SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Financial Statements as of
December 31, 2018 and 2017
and for the years then ended

(With Independent Auditors' Report Thereon)

SCOTIABANK CHILE AND SUBSIDIARIES

CONTENTS

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

Independent Auditor's Report

To the Stockholders and Directors of
Scotiabank Chile S.A.:

We have audited the accompanying consolidated financial statements of Scotiabank Chile S.A. and its Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 Chilean 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 S.A. and its Subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with the accounting standards and instructions issued by the Chilean Superintendence of Banks and Financial Institutions.

Emphasis of matter – Merger of Banks

As described in Notes 4(h) and 40 to the consolidated financial statements, at the General Extraordinary Shareholders' Meeting held on August 2, 2018 the shareholders approved the merger of Scotiabank Azul S.A. (formerly - Banco Bilbao Vizcaya Argentaria Chile S.A.) into Scotiabank Chile S.A. Accordingly, on August 20, 2018, through Resolution No. 390, the Chilean Superintendence of Banks and Financial Institutions approved the merger between both Banks, which became effective beginning on September 1, 2018. Consequently, from such date, all the assets and liabilities of Scotiabank Azul S.A. were assumed by Scotiabank Chile S.A., which became the legal successor bank. The consolidated financial statements as of December 31, 2018 record the financial position of both merged banks and in their turn of the balances as of December 31, 2017, record the financial position solely of Scotiabank Chile, in accordance with the instructions issued by the Chilean Superintendence of Banks and Financial Institutions.

Emphasis of matter – Change in Accounting Policy

As described in Note 3 a) to the consolidated financial statements as of December 31, 2018, the Bank voluntarily anticipated the accounting change due to July 1, 2019, instructed by the Circular No. 3.638 issued by the Chilean Superintendence of Banks and Financial Institutions, implementing a new standard model of the allowances for credit risk on the collective commercial portfolio. Our opinion is not modified with respect to this matter.

Other matters - Translation

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 Guzmán V. KPMG Ltda.

Santiago, February 27, 2019

SCOTIABANK CHILE AND SUBSIDIARIES

CONTENTS

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SCOTIABANK CHILE AND

CONTENTS

SCOTIABANK CHILE AND

CONTENTS, continued

SCOTIABANK CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2018 and 2017

ASSETS	**Note**	**12/31/2018 MCh$**	**12/31/2017 MCh$**
Cash and deposits in banks	6	787,472	453,789
Transactions pending settlement	6	864,482	293,483
Securities held for trading	7	859,028	331,063
Investments sold under repurchase agreements and securities lending	8	217,365	224,189
Derivative instruments	9	2,480,637	541,641
Loans and advances to banks	10	2,789	34
Loans and advances to customers	11	22,330,415	10,170,696
Available-for-sale investment securities	12	1,212,048	933,011
Held-to maturity investment securities	12	-	-
Investments in companies	13	18,909	10,191
Intangible assets	14	160,692	134,668
Property and equipment	15	132,352	65,589
Current tax assets	16	5,924	8,152
Deferred tax assets	16	271,142	133,894
Other assets	17	723,759	178,411
TOTAL ASSETS		**30,067,014**	**13,478,811**

SCOTIABANK CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2018 and 2017

LIABILITIES	Note	12/31/2018 MCh$	12/31/2017 MCh$
Deposits and other on-demand liabilities	18	4,107,266	1,539,852
Transactions pending settlement	6	678,542	191,790
Investments sold under repurchase agreements and securities lending	8	575,782	44,258
Term and on-demand deposits	19	10,820,595	5,484,907
Derivative instruments	9	2,409,176	577,582
Bank borrowings	20	2,559,097	1,261,842
Debt securities issued	21	6,141,337	3,079,840
Other financial liabilities	22	73,082	63,992
Current tax liabilities	16	2,507	-
Deferred tax liabilities	16	1,942	-
Provisions	23	137,277	69,672
Other liabilities	24	450,458	171,081
TOTAL LIABILITIES		**27,957,061**	**12,484,816**
EQUITY			
Attributable to owners of the Bank:			
Capital	26	996,054	390,158
Reserves	26	496,348	56,190
Other comprehensive income:	26	(1,984)	(2,430)
Retained earnings:			
Retained earnings from previous periods	26	447,437	400,211
Profit or loss for the period	26	108,120	103,299
Less: Provision for minimum dividends	26	(32,436)	(30,990)
		2,013,539	**916,438**
Non-controlling interest	26	**96,414**	**77,557**
TOTAL EQUITY		**2,109,953**	**993,995**
TOTAL LIABILITIES AND EQUITY		**30,067,014**	**13,478,811**

SCOTIABANK CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME FOR THE PERIOD
for the years ended December 31, 2018 and 2017

	Note	12/31/2018 MCh$	12/31/2017 MCh$
Interest and indexation income	27	1,163,097	798,723
Interest and indexation expenses	27	(548,188)	(365,390)
Net interest and indexation income	27	**614,909**	**433,333**
Fee and commission income	28	184,302	137,427
Fee and commission expenses	28	(51,435)	(32,280)
Net fee and commission income	28	**132,867**	**105,147**
Net gain (loss) from financial transactions	29	935	37,436
Net foreign exchange income (expense)	30	71,075	3,985
Other operating income	35	24,530	19,390
Total operating income		**844,316**	**599,291**
Allowances for credit risk	31	(230,129)	(150,190)
NET OPERATING INCOME		**614,187**	**449,101**
Personnel payroll and expenses	32	(203,810)	(152,479)
Administrative expenses	33	(173,637)	(125,267)
Depreciation and amortization	34	(27,842)	(19,151)
Impairment	34	(21,372)	-
Other operating expenses	36	(29,282)	(14,789)
TOTAL OPERATING EXPENSES		**(455,943)**	**(311,686)**
OPERATING INCOME		**158,244**	**137,415**
Equity in net income of investees	13	121	478
Profit before income tax		**158,365**	**137,893**
Income taxes	16	(31,290)	(23,450)
CONSOLIDATED PROFIT FOR THE PERIOD		**127,075**	**114,443**
Attributable to:			
Owners of the Bank		108,120	103,299
Non-controlling interest	26	18,955	11,144
		127,075	114,443
Earnings per share attributable to owners of the Bank:			
Basic and diluted earnings per share		Ch$ 9.40	Ch$ 20.07

The Consolidated Financial Statements as of December 31, 2018, include the balances of Scotiabank Chile from January 1 through December 31, 2018 and balances of Scotiabank Azul from September 1 through December 31, 2018 (4 months) as a result of the merger.

SCOTIABANK CHILE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE
for the years ended December 31, 2018 and 2017

	Note	12/31/2018 MCh$	12/31/2017 MCh$
Consolidated Profit for the Period		**127,075**	**114,443**
Other comprehensive income, net of tax			
Net fluctuation in available-for-sale investment securities		6,151	(1,846)
Net fluctuation in deferred taxes on available-for-sale investment	16	(1,508)	501
Adjustment of cash flow hedge derivatives		1,136	6,144
Net fluctuation in deferred taxes on cash flow hedge derivatives	16	(337)	(1,409)
Other adjustments to equity		-	(58)
Total other comprehensive income		**5,442**	**3,332**
Consolidated comprehensive income for the period		**132,517**	**117,775**
Attributable to:			
Owners of the Bank		113,560	106,659
Non-controlling interest		18,957	11,116
Consolidated comprehensive income for the period		**132,517**	**117,775**

SCOTIABANK CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2018 and 2017

	Note	Capital in Shares MCh$	Reserve Accounts MCh$	Valuation MCh$	Retained earnings MCh$	Total MCh$	Non-controlling interest MCh$	Total equity MCh$
		Attributable to equity owners						
Balances 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		-	-	-	(30)	(30)	(28)	(58)
Profit or loss for the period					103,299	103,299	11,144	114,443
Total comprehensive income for the period		-	-	3,390	103,269	106,659	11,116	117,775
Distribution of profit or loss from prior years		-	-	-	-	-	(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**
Balance as of December 31, 2017		390,158	56,190	(2,430)	472,520	916,438	77,557	993,995
Net fluctuation in available-for-sale investment securities, net of taxes		-	-	4,641	-	4,641	2	4,643
Adjustments of cash flow hedge derivatives, net of taxes		-	-	799	-	799	-	799
Profit or loss for the period		-	-	-	108,120	108,120	18,955	127,075
Total other comprehensive income for the period		-	-	5,440	108,120	113,560	18,957	132,517
Merger with the former Banco BBVA	26	324,341	463,831	(4,994)	49,177	832,355	484	832,839
Capitalization of share premium		23,673	(23,673)	-	-	-	-	-
Capital increase	26	257,882	-	-	-	257,882	-	257,882
Non-controlling interest on acquisition of new subsidiaries		-	-	-	-	-	2,053	2,053
Dividends paid	26	-	-	-	(74,260)	(74,260)	(2,637)	(76,897)
Provision for minimum dividends	26	-	-	-	(32,436)	(32,436)	-	(32,436)
Balance as of December 31, 2018		**996,054**	**496,348**	**(1,984)**	**523,121**	**2,013,539**	**96,414**	**2,109,953**

SCOTIABANK CHILE AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
for the years ended December 31, 2018 and 2017

	Note	12/31/2018 MCh$	12/31/2017 MCh$
Cash flows from operating activities:			
Profit or loss for the period		127,075	114,443
Adjustments for:			
Depreciation and amortization	34	27,842	19,151
Allowances for credit risk	31	281,725	194,990
Effect of fair value adjustment on derivative instruments		(28,116)	23,571
Net loss from sale of property and equipment	35/36	(2,170)	(10)
Net interest and indexation income	27	(614,909)	(433,333)
Equity for investments in related companies	13	(121)	(478)
Income tax expense	16	55,986	26,886
Net loss on sale of assets received in lieu of payment	35	(6,016)	(2,099)
Provisions and/or write-offs of assets received in lieu of payment	36	6,803	3,726
Impairment of intangible assets	34	21,372	-
Other debits		(98,342)	(30,412)
Change in trading assets:			
Securities held for trading		(449,895)	26,148
Loans and advances to banks		(2,754)	12,297
Loans and advances to customers		(11,949,365)	(1,733,153)
Deferred tax assets	16	(24,696)	(3,436)
Other assets		(545,420)	(42,535)
Change in trading liabilities:			
Deposits and other on-demand liabilities		2,566,943	387,175
Investments sold under repurchase agreements		531,500	31,901
Term deposits and on-demand deposits		5,278,615	494,999
Other liabilities		261,777	74,040
Interest and indexation received		509,125	779,788
Interests and adjustments paid		(431,985)	(357,243)
Taxes and fines paid		(68)	(84)
Collection of remaining balance of taxes from previous years		33	4
Net cash provided by (used in) operating activities		**(4,485,061)**	**(413,664)**

SCOTIABANK CHILE AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

for the years ended December 31, 2018 and 2017

	Note	12/31/2018 MCh$	12/31/2017 MCh$
Cash flows from investing activities:			
Acquisition of property and equipment	15	(19,592)	(7,566)
Net change in investment securities		(287,595)	(272,685)
Dividends received		121	198
Acquisition of intangible assets	14	(29,065)	(11,391)
Acquisition of investments in companies	13	(84)	(13)
Acquisition of new subsidiaries		2,053	-
Net cash from (used in) investing activities		**(334,162)**	**(291,457)**
Cash flows from financing activities			
Net change in bank borrowings		1,294,672	510,167
Net change in debts instruments		3,017,161	221,340
Net change in other financial liabilities		9,297	2,360
Adjustment of allowances for risk credit in non-controlling portfolio		-	(58)
Incorporation of cash and cash equivalents associated with the merger with Scotiabank Azul		826,067	-
Capital increase	26	257,882	-
Dividends paid non-controlling interests	26	(2,637)	(5,634)
Dividends paid	26	(105,250)	(31,094)
Net cash provided by financing activities		**5,297,192**	**697,081**
Net cash flows		**477,969**	**(8,040)**
Cash and cash equivalents as of January 1	6	**1,125,148**	**1,133,188**
Cash and cash equivalents as of December 31	6	**1,603,117**	**1,125,148**

The Consolidated Statements of Cash Flows were prepared using the indirect method, determining the variance between balances as of December 31, 2017 of Scotiabank Chile and as of December 31, 2018 as Bank merged with the former BBVA Chile. Accordingly, the variances include the merger between both banks.

Note 1 General Information

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 instrument 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 oversight of the Chilean Superintendence of Banks and Financial Institutions.

At the Extraordinary Shareholders' Meeting of Scotiabank Sud Americano and Banco del Desarrollo, held on July 29, 2009, the new bylaws were established, which were approved by Chilean 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 Supreme Decree issued by the Ministry of Finance No. 1.389 dated March 29, 1944.

At the Extraordinary Shareholders' Meeting of Scotiabank Sud Americano and Banco Bilbao Vizcaya Argentaria, Chile held on August 2, 2018, the new bylaws were established, which were approved by the Chilean Superintendence of Banks and Financial Institutions through Resolution No.390 dated August 20, 2018. The merger between both Banks became effective on September 1, 2018.

The Bank's registered address is located at Avenida Costanera Sur No. 2710, Torre A, Las Condes, Santiago and its website is www.scotiabank.cl.

Note 2 Significant accounting policies

(a) Basis of preparation

The Consolidated Financial Statements, which comprise 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 criteria issued by the Chilean 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 International 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 certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses 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.

(b) Basis of Consolidation

The Consolidated Financial Statements comprise the preparation of the separate (stand-alone) financial statements of Scotiabank Chile, and the different companies involved in the consolidation and include the required adjustments and reclassifications to unify the accounting policies and valuation criteria used by the Bank in accordance with the Summary of Accounting Standards issued by the SBIF.

Intercompany balances and any unrealized income or expenses arising from collective intercompany transactions, are eliminated during the preparation of the Consolidated Financial Statements.

These Consolidated Financial Statements are presented for comparative purposes as follows:

- The Statement of Financial Position as of December 31, 2018 includes the balances of Scotiabank Chile merged with Scotiabank Azul (formerly BBVA Chile).

- The Statement of Financial Position as of December 31, 2017 only includes the balances of Scotiabank Chile (unmerged).

- The Consolidated Statements of Income and Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the twelve-month period between January 1 and December 31, 2018, include the balances of Scotiabank Chile. In addition, and as a result of the merger of September 1, 2018, these financial statements only include the profit or loss accounts and accounting movements of Scotiabank Azul from September 1 through December 31, 2018 (4 months).

Note 2 Significant accounting policies, continued

(b) Basis of consolidation, continued

- The Consolidated Statements of Income and Other Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the twelve-month period from January 1 through December 31, 2017, include the balances of Scotiabank Chile (unmerged).

The Consolidated Financial Statements were approved by the Board of Directors on February 27, 2019

(i) Subsidiaries

The financial statements of Scotiabank Chile as of December 31, 2018 and 2017, have been consolidated with those of its subsidiaries in accordance with International Financial Reporting Standard (IFRS) 10 "Consolidated Financial Statements." These comprise the preparation of the separate financial statements of the Bank and the companies included in consolidation, and include the adjustments and reclassifications required for the consistent application of the accounting policies and measurement criteria applied by the Bank, in accordance with the standards established. These financial statements have been prepared using consistent accounting policies for similar transactions and other events in 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, reflected 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, 2018, the Bank reassessed the control conclusion for its subsidiaries and associates. As a result, the Bank did not change its control conclusion on them.

Note 2 Significant accounting policies, continued

(b) Basis of consolidation, continued

i) Subsidiaries, continued

The following subsidiaries, over which the Bank has the ability to exercise control and, accordingly, are included in the consolidation of these Financial Statements:

Company	Direct December 2018 %	Indirect December 2018 %	Direct December 2017 %	Indirect December 2017 %
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 Asesorías Financieras Limitada	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	-
Servicios Integrales S. A. (*)	51.00	-	-	-
Operadora y Procesos S.A. (*)	51.00	-	-	-
Scotia Azul Asset Management Administradora General de Fondos S.A. (**)	99.90	0.10	-	-
Scotia Azul Corredora Técnica de Seguros Limitada (**)	99.90	0.10	-	-
Scotia Azul Corredores de Bolsa Limitada (**)	99.16	0.84	-	-
Scotia Azul Asesorías Financieras S.A. (**)	98.60	1.40	-	-
Scotia Azul Sociedad de Leasing Inmobiliario S.A. (**)	97.49	-	-	-
Scotia Azul Factoring Limitada (**)	99.90	0.10	-	-

(*) On September 1, 2018, the Bank acquired 51% of the ownership of Servicios Integrales S.A. and Operadora y Procesos S.A. from Sociedad de Inversiones Fintesa Limitada, which is under the same common control of Scotiabank Chile through Sociedad Nova Scotia Inversiones Limitada.

(**) The subsidiaries of Banco Scotiabank Azul (Formerly BBVA Chile) were included as subsidiaries of Scotiabank Chile on September 1, 2018 as a result of the merger (see Note 40).

ii) Fund management

The Bank, through its subsidiary Scotia Administradora General de Fondos Chile S.A. and Scotia Azul Asset Management Administradora General S.A., manages and administers assets held in mutual funds and investment funds. The Financial Statements of these companies are not included in these Consolidated Financial Statements.

iii) 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 Consolidated Statements of Financial Position in equity.

Note 2 Significant accounting policies, continued

(b) Basis of consolidation, continued

iv) Loss of control

When the Bank losses control of a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any resulting gain or loss is recognized in profit or loss. If the Bank retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost.

(c) 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.
- Investments in companies measured at fair value.

(d) Functional and presentation currency

Scotiabank Chile and subsidiaries have defined the Chilean peso as its functional currency, as its deposit, placement and investment transactions are mainly expressed in such currency. These Consolidated Financial Statements are presented in Chilean pesos. All the information presented in Chilean pesos has been rounded to the nearest million.

(e) 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 are translated into the functional currency at the exchange rate as of the date of the Consolidated Statements of Financial Position. Foreign currency differences are recognized with a debit or credit to profit of loss.

Assets and liabilities in foreign currency US dollar are recognized at their equivalent amount in Chilean pesos, calculated at the exchange rate of Ch$693.85 per US$1 as of December 31, 2018 (Ch$614.75 as of December 31, 2017).

As of December 31, 2018, the balance of MCh$71,075 recorded within “Net foreign exchange gain” (2017: MCh$3,985), in the Consolidated Statements of Income for the Period includes the recognition of the effects of changes on the exchange rate of assets and liabilities in foreign currency or adjustable units, and the resulting gain or loss from exchange transactions of the Bank and its subsidiaries.

Note 2 Significant accounting policies, continued

(f) Business segments

The Bank provides operating segment financial information to identify and disclose in the notes to the consolidated financial statements the nature and financial effects arising from its business activities and the economic environments in which it operates, in accordance with International Financial Reporting Standard (IFRS 8), Operating Segments. Such standard requires that the Bank provides information on the different types of business activities in which it is involved and assists the users of financial statements to obtain:

- Better understanding of return.
- Better assessment of future cash flow projections.
- Better judgment on the company as a whole.

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.

(g) Investments in companies

i) Companies in which the Bank has significant influence

Associates are those entities over 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 using the equity method of accounting, unless the Bank may clearly demonstrate there is no such influence. 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 of accounting.

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.

Note 2 Significant accounting policies, continued

(g) *Investments in companies, continued*

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 ("multi-group") or perform transactions or hold assets so that any strategic financial or operating decision affecting them requires the unanimous consent by all the venturers. At the date of these Consolidated Financial Statements, the Bank concluded it is not involved in any joint venture.

iii) Shares or interests in other companies

Shares or interests in 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).

(h) *Interest and indexation income and expenses*

Interest income and expenses 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 mainly relate to the indexation associated with changes in the value of inflation-adjusted units (UF), which amounted to Ch$27,565.79 as of December 31, 2018 (Ch$26,798.14 as of December 31, 2017).

Note 2 Significant accounting policies, continued

(h) Interest and indexation income and expenses, continued

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:

Loans subject to suspension	Reason for
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.

(i) Fee and commission income and expenses

Financial fees and commissions and transaction costs directly associated with 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.

Fee and 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.

Fee and commission income and expenses are recognized as the related services are provided.

Note 2 Significant accounting policies, continued

(j) Securities held for trading

Securities held for trading relate 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 gain (loss) from financial operations" in the Consolidated Statements of Income.

(k) Financial assets and liabilities

1. Recognition

   The Bank initially recognizes loans and advances to customers, securities held-for-trading, investment 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; i.e., the 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. Rating

   Accounting policies associated with each classification are addressed in letters (j), (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 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 from its Statement of Financial Position a financial liability, or a portion of it, when its contractual obligations are discharged or 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 in which the financial asset or liability was initially measured, minus the capital repayments that may be made, more or minus, as the accumulated amortization is applicable, using the effective interest method, of the difference between the initial amount and the repayment amount at maturity. For financial assets, minus any value reduction of the impairment amount which had been recognized, either directly or as an increase in the asset amount or through a complementary account of its amount.

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 recent market transactions of the same instrument or based on other available observable market data.

The Bank establishes a fair value hierarchy that segregates inputs and/or assumptions of valuation techniques used in measuring the fair value of financial instruments (see the detail in Note 38).

Note 2 Significant accounting policies, continued

(k) Financial assets and liabilities, continued

7. Identification and measurement of impairment

The Bank assesses at each closing date of the Statement of Financial Position, whether there is objective evidence that financial assets are not carried at fair value through profit or loss are impaired. These 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 for the period. Changes in allowance for impairment losses attributable to the time value of money 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, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the higher 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 Statements of Income.

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, had no impairment loss been recognized.

Note 2 Significant accounting policies, continued

(m) Cash and cash equivalents

For purposes of the Consolidated Statements of Cash Flows, the Bank considers 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 to be cash and cash equivalents.

The Bank uses the indirect method for the preparation of the Consolidated Statements of Cash Flows, which starting from the Bank's profit or loss for the period includes non-cash transactions, as well as income and expenses associated with cash flows from operating, financing and investing activities.

For the preparation of the Consolidated Statements of Cash Flows, the Bank considers the following concepts:

(i) Cash flows

Cash and cash equivalents inflows and outflows; i.e., highly-liquid short-term investments with low risk of changes in value, such as: deposits with Banco Central de Chile, deposits in Domestic Banks and deposits in Foreign Banks.

(ii) Operating activities

are the principal revenue-producing activities of the Bank and other activities that are not investing or financing activities.

(iii) Investing activities

are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

(iv) Financing activities

are activities that result in changes in the size and composition of the contributed net equity and liabilities that are not part of the operating or investing activities.

Note 2 Significant accounting policies, continued

(n) Derivative instruments

Derivative instruments that include foreign currency, Unidades de Fomento, 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 trading value (cost) and subsequently measured at fair value. Fair value is obtained from market quotes, discounted cash flow models and measurement 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 risk are not closely related to those of the host contract and not measured at fair value with the related unrealized gains or losses included in profit or loss. As of December 31, 2018, the Bank records no separable embedded derivatives.

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) from financial operations" 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 for 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 formally documented, indicating the risk management objectives and strategies intended with such transaction.
- 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.

Note 2 Significant accounting policies, continued

(n) Financial derivative instruments, continued

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 measuring the fair value of both the hedged item and the hedging derivative are recognized with an effect on profit or loss. The fair value measurement adjustment of the hedged item is presented in the Statement of Financial Position of the same caption including such item.

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 Statement of Financial Position.

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.

For a fair value hedge of interest rates in a portfolio, and the hedged item is an amount of money rather than separately identified assets or liabilities, gains or losses from measuring the fair value of both the hedged portfolio and the hedging derivative, are recognized through profit or loss for the year. However, the gain or loss from measuring the fair value the hedged portfolio is recorded in the Statement of Financial Position under the caption "Other assets" or "Other liabilities", depending on the position of the hedged portfolio at a given date.

Financial derivative contracts are subject to offsetting, i.e., they are presented in the Consolidated Financial Statements at their net value only when subsidiaries have both, the legally enforceable right to offset the amounts recognized in such instruments, and the intention to settle the net amount, or realize the asset and pay the liability simultaneously.

Note 2 Significant accounting policies, continued

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

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.

Third-party financing from debt securities acquired for trading or investment and from agreements to repurchase, 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 the related incremental transaction costs, and subsequently measured at amortized cost using the effective interest method, except when the Bank defines certain loans as hedged items, which are measured at fair value through profit or loss as described in letter (n) of 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 suspend, on an accrual basis, revenue recognition because of the high uncollectibility risk they have as described in Note 2(h).

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 ‘Allowances for credit risk’ in the Consolidated Statements of Income.

Note 2 Significant accounting policies, continued

(p) Factoring transactions

Factoring transactions are measured considering amounts disbursed by the Bank when receiving invoices or other commercial instruments representing the credit that the assignor provides to the Bank. The price difference between the disbursed amounts and the actual face value of credits is recorded in the Consolidated Statements of Income as interest income through the effective interest method, during the financing period. When the transfer of these instruments is performed with no recourse by the assignor, the Bank assumes the insolvency risks of those obliged to pay.

(q) Allowance account for credit risk

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

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

Provisions for loans by individual evaluation: The individual analysis of debtors is applied to customers, natural persons or legal entities which, due to their size, complexity or exposure level, must be known comprehensively, requiring the assignment of a credit rating for each debtor. From July 2018 and until the consistent application of the credit policies, the Bank classifies its customers to conduct an individual assessment of such customers in accordance with the Scotiabank Chile's policies, including customers with authorized exposure over MCh$250 and sales over MUS$1, as well as debtors from the Corporate, Large Corporations, Real Estate and Medium-Sized Entities segments. Likewise, in accordance with the policy approved by the Board of Directors, for portfolio from the former Banco BBVA, customers are classified and assessed individually, including customers with exposures over MCh$530 and/or sales over MCh$1,060.

Note 2 Significant accounting policies, continued

(q) Allowance account for credit losses, continued

To make the allowances, the Bank classifies its debtors and transactions related to loans and contingent loans in the related categories, with the prior allocation to one of the following three portfolio categories: 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	Probability of default (%)	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

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

Note 2 Significant accounting policies, continued

(q) Allowance account for credit losses, continued

Provisions for loans associated with collective assessment: A collective assessment is used to analyze a high number of uniform transactions whose individual amounts are low. The Bank uses a model for commercial exposures under MCh$250 to determine an allowance based on the concept of expected loss of a credit. The detail of construction of the collective provision models is explained in Note 39.

On July 6, 2018, the Superintendence of Banks and Financial Institutions (SBIF) issued Circular No.3.638, in which it established a new standard model to estimate the provisions for credit risk for the collective analysis in the commercial portfolio, mandatory beginning on July 1, 2019. On December 19, 2018, the Board of Directors approved the use of these new collective provision models for the commercial portfolio, which were applied as of December 31, 2018 (see Note 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

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 hedge the credit risk, a provision for potential losses is accrued and recorded within 'Allowances for credit risk' in the Consolidated Statements of Income.

To estimate allowances for contingent loans as indicated in Chapter B-1 and Chapter B-3 of the Summary of Accounting Standards issued by the Chilean Superintendence of Banks and Financial Institutions, 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 loan commitments:	
- Loans for higher education studies per Law No.	15%
- Other	100%
g) Other contingent loans	100%

Note 2 Significant accounting policies, continued

(q) Allowance account for credit losses, continued

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.

(r) Investment securities

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

(i) Held to maturity investment securities

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

Held-to-maturity investments are recognized at amortized cost using the effective interest method plus accrued interests and accrued adjustments minus the allowances for impairment losses made when the amount recognized is higher than the estimated recoverable amount. 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, 2018 and 2017, the Bank and its subsidiaries maintained no held-to maturity investment securities.

Note 2 Significant accounting policies, continued

(r) Investment securities, continued

(ii) Investment securities available for sale

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.

Investment securities are initially recognized at cost, and subsequently measured at fair value according to market prices or measurements obtained from the use of models. Unrealized gains or losses generated by the change in their fair value are recognized with a debit or credit to equity accounts. When these investments are disposed of or impaired, the amount of the adjustments on accumulated fair value in equity is transferred to profit or loss and reported in the caption “Net gain (loss) from financial operations” in the Consolidated Statements of Income.

Interests and adjustments from investment securities available for sale are recognized in the caption "Interest and indexation income" in the Consolidated Statements of Income.

(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 agreements to repurchase and securities lending” that are measured in accordance with the interest rate in the agreement.

Agreements to repurchase 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 "Securities purchased under agreements to resell and securities lending", which is measured in accordance with the interest rate in the agreement.

Note 2 Significant accounting policies, continued

(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 by the consolidated entities. These are assets whose cost can be measured reliably and for which the consolidated entities believe it is 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 a maximum of up to 5 years

(ii) Other identifiable intangible assets

Corresponds to intangible assets identified in which the asset cost can be measured reliably and it is likely to generate future economic benefits. The estimated useful life of these intangible assets is up to 3 years.

(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.

Note 2 Significant accounting policies, continued

(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 lives of the assets, including the related debits to profit or loss within the caption 'Depreciation and amortization' in the Consolidated Statements of Income.

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

As of December 31, 2018 and 2017, 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.

Note 2 Significant accounting policies, continued

(v) Leases

(i) Operating leases

A lease is classified as an operating lease if the lessor retains substantially all the risks and rewards related to the ownership.

When consolidated entities act as lessors, they report the acquisition costs of the leased assets in the caption "Property and equipment." These assets are amortized in accordance with the policies adopted for similar material assets kept for own use, and income from lease contracts are recognized on a straight-line basis in the caption "Other operating income" in the Consolidated Statements of Income.

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 lease

Correspond to leases that transfer substantially all risks and rewards to the lessee of the owner's leased asset.

When consolidated entities act as the lessor of an asset, the aggregate present values of the lease payments they will receive from the lessee plus the guaranteed residual value, usually, the price of the exercise of the lessee's purchase option at the expiration of the contract, are recognized as third party financing, and accordingly, included in the caption "Loans and advances to customers" in the Consolidated Statement of Financial Position.

For finance leases when the Bank acts as a lessee, it recognizes the cost of leased assets in the Consolidated Statement of Financial Position, according to the nature of the leased asset, and simultaneously, the sum of the present value of minimum lease payments it will make plus the purchase option, are recorded as a financial liability. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liabilities. 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 liabilities. Assets are amortized using similar criteria to that applied to property and equipment for own use.

Note 2 Significant accounting policies, continued

(v) Leases, continued

(iii) Sales with subsequent lease

For sales at fair value with subsequent operating lease, the profit or loss is recorded at the time of the sale. For subsequent finance lease, the gain or loss is amortized during the term of the lease.

(w) Current 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 date of the Consolidated Statements of Financial Position, and any adjustment to income 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 assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences related to the year in which they reverse, based on the laws that have been enacted or substantively enacted at the date of the Consolidated Statement of Financial Position.

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 only 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 date of the Consolidated Statement of Financial Position 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) Transactions with related parties

Disclosures on the most significant related parties are detailed in Note 37, indicating the relationship with each related party involved, as well as the transaction description and related balances. All this is performed for an adequate understanding of the potential effects of such relation on the Consolidated Financial Statements.

(z) Employee benefits and accrued vacation cost

Short-term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The effect in the statement of financial position 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. Accordingly, 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.

(aa) 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 for net of the portion of the provisional dividends that has been approved during the course of the year and are registered in the caption "Provisions" with a debit to the account "Provisions for minimum dividends" In Equity.

(ab) Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss attributable to the Bank by the 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.

At the date of these Consolidated Financial Statements, the Bank and its subsidiaries do not have any instruments that generate dilutive effects on equity.

Note 2 Significant accounting policies, continued

(ac) Consolidated Statements of Changes in Equity

The Statement of Changes in Equity included in these Consolidated Financial Statements includes movements in equity occurred between January 1 and December 31, 2018 and 2017.

This section includes all movements in equity, including those arising from changes in the accounting policies and correction of errors. Accordingly, this statement shows a reconciliation of the carrying amount at the beginning and end of the year of all items that comprise net equity.

(ad) Consolidated Statements of Other Comprehensive Income

This section includes changes in equity by disclosing income and expenses of the Bank and its subsidiaries resulting from the performance of its activities during the year, distinguishing those recorded as profit in the profit and loss account for the year and other income and expenses directly recorded in net equity.

Accordingly, this statement includes:

(i) Profit or loss for the year.

(ii) The net amount of income and expenses temporarily recognized as valuation adjustments in equity.

(iii) The net amount of income and expenses finally recognized in equity.

(iv) Income tax accrued for the items indicated in (ii) and (iii) above, except for valuation adjustments arising from interests in associates or multi-group companies measured using the equity method of accounting, which are recorded at net amounts.

Note 2 Significant accounting policies, continued

(ae) 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 amount of such resources 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.

(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 other liabilities.

(ag) 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, revenue 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 the most 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 and 12 : Measurement of financial instruments.
- Notes 10, 11 and 31 : Allowances for credit risk
- Notes 14 and 15 : Useful lives of intangible assets and property and equipment.
- Note 16 : Deferred taxes.
- Notes 23 and 25 : Provisions, contingencies and commitments.

Note 2 Significant accounting policies, continued

(ah) 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.

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 Consolidated Statement of Income. Assets received in lieu of payment are recorded as "Other assets" net of provisions.

In general, the Bank believes assets received in lieu of payment will be sold within one year from their date of award. Assets not sold during such term are written-off as per the instructions issued by the SBIF.

Note 2 Significant accounting policies, continued

(ai) Reclassifications

Certain reclassifications have been made on certain items in the Consolidated Financial Statements as of December 31, 2017 to maintain the adequate comparison to the Consolidated Financial Statements as of December 31, 2018.

(aj) New Accounting Pronouncements

Adoption of new standards and amendments to IFRS

New IFRS	Mandatory application date
IFRS 15 Revenue from Contracts with Customers.	Annual periods beginning on or after January 1, 2018.
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

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 revenue recognition from contracts with customers 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.

The Standard is effective for annual periods beginning on or after January 1, 2018.

The application of this standard had no significant impact on the Bank's Consolidated Financial Statements.

Note 2 Significant accounting policies, continued

(aj) New Accounting Pronouncements, Continued

Adoption of new standards and amendments to IFRS, continued

IFRS 9, Financial Instruments

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 last version of its new standard on financial instruments, IFRS 9 Financial Instruments. The new standard provides revised guidance on the classification and measurement of financial assets, including impairment and supplements the new general hedge accounting requirements issued in 2013.

The effective date corresponds to financial statements issued for periods 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 Chilean Superintendence of Securities and Insurance (SVS) of 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

(aj) New Accounting Pronouncements, Continued

Adoption of new standards and amendments to IFRS, continued

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019, and have not been applied in preparing these Consolidated Financial Statements. These new provisions will be applied starting from their effective date as determined by the SBIF, even when early adoption is permitted.

New IFRS	Mandatory application date
IFRS 16, Leases	Annual periods beginning on or after January 1, 2019. Early adoption is permitted
New Interpretations	
IFRIC 23, Uncertainty over Income Tax Treatments	Annual periods beginning on or after January 1, 2019. Early adoption is permitted.
Amendments to IFRSs	
IAS 28, Long-term Interests in Associates and Joint Ventures	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.
Plan Amendment, Curtailment and Settlement (Amendments to IAS 19, Employee Benefits).	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: Transfer or Contribution of Assets between an Investor and its Associate or Joint Venture.	Effective date deferred indefinitely.
Annual improvements to IFRS Cycle 2015-2017. Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23.	Annual periods beginning on or after January 1, 2019. Early adoption is permitted.
Amendments to References to the Conceptual Framework in IFRS Standards.	Annual periods beginning on or after January 1, 2020.
Amendments to the Business definition (Amendments to IFRS 3)	Annual periods beginning on or after January 1, 2020.
Amendments to the Material definition (Amendments to IAS 1 and IAS 8).	Annual periods beginning on or after January 1, 2020.

Note 2 Significant accounting policies, continued

(aj) 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 has assessed the estimated impact that initial application of IFRS 16 will have on its Consolidated Financial Statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Bank has not concluded the test and assessment of controls on the management of lease contracts; and

- the new accounting policies are subject to change until the Bank presents its first Financial Statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard; i.e., lessors continue to classify leases as finance or operating leases.

The IFRS 16 replaces the guidelines about the existing leases including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

Note 2 Significant accounting policies, continued

(aj) New Accounting Pronouncements, Continued

Adoption of new standards and amendments to IFRS, continued

IFRS 16, Leases, Continued

i) Leases where the Bank and its Subsidiaries act as lessee.

The Bank will recognize assets and liabilities for its leases. The nature of expenses related to such leases will change as the Bank recognizes a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Bank recognized the operating lease expense on a straight-line basis during the lease term, and recognized assets and liabilities only to the extent there was a temporary difference between the actual lease payments and the expense recognized. The Bank will include payments owed under the lease contract in its lease liability.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Bank believes for the first-time application of the standard will use the prospective method, which will imply recognizing right-of-use assets and lease liabilities for an estimated amount of MCh$234,770 as of January 1, 2019.

ii) Leases where the Bank acts as lessor.

With respect to sub-lease contracts that the Bank has entered into with its Subsidiaries, Management assessed the impact and determined it was immaterial. Note that the Scotiabank Group is under a strategic definition and restructuring of subsidiaries process as a result of the acquisition of Banco BBVA Chile and subsidiaries; accordingly, current lease contracts maturing in 2019 will be redefined in line with the information indicated above.

Note 2 Significant accounting policies, continued

(aj) New Accounting Pronouncements, Continued

Adoption of new standards and amendments to IFRS, continued

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 for the tax authority's inspection.
- 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 Interpretation is effective for periods beginning on or after January 1, 2019. Early adoption is permitted.

The Bank's Management is currently assessing the potential effect of adopting this standard; however, the Bank expects no significant effects on the Consolidated Financial Statements.

Note 2 Significant accounting policies, continued

(aj) 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 includes the following:

- The incorporation of paragraph 14A which clarifies that an entity applies IFRS 9, including the impairment requirements, to long-term interests in an associate or 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.
- Paragraph 41 has been deleted because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.

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

Because the Bank records no such investments, Management believes this standard will have no impact on the Consolidated Financial Statements.

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.

In accordance with the Chilean Superintendence of Banks and Financial Institutions, the Bank's Management will not adopt this Standard early. It will be adopted in the Consolidated Financial Statements when its application is authorized by the SBIF.

Note 2 Significant accounting policies, Continued (aj)

New Accounting Pronouncements, Continued

Adoption of new standards and amendments to IFRS, continued

Amendment 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.

Amendments to the definition of a Business (Amendments to IFRS 3 Business Combinations)

In October 2018, the International Accounting Standards Board issued narrow-scope amendments to IFRS 3 Business Combinations to enhance the definition of a business and help companies determine whether an acquisition made is of a business or a group of assets.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an acquisition of an asset. The amendments:

(a) clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
(b) remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce output;
(c) add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;

Note 2 Significant accounting policies, continued

(aj) New Accounting Pronouncements, Continued

Adoption of new standards and amendments to IFRS, continued

Amendments to the definition of a Business (Amendments to IFRS 3 Business Combinations), Continued

(d) narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
(e) add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendment is effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

The Bank believes these amendments will be adopted in its Consolidated Financial Statements for the period beginning on January 1, 2020. The Bank expects no material impacts from the adoption of these amendments.

Definition of Material (Amendments to IAS 1 Presentation of Financial Statements, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).

In October 2018, the International Accounting Standards (IASB), redefined its definition of material. Now it is aligned through the International Financial Reporting Standards and the Conceptual Framework. The new definition establishes that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The Board has promoted the incorporation of "obscuring information" in the definition, in addition to the existing references of "omitting" and "misstating." Additionally, the Board expanded the threshold of "could influence" to "could reasonably be expected to influence."

The Board also eliminated the definition of omissions and misstatements under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendment is effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

The Bank believes these amendments will be adopted in its Consolidated Financial Statements for the period beginning on January 1, 2020. The Bank expects no material impacts from the adoption of these amendments.

Note 3 Accounting changes

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 changed the estimation of allowances for credit losses during 2018 as detailed below:

a) Models for the allowances for the collective assessment of the commercial loan portfolio

The Chilean Superintendence of Banks and Financial Institutions (SBIF) issued its Circular No.3.638 on July 6, 2018, establishing an amendment to the Summary of Accounting Standards (CNC) for banks, which includes a new standard model for the calculation of allowances for credit risk for the commercial portfolio at collective analysis level that is mandatory beginning on July 1, 2019. Accordingly, on December 19, 2018, the Board approved using these new models of collective allowances for the commercial portfolio to be applied when its calculation exceeds the allowances indicated by the internal model. The effect of voluntarily adopting the new requirement implied a net debit to profit or loss of MCh$18,798 as of December 31, 2018.

b) Models for collective allowances related to consumer and mortgage loans:

On September 26, 2018, the Board approved new models for collective allowances related to the consumer and mortgage portfolios. For the Bank, implementing these models implied a net credit to profit or loss in the caption "Allowances for Credit Risk" of MCh$3,891 as of December 31, 2018 (the effect was recorded in September).

Note 4 Significant events

a) On March 9, 2018, the Chilean Superintendence of Banks and Financial Institutions authorized The Bank of Nova Scotia (indirect Parent of Scotiabank Chile) to indirectly acquire shares of Banco Bilbao Vizcaya Argentaria Chile through the Chilean company Nova Scotia Inversiones Limitada (the Parent of Scotiabank Chile). Such authorization was granted specifically for the merger of Banco Bilbao Vizcaya Argentaria Chile into Scotiabank Chile within a one year term from the completion of the transaction referred to the purchase of such shares.

b) At the Ordinary General Shareholders' Meeting of Scotiabank Chile held on March 28, 2018, the shareholders agreed to pay a minimum legal dividend equivalent to 30% of profit for 2017 of MCh$30,990, equivalent to Ch$6.02042 per share, in which the remaining balance will be allocated to the reserve for undistributed profit.

c) On May 31, 2018, our Parent Nova Scotia Inversiones Limitada (NSIL) received the approval from the National Economic Prosecutor's Office (FNE) to continue the acquisition of BBVA Chile. This authorization is additional those granted during March by the Chilean Superintendence of Banks and Financial Institutions (SBIF) and the Office of the Superintendent of Financial Institutions (OSFI). On June 7, 2018, it commenced the Public Offering for Acquisition of Shares (OPA), the term of which is 30 days.

d) On July 6, 2018, the acquisition by Nova Scotia Inversiones Limitada from "Banco Bilbao Vizcaya Argentaria S.A. and its related party Compañía Chilena de Inversiones, S.L." was formalized of 100% of shares issued by BBVA Inversiones Chile S.A., owner, in its turn, of approximately 68.19% of the shares issued by Banco Bilbao Vizcaya Argentaria Chile (BBVA Chile).

   Nova Scotia Inversiones Limitada and indirectly its Parent The Bank of Nova Scotia, has become the Parent of Banco Bilbao Vizcaya Argentaria Chile, the shares of which are traded in the Bolsa de Comercio de Santiago (Santiago Stock Exchange).

   On the same date, Inversiones Caburga Limitada, Inversiones del Pacífico S.A., Inversiones Santa Virginia Limitada, Inversiones Corinto SpA, Inversiones Valparaíso SpA and Inversiones SH Seis Limitada (collectively referred to as the "Said Group"), shareholders of BBVA Chile that collectively represent, directly and indirectly, 31.62% of such bank, have entered into a shareholders' agreement with Nova Scotia Inversiones Limitada.

Note 4 Significant events, Continued

e) On July 13, 2018, with respect to the transaction with related parties associated with the merger of Banco Bilbao Vizcaya Argentaria, Chile into Scotiabank Chile (the "Merger"), Scotiabank Chile has received the report issued by the independent appraiser Tribeca Advisors, indicating the merger conditions, its effects and potential impact for Scotiabank Chile.

Accordingly, on the same date, and in conformity with article 147 of the Shareholders' Company Law No.18.046, the report referred to above was made available to the general public and the shareholders in the website of Scotiabank Chile (www.scotiabank.cl) and its registered offices located at Morande 226, Santiago.

f) On July 17, 2018, with respect to the transaction with related parties related to the merger of Banco Bilbao Vizcaya Argentaria, Chile into Scotiabank Chile (the "Merger"), Scotiabank Chile has received the individual views of Manuel José Vial Vial, Sergio Concha Munilla, James Meek, Guillermo Alvarez-Calderón, Fernanda Vicente Mendoza, Eduardo Aninat Ureta and Juan Antonio Guzman Molinari.

Accordingly, on the same date, and in conformity with article 147 of the Shareholders' Company Law No.18.046, the views referred to above were made available to the general public and the shareholders in the website of Scotiabank Chile (www.scotiabank.cl) and its registered offices located at Morande 226, Santiago.

g) At the Extraordinary Board of Directors' Meeting held on July 17, 2018, the directors of Scotiabank Chile unanimously agreed to summon to an Extraordinary Shareholders' Meeting of Scotiabank Chile on August 2, 2018, at 10:00 am, to be held at Morandé No.226, piso 8, Santiago.

The matters to be addressed and agreed on at the Extraordinary Shareholders' Meeting are as follows:

1) Profit distribution.
2) Transaction with related parties.
3) Merger.
4) Increase in the number of directors.
5) Amendments to by-laws and articles of incorporation.
6) Appointment of new directors and remuneration.
7) Information on other transactions with related parties.
8) Other agreements required.

Note 4 Significant events, Continued

h) On August 2, 2018, at the Extraordinary Shareholders' Meeting, the shareholders of Scotiabank Chile approved the merger of Banco Bilbao Vizcaya Argentaria, Chile ("BBVA Chile") into Scotiabank Chile (the "Merger"). By virtue of the merger, Scotiabank Chile will acquire all the assets and liabilities of BBVA Chile and become the legal successor with respect to all its rights and obligations, incorporating in Scotiabank Chile all the shareholders and equity of BBVA Chile, which, as a result, will be dissolved by operation of law without the need of a liquidation. In addition, the merger was approved as a transaction with related parties in conformity with the law.

To formalize the Merger, the Board approved a capital increase in Scotiabank Chile of MCh$324,341, through the issuance of 5,605,522,687 new nominative, same-series shares with no par value, that will be fully subscribed and paid with a debit to the incorporation of the equity of Banco BBVA Chile equity, as absorbed company, when the Merger becomes effective. For such purposes, 13.545733 shares of Scotiabank Chile will be distributed per each share of Banco BBVA Chile held by the shareholders of the latter, without considering fractions of shares.

Within this context, it was also agreed to increase the number of regular directors from 7 to 11 members, maintaining 2 alternate directors, composed of the following individuals, who will take office on the date of the effective Merger:

i) Regular Directors: José Said Saffie, Ignacio Deschamps González, Jaime Said Handal, Ernesto Mario Viola, Salvador Said Somovia, Manuel José Vial, Gonzalo Said Handal, Sergio Concha Munilla, Juan Antonio Guzman Molinari, Eduardo Aninat Ureta and Fernanda Vicente Mendoza.

ii) Alternate directors: Nicolás Pablo Tagle Swett, as first deputy director and Guillermo Mackenna Rueda, as second alternate director.

Finally, the Board agreed to modify the by-laws to reflect the change to the fantasy name of Scotiabank Chile, as well as other matters to be consistent with current legislation or to detail its content, approving a revised text of the by-laws of such bank.

On the same date, at the Extraordinary Shareholders' Meeting, the shareholders of Banco Bilbao Vizcaya Argentaria, Chile approved the merger of BBVA Chile into Scotiabank Chile. By virtue of the merger, Scotiabank Chile will acquire all the assets and liabilities of BBVA Chile and become the legal successor with respect to all its rights and obligations, incorporating in Scotiabank Chile all the shareholders and equity of BBVA Chile, which, as a result, will be dissolved by operation of law without the need of a liquidation. In addition, the merger was approved as a transaction with related parties in conformity with the law.

i) On August 20, 2018, the SBIF authorized and approved the merger by of Scotiabank Azul (formerly Banco Bilbao Vizcaya Argentaria, Chile) into Scotiabank Chile (the "Merger"). The Merger will be effective as certain copulative suspensive conditions are met; however, note that all related regulatory authorizations have been obtained.

Note 4 Significant events, Continued

j) On August 21, 2018, at the Extraordinary Board of Directors' Meeting, the directors agreed to establish August 29, 2018 as the date from which to make the payment of a dividend totaling Ch$74,260,570,951 with a debit to retained earnings, distributing a dividend of Ch$14.4267667139 per share, as approved at the Extraordinary Shareholders' Meeting held on August 2, 2018. The shareholders entitled to receive the dividend referred to above are those registered with the Shareholders' Registry of Scotiabank Chile at midnight of the fifth business day prior to August 29, 2018.

k) On August 29, 2018, Scotiabank Azul (formerly BBVA Chile) made the payment of the dividend agreed at the Meeting totaling Ch$111,393,839,058.

l) On August 29, 2018, Scotiabank Chile made the payment of the dividend agreed at the Meeting totaling Ch$74,260,570,951.

m) On August 29, 2018, after meeting all the related suspensive conditions for the Merger, and as agreed at the Meeting, a public deed was provided indicating the compliance with the suspensive conditions agreed at the Meeting to confirm the Merger. Accordingly, the Merger will be effective beginning on September 1, 2018.

By virtue of this, starting from such date (i) Scotiabank Chile will be the legal successor of Scotiabank Azul, assuming all its rights and obligations, and recording the total amount of the Bank's equity incorporated into Scotiabank Chile;
(ii) the shareholders of Scotiabank Chile will be all the shareholders of Scotiabank Azul with the Shareholder Registry at midnight of the day prior to the effective date of the Merger; and
(iii) Scotiabank Azul will be dissolved by operation of law, without the need for a liquidation.

n) As part of the restructuring of the corporate organization of our Parent Nova Scotia Inversiones Limitada (NSIL), on September 1, 2018, Sociedad de Inversiones Fintesa Limitada sold its 51% ownership interest in Servicios Integrales S.A. for MCh$494 and Administradora y Procesos S.A. for MCh$1,644 to Scotiabank Chile. As both companies are under the control of NSIL, the new Parent Scotiabank Chile recognized the cost of these investments at the carrying amount of its equity interest on the restructuring date.

o) On September 4, 2018, the Bank reports to the SBIF that beginning on September 1, 2018, the Parent of Scotiabank Chile was moved to the Building located at Avenida Costanera Sur 2710, Torre A, Las Condes, where the General Management offices will be located.

Note 4 Significant events, Continued

p) At the Extraordinary Board of Directors' Meeting held on October 31, 2018, the directors of Scotiabank Chile unanimously agreed to summon to an Extraordinary Shareholders' Meeting of Scotiabank Chile on November 15, 2018, at 9:00 am, to be held at Avenida Costanera Sur N°2.710, Torre A, Nivel -1, Parque Titanium, Las Condes, Santiago.

The matters to be addressed and agreed on at the Extraordinary Shareholders' Meeting are as follows:

1) Capital Increase.
2) By-laws.
3) Powers for the Board of Directors.
4) Information on other transactions with related parties.
5) Other agreements required.

q) At the Extraordinary Board of Directors' Meeting held on November 15, the directors agreed to:

i) A capital increase in Scotiabank Chile of MCh$258,533, through the issuance of 756,652,864 new nominative same-series subscribed and fully paid shares with no par value, that should be paid in cash within a term of 3 years, beginning on November 15, 2018. As a result of the aforementioned increase, the capital of Scotiabank Chile amounts to MCh$996,706 divided into 11,509,591,630 nominative same-series shares. To reflect the aforementioned capital increase, article sixth and the first transitional article of the Bank's by-laws were amended.

ii) Likewise, the Board members and the Chief Executive Officer of Scotiabank Chile have been entitled to request from the SBIF both the authorization of the capital increase and the registration of the new shares with the Securities Registry held by the SBIF.

iii) Finally, it was agreed to amend the by-laws to reflect therein the possibility of appointing an Ad-Hoc Chairman to lead the Board of Directors' Meetings in the event of absence or inability of the Chairman, thus amending article 24 of the By-laws of Scotiabank Chile.

Note 4 Significant events, Continued

Subsidiary Scotia Administradora General de Fondos Chile S.A.

a) 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 Chilean Financial Market Commission. Guarantees constituted for funds managed through bank guarantee certificates with Scotiabank Chile correspond to a total amount of UF 412,631.89

b) On June 29, 2018, the Company indicated that in accordance with Law No.20.712 on the Administration of Third Party Funds and Individual Portfolios and its Regulations and General Standards Nos.365 and 370 issued by the Chilean Financial Market Commission, Fondo Mutuo Scotia Prioridad was merged into Fondo Mutuo Scotia Proximidad, which will continue as Legal Successor Fund maintaining the same name Fondo Mutuo Scotia Proximidad managed by Scotia Administradora General de Fondos Chile S.A.

   The Internal Regulations of Fondo Mutuo Scotia Proximidad was registered with the Chilean Financial Market Commission on this date, and will become effective beginning on July 29, 2018.

c) On July 27, 2018, the Company indicated that in accordance with Law No.20.712 on the Administration of Third Party Funds and Individual Portfolios and its Regulations and General Standards Nos.365 and 370 issued by the Chilean Financial Market Commission, Fondo Mutuo Scotia Patrimonio Acciones was merged into Fondo Mutuo Scotia Acciones Nacionales, which will continue as Legal Successor Fund maintaining the same name Fondo Mutuo Scotia Acciones Nacionales managed by Scotia Administradora General de Fondos Chile S.A.

   The Internal Regulations of Fondo Mutuo Scotia Acciones Nacionales has been registered with the Chilean Financial Market Commission on July 27, 2018, and will become effective beginning on August 27, 2018.

Subsidiary Scotia Corredora de Bolsa Chile S.A.

a) On July 6, 2018, in conformity with the requirements of the Bolsa de Comercio de Santiago (the Santiago Stock Exchange) and Bolsa Electrónica de Chile (the Electronic Stock Exchange of Chile), with respect to the comprehensive insurance of Scotia Corredora de Bolsa Chile S.A., the Company has engaged insurance from Southbridge Compañía de Seguros Generales S.A., through policy No.0020079293 for an insured amount of US$1,000,000 with a term covering the period from July 9, 2018 through July 9, 2019.

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 related assets and liabilities.

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

1. Small and Medium-sized Entities 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-sized entities (SMEs) 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 account 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. Retail 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 Person's 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.

The following table shows the consolidated income of Scotiabank Chile, for years 2018 and 2017, for each of the above mentioned segments:

	As of December 31, 2018					
	SME and retail banking MCh$	Business banking MCh$	Personal banking MCh$	Retail Statements MCh$	Other MCh$	Total MCh$
Net interest and adjustment expenses	97,491	102,451	230,983	187,593	(3,609)	614,909
Net fee and commission income	26,961	17,399	46,683	50,888	(9,064)	132,867
Net gain (loss) from financial operations	9,461	71,361	6,538	408	(86,833)	935
Net foreign exchange income (loss)	1,356	(19,859)	2,135	445	86,998	71,075
Other operating income	1,502	841	2,713	992	18,552	24,530
Total operating income	**136,771**	**172,193**	**289,052**	**240,256**	**6,044**	**844,316**
Allowances for credit risk	(29,123)	(23,873)	(93,745)	(83,075)	(313)	(230,129)
Net operating income	**107,648**	**148,320**	**195,307**	**157,181**	**5,731**	**614,187**
Operating expenses	(74,706)	(49,453)	(113,879)	(107,115)	(110,790)	(455,943)
Segment operating income (loss)	**32,942**	**98,867**	**81,428**	**50,066**	**(105,059)**	**158,244**
Equity in net income of investees	-	-	-	-	121	121
Segment income (loss) before tax	**32,942**	**98,867**	**81,428**	**50,066**	**(104,938)**	**158,365**
Income tax						(31,290)
Profit or loss for the period						**127,075**
Segment assets	2,230,370	10,852,283	10,301,518	1,161,526	5,521,317	30,067,014
Segment liabilities	820,892	9,427,422	3,356,425	1,008,398	13,343,924	27,957,061

Note 5 Business segments, continued

	As of December 31, 2017					
	SME and retail banking MCh$	Business banking MCh$	Personal banking MCh$	Retail Statements MCh$	Other MCh$	Total MCh$
Net interest and adjustment expenses	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	(1,217)	105,147
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**	**30,653**	**599,291**
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**	**30,653**	**449,101**
Operating expenses	(77,728)	(36,651)	(89,078)	(94,228)	(14,001)	(311,686)
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						(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 6 Cash and cash equivalents

The detail of cash and cash equivalents is as follows:

	12/31/2018 MCh$	12/31/2017 MCh$
Cash and deposits in banks		
Cash	179,521	48,013
Deposits in Banco Central de Chile	385,981	290,739
Deposits in domestic banks	33,940	10,974
Deposits in foreign banks	188,030	104,063
Subtotal cash and deposits in banks	787,472	453,789
Net trading operations pending settlement	185,940	101,693
High liquidity financial instruments	412,587	345,534
Repurchase agreements	217,118	224,132
Total cash and cash equivalents	**1,603,117**	**1,125,148**

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:

	12/31/2018 MCh$	12/31/2017 MCh$
Assets		
Due from banks (interbank)	81,154	25,076
Funds receivable	783,328	268,407
Subtotal assets	864,482	293,483
Liabilities		
Funds payable	(678,542)	(191,790)
Subtotal liabilities	(678,542)	(191,790)
Net trading operations pending settlement	**185,940**	**101,693**

Note 7 Held-for-trading securities

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

	12/31/2018 MCh$	12/31/2017 MCh$
Instruments of Government and Banco Central de Chile:		
Instruments issued by Banco Central de Chile	44,436	24,341
Bonds or promissory notes issued by the Treasury	118,007	57,371
Other fiscal instruments	-	362
Other financial instruments issued by domestic institutions:		
Instruments issued by other domestic banks	533,103	144,181
Corporate bonds and commercial papers	1	-
Other instruments issued in Chile	1,676	423
Investments in mutual funds:		
Funds managed by related parties	161,805	104,385
Funds managed by third-parties	-	-
Total	**859,028**	**331,063**

As of December 31, 2017, Instruments of the Government and Banco Central de Chile includes securities sold under repurchase agreement to financial institutions or customers of MCh$163 with average maturity of 19 days. As of December 31, 2018, the Bank records no notes under this caption.

As of December 31, 2018, the caption Financial instruments issued by other domestic institutions includes securities sold under repurchase agreement to financial institutions or customers of MCh$89,118 with average maturity of 10 days (MCh$850 with an average maturity of 12 days as of December 31, 2017).

Note 8 Investments sold under repurchase agreements and securities

As of December 31, 2018 and 2017, this caption is detailed as follows:

	12/31/2018		12/31/2017	
	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	217,118	575,535	224,132	42,67
Securities loaned	247	247	57	1,58
Total	**217,365**	**575,782**	**224,189**	**44,25**

Note 9 Derivative instruments and accounting hedge

As of December 31, 2018 and 2017, the Bank has the following portfolio:

As of December 31, 2018

Held-for-trading derivatives	Notional amount of contract with final maturity			Fair value	
	Less than 3 months	3 months to 1 year	Over 1 year	Assets	Liabilities
	MCh$	MCh$	MCh$	MCh$	MCh$
Currency forward	22,574,349	15,113,612	8,801,679	808,947	(761,521)
Interest rate swaps	9,402,235	14,416,946	45,630,119	399,454	(363,149)
Interest rate and currency swaps	2,110,268	4,186,736	23,900,427	1,210,945	(1,162,731)
Options	31,530	65,261	-	600	(600)
Subtotal	**34,118,382**	**33,782,555**	**78,332,2**	**2,419,946**	**(2,288,001)**

Accounting hedge derivatives	Notional amount of contract with final maturity			Fair value	
	Less than 3 months	3 months to 1 year	Over 1 year	Assets	Liabilities
	MCh$	MCh$	MCh$	MCh$	MCh$
Currency forward (*)	261,8	567,8	110,263	5,943	(904)
Interest rate swaps (**)	291,7	195,5	212,199	1,155	(223)
Interest rate and currency swaps (***)	102,7	95,2	3,189,9	53,593	(120,048)
Options	-	-	-	-	-
Subtotal	**656,3**	**858,5**	**3,512,4**	**60,691**	**(121,175)**
Total				**2,480,637**	**(2,409,1**

(*) Correspond to derivatives hedging the inflation risk of mortgage loans (notional amount of MCh$ 939,993).

(**) Correspond to derivatives hedging that cover: i) Floating and fixed interest rate risk in term deposits (notional amount of MCh$482,763 and MCh$240,700), ii) foreign currency risk in foreign trade loans received (notional amount of MUS$200), iii) fixed interest rate risk of term deposits (notional amount of MCh$24,000).
iv) Fixed interest rate risk of available-for-sale debt security portfolio (BTP and BCP) BTP0600120, BCP0600221, BTP0450321 and BTP0450221 (Notional amount of MCh$279,225), v) fixed interest rate risk of bonds issued, mnemonic code BBBVP40316 (Notional amount of MCh$50,000).

(***) Correspond to derivatives simultaneously hedging: i) Foreign currency risk in foreign trade loans received (notional amount of MAUD30), ii) Foreign currency risk of foreign trade loans granted (notional amount MUS$23), iii) Foreign currency risk of foreign trade loan received (notional amount of MUS$250), iv) mortgage loan inflation risk (notional amount of MCh$3,100,170), v) floating interest rate risk of term deposits (notional amount of MCh$1,038,072) vi) inflation risk of bonds BTU0150321 (UF300,000) (notional amount of MCh$8,270 as of December 31, 2018), vii) Inflation risk of liability bond issued by the Bank, mnemonic code BBNSAF1016 and BBNSAK0118 (UF5,500,000) (Notional amount of MCh$151,612 as of December 31, 2018), viii) EUR/Ch$ foreign exchange risk of debt security portfolio for selling euros (notional amount of MEUR20) ix) Rate risk in available-for-sale debt security portfolio (BTU and BCU) BTU0150321, BCU0300221 and BCU0300519 (notional amount of MCh$8,890), x) interest rate risk in debt bonds issued by the Bank, mnemonic codes BBBVM41113 and BBBVO10416 (UF 3,200,000.00) (notional amount of MCh$88,210 as of December 31, 2018).

Derivatives exist covering the mortgage loan inflation risk (notional amount of MCh$220,526) starting on a future date.

During July 2018, the total accounting hedge portfolio from BBVA was de-designated and re-designated due to the change in the effective measurement methodology. The impact of the de-designation to be amortized amounts to (MCh$6,633).

Note 9 Derivative instruments and accounting hedge, continued

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	10,101,8	7,377,7	2,549,4	269,4	301,1
Interest rate swaps	1,757,4	4,513,3	11,485,9	80,3	71,6
Interest rate and currency swaps	332,851	739,996	5,880,8	175,4	162,2
Subtotal	**12,192,2**	**12,631,0**	**19,916,2**	**525,2**	**535,0**

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	-	1,3	5
Interest rate swaps (**)	-	99,443	232,389	460	1,0
Interest rate and currency swaps (***)	-	66,966	1,512,6	14,5	41,4
Subtotal	**-**	**273,602**	**1,745,0**	**16,3**	**42,5**
Total				**541,6**	**577,5**

(*) 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 in 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

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, available-for-sale securities in Euro, and commercial loans granted at floating rate in foreign currency. Hedging instruments include forward contracts and cross-currency interest rate swaps (CC and IRS).

As of December 31, 2018, the Bank has recorded a loss from net of tax of MCh$9,764 (MCh$3,254 as of December 31, 2017) in equity valuation accounts for the adjustment of cash flow hedging instruments.

As of December 31, 2018, the Bank recorded a loss from cash flow hedging derivatives of MCh$9,671 (profit of MCh$9,830 as of December 31, 2017).

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 Consolidated 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 and term deposits issued at a fixed rate in pesos.

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). Also, to hedge against the effect of the inflation of Bonds issued by the Bank in UF.

Hedging instruments include cross-currency interest rate swaps (CC and IRS).

c) Market valuation by type of hedge

	12/31/2018		12/31/2017	
	For MCh$	Against MCh$	For MCh$	Against MCh$
Derivatives designated in fair value hedging relationships	13,682	(15,694)	92	(74)
Derivatives designated in cash flow hedging relationships	47,009	(105,481)	16,265	(42,434)
Total derivatives designated in hedging relationships	60,691	(121,175)	16,357	(42,508)

Note 9 Financial derivative contracts and accounting hedges, continued

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

As of December 31, 2018	Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Total MCh$
Hedged item (Asset)	195,164	801,926	4,088,125	5,085,215
Hedged item (Liability)	(194,571)	(744,329)	(4,249,443)	(5,188,343)
Net cash flows	**593**	**57,597**	**(161,318)**	**(103,128)**

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**

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:

	12/31/2018 MCh$	12/31/2017 MCh$
Fair value hedges		
Gain (loss) recorded in hedged items	3,303	(110)
Gain (loss) recorded in hedging instruments	(3,663)	124
Ineffectiveness	**(360)**	**14**
Cash flow hedges		
Ineffectiveness	**2,671**	**(246)**

Note 10 Composition of loans and advances to banks

a) Composition of loans and advances to banks:

As of December 31, 2018 and 2017, this caption comprises the following:

As of December 31, 2018	Assets before allowances			Allowances accrued			Net assets
	Regular portfolio	Impaired portfolio	Total	Individual allowances	Collective allowances	Total	
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
DOMESTIC BANKS							
Liquidity interbank loans	-	-	-	-	-	-	-
Interbank commercial loans	-	-	-	-	-	-	-
Overdrafts in current accounts	-	-	-	-	-	-	-
Non-transferrable 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	-	-	-	-	-	-	-
Interbank commercial loans	-	-	-	-	-	-	-
Overdrafts in current accounts	-	-	-	-	-	-	-
Non-transferrable deposits in foreign banks	-	-	-	-	-	-	-
Foreign trade loans for domestic exports	2,604	-	2,604	-	-	-	2,604
Foreign trade loans for domestic imports	-	-	-	-	-	-	-
Foreign trade loans between third countries	-	-	-	-	-	-	-
Other receivables from foreign banks	186	-	186	(1)	-	(1)	185
Subtotal	**2,790**	**-**	**2,790**	**(1)**	**-**	**(1)**	**2,789**
BANCO CENTRAL DE CHILE							
Unavailable deposits at Banco Central Other	-	-	-	-	-	-	-
receivables from Banco Central	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-
Total	**2,790**	**-**	**2,790**	**(1)**	**-**	**(1)**	**2,789**

Note 10 Loans and advances to banks, continued

a) Composition of loans and advances to banks, continued

As of December 31, 2017	Assets before allowances			Allowances accrued			Net assets
	Regular portfolio	Impaired portfolio	Total	Individual allowances	Collective allowances	Total	
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
DOMESTIC BANKS							
Liquidity interbank loans	-	-	-	-	-	-	-
Interbank commercial loans	-	-	-	-	-	-	-
Overdrafts in current accounts	-	-	-	-	-	-	-
Non-transferrable 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	-	-	-	-	-	-	-
Interbank commercial loans	-	-	-	-	-	-	-
Overdrafts in current accounts	-	-	-	-	-	-	-
Non-transferrable 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

b) Allowance account for credit risk

	Domestic banks MCh$	Foreign banks MCh$	Banco Central de Chile MCh$	Total MCh$
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	-	-	-	-
Balance as of January 1, 2018	-	-	-	-
Merger with former BBVA Bank	-	12	-	12
Impaired portfolio write-offs	-	-	-	-
Allowances accrued (Note 31)	-	5	-	5
Allowances released (Note 31)	-	(16)	-	(16)
Balance as of December 31, 2018	-	1	-	1

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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, 2018	Assets before allowances			Allowances accrued			
	Regular portfolio	Impaired portfolio	Total	Individual allowances	Collective allowances	Total	Net assets
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
COMMERCIAL LOANS							
Commercial loans	7,457,884	277,875	7,735,759	(110,666)	(42,741)	(153,407)	7,582,352
Foreign trade loans	1,746,368	7,466	1,753,834	(25,923)	(151)	(26,074)	1,727,760
Receivables from current accounts	153,807	5,465	159,272	(2,938)	(2,217)	(5,155)	154,117
Factoring operations	251,209	1,594	252,803	(3,736)	(650)	(4,386)	248,417
Student loans	617,618	59,002	676,620	-	(21,934)	(21,934)	654,686
Lease operations	650,888	23,618	674,506	(5,807)	(2,142)	(7,949)	666,557
Other loans and advances	6,594	7,617	14,211	(6,463)	(327)	(6,790)	7,421
Subtotal	**10,884,368**	**382,637**	**11,267,005**	**(155,533)**	**(70,162)**	**(225,695)**	**11,041,310**
MORTGAGE LOANS							
Letter of credit loans	111,863	26,590	138,453	-	(1,011)	(1,011)	137,442
Endorsable mutual mortgage loans	56,697	8,316	65,013	-	(222)	(222)	64,791
Bond funded mutual mortgage loans	-	-	-	-	-	-	-
Other mortgage mutual loans	7,643,608	279,610	7,923,218	-	(42,867)	(42,867)	7,880,351
Loans from the ANAP	-	-	-	-	-	-	-
Lease operations	52,640	7,154	59,794	-	(744)	(744)	59,050
Other loans and advances	22,762	7,119	29,881	-	(343)	(343)	29,538
Subtotal	**7,887,570**	**328,789**	**8,216,359**	**-**	**(45,187)**	**(45,187)**	**8,171,172**
CONSUMER LOANS							
Consumer loans paid in installments	1,617,058	126,086	1,743,144	-	(113,567)	(113,567)	1,629,577
Receivables from current accounts	112,790	7,373	120,163	-	(7,049)	(7,049)	113,114
Receivables from credit cards	1,395,585	80,970	1,476,555	-	(101,415)	(101,415)	1,375,140
Lease operations	23	52	75	-	-	-	75
Other loans and advances	28	10	38	-	(11)	(11)	27
Subtotal	**3,125,484**	**214,491**	**3,339,975**	**-**	**(222,042)**	**(222,042)**	**3,117,933**
Total	**21,897,422**	**925,917**	**22,823,339**	**(155,533)**	**(337,391)**	**(492,924)**	**22,330,415**

Note 11 Loans and advances to customers, continued

a) Composition of loans and advances to customers, continued

As of December 31, 2017	Assets before allowances			Allowances accrued			
	Regular portfolio	Impaired portfolio	Total	Individual allowances	Collective allowances	Total	Net assets
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	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 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
Receivables from current accounts	42,263	2,690	44,953	-	(2,707)	(2,707)	42,246
Receivables from credit cards	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

b) Allowance account for credit risk

	Individual allowances MCh$	Collective allowances MCh$	Total MCh$
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)
Total provisions	12,064	188,828	200,892
Balance as of December 31, 2017	**81,904**	**195,603**	**277,507**
Balance as of January 1, 2018	81,904	195,603	277,507
Impaired portfolio write-offs:			
Commercial loans	(15,943)	(17,597)	(33,540)
Mortgage loans	-	(3,906)	(3,906)
Consumer loans	-	(164,671)	(164,671)
Total write-offs	(15,943)	(186,174)	(202,117)
Allowances accrued (Note 31)	55,621	257,371	312,992
Allowances released (Note 31)	(17,776)	(17,320)	(35,096)
Merger with former BBVA Bank	51,765	92,179	143,944
Allowance for sale of portfolio used	(38)	(4,268)	(4,306)
Total provisions	89,572	327,962	417,534
Balance as of December 31, 2018	**155,533**	**337,391**	**492,924**

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, 2018				As of December 31, 2017			
Commercial loans:	**Domestic loans MCh$**	**Foreign loans MCh$**	**Total MCh$**	**%**	**Domestic loans MCh$**	**Foreign loans MCh$**	**Total MCh$**	**%**
Manufacturing	1,281,272	23,631	1,304,903	5.72	572,047	29,544	601,591	5.76
Mining	595,914	-	595,914	2.61	293,624	-	293,624	2.81
Electricity, gas and water	733,889	14	733,903	3.22	202,150	-	202,150	1.93
Agriculture and livestock farming	324,115	1,426	325,541	1.43	127,607	-	127,607	1.22
Forestry	52,336	-	52,336	0.23	36,135	-	36,135	0.35
Fishing	67,132	-	67,132	0.29	27,308	-	27,308	0.26
Transport	497,765	88	497,853	2.18	99,783	-	99,783	0.96
Telecommunications	203,547	-	203,547	0.89	36,065	-	36,065	0.35
Construction	721,780	1,244	723,024	3.17	118,562	8,475	127,037	1.22
Commerce	1,573,943	19,537	1,593,480	6.98	509,959	6,385	516,344	4.94
Services	3,506,076	60,363	3,566,439	15.63	1,805,556	3,775	1,809,331	17.30
Other	928,427	-	928,427	4.06	779,135	-	779,135	7.46
Subtotal	10,486,196	106,303	10,592,499	46.41	4,607,931	48,179	4,656,110	44.56
Mortgage loans	8,156,565	-	8,156,565	35.74	3,678,424	-	3,678,424	35.21
Consumer loans	3,339,900	-	3,339,900	14.63	1,864,124	-	1,864,124	17.84
Lease operations	734,375	-	734,375	3.22	249,545	-	249,545	2.39
Total	**22,717,036**	**106,303**	**22,823,339**	**100.00**	**10,400,024**	**48,179**	**10,448,203**	**100.00**

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Note 11 Loans and advances to customers, continued

d) Lease operations

Remaining maturities of loans related to finance lease agreements as of December 31, 2018 and 2017 are as follows:

As of December 31, 2018 Maturity:	Receivables MCh$	Deferred interest and VAT MCh$	Net balance receivable MCh$
Less than 1 year	298,331	(61,983)	236,348
1 to 5 years	495,589	(112,786)	382,803
Over 5 years	158,354	(43,130)	115,224
Total	**952,274**	**(217,899)**	**734,375**

As of December 31, 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	**321,9**	**(72,45**	**249,5**

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. Between January 1 and December 31, 2018, there was no acquisition of portfolio.

Note 11 Loans and advances to customers, continued

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 the years ended December 31, 2018 and 2017, 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	12/31/2018 MCh$	12/31/2017 MCh$
Par value	117,257	103,264
Provisions	(4,268)	(2,520)
Net value of allowance accounts	**112,989**	**100,744**
Sale value	143,837	119,270
Gain or loss	**30,848**	**18,526**
Gain from sales	**13,464**	**9,675**
Unearned revenue	**17,384**	**8,851**

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

Deferred income/revenue corresponds to revenue obtained for the interest rate spread of loans granted at a rate of 2%. Deferred income/revenue is included in caption "Other liabilities" in the consolidated statement of financial position.

g) Sale of written-off loans

During the period between January 1 and December 31, 2018, the Bank sold written-off loans from the retail portfolio for MCh$2,724. As of December 31, 2017, the Bank sold no loans written-off.

Note 12 Investment securities

As of December 31, 2018 and 2017, this caption comprises the following:

Held-for-sale securities:	12/31/2018 MCh$	12/31/2017 MCh$
Instruments of Government and Banco Central de Chile		
Instruments issued by Banco Central de Chile	505,899	18,924
Instruments issued by Tesorería General de la República (Chilean Treasury)	615,646	269,206
Other fiscal instruments	29,272	237
Other instruments issued in Chile		
Instruments issued by other domestic banks	58,270	644,644
Corporate bonds and commercial papers	190	-
Other instruments issued in Chile (*)	2,771	-
Total	**1,212,048**	**933,011**

(*) During 2018, the subsidiary Scotia Corredora de Bolsa Chile S.A. changed the presentation of shares at the Santiago Stock Exchange and Electronic Stock Exchange, to be classified from "Investment in Other Companies" to "Investment instruments available-for-sale".

As of December 31, 2018, instruments of the Government and Banco Central de Chile includes securities sold under repurchase agreement to financial institutions or customers of MCh$184,259 with average maturity of 14 days (MCh$218,436 with an average maturity of 6 days as of December 31, 2017).

As of December 31, 2018, instruments of the Government and Banco Central de Chile includes securities sold under repurchase agreement to financial institutions or customers of MCh$160,315 with average maturity of 6 days (MCh$21,752 with an average maturity of 5 days as of December 31, 2017).

As of December 31, 2018, the portfolio of available-for-sale securities includes an unrealized net gain of MCh7,780 (MCh$824 as of December 31, 2017), recorded as valuation adjustments in equity and a realized net gain of MCh$932 (MCh$2,311 as of December 31, 2017), recorded in the caption "gain or loss on financial transactions".

As of December 31, 2018 and 2017, the bank held no investment securities held-to maturity.

Note 13 Investments in other companies

a) Investments in other companies

	Ownership %		Investment amount		Net gain (loss)	
			12/31/2018 MCh$	12/31/2017 MCh$	12/31/2018 MCh$	12/31/2017 MCh$
	12/31/2018	12/31/2017				
Investments under equity method:						
Nexus S.A.	-	12.90	-	-	-	107
Redbanc S.A.	-	12.71	-	-	-	48
Transbank S.A (3)	-	8.72	-	-	-	127
Combanc S.A. (2)	-	4.76	-	-	-	7
Subtotal			**-**	**-**	**-**	**289**
Investments valued at cost:						
Sociedad Interbancaria de Depósitos de Valores	15.86	8.47	204	113	6	27
Sociedad Servicios de Infraestructura y de Mercado OTC	18.39	6.89	2,303	864	-	-
Nexus S.A. (3) (4)	22.58	12.90	2,016	1,470	-	-
Redbanc S.A. (3)	12.71	12.71	860	860	-	-
Transbank S.A (3) (4)	22.69	8.72	10,080	4,432	-	-
Combanc S.A. (2) (3)	15.10	4.76	601	264	-	-
Bolsa de Valores de Valparaíso S.A.	1.67	-	11	-	-	
Other companies			62	-	2	-
Subtotal			**16,137**	**8,003**	**8**	**27**

Note 13 Investments in other companies,

a) Main investments in other companies, continued

	Ownership %		Investment amount 12/31/2018 MCh$	Investment amount 12/31/2017 MCh$	Net gain (loss) 12/31/2018 MCh$	Net gain (loss) 12/31/2017 MCh$
	12/31/2018	12/31/2017				
Investments at fair value:						
Bolsa de Comercio de Santiago (1) (5)	2.08	2.08	2,616	2,033	109	160
Bolsa Electrónica de Chile (1) (5)	2.44	2.44	156	155	4	2
Subtotal			**2,772**	**2,188**	**113**	**162**
Total			**18,909**	**10,191**	**121**	**478**

(1) In 2017, 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. In 2018, Investments in these companies held by Scotia Azul Corredores de Bolsa Limitada, are recorded at fair value through equity. The result from the investment relates to dividends received.

(2) On February 14, 2017, 22 shares were subscribed equivalent to MCh$13. On August 27, 2018, 86 shares were subscribed equivalent to MCh$53; on October 17, 2018, 7 shares were subscribed equivalent to MCh$5; and on November 8, 2018, 41 shares were subscribed equivalent to MCh$26.

(3) 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 discontinue the application of the equity method of accounting beginning on such date.

(4) Scotiabank Chile and subsidiaries have no voting rights in these companies; therefore, they have no significant influence on them.

(5) During the year 2018, the subsidiary Scotia Corredora de Bolsa Chile S.A. changed the presentation of shares at the Santiago Stock Exchange and Electronic Stock Exchange, to be classified from "Investment in Other Companies" to "Investment instruments available-for-sale".

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Note 13 Investments in other companies,

b) Movements in investments in companies are as follows:

	12/31/2018 MCh$	12/31/2017 MCh$
Opening carrying amount	10,191	9,910
Acquisition of investments	84	13
Transfer to available for sales	(2,188)	-
Incorporation by merger of former Banco BBVA	11,151	-
Equity in profit for the period	121	478
Provisions for minimum dividends	-	(44)
Dividends received	(121)	(198)
Other adjustments to equity	-	32
Adjustment at market value	(329)	-
Total	**18,909**	**10,191**

(*) This amount includes the ownership of Scotiabank Azul (formerly BBVA Chile) in companies that support the line of business and other companies that join Scotiabank Chile due to the merger of September 1, 2018.

During the years ended December 31, 2018 and 2017, there have been no movements associated with impairment.

Note 14 Intangible assets

a) As of December 31, 2018 and 2017, this caption comprises the following:

	Years									
	Useful life		Average remaining amortization		Gross balance		Amortization and cumulative impairment		Net balance	
Intangible assets	2018	2017	2018	2017	2018 MCh$	2017 MCh$	2018 MCh$	2017 MCh$	2018 MCh$	2017 MCh$
Computer software	5	5	1	2	98,847	34,215	(42,743)	(13,363)	56,104	20,852
Intangible assets from business combinations (*)	15	15	12	13	138,425	138,425	(33,837)	(24,609)	104,588	113,816
Other intangible assets	5	5	-	-	2,457	2,457	(2,457)	(2,457)	-	-
Total					**239,729**	**175,097**	**(79,037)**	**(40,429)**	**160,692**	**134,668**

Note 14 Intangible assets, continued

b) As of December 31, 2018 and 2017, movements in intangible assets are detailed as follows:

	Computer software MCh$	Intangible assets from business combinations (*) MCh$	Other MCh$	Total MCh$
Gross balance				
Balance as of January 1, 2016	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**
Gross balance				
Balance as of January 1, 2018	34,215	138,425	2,457	175,097
Incorporation by merger of former Banco BBVA	36,808	-	-	36,808
Acquisitions	29,065	-	-	29,065
Disposal of assets	(1,109)	-	-	(1,109)
Reclassification of accounts	(132)	-	-	(132)
Withdrawals	-	-	-	-
Total	**98,847**	**138,425**	**2,457**	**239,729**
Accumulated amortization	(22,480)	(33,837)	(2,457)	(58,774)
Reclassification of accounts	-	-	-	-
Disposal of assets	1,109	-	-	1,109
Impairment loss	(21,372)	-	-	(21,372)
Net value as of December 31, 2018	**56,104**	**104,588**	**-**	**160,692**

The debits for the amortization or impairment losses of intangible assets are included in the caption “Depreciation and amortization” of the consolidated statement of income for the period.

(*) Intangible assets acquired in business combinations relate to the intangible assets originated from the acquisition of 51% of the shares of CAT Administradora de Tarjetas de Crédito S.A. (“CAT”) and CAT Corredores de Seguros y Servicios S.A.

(**) As of December 31, 2018, Scotiabank Chile assessed the use of software acquired in the merge with Scotiabank Azul (formerly BBVA Chile). As a result of such assessment, Management determined that a large part of such software would not be used in the future merged Bank's processes; therefore, a debit to profit or loss of MCh$21,372 was made, included under "Impairment" in the Consolidated Statement of Income.

Note 15 Property and Equipment

a) Property and equipment and depreciation

As of December 31, 2018 and 2017, 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, 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**
Balance as of January 1, 2018	48,549	7,494	42,741	765	99,549
Incorporation by merger of former Banco BBVA	44,627	30,385	87,559	6,054	168,625
Acquisition of property and equipment	-	911	2,968	15,713	19,592
Prepayments from prior year	-	-	-	2,550	2,550
Disposal of assets	(4)	(4,791)	(5,552)	(1,318)	(11,665)
Reclassification of accounts	(30)	(458)	(25,324)	10,140	(15,672)
Regularization	-	-	678	-	678
Transfer to available for sale	(10,833)	(425)	(2,030)	(322)	(13,610)
Total	82,309	33,116	101,040	33,582	250,047
Incorporation by merger of former Banco BBVA	(13,920)	(15,099)	(71,603)	(3,578)	(104,200)
Accumulated depreciation	(10,384)	(5,265)	(26,534)	(726)	(42,909)
Disposal of assets	3	6,369	6,306	1,064	13,742
Reclassification of accounts	-	399	23,246	(7,973)	15,672
Impairment loss	-	-	-	-	-
Net value as of December 31, 2017	**58,008**	**19,520**	**32,455**	**22,369**	**132,352**

The debits for the amortizations of property and equipment are included in the caption 'Depreciation and amortization' in the consolidated statement of income for the period.

Note 15 Property and equipment, continued

b) Use of assets under operating lease agreements

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

Property and equipment	Net balance 12/31/2018 MCh$	Net balance 12/31/2017 MCh$
Less than 1 year	2,696	1,058
1 to 5 years	32,544	4,052
Over 5 years	8,972	7
Total	**44,212**	**5,117**

Lease related expenses for the year ended December 31, 2018, amount to MCh$15,459 (MCh$10,063 as of December 31, 2017), and are included within 'Administrative expenses' in the Consolidated Statement of Income for the period (see Note 33).

Note 16 Current tax and deferred taxes

a) Current taxes

Assets	Net balance 12/31/2018 MCh$	Net balance 12/31/2017 MCh$
Income taxes, tax rate 27% (25.5% in 2017)	(41,000)	(35,873)
Income taxes, rate 40% (35% in 2017)	(197))	(92)
Income taxes, absorbed subsidiaries	-	-
Less:		
Monthly provisional income tax payments	27,594	31,106
Credit for training expenses	379	557
Credit 104 Income Tax Law	1,228	350
Prior period tax receivable	17,920	12,104
Other	-	-
Total current tax assets	**5,924**	**8,152**

Liabilities	Net balance 12/31/2018 MCh$	Net balance 12/31/2017 MCh$
Income taxes, tax rate 27% (25.5% in 2017)	(19,830)	-
Income taxes, rate 40% (35% in 2017)	-	-
Income taxes, absorbed subsidiaries	-	-
Less:		-
Monthly provisional income tax payments	17,078	-
Credit for training expenses	245	-
Credit 104 Income Tax Law	-	-
Prior period tax receivable	-	-
Other	-	-
		-
Total current tax liabilities	**(2,507)**	-

Note 16 Current and deferred taxes, continued

b) Effect on net income

The effect of tax expense during the years ended December 31, 2018 and 2017 is detailed as follows:

	12/31/2018 MCh$	12/31/2017 MCh$
Income tax expenses:		
Current year tax	(58,766)	(34,455)
Surplus (deficit) from prior year provision	2,335	(991)
Prior year tax	785	8,649
Credit (debit) for deferred taxes:		
Effect and reversal of temporary differences, current year	26,551	11,456
Effect and reversal of temporary differences, previous year	(1,997)	(8,019)
Subtotal	(31,092)	(23,360)
Taxes on non-deductible permanent expenses		
Article No. 21	(198)	(90)
Other	-	-
Net credit (debit) to profit for the period for income taxes	**(31,290)**	**(23,450)**

c) Effect of taxes recorded in equity

The effect of taxes recorded in equity are detailed as follows:

	12/31/2018 MCh$	12/31/2017 MCh$
Available-for-sale financial investments	(1,508)	501
Cash flow hedge derivatives	(337)	(1,409)
Total debit (credit) to equity	**(1,845)**	**(908)**

Note 16 Current and deferred taxes, continued

d) Deferred tax assets and liabilities

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

	12/31/2018 MCh$	12/31/2017 MCh$
Deferred tax assets		
Collective allowances on loan portfolio	101,361	45,145
Differences on property and equipment between tax	10,165	6,036
Leased assets, net	48,050	429
Accrued vacations	4,327	2,384
Non-taxable advance write-offs	8,725	3,208
Allowance for doubtful accounts	26,052	20,516
Provisions for assets received in lieu of payment	493	339
Financial securities held for trading	12,225	9,184
Assets from factoring operations	1,047	298
Interest and indexation on risky portfolio	12,992	8,466
Balances arising from merger of BDD AGF	3,972	3,803
Write-off of assets received in lieu of payment	1,238	302
Intangible assets	34,914	35,059
Adjustment for change in tax rate	-	9,458
Tax goodwill adjustment	30,099	30,238
Other provisions	13,031	8,612
Provision for Corfo-Inverlink	8,551	-
Other	14,234	1,237
Total deferred tax assets	**331,476**	**184,714**
Deferred tax liabilities		
Leased assets, net	(1,530)	(1,429)
Accelerated depreciation – Building	15	(991)
Deferred expenses	(26,055)	(12,826)
Intangible assets	(28,239)	(29,023)
Adjustment for change in tax rate	-	(2,799)
Other	(4,288)	(4,137)
Total deferred tax liabilities	**(60,097)**	**(51,205)**
Total assets, net	**271,379**	**133,509**
Deferred taxes on equity		
Available-for-sale financial investments	(2,179)	385
Total assets, net (*)	**269,200**	**133,894**
Deferred tax assets	271,142	133,894
Deferred tax liabilities	(1,942)	-
Deferred tax assets, net	**269,200**	**133,894**

(*) The change in deferred tax assets, net, includes the balances received due to the merger with Scotiabank Azul.

Note 16 Current and deferred taxes, continued

e) Reconciliation of effective tax rate

As of December 31, 2018 and 2017, the reconciliation between the income tax rate and the effective rate applied for the determination of the income tax expense is detailed as follows:

	Tax rate %	12/31/2018 MCh$
Profit before income tax	(27.00%)	(42,759)
Permanent differences	7.58%	12,010
Taxes not recognized in profit or loss from prior periods	-	-
Prior year effect	(0.29%)	(458)
Adjustment for change in tax rate, Law No. 20.780	-	-
Monthly provisional income tax payments for unabsorbed earnings	-	-
Hedge accounting in equity	-	-
Other permanent differences	0.08%	122
Effective rate and income tax benefit (expense) current period	(19.63%)	(31,085)
Tax under Article 21	(0.13)	(205)
Total income tax expense		**(31,290)**

	Tax rate %	12/31/2017 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		(91)
Total income tax expense		**(23,450)**

Note 16 Current and Deferred Tax, continued

f) Joint Circular No. 47 issued by the SII and

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 loan transactions and does not consider the operations of subsidiaries included in these Consolidated Financial Statements.

Loans and advances to customers as of December 31, 2018

Type of loan	Assets at carrying amount MCh$	Assets at tax value Total MCh$	Secured overdue portfolio MCh$	Unsecured overdue portfolio MCh$
Commercial loans	11,320,357	11,371,682	20,531	44,300
Consumer loans	2,178,374	2,176,555	17,424	9,954
Mortgage loans	8,156,254	8,174,676	54,460	1,688
Total	**21,654,985**	**21,722,913**	**92,415**	**55,942**

Allowances on past due amounts in portfolio as of December 31, 2018

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	57,717	(17,132)	31,077	(27,362)	44,300
Consumer loans	20,617	(22,058)	24,718	(13,323)	9,954
Mortgage loans	3,035	(167)	310	(1,490)	1,688
Total	**81,369**	**(39,357)**	**56,105**	**(42,175)**	**55,942**

Direct write-offs and recoveries as of December 31, 2018	**MCh$**
Direct write-offs Art. 31 No. 4 second sub paragraph	76,669
Debt forgiveness which resulted in the release of allowances	-
Recoveries or renegotiation of loans written-off	21,216

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

f) Joint Circular No. 47 issued by the SII and

Loans and advances to customers as of December 31, 2017

Type of loan	Assets at carrying amount MCh$	Assets at tax value		
		Total MCh$	Secured overdue portfolio MCh$	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 17 Other assets

As of December 31, 2018 and 2017, this caption comprises the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Cash deposits in guarantee (***)	482,313	78,328
Accounts, fees and commissions receivable	98,973	39,167
Pending transactions	59,188	8,680
Assets received in lieu of payment or awarded (*)	18,937	4,071
Securitized bonds	17,920	16,595
Recoverable taxes	11,259	9,450
Available-for-sale items of property and equipment	10,470	2,405
Prepayments	5,735	1,833
Value-added tax	5,601	3,175
Assets held for lease (**)	4,580	781
Account receivable from Minvu (the Housing Ministry)	3,934	7,841
Accounts receivable, Law No. 20.634	1,447	3,700
Leased assets recovered	1,162	1,060
Accounts receivable, Law No. 20.027	54	25
Other assets	2,186	1,300
Total	**723,759**	**178,411**

(*) Assets received in lieu of payment or awarded include a provision as of December 31, 2018 of MCh$1,779 (MCh$1,087 as of December 31, 2017), 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, 2018, it comprises cash deposits of MCh$114,472 to operate in the Derivatives Clearing House, and (COMDER) and MCh$166,658 in other foreign institutions (MCh$19,275 in the Derivatives Clearing House and MCh$54,338 in other foreign institutions as of December 31, 2017). In addition, it includes Guarantees with third parties of MCh$185,526 (MCh$2,780 as of December 31, 2017).

Note 18 Deposits and other on-demand liabilities

As of December 31, 2018 and 2017, this caption comprises the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Current accounts	3,029,895	1,025,069
Notes on demand	162,657	53,376
On-demand deposit accounts	399,192	203,589
Funded payment cards	1	1
Deposits in court	-	-
Performance bonds payable on demand	34,658	21,958
Collections payable	38,240	20,161
Payments to be made related to financial instruments	-	-
Export returns pending settlement	492	-
Payment orders outstanding	13,021	3,882
Extraordinary repayments of letters of credit	1,353	1,932
Payments for loans pending settlement	102,110	1,618
Locked in balances, Art. 156 of the General Banking Law	9,887	9,128
Overdue term deposits	15,832	2,007
Overdue bond and letter of credit coupons	7,374	6,496
Other mortgage holders	83,102	114,307
Loans granted, Law No. 20.027	88	51
Other on-demand liabilities	209,364	76,277
Total	**4,107,266**	**1,539,852**

Note 19 Term deposits and savings accounts

As of December 31, 2018 and 2017, this caption is composed of the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Term deposits	10,742,972	5,449,939
Term savings accounts	77,253	34,968
Other	370	-
Total	**10,820,595**	**5,484,907**

Note 20 Bank borrowings

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

	12/31/2018 MCh$	12/31/2017 MCh$
Domestic banks		
Interbank loans	110,025	-
Foreign banks		
Foreign trade borrowings	1,311,605	621,443
Overdrafts in current accounts	266,998	-
Long-term loans	46,582	35,010
Revolving credit facilities of foreign banks	823,887	605,389
Total	**2,559,097**	**1,261,842**

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, 2018, interbank loans relate to obligations with an average maturity of 2 days.

As of December 31, 2018 and 2017, the Bank and its subsidiaries record no liabilities with Banco Central de Chile.

Note 21 Debt securities issued

As of December 31, 2018 and 2017, this caption comprises the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Letters of credit	160,227	176,497
Current bonds	5,333,777	2,709,185
Subordinated bonds	647,333	194,158
Total	**6,141,337**	**3,079,840**

- **Letters of credit:**

During the period between January 1 and December 31, 2018 and January 1 and December 31, 2017, no new letters of credit have been placed.

- **Current bonds:**

During the period between January 1 and December 31, 2018 and January 1 and December 31, 2017, the following new bonds have been placed:

Year ended December 31, 2018

Series	Amount	Term (years)	Annual issuance rate	Currency	Date of issue	Maturity Date
AK	10,000,000	5.5	2.1	UF	01-01-2018	07-01-2023
AL	5,000,000	15	2.7	UF	01-01-2018	01-01-2033
AM	5,000,000	5	1.7	UF	09-01-2018	09-01-2023
AN	5,000,000	7.5	2.1	UF	09-01-2018	03-01-2026
AO	10,000,000	10	2.3	UF	09-01-2018	09-01-2028

Year ended December 31, 2017

Series	Amount	Term (years)	Annual issuance rate	Currency	Date of issue	Maturity Date
AG	5,000,000	15	2.3	UF	01-01-2017	01-01-2032
AH	5,000,000	15	2.3	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	2.2	UF	07-01-2017	07-01-2032

Subordinated bonds:

During the period between January 1 and December 31, 2018 and January 1 and December 31, 2017, no new subordinated bonds have been placed.

Note 22 Other financial liabilities

As of December 31, 2018 and 2017, this caption comprises the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Bonds payable and promissory notes payable	11,964	18,304
Payables to affiliates for credit card use	16,708	9,250
Payables to credit card operators	34,841	28,119
Liabilities in favor of Chilean exporters	2,182	34
Other domestic borrowings	7,387	8,285
Total	**73,082**	**63,992**

Note 23 Provisions

a) As of December 31, 2018 and 2017, this caption comprises the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Provision for personnel benefits and payroll	33,872	15,943
Provision for minimum dividends	32,436	30,990
Provisions for contingent loan risk	43,705	20,112
Provisions for country risk	682	206
Additional allowances for commercial loans	508	23
Additional allowances for mortgage loans	482	-
Additional allowances for consumer loans	834	2
Adjustment to minimum provision for commercial loans	41	-
Legal contingencies, subsidiary Scotia Azul Corredores Limitada.	15,000	-
Other provisions for contingencies	9,717	2,396
Total	**137,277**	**69,672**

Note 23 Provisions, continued

b) Movements in provisions are detailed 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, 2017	16,475	31,094	13,272	15,788	2,362	78,991
Allowances accrued	5,479	30,990	12,461	2,152	297	51,379
Use of provisions	(6,011)	(31,094)	-	-	-	(37,105)
Release of provisions	-	-	(5,621)	(17,915)	(57)	(23,593)
Balance as of December 31, 2017	**15,943**	**30,990**	**20,112**	**25**	**2,602**	**69,672**
Balance as of January 1, 2018	15,943	30,990	20,112	25	2,602	69,672
Merger with former BBVA	14,589	-	19,792	1,801	20,245	56,427
Allowances accrued	4,758	32,436	9,217	39	3,166	49,616
Use of provisions	(1,418)	(30,990)	-	-	(373)	(32,781)
Release of provisions	-	-	(5,416)	-	(241)	(5,657)
Balance as of December 31, 2018	**33,872**	**32,436**	**43,705**	**1,865**	**25,399**	**137,277**

Note 24 Other liabilities

As of December 31, 2018 and 2017, this caption comprises the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Accounts and notes payable	121,086	61,435
VAT fiscal debit	10,600	4,672
Dividends payable	276	120
Unearned revenue	41,047	28,325
Pending transactions	44,881	1,226
Deposits received as collateral	219,522	73,549
Other liabilities	13,046	1,754
Total	**450,458**	**171,081**

Note 25 Contingencies and commitments

a) 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:

	12/31/2018 MCh$	12/31/2017 MCh$
Co-debt and collateral	187,422	85,185
Foreign confirmed letters of credit	3,125	10,850
Supporting letters of credit issued	113,493	49,004
Bank guarantee certificates	1,190,987	285,501
Readily available revolving credit facilities	5,009,631	3,198,511
Other loan commitments	378,684	166,578
Allowances accrued (Note 23)	(43,705)	(20,112)
Total	**6,839,637**	**3,775,517**

At the issue date of these consolidated financial statements there are lawsuits filed against the Bank and subsidiaries that relate to its line of business. As of December 31, 2018, the Bank and its subsidiaries have made provisions for legal contingencies of MCh$20,932 (MCh$3,427 as of December 31, 2017) which are a part of the caption "Provisions" in the Consolidated Statement of Financial Position.

Note 25 Contingencies and commitments, Continued

b1) Adjustment account

On July 23, 1989, Francisco Javier Errázuriz and his companies sold 97% of their shares of Banco Nacional to some of the main shareholders of Banco BHIF; such purchase was performed in order to merge both banks. As the sellers believed that the provisions required by the Superintendence of Banks and Financial Institutions were excessive, a mechanism called Adjustment Account was established, whereby the sellers delivered a list of amounts payable to the National Bank so that, if they were paid exceeding the unaccrued part or were reclassified generating an equity benefit for Banco BHIF, this benefit had to be transferred to the sellers by allocating the amount of the benefit obtained by the Bank to the debts of certain Errázuriz Group companies. Additionally, it was agreed that any difficulty on its interpretation or compliance would be submitted to arbitration.

Differences between the parties due to the interpretation of the Adjustment Account have generated several arbitration proceedings, known as File to which a sequential number is assigned. In several of these lawsuits, the Bank as obtained both favorable and unfavorable judgments, with two lawsuits still pending to date.

In connection to the judgment of “File 20" lawsuit, which for BBVA has been fully paid by virtue of payments in cash and allocations to other debts of the Errázuriz Group. On December 14, 2016 the arbitrators ordered a new settlement which was performed on January 27, 2017 and resulted in an alleged debt balance to be paid by BBVA of UF159,665.58.

On March 31, 2017, the lawyers of Errázuriz Group filed with the 1st Civil Court of Santiago, Case No. C-6269-2017, a request for attachment, because there would be an incidental proceeding being processed with the arbitrators, and submitted the last settlement by the arbitration court.

On May 17, 2017, the 1st Civil Court of Santiago agreed to the request for attachment against BBVA, which was verified the same day for Ch$4,247,942,672.295 (UF159,665.58), associated with money existing in BBVA's current account which is maintained with the Central Bank of Chile.

Note 25 Contingencies and commitments, Continued

b1) Adjustment account, Continued

BBVA challenged the request for attachment, alleging the absolute incompetence of the judge to order it, as well as the illegality of the request, based on the fact that the attachment measure is only applicable within the context of the incidental execution of a judgment or an executive trial, none of which exists in this case. Additionally, BBVA informed the court that all the debt imposed in the sentence of Supplementary Case File 20 would be paid.

The 1st Civil Court of Santiago rejected BBVA's allegations, allowing the appeals filed by the Bank, both against the resolution for attachment and that rejecting our incompetence allegations submitted through a motion for dismissal, and these appeals must be known by the Court of Appeals of Santiago and whose resolution is pending.

Grupo Errázuriz requested the first instance judge to order the Central Bank to remit the funds attached, to which BBVA also opposed new motions and appeals.

Before the 1st Civil Court of Santiago ruled on the remission of the funds, on June 19, 2017 the Court of Appeals of Santiago issued a temporary injunction against further process, thereby suspending all progress by the first instance judge, including the resolution on the remission of the funds attached.

On April 23, 2018, the Santiago Court of Appeals issued a judgment rejecting BBVA's appeal and maintaining the attachment ordered. On May 11, BBVA filed an appeal in cassation on the merits against this judgment, requesting that the case be reviewed by the Supreme Court so that it revokes the ruling and voids the attachment. Additionally, BBVA requested that the plaintiff post bail as a result. On June 15, 2018, the Santiago Court of Appeals declared BBVA's cassation appeal admissible, ordered it to be submitted to the Supreme Court and accepted the request for the plaintiff to provide the guarantee of payment for the case. On 6 September 2018, the Court of Appeals declared the guarantee paid by the plaintiff to be sufficient.

The case was submitted to the Supreme Court on October 1, 2018, and our cassation appeal dated November 12 was declared inadmissible As a result, an administrative appeal for review was filed, which was also rejected on November 27, 2018. On December 4, 2018, the civil court forwarded the funds attached to the arbitration court, which considered them received through the resolution dated December 12, 2018.

Note 25 Contingencies and commitments, Continued

b2) Corfo - Inverlink Case

In the proceeding 176.739-MV filed with the 2nd Criminal Court of Santiago, the judgment was executed condemning BBVA Corredores de Bolsa Ltda., currently Scotia Azul Corredores de Bolsa Limitada, as a third party under the civil code responsible for the fact associated with two former employees.

The Broker deposited in the court's account the total amount for the judgment. Corfo's claim for interest was rejected in the first instance and appealed by the former.

On April 11, 2016, the Court of Appeals of Santiago revoked the decision of the First Instance Court, favorable to the Broker, which ordered to pay only principal owed and adjustments, because it considered that interests would have only been accrued had a delay in the payment of the judgment of December 2014 occurred and because such challenges were resolved by the Supreme Court in August 2015; the delay did not occur.

In its decision, the Court considered that the default period by the Company began from the date in which CORFO would have asserted its right to allege damages, which is September 4, 2003 and not from the date of the delay in the payment of the judgment. Consequently, it orders that the settlement to be made comprises current interest from that date.

Against the decision of the Court of Appeals, appeals in cassation in form and substance were filed with the Supreme Court.

Against the same decision, a request for inapplicability was also filed with the Constitutional Court, which was rejected through the resolution dated April 30, 2018, noticed to the parties on May 2, 2018.

On June 28, 2018, the Supreme Court declared inadmissible the appeals in cassation filed by the Broker, since the resolution appealed would not be a final judgment for which such appeals could be filed.

On July 3, 2018, the Broker filed a motion for reconsideration of the prior declaration of inadmissibility. In order to support this request, the Supreme Court was requested to use its jurisdictional powers ex officio and to annul the decision of the Court of Appeals of April 11, 2016, which ordered that interests be applicable. On August 2, 2018, the Supreme Court upheld the appeal for reinstatement filed by the Broker and accepted the appeals in cassation, which are awaiting the hearing of the case.

Note 25 Contingencies and commitments, Continued

b2) Corfo Case – Inverlink, Continued

Without prejudice to the outcome of the appeals still pending, the Broker has made a provision for this event, which represents the expected contingency, based on the views of lawyers and advisors.

An inapplicability requirement was also filed against such decision with the Constitutional Court that, before passing judgment on such requirement, immediately decided in favor of a temporary injunction against further process filed by the Company, ordering the dismissal of acknowledgement and resolution of the appeal in cassation and the settlement of interests that the first instance court should require.

On July 1, 2016, subsequent to the hearings with oral arguments of CORFO and the Company, the Constitutional Court decided that the inapplicability requirement was admissible in court. Appeals against such decision are not allowed, and accordingly, the proceeding must be followed until the final judgment is passed by the Court. On November 24, 2016, Corfo and the Broker presented their arguments on the merits of the case, leaving the final decision of the Constitutional Court settled. Until the final decision of the Court, the abovementioned dismissal will remain in force, halting the acknowledgement and resolution of appeals in cassation filed with the Supreme Court and the payment of interests related to the decision of the first instance court.

Notwithstanding the Broker's position to void this sentence that requires the payment of interests to CORFO, the Broker has made a provision for this case, which relates to an expected contingency, based on the opinion of legal counselors and advisors.

At the Board of Directors' meeting held on April 20, 2016, BBVA Chile's Board of Directors agreed to participate in the capital increase of MCh$11,500 in the Broker to make such provision.

Regarding the two cases mentioned above and other lawsuits filed against the Bank, based on the information provided by its District Prosecutors' Office, Management concludes that contingencies arising from litigation against the Bank are covered by sufficient provisions and, as a whole, those cases will result in no significant losses not included in these Consolidated Financial Statements.

Scotiabank

Note 25 Contingencies and commitments, Continued

b3) Covenants

On May 20, 2011, the Bank and International Finance Corporation (IFC) entered into a contract for a revolving credit facility amounting to MUS$50 million. Among others, such contract establishes the Bank's compliance with covenants mainly associated with providing information, internal control and compliance with financial ratios related to capital adequacy ratio, overdue portfolio and provision for portfolio risk. Such ratios are detailed as follows:

- Capital adequacy ratio (effective equity on credit risk-weighted assets) may not be less than 10%.

- Overdue portfolio ("portfolio with 90 days overdue" according to SBIF) will not exceed 2.25% on the total of loans before provisions.

- Allowance account for credit risk ("Loan allowance" according to SBIF) will not be less than 100% of the portfolio with 90 days past due.

- Total loans granted to individuals related to the Bank's Management will not exceed 5% of the Bank's capital.

- Total loans granted to individuals related to the Bank's Management will not exceed 25% of the Bank's capital provided that there is a collateral.

As of December 31, 2018 and 2017, the Bank has complied with each of the financial ratios mentioned above.

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:

	12/31/2018 MCh$	12/31/2017 MCh$
Notes for collection	165,811	3,216
Financial assets transferred to and managed by the Bank	11,172	16,154
Securities under custody	5,202,508	2,374,793
Assets pledged as collaterals	101,286	33,943
Guarantees for housing purchase obligation	-	-
Total	**5,480,777**	**2,428,106**

d) Guarantees on transactions

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 UF20,000, Scotia Sud Americano Corredores de Bolsa signed the Bank Guarantee Certificate No. 420001471855 in order to ensure the fulfillment of its obligations as Broker with Scotiabank Chile. This guarantee is valid from April 21, 2018 to April 22, 2019.

In order to comply with the requirements of the Stock Exchanges, the Bank for Scotia Sud Americano Corredores de Bolsa S.A. engaged insurance policy No. 0020079293 from Southbridge Compañía de Seguros Generales S.A. The insured amount is US$1,000,000 and the term of the policy is from July 9, 2018 through July 9, 2019.

In order to guarantee the operations of the gross settlement offsetting system pledged securities were delivered to the Stock Exchange amounting to MCh$2,998 (MCh$2,498 as of December 31, 2017).

In conformity with the internal regulations of the Chilean Stock Exchange, in order to ensure the adequate performance and fulfillment of the operations of Scotia Corredora de Bolsa Chile S.A., cash guarantees in the amount of MCh$1,000 were constituted in favor of the Santiago Stock Exchange and MCh$200 in favor of the Chilean Electronic Exchange (MCh$530 and MCh$0 as of December 31, 2017).

To ensure the share loan transactions, cash was delivered to the Chilean Stock Exchange of MCh$0 and MCh$600 (MCh$185 and MCh$810 as of December 31, 2017) to the Chilean Electronic Exchange.

As of December 31, 2018, the Company trades shares in the Santiago Stock Exchange in order to guarantee term share transactions of MCh$8,596 (MCh$10,524 as of December 31, 2017).

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 UF403,468.6082 with maturities due on January 10, 2019.

iii) At Scotia Azul Corredores de Bolsa Limitada

In order to comply with the requirements of Articles No.30 and 31 of Law No.18.045, the Company engaged an insurance policy with MAPFRE Garantías y Crédito S.A. Compañía de Seguros, equivalent to UF20,000, to ensure the correct and full compliance of its obligations as Brokers. The policy is valid from April 22, 2018 to April 22, 2019.

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. 4652149 with Chilena Consolidada Seguros Generales S.A. The insured amount is MUS$12 and the policy is valid from April 1, 2018 through March 31, 2019.

In order to guarantee the operations of the gross settlement offsetting system pledged, securities were delivered to the Stock Exchange amounting to MCh$5,174 as of December 31, 2018 (MCh$7,127 as of December 31, 2017).

iv) At Scotia Azul Asset Management Administradora General de Fondos 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 UF542,149.98 with maturities due on January 10, 2019.

Note 25 Contingencies and commitments, Continued

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 Azul 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, 2018, 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. 420001467890
Amount	:	UF60,000
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.
Effective	:	Up to April 14, 2019

Series A	:	No. 420001451927
Amount	:	UF4,000
In favor of	:	Scotiabank Chile
Purpose	:	To ensure the faithful and timely fulfillment of the obligations of Scotia Corredora de Seguros Chile Ltda. and that arise from its performance as a broker of the payment protection insurance associated with Scotiabank Chile's portfolio of debtors.
Effective	:	Up to April 30, 2019

Series A	:	No. 420001451935
Amount	:	UF300
In favor of	:	Scotiabank Chile
Purpose	:	To ensure the faithful and timely fulfillment of the obligations of Scotia Corredora de Seguros Chile Ltda. and that arise from its performance as a broker of the payment protection and total disability 2/3 insurance associated with the portfolio of debtors of Scotiabank Chile.
Effective	:	Up to April 30, 2019

Note 25 Contingencies and commitments, Continued

g) At Scotia Azul Corredora Técnica de Seguros Limitada.

As set forth in Article No.58, letter D of Decree Law 251, as of December 31, 2018, the Bank holds insurance policies 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	: Nº10037638
Amount	: UF60,000, with deductible of UF500
Insurer	: Compañía de Seguro Generales Consorcio Nacional de Seguros S.A.
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.
Effective	: Up to April 14, 2019

Series	: No. 10037637
Amount	: UF500
Insurer	: Compañía de Seguro Generales Consorcio Nacional de Seguros S.A.
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.
Effective	: Up to April 14, 2019

h) At CAT Corredores de Seguros y Servicios S.A.

According to the provisions of Article No.58, letter D of Decree Law 251, which states that in order to carry out their activity "Insurance Brokers , should comply with the requirement to contract insurance policies as determined by the Superintendence of Securities and Insurance, in order to respond to the correct and full compliance of the obligations arising from their activity and especially of the damages that may be caused to the insured that they contract through them", is that as of December 31, 2018, the Company has contracted with Compañía de Seguros Generales Consorcio Nacional de Seguros S.A. the following policies, effective as of April 15, 2018 and expiring on April 14, 2019, which 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.

Guarantee information is as follows:

Policy No.	Insured/Contractor	Insured matter	Amount
10035044	CAT Corredores de Seguros y Servicios S.A.	Brokers Guarantee	UF 500
10035045	CAT Corredores de Seguros y Servicios S.A.	Civil liability	UF 60,000

Note 25 Contingencies and commitments, Continued

i) 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	Definition of housing unit value
Santander S.A Sociedad Securitizadora			
Separate Equity BSTDS E	No. 2	85	Current commercial value
Securitizadora Bice S.A.			
Separate equity BBICS A	No. 1	85	Current commercial value
Separate equity BBICS B	No. 2	85	Current commercial value
Separate equity BBICS L	No. 6	85	Current commercial value
Separate equity BBICS F	No. 12	80	Price promised in the original agreement
Separate equity BBICS U	No. 21	80	Price promised in the original agreement

Note 26 Equity

a) Ownership

As of December 31, 2018 and 2017, the Company's shares are as follows:

a.1) Subscribed and fully paid shares

As of December 31, 2018, the authorized Bank's capital is composed of 11,509,591,630 shares, of which 11,507,684,680 are effectively subscribed and paid, and 1,906,950 shares should be fully subscribed and paid in cash within a period of 3 years beginning on November 15, 2018.

a.2) Capital increases

On August 2, 2018, the Company recorded a capital increase of ThCh$324,341 divided into 5,605,522,687 shares. The issued shares were delivered to the shareholders of Banco Bilbao Vizcaya Argentaria, Chile, in proportion to their interest in that company by exchanging their shares in that entity for shares of the Company at the exchange ratio of 13.545733 shares of the Company for each share of Banco Bilbao Vizcaya Argentaria, Chile, which they own, without considering fractions of shares. These shares were subscribed and paid with a debit to the incorporation of the equity that relates to the absorbed business. Additionally, the Company agreed to capitalize overprice paid for shares in the amount of MCh$23,673.

On November 15, 2018, the capital of Scotiabank Chile was increased by MCh$258,533, through the issuance of 756,652,864 new same series, no par value nominative shares, (MCh$257,882 paid).

a.3) Dividends paid and reserves

At the General Ordinary Shareholders' Meeting of Scotiabank Chile held on March 28, 2018, the directors agreed the distribution of 30% of the 2017 profits amounting to MCh$30,990, distributing a dividend of Ch$6.02042 per share.

On August 29, 2018, Scotiabank Chile paid the dividend agreed by the Board, amounting to MCh$74,260, with a debit to retained earnings, distributing a dividend of Ch$14.4267667139 per share, as approved by the extraordinary shareholders' meeting on August 2, 2018.

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.

Scotiabank

Note 26 Equity, Continued

b) Accounting equity

As of December 31, 2018 and 2017, capital, reserves, other comprehensive income and retained earnings attributable to common shareholders are detailed as follows:

	12/31/2018 MCh$	12/31/2017 MCh$
Capital:		
Share capital	996,054	390,158
Shares acquired by the Bank	-	-
Total	**996,054**	**390,158**
Reserves:		
Share premium	121,667	23,673
Other reserves	10,295	10,295
Reserves from earnings	364,386	22,222
Total	**496,348**	**56,190**
Other comprehensive income:		
Adjustment of available-for-sale investments	7,780	824
Adjustment of cash flow hedge derivatives	(9,764)	(3,254)
Total	**(1,984)**	**(2,430)**
Retained earnings:		
Retained earnings from previous periods (*)	447,437	400,211
Net income	108,120	103,299
Provisions for minimum dividends	(32,436)	(30,990)
Total	**523,121**	**472,520**
Profit or loss for the year - Non-controlling interests	96,414	77,557
Total	**96,414**	**77,557**

(*) The Chilean Financial Market Commission 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 interests

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

December 31, 2018

	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%	89,227	16,498	(2,203)
CAT Corredores de Seguros y Servicios S.A.	49%	4,283	2,117	(433)
Scotia Corredora de Bolsa Chile S.A.	0.18%	18	-	-
Bandesarrollo Leasing Inmobiliario S.A.	0.09%	9	1	(1)
Servicios Integrales S.A.	49%	518	44	-
Operadora y Procesos S.A.	49%	1,851	272	-
Scotia Azul Asesorías Financieras S.A.	1.40%	26	12	-
Scotia Azul Sociedad de Leasing Inmobiliario S.A.	2.51%	482	11	-
Total		**96,414**	**18,955**	**(2,637)**

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.	0.18%	17	-	-
Bandesarrollo Leasing Inmobiliario S.A.	0.09%	9	1	(1)
Total		**77,557**	**11,144**	**(5,634)**

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, 2018	Profit for the year MCh$	Total assets MCh$	Total liabilities MCh$
CAT Administradora de Tarjetas S.A.	33,671	1,177,026	1,008,398
CAT Corredores de Seguros y Servicios S.A.	4,320	22,866	15,852
Servicios Integrales S.A.	89	3,476	2,829
Operadora y Procesos S.A	553	8,926	5,660
Scotia Azul Asesorías Financieras S.A.	823	2,947	1,304
Scotia Azul Sociedad de Leasing Inmobiliario S.A.	460	55,432	36,370

As of December 31, 2017	Profit for the year MCh$	Total assets MCh$	Total liabilities MCh$
CAT Administradora de Tarjetas S.A.	19,007	1,003,532	858,215
CAT Corredores de Seguros y Servicios S.A.	3,733	16,329	12,518

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	
	12/31/2018 MCh$	12/31/2017 MCh$	12/31/2018 MCh$	12/31/2017 MCh$	12/31/2018 MCh$	12/31/2017 MCh$
Income:						
Repurchase agreements	4,241	4,078	-	-	4,241	4,078
Loans to banks	17	85	-	-	17	85
Commercial loans	306,486	211,423	54,862	23,684	361,348	235,107
Mortgage loans	215,528	146,164	150,287	57,876	365,815	204,040
Consumer loans	383,350	289,875	582	8	383,932	289,883
Investment securities	33,315	23,090	4,922	926	38,237	24,016
Interest and indexation income	15,604	8,965	2,362	971	17,966	9,936
Gain (loss) from accounting hedges	-	31,578	(8,459)	-	(8,459)	31,578
Total	**958,541**	**715,258**	**204,556**	**83,465**	**1,163,097**	**798,723**
Expenses:						
On-demand deposits	(19,240)	(8,051)	(747)	-	(19,987)	(8,051)
Repurchase agreements	(7,022)	(1,124)	-	-	(7,022)	(1,124)
Term and on-demand deposits	(217,362)	(157,866)	(8,235)	(1,179)	(225,597)	(159,045)
Bank borrowings	(46,463)	(25,673)	(348)	-	(46,811)	(25,673)
Debt securities issued	(121,618)	(95,148)	(114,443)	(51,074)	(236,061)	(146,222)
Other financial liabilities	(1,110)	(985)	(51)	182	(1,161)	(803)
Other interest and indexation expense	(1,827)	(129)	(2,608)	(2,689)	(4,435)	(2,818)
Gain (loss) from accounting hedges	-	-	(7,114)	(21,654)	(7,114)	(21,654)
Total	**(414,642)**	**(288,976)**	**(133,546)**	**(76,414)**	**(548,188)**	**(365,390)**
Net interest and indexation income	**543,899**	**426,282**	**71,010**	**7,051**	**614,909**	**433,333**

(*) Interest and indexation income and expenses for the year ended December 31, 2018, comprise the period from January 1 through December 31, 2018, for balances from Scotiabank Chile; however, for Scotiabank Azul (formerly BBVA Chile), the balances presented are for the period from September 1 through December 31, 2018, due to the merger.

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

	Interests		Indexation		Total	
	12/31/2018 MCh$	12/31/2017 MCh$	12/31/2018 MCh$	12/31/2017 MCh$	12/31/2018 MCh$	12/31/2017 MCh$
Commercial loans	2,086	1,299	1,146	946	3,232	2,245
Mortgage loans	1,482	1,349	3,114	2,771	4,596	4,120
Consumer loans	-	-	-	-	-	-
Total	**3,568**	**2,648**	**4,260**	**3,717**	**7,828**	**6,365**

Note 28 Fees and commissions

Fee and commission income and expenses are included in the Consolidated Statement of Income, and are detailed as follows:

	12/31/2018 MCh$	12/31/2017 MCh$
Fee and commission income		
Revolving credit facilities and bank overdrafts	1,471	1,149
Guarantees and letters of credit	6,428	3,610
Credit card services	36,872	23,548
Account management	10,982	8,601
Collection and payments	41,971	41,896
Securities brokerage and management	2,097	1,962
Investments in mutual fund deposits or other	13,131	10,515
Insurance brokerage	41,926	28,524
Loan management under Law No. 20.027	10,179	9,214
Other subsidiary commissions	12,192	2,365
Other commissions	7,053	6,043
Total	**184,302**	**137,427**
Fee and commission expenses		
Credit card transactions	(23,628)	(14,488)
Debit and ATM card transactions	(9,587)	(6,220)
Other credit card transactions	(234)	(211)
Deposits and custody of securities	(316)	(246)
Brokerage	(2,964)	(2,070)
Other security transactions	(8,217)	(4,429)
Fees and commissions from guarantors for Bank liabilities	(246)	-
Fees and commissions paid for collection management	(2,284)	(2,002)
Other commissions	(3,959)	(2,614)
Total	**(51,435)**	**(32,280)**
Net fee and commission income	**132,867**	**105,147**

Scotiabank

Note 28 Fees and commissions, continued

Fee and commission income and expenses by segment are detailed as follows:

Concept	As of December 31, 2018					
	SME and Retail	Commercial Banking	Personal Banking	Financial Retail	Other	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Revolving credit facilities	192	356	893	-	30	1,471
Bank guarantee certificates	455	5,289	(32)	-	722	6,434
Credit cards	697	327	10,914	(522)	(7,993)	3,423
Current accounts	3,787	1,632	5,685	-	(123)	10,981
Collection	5,259	2,231	8,477	27,653	(1,681)	41,939
Insurance	7,574	2,521	20,303	15,218	5,689	51,305
Other	8,997	5,043	443	8,539	(5,708)	17,314
Net fee and commission income	**26,961**	**17,399**	**46,683**	**50,888**	**(9,064)**	**132,867**

Concept	As of December 31, 2017					
	SME and Retail	Commercial Banking	Personal Banking	Financial Retail	Other	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Revolving credit facilities	151	593	405	-	-	1,149
Bank guarantee certificates	370	2,809	7	-	424	3,610
Credit cards	366	179	4,406	(2,058)	(264)	2,629
Current accounts	3,090	962	4,549	-	-	8,601
Collection	5,601	1,213	4,108	31,407	11,609	53,938
Insurance	5,983	2,268	14,940	13,634	(7,866)	28,959
Other	7,763	4,939	(551)	(770)	(5,120)	6,261
Net fee and commission income	**23,324**	**12,963**	**27,864**	**42,213**	**(1,217)**	**105,147**

Note 29 Gain or loss on financial transactions

The gains or losses included in the caption “Gain or loss on financial transactions” in the Consolidated Statement of Income for the period, correspond to the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Net income from financial instruments held for trading:		
Interest and indexation	16,258	6,527
Fair value adjustments	61	(1,493)
Gain on sales	6,146	6,165
Loss on sales	(3,677)	(5,878)
Gain on investments in mutual funds	1,694	1,901
Gain on financial instruments held for trading	**20,482**	7,222
Net (loss) gain on financial derivative instruments held for trading:		
Gain on derivative instruments	1,947,575	1,228,731
Loss on derivative instruments	(1,980,256)	(1,210,576)
Net gain (loss) on financial derivative instruments held for trading	**(32,681)**	18,155
Sale of available-for-sale securities:		
Changes in fair value transferred to profit or loss	-	-
Gain on sale	2,980	2,465
Loss on sales	(2,048)	(154)
Net loss on sale of available-for-sale securities	**932**	2,311
Net gain on sale of loan and receivables portfolio	16,262	9,677
Net profit or loss on other transactions		
Letters of credit issued by the Bank	27	(16)
Income from ineffective hedges	394	770
Expense from ineffective hedges	(3,065)	(524)
Other income	558	970
Other expenses	(1,974)	(1,129)
Net gain on other transactions	(4,060)	71
Net gain (loss) from financial operations	**935**	**37,436**

Note 30 Net foreign exchange income (expense)

The gains and losses included in the caption “Net foreign exchange income (expense)” in the Consolidated Statement of Income for the period, correspond to the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Foreign currency exchange difference:		
Foreign currency exchange gain, net - exchange position	48,607	1,747
Other	(8,366)	5,879
Subtotal	40,241	7,626
Adjustable items in foreign currency:		
Loans to clients	3,591	(811)
Adjustments to other liabilities	(1)	-
Subtotal	3,590	(811)
Hedge accounting:		
Gain from hedge of assets	7,262	11,851
Loss from hedge of assets	(26)	(2,489)
Gain from hedge of liabilities	29,376	34
Loss from hedge of liabilities	(9,368)	(12,226)
Subtotal	**27,244**	**(2,830)**
Total	**71,075**	**3,985**

Note 31 Allowances for credit risk

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

As of December 31, 2018	Loans and advances to banks MCh$	Loans and advances to customers: Commercial loans MCh$	Mortgage loans MCh$	Consumer loans MCh$	Contingent loans MCh$	Other loans MCh$	Total MCh$
Allowances accrued:							
Individual allowances	(5)	(55,621)	-	-	(154)	-	(55,780)
Collective allowances	-	(59,509)	-	(197,862)	(9,063)	(39)	(266,473)
Net gain (loss) from allowances accrued	(5)	(115,130)	-	(197,862)	(9,217)	(39)	(322,253)
Release of allowances:							
Individual allowances	16	17,776	-	-	142	-	17,934
Collective allowances	-	16,460	860	-	5,274	-	22,594
Net gain (loss) on release of allowances	16	34,236	860	-	5,416	-	40,528
Net gain (loss) on allowances	**11**	**(80,894)**	**860**	**(197,862)**	**(3,801)**	**(39)**	**(281,725)**
Recovery of assets written-off	-	9,186	4,042	38,368	-	-	51,596
Net gain (loss)	**11**	**(71,708)**	**4,902**	**(159,494)**	**(3,801)**	**(39)**	**(230,129)**

Note 31 Allowances for credit risk, continued

As of December 31, 2017	Loans and advances to banks MCh$	Loans and advances to customers Commercial loans MCh$	Mortgage loans MCh$	Consumer loans MCh$	Contingent loans MCh$	Other loans MCh$	Total MCh$
Allowances accrued:							
Individual allowances	(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)**

According to Management's judgment, allowances made for credit risk and impairment losses cover all possible losses that may arise from not recovering assets according to the background information analyzed by the Bank.

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, 2018 and 2017:

	12/31/2018 MCh$	12/31/2017 MCh$
Payroll	(113,572)	(85,674)
Bonuses	(57,149)	(48,124)
Severance indemnity payments	(14,388)	(6,226)
Training expenses	(1,436)	(1,282)
Other personnel expenses	(17,265)	(11,173)
Total	**(203,810)**	**(152,479)**

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 as of December 31, 2018 and 2017, are detailed as follows:

	12/31/2018 MCh$	12/31/2017 MCh$
Administrative expenses		
Maintenance and repair of property and equipment	(3,809)	(2,403)
Office leases	(15,459)	(10,063)
Equipment leases	(1,802)	(756)
Insurance premiums	(2,317)	(1,604)
Office stationary	(2,316)	(1,988)
IT and communication expenses	(28,604)	(17,650)
Electricity, heating and other services	(2,475)	(3,228)
Security patrol and security transport services	(2,512)	(1,454)
Representation expenses and personnel transportation	(2,016)	(976)
Legal and notary expenses	(6,359)	(4,720)
Professional service fees	(10,173)	(2,059)
Fines imposed by the SBIF	-	-
Fines imposed by other entities	(68)	(84)
Other general administrative expenses	(29,797)	(24,186)
Subcontracted services		
Data processing	(641)	(619)
Sale of products	(145)	-
Other (*)	(31,054)	(28,019)
Board of Directors expenses		
Directors' fees	(606)	(428)
Other Directors' expenses	-	(5)
Publicity and advertising	(25,143)	(19,749)
Taxes and contributions		
Real estate	(684)	(529)
Patents	(1,726)	(1,166)
Other taxes	(744)	(233)
Contributions to the SBIF	(5,187)	(3,348)
Total	**(173,637)**	**(125,267)**

(*) This item comprises mainly expenses from card processing, collection expenses, and advisory services by the subsidiaries CAT Administradora de Tarjetas S.A. and Servicios Integrales S.A., amounting to MCh$23,416 (MCh$24,019 as of December 31, 2017).

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, 2018 and 2017:

	12/31/2018 MCh$	12/31/2017 MCh$
Depreciation of property and equipment	9,497	6,048
Amortization of intangible assets	18,345	13,103
Total depreciation and amortization	**27,842**	**19,151**
Impairment of intangible assets	21,372	-
Total impairment	**21,372**	**-**
Total	**49,214**	**19,151**

Note 35 Other operating income

As of December 31, 2018 and 2017, this caption comprises the following:

	31/12/2018 MCh$	31/12/2017 MCh$
Income from assets received in lieu of payment	6,016	2,099
Release of provisions for contingencies	44	198
Loss from the sale of property and equipment	2,170	357
Other income from lease operations	563	659
Leases received	537	213
Income from advisory services	5,790	7,427
Reimbursement of expenses	4,228	2,635
Grants received from Minvu (the Housing Ministry)	333	-
Release of other provisions	39	-
Other income from subsidiaries	128	95
Income from prescribed obligations	-	21
Incentives received from credit card brands	1,822	1,246
Compensation received	2,000	3,147
Other operating income	860	1,293
Total	**24,530**	**19,390**

Note 36 Other operating expenses

As of December 31, 2018 and 2017, this caption comprises the following:

	12/31/2018 MCh$	12/31/2017 MCh$
Provision for assets received in lieu of payment or awarded	2,750	2,157
Write-off of assets received in lieu of payments or awarded	4,053	1,569
Maintenance expenses from assets received in lieu of payment or	452	191
Provisions for contingencies	938	169
Loss from the sale of property and equipment	-	347
Restructuring costs	1,176	16
Expenses related to provisions for securitized bonds	4,507	2,543
Write-off of recovered leased assets	164	168
Leased asset expenses	449	278
Provisions for recovered leased assets	140	306
Expenses related to operational risk	2,390	3,370
Write-off due to commercial decisions	543	-
Other unforeseen events	-	113
Expenses related to the sale of goods in lieu of payment	158	148
Disallowed expenses under Income Law Art. 21	280	184
Correspondent bank expenses	791	565
Clearing House Services	1,390	1,061
Donations	448	317
Return of prior-year commissions	104	177
Expenses for legal settlements	400	342
Expenses related to loans	3,648	-
Other provisions	3,183	-
Other operating expenses	1,318	768
Total	**29,282**	**14,789**

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 activities of the Bank 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, 2018			As of December 31, 2017		
	Operating companies MCh$	Investment companies MCh$	Individuals MCh$	Operating companies MCh$	Investment companies MCh$	Individuals MCh$
Loans and receivables:						
Commercial loans	192,950	13,538	13,763	17,988	403	8,939
Mortgage loans	-	-	59,443	-	-	33,330
Consumer loans	-	-	13,665	-	-	9,428
Gross loans	**192,950**	**13,538**	**86,871**	**17,988**	**403**	**51,697**
Provisions for loans	(963)	(82)	(721)	(56)	(5)	(355)
Net loans	**191,987**	**13,456**	**86,150**	**17,932**	**398**	**51,342**
Contingent loans: Total contingent loans	29,457	43,165	22,689	13,268	46,587	15,188
Allowances for contingent loans	(20)	(22)	(106)	(12)	(66)	(45)

Note 37 Transactions with related parties, continued

b) Other assets and liabilities with related parties

	12/31/2018 MCh$	12/31/2017 MCh$
Assets:		
Derivative instruments	169,335	183,183
Other assets	721	645
Liabilities		
Derivative instruments	276,385	134,632
On-demand deposits	55,670	13,321
Term and on-demand deposits	282,281	223,819
Other liabilities	6,495	1,08

c) Gain or loss from transactions with related parties

	For the years ended			
	12/31/2018		12/31/2017	
	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$
Interest and indexation income and expenses	7,861	6,527	3,267	7,522
Fee and commission income and expenses	673	9,421	269	5,669
Gain or loss from trading activities	305	2,082	-	-
Gain or loss from other financial transactions	50	6	34	-
Operating support expenses	-	9,246	-	4,122
Other income and expenses	1,319	2,827	2,568	1,015
Total	**10,208**	**30,109**	**6,138**	**18,328**

d) Contracts with related parties

As of December 31, 2018 and 2017, no contracts with related parties have been entered into for transactions other than the normal operations related to the line of business.

Note 37 Transactions with related parties, continued

e) Directors and key management personnel compensation

As approved at Shareholders' Meetings, as of December 31, 2018, the Bank and its subsidiaries have paid to the Board of Directors or accrued with a debit to profit or loss for the period the amount of MCh$664 (MCh$428 as of December 31, 2017). This amount has been paid for compensation, fees and other expenses related to their functions.

The compensation of key management personnel is detailed as follows:

	31/12/2018		31/12/2017	
	Directors MCh$	Key management	Directors MCh$	Key management
Short-term benefits	664	14,403	428	11.320
Severance indemnity payments	-	276	-	767
Total	**664**	**14,679**	**428**	**12,087**

f) Composition of key personnel

As of December 31, 2018 and 2017, the Bank's key personnel comprises the following:

	31/12/2018	31/12/2017
Position	No. of	No. of
Directors	13	7
Key management	95	76

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, 2018 and 2017:

	12/31/2018		12/31/2017	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	MCh$	MCh$	MCh$	MCh$
Assets				
Cash and deposits in banks	787,472	787,472	453,789	453,789
Transactions pending settlement	864,482	864,482	293,483	293,483
Securities held for trading	859,028	859,028	331,063	331,063
Investments sold under repurchase agreements and	217,365	217,125	224,189	224,011
Derivative instruments	2,480,637	2,480,637	541,641	541,641
Loans and advances to banks	2,789	2,789	34	34
Loans and advances to customers	22,330,415	22,674,794	10,170,696	10,484,509
Available-for-sale investment securities	1,212,048	1,212,048	933,011	933,011
Investments in companies at fair value	2,772	2,772	2,188	2,188
Securitized bonds	17,920	17,920	16,595	17,926
Liabilities				
Deposits and other on-demand liabilities	4,107,266	4,107,266	1,539,852	1,539,852
Transactions pending settlement	678,542	678,542	191,790	191,790
Investments sold under repurchase agreements	575,782	575,611	44,258	44,243
Term and on-demand deposits	10,820,595	10,815,146	5,484,907	5,484,941
Derivative instruments	2,409,176	2,409,176	577,582	577,582
Bank borrowings	2,559,097	2,523,871	1,261,842	1,244,800
Debt securities issued	6,141,337	6,448,515	3,079,840	3,181,786
Other financial liabilities	73,082	73,082	63,992	63,992

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 31, 2018 and 2017. Highest differences are recorded in the mortgage portfolio and bonds issued as they relate to long-term balances. This has an impact on two key aspects:

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

Note 38 Fair value of financial assets and liabilities, continued

Determining fair value and hierarchy

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, 2018 and 2017:

As of December 31, 2018	Carrying amount MCh$	Fair value measurements Level 1 MCh$	Level 2 MCh$	Level 3 MCh$
Assets				
Securities held for trading	859,028	467,445	391,583	-
Available-for-sale investment securities	1,212,048	688,533	520,744	2,771
Derivative instruments	2,480,637	-	2,480,637	-
Investments in companies at fair value	2,772	-	-	2,772
Securitized bonds	17,920	-	-	17,920
Total	**4,572,405**	**1,155,978**	**3,392,964**	**23,463**
Liabilities				
Derivative instruments	2,409,176	-	2,409,176	-
Total	**2,409,176**	**-**	**2,409,176**	**-**

As of December 31, 2017	Carrying amount MCh$	Fair value measurements 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**	**-**

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.

As a result of the merger of September 1, 2018, between Scotiabank Chile and Scotiabank Azul, Risk Management as of December 31, 2018, comprises the following:

Structure:

At the structural level, the Bank maintains Scotiabank Chile's Risk Committees, Departments and Management, and both banks' transactional and operational areas, as well as their information systems.

Methodology:

- **Credit risk:**

  Individual allowances:
  The policies applicable to each Bank continue to be applied, considering the carryforward of the lower risk category for customers with current transactions with both banks and its factoring subsidiary.

  Collective allowances:
  Each bank maintains its own allowance model, considering the carryforward of the lower risk category for customers with current transactions with both banks, and impairment carryforward with the subsidiary CAT Administradora de Tarjetas S.A.

- **Financial risk:**

  Liquidity risk:
  Prior to the merger, the Bank developed interfaces aimed at obtaining consolidated measurements with a single view when segmenting customers. For behavior criteria both banks' criteria are being used to the extent possible; in case of technical restrictions, the behavior measured by one of the banks for both portfolios, which is justified by both banks having products and equivalents with similar characteristics.

  Exchange rate and currency risk:
  The pre-merger methodologies of each bank are being measured. Once the risk is measured, it is consolidated and controlled on a daily basis.

Note 39 Risk management, continued

1) Introduction, continued

- **Operational risk:**
  During the merger and due diligence process, the Bank identified no significant gaps in the operational risk management; however, there are differences related to governance, methodology and practices, which are currently under review for their definition and implementation under the Bank Merger Program. Overall, this considers maintaining Scotiabank Chile's Governance Structure and Policies, and enforcing methodologies in accordance with both bank's best practices.

Principles:

The activities that require assuming and managing risks at the Bank are governed by the following principles:

- Risk and benefit: Business decisions are consistent with the strategies and risk appetite.

- Understanding the risks: All material risks to which the Bank is exposed are identified and managed, including financial and non-financial risks.

- Forward-looking thinking: Emerging risks and potential vulnerabilities are proactively identified.

- Shared responsibility: All employees are responsible of managing risks.

- Focus on the customer: Understanding our customers and their needs is essential for all businesses and risk decision making.

- Protecting our brand: All risk assumption activities should be consistent with the risk appetite, Code of Conduct, values and policy principles.

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 (ALCO)**
  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

- **Non-Financial Risk Management Committee**
  Providing high-level oversight of the Bank and its subsidiaries' non-financial risks (Operational Risk, Information Security Risk, Business Continuity Risk, Outsourced Services Risk, New Products and Initiatives Risk, Compliance, Regulatory Reports and Reputational Risks), delivering a strategic approach and coordinating the development of local internal control programs.

- **Model Committee**
  The Model Committee is an instance formed to define and approve the preparation, application and follow-up on the models used in risk management for the Personal Banking, Consumer Finance - SME and Commercial Banking segments, in the different stages of the credit cycle, as well as overseeing the quality of provision estimation methodologies.

- **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.

- **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 responsible for various aspects related to efficiency, maintenance, application and functioning of the Bank and its subsidiaries' internal control systems; closely monitoring of compliance with the standards and procedures governing their application, having a clear understanding of the risks which may impact the business activities may have for the Bank; strengthening and supporting the comptrollership function, as well as Management independence and serving as channeling and coordinating the tasks of internal audit and external auditors, serving also as the channel between them and the Bank's Board of Directors.

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 for providing 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.

Scotiabank

Note 39 Risk management, continued

2) Risk management structure, continued

Enterprise Risk Management

- 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 Risk 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 counterpart 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 different models based on 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 sales over MUS$1, and to all debtors assigned to the Corporate, Large Corporations, Real Estate and SME segments. 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.

Note 39 Risk management, continued

3) Credit risk, continued

Standardization of Individual Allowances:

During September 2018, as a result of the merger, the Bank incorporated the portfolio of Scotiabank Azul (formerly BBVA), which considered a “standardization of individual risk classifications” process which consisted of classifying common customers under the more conservative risk category. This resulted in a higher debit to profit or loss for 2018 amounting to MCh$12,331. Additionally, in December 2018 the Bank recognized higher individual allowances under “Adjustments to the Scotiabank Azul's portfolio guarantees” amounting to MCh$3,911.

Note that the Bank has temporarily maintained the definition of Scotiabank Azul's individual portfolio where the main difference is the commercial loan cut-off equal or exceeding MCh$530 and sales over MCh$1,060.

Expected credit loss model for collective allowances:

The Bank has a proper structure to manage credit risk models, and there is independence of functions in accordance with best practices and local regulations.

In addition, there is a Model Committee to which the developments and follow-up of models are submitted for approval, both from a performance and allowance adequacy perspective, which allows having a proper control of collective allowances.

There is a Model Management Policy providing guidelines which allow developments to have a defined standard by the Bank, regardless of the team performing the work. These guidelines cover different matters such as Group Model Methodology, Follow-Up and Control, Data Validation, Model Development, and Allowance Adequacy.

Additionally, in order to have proper supporting evidence and analyses, the Bank prepares Technical Notes covering relevant matters related to model development, such as a recession period to consider, or the discount rate to use when calculating the Loss Given Default parameters.

The Group Credit Risk Models based on each portfolio of Scotiabank Chile and Scotiabank Azul are presented below.

Note 39 Risk management, continued

3) Credit risk, continued

a) Scotiabank Chile's portfolio

Collective Commercial Model

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.

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:

EL = DP * LGD * Exposure

Where:

- **EL:** corresponds to expected loss.
- **DP:** corresponds to probability of default.
- **Exposure:** corresponds to debt.
- **LGD:** corresponds to loss given default.

3) Credit risk, continued

a) Scotiabank Chile's portfolio, 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.

Changes to the Collective Model – Consumer and Mortgage Portfolios

During 2018, Scotiabank Chile adjusted its Retail models by incorporating new periods to the calculation of PD and LGD, including the impairment of common customers between the Bank and its subsidiary, in addition to a new segmentation for LGD in its different products. This gave rise to an increase and a decrease in provisions for consumer and mortgage portfolios, respectively, generating a release of provisions on the net amount of MCh$3,891 for "Changes in Probability of Default (PD) and Loss Given Default (LGD)." (See Note 3).

Note 39 Risk management, continued

3) Credit risk, continued

a) Scotiabank Chile's portfolio, continued

Provision for Impairment Carryforward – Consumer and Mortgage Portfolios

Each bank has its own methodology for provisions, also considering an adjustment to a greater PD of common customers between Scotiabank and Scotiabank Azul (formerly, BBVA). The first change mainly affected mortgage risk rates, to which the SBIF's standard model is currently applied, and the carryforward of the lowest PD primarily had an impact on consumer models with higher risk ratios. Consequently, the Bank recorded in profit or loss higher provisions for "Maximum PD carryforward" and "Impairment carryforward", for commercial, mortgage and consumer models, amounting to MCh$1,889, of which the last concentrates the greatest portion. Additionally, for Scotiabank Azul's portfolio, the Bank recognized higher provisions for "Consumer model impairment carryforward" and "Consumer portfolio maximum PD carryforward" of MCh$10,439 and MCh$2,041, respectively.

Collective Model – Collective Commercial Standard Matrix

As approved by the Board of Directors, as of December 31, 2018, the Bank recognized higher provisions for the adoption of a new commercial standard matrix issued by SBIF in July 2018 (Circular No. 3.638). This effect generated a greater debit to profit or loss for the year of MCh$18,798 (See Note 3).

b) Scotiabank Azul Portfolio

Collective Portfolio

Commercial Portfolio

Collective trade receivables are customers that record commercial loans and/or lease operations and are not individually assessed.

A matrix exists to determine an allowance level associated with these debtors, which estimates, for each loan, the Expected Loss for the following 12 months.

The expected loss was adjusted in 2016 as part of the process of regular update of the allowance models to always have risk measures as consistent as possible with the risk profile of the portfolio that may vary throughout time. Accordingly, estimation models of the probability of default and severity were developed.

Note 39 Risk management, continued

3) Credit risk, continued

b) Scotiabank Azul Portfolio, continued

Collective Commercial Portfolio, continued

The matrix re-estimation process introduced improvements, of which the most significant are as follows:

- For the calculation of Probability of Default (PD): The new definition of default portfolio established in Chapter B1 of the Summary of Accounting Standards issued by the SBIF was considered.
- Likewise, different segments and PD were determined according to their risk level, using segment trees.
- The calculation of the severity or Loss Given Default (LGD) was made by dividing results in terms of the guarantee associated with the operation.
- The new matrix determines the percentage of allowance to be applied as per different aspects:
  - At customer level: variables in the financial system, customer loyalty, type of person (natural person or legal entity), behavior.
  - At product level: type of guarantee, contract status (renegotiated/not renegotiated), type of product.

Consumer loans

Consumer loans comprise loans with the following characteristics: debtors are natural persons, and the loans are granted to finance the acquisition of consumer goods or the payment of services.

Allowances are determined in terms of the segmentation of consumer products and tranches of days of loan default, delinquency of other loans of the customer and the aging of the loan. The allowance percentages considered in the matrix are supported by a study of Expected Loss (EL), which comprises the calculation of parameters of probability of default and severity for this portfolio.

Mortgage loans

The mortgage loan portfolio comprises loans with the following characteristics: they are intended to finance the acquisition, extension, repair or construction of a dwelling; the debtor is a natural person buyer or an owner of a property and the value of the guarantee hedges the entire amount of the loan.

From January 1, 2016, the Bank uses the standard method of provisions for residential mortgages established by Chilean Superintendence of Banks and Financial Institutions (SBIF) through its Circular No.3.573, which determines the following factors of the applicable provision, represented by the expected loss on the amount of residential mortgage loans, and will depend on the default of each loan and the ratio, at the end of each month, between the principal owed outstanding of each loan and the value of the related mortgage guarantee (PVG), as indicated in the table below.

Note 39 Risk management, continued

3) Credit risk, continued

b) Scotiabank Azul Portfolio, continued Mortgage loans, continued

Applicable allowance factor by delinquency and PVG						
	Past due days at month-end					
PVG tranche	**Concept**	**Current**	**Jan-29**	**30-59**	**60-89**	**Default portfolio**
PVG ≤ 40%	PD (%)	1.0916	21.3407	46.0536	75.1614	100
	LGD (%)	0.0225	0.0441	0.0482	0.0482	0.0537
	EL (%)	0.0002	0.0094	0.0222	0.0362	0.0537
40% < PVG ≤ 80%	PD (%)	1.9158	27.4332	52.0824	78.9511	100
	LGD (%)	2.1955	2.8233	2.9192	2.9192	3.0413
	EL (%)	0.0421	0.7745	1.5204	2.3047	3.0413
80% < PVG ≤ 90%	PD (%)	2.5150	27.9300	52.5800	79.6952	100
	LGD (%)	21.5527	21.6600	21.9200	22.1331	22.2310
	EL (%)	0.5421	6.0496	11.5255	17.6390	22.2310
PVG >90%	PD (%)	2.7400	28.4300	53.0800	80.3677	100
	LGD (%)	27.2000	29.0300	29.5900	30.1558	30.2436
	EL (%)	0.7453	8.2532	15.7064	24.2355	30.2436

Where:

PD: Probability of default
LGD: Loss given default
EL: Expected loss
PVG: Outstanding principal amount/value of the mortgage collateral

If the same debtor maintains more than one residential mortgage loan with the Bank, and one of them is past due for 90 days or more, all these loans will be allocated to the default portfolio, calculating the provisions for each of them in accordance with their related PVG percentages.

Note 39 Risk management, continued

3) Credit risk, continued

Loan quality per class of financial asset

As of December 31, 2018

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	2,327	232,242	-	25,673	-	-	132,155	392,397
A2	376	2,758,858	68,513	18,550	-	-	676,255	3,522,552
A3	86	1,560,146	78,314	47,433	-	-	254,944	1,940,923
A4	-	2,103,109	300,713	54,291	-	-	168,772	2,626,885
A5	-	1,210,020	122,347	55,419	-	-	74,635	1,462,421
A6	-	477,649	37,787	17,422	-	-	25,091	557,949
B1	-	108,120	8,193	1,278	-	-	3,729	121,320
B2	-	24,588	1,237	126	-	-	958	26,909
B3	-	89,138	4,907	523	-	-	131	94,699
B4	-	20,242	6,223	-	-	-	97	26,562
C1	-	17,461	2,483	-	-	-	62	20,006
C2	-	19,531	1,833	-	-	-	19	21,383
C3	-	4,788	1,113	-	-	-	18	5,919
C4	-	8,000	2,108	-	-	-	16	10,124
C5	-	8,043	1,735	366	-	-	223	10,367
C6	-	33,336	356	6	-	-	2,013	35,711
Total	**2,789**	**8,675,271**	**637,862**	**221,087**	**-**	**-**	**1,339,118**	**10,876,127**
Collective assessment:	-	1,664,425	36,644	31,716	3,339,975	8,216,359	1,530,359	14,819,478
Total	**2,789**	**10,339,696**	**674,506**	**252,803**	**3,339,975**	**8,216,359**	**2,869,477**	**25,695,605**

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

Total provisions for loans

As of December 31, 2018, the total amount of provisions for loans was MCh$492,924, which implies an increase of approximately 16.9% compared to the combined provision stock of 2017 of Scotiabank Chile and Scotiabank Azul (formerly, BBVA Chile), which amounted to MCh$421,248. Accordingly, the percentage of provisions on total loans increased from 2.09% in December 2017 (merged-proforma) to 2.16% in 2018.

Such net increase in the provisions level is mainly because of changes in consumer and mortgage models and adjustments for the risk carryforward in Scotiabank Azul's portfolios due to the merge (MCh$45,518). Likewise, the difference in the increase of provisions is due to the growth of the level of loans of 13.1% in 2018. See the tables below.

Additionally, as of December 31, 2018, the total net expense for provisions for credit risk was MCh$230,129, which implied an increase of approximately 4.2% compared to 2017, considering the merged-proforma amounts (MCh$220,757).

	12-31-2018 MCh$	12-31-2017 MCh$
Total provisions	492,924	421,248
Total loans	22,823,339	20,173,222
% of Provisions/Loans	2.16%	2.09%

Note 39 Risk management, continued

4) Operational risk

Operational risk is the risk of loss, whether direct or indirect, to which the Bank and/or its Subsidiaries are exposed due to external events, human errors or inadequate or failed processes, procedures, systems or controls. Such definition also includes legal risk but excludes strategic and reputation risks. To a certain extent, operational risk exists in each of the Bank and its Subsidiaries' business and support activities and could result in financial losses, regulatory sanctions or damage to the Bank's reputation. An example that may have an impact on the Bank's risk profile is regulatory changes or legal reforms.

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, monitor 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 (generally composed of the lines of business and corporate functions) assumes and is responsible for the risks.

The second line of defense (generally composed of control functions such as Risk Management, Compliance and Finance) provides independent supervision and objective challenges to the first line of defense, as well as risk oversight and control.

The third line of defense (Internal Audit Department) 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.

The internal governance structure for managing Operational Risk within the Bank is composed of the Enterprise Risk Management and Control areas, Non-financial Risk Management 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

Risk and Control Self-Assessment Program

The Bank and its Subsidiaries have a process roadmap including all business and support functions existing within the entity, which is subject to an annual criticality assessment using qualitative and quantitative variables.

Defining processes for which specific risk and control assessments will be conducted is prioritized annually in accordance with such criticality, which is reviewed and approved by the Non-financial Risk Management Committee. However, the Committee may suggest and approve changes to the defined annual program depending on relevant events that had affected processes, systems, people or external events during such period, such as changes in standards, materialization of incidents, operating losses, among others, that the Committee determines, which will generate an update of risk and control assessment of one or more specific processes. As a supplementary action to this program and in order to ensure a complete coverage, a general risk and control assessment will be conducted on an annual basis to the entity. Such assessment will include an overview of all critical and non-critical processes.

The Risk and Control Self-Assessment (RCSA) program is an integral part of the Bank's Operational Risk Management Framework. This program establishes a systematic approach to coordinate the Bank's risk identification and efforts related to risk management and improve the understanding, control and oversight of operational risks.

The RCSA program is intended to identify, document and assess relevant operational risks in a process, entity or a significant business unit. The risk and control self-assessment process provides a systematic approach to identify internal related risks and controls, as well as deficiencies affecting the achievement of the defined business objectives. Likewise, this process is a mean of supervising Management actions to remove deficiencies identified and measuring the efficiency of measures by using key risk indicators for the main risks applicable.

Note 39 Risk management, continued

4) Operational risk, continued

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.

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 (An area of the first line of defense, which is in charge of supporting the individuals responsible for risk concerning operational risk management, initiative implementation and establishing an internal corporate governance, internal controls and cooperating with risk oversight area to property comply with its responsibility related to the objective assessment) then reports the operational loss data on a monthly basis considering certain limits established to the Parent's International Operations & Shared Services for entry to the centralized Bank of Nova Scotia operational loss database.

Note 39 Risk management, continued

4) Operational risk, continued

Operational risk loss data, continued

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, 2018, the Bank and its subsidiaries have recognized MCh$3,691 associated with operational risk expenses (MCh$3,370 in 2017).

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.

Note 39 Risk management, continued

5) Market risk, continued

- 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.

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.

Note 39 Risk management, continued

5) Market risk, continued

Balance sheet management, continued

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

As of December 31, 2018 (Individual Bank)

	Purchase value MCh$	Purchase IRR %	Market value MCh$	Market IRR %	Unrealized gain (loss) MCh$
Notes expressed in Ch$	**1,151,398**	**3.54**	**1,156,509**	**3.42**	**5,111**
BTP	610,639	3.98	615,646	3.82	5,007
PDBC	249,955	2.68	249,938	2.48	-17
BCP	246,935	3.23	246,960	3.32	25
Time deposits in Ch$	43,869	3.96	43,965	3.71	96
Notes expressed in UF	**22,917**	**1.00**	**22,844**	**2.25**	**-73**
Term deposits in UF	13,746	0.90	13,652	3.23	-94
BCU	8,992	1.06	9.001	0.75	9
Corporate bond in UF	179	4.99	191	2.66	12
Notes expressed in US$	**652**	**3.50**	**652**	**2.43**	**0**
Term deposits in US$	652	3.50	652	2.43	0
Notes expressed in EUR	**16,191**	**1.64**	**16,736**	**0.66**	**545**
Government bond in EUR	16,191	1.64	16,736	0.66	545
Total notes	**1,191,158**	**3.46**	**1,196,741**	**3.36**	**5,583**

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	2.5	14,987	2.52	-
BCP	1,047	3.97	1,051	3.4	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	-	-	-	-	-
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

Trading/Customer 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 customers.

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 customers and currency proprietary positions.

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, 2018, total VaR (including rate and currency) amounted to MCh$1,492 (MCh$460 as of December 31, 2017).

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

	12/31/2018 MCh$	12/31/2017 MCh$
Bonds in UF	163	48
Derivatives in UF	460	67
Bonds in Ch$	343	6
Derivatives in	454	1
Derivatives in	519	328
Basis US$/Ch$	1.036	15
Basis L3L6	43	6
Other	(1,765)	3
FX	239	(14)
Total	1,492	460

Other relates to a diversification effect, generated by ledgers including different risk measurements.

Note 39 Risk management, continued

5) Market risk, continued

Sensitivity of Equity and Financial Margin

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

Items sensitive to interest rates are presented as follows:

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

Non-remunerable assets and non-cost liabilities are recorded as non-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).

As of December 31, 2018

	VPN	VPN + 1%	VPN - 1%
$	1,338,482	(98,899)	107,379
UF	1,439,915	(117,579)	130,187
US$	(808,701)	1,276	(1,224)
FC	(2,407)	1	(1)
Use	215,201		

As of December 31, 2017

	VPN	VPN + 1%	VPN - 1%
$	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		

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 in the ALM book:

As of December 31, 2018

	Net present value				Financial margin			
	Ch$ MCh$	UF MCh$	US$ MCh$	FC MCh$	Ch$ MCh$	UF MCh$	US$ MCh$	FC MCh$
1 Month	660,799	(91,561)	(638,717)	(2,409)	6,333	(877)	(6,121)	(23)
2 months	(615,287)	83,461	(108,785)	-	(5,384)	730	(952)	-
3 months	(300,167)	129,590	(10,369)	-	(2,376)	1,026	(82)	-
4 months	37,119	(142,218)	(14,012)	-	263	(1,007)	(99)	-
5 months	(273,489)	(248,792)	315,036	-	(1,709)	(1,555)	1,969	-
6 months	(408,824)	158,510	395,224	-	(2,214)	859	2,141	-
7 months	21,764	133,150	55,458	-	100	610	254	-
8 months	136,709	93,565	46,186	-	513	351	173	-
9 months	114,635	58,556	(167,365)	-	334	171	(488)	-
10 months	267,527	134,682	(196,927)	-	557	281	(410)	-
11 months	155,462	(275,676)	(218,736)	-	194	(345)	(273)	-
12 months	381,444	(150,433)	(169,658)	-	158	(64)	(72)	-
					(3,231)	**180**	**(3,960)**	**(23)**
Exposure to inflation						**7,543**		
Use	**14,135**							

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**							

Net present value: net present value of asset and liability flows.

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 U.S. dollars, as well as in other currencies as a result of product requirements by customers.

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

	As of December 31, 2018			As of December 31, 2017		
	Assets MCh$	Liabilities MCh$	Net MCh$	Assets MCh$	Liabilities MCh$	Net MCh$
US$	41,975	41,949	26	13,893,884	13,899,582	(5,698)
CAD	12,040	11,872	168	6,906	6,356	550
BRL	41,230	41,677	(447)	33,803	33,808	(5)
TWD	-	-	-	-	-	-
AUD	154,599	149,548	5,051	64,273	59,126	5,147
GBP	119,146	119,352	(206)	42,605	42,600	5
DKK	60	-	60	1	-	1
NOK	1,606	1,586	20	625	609	16
SEK	8,399	8,342	57	2,089	2,068	21
PEN	9,690	9,684	6	6,667	6,558	109
CHF	269,706	269,481	225	6,772	6,753	19
ARS	1,006	1,006	-	-	-	-
HKD	8,262	8,120	142	-	-	-
ZAR	34	-	34	-	-	-
COP	24,978	25,018	(40)	-	-	-
CNH	15,809	16,163	(354)	-	-	-
CNY	29,917	29,603	314	783	783	-
JPY	188,868	186,638	2,230	146,587	147,297	(710)
EUR	1,672,924	1,667,056	5,868	412,547	410,690	1,857
NZD	3	-	3	-	-	-
MXN	107,085	108,124	(1,039)	94,680	94,609	71
KRW	-	-	-	267,351	267,223	128

Note 39 Risk management, continued

5) Market risk, continued

Interest rate risk of the banking records

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

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

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

	As of December 31, 2018				As of December 31, 2017			
	Term mismatch				Term mismatch			
Days	Ch$	UF	US$	FC (*)	Ch$	UF	US$	FC (*)
00002-00030	(253,429)	(136,657)	(628,039	(2,409)	808,560	2,164	(135,513)	48,306
00031-00060	(669,210)	74,695	(114,974)	-	(380,969)	48,579	(69,125)	4,654
00061-00090	(343,726)	124,201	(16,881)	-	(267,840)	40,806	(74,469)	(7,190)
00091-00120	6,024	(146,008)	(18,886)	-	(321,587)	(86,764)	56,617	-
00121-00150	(304,633)	(251,135)	310,517	-	(392,943)	64,413	86,456	45
00151-00180	(444,011)	156,488	390,838	-	(203,455)	(57,512)	113,107	6
00181-00210	(3,398)	130,747	50,141	-	70,127	48,769	1,737	-
00211-00240	112,800	91,071	42,871	-	(134,485)	60,812	14,010	(125)
00241-00270	90,963	56,479	(170,195)	-	18,115	(2,549)	7,371	48
00271-00300	244,473	132,892	(199,647)	-	(41,505)	(148,895)	(175,758)	-
00301-00330	132,877	(277,889)	(221,667)	-	94,415	(83,154)	78,177	14
00331-00360	358,361	(153,470)	(172,765)	-	139,302	(74,893)	12,199	6
00361-00720	1,005,725	451,933	121,041	-	298,959	301,841	(73,473)	(4,880)
00721-01080	330,421	176,287	(58,114)	-	108,917	382,001	136,042	-
01081-01440	241,227	(272,352)	22,880	-	138,462	209,045	26,616	-
01441-01800	98,593	44,560	2,006	-	17,041	(197,664)	(4,341)	-
01801-02160	(91,581)	15,921	15,058	-	18,540	(13,393)	(2,154)	-
02161-02520	(14,181)	113,496	4,061	-	(19,456)	(41,667)	8,132	-
02521-02880	278,482	(132,220)	5,978	-	(15,719)	(77,463)	(842)	-
02881-03240	459,586	114,595	224	-	231,819	(58,639)	37	-
03241-03600	112,656	574,534	1,818	-	325,915	(193,580)	132	-
03601-05400	258,512	679,632	69	-	2,850	571,144	1	-
05401-07200	22,316	23,540	-	-	17	(114,280)	-	-
07201-09000	7	39,276	-	-	-	39,815	-	-
09001-10800	8	(26,458)	-	-	-	1,628	-	-
10800->>>>>	95	1	-	-	-	1	-	-
NRS	(1,005,800)	208,049	538,135	-	(477,867)	66,993	166,104	(30,011)

(*) FC: Any foreign currency different from the U.S. 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	
	2018 MCh$	2017 MCh$
SHORT-TERM (Margin)		
Short-term interest rate risk	67,903	23,446
Indexation risk	12,696	6,294
Lower income from sensitive commissions	5	-
Short-term total risk	**80,604**	**29,740**
Short-term risk limit (35% of margin)	272,382	97,393
Percentage of use of short-term limit	29.59%	30.54%
LONG-TERM (Value)		
Long-term interest rate risk	430,454	107,867
Interest rate optionality risk	-	-
Long-term total risk	**430,454**	**107,867**
Long-term limit (30% of capital)	802,094	346,220
Percentage of use of long-term limit	53.67%	31.16%

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 Superintendence 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

Balance sheet exposure (banking), continued

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

	Amount	
	2018 MCh$	2017 MCh$
Interest rate risk	161,884	50,480
Currency risk	5,340	717
Interest rate optionality risk	1,323	5
Currency optionality risk	3	-
Total trading book market risk	**168,550**	**51,202**
Weighted assets by consolidated risk	23,396,898	10,599,481
Credit risk regulatory capital (8% APR)	1,871,752	847,958
Market risk regulatory capital	168,547	51,202
Total regulatory capital	**2,040,299**	**899,160**
Effective consolidated equity	2,673,646	1,154,068
Consumption % (includes CR and MR)	76.35%	77.91%
Basel index (including market risk)	11.43%	10.89%

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 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, 2018 and 2017, the maturities of assets and liabilities are detailed as follows:

As of December 31, 2018	Up to 1 month MCh$	Up to 3 months MCh$	Up to 1 year MCh$	To maturity MCh$
Cash in hand	787,472	-	-	-
Effective placements	1,236,136	1,677,925	4,037,556	18,770,527
Loans in adjustable mortgage letters of credit	2,399	4,794	21,388	185,614
Lease contracts	19,290	39,770	162,342	529,790
Agreements	184,338	-	-	-
Financial investments	1,795,804	87,003	-	15,874
Other assets	1,648,972	559	71	57
ASSETS	**5,674,411**	**1,810,051**	**4,221,357**	**19,501,862**
On-demand liabilities	2,326,690	-	1,147,918	534,228
Deposits, bonds and other obligations	1,910,566	2,925,545	5,138,903	7,941,012
Agreements	579,078	-	-	-
Liabilities for adjustable mortgage letters of credit	6,620	1,268	32,513	183,115
Domestic liabilities	93,386	-	-	-
Foreign liabilities	368,374	375,871	1,339,606	434,513
Other liabilities	844,948	664	31,372	49,168
LIABILITIES	**6,129,662**	**3,303,348**	**7,690,312**	**9,142,036**

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
ASSETS	**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**

Note 39 Risk management, continued

7) Counterparty risk

As a result of the activity with customers, 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.

12/31/2018	Fair value of assets MCh	Credit risk adjustment MCh
Total	85,666	(4,056)

12/31/2017	Fair value of assets MCh	Credit risk adjustment MCh
Total	541,641	(1,365)

Note 39 Risk management, continued

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. For such purposes, 5 risk ratings are used, plus an interim rating related to derivative instruments offset and settled through a Central Counterparty Entity (0%, 2%, 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"), adding these credit equivalents and deducting the assets related to these instruments. In addition, the "credit equivalent" of contingent loans is considered, which relates to the exposure to credit risk, resulting from multiplying these by a percentage defined per the type of contingent loan, for its subsequent weighting according to the related rating, less the amounts of the allowances made for such transactions. For example, exposure for revolving credit facilities must be calculated at 35% (translation loan factor) to subsequently weight at 60% for this risk category.

Note 39 Risk management, continued

8) Capital management, continued

Minimum basic capital and effective equity are detailed as follows:

As of December 31, 2018

Balance sheet assets (net of allowances)	Consolidated assets MCh$	Risk weighted assets MCh$
Cash and deposits in banks	787,472	-
Transactions pending settlement	864,482	514,885
Securities held for trading	859,028	284,674
Repurchase agreements and securities lending	217,365	217,365
Financial derivative instruments	2,168,455	1,148,469
Loans and advances to banks	2,789	558
Loans and advances to customers	22,330,415	18,738,841
Available-for-sale investment securities	1,212,048	76,336
Held-to-maturity investment securities	-	-
Investments in companies	18,909	18,909
Intangible assets	160,692	160,693
Property and equipment	132,352	132,352
Current tax assets	5,924	592
Deferred tax assets	271,142	27,114
Other assets	723,759	473,731
Off-balance assets		
Contingent loans	2,671,048	1,602,379
Total risk-weighted assets		**23,396,898**

	Amount MCh$	Ratio %
Basic capital	2,013,538	6.21
Effective equity	2,673,646	11.43

Note 39 Risk management, continued

8) Capital management, continued

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
Repurchase agreements and securities lending	224,189	224,189
Financial derivative instruments	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 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 40 Merger between Scotiabank and Scotiabank Azul

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA)

With the purpose of reporting on the merger between Banco Scotiabank Chile and Scotiabank Azul (Formerly - BBVA) (hereinafter "Banco BBVA Chile"), which was formalized on September 1, 2018 and supplementing that indicated in Note 1 and Note 4 to these Consolidated Financial Statements, the sections below summarize the main aspects of this business combination.

1. Transaction general background. Events are presented in chronological order from their origin, subsequent compliance and progress made through the formalization of the merger.

2. Reasons for the acquisition. This indicates the main reasons for the transaction conducted between the banks.

3. Description of the entities merged. Summary of the organizational structures, operations and businesses of each entity prior to the acquisition transaction and subsequent to it.

4. Considerations related to the exchange rate of shares. Brief explanation of the exchange rate generated by the transaction and presentation of the new distribution of shares.

5. Analysis of the accounting standards applicable to the transaction. A general summary of the significant background and main items analyzed in the business combination between the banks.

6. Main effects of the merger on profit or loss for 2018. A detail of adjustments made because of the business combination is included the main origin of which is unifying the criteria for the estimations used for valuations in different captions.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

1. Transaction general background.

a) On November 28, 2017, The Bank of Nova Scotia (hereinafter "BNS") the indirect Parent of Scotiabank Chile, submitted a binding offer to BBVA to acquire the shares that the latter owned directly or indirectly in Banco BBVA Chile. BBVA through BBVA Inversiones Chile S.A. held 68.19% of Banco BBVA Chile.

   BNS offered acquiring interest owned by BBVA in Banco BBVA Chile and two non-banking BBVA Group companies for approximately MUS$2,200. This transaction is in line with Scotiabank Chile's strategy of becoming a major player in the Chilean financial system allowing it to increase its market share to 14% and become the third largest private bank in Chile.

b) On December 5, 2017, BBVA formally accepted the offer for the acquisition of 68.19% of the shares in Banco BBVA Chile, as well as interests in certain subsidiaries entering into a final agreement with BBVA. This transaction contemplated the merger of the operations of Scotiabank Chile with Banco BBVA Chile in the second half of 2018 with the prior approval by the regulating entities. Non-controlling interests of Banco BBVA Chile waived their Rights of first refusal and indicated their intention of continue to remain their participation in the business by investing MUS$458 to become the owners of 24.20% of the combined business.

c) On March 9, 2018, the Chilean Superintendence of Banks and Financial Institutions authorized BNS to indirectly acquire the shares of Banco BBVA Chile through the Chilean company Nova Scotia Inversiones Limitada (hereinafter "NSIL"), a subsidiary of BNS and controlling shareholder of Scotiabank Chile. Such authorization was granted to merge Scotiabank Chile with Banco BBVA Chile within a term of one year from the closing of the transaction for the purchase of such shares.

d) On May 31, 2018, the National Economic Prosecutor's Office ("FNE") approved the acquisition by NSIL of the control of the entities subject to the transaction that are owned by BBVA.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

1. Transaction general background, continued.

e) On June 6, 2018, NSIL offered acquiring up to 100% of the shares subscribed of Banco BBVA Chile through a Public Offering for Acquisition of Shares (OPA). At such date equivalent to 413,822,027 shares.

Public Offering for Acquisition of Shares (OPA):

The OPA submitted by NSIL on June 6, 2018 contemplated up to 100% of the shares of Banco BBVA Chile and considered a total valuation of MUS$3,099 in the event of the formalization of the acquisition of 100%. The OPA resulted in the purchase of 172,545 shares from minority shareholders representing 0.04% of the shares issued by Banco BBVA Chile.

Detail of the Public Offering for Acquisition of Shares (OPA):

1. Number of shares: 413,822,027 (100%)
2. Term: 30 calendar days from June 7 through July 6, 2018, both dates inclusive.
3. Success: if at least 1 share is offered for sale and at the end date is not complied with or waived the offering revocation condition.
4. Price per share: US$7.0876 + $253.1048 (approximately US$7.4891 or Ch$4,720.9829)
5. OPA price adjustments: reduced per the possible distribution of dividends during the OPA process and increases by MCh$291 for each day of extension of the term of the OPA divided by the total number of shares issued of Banco BBVA Chile.
6. Premium: 9.76% related to the market price of the shares of Banco BBVA Chile, which per the legal definition amounts to Ch$4,301.
7. Financing: own resources, capital contributions and loans granted by the parent BNS.
8. Revocation: if BBVA and its related company BBVA Inversiones Chile S.A. had not transferred all the shares issued of Banco BBVA Chile by 68.19%.
9. Valuation of the OPA: MUS$3,099 (Ch$630.38 observed U.S. dollar rate as of June 5, 2018).

f) Likewise, on July 6, 2018, NSIL formalized the purchase from BBVA becoming the new controlling shareholder of Banco BBVA Chile, the shares of which were traded in the Bolsa de Comercio de Santiago (Santiago Stock Exchange).

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

1. Transaction general background, continued.

g) At the Extraordinary Shareholders' Meeting of Banco BBVA Chile held on July 9, 2018, the shareholders agreed the amendments to its By-Laws. Such amendments consisted of the change in the name to "Scotiabank Azul", the increase in the number of Bank's directors from 9 regular directors and 2 alternate directors to 11 regular directors and 2 alternate directors, and the elimination of the casting vote of the Chairman of the Board of Directors in the event of a draw when reaching agreements. On August 13, 2018, the Superintendence of Banks and Financial Institutions authorized the amendments to the By-Laws of Banco BBVA Chile as approved by the aforementioned Extraordinary Shareholders' Meeting and from such date such amendments became effective.

h) At the Extraordinary Shareholders' Meeting of Scotiabank Chile held on August 2, 2018, the shareholders agreed the capitalization of the equity reserves and a capital increase in the Bank of MCh$324,341 through the issuance of 5,605,522,687 new nominative, same-series shares with no par value, which will be fully subscribed and paid with a debit to the incorporation of the equity of Banco BBVA Chile, as absorbed business, when the Merger becomes effective. For such purposes, 13.545733 shares of Scotiabank Chile will be delivered per each share of Banco BBVA Chile owned by the shareholders of the latter without considering fractions of shares.

i) Through Resolution No. 390 of August 20, 2018, the Superintendence of Banks and Financial Institutions approved the merger of both Banks and the amendment of the By-Laws that will regulate the Merged Bank.

The merger would become effective on the first day of the month following the execution of the public deed of the copulative suspensive conditions agreed in the Merger Agreement, resulting in the final formalization of the merger on September 1, 2018, and as a result, Banco BBVA Chile was dissolved and Scotiabank Chile became the legal successor as the Merged Bank, Scotiabank Chile.

2. Reasons for the acquisition

a) Consolidating the Bank as a major player in the Chilean financial system, becoming a key player in the Pacific Alliance Region.

b) It supplements and strengthens the value proposition for our customers in such areas as Digital and the Securities Market.

c) It allows the Bank to improve the funding structure and achieve better efficiencies improving return.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

3. Description of the merged entities.

a) Description of the Banks prior to the acquisition transaction.

Scotiabank Chile is a subsidiary of the Canadian global financial BNS group, which offers a wide range of banking services to 23 million customers in more than 55 countries and has been operating in Chile for 28 years. Its main business areas are the following:

i. Commercial representing 41% of loans, where it provides services from SMEs to large corporations;
ii. Mortgages representing 36% of loans where it provides services mainly to real estate companies and construction companies for the financing of projects; and
iii. Consumer representing 17% of combined loans including consumer loans and credit cards where it satisfies the financial needs of the Chilean middle class, mainly through its controlling interest in CAT Businesses (CAT Administradora de Tarjetas S.A.)

Banco BBVA Chile is a subsidiary of the Spanish global financial “Banco Bilbao Vizcaya Argentaria” group, which provides services to 73 million customers in more than 30 countries and has been operating in Chile for 30 years. Its main business areas are the following:

i. Commercial representing 48% of loans;
ii. Mortgage representing 39% of loans; and
iii. Consumer representing 13% combined including consumer loans and credit cards.

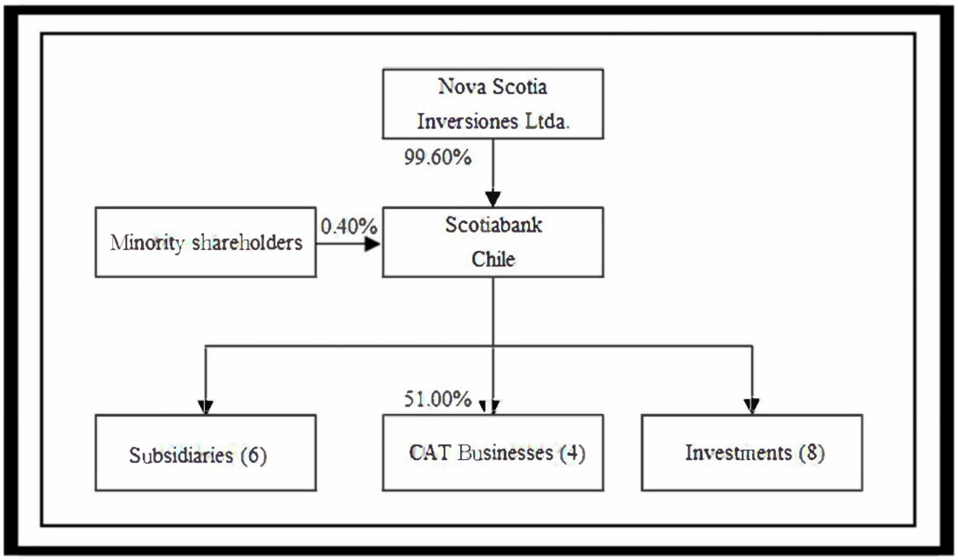
Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

3. Description of the merged entities, continued

a) Description of the Banks prior to the acquisition transaction, continued

Scotiabank Group:



- ✓ Nova Scotia Inversiones Ltda. (NSIL), controlling shareholder of Scotiabank Chile.

- ✓ Minority shareholders Scotiabank Chile, shareholders holding 0.4% of the shares.

- ✓ CAT Businesses (4), Scotiabank Chile has interest of 51% in CAT Administradora de Tarjetas S.A., CAT Corredores de Seguros y Servicios S.A., Servicios Integrales S.A., and Administradora y Procesos S.A.

- ✓ Subsidiaries of Scotiabank Chile (6), Scotia Corredora de Bolsa Chile S.A., Scotia Administradora General de Fondos Chile S.A., Scotia Corredora de Seguros Chile Ltda., Scotia Asesorías Financieras Ltda., Centro de Recuperación y Cobranza Limitada, and Bandesarrollo Sociedad de Leasing Inmobiliario S.A.

- ✓ Investments of Scotiabank Chile (8), Nexus S.A., Redbanc S.A., Transbank S.A., Combanc S.A., Sociedad Interbancaria de Depósitos de Valores, Sociedad Servicios de Infraestructura y de Mercado OTC, Bolsa de Comercio Santiago and Bolsa Electrónica de Chile.

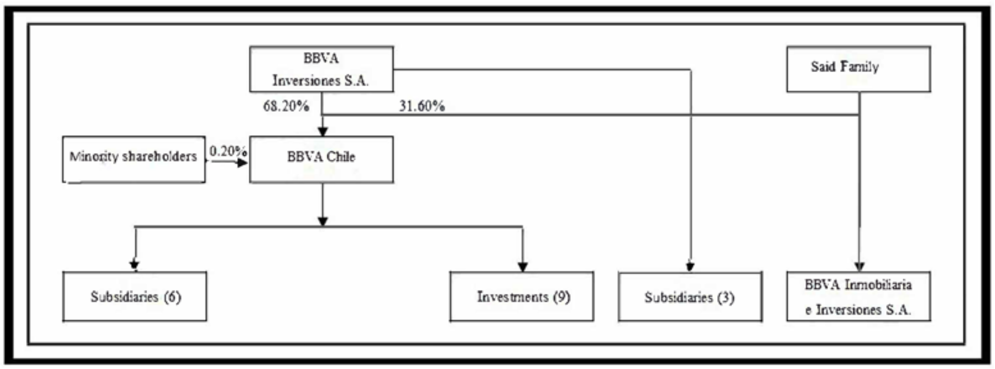
Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

3. Description of the merged entities, continued

a) Description of the Banks prior to the acquisition transaction, continued

BBVA Group:



- ✓ BBVA Inversiones Chile S.A., controlling shareholder of Banco BBVA Chile.

- ✓ Said Family, minority shareholder group of Banco BBVA Chile.

- ✓ Minority shareholders Banco BBVA Chile, shareholders holding 0.2% of the shares.

- ✓ Subsidiaries of Banco BBVA Chile (6), BBVA Corredores de Bolsa Limitada, BBVA Asset Management Administradora General de Fondos S.A., BBVA Corredora Técnica de Seguros Limitada, BBVA Asesorías Financieras S.A., BBVA Factoring Ltda. and BBVA Sociedad de Leasing Inmobiliario S.A.

- ✓ Investments of Banco BBVA Chile. (9), Nexus S.A., Redbanc S.A., Transbank S.A., Combanc S.A., Sociedad Interbancaria de Depósitos de Valores, Sociedad Servicios de Infraestructura y de Mercado OTC, Bolsa de Comercio Santiago, Bolsa de Valores Valparaíso and Bolsa Electrónica de Chile.

- ✓ Subsidiaries of BBVA Inversiones S.A. (3), BBVA Seguros de Vida S.A., BBVA Servicios Corporativos S.A. and Inversiones DCV S.A.; companies considered in the transaction but not considered in the analysis as they do not consolidate profit or loss in Scotiabank Chile or in Banco BBVA Chile.

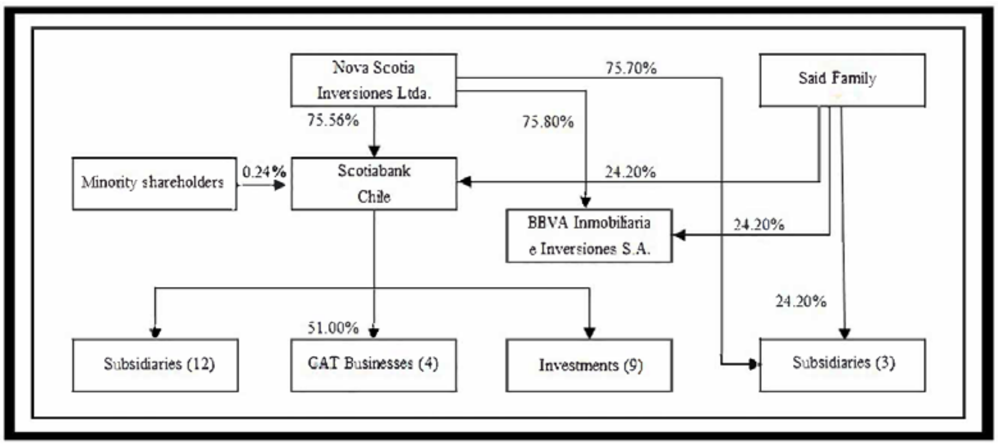
Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

3. Description of the merged entities, continued

b) Company structure after the acquisition transaction

New Scotiabank Group:



- ✓ Nova Scotia Inversiones Ltda., controlling shareholder of Scotiabank Chile.
- ✓ Minority shareholders Scotiabank Chile, shareholders holding 0.24% of the shares.
- ✓ CAT Businesses (4), Scotiabank Chile has interest of 51% in CAT Administradora de Tarjetas S.A., CAT Corredores de Seguros y Servicios S.A., Servicios Integrales S.A., and Administradora y Procesos S.A.
- ✓ Subsidiaries of Scotiabank Chile (12), Scotia Corredora de Bolsa Chile S.A., Scotia Administradora General de Fondos Chile S.A., Scotia Corredora de Seguros Chile Ltda., Scotia Asesorías Financieras Ltda., Centro de Recuperación y Cobranza Limitada, Bandesarrollo Sociedad de Leasing Inmobiliario S.A., Scotia Azul Asset Management Administradora General de Fondos S.A., Scotia Azul Corredora Técnica de Seguros Limitada, Scotia Azul Corredores de Bolsa Limitada, Scotia Azul Asesorías Financieras S.A., Scotia Azul Sociedad de Leasing Inmobiliario S.A. and Scotia Azul Factoring Ltda.
- ✓ Investments of Scotiabank Chile (9), Nexus S.A., Redbanc S.A., Transbank S.A., Combanc S.A., Sociedad Interbancaria de Depósitos de Valores, Sociedad Servicios de Infraestructura y de Mercado OTC, Bolsa de Comercio Santiago, Bolsa de Valores Valparaíso and Bolsa Electrónica de Chile.
- ✓ Subsidiaries of Nova Scotia Inversiones Ltda. (3), Scotia Seguros de Vida S.A., Scotia Servicios Corporativos SpA. and Inversiones DCV S.A.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

4. Considerations related to the exchange rate of shares.

At the Extraordinary Shareholders' Meeting of Scotiabank Chile held on August 2, 2018, the shareholders approved the merger of Banco BBVA into Scotiabank Chile (the "Merger"). By virtue of the merger, Scotiabank Chile acquired all the assets and liabilities of Banco BBVA Chile and became its legal successor in all its rights and obligations incorporating all the shareholders and equity of Banco BBVA Chile. As a result, the latter was dissolved by operation of law without the need of a liquidation. The merger was also approved as an intercompany transaction in accordance with the Law.

On such same date, at the Extraordinary Shareholders' Meeting, the shareholders of Banco Bilbao Vizcaya Argentaria, Chile approved the merger of BBVA Chile into Scotiabank Chile. By virtue of the merger, Scotiabank Chile will acquire all the assets and liabilities of Banco BBVA Chile and will become its legal successor in all its rights and obligations incorporating in Scotiabank Chile all the shareholders and equity of BBVA Chile, which as a result, will be dissolved by operation of law without the need of a liquidation. The merger was also approved as an intercompany transaction in accordance with the Law

Within such context, the exchange rate of 13.545733 shares of Scotiabank Chile per each share of Banco BBVA Chile owned by its shareholders was approved without considering fractions of shares. In addition, for the purposes of the merger, a capital increase of MCh$324,341 in Scotiabank Chile was approved, through the issuance of 5,605,522,687 ordinary, nominative, same-value, same-series shares with no par value, that were entirely destined for the shareholders of Banco BBVA Chile, in the proportional amount applicable to each shareholder in accordance with the exchange rate that was agreed to formalize the merger by incorporation, expressly entitling the Board of Directors to issue new shares as a result of the aforementioned capital increase. This notwithstanding the capitalization or adjustments made to share capital in conformity with the Law.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

4. Considerations related to the exchange rate of shares, continued.

Accordingly, the evolution of the distribution of shares expressed in number of shares of Scotiabank Chile as a result of the merger process is represented in the following tables:

- ✓ Share capital subscribed and fully paid of Scotiabank Chile prior to the merger distributed as follows:

	Number	%
Subscribed and fully-paid	**5,147,416,079**	**100.00%**
Owned by NSIL	5,128,093,425	99.62%
Owned by third parties	19,322,654	0.38%

- ✓ The allocation of the new shares issued of Scotiabank Chile directly relates to the interest in the subscribed and paid-in capital in Banco BBVA Chile by the shareholders, distributed as follows:

	Number (i)	Exchange (ii)	Exchange allocation (iii)=(i)*(ii)
Subscribed and fully-paid shares	**413,822,027**	**13,545733**	**5,605,522,687**
Owned by NSIL	221,084,735	13,545733	2,994,754,790
Owned by third parties	192,737,292	13,545733	2,610,767,897

- ✓ The new distribution of shares considering the merged entities is distributed as follows:

	Initial interest (i)	Exchange allocation (ii)	Final interest (iii)=(i)+(ii)	%
Subscribed and fully-paid shares	**5,147,416,079**	**5,605,522,687**	**10,752,938,766**	**100.00%**
Owned by NSIL	5,128,093,425	2,994,754,790	8,122,848,215	75.54%
Owned by third parties	19,322,654	2,610,767,897	2,630,090,551	24.46%

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

5. Analysis of the accounting standards applicable to the transaction.

- International Financial Reporting Standard 3 (IFRS 3) "Business Combinations" establishes that a business combination is accounted for by applying the acquisition method, which requires the identification of the acquirer through the control concept. In addition, as established in IFRS 10 "Consolidated Financial Statements" basically the following must be evaluated:

  ✓ Power over the investee (directing relevant activities).

  ✓ Exposure, or rights, to variable returns from involvement with the investee.

- Additionally, in accordance with that established in paragraph 2 (c) and Application Guidance B1 to B4 of IFRS 3 "Business Combinations" a combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

- Accordingly, among the conclusive aspects of the analysis the following must be considered:

  ✓ On July 6, 2018, BBVA through its company BBVA Inversiones Chile S.A. sold its interest in Banco BBVA Chile to NSIL (the Parent of Scotiabank Chile).

  ✓ As a result of such transaction, NSIL acquired 68.19% of the interest of Banco BBVA Chile, becoming its controlling shareholder and because of this, it appointed the majority of the directors and also the Chief Executive Officer. Accordingly, NSIL is the acquirer which has control over Banco BBVA Chile.

  ✓ The merger of Banco BBVA Chile into Scotiabank Chile of September 1, 2018 does not apply the acquisition method established in IFRS 3 because the reason for the merger of entities is the fact that both institutions are controlled by the same entity (NSIL).

  ✓ Finally, NSIL as the acquirer and controlling shareholder, applies the acquisition method established in IFRS 3 Business Combinations, having to recognize at fair value the assets acquired and liabilities assumed, this implies also the recognition of goodwill from such transaction.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

A) Business combination between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

6. Main effects of the merger on profit or loss for 2018.

The accounting effects from the acquisition of Banco BBVA Chile on the assets and liabilities for incorporation purposes as of December 31, 2018, are detailed as follows:

Between September and December 2018	Application of Accounting Criteria MCh$	Incorporation Expenses MCh$
Impact on provisions for common customer	26,608	-
Impairment of assets	21,372	-
Other accounting adjustments	7,670	
Personnel expenses	-	9,894
Administrative expenses	-	8,232
Total	**55,650**	**18,126**

Additionally, between July 6 and August 31, 2018, other adjustments and costs prior to the merger were recognized such as: indemnity expenses, administrative expenses, deferred taxes and adjustments for impairment of financial instruments, among others. The effect of this amounted to MCh$28,176 and was recorded with a debit to Retained Earnings at the date of the merger.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements

With the purpose of supplementing the information and disclosures indicated in letter A in this Note and facilitate the understanding of the effects of the merger of the Banks on these Consolidated Financial Statements, below we provide the Pro Forma Consolidated Financial Statements as of August 31, 2018 and December 31, 2017, including the Consolidated Statements of Financial Position and Consolidated Statements of Income.

Assumptions and adjustments used to prepare the Pro Forma information as of December 31, 2017 are solely included for information purposes and are not intended to disclose the actual consolidated results of the transactions conducted between Scotiabank Chile and Banco BBVA Chile and nor do they represent the future consolidated results of the operations of the merged Banks.

The information presented does not include incurring costs or reducing costs, foreseen from the view of any operational efficiency, synergies or restructuring resulting from the merger of Banco BBVA Chile into Scotiabank Chile and nor it does contemplate the liabilities which may be incurred associated with the business combination and any related restructuring.

The preparation of the Pro Forma Consolidated Statements of Financial Position and Pro Forma Consolidated Statements of Income was performed as follows:

a) The Consolidated Financial Statements reported by each merged Bank as of December 31, 2017 and August 31, 2018 were used.

b) Such Consolidated Financial Statements were prepared in accordance with the accounting criteria established by the Chilean Superintendence of Banks and Financial Institutions and all aspects not addressed therein or which contravenes their instructions, must be in accordance with generally accepted accounting principles in Chile, which correspond to the technical standards issued by Colegio de Contadores de Chile A.G., which are consistent with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

c) Accounting reclassifications required were performed for presentation purposes eliminating intercompany transactions performed between Scotiabank Chile and Banco BBVA Chile.

d) Profit or loss for the period or the minimum dividends generated by the Banks historically were not adjusted to provide coherence to the dividend policies and the profit or loss generated separately.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Accordingly, the Pro Forma Financial Statements are as follows:

Statement of Financial Position as of August 31, 2018

	Scotiabank Chile MCh$	BBVA MCh$	Combination Adjustments MCh$		Pro Forma Merged MCh$
ASSETS					
Cash and deposits in banks	923,609	282,997	(339)	(a)	1,206,267
Transactions pending settlement	571,402	429,762	(131,136)	(b)	870,028
Securities held for trading	235,767	551,271	(31,964)	(c)	755,074
Investments sold under repurchase agreements and securities lending	210,595	24.761	-		235,356
Financial derivative instruments	846,346	2,058,114	(28,100)	(d)	2,876,360
Loans and advances to banks	2,118	18,367	-		20,485
Loans and advances to customers	11,258,991	10,027,192	-		21,286,183
Available-for-sale investment securities	1,007,764	846,153	(91,219)	(e)	1,762,698
Held-to-maturity investment securities	-	1,445	-		1,445
Investments in companies	8,158	11,151	-		19,309
Intangible assets	139,441	36,808	-		176,249
Property and equipment	68,044	64,555	-		132,599
Current tax assets	11,620	4,997	-		16,617
Deferred tax assets	122,825	138,998	-		261,823
Other assets	338,477	239,469	(6,723)	(f)	571,223
TOTAL ASSETS	**15,745,157**	**14,736,040**	**(289,481)**		**30,191,716**

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Statement of Financial Position as of August 31, 2018, continued

	Scotiabank Chile MCh$	BBVA MCh$	Combination adjustments MCh$		Pro Forma Merged MCh$
LIABILITIES					
Deposits and other on-demand liabilities	2,188,475	1,751,595	(339)	(g)	3,939,731
Transactions pending settlement	564,393	462,724	(131,136)	(h)	895,981
Investments sold under repurchase agreement and securities lending	176,873	433,982	-		610,855
Term and on-demand deposits	5,996,684	5,322,626	(123,158)	(i)	11,196,152
Financial derivative instruments	922,031	1,962,542	(30,759)	(j)	2,853,814
Bank borrowings	1,648,013	439,098	-		2,087,111
Debt securities issued	3,065,876	3,157,860	(25)	(k)	6,223,711
Other financial liabilities	60,558	51,913	-		112,471
Current tax liabilities	(4,371)	17	-		(4,354)
Deferred tax liabilities	(10,331)	17,192	-		6,861
Provisions	73,496	71,180	-		144,676
Other liabilities	96,794	247,225	(6,723)	(l)	337,296_
TOTAL LIABILITIES	**14,778,491**	**13,917,954**	**(292,140)**		**28,404,305**
EQUITY					
Attributable to the owners:					
Capital	413,831	324,341	-		738,172
Reserves	32,517	463,832	-		496,349
Other comprehensive income:	(29,615)	(4,995)	-		(34,610)
Retained earnings:					
Retained earnings from previous periods	398,259	-	2,659	(m)	400,918
Profit (loss) for the period	90,864	49,177	-		140,041
Less: Provision for minimum dividends	(27,259)	(14,753)	-		(42,012)
	878,597	817,602	2,659		1,698,858
Non-controlling interest	88,069	484	-		88,553
TOTAL EQUITY	**966,666**	**818,086**	**2,659**		**1,787,411**
TOTAL LIABILITIES AND EQUITY	**15,745,157**	**14,736,040**	**(289,481)**		**30,191,716**

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Adjustments for combination of asset and liability accounts of Scotiabank Chile and Banco BBVA Chile as of August 31, 2018 mainly relate to eliminations, which are described below.

Note	Explanation
(a)	Relates to balances in current accounts held by companies related to both Banks for a decrease of MCh$339 (MCh$320 for Scotiabank Chile and MCh$19 for Banco BBVA Chile)
(b)	Payments from counterparties pending settlement and currency pending transfer between both Banks for a decrease of MCh$131,136 (MCh$65,709 for Scotiabank and MCh$65,427 for Banco BBVA Chile).
(c)	Adjustment related to investments in term deposits in Banco BBVA Chile that are held in the portfolio of securities held for trading for a decrease of MCh$31,964 for Scotiabank Chile.
(d)	Relates to derivative contracts in assets with counterparty Banco BBVA Chile and Scotiabank Chile for a decrease of MCh$28,100 (MCh$10,532 for Scotiabank Chile and MCh$17,568 for Banco BBVA Chile).
(e)	This adjustment relates to term deposits and mortgage-backed securities held in the available for sale investment securities portfolio for a decrease of MCh$91,219 (MCh$91,194 for Scotiabank Chile and MCh$25 for Banco BBVA Chile).
(f)	Relates to deposits granted as guarantee by Scotiabank Chile to Banco BBVA Chile for a decrease of MCh$6,723.
(g)	Relates to balances in current accounts held by companies related to both Banks for a decrease of MCh$339 (MCh$19 for Banco BBVA Chile and MCh$320 for Scotiabank Chile).
(h)	Payments from counterparties pending settlement and currency pending transfer between both Banks for a decrease of MCh$131,136 (MCh$65,427 for Banco BBVA Chile and MCh$65,709 for Scotiabank).
(i)	This adjustment relates to investments in term deposits held in the securities held for trading portfolio and available for sale investment securities portfolio for a decrease of MCh$123,158 (MCh$31,964 for Scotiabank Chile and MCh$91,194 for Banco BBVA Chile).
(j)	Relates to derivative contracts in liabilities with counterparty Banco BBVA Chile and Scotiabank Chile for a decrease of MCh$30,759 (MCh$20,318 for Scotiabank Chile and MCh$10,441 for Banco BBVA Chile).
(k)	This adjustment relates to investments mortgage-backed securities in term deposits held in the securities held for trading portfolio and available for sale investment securities portfolio a decrease of MCh$25 (MCh$31,964 for Scotiabank Chile and
(l)	Relates to deposits received as guarantee for Banco BBVA Chile from Scotiabank Chile for a decrease of MCh$6,723.
(m)	Relates to the valuation difference (MTM) generated by derivative contracts the effect of which on equity related to an increase of MCh$2,659 (MCh$9,786 for Scotiabank Chile and MCh$(7,127) for Banco BBVA Chile).

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Statement of Income as of August 31, 2018

	Scotiabank Chile MCh$	BBVA Chile MCh$	Combination adjustments MCh$		Pro Forma Merged MCh
Net interest and indexation income	798,723	444,271	(6,221)	(a)	1,236,773
Interest and indexation expenses	(365,390)	(239,675)	6,221		(598,844)
Net interest and indexation income	433,333	204,596	-		637,929
Fee and commission income	137,427	61,797	-		199,224
Fee and commission expenses	(32,280)	(25,728)	-		(58,008)
Net fee and commission income	105,147	36,069	-		141,216
Net gain (loss) from financial operations	37,436	69,540	-		106,976
Net foreign exchange (loss) income	3,985	(22,899)	-		(18,914)
Other operating income	19,390	15,876	-		35,266
Total operating income	599,291	303,182	-		902,473
Allowance for credit risk	(150,190)	(42,270)	-		(192,460)
NET OPERATING INCOME	449,101	260,912	-		710,013
Personnel payroll and expenses	(152,479)	(77,493)	-		(229,972)
Administrative expenses	(125,267)	(71,923)	-		(197,190)
Depreciation and amortization	(19,151)	(11,077)	-		(30,228)
Impairment	-	(9,068)	-		(9,068)
Other operating expenses	(14,789)	(22,128)	-		(36,917)
TOTAL OPERATING EXPENSES	(311,686)	(191,689)	-		(503,375)
OPERATING INCOME	137,415	69,223	-		206,638
Equity in net income of investees	478	125	-		603
Profit before income tax	137,893	69,348	-		207,241
Income taxes	(23,450)	(20,232)	-		(43,682)
Consolidated profit for the period	114,443	49,116	-		163,559
Attributable to:	103,299	49,177	-		152,476
Owners of the Bank	11,144	(61)	-		11,083
Non-controlling interest	114,443	49,116	-		163,559

Adjustments for the combination of profit or loss accounts of Scotiabank Chile and Banco BBVA Chile as of August 31, 2018 mainly relate to reclassifications, which are described as follows:

Note	Explanation
(a)	Relates to the reclassification of interest and indexation income and expenses related to term deposits.

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Statement of financial position as of December 31, 2017;

ASSETS	Scotiabank Chile MCh$	BBVA Chile MCh$	Combination Adjustments MCh$		Pro Forma Merged MCh$
Cash and deposits in banks	453,789	534,613	(757)	(a)	987,645
Transactions pending settlement	293,483	181,775	(27,429)	(b)	447,829
Securities held for trading	331,063	672,344	(7,949)	(c)	995,458
Investments sold under repurchase agreements and	224,189	18,483	-		242,672
Financial derivative instruments	541,641	1,772,678	(54,926)	(d)	2,259,393
Loans and advances to banks	34	22,498	-		22,532
Loans and advances to customers	10,170,696	9,558,726	-		19,729,422
Available-for-sale investment securities	933,011	906,803	(100,985)	(e)	1,738,829
Held-to-maturity investment securities	-	9,728	-		9,728
Investments in companies	10,191	11,147	-		21,338
Intangible assets	134,668	35,973	-		170,641
Property and equipment	65,589	66,394	-		131,983
Current tax assets	8,152	208	-		8,360
Deferred tax assets	133,894	133,592	-		267,486
Other assets	178,411	144,826	(8)	(f)	323,229
TOTAL ASSETS	13,478,811	**14,069,788**	**(192,054)**		**27,356,545**

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Consolidated Statement of Financial Position as of December 31, 2017, continued

LIABILITIES	Scotiabank Chile MCh$	BBVA Chile MCh$	Combination Adjustments MCh$		Pro Forma Merged MCh$
Deposits and other on-demand liabilities	1,539,852	1,853,055	(757)	(g)	3,392,150
Transactions pending settlement	191,790	174,849	(27,429)	(h)	339,210
Investments sold under repurchase agreements and securities lending	44,258	490,203	-		534,461
Term and on-demand deposits	5,484,907	4,956,972	(108,906)	(i)	10,332,973
Financial derivative instruments	577,582	1,680,355	(54,756)	(j)	2,203,181
Bank borrowings	1,261,842	471,552	-		1,733,394
Debt securities issued	3,079,840	3,086,311	(28)	(k)	6,166,123
Other financial liabilities	63,992	40,995	-		104,987
Current tax liabilities	-	16,730	-		16,730
Deferred tax liabilities	-	14,260	-		14,260
Provisions	63,996	92,451	-		156,447
Other liabilities	176,757	289,687	(8)	(l)	466,436
TOTAL LIABILITIES	**12,484,816**	**13,167,420**	**(191,884)**		**25,460,352**
EQUITY					
Attributable to the owners:					
Capital	390,158	324,341	-		714,499
Reserves	56,190	501,766	-		557,956
Other comprehensive income:	(2,430)	1,504	-		(926)
Retained earnings:					
Retained earnings from previous periods	400,211	-	(170)	(m)	400,041
Profit (loss) for the period	103,299	106,006	-		209,305
Less: Provision for minimum dividends	(30,990)	(31,802)	-		(62,792)
Non-controlling interest	77,557	553	-		78,110
TOTAL EQUITY	**993,995**	**902,368**	**(170)**		**1,896,193**
TOTAL LIABILITIES AND EQUITY	**13,478,811**	**14,069,788**	**(192,054)**		**27,356,545**

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Adjustments for the combination of asset and liability accounts of Scotiabank Chile and Banco BBVA Chile as of December 31, 2017 mainly relate to eliminations, which are described below.

Note	Explanation
(a)	Relates to balances in current accounts held by companies related to both Banks for a decrease of MCh$757 (MCh$728 for Scotiabank Chile and MCh$29 for BBVA Chile).
(b)	Payments from counterparties pending settlement and currency pending transfer between both Banks for a decrease of MCh$27,429 (MCh$2,203 for Scotiabank and MCh$25,226 for BBVA Chile).
(c)	Adjustment related to investments in term deposits in BBVA Chile that are held in the portfolio of securities held for trading for a decrease of MCh$7,949 for Scotiabank Chile.
(d)	Relates to derivative contracts in assets with counterparty BBVA Chile and Scotiabank Chile for a decrease of MCh$54,926 (MCh$18,869 for Scotiabank Chile and MCh$36,057 for BBVA Chile).
(e)	This adjustment relates to term deposits in BBVA Chile, held in the available for sale investment securities portfolio for a decrease of MCh$100,985 (MCh$100,957 for Scotiabank Chile and MCh$28 for BBVA Chile).
(f)	Relates to fee and commission receivables from BBVA Chile for a decrease of MCh$8 with Scotiabank Chile.
(g)	Relates to balances in current accounts held by companies related to both Banks for a decrease of MCh$757 (MCh$728 for BBVA Chile and MCh$29 for Scotiabank Chile).
(h)	Payments from counterparties pending settlement and currency pending transfer between both Banks for a decrease of MCh$27,429 (MCh$25,226 for Scotiabank and MCh$2,203 for BBVA Chile).
(i)	This adjustment relates to investments in term deposits in BBVA Chile held in the securities held for trading portfolio and available for sale investment securities portfolio for a decrease of MCh$108,906.
(j)	Relates to derivative contracts in liabilities with counterparty Banco BBVA Chile and Scotiabank Chile for a decrease of MCh$54,756 (MCh$34,814 for Scotiabank Chile and MCh$19,942 for BBVA Chile).
(k)	Relates to mortgage-backed securities of Scotiabank Chile in the securities held for trading portfolio for a decrease of MCh$28.
(l)	Relates to fee and commission payable to Scotiabank Chile for a decrease of MCh$8
(m)	Relates to the valuation difference (MTM) generated by derivative contracts the effect of which on equity related to a decrease of MCh$170 (MCh$15,945 for Scotiabank Chile and MCh$(16,115) for BBVA Chile).

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Statement of Income as of December 31, 2017

	Scotiabank Chile MCh$	BBVA Chile MCh$	Combination adjustments MCh$		Pro Forma Merged MCh
Net interest and indexation income	798,723	622,450	(5,932)	(a)	1,415,241
Interest and indexation expenses	(365,390)	(335,165)	5,932		(694,623)
Net interest and indexation income	433,333	287,285	-		720,618
Fee and commission income	137,427	90,606	-		228,033
Fee and commission expenses	(32,280)	(38,575)	-		(70,855)
Net fee and commission income	105,147	52,031	-		157,178
Net gain (loss) from financial operations	37,436	75,710	-		113,146
Net foreign exchange (loss) income	3,985	3,726	-		7,711
Other operating income	19,390	22,347	-		41,737
Total operating income	599,291	441,099	-		1,040,390
Allowance for credit risk	(150,190)	(70,567)	-		(220,757)
NET OPERATING INCOME	449,101	370,532	-		819,633
Personnel payroll and expenses	(152,479)	(101,971)	-		(254,450)
Administrative expenses	(125,267)	(112,612)	-		(237,879)
Depreciation and amortization	(19,151)	(14,133)	-		(33,284)
Impairment	-	(115)	-		(115)
Other operating expenses	(14,789)	(10,860)	-		(25,649)
TOTAL OPERATING EXPENSES	(311,686)	(239,691)	-		(551,377)
OPERATING INCOME	137,415	130,841	-		268,256
Equity in net income of investees	478	161	-		639
Profit before income tax	137,893	131,002	-		268,895
Income taxes	(23,450)	(24,925)	-		(48,375)
Consolidated profit for the period	114,443	106,077	-		220,520
Attributable to:	103,299	106,006	-		209,305
Owners of the Bank	11,144	71	-		11,215
Non-controlling interest	114,443	106,077	-		220,520

Note 40 Merger between Scotiabank and Scotiabank Azul (Formerly BBVA), continued

B) Presentation of Pro Forma Financial Statements, continued

Statement of Income as of December 31, 2017, continued

Adjustments for the combination of profit or loss accounts of Scotiabank Chile and Banco BBVA Chile as of December 31, 2017 mainly relate to reclassifications, which are described as follows:

Note	Explanation
a)	Relates to the reclassification of interest and indexation income and expenses related to term deposits.

Note 41 Subsequent events

In the Bank's Management's view, between January 1, 2019 and the date of issuance of these financial statements there have been no 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