SCOTIABANK CHILE S.A.

Consolidated Financial Statements
as of December 31, 2019 and 2018
and for the years then ended

(With Independent Auditors' Report Thereon)

SCOTIABANK CHILE S.A.

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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
MAUD	:	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 Shareholders 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, 2019 and 2018, 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 provided by the Chilean Financial Market Commission. 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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting standards and instructions issued by the Chilean Financial Market Commission.

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.

SIGNED
Mario Torres S.

KPMG SpA

Santiago, February 27, 2020

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SCOTIABANK CHILE AND SUBSIDIARIES

C O N T E N T S

SCOTIABANK CHILE AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2019 and 2018

ASSETS	Note	12/31/2019 MCh$	12/31/2018 MCh$
Cash and deposits in banks	6	1,384,762	787,472
Transactions pending settlement	6	366,308	864,482
Securities held for trading	7	845,707	859,028
Investments sold under repurchase agreements and securities lending	8	23,146	217,365
Derivative instruments	9	4,571,759	2,480,637
Loans and advances to banks	10	81,127	2,789
Loans and advances to customers	11	24,812,269	22,330,415
Available-for-sale investment securities	12	808,674	1,212,048
Held-to-maturity investment securities	12	-	-
Investments in companies	13	16,709	18,909
Intangible assets	14	186,647	160,692
Property and equipment	15	112,459	132,352
Right-of-use assets under lease contracts	15	236,637	-
Current tax assets	16	33,953	5,924
Deferred taxes assets	16	328,940	271,142
Other assets	17	844,393	723,759
TOTAL ASSETS		**34,653,490**	**30,067,014**

SCOTIABANK CHILE AND SUBSIDIARIES
Consolidated Statements of Financial Position
As of December 31, 2019 and 2018

LIABILITIES	**Note**	**12/31/2019 MCh$**	**12/31/2018 MCh$**
Deposits and other on-demand liabilities	18	4,865,538	4,107,266
Transactions pending settlement	6	232,354	678,542
Investments sold under repurchase agreements and securities lending	8	1,089,323	575,782
Term and on-demand deposits	19	11,124,022	10,820,595
Derivative instruments	9	4,574,890	2,409,176
Bank borrowings	20	3,275,807	2,559,097
Debt securities issued	21	6,288,227	6,141,337
Other financial liabilities	22	66,891	73,082
Lease liabilities	15	219,062	-
Current tax liabilities	16	2,926	2,507
Deferred tax liabilities	16	2,535	1,942
Provisions	23	202,790	137,277
Other liabilities	24	565,102	450,458
TOTAL LIABILITIES		**32,509,467**	**27,957,061**
EQUITY			
Attributable to owners of the Bank:			
Capital	26	996,706	996,054
Reserves	26	496,397	496,348
Other comprehensive income:	26	(156,033)	(1,984)
Retained earnings:			
Retained earnings from previous periods	26	523,121	447,437
Profit for the period	26	254,378	108,120
Less: Provision for minimum dividends	26	(76,314)	(32,436)
		2,038,255	**2,013,539**
Non-controlling interest	26	**105,768**	**96,414**
TOTAL EQUITY		**2,144,023**	**2,109,953**
TOTAL LIABILITIES AND EQUITY		**34,653,490**	**30,067,014**

SCOTIABANK CHILE AND SUBSIDIARIES
Consolidated Statement of Income
for the years ended December 31, 2019 and 2018

	Note	12/31/2019 MCh$	12/31/2018 MCh$
Interest and indexation income	27	1,681,074	1,163,097
Interest and indexation expenses	27	(816,751)	(548,188)
Net interest and indexation income	27	**864,323**	**614,909**
Fee and commission income	28	285,436	184,302
Fee and commission expenses	28	(78,004)	(51,435)
Net fee and commission income	28	**207,432**	**132,867**
Net gain (loss) from financial transactions	29	146,346	935
Net foreign exchange (expense) income	30	(22,368)	71,075
Other operating income	35	70,099	24,530
Total operating income		**1,265,832**	**844,316**
Allowances for credit risk	31	(276,030)	(230,129)
NET OPERATING INCOME		**989,802**	**614,187**
Personnel payroll and expenses	32	(299,149)	(203,810)
Administrative expenses	33	(244,011)	(173,637)
Depreciation and amortization	34	(56,777)	(27,842)
Impairment	34	(219)	(21,372)
Other operating expenses	36	(38,774)	(29,282)
TOTAL OPERATING EXPENSES		**(638,930)**	**(455,943)**
OPERATING INCOME		**350,872**	**158,244**
Equity in net income of investees	13	276	121
Profit before income tax		**351,148**	**158,365**
Income taxes	16	(77,582)	(31,290)
CONSOLIDATED PROFIT FOR THE PERIOD		**273,566**	**127,075**
Attributable to:			
Owners of the Bank		254,378	108,120
Non-controlling interest	26	19,188	18,955
		273,566	127,075
Earnings per share attributable to owners of the Bank			
Basic and diluted earnings per share		$ 22.10	$ 9.40

The Consolidated Financial Statements as of December 31, 2018, include the balances of Scotiabank Chile from January 1 through December 31, 2018 and the 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 Income for the Period
for the years ended December 31, 2019 and 2018

	Note	12/31/2019 MCh$	12/31/2018 MCh$
Consolidated profit for the period		**273,566**	**127,075**
Other comprehensive income, net of tax			
Net fluctuation in available-for-sale investment securities		(2,210)	6,151
Net fluctuation in deferred taxes on available-for-sale investment	16	536	(1,508)
Adjustment of cash flow hedge derivatives		(211,571)	1,136
Net fluctuation in deferred taxes on cash flow hedge derivatives	16	59,221	(337)
Other adjustments to equity		-	-
Total other comprehensive income		**(154,024)**	**5,442**
Consolidated comprehensive income for the period		**119,542**	**132,517**
Attributable to:			
Owners of the Bank		100,329	113,560
Non-controlling interest		19,213	18,957
Consolidated comprehensive income for the period		**119,542**	**132,517**

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SCOTIABANK CHILE AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
for the years ended December 31, 2019 and 2018

		Attributable to equity owners								
					Retained earnings					
	Note	Share capital MCh$	Reserves MCh$	Other comprehensive income MCh$	Retained earnings MCh$	Profit for the year MCh$	Provision for minimum dividends MCh$	Total MCh$	Non-controlling interest MCh$	Total equity MCh$
Balances as of December 31, 2017		390,158	56,190	(2,430)	400,211	103,299	(30,990)	916,438	77,557	993,995
Transfer to retained earnings		-	-	-	103,299	(103,299)	-	-	-	-
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 for the period		-	-	-	-	108,120	-	108,120	18,955	127,075
Total comprehensive income for the period		-	-	5,440	103,299	4,821	-	113,560	18,957	132,517
Merger with former Banco BBVA	26	324,341	463,831	(4,994)	49,177	-	-	832,355	484	832,839
Capitalization per Extraordinary Shareholders' Meeting		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
Distribution of profit or loss from prior years	26	-	-	-	(105,250)	-	30,990	(74,260)	(2,637)	(76,897)
Provision for minimum dividends	26	-	-	-	-	-	(32,436)	(32,436)	-	(32,436)
Balances as of December 31, 2018		**996,054**	**496,348**	**(1,984)**	**447,437**	**108,120**	**(32,436)**	**2,013,539**	**96,414**	**2,109,953**
Balances as of December 31, 2018		996,054	496,348	(1,984)	447,437	108,120	(32,436)	2,013,539	96,414	2,109,953
Transfer to retained earnings		-	-	-	108,120	(108,120)	-	-	-	-
Net fluctuation in available-for-sale investment securities, net of taxes		-	-	(1,699)	-	-	-	(1,699)	25	(1,674)
Adjustments of cash flow hedge derivatives, net of taxes		-	-	(152,350)	-	-	-	(152,350)	-	(152,350)
Profit for the period		-	-	-	-	254,378	-	254,378	19,188	273,566
Total comprehensive income for the period		-	-	(154,049)	108,120	146,258	-	100,329	19,213	119,542
Merger of Scotia Azul Corredores de Bolsa Limitada		-	-	-	-	-	-	-	(13)	(13)
Merger of Scotia Asesorías Financieras Ltda.		-	-	-	-	-	-	-	47	47
Capital increase	26	652	49	-	-	-	-	701	-	701
Distribution of profit or loss from prior years	26	-	-	-	(32,436)	-	32,436	-	(9,893)	(9,893)
Provision for minimum dividends	26	-	-	-	-	-	(76,314)	(76,314)	-	(76,314)
Balances as of December 31, 2019		**996,706**	**496,397**	**(156,033)**	**523,121**	**254,378**	**(76,314)**	**2,038,255**	**105,768**	**2,144,023**

SCOTIABANK CHILE AND SUBSIDIARIES
Consolidated Statements of Cash Flows
for the years ended December 31, 2019 and 2018

	Note	12/31/2019 MCh$	12/31/2018 MCh$
Cash flows from operating activities:			
Profit or loss for the period		273,566	127,075
Adjustments:			
Depreciation and amortization	34	56,777	27,842
Allowances for credit risk	31	340,104	281,725
Effect of fair value adjustment on derivative instruments		(66,332)	(28,116)
Net gain from sale of property and equipment	35/36	(23,297)	(2,170)
Net gain from sale of interest in companies	35	(1)	-
Net interest and indexation income	27	(864,323)	(614,909)
Equity for investments in related companies	13	(276)	(121)
Income tax expense	16	133,006	55,986
Income on sale of assets received in lieu of payment	35	(13,166)	(6,016)
Provisions and/or write-offs of assets received in lieu of payment	36	12,821	6,803
Impairment of intangible assets	34	219	21,372
Other debits and (credits)		(132,147)	(98,342)
Change in trading assets:			
Securities held for trading		16,299	(449,895)
Loans and advances to banks		(78,338)	(2,754)
Loans and advances to customers		(2,669,964)	(11,949,365)
Deferred tax assets	16	(55,424)	(24,696)
Other assets		(134,170)	(545,420)
Change in trading liabilities:			
Deposits and other on-demand liabilities		741,521	2,566,943
Investments under repurchase agreements and securities lending		513,177	531,500
Term and on-demand deposits		308,650	5,278,615
Other liabilities		101,767	261,777
Interest and indexation received		1,557,834	509,125
Interest and indexation paid		(723,149)	(431,985)
Taxes and fines paid		(343)	(68)
Collection of remaining balance of taxes from previous years		2,154	33
Net cash used in operating activities		**(703,035)**	**(4,485,061)**

SCOTIABANK CHILE AND SUBSIDIARIES
Consolidated Statements of Cash Flows
for the years ended December 31, 2019 and 2018

	Note	12/31/2019 MCh$	12/31/2018 MCh$
Cash flows from investing activities:			
Acquisition of property and equipment	15	(22,900)	(19,592)
Additions of right-of-use assets under lease contracts	15	(7,382)	-
Net change in investment securities		248,667	(287,595)
Dividends received	13	276	121
Acquisition of intangible assets	14	(52,381)	(29,065)
Acquisition of investments in companies	13	(588)	(84)
Proceeds from sale of investments in companies	13	16	-
Acquisition of new subsidiaries		-	2,053
Net cash from used in investing activities		**165,708**	**(334,162)**
Cash flows from financing activities			
Net change in bank borrowings		715,386	1,294,672
Net change in debt instruments		79,249	3,017,161
Net change in other financial liabilities		(6,059)	9,297
Net cash flows of lease liabilities	15	(18,954)	-
Addition of cash and cash equivalents from the Merger with Scotiabank Azul		-	826,067
Capital increase	26	701	257,882
Dividends paid to non-controlling interests	26	(9,893)	(2,637)
Dividends paid	26	(32,436)	(105,250)
Net cash provided by financing activities		**727,994**	**5,297,192**
Net cash flows		**190,667**	**477,969**
Cash and cash equivalents as of January 1	6	**1,603,117**	**1,125,148**
Cash and cash equivalents as of December 31	6	**1,793,784**	**1,603,117**

The Consolidated Statements of Cash Flows were prepared using the indirect method, determining the variance between balances as of December 31, 2019 and 2018.

Nota 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's original incorporation was authorized via Supreme Decree issued by the Ministry of Finance No. 1.389 dated March 29, 1944. As the Parent Company, its main purpose is the brokerage of money and financial instrument such as transferable securities, 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 Financial Market Commission[1] (formerly 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 the CMF (formerly Chilean Superintendence of Banks and Financial Institutions) through Resolution No.196 dated September 2, 2009. The entity's name merged 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.

At the Extraordinary Shareholders' Meeting of Scotiabank Chile and Banco Bilbao Vizcaya Argentaria, Chile held on August 2, 2018, the new bylaws were established, which were approved by the CMF (formerly 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 current ownership structure is composed of Nova Scotia Inversiones Limitada (75.56%) and non-controlling interests of 24.44%. Nova Scotia Inversiones Limitada is the Bank's exclusive controlling shareholder.

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.

[1] Beginning on June 1, 2019, the Chilean Superintendence of Banks and Financial Institutions (SBIF) was incorporated to the Financial Market Commission (CMF). Accordingly, beginning on such that date, the market became under oversight of this agency.

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 CMF (formerly 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 (IFRS) 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 CMF (formerly SBIF), 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 (CNC) issued by the CMF (formerly SBIF).

Balances originated by operations between the Bank and its subsidiaries, and any unrealized income or expenses arising from collective intercompany transactions, have been eliminated during the preparation of the Consolidated Financial Statements.

Likewise, non-controlling interests have been recognized and shown separately in the Bank's equity and profit or loss.

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

- Consolidated Statements of Financial Position as of December 31, 2019 and 2018.
- 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, 2019.
- 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. Additionally, and as a result of the merger on 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).

The Consolidated Financial Statements were approved by the Board of Directors on February 27, 2020.

i) Subsidiaries

The Financial Statements of Scotiabank Chile 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 financial statements of the Bank and the companies included in the 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 Consolidated Financial Statements have been prepared using consistent accounting policies for similar transactions and other events in equivalent circumstances.

“Subsidiaries” are considered to be entities over which the Bank has the ability to exercise control. 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 subsidiaries over which the Bank has the ability to exercise control and, accordingly, are included in the consolidation of these Consolidated Financial Statements are detailed as follows:

Company	Direct December 2019 %	Indirect December 2019 %	Direct December 2018 %	Indirect December 2018 %
Scotia Corredora de Bolsa Chile Limitada (ex Scotia Corredores de Chile S.A.) (1)	-	-	99.82	-
Scotia Administradora General de Fondos Chile S.A.	99.13	0.87	99.13	0.87
Scotia Asesorías Financieras Limitada (2)	-	-	99.00	1.00
Scotia Corredora de Seguros Chile Limitada (5)	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. (3)	51.00	-	51.00	-
Administradora y Procesos S.A. (3)	51.00	-	51.00	-
Scotia Azul Asset Management Administradora General de Fondos S.A. (4)	99.90	0.10	99.90	0.10
Scotia Azul Corredora Técnica de Seguros Limitada (4) (5)	-	-	99.90	0.10
Scotia Corredora de Bolsa Chile Limitada (ex Scotia Azul Corredores de Bolsa Limitada) (1) (4)	99.19	0.80	99.16	0.84
Scotia Asesorías Financieras Limitada (ex Scotia Azul Asesorías Financieras Limitada) (2) (4)	98.74	-	98.60	1.40
Scotia Azul Sociedad de Leasing Inmobiliario S.A. (4)	97.50	-	97.49	-
Scotia Azul Factoring Limitada (4) (6)	-	-	99.90	0.10

(1) The effective merger of Scotia Corredores de Bolsa Chile Limitada into Scotia Corredores de Bolsa Limitada was conducted on May 1, 2019; refer to Note 4 for further details regarding this transaction.

(2) On May 1, 2019, Scotia Asesorías Financieras Limitada was dissolved because of the merger into Scotia Asesorías Financieras Limitada; refer to Note 4 for further details regarding this transaction.

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

(4) 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).

(5) The effective merger of Scotia Azul Corredora Técnica de Seguros Limitada into Scotia Corredora de Seguros Chile Limitada was conducted on October 29, 2019; refer to Note 4 for further details regarding this transaction.

(6) The assignment of rights and dissolution of Scotia Azul Factoring Limitada was performed on October 30, 2019.

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.

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.

iv) Loss of control

When the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising from the loss of control over a subsidiary, 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 a historical cost basis, except for the following items, which are measured at fair value:

- 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) Transactions in foreign currency

Transactions in currencies other than the functional currency are considered transactions in foreign currencies and are initially translated into the respective exchange rate of such currency 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$751.35 per US$1 as of December 31, 2019 (Ch$693.85 as of December 31, 2018).

As of December 31, 2019, the balance of MCh$22,368 recorded within “Net foreign exchange loss” (Profit MCh$71,075 as of December 31, 2018), 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.

(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) 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 the associated transaction costs.

2. Classification

Accounting policies associated with each classification are addressed in the following points. (l) Held-for-trading securities, (n) Financial derivative contracts, (o) Loans and advances to customers and loans and advances to banks, (p) Factoring operations, (q) Lease operations, (r) Investment securities and (af) Allowances for credit risk.

3. Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or 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.

6. Fair value measurement

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

   When 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 estimates used in measuring the fair value of financial instruments.

7. Identification and measurement of impairment

   The Bank assesses at each closing date of the Consolidated 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 and its subsidiaries' 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.

(h) Transactions with related parties

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

(i) 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.

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 flow

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

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

iii) Investing activities

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

iv) Financing activities

Financing activities are activities that result in changes in the value and composition of the contributed Net Equity and liabilities that are not part of the operating or investing activities.

(j) Consolidated Statements of Changes in Equity

The Statement of Changes in Equity disclosed in these Consolidated Financial Statements discloses movements in equity occurred between January 1 and December 31, 2019 and 2018.

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

(k) 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 permanently recognized in Net 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.

(l) 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 from financial operations” in the Consolidated Statements of Income.

(m) 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 and 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." The investment repurchase obligation is classified within liabilities and measured in accordance with the interest rate in the agreement.

(n) Derivative instruments

Derivative instruments that include foreign currency, inflation-adjusted units, interest rate forwards, currency and interest rate swaps, currency and interest rate options and other derivatives are initially recognized in the Consolidated Statements 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, 2019 and 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 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.

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 for the year. The fair value measurement adjustment of the hedged item is presented in the Consolidated Statements of Financial Position of the same caption that includes 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 for the year. 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 Consolidated Statements 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 Consolidated Statements 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.

(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) Derivative Instruments of this note.

Impairment is recognized by recording allowances for credit risk, presenting the related balances net of such allowances, as described in letter (af) Allowance account for credit risk. 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 letter (ad) Interest and indexation income and expenses.

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.

(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) 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 the Bank and its subsidiaries 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 Statement 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

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

When the Bank and its subsidiaries 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.

(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.

(r) Investment securities

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

i) Available-for-sale investment securities

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

ii) 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, 2019 and 2018, the Bank and its subsidiaries do not maintain held-to maturity investment securities.

(s) 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.

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 assessed and determined 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. Interests are recorded at acquisition cost (historical cost).

(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 are measured at cost less accumulated amortization and accumulated impairment losses.

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 5 or 10 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 does not exceed 20 years.

(u) Property and equipment

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

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful 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, 2019, the estimated useful lives of the Bank’s property and equipment assets are as follows:

Asset group	**Useful life**
Buildings	80 years
Furniture, machinery, vehicles, other property and equipment	Between 2 and 10 years
Computer equipment	Between 3 and 10 years
Facilities, own property improvements	Between 3 and 10 years

Useful life assigned to improvements to property under lease arrangements directly depends on the lease contract term related to such property.

(v) Right-of-use assets and lease liabilities

i) *Right-of-use assets under lease contracts*

The Bank and its subsidiaries have lease agreements related to certain assets to meet the normal performance of its operating activities. When in such contract, it acts as lessee, the Bank should recognize in its Consolidated Financial Statements a right-of-use asset, representing the right to use the underlying asset specified in the lease agreement.

The Bank and its subsidiaries may elect not to recognize a right-of-use asset and a lease liability in the following two cases:

i) short-term leases (less than 12 months); and
ii) leases for which the underlying asset is of low value.

If the Bank or its subsidiaries elect not to recognize a right-of-use asset or lease liabilities, they shall recognize the lease payments associated with those leases as an expense in the Consolidated Statement of Income on a straight-line basis over the lease term or another systematic basis (another systematic basis will be applied if that basis is more representative of the pattern of the lessee's benefit.)

At the commencement date, the Bank shall measure the right-of-use asset at cost, which includes:

(a) the amount of the initial measurement of the lease liability (as described in ii) below);
(b) lease payments made at or before the commencement date, less any lease incentives received;
(c) any initial direct costs incurred by the lessee; and
(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The lessee may incur the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

A lessee shall recognize the costs described in letter (d) as part of the cost of the right-of-use asset when it incurs an obligation for those costs.

After the date of initial recognition, the Bank measures the right-of-use asset applying a cost model less accumulated depreciation/amortization and accumulated impairment; adjusted for any remeasurement of the lease liability.

The Bank and its subsidiaries apply the straight-line method to depreciate the right-of-use asset from the commencement date to the earlier of the end of the lease term Management has estimated for its use.

ii) Lease liabilities

In connection with the recognition of a right-of-use asset in the financial statements, the Bank shall recognize as a counterpart a lease liability related to the financial obligation assumed of paying the underlying lease asset.

At the commencement date, the Bank and its subsidiaries measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses its incremental borrowing rate.

A lease liability is remeasured when there is a change in future lease payments resulting from a change in an index or a rate.

iii) Sales with subsequent lease

For sales at fair value with subsequent lease, the profit or loss is recorded at the time of the sale.

(w) Current tax and deferred taxes

Income tax expense comprises current tax and deferred taxes.

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 Statements of Financial Position and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income tax expense for an interim period is based on an estimated average annual effective income tax rate, consistent with the annual assessment of income taxes.

(x) 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 Statements 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 CMF (formerly, SBIF).

(y) 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.

(z) 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:

i) as a result of a past event, the Bank has a present legal or constructive obligation;
ii) it is probable that at the reporting date the Bank and its subsidiaries require an outflow of economic benefits to settle the obligation; and
iii) 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 and its subsidiaries.

(aa) 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 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.

(ab) 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:

- 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, property and equipment and right-of-use leased assets.
- Note 16	: Deferred taxes.
- Notes 23 and 25	: Provisions, contingencies and commitments.

(ac) 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.

(ad) 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, but not 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$28,309.94 as of December 31, 2019 (Ch$27,565.79 as of December 31, 2018).

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 suspension:
Individual assessment: Loans classified in categories C5 and C6.	Due to the sole fact of being in the impaired portfolio.
Individual assessment: Loans classified in categories C3 and C4.	For being within the impaired portfolio for three months.
Group assessment: Any loan, 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.

(ae) 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.

(af) 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 CMF (formerly SBIF) and its credit risk rating and evaluation models approved by the Board of Directors.

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

Provisions for loans by individual evaluation: The individual analysis of debtors is applied to customers, natural persons or legal entities which, due to their size, complexity or exposure level, must be known comprehensively, requiring the assignment of a credit rating for each debtor. The Bank classifies its customers to conduct an individual assessment of such customers, including customers with authorized exposure over MCh$250 and sales over MUS$1, as well as all debtors from the Corporate, Large Corporations, Real Estate and Medium-Sized Entities segments.

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 CMF (formerly SBIF). Based on the debtor rating, the Bank assigns probability of default and loss given default percentages, which result in the expected loss percentage:

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

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

Provisions for loans 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.

On July 6, 2018, the CMF (formerly 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.

Additional provisions for loans: In conformity with the standards issued by the CMF (formerly 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.

As of December 31, 2019, additional provisions amounted to MCh$5,451 and is recorded as "Provisions" within liabilities in the Statement of Financial Position.

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 CMF (formerly SBIF), the amount of the exposure to be considered must be equivalent to the following percentages of contingent loans:

Type of contingent loan	**Exposure**
a) Co-debtor 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. 20,027	15%
- Others	100%
g) Other contingent loans	100%

However, when operations are conducted with customers with loans in default, as stated in Chapter B-1 of the Summary of Accounting Standards issued by the CMF (formerly SBIF), the exposure will always be equivalent to 100% of their contingent loans.

(ag) 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 Statements 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.

(ah) Impairment of non-financial assets

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

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

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

(ai) ***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.

(aj) ***Reclassifications***

Certain reclassifications have been made on certain items in the Consolidated Financial Statements as of December 31, 2018 to maintain the adequate comparison to the Consolidated Financial Statements as of December 31, 2019.

(ak) ***New Accounting Pronouncements***

i) New accounting pronouncements issued by the CMF (formerly – the SBIF)

Circular No. 3,645, January 11, 2019, Summary of Accounting Standards. Leases in accordance with IFRS 16. Amends and supplements the instructions. Chapters A-2, B-1, C-1 and C-3.

Provides instructions establishing how banks should apply the criteria defined in IFRS 16 "Leases".

Effects arising from the application of such Circular are detailed in Note 3 "Accounting changes", Note 15 "Right-of-use - leased assets" and "Lease Contract Obligations" and Note 34 "Depreciation amortization and impairment."

Circular No. 3,647 of January 31, 2019, Summary of Accounting Standards. Standard method of provisions for commercial loans of the collective portfolio. Supplements instructions on factoring operations. Chapter B-1.

For factoring operations, the introduction of a particular factor for the component "Loss Given Default" of the standard method has been estimated for the collective analysis of the commercial portfolio, which must be considered for calculating the provisions.

The Bank applied these amendments beginning in June 2019.

Circular No. 3,649 of May 6, 2019, Summary of Accounting Standards. Leases in accordance with IFRS 16. Supplements instructions. Chapter C-3.

This chapter supplements instructions for the treatment that a lessee should follow with respect to lease contracts expressed in inflation-adjusted units (UF), and the consequences of the adjustment made to the liability.

The Bank applied these amendments beginning in May 2019.

Circular No. 2,243 of December 20, 2019, Summary of Accounting Standards for Banks. Updates instructions.

Provides comprehensive updates for the instructions in the Summary of Accounting Standards for Banks (CNCB) to allow for greater convergence with the new International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (particularly, IFRSs 9, 15 and 16), as well as an improvement in financial disclosures to contribute to the financial stability and transparency in the banking system.

The Bank will apply these amendments beginning on January 1, 2021, establishing January 1, 2020 as the date of transition, for the purposes of the comparative financial statements that should be issued beginning in March 2021.

ii) New accounting pronouncements issued by the IASB

Adoption of new standards and amendments to IFRS

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.
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.

IFRS 16, Leases

Issued on January 13, 2016, this Standard requires that companies acting as operating lessees account for all leases in their financial statements beginning on January 1, 2019. Companies acting as lessees recording operating leases will be more asset-rich but also more heavily indebted. The larger the operating lease portfolio, the greater the impact on key reporting metrics.

The Bank and its subsidiaries used the modified retrospective method in the initial application of this Standard (without effects on equity), recognizing a right-of-use asset and a lease liability for the same amount of MCh$231,760 as of January 1, 2019, which was determined at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. The Bank did not restate comparative information.

<u>Leases where the Bank and its Subsidiaries act as lessee</u>

The Bank recognized assets and liabilities for its leases. The nature of expenses related to such leases changed as the Bank recognized 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 included payments owed under the lease contract in its lease liability.

<u>Leases where the Bank acts as lessor</u>

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 the current year will be redefined in line with the information indicated above.

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 assessed the impact of adopting this Standard, and determined that it had no significant effect on its Consolidated Financial Statements.

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

This amendment considers:

- 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 periods beginning on or after January 1, 2019. Early adoption is permitted.

Because the Bank records no such investments, Management determined that this Standard had no impact on its 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 CMF (formerly SBIF), the Bank's Management will not adopt this Standard earlier. It will be adopted in the Consolidated Financial Statements when its application is authorized by such regulator.

Accounting pronouncements issued but not yet effective.

The IASB has issued a number of new standards, amendments to standards and interpretations that have not yet become effective and have not been adopted for the preparation of these Consolidated Financial Statements. These new standards will be applied starting from their effective date as determined by the CMF (formerly SBIF), even when early adoption is permitted.

Amendments to IFRSs	Mandatory application date
Sale or Contribution of Assets Between and Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).	Effective date deferred indefinitely.
Definition of a Business (Amendments to IFRS 3)	Annual periods beginning on or after January 1, 2020. Early adoption is permitted.
Definition of Material (Amendments to IAS 1 and IAS 8)	Annual periods beginning on or after January 1, 2020. Early adoption is permitted.
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	Annual periods beginning on or after January 1, 2020. Early adoption is permitted.
Amendments to the References to the Conceptual Framework in IFRS Standards	Annual periods beginning on or after January 1, 2020. Early adoption is permitted.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

On September 11, 2014, the IASB 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.

Definition of a Business (Amendments to IFRS 3)

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:

- 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;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce output;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- 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
- 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. Early adoption 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 significant impacts from the adoption of these amendments.

Definition of Material (Amendments to IAS 1 and IAS 8)

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.

This 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 significant impacts from the adoption of these amendments.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

In September 2019, the International Accounting Standards Board issued amendments to IFRS 9, IAS 39 and IFRS 7 to address uncertainties related to the reforms in progress of the Interbank Offered Rates (IBOR).

The amendments address aspects that affect the financial information in the period prior to the IBOR reform and are applicable to the hedging transactions directly affected by uncertainties related to the IBOR reform. As a part of the main amendments, the entities affected by the IBOR Reform will consider the following:

- they will assume the interest rate benchmark on which the hedged cash flows are based are not modified as a result of the IBOR Reform when assessing whether future cash flows are highly probable. In addition, for discontinued hedges, the same assumption is applied to determine whether the hedged cash flows are expected to occur.
- they will assess whether the economic relationship between the hedged item and hedging instrument exists based on the assumptions that the interest rate benchmark on which the hedged item and hedging instrument are based is not modified as a result of the IBOR Reform.
- they will not interrupt a hedging transaction during the uncertainty period that arises from the IBOR Reform solely because the actual hedging results are outside the range of 80-125 percent.
- they will apply the identifiable separately criterion only at the beginning of the hedging relationship. A similar exception is also provided for hedged components where the redesignation takes place frequently, i.e. macro-hedges.

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

The Bank's Management is assessing the impact of adopting this amendment.

Note 3 Accounting changes

Due to the entry into force of IFRS 16 "Leases" and the instructions contained in Circulars Nos. 3,645 and 3,649 of January 11, 2019 and May 6, 2019, respectively issued by the Chilean CMF, the Bank and its subsidiaries adopted the single accounting model for the recognition, measurement and presentation of its lease contracts.

The Bank and its subsidiaries used the modified retrospective approach for the initial adoption of the Standard (with no impacts on equity) recognizing a right-of-use asset and lease liability for the same amount; i.e., MCh$$231,760 as of January 1, 2019, which was determined according to the present value of discounted remaining lease payments using the lessee's incremental borrowing interest rate. Comparative information was not restated.

During November 2019, the Bank changed the integrated model for the allowances for the Retail and Business Collective portfolios, which represented a decrease of MCh$ 351 in the Retail portfolio (because of the offsetting effect between the increase the Consumption portfolio of MCh$ 973 and the update of the LGD for Education loans, which generated a decrease of MCh$ 1,324). For the SMEs model, we noted a decrease of MCh$ 1,802, which is explained by the transfer of customers from the former BBVA from the Collective Portfolio to the Individual Model. In addition, we noted an increase of MCh$ 545 because of the application of consistent criteria for the recognition of guarantees. The remaining portfolios were not subject to any impacts as such portfolios are controlled by the standard matrix.

Subsidiary Scotia Corredora de Seguros Chile Limitada.

Revenue recognition

The Company's main revenue relates to fees from insurance policy brokerage. As established in Appendix No. 5 of Circular No. 2,137 of January 13, 2014 and subsequent amendments included in Circular No. 2,168 of December 31, 2014, the Company has applied the following:

<u>Prior to August 1, 2019</u>

The methodology applied and approved by the CMF on December 23, 2014 relates to the following:

- A provision of 29.3% for the refund of fees calculated on each brokerage insurance policy, based on the study of the historical behavior of insurance policy brokerage.
- Deferral of 0.9% of fees considering that the amount resulting from the application of this percentage allows covering the expenses required to provide services in the future.

Beginning on August 1, 2019

The Company has applied a new methodology for the deferral of fees and calculation of the provision, which was approved by the Chilean CMF through Official Communication No. 22847 of July 25, 2019, related to the following:

- Provision for refund of fees calculated by product family, based on the historical behavior of policies generated between January 2014 and December 2017.
- Deferral of fees determined by product family based on the "Activity Based Costing" methodology.

Note 4 Significant events

Scotiabank Chile

i. At the Ordinary Board of Directors' Meeting No. 2430 held on April 25, 2019, the directors accepted the resignations presented by Regular Directors Mr. Eduardo Aninat Ureta and Mr. Juan Antonio Guzmán Molinari and appointed Mr. Emilio Deik Morrison and Mrs. Karen Ergas Segal, respectively as their replacements, who took office the same date. Likewise, the Board of Directors agreed to accept the resignation presented by Mr. Nicolás Tagle Swett to the position of Alternate Director and appointed Mr. Juan Antonio Guzmán Molinari as his replacement, who took office the same date.

   Additionally, at the Ordinary General Shareholders' Meeting of Scotiabank Chile held on April 25, 2019, the shareholders agreed to pay a minimum legal dividend equivalent to 30% of net income for 2018 of MCh$32,436, equivalent to Ch$2.81818 per share, in which the remaining balance will be allocated to the reserve for undistributed profit.

ii. On July 25, 2019, in conformity with articles 9 and 10 of Law No. 18,045 and Chapter 18-10 of the Updated Summary of Standards for Banks and Financial Institutions, the Bank communicated as an Essential Event that on such date the Parent Bank, The Bank of Nova Scotia ("BNS") has entered into with BNP Paribas Cardif ("Cardif") the "Master Program Agreement" (the "Agreement"), which establishes the general terms and conditions in conformity with which a long-term strategic alliance will be established for the joint development and distribution of insurance policies among the customers of the banks and financial institutions controlled by BNS in Mexico, Peru, Colombia and Chile. By virtue of the Agreement, banks and financial institutions controlled by BNS in such jurisdictions will provide Cardif insurance companies with exclusive access to their distribution channels for them to offer insurance policies to such banks' customers.

   Such agreements will be formalized through entering into local distribution agreements by the entities controlled by BNS and the insurance companies controlled by Cardif in each of the aforementioned jurisdictions in future dates.

iii. On December 18, 2019, in conformity with articles 9 and 10 of Law No. 18,045 and Chapter 18-10 of the Updated Summary of Standards for Banks and Financial Institutions, the Bank communicated as an Essential Event that at the ordinary Board of Directors' Meeting held on such date, the Directors of Scotiabank Chile unanimously agreed to call for a Shareholders' Meeting of Scotiabank Chile to be held on January 6, 2020. The matters to be addressed and agreed on at the Extraordinary Shareholders' Meeting are as follows:

1. Capital increase
2. Entity's By-laws.
3. Powers for the Board of Directors
4. Information on other transactions with related parties.
5. Other agreements approved.

Subsidiary Scotia Corredores de Bolsa Limitada.

On April 23, 2019, the Bank communicated to the Chilean CMF in conformity with articles 9 and 10 of Law No. 18,045 and General Standard No. 16 of June 11, 1985, issued by the Chilean CMF, as an Essential Event, that via public deed of April 23, 2019, witnessed at the notarial office of Santiago of Mr. Roberto Antonio Cifuentes Allel, Scotiabank Chile and Nova Scotia Inversiones Limitada, as the exclusive partners of Scotia Corredora de Bolsa Chile Limitada, Taxpayer ID No. 96.568.550-2, and Scotiabank Chile and Scotia Azul Asesorías Financieras Limitada, as the exclusive partners of Scotia Azul Corredores de Bolsa Limitada, Taxpayer ID No. 96.535.720-3 (the "Company"), agreed the merger of the former into the Company, effective beginning on May 1, 2019 (the "Effective Date"). As a result, on the Effective Date the Company will acquire all the assets, rights, authorizations, permits and assume all the obligations and liabilities of the absorbed company, becoming the legal successor company. Likewise, on the Effective Date the absorbed company will be dissolved without the need for a liquidation process. Through a Communication dated April 11, 2019, the Chilean Superintendence of Banks and Financial Institutions approved the request for approval and became aware of the aforementioned merger.

By virtue of the merger, on the Effective Date the Company's partners will be: Scotiabank Chile holding interest of 99.19% of share capital, Scotia Azul Asesorías Financieras Limitada holding interest of 0.8% of share capital, and Nova Scotia Inversiones Limitada holding interest of 0.01% of the share capital. Likewise, the change of the Company's name to "Scotia Corredora de Bolsa Chile Limitada" was approved beginning on the Effective Date.

On April 11, 2019, the Chilean SBIF approved the authorization and acknowledged the proposal for the merger of Scotia Corredora de Bolsa Chile S.A. Taxpayer ID No. 96.568.550-2 into Scotia Azul Corredores de Bolsa Limitada Taxpayer ID No. 96.535.720-3, both subsidiaries of Scotiabank Chile. As a result, Scotia Azul Corredores de Bolsa Limitada will acquire all the assets, rights, authorizations, permits and assume all the obligations and liabilities of the absorbed company, becoming the legal successor company of Scotia Corredora de Bolsa Chile S.A., which will be dissolved without the need for a liquidation process. In addition, the absorbing company's name will be changed to "Scotia Corredora de Bolsa Chile Limitada."

Subsidiary Scotia Asesorías Financieras Limitada.

On April 23, 2019, in conformity with Circular No. 8 of December 20, 1989 issued by the Chilean SBIF, communicated as essential information, that via public deed of April 23, 2019, witnessed at the notarial office of Santiago of Mr. Roberto Antonio Cifuentes Allel, Scotiabank Chile and Nova Scotia Inversiones Limitada, as the exclusive partners of Scotia Asesorías Financieras Limitada Taxpayer ID No. 96.654.820-7, and Scotiabank Azul Asesorías Financieras Limitada Taxpayer No. 96.526.410-8 (the "Company"), agreed the merger of the former into the Company, effective beginning on May 1, 2019 (the “Effective Date”). As a result, on the Effective Date the Company will acquire all the assets, rights, authorizations, permits and assume all the obligations and liabilities of the absorbed company, becoming the legal successor company. Likewise, on the Effective Date the absorbed company will be dissolved without the need for a liquidation process. The merger was authorized by the Chilean SBIF through the communication dated April 11, 2019.

By virtue of the merger, on the Effective Date, Scotiabank Chile holding interest of 98.74% in the share capital and Nova Scotia Inversiones Limitada holding interest of 1.26% in the share capital will be the Company's partners. Likewise, the change in the Company's name beginning on the Effective Date to "Scotia Asesorías Financieras Limitada" was approved.

At the Extraordinary Shareholders' Meeting of April 17, 2019, of the shareholders of Scotia Azul Asesorías Financieras Limitada Taxpayer ID No. 96.526.410-8 (the "Company") the minute of which was drafted as a public deed on such date at the notarial office of Santiago of Mr. Roberto Antonio Cifuentes Allel, Scotiabank Chile and Nova Scotia Inversiones Limitada, as the exclusive owners of the Company agreed: (i) to transform the Company to a limited liability under the name "Scotia Azul Asesorías Financieras Limitada."

Assignment of rights and dissolution of Scotia Azul Factoring Limitada.

Via public deed of October 30, 2019, Scotia Asesorías Financieras Limitada sold, assigned and transferred all its interest in Scotia Azul Factoring Limitada equivalent to approximately 0.1% of the share capital to Scotiabank Chile effective beginning on November 1, 2019. As a result of the assignment of rights, Scotiabank Chile will acquire all the interest in Scotia Azul Factoring Limitada and as such Scotia Azul Factoring Limitada will be legally dissolved becoming Scotiabank Chile the legal successor of all the rights and obligations of Scotia Azul Factoring Limitada.

As of December 31, 2019, no other significant events have occurred that have had or may have an impact or significant effects on the Bank's operations or financial statements.

Subsidiary Scotia Administradora General de Fondos Chile S.A.

On July 29, 2019, in conformity with article 18 of Law No. 20,712 and articles 9 and 10 of Law No. 18,045, the Company communicated to the Chilean CMF the following essential information of Scotia Administradora General de Fondos Chile S.A. (the "Company" or "Scotia AGF"):

1) Scotiabank Chile, the Parent Bank of the Company is performing a corporate organization process to integrate the subsidiaries with redundant lines of business after the absorption of Banco Scotiabank Azul (formerly - Banco Bilbao Vizcaya Argentaria, Chile) as a result of the merger formalized on September 1, 2018. Such reorganization process searches for simplifying the organizational chart of Scotiabank Chile and improve the efficiency of the operation and management of its subsidiaries and businesses.

2) Both the Company and Scotia Azul Asset Management Administradora General de Fondos S.A. (“Azul AGF”) are companies engaged in general fund administration. Scotiabank Chile is the direct or indirect holder of 100% of the share capital of Azul AGF and Scotiabank Azul AGF and has the intention of merging the former into the latter.

3) Because of being performed between related parties, the merger of the Company and Azul AGF qualifies as a related party transaction, which must be submitted to Title XVI of Law 18,046 on Public Companies. Consequently and in order to conduct the merger of Azul AGF into Scotia AGF, the Company's Board of Directors engaged Pricewaterhouse Coopers Consultores Auditores SpA as independent appraiser, to present a report on the conditions of such merger, its effects and potential impact for the Company.

4) It is hereby communicated through this essential event that the Report issued by the independent appraiser appointed by the Board of Directors was received on this date and made available for the Company's shareholders at its registered office located at Morandé No. 226, piso 5, Santiago.

On July 31, 2019, in conformity with article 18 of Law No. 20,712 and articles 9 and 10 of Law No. 18,045, the Company communicated to the Chilean CMF the following essential information of Scotia Administradora General de Fondos Chile S.A. (the "Company" or "Scotia AGF"):

That in connection with the related party transaction consisting of the merger of Scotia Azul Asset Management Administradora General de Fondos S.A., into Scotia Administradora General de Fondos Chile S.A. ("Scotia AGF"), on this same date the Company has received the individual views of the Directors of Scotia AGF Mr. Fabio Valdivieso Rojas, Mr. Ricardo Lagos Gana and Mr. Carlos Escamilla Jácome.

Accordingly, on this same date, and in conformity with article 147 of Law No. 18,046 on Public Companies, the views referred to above were made available to the general public and the shareholders at the Company's registered office located at Morande 226, piso 5, Santiago.

On July 31, 2019, in conformity with article 18 of Law No. 20,712 and articles 9 and 10 of Law No. 18,045, the Company communicated to the Chilean CMF the following essential information of Scotia Administradora General de Fondos Chile S.A. (the "Company" or "Scotia AGF"):

That in connection with the related party transaction consisting of the merger of Scotia Azul Asset Management Administradora General de Fondos S.A. into Scotia Administradora General de Fondos Chile S.A. ("Scotia AGF"), on this same date the Company has received the individual views of the Directors of Scotia AGF Mr. Fabio Valdivieso Rojas, Mr. Ricardo Lagos Gana and Mr. Carlos Escamilla Jácome.

Accordingly, on this same date, and in conformity with article 47 of Law No. 18,046 on Public Companies, the views referred to above were made available to the general public and the shareholders at the Company's registered office located at Morande 226, piso 5, Santiago.

On August 1, 2019 and in conformity with the essential events communicated on July 29 and 31, 2019, on the corporate reorganization process with the purpose of integrating the subsidiaries having redundant lines of businesses, it has been communicated to the Chilean CMF that at the Ordinary Meeting held on July 31, 2019, it has been agreed to summon an extraordinary shareholders' meeting for August 19, 2019.

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

(i) Transaction with related parties.
(ii) Approval of the financial statements.
(iii) Merger.
(iv) Amendments to by-laws and articles of incorporation.
(v) Information on other transactions with related parties.
(vi) Other complementary agreements.

Evidence is left that the shares of Scotia AGF and Azul AGF are directly or indirectly owned by 100% by Banco Scotiabank Chile and accordingly, there are no minority shareholders that could be affected by the terms of the Merger, including the proposed exchange rate. Notwithstanding the foregoing, a full copy of the documents explaining and providing the bases for the matters that are submitted for the review and approval of the shareholders at the extraordinary shareholders' meeting, which are from today available for the shareholders at the registered office located at Avenida Costanera Sur No. 2710, Torre A, piso 14, Parque Titanium, in the commune of Las Condes, Santiago.

On August 20, 2019, in conformity with article 18 of Law No. 20,712 and articles 9 and 10 of Law No. 18,045, the Company communicated to the Chilean CMF the following essential information of Scotia Administradora General de Fondos Chile S.A. (the "Company" or "Scotia AGF"):

On August 19, 2019, at the Company's Extraordinary Shareholders' Meeting (the “Meeting”), the shareholders of Scotia AGF approved the merger of Scotia Azul Asset Management Administradora General de Fondos S.A. (“Azul AGF”) into Scotia AGF (the “Merger”), by virtue of which, Scotia AGF will acquire all the assets and assume all the liabilities of Azul AGF and become the legal successor company in all its rights and obligations, incorporating to the Company all the shareholders and equity of Azul AGF. As a result, Azul AGF will be legally dissolved without the need for a liquidation process. In addition, the merger was also approved as a transaction with related parties in conformity with the law.

The Merger will become effective beginning on the first calendar day following the date in which the Chilean CMF issues the resolution approving the merger or December 1, 2019, (the "Effective Date"), whichever occurs last. To formalize the Merger, the Board approved a capital increase in Scotiabank AGF of Ch$4,121,888,534, through the issuance of 400,000 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 Azul AGF, as absorbed company, beginning on the Effective Date. For such purposes, 200 shares of Scotia AGF will be distributed per each share of Azul AGF held by the shareholders of the latter, without considering fractions of shares.

Finally, the shareholders at the Meeting agreed that to formalize the Merger agreement and the capital increase in the Company and effective beginning on the Effective Date, the issuance of a revised text of the By-Laws of Scotia AGF was approved, which will fully replace the currently effective By-Laws.

Subsidiary Scotia Corredora de Seguros Chile Limitada.

As it is publicly known, the Scotiabank Chile Group is conducting a corporate reorganization process with the purpose of merging certain of its subsidiaries recording duplicate lines of businesses as a result of the merger between Scotiabank Azul (formerly - Banco Bilbao Vizcaya Argentaria, Chile) and Scotiabank Chile, formalized on September 1, 2018, and the resulting acquisition of the subsidiaries of the absorbed bank. Accordingly, Scotiabank Chile searches to simplify its organizational chart and improve the efficiency of the operation and administration of its subsidiaries and businesses.

Scotia Azul Corredora de Seguros Técnica Limitada and Scotia Corredora de Seguros Chile Limitada are subsidiaries of Scotiabank Chile, the direct or indirect owner of 100% of their share capital. Considering that both Scotia Corredora de Seguros Chile Limitada and Scotia Azul Corredora de Seguros Técnica Limitada are companies in the property & casualty and life insurance brokerage business, within the framework of the corporate reorganization referred to in the preceding paragraph and as indicated previously to the Chilean SBIF (currently - integrated in the Chilean CMF) in the letter submitted by Scotiabank Chile on March 6, 2019, the Group intends to conduct the merger of Scotia Azul Corredora de Seguros Técnica Limitada into Scotia Corredora de Seguros Chile Limitada, by virtue of which the former will be dissolved without the need for a liquidation process, becoming the latter the legal successor company with respect to former's rights and obligations, and incorporating the partners of Scotia Azul Corredora de Seguros Técnica Limitada as partners of Scotia Corredora de Seguros Chile Limitada (the “Merger”).

To formalize such Merger, during October 2019 a merger agreement will be entered into via public deed by all the partners of Scotia Corredora de Seguros Chile Limitada and Scotia Azul Corredora de Seguros Técnica Limitada, by way of which the Merger and its terms will be approved, so that it becomes effective beginning on November 1, 2019. Subsequent to the Merger, Scotiabank Chile (holding interest higher than 99%), Scotia Corredora de Bolsa Chile Limitada and Scotia Asesorías Financieras Limitada (both holding the remaining interest) will be the partners of Scotia Corredora de Seguros Chile Limitada. Likewise, via the public deed where the Merger is agreed, the partners will also agree to increase the capital of Scotia Corredora de Seguros Chile Limitada to leave evidence of the Merger, adapt its line of business and update and clarify the text of its By-Laws.

Except for the amendments included in the Merger agreement described above, Scotiabank Chile, as the Parent Bank of Scotia Corredora de Seguros Técnica Limitada and Scotia Azul Corredora de Seguros Técnica Limitada, has not foreseen making any changes in the organization of the companies involved in the Merger, related to the method for managing and controlling their management activities (method for establishing policies and risk management, autonomy degree, information flow foreseen, etc.) or the analysis of the main risks, internal controls to manage or foresee risks, or the equipment and services existing through the present date, except for the fact that they are currently performed by twin subsidiaries as to their exclusive line of business, and after the Merger solely one insurance company will continue operating the line of business.

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. SMEs 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 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.

2. Business Banking

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

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

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

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

3. Personal Banking

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

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

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

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

4. Financial Retail

This segment groups credit cards and consumer loans offered within the framework of the binding partnership agreement entered into with Cencosud S.A., by way of which the bank acquired 51% of the shares of CAT Administradora de Tarjetas de Crédito S.A. ("CAT") and of CAT Corredores de Seguros y Servicios S.A., with the purpose of the joint and exclusive performance of the financial retail business of Cencosud 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 each of the above mentioned segments:

	As of December 31, 2019					
	SME and retail banking MCh$	Business banking MCh$	Personal banking MCh$	Retail statements MCh$	Other MCh$	Total MCh$
Net interest and adjustment income	86,294	170,051	351,344	208,189	48,445	864,323
Net fee and commission income	26,768	22,419	73,479	76,399	8,367	207,432
Net gain (loss) from financial operations	8,318	60,221	3,109	1,126	73,572	146,346
Net foreign exchange income (loss)	2,144	18,049	4,860	381	(47,802)	(22,368)
Other operating income	485	1,630	2,258	6,786	58,940	70,099
Total operating income	**124,009**	**272,370**	**435,050**	**292,881**	**141,522**	**1,265,832**
Allowances for credit risk	(15,060)	(14,176)	(126,432)	(115,036)	(5,326)	(276,030)
Net operating income	**108,949**	**258,194**	**308,618**	**177,845**	**136,196**	**989,802**
Operating expenses	(87,056)	(76,577)	(175,985)	(127,209)	(172,103)	(638,930)
Segment operating income (loss)	**21,893**	**181,617**	**132,633**	**50,636**	**(35,907)**	**350,872**
Equity in net income of investees	-	-	-	-	276	276
Segment income (loss) before tax	**21,893**	**181,617**	**132,633**	**50,636**	**(35,631)**	**351,148**
Income tax						(77,582)
Profit for the period						**273,566**
Segment assets	2,062,130	10,268,309	11,574,672	1,270,535	9,477,844	**34,653,490**
Segment liabilities	952,243	9,853,606	3,195,229	136,767	18,371,622	**32,509,467**

	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 income	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	922	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 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 6 Cash and cash equivalents

The detail of cash and cash equivalents is as follows:

	12/31/2019 MCh$	12/31/2018 MCh$
Cash and deposits in banks		
Cash	355,339	179,521
Deposits in Banco Central de Chile	539,784	385,981
Deposits in domestic banks	23,607	33,940
Deposits in foreign banks	466,032	188,030
Subtotal cash and deposits in banks	1,384,762	787,472
Net trading operations pending settlement	133,954	185,940
High liquidity financial instruments	252,014	412,587
repurchase agreements	23,054	217,118
Total cash and cash equivalents	**1,793,784**	**1,603,117**

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:

	12/31/2019 MCh$	12/31/2018 MCh$
Assets		
Due from banks (interbank)	76,074	81,154
Funds receivable	290,234	783,328
Subtotal assets	366,308	864,482
Liabilities		
Funds payable	(232,354)	(678,542)
Subtotal liabilities	(232,354)	(678,542)
Net trading operations pending settlement	**133,954**	**185,940**

Note 7 Securities held for trading

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

	12/31/2019 MCh$	12/31/2018 MCh$
Instruments of Government and Banco Central de Chile:		
Instruments issued by Banco Central de Chile	23,954	44,436
Bonds or promissory notes issued by the Treasury	230,968	118,007
Other fiscal instruments	-	-
Other financial instruments issued by domestic institutions:		
Instruments issued by other domestic banks	403,009	533,103
Corporate bonds and commercial papers	21,582	1
Other instruments issued in Chile	2,253	1,676
Investments in mutual funds:		
Funds managed by related parties	163,941	161,805
Funds managed by third-parties	-	-
Total	**845,707**	**859,028**

As of December 31, 2019 and 2018, the caption Instruments of Government and Banco Central de Chile includes no transactions of securities sold under repurchase agreement to financial institutions or customers.

As of December 31, 2019, the caption Financial instruments issued by other domestic institutions includes securities sold under repurchase agreement to financial institutions or customers of MCh$77,981 with average maturity of 7 days (MCh$89,118 with an average maturity of 10 days as of December 31, 2018).

Note 8 Investments sold under repurchase agreements and securities lending

As of December 31, 2019 and 2018, this caption is detailed as follows:

	12/31/2019		12/31/2018	
	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	23,054	1,089,231	217,118	575,535
Securities loaned	92	92	247	247
Total	**23,146**	**1,089,323**	**217,365**	**575,782**

Scotiabank

Note 9 Derivative instruments and accounting hedge

As of December 31, 2019 and 2018, the Bank has the following portfolio:

As of December 31, 2019

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	27,367,284	15,163,768	8,191,320	1,204,452	(926,580)
Interest rate swaps	7,466,404	20,085,608	53,918,317	1,135,886	(1,234,434)
Interest rate and currency swaps	994,088	5,271,398	2,118,250	2,118,250	(2,004,351)
Options	-	-	-	4,317	(4,315)
Subtotal	**35,827,776**	**40,520,774**	**64,227,887**	**4,462,905**	**(4,169,680)**

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 (*)	28,049	84,146	56,096	760	-
Interest rate swaps (**)	407,400	138,799	219,850	7,154	(1,478)
Interest rate and currency swaps (***)	65,000	517,452	4,615,286	100,940	(403,732)
Options	-	-	-	-	-
Subtotal	**500,449**	**740,397**	**4,891,232**	**108,854**	**(405,210)**
Total				**4,571,759**	**(4,574,890)**

(*) Correspond to derivatives hedging the inflation risk of mortgage loans (notional amount of MCh$168,291).

(**) Related to derivative instruments hedging against the following:
- i) Floating and fixed interest rate risk in Term Deposits (Notional amount of MCh$539,599 and MCh$226,450).
- ii) Foreign currency risk in Foreign Trade Loan received (Notional amount of MUS$350).
- iii) Fixed interest rate risk in bonds issued (Notional amount of MCh$50,000).

(***) Related to Derivative instruments simultaneously hedging against the following:
- i) Foreign currency risk from Foreign Trade loan received (Notional amount of MUS$250).
- ii) Inflation risk in Mortgage Loans (Notional amount of MCh$2,318,330).
- i) Floating interest rate risk in Term Deposits (Notional amount of MCh$2,012,670).
- iv) Inflation risk in Bonds BTU and Bonds BCU (UF 7,017,000) (As of December 31, 2019, Notional amount of MCh$198,651).
- v) Inflation risk in Liability Bonds issued by the Bank (UF300,000) (As of December 31, 2019, Notional amount of MCh$8,415).
- vi) Interest rate risk in Debt bonds issued by the Bank (UF6,005,000) (As of December 31, 2019, Notional amount of MCh$163,431.

As of December 31, 2018

	Notional amount of contract with final maturity:			Fair value	
	Less than 3 months	3 months to 1 year	Over 1 year	Assets	Liabilities
Held-for-trading derivatives	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**	**78,332,225**	**2,419,946**	**(2,288,001)**

	Notional amount of contract with final maturity:			Fair value	
	Less than 3 months	3 months to 1 year	Over 1 year	Assets	Liabilities
Accounting hedge derivatives	MCh$	MCh$	MCh$	MCh$	MCh$
Currency forward (*)	261,875	567,855	110,263	5,943	(904)
Interest rate swaps (**)	291,764	195,500	212,199	1,155	(223)
Interest rate and currency swaps (***)	102,720	95,220	3,189,949	53,593	(120,048)
Options	-	-	-	-	-
Subtotal	**656,359**	**858,575**	**3,512,411**	**60,691**	**(121,175)**
Total				**2,480,637**	**(2,409,176)**

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

(**) Relate to Derivative Instruments hedging against:
- 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 securities in portfolio (BTP and BCP) BTP0600120, BCP0600221, BTP0450321 and BTP0450221 (Notional amount of MCh$279.225).
- v) Fixed interest rate risk of bonds issued, the mnemonic code is 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 loans 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).

a) 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.1) 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, obligations with foreign banks at floating rate in foreign currency, 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 (CCS and IRS).

As of December 31, 2019, the Bank has recorded a loss in equity valuation accounts, net of tax of MCh$162,114 (MCh$9,764 as of December 31, 2018) for the adjustment of cash flow hedging instruments.

As of December 31, 2019, the Bank recorded a profit from cash flow hedging derivatives of MCh$124,569 (loss of MCh$9,671 as of December 31, 2018).

a.2) Fair value accounting hedge derivatives

For fair value hedges, changes in fair value of hedge instruments are offset in the Consolidated Statement of Income with the changes in the fair value of the hedged item attributable to the hedged risk. The Bank uses fair value hedges primarily to convert 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 (CCS and IRS).

a.3) Market valuation by type of hedge

	12/31/2019		12/31/2018	
	For MCh$	Against MCh$	For MCh$	Against MCh$
Derivatives designated in fair value hedging relationships	52,507	(800)	13,682	(15,694)
Derivatives designated in cash flow hedging relationships	56,347	(404,410)	47,009	(105,481)
Total derivatives designated in hedging relationships	108,854	(405,210)	60,691	(121,175)

a.4) Cash flows of hedged items are expected to occur and impact the Consolidated statements of income for cash flow hedge accounting

As of December 31, 2019	Less than 3 months MCh$	3 months to 1 year MCh$	Over 1 year MCh$	Total MCh$
Hedged item (Asset)	124,135	591,948	4,717,928	5,434,011
Hedged item (Liability)	(248,272)	(479,177)	(5,061,165)	(5,788,614)
Net cash flows	**(124,137)**	**112,771**	**(343,237)**	**(354,603)**

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)**

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.

a.5) Ineffectiveness of accounting hedges

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

	12/31/2019 MCh$	12/31/2018 MCh$
Fair value hedges		
Gain (loss) recorded in hedged items	25,910	3,303
Gain (loss) recorded in hedging instruments	(25,729)	(3,663)
Ineffectiveness	**181**	**(360)**
Cash flow hedges		
Ineffectiveness	**2,414**	**2,671**

Note 10 Composition of loans and advances to banks

a) Composition of loans and advances to banks:

As of December 31, 2019 and 2018, this caption comprises the following:

As of December 31, 2019	Assets before allowances			Allowances accrued			Net assets
	Regular portfolio MCh$	Impaired portfolio MCh$	Total MCh$	Individual allowances MCh$	Collective allowances MCh$	Total 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 domestic banks	-	-	-	-	-	-	-
Foreign trade loans for domestic exports	391	-	391	-	-	-	391
Foreign trade loans for domestic imports	-	-	-	-	-	-	-
Foreign trade loans between third countries	-	-	-	-	-	-	-
Other receivables from domestic banks	1,886	-	1,886	(1)	-	(1)	1,885
Subtotal	**2,277**	**-**	**2,277**	**(1)**	**-**	**(1)**	**2,276**
BANCO CENTRAL DE CHILE							
Unavailable deposits at Banco Central	-	-	-	-	-	-	-
Other receivables from Banco Central	78,851	-	78,851	-	-	-	78,851
Subtotal	**78,851**	**-**	**78,851**	**-**	**-**	**-**	**78,851**
Total	**81,128**	**-**	**81,128**	**(1)**	**-**	**(1)**	**81,127**

As of December 31, 2018	Assets before allowances Regular portfolio MCh$	Impaired portfolio MCh$	Total MCh$	Allowances accrued Individual allowances MCh$	Collective allowances MCh$	Total MCh$	Net assets 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 domestic 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 domestic 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**

b) Allowances for credit risk

	Domestic banks MCh$	Foreign banks MCh$	Banco Central de Chile MCh$	Total MCh$
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**
Balance as of January 1, 2019	-	1	-	1
Merger with former BBVA Bank	-	-	-	-
Impaired portfolio write-offs	-	-	-	-
Allowances accrued (Note 31)	-	-	-	-
Allowances released (Note 31)	-	-	-	-
Balance as of December 31, 2019	**-**	**1**	**-**	**1**

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, 2019	Assets before allowances			Allowances accrued			Net assets
	Regular portfolio MCh$	Impaired portfolio MCh$	Total MCh$	Individual allowances MCh$	Collective allowances MCh$	Total MCh$	MCh$
COMMERCIAL LOANS							
Commercial loans	8,634,381	263,846	8,898,227	(117,506)	(42,172)	(159,678)	8,738,549
Foreign trade loans	2,127,930	13,287	2,141,217	(31,768)	(164)	(31,932)	2,109,285
Receivables from current accounts	100,478	5,168	105,646	(3,180)	(1,634)	(4,814)	100,832
Factoring operations	237,502	1,287	238,789	(4,066)	(98)	(4,164)	234,625
Student loans	625,636	71,303	696,939	-	(21,049)	(21,049)	675,890
Lease operations	675,885	20,194	696,079	(6,249)	(2,220)	(8,469)	687,610
Other loans and advances	8,114	927	9,041	(690)	(211)	(901)	8,140
Subtotal	**12,409,926**	**376,012**	**12,785,938**	**(163,459)**	**(67,548)**	**(231,007)**	**12,554,931**
MORTGAGE LOANS							
Letter of credit loans	97,674	23,938	121,612	-	(916)	(916)	120,696
Endorsable mutual mortgage loans	47,846	7,188	55,034	-	(166)	(166)	54,868
Bond funded mutual mortgage loans	-	-	-	-	-	-	-
Other mortgage mutual loans	8,567,135	276,315	8,843,450	-	(43,915)	(43,915)	8,799,535
Loans from the ANAP	-	-	-	-	-	-	-
Lease operations	47,884	6,798	54,682	-	(705)	(705)	53,977
Other loans and advances	20,882	6,236	27,118	-	(273)	(273)	26,845
Subtotal	**8,781,421**	**320,475**	**9,101,896**	**-**	**(45,975)**	**(45,975)**	**9,055,921**
CONSUMER LOANS							
Consumer loans paid in installments	1,593,966	149,669	1,743,635	-	(124,248)	(124,248)	1,619,387
Receivables from current accounts	104,431	11,489	115,920	-	(6,147)	(6,147)	109,773
Receivables from credit cards	1,467,429	131,297	1,598,726	-	(127,477)	(127,477)	1,471,249
Lease operations	-	-	-	-	-	-	-
Other loans and advances	964	80	1,044	-	(36)	(36)	1,008
Subtotal	**3,166,790**	**292,535**	**3,459,325**	**-**	**(257,908)**	**(257,908)**	**3,201,417**
Total	**24,358,137**	**989,022**	**25,347,159**	**(163,459)**	**(371,431)**	**(534,890)**	**24,812,269**

As of December 31, 2018	Assets before allowances			Allowances accrued			Net assets
	Regular portfolio MCh$	Impaired portfolio MCh$	Total MCh$	Individual allowances MCh$	Collective allowances MCh$	Total 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**

b) **Allowances for credit risk**

	Individual allowances MCh$	Collective allowances MCh$	Total MCh$
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**
Balance as of January 1, 2019	155,533	337,391	492,924
Impaired portfolio write-offs:			
Commercial loans	(23,639)	(23,032)	(46,671)
Mortgage loans	-	(5,976)	(5,976)
Consumer loans	-	(245,341)	(245,341)
Total write-offs	(23,639)	(274,349)	(297,988)
Allowances accrued (Note 31)	40,175	322,133	362,308
Allowances released (Note 31)	(7,203)	(9,868)	(17,071)
Allowance for sale of portfolio used	(1,407)	(3,876)	(5,283)
Total provisions	31,565	308,389	339,954
Balance as of December 31, 2019	**163,459**	**371,431**	**534,890**

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).

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, 2019				As of December 31, 2018			
Commercial loans:	Domestic loans MCh$	Foreign loans MCh$	Total MCh$	%	Domestic loans MCh$	Foreign loans MCh$	Total MCh$	%
Agriculture and livestock farming except for fruit-growing	493,796	9,739	503,535	1.99	316,125	1,426	317,551	1.39
Real estate and services rendered to companies	1,208,347	12,165	1,220,512	4.82	1,146,390	5,292	1,151,682	5.05
Wholesale	1,476,881	93,522	1,570,403	6.20	1,048,322	19,537	1,067,859	4.68
Retail, restaurants and hotels	545,873	-	545,873	2.15	500,487	-	500,487	2.19
Communications	286,652	-	286,652	1.13	197,392	-	197,392	0.86
Housing construction	557,213	-	557,213	2.20	597,845	1,244	599,089	2.62
Electricity, gas and water	618,635	-	618,635	2.44	727,039	14	727,053	3.19
Financial and insurance facilities	2,630,662	1,515	2,632,177	10.38	2,581,040	52,460	2,633,500	11.54
Exploitation of mines and quarries	649,759	-	649,759	2.56	532,617	-	532,617	2.33
Manufacturing of metallic and non-metallic mineral products, machinery and equipment	229,273	-	229,273	0.90	158,524	538	159,062	0.70
Wood and furniture industry	76,485	-	76,485	0.30	56,220	-	56,220	0.25
Beverage, food and tobacco industry	440,384	18,134	458,518	1.81	552,893	13,914	566,807	2.48
Industry of chemicals and oil by-products, coal, rubber and plastic	271,153	-	271,153	1.07	200,103	-	200,103	0.88
Paper, print plants and book publishing divisions industry	181,074	-	181,074	0.71	27,923	9,179	37,102	0.16
Textile and leather industry	208,411	56,892	265,303	1.05	46,314	-	46,314	0.20
Other manufacturing industries	125,589	235	125,824	0.50	228,137	-	228,137	1.00
Other works and constructions	186,890	-	186,890	0.74	102,965	-	102,965	0.45
Fishing	122,116	1,880	123,996	0.49	65,897	-	65,897	0.29
Production of crude oil and natural gas	37,603	-	37,603	0.15	35,253	-	35,253	0.15
Communal, social and personal services	920,378	-	920,378	3.63	857,686	2,613	860,299	3.77
Forestry and timber extraction	56,754	-	56,754	0.22	51,975	-	51,975	0.23
Transport and storage	571,792	57	571,849	2.26	455,049	86	455,135	2.00
Subtotal	11,895,720	194,139	12,089,859	47.70	10,486,196	106,303	10,592,499	46.41
Mortgage loans	9,047,214	-	9,047,214	35.69	8,156,565	-	8,156,565	35.74
Consumer loans	3,459,325	-	3,459,325	13.65	3,339,900	-	3,339,900	14.63
Lease operations	750,761	-	750,761	2.96	734,375	-	734,375	3.22
Total	**25,153,020**	**194,139**	**25,347,159**	**100.00**	**22,717,036**	**106,303**	**22,823,339**	**100.00**

d) 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, 2019 and 2018, 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	12/31/2019 MCh$	12/31/2018 MCh$
Par value	104,464	117,257
Provisions	(3,876)	(4,268)
Net value of allowance accounts	**100,588**	**112,989**
Sale value	127,413	143,837
Gain or loss	**26,825**	**30,848**
Gain from sales	**11,509**	**13,464**
Unearned revenue	**15,316**	**17,384**

Gain on sale is included in the Consolidated Statement of Income 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.

e) Lease operations

Remaining maturities of loans related to finance lease agreements as of December 31, 2019 and 2018 are as follows:

As of December 31, 2019 Maturity:	Receivables MCh$	Deferred interest and VAT MCh$	Net balance receivable MCh$
Less than 1 year	298,510	(59,119)	239,391
1 to 5 years	512,944	(107,274)	405,670
Over 5 years	140,252	(34,552)	105,700
Total	**951,706**	**(200,945)**	**750,761**

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**

f) Sale of written-off loans

During the period between January 1 and December 31, 2019, the Bank sold written-off loans from the retail and consumer portfolio, recognizing a profit of MCh$797 and MCh$708, respectively, in the caption "Gain or loss on financial transactions" (MCh$2,724 as of December 31, 2018).

Note 12 Investment securities

As of December 31, 2019 and 2018, this caption comprises the following:

Held-for-sale securities:	12/31/2019 MCh$	12/31/2018 MCh$
Instruments of Government and Banco Central de Chile		
Instruments issued by Banco Central de Chile	352,795	505,899
Instruments issued by Tesorería General de la República (Chilean Treasury)	422,563	615,646
Other fiscal instruments	13,341	29,272
Other instruments issued in Chile		
Instruments issued by other domestic banks	15,328	58,270
Corporate bonds and commercial papers	-	190
Other instruments issued in Chile (*)	4,647	2,771
Total	**808,674**	**1,212,048**

(*) During April 2019, 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."

During 2018, the subsidiary Scotia Azul 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, 2019, instruments of the Government and Banco Central de Chile includes securities sold under repurchase agreement to financial institutions or customers of MCh$531,040 with average maturity of 4 days (MCh$160,315 with an average maturity of 6 days as of December 31, 2018).

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. As of December 31, 2019, there are no securities.

As of December 31, 2019, the portfolio of available-for-sale securities includes an unrealized net gain of MCh$6,608 (MCh$7,780 as of December 31, 2018), recorded as valuation adjustments in equity and a realized net gain of MCh$15,921 (MCh$932 as of December 31, 2018), recorded in the caption "Gain or loss on financial transactions."

As of December 31, 2019 and 2018, the bank held no investment securities held-to maturity.

Note 13 Investments in other companies

a) Investments in companies

	Ownership %		Investment amount		Net gain (loss)	
	12/31/2019	12/31/2018	12/31/2019 MCh$	12/31/2018 MCh$	12/31/2019 MCh$	12/31/2018 MCh$
Investments valued at cost:						
Sociedad Interbancaria de Depósitos de Valores	15.86	15.86	204	204	16	6
Sociedad Servicios de Infraestructura y de Mercado OTC (3)	18.28	18.39	2,291	2,303	-	-
Nexus S.A. (4)	25.93	22.58	2,604	2,016	-	-
Redbanc S.A.	12.72	12.72	860	860	-	-
Transbank S.A	22.69	22.69	10,080	10,080	-	-
Combanc S.A. (1)	15.00	15.10	597	601	15	-
Bolsa de Valores de Valparaíso S.A.	1.67	1.67	11	11	-	-
Other companies			62	62	9	2
Subtotal			**16,709**	**16,137**	**40**	**8**
Investments at fair value:						
Bolsa de Comercio de Santiago (2)	-	2.08	-	2,616	236	109
Bolsa Electrónica de Chile (2)	-	2.44	-	156	-	4
Subtotal			**-**	**2,772**	**236**	**113**
Total			**16,709**	**18,909**	**276**	**121**

(1) 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. On July 25, 2019, 4 shares were transferred to Banco Bice equivalent to MCh$3; on July 25, 2019, 3 shares were transferred to Banco Internacional equivalent to MCh$2; and on May 17, 2019, 2 shares were transferred to Banco Bice equivalent to MCh$1.

(2) During April 2019, 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."

During 2018, the subsidiary Scotia Azul 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."

(3) On May 24, 2019, 5 shares were transferred to Banco Falabella equivalent to MCh$6; and on May 17, 2019, 5 shares were transferred to Banco Bice equivalent to MCh$6.

(4) On October 9, 2019, 139,258 shares were subscribed to Banco Santander equivalent to MCh$588.

b) Movements in investments in companies are as follows:

	12/31/2019 MCh$	12/31/2018 MCh$
Opening carrying amount	18,909	10,191
Acquisition of investments	588	84
Sale of investments	(16)	-
Transfer to available for sales	(2,772)	(2,188)
Incorporation by merger of former Banco BBVA (*)	-	11,151
Equity in profit for the period	276	121
Provisions for minimum dividends	-	-
Dividends received	(276)	(121)
Adjustment at market value	-	(329)
Total	**16,709**	**18,909**

(*) 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, 2019 and 2018, there have been no movements associated with impairment.

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Note 14 Intangible assets

a) As of December 31, 2019 and 2018, this caption comprises the following:

Intangible assets	Years: Useful life 2019	Years: Useful life 2018	Years: Average remaining amortization 2019	Years: Average remaining amortization 2018	Gross balance 12/31/2019 MCh$	Gross balance 12/31/2018 MCh$	Amortization and cumulative impairment 12/31/2019 MCh$	Amortization and cumulative impairment 12/31/2018 MCh$	Net balance 12/31/2019 MCh$	Net balance 12/31/2018 MCh$
Computer software	5	5	3	1	166,851	98,847	(75,564)	(42,743)	91,287	56,104
Intangible assets from business combinations (1)	15	15	11	12	138,425	138,425	(43,065)	(33,837)	95,360	104,588
Other intangible assets	5	5	-	-	2,457	2,457	(2,457)	(2,457)	-	-
Total					**307,733**	**239,729**	**(121,086)**	**(79,037)**	**186,647**	**160,692**

(1) 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.

b) As of December 31, 2019 and 2018, 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, 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 gross balance	**98,847**	**138,425**	**2,457**	**239,729**
Accumulated amortization	(13,363)	(24,609)	(2,457)	(40,429)
Amortization for the period	(9,117)	(9,228)	-	(18,345)
Reclassification of accounts	-	-	-	-
Disposal of assets	1,109	-	-	1,109
Impairment loss (1)	(21,372)	-	-	(21,372)
Total amortization	**(42,743)**	**(33,837)**	**(2,457)**	**(79,037)**
Net value as of December 31, 2018	**56,104**	**104,588**	**-**	**160,692**
Gross balance:				
Balance as of January 1, 2019	98,847	138,425	2,457	239,729
Adjustment for migration from former Banco BBVA (2)	16,279	-	-	16,279
Acquisitions	52,381	-	-	52,381
Disposal of assets	(656)	-	-	(656)
Withdrawals	-	-	-	-
Total gross balance	**166,851**	**138,425**	**2,457**	**307,733**
Accumulated amortization	(42,743)	(33,837)	(2,457)	(79,037)
Adjustment for migration from former Banco BBVA (2)	(16,279)	-	-	(16,279)
Amortization for the period	(16,950)	(9,228)	-	(26,178)
Disposal of assets	627	-	-	627
Impairment loss (1)	(219)	-	-	(219)
Total amortization	**(75,564)**	**(43,065)**	**(2,457)**	**(121,086)**
Net value as of December 31, 2019	**91,287**	**95,360**	**-**	**186,647**

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.

(1) 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. As of December 31, 2019, the impairment corresponds to internal developments that will not continue generating economic benefits.

(2) Corresponds to the migration of the accounting balances from former Banco BBVA to Scotiabank during the operational integration between both companies. This adjustment arises from the change in the amortization method from direct to indirect, which has no impact on the profit or loss for the period and/or profit or loss from prior periods.

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Note 15 Property, plant and equipment; right-of-use leased assets and lease contracts obligations

a) Property and equipment and depreciation

As of December 31, 2019 and 2018, 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, 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, gross	82,309	33,116	101,040	33,582	250,047
Depreciation, former Banco BBVA	(13,920)	(15,099)	(71,603)	(3,578)	(104,200)
Accumulated depreciation	(8,964)	(3,873)	(20,490)	(85)	(33,412)
Depreciation for the period	(1,420)	(1,392)	(6,044)	(641)	(9,497)
Disposal of assets	3	6,369	6,306	1,064	13,742
Reclassification of accounts	-	399	23,246	(7,973)	15,672
Total depreciation	(24,301)	(13,596)	(68,585)	(11,213)	(117,695)
Net value as of December 31, 2018	**58,008**	**19,520**	**32,455**	**22,369**	**132,352**
Balance as of January 1, 2019	82,309	33,116	101,040	33,582	250,047
Reclassification of first application of IFRS 16 (1)	-	(33,116)	-	-	(33,116)
Acquisition of property and equipment	-	-	243	22,657	22,900
Prepayments from prior year	-	-	-	-	-
Disposal of assets	(17,975)	-	(10,994)	(1,491)	(30,460)
Reclassification of accounts (2)	-	-	19,152	(20,067)	(915)
Transfer to held for sale	-	-	-	(63)	(63)
Total, gross	64,334	-	109,441	34,618	208,393
Accumulated depreciation	(24,301)	(13,596)	(68,585)	(11,213)	(117,695)
Reclassification of first application of IFRS 16 (1)	-	13,596	-	-	13,596
Depreciation for the period	(1,571)	-	(9,723)	(958)	(12,252)
Disposal of assets	8,278	-	9,197	981	18,456
Reclassification of accounts (3)	1,784	-	149	-	1,933
Transfer to held for sale	-	-	-	28	28
Impairment loss	-	-	-	-	-
Total depreciation	(15,810)	-	(68,962)	(11,162)	(95,934)
Net value as of December 31, 2019	**48,524**	**-**	**40,479**	**23,456**	**112,459**

(1) Corresponds to the reclassification of improvements to leased properties in conformity with instructions issued in Circular No. 3,465 dated January 11, 2019 issued by the CMF (formerly SBIF).
(2) Corresponds to the distribution of prepayments made for the payment of items of PP&E and improvements to leased properties.
(3) Corresponds to the reclassification of disposal of buildings and constructions.

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

b) Right-of-use leased assets

As of December 31, 2019, the movement in assets subject to IFRS 16 by class of underlying asset is as follows:

	Buildings and Land	Leased property improvements	Equipment	Other property, plant and equipment	Other intangible assets	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Balance as of January 1, 2019	231,760	33,116	-	-	-	264,876
Adjustment for remeasurement of liability	5,821	-	-	-	-	5,821
Additions	3,534	3,848	-	-	-	7,382
Increase (decrease) for contract amendment	(5,635)	-	-	-	-	(5,635)
Reclassifications (1)	-	915	-	-	-	915
Withdrawals / Disposals	(2,469)	(291)	-	-	-	(2,760)
Total, gross	233,011	37,588	-	-	-	270,599
Balance as of January 1, 2019, accumulated depreciation	-	(13,596)	-	-	-	(13,596)
Impairment loss	-	-	-	-	-	-
Depreciation for offices enablement (3)	(601)	-	-	-	-	(601)
Depreciation for the period	(16,101)	(2,246)	-	-	-	(18,347)
Reclassifications (2)	-	(1,933)	-	-	-	(1,933)
Withdrawals / Disposals	233	282	-	-	-	515
Total depreciation	(16,469)	(17,493)	-	-	-	(33,962)
Balance as of December 31, 2019	**216,542**	**20,095**	-	-	-	**236,637**

(1) Corresponds to the distribution of prepayments made for the payment of items of PP&E and improvements to leased properties (See Note 15 a) (2)).

(2) Corresponds to the reclassification of disposal of buildings and constructions (See Note 15 a) (3)).

(3) Corresponds to the capitalization of the leased offices depreciation not yet in use, as they are in the fitting stage.

The debits for the depreciation of right-of-use assets are included in the caption "Depreciation and amortization" in the Consolidated Statement of Income.

As of December 31, 2019, the Bank records no expenses related to low-value leases, and expenses related to short-term leases amounting to MCh$2,501 are included in the caption "Administrative expenses" in the Consolidated Statement of Income (see Note 33).

As of December 31, 2019, the Bank has recognized revenue from subleases of right-of-use assets amounting to MCh$1,123, included in the caption "Other operating income" in the Consolidated Statement of Income (see Note 35).

As of December 31, 2019, profit or loss from sale and leaseback transactions amounts to MCh$11,690 included in the caption "Other operating income" in the Consolidated Statement of Income, corresponding to the disposal of property, and MCh$1,036 corresponding to the amount paid to lease such property, recognized as Expenses from short-term lease contracts included in the caption "Administrative expenses" in the Consolidated Statement of Income. Sale and leaseback transactions are within the execution of the Integration Plan related to the system migration being performed by the Bank due to the business combination completed in September 2018.

c) Lease contract obligations

As of December 31, 2019, movements in lease contract obligations and flows for the year are as follows:

Lease liabilities	Movements for the year ended December 31, 2019
Balance as of January 1, 2019	231,760
Lease liabilities generated	3,534
Increase (decrease) due to contract amendments	(5,653)
Interest expense	4,815
Payments of principal	(14,139)
Payments of interest	(4,815)
Contract adjustments	5,821
Payments for termination of lease contracts	(2,261)
Balance as of December 31, 2019	**219,062**

Total cash flows for the year ended December 31, 2019 from (used in) lease liabilities	(18,954)

d) Flow of lease contract obligations

The Bank has operating lease contracts over certain assets. The table below shows the analysis of contract maturities as of December 31, 2019:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash flows from lease contracts	1,619	3,238	14,571	77,309	164,429	261,166

The Bank's lease contracts comprise mainly lease of property for the performance of its operational functions. Contracts contain renewal options and for those that there is reasonable certainty that this option will be exercised, the Bank establishes a 10-year horizon as the lease term used to measure the liability and asset for such period.

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Note 16 Current and deferred tax

a) Current taxes

Assets	12/31/2019 MCh$	12/31/2018 MCh$
Income taxes, tax rate of 27%	(45,197)	(41,000)
One-off income tax, rate of 40%	(192)	(197)
Income taxes, absorbed subsidiaries	-	-
Less:		
Monthly provisional income tax pay	47,777	27,594
Credit for training expenses	374	379
Credit 104 Income Tax Law	1,371	1,228
Prior period tax receivable	29,613	17,920
Other	207	-
Total current tax assets	**33,953**	**5,924**

Liabilities	12/31/2019 MCh$	12/31/2018 MCh$
Income taxes, tax rate 27%	(30,939)	(19,830)
One-off income tax, rate 40%	-	-
Income taxes, absorbed subsidiaries	-	-
Less:	-	-
Monthly provisional income tax pay	26,824	17,078
Credit for training expenses	268	245
Prior period taxes receivable	844	-
Credit 104 Income Tax Law	-	-
Other	77	-
Total current tax liabilities	**(2,926)**	**(2,507)**

b) Effect on net income

The effect of tax expense during the years ended December 31, 2019 and 2018 is detailed as follows:

	12/31/2019 MCh$	12/31/2018 MCh$
Income tax expenses:		
Current year tax	(133,066)	(58,766)
Surplus (deficit) from prior-year provision	252	2,335
Prior-year tax	-	785
Credit (debit) for deferred taxes:		
Effect and reversal of temporary differences, current year	55,424	26,551
Effect and reversal of temporary differences, previous year	-	(1,997)
Subtotal	(77,390)	(31,092)
Taxes on non-deductible permanent expenses Article No. 21	(192)	(198)
Other	-	-
Net credit (debit) to profit for the period for income taxes	**(77,582)**	**(31,290)**

c) Effect of taxes recorded in equity

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

	12/31/2019 MCh$	12/31/2018 MCh$
Available-for-sale financial instruments	536	(1,508)
Cash flow hedge derivatives	59,221	(337)
Total debit (credit) to equity	**59,757**	**(1,845)**

d) Deferred tax assets and liabilities

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

	12/31/2019 MCh$	12/31/2018 MCh$
Deferred tax assets		
Collective allowances on loan portfolio	109,396	101,361
Differences on property and equipment between tax	13,947	10,165
Leased assets, net	57,924	48,050
Accrued vacations	4,315	4,327
Non-taxable advance write-offs	3,512	8,725
Allowance for doubtful accounts	38,948	26,052
Provisions for assets received in lieu of payment	362	493
Financial securities held for trading	51,526	12,225
Assets from factoring operations	400	1,047
Interest and indexation on risky portfolio	14,503	12,992
Balances arising from merger of BDD AGF	4,803	3,972
Write-off of assets received in lieu of payment	1,156	1,238
Intangible assets	34,128	34,914
Adjustment for change in tax rate	-	-
Tax goodwill adjustment	27,594	30,099
Other provisions	16,057	13,031
Provision for Corfo-Inverlink	-	8,551
Other	3,976	14,234
Total deferred tax assets	**382,547**	**331,476**
Deferred tax liabilities		
Leased assets, net	(4)	(1,530)
Accelerated depreciation – Building	-	15
Financial securities held for trading	-	-
Deferred expenses	(33,538)	(26,055)
Intangible assets	(25,931)	(28,239)
Adjustment for change in tax rate	-	-
Other	4,770	(4,288)
Total deferred tax liabilities	**(54,703)**	**(60,097)**
Total assets, net	**327,844**	**271,379**
Deferred taxes on equity		
Available-for-sale financial investments	(1,439)	(2,179)
Total assets, net (*)	**326,405**	**269,200**
Deferred tax assets	328,940	271,142
Deferred tax liabilities	(2,535)	(1,942)
Deferred tax assets, net	**326,405**	**269,200**

(*) In 2018, the change in deferred tax assets, net, includes the balances received due to the merger with Scotiabank Azul.

e) Reconciliation of effective tax rate

As of December 31, 2019 and 2018, 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 %	12/31/2019 MCh$
Profit before income tax	27.00%	94,810
Permanent differences	(4.90%)	(17,189)
Taxes not recognized in profit or loss from prior periods	(0.02%)	(85)
Prior year effect		
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	(0.04%)	(146)
Current year effective rate and income tax revenue	22.04%	77,390
Tax under Article 21		192
Total income tax expense		**77,582**

	Tax rate %	12/31/2018 Total
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)
Current year effective rate and income tax revenue	19.63%	31,085
Tax under Article 21		205
Total income tax expense		**31,290**

f) Joint Circular No. 47 issued by the SII and No. 3,478 issued by the CMF (formerly SBIF)

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

Loans and advances to customers as of 12/31/2019

Type of loan	Assets at carrying amount	Assets at tax value		
		Total	Secured overdue portfolio	Unsecured overdue portfolio
	MCh$	MCh$	MCh$	MCh$
Commercial loans:	11,810,918	12,127,492	56,038	40,861
Consumer loans:	2,188,790	2,290,518	12,095	15,952
Mortgage loans:	9,048,013	9,051,858	2,776	115
Total	**23,047,721**	**23,469,868**	**70,909**	**56,928**

Allowances on past due amounts in portfolio as of 12/31/2019

Type of loan	Balance as of December 31, 2018	Write-offs against allowances	Allowances accrued	Allowances released	Balance as of December 31, 2019
	MCh$	MCh$	MCh$	MCh$	MCh$
Commercial loans:	44,300	(21,986)	41,969	(23,422)	40,861
Consumer loans:	9,954	(29,267)	48,774	(13,509)	15,952
Mortgage loans:	1,688	(313)	(553)	(707)	115
Total	**55,942**	**(51,566)**	**90,190**	**(37,638)**	**56,928**

Direct write-offs and recoveries as of 12/31/2019	**MCh$**
Direct write-offs Art. 31 No. 4 second sub-paragraph	126,080
Debt forgiveness which resulted in the release of allowances	-
Recoveries or renegotiation of loans written-off	9,618

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

Loans and advances to customers as of 12/31/2018

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 12/31/2018

Type of loan	Balance as of December 31, 2017 MCh$	Write-offs against allowances MCh$	Allowances accrued MCh$	Allowances released MCh$	Balance as of December 31, 2018 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
	81,369	**(39,357)**	**56,105**	**(42,175)**	**55,942**

Direct write-offs and recoveries as of 12/31/2018	**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 17 Other assets

As of December 31, 2019 and 2018, this caption is composed of the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Cash deposits in guarantee (1)	561,243	482,313
Accounts, fees and commissions receivable	172,527	99,004
Assets received in lieu of payment or awarded (2)	25,569	18,937
Securitized bonds	17,417	17,920
Recoverable taxes	2,555	11,259
Prepayments	24,148	5,735
Pending transactions	9,937	59,188
Assets held for lease (3)	9,784	4,580
Value-added tax	4,751	5,601
Account receivable from Minvu (the Housing Ministry)	4,320	4,012
Available-for-sale items of property and equipment	3,225	10,470
Accounts receivable, Law No. 20,634	2,191	1,447
Leased assets recovered	971	1,162
Accounts receivable, Law No. 20,027	68	54
Other assets	5,687	2,077
Total	**844,393**	**723,759**

(1) As of December 31, 2019, it comprises cash deposits of MCh$13 to operate in the Derivatives Clearing House (COMDER) (MCh$114,472 as of December 31, 2018) and MCh$491,818 in other foreign institutions (MCh$166,658 as of December 31, 2018). In addition, it includes Guarantees with third parties of MCh$67,193 (MCh$185,526 as of December 31, 2018).

(2) Assets received in lieu of payment or awarded include a provision as of December 31, 2019 of MCh$916 (MCh$1,779 as of December 31, 2018), determined based on the difference between the initial value plus additions and its net realizable value when the latter is lower.

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

Note 18 Deposits and other on-demand liabilities

As of December 31, 2019 and 2018, this caption comprises the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Current accounts	3,515,321	3,029,895
Notes on demand	161,825	162,657
On-demand deposits	447,006	399,192
Funded payment cards	-	1
Deposits in court	-	-
Performance bonds payable on demand	27,468	34,658
Collections payable	79,067	38,240
Payments to be made related to financial instruments	-	-
Export returns pending settlement	63	492
Payment orders outstanding	41,026	13,021
Extraordinary repayments of letters of credit	1,071	1,353
Payments for loans pending settlement	2,886	102,110
Locked in balances, Art. 156 of the General Banking Law	19,093	9,887
Overdue term deposits	17,706	15,832
Overdue bond and letter of credit coupons	5,366	7,374
Other mortgage holders	318,034	83,102
Loans granted, Law No. 20,027	227	88
Other on-demand liabilities	229,379	209,364
	4,865,538	**4,107,266**

Note 19 Term and on-demand deposits

As of December 31, 2019 and 2018, this caption is composed of the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Term deposits	11,047,486	10,742,972
Term savings accounts	76,536	77,253
Other	-	370
	11,124,022	**10,820,595**

Note 20 Bank borrowings

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

	12/31/2019 MCh$	12/31/2018 MCh$
Domestic banks		
Interbank loans (1)	-	110,025
Long-term loans	15,102	-
Foreign banks		
Foreign trade borrowings (2)	1,684,825	1,311,605
Overdrafts in current accounts	91	266,998
Long-term loans	22,649	46,582
Revolving credit facilities of foreign banks	1,553,140	823,887
Total	**3,275,807**	**2,559,097**

(1) As of December 31, 2019, there are no interbank loan transactions. As of December 31, 2018, interbank loans relate to obligations with an average maturity of 2 days.

(2) 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, 2019 and 2018, the Bank and its subsidiaries record no liabilities with Banco Central de Chile.

Note 21 Debt securities issued

As of December 31, 2019 and 2018, this caption comprises the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Letters of credit (1)	138,708	160,227
Current bonds (2)	5,418,481	5,333,777
Subordinated bonds (3)	731,038	647,333
Total	**6,288,227**	**6,141,337**

(1) During the period between January 1 and December 31, 2019 and January 1 and December 31, 2018, no new letters of credit have been placed.

(2) During the period between January 1 and December 31, 2019 and January 1 and December 31, 2018, the following new bonds have been placed:

Year ended December 31, 2019

Series	Amount	Term (years)	Annual issuance rate	Currency	Date of issue	Maturity date
AP	5,000,000	7	0.9	UF	09/01/2019	09/01/2026

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

(3) During the period between January 1 and December 31, 2019 and January 1 and December 31, 2018, no new subordinated bonds have been placed.

Note 22 Other financial liabilities

As of December 31, 2019 and 2018, this caption comprises the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Bonds payable and promissory notes payable	-	11,964
Payables to affiliates for credit card use	4,069	16,708
Payables to credit card operators	55,935	34,841
Liabilities in favor of Chilean exporters	433	2,182
Other domestic borrowings	6,454	7,387
Total	**66,891**	**73,082**

Note 23 Provisions

a) As of December 31, 2019 and 2018, this caption comprises the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Provision for personnel benefits and payroll (1)	63,791	33,872
Provision for minimum dividends	76,314	32,436
Provisions for contingent loan risk	34,986	43,705
Provisions for country risk	901	682
Additional allowances for commercial loans (2)	1,932	508
Additional allowances for mortgage loans (2)	1,630	482
Additional allowances for consumer loans (2)	1,889	834
Adjustment to minimum provision for commercial loans	-	41
Legal contingencies, subsidiary Scotia Corredora de Bolsa Chile Limitada	15,214	15,000
Other provisions for contingencies	6,133	9,717
Total	**202,790**	**137,277**

(1) Corresponds to provisions for the integration plan as established by IAS 37.

(2) Because of the present social unrest situation in Chile that started in October and the possible unmeasurable impacts on the impairment of the portfolio, the Bank has opted to generate additional provisions. The calculation methodology was based on the performance of an exercise on the main retail portfolios in order to estimate the provisions that are not included in the traditional models. From these portfolios and based on the default tranches and portfolio, the Bank selected the higher IR and recalculated the provision using this ratio.

The IR was calculated as the total provision (effective provision + contingent provision) divided by the effective balance.

b) Movements in provisions are detailed as follows:

	Personnel benefits and expenses MCh$	Minimum dividends MCh$	Contingent loan risk MCh$	Additional allowances MCh$	Other contingencies MCh$	Total MCh$
Balance as of January 1, 2018	15,943	30,990	20,112	25	2,602	69,672
Merger with the former Banco 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**
Balance as of January 1, 2019	33,872	32,436	43,705	1,865	25,399	137,277
Allowances accrued (1)	118,606	76,314	691	3,627	3,629	202,867
Use of provisions	(88,687)	(32,436)	-	-	-	(121,123)
Release of provisions	-	-	(9,410)	(41)	(6,780)	(16,231)
Balance as of December 31, 2019	**63,791**	**76,314**	**34,986**	**5,451**	**22,248**	**202,790**

(1) Total profit or loss for the additional provision of MCh$3,627, is distributed as follows: consumer portfolio of MCh$1,055, commercial portfolio of MCh$1,424 and mortgage portfolio of MCh$1,148.

The increase in provisions corresponds to 1.35% of the provisions calculated under the retail models, which is equivalent to an increase of 3bp of the IR in the retail portfolio.

If the monthly IR for each portfolio is lower than the IR for the year, a sixth of the provision amount made per portfolio will be released. Otherwise, such provisions will be maintained.

In July 2020, in the absence of a new assessment or changes to such definitions, the provisions shall be released in full.

Note 24 Other liabilities

As of December 31, 2019 and 2018, this caption comprises the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Accounts and notes payable	136,494	121,086
VAT fiscal debit	10,495	10,600
Dividends payable	237	276
Unearned revenue	61,100	41,047
Pending transactions	11,425	44,881
Funds to be transferred	112,871	4,448
Deposits received as collateral	220,702	219,522
Other liabilities	11,778	8,598
Total	**565,102**	**450,458**

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:

	12/31/2019 MCh$	12/31/2018 MCh$
Co-debt and collateral	172,558	187,422
Foreign confirmed letters of credit	573	3,125
Supporting letters of credit issued	73,764	113,493
Bank guarantee certificates	984,148	1,190,987
Readily available revolving credit facilities	5,368,275	5,009,631
Other loan commitments:	354,407	378,684
Allowances accrued (Note 23)	(34,986)	(43,705)
Total	**6,918,739**	**6,839,637**

b) Contingencies

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, 2019, provisions for legal contingencies amount to MCh$17,758 (MCh$20,932 as of December 31, 2018) which are a part of the caption "Provisions" in the Consolidated Statement of Financial Position.

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 UF 159,665.58.

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.

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.

The Errázuriz Group 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. The counterparty requested that the arbitration court performed an additional settlement of interests covering the period between January 2017 and December 2018. In January 2019, the arbitration court sent a settlement proposal to the parties, without any objection being made, which amounted to Ch$294,676,095, paid by the Bank on June 12, 2019. On July 5, 2019, we received a confirmation from the external lawyers Claro & Cia. that Francisco Javier Errázuriz Ovalle had received from the arbitrators the two checks for the payments ordered in his favor, in Folder 20 of the arbitration procedure.

Francisco Javier Errázuriz requested a new settlement of interests for the period from January through July 2019, and the court set such interests as amounting to Ch$3,900,000, the payment of which has not been ordered.

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.

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.

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 CMF (formerly SBIF)) will not exceed 2.25% on the total of loans before provisions.
- Allowance account for credit risk ("Loan allowance" according to CMF (formerly 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, 2019 and 2018, the Bank has complied with each of the financial ratios mentioned above.

c) Responsibilities

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

	12/31/2019 MCh$	12/31/2018 MCh$
Notes for collection	180,008	165,811
Financial assets transferred to and managed by the Bank	10,069	11,172
Securities under custody	5,112,260	5,202,508
Assets pledged as collaterals	206,212	101,286
Guarantees for housing purchase obligation	-	-
Total	**5,508,549**	**5,480,777**

d) Guarantees on transactions

i) At Scotia Corredora de Bolsa Chile Ltda.

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 Chilena Consolidada Seguros Generales S.A., equivalent to UF20,000, to ensure the correct and full compliance of its obligations as Brokers. The policy is valid from April 22, 2019 to April 22, 2020.

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. 4798018 with Chilena Consolidada Seguros Generales S.A. The insured amount is US$1,000,000 and the policy is valid from April 1, 2019 to April 1, 2020.

In order to guarantee the operations of the gross settlement offsetting system pledged, securities were delivered to the Stock Exchange amounting to MCh$9,720 as of December 31, 2019 (MCh$2,998 Scotia Corredora de Bolsa Chile S.A. and MCh$5,174 Scotia Azul Corredores de Bolsa Limitada as of December 31, 2018).

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$200 were constituted in favor of the Santiago Stock Exchange and MCh$0 in favor of the Chilean Electronic Exchange (MCh$1,000 and MCh$200, respectively in Scotia Corredora de Bolsa Chile S.A., MCh$0 and MCh$0, respectively, in Scotia Azul Corredores de Bolsa Limitada as of December 31, 2018), and securities guarantees in the amount of MCh$1,692 were constituted in favor of the Santiago Stock Exchange and MCh$214 in favor of the Chilean Electronic Exchange (MCh$0 Scotia Corredora de Bolsa Chile S.A., and MCh$0 Scotia Azul Corredores de Bolsa Limitada as of December 31, 2018).

To ensure the share loan transactions, cash was delivered to the Chilean Electronic Exchange of MCh$490 (MCh$600 Scotia Corredora de Bolsa Chile S.A. and MCh$0 Scotia Azul Corredores de Bolsa Limitada as of December 31, 2018).

As of December 31, 2019, the Company trades shares in the Santiago Stock Exchange in order to guarantee term share transactions of MCh$7,633 and MCh$105 (MCh$8,596 Scotia Corredora de Bolsa Chile S.A. and MCh$0 Scotia Azul Corredores de Bolsa Limitada as of December 31, 2018).

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

In order to comply with articles 226 et seq. of Law No. 18,045, the Company has appointed Scotiabank Chile as the representative of the beneficiaries. Scotiabank Chile granted bank guarantee certificates for UF 433,350.6 with maturities due on January 10, 2020.

iii) 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 UF526,606.21 with maturities due on January 10, 2020.

e) 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 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 A	:	No.4797978
Amount	:	UF500
In favor of	:	Scotiabank Chile
Purpose	:	To cover the general conditions of the guarantee insurance policy for insurance brokers, registered in the insurance policy record under code POL120130965 of the CMF
Effective date	:	Until to April 14, 2020

In addition, the Company maintains two bank guarantee certificates in favor of Scotiabank Chile to comply with its obligations as broker of the payment protection insurance portfolio.

Series A	:	No.420001559094
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 date	:	Until April 30, 2020

Series A	:	No.420001560386
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 date	:	Until April 30, 2020

Series A	:	No.420001586415
Amount	:	UF100
In favor of	:	Scotiabank Chile
Purpose	:	To ensure the faithful and timely fulfillment of the obligations of Scotia Corredora de Seguros Chile Ltda. and assumed in the Insurance Contract obtained in the Public Bidding on Collective Insurance Policies.
Effective date	:	Until September 1, 2020

Series A	:	No.420001586431
Amount	:	UF100
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 agrees in the Insurance Contract obtained in the Public Bidding on Collective Insurance Policies.
Effective date	:	Until July 31, 2020

Series A	:	No.420001586423
Amount	:	UF50
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 agrees in the Insurance Contract obtained in the Public Bidding on Collective Insurance Policies.
Effective date	:	Until July 31, 2020

f) 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 Financial Market Commission, 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, 2019, the Company has contracted with Chilena Consolidada Seguros Generales the following policies, effective as of April 15, 2019 and expiring on April 14, 2020, 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
4797413	CAT Corredores de Seguros y Servicios S.A.	Brokers Guarantee	UF 500
4797412	CAT Corredores de Seguros y Servicios S.A.	Civil liability	UF 60,000

g) Guarantees on real estate lease operations

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

Entity	% on the value of the housing unit	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, 2019 and 2018, the Company’s shares are as follows:

a.1) Shares subscribed and paid

As of December 31, 2019, the Bank’s authorized capital is composed of 11,509,591,630 shares, from which 100% of shares are effectively subscribed and paid.

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$258,534, through the issuance of 756,652,864 new same series, no par value nominative shares, which are fully paid (MCh$652 paid in 2019).

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.

In addition, 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 25, 2019, the shareholders agreed to pay a minimum legal dividend equivalent to 30% of profit for 2018 of MCh$32,436, equivalent to Ch$2.81818 per share, in which the remaining balance will be allocated to the reserve for undistributed profit.

b) Accounting equity

The detail of capital, reserves, other comprehensive income and retained earnings attributable to common shareholders, is as follows:

	12/31/2019 MCh$	12/31/2018 MCh$
Capital:		
Share capital	996,706	996,054
Shares acquired by the Bank	-	-
Total	**996,706**	**996,054**
Reserves:		
Share premium	121,715	121,667
Other reserves not related to earnings	10,296	10,295
Reserves from earnings	364,386	364,386
Total	**496,397**	**496,348**
Other comprehensive income:		
Adjustment of available-for-sale investments	6,081	7,780
Adjustment of cash flow hedge derivatives	(162,114)	(9,764)
Total	**(156,033)**	**(1,984)**
Retained earnings:		
Retained earnings from previous periods	523,121	447,437
Profit or loss for the year	254,378	108,120
Provisions for minimum dividends	(76,314)	(32,436)
Total	**701,185**	**523,121**
Profit or loss for the year - Non-controlling interest	105,768	96,414
Total	**105,768**	**96,414**

c) Non-controlling interest

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

Information as of December 31, 2019	**Non-controlling interest %**	**Non-controlling interest MCh$**	**Profit or loss attributable to non-controlling interest MCh$**	**Payment of dividends to non-controlling interest MCh$**
CAT Administradora de Tarjetas S.A.	49.00%	94,471	13,493	(8,249)
CAT Corredores de Seguros y Servicios S.A.	49.00%	5,758	2,533	(1,058)
Servicios Integrales S.A.	49.00%	742	476	(252)
Administradora y Procesos S.A.	49.00%	4,121	2,583	(313)
Scotia Corredora de Bolsa Chile Limitada	0.01%	5	-	-
Bandesarrollo Sociedad de Leasing Inmobiliario S.A.	0.09%	10	1	-
Scotia Asesorías Financieras Ltda.	1.26%	118	62	(21)
Scotia Azul Sociedad de Leasing Inmobiliario S.A.	2.51%	543	40	-
Total		**105,768**	**19,188**	**(9,893)**

Information as of December 31, 2018	**Non-controlling interest %**	**Non-controlling interest MCh$**	**Profit or loss attributable to non-controlling interest MCh$**	**Payment of dividends to non-controlling interest MCh$**
CAT Administradora de Tarjetas S.A.	49.00%	89,227	16,498	(2,203)
CAT Corredores de Seguros y Servicios S.A.	49.00%	4,283	2,117	(433)
Servicios Integrales S.A.	49.00%	1,851	272	-
Administradora y Procesos S.A.	49.00%	518	44	-
Scotia Corredora de Bolsa Chile Limitada	0.18%	18	-	-
Bandesarrollo Sociedad de Leasing Inmobiliario S.A.	0.09%	9	1	(1)
Scotia Asesorías Financieras Ltda.	1.40%	26	12	-
Scotia Azul Sociedad de Leasing Inmobiliario S.A.	2.51%	482	11	-
Total		**96,414**	**18,955**	**(2,637)**

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

Information as of December 31, 2019	Profit (loss) for the year MCh$	Total assets MCh$	Total liabilities MCh$
CAT Administradora de Tarjetas S.A.	27,538	1,348,021	1,166,238
CAT Corredores de Seguros y Servicios S.A.	5,169	23,720	14,037
Servicios Integrales S.A.	971	4,018	2,892
Administradora y Procesos S.A.	5,270	13,433	7,132
Scotia Asesorías Financieras Ltda.	4,954	10,419	1,012
Scotia Azul Sociedad de Leasing Inmobiliario S.A.	1,569	49,701	28,536

Information as of December 31, 2018	Profit (loss) 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
Administradora y Procesos S.A.	553	8,926	5,660
Servicios Integrales S.A.	89	3,476	2,829
Scotia Azul Asesorías Financieras S.A.	823	2,947	1,304
Scotia Azul Sociedad de Leasing Inmobiliario S.A.	460	55,432	36,370

Note 27 Interest and indexation

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

	Interests		Indexation		Total	
	12/31/2019 MCh$	12/31/2018 MCh$	12/31/2019 MCh$	12/31/2018 MCh$	12/31/2019 MCh$	12/31/2018 MCh$
Income:						
Repurchase agreements	2,856	4,241	-	-	2,856	4,241
Loans to banks	678	17	-	-	678	17
Commercial loans	485,337	306,486	86,088	54,862	571,425	361,348
Mortgage loans	330,082	215,528	231,004	150,287	561,086	365,815
Consumer loans	505,855	383,350	1,381	582	507,236	383,932
Investment securities	22,809	33,315	1,740	4,922	24,549	38,237
Other interest and indexation income	18,348	15,604	3,920	2,362	22,268	17,966
Gain (loss) from accounting hedges	-	-	(9,024)	(8,459)	(9,024)	(8,459)
Total	**1,365,965**	**958,541**	**315,109**	**204,556**	**1,681,074**	**1,163,097**
Expenses:						
On-demand deposits	(35,966)	(19,240)	(1,195)	(747)	(37,161)	(19,987)
Repurchase agreements	(16,261)	(7,022)	-	-	(16,261)	(7,022)
Term and on-demand deposits	(301,546)	(217,362)	(4,779)	(8,235)	(306,325)	(225,597)
Bank borrowings	(104,982)	(46,463)	(3)	(348)	(104,985)	(46,811)
Debt securities issued	(176,256)	(121,618)	(153,587)	(114,443)	(329,843)	(236,061)
Other financial liabilities	(309)	(1,110)	(391)	(51)	(700)	(1,161)
Lease contract obligations	(4,815)	-	-	-	(4,815)	-
Other interest and indexation expense	(4,342)	(1,827)	(4,578)	(2,608)	(8,920)	(4,435)
Gain (loss) from accounting hedges	-	-	(7,741)	(7,114)	(7,741)	(7,114)
Total	**(644,477)**	**(414,642)**	**(172,274)**	**(133,546)**	**(816,751)**	**(548,188)**
Net interest and indexation income	**721,488**	**543,899**	**142,835**	**71,010**	**864,323**	**614,909**

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

	Interests		Indexation		Total	
	12/31/2019 MCh$	12/31/2018 MCh$	12/31/2019 MCh$	12/31/2018 MCh$	12/31/2019 MCh$	12/31/2018 MCh$
Commercial loans	1,133	2,086	1,640	1,146	2,773	3,232
Mortgage loans	1,716	1,482	3,625	3,114	5,341	4,596
Consumer loans	1	-	-	-	1	-
Total	**2,850**	**3,568**	**5,265**	**4,260**	**8,115**	**7,828**

Note 28 Fees and commissions

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

	12/31/2019 MCh$	12/31/2018 MCh$
Fee and commission income:		
Revolving credit facilities and bank overdrafts	2,855	1,471
Guarantees and letters of credit	10,987	6,428
Credit card services	95,792	36,872
Account management	15,369	10,982
Collection and payments	52,789	41,971
Securities brokerage and management	3,082	2,097
Investments in mutual fund deposits or other	17,812	13,131
Insurance brokerage	59,718	41,926
Loan management under Law No. 20,027	10,964	10,179
Other subsidiary commissions	7,687	12,192
Other commissions	8,381	7,053
Total	**285,436**	**184,302**
Fee and commission expenses:		
Credit card transactions	(35,289)	(23,628)
Debit and ATM card transactions	(15,729)	(9,587)
Other fees and commissions from credit card transactions	(341)	(234)
Deposit and custody of securities	(361)	(316)
Brokerage	(2,434)	(2,964)
Other security transactions	(12,985)	(8,217)
Fees and commissions from guarantors for Bank liabilities	(396)	(246)
Fees and commissions paid for collection management	(3,006)	(2,284)
Commissions for guarantees granted	-	-
Other commissions	(7,463)	(3,959)
Total	**(78,004)**	**(51,435)**
Net fee and commission income	**207,432**	**132,867**

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

Concept	As of December 31, 2019					
	SME and Retail MCh$	Commercial Banking MCh$	Personal Banking MCh$	Financial Retail MCh$	Other MCh$	Total MCh$
Revolving credit facilities	170	1,027	1,636	-	1,765	4,598
Bank guarantee certificates	575	9,751	2	-	6,940	17,268
Credit cards	1,384	465	16,869	4,176	29,063	51,957
Current accounts	4,844	1,640	8,880	-	3,935	19,299
Collection	4,593	3,590	12,176	28,602	11,540	60,501
Insurance	6,858	3,120	23,321	16,453	15,496	65,248
Other	8,344	2,826	10,595	27,168	(60,372)	(11,439)
Net fee and commission income	**26,768**	**22,419**	**73,479**	**76,399**	**8,367**	**207,432**

Concept	As of December 31, 2018					
	SME and Retail MCh$	Commercial Banking MCh$	Personal Banking MCh$	Financial Retail MCh$	Other MCh$	Total 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**

Note 29 Net gain (loss) from financial transactions

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

	12/31/2019 MCh$	12/31/2018 MCh$
Net loss (gain) from financial instruments held for trading:		
Interest and indexation	23,742	16,258
Fair value adjustments	685	61
Gain on sales	31,753	6,146
Loss on sales	(13,771)	(3,677)
Gain on investments in mutual funds	1,996	1,694
Gain on financial instruments held for trading	**44,405**	**20,482**
Net (loss) gain on financial derivative instruments held for trading:		
Gain on derivative instruments	7,199,074	1,947,575
Loss on derivative instruments	(7,121,750)	(1,980,256)
Net gain (loss) on financial derivative instruments held for trading	**77,324**	**(32,681)**
Sale of available-for-sale securities:		
Changes in fair value transferred to profit or loss	-	-
Gain on sale	16,133	2,980
Loss on sales	(212)	(2,048)
Net gain (loss) on sale of available-for-sale securities	**15,921**	**932**
Net gain on sale of loan portfolio	**13,078**	**16,262**
Net gain on other transactions		
Letters of credit issued by the Bank	39	27
Income from ineffective hedges	787	394
Expense from ineffective hedges	(3,201)	(3,065)
Other income	533	558
Other expenses	(2,540)	(1,974)
Net gain or loss on other transactions	**(4,382)**	**(4,060)**
Net gain (loss) from financial operations	**146,346**	**935**

Note 30 Net foreign exchange (expense) income

The detail of net foreign exchange income (expense) is as follows:

	12/31/2019 MCh$	12/31/2018 MCh$
Net gain or loss from foreign currency exchange differences:		
Foreign currency exchange gain, net - exchange position	(54,715)	48,607
Other	(5,862)	(8,366)
Subtotal	**(60,577)**	**40,241**
Net gain or loss from foreign currency exchange adjustments:		
Securities held for trading	(1)	-
Loans to customers	5,041	3,591
Indexation to other assets	41	-
Indexation to other liabilities	(5)	(1)
Subtotal	**5,076**	**3,590**
Net gain or loss from derivatives in hedge accounting:		
Gain from hedge of assets	78	7,262
Loss from hedge of assets	(15,109)	(26)
Gain from hedge of liabilities	58,675	29,376
Loss from hedge of liabilities	(10,511)	(9,368)
Subtotal	**33,133**	**27,244**
Total	**(22,368)**	**71,075**

Note 31 Allowances for credit risk

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

As of December 31, 2019	Loans and advances to banks	Loans and advances to customers					
		Commercial loans	Mortgage loans	Consumer loans	Contingent loans	Other loans	Total
	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$	MCh$
Allowances accrued:							
Individual allowances	-	(40,175)	-	-	-	-	(40,175)
Collective allowances	-	(31,489)	(7,936)	(282,708)	(691)	(3,627)	(326,451)
Net gain (loss) from allowances accrued	-	(71,664)	(7,936)	(282,708)	(691)	(3,627)	(366,626)
Release of allowances:							
Individual allowances	-	7,203	-	-	115	-	7,318
Collective allowances	-	7,195	1,172	1,501	9,295	41	19,204
Net gain (loss) on release of allowances	-	14,398	1,172	1,501	9,410	41	26,522
Net gain (loss) on allowances	**-**	**(57,266)**	**(6,764)**	**(281,207)**	**8,719**	**(3,586)**	**(340,104)**
Recovery of assets written-off	-	9,647	6,282	48,145	-	-	64,074
Net gain (loss)	**-**	**(47,619)**	**(482)**	**(233,062)**	**8,719**	**(3,586)**	**(276,030)**

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)**

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 payroll and 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, 2019 and 2018:

	12/31/2019 MCh$	12/31/2018 MCh$
Payroll	148,205	113,572
Bonuses	91,880	57,149
Severance indemnity payments	36,855	14,388
Training expenses	2,162	1,436
Other personnel expenses	20,047	17,265
Total	**299,149**	**203,810**

Note 33 Administrative expenses

As of December 31, 2019 and 2018, this caption is composed of the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Administrative expenses		
Maintenance and repair of property and equipment	9,344	3,809
Office leases (1)	-	15,459
Equipment leases (1)	-	1,802
Insurance premiums	4,672	2,317
Office stationary	2,803	2,316
IT and communication expenses	52,696	28,604
Electricity, heating and other services	3,240	2,475
Security patrol and security transport services	3,991	2,512
Representation expenses and personnel transportation	1,681	2,016
Legal and notary expenses	9,134	6,359
Professional service fees	10,452	10,173
Fines imposed by the SBIF	48	-
Fines imposed by other entities	295	68
Expenses related to short-term lease contracts (2)	2,501	-
Expenses related to low-value lease contracts (2)	-	-
Other expenses related to lease contract obligations (2)	232	-
Other general administrative expenses	46,246	29,797
Subcontracted services		
Data processing	397	641
Sale of products	322	145
Other (3)	51,989	31,054
Board of Directors expenses		
Directors' fees	1,053	606
Other Directors' expenses	2	-
Publicity and advertising	30,572	25,143
Taxes and contributions		
Real estate	857	684
Patents	2,350	1,726
Other taxes	978	744
Contributions to the SBIF	8,156	5,187
Total	**244,011**	**173,637**

(1) These line items were removed by the CMF (formerly – the SBIF) beginning on January 1, 2019, as a result of the effective application of IFRS 16.

(2) These line items were incorporated by the CMF (formerly – the SBIF), beginning on January 1, 2019, as a result of the effective application of IFRS 16.

(3) This item comprises mainly expenses from card processing, collection expenses, and advisory services by the subsidiaries CAT Administradora de Tarjetas S.A., Administradora de Procesos S.A., and Servicios Integrales S.A., amounting to MCh$28,306 (MCh$23,416 as of December 31, 2018).

Note 34 Depreciation, amortization and impairment

The caption "Depreciation, amortization and impairment" in the Consolidated Statements of Income for the period is composed of the following expenses incurred during the years ended December 31, 2019 and 2018:

	12/31/2019 MCh$	12/31/2018 MCh$
Depreciation of property and equipment	12,252	9,497
Amortization of intangible assets	26,178	18,345
Amortization and depreciation of right-of-use assets under lease contracts	18,347	-
Total depreciation and amortization	**56,777**	**27,842**
Impairment of investment securities	-	-
Impairment of property and equipment	-	-
Impairment of intangible assets	219	21,372
Right-of-use assets under lease contracts	-	-
Total impairment	**219**	**21,372**
Total	**56,996**	**49,214**

Note 35 Other operating income

As of December 31, 2019 and 2018, this caption comprises the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Income from assets received in lieu of payment	13,166	6,016
Release of provisions for contingencies	-	44
Gain from the sale of property and equipment	23,298	2,170
Gain from the sale of interest in companies	1	-
Income other than interest and commissions from lease contracts	1,123	-
Other income from lease operations	279	563
Leases received	137	537
Income from advisory services	4,851	5,790
Reimbursement of expenses	8,833	4,228
Grants received from Minvu (the Housing Ministry)	85	333
Release of other provisions	1,310	39
Other income from subsidiaries	647	128
Income from prescribed obligations	-	-
Incentives received from credit card brands	11,119	1,822
Compensation received	2,907	2,000
Other operating income	2,343	860
Total	**70,099**	**24,530**

Note 36 Other operating expenses

As of December 31, 2019 and 2018, this caption comprises the following:

	12/31/2019 MCh$	12/31/2018 MCh$
Provision for assets received in lieu of payment	1,724	2,750
Write-off of assets received in lieu of payments	11,097	4,053
Maintenance expenses from assets received in lieu of payment	712	452
Provisions for contingencies	2,570	938
Loss from the sale of property and equipment	1	-
Restructuring costs	12	1,176
Expenses related to provisions for securitized bonds	4,342	4,507
Write-off of recovered leased assets	358	164
Leased asset expenses	588	449
Provisions for recovered leased assets	1,871	140
Expenses related to operational risk	5,403	2,390
Write-off due to commercial decisions	1,256	543
Other unforeseen events	-	-
Expenses related to the sale of goods in lieu of payment	273	158
Disallowed expenses under Income Law Art. 21	414	280
Correspondent bank expenses	1,438	791
Clearing House Services	1,718	1,390
Donations	506	448
Return of prior-year commissions	17	104
Expenses for legal settlements	706	400
Other operating expenses related to subsidiaries	-	-
Expenses related to loans	1,049	3,648
Other provisions	-	3,183
Other operating expenses	2,719	1,318
Total	**38,774**	**29,282**

Note 37 Transactions with related parties

As per the instructions in Chapter 12-4 of the Updated Summary of Standards issued by the CMF, related parties are persons or entities that have a direct interest or indirect interest through third parties 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 the 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, 2019			As of December 31, 2018		
	Operating companies MCh$	Investment companies MCh$	Individuals MCh$	Operating companies MCh$	Investment companies MCh$	Individuals MCh$
Loans and receivables:						
Commercial loans	225,579	13,896	18,698	192,950	13,538	13,763
Mortgage loans	-	-	72,951	-	-	59,443
Consumer loans	-	-	16,063	-	-	13,665
Gross loans	**225,579**	**13,896**	**107,712**	**192,950**	**13,538**	**86,871**
Allowances for loans	(1,113)	(97)	(838)	(963)	(82)	(721)
Net loans	**224,466**	**13,799**	**106,874**	**191,987**	**13,456**	**86,150**
Contingent loans:						
Total contingent loans	24,841	6,490	25,923	29,457	43,165	22,689
Allowances for contingent loans	(25)	(10)	(91)	(20)	(22)	(106)

b) Other assets and liabilities with related parties

	12/31/2019 MCh$	12/31/2018 MCh$
Assets		
Derivative instruments	833,253	169,335
Other assets	1,334	721
Liabilities		
Derivative instruments	1,062,968	276,385
On-demand deposits	59,664	55,670
Term and on-demand deposits	381,048	282,281
Other liabilities	3,406	6,495

c) Gain or loss from transactions with related parties

	For the years ended			
	12/31/2019		12/31/2018	
	Income MCh$	Expenses MCh$	Income MCh$	Expenses MCh$
Interest and indexation income and expenses	11,231	7,368	7,861	6,527
Fee and commission income and expenses	884	21,767	673	9,421
Gain or loss from trading activities	823,091	1,146,414	487,924	544,691
Gain or loss from other financial transactions	352	-	50	6
Operating support expenses	-	29,050	-	11,001
Other income and expenses	1,152	5,434	1,319	2,827
Total	**836,710**	**1,210,033**	**497,827**	**574,473**

d) Contracts with related parties

As of December 31, 2019 and 2018, no contracts with related parties have been entered into for transactions other than the normal operations related to the line of business.

e) **Directors and key management personnel compensation**

As approved at Shareholders' Meetings, as of December 31, 2019, 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$1,055 (MCh$664 as of December 31, 2018). 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:

	12/31/2019		12/31/2018	
	Directors MCh$	Key management personnel MCh$	Directors MCh$	Key management personnel MCh$
Short-term benefits	1,055	14,308	664	14,403
Severance indemnity payments	-	848	-	276
Total	**1,055**	**15,156**	**664**	**14,679**

f) **Composition of key personnel**

As of December 31, 2019 and 2018, the Bank's key personnel comprises the following:

Position	12/31/2019 No. of	12/31/2018 No. of
Directors	11	13
Key management personnel (*)	83	95

(*) Key personnel are composed of divisional managers and the managers directly reporting to them.

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, 2019 and 2018:

	12/31/2019		12/31/2018	
	Carrying amount MCh$	Estimated fair value MCh$	Carrying amount MCh$	Estimated fair value MCh$
Assets				
Cash and deposits in banks	1,384,762	1,384,762	787,472	787,472
Transactions pending settlement	366,308	366,308	864,482	864,482
Securities held for trading	845,707	845,707	859,028	859,028
Investments sold under repurchase agreements and securities lending	23,146	23,146	217,365	217,125
Derivative instruments	4,571,759	4,571,759	2,480,637	2,480,637
Loans and advances to banks	81,127	81,127	2,789	2,789
Loans and advances to customers	24,812,269	26,048,691	22,330,415	22,674,794
Available-for-sale investment securities	808,674	808,674	1,212,048	1,212,048
Investments in companies measured at fair value	-	-	2,772	2,772
Securitized bonds	17,417	18,375	17,920	17,920
Liabilities				
Deposits and other on-demand liabilities	4,865,538	4,865,538	4,107,266	4,107,266
Transactions pending settlement	232,354	232,354	678,542	678,542
Investments sold under repurchase agreements and securities lending	1,089,323	1,088,912	575,782	575,611
Term and on-demand	11,124,022	11,164,751	10,820,595	10,815,146
Derivative instruments	4,574,890	4,574,890	2,409,176	2,409,176
Bank borrowings	3,275,807	3,307,475	2,559,097	2,523,871
Debt securities issued	6,288,227	7,283,642	6,141,337	6,448,515
Other financial liabilities	66,891	66,891	73,082	73,082

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, 2019 and 2018. The 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.

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 instruments, 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 Shares and Sovereign Bonds, prices are directly observed in the Stock Exchange, whereas for currency and mutual fund deposits, prices are directly observed in OTC markets. 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 cash flows to present values. 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 and Reuters platforms. 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.

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, 2019 and 2018:

As of December 31, 2019	Carrying amount MCh$	Fair value measurements Level 1 MCh$	Level 2 MCh$	Level 3 MCh$
Assets				
Securities held for trading	845,707	408,230	437,477	-
Available-for-sale investment securities	808,674	736,140	54,546	17,988
Derivative instruments	4,571,759	-	4,571,759	-
Securitized bonds	17,417	-	-	18,375
Total assets	**6,243,557**	**1,144,370**	**5,063,782**	**36,363**
Liabilities				
Derivative instruments	4,574,890	-	4,574,890	-
Total liabilities	**4,574,890**	**-**	**4,574,890**	**-**

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 measured at fair value	2,772	-	-	2,772
Securitized bonds	17,920	-	-	17,920
Total assets	**4,572,405**	**1,155,978**	**3,392,964**	**23,463**
Liabilities				
Derivative instruments	2,409,176	-	2,409,176	-
Total liabilities	**2,409,176**	**-**	**2,409,176**	**-**

Note 39 Risk management

1) Introduction

Scotiabank and its subsidiaries operate in a highly-automated, regulated and competitive market, exposed to a number of risks, which may have an adverse impact on the Bank's financial aspects and its corporate image. Such risks require being managed through the use of structures and methodologies that are consistent with the volume and complexity of the transactions and automation levels, with the purpose of ensuring that such risks are managed within the appropriate risk appetite levels established by Management, and in accordance with the strategy established by Corporate Governance. This allows the Bank and its subsidiaries to balance risks and benefits to maximize shareholder value.

Principles

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

- Risk and benefit – Business and risk 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 for managing risk.
- Focus on the customer – Understanding our customers and their needs is essential for all businesses and risk decision making.
- Protecting our brand – All risk-taking activities must be aligned with the risk appetite determined by the Bank, the Code of Conduct, and the values and principles established in the Policies.

Structure:

At the structural level, the Bank maintains Scotiabank Chile's Risk Committees, Departments and Management areas, transactional and operational areas and information systems are currently undergoing a merger process.

2) Risk management structure

The Bank has a well-established risk control structure, which includes a 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 supporting 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, the main and emerging risks, and the performance of the portfolio compared to the limits defined and approves the key risk policies, limits, and the Risk Appetite framework.

Decision-making is centralized in several committees related to risk management, such as:

• Risk Committee

It is a supporting Committee which helps the Board Directors of Scotiabank Chile supervise 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. This Committee is composed of Senior Management members, who are responsible for overseeing the progress of the balance and long-term strategies, establishing a focus for discussing and resolving different issues related to the Bank's growth, funding, products, pricing, risks, and profit or loss.

• Model Committee

The Model Committee is an instance formed to define and approve the preparation, application and follow-up and validation of 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. Additionally, the Committee oversees the development, approval and implementation of local and global regulatory provision models.

• 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. The Committee may be summoned and enabled by the Executive Vice President – Country Head, as Chairman and Officer in Charge, or in his absence, by the Regional Treasury Vice President or through a resolution by the ALCO. The enablement may be based on assessments of early alerts of a potential liquidity stress event included in the Liquidity Policy and on all information available. When the liquidity position does not allow waiting for the subsequent ALCO meeting, the Chairman and the Officer in charge of the Committee or, in his absence, the Regional Treasury Vice President, has the power to summon and enable the Liquidity Contingency Plan.

• Non-financial Risk Management Committee Scotiabank Chile and subsidiaries

Provide high-level oversight on Non-financial risks (Operational Risk, Information Security Risk, Business Continuity Risk, Outsourced Services Risk, New Products and Initiatives Risk, Compliance Risk, Regulatory Report Risk and Reputational Risk), providing a strategic approach and coordinating the development of local internal control programs.

• Audit Committee

It is a committee supporting Scotiabank's Board of Directors, responsible for various aspects related to efficiency, maintenance, application and functioning of the Bank and its subsidiaries' internal control systems; close 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 the channel and coordinating the tasks of internal audit and external auditors, serving also as the channel between them and the Bank's Board of Directors.

• Planning, Follow-up and Control Committee

This Committee is intended to follow-up and control portfolio metrics and limits, safeguarding compliance with the Bank's risk appetite; announce the new products of each segment, report on new regulations or amendments to such regulations, and follow up the status of risk tools. If limits are exceeded, the Committee requests reasons for such excess, seeks agreement on solutions, and oversees the submission of proposals of increases or limit restructuring to the Board of Directors for its potential authorization.

Risk Division

This Division supports the Bank's objectives and must maintain an efficient and ongoing Risk 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.

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 Areas (Corporate, Large Companies, Wholesale, 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 received 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.

Enterprise Risk Management

- Develop and implement methods to identify, assess, measure and monitor operational, technological and information security risks, challenge the first line of defense and report the results to Senior Management and the Board of Directors.

- Business Continuity Management is the process consisting of early developing the necessary competences to avoid or mitigate the impact of an event resulting in a business interruption.

- Implement the Risk Management Framework and Risk Appetite Framework, being responsible for the Risk Culture and Crisis Recovery Plan, coordinate reports for the Risk Committee. Additionally, it coordinates the governance related to the Risk Division's policies and guidelines, guaranteeing alignment to them, as well as their dissemination, and compliance with the Parent Bank's policies (BNS), local regulations and good market practices.

• Conduct an independent verification of the soundness and reliability of risk models in accordance with their development objectives and use in management activities.

• Provide an overview of the Risk Area, both for reporting, Committees, follow-up of metrics/budget, and being the overall liaison for Risk topics between internal/external auditors.

Compliance

• Assist Management in the application of the compliance program and implement regulations issued by regulatory entities and corporate procedures issued by Scotiabank Chile and its subsidiaries; safeguard and provide advisory on the application of Scotiabank's Code of Conduct; and assist Senior Management in identifying and managing default risk.

• Collaborate with Management on establishing a Crime Prevention Model in conformity with Law No. 20,393 on the Legal Responsibility of Legal entities and ensure its effective implementation and application.

Prevent Money Laundering and the Financing of Terrorism

• Prevent 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.

Data Office

• The Data Office establishes the strategy and leads the data management program throughout the Bank; such program is designed to ensure data reliability, availability and backup in order to generate value for the business, deeming data as a strategic asset, and safeguarding the Bank (Data Risk Management) in the event that different regulating agencies require information.

• The responsibilities of the Data Office include establishing the data management framework, data management policies, and standards, tools and operating model for the stages within the data life cycle.

• Provide guidelines on roles and responsibilities; validate compliance with policies and procedures to guarantee that appropriate controls on data quality are in place; identify data dependencies and interaction and measurement models on the Bank's data quality (through executive reports).

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 a number of tools including procedures, models, validation, 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.

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 CMF (formerly the SBIF) in Chapter B-1 of the Compendium of Accounting Standards, the individual assessment considers the following segments:

a) Regular 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.

Collective Assessment - Collective EL models:

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, a Model Committee exists to which the developments, validation 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. The aforementioned validation is performed by an area that is independent from the area developing such models, where the independent area performs an objective review free from any conflict of interest.

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 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 Collective Credit Risk Models based on Scotiabank Chile's portfolio are presented below.

Scotiabank Chile's portfolio

Collective Commercial Model - Non-Retail

This assessment is applied to natural persons and small-sized entities, 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: Renegotiated, Not Renegotiated and Miscellaneous debtors (MD).

Additionally, the commercial portfolio includes a standard model issued by the CMF, which is divided into 3 submatrices: Lease Contracts, Student and Commercial - Other. These submatrices generally have double entries, where Expected Loss (EL) must be allocated based on the default tranche and guarantee coverage. The model that provides the highest provision between the internal or standard model is applied.

Collective Commercial Model - Retail

This model is applied to natural persons or small-sized entities that have assumed a commercial loan as defined by the CMF. Different commercial models exist for the retail segment, which are applied to each account as applicable based on the probability of default (PD) calculation, and these models are the following: Student loans – State-Guaranteed Student Loan Program (CAE), Student - Chilean Economic Development Agency (Corfo) Loan Program, micro companies (new and former costumers), Housing and General Purposes, and Renegotiated Customer Model.

Additionally, the commercial portfolio includes a standard model issued by the CMF, which is divided into 3 submatrices Lease Contracts, Student and Commercial - Other. These submatrices generally have double entries, where EL must be allocated based on the default tranche and guarantee coverage. The model that provides the highest provision between the internal or standard model is applied.

Housing Model

This model is applied to customers with whom the Bank has operations classified as Housing Mortgage loans (for new and former customers). These customers are assessed at the Taxpayer ID No. level. Additionally, there is a standard model established by the CMF in a double-entry matrix where EL must be allocated to default tranches and LTV (Loan to Value) tranches. The model that determines the highest EL is applied.

Consumer Model

This model is applied to customers with whom the Bank has operations classified as Consumer loans. Different consumer models exist, which are applied to each account as appropriate, to determine the lowest rating at customer level for the PD calculation. Such models are: Consumer - Partial Payments (for new and former customers), Consumer – Revolving Credit facilities, Consumer - Renegotiated (at customer level), and Agreements.

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

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

Where:

- EL: Expected loss from the product/debtor.
- PD: corresponds to probability of default.
- LGD: corresponds to loss given default.
- Exposure: corresponds to the debt in the account.

The Chilean Government's expected loss is allocated to the percentage covered by Small Business Guarantee Fund (Fogape), Investment Guarantee Fund (Fogain) and Corfo debt restructuring operations, in addition to other types of co-debtors such as mutual guarantee associations (SGR) or by School Infrastructure.

Based on the ageing of a customer, their PD may be estimated using a new customer model, a behavior model, or a former customer model. New customer models gather the customer's demographic characteristics and financial behavior, whereas Behavior models look for information on the internal behavior from the Bank or its subsidiary, according to the model, and from financial institutions. In other words, new customer models look for customer's characteristics, and Behavior models look for the customer's internal credit behavior. 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.

Subsidiary CAT's provision model

The model used for the subsidiary CAT is the same formula applied to the collective model, based on a statistical model, which is aligned with Basel II and proposes estimating 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.

For the year ended December 31, 2019, CAT Administradora de Tarjetas S.A. made an adjustment of its internal portfolio impairment measurement models based on the collective expected loss model, for measuring collective provisions required under Chapter B-1 of the Summary of Accounting Standards. The adjustment recognized Scotiabank Azul's default when developing the model, in addition to a segmentation of inactive customers. These adjustments resulted in a higher expense in the allowance for credit risk amounting to ThCh$600. Note that there is no change in the methodology and only adjustments were made as required by the regulatory entity.

Loan quality per class of financial asset

As of December 31, 2019

Individual assessment:	Loans and advances to banks MCh$	Commercial loans MCh$	Commercial lease MCh$	Factoring MCh$	Consumer loans MCh$	Mortgage loans MCh$	Contingent loans MCh$	Total MCh$
A1	80,781	372,103	-	14,771	-	-	87,563	555,218
A2	294	3,380,203	63,914	6,379	-	-	581,751	4,032,541
A3	52	2,056,436	64,828	28,659	-	-	265,226	2,415,201
A4	-	2,492,505	322,220	135,655	-	-	125,296	3,075,676
A5	-	1,083,581	139,630	31,761	-	-	77,847	1,332,819
A6	-	465,455	47,550	19,201	-	-	15,835	548,041
B1	-	60,404	6,695	124	-	-	2,702	69,925
B2	-	59,189	3,119	13	-	-	316	62,637
B3	-	27,714	3,360	-	-	-	147	31,221
B4	-	56,850	3,998	127	-	-	70	61,045
C1	-	21,518	2,422	-	-	-	201	24,141
C2	-	6,188	2,393	-	-	-	1	8,582
C3	-	1,285	766	-	-	-	-	2,051
C4	-	11,184	1,255	-	-	-	5	12,444
C5	-	17,387	2,502	-	-	-	155	20,044
C6	-	28,988	320	954	-	-	1,323	31,585
Subtotal	**81,127**	**10,140,990**	**664,972**	**237,644**	**-**	**-**	**1,158,438**	**12,283,171**
Group assessment:	-	1,710,080	31,107	1,145	3,459,325	9,101,896	1,643,610	15,947,163
Total	**81,127**	**11,851,070**	**696,079**	**238,789**	**3,459,325**	**9,101,896**	**2,802,048**	**28,230,334**

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 MCh$	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	87	1,560,146	78,314	47,433	-	-	254,944	1,940,924
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
Subtotal	**2,790**	**8,675,271**	**637,862**	**221,087**	**-**	**-**	**1,339,118**	**10,876,128**
Group assessment:	-	1,664,425	36,644	31,716	3,339,975	8,216,359	1,530,359	14,819,478
Total	**2,790**	**10,339,696**	**674,506**	**252,803**	**3,339,975**	**8,216,359**	**2,869,477**	**25,695,606**

Total provisions for loans

As of December 31, 2019, the total amount of provisions for loans was MCh$534,890, which implies an increase of approximately 8.5% compared to the provision recorded as of December 2018, of MCh$492,924. Accordingly, and considering the increase in total loans (increase of 11.1% in the same period), the percentage of provisions over total loans decreased from 2.16% in December 2018, to 2.11% in December 2019.

Risk and provision rates	12/31/2019 MCh$	12/31/2018 MCh$
Total provisions for loans	534,890	492,924
Total loans	25,347,159	22,823,339
Percentage provisions / loans	2.11%	2.16%

4) Market risk

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

- Interest rate risk

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

- Spread risk - Basis

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

- Currency risk

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

- Options risk

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

Balance sheet management

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

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 time deposits, thus granting long-term loans that allow taking advantage of the yield curve within a financial risk management context agreed.

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

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

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

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

As of December 31, 2019 **(Individual Bank)**

	Purchase value MCh$	Purchase IRR %	Market value MCh$	Market IRR %	Unrealized gain (loss) MCh$
Notes expressed in Ch$	**526,075**	**2.47**	**529,450**	**1.97**	**3,375**
Discountable promissory note issued by the Central Bank	39,092	2.44	39,218	1.65	126
BCP	189,135	2.73	190,555	1.82	1,420
BTP	282,522	2.30	284,349	2.09	1,827
Time deposits in Ch$	15,326	2.37	15,328	2.26	2
Notes expressed in UF	**259,282**	**-0.11**	**261,237**	**-0.32**	**1,955**
BCU	122,751	-0.38	123,022	-0.44	271
BTU	136,531	0.13	138,215	-0.22	1,684
Term deposits in UF	0	0.00	0	0.00	0
Securitized bonds	0	0.00	0	0.00	0
Notes expressed in US$	**0**	**0.00**	**0**	**0.00**	**0**
Term deposits in US$	0	0.00	0	0.00	0
Total notes	**785,357**	**1.62**	**790,687**	**1.21**	**5,330**

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
Discountable promissory note issued by the Central Bank	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**

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: 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, 2019, total VaR (including rate and currency) amounted to MCh$2,341 (MCh$1,492 as of December 31, 2018).

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

	12/31/2019 MCh$	12/31/2018 MCh$
Bonds in UF	(220)	163
Derivatives in UF	(1,595)	460
Bonds in Ch$	(26)	343
Derivatives in Ch$	1,620	454
Derivatives in US$	70	519
Basis US$/Ch$	2,462	1,036
Basis L3L6	(20)	43
Other	15	(1,765)
FX	35	239
Total	2,341	1,492

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

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.
• Allowances.
• 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, 2019

	VPN	VPN + 1%	VPN - 1%
Ch$	(563,518)	(82,948)	89,872
UF	2,239,185	(129,712)	144,755
US$	133,434	(493)	487
FC	5,129	(27)	27
Use	213,180		

As of December 31, 2018

	VPN	VPN + 1%	VPN - 1%
Ch$	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		

The effect on the financial margin by currency of a parallel movement of 100 points is presented below.

As of December 31, 2019

	Net present value				Financial margin			
	Ch$ MCh$	UF MCh$	US$ MCh$	FC MCh$	Ch$ MCh$	UF MCh$	US$ MCh$	FC MCh$
1 month	227,002	135,720	678,538	(8,462)	2,175	1,301	6,503	(81)
2 months	(193,383)	13,054	(735,371)	7,551	(1,692)	114	(6,434)	66
3 months	(528,314)	242,177	20,007	1,034	(4,182)	1,917	158	8
4 months	(443,651)	356,583	199,324	868	(3,143)	2,526	1,412	6
5 months	(412,873)	(53,982)	318,618	2,903	(2,580)	(337)	1,991	18
6 months	141,777	45,382	666,213	1,012	768	246	3,609	5
7 months	264,427	4,111	(92,294)	6	1,212	19	(423)	-
8 months	(8,960)	53,396	(234,852)	258	(34)	200	(881)	1
9 months	37,483	214,744	(228,901)	-	109	626	(668)	-
10 months	6,656	87,312	(136,160)	-	14	182	(284)	-
11 months	(222,656)	130,347	(5,124)	-	(278)	163	(6)	-
12 months	115,822	(98,458)	(140,828)	-	48	(41)	(59)	-
					(7,583)	**6,916**	**4,918**	**23**
Exposure to inflation						**10,279**		
Use	**14,554**							

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**							

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

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, 2019		
	Assets MCh$	Liabilities MCh$	Net MCh$
US$	53,599	53,529	70
CAD	16,723	15,702	1,021
BRL	19,608	19,485	123
PEN	31,031	31,023	8
AUD	215,781	214,194	1,587
CNY	72,655	72,109	546
DKK	29	-	29
JPY	122,722	121,179	1,543
CHF	350,053	349,807	246
NOK	887	829	58
NZD	-	-	-
GBP	87,937	89,432	(1,495)
SEK	5,251	4,962	289
HKD	6,620	6,602	18
ZAR	40	-	40
COP	49,183	49,436	(253)
MXN	144,153	140,963	3,190
EUR	1,445,066	1,441,896	3,170
Other currencies	-	-	-

Scotiabank

	As of December 31, 2018		
	Assets MCh$	Liabilities MCh$	Net MCh$
US$	41,975	41,949	26
CAD	12,040	11,872	168
BRL	41,230	41,677	(447)
TWD	-	-	-
AUD	154,599	149,548	5,051
GBP	119,146	119,352	(206)
DKK	60	-	60
NOK	1,606	1,586	20
SEK	8,399	8,342	57
PEN	9,690	9,684	6
CHF	269,706	269,481	225
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
JPY	188,868	186,638	2,230
EUR	1,672,924	1,667,056	5,868
NZD	3	-	3
MXN	107,085	108,124	(1,039)

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 CMF 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, 2019				As of December 31, 2018			
	Term mismatch				Term mismatch			
Days	Ch$	UF	US$	FC (*)	Ch$	UF	US$	FC (*)
00002-00030	(1,096,506)	(63,459)	475,963	(8,462)	(253,429)	(136,657)	(628,039)	(2,409)
00031-00060	(258,482)	(1,577)	(741,131)	7,551	(669,210)	74,695	(114,974)	-
00061-00090	(578,719)	233,489	14,010	1,034	(343,726)	124,201	(16,881)	-
00091-00120	(477,214)	350,729	194,617	868	6,024	(146,008)	(18,886)	-
00121-00150	(442,812)	(57,285)	314,431	2,903	(304,633)	(251,135)	310,517	-
00151-00180	112,708	42,638	662,081	1,012	(444,011)	156,488	390,838	-
00181-00210	239,173	703	(96,975)	6	(3,398)	130,747	50,141	-
00211-00240	(33,014)	49,816	(238,116)	258	112,800	91,071	42,871	-
00241-00270	14,248	211,892	(231,794)	-	90,963	56,479	(170,195)	-
00271-00300	(15,891)	84,963	(138,900)	-	244,473	132,892	(199,647)	-
00301-00330	(244,270)	127,239	(7,980)	-	132,877	(277,889)	(221,667)	-
00331-00360	93,457	(103,020)	(143,838)	-	358,361	(153,470)	(172,765)	-
00361-00720	799,158	261,961	(29,152)	-	1,005,725	451,933	121,041	-
00721-01080	533,612	(87,715)	15,384	-	330,421	176,287	(58,114)	-
01081-01440	162,699	(111,735)	99,440	-	241,227	(272,352)	22,880	-
01441-01800	(82,824)	198,267	(12,331)	-	98,593	44,560	2,006	-
01801-02160	(46,940)	150,895	557	-	(91,581)	15,921	15,058	-
02161-02520	350,161	(487,803)	(878)	-	(14,181)	113,496	4,061	-
02521-02880	210,372	(4,027)	9,137	-	278,482	(132,220)	5,978	-
02881-03240	80,369	205,708	(1,108)	-	459,586	114,595	224	-
03241-03600	98,564	336,012	(546)	-	112,656	574,534	1,818	-
03601-05400	270,823	924,331	(5,406)	-	258,512	679,632	69	-
05401-07200	42	21,654	(2,616)	-	22,316	23,540	-	-
07201-09000	4	(15,820)	-	-	7	39,276	-	-
09001-10800	3	(26,978)	-	-	8	(26,458)	-	-
10800->>>>>	40	6	-	-	95	1	-	-
NRS	(809,417)	(6,061)	(131,142)	9,083	(1,005,800)	208,049	538,135	-

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

Regulatory limits

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

	Amount	
	12/31/2019 MCh$	12/31/2018 MCh$
SHORT-TERM (Margin)		
Short-term interest rate risk	72,640	67,903
Indexation risk	34,884	12,696
Lower income from sensitive commissions	-	5
Short-term total risk	**107,524**	**80,604**
Short-term risk limit (35% of margin)	230,736	272,382
Percentage of use of short-term limit	46.60%	29.59%
LONG-TERM (Value)		
Long-term interest rate risk	390,421	430,454
Interest rate optionality risk	-	-
Long-term total risk	**390,421**	**430,454**
Long-term limit (30% of capital)	836,144	802,094
Percentage of use of long-term limit	46.69%	53.67%

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 regularly monitor these limits and report weekly to the CMF 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 CMF. The regulatory limit provides that effective equity must be sufficient to cover 8% of assets weighted for credit and market risk.

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

	Amount	
	12/31/2019 MCh$	12/31/2018 MCh$
Interest rate risk	196,702	161,884
Currency risk	7,970	5,340
Interest rate optionality risk	998	1,323
Currency optionality risk	-	3
Total trading book market risk	**205,670**	**168,550**
Weighted assets by consolidated risk	25,651,767	23,396,898
Credit risk regulatory capital (8% APR)	2,052,141	1,871,752
Market risk regulatory capital	205,670	168,547
Total regulatory capital	**2,257,811**	**2,040,299**
Effective consolidated equity	2,787,146	2,673,646
Consumption % (includes CR and MR)	83.97%	76.35%
Basel index (including market risk)	10.87%	11.43%

5) Operational, technological and cybersecurity 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 failure in 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.

In addition, technological and cybersecurity risks exist, which are focused on the identification, protection, detection, response and recovery against a cyberattack, minimizing the damage and impact on the Bank.

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 responsibilities related to Operational Risk management.

The internal governance structure for managing Operational Risk within the Bank complies with the risk management structure indicated in number 2 in this Note, which is composed of the Enterprise Risk Management and Control areas (second lines), the Non-financial Risk Management Committee, the Risk Committee, and the Board of Directors, which has delegated the responsibility of managing operational risk to the Management Committees.

Management of Technological risks and Cybersecurity

Risk management related to Cybersecurity requires the coordination between several teams. All groups play a critical role in the efforts associated with risk assessment and the implementation of Information Security and Cybersecurity.

The Cybersecurity government forms an integral part of the Bank's general governance. The Board of Directors is responsible for Cybersecurity and, as such, the Board of Directors must provide oversight and governance to the Cybersecurity strategic program and its results. Senior Management will assess and make recommendations for the Board of Directors' approval, key information, documents and limits related to Cybersecurity. Senior Management will ensure that, regarding all significant matters, such documents and limits comply with the related regulatory standards on Cybersecurity in the countries where the Bank operates and also with the Risk Appetite Framework.

Financial regulatory authorities expect that Scotiabank's Senior Management continuously reviews and assesses its policies and practices on Cybersecurity to guarantee that they are still appropriate and effective considering the changing threats.

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 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.

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.

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 management

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 identify, gather and manage data on loss associated with operational risk in accordance the with types of loss events of Basel. Losses are reported to Senior Management and data on loss associated with operational risk is monthly reported to the Parent Bank based on certain limits established, for its incorporation in the operational risk loss database of BNS and the follow-up of risk appetite established.

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, 2019, the Bank and its subsidiaries have recognized MCh$6,382 associated with operational risk expenses (MCh$3,691 in 2018).

Command Center

Corresponds to a committee that reviews and resolves the Bank's the incidents of the Bank and/or subsidiaries considered as relevant, generated by the integration, and led by the Integration VP, in which all individuals involved interact on a coordinated and aligned basis for their resolution.

This committee includes an advisor team which supports the decision-making (applying considerations per scope of activity) and an expert team, which based on the incidents reported, will be summoned to provide accurate information related to the incident, progress status and possible lines of action.

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.

  - 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.

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.

The Board of Directors of Scotiabank Chile approves this Liquidity Management Policy and oversees its compliance through the Bank's Audit Division. Additionally, 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.

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.

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.

As of December 31, 2019 and 2018, the maturities of assets and liabilities are detailed as follows:

As of December 31, 2019	Up to 1 month MCh$	Up to 3 months MCh$	Up to 1 year MCh$	To maturity MCh$
Cash on hand	1,384,762	-	-	-
Effective loans	1,208,935	1,847,150	4,805,910	20,404,232
Loans in adjustable mortgage letters of credit	-	-	-	157,192
Lease contracts	-	-	-	546,996
Agreements	23,054	-	-	-
Financial investments	1,443,118	722	10,529	73,256
Other assets	796,317	698	-	490,315
Total assets	**4,856,186**	**1,848,570**	**4,816,439**	**21,671,991**
On-demand liabilities	2,483,126	739	1,675,969	707,756
Deposits, bonds and other obligations	2,093,133	2,704,184	5,468,486	8,532,460
Agreements	806,829	282,000	-	-
Liabilities for adjustable mortgage letters of credit	-	-	-	5,878
Domestic liabilities	23,383	-	-	16,324
Foreign liabilities	173,623	738,304	2,055,545	515,524
Other liabilities	705,153	37	38,389	45,628
Total liabilities	**6,285,247**	**3,725,264**	**9,238,389**	**9,823,570**

As of December 31, 2018	Up to 1 month MCh$	Up to 3 months MCh$	Up to 1 year MCh$	To maturity MCh$
Cash on hand	787,472	-	-	-
Effective loans	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
Total 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
Total liabilities	**6,129,662**	**3,303,348**	**7,690,312**	**9,142,036**

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.

12/31/2019	Fair value of assets	Credit risk adjustment
	MCh$	MCh$
Total	(158,192)	(9,150)

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

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 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.

Minimum basic capital and effective equity are detailed as follows:

As of December 31, 2019

Balance sheet assets (net of allowances)	Consolidated assets MCh$	Risk-weighted assets MCh$
Cash and deposits in banks	1,384,762	-
Transactions pending settlement	366,308	100,545
Securities held for trading	845,707	291,475
Investments sold under repurchase agreements and securities lending	23,146	23,146
Derivative instruments	2,027,216	1,426,065
Loans and advances to banks	81,127	455
Loans and advances to customers	24,812,269	20,872,971
Available-for-sale investment securities	808,674	51,304
Held-to-maturity investment securities	-	-
Investments in companies	16,709	16,709
Intangible assets	186,647	186,647
Property and equipment	112,459	112,459
Right-of-use assets under lease contracts	236,637	236,637
Current tax assets	33,953	3,395
Deferred tax assets	328,940	32,894
Other assets	844,393	677,858
Off-balance assets		
Contingent loans	2,698,755	1,619,207
Total risk-weighted assets		**25,651,767**

	Amount MCh$	Ratio %
Basic capital	2,038,255	5.86
Effective equity	2,787,146	10.87

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
Investments sold under repurchase agreements and securities lending	217,365	217,365
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	2,013,539	6.21
Effective equity	2,673,646	11.43

Note 40 Merger between Scotiabank and Scotiabank Azul (formerly BBVA)

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 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 merged entities. 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 estimates used for valuations in different captions.

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 CMF 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.

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.

<u>Public Offering for Acquisition of Shares (OPA):</u>

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.

<u>Detail of the Public Offering for Acquisition of Shares (OPA)</u>:

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 + Ch$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).

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 CMF 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 distributed per each share of Banco BBVA Chile held by the shareholders of the latter, without considering fractions of shares.

i) Through Resolution No. 390 of August 20, 2018, the CMF 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.

3. Description of the merged entities

a) Description of the Banks prior to the acquisition transaction

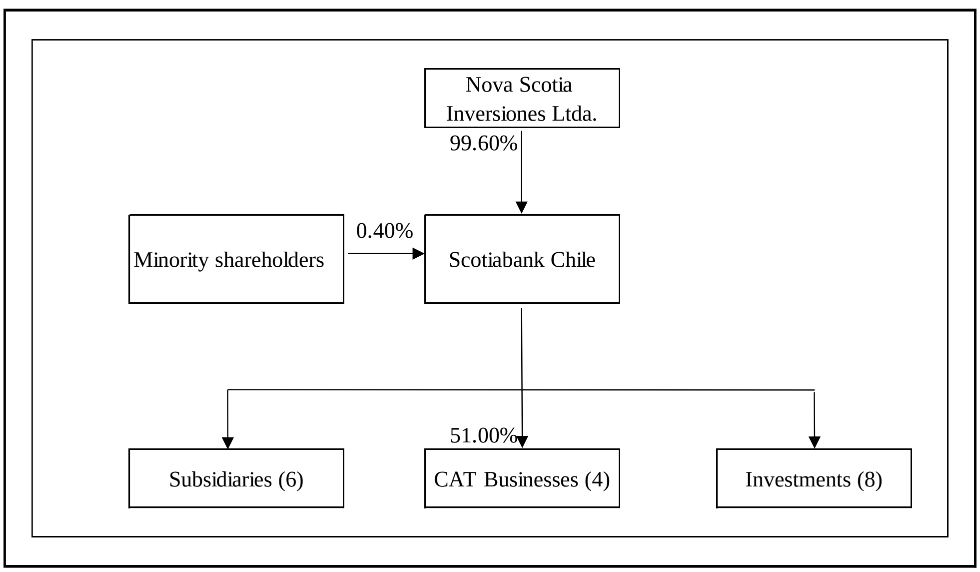
Scotiabank Chile is a subsidiary of the Canadian global financial BNS group, which offers a wide range of banking services to 23 million customers in more than 55 countries and has been operating in Chile for 28 years. Its main business areas are the following:

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.

<u>Scotiabank Group:</u>



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

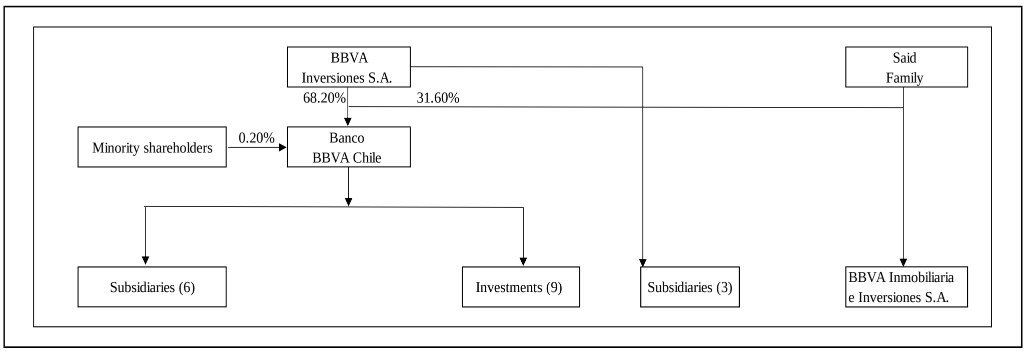
✓ Scotiabank Chile Minority shareholders are shareholders holding 0.4% of the shares.

- 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.

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.

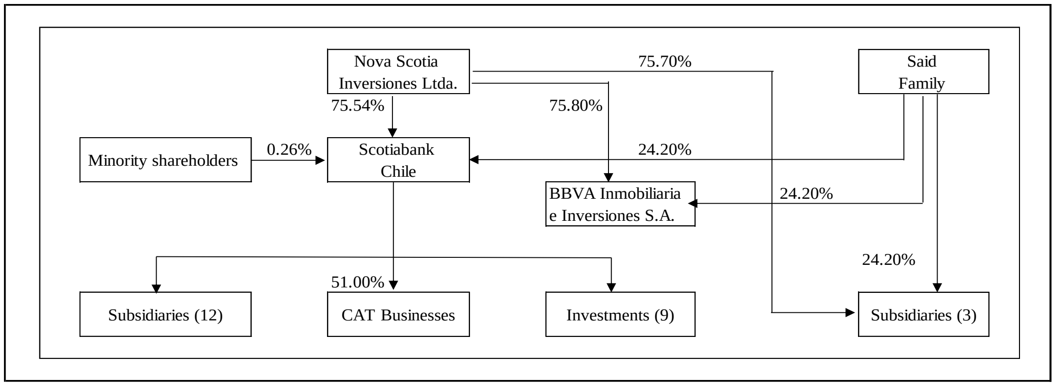
- Subsidiaries of Banco BBVA Chile (6), BBVA Corredores de Bolsa Limitada, BBVA Asset Management Administradora General de Fondos S.A., BBVA Corredora Técnica de Seguros Limitada, BBVA Asesorías Financieras S.A., BBVA Factoring Ltda. and BBVA Sociedad de Leasing Inmobiliario S.A.

- 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.

b) Company structure after the acquisition transaction

<u>New Scotiabank Group:</u>



- ✓ Nova Scotia Inversiones Ltda., controlling shareholder of Scotiabank Chile.
- ✓ Scotiabank Chile Minority shareholders are shareholders holding 0.26% 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.

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. In addition, the merger was approved as a transaction with related parties in conformity with the law.

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. 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.

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 shares	**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 (BBVA)	**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%

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.

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 41 Subsequent events

On January 6, 2020, in conformity with the Articles Nos. 9 and 10 of the Law No. 18,045 on the Securities Market and in conformity with Chapter 18-10 of the Updated Summary of Standards issued by the Chilean CMF, the Bank communicates as Essential Event that at the Extraordinary Shareholders' Meeting held on such date, the shareholders of Scotiabank Chile agreed to increase the capital of Scotiabank Chile by Ch$250,000,000,120, through the issue of 735,294,118 new nominative, same-series shares with no par value, at a price of Ch$340 per share, which should be fully subscribed and paid in cash, within a maximum term of 3 years, beginning on January 6, 2020. As a result of such increase, the capital of Scotiabank Chile amounts to Ch$1,246,705,580,825 divided into 12,244,885,748 nominative, same-series shares with no par value.

The Chilean CMF authorized the aforementioned increase, through Resolution No. 929 dated January 28, 2020, which was registered at sheet 8.449 No. 4.558 with the Trade Record, on January 30, 2020 and was published in the Official Gazette on February 5, 2020. The preference subscription period for shareholders commenced on February 20 and will end on March 20, 2020.

In the Bank's Management and its subsidiaries' view, between January 1, 2020 and the date of issuance of these consolidated 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.

Subsidiary Scotia Administradora General de Fondos Chile S.A.

On January 3, 2020, in conformity with Article 18 of the Law No. 20,712 and Articles 9 and 10 of Law No. 18,045, the following essential information of Scotia Administradora General de Fondos Chile S.A. (the "Company") was reported to the Chilean Financial Market Commission.

Through Exempt Resolution No. 02 issued on January 2, 2020, the Chilean Financial Market Commission ("CMF") has authorized the merger of Scotia Azul Asset Management Administradora General de Fondos S.A. (the absorbed company) into Scotia Adminitradora General de Fondos Chile S.A. (the absorbing company) incorporation the former into the latter. The merger was agreed at the extraordinary shareholders' meetings of both companies held on August 19 and November 19, 2019.

After obtaining on such date the resolution approving the merger of both general fund managers in the date of the resolution in conformity with Article No. 5 of the Public Company Act, the merger will become effective on January 2, 2020, upon registration and publication of the aforementioned resolution.

By virtue of this, Scotia Azul Asset Management Administradora General de Fondos S.A. will be legally dissolved and Scotia Administradora General de Fondos Chile S.A. will become the legal successor company, assuming all the rights and obligations, and acquiring all the assets and assuming all the liabilities of the absorbed company.

The characteristics, terms and conditions of the investments held by the contributors of funds managed by the Company will be subject to no amendment as a result of the aforementioned merger.

LEONARDO MUÑOZ C.
Gerente de Contabilidad

MARIA VICTORIA DOBERTI D.
Gerente División Finanzas

FRANCISCO J. SARDÓN DE TABOADA
Gerente General