# Scotiabank Chile
## Management Commentary
March 2023


Scotiabank

# Contents



**Note**

**Scotiabank Chile has prepared this document following the guidelines of IFRS Practice Statement No. 1 "Management Commentary", presenting useful information for investors, financiers and other creditors that contribute to the understanding of the entity's financial position related to the Consolidated Financial Statements as at March 31, 2023.**

# 1. NATURE OF THE BUSINESS

## Brief history of Scotiabank Chile

Scotiabank Chile is part of The Bank of Nova Scotia Group, Canada's third largest bank, an institution with 191 years of history and footprint in over 30 countries, listed on the Toronto (TSX: BNS) and New York (NYSE: BNS) stock exchanges, being a leading bank in the Americas and the only one with operations in Canada, the United States and the Pacific Alliance countries.

Scotiabank has been operating in Chile since 1990, after acquiring ownership of Banco Sud Americano. In 2007, it expanded its market share by acquiring Banco del Desarrollo, thereby incorporating new business segments. Subsequently, in 2015, it partnered with Cencosud in the credit card business, through a 15-year alliance with which Scotiabank took control of 51% of Cencosud Administradora de Tarjetas (CAT).

In 2018, the Bank finalized the acquisition of BBVA Chile, a transaction that transformed it into one of the most important financial institutions in Chile, reaching the category of systemically important bank and currently, The Bank of Nova Scotia holds ownership interest in Scotiabank Chile of 99.80%, reflecting its long-term commitment to Chile.

Having approximately 6,000 employees, Scotiabank Chile is engaged in helping its customers improve their financial position, delivering disruptive, simple and flexible products and services to its customers, not only through its network of 109 branches from Arica to Punta Arenas and 17 remote assistance *Connect* branches, but also through its Digital Banking.

## Market positioning in the relevant segments

Scotiabank's market share in total loans as at February[1] 2023, excluding branches and subsidiaries abroad, reached 14.67%, equivalent to CLP 32,728,431 million. It ranks third among its competitors.

Of the aforementioned total, commercial loans (including education) reached CLP 15,148,885 million, recording market share of 12.67%. Market share in consumer loans recorded 13.9%, equivalent to CLP 3,840,098 million, whereas market share in mortgage loans recorded 18.1%, equivalent to CLP 13,739,448 million.

As at February 1, 2023, Scotiabank's liabilities record total deposits of CLP 18,344,934 million, of which CLP 13,597,605 million correspond to term deposits and CLP 4,747,328 million to on-demand deposits. In this regard, Scotiabank Chile's market share in total deposits, excluding branches and subsidiaries abroad, reached 11.21% as at February 2023, up 46 basis points compared to February 2022 (+43 bp in term deposits and -102 bp in on-demand deposits).

## Significant environment features

### International scenario

At global level, until the beginning of March, an environment of higher growth and concerns about inflation was taking shape. On the one hand, the increase in global growth expected for this year was based on upward surprises in the activity of several significant economies, such as the United States, China and the Eurozone. On the other hand, in developed economies, underlying inflation indicators showed high levels, despite the decline in total inflation. All this scenario increased concerns about inflation and the need for interest rate hikes by the main central banks. In this environment, an increase in commodity prices and less risk aversion have been noted. In general, interest rates were up as a result of the higher inflation outlook.

However, the tone of the external scenario had a relevant change in the last month. Issues experienced by several banks in the United States and Europe opened the window to a greater global uncertainty scenario. This has generated volatility in financial markets, which reduced risk appetite and led to a decrease in government bond yields, anticipating a slower pace of rate hikes in the main central banks. It also led to declines in stock markets and reductions in the price of some raw materials.

[1] For the data on loans and deposits, figures as at February 2023 are considered, as no public information is available as at March.

However, the degree of uncertainty regarding the evolution of the financial position is significant. The authorities of the countries involved quickly adopted decisions to contain the impact of these developments. Among such decisions the coordinated actions among central banks to safeguard the provision of liquidity in the markets stand out. Private banking has also made efforts, particularly in the United States. However, restlessness among market players and high volatility persists.

# Local political environment

The political environment in Chile is marked by the structural reforms that the Government submitted to the Congress towards the end of last year and recently by the progress in the constitution-making process. The Tax Reform was rejected in the Chamber of Deputies, so the government is currently holding discussions to reach a broad agreement on this matter and submit a new proposal in the next few months. Note that the Government's initial proposal considered collection level as a percentage of GDP of 5%, which was moderated to a percentage between 4% and 5% by the Minister of Finance to finally be set at 4.1% of GDP at the date of submitting the bill. With the amendments made during its processing in the Chilean Congress, the expected tax collection was reduced to 3.5% of GDP and the new initiative to be submitted by the government is expected to have an even less ambitious tax collection objective. Because of the commitments that depend on tax reform collection -mainly financing the Pension Reform-, we continue to raise upside risks on the level of gross debt projected by the Ministry of Finance for the next few years (approximately 40% of GDP).

In the fourth quarter of prior year, the Government presented the Pension Reform, which aims to raise the level of current and future pensions mainly through an increase in the Universal Guaranteed Pension and mandatory savings. The cost of this reform is estimated to amount between 1.5% and 2% of GDP in regime, where the main questions come from the efficiency that the new government entity will have to manage the funds and the destination of the individual contribution payment funds. Such Reform is currently being processed in the Congress.

The new constitution-making process began in March, where the members of the Expert Commission took office at the beginning of that month (24 members elected by the Congress). In addition, the new process considers the formation of a Constitutional Council -composed of 50 members- and a Technical Committee on Admissibility. The process will end with an exit plebiscite on December 17, 2023.

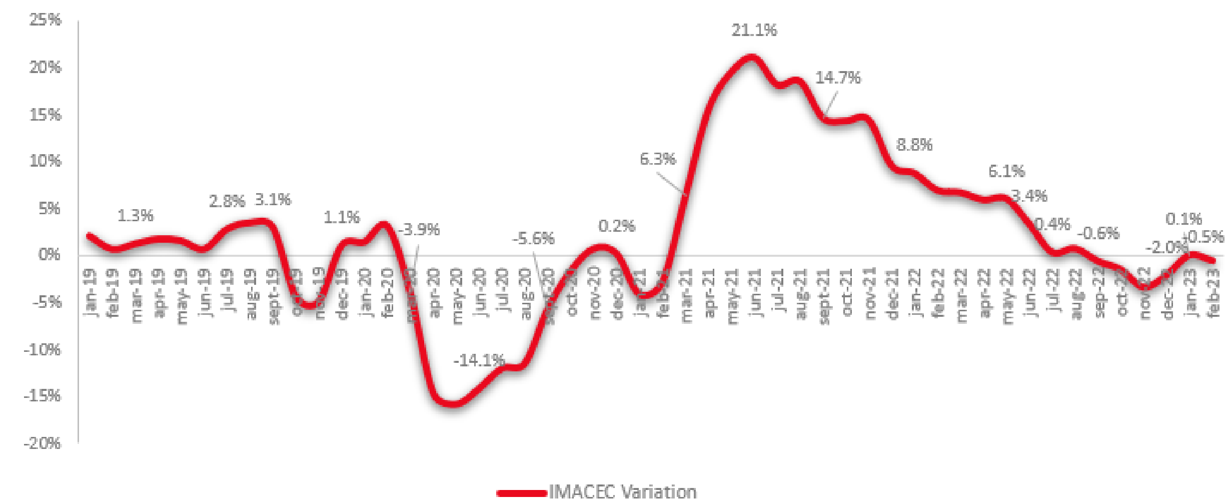
# Economic activity level

The economy continues its adjustment process of the macro imbalances generated after the COVID-19 crisis and the extraordinary fiscal and monetary impulses. In 2022, GDP expanded 2.4%, thanks to growth in private consumption (2.9%) and investment (2.8% YoY). In the first few months of 2023, GDP has remained relatively stable, mainly thanks to the resilience of trade and services, in a context of accelerated public spending, which has contributed to the creation of formal jobs and higher investment levels. Accordingly, in February, the Monthly Economic Activity Index (IMACEC) contracted by 0.5% YoY, recording a 0.3% m/m drop, where commerce grew by 0.3% and services declined by 0.2%.

However, the better start to the year compared to that expected a few months ago leads us to forecast a drop of 0.8% in GDP for 2023. Although the lower external momentum and the low dynamism expected for private investments in the year will result in negative YoY growth rates for a large part of 2023, these will be limited. According to the Banco Central de Chile, the GDP growth range for this year fluctuates between 0.5% and -0.5%.

Figure No. 1

**Variance in the Monthly Economic Activity Index (IMACEC)[2]**
(variance % YoY)




Source: Banco Central de Chile.

# Inflation

Following the peaks reached in 2022, inflation continues on a downward trajectory (see Table No.1). Although the inflationary records for January and March were high, no additional inflationary pressures other than those generated by second round effects were noted. In fact, the Consumer Price Index (CPI) for February was negative (-0.1% m/m), reflecting the transfer of a lower exchange rate to tradable prices.

In this regard, the appreciation of the peso has been consolidated in recent months, where it has fluctuated around Ch$800. On the other hand, the deterioration in the labor market, the restrictive financing conditions, the restocking of inventories and the depletion of household liquidity continue. However, inflation is forecasted to end 2023 recording a 12-month growth of 4.6%, according to Banco Central de Chile.

Table No.1: Variance in CPI over the last 12 months (%)

| Month | Monthly | Accumulated | Last 12 months |
|---|---|---|---|
| March 2022 | 1.9 | 3.4 | 9.4 |
| April 2022 | 1.4 | 4.7 | 10.5 |
| May 2022 | 1.2 | 5.9 | 11.5 |
| June 2022 | 0.9 | 6.9 | 12.5 |
| July 2022 | 1.4 | 8.3 | 13.1 |
| August 2022 | 1.2 | 9.5 | 14.1 |
| September 2022 | 0.9 | 10.3 | 13.7 |
| October 2022 | 0.5 | 10.8 | 12.8 |
| November 2022 | 1.0 | 11.8 | 13.3 |
| December 2022 | 0.3 | 12.1 | 12.8 |
| January 2023 | 0.8 | 0.8 | 12.3 |
| February 2023 | -0.1 | 0.7 | 11.9 |
| March 2023 | 1.1 | 1.8 | 11.1 |

# Interest rate

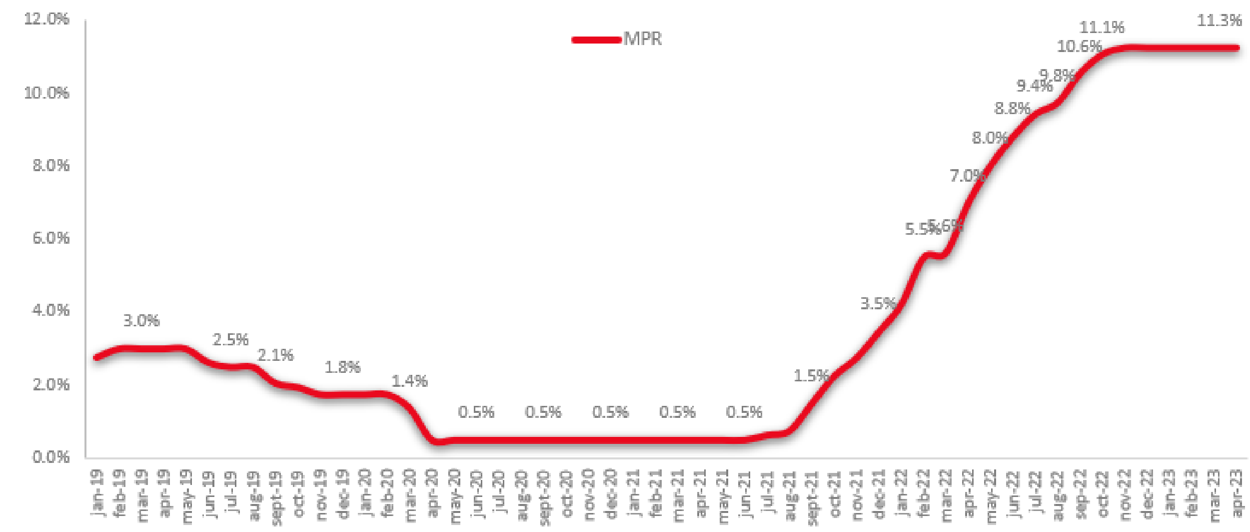
At its April 2023 meeting, Banco Central de Chile decided to maintain the benchmark interest rate at 11.25%, stating that it would keep it at that level for as long as necessary to ensure the convergence of inflation to the target. At the same time, it stated its concern about anchored expectations at 3%, as well as its commitment to wait until it sees a consolidation of the convergence of total and underlying inflation towards the target.

[2] For IMACEC purposes, data considered figures as at February 2023 because as at March no public information was available.

In our view, the current context of weak economic activity, together with an adjustment in the determinants of inflation in the most recent period, ensure the consolidation of inflation expectations at 3% in the next few months. This will lead Banco Central de Chile to cut the benchmark interest rate starting at its June meeting, starting an adjustment process in the monetary policy stance that is more pronounced than the market expectations, at the lower end of the rate corridor used as a working assumption by Banco Central de Chile in its March Report on Monetary Policy (IPoM). We forecast the Monetary Policy Rate (MPR) will end the year at 7.5%, reaching its neutral level (3.75%) by the end of 2024.

Figure No. 2

**Monetary Policy Rate Evaluation**
(Variance %)



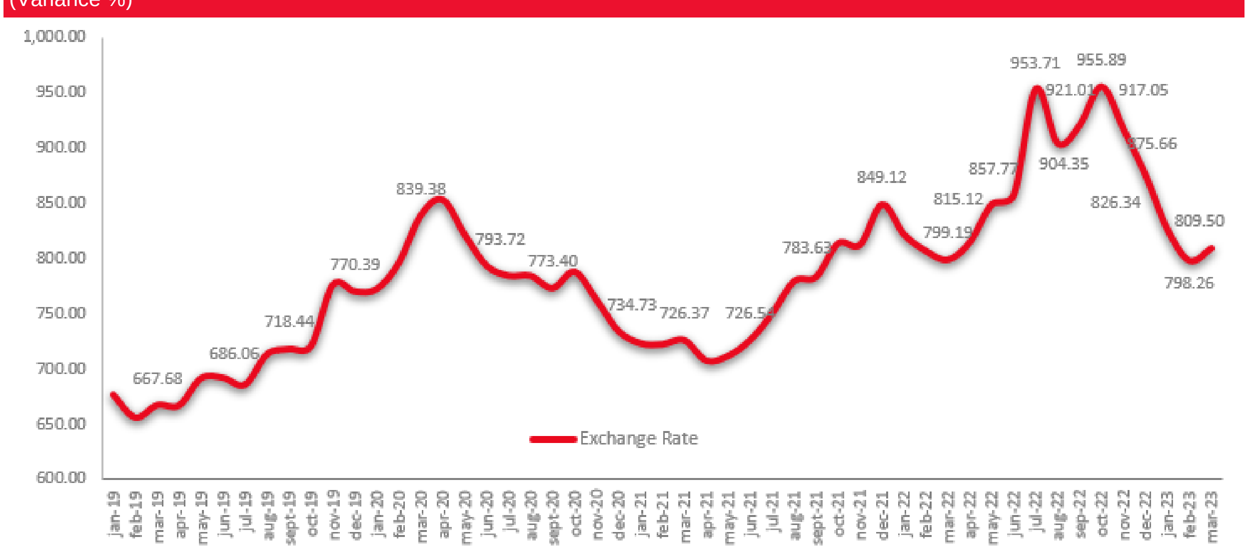

Source: Banco Central de Chile.

# Exchange rate

In the last few months, the nominal exchange rate has fluctuated around Ch$800 per US$ 1.00, showing volatility in recent weeks mainly due to recent developments in global financial markets. Some elements that explain this evolution have to do with a global depreciation of U.S. dollar in the most recent period -due to expectations of lower GDP growth in the next few years-, as well as a drop in the price of copper. However, the reduction in the level of political uncertainty has also contributed to reduce the exchange rate level, as the political punishment accumulated by the CLP has significantly reduced. Additionally, the Ministry of Finance announced the sale of U.S. dollars until June, whereas Banco Central de Chile will implement its forward sale program until the same month. At the closing date of this report, the exchange rate was being traded at Ch$795 per US$1.00.

Figure No. 3

**Exchange rate fluctuation, CLP/USD**
(Variance %)




Source: Banco Central de Chile.

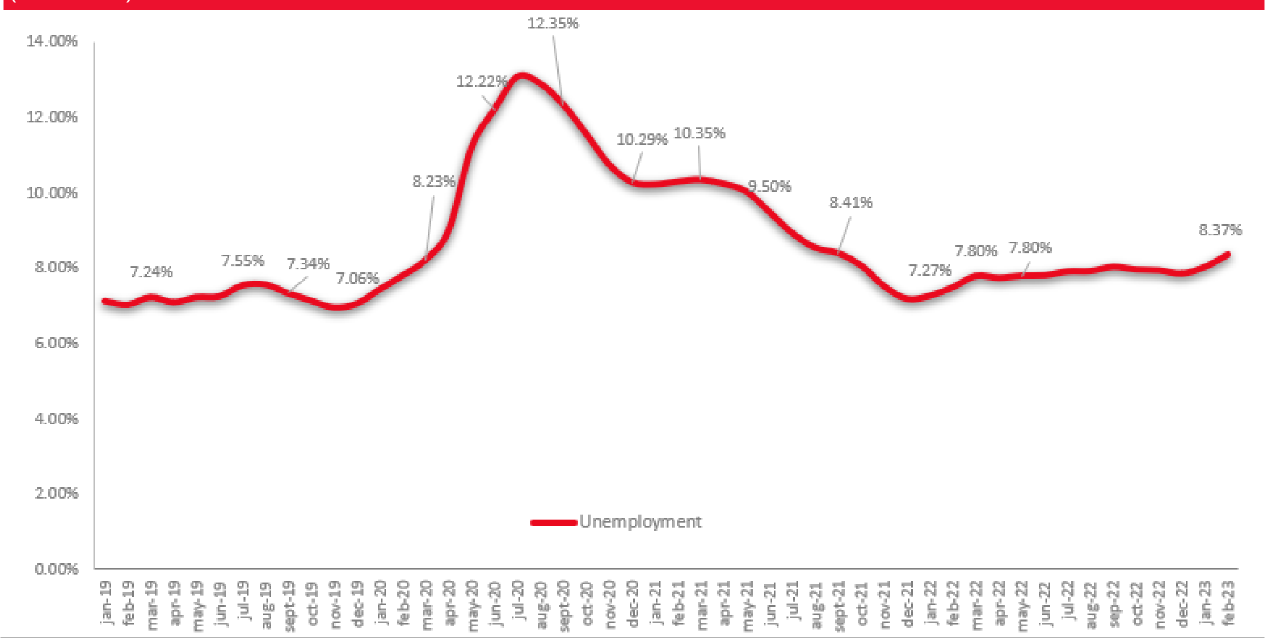
# Labor market

Most recently, the unemployment rate increased to 8.4% (for the quarter ended February 2023), which was explained by the greater dynamism of the labor force compared to employment. In this regard, the public sector has been the main generator of formal salaried jobs, thanks to the acceleration in public spending (mainly investment) observed over the last few months.

According to the figures provided by the National Institute of Statistics (INE), 22 thousand jobs were created in February, where the public sector contributed with the creation of 56 thousand new jobs, while the private sector destroyed employment. In the absence of a significant improvement in investment in the next few quarters, the outlook for employment is unfavorable. For the time being, employment continues to be supported mainly by the help of fiscal programs to support formal employment, recently renewed until mid-2023, and the fiscal drive generated by accelerated spending.

Figure No. 4

**Unemployment rate[3]**
(Variance %)




Source: Banco Central de Chile.

# Legal and regulatory environment

Main authorities regulating financial institutions in Chile are the Financial Market Commission (CMF) and Banco Central de Chile. Chilean banks are subject primarily to the General Banking Law and, to the extent not inconsistent with their bylaws, to the provisions of the Chilean Corporations Law governing corporations, except for certain provisions that are expressly excluded. The most recent reform to the General Banking Law was approved in January 2019, where the most relevant change related to the adoption of the most recent standards issued by the Basel Committee (Basel III).

CMF is the single supervisor of the Chilean financial system and supervises insurance companies, publicly-listed companies, credit unions, credit card issuers and banks. The CMF's main responsibility is to ensure the proper operation, development and stability of the financial market, facilitating the participation of market agents and defending public faith in the financial markets.

The regulator examines all banks on a regular basis, usually at least once a year. Banks are also required to submit their financial statements to the CMF on a monthly basis and at least quarterly they must publish their financial statements in a newspaper circulating nationwide. In addition, banks are required to provide information on their operations to the CMF at several periodic intervals. A bank's annual financial statements and the opinion of its independent auditors must

[3] The unemployment rate considered figures as at February 2023 because as at March no public information was available.

also be filed with the CMF. In addition, interim financial statements as at June 30 must include a review report of the interim financial information issued by the independent auditors.

The CMF and Banco Central de Chile act coordinately, in particular considering the responsibility of each in preserving financial stability within the framework of their respective legal competencies.

Banco Central de Chile is an autonomous agency, of constitutional rank, of a technical nature, with legal personality, its own equity and indefinite duration. The legal purpose of Banco Central de Chile is to maintain the stability of the Chilean peso and the orderly operation of the internal and external payment systems. Banco Central de Chile also has powers to regulate the financial system and capital markets, which are aimed at ensuring that banks and other financial institutions perform their activities in a safe and orderly manner, and to promote the efficient and reliable operation of payment systems and means of payment. Complementarily, it has the power to safeguard the stability of the financial system, which allows it to act in the event of crisis scenarios, which it does through financial policy.

# Main products, services and business processes

Scotiabank Chile is positioned as a universal bank offering a great variety of products and financial services to several kinds of customers, ranging from major corporations and financial institutions to low/medium income individuals, which are classified in different business segments referred to their business characteristics. The Bank creates value in a sustainable manner, giving customers the opportunity to choose according to their interests and needs, from a range of financial products and services for our diverse segments.

Scotiabank Chile operates in 5 main market segments, which correspond to Retail, Wholesale, Card Administration (CAT), Treasury and Others, each of which is summarized below.

## Retail

Personal Banking: This segment addresses individual customers whose monthly income is over CLP 200 thousand. The main products offered by the Bank in this segment include consumer loans, overdraft credit line, credit cards, and mortgage loans. In addition, the Bank has liability products for this tranche, and offers chequing 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 purchase and sale of foreign currency, shares and insurance products, among others. In addition to the traditional customer service points, it also offers these customers a complete self-service and self-management model through the web and the mobile application, which allows customers to perform a wide variety of transactions autonomously through its digital channels.

SME Banking: Efforts for this segment are focused on attracting and linking corporate customers and individuals with business activities, belonging to different economic sectors such as services, commerce, transportation and agriculture, and where annual sales do not exceed USD 4 million. The Bank's value proposition is based on providing financial services of excellence through asset and liability products, such as commercial loans, lease contracts, factoring transactions, chequing account plans, insurance, investment products, foreign trade, and cash management.

# Wholesale

This business segment includes enterprise customers with annual sales over USD 4 million and corporate customers with annual sales over USD 150 million. The main products offered by the Bank to this segment include working capital financing, foreign trade loans, lease operations, factoring transactions, and structured finance (syndicated loans, project finance, etc.).

These customers also use liability products such as domestic and foreign currency chequing 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.

# CAT

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.

# Treasury

This segment performs the global functions of interest rate risk management, structural exchange rate position, inflation position and liquidity risk management. The latter, through issuance and fund raising, in addition to the management of the available-for-sale investment portfolio. Likewise, the Bank's own resources, the capital endowment made to each unit and the cost of financing the investments made are also managed. The segment includes revenue associated with the management of the investment portfolio and gains or losses from the management of interest rate and inflation risks.

# Other

This segment includes all items that bear no connection with customer segments and other minor income and expenses not related to any of the above-mentioned lines of business.

Each segment's performance can be observed in Table No.2.

Table No.2: Performance by segment

| Quarter ended March 31, 2023 (in millions of CLP (MCLP)) | Retail | Wholesale | CAT | Treasury | Other | Accounting total |
|---|---|---|---|---|---|---|
| Net interest income | 131,217 | 77,228 | 67,361 | -56,084 | 158 | 219,880 |
| Other income | 28,021 | 45,966 | 23,032 | 37,739 | -1,526 | 133,232 |
| Equity in net income of investees | 0 | 0 | 0 | 0 | 1,759 | 1,759 |
| **Total operating income** | **159,238** | **123,194** | **90,393** | **-18,345** | **391** | **354,871** |
| Operating expenses | -80,659 | -33,319 | -32,317 | -2,428 | 1,963 | -146,760 |
| Depreciation and amortization | -8,969 | -2,690 | -2,879 | -228 | -1,754 | -16,520 |
| Credit loss expense | -47,661 | -4,389 | -50,688 | 0 | -951 | -103,689 |
| **Segment operating profit (loss)** | **21,949** | **82,796** | **4,509** | **-21,001** | **-351** | **87,902** |
| Income tax expense | 0 | 0 | 0 | 0 | 0 | -14,088 |
| **Profit or loss for the year** | 0 | 0 | 0 | 0 | 0 | **73,814** |
| **Spot volumes - MCLP** | | | | | | |
| Assets (loans) | 18,528,288 | 11,796,194 | 1,687,973 | 0 | 88,512 | 32,100,967 |
| Liabilities (demand and term deposits) | 6,322,584 | 6,053,924 | 0 | 5,879,344 | 592,439 | 18,848,291 |

| Quarter ended December 31, 2022 (in millions of CLP (MCLP)) | Retail | Wholesale | CAT | Treasury | Other | Accounting total |
|---|---|---|---|---|---|---|
| Net interest income | 117,900 | 66,848 | 59,114 | -108,749 | 162 | 135,275 |
| Other income | 30,426 | 62,481 | 23,569 | 123,379 | -2,617 | 237,238 |
| Equity in net income of investees | 0 | 0 | 0 | 0 | 1,788 | 1,788 |
| **Total operating income** | **148,326** | **129,329** | **82,683** | **14,630** | **-667** | **374,301** |
| Operating expenses | -76,717 | -29,297 | -27,925 | -2,017 | -3,301 | -139,257 |
| Depreciation and amortization | -8,553 | -2,664 | -2,841 | -228 | -1,756 | -16,042 |
| Credit loss expense | -45,851 | -8,151 | -34,145 | 0 | 228 | -87,919 |
| **Segment operating profit (loss)** | **17,205** | **89,216** | **17,772** | **12,385** | **-5,496** | **131,083** |
| Income tax expense | 0 | 0 | 0 | 0 | 0 | 2,542 |
| **Profit or loss for the year** | 0 | 0 | 0 | 0 | 0 | **133,625** |
| **Spot volumes - MCLP** | | | | | | |
| Assets (loans) | 18,453,225 | 12,335,780 | 1,664,943 | 0 | 118,304 | 32,572,252 |
| Liabilities (demand and term deposits) | 6,139,951 | 5,673,146 | 0 | 6,786,197 | 449,553 | 19,048,847 |

| Quarter ended March 31, 2022 (in millions of CLP (MCLP)) | Retail | Wholesale | CAT | Treasury | Other | Accounting total |
|---|---|---|---|---|---|---|
| Net interest income | 108,359 | 54,740 | 46,235 | -28,515 | 1,727 | 182,546 |
| Other income | 35,500 | 16,813 | 21,157 | 68,291 | -588 | 141,173 |
| Equity in net income of investees | 0 | 0 | 0 | 0 | 2,096 | 2,096 |
| **Total operating income** | **143,859** | **71,553** | **67,392** | **39,776** | **3,235** | **325,815** |
| Operating expenses | -68,162 | -26,371 | -26,576 | -1,956 | -3,199 | -126,264 |
| Depreciation and amortization | -7,888 | -2,201 | -2,671 | -134 | -1,777 | -14,671 |
| Credit loss expense | -23,649 | 1,992 | -22,934 | 0 | -549 | -45,140 |
| **Segment operating profit (loss)** | **44,160** | **44,973** | **15,211** | **37,686** | **-2,290** | **139,740** |
| Income tax expense | 0 | 0 | 0 | 0 | 0 | -19,946 |
| **Profit or loss for the year** | | 0 | 0 | 0 | 0 | **119,794** |
| **Spot volumes - MCLP** | | | | | | |
| Assets (loans) | 16,865,148 | 11,063,504 | 1,338,098 | 0 | 156,864 | 29,423,614 |
| Liabilities (demand and term deposits) | 5,960,723 | 4,731,475 | 0 | 4,688,344 | 1,144,082 | 16,524,624 |

# Entity structure and how it creates value

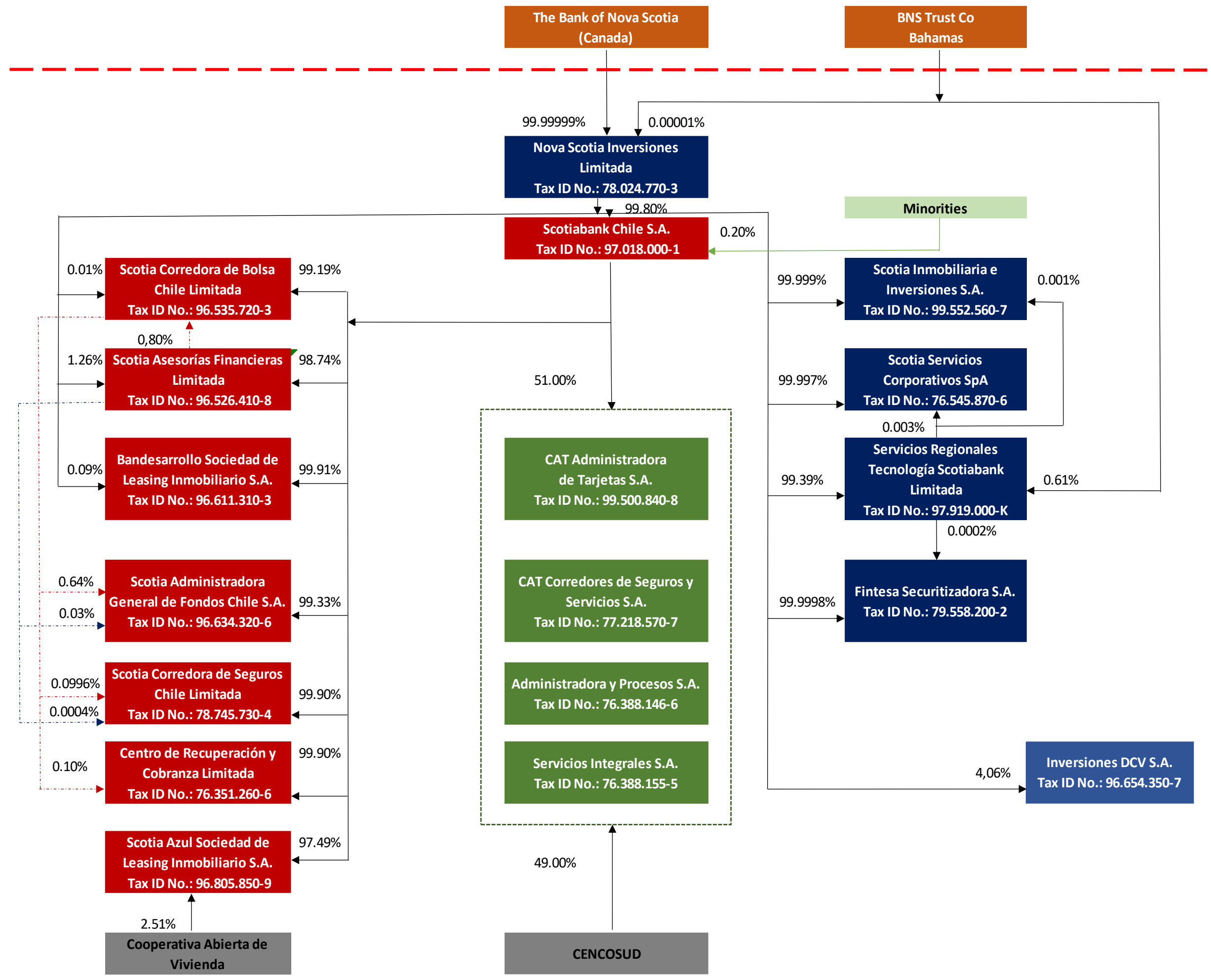
As at March 2023, Scotiabank Chile is owned by 99.80% by *Nova Scotia Inversiones Limitada*, an entity owned by the Bank of Nova Scotia (BNS), which is the Bank's sole controlling shareholder. The remaining percentage (0.20%) corresponds to minority shareholders.

In its turn, Scotiabank Chile controls the subsidiaries *Scotia Corredora de Bolsa Chile Limitada, Scotia Asesorías Financieras Limitada, Bandesarrollo Sociedad de Leasing Inmobiliario S.A., Scotia Administradora General de Fondos Chile S.A., Scotia Corredora de Seguros Chile Limitada, Centro de Recuperación y Cobranza Limitada and Scotia Azul Sociedad de Leasing Inmobiliario S.A.*

It also controls the companies comprising CAT, which are *Administradora de Tarjetas S.A., CAT Corredores de Seguros y Servicios S.A., Administradora y Procesos S.A. and Servicios Integrales S.A.* In all these companies, Cencosud holds ownership interest of 49%.

Figure No. 5

## Corporate structure



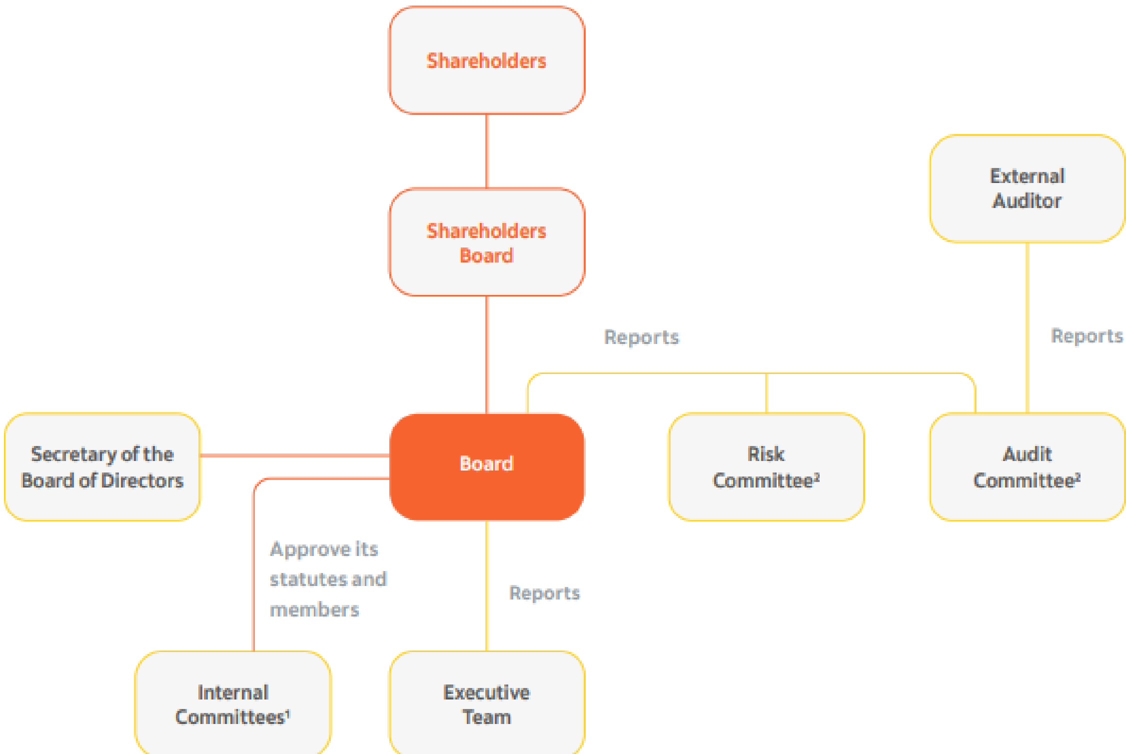

Corporate governance is a priority for Scotiabank and is an essential element for long-term success. Corporate governance policies are designed to ensure the independence of the Board of Directors and its ability to provide effective oversight of the Bank's operations by management.

It is composed of the shareholders, who through their meeting appoint the Board of Directors. The various committees that control the different areas of management, such as the Risk Committee, the Audit Committee, together with the other internal committees, report to this body. This is completed by the external auditors, who report directly to the Audit Committee.

At the Extraordinary Shareholders' Meeting held on November 14, 2022, the number of members of the Board of Directors was reduced to 7 regular members and 1 alternate director. In January 2023, the Financial Market Commission (CMF) approved this change in the bylaws and in such month the first meeting of the board was held, which was made up of four men and four women. Accordingly, Scotiabank Chile became the first private bank in Chile to have a board having parity of representation.

Figure No. 6

**Corporate Governance**




# 2. OBJECTIVES AND STRATEGY

## Business objectives and strategy

### Scotiabank's Strategy

The strategy is based on three corporate pillars: Customer First, A Winning Team and Leading in the Americas.

- Customer First is not something that is simply said, it is a way of thinking. It's about improving the ease of customer transactions, thanks to investments in employees, digital capabilities and process improvements, while generating consistent returns for the shareholders.
- Scotiabank is extremely proud of the Winning Team it has forged by attracting, retaining and investing in the right leadership that focuses on higher performance. The team is made up of people who are attracted to the inclusive culture and high performance and want to make a contribution to future success.
- Leading in the Americas means leveraging Scotiabank's global footprint in some of the strongest and most stable growth markets in the Americas. The entity is focused on outperforming the competition in these key markets over the long term.

To achieve these objectives, the following strategic focuses have been defined as follows:

- Funding structure: Consider initiatives focused on increasing On-demand/ Term Deposit Balances to continue closing the mix funding gap with the market. This will improve the Bank's profitability through a cheap, stable and diversified source of financing.
- Modernization and Continuous Improvement: Cross-cutting initiative, focused on developing plans to increase productivity, improving the end customer experience and promoting a digital culture within the organization. The ultimate goal is to consolidate its position as the best digital bank in Chile.
- Strengthen our footprint in the corporate world: Enhance the SME and Large Corporate segment, strengthening the team of relationship executives and products, continue with digitalization, supported by adjusted credit policies aligned with the Bank's risk appetite.
- Enhance High Net Worth - People: Position the Bank among the best players in the market to serve Affluent and Wealth segments. The project focuses on offering a differentiated and personalized value proposition, with high levels of management, service and effectiveness and a wide coverage nationwide.

- **ESG goals:** Prioritize environmental, social support, inclusion and governance commitments.[4]

# Non-financial objectives

Scotiabank is committed to generating a positive impact in the communities where it operates, which is part of the vocation that has characterized it since its incorporation in Canada 191 years ago. The Bank creates jobs, invests in businesses, in communities, promotes its values and is part of the society in which it participates. In its quest to build a stronger Bank, it is also building stronger societies. It is also a financial solutions provider and supports its customers, their families and communities, seeking to achieve success through a wide range of advice.

In addition to its financial strategy, Scotiabank is committed to creating value for its key stakeholders - customers, communities, employees and suppliers - through strong corporate governance and sustainable practices, as well as environmental care.

Accordingly, the Bank is convinced that economic growth goes hand in hand with social inclusion and respect for the environment, identifying and mitigating risks and enhancing development opportunities, both for the organization and for the society.

These cross-cutting efforts allowed the Bank to consolidate its position among the 30 companies with the best corporate reputation in Chile, after climbing five places and ranked 26th in the 2022 version of the Company Monitor on Corporate Reputation (Merco), a prestigious measurement that each year considers the 100 companies showing the highest valuation in this aspect.

At the community and social investment level, the Bank's efforts are focused on further developing the *ScotiaINSPIRA* program, whose purpose is to strengthen economic resilience in the communities where it operates, understanding this concept as the capacity of individuals, families, businesses, and communities to thrive in different circumstances and actively participate in local economies. Through a platform of competitive funds, a total of USD 245,000 has been allocated to nine social projects that have benefited more than 20,000 people in different locations throughout Chile.

Scotiabank has also defined itself as an organization that values every voice, so diversity, equity, inclusion and respect are part of its culture. Its Diversity, Equity and Inclusion policy, formalized in 2018, and updated in 2021 defines four pillars of work in these areas: gender equity, multiculturalism, LGBT+ community and disability. In this last aspect, 1.28% of the Bank's staff as at February corresponds to people with some type of visible and non-visible disability and more than 90% has an indefinite employment contract.

This work has allowed the Bank to be recognized by different organizations. This year, we were included among the ten companies that are examples of labor inclusion of people with disabilities, based on compliance with the practices that Sofofa's Inclusive Companies Network (ReIN) measures through the Measuring Inclusion in the Workplace (MILE) instrument.

In addition to this recognition and certifications obtained previously, the Bank has received awards such as the second place in Chile in the 2022 version of the Latam PAR Ranking, performed by the consulting firm *Aequales* to measure the performance in gender equity and diversity of private companies, public entities and SMEs in Latin America, and the seal of Diverse and Intercultural Companies, awarded by the Jesuit Migrant Service (SJM), the *Red de Empresas Interculturales* (Intercultural Companies Network) and the *Universidad de Chile*.

At the environmental level, the Bank is aware that climate change is affecting natural systems and communities around the world. It is therefore committed to reducing its impact on the environment. In this context, during this period, the Bank, through *Scotia Administradora General de Fondos*, subscribed to the UN Principles for Responsible Investment, which will help to deepen the thorough evaluation of environmental, social, and corporate governance factors conducted when making investment decisions. It will also reinforce the Environmental Risk Management Framework, previously approved by the Board of Directors, to effectively address the organization's exposure to environmental risks to be effectively managed in accordance with industry standards and best practices, together with regulatory requirements.

[4] Further detail on this focus is provided in the next section.

With regard to employees, being a great place to work is one of our goals. We are concerned that employees can develop in a culture that is safe, inclusive and committed to doing the right thing. To achieve this, the Bank has training and development plans, such as a women's leadership program that debuted in 2023 to promote the development of their careers, which is why the call for applications, launched in March, was open to all women working at the Bank, who represent 54% of the headcount.

In addition, the Bank has developed a robust compensation system based on principles of fairness, competitiveness and emphasis on performance. Likewise, time, money and welfare benefits are offered thinking about the diversity of employees, so that they are able to choose among some of its modalities, according to their priorities, needs and interests.

In this context, the Bank is also committed to flexibility and the permanent implementation of the hybrid and flexible work model, referred to as W4 or "The Way We Work and Where", which combines face-to-face and remote work based on differentiated schemes for each area of the Bank according to its objectives, business needs and the needs of its teams.

In addition, in a pioneering move in the banking industry, beginning in May 2022, Scotiabank Chile reduced its workday to 39 hours a week as a way of improving the quality of life of its employees, achieving a better work-life balance and promoting co-responsibility. All such milestones -made possible thanks to the advances in productivity associated with the modernization and digital transformation agenda deployed by Scotiabank- have been recognized in different instances such as the ranking of Large Corporations "2022 Integrating Personal Life and Work" of *Fundación Chile Unido*.

## Digital transformation for customers

Scotiabank Chile has consolidated its position as the best digital bank for its customers, which was recognized by the prestigious international magazine LatinFinance, naming the Bank as the Best Digital Bank in Latin America and the Caribbean. This recognition is supported by the significant advances made in the conformation of a complete ecosystem of products and functionalities that respond efficiently to simplify people's lives by accompanying them in their new habits and digital needs.

With this vision in mind, the Bank has implemented several new developments. In the reporting period, it added new functionalities such as the digital investment advisor *Invierte Smart*.

In addition, during the first quarter of 2023, updates to the mobile application were released with a view to its subsequent renewal, and the Keypass digital authorization system for transactions was also updated.

The positive outcome of this strategy is reflected in our customers' digital adoption, which went from 54% at the end of 2019 to almost 71% today. In addition, the digital adoption rate of our chequing account customers is close to 92%.

In Corporate Banking, the rate of use of digital channels is 80% and is due to advances such as the digitalization of more than 70% of the products and services offered by the Bank, having among its latest milestones the 100% online implementation of the process of contracting massive payments to suppliers and payroll, among others. A pioneer system in the industry that simplifies and reduces to just minutes a process that in other entities can take several days.

In line with the strategy of supporting its customers, in January, the Bank signed a strategic alliance with *Fintechile*, the association that brings together and represents technology finance companies in Chile, and became a sponsor of Fintech Partners, a program that seeks to generate visibility and instances of collaboration for the more than 130 companies that are part of the association and the Bank's corporate clients with the aim of accompanying them in their own digitization processes.

Previously, the Bank successfully launched ScotiaZero, the first 100% digital chequing account with no maintenance cost or income requirement, which also includes, for the first time in the industry, a chequing account in U.S. dollars and a digital debit card. This product represents the gateway to the first "financial supermarket" in the market and is part of a full digital ecosystem developed by the Bank with the aim of empowering its customers through technology and making available to them, through digital channels and telephones, all products and services so they can decide and choose what they need. These developments are part of the modernization and digital transformation process that the Bank is promoting to enable its teams to focus on providing the best service while increasing productivity.

## Promoting women's leadership

Scotiabank believes in the transformative power of women and in the leading role they play in society and in the development in Chile, which is why promoting gender equity, equal opportunities and female empowerment is one of the fundamental pillars of the Bank and for this reason, it promotes internally and externally several initiatives to strengthen the role of women, empowering them and enhancing their leadership.

As at March, 54% of the workforce was female, whereas 27% of senior management positions were held by women. In addition, we continue to develop the Scotiabank Women's Initiative in Chile, a global program created to enhance the professional and financial development of women entrepreneurs and executives, helping these customers to break down the barriers that limit their growth and increase opportunities to reach their greatest potential both today and in the future.

The Women's Initiative began three years ago in Canada and Chile is the first country in the Pacific Alliance where it is being implemented. During this period, it organized two face-to-face meetings in the regions with female customers who are members of the program and who participated in a talk on current economic events that, in addition to being an educational and support event, was also a business networking platform.

# Significant changes in objectives and strategy

The medium-term strategy and objectives remain in line with last year, i.e., without significant changes; however, two changes in structure support the previously mentioned objectives:

1. December 2022 marked the one-year anniversary of the official launch in Chile of the Wealth Management division, which globally provides services to more than 2 million customers and manages close to USD 500 billion in assets, and which locally recorded positive levels of performance in terms of customer acquisition and assets under management. It celebrated the milestone for its customers in an exclusive ProAm golf tournament with the participation of the outstanding national golfer Felipe Aguilar, an activity that took place within the framework of the Scotia Wealth Management Chile Open Chile 2022, an event of the PGA Tour Latin America of which the division is the main sponsor.

2. During the period, changes were made in the Retail Banking and Technology & Operations divisions, to which Scotiabank's Digital Factory capabilities were integrated. This adjustment is part of the transformation that seeks to continue growing at the pace of customer needs, placing digitalization at the center of the strategy to improve the supply of products and services.

# Business Vision and Value Strategy

Scotiabank has a strategic plan, in which it has described its Vision and Mission:

## Vision

Scotiabank Chile's vision is inspired by the corporate vision, "For Every Future", which seeks to reflect the motivation and purpose as a financial institution to help customers, their families and their communities achieve success by offering them a full range of products and advice.

## Mission

Scotiabank's mission is based on three basic pillars: the customer is first, having a winning team and leading in the Americas. Scotiabank is confident that by performing its mission will deliver consistent results for its shareholders over the long-term.

# 3. ENTITY'S RESOURCES, RISKS AND RELATIONSHIPS

## Description of the main financial resources available

In order to perform its short and long-term strategy, Scotiabank actively manages its liquidity so that its sources of funding are well diversified, a key element of its funding strategy, which aims to achieve an appropriate balance between the cost and stability of funding.

Funding concentration is regularly monitored and analyzed for each type of source. Specifically, these sources correspond to capital, on-demand balances, term deposits for individuals and institutions, bank borrowings banks and debt instruments issued, among others.

In this context, deposits and other on-demand liabilities are key components of the Bank's core funding, which amounted to CLP 4,946,042 million as at March 31, 2023 (CLP 5,076,459 million as at December 31, 2022 and 6,382,260 million as at March 31, 2022). Deposits and other term deposits represented CLP 13,902,249 million as at March 31, 2023 (CLP 13,792,388 million as at December 31, 2022 and 10,142,364 million as at March 31, 2022), whereas bank borrowings amounted to CLP 5,186,289 million as at March 31, 2023 (CLP 5,342,213 million as at December 31, 2022 and 5,424,320 million as at March 31, 2022). In addition, core funding was supplemented with debt issuances of CLP 8,919,695 million (CLP 8,695,108 million as at December 31, 2022 and 7,702,432 as at March 31, 2022).

It should be noted that in the last quarter, and also in year-on-year terms, the substitution effect between demand deposits and term deposits has been maintained. This is mainly because the higher opportunity costs of the increases in the monetary policy rate.

This substitution effect is expected to continue during the second quarter of 2023, to gradually begin the reverse process once the *Banco Central de Chile* begins the cuts of the monetary policy rate during the second half of the year.

The Bank holds liabilities in Chilean pesos, *Unidades de Fomento* (inflation-adjusted units) and in foreign currency, mainly in U.S. dollars. Currency mismatches are monitored on an ongoing basis and transactions are within the extent of the liquidity risk appetite defined.

Table No.3 shows the main sources of financing for the first quarter of 2022 and 2023.

Table No.3: Sources of financing

| Components | Mar - 2023 MCh$ | Dec - 2022 MCh$ | Mar - 2022 MCh$ |
|---|---|---|---|
| Deposits and other deposits and other on demand liabilities | 4,946,042 | 5,076,459 | 6,382,260 |
| Term and other on-demand deposits | 13,902,249 | 13,972,388 | 10,142,364 |
| Obligations with domestic banks | 0 | 0 | 0 |
| Obligations with foreign banks | 2,156,263 | 2,312,187 | 2,394,294 |
| Obligations with Banco Central de Chile | 3,030,026 | 3,030,026 | 3,030,026 |
| Letters of credit | 97,086 | 100,235 | 102,499 |
| Current bonds | 7,815,312 | 7,606,930 | 6,820,665 |
| Subordinated bonds | 1,007,297 | 987,943 | 779,268 |
| **Total** | **32,954,275** | **33,086,168** | **29,651,376** |

In terms of capital, Scotiabank Chile has not recorded any capital increases since March 2020. Because of the Bank's stable and healthy funding structure, currently it has no funding shortfalls or difficulties in its sources of funding.

# Description of the main non-financial resources available

Scotiabank has developed several resources and initiatives to improve the quality of life of its communities, stakeholders, the environment, its partners and customers, which are detailed below:

## Scotia Connect

It is a group of remote branches, composed of a team of commercial and operational executives, who serve customers through a remote service model (email and/or telephone only). Note that they do not have a face-to-face service, but rather under a semi-portfolio model (the customer is managed by their team of executives "minipool") and the delivery of products and signing of documents is performed via delivery service.

As at March 2023, the Bank has 17 Connect branches, providing services to over 140 thousand customers.

## APP SCOTIABANKGO

This App is intended to have a single mobile digital channel for all customers at a click's reach, with the highest standard of information security and providing all the functionalities that a customer needs to satisfy their needs and/or requirements. As at March 2023, there were 447 thousand active mobile users, up 16% compared to the prior year. Likewise, March 2023 closed recording 580 thousand active digital users and a digital adoption rate of 72%.

## Scotiabankers

The entity's most important resource is its employees. As at March 2023, Scotiabank has a total of 6,035 employees, distributed among the Bank and its subsidiaries. Scotiabank strongly believes the success of its activities is based on a sound performance culture, under a process concept that is ever growing. This has allowed it to enhance the development of its employees and identify learning opportunities to strengthen their growth and maintain a high level of commitment to the organization. The breakdown of employees can be seen in Table No.4.

Table No.4 Detail of employees

| Total headcount | Mar - 2023 | Dec - 2022 | Mar - 2022 |
|---|---|---|---|
| Senior Management | 25 | 23 | 23 |
| Management | 163 | 162 | 162 |
| Professionals | 4,009 | 3,890 | 3,668 |
| Administrative personnel | 1,686 | 1,698 | 1,971 |
| Sales force | 152 | 185 | 196 |
| **Total** | **6,035** | **5,958** | **6,020** |

## Diversity in the Board of Directors

As at March 2023, the Board of Directors is composed of 4 women and 4 men, as shown in Table No.5.

Table No.5 Diversity in the Board of Directors

| Women | Men | Total |
|---|---|---|
| 4 | 4 | 8 |

Note that at the Extraordinary Shareholders' Meeting held on November 14, 2022, the number of members of the Board of Directors was reduced to 7 regular members and 1 alternate director. In January 2023, the Financial Market Commission (CMF) approved this change in the bylaws and in such month the first meeting of the board was held, which was made up of four men and four women. Accordingly, Scotiabank Chile became the first private bank in Chile to have a board with parity of representation.

# Discussion on the Capital structure

Scotiabank's capital structure complies with the minimum capital requirements established by the Financial Market Commission (CMF) under Law No. 21130, which defined new requirements in line with international standards known as "Basel III."

At the end of March 2023, basic capital amounted to CLP 3,140,204 million to which is added the additional Tier 1 capital of CLP 154,525 million, which added together complete the Tier 1 capital of CLP 3,294,729 million. Tier 2 capital, which corresponds to the sum of additional provisions plus subordinated bonds, amounted to CLP 847,904 million, resulting in total effective equity of CLP 4,142,633 million.

In addition, note that regulatory limits of the Tier 2 capital components showed headroom, since subordinated bonds were using 21.88% of a maximum of 50% of the possible core capital and, for additional allowances, these amounted to 0.65% of a maximum of 1.25% of the Risk-Weighted Assets (RWA).

In compliance with the standards issued by the CMF, note that from December 1, 2021, the RWA used for the calculation of the effective equity ratios included Market Risk Weighted Assets, which amounted to CLP 2,959,825 million for December 2022, together with the Operational Risk Weighted Assets, which amounted to CLP 2,580,951 million, and the method for the calculation of Credit Risk Weighted, which amounted to CLP 25,364,170 million, was modified.

The effective equity to total RWA ratio reached 13.40% as at March 2023, which shows the Bank's adequate solvency and is in line with the strategic definitions of its Parent.

Leverage ratio, Basic Capital to Total Assets ratio, was 7.29%.

The capital structure is shown in Table No.6.

Table No.6 Capital Structure

| Available Capital | Mar - 2023 MCh$ | Dec - 2022 MCh$ | Mar - 2022 MCh$ |
|---|---|---|---|
| **Tier 1 Capital** | **3,294,729** | **3,288,621** | **2,976,321** |
| **CET 1** | **3,140,204** | **3,135,979** | **2,703,047** |
| Capital | 1,368,421 | 1,368,421 | 1,368,421 |
| Reserves | 381,405 | 381,405 | 382,266 |
| Retained earnings | 1,487,080 | 1,436,903 | 1,174,922 |
| Valuation | -187,573 | -139,638 | -341,898 |
| Minority interest | 132,525 | 140,227 | 119,336 |
| Equity adjustments | -41,654 | -51,339 | 0 |
| **AT1** | **154,525** | **152,642** | **273,274** |
| Additional tier 1 capital | 154,525 | 152,642 | 273,274 |
| **Tier 2 Capital** | **847,904** | **834,128** | **551,676** |
| Subordinated bonds | 683,656 | 669,880 | 365,914 |
| Additional allowances | 164,248 | 164,248 | 185,762 |
| **Total effective equity** | **4,142,633** | **4,122,749** | **3,527,997** |

Table No.7: Capital Components

| Concept | Mar - 2023 (%) | Dec - 2022 (%) | Mar - 2022 (%) | Regulatory Requirements |
|---|---|---|---|---|
| Regulatory Capital (T1 + T2) | 13.40% | 13.50% | 12.91% | > = 9.56% |
| CET1 / RWA | 10.16% | 10.27% | 9.89% | > = 6.06% |
| T1 / RWA | 10.66% | 10.77% | 10.89% | > = 7.56% |
| Leverage ratio | 7.29% | 7.20% | 7.02% | > = 3% |
| Tier 2 / Tier 1 | 25.74% | 25.36% | 18.54% | - |
| Subordinated debt / CET1 | 21.77% | 21.36% | 13.54% | < 50% |

# Financial agreements

In the normal course of business, the Bank has entered into contractual agreements with third parties. Depending on the nature of the agreements, they could have a current or future impact on the Bank's financial performance. Among the most significant agreements is Scotiabank's strategic partnership with Cencosud, effective since 2015.

In recent periods, the Bank has entered into contracts with third parties in the areas of means of payment, insurance, outsourcing of services, among others.

# Description of the Bank's liquidity and cash flows

Liquid assets are a key component of liquidity management, and the Bank holds sufficient liquid assets to meet potential liquidity management needs.

Liquid assets can be used to generate cash, either through sale, repurchase or other transactions where such assets can be used as collateral to generate cash or by allowing the asset to mature. Liquid assets include deposits with central banks, deposits with financial institutions, demand and other short-term loans, marketable securities and securities received as collateral for securities financing and derivative instruments.

The Board of Directors is responsible for periodically defining the Bank's liquidity risk tolerance level, understood as the level of liquidity risk that the Bank is willing to assume. Scotiabank Chile has a Liquidity Management Policy aimed at ensuring timely compliance with obligations, safeguarding adequate liquidity risk management.

The Bank conducts stress tests at least quarterly to analyze the potential impact of adverse scenarios on the liquidity position, considering idiosyncratic and systemic scenarios.

## Liquidity coverage ratio

This indicator is intended to ensure that the Bank maintains a minimum level of unencumbered, high quality liquid assets that can be readily converted into cash to meet cash outflows over a 30-calendar daytime horizon, based on a critical regulatory liquidity stress scenario defined by the regulator.

The Bank's main liquidity metric is the Liquidity Coverage Ratio (LCR). The LCR amounts achieved by the Bank at the consolidated level are shown in Table No.8.

Table No.8: Liquidity coverage ratio

| Liquidity coverage ratio | Mar - 2023 MCh$ | Dec - 2022 MCh$ | Mar - 2022 MCh$ |
|---|---|---|---|
| High quality liquid assets | 3,413,313 | 3,241,672 | 2,464,780 |
| Net adjusted expenses | 1,638,109 | 1,292,521 | 1,712,977 |
| **LCR%** | 208.37% | 250.80% | 143.89% |

## Net Stable Funding Ratio

Additional to the LCR, and in accordance with current regulations, the Bank also monitors the Net Stable Funding Ratio (NFSR). This indicator consists of a structural liquidity metric, aimed at ensuring that the Bank maintains a stable funding profile in relation to the composition of assets and off-balance sheet activities.

In March 2022, *Banco Central de Chile* published a new regulation on liquidity risk management in the banking system. In accordance with such regulation, a minimum limit of 60% would be established beginning on January 1, 2022, considering a gradual implementation period that would finish in January 2026, with a limit of 100%.

Amounts achieved by the Bank in this metric are shown in Table No.9.

Table No.9: Net Stable Funding Ratio

| Net Stable Funding Ratio | March 2023 MCh$ | December 2022 MCh$ | March 2022 MCh$ |
|---|---|---|---|
| Available stable funding (ASF) | 26,738,670 | 27,760,510 | 24,792,356 |
| Required stable funding (RSF) | 27,979,645 | 29,191,010 | 23,732,594 |
| **Net Stable Funding Ratio (%)** | 95.56% | 95.10% | 104.47% |

# Action plan to manage an excess or shortfall of resources

The Bank has a liquidity contingency plan, which specifies an approach to analyze and respond to potential liquidity events. The plan describes an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication and identifies possible countermeasures to be considered at several stages of a liquidity event. A contingency plan is established both at the Bank level and for the main subsidiaries.

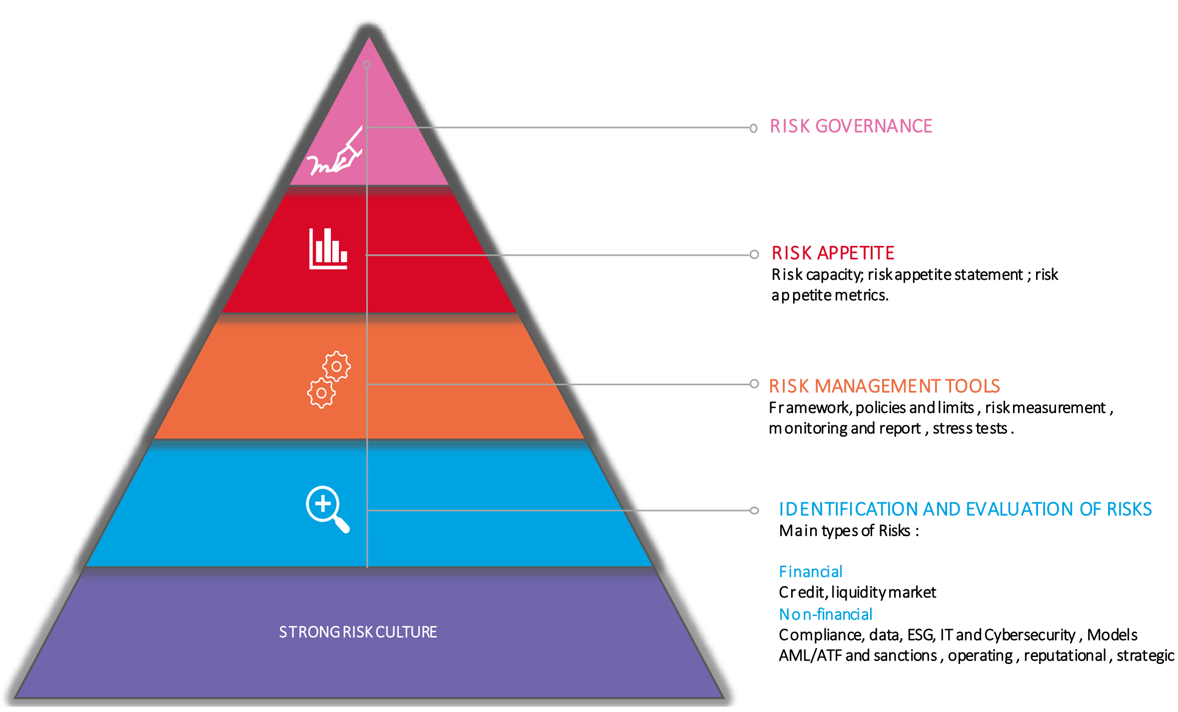
Scotiabank manages its excess financial resources within the framework established by market and liquidity risk limits.

# Potential impact of identified risks and how they are managed

Efficient and effective risk management is pivotal to Scotiabank Chile's success and is a key part of both the Bank's risk management approach and the overall approach to strategy management. Scotiabank has a strong risk culture model, which involves all Bank's employees in managing risks. It considers policies, processes, control management and auditing as key elements, which are critical components for creating a strong risk culture. The components of risk culture can be observed in Figure No. 7.

Figure No. 7

**Risk Culture**

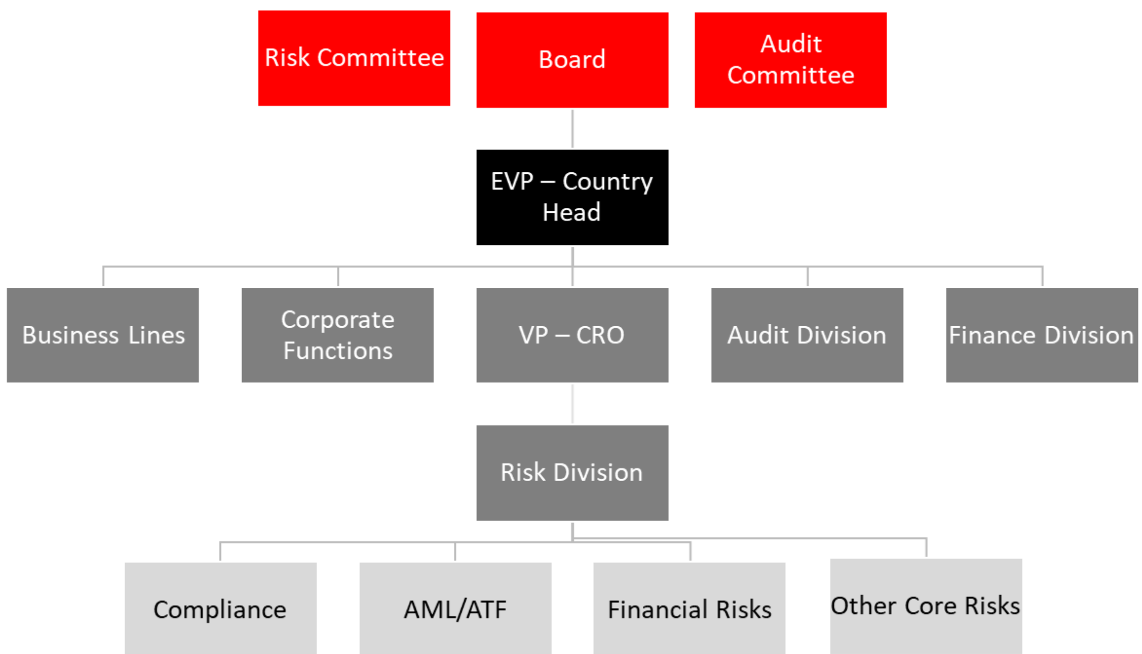


# Governance structure

The Board of Directors and its committees are responsible for the Bank's oversight and risk management activities and are organized as shown in Figure No. 8.

Figure No. 8

**Management structure**




# Risk structure key components

Board of Directors
Because it is the Bank's highest governance body, it provides oversight, either directly or through its committees, to ensure that decision-making is consistent with the Bank's strategies and risk appetite. In addition, the Board of Directors receives regular updates on key risks, including a summary of the Bank's risk profile and the performance of the portfolio compared to the limits established. Approves key risk policies, limits and risk appetite framework.

Risk Committee
Provides assistance to the Board of Directors in meeting its responsibilities of identifying and monitoring key financial and non-financial risks. The Committee supports the Board by overseeing risk management functions including credit risk, market risk and operational risk. This also includes periodically reviewing and approving key risk management policies, frameworks and limits and ensuring that all Bank management is operating within the risk appetite framework. The Committee also monitors the independence of each of these control functions, including the effectiveness of those in charge of such duties and the functions themselves.

Audit Committee
It is intended to be responsible for the different aspects that involve efficiency, maintenance, application and operation of the internal control systems of the Bank and its Subsidiaries; carefully monitor compliance with the standards and procedures that govern their practice; have a clear understanding of the risks that the business performed may mean for the institution; reinforce and support the function of the Comptroller's Office, as well as its independence from management and serve as a link and coordinator of tasks between the internal audit and the external auditors, also acting as a link between them and the Bank's Board of Directors.

Executive Vice President - Country Head
Directly responsible for defining, communicating and implementing Scotiabank Chile's strategic direction, goals and core values that maximize long-term shareholder value. Oversees the implementation of the Bank's risk appetite collaborating with the SVP Chief Risk Officer of the Risk Division and the SVP & Chief Financial Officer of the Finance Division, which is consistent with the Bank's short and long-term strategy, business, and capital plans.

SVP *Chief Risk Officer*
Ranks under the direct supervision of the Executive Vice President - Country Head and reports to the Risk Committee. He has overall responsibility for Scotiabank Chile's AML/ATF risk management, compliance and prevention of money laundering and terrorist financing. The SVP Chief Risk Officer, as well as the Compliance Manager and the AML/ATF Manager, have unrestricted access to certain Directors' committees to ensure their independence. As a Senior Member of the Bank's Senior Management, the Senior Risk Vice President participates in strategic decisions related to where and when the Bank will use its several sources of capital resources to achieve the Bank's business line performance goals and overall objectives.

Risk Management Department
The Risk Management Department reports to the Head Office's international management of the Risk Management Department. This management has operational, credit and market risk divisions, which also report to Scotiabank Canada through their related risk units.

Management model
The risk management model is structured in three lines of defense:

1. The first line is composed of the business units, which are basically the business units that incur and own the risks.

2. The second line of defense is composed of the control functions (Risk Management and Compliance) and provides the guidelines and governance framework for risk management, along with monitoring and controlling risks.

3. The Internal Audit area is the third line of defense, independently verifying the performance of the business areas and the risk management control functions.

# Bank's main risks

## Financial risks

These are risks that are directly associated with the Bank's core business and revenue-generating activities. In turn, these are risks that the Bank understands well and assumes in order to generate sustainable, consistent and predictable earnings. Financial risks are generally quantifiable and relatively predictable.

The Bank is willing to assume these types of risks, as they are considered to be a critical part of business activities. This is provided they are well understood, are within the limits that have been established and meet the desired risk or return profile.

Credit risk
The risk of loss resulting from the failure of a customer or counterparty to meet its financial or contractual obligations to the Bank. Credit risk arises in the Bank's direct lending operations and in its financing, investing and trading activities, where counterparties have repayment or other obligations to the Bank.

The Bank manages credit loss through a number of tools that include procedures, models, validation, controls, behavioral monitoring, etc. This is part of a global strategy. Different limits and models are established based on the features of the customers and the environment in which they operate.

See note 47 to the Interim Financial Statements as at March 2023 for further details regarding specific management and exposure to Credit Risk.

Market risk
The risk of loss from changes in market prices and rates (including interest rates, credit spreads, exchange rates and the prices of *commodities*), the correlations between them and their volatility levels. Market risk includes trading risk, investment risk, interest rate risk, foreign currency risk and indexation risk.

See note 47 to the Interim Financial Statements as at March 2023 for further details regarding specific management and exposure to Market Risk.

### Liquidity risk
This is the risk that the Bank will not be able to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities lending and repurchase transactions, and lending and investment commitments.

See note 47 to the Interim Financial Statements as at March 2023 for further details regarding specific Liquidity Risk management.

# Non-financial Risks

These risks are inherent to the Bank's business and may have negative strategic, business, financial or reputational consequences if not managed. Compared to financial risks, these risks are less predictable and more difficult to define and measure. The Bank states it assumes low levels of non-financial risks and works to ensure that they are adequately controlled.

### Operational Risk
This is the risk of loss resulting from inadequate or failed people, processes and systems, or from external events. Operational Risk includes third party risk and legal risk but excludes strategic risk and reputational risk. Operational Risk exists, in a certain way, in each of the business and support activities of the Bank and its Subsidiaries, and could give rise to financial losses, sanctions by regulatory authorities or damage to the reputation of the institution.

### Strategic Risk
It is the risk that the Bank, its business lines or corporate functions, make ineffective strategic decisions or are not sufficiently resilient to changes in the business environment or that such strategies are deficiently performed.

### Reputational Risk
The risk that negative publicity regarding Scotiabank's conduct, business practices or associations, whether true or not, will have an adverse effect on its revenues, operations or customers, or will require litigation or other costly defensive measures.

Thanks to the Bank's reputation management and proactive communication with its stakeholders, Scotiabank increased 22 points in the latest edition of the Reputation Index conducted by the Reputation Observatory (IPSOS).

### Compliance Risk
This is the risk that an activity will not be conducted complying with applicable laws, rules, regulations and prescribed practices, as well as with the internal policies, procedures and ethical standards expected by regulators, customers, investors, employees and other stakeholders. Compliance risk comprises regulatory compliance risk, conduct risk and privacy risk.

### Cybersecurity and Information Technology (IT) Risk
Information Technology (IT) Risk relates to the risk of economic loss, disruption or reputational damage due to some type of failure in IT systems. Cybersecurity risks are a subset of the unique IT risks that the Bank faces as a result of the use of interconnected systems and digital technologies.

### Money Laundering and Terrorist Financing Risk (AML/AFT)
Money Laundering and Terrorist Financing Risk is the susceptibility of Scotiabank Chile to be used by individuals or organizations in the crime of money laundering, terrorist financing or violations of economic sanctions. This also includes the risk that the Bank does not comply with applicable anti-money laundering (AML)/anti-terrorist financing (ATF) legislation, sanctions legislation or fails to implement controls reasonably designed to deter, detect and report AML/AFT.

### Environmental, Social and Governance Risk (ESG)
This is the risk that environmental, social and corporate governance factors related to Scotiabank's conduct, business practices or relationships may have an adverse impact on the Bank's performance.

The Bank is directly and indirectly exposed to ESG risks due to its business activities and internal operations. Because of their very nature, ESG risks can increase many of the Bank's other major risks, such as credit, compliance, operational and reputational risks. Consequently, ESG risk management is also integrated into the governance structures and risk management elements of the other main risks they may affect.

ESG risk encompasses environmental risk, the potential negative impacts of potential damage to the natural environment from the Bank's direct and indirect practices, social risk, the potential negative impacts to a business that may arise due to improper management of social considerations that may cause real or perceived negative impacts on individuals and communities, and governance risk, which covers the Bank's processes and policies, how decisions are made, and how the Bank addresses the diverse interests and relationships with its many stakeholders, including shareholders, customers, employees, and the community in general.

### Model Risk

Model risk is that type of risk that produces adverse financial results (e.g., capital, loss, income) and reputational consequences arising from the design, development, implementation or use of the model. This can originate from inadequate specifications, incorrect parameter assumptions, false assumptions or presumptions, mathematical computation errors, inaccurate, inadequate, or missing information, improper use, and lack of monitoring or controls.

### Data Risk

This is the direct or indirect risk from data used to support the Bank's ability to make informed decisions and produce accurate reports and analysis for the Bank, including the Board of Directors, Senior Management and regulators, or for customers and/or for marketing purposes. Risks to which the Bank is exposed include data management, data taxonomy, metadata, breaches or incomplete, inaccurate, invalid, untimely or inaccessible data.

# Changes in risk management

The risk committee is in charge of managing and recommending to the Board of Directors the necessary changes to obtain adequate risk management and monitoring.

Scotiabank Chile's risk management framework is reviewed and updated at least annually or as material changes are required by the Enterprise Management Risk Management (ERM), which is responsible for the RAF (Risk Appetite Framework). These updates go through an Advice & Counsel process at the Head Office, to be finally presented to the Risk Committee and Local Board of Directors for approval.

After being approved by the Risk Committee and the local Board of Directors, it is distributed among the Managers who are members of the Executive Committee. The document is published on one or more web sites, including the Bank's intranet. Likewise, the RAF is distributed to the Senior Management of the Bank's subsidiaries for their respective adoption.

# Relationships

The purpose of sustainability is to create value for the society and for Scotiabank, through the commitments that the Bank makes to its main stakeholders through sound corporate governance and good Corporate Social Responsibility practices. Scotiabank understands Sustainability and Social Responsibility as a way of doing business in which the economic growth goes hand in hand with social inclusion and respect for the environment, identifying and mitigating risks and enhancing development opportunities, both for the Bank and for the society.

For the first time, in 2022 the Bank measured its sustainability performance at the level of its different stakeholders through the SSIndex tool.

## Main relationships

### Scotiabankers

Scotiabank helps employees build their future, so that work and family life can be balanced. Your health care is an issue of vital importance to the Bank. Scotiabank Chile has built a culture of significant benefits thought for all the diversity of employees, so that they are able to choose among some of its modalities, according to their priorities, needs and interests.

### Customers

Customers are at the heart of the Bank's management and the purpose of its existence, and Scotiabank works to provide services to them in the best possible way. This means ensuring the confidentiality and security of information, complying with responsible sales practices, and resolving your requests and complaints as quickly as possible. Scotiabank is concerned with providing products, services and experiences that enable customers to project a better future through a broad portfolio of financial services and solutions. The Bank has more than 1,200,000 customers, including personal, commercial, SME and retail banking, and treasury.

### Shareholders

Scotiabank's guidelines for the information provided to shareholders include maintaining continuous and fluid communication, facilitating shareholder participation in meetings, and holding the Investor Day.

### Community

Scotiabank is concerned with establishing a link with the community and society in which it operates.

### Environment

Scotiabank understands that climate change is affecting natural systems and communities, posing a risk to the global economy and society, in order to take action to accelerate climate solutions and promote sustainable economic growth. Scotiabank has made five corporate-level climate commitments:

### Commitments

1. Mobilize CAD 350 billion by 2030 to reduce the impacts of climate change.

2. Ensure strong climate-related governance and transparency in the Bank's climate-related reporting.

3. Decarbonize operations and seek innovative solutions to reduce the Bank's impact on climate change.

4. Establish a Climate Change Center of Excellence to mobilize internal and external collaboration and coordinate discussion and information exchanges on such subject matter.

5. Optimize the integration of climate risk assessments in operations such as lending, financing and investments.

### Stakeholder-related milestones

1. Awards and acknowledgments

Recently, Scotiabank Chile was distinguished as the Digital Bank of the Year in Latin America and the Caribbean within the framework of the 2022 edition of the awards of the prestigious magazine LatinFinance, which highlighted initiatives such as the implementation of the digital self-service model and the development of disruptive products, such as the first free and 100% digital chequing account in Chile and the unprecedented financial supermarket model.

The publication also endorsed the leadership position built at the corporate level by awarding it the prize for Investment Bank of the Year in Chile.

This recognition is in addition to that previously awarded by The Banker magazine, linked to the Financial Times, which recognized Scotiabank as the best Investment Bank of the Year for the Americas, acknowledging its excellent service to Global Banking and Markets customers in the countries where it operates in the continent, including Chile.

In addition, the Scotia Wealth Management division, which has been present in Chile since 2021, received four awards in the 2022 edition of the Global Finance and PWM/The Banker Global Private Banking Awards. The first publication distinguished it as Best Private Bank for customers whose net worth was between US$ 1 million and US$ 24.9 million, and Best Private Bank for female customers. *PWM/The Banker*, meanwhile, singled out the division as Best Branding in Private

Banking in North America, Best Private Bank for Wealthy Women and gave it a mention as Best Private Bank in Canada.

2. Top Employer Certification

In January, the bank received for the first time the international Top Employers certification, which distinguishes companies for the excellence of their people management practices.

Among the differentiating attributes that allowed us to obtain this seal, the aspects that stand out is that we were the first bank in Chile to reduce our working hours to 39 hours a week, and also for our solid diversity and inclusion policies.

3. Corporate Volunteer Program

In January, the Bank launched a new version of its Corporate Volunteer Program, which in 2023 will return completely to face-to-face work, through a plan of activities that will be developed throughout the year and will be linked to the Diversity and Inclusion pillars. The Bank is supported in this program by *Fundación Trascender*.

4. Economic talks for customers cycle

During 2023, the Bank will replicate the open talk for customers cycle to provide them with background on the global and local economic context and related forecasts, which are transmitted via streaming and broadcast on the Bank's networks and channels. This year the focus will be on customers in regions other than the Metropolitan Region of Chile, where activities will be performed focused on the Wholesale Banking and the Scotiabank Women's Initiative program.

5. Entrepreneur and Executive Award

As part of its commitment to promote gender equity, inclusion and women's leadership, Scotiabank has been developing for more than a decade the traditional Entrepreneur Award, which highlights women's leadership in the business world and from its inception has attracted more than 33 thousand women and awarded 81 of them.

6. Financial literacy competition for young people

Financial literacy is key for young people to learn manage their finance responsibly and to accompany them, in 2022, the Bank performed the first school competition that, through the game Financity, teaches concepts such as saving, debt payment and household management, which will be performed again in 2023.

7. Children's National Soccer Cup and sponsor of *Latam Olimpiadas Especiales*

The 2022 edition of the traditional National Children's Soccer Cup ended in November and this year returned to the on-site format involving over 1,600 children from 150 schools in five cities of Chile, who under strict sanitary protocols faced each other from June in a mixed U-11 category and a female U-15 category. This activity is part of the Scotiabank FC Platform, which the Bank relaunched in Chile this year, and the winners were establishments in the Coquimbo and Metropolitan regions.

In addition, the Bank sealed a partnership as Latin American sponsor of the soccer activities of *Olimpiadas Especiales*, an entity that supports athletes with intellectual disabilities. The participation of 16 teams in a tournament held in La Reina borough marked the beginning of this long-term joint work, which is also part of the Scotiabank FC platform.

8. Launch of Affinity Groups (ERG) and certification of Inclusion Managers

To deepen its Diversity, Inclusion and Respect strategy, Scotiabank launched in Chile its program of affinity groups on Gender, Disability, Multiculturalism and LGBT+ Community topics, supported by the Bank's Diversity, Equity and Inclusion Committee to share experiences, interests and goals on these topics and operate from a structure of sponsors, ambassadors and allies.

Also, as part of this active promotion of diversity and inclusion, during this period the Bank certified its first eight Inclusion Managers, a figure that is contemplated in the Disability Law, which requires each company to have at least one professional with these competencies that seek to facilitate the incorporation of employees with disabilities into the organizations under equal opportunity conditions.

9. Partnership with UTFSM

In the framework of the alliance with the Computer Science Department of the *Universidad Técnica Federico Santa María* to promote digital transformation, innovation and female and vocational participation in STEM (science, technology, engineering and mathematics) careers, during the first quarter of 2023, Scotiabank was involved in several activities, such as the call for a new preparatory version for the Challenge Technovation Girls Chile, which seeks to develop early vocations of girls and young women in careers related to science and technology. The goal is to replicate the success achieved in 2022 when one of the teams trained under this partnership won the Climate Prize in the international finals of this UN SDG-related app development competition.

This five-year partnership began in 2020 and includes a total budget of USD 1.2 million, which is expected to benefit more than 6,000 students.

# 4. OPERATING PERFORMANCE AND OUTLOOK

The following discussion relates to the Consolidated Financial Statements of Scotiabank Chile as at March 31, 2023. The balances in the statement of financial position are compared to March 2022. The statement of income compares profit or loss obtained in the quarter ended March 2023 to that of the quarter ended March 2022.

## The Bank's development and performance during the year

Table No.10 shows the balances of the 2022 and 2023 statements of income.

Table No.10: Statement of income

| | Quarter ended : | | |
|---|---|---|---|
| **Statement of income** | **Mar - 2023 MCh$** | **Dec - 2022 MCh$** | **Mar - 2022 MCh$** |
| Net interest and indexation income | 292,555 | 272,061 | 269,401 |
| Net fee and commission income | 45,954 | 53,882 | 48,089 |
| Net financial result | 6,537 | 40,717 | -3,042 |
| Other operating income | 9,825 | 7,641 | 11,367 |
| **Total operating income** | **354,871** | **374,301** | **325,815** |
| Total operating expenses | -163,280 | -155,299 | -140,935 |
| **Operating income before credit losses** | **191,591** | **219,002** | **184,880** |
| Credit loss expense | -103,689 | -87,919 | -45,140 |
| **Profit or loss from continuing operations before taxes** | **87,902** | **131,083** | **139,740** |
| Income tax expense | -14,088 | 2,542 | -19,946 |
| **Consolidated profit for the year** | **73,814** | **133,625** | **119,794** |

As at March 2023, net interest and indexation income of CLP 292,555 million was recorded, up 8.6% compared to the same period of prior year, mainly due to interest earned on commercial loans.

At the end of the first quarter of 2023, net fees amounted to CLP 45,954 million, down 4.4% compared to March 2022, which is explained by lower financial advisory fees, together with lower fees from debit and credit card services.

Net financial result recorded CLP 6,537 million, up CLP 9,579 million compared to the prior year due to the better performance in Global Capital Markets.

Other operating income amounted to CLP 9,825 million, down 13.6%, mainly due to lower revenues from card brand incentives in CAT.

Operating expenses amounted to CLP 163,280 million, up 15.9% compared to the same quarter of prior year, mainly due to personnel expenses: salaries (CPI), staff severance indemnity payments and bonuses.

Credit loss expense amounted to CLP 103,689 million, up 130% compared to the same quarter of prior year. This was mainly due to the sustained increase in CAT's allowances and the allowance for the Bank's Consumer portfolio.

Income taxes amounted to CLP 14,088 million, down 29.4% compared to the first quarter of prior year.

Because of all these factors, net income recorded in the first quarter of 2023 was CLP 73,814 million, down 38.4% compared to that recorded in the first quarter of 2022.

Table No.11 shows the balances of the 2022 and 2023 statements of financial position.

Table No.11: Statement of Financial Position

| Statement of financial position | March 2023 MCh$ | December 2022 MCh$ | March 2022 MCh$ |
|---|---|---|---|
| Cash and deposits in banks | 903,616 | 1,268,178 | 924,106 |
| Transactions pending settlement | 475,721 | 565,421 | 450,068 |
| Financial assets held for trading at fair value through profit or loss[5] | 6,634,437 | 7,328,071 | 5,534,726 |
| Financial assets at fair value through other comprehensive income[6] | 3,181,863 | 2,360,643 | 2,108,123 |
| Derivative instruments for accounting hedge | 357,290 | 395,111 | 305,639 |
| Financial assets at amortized cost[7] | 32,454,705 | 32,856,058 | 29,432,648 |
| Investments in companies | 27,850 | 26,093 | 22,022 |
| Intangible assets | 241,150 | 240,400 | 224,562 |
| Property and equipment | 88,912 | 90,636 | 94,253 |
| Right-of-use assets under lease contracts | 172,811 | 174,082 | 174,088 |
| Current taxes | 87,671 | 53,478 | 5,456 |
| Deferred taxes | 342,799 | 330,907 | 401,266 |
| Other assets | 739,306 | 756,372 | 759,429 |
| Non-current assets and disposal groups held for sale | 16,461 | 15,175 | 14,766 |
| **Total assets** | **45,724,592** | **46,460,625** | **40,451,152** |
| Transactions pending settlement | 419,109 | 510,643 | 527,276 |
| Financial liabilities held for trading at fair value through profit or loss[8] | 5,728,103 | 6,213,012 | 4,983,371 |
| Derivative instruments for accounting hedge | 1,599,139 | 1,536,880 | 1,193,006 |
| Financial liabilities at amortized cost[9] | 32,193,906 | 32,424,392 | 29,156,453 |
| Liabilities under lease contracts | 159,623 | 160,376 | 157,133 |
| Regulatory capital financial instruments issued | 1,007,297 | 987,943 | 779,268 |
| Provisions for contingencies | 54,466 | 49,891 | 59,331 |
| Provisions for dividends, payment of interest and repricing of issued regulatory capital financial instruments | 21,504 | 146,260 | 33,982 |
| Special allowances for credit losses | 191,762 | 191,256 | 204,409 |
| Current taxes | 2,862 | 1,724 | 39,684 |
| Deferred taxes | 530 | 573 | 527 |
| Other liabilities | 1,164,433 | 1,050,357 | 613,665 |
| **Total liabilities** | **42,542,734** | **43,273,307** | **37,748,105** |

[5] Includes the captions "Derivative instruments", "Debt financial securities" and "Other" in the Interim Consolidated Statements of Financial Position.
[6] Relates to the caption "Debt financial securities" of the Interim Consolidated Statements of Financial Position.
[7] Relates to the addition of captions “Rights under resale agreements and securities lending agreements”, “Financial debt securities”, “Loans and advances to banks”, and “Loans and advances to customers” of the Interim Consolidated Statements of Financial Position.
[8] Relates to the caption "Derivative financial instruments" of the Interim Consolidated Statements of Financial Position.
[9] Includes the captions "Deposits and other on-demand liabilities", "Term and other on-demand deposits", "Liabilities under repurchase agreements and securities lending", "Bank borrowings", "Debt financial instruments issued" and "Other financial liabilities" of the Interim Consolidated Statements of Financial Position.

| | | | |
|---|---|---|---|
| Capital | 1,368,421 | 1,368,421 | 1,368,421 |
| Reserves | 381,405 | 381,405 | 382,266 |
| Accumulated other comprehensive income[10] | -187,573 | -139,638 | -341,898 |
| Retained earnings (losses) from prior years | 1,436,903 | 1,095,630 | 1,095,630 |
| Profit (loss) for the year | 71,681 | 487,533 | 113,274 |
| Provisions for dividends, payment of interest and repricing of issued regulatory capital financial instruments | -21,504 | -146,260 | -33,982 |
| Non-controlling interest | 132,525 | 140,227 | 119,336 |
| **Total equity** | **3,181,858** | **3,187,318** | **2,703,047** |
| **Total Liabilities and Equity** | **45,724,592** | **46,460,625** | **40,451,152** |

Total assets grew by 13.0% as at March 2023 compared to March 2022, mainly due to mortgage loans and commercial loans.

For liabilities, the increase of 12.7% is mainly explained by term and other on-demand liabilities.

Equity has increased by 17.7%, explained by retained earnings from previous years.

# Financial position

## Borrowings[11]

As shown in Table No.12, the Bank's loan portfolio (net of allowances and excluding interbank loans) reached CLP 32,101 billion, up 10.8% compared to the same period of prior year. This growth is driven by commercial loans, which increased by 7.7% (commercial loans); consumer loans grew by 10.9% (credit card debtors in CAT); whereas mortgage loans grew by 14.4%.

Table No.12: Loans by product

| Loans by product[12] | March 2023 MCh$ | December 2022 MCh$ | March 2022 MCh$ |
|---|---|---|---|
| **Commercial loans** | **14,797,755** | **15,421,175** | **13,742,806** |
| **Consumer loans** | **3,588,078** | **3,606,586** | **3,236,480** |
| Bank | 2,038,423 | 2,062,792 | 1,981,913 |
| CAT | 1,549,655 | 1,543,794 | 1,254,567 |
| **Mortgage loans** | **13,715,134** | **13,544,491** | **11,987,612** |
| **Total loans** | **32,100,967** | **32,572,252** | **28,966,898** |

## Deposits and debt instruments issued

As noted in Table No.13, total deposits increased by 14.1% compared to March 2022: term deposits were up 37.1%, offsetting the drop of 22.5% in demand obligations.

Total bonds increased by 16.1%, mainly due to current bonds denominated in UF. Likewise, letters of credit contracted 5.3% due to mortgage securities denominated in UF.

Table No.13: Sources of funds

| Sources of funds | March 2023 MCh$ | December 2022 MCh$ | March 2022 MCh$ |
|---|---|---|---|
| Deposits and other on demand liabilities | 4,946,042 | 5,076,459 | 6,382,260 |
| Term and other on-demand deposits | 13,902,249 | 13,972,388 | 10,142,364 |
| **Total deposits** | **18,848,291** | **19,048,847** | **16,524,624** |
| Current bonds | 7,815,312 | 7,606,930 | 6,820,665 |
| Subordinated bonds | 1,007,297 | 987,943 | 779,268 |
| **Total bonds** | **8,822,609** | **8,594,873** | **7,599,933** |
| **Letters of credit** | **97,086** | **100,235** | **102,499** |
| **Total debt securities issued** | **27,767,986** | **27,743,955** | **24,227,056** |

[10] Includes the captions "Items that will not be reclassified to profit or loss" and "Items that can be reclassified to profit or loss" of the Interim Consolidated Statements of Financial Position.
[11] Includes the caption "Loans and accounts receivable from customers" in the Consolidated Statements of Financial Position.
[12] Includes the caption "Loans and advances to customers" (commercial, mortgage and consumption loans), net of allowances in the Interim Consolidated Statements of Financial Position.

# Financial Margin

According to Table No.14, the net financial income - understood as net interest and indexation income - amounted to CLP 292,555 million, 8.6% higher than in the quarter March 2022, due to interest earned on commercial loans.

Annualized net interest margin (NIM) decreased 11 basis points to 3.22%. This decrease is explained by the sustained increase in interest paid for term deposits.

Table No.14: Financial spread

| Financial spread | Quarter ended: March 2023 MCh$ | December 2022 MCh$ | March 2022 MCh$ |
|---|---|---|---|
| Net interest/indexation income[13] | 292,555 | 272,061 | 269,401 |
| Total loans[14] | 32,100,967 | 32,572,252 | 28,966,898 |
| **Earning assets (average for the period)** | 36,352,450 | 36,369,917 | 32,375,631 |
| **Net interest margin (NIM)** | 3.22% | 2.99% | 3.33% |

# Allowances and portfolio quality

During Q1 2023, net allowances totaled Ch$110,428 million, up 93% compared to the same period of prior year. This is mainly explained by the Retail segment, where write-offs are returning to pre-pandemic levels and in payment behavior showing certain impairment symptoms translated into an increase in certain past due tranches. This is shown in Table No.15 below.

Table No.15: Allowances for credit losses and portfolio quality

| Allowances and risk expenses | March 2023 MCh$ | December 2022 MCh$ | March 2022 MCh$ |
|---|---|---|---|
| Initial allowance stock[15] | 596,538 | 571,964 | 445,155 |
| Write-offs[16] | 85,805 | 73,900 | 45,559 |
| Net allowances[17] | 110,428 | 98,473 | 57,121 |
| **Final allowance stock** | **621,161** | **596,538** | **456,717** |
| Allowances for credit losses for loans and advances to banks and loans and advances to customers | 117,166 | 111,072 | 62,662 |
| Special allowances for credit losses | 1,102 | -5,427 | 266 |
| Recovery of written-off loans | -14,885 | -17,732 | -17,775 |
| Impairment due to credit risk of other financial assets | 306 | 5 | -13 |
| **Risk expenses** | **103,689** | **87,919** | **45,140** |

| Quality ratios | March 2023 | December 2022 | March 2022 |
|---|---|---|---|
| Risk ratio (1) | 1.88% | 1.79% | 1.53% |
| Coverage on +90 past due days (2) | 147.76% | 166.05% | 228.34% |
| Expense ratio (3) | 0.32% | 0.26% | 0.15% |
| Write-off ratio (4) | 0.26% | 0.22% | 0.16% |
| +90 days past due ratio (5) | 1.61% | 1.38% | 0.95% |
| Recovery ratio (6) | 0.05% | 0.05% | 0.06% |

(1) Allowance / loan stock. (2) Allowance stock / +90 days past due stock. (3) Risk expenses / loan average. (4) Write-offs / loan average. (5) +90 days past due stock / loans. (6) Recoveries / loan average.

As noted, cost of loans increased 9 bp to 1.88% compared to the fourth quarter of 2022, whereas the past due portfolio had a variance of 17% compared to the prior quarter. Coverage reached 147.76%, down 35% from the same quarter of 2022.

[13] Relates to the sum of "Interest income" and "Indexation income", less the sum of "Interest expense" and "Indexation expense" of the Interim Consolidated Statements of Income.
[14] Includes the caption "Loans and advances to customers" (commercial, mortgage and consumption loans) net of allowances of the Interim Consolidated Statements of Financial Position.
[15] Relates to the balance as at January 1, 2023 of allowances for commercial, mortgage and consumer loans, as described in Note 13 letter d) to the Interim Consolidated Financial Statements.
[16] Relates to the line item "Use of allowances for write-offs" of allowances for commercial, mortgage and consumer loans, as described in Note 13 letter d) to the Interim Consolidated Financial Statements.
[17] Relates to allowances made during the period, excluding the initial stock and write-offs, for commercial, mortgage and consumer loans, according to the detail presented in Note 13 letter d) of the Interim Consolidated Financial Statements.

# Operating expenses

As per Table No.16, in the March 2023 vs. 2022 quarter comparison, personnel expenses increased by 20.8% due to salaries (CPI), staff severance indemnity payments and bonuses. Administrative expenses increased by 11.7%, due to an increase in collection expenses in CAT, higher cash management and advisory expenses. Other operating expenses were up 10.1% mainly due to card fraud.

Efficiency, understood as the ratio of operating expenses to net income, worsened 275 bp, reaching 46.01%, explained by the sustained increase in personnel expenses compared to the prior year.

Table No.16: Support expenses

| | Quarter ended: | | |
|---|---|---|---|
| **Operating expenses** | **March 2023 MCh$** | **December 2022 MCh$** | **March 2022 MCh$** |
| Expenses for employee benefit obligations | 77,745 | 70,754 | 64,373 |
| Administrative expenses | 59,997 | 60,090 | 53,733 |
| Depreciation and amortization | 16,520 | 16,041 | 14,671 |
| **Operating support expenses** | **154,262** | **146,885** | **132,777** |
| Impairment of non-financial assets | 33 | 5 | 0 |
| Other operating expenses | 8,985 | 8,409 | 8,158 |
| **Total operating expenses** | **163,280** | **155,299** | **140,935** |
| **Efficiency** | **46.01%** | **41.49%** | **43.26%** |

# 5. PERFORMANCE MEASURES AND INDICATORS FOR EVALUATING THE ENTITY'S PERFORMANCE

## Key financial indicators

As shown in Table No.17, at the end of Q1 2023, net interest margin of 3.22% was reported, 11 bp lower than in the quarter of prior year. The efficiency ratio was 46.01%, a drop of 275 bp.

The return on average equity (ROAE) ratio reached 9.25% and decreased by 811 basis points compared to March 2022, due to the low profit for the year in the quarter, explained by the sustained increase in loan loss expense. Return on average assets (ROAA) reached 0.64%, down 54 bp.

Table No.17: Key Financial Indicators

| | Quarter ended: | | |
|---|---|---|---|
| **Profitability and Efficiency Indicators** | **March 2023 MCh$** | **December 2022 MCh$** | **March 2022 MCh$** |
| Interest margin (Interest and Indexation) | 3.22% | 2.99% | 3.33% |
| Efficiency (Net Operating expenses / Net operating income) | 46.01% | 41.49% | 43.26% |
| Return on average equity (ROAE) | 9.25% | 17.07% | 17.37% |
| Return on average assets (ROAA) | 0.64% | 1.15% | 1.19% |

Table No.18, for the period March 2023 and 2022, shows that mortgage loans have increased their share in the loan mix by 118 bps and consumer loans by 21 bps, whereas commercial loans decreased by 139 bps. The loan-to-deposit ratio was 1.74, a decrease of 2.5%.

On the other hand, there was a decrease of 6% in the number of branches nationwide (7 branches) from March 2022. In the same period ATMs have been reduced by 27% (68 ATMs).

Table No.18: Financial Performance

| Financial performance | March 2023 MCh$ | December 2022 MCh$ | March 2022 MCh$ |
|---|---|---|---|
| Loans and accounts receivable from customers | 32,100,967 | 32,572,252 | 28,966,898 |
| Commercial loans / Total loans | 46.15% | 47.41% | 47.53% |
| Mortgage loans / Total loans | 42.04% | 40.95% | 40.86% |
| Consumer loans / Total loans | 11.82% | 11.63% | 11.61% |
| Loans / Deposits | 1.74 | 1.74 | 1.78 |
| **Structure** | **February 2023 MCh$** | **December 2022 MCh$** | **March 2022 MCh$** |
| Total No. of branches | 109 | 109 | 116 |
| No. of ATMs | 186 | 219 | 254 |

# Indicators not derived from the financial statements

Table No.19: Environmental Performance

| Energy consumption | December 2022 | December 2021 |
|---|---|---|
| Natural gas consumption (m3) | 36,910 | 8,110 |
| Electricity consumption (KWh) | 12,033,354 | 14,717,587 |

Quarter ended:

| Print paper consumption | March 2023 | December 2022 | March 2022 |
|---|---|---|---|
| Number of prints* (units) | 6,238,939 | 10,313,608 | 10,044,340 |

| CO2 emissions (tonCO2e) | December 2022 | December 2021 |
|---|---|---|
| Scope (1) | 69 | 55 |
| Scope (2) | 6,361 | 9,669 |
| **Total** | 6,430 | 9,724 |

Scotiabank is committed to the environment, which is why its metrics include the reduction of energy consumption, initiatives to reduce the amount of waste produced, an increase in recycled waste and a reduction in $CO_2$ emissions. In relation to these, several initiatives are performed, such as the Paperless program, the delivery of ecological *Welcome Kits* for customers and the collection and recycling of electronic waste.

Table No.20: Health and Safety

Quarter ended:

| Employee health and safety | March 2023 | December 2022 | March 2022 |
|---|---|---|---|
| Occupational Accident Rate (annual cumulative) | 0.32% | 0.36% | 0.29% |
| Severity Rate (million hours worked) | 32,55 | 69.41 | 120.67 |
| Accident Trip Rate (annual cumulative) | 0.47% | 0.54% | 0.41% |
| Fatal Accident Rate | 0.00% | 0.00% | 0.00% |
| Days of absenteeism (work-related accidents and occupational illnesses) | 3 | 161 | 367 |

Table No.21: Turnover

Quarter ended:

| Turnover | March 2023 | December 2022 | March 2022 |
|---|---|---|---|
| **Number of total hires** | **275** | **254** | **193** |
| Number of women hires | 115 | 116 | 97 |
| Number of men hires | 160 | 138 | 96 |
| **Total turnover** | **266** | **176** | **239** |
| Women turnover | 163 | 96 | 143 |
| Men turnover | 103 | 80 | 96 |
| **Total voluntary turnover** | **60** | **27** | **71** |
| Women voluntary turnover | 34 | 12 | 34 |
| Men voluntary turnover | 26 | 15 | 37 |

Table No.22: Training

| Training | Quarter ended: March 2023 | December 2022 | March 2022 |
|---|---|---|---|
| Total number of training hours | 12,845 | 94,202 | 25,178 |
| Total number of trained employees | 3,413 | 4,832 | 4,693 |
| Total number of trained men employees | 1,594 | 2,215 | 2,131 |
| Total number of trained women employees | 1,819 | 2,617 | 2,562 |
| Average number of training hours by male employee, organization total | 4 | 19 | 5 |
| Average number of training hours by female employee | 4 | 23 | 5 |
| Average number of training hours by employee | 4 | 15 | 6 |

Table No.23: *Employee* Engagement

| Employee Engagement | July 2022 | February 2022 | July 2021 |
|---|---|---|---|
| Overall engagement | 94% | 94% | 93% |
| Proud to work for Scotiabank | 96% | 96% | 95% |
| Her/his work makes her/him feel deeply fulfilled | 93% | 93% | 92% |
| Scotiabank motivates me to make an effort that is extra than expected | 93% | 93% | 93% |
| No plans to look for a job outside Scotiabank | nd | nd | nd |
| % of participation in the survey | 76% | 69% | 80% |

Table No.24: Salary Gap

| Salary gap | December 2022 | December 2021 |
|---|---|---|
| Salary gap by gender | 1.71% | 2.61% |

Scotiabank Chile seeks to promote a culture of learning and proactivity of all employees. As a result, a total of 12,845 training hours have been provided to 3,413 employees during the period from January through March 2023.

The current level of employee engagement remains currently at 94%, recording survey participation of 76%.

# Changes in measures quantified or indicators reported

Scotiabank's key financial and non-financial indicators are evaluated and analyzed periodically by the related management, which recommends to the Board of Directors whether a change in the indicators is necessary.
As at the date of preparation of this report, there are no indications of significant changes related to key financial and non-financial indicators.

# Additional information

## Risk rating

Scotiabank has risk ratings granted by international and local rating agencies. In this last period, it is worth highlighting the improvement in the outlook of the international risk rating according to S&P and Fitch, which improved from negative to stable, also confirming the A and A+ ratings, respectively. The most recent risk ratings obtained are detailed as follows:

### Local Rating

Local financial rating was AAA, the best possible rating, on October 13, 2022 by Fitch and on June 7, 2022 by ICR, as shown in Table No.25. This rating is based on sound and diversified financing structure, the financial support and knowledge of the business provided by BNS, and the profitability that Scotiabank has achieved over the last few years.

Table No.25: Local Risk Rating

| Fitch | *Rating* | Last Rating Date |
|---|---|---|
| Long-term | AAA (cl) | 10-13-2022 |
| Short-term | N1+ (cl) | 10-13-2022 |
| Bonds | AAA (cl) | 10-13-2022 |
| Subordinated bonds | AA (cl) | 10-13-2022 |
| Shares | First Class Level 3 (cl) | 10-13-2022 |
| Outlook | Stable | 10-13-2022 |
| **ICR** | ***Rating*** | **Last Rating Date** |
| Solvency, long-term deposits, long-term bonds | AAA | 06-07-2022 |
| Short-term deposits | N1+ | 06-07-2022 |
| Subordinated bonds | AA+ | 06-07-2022 |
| Shares | First Class Level 4 | 06-07-2022 |
| Outlook | Stable | 06-07-2022 |

## International Rating

Scotiabank has obtained A rating from S&P, a rating that is supported by sound business position in the Chilean financial sector, broad diversification among sectors, segments and customers, in addition to the strengthening of the business resulting from the merger with BBVA Chile. The detail is shown in Table No.26.

Table No.26: Rating by S&P

| Standard & Poor's | *Rating* | Last Rating Date |
|---|---|---|
| *Long-term Foreign Issuer Credit* | A | 08-22-2022 |
| *Long-term Local Issuer Credit* | A | 08-22-2022 |
| *Outlook* | *Stable* | 08-22-2022 |

On the other hand, Scotiabank obtained A+ rating from Fitch Ratings, which is shown in Table No.27 and is based on an adequate capital structure -which showed improvements compared to 2020-, the strong quality of its assets and the improvement in profitability ratios.

Table No.27: Fitch Rating

| Fitch | *Rating* | Last Rating Date |
|---|---|---|
| *Long-term Issuer Default Rating* | A+ | 07-15-2022 |
| *Short-term Issuer Default Rating* | F1+ | 07-15-2022 |
| *Local Currency Long-term Issuer Default Rating* | A+ | 07-15-2022 |
| *Local Currency Short-term Issuer Default Rating* | *F1+* | *07-15-2022* |
| *Outlook* | *Stable* | 07-15-2022 |