	(2,549)	7,371	48	53	(7)	21	-
10 months	(41,505)	(148,895)	(175,758)	-	(86)	(310)	(366)	-
11 months	94,415	(83,154)	78,177	14	118	(104)	98	-
12 months	139,302	(74,893)	12,199	6	58	(31)	5	-
					(2,770)	245	(1,931)	447
Exposure to inflation							1,851	
Use	**5,862**							

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 month	1,033,503	187,249	(133,354)	12,256	9,904	1,794	(1,278)	117
2 months	(350,565)	138,440	2,827	6,891	(3,067)	1,211	25	60
3 months	(201,376)	123,107	(89,244)	2,153	(1,594)	975	(707)	17
4 months	(236,081)	61,602	(33,097)	(24)	(1,672)	436	(234)	-
5 months	181,850	(49,436)	106,198	(22)	1,137	(309)	664	-
6 months	(160,636)	38,634	34,715	(5,158)	(870)	209	188	(28)
7 months	(3,950)	61,706	10,231	(24)	(18)	283	47	-
8 months	(180,415)	(72,955)	43,845	(151)	(677)	(274)	164	(1)
9 months	78,679	20,996	(18,638)	35	229	61	(54)	-
10 months	(107,423)	(6,674)	24,208	(24)	(224)	(14)	50	-
11 months	(24,808)	(255,859)	6,000	(22)	(31)	(320)	8	-
12 months	55,452	(167,823)	15,734	(18)	23	(70)	7	-
					3,140	3,982	(1,120)	165
Exposure to inflation						5,094		
Use	**11,263**							

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

Note 39 Risk management, continued

5) Market risk, continued

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.

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

2017	Assets MCh$	Liabilities: MCh$	Net MCh$
US$	13,893,884	13,899,582	(5,698)
CAD	6,906	6,356	550
BRL	33,803	33,808	(5)
AUD	64,273	59,126	5,147
GBP	42,605	42,600	5
DKK	1	-	1
NOK	625	609	16
SEK	2,089	2,068	21
CHF	6,772	6,753	19
COP	-	-	-
JPY	146,587	147,297	(710)
EUR	412,547	410,690	1,857
MXN	94,680	94,609	71
PEN	6,667	6,558	109
NZD	-	-	-
CNY	783	783	-
KRW	267,351	267,223	128

Note 39 Risk management, continued

5) Market risk, continued

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	-

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

2017	Term mismatch			
Days	**Ch$**	**UF**	**US$**	**FC (*)**
00002-00030	808,560	2,164	(135,513)	48,306
00031-00060	(380,969)	48,579	(69,125)	4,654
00061-00090	(267,840)	40,806	(74,469)	(7,190)
00091-00120	(321,587)	(86,764)	56,617	-
00121-00150	(392,943)	64,413	86,456	45
00151-00180	(203,455)	(57,512)	113,107	6
00181-00210	70,127	48,769	1,737	-
00211-00240	(134,485)	60,812	14,010	(125)
00241-00270	18,115	(2,549)	7,371	48
00271-00300	(41,505)	(148,895)	(175,758)	-
00301-00330	94,415	(83,154)	78,177	14
00331-00360	139,302	(74,893)	12,199	6
00361-00720	298,959	301,841	(73,473)	(4,880)
00721-01080	108,917	382,001	136,042	-
01081-01440	138,462	209,045	26,616	-
01441-01800	17,041	(197,664)	(4,341)	-
01801-02160	18,540	(13,393)	(2,154)	-
02161-02520	(19,456)	(41,667)	8,132	-
02521-02880	(15,719)	(77,463)	(842)	-
02881-03240	231,819	(58,639)	37	-
03241-03600	325,915	(193,580)	132	-
03601-05400	2,850	571,144	1	-
05401-07200	17	(114,280)	-	-
07201-09000	-	39,815	-	-
09001-10800	-	1,628	-	-
10800->>>>>	-	1	-	-
NRS	(477,867)	66,993	166,104	(30,011)

(*) 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

2016	Term mismatch			
Days	Ch$	UF	US$	FC (*)
00002-00030	809,472	187,249	90,676	12,256
00031-00060	(350,565)	138,440	2,827	6,891
00061-00090	(201,376)	123,107	(89,244)	2,153
00091-00120	(236,081)	61,602	(33,097)	(23)
00121-00150	181,850	(49,436)	106,198	(22)
00151-00180	(160,636)	38,634	34,715	(5,158)
00181-00210	(3,950)	61,706	10,231	(24)
00211-00240	(180,415)	(72,955)	43,845	(151)
00241-00270	78,679	20,996	(18,638)	35
00271-00300	(107,423)	(6,674)	24,208	(24)
00301-00330	(24,808)	(255,859)	6,000	(22)
00331-00360	55,452	(167,823)	15,734	(18)
00361-00720	60,990	103,716	(3,364)	(380)
00721-01080	204,613	102,188	(6,277)	(5,258)
01081-01440	71,499	313,474	(7,402)	(283)
01441-01800	(3,002)	142,983	(8,608)	(283)
01801-02160	(49,947)	33,510	24,478	(283)
02161-02520	(78,097)	3,947	(9,942)	(283)
02521-02880	(65,800)	(35,654)	(10,045)	(283)
02881-03240	8,468	(105,553)	7	-
03241-03600	20,992	(13,740)	7	-
03601-05400	6,001	547,495	4	-
05401-07200	98	189,002	-	-
07201-09000	3	96,932	-	-
09001-10800	-	22,411	-	-
10800->>>>>	-	454	-	-
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

Regulatory limits

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

	Amount	
	2017 MCh$	2016 MCh$
SHORT-TERM (Margin)		
Short-term interest rate risk	23,446	15,674
Indexation risk	6,294	34,917
Lower income from sensitive commissions	-	-
Short-term total risk	**29,740**	**50,591**
Short-term risk limit (35% of margin)	97,393	84,457
Percentage of use of short-term limit	30.5%	59.9%
LONG-TERM (Value)		
Long-term interest rate risk	107,867	136,461
Interest rate optionality risk	-	-
Long-term total risk	**107,867**	**136,461**
Long-term limit (30% of capital)	346,220	327,105
Percentage of use of long-term limit	31.16%	41.72%

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 2017 MCh$	2016 MCh$
Interest rate risk	50,480	28,285
Currency risk	717	228
Interest rate optionality risk	5	5
Currency optionality risk	-	-
Total trading book market risk	**51,202**	**28,518**
Weighted assets by consolidated risk	10,599,481	8,931,467
Credit risk regulatory capital (8% APR)	847,958	714,517
Market risk regulatory capital	51,202	28,518
Total regulatory capital	899,160	743,035
Effective consolidated equity	1,154,068	1,090,349
Consumption % (includes CR and MR)	77.91%	68.15%
Basel index (including market risk)	10.89%	12.21%

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, 2017 and 2016, mismatches reported are as follows:

As of December 31, 2017	Up to 1 month MCh$	Up to 3 months MCh$	Up to 1 year MCh$	To maturity MCh$
Cash in hand	453,789	-	-	-
Effective placements	522,892	922,520	1,919,748	8,232,066
Loans in adjustable mortgage letters of credit	3,851	5,016	22,193	212,686
Lease contracts	8,726	16,334	65,172	190,402
Agreements	218,512	-	-	-
Financial investments	1,222,838	-	-	-
Other assets	528,827	561,345	589,877	2,028,052
ASSET	**2,959,435**	**1,505,215**	**2,596,990**	**10,663,206**
On-demand liabilities	1,440,633	-	-	-
Deposits, bonds and other obligations	1,229,246	1,705,052	3,107,622	2,733,661
Agreements	41,673	-	-	-
Liabilities for adjustable mortgage letters of credit	7,737	1,044	21,592	208,554
Domestic liabilities	6,692	68	11,734	7,608
Foreign liabilities	136,448	296,536	594,713	335,223
Other liabilities	550,700	618,097	579,609	2,149,545
LIABILITIES	**3,413,129**	**2,620,797**	**4,315,270**	**5,434,591**

As of December 31, 2016	Up to 1 month MCh$	Up to 3 months MCh$	Up to 1 year MCh$	To maturity MCh$
Cash in hand	588,429	-	-	-
Effective placements	442,163	624,291	1,588,958	6,837,323
Loans in adjustable mortgage letters of credit	4,178	5,450	24,186	240,242
Lease contracts	8,015	16,812	68,787	215,981
Agreements	181,075	-	-	-
Financial investments	991,432	3	-	-
Other assets	588,274	229,839	320,625	884,407
ASSET	**2,803,566**	**876,395**	**2,002,556**	**8,177,953**
On-demand liabilities	1,070,807	-	-	-
Deposits, bonds and other obligations	1,358,617	1,418,082	2,376,920	2,783,862
Agreements	11,402	-	-	-
Liabilities for adjustable mortgage letters of credit	7,412	1,262	23,175	233,376
Domestic liabilities	9,411	68	1,220	19,457
Foreign liabilities	54,295	69,698	457,640	203,972
Other liabilities	602,707	302,026	279,998	1,051,524
LIABILITIES	**3,114,651**	**1,791,136**	**3,138,953**	**4,292,191**

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.

2017	Fair value of assets MCh$	Fair value of liabilities MCh$	Credit risk adjustment MCh$
Total	541,641	(577,582)	(1,365)

2016	Fair value of assets MCh$	Fair value of liabilities MCh$	Credit risk adjustment MCh$
Total	283,650	(301,590)	(1,218)

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.

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 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, 2017 and 2016, minimum basic capital and effective equity are the following:

As of December 31, 2017

Balance sheet assets (net of allowances)	Consolidated assets MCh$	Risk weighted assets MCh$
Cash and deposits in banks	453,789	-
Transactions pending settlement	293,483	155,439
Securities held for trading	331,063	139,079
Investments purchased under repurchase agreements and securities lending	224,189	224,189
Derivatives	572,028	268,985
Loans and advances to banks	34	34
Loans and advances to customers	10,170,696	8,429,302
Available-for-sale investment securities	933,011	155,874
Held-to-maturity investment securities	-	-
Investments in other companies	10,191	10,191
Intangible assets	134,668	134,668
Property and equipment	65,589	65,589
Current tax assets	8,152	815
Deferred tax assets	133,894	13,389
Other assets	178,411	178,411
Off-balance assets		
Contingent loans	1,372,526	823,516
Total risk-weighted assets		**10,599,481**

	Amount MCh$	Ratio %
Basic capital	916,438	6.16
Effective equity	1,154,068	10.89

Note 39 Risk management, continued

8) Capital management, continued

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 40 Subsequent events

On January 10, 2018, the subsidiary Scotia Administradora General de Fondos Chile S.A. renewed the guarantees up to January 10, 2019, for each of the funds managed, in its favor, acting as the representative of the beneficiaries, thereby complying with Article No. 4 of Law No. 20.712 and General Standard No.125 issued by the SVS. Guarantees constituted for funds managed through bank guarantee certificates with Scotiabank Chile correspond to a total amount of UF 412,631.89

In the Bank's Management's view, between January 1, 2018 and the date of issuance of these financial statements there have been no other subsequent events that could significantly affect the amounts presented in the financial statements or the Bank and its subsidiaries' economic and financial position.

LEONARDO MUÑOZ C.
Accounting Manager

MARIA VICTORIA DOBERTI D.
Chief Financial Officer

FRANCISCO J. SARDÓN DE TABOADA
Chief Executive Officer