

SCOTIABANK COLPATRIA S.A. Y SUBSIDIARIAS

Consolidated Statement of Financial Position

(Expressed in millions of Colombian pesos)

	Notes	As of December 2022	As of December 2021
ASSETS			
Cash and cash equivalents	10	\$ 2,966,199	4,318,542
Investments in financial Assets		4,304,546	4,566,223
At fair value through profit or loss	11	1,151,742	1,926,559
At amortized cost	11	1,537,409	773,936
At fair value through other comprehensive income	11	1,615,395	1,865,728
Trading derivatives	12	904,442	591,813
Hedging derivatives	12	154,632	-
Loan portfolio and financial leasing operations at amortized cost	13	33,358,939	29,038,357
Commercial portfolio		14,785,398	11,739,204
Consumer portfolio		19,716,781	18,383,093
Less: Impairment of portfolio and financial leasing operations		(1,143,240)	(1,083,940)
Other accounts receivable, net	14	272,276	409,220
Current income tax, net	19	251,425	468,868
Non-current assets held for sale, net	15	27,063	14,251
Property and equipment, net	16	550,386	573,439
Investment Properties, net	17	129,890	150,913
Intangible assets, net	18	490,227	402,370
Goodwill	18	112,974	112,974
Deferred income tax	19	80,364	1,136
Other assets, net	20	248,627	258,156
TOTAL ASSETS		\$ 43,851,990	40,906,262

SCOTIABANK COLPATRIA S.A. Y SUBSIDIARIAS

Consolidated Statement of Financial Position

(Expressed in millions of Colombian pesos)

	Notes	As of December 2022	As of December 2021
LIABILITIES AND SHAREHOLDERS' EQUITY			
Customer deposits	21	\$ 32,871,094	30,784,189
Financial obligations	22	4,210,736	3,879,006
Outstanding investment securities	26	1,373,919	1,410,952
Trading derivatives	12	957,613	578,892
Hedging derivatives	12	10,024	700
Employee benefits	23	81,914	71,474
Provisions	24	18,390	17,593
Accounts payable and other liabilities	25	635,177	511,719
Deferred income tax	19	303,620	255,712
TOTAL LIABILITIES		\$ 40,462,487	37,510,237
EQUITY ATTRIBUTABLE TO THE CONTROLLING COMPANY'S SHAREHOLDERS			
Issued capital	27	\$ 322,079	322,079
Reserves		1,638,874	1,523,732
Share issue premium		695,428	695,428
Other comprehensive income		162,025	273,266
First-time adoption		91,636	94,706
Result for the year		174,538	222,107
Retained Profit		286,636	253,291
TOTAL EQUITY		3,371,216	3,384,609
Non-Controlling Interest		18,287	11,416
TOTAL EQUITY		\$ 3,389,503	3,396,025
TOTAL LIABILITIES AND EQUITY		\$ 43,851,990	40,906,262

Notes 1 to 37 are an integral part of the consolidated financial statements.

Diana Patricia Ordoñez Soto
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Fernanda Pérez Hernández
Accountant (*)
Professional Card 166341-T

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Professional Card. 69813-T
Member of KPMG S.A.S
(See my report of 1 March, 2023)

(*) We, the undersigned Legal Representative and Certified Public Accountant, certify that we have previously verified the statements contained in these consolidated financial statements and that they have been prepared in accordance with the information faithfully taken from the accounting books of the Bank and its subsidiaries.

SCOTIABANK COLPATRIA S.A. Y SUBSIDIARIAS

Consolidated Income Statement
(Expressed in millions of Colombian pesos)

	Notas	For the years ended	
		December 31, 2022	December 31, 2021
Interest and valuation income		\$ 4,391,444	2,820,355
Loans portfolio and financial leasing		3,882,511	2,649,375
Profit on valuation and sale of financial assets at fair value, net		140,192	107,372
Profit from the sale of investments, net		8,767	23,051
Profit on sale of financial debt assets at amortized cost		64,509	2,575
Valuation and liquidation of derivatives, net		225,116	-
Other interest, net		70,349	37,982
Interest and valuation expense		(2,152,824)	(894,389)
Customer deposits		(1,842,267)	(653,940)
Financial obligations and outstanding investment securities		(310,557)	(175,729)
Valuation and liquidation of derivatives, net		-	(64,720)
INTEREST AND VALUATION INCOME, NET		2,238,620	1,925,966
Provision for loan receivables and receivables, net	13 y 14	(895,161)	(585,575)
INTEREST INCOME AND VALUATION AFTER PROVISION, NET		1,343,459	1,340,391
Income from commissions and other services	28	1,203,031	1,083,413
Expenses for commissions and other services	28	(627,955)	(607,371)
INCOME FROM COMMISSIONS, NET		575,076	476,042
Expenses on benefits to employees	29	(636,465)	(671,008)
Other income	30	283,142	468,682
Other expenses	31	(1,295,225)	(1,186,036)
(LOSS) PROFIT BEFORE INCOME TAX		269,987	428,071
Income tax	19	(96,182)	(206,044)
RESULT FOR THE YEAR		173,805	222,027
RESULT FOR THE YEAR ATTRIBUTABLE TO:			
Shareholders of the controlling company		174,538	222,107
Non-controlling interest		(733)	(80)
RESULT OF THE YEAR		\$ 173,805	222,027

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SCOTIABANK COLPATRIA S.A. Y SUBSIDIARIAS

Consolidated Statement to other Comprehensive Income
(Expressed in millions of Colombian pesos)

	For the years ending	
	As of December 31, 2022	As of December, 31 2021
COMPREHENSIVE INCOME FOR THE YEAR	\$ 173,805	222,027
ITEMS THAT MAY LATER BE RECLASSIFIED TO INCOME FOR THE YEAR	(82,894)	(47,149)
Hedge accounting		
Profit (Loss) on cash flow hedging derivatives, net	37,925	7,807
Deferred tax on cash flow hedging derivatives, net	(14,204)	(2,613)
Investments at fair value through OCI		-
(Loss) Profit on investment in debt securities, net	(179,802)	(81,921)
Deferred tax on investments in debt securities, net	73,187	29,578
ITEMS THAT WILL NOT BE RECLASSIFIED TO INCOME FOR THE YEAR	(28,347)	(132,406)
Investments at fair value through OCI		
Profit (Loss) on investments in equity instruments, net	17,316	16,394
Deferred tax on investments in equity instrument, net	(4,989)	(1,259)
Loans receivable		
Adjustment for the impairment of loans receivable for consolidated financial statements purposes	(61,502)	(181,194)
Deferred tax on the adjustment for the impairment of loans receivable for consolidated financial statement purposes	20,828	33,653
OTHER COMPREHENSIVE INCOME, NET OF TAX	(111,241)	(179,555)
TOTAL OTHER COMPREHENSIVE OF THE YEAR	\$ 62,564	42,472
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Shareholders of the controlling company	63,297	42,552
Non-controlling interest	(733)	(80)
TOTAL COMPREHENSIVE INCOME OF THE YEAR	\$ 62,564	42,472

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SCOTIABANK COLPATRIA S.A. Y SUBSIDIARIAS

Consolidated Statement of Changes in Equity

For the years ending On December 31, 2022 and 2021	Reservas						Retained earnings	Total equity attributable to controlling company's shareholders	Non-controlling interest	Total Equity	
	Issued Capital	Share issue premium	Legal reserve	Occasional reserves	Other comprehensive result	First-time adoption					Result for the period
December 31, 2021	\$ 322,079	695,428	1,521,982	1,750	273,266	94,706	222,107	253,291	3,384,609	11,416	3,396,025
Carryforward from previous period	-	-	-	-	-	-	(222,107)	222,107	-	-	-
Dividends declared in 2021	-	-	-	-	-	-	-	(73,903)	(73,903)	-	(73,903)
Release of reserve for donations	-	-	-	1,500	-	-	-	(1,500)	-	-	-
Legal reserve creation	-	-	113,642	-	-	-	-	(113,642)	-	-	-
Other equity transactions	-	-	-	-	-	-	-	-	-	(232)	(232)
First time adoption	-	-	-	-	-	(3,070)	-	3,070	-	-	-
Deferred tax on rate change Decree 2617 of 2022	-	-	-	-	-	-	-	(2,787)	(2,787)	-	(2,787)
Total	-	-	113,642	1,500	-	(3,070)	(222,107)	33,345	(76,690)	(232)	(76,922)
Profit or loss for the period	-	-	-	-	-	-	174,538	-	174,538	(732)	173,806
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	7,835	7,835
Other comprehensive income, net of tax	-	-	-	-	(111,241)	-	-	-	(111,241)	-	(111,241)
DECEMBER 31, 2022	\$ 322,079	695,428	1,635,624	3,250	162,025	91,636	174,538	286,636	3,371,216	18,287	3,389,503
DECEMBER 31, 2020	\$ 322,079	695,428	1,836,030	3,250	452,821	100,907	(284,816)	218,038	3,343,737	3,799	3,347,536
Carryforward from previous period	-	-	-	-	-	-	284,816	(284,816)	-	-	-
Lift of cash reserves for donations	-	-	-	(1,500)	-	-	-	1,500	-	-	-
Dividends decreed 2020	-	-	-	-	-	-	-	-	-	146	146
Legal reserve creation	-	-	(314,048)	-	-	-	-	314,048	-	-	-
Other equity transactions	-	-	-	-	-	-	-	-	-	(163)	(163)
First time adoption	-	-	-	-	-	(6,201)	-	6,201	-	-	-
Deferred tax on rate change Decree 1311 of 2021	-	-	-	-	-	-	-	(1,680)	(1,680)	-	(1,680)
Total	-	-	(314,048)	(1,500)	-	(6,201)	284,816	35,253	(1,680)	(17)	(1,697)
Profit or loss for the period	-	-	-	-	-	-	222,107	-	222,107	(80)	222,027
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	-	7,714	7,714
Other comprehensive income, net of tax	-	-	-	-	(179,555)	-	-	-	(179,555)	-	(179,555)
DECEMBER 31, 2021	\$ 322,079	695,428	1,521,982	1,750	273,266	94,706	222,107	253,291	3,384,609	11,416	3,396,025

Notes 1 to 37 are an integral part of the consolidated financial statements.

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SCOTIABANK COLPATRIA S.A.
Notes to the Consolidated Financial Statements
As of December 31, 2022 and 2021
(Expressed in millions of Colombian pesos)

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SCOTIABANK COLPATRIA S.A.

Notes to the Consolidated Financial Statements

1. Reporting Entity

Scotiabank Colpatría S.A., (Parent Company) (before Banco Colpatría Multibanca S.SA. hereinafter "the Bank") is a private company incorporated on December 7, 1972, by Public Deed N° 4458 of the 8th Notary of Bogotá, as a Saving and Housing Corporation, becoming a commercial bank by Public Deed 03748 dated October 1, 1998 of 25th Notary of Bogotá DC. The Articles of Association were amended on May 5, 2016 by Public Deed N° 8085 of Notary 29 of Bogotá D.C.

By Resolution 3352 dated August 21, 1992 the Financial Superintendence of Colombia (hereinafter "Financial Superintendence") authorized the Corporation Colpatría UPAC Colpatría today Scotiabank Colpatría SA. The validity of the Bank is until June 14, 2100. The main purpose of the Bank is the conclusion and execution of any acts, contracts and operations allowed to banking establishments, subject to requirements, restrictions and limitations imposed by the laws, and especially those enshrined in the Organic Statute of the Financial System.

The principal place of business of the bank and its subsidiaries is the city of Bogotá D.C., Colombia, at Carrera 7 No. 24 – 89, as December 31, 2022 with 122 offices in the country. And 6,050 employees (as of December 31, 2021, it employed 122 offices and 6,137 employees).

The Bank of Nova Scotia(Scotiabank) domiciled in Toronto, Canada, is the direct and ultimate controller of Scotiabank Colpatría S.A.

The consolidated financial statements as of December 31, 2022 include the financial statements of the Bank and the following subsidiaries (hereinafter "the Group"):

Subsidiary's Trade name	Main activity	Localization	% Participation (1)
Fiduciaria Scotiabank Colpatría S.A	Execution of any act, contract and operation allowed to trust companies regulated by the Colombian legislation. This Company develops its activities mainly through management, investment, security and property trusts.	Bogotá, D.C	94.64%
Scotia Securities (Colombia) S.A. Sociedad Comisionista de Bolsa	Preparation of the representation contract for the purchase and sale of securities and execution of proprietary trading.	Bogotá, D.C	94.90%
Crédito Fácil Codensa S.A. Compañía de Financiamiento	Compañía de Financiamiento's main purpose will be the credit card placement, currently called "Crédito Fácil Codensa"—Codensa Easy Credit—, attracting savings, trading securities, make investments and granting loans; Compañía de Financiamiento Comercial's rules were considered.	Bogotá, D.C	50.99%

- (1) The bank's direct and indirect interests in each of the subsidiaries have not varied as of December 31, 2022.

2. Relevant issues

a. **Liquidation of Gestiones y Cobranzas S.A.**

As part of a business combination strategy, on November 30, 2020, Scotiabank Colpatría signed a sale and purchase agreement with Gestiones y Cobranzas S.A. (henceforth "G&C"), one of its subsidiaries, whereby G&C sold some of its assets and assigned the contractual position over certain liabilities that as a whole comprised the business line (collection) operated by G&C up to that moment as a means of both acquiring the business and liquidating G&C so that collection operations became integrated into and were directly taken on by Scotiabank Colpatría as of that very moment.

At the transaction date, the liquidation of G&C was forecast to be completed within 2 (two) years, during which time G&C kept certain assets and liabilities which it used to carry out its liquidation. During that period, G&C appropriately checked the operational and financial movements carried out and subsequently started, as part of its voluntary liquidation, relevant actions to conform to local regulations, mainly the legal provisions in chapters IX and X of Código de Comercio (Commercial Code), in order to give effect to the liquidation of the company, which was ratified by the decision made by the Extraordinary Shareholders' Meeting dated December 22, 2021. G&C was dissolved by means of the No. 025 minutes and went into liquidation by means of Notarial Instrument No. 1534 of February 1, 2022, granted at Bogotá's 29th Notary Public's Office, registered with the Chamber of Commerce on March 11, 2022, under number 02802416, book IX.

Finally, on November 30, 2022, during G&C's Extraordinary Shareholders' Meeting, as attested by the No. 027 minutes, the shareholders unanimously approved the Final Liquidation Project and the assignment and distribution of G&C's remaining net assets to each shareholder according to their equity interest. Consequently, and according to Chapter 7 of the Final Liquidation Project, all legal provisions set forth in the Commercial Code were complied with in order to declare the end of the entity's legal existence.

At the time of G&C's liquidation, Scotiabank Colpatría exerted direct control over it with a 94.525% equity interest in it.

b. **Issuance of perpetual bonds**

On October 27, 2022, the Bank issued and placed \$1,000,000 face value perpetual bonds to the value of \$250,000. The issue was a private offering to Scotiabank Caribbean Treasury Limited, a subsidiary of The Bank of Nova Scotia (BNS).

These bonds were denominated in Colombian pesos and issued as perpetual bonds under the provisions of the prospectus approved by the Shareholders' Meeting on October 20, 2022, and in conformity with the economic features set forth in the offering notification sent to the investor.

All resources obtained through the issue and placement will allow the Bank to further strengthen its capital structure and improve its credit rating and will be used to widen the sources of available resources for carrying out asset credit operations and other activities pertaining to Scotiabank Colpatría's business purpose, additionally aiming at a better assets-to-liabilities term correlation for improved debt volatility.

These bonds meet the conditions to be included in Additional Basic Equity (prepaid, subordination, continuity, payments, non-financing, and loss absorption devices) as set forth in article 2.1.1.1.9 of Decree 2555 of 2010.

By means of a communiqué issued on November 17, 2022, the Superintendency of Finance authorized the placed amount to be classified as part of Additional Basic Equity and taken into account for the calculation of technical equity as of October 2022.

3. Basis of preparation of the consolidated financial statements

a. Statement of compliance with the Accounting and Financial Reporting Standards accepted in Colombia

The consolidated financial statements as of December 31, 2022, have been prepared in accordance with Accounting and Financial Reporting Standards accepted in Colombia for Group 1 entities (IFRS Group 1), set forth in Law 1314/2009, regulated by the Unique Regulatory Decree 2420/2015 as amended by Decree 2496/2015, Decree 2131/2016, Decree 2170 of 2017, 2483 of 2018, 2270 of 2019, Decree 1432 of 2020, Decree 938 of 2021 and 1611 of 2022, except for:

- Recognition in other comprehensive result in equity, not affecting the results of the period, of the difference arising from measuring the credit portfolio impairment in accordance with Chapter II of the Basic Accounting and Financial Circular of the Superintendence of Finance of Colombia in the separate financial statements and the measurement of the credit portfolio impairment under IFRS 9.
- The alternative allowed by Decree 1311 of October 20, 2021 and 2617 of December 2022, of recognizing in equity, under cumulative profits, the deferred income tax variation resulting from the increase in the income tax rate for the year 2021 and 2022, respectively.
- The recognition as an investment in a subsidiary of the investment the bank holds in Crédito Fácil Codensa S.A. Compañía de Financiamiento, taking into account Colombia's Financial Superintendency's orders.

IFRS Group 1 are based on the complete International Financial Reporting Standards (IFRS), issued and officially translated into Spanish by the International Accounting Standards Board (IASB)

b. Measurement Basis

The consolidated financial statements have been prepared on the basis of historical cost except for some important items included in the consolidated statement of financial position:

- The derivative financial instruments are measured at fair value with changes in the consolidated income statement.
- In the financial instruments designated at initial recognition at fair value: The measurement basis is the fair value with changes in other comprehensive income.
- In the financial instruments at fair value: The measurement basis is the fair value with changes in the result statement.
- Non-current assets held for sale at fair value less cost of sales.
- Employee benefits, except short-term benefits: projected unit credit method.

c. Functional and presentation currency

The items included in the consolidated financial statements of the Group are expressed in the currency of the primary economic environment where the entity operates (Colombian pesos). The financial statements are reported "in Colombian pesos," which is both the functional and reporting currency. All information is reported in millions of pesos and has been rounded to the nearest unit.

d. Basis of presentation of the consolidated financial statements

In compliance with provisions set forth by the Financial Superintendence the Bank prepares consolidated and separated financial statements. The separate financial statements are the basis for the distribution of dividends and other appropriations by the shareholders.

Consolidated financial reports are reported following these parameters:

- **Statement of Consolidated Financial Position:** Assets and liabilities are reported according to liquidity and enforceability thereto, respectively, since this way of presentation provides a more reliable information for any financial entity. Therefore, the notes to the consolidated financial statements disclose the amount expected to be recovered or paid within the next twelve months for financial assets and liabilities, as well as after twelve (12) months.
- **Consolidated Income Statement and other Comprehensive Income:** These statements are presented separately in two. Besides, the income statement is presented by the nature of expenses, which is the model that provides more reliable and relevant information.
- **Consolidated statement of Cash Flow:** This statement is presented by the indirect method, in which the net flow from operating activities is determined by correcting profit before income taxes, the effects of items not generating cash flow, net changes in assets and liabilities arising from operating activities and from any other item whose monetary effects are considered investment or financing cash flows. Interest income and expenses received and paid are part of the operating activities.

The concepts described below are taken into consideration when preparing the consolidated statement of cash flow:

- Operation activities: it refers to any operation constituting the main income source of the Bank.
- Investment activities: it refers to acquisition, disposal or provision by other means, of long term assets and other investments not included in cash or cash equivalent items.
- Financing activities: it refers to activities producing changes in size and composition of the net equity as well as of liabilities not making part of operation nor investment activities.

e. Use of estimations and judgements that have a significant effect in the consolidated statement of financial position

The preparation of financial statements of the Group in accordance with the Standards of Accounting and Financial Reporting accepted in Colombia (IFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities and contingent reported on the date of the Statement of Financial Position, as well as income and expenses for the year. Actual results may differ from these estimates.

The estimates and relevant assumptions are reviewed regularly. Revisions to accounting estimates are recorded in the same period where estimate is revised and in any future periods affected.

Information about critical judgments on the application of accounting policies with the most significant effect on the financial statements is described in the following notes:

- Note 6: Estimation of the fair value of financial instruments.

SCOTIABANK COLPATRIA S.A.

Notes to the Consolidated Financial Statements

Information about the fair value of Level 1 financial instruments (quoted prices), and Level 2 and Level 3 financial instruments (observable prices) are disclosed in Note 6 (c).

The fair values and the valuation of the financial instruments are determined according to the fair value hierarchy.

The Group considers as observable data those market data that are available, verifiable and reflecting the assumptions that market participants will use when pricing the asset or liability.

– Note 11: Provisions for expected credit losses.

Financial assets recognized at amortized cost are evaluated for impairment on the basis described in the accounting policy. See note 4 (c).

Impairment of financial assets is based on the Bank's best estimate of the present value of the cash flows expected to be received. In estimating these flows, the Group makes judgements about the financial condition of the counterparty and the value of the underlying collateral. Each impaired asset is evaluated on its own conditions and according to the recovery strategy. Provisions accuracy depends on the estimates of future cash flows for specific counterparty provisions and on the modeling of the parameters and assumptions used for provisions determination, which are detailed in note 8 (a).

- Note 13: Loan portfolio impairment

The measurement of the loan portfolio impairment is carried out according to the guidelines in IFRS 9 under the assumption that future cash flows will be recovered, taking into account, among other criteria, the past behavior of the loan portfolio, particular debtor characteristics, and collateral guaranteeing the loans, among others. The Group periodically assesses its loan portfolio and finance lease portfolio in order to determine if it is necessary to credit an impairment amount to income for the period.

- Note 16: Property and equipment.

In those leases in which the bank is the lessor, variables used in determining the right-of-use asset and liability in lease contracts, terms, and interest rate are the best estimations the bank has made in respect of the time of use of the assets and the finance rate it would use for an asset in similar conditions.

To evaluate the impairment of property and equipment, it is necessary to determine the recoverable amount of the asset, which is calculated through valuations carried out by independent experts.

– Note 18: Goodwill impairment

For evaluating the goodwill impairment, it is necessary to determining the recoverable amount of the cash-generating unit (CGU) containing it, identified as the Bank's Consumption segment and calculated with the methodology free cash flow discounted at the capital rate cost (the Bank's main source of funding). To determine the variables to be included in the discounted cash flow and the rate to be used, the Bank uses the best information available at the evaluation date.

– Note 23: Employee benefits.

Measurement of obligations for post-employment benefits (retirement pensions) and other long-term obligations (seniority premiums) depends on assumptions and long-term assumptions determined on actuarial bases, including estimates of the present value of projected future payments of the benefits, considering the probability of potential future events, such as increases in the minimum wage and demographic experience. These assumptions may affect the amount and

SCOTIABANK COLPATRIA S.A.

Notes to the Consolidated Financial Statements

future contributions, if there is any variation. The foregoing is in accordance with the requirements of IAS 19 "Employee Benefits".

The discount rate is used to determine future cash flows at present value at the measurement date. The Bank determines a long-term rate that represents the market rate of investments for Government bonds denominated in the currency which the benefit will be paid in, and it considers the timing and amounts of future benefit payments, which the Bank has selected the government bond rate for.

Variations in the liability for changes in actuarial assumptions are recorded in the profit and loss consolidated statement.

- Note 24: Estimates for provisions of legal proceedings.

To cover possible losses resulting from labor, tax and civil proceedings, the Group estimates and recognizes a provision based on the circumstances, using management's opinion based on the reports of external legal advisors. These estimates and opinions are in some cases uncertain, causing differences between disbursements actually made and those estimated; these differences are recognized in the period.

f. Going concern

As of December 31, 2022, the management has come to the conclusion that there is no uncertainty as to facts, events, and conditions that may cast significant doubt on the ability of the Group to go about its ordinary business activities.

g. Foreign currency

Transactions in currencies other than the functional currency are converted into Colombian pesos and are recognized at the exchange rate in effect on the date of the transaction non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated to the functional currency at the exchange rate at the date of fair value determination. Non-monetary items in foreign currency are measured at historical exchange rate.

Non-monetary assets and liabilities denominated in foreign currency that are measured at historical cost are recognized at the exchange rate of the transaction date.

As of December 31, 2022 and 2021 the Exchange rates used per American dollar were COP\$4,810.20 (in pesos) and COP\$3,981.16 (in pesos), respectively.

4. Main accounting policies

The accounting policies set forth hereunder have been consistently applied in the separate financial statements preparation, in accordance with the Accounting and Financial Reporting Standards Accepted in Colombia (CFRS) including any accounting instructions of the Superintendence of Finance of Colombia.

a. Basis for consolidation

Subsidiaries: Entities which the bank controls directly or indirectly are considered subsidiaries. The bank controls a subsidiary when, as a result of its involvement in the latter's affairs, it is exposed or entitled to variable returns as a result of its ownership interest in it and has the ability to influence such returns through its power over the entity. The bank has power when it has rights that allow it to direct the

SCOTIABANK COLPATRIA S.A.

Notes to the Consolidated Financial Statements

relevant activities. The financial statements of subsidiaries are included in the consolidated financial statements as from the date control starts until the date control ends.

The subsidiaries' financial statements used for consolidation are those for the same period and with the same reporting date as the bank's.

Loss of control: When control over a subsidiary is lost the subsidiary's assets and liabilities, any related non-controlling interest, and other equity components are derecognized. Any resulting gain or loss is recognized in profit or loss. If an interest in the subsidiary is retained it will be measured at its fair value at the date control is lost.

Interests in joint ventures: Joint arrangements are arrangements of which two or more entities have joint control resulting from contracts that require the unanimous consent of the parties for making decisions related to the activities that significantly affect the returns of the arrangement. They are classified and accounted for as follows:

- Joint operation: When the bank has rights to the assets and obligations for the liabilities, related to the arrangement, it accounts for each asset, liability, and transaction, including those jointly held or incurred, in relation to the operation.
- Joint venture: When the bank has rights to the net assets of the arrangement, it accounts for its interest using the equity method.

Transactions eliminated from consolidation: Intercompany balances and transactions as well as any unrealized income or expense arising from the transactions between the group's companies are eliminated in the preparation of consolidated financial statements. Unrealized gains from transactions with entities in which the bank has investments that are recognized using the equity method are eliminated from the investment in proportion to the bank's interest in the investment. Unrealized losses are eliminated in the same way as unrealized gains providing there is no evidence of impairment.

When consolidating, the bank combines the assets, liabilities, and results of the entities which it controls upon the homogenization of the accounting policies and the translation to Colombian pesos of the foreign subsidiary's financial statements. After this, it proceeds to eliminate the reciprocal transactions and the unrealized gains. The share of non-controlling interests in the controlled entities is presented in equity separately from the bank's shareholders' equity.

The accompanying consolidated financial statements include the assets, liabilities, equity, and results of the bank and its subsidiaries.

Below is a detailed presentation of the interest in each subsidiary:

Entidad	December 31, 2022				
	% Interest	Assets	Liabilities	Equity	Controlling entity's fiscal year result
Scotiabank Colpatría S.A.	Matriz	\$ 43,059,020	40,197,202	2,861,818	151,352
Scotia Securities (Colombia) S.A.					
Comisionista de Bolsa	94.90%	44,197	1,071	43,126	(254)
Fiduciaria Scotiabank Colpatría S.A.	94.64%	36,791	7,517	29,274	4.995
Crédito Fácil Codensa S.A.	50.99%	29,826	232	29,594	(2,012)
Total Bank and subsidiaries		43,169,834	40,206,021	2,963,813	154,081
Eliminations and adjustments		682,156	256,466	425,690	20,457

SCOTIABANK COLPATRIA S.A.

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Consolidated	\$	43,851,990	40,462,487	3,389,503	174,538
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December 31, 2021					
Company name	% Interest	Assets	Liabilities	Equity	Controlling entity's fiscal year result
Scotiabank Colpatría S.A.	Parent	\$ 40,170,200	37,300,798	2,869,402	189,045
Scotia Securities (Colombia) S.A. Comisionista de Bolsa	94.90%	44,272	905	43,366	(563)
Fiduciaria Colpatría S.A.	94.64%	36,389	8,724	27,664	1,417
Gestiones y Cobranzas S.A.	94.53%	85,199	61	8,459	(1,093)
Crédito Fácil Codensa S.A.	50.99%	15,756	14	15,742	(258)
Total Bank and subsidiaries		40,351,816	37,310,502	2,964,633	188,548
Eliminations and adjustments		554,446	199,735	431,392	33,559
Consolidated		\$ 40,906,262	37,510,237	3,396,025	222,107

b. Classification and measurement of financial assets and liabilities

The Group applies the requirements of IFRS 9 to determine the measurement basis for financial assets. The classification of debt instruments is determined based on the characteristics of asset cash flows and the business models used to manage them.

Financial assets and liabilities are classified in one of the following measurement categories:

- Amortized cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

Assessment of business model

The assessment of the business model implies determining whether the financial assets are administered to generate cash flows. The bank assesses the business model at the receivables level, which reflects how asset groups are managed together to achieve a particular commercial objective.

In assessing the business model, the bank considers the following factors:

- How the performance of some receivables assets is assessed and reported to key decision makers within the bank's business lines;
- The risks that affect the performance of assets held within a business model and how those risks are managed;
- If the assets are held for trading, that is, are assets the bank acquires with the purpose of selling or buying them back in the short term, or as part of some receivables that is jointly managed to obtain benefits or take short-term positions;
- How the compensation for the administration of the bank's business lines that manages the assets is determined; and
- The frequency and volume of sales in previous periods and the expectations about future sales.

Assessment of cash flow characteristics

The assessment of contractual cash flow characteristics implies the assessment of the contractual characteristics of an instrument to determine whether these generate cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding.

Principal is defined as the fair value of the instrument at initial recognition. It can change over the life of the instrument due to reimbursements.

Interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding and other basic lending risks and costs (liquidity risk and administrative costs), as well as a profit margin.

In doing this assessment the bank considers contractual characteristics that might change the quantity or opportunity of the contractual cash flows so that the cash flows are no longer consistent with a basic lending arrangement. If the bank identifies any contractual characteristic that might modify the cash flows from the instrument in such a way that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets and liabilities measured at amortized cost

Credit portfolio financial assets are classified at amortized cost considering that their model is placement and collection pursuant to the contractual terms, which give rise on specific dates to cash flows that are only payments of principal and interest on the principal balance.

Debt instruments are measured at amortized cost if they are held under a business model whose objective is the collection of contractual cash flows that represent only payments of principal and interest. Debt instruments measured at amortized cost that are not held for trading are initially recognized at fair value including transaction costs. After their recognition, they are measured at amortized cost, capitalizing premiums, discounts, transaction costs and commissions considered as being an integral part of the effective interest rate less cumulative impairment.

Financial assets held for trading through profit or loss

Financial assets held for trading are measured at fair value in the consolidated financial statements, immediately recognizing transaction costs in the consolidated income statement as part of other revenue different from interest.

Debt instruments are measured at fair value through consolidated profit or loss if they are held under a business model whose objective is not the collection of contractual cash flows or the cash flows do not represent only payments of principal and interest. They are initially recognized at fair value and any transaction costs have an immediate impact on results. Subsequently, they continue to be measured at fair value through consolidated profit or loss.

Financial liabilities are classified as subsequently measured at amortized cost or at fair value through other comprehensive income. The Group can at initial recognition designate a financial asset or liability at fair value through profit or loss if doing so eliminates an accounting mismatch. This is an irrevocable choice.

Debt instruments measured at fair value through other comprehensive income

Debt instruments are measured through other comprehensive income if they are held in a business model intended to obtain contractual cash flows and sell assets, and also if such cash flows are solely payments of principal and interest. Debt instruments measured at fair value through other comprehensive income are initially recognized at fair value, including transaction costs, and

Notes to the Consolidated Financial Statements

subsequently at fair value. Unrealized gains and losses are recognized in the consolidated statement of comprehensive income and subsequently recycled to the consolidated income statement when realized

In the case of debt instruments, interest revenue and impairment losses (or reversals) will continue to be accounted for in the consolidated income statement. The related premiums, discounts and transaction costs are amortized over the expected life in the consolidated statement of comprehensive income using the effective rate of interest. The fair value through other comprehensive income category is now presented in the statement of financial position.

Equity instruments are measured at fair value through the consolidated statement of comprehensive income. Cumulative fair value is not recycled through profit or loss at sale of the instrument. The revenue from dividends continue to be recognized in consolidated profit or loss unless they are a clear recovery of the cost of investment. Initially capitalized transaction costs are not subsequently recycled to consolidated profit or loss at the disposition of the instrument.

Reclassifications of financial assets

Debt instruments

The reclassification of debt instruments between measurement categories can occur only if the Bank and its subsidiaries identify a change in the business model for managing their financial assets. Such reclassification will be applied prospectively as of the reclassification date without restating gains, losses, or interests (including impairment losses) previously recognized.

Equity Instrument

Reclassifications between equity instrument measurement categories are not allowed, so an investment in an equity instrument may not be reclassified after its initial recognition.

c. Impairment of financial assets

Expected impairment losses are determined based on the present value of cash flows related to default events taking place within 12 months of the reporting period or over the expected life of the financial instrument, depending on the credit impairment from its origination. Expected losses reflect a probability-weighted impartial result that considers multiple scenarios based on reasonable and supportable forecasts.

The expected losses model contains a three-statement approach that is based on the change in the credit rating of loans since their initial recognition. Under the first statement there is no significant increase in credit risk and an impairment loss for the next 12 months is recognized as from the reporting date. Under the second statement there is a significant increase in credit risk and an impairment loss for the expected credit loss is recognized for the entire life of the loan, although the loans are not disclosed as in default. Under the third statement, when there is objective evidence of impairment, these financial assets are classified and disclosed as impaired and also impairment continues to be recognized over the life of the loan.

The expected losses model uses future information, applying reasonable and supportable forecasts of macro-economic conditions to the determination of significant increases in credit risk and the measurement of expected credit losses.

For more details on how the bank calculates expected credit losses, including the use of future macro-economic information, go to note 8 – Financial risk management.

Impairment due to expected credit losses is presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the carrying amount of these assets.
- Debt instruments measured at fair value through other comprehensive income: No impairment is recognized in the statement of financial position because the carrying amount of these assets is

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adjusted to their fair value. The loss calculated is discounted directly from the carrying amount and recognized in other comprehensive income.

- Recognized exposures in off-balance sheet items that include undisbursed loan commitments, letters of credit and financial securities: as a provision recognized in other liabilities.
- When a financial instrument includes a component used and not used and the bank cannot identify the expected credit losses separately, the bank presents a combined amount for both components. The joint amount is presented as a deduction from the carrying amount of the component used. Any excess above impairment is presented as a provision (liability).

Measurement of expected credit loss

Inputs probability of default (PD), exposure at default (EAD), and loss given default (LGD), used to estimate the expected credit losses are modelled on the basis of the macroeconomic variables that are more closely related to the credit losses in the corresponding portfolio.

Below are the details of these statistical parameters / inputs:

- PD: The probability of default is an estimation of the likelihood over a specified period of time that a borrower will not be able to make scheduled repayments. A predetermined value can only occur at a specified time over the estimated remaining useful life if the exposed amount has not previously been derecognized and is still in the portfolio.
- EAD: Exposure at default is an estimation of the exposure at a predetermined future date, taking into account expected changes in exposure subsequent to the presentation date, including reimbursements of principal and interest, whether they are contractually agreed or otherwise, planned repayments in compromised expositions and interest accrued on payments not yet made.
- LGD: The loss given default is an estimation of the loss arising when a customer defaults at a specified time. It is based on the difference between contractual cash flows due and the contractual cash flows the bank would expect to receive, including the realization of any securities. This is usually expressed as an EAD percentage.

Prospective information

The measurement of expected credit losses for each stage and the assessment of significant credit risk increases consider information about past events and present-day conditions, as well as reasonable and supportable predictions about future events and economic conditions. The estimation and the application of prospective information require significant judgement.

Macroeconomic factors

In its models the bank relies on a broad range of prospective information as economic inputs, such as: GDP growth, unemployment rates, bank rates and housing price indices. The inputs and models used to calculate the expected credit losses not always capture all market characteristics at the date of the financial statements. To reflect this, qualitative adjustments or overlaps may be made as temporary adjustments using expert judgement.

Multiple prospective scenarios

The bank determines the provision for credit losses using three prospective scenarios weighted by probability. The bank considers internal and external information sources to obtain an impartial measure of the scenarios used. The bank prepares the scenarios using forecasts generated by Scotia Economics (SE). The forecasts are created using internal and external models / data that are afterwards modified by SE as necessary to formulate a “base case” view of the future direction of relevant economic variables,

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as well as a representative range of other possible scenarios. The process implies developing two additional economic scenarios and considering the relative probabilities of each result. The 'base case' represents the most probable result and is aligned with the information used by the bank for other purposes, such as strategic planning and budgets. The other scenarios represent more optimistic or pessimistic results.

Definition of default

The bank considers that a financial asset is in default when:

- It is not probable that the borrower pays its credit obligations to the bank in their entirety without the bank resorting to actions such as the calling-in of the security (if any).
- The borrower is more than 90 days in arrears on any credit obligation.
- The requirements in IFRS 9 call for judgements and assumptions regarding the evaluation of whether the credit risk has significantly increased from initial recognition and the inclusion of prospective information in the measurement.

Impairment of other receivables

To determine the impairment of other receivables the Group applies a general or simplified loss model to receivables with a significant financial component in which it measures the impairment as the amount equal to the expected credit losses over the expected life of the asset. The analysis of the bank excludes items that are due in less than 30 days. The nature of the items and debtors is analyzed and so is the historical performance of accounts with uncollected balances along with the detail of losses.

The Group calculates credit losses on the basis of the historical expectation of credit losses for each defined asset group considering the type of customer, the nature of the operation and the type of security.

To measure the impairment the information available at the date of assessment about past events, current conditions, and future conditions forecasts is considered.

Impairment of investments in debt securities

Fixed-income investments are considered as defaulted if the credit rating given the issuer by external credit rating agencies is CCC or lower and if:

- No contractual payments are being made.
- It is probable that the issuer goes into liquidation or is in a similar condition of legal bankruptcy.

d. Hedge accounting

The bank has chosen to continue applying the hedge accounting requirements in IAS 39. Nonetheless, it has implemented additional disclosures required by IFRS 9 and amendments related to IFRS 7 Financial instruments: disclosures.

The bank uses cash flow hedges mainly to cover from the variability of cash results relating to variable rate financial instruments and forecast income and expenses that are highly probable.

In order to carry out these hedge transactions, the bank formally documents all hedging relationships, their objectives and the risk management strategy applied to carry out these hedge transactions. Hedging documentation includes the identification of the hedging instrument of the hedged item, the nature of the risk being hedged and the methodology used to measure the efficacy of the hedging instrument to offset the exposure to changes in the fair value of the hedged item or the changes in cash flows attributable to the hedged risk.

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The bank also formally evaluates, at the inception of each hedge and on a continuing basis, whether the hedging instruments are highly effective to offset changes in the cash flows of hedged items. The inefficacy of the hedge is measured and recorded in the consolidated statement of income.

Cash Flow hedges

In the case of cash flow hedges, the changes in the fair value of derivatives designated as hedge accounting and that are shown to be effective are recognized in other comprehensive income.

The ineffective portion of the gain or loss on the hedging instrument will be recognized immediately in profit or loss for the period under "other income and expenses".

Effectiveness measurement:

Hedging effectiveness is measured by comparing the changes in the value of the hedging instrument with the changes in the value of a hypothetical swap that reflects the conditions of the hedged item. Thus, the hypothetical swap is constructed using a notional amount that is equal to the hedge swap, a variable rate that reflects the rate paid on the hedged item and a fixed rate in Colombian pesos that at the inception of the hedge makes the hypothetical swap's initial valuation equal zero. Likewise, the measurement of the effectiveness is made both retrospectively and prospectively.

Derivative financial instruments designated as hedging instruments seek to reduce the volatility arising from various types of risk (interest rate risk, foreign exchange risk, etc.). On its part, hedge accounting allows to relate the recognition of gains and losses on the hedge instrument to the hedged item so that they may be offset in profit or loss at the same time.

A cash flow hedge is a hedge against the exposure to the variability in cash flows attributable to a particular risk associated with a recognized asset or liability (i.e., future interest payments on a variable index) or future transactions highly probable that might affect the losses and gains. The cash flows associated with a group of items may be hedged providing they meet the requirements in the bank's cash flow hedge policy.

A hedge is effective if at the beginning of the period and in subsequent periods the changes in cash flows attributable to the hedged risk during the period for which the hedge was designed are offset and if such effectiveness is within an 80% and 125% range.

Hedge accounting is discontinued when the bank revokes the hedge relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer meets the hedge accounting criteria. Any accrued gains or losses on the hedging instrument that had been recognized in equity will remain recognized in equity until the forecast transaction is finally recognized in profit or loss. When the forecast transaction is no longer expected to occur, the cumulative gain or loss in equity will be immediately recognized in profit or loss.

Derecognition of financial assets

The accounting treatment of the derecognition of financial assets is conditional on the degree and the form in which the risks and rewards of transferred assets are transferred to third parties.

The Bank stops recognizing a financial asset in the consolidated statement of financial position when the contractual rights to cash flows from the financial asset expire or when the financial asset is transferred in a transaction whereby substantially all risks and rewards of ownership of the financial asset are transferred, for instance, the unconditional sale of financial assets, the securitization of assets in which the assignor does not retain any subordinated financing nor grants any sort of credit enhancement, and other similar instances.

When derecognizing a financial asset in its entirety, the difference between its carrying amount and the consideration received and receivable, the cumulative gain or loss that has been recognized in other comprehensive income, and the cumulative income are recognized in profit or loss.

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If the Bank does not transfer nor retains substantially all the risks and rewards incidental to ownership and continues to control de transferred asset, the Bank will recognize its share of the asset and the related obligation for the amounts it would have to pay. For example, sales of financial assets with a pledge to repurchase them for a fixed price or the selling price plus interest.

If the Bank retains substantially all the risks and rewards incidental to ownership of a transferred financial asset, the Bank will continue to recognize the financial asset and also a collateral loan for the resources received. For instance, a securitization of assets in which the assignor assumes subordinated financing or another kind of credit enhancement for a share of the transferred asset.

As per the aforementioned, financial assets are only derecognized in the statement of financial position when all rights to cash flows resulting from them have extinguished or when substantially all implicit risks and rewards have been transferred to third parties.

e. Cash and cash equivalents

Cash and cash equivalents include cash balances, interbank funds and demand deposits with original maturities of three months or less from the date of acquisition in which they subject to insignificant risk of changes in their fair value and are used by the Bank to manage its short-term commitments.

Regular Interbanks Funds

Interbank funds are those that the Bank places or receives from another financial institution directly, without an investment transfer agreement or credit portfolio. They are operations related to the corporate purpose agreed upon for a period of no more than thirty (30) ordinary days, provided that it seeks to take advantage of excess or supply defective liquidity. They also include 'over-night' transactions executed with foreign banks using Bank funds.

Interest income generated from the transaction is recorded in the consolidated statement of profit or loss.

f. Interest

Interest income is accounted applying the effective interest method. The effective interest rate is the discount rate that equals the cash flows receivable or payable estimated over the expected life of the financial instrument (or, where appropriate, in a shorter period) to the net carrying value of the financial asset or liability. To calculate the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument excluding credit losses.

The calculation of the effective interest rate includes all fees and points paid or received making an integral part of the effective interest rate. Transaction costs include incremental costs directly attributable to the acquisition or issuance of a financial asset or liability.

g. Fees and commissions

The Group recognizes revenue to represent the transfer of goods or services to be provided to the customers, for an amount that reflects the consideration the entity expects to be entitled to in exchange for such goods or services. This will be reflected in the accounting books if the following criteria are met:

- The parties to the contract have approved the contract (in writing, verbally, or in agreement with other traditional practices of the business) and pledge to fulfill their respective obligations.
- The Group may identify the rights of each party with respect to the goods or services to be transferred.
- The Group may identify the payment conditions with respect to the goods or services to be transferred.

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- The contract has commercial grounds (that is, the risk, timing, or amount of the future cash flows of the entity are expected to change because of the contract). The Group is likely to collect the consideration it is entitled to in exchange for the goods or services that it will transfer to the customer. To evaluate if the collection of the consideration is likely, the Group will consider only the customer's payment ability and willingness to pay such consideration when due. The amount of the consideration the entity is entitled to may be less than the price set in the contract if the consideration is variable, as the entity may offer the customer a reduction in the price.

The initial measurement will be the transaction price, and, if amortization is later necessary, it will be done in a systematic manner consistent with the transfer to the goods or services to the customer.

Transaction price. The transaction price is the amount of the consideration an entity expects to be entitled to in exchange for the transfer of goods or services to be provided to a customer, exclusive of amounts collected on behalf of third parties (taxes). The consideration agreed upon in a contract with a customer may include fixed amounts, variable amounts, or both.

h. Property and equipment

Properties and equipment include the Bank-owned assets for current or future use.

Recognition and measurement

Property and equipment are initially recognized for at cost, which in turn is the equivalent amount in cash at the time of recognition in books, plus attributable costs. Import rights, non-recoverable indirect taxes, and business deductions and rebates, as well as assets withdrawal associated estimations shall also be included.

After recognition as an asset, an element of property and equipment shall be recorded at cost less the accumulated depreciation and, if applicable, the accumulated value of impairment losses. The gains and losses on the sale of a property and equipment item are recognized net in results.

Decommissioning

A provision is recognized for the estimated amount of costs to dismantle the assets taken for lease to return them in the conditions in which they were initially received. The carrying amount of the dismantling provision is estimated at the end of the reporting period.

Derecognition

The Group derecognizes any property and equipment element when economic benefits are probably to flow to the entity and its cost can be measured reliably. On the contrary, a property and equipment item is derecognized when it meets the criteria for derecognition. That is to say, by disposal or if the Bank will not receive economic benefits from the use or sale of the asset.

Depreciation

The depreciation expense for each period shall be accounted for in incomes for the year using the straight-line method. The record is carried out as per estimations of useful lives which the Bank considers will represent faithfully the period of time an element classified in this group of assets is expected to yield an economic benefit.

The Group calculated the useful life of each class or group of assets, which will be recorded as property and equipment, taking into account the intended use of the asset, expected physical wear and tear, technical or commercial obsolescence, and finally, the legal limits or restrictions of use of the asset.

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The useful lives determined by the Bank are as follows:

Buildings	80 years
Equipment, furniture, and office equipment	
- Office fittings	10 years
- Computers	5 years
- Vehicles	5 years
Leasehold improvements	7 years
Assets held for use	7 years
Improvements in proprietary goods	10 years

i. Leases when the Bank and its subsidiaries act as lessee

Definition of lease

The Group assesses whether an arrangement is or contains a lease based on the new lease definition, whether a contract is or contains a lease, whether the contract or part of a contract assigns the right to control an identified asset use (the underlying asset) for a term in exchange for consideration. When the leased goods are not part of a short-term contract (less than 12 months) or have a low value, they must be recognized as an asset or liability according to the following principles:

Initial measurement of the right-to-use asset

At initial date, the Group will measure a right-to-use asset at cost which shall include:

- The amount of the initial measurement of the lease liability.
- Lease payments made before or after the initial date less lease incentives received.
- The initial direct costs incurred by the lessee; and
- An estimate of the costs wherein the lessee will incur in decommissioning and removing the underlying asset, and in restoring the asset to the conditions required by the lease terms and conditions. The Bank will recognize these costs as part of the right-of-use asset cost if it incurs an obligation arising thereof.

Initial measurement of the lease liability

At initial date, the Group will measure the lease liability at the present value of the lease payments unpaid by that date. The lease payments will be discounted using the Bank's and subsidiaries incremental lending rate.

At initial date, the lease payments included in the measurement of the lease liability include the subsequent payments for the right to use the underlying asset during the lease term unpaid at the initial date:

- Fixed payments less any incentive lease receivables.
- Variable lease payments depending on an index or rate initially measured using the index or rate at the initial date.
- Value the lessee expects to pay as residual value collateral.
- A call option exercise price if the Group is reasonably certain of exercising it.

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- Penalty payments for lease termination, if the lease term provides that the Bank will exercise the lease termination option.

Subsequent measurement

Subsequent measurement of right-to-use asset

After the initial date, the Group will measure its right-to-use asset applying the cost model less accumulated depreciation and accumulated impairment losses and adjusted for any remeasurement of the lease liability.

Subsequent measurement of lease liability

After the initial date, the Bank will measure the lease liability by:

- Increasing the carrying value to reflect the interest on the lease liability.
- Reducing the carrying value of lease payments made; and
- Remeasuring the carrying value by new lease measurements or modifications and fixed lease payments that have been reviewed. The Group will perform this remeasurement by discounting the modified lease payments using the modified discount rate if the lease term changes or the evaluation of an underlying asset call option changes.

After the initial date, the Group recognizes in income for the period interest on the lease liability and variable lease payments not included in the lease liability measurement at the date on which the conditions giving rise to those payments occur.

The Group has applied its judgment in determining the term of contracts wherein extension clauses are included. The assessment of whether the Group is reasonably confident of exercising such options has an impact on the lease term, significantly affecting the lease liabilities value and right-of-use assets recognized.

j. Investment properties

Investment properties are real estate held for the purpose of obtaining rental income or capital appreciation of the asset or both at the same time and are not available for use in the supply of goods or services or for administrative purposes. Investment properties are initially measured at cost. The Group has adopted the cost model as policy for the subsequent measurement of these properties.

The cost includes expenses directly attributable to the acquisition of investment property. The cost of assets constructed by the entity itself includes the cost of materials and direct labor, any other costs directly attributable to the process of making the asset fit to work for its intended use and the costs for capitalized loans.

Subsequent measurement of investment property is carried out at initial cost less depreciation and any impairment loss.

Any gain or loss on the sale of an investment property (calculated as the difference between the net incomes obtained from the disposal and the carrying amount of the asset) is recognized in the results.

In each accounting closing, the Group analyzes whether there are indications of assets impairment, both external and internal. If impairment is detected, the impairment value is estimated and recognize it in the incomes of the year.

k. Intangible Assets

The Group's intangible assets are non-cash, non-physical assets, whose cost may be reliably estimated. Also, it is considered that future economic benefits attributable to the assets will flow to the Group.

The initial measurement of intangible assets depends on the way the Bank obtains the assets. An intangible asset may be obtained through its separate acquisition, as part of a business combination, or when it is internally generated.

The intangible asset acquired in a separate transaction is measured at cost, which includes the acquisition price, including import rights and non-refundable taxes on the acquisition, and any cost directly attributable to the preparation of the asset for its intended use. In business combinations, the cost of the asset will be its fair value at the acquisition date. Regarding internally generated intangible assets, all expenditures during the research phase are recognized in expenses for the period in which they were incurred, whereas those incurred during the development phase to create, produce, and prepare the asset to be capable of operating in the intended manner are capitalized.

Subsequent expenditures are capitalized only when future economic benefits embodied in the specific asset related to those expenditures increase. All other expenditures, including those made to generate goodwill and trademarks internally, are recognized in profit or loss.

Group intangible assets are accounted for at cost less the accumulated amortization and accumulated amount of impairment loss.

Amortization is recorded in the income statement based on the amortization straight-line method according to the software-estimated useful life, from the date the assets are available for use, since those dates more accurately reflect the expected pattern of consumption of asset-related future economic benefits.

The amortization methods, useful lives and remaining values are reviewed at each financial year and adjusted if necessary.

l. Goodwill

Goodwill is the excess price paid over the fair value of assets and liabilities acquired in a business combination. Goodwill is subject to annual impairment tests and in case there is an impairment it is recorded in profit or loss. Once an impairment loss has been recognized, this is not reversed in subsequent periods.

For the annual impairment test, the recoverable amount will be determined using the value in use of the cash generating unit that the goodwill was associated with, using the cash flow valuation method, If the present value of discounted future cash flows is lower than its carrying amount, then an impairment is recorded.

Goodwill impairment

In accordance with IAS 36 Impairment of Assets value, the Group tests impairment of the goodwill recognized in the financial statements arising from the acquisition of the consumption business, credit card and small and medium enterprise business of Citibank Colombia S.A. and distributed to the cash generating unit (CGU) identified during the current period. If this analysis indicates that the CGU recoverable amount exceeds its carrying amount, the unit and the goodwill attributed thereto are considered to be not impaired. If the unit carrying amount would exceeds its recoverable amount, the entity shall recognize the impairment loss by first exhausting the goodwill initially recognized.

For this calculation purposes, the valuation of the cash-generating unit to which the respective goodwill was assigned in its acquisition is used, and the discounted cash flow method is used and the economic situation of the country and the banking sector, historical financial information, and a 3-years projected growth of income and costs are considered and subsequently growth in perpetuity according to the

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economy projected growth, discounted at the interest rate of the capital cost, which is the main form the Bank is financed.

m. Impairment of non-financial assets

The carrying value of non-financial assets of the Bank excluding deferred tax assets is reviewed at each balance sheet date for any impairment indication. Upon detection of such impairment indication, then the asset recoverable amount is estimated. An impairment loss is recorded if the carrying amount of the asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater value in use and the fair value less the sale costs. To determine the value in use, future cash flows estimated at current value are discounted using a before tax discount rate that reflects current market valuations over the temporary value of money and the specific risks the asset may have.

Impairment losses recognized in previous years are assessed at each balance sheet date for any loss decrease or disappearance indications. An impairment loss is reversed if the estimates used to determine the recoverable amount have changed. An impairment loss is reversed only if the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized

n. Non-current assets held for sale

An asset must comply with the following conditions in order to be classified as a non-current asset held for sale: Its carrying amount must be expected to be recovered primarily through a sale transaction; it must not be intended to be used; it must be available in its current condition for immediate sale; management must be committed to a business plan for the sale; and the sale is expected to occur in less than one year.

Non-current assets held for sale are measured at the lower of the carrying amount and the fair value less costs of sale on the measurement date.

o. Employee benefits

The Group grants its employees the following benefits as consideration in exchange for services rendered:

Short-term benefits

These are employee benefits that are expected to be completely settled within twelve months of the end of the reporting period.

The different Group employees have rights to short-term benefits, such as salaries, holidays, contractual and noncontractual bonuses, and severance and severance interests, under the labor regulations provided for in Law 50 of 1990, as well as other noncontractual benefits. These benefits granted to employees will be recognized once the vesting requirements have been met, not only in conformity with the law, but also in respect of those noncontractual benefits determined by the Group and considering, nonetheless, conditions such as type of contract, salary type and amount, time of service, among other particulars, as stated in the Group's internal policies, so it is expected such recognition to take place once the employee states their desire to make use of the benefits, be it according to the timeframes determined by the law or as a result of the termination of their work contract.

The obligations for short-term employee benefits are measured on an undiscounted basis and recognized as expenses as the related service is rendered.

Post-employment benefits

These are benefits the Group pays to its employees after retirement. These benefits are the retirement pensions, which are assumed directly by the Bank.

The calculation of defined benefit obligations is performed annually by a qualified actuary,

Under the projected unit credit method, future benefits to be paid to employees are allocated to each accounting period in which the employee renders the service. Therefore, the corresponding expense for these benefits is recorded in the consolidated statement of income, which includes the present service cost assigned in the actuarial calculation plus the financial cost of the liability calculated. Changes in the actuarial liability for changes in the actuarial assumptions are recorded in the consolidated statement of income.

Long-term benefits

These are all employee benefits expected to be completely settled within twelve months of the end of the reporting period.

The liability for long-term employee benefits is determined based on the present value of the estimated future payments to be made to employees, calculated based on an actuarial study prepared using the projected credit unit method, using actuarial assumptions of mortality rates, wage increases, staff turnover and interest rates determined based on current bond market returns at the end of the National Government's period of issuance or high-quality corporate obligations.

The Group grants its employees long-term noncontractual seniority bonuses during their working lives, depending on the number of years of service, every five, ten, fifteen, and twenty years, etc., estimated as days of salary as per the type of nominal salary. Likewise, a holiday bonus and assistance are granted at the time of retirement.

Termination benefits

The Group will recognize a liability and a termination benefit expense on the earliest of the following dates:

- When the entity can no longer withdraw the offer of those benefits.
- When the entity recognizes a restructuring costs.

p. Provisions

Provisions are recognized if there is a Group current obligation either legal or implied as a result of a past event, and in order to settle such obligation the Group is likely to pay with resources embodying economic benefits, and a reliable estimate of the amount of the obligation may be made. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, an account receivable is accounted for as an asset if it is virtually certain that reimbursement will be received and the amount will reliably be measured.

The amount recognized as a provision should be the best estimate, at the end of the reporting period, of the expenditure required to settle the current obligation. Estimates shall be determined according to the professional judgment of each management as well as experience gained in similar operations.

Provisions should be reviewed at the end of each reporting period and adjusted to reflect the best available estimation when it is no longer likely that the company must make payments with resources embodying economic benefits to settle the obligation.

Litigation

The Group estimate and recognizes a litigation provision to cover possible losses resulting from lawsuits filed against the Group by employees and customers, civil, commercial and tax lawsuits, based on the management opinion based on the legal external advisors reports.

These provisions are recognized at the best estimate of the value required to settle the obligations at the balance sheet date considering the obligation risks and uncertainties.

Onerous Contracts

A provision for contracts of an onerous nature is recognized when the economic benefits that the Group expects from loyalty programs are less than the unavoidable costs to fulfill the obligations of the contract.

q. Financial guarantees

Financial guarantees are those contracts that require the issuer to make specific payments to reimburse the creditor for the loss incurred when the specific debtor defaults on its obligation of payment under the original or modified conditions of a debt instrument, regardless of their legal form.

On initial recognition, the financial guarantees granted are recorded by recognizing a liability at fair value, which corresponds to the present value of the commissions and income to be received for these contracts over the course of their life, being the equivalent in the asset the amount of commissions and similar income collected at the commencement of operations and accounts receivable for the present value of future flows pending to be received.

Financial guarantees are periodically analyzed aiming to determine the credit risk which they are exposed to and assess whether if necessary to establish a provision to be determined by applying the same criteria of those established to quantify impairment losses.

r. Taxes

Income Tax

Income tax value includes current and deferred taxes. It is accounted for in income except when it becomes from a business combination, or items accounted for directly in equity or other comprehensive income.

According to the provisions of Decree 2617 of December 29, 2022, the Bank decided to record the rate change adjustment, charging it to cumulative profit or loss from prior periods. The rate adjustment generated a \$2,788 million expense, as estimated using the new rates, as per Law 2277 of December 13, 2022.

Current tax

The tax expense or income comprises both income tax and deferred tax. Current tax is the amount payable or recoverable on income tax or current taxes. It is calculated on the basis of the tax law enacted or substantially enacted at the date of the consolidated statement of financial position. The bank's tax management periodically assesses the position assumed in tax returns in respect of situations in which the tax law is subject to interpretation and, if necessary, makes provisions on the amounts that it expects to pay the tax authorities.

The Bank tax liabilities are estimated based on the tax legislation of its country. The Bank has independent tax advisors for each situation considered to require advice. The Bank considers that at the close of December 31, 2022 and 2021, none of the tax administrative proceedings where the Bank takes part individually or jointly, is material and that no significant financial impact will be generated. Therefore, it does not consider it necessary to disclose the possible contingencies that may arise from the current legal proceedings.

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The Bank and subsidiaries only compensate current income tax assets and liabilities if there is a legal right with the tax authorities and it pretends to settle any net debt or realize assets and settle debts simultaneously.

Deferred Taxes

Deferred tax is recognized using the liability method, determined on the temporary differences between the tax bases and the carrying amount of assets and liabilities included in the financial statements.

Deferred tax is accounted for in income for the year, except when it comes to items accounted for in equity or in other comprehensive income. In these cases, taxes are also accounted for in equity or in other comprehensive income, respectively.

The deferred tax liabilities are the amounts payable in the future by income tax of taxable temporary differences; while deferred tax assets are the amounts receivable by income tax due to the existence of deductible temporary differences, carry forward losses or deductions pending of application. Temporary difference refers to the existing difference between the carrying value of assets and liabilities and their tax base.

The carrying amount of deferred tax assets is reviewed at the date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profits available are generated to allow total or partial use of the deferred tax asset.

Accounting for of taxable temporary differences

Deferred tax liabilities arising from taxable temporary differences are recorded in all cases, except for the following cases:

- Arise from the initial recognition of goodwill or of an asset of liability in a transaction that is not a business combination and when the transaction's date does not affect the accounting result of the taxable basis.
- Correspond to differences related to investments in subsidiaries, affiliates and joint ventures where the Bank and its subsidiaries are able to exercise control at the moment of reinvestment and where it is not likely that they will be reversed in a foreseeable future.

Recognition of deductible temporary differences

Deferred tax assets arising from taxable temporary differences are recognized in all instances except when:

- the differences arise from the initial recognition of assets and liabilities in a transaction that is not a business combination and the transaction date does not affect the accounting income nor the taxable basis.
- the temporary differences are related to investments in subsidiaries to the extent that the temporary differences reverse in the foreseeable future and are expected to generate future positive taxable profits to offset the difference.

Tax planning opportunities are considered only in the evaluation of deferred tax assets recovery if the Bank intends to adopt them or is likely to adopt them.

Measurement

Assets and liabilities deferred taxes are measured using tax rates applicable in the periods in which the asset is expected to be realized or the liability to be settled, based on the regulations approved or about to be approved and upon consideration of tax consequences that may arise from the way the Bank expects to recover assets or liquidate liabilities.

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Taking into account the increase in the income tax rate from 34% (31% income tax and 3% income surcharge) in 2021 to 38% (35% income tax and 3% income surcharge) applicable starting 2022 as provided for in Law 2155 of 2021 (Social Investment Act), the Company remeasured the deferred tax in 2021 in compliance with paragraphs 46, 47, and 80 of IAS 12. The corresponding effect of \$1,682 was recorded in cumulative profit or loss for prior periods under equity according to the provisions of Decree 1311 of 2021.

In Decree 2617 of December 29, 2022, an alternative is established for a single time to recognize in cumulative profit or loss from prior periods under equity the variance in the deferred income tax arising from the changes to the income tax rate and the occasional gains tax rate for taxable year 2022 as provided for in Law 2277.

The Group reviews the carrying amount of deferred tax assets at the closing date of the year with the purpose of reducing such amount as there is no future positive taxable bases to compensate them.

Deferred tax assets failing to meet the abovementioned conditions are not recognized in the statement of financial position. At the close of the year, the Group analyses whether there are conditions to recognize deferred tax assets not previously recognized.

Deferred tax assets and liabilities are recognized in the consolidated statement of financial position as non-current assets and liabilities, regardless of the expected date on which they are realized or settled.

The Bank and its subsidiaries' non-cash assets and liabilities are measured in terms of their functional currency. If taxable profits or losses are calculated in a different currency, changes in foreign exchange rates cause temporary differences and lead to the recognition of a deferred tax liability or asset, with the resulting effect debited from or credited to profit or loss for the period.

Compensation and classification

The Bank and subsidiaries compensate only the assets and liabilities deferred income tax if there is a legal right before tax authorities and those assets and liabilities correspond to the same tax authority. Assets and liabilities deferred tax are recognized in the statement of financial position of the Bank as non-current assets or liabilities, regardless of the expected realization or settlement date.

Deferred tax assets and liabilities are recognized in the statement of financial position as non-current assets and liabilities, regardless of the expected date on which they are realized or settled.

Industry and commerce tax

In compliance with article 76 of Law 1943 of 2018, the Bank and its subsidiaries recognized as expense for the period the whole industry and commerce tax accrued during the year. The amount that could be charged as tax discount is treated as a non-deductible expense when estimating the income tax for the period. The tax discount reduces the amount of the current income tax expense for the period.

5. New standards and interpretations not yet effective

The bank monitors the developments and changes in standards issued by the IASB and local regulatory authorities to measure the impact of the adoption of new standards on the financial statements.

a. Standards and amendments applicable on or after January 1, 2023

The following accounting pronouncements that have been issued are applicable to annual periods starting after January 1, 2023, and have not been applied in the preparation of these consolidated financial statements. The Group intends to adopt the statements regarding accounting pronouncements on the relevant application dates, not in advance.

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The standards and amendments presented below do not have a significant impact on the bank's financial statements.

Amendments to IFRSs	Related Decree	Details
IAS 1. Presentation of financial statements. <i>Classification of liabilities as current or non-current</i>	Decree 938 of 2021	The requirement to classify a liability as current is modified as it was established that a liability is classified as current when there is no right at the end of the reporting period to postpone the settlement of the liability within twelve months of the reporting date.
IAS 16. Property, plant and equipment. <i>Proceeds before intended use</i>	Decree 938 of 2021	The amendment establishes that the proceeds from the sale of an item of property, plant, and equipment obtained before the related property, plant, and equipment is available for its intended use is no longer deducted from the cost. Instead, the entity would recognize the proceeds from such sales along with the costs of producing such items in profit or loss for the period.
IAS 37. Provisions, contingent liabilities and contingent assets. <i>Onerous contracts – Cost of fulfilling a contract.</i>	Decree 938 of 2021	It clarifies that as part of the assessment carried out by an entity about whether a contract is onerous, the “cost of fulfilling” a contract comprises the costs that relate directly to the contract. The effect of the application will not lead to the restatement of comparative information. Its effect will be recognized as an adjustment to the opening retained earnings.
Reform of the reference interest rate (Amendments to IFRS 9, IAS 39, and IFRS 7)	Decree 938 of 2021	It deals with temporary exceptions from the application of specific hedge accounting requirements due to the inconveniences that may affect financial information when the existing reference interest rate (LIBOR) is replaced by an alternative reference interest rate (RFR). Phase 2 amendments deal with aspects that may affect the financial information during the reform of the reference interest rate, including the effects on cash flow contractual changes or on hedging relationships that may occur when replacing the reference interest rate with an equivalent rate.
IFRS 3 – Business combinations. <i>Reference to the conceptual framework.</i>	Decree 938 of 2021	Amendments are made to the references in order to bring them in line with the conceptual framework as issued by the IASB in 2018. The identifiable assets acquired and the liabilities assumed in a business combination will be those that meet the definition of assets and liabilities in the conceptual framework.
Annual Improvements to IFRS Standards 2018 – 2020 Cycle	Decree 938 of 2021	*IFRS 1: The amendment provides additional relief to a subsidiary that becomes an adopter of IFRSs for the first time later than its parent regarding the accounting for cumulative translation differences. *IFRS 9: It clarifies the omissions that must be included in the 10% test for derecognition of financial liabilities.

6. Estimation of the fair value of financial instruments

a. Determining fair value

The Group has established processes in place to ensure that the valuation of financial instruments is adequately calculated.

The fair values of financial assets and liabilities traded in active markets are based on the quoted market prices on the reporting date.

An active market is a market in which transactions for assets and liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Observable market prices represent a valuation hierarchy of level one (1). When possible, valuations are based on inputs of observable market prices obtained in an active market.

Quoted prices are not always available on the market, nor in transactions in inactive or illiquid markets. In these cases, internal models that maximize the use of observable inputs are used to estimate the fair value. When significant inputs of models are observable, valuation is classified in the level 2 hierarchy (2).

When financial instruments are traded on an inactive market or when a models in which observable parameters do not exist and a management judgment is required, it is necessary used non-observable inputs data to determine the fair value. Therefore, a lever 3 hierarchy (3) is determined.

The Group calculates the fair value of fixed-rate instruments and derivatives on a daily basis using pricing information provided by the official price provider officially appointed (PRECIA). This provider has been authorized upon previous compliance with standards applicable to valuation price providers in Colombia, including their business purpose, operation rule book, valuation methodology approval process, and required technological infrastructure, among others. After evaluating PRECIA's price provider methodologies it is concluded that the fair value calculated for derivative instruments from prices and inputs handed over by the price provider is adequate.

The level in the fair value hierarchy where the fair value measurement is classified as a whole is determined on the basis of the lowest level input that is significant to the fair value measurement as a whole. The significance of an input is assessed in relation to the fair value measurement as a whole. The financial instruments that are listed in markets not considered as active but that are valued according to quoted market prices, quotes by price providers or alternative pricing sources supported by observable inputs are classified in level 2.

If a fair value measurement uses observable inputs that require significant adjustments based on unobservable inputs, then it is deemed to be a level 3 measurement. The evaluation of the significance of a particular input in fair value measurement as a whole requires professional judgement, taking into consideration factors specific to the asset or liability. The Group considers as observable data those market data that are readily available, regularly distributed or updated by the price provider, reliable and verifiable, not copyrighted, and provided by independent sources that participate actively in the relevant market.

The following table presents the main valuation techniques and inputs used in estimating the fair value of Level 2 and Level 3 financial instruments:

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Type	Valuation technique for Level 2	Main inputs used
Debt securities	Calculation of the present value of discounted financial instruments with curves constructed from observable data, taking into account market variables.	- Real Value Unit (RVU) bond references (SEN/MEC systems prices)
Derivatives	Calculation of the present value of financial instruments and market comparison technique. The fair values are based on quotes from Bloomberg/ Reuters transactional systems; ICAP, Tradition, GFI, Tullet, and CME brokers; and central banks. Listings reflect current transactions in similar instruments.	Currency forwards: - Interest rates - Devaluations
		- Exchange rates USD/COP options: - Interest rates - Devaluations - Volatility matrices - Exchange rates
		S&P 500 options: - S&P 500 Index - Volatility matrices
		Security forwards: - Underlying prices - Interest rates
		IRs, interest rate and currency hedging swaps: - Interest rates in Colombia and abroad (Libor/IBR curves) - Exchange rates
Participating securities on the Colombia Stock Exchange	Market valuation price calculated through auction within the valuation day	Valuation prices of each auction

Type	Valuation technique for Level 3	Main unobservable inputs	Interrelationship between significant unobservable information and fair value measurement
Variable-income securities – Investment in Credibanco	Discounted free cash flow	<ul style="list-style-type: none"> - Balance sheet and income statement projection assumptions (assets, liabilities, income, expenses) - Cost of debt - Cost of capital - Perpetuity estimate 	Estimated fair value may increase (decrease) if:
			- The balance sheet and income statement projections are higher (lower) based on market behavior and the use of the investee's resources.
			- The cost of debt is higher (lower) based on the average funding rate used

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Type	Valuation technique for Level 3	Main unobservable inputs	Interrelationship between significant unobservable information and fair value measurement
- Investment in Titularizadora Colombiana	Discounted free cash flow.	- Forecast assumptions on the statement of financial position and P&L (assets, liabilities, income, expenses) - Perpetuity estimation.	- The cost of capital is higher (lower) based on the estimates included in its calculation. - The perpetuity estimate is higher (lower) based on the expected growth of the Colombian economy The estimated fair value may increase (decrease) if: - the perpetuity estimation was greater (lower) in agreement with the expected growth of the Colombian economy.

b. Determination of the fair value of financial assets and liabilities carried at amortized cost determined solely for disclosure purposes

Following are the details of how financial assets and liabilities recognized for accounting purposes at amortized cost and measured at fair value solely for disclosure purposes were valued.

- Credit portfolio

The estimated fair value of the credit portfolio reflects changes in the general level of interest rates that have occurred from the loan portfolio creation or acquisition. Specific valuation methods used are as follows:

For fixed rate portfolio fair value is determined by discounting the expected future cash flows depending on market interest rates for loan portfolios whose conditions and risks are similar.

For floating rate loan portfolio fair value is determined regardless the potential adjustment in credit spreads changes. Therefore, the fair value is assumed to be equal to carrying value.

- Deposits, subordinated debt and financial obligations

Fair values of deposits payable on demand or with prior notice or customer deposits, subordinated bonds and floating rate financial obligations payable over a fixed period do not adjust to changes in credit margins. Therefore, it is assumed that the fair value of these types of deposits is equal to their carrying amount.

The estimated fair value of fixed rate deposits payable over a fixed period is determined by discounting the contractual cash flows based on the market interest rates offered in respect of deposits with similar.

c. Fair value measurements on a recurring basis

The following table shows the book value, fair value and fair value hierarchy of financial assets and liabilities:

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	December 31, 2022				
	Book value	Level 1	Level 2	Level 3	Total Fair value
ASSETS					
Cash	\$ 2,966,199	2,966,199	-	-	2,966,199
Investments at fair value through profit or loss – Debt securities	1,133,395	1,133,395	-	-	1,133,395
Issued or guaranteed by the Colombian Government	618,610	618,610	-	-	618,610
Issued or guaranteed by other financial institutions	514,785	514,785	-	-	514,785
Investments at fair value through profit or loss – Equity instruments	18,347	-	-	18,347	18,347
Investments at amortized cost	1,537,409	-	1,522,979	-	1,522,979
Issued or guaranteed by the Colombian Government	1,537,409	-	1,522,979	-	1,522,979
Investments at fair value through OCI	1,615,395	1,498,492	-	116,903	1,615,395
Issued or guaranteed by the Colombian Government	1,493,289	1,493,289	-	-	1,493,289
Equity instruments	122,106	5,203	-	116,903	122,106
Trading derivatives	904,442	-	904,442	-	904,442
Currency forwards	176,096	-	176,096	-	176,096
Security forwards	405	-	405	-	405
Currency swaps	17,500	-	17,500	-	17,500
Interest rate swaps	696,168	-	696,168	-	696,168
Cash operations	54	-	54	-	54
Currency options	14,219	-	14,219	-	14,219
Hedging derivatives	154,632	-	154,632	-	154,632
Currency swap	138,721	-	138,721	-	138,721
Currency options	15,911	-	15,911	-	15,911
Credit portfolio	34,502,179	-	-	33,821,369	33,821,369
Commercial portfolio	14,785,398	-	-	14,538,113	14,538,113
Consumer portfolio	19,716,781	-	-	19,283,256	19,283,256
Total assets	\$ 42,831,998	5,598,086	2,582,053	33,956,619	42,136,758
LIABILITIES					
Trading derivatives	\$ 957,613	-	957,613	-	957,613
Currency forwards	208,450	-	208,450	-	208,450
Security forwards	138	-	138	-	138
Currency swaps	30,689	-	30,689	-	30,689
Interest rate swaps	701,688	-	701,688	-	701,688
Cash operations	769	-	769	-	769
Currency options	15,879	-	15,879	-	15,879
Hedging derivatives	10,024	-	10,024	-	10,024
Interest rate swaps	10,024	-	10,024	-	10,024
Customer deposits	32,871,094	-	-	32,953,499	32,953,499
Deposits in bank current accounts	2,029,744	-	-	2,029,744	2,029,744
Term certificates of deposit	13,645,216	-	-	13,727,621	13,727,621
Savings deposits	16,570,421	-	-	16,570,421	16,570,421
Others	625,713	-	-	625,713	625,713
Financial obligations	4,210,736	-	-	4,210,736	4,210,736
Interbank funds	336,113	-	-	336,113	336,113
Bank loans	3,086,492	-	-	3,086,492	3,086,492
Rediscount entity loans	595,251	-	-	595,251	595,251
Leases	185,128	-	-	185,128	185,128
Other financial obligations	7,752	-	-	7,752	7,752
Investment securities	1,373,919	-	-	1,373,919	1,373,919
Total Liabilities	\$ 39,423,386	-	967,637	38,538,154	39,505,791

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	December 31, 2021				
	Book Value	Level 1	Level 2	Level 3	Total Fair Value
ASSETS					
Cash	\$ 4,318,542	4,318,542	-	-	4,318,542
Investments at fair value through profit or loss – Debt securities	1,905,431	1,764,823	140,608	-	1,905,431
Issued or guaranteed by the Colombian Government	1,212,424	1,071,817	140,608	-	1,212,425
Issued or guaranteed by other financial institutions	693,006	693,006	-	-	693,006
Investments at fair value through profit or loss – Equity instruments	21,128	-	-	21,128	21,128
Investments at amortized cost	773,936	-	758,663	-	758,663
Issued or guaranteed by the Colombian Government	773,936	-	758,663	-	758,663
Investments at fair value through OCI	1,865,728	1,046,842	719,669	99,217	1,865,728
Issued or guaranteed by the Colombian Government	1,760,952	1,041,283	719,669	-	1,760,952
Equity instruments	104,776	5,559	-	99,217	104,776
Trading derivatives	591,813	-	591,813	-	591,813
Currency forwards	296,448	-	296,448	-	296,448
Security forwards	136	-	136	-	136
Currency swaps	6,891	-	6,891	-	6,891
Interest rate swaps	274,825	-	274,825	-	274,825
Cash operations	176	-	176	-	176
Currency options	13,337	-	13,337	-	13,337
Credit portfolio	30,122,297	-	-	29,042,963	29,042,963
Commercial portfolio	11,739,204	-	-	11,557,130	11,557,130
Consumer portfolio	18,383,093	-	-	17,485,833	17,485,833
Total assets	\$ 35,598,875	7,130,207	2,210,753	29,163,308	38,504,268
LIABILITIES					
Trading derivatives	\$ 578,892	-	578,892	-	578,892
Currency forwards	293,708	-	293,708	-	293,708
Security forwards	3,374	-	3,374	-	3,374
Currency swaps	2,610	-	2,610	-	2,610
Interest rate swaps	274,832	-	274,832	-	274,832
Cash operations	16	-	16	-	16
Currency options	4,352	-	4,352	-	4,352
Hedging derivatives	700	-	700	-	700
Interest rate swaps	700	-	700	-	700
Customer deposits	30,784,189	-	-	30,716,905	30,716,905
Deposits in bank current accounts	2,426,174	-	-	2,426,174	2,426,174
Term certificates of deposit	10,395,815	-	-	10,328,531	10,328,531
Savings deposits	17,541,142	-	-	17,541,142	17,541,142
Others	421,058	-	-	421,058	421,058
Financial obligations	3,879,006	-	-	3,879,006	3,879,006
Interbank funds	2,088,471	-	-	2,088,471	2,088,471
Bank loans	1,367,528	-	-	1,367,528	1,367,528
Rediscount entity loans	210,934	-	-	210,934	210,934
Leases	204,160	-	-	204,160	204,160
Other financial obligations	7,913	-	-	7,913	7,913
Investment securities	1,410,952	-	-	1,410,952	1,410,952
Total liabilities	\$ 36,653,739	-	579,592	36,006,863	36,586,455

d. Valuation of equity instruments Tier 3

The Group holds investments in this type of instruments in Redibanco S,A, ACH Colombia S.A. and Redeban Multicolor S.A.. In accordance with subparagraph (a) in this note, the valuation method used is the free discounted cash flows built based on the appraiser own forecasts, income, costs and the entity's expenses, that is appraised in a period of five years considering historical records obtained from the company and residual values determined with growth rates in perpetuity established by the appraiser according to his experience. These projections and residual values are discounted based on interest rates set with curves taken from price providers and adjusted for estimated risk premiums based on the risks associated with the valued company.

The following table summarizes the ranges of the main variables used in the assessment:

- **Credibanco S.A.**

Variable	2022p – 2208p Range %
Internal inflation	Between 3.1% and 13.12%
Gross domestic product	Between 3.1% and 7.20%

The following table includes a sensitivity analysis of changes in those variables in the Bank's equity considering this investment's fair value variations are recognized in equity's other comprehensive income.

Present value adjusted for the rate of discount				
Variables	Published price per share	Variables	Positive impact	Variation
Revenue	101.82	+/- 1%	106.43	97.30
Residual value growth after 5 years		+/- 1% of the gradient	108.08	96.58
Discount rates		+/- 50PB	106.93	97.13

- **Redeban Multicolor S.A.**

Results of the assessment by selected approach	
Present value adjusted by discount rate	274,997
Number of outstanding shares	15,791,803
Valuation price per share (COP)	16,655.24

Present value adjusted by discount rate	
Variables	Range used for valuation
Revenue (% growth over 5 years)	7.0% - 15.9%
Growth in residual values after 5 years	3.10%
Equity cost rate	15.06% - 17.50%

The following table shows the published price sensitivities whose variables were defined by the investor. This investment is recognized in the income statement.

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Present value adjusted by discount rate					
No, Shares	Published price per share	Variables	Positive impact	Variation	Negative impact
15,791,803	16,655.24	Revenues	19,297.02	+/- 1%	14,165.96
		Growth in residual values after 10 years	17,830.80	+/- 1% of the gradient	15,661.07
		Equity cost rates	17,466.83	+/- 50PB	15,909.54

- ACH Colombia S.A.

Results of the assessment by selected approach	
Present value adjusted by discount rate	1,118,622,306,829
Number of outstanding shares	6,594,807
Valuation price per share (COP)	169,621.69

Present value adjusted by discount rate	
Variables	Range used for valuation
Revenue (% growth over 10 years)	8.8% - 28.3%
Growth in residual values after 10 years	3.10%
Equity cost rate	15.06% - 18.43%

- Titularizadora Colombiana S.A.

Results of the assessment by selected approach	
Present value adjusted by discount rate	16,094,807,000
Number of outstanding shares	3,800,369
Valuation price per share (COP)	4.20

Present value adjusted by discount rate	
Variables	Range used for valuation
Revenue (% growth over 10 years)	0.9% - 3.2%
Growth in residual values after 10 years	1.95%
Discount rate	15.2% - 18.9%

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The following table shows the published price sensitivities whose variables were defined by the investor.

Present value adjusted by discount rate					
No. Shares	Published price per share	Variables	Positive impact	Variation	Negative impact
3,800,369	4.2	Revenues (*)	33,204,652	+/- 1%	N/A
		Growth in residual values after 5 years	2,654,029	+/- 1% of the gradient	N/A
		Equity cost rates	An industry-wide cost, not entity equity, is calculated.	+/- 50PB	N/A

(*) Average of 5 years of valuation

e. Hierarchy-level transfers

Below is the information about the transfers between classification Levels 1 and 2. Transfers between Level 1 and Level 2 of investment portfolios are fundamentally changes in the liquidity levels of the securities in the market.

	December 31, 2022		December 31, 2021	
	Level 2 to level 1	Level 1 to level 2	Level 2 to level 1	Level 1 to level 2
Assets				
Fair value investments	\$ -	1,254,461	-	-
Bonds				

As of December 31, 2022 and 2021, there were no transfers of Level 1 and 2 fair values to Level 3 of investment portfolios in comparison with the previous period.

f. Reconciliation hierarchical level 3

	Equity instruments
Balance as of December 31, 2020	\$ <u>103,634</u>
Valuation adjustment with impact on profit or loss	317
Valuation adjustment with impact on OCI	<u>16,394</u>
Balance as of December 31, 2021	<u><u>120,345</u></u>
Valuation adjustment with impact on profit or loss	(2,410)
Valuation adjustment with impact on OCI	<u>17,315</u>
Balance as of December 31, 2022	\$ <u><u>135,250</u></u>

7. Operating segments

An operating segment is a Group component that carries out business activities out of which income may be obtained from ordinary activities and incur into costs and expenses, which operating result is regularly subject to a review by the highest authority at the Group's decision-making process that determines the resources that must be assigned to each segment and assesses its performance. These segments meet the quantitative thresholds that are reported.

A joint project with the marketing vice-chairmanship was started with the aim of structuring the bank segments, During the project, a segmentation was completed with the purpose of separating customers by sales levels for companies and income levels for individuals, Also, the transactional products the customer contracts with the bank were considered.

The information related to the results of reportable segments is included below, Performance is measured based on each segment's profits before income tax. Each segment's profit is used to measure performance since management believes that it is relevant to the evaluation of certain segments related to other entities operating within the industry.

As of December 31, 2022, the Group has five (5) operating segments: Commercial, Consumer, Housing, Treasury and Others. These sectors offer different products and services and are managed separately based on the Bank's internal management and information structure.

- **Customers** Corporate bodies with customer portfolio products: Ordinary, builder, factoring, promotion, corporate revolving loans, savings accounts, current accounts, term deposits, the companies that are part of this segment are corporations, businesses, and SMEs, companies with sales upwards of USD\$50 million a year and with a relationship with the bank through loans and transactional products.
- **Consumption loans** Individuals with credit cards, personal loans, individual revolving loans, car loans, savings accounts, current accounts, and term deposits.
- **Mortgage loans:** Individuals with real estate loans.
- **Liquid assets:** Capital Market Desk with forwards, options, spot, interbank products, and fixed income; ALM Desk of government bonds, corporate bonds and debt write-down securities, and subsidiaries.
- **Others:** Segments that are not assigned to an operating sector, Includes the cost of funds of the deposits administered by the funding unit, portfolio sales, sales of assets received in lieu of payment, and other income related to allies.

The results of these business segments are based on the bank's internal financial reporting system, The accounting policies that these segments apply are the same that have been adopted for the preparation of the bank's consolidated financial statements.

The financing value of the assets and liabilities' internal transfer pricing is set using market rates and the expenses are equally assigned to each segment using several parameters,

The return is measured on a per-segment profit basis before income taxes. Per-segment profit is used to measure the return, as the Group's management deems it relevant to evaluate certain segments related to other entities operating in the sector.

Below is the information related to the results of each reportable segment:

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	December 31, 2022					
	Customers	Consumer	Mortgage	Treasury	Other	Total
Revenue (expenses) from ordinary external activities						
Net interest income	\$ 169,795	1,901,567	616,365	175,149	(624,256)	2,238,620
Net commissions income	170,845	840,167	35,156	108,772	(579,864)	575,076
Net trading revenue						
Operating expenditures, net	(432,046)	(1,484,766)	(165,255)	(61,699)	212,076	(1,931,690)
Other income from ordinary activities	19,739	(13,318)	1,385	(2,557)	277,893	283,142
Total income from operating segments	(71,667)	1,243,650	487,651	219,665	(714,151)	1,165,148
Other non-cash tangible items						
Impairment of financial assets	(11,665)	(669,683)	(18,915)	-	(194,898)	(895,161)
Profits (loss) of operating segments before income tax	(83,332)	573,967	468,736	219,665	(909,049)	269,987
Taxes	22,178	(152,760)	(124,752)	(58,463)	217,615	(96,182)
Operating segments assets	14,823,869	12,345,390	6,624,821	5,322,835	4,735,075	43,851,990
Operating segments liabilities	22,102,169	8,361,076	79,199	967,637	8,952,406	40,462,487

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	December 31, 2021					
	Customer	Consumer	Mortgage	Treasury	Other	Total
Revenue (expenses) from ordinary external activities						
Net interest income	\$ 181,866	1,533,647	499,407	79,190	(368,144)	1,925,966
Net commissions income	97,294	767,958	32,944	67,225	(489,379)	476,042
Net trading revenue						
Operating expenditures, net	(287,629)	(1,444,859)	(128,953)	(35,108)	477,704	(1,418,845)
Other income from ordinary activities	14,612	5,858	1,024	8,989	-	30,483
Total income from operating segments	6,143	862,604	404,422	120,296	(379,819)	1,013,646
Other non-cash tangible items						
Impairment of financial assets	(20,841)	(385,530)	(35,882)	-	(143,322)	(585,575)
Profits (loss) of operating segments before income tax	(14,698)	477,074	368,540	120,296	(523,141)	428,071
Taxes	6,983	(226,676)	(175,108)	(57,157)	245,914	(206,044)
Operating segments assets	12,206,149	11,231,772	5,951,671	5,133,458	6,383,212	40,906,262
Operating segments liabilities	19,666,360	8,029,976	68,686	579,592	9,165,623	37,510,237

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Consolidated exposure of loan risk

The Group and its financial subsidiaries are exposed to risks where the debtor may cause financial losses by failing to timely meet its obligations and for the entire debt amount. Exposure to credit risk of the Bank and its financial subsidiaries arises from its lending activities and transactions with counterparties that result in the acquisition of financial assets.

The maximum consolidated exposure to credit risk of the Bank and its financial subsidiaries is shown below. Such exposure is reflected in the carrying value of financial assets in the consolidated statement of financial position as indicated as follows:

	December 31, 2022	December 31, 2021
Debt instruments at fair value through profit or loss		
Government and/or foreign states	\$ 618,593	1,212,549
Financial entities	514,802	692,882
	<u>1,133,395</u>	<u>1,905,431</u>
Debt instruments at fair value through changes in ORI		
Government	1.493,289	1,760,952
Debt instruments at amortized cost		
Investments in debt securities	1,537,409	773,936
Derivatives for trading		
	904,442	591,813
Hedging derivatives		
	154,632	-
Loan portfolio		
Customer portfolio	14,785,398	11,739,204
Consumer loan portfolio	19,716,781	18,383,093
Receivables		
	<u>275,410</u>	<u>408,912</u>
Total financial assets with credit risk	\$ <u>40,000,756</u>	<u>35,563,341</u>
Off-balance sheet credit risk		
Financial security and letters of credit	2,862,055	3,049,608
Credit limit	17,912,989	18,134,892
Total off-balance sheet credit risk	<u>20,775,044</u>	<u>21,184,500</u>
Total maximum credit risk exposure	\$ <u>60,775,800</u>	<u>56,747,841</u>

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December 31, 2021					
	Forwards	Spot Trades	Currency options	Swaps	Total
Investment grade	\$ 288,864	176	2,731	267,826	559,597
Noninvestment grade	7,691	-	10,606	13,889	32,186
Medium Risk	29	-	-	-	29
High Risk	-	-	-	1	1
	\$ 296,584	176	13,337	281,716	591,813

Below is the detailed breakdown of the counterparty risk rating of derivative liabilities:

December 31, 2022						
	Forwards	Spot trades	Currency Options	Swap	Hedging Swaps	Total
Investment grade	\$ 145,937	768	15,572	657,774	10,024	830,075
Non-investment grade	62,651	1	307	74,603	-	137,562
	\$ 208,588	769	15,879	732,377	10,024	967,637

December 31, 2021						
	Forwards	Spot trades	Currency Options	Swaps	Hedging Swaps	Total
Investment grade	\$ 265,212	16	1,954	262,011	700	529,893
Non-investment grade	31,870	-	2,398	15,431	-	49,699
	\$ 297,082	16	4,352	277,442	700	579,592

Criteria for credit risk evaluation, rating, and provisions

The Group informs that for credit rating purposes it permanently evaluates the risk embodied in credit assets both at the time of granting a loan and during the loan term, including the instances of debt restructuring. To that end, the bank designed and adopted a Credit Risk Management System (SARC for its Spanish initials) made up of credit risk management policies and processes, internal models based on the methodology used by the parent to estimate and quantify the expected and incurred losses, a system of provisions to hedge against credit risk, and internal control processes.

The granting of a loan is based on the knowledge of the person eligible for credit, their ability to pay, and the characteristics of the contract to be entered into, which include, among others, the financial conditions of the loan, the securities, the payment sources, and the macroeconomic conditions to which they may be exposed.

When granting a loan, there are variables in place, for each portfolio, that allow to discriminate the persons eligible for credit that match the bank's risk profile. The segmentation and discrimination of loan portfolios and the possible persons eligible for credit serve as a basis for scoring them internally. The methodologies

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and procedures implemented in the granting process allow to monitor and control the credit exposure of different portfolios, as well as the aggregated portfolio, avoiding the excessive concentration of credit per debtor, economic sector, economic group, risk factor, etc.

The Group continuously monitors and internally scores credit transactions according to the granting process, which is based, among other criteria, on the information relating to the historical performance of portfolios and loans; the particular characteristics of debtors, their loans and the securities pledged; the debtor's credit payment behavior in other entities and the financial information about them that allows to know their financial situation; and the sector and macroeconomic variables that affect their normal progress.

Restructuring

Restructuring of a loan is any mechanism by which the Bank grants the borrower with conditions with the purpose of modifying the originally agreed contractual loan terms so that the debtor is able to fulfil his obligation due to current or future deterioration of his payment capacity. Restructured loans are recorded upon restructuring by the current value of future expected cash flows in the agreement, discounted at the original rate of an asset before the restructuring.

In restructurings arising from subscription of Fiscal and Financial consolidation programs under the terms of Law 617/2000, the Nation granted guarantees to the obligations assumed by local entities with financial institutions supervised by the Financial Superintendence of Colombia (SFC), provided that the requirements set forth in the aforementioned Law were met and fiscal adjustment agreements subscribed before June 30, 2001.

Such guarantee could be up to forty percent (40%) for loans valid at December 31, 1999 and up to one hundred percent (100%), for new loans for fiscal adjustment.

Reserves set up on restructured obligations in the portion guaranteed by the Nation were reversed, while the portion of obligations to be restructured not guaranteed by the Nation kept the same rate they had in June 30, 2001

Purchase of portfolio

Purchased loans are initially recognized at market value at the purchase date.

Sales of portfolio

The Bank derecognized a loan (or group of loans) upon termination of its contractual right to cash flows. This may occur at maturity or by transfer of the loan. A transfer is considered to be made by the Bank when the contractual rights to receive the contractual cash flows are transferred along with all ownership risks and rewards. When a loan is derecognized and the consideration received on the loan is greater than the carrying amount, the gain is accounted for as profit on the sale of portfolio.

Write-off Portfolio

The total and partial write-off of loans is recorded upon determination by the Management of no real probability of a full repayment, and provision is of hundred percent (100%), after having exhausted all possible means of collection, in accordance with provisions of judicial collection entities and Bank's attorneys.

Upon determination of the total insolvency of the debtor, punishments are presented to the Board of Directors for approval; however, the Bank continues with the collection process before a possible solvency of the debtor.

If a punished loan is then recovered, such recovery is recognized in the income statement against the impairment expense.

Credit Rating of the Loan Portfolio

At the end of each reporting period the Bank assesses whether a loan (or group of loans) is impaired and such impairment is determined according to the incurred loss model.

Any loan or group of loans is deemed impaired if impairment loss are incurred only in the following cases:

There is objective evidence of impairment as a result of one or more events taking place after the initial recognition of the loan (or loss event) and

The loss event impacts the estimated future cash flows that may be estimated reliably.

If none of these two conditions exist, no impairment is recognized. If late payments are done, the loan is rated as past due but not impaired portfolio.

Consumer loan portfolio

Credit risk exposure

In accordance with the implementation of IFRS 9, the Bank has put in place an expected loss model for the calculation of credit risk impairment in the consumer portfolio segment that meets the aforementioned standard requirements. The new expected loss model was built using advanced models for most products offered in the consumer loan portfolio (mortgages and consumption loans) except for SMEs, other consumer products and microcredit, which, due to the availability of information and the size of the portfolio, were built using intermediate models, and the leasing portfolio, built using a simplified model.

The bank's IFRS 9 models (advanced, intermediate, and simplified) meet the requirements of IFRS 9 regarding the calculation of an expected loss through the probability of default, the expected exposure at default and the loss given default. These parameters are calculated considering the time value of money, the expected life of the loan and the analysis of significant risk increase through stages (SIR analysis).

Consultancy firm FICO, a world leader in statistical modelling for credit risk, was tasked with developing the advanced models. Our Toronto-based parent developed the intermediate and simplified models following stringent quality controls. It is worth noting that all models are validated by the parent of the bank.

Regarding the portfolio acquired in the business combination an intermediate model that meets the requirements of IFRS 9 was used. This model was also developed by our parent in Toronto following strict quality controls.

Customer portfolio

Evaluation and re-rating of the loan portfolio

In the credit rating process the bank allocates the client an internal score (*IG Investment Grade*), which is a code that reflects the debtor's risk profile according to the evaluation of several factors such as the financial behavior, management, payment habits, financial coverage, and customer and industry prospects, among others.

The customer portfolio is made up of the companies, builder, corporate, and customer segments under remedial management. The methodology used for the calculation of impairment is based on the customers' IGs and is divided in two impairment calculations, one through an expected loss model that is used for IGs 87-30 and the other, the individual one, used for IGs 21. For the expected loss methodology impairments are calculated in accordance with the probability of default (DP), loss given default (LGD), and the exposure at default (EAD). The formula used is $EL = DP * LGD * EAD$

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When customer is IG 21, provision is divided into two groups:

- Main accounts (above CAD 1MM): Customers with a balance exceeding CAD 1 million. These customers are managed and appear individually, since they entail the greater materiality. The calculation of impairment is carried out through the BEEL format (Best Estimated Expected Losses).
- Local regulatory body (<CAD 1 MM): Customers with balances lower than CAD 1 million. These customers are managed collectively. For these customers provisions, the local provision calculated by the Commercial Reference to capital Model is taken.

Credit risk rating

The bank rates credit transactions based on the aforementioned criteria and classifies them in one of the following credit risk categories taking into account the following minimum objective conditions:

Grade	December 31, 2022		
	Stage 1 y 2	Stage 3	Total
Investment grade	3,989,889	-	3,989,889
Without investment grade	9,684,286	-	9,684,286
Monitoring list	458,780	-	458,780
Impaired loans	-	652,443	652,443
Total	14,132,955	652,443	14,785,398

Grade	December 31, 2021		
	Stage 1 y 2	Stage 3	Total
Investment grade	3,261,848	-	3,261,848
Without investment grade	7,134,349	-	7,134,349
Monitoring list	623,347	-	623,347
Impaired loans	-	719,660	719,660
Total	11,019,634	719,660	11,739,294

Guarantees

For IG 21 accounts less than CAD\$ 1 Million

✓ **Policy for guarantees admission and management**

The guarantees are an additional support that the Bank requests from its clients in order to reduce loans activities-related risks. Guarantees are not considered a payment instrument.

✓ **Policy of additional guarantees provision requirement**

- Pursuant to the legal rules on credit limits.
- Not shared with other client's creditors, unless they are shared at equal grade with their Bank subordinates located abroad or with their subsidiaries.

✓ **Requirements for guarantees provision for credit granting**

- The guarantees provision documents must comply with the minutes prepared for such purpose by the Legal Management.
- Upon granting, guarantees are provided as follows:

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- Guarantees provided for immovable property intended for housing. The guarantee value shall be that obtained in a technical appraisal. For new properties or less than one year old, acquired by a financial institution to sign leasing contracts, the granting value shall be the property acquisition value or that obtained in a technical appraisal.
 - Guarantees in immovable property non-intended for housing. The granting value shall be that obtained in a technical appraisal. For new properties or less than one year old, acquired by a financial institution to sign leasing contracts, the granting value shall be the property acquisition value or that obtained in a technical appraisal.
 - The value of guarantees on machinery and/or equipment is determined based on the age thereof. I.e., the purchase invoice value shall be less than one year, which will be valid for one (1) year. At the end of this period, the value must be updated annually, applying the straight-line depreciation method and in accordance with the respective asset useful life; greater than one year will be a technical appraisal on the granting date, which will be valid for one (1) year. Upon such period elapsing, the value should be updated annually by applying the depreciation using the straight-line method in accordance with the respective asset useful life.
 - For guarantees on vehicles, the Fasesolda value guides are considered, or in the absence thereof, the commercial appraisals published in the Ministry of Transport.
 - For guarantees on other goods, the value at granting time is the value obtained in the technical appraisal carried out.
- ✓ **Guarantees administration**
- The debtor is obliged to ensure properly guarantee maintenance. The client's commercial and operational manager shall verify compliance with this rule, as follows:
 - Supervise guarantees provision.
 - Verify the existence and validity of insurance policies.
 - Verify documentation and information required and ensure proper filing.
 - The Guarantee Control System enable control thereof, as follows:
 - Insurance maturity information.
 - Information of documents.
 - The Document Administration Center ensures proper guarantees custody.
- ✓ **Distribution of guarantees**
- A credit can be backed by an own guarantee or as covered by a guarantee with an owner different from the credit debtor.
 - Guarantees are assigned until reaching one hundred percent (100%) of the credits balance.
- ✓ **Open-ended guarantees**
- For guarantees supporting several obligations, a proration is made according to each obligations balance, provided that it is the same debtor and type of portfolio.
 - When there is guarantee defects in an obligation, i.e., the guarantee value does not cover the obligation balance, the so uncovered balance is assigned to the corresponding PDI to no guarantee.

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- The current guarantee-backed credits that has expired valuations have a PDI corresponding to no guarantee.

✓ **Closed-end guarantees**

Only the indicated credit is covered up to one hundred percent (100%) of the balance and without exceeding the guarantee legal limit value.

b. Market risk

Market risk is understood as the possibility of incurring in losses or decreases in the economic value of the equity, as a consequence of the price and market rates changes (interest rates, credit margins, share prices, currency types, and commodities) the correlations among them, and their levels of volatility, for their positions on or off the balance sheet.

The Group's Market Risk Management System (MRMS) has been designed to identify, measure, control and monitor its transactions exposure to Market Risk. This policy explains in detail the stages and main elements that make up the MRMS, taking into account that each of them has been prepared based on the general guidelines set forth in Chapter XXI of the Basic Accounting and Financial Circular (*Circular Básica Contable y Financiera, CBCF*) 100/1995 of the Financial Superintendence of Colombia, pursuant to the guidelines of the parent company.

The System has been approved by the ALCO committee and the Board of Directors and is constantly monitored through reports on risk exposure and approved limits. The ALCO Committee meets weekly in order to monitor the market risk exposure by the Top Management.

Moreover, appropriate policies and limits consistent with the Bank's risk appetite have been established and in compliance with current regulatory provisions, which are subject to review and approval at least once a year at the local level by the Board of Directors and BNS as the parent company.

Entering into product transactions and participating in markets can only be done after:

- Having completed an evaluation of the risks associated with the activity and determined that the activity is within the Bank risk appetite and the strategy approved by the Board of Directors; and
- Having received the definition and approval of appropriate limits, policies and controls on the activity.

The Bank and subsidiaries use the standard model established in Chapter XXI of the CBCF as the official model for calculating the Value at Risk - VaR that is reported to the Financial Superintendence of Colombia on a daily and monthly basis. The Bank has also developed other market risk in-house models for its treasury book, which allow it to identify, measure and control the defined exposure levels, also establishing a sound limit structure in accordance to the business size, as well as monitoring and daily reporting schemes to Top Management, and monthly to the ALCO committee and the Board of Directors.

- VaR
- Open and Inter Day positions
- Sensitivities for investment portfolios and derivatives
- Stress Testing
- Notional
- Deadlines
- Sensitivity analysis of the Balance Sheet

The Bank pays special attention to ensuring that measurement models take into account the appropriate market risk factors, that is, market rates and prices affecting the value of their active, passive and off-balance sheet positions.

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The VaR is a statistical measure that estimates the loss of value potential of the Bank's trading positions due to adverse market movements, in a defined time and with a specific level of confidence. The quality of the Bank's VaR is validated through stress and back testing. As a VaR complement, the Bank has within its limits a Stress VaR, including the historical highest volatilities and it sets *guidance* in both limits as an early warning for their timely monitoring and management.

On the other hand, the Bank measures the structural interest rate risk on the statement of financial situation, for those assets and liabilities sensitive to interest rates that may be affected by adverse market changes and impact on financial margin and Bank economic value. All this built from internal models and assumptions according to the dynamics of the business in its different products. The methodology is based on the determination of assets and liabilities sensitive to interest rates, for which the projected cash flows are contractually mapped according to their maturity or reprice date to determine the differentials by currency over time and the sensitivity calculation at 100 basis points (BPS).

The measurement techniques implemented by the Bank are consistent with the complexity of the risks identified, so that through them the exposure to the market risks present in its balance sheet can be correctly quantified.

The Bank keeps implementing continuous improvements in procedures, methodologies and internal control mechanisms that allow the entity to identify, measure, control and effectively monitor this risk, and adopt timely decisions for adequate mitigation, in the development of its authorized operations, for the positions of both the bank book and the treasury book, either on the balance sheet or outside it.

i. **Structural risk of interest rate:** The structural risk of Balance Sheet represents the losses that may arise from mismatches between assets and liabilities not offset by off-balance sheet positions, related to maturity, price fixing, currencies or readjustment (unidad de valor real, UVR [real value unit, RVU]) and type of interest rates. The difference in maturity dates and/or price fixing periods may cause reinvestment or refinancing of active and passive operations to be carried out at prices that negatively impact the budgeted result due to interest accrual. There is also exposure to variations in type of interest rates when assets and liabilities have a different reference rate, particularly in variable rate transactions.

Through the Treasury and the ALCO Committee, the Bank actively manages its exposures to interest rate risk within the structure of limits established at the level of gaps or *static gaps* and sensitivity to 100 bps, which are approved by the Board Directive and supervised monthly.

During the second quarter of 2022 was carried out under which some of the assumptions and calculation methodologies of some of the parameters of the interest rate risk model were updated, in order to align them with the best international standards and strengthen the market risk system. As a result and considering the expectations of business and market, the limits were reviewed and updated.

ii. **Sensitivity to the interest rates of the investment portfolio and derivatives:** Based on the positions sensitive to the Bank's interest rate, the calculation methodology uses 100 bps sensitivity and generates the following two indicators, on which the limits have been established:

- a. **Annual income:** The annual income quantifies the impact of an adverse change in interest rates in the short term. Such impact reveals the deviation that the budgeted interest margin may suffer after one year. The Annual Income represents the maximum pre-tax effect of an interest rate shock of +/- 100 BPS.
- b. **Economic value model.** It quantifies the impact of an adverse change in interest rates on the Bank's equity, or in other words, it represents the variation that the share value would experience in case of change in the yield curve. The exposure is disaggregated by currency and represents the maximum loss before taxes in the present value of the assets and liabilities of the entity, before a parallel change of +/- 100 BPS in the interest rates.

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Below are the results of both measures of interest rate sensitivity:

	December 31, 2022	December 31, 2021
Annual Income (AI)	30,731	12,999
% AI/EBT*	12.28%	3.25%
Economic Value (EV)	192,698	198,466
%EV/Equity**	9,03%	9,03%

*EBT (Profit before tax)

** Equity as of cut-off date

Key factors that explain the variation in the metrics: At the end of 2022, the interest rate risk exposure increased mainly due to the growth of medium-term mortgage and commercial receivables. In addition, there was a reduction in the number of demand deposits of core clients, plus the low demand for fixed-income term deposits with maturities of more than one year, which increased the asset gap in long-term time bands. The net interest income increased due to the growth of volatile demand deposits and indexed term deposits, which are located in the shorter bands of the balance sheet forecast.

During 2022, the Bank's receivables grew more than expected as a result of the economic reactivation in the country. Funding sources focused on volatile demand deposits as well as on indexed and short-term term deposits due to the high rates of the market and regulatory requirements.

Therefore, the interest rate risk exposure showed a growing trend that reflects adverse effects as regards the terms of receivables (↑) and deposits (↓).

Risk Management of the Trading Portfolio: In accordance with the provisions set forth in Chapter XXI of the Basic Financial Accounting Circular 100/1995, on the regulations applicable to the Market Risks management, the Bank through its Market Risk Management System (MRMS), has policies, metrics, limits and specific controls for management of the market risk to which the portfolios of the Trading tables and the management of assets and liabilities (Asset and Liability Management, ALM) are exposed.

Among the main measures available to the Bank, there are the Regulatory VaR, the Internal VaR, measurements under stress conditions and retrospective evaluations of internal models. All of the above, under a scheme of internal and regulatory limits that are evaluated and approved periodically by the Board of Directors and the Bank's Top Management.

During 2021, the Bank conducted its annual review of the limits for the investment, derivatives-trading and structural portfolios, which were reviewed and updated in accordance with the Bank's business growth objectives, economic perspectives and risk appetite, with the approval of the Board of Directors.

The Trading and ALM portfolios are valued daily from the inputs and valuation methodologies provided by the Bank's official price provider - PRECIA. For this, daily validation processes are in place to guarantee the correct evaluation in the application. For further description, see the Note 6 Fair Value and Derivatives.

The different metrics are calculated and managed based on a daily, weekly and monthly basis, and whenever required by market conditions. The metrics apply to all financial instruments that are part of the Trading and ALM portfolios and that are exposed to possible losses due to variations in their prices according to their business model.

Below is a summary of the quantitative information of the aforementioned main metrics.

Regulatory VaR: The Bank uses the calculation of the Regulatory VaR according to the guidelines of the Standard Model established by the Financial Superintendence of Colombia in Chapter XXI "Rules of the Market Risk Management System" and according to the methodology established in the Annex 1 of Chapter XXI. This procedure is performed by the Market and Liquidity Risk Management on a daily and

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monthly basis with the closing of the financial statements. It consists of four elements that are calculated separately, which results are shown below:

	December 31, 2022	December 31, 2021
Interest rate	114,607	110,392
Exchange rate	7,838	4,960
Stock price	9,526	10,321
Joint portfolio	20	18
VaR Bank	131,991	125,691
Fiduciaria Colpatría S.A.	20	14
Scotia Securities	470	221
VaR Total Bank	132,481	125,926

VaR criteria	Average	Average	Maximum
Bank	132,199	140,075	124,530
Fiduciaria Colpatría S.A.	23	26	19
Scotia Securities S.A.	395	470	327
Consolidated VaR	132,617	140,571	124,876

In the calculation of the consolidated VaR taken into account in each subsidiaries consolidated VaR is the value at risk that is calculated individually under the guidelines of the Standard Model of the Financial Superintendence of Colombia in Chapter XXI.

It is necessary to highlight the increase in the Regulatory VaR during the last year due to a greater interest rate risk exposure.

Risk of variation in the foreign currency exchange rate

The assets and liabilities in foreign currency of the Bank are maintained mainly in United States of America dollars.

The following is the detail in Colombian pesos of the assets and liabilities in foreign currency maintained by the Bank:

	December 31, 2022		
	Millions of Dollars	Other currencies expressed in American million dollars	Total millions of Colombian pesos
Foreign currency assets			
Cash and cash equivalents	\$ 106	2	519,502
Investments	20	-	96,204
Derivatives	84	-	404,057
Loan portfolio	428	-	2,058,766
Other accounts receivable	12	-	57,722
	650	2	3,136,251
Foreign currency liabilities			
Clients deposits	87	1	423,298

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	December 31, 2022		
	Millions of Dollars	Other currencies expressed in American million dollars	Total millions of Colombian pesos
Derivative instruments	67	-	322,283
Obligations with rediscount entities	9	-	43,292
Financings	642	-	3,088,148
Accounts payable	12	-	57,722
	817	1	3,934,743
Asset/liability position net in foreign currency	\$ (167)	1	(798,492)

	December 31, 2021		
	Millions of Dollars	Other currencies expressed in American million dollars	Total millions of Colombian pesos
Foreign currency assets			
Cash and cash equivalents	\$ 433	3	1,735,786
Investments	20		79,623
Derivatives	149	-	593,193
Loan portfolio	337	-	1,341,651
Other accounts receivable	41	-	163,228
	980	3	3,913,481
Foreign currency liabilities			
Clients deposits	31	1	127,397
Derivative instruments	145	-	577,268
Obligations with rediscount entities	10	-	39,812
Financings	343	-	1,365,538
Accounts payable	5	-	19,906
	534	1	2,129,921
Asset/liability position net in foreign currency	\$ 446	2	1,783,560

When comparing the balances as of December 31, 2022, with those reported as of December 31, 2021, for cash and cash equivalents denominated in foreign currency, there is a decrease in the foreign correspondent banks line item due to a decrease in the cash levels needed to cover the hedging of derivatives at the end of 2022, which exceeded those recorded in the previous period as a result of the behavior of the market towards downward devaluation.

If the exchange rate had increased of COP\$10 per US\$1 as of December 31, 2022, and 2021, the effect of the net asset position would have resulted in a decrease of \$(1,660) and an increase of \$4,480, respectively.

While If the exchange rate had decreased of COP\$10 per US\$1 as of December 31, 2022, and 2021, the effect of the net asset position would have resulted in an increase of \$1,660 and a decrease of \$(4,480), respectively.

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c. Liquidity Risk

In the development of the operations carried out, the Bank is exposed to Liquidity Risk as a result of failure to comply fully, timely, efficiently and at reasonable prices with the financial obligations under its commitments, due to the insufficient liquid resources available for such purpose and/or the need to assume unusual funding costs.

In order to ensure an adequate control of the entity's exposure to Liquidity Risk and provide an adequate environment for liquidity management, the Bank has put the Liquidity Risk Management System (LRMS) in place through which such risk is identified, measured, controlled and effectively monitored. Such system has been approved by the ALCO committee and the Board of Directors and it is constantly monitored monthly through reports on risk exposure and approved limits. The ALCO Committee meets monthly in order to the Top Management follows up the exposure to liquidity risk.

At the beginning of 2022, the annual review of limits was carried out under which some of the assumptions and methodologies for calculating some of the parameters of the interest rate risk model were update.

The policies are aligned with the principles governing the risk management of The Bank of Nova Scotia (BNS), comply with the mandates of local regulation and are in permanent review and update in order to ensure its content validity and opportunity for proper management and decision making.

Contractual maturities - The following table shows the consolidated financial liabilities flows that are not projected derivatives at maturity, as December 31, 2022 and 2021.

		December 31, 2022						
		1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	> 5 Years
Available	\$	2,966,199	-	-	-	-	-	-
Investments		179,410	31,488	811,773	702,708	588,801	877,182	613,434
Commercial Portfolio		1,260,020	1,853,822	1,700,440	1,749,618	4,164,092	2,997,116	1,020,648
Consumer Portfolio		1,421,582	789,634	961,411	1,579,267	11,037,862	3,669,819	5,289,992

		December 31, 2021						
		1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	> 5 Years
Available	\$	4,318,542	-	-	-	-	-	-
Investments		96,395	73,444	732,590	535,648	567,778	509,673	396,048
Commercial Portfolio		756,607	1,644,219	674,672	1,457,676	3,900,159	2,676,910	1,014,785
Consumer Portfolio		1,136,861	766,164	953,131	1,584,197	4,453,811	2,011,627	4,588,845

Contractual maturities - The following table shows the consolidated financial liabilities flows that are not projected derivatives at maturity, as of December 2022 and 2021.

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	December 31, 2022						
	1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	> 5 Years
Term deposit certificate	\$ 1,564,526	3,205,373	3,395,652	2,883,159	2,021,776	327,211	-
Bonus and outstanding securities	-	-	-	-	300,000	-	1,049,700
Other relevant contractual liabilities	18,700,425	791,258	797,353	425,704	963,568	502,384	12,014

	December 31, 2021						
	1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 5 Years	> 5 Years
Term deposit certificate	\$ 1,260,754	2,119,897	1,465,567	3,179,068	2,038,471	266,319	-
Bonus and outstanding securities	-	150,000	-	-	150,000	150,000	949,700
Other relevant contractual liabilities	20,258,182	450,386	277,807	122,014	346,468	59,200	41,060

In 2022, the Bank increased its level of client acquisition for term deposits while keeping sufficient liquidity levels to attend to the growth in Bank's receivables.

Liquidity Risk Indicator (LRI) Regulatory Measurement – Between December 2022 and December 2021 the Bank complied with the limits established by law in terms of the positive LRI at 7 and 30 days, maintaining levels of high-quality liquid assets above the regulatory limit.

During 2022 the LRI indicator by amount and ratio decreased as compared with the 2021 year-end. Performance of the LRI was mainly influenced by an increase in the liquidity needs owing to a bigger forecast outflow due to the maturity of term deposits and liability side transactions in the money market. The LRI is at levels that suffice to meet liquidity requirements.

In line with the above, the Bank and Treasury's strategy has been adjusted to achieve efficiency and a responsible management at liquidity levels, thus complying with the policies and guidelines established at both the local and parent level, together with a strengthened management at structured portfolio level, high-quality liquid assets, and the entity's funding structure.

Below is the comparative result of the LRI ratio:

	December 31, 2022	December 31, 2021
7 days	799%	806%
30 days	301%	347%

	Minimum Dec/21 - Dec/22	Average Dec/21 - Dec/22	Maximum Dec/21 - Dec/21
7 days	961%	1,712%	529%
30 days	317%	439%	233%

Below is the level of liquid assets at the end of December 2022 and their expected availability for a 90-day period in accordance with the provisions of Colombia's Financial Superintendency. Liquid assets show a hedge of almost three times the liquidity needs for 30 days at the end of December 2022.

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	Liquid assets at cutoff (1)	Days 1 to 7 Total (2)	Days 8 to 15 Total (2)	Days 1 to 30 Total (2)	Days 31 to 90 Total (2)
Dec. 31, 2022	5,896,090	5,158,117	4,855,719	3,937,967	(3,204,521)
Dec. 31, 2021	5,245,860	4,594,737	4,063,619	3,733,931	(1,905,182)

- (1) Liquid assets correspond to the addition of cash and bank, investments in debt instruments at fair value, investments in mutual funds with no minimum commitment clauses, securities or coupons transferred to the entity when performing asset side transactions in a money market and that have not been subsequently used in liability side transactions in the money market.
- (2) The residual value of liquid assets after discounting the modified estimated net liquidity requirement (liquidity risk indicator – LRI)

During 2022, the average liquid asset level was below the one recorded during 2021, in line with the bank's strategy of reducing funding costs, working constantly towards a more efficient use of liquidity, which has led to lower levels of liquid assets available for use. Nonetheless, those levels are enough to support liquidity needs and ensure compliance with regulatory and internal limits.

	Average Dec/21 - Dec/22	Maximum Dec/21 - Dec/22	Minimum Dec/21 - Dec/22
Total liquid assets	4,927,650	6,986,058	3,635,694
Investments	2,449,236	3,473,655	1,409,756
Cash and bank	2,478,414	3,544,417	1,743,626

CFEN Regulatory Measurement

The Net Stable Funding Ratio (*Coeficiente de Financiación Estable Neto – CFEN*), or NSFR allows to monitor the institutions' long-term liquidity through the structural management of the balance sheet.

This measure sets the minimum level of the indicator at 100% as of March 2022.

Given that Scotiabank Colpatría has been working for more than a year on the growth of stable funding sources (Core), the Bank is sufficiently complying with the new regulatory requirement.

During 2022, the indicator (CFEN) decreased compared to the 2021 year-end. The behavior of the CFEN was mainly driven by an increase in the funding required due to an increase in the levels of lending, which was more dynamic in raising funds.

Below is the result of the indicator:

	December 31, 2022				December 31, 2021			
	Mínimum	Average	Maximum	Last	Mínimum	Average	Maximum	Last
CFEN	105.5%	108.5%	111.7%	108.0%	109.6%	112.3%	114.1%	113.1%

Derivative instruments - The Bank is exposed to a liquidity risk regarding the use of derivative instruments to satisfy the needs of its clients, generate income from trading activities, manage the market and credit risks arising from its lending, financing and investment activities, and reduce its cost of capital.

The internal and regulatory models of liquidity risk reflect the inflows and outflows by derivative instruments through flow projections of each one, with which are considered within the defined limits and the liquidity management.

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The Bank keeps implementing continuous improvements in procedures, methodologies and internal control mechanisms that allow the entity to identify, measure, control and effectively monitor such risk, and adopt timely decisions for adequate mitigation, in the development of its authorized operations, for the positions of the bank book and the treasury book, whether on the balance sheet or outside it.

d. Operational Risk Administration System (ORAS)

The Bank has a Operating Risk Management System (SARO in Spanish), conformed by policies, procedures, documentation and the organizational structure that maintains an adequate operating risk management. The execution of this system allowed the identification of the risks and controls of mission, strategic and support processes related to the different areas. The classification of the inherent risk (prior to applying the controls) was medium with a tendency to high, and residual risk (after applying the mitigating controls) was classified as low-medium.

In regard to materiality, the controls have strengthened on the potential risks related to the processes that have generated the greatest impact through the application of the different methodologies and programs established. Likewise, the residual results classified with a high criticality level are managed and followed-up through action plans that allow treating them to lower such residual risks to acceptable levels.

In respect to the Third-Parties Risks Management (TPRM) that establishes the processes and procedures to evaluate the risk exposure of outsourced services, the following activities, among others, were strengthened and implemented in 2022: i) Implementation of independent evaluations/monitorings to ensure the elimination and/or return of confidential information at the end of the relationship with the provider; ii) Local deployment of Quality Control (QC) in order to adequately evaluate the risk; iii) Evaluation of exposure to reputational risk; iv) Simplification of evaluation processes related to information security, insurance, and HR, among others; v) Transition to new workflows in specific service categories, in order to adapt their evaluation according to the risk features and the nature of the relationship; vi) Preparation and update of reference documents to carry out activities on risk evaluation and providers' supervision.

In respect to the regulation to comply with the registration of operational risk events (External Circular 025 of 2020 of the Superintendency of Finance of Colombia - SFC), the losses standard was strengthened to ensure the adequate identification, collection and treatment of the loss events, thus complying with the high quality events basis that is an essential criterium for the Bank to be able to calculate the Internal Loss Indicator (IPI in Spanish) in the following years, which is part of the solvency margin calculation. In this regard, the financial entities are currently going through the transition period, and therefore, the Bank is taking the IPI in accordance with the Superintendency of Finance of Colombia's estimates until year 2025.

Analysis of Operational Risk Events

Following are the operating losses:

Loss	Dec 31, 2022	Dec 31, 2021
Fraud	\$ 38,027	32,042
Operational Risk	22,156	16,534
Provisions	-	4,333
Fines & penalties	16,518	875
Recoveries	(1,236)	(2,515)
Total	75,465	51,269

Business continuity

The Continuity and Organizational Resilience program was updated and strengthened during 2022, based on the update process applied to the Business Impact Analysis (BIA), and the Business Continuity Plan (BCP), considering the policy's guidelines. Additionally, as part of the program's optimization, independent tests were run, based on various unavailability scenarios defined by the policy for processes classified as critical and immediate: personnel absence, natural disaster, civil disorder, infrastructure failure, third-party services unavailability, technology unavailability, work site unavailability.

On the other hand, the continuity risk matrix of the semester was prepared with a satisfactory result following the controls and the indicators were evaluated to determine the entity's maturity level in respect to the business continuity, which maturity result was determined as medium, whereby management continues working on the strengthening and regular application of tests to the various unavailability scenarios, as well as integral tests with the technology equipment and areas.

Cybersecurity

To manage the cybersecurity and technology risks, the different metrics are still being handled, including the security risk index, which trend was favorable in the last months at the components level related to the remediation of vulnerabilities, incidents response processes, and threats analysis in the projects and systems. Similarly, in respect to the projects execution indicator, it is worth highlighting the allocation of a technology investment budget that comprises modernization projects, BAU projects, security and infrastructure.

Finally, regarding the cybernetic threats, the continued increase of ransomware attacks is evident, as well as their complexity and impact. Therefore, the financial sector continues with the security alerts related to ransomware and trojans, through campaigns directed to LATAM banks and critical mission entities at health and public utilities services. At the level of the Bank and its subsidiaries, no significant internal events have been reported during this period regarding cybernetic events. Furthermore, risk evaluation activities have been carried out on the confidential information of the Bank, its subsidiaries and clients, and strategies and controls have been recommended intended to strengthen the protection measures on sensitive data.

The activities performed in 2022 allowed keeping an integral view in respect to the technological risks and emergent threats that the Bank and its subsidiaries may face, as well as the definition of recommendations and independent points of view on the management of said risks, identifying the controls implemented to mitigate risk situations by the various dependencies and business areas of the Bank.

Visits by supervisory bodies

In February 2022, the Statutory Audit issued its report on the period 2021 identifying deviations with no significant impact. The recommendations are intended to improving the general compliance level with the regulations and the policies and procedures.

e. Asset Laundering and Terrorism Financing Risk Management System (SARLAFT)

The Asset Laundering and Terrorism Financing Risk Management System – SARLAFT in Spanish, indicates and incorporates the characteristics of the entity and its parent company (Bank of Nova Scotia, Scotiabank) as well as regulatory requirements, best practices and international recommendations, especially those issued by the Financial Action Task Force -FATF.

Profile of Asset Laundering and Terrorism Financing

The Bank's Residual Risk Profile of Asset Laundering and Terrorism Financing (AL/TF) has behaved within the acceptance levels approved by the Board of Directors; this taking into account that there were no situations that have affected the normal SARLAFT performance. For this profile determination, control evaluations were carried out and the results of the advanced reviews carried out by the control bodies and the monitoring of operations were taken into account.

Policies and Procedures

During 2022 changes or amendments were made to the Institutional Policy for the Prevention of AL/TF risk and their corresponding Procedures Manuals, as well as the Manuals' instructions. In turn, modifications and/or additions were made to the AML-SARLAFT Procedures Manual that comprises the instructions and procedures on the ML/TF Policies and Sanctions.

Detection of unusual and suspicious operations

The Case and Investigations Management Operating Model was updated with changes to the case monitoring analysis process. Transactional monitoring alerts were addressed in accordance with established procedures.

Training

Different activities were supported to ensure the proper implementation of the SARLAFT Policies and Procedures in the acquired customer portfolio. It was also developed different training and communication activities aimed at all employees in order to raise awareness and clarify the roles and responsibilities in relation to the prevention and control of the LAFT risk.

External reports and authorities' requirements

The requirements of the competent authorities were complied within the agreed deadlines and the reports were sent to the Financial Information and Analysis Unit ,UIAF in accordance with the guidelines issued by the agency.

f. Issuer and counterparty risk management system (SARiC)

Exposure to the counterparty risk (RiC) is the contingency to which the entity is exposed as a result of its counterparties' (or customers) failure to perform one or more transactions, which will force the entity to cover for such failure with its own resources or to assume a loss in its financial statements.

This risk may occur in the execution of transactions on the entity's own account when the counterparty to the transaction fails to fulfill its obligations. It also occurs when one of the entity's customers fails to fulfill its payment obligations or its obligations to surrender guarantees in relation to transactions performed under a commission agreement.

On the other hand, in accordance with effective legislation (Decree 2555/2010), the amount of all risks Scotia Securities assumes and holds with the same issuer or group of issuers related to each other, will not exceed 30% of its technical equity. Therefore, the entity has implemented a daily control on the concentration per issuer, which aims at reviewing the positions in securities and/or bank deposits per issuer.

Scotia Securities Colombia has adopted Colombia's Financial Superintendency guidelines regarding the Counterparty Risk Management System (SARiC), as set in Chapter XXVII of the Basic Accounting and Financial Circular (*Capítulo XXVII de la Circular Básica Contable y Financiera*). Similarly, the broker structures its counterparty and issuer risk management using the Counterparty Risk Management Manual (SARiC), which defines the identification, measurement, control, and monitoring stages, as well

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as the procedures and policies that conform to the performance of transactions by the broker, based on the local regulatory provisions and Group guidelines.

During 2022, Scotia Securities (Colombia) S.A. Sociedad Comisionista de Bolsa, strictly monitored transactions with customers and counterparties in agreement with the guidelines and controls set forth in the SARiC Manual. Accordingly, there were no events leading customers not to fulfill their contractual obligations during the period.

g. Equity management

The Bank and subsidiaries comply with the regulatory minimums imposed by the Financial Superintendence of Colombia.

Following is the solvency margin and technical equity as of December 31, 2022 and 2021:

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Solvency Margin</u>	<u>Technical Equity</u>	<u>Solvency Margin</u>	<u>Technical Equity</u>
Scotiabank Colpatría (1)	11.54%	3,277,997	12.64%	3,284,850
Fiduciaria Scotiabank Colpatría S.A.	36.04%	24,292	36.12%	26,026
Scotia Securities (Colombia) S.A.	266.00%	38,480	290.00%	38,890

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9. **Analysis of financing changes over the year**

Reconciliation of liability/assets transactions from financing activities:

	December 31, 2022					
	Financial obligations	Outstanding investment securities	Issued capital	Share placement premium	Retained earnings	Total
Balance as of January 1, 2021	\$ 3,879,006	1,410,952	322,079	695,428	475,398	6,782,863
Changes in financing cash flows						
Bond issues	-	250,000	-	-	-	250,000
Bond maturity	-	(300,000)	-	-	-	(300,000)
Lease additions and cancellations	(31,413)	-	-	-	-	(31,413)
New financing	107,716,748	-	-	-	-	107,716,748
Financing repayments	(107,765,964)	-	-	-	-	(107,765,964)
Total, changes in financing cash flows	(80,629)	(50,000)	-	-	-	(130,629)
Exchange rate differences	391,002	-	-	-	-	391,002
Related to liabilities						
Interest paid	(125,625)	(150,608)	-	-	-	(276,233)
Interest expenses	146,982	163,575	-	-	-	310,557
Total, other changes related to liabilities	21,357	12,967	-	-	-	34,324
Other changes related to equity	-	-	-	-	(14,224)	(14,224)
Balance as of December 31, 2022	\$ 4,210,736	1,373,919	322,079	695,428	461,174	7,063,336

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	December 31, 2021					
	Financial obligations	Outstanding investment securities	Issued capital	Share placement premium	Retained earnings	Total
Balance as of January 1, 2020	\$ 2,214,800	1,487,498	322,079	695,428	(66,778)	4,653,027
Changes in financing cash flows						
Bond issues	-	-	-	-	-	-
Bond maturity	-	(80,000)	-	-	-	(80,000)
Lease additions and cancellations	(58,883)	-	-	-	-	(58,883)
New financing	83,557,363	-	-	-	-	83,557,363
Financing repayments	(82,012,441)	-	-	-	-	(82,012,441)
Total, changes in financing cash flows	1,486,039	(80,000)	-	-	-	1,406,039
Exchange rate differences	162,224	-	-	-	-	162,224
Related to liabilities						
Interest paid	(24,334)	(131,997)	-	-	-	(156,331)
Interest expenses	40,277	135,451	-	-	-	175,728
Total, other changes related to liabilities	15,943	3,454	-	-	-	19,397
Other changes related to equity	-	-	-	-	542,176	542,176
Balance as of December 31, 2021	\$ 3,879,006	1,410,952	322,079	695,428	475,398	6,778,134

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10. Cash and Cash Equivalents

Below is the cash and cash equivalent detail:

	December 31, 2022	December 31, 2021
Legal currency		
Cash	\$ 872,260	458,182
Banco de la República (1)	1,549,496	2,097,914
Banks and other financial entities	18,462	26,167
Exchange	81	135
Transit remittances	4,480	-
	2,444,779	2,582,398
Foreign Currency		
Cash	9,646	8,574
Banks and other financial entities (2)	511,774	1,134,374
Interbank funds – Overnights (3)	-	593,196
	521,420	1,736,144
Total, cash and cash equivalents	\$ 2,966,199	4,318,542

- (1) There is an offsetting effect between the items of Cash and the Central bank (Banco de la Republica), due to the higher availability of cash at the tellers and offices that the Bank carries to face the liquidity requirements of the clients at the end of the year and in conformity with the bank reserve the entity must hold.
- (2) There is a decrease in the item of Correspondents abroad because the cash levels necessary to meet the exchange hedge covenants at the closing of 2022 were higher than the levels in the preceding year as a result of the market interest rates.
- (3) At the end of the year 2022, the Bank did not record any outstanding balances for Overnight operations, in accordance with the solvency strategy foreseen for the end of the period.

The cash deposits can be used in their entirety (100%) as part of the minimum cash requirement required by the board of directors of the central bank (*Junta Directiva del Banco de la República*). The calculation of the proportionality in the use of those deposits is based on the deposits taken subject to such minimum cash requirements.

As of December 31, 2022 and December 31, 2021, the legal reserve requirement in Colombia is 8.00% for deposits in current accounts and savings and 3.50% for certificates of deposit lower than 18 months and 0.00% for those over 18 months. The legal bank reserves required to meet liquidity requirements in deposits in current accounts and savings are \$1,484 and \$1,591, respectively, and the legal bank reserves required to meet the liquidity requirements of certificates of deposit of less than 18 months are \$277 and \$175, respectively.

There are no restrictions on cash and cash equivalents, except for the minimum cash requirement required in Colombia, nor any aging reconciliatory items.

11. Investment financial assets and derivatives

The balance of financial assets in debt securities and investments in equity and derivative instruments includes the following:

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	December 31, 2022	December 31, 2021
Investments at fair value through profit or loss		
Instruments representing debt (1)	\$ 1,133,395	1,905,431
Equity instruments	18,347	21,128
	<u>1,151,742</u>	<u>1,926,559</u>
Investments at amortized cost (2)	1,537,409	773,936
Investment at fair value through OCI		
Instruments representing debt (1)	1,493,289	1,760,952
Equity instruments	122,106	104,776
	<u>1,615,395</u>	<u>1,865,728</u>
Total investment financial assets	\$ <u>4,304,546</u>	<u>4,566,223</u>

(1) Given the market's volatility, the Bank decided to significantly reduce the face value of the trading Treasury Bills (TES in Spanish), generating a significant reduction in respect to the preceding year.

(2) The variance corresponds to the reclassification of solidarity bills (TDS in Spanish) that appeared in the investments category at fair value with changes in OCI that were renewed as investments at amortized cost, in conformity with the business model established.

Interests from investment assets as of December 31, 2022 and 2021, were \$44,993 and \$27,188, respectively.

As of December 31, 2022 and 2021, the dividends received from investment sin equity instruments amounted to \$5,680 and \$3,903, respectively.

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Notes to the Consolidated Financial Statements

The following is the summary of investment financial assets by maturity date:

		December 31, 2022							
		Up to three months		More than three months and not more than a year		More than a year			
		Up to a month	More than a month and less than three months	More than three months and not more than six months	More than six months and not more than a year	From one to three years	More than three years and no more than five years	More than five years	Total
Investments in debt representative instruments through profit and loss	\$	514,752	1,112	94,980	203,975	1,132	107,359	228,532	1,151,742
Investment held for sale in debt security at fair value through other comprehensive profit and loss		-	6,789	-	-	397,263	636,625	574,718	1,615,395
Investment at amortized cost		162,026	9,334	762,698	602,662	689	-	-	1,537,409
	\$	<u>676,678</u>	<u>17,235</u>	<u>857,678</u>	<u>806,637</u>	<u>399,084</u>	<u>743,984</u>	<u>803,250</u>	<u>4,304,546</u>
		December 31, 2020							
		Up to three months		More than three months and not more than a year		More than a year			
		Up to a month	More than a month and less than three months	More than three months and not more than six months	More than six months and not more than a year	From one to three years	More than three years and no more than five years	More than five years	Total
Investments in debt representative instruments through profit and loss	\$	693,006	322,643	-	-	428,494	210,033	272,383	1,926,559
Investment held for sale in debt security at fair value through other comprehensive profit and loss		-	19,880	543,120	-	444,265	423,568	434,895	1,865,728
Investment at amortized cost		125,218	9,279	171,368	468,071	-	-	-	773,936
	\$	<u>818,224</u>	<u>351,802</u>	<u>714,488</u>	<u>468,071</u>	<u>872,759</u>	<u>636,601</u>	<u>707,278</u>	<u>4,566,223</u>

12. Trading and hedging derivatives

The fair value of derivative instruments detail is as follows:

	Liabilities Derivatives			
	December 31, 2022		December 31, 2021	
	Negotiation	Hedge	Negotiation	Hedge
Rate interest contracts				
Swaps	\$ 696,168	15,911	274,825	-
Currency contracts				
Forward	176,096	-	296,448	-
Currency swaps	17,500	138,721	6,891	-
Cash operations	54	-	176	-
Currency options	14,219	-	13,337	-
Bond Forward	405	-	136	-
Total	\$ 904,442	154,632	591,813	-

	Liabilities Derivatives			
	December 31, 2022		December 31, 2021	
	Negotiation	Hedge	Negotiation	Hedge
Rate interest contracts				
Swaps	\$ 701,688	-	274,832	700
Currency contracts				
Forward	208,450	-	293,708	-
Currency swaps	30,689	10,024	2,610	-
Cash operations	769	-	16	-
Currency options	15,879	-	4,352	-
Forward securities	138	-	3,374	-
Total	\$ 957,613	10,024	578.892	700

Trading derivatives: The fair value of derivative instruments varies positively or negatively as a result of fluctuations in foreign currency exchange rates, interest rates or other risk factors depending on the type of instrument and underlying.

Hedging derivatives: These instruments are used to hedge items such as deposits from highly probable forecasted transactions and loans. Hedging instruments used by the Bank include interest rate swaps and currency swaps.

As of December 31, 2022 hedging derivatives are as follows:

- Interest rate swap hedges to cover the interest rate risk of the deposits at hand sensitive to interest rates with Financial Institutions counterparts that are highly correlated to the Central Bank's rates movement.
- Exchange rate hedge to cover the exchange rate volatility during the year.

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The following table summarizes the remaining term until maturity of notional amounts of derivatives designated as hedging instruments.

	Nominal amount as of December 31, 2022		
	Up to a year	From one to five years	Total
Cash flow hedge			
Interest rate risk – swaps	\$ -	348,250	348,250
Exchange rate risk/Rate risk	496,835	449,442	946,257
Total	496,835	797,672	1,294,507

	Nominal amount as of December 31, 2021		
	Up to a year	From one to five years	Total
Cash flow hedge			
Interest rate risk – swaps	\$ 125,000	-	125,000

The average fixed interest rate of significant hedging instruments as of December 31, 2022 and 2021, is 8.53% and 4.98%, respectively.

As of December 31, 2022 and December 31, 2021, hedges ineffectiveness was not material.

13. Credit portfolio and financial leasing operations at amortized cost

The consumption portfolio as of December 31, 2022 and 2021 groups the housing and microcredit portfolio and the trading portfolio groups the loans with trade mortgage. The balances were reclassified for a comparable reporting.

Below is the portfolio per type of segment detail:

	December 31, 2022	December 31, 2021
Consumption portfolio	\$ 14,785,398	11,739,204
Impairment of consumption portfolio	(204,035)	(163,044)
Trade portfolio	\$ 19,716,781	18,383,093
Impairment of trade portfolio	(939,205)	(920,896)
	\$ 33,358,939	29,038,357

Transactions of loan portfolio impairment

Below is the is the loan portfolio per capital impairment detail:

Initial balance as of December 31, 2020	\$ (2,247,872)
Portfolio impairment expense, net	(585,575)
OCI impairment of receivables	(181,194)
Write-offs	1,908,650
Sale of unexpired receivables and others	22,051
Balance as of December 31, 2021	(1,083,940)
Portfolio impairment expense, net	(894,375)
OCI impairment of receivables	(61,502)
Write-offs	879,917
Sale of unexpired receivables and others	16,660
Balance as of December 31, 2022	\$ (1,143,240)

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a. Consumption portfolio

Impaired loans and provision for credit losses

	December 31, 2022			December 31, 2021		
	Capital	Impairment	Total	Capital	Impairment	Total
Cards	\$ 4,229,329	(310,759)	3,918,570	3,919,796	(345,542)	3,574,254
Revolving + Overdraft + <i>Prestacheque</i>	1,170,231	(82,006)	1,088,225	930,804	(49,730)	881,074
Codensa	1,772,873	(85,750)	1,687,123	1,655,581	(71,156)	1,584,425
Mortgage + Employees	6,703,574	(70,457)	6,633,117	6,166,046	(81,972)	6,084,074
Trade Mortgage Instalment +Disengaged +Other	529,286	(10,968)	518,318	578,919	(10,237)	568,682
Other of payment	4,311,278	(317,733)	3,993,545	3,707,838	(245,727)	3,462,111
Restructured	72,722	(6,149)	66,573	111,168	(5,634)	105,534
Vehicle + SME	194,042	(20,075)	173,967	202,113	(24,651)	177,462
	733,446	(35,308)	698,138	1,110,828	(86,247)	1,024,581
	19,716,781	(939,205)	18,777,576	18,383,093	(920,896)	17,462,197

Segmentation for credit losses in loans

	December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
Cards	\$ 125,433	108,403	76,923	310,759
Revolving + Overdraft + <i>Prestacheque</i>	30,284	25,090	26,632	82,006
Codensa	30,513	28,251	26,986	85,750
Mortgage + Employees	13,113	25,573	31,771	70,457
Trade mortgage	1,689	5,125	4,154	10,968
Instalment + Disengaged + Other	161,391	89,581	66,761	317,733
Order of payment	4,417	1,264	468	6,149
Restructured	2,953	10,596	6,526	20,075
Vehicle - SME – Microcredit	5,248	6,993	23,067	35,308
	\$ 375,041	300,876	263,288	939,205

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Cards	\$ 152,742	111,525	81,275	345,542
Revolving + Overdraft + <i>Prestacheque</i>	16,192	15,959	17,579	49,730
Codensa	30,131	22,498	18,527	71,156
Mortgage + Employees	10,356	28,629	42,987	81,972
Trade mortgage	1,525	4,472	4,240	10,237
Instalment + Disengaged + Other	106,057	81,722	57,948	245,727
Order of payment	4,038	1,310	286	5,634
Restructured	6,389	9,870	8,392	24,651
Vehicle + SME t	34,193	10,257	41,797	86,247
	\$ 361,623	286,242	273,031	920,896

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The model includes macroeconomic scenarios for level of expected credit losses calculation through factors of adjustment to the level of losses in optimistic, pessimistic, and base scenarios, which are weighted according to economic expectations.

		Low	Base Scenario	Optimistic Scenario	Pessimist Scenario	Pessimistic Scenario FL
Retail (Stage 1 y 2)	\$	675,917	685,149	638,780	730,694	755,776

Carrying value of risk exposure

Below is the exposure by risk contribution by probability of default (PD) by credit class:

Credit Cards

PD category	\$	Stage 1	Stage 2	Stage 3	Total
Very low		1,202			1,202
Low		52,770	292	336	53,398
Medium		34,063	424	594	35,081
High		92,375		16	92,391
Very high			51,927	76,760	128,687
Total	\$	180,410	52,643	77,706	310,759

Revolving

PD category	\$	Stage 1	Stage 2	Stage 3	Total
Very low		229	-		229
Low		11,880	174	283	12,337
Medium		8,424	299	412	9,135
High		7,418	9,423	1,314	18,155
Very high			16,477	25,673	42,150
Total	\$	27,951	26,373	27,682	82,006

Codensa Cards

PD Category	\$	Stage 1	Stage 2	Stage 3	Total
Low		12,353	67	34	12,454
Medium		3,134	203	125	3,462
High		4,608	14,685	6,312	25,605
Very High		3	4,210	11,479	15,692
Total	\$	20,098	19,165	17,950	57,213

Codensa Loans

PD Category	\$	Stage 1	Stage 2	Stage 3	Total
Very low		5,948	33	143	6,124
Low		3,465	466	238	4,169
Medium		922	1,621	1,540	4,083
High		256	3,748	10,074	14,078
Very high			25	58	83
Total	\$	10,591	5,893	12,053	28,537

Total mortgage

PD Category	\$	Stage 1	Stage 2	Stage 3	Total
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Very low	448	32	-	480
Low	984	5	91	1,080
Medium	42,397	256	1,042	43,695
High	1,081	2,498	2,806	6,385
Very high		17,907	11,878	29,785
Total	\$ 44,910	20,698	15,817	81,425

Loans

PD Category	\$	Stage 1	Stage 2	Stage 3	Total
Very low		17,771	80	371	18,222
Low		104,268	822	2,429	107,519
Medium		64,071	26,583	24	90,678
High		374	24,512	6,980	31,866
Very high			36,538	59,134	95,672
Total	\$	186,484	88,535	68,938	343,957

Vehicle

PD Category	\$	Stage 1	Stage 2	Stage 3	Total
Very low		21	-	-	21
Low		161	-	-	161
Medium		703	6	-	709
High		116	211	25	352
Very high		-	1,720	1,678	3,398
Total	\$	1,001	1,937	1,703	4,641

SME

PD Category	\$	Stage 1	Stage 2	Stage 3	Total
Credits without PD		4,473	4,500	21,694	30,667

Non-impaired maturing loans

**Balance of default segment portfolio
December, 2022**

Product		31-60	61-90	>90
Mortgage	\$	103,358	54,404	217,155
Loans		113,338	71,194	180,225
TDC Bank		78,047	46,338	117,551
Codensa		21,771	16,597	49,413
Total	\$	316,514	188,533	564,344

**Balance of default segment portfolio
December 31, 2021**

Product		31-60	61-90	>90
Mortgage	\$	94,462	47,972	267,710
Loans		62,800	45,737	154,662
TDC Bank		43,522	33,957	90,166
Codensa		11,526	12,476	28,475
Total	\$	212,310	140,142	541,013

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b. Trade portfolio

	December 31, 2022			December 31, 2021		
	Capital	Impairment	Total	Capital	Impairment	Total
Trade	\$ 14,785,398	(204,035)	14,581,363	11,739,204	(163,044)	11,576,160

Impairment movement

		December 31, 2022			
		Stage 1	Stage 2	Stage 3	TOTAL
Balance as of December 31, 2021	\$	22,208	64,621	76,215	163,044
Remeasurements		(7,274)	27,508	101,642	121,876
Impairment for new credits		37,295	-	9,364	46,659
Release of cancellations and payments		(15,947)	(20,878)	-	(36,825)
Transference to:					
Stage 1		(1,399)	1,399	-	-
Stage 2		2,961	(2,961)	-	-
Total impairment		15,636	5,068	111,006	131,710
Write off		-	-	(35,205)	(35,205)
Impairment recovery		-	-	(44,565)	(44,565)
Other changes		(3,515)	(7,434)	-	(10,949)
Balance as of December 31, 2022	\$	34,329	62,255	107,451	204,035

		December 31, 2021			
		Stage 1	Stage 2	Stage 3	TOTAL
Balance as of December 31, 2020	\$	21,483	132,302	132,407	286,192
Remeasurements		(3,184)	(31,791)	125,785	90,810
Impairment for new credits		19,215	-	7,540	26,755
Impairment of cancellations and payments		(19,304)	(21,287)	-	(40,591)
Transference to:					
Stage 1		(4,756)	4,756	-	-
Stage 2		9,865	(6,511)	(3,354)	-
Total impairment		1,836	(54,833)	129,971	76,974
Write off		-	-	(134,916)	(134,916)
Impairment recovery		-	-	(51,247)	(51,247)
Other changes		(1,111)	(12,848)	-	(13,959)
Balance as of December 31, 2021	\$	22,208	64,621	76,215	163,044

Inputs and key assumptions

The Bank's provisions calculation results from complex models with a series of variable underlying assumptions. Some of the key variables include:

- Changes in the risk ratings of the borrower or instrument that reflect changes in the credit quality;

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- Changes in transaction volumes;
- Changes in the future-oriented macroeconomic environment are reflected in the variables used in the models, such as GDP growth, unemployment rates, prices of raw materials and housing price index, which are more closely related to credit losses in the corresponding portfolio;
- Changes in the macroeconomic scenarios and probability weights assigned to each scenario; and
- Borrower migration among the three stages that may result from changes in any of the previous entries and assumptions.

The following table provides a comparison between the credit losses estimation for stage 1 and 2 portfolio and the impairment under optimistic and pessimistic scenarios:

	<u>Impairment</u>	<u>Base Scenario</u>	<u>Optimistic Scenario</u>	<u>Pessimistic Scenario</u>	<u>Pessimistic Scenario FL</u>
Credit losses	\$ 96,584	93,567	94,395	101,572	104,787

Non-impaired maturing loans

December 31, 2022				
	<u>31-60 days</u>	<u>61-90 days</u>	<u>More than 91 days</u>	<u>Total</u>
\$	44,515	666	400	45,581

Portfolio by maturing period

December 31, 2022							
Segment	<u>Up to a month</u>	<u>More than one month and less than three months</u>	<u>More than three months and less than a year</u>	<u>More than a year and less than five years</u>	<u>More than five years</u>	<u>Interest</u>	<u>Total</u>
Commercial	\$ 1,687,896	1,629,078	2,328,048	7,795,664	1,230,882	113,830	14,785,398
Consumption	1,472,259	917,326	3,086,782	8,510,576	5,288,244	441,594	19,716,781
Total	\$ 3,160,155	2,546,404	5,414,830	16,306,240	6,519,126	555,424	34,502,179

December 31, 2021							
Segment	<u>Up to a month</u>	<u>More than one month and less than three months</u>	<u>More than three months and less than a year</u>	<u>More than a year and less than five years</u>	<u>More than five years</u>	<u>Interest</u>	<u>Total</u>
Commercial	\$ 1,349,373	1,292,295	1,846,767	6,184,051	976,420	90,298	11,739,204
Consumption	1,372,672	855,276	2,877,985	7,934,902	4,930,535	411,723	18,383,093
Total	\$ 2,722,045	2,147,571	4,724,752	14,118,953	5,906,955	502,021	30,122,297

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Interest from the Bank's portfolio

The effective annual interest on monthly average balance arising from the Bank portfolio was as follows:

Type of credit	From January 1 to December 31, 2022	From January 1 to December 31, 2021
Commercial	9.06%	4.60%
Housing	19.57%	16.69%
Consumption	9.64%	9.20%

As of December 31, 2022 and 2021 the Bank had published the following placement rates for the different types of portfolio:

- Trade credits from 4.90% to 14,75% annual effective depending of the corporation.
- RVU housing credits plus 11.62% or 17.90% annual effective for loans in Colombian pesos.
- Loans for RVU social interest housing plus 10.70% annual effective or 18.60% annual effective for loans in pesos.
- Consumption credit:

Type of credit	December 31, 2022	December 31, 2021
Credit card	41.45% annual effective for purchases	26.18% annual effective for purchases
Revolving credit line	41.45% annual effective	26.18% annual effective

Interest received from the credit portfolio as of December 31, 2022 and 2021 were \$ 3,726,528 and \$2,911,953, respectively.

Sale of portfolio

As of December 31, 2022 and December 31, 2021, the Bank sold portfolio obtaining a profit of \$70,460 and \$77,461, respectively, broken down as follows:

Bad-debt portfolio sales

Following are the trading portfolio sales made by the Bank during 2022 and 2021:

	December 31, 2021		December 31, 2020	
	Gross capital balance	Sale price	Gross capital balance	Sale price
Commercial	\$ 17,905	5,617	21,927	7,561
Consumer	754,705	62,832	1,929,318	65,217
Returns	\$	68,449		72,778

Current portfolio sale

In 2021, the commercial and consumer portfolio in force was sold, while the commercial portfolio in force was sold for 2022. The detail is presented as follows:

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	December 31, 2022		December 31, 2021	
	Consumer	Commercial	Consumer	Commercial
Book value of the portfolio, interest, and others	-	91,092	155,060	28,109
Provision of capital, interest, and other items	.	(15,003)	(6,596)	(14,931)
Net book value	.	76,089	148,464	13,178
Sale price	.	78,100	156,846	9,479
Profit	\$	2,011	8,382	(3,699)

Portfolio Securitization

There are no active portfolio securitizations at December 31, 2022. The following is the housing portfolio securitizations that were active with Titularizadora Colombiana at December 31, 2021.

December 31, 2021

Portfolio	Issuance	Date of issue	Securitization amount	Return rate	Balance as of December 2019	Securization term (years)
190001	No Vis E-1	01/05/2002	74,371	12.62%	1,115	15

c. Accounts receivable from financial leasing:

The Bank offers asset-based financing and uses a wide variety of industrial equipment and commercial companies to offer financial programs tailored to the needs of manufacturers, dealers and assets distributors.

Accounts receivable from financial leases are included in the credit portfolio. The Bank net investment in the accounts receivable of financial leasing was as follows:

	Gross investment in accounts receivable from financial leasing	Gross financial profit	Current value of accounts receivables from
	December 31, 2022		
One year or less	\$ 90,706	100,059	190,765
One to five years	273,039	249,098	522,137
More than five years	412,429	295,954	708,383
	\$ 776,174	645,111	1,421,285
	December 31, 2021		
One year or less	\$ 125,030	82,200	207,230
One to five years	308,878	205,546	514,424
More than five years	402,514	222,421	624,935
	\$ 836,422	510,167	1,346,589

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14. Other accounts receivable, net

The following is the detail of other accounts receivable, net:

	December 31, 2022	December 31, 2021
Commissions	\$ 15,634	14,323
Deposits (1)	44,013	146,951
Abandoned accounts	56,716	45,538
Transfers to the Treasury Department	12,336	10,925
Accounts receivable easy credit (2)	2,022	78,580
Central Counterparty Risk Chamber (3)	68,505	58,382
Exchange and Visa incentives	16,293	11,864
Labor Advances	11,998	12,084
Derivatives default	1,955	1,306
Sundry items	45,938	31,615
Impairment	(3,134)	(2,348)
Total	\$ 272,276	409,220

- (1) Corresponds to cash deposits delivered as security to the Central Counterparty Risk Chamber and security deposits in correspondent entities of the call for margin on derivative instruments with foreign counterparties; the reduction is due to the cash payment of guarantees that supported swaps with offshore counterparties.
- (2) Corresponds to credit card consumer collections pending transfer by Codensa S.A. ESP, to the Bank under the business collaboration agreement for promotion, origination, invoicing, collection and operation of services with a balance of one month as of December 31, 2022 and as of December 31, 2021.
- (3) The increase arises due to the settlement value of futures transactions that were paid at the end of the year and were pending payment to the Bank by the Central Counterparty Risk Chamber; payments are made in accordance with each agreement provision, compliance is made at t+1 to t+3; payments were received in January 2023.

15. Non-current assets held for sale

The following is the change in non-current assets held for sale:

	December 31, 2022	December 31, 2021
Opening balance	\$ 16,835	27,611
Additions	30,744	21,126
Reclassification to other assets, net	(5,536)	(8,454)
Reclassification to investment properties, net	(3,639)	(16,256)
Reclassification of other assets	-	141
Cost of assets sold	(11,166)	(7,333)
	27,238	16,835
Adjustment to the lower value between the fair value and the book value.	(175)	(2,584)
	\$ 27,063	14,251

Commercialization

The Bank performs the following steps for the commercialization of non-current assets held for sale:

- The goods to be commercialized are published in the payment in kind section of the Bank's website for full knowledge of the general public. This publishing is made with the information of the assets to be sold and photographic records, providing the direct contact possibility by the interested parties with the officers in charge at the corresponding Bank's area via email to expand the information, contacts, organization of schedules and reception of proposals.
- Campaigns are conducted with the Office Managers and Zone Managers for them to be informed, aware of and distribute the list of Bank properties, so that each one offers the goods according to the clients' portfolio that each one of them manages.
- The commercial list is sent periodically to all potential customers who at some time have been interested in the assets sold by the Bank.
- A notice of sale has been published for each property indicating the Bank ownership and advertising the contact telephone number so that the interested parties can communicate to start negotiations.
- Agreements are established with a commercial force specialized in real estate sales, to promote sales, support commercial areas in the management of proposals, visit regions and properties periodically to strengthen the real estate commercialization, support efforts focused on complying with urban regulation applicable to the properties in order to verify the best use thereof.
- Auctions are held periodically where Bank owned assets are made available to the general public so that interested parties can openly acquire them. These auctions, as well as the traded goods, are open to the Bank's customers and are advertised through the Bank's website and mass media for the interested parties' knowledge at a general level.

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16. Properties and equipment, net

Below are the properties and equipment detail and changes:

	Land	Buildings and remodeling	Equipment and furniture	Improvements in leased properties	Ongoing constructions	Financial leasing	Total
Balance as of December 31, 2021	\$ 111,388	160,202	110,642	5,040	470	185,697	573,439
Acquisitions	-	177	30,918	-	16,424	3,048	50,567
Adjustment of fees	-	-	-	-	-	12,907	12,907
Sales	(806)	(1,727)	-	-	-	-	(2,533)
Withdrawals	-	-	(15,453)	(215)	-	(11,753)	(27,421)
Transfer of ongoing construction	-	293	509	129	(931)	-	-
Transfer to other intangibles	(340)	433	1,144	-	-	-	1,237
Reclassification of investment properties	1,521	1,346	-	-	-	-	2,867
Depreciation	-	(7,521)	(25,888)	-	-	(26,860)	(60,269)
Amortization	-	-	-	(1,967)	-	-	(1,967)
Impairment	-	-	(62)	-	-	-	(62)
Adjustment for change of terms in contracts	-	-	-	-	-	1,621	(1,621)
Balance as of December 31, 2022	\$ 111,763	153,203	101,810	2,987	15,963	164,660	550,386
Balance as of December 31, 2020	112,937	171,666	117,136	7,526	631	230,257	640,153
Acquisitions	209	2,434	23,021	174	4,239	3,227	33,304
Adjustment of fees	-	-	-	-	-	2,032	2,032
Sales	(1,758)	(6,955)	-	-	-	-	(8,713)
Withdrawals	-	-	(667)	-	(887)	(22,002)	(23,556)
Transfer of ongoing construction	-	1,814	-	1,699	(3,513)	-	-
Reclassification of investment property	-	(1,282)	-	-	-	-	(1,282)
Depreciation	-	(6,955)	(28,848)	(63)	-	(27,817)	(63,683)
Amortization	-	(164)	-	(4,296)	-	-	(4,460)
Adjustment for change of terms in contracts	-	(356)	-	-	-	-	(356)
Balance as of December 31, 2021	\$ 111,388	160,202	110,642	5,040	470	185,697	573,439

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As of December 31, 2022 and 2021 there are no mortgages or retention of title thereover nor have they have been assigned in mortgage collateral.

As of December 31, 2022 and 2021, as proceeds from the sale of real estate, which in the balance sheet for the transition to IFRS appear stated at fair value as deemed cost, this item was reclassified from the adoption for the first time to retained earnings worth \$3,070 and \$6,201, respectively.

Impairment of property and equipment

As of December 31, 2022, the bank evaluated internal and external indicators as significant changes in the legal, economic, technological, and market environment with an adverse impact on the value of bank assets and identified some indicators that reflect a significant impairment of fixed assets represented in real estate, leading to the calculation of the recoverable amount and, as a result, the bank recognized \$62 for impairment. No impairment was identified in relation to real state.

Decommissioning

As of December 31, 2022 and 2021, the Group had provisions for decommissioning in the amount of \$4,361 and \$4,817, respectively. See Note 24.

17. Investment properties, net

Below is the breakdown of investment properties:

	December 31, 2022	December 31, 2021
Cost	\$ 153,922	174,533
Impairment	(19,373)	(18,357)
Depreciation	(4,659)	(5,263)
Total	\$ 129,890	150,913

Following is the movement of investment property:

	Land	Constructions	Total
Cost			
Balance as of December 31, 2021	\$ 57,335	117,198	174,533
Sales	(8,276)	(22,423)	(30,699)
Reclassification of non-current assets held for sale	(1,521)	(1,550)	(3,071)
Reclassification of property and equipment	-	3,639	3,639
Reclassification of other assets	-	9,520	9,520
Balance as of December 31, 2022	\$ 47,538	106,384	153,922
Balance as of December 31, 2020	\$ 71,115	88,671	159,786
Sales	(4,330)	(15,651)	(19,981)
Reclassification of non-current assets held for sale	-	16,256	16,256
Reclassification of property and equipment	-	1,282	1,282
Reclassification of other assets	(9,450)	26,640	17,190
Balance as of December 31, 2021	57,335	117,198	174,533

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	<u>Land</u>	<u>Constructions</u>	<u>Total</u>
Depreciation			
Balance as of December 31, 2021	-	(5,263)	(5,263)
Change in depreciation		(1,184)	(1,184)
Reclassification of non-current assets held for sale	-	204	204
Reclassification of property and equipment		461	461
Sales recovery	-	1,123	1,123
Balance as of December 31, 2022	-	(4,659)	(4,659)
Balance as of December 2020	-	(4,134)	(4,134)
Change in depreciation	-	(1,095)	(1,095)
Sales recovery	-	(34)	(34)
Balance as of December 31, 2021	-	(5,263)	(5,263)
Impairment			
Balance as of December 31, 2021	(9,131)	(9,226)	(18,357)
Reclassification of non-current assets held for sale	-	(1,835)	(1,835)
Reclassification of non-current assets	-	1,383	1,383
Sales recovery	1,832	716	2,548
Reversal of value impairment losses	668	141	809
Provision charged to expenses	(158)	(3,763)	(3,921)
Balance as of December 31, 2022	\$ (6,789)	(12,584)	(19,373)
Balance as of December 2020	\$ (8,831)	(9,958)	(18,789)
Reclassification of non-current assets held for sale	-	7,267	7,267
Provision charged to expenses	(300)	(6,535)	(6,835)
Balance as of December 31, 2021	(9,131)	(9,226)	(18,357)

The fair value of investment properties as of December 31, 2022 and 2021 amounts to \$183,602 and \$210,777, respectively,

As of December 31, 2022 and 2021 there are no restrictions on these assets' availability for sale.

18. Intangible assets and goodwill, net

The intangible assets detail is as follows:

	<u>Software</u>	<u>Other intangibles</u>	<u>Total Intangibles</u>	<u>Goodwill</u>
Cost				
Balance as of December 31, 2020	\$ 534,194	61,252	595,446	112,974
Acquisitions	122,982	-	122,982	-
Derecognition	(1,142)	-	(1,142)	-
Balance as of December 31, 2021	656,034	61,252	717,286	112,974
Acquisitions	181,976	1,813	183,789	-
Derecognition	(282)	-	(282)	-
Balance as of December 31, 2022	\$ 837,728	63,065	900,793	112,974

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Accumulated amortization

Balance as of December 31, 2020	\$ (175,953)	(55,149)	(231,102)	-
Amortization expenses	(83,825)	(1,131)	(84,956)	-
Derecognition	1,142	-	1,142	-
Balance as of December 31, 2021	(258,636)	(56,280)	(314,916)	-
Amortization expenses	(94,712)	(1,130)	(95,842)	-
Derecognition	192	-	192	-
Balance as of December 31, 2022	\$ (353,156)	(57,410)	(410,566)	-

Carrying value, net

As of December 31, 2021	397,398	4,972	402,370	112,974
Balance as of December 31, 2022	\$ 484,572	5,655	490,227	112,974

- (1) Corresponds to the software acquired and created for executing the different technological projects developed by the Bank,

Cash-generating unit impairment analysis:

The analysis performed by the Bank to identify the cash-generating unit (CGU) concluded that it corresponds to the group of assets and liabilities of the "Consumer" operating segment, which represents the lowest level on which the Bank controls goodwill. This is so considering that the aim of the business combination was the transfer of the Small and Medium-Sized Enterprise Consumer Banking business of Citibank Colombia S.A., as well as the placement of mortgages among these customers.

The impairment assessment of the goodwill acquired in the consumer banking, credit card, and small and medium-sized enterprise business combination of Citibank Colombia S.A. as of December 31, 2021 calculated the value-in-use as a recoverable amount, mainly considering the following variables:

- Valuation horizon of 3 years (stable flows beginning in year 4) with value in perpetuity.
- Long-term double-digit growth associated with the behavior of the inflation rate for future years.
- The assessment is made by discounting free cash flows at a rate of 14.20% which represents the Bank's cost of capital.

The Bank used the following economic assumptions for the calculation, taking into account the main impacts of the Covid-19 pandemic on the economy:

- As of 2023, receivables are estimated to grow by one digit thanks to the economic recovery, resulting from the gradual fall of unemployment caused by the Covid-19 pandemic.
- The Colombian economy recovered unexpectedly, exceeding the expectations for GDP. It is expected to grow at a 3% pace in the coming years.
- All this, together with a higher inflation, due to the indexation effects, forced the Central Bank (Banco de la Republica) to raise the rates quicker, in hope that they stabilize in the second semester of 2023, establishing the intervention rate at 9%, approx.

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In addition, the Bank conducted a financial analysis of the results of the cash-generating unit, resulting in the following factors:

- Average asset growth of 9% is expected over the next few years for the Consumer segment, due to the economic recovery beginning in 2021. This would reactivate consumer loans thanks to the management of the different placement channels.
- Financial income is projected based on a greater contribution from products of personal loans and mortgage loans, that will align with the Bank's current risk appetitive.
- There is an increase in commissions associated with the portfolio and transactionality, as well as commissions related to insurance premiums given the strategic partnership entered into with Cardif.
- The credit cost projection expects to have an indicator with an upward trend for 2023, to be stable in 2024.
- Financial expenditures will be stabilized or improved by seeking to attract low-cost deposits, such as payroll deposits and transactional liabilities.

Finally, no reductions in the value of long-lived assets were identified, and no significant changes are recognized in the legal factors or business environment that might affect the net asset value of the cash-generating unit.

Management's review of the methodology and assumptions used for the valuation of the CGU to which goodwill is assigned concluded that as of December 31, 2022 there was no goodwill impairment that should be recognized in the financial statements.

Following is a summary of the analysis performed:

Cash-Generating Unit	Goodwill	Net Asset Value	Recoverable Amount	Excess
Consumer Segment	112,974	8,764,182	10,480,837	1,716,655

19. Income tax

Components of the income tax expense: The income tax expense for the periods ended December 31, 2022 and 2021 includes the following items:

	December 31, 2022	December 31, 2021
Current tax expenses		
Income tax	\$ 89,227	52,524
Other income tax	47	532
Changes in previous years estimations	(33,669)	(10,693)
Subtotal	55,605	42,363
Deferred tax expenses		
Change in prior-year estimates	-	5,591
Origin and reversion of temporary differences	40,577	158,090
	40,577	163,681
Total income tax expenses	\$ 96,182	206,044

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According to the provisions of Decree 1311 of October 20, 2021, the company decided to record the rate change adjustment in cumulative profit or loss from previous periods. The rate adjustment gave rise to an expense for \$1,682 million, as calculated with the new rates, according to the Social Investment Act 2155 of September 14, 2021.

Likewise, in accordance with the provisions of Decree 2617 of December 29, 2022, the Bank decided to post the exchange rate adjustment taken to accumulated income of previous periods. The rate adjustment generated an expense that amounted to \$2,788 million, determined according to the new rates, as per Law 2277 of December 13, 2022.

Reconciliation of the nominal tax rate and the effective rate

The current fiscal provisions applicable to the Bank set forth the following for Colombia:

- In agreement with The Social Investment Act 2155 of 2021, the income tax rate for the year 2022 is 35 and for the financial institutions that obtain a taxable profit equal to or exceeding 120,000 equivalent tax value units (UVT in Spanish) during the period, an additional a surcharge of three (3) additional points are applied.
- In agreement with The Economic Growth Law 2010/2019 the income tax rate for the year 2021 is 31% and for the financial institutions that obtain a taxable profit equal to or exceeding 120,000 equivalent tax value units (UVT in Spanish) during the period, an additional a surcharge of three (3) additional points are applied.
- The Economic Growth Law 2010/2019 reduces the presumptive income to 0% of the net worth on the last day of the immediately preceding taxable year for the year 2021 *et, Seq,*
- The Economic Growth Law 2010/2019, for the taxable years 2020 and 2021 extends the audit benefit to taxpayers whose net income tax increased for the taxable year in relation to the net income tax for the immediately preceding year by at least 30% or 20%, thus the income tax return becoming final within 6 or 12 months from the date of filing, respectively. Act 2155 extends the validity of the audit benefit mentioned before to tax years 2022 and 2023 for taxpayers who increase their net income tax for the tax year in relation to the net income tax for the immediately preceding year in at least 35% or 25%. With this, the tax return will be final within 6 to 12 months of its filing, respectively.
- With the Economic Growth Law 2010/2019, the term of finality of the income tax return and complementary taxes of taxpayers who declare or compensate tax losses or are subject to the transfer pricing regime, will be 5 years,
- The tax losses may be offset against ordinary liquid income obtained in the following 12 taxable periods,
- The excess presumptive income can be offset in the following 5 taxable periods,
- The occasional income tax is taxed at 10% rate,

In accordance with the IAS 12 paragraph 81 subparagraph (c) the following is the detail of the reconciliation between the total income tax expense of the bank calculated at the current tax rates and the tax expense actually recorded in the income for the years ended December 31, 2022 and 2021.

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		December 31, 2022		December 31, 2021
Loss (profit) before income tax	\$	269,987		428,071
Tax expense calculated according to 38 and 34% nominal rate, respectively	38%	102,595	34%	145,544
Plus or (less) taxes related to the following items:				
Dividends received not constituting income or other profit	-1%	(2,159)	0%	(1,218)
Tax-exempt revenues	-5%	(13,306)	-2%	(9,432)
Other non-taxable expenses	-1%	(1,505)	-%	-
Tax on financial operations	4%	10,801	2%	9,399
Non-deductible expenses	21%	55,654	20%	86,096
Other items	0%	(926)	0%	(1,482)
Occasional gains at 10%	0%	47	-	-
Effect on the deferred tax at the expected rates at which the differences are expected to be reversed	5%	13,404	2%	10,143
Refund tax provision	-12%	(33,669)	-1%	(5,102)
Presumed income surplus on ordinary income	0%	-	0%	288
Tax discount - ICA tax	-12%	(32,675)	-6%	(22,267)
Tax Discount - Investment in Innovation and Technology	-1%	(1,741)	1%	(5,557)
Tax discount - Other	-1%	(338)	0%	(368)
Total income tax expenses	36%	96,182	48%	206,044

Changes in deferred tax balances

Deferred taxes for temporary differences –

The differences between the assets and liabilities carrying value and tax bases thereof, result in the following temporary differences that generate deferred taxes, calculated and recorded in the periods ended December 31, 2022 and 2021 based on the current tax rates for the years in which the asset is expected to be realized or the liability settled,

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The following is the deferred taxes change:

	Net balance as of January 1, 2022	Recognized in income statement	Recognized in other comprehensive income	Adjustments and/or reclassifications	Recognized in equity	Balances as of December 31, 2022		
						Net	Assets for deferred taxes	Liabilities for deferred taxes
Valuation of debt securities investments	19,048	2,117	73,187	–	(6)	94,347	94,347	–
Difference in unrealized exchange	(4,085)	42,908	–	–	2,043	40,866	40,866	–
Equity instruments	(7,714)	(543)	(4,989)	-138	(1,981)	(15,365)	–	(15,365)
Financial derivatives	(2,213)	(20,376)	(14,204)	–	(1,229)	(38,022)	–	(38,022)
Cost of furniture, personal property and computer equip.	4,398	2,820	–	–	380	7,598	7,598	–
Cost of real estate, land and buildings	(29,647)	(1,691)	–	–	(1,272)	(32,610)	–	(32,610)
Technical investment and innovation	(6,537)	(760)	–	–	–	(7,297)	–	(7,297)
Deferred charges	(31,015)	1,518	–	–	25	(29,472)	–	(29,472)
Prepaid expenses	96	–	–	–	5	101	101	–
Tax credits	868	46	–	–	–	914	914	–
Credit portfolio	(205,412)	(40,798)	20,828	–	745	(224,637)	–	(224,637)
Covid Portfolio	25,422	(25,552)	–	–	–	(130)	–	(130)
Goods received as payment in kind	(66,956)	(4,283)	–	–	–	(71,239)	–	(71,239)
Other assets differences	5,120	(208)	–	–	(61)	4,851	4,851	–
Actuarial calculation	2,819	(361)	–	–	–	2,458	2,458	–
Deferred income	(555)	–	–	–	–	(555)	–	(555)
Liability provisions	8,271	3,273	–	–	616	12,160	12,160	–
Other liabilities differences	7,288	–	–	–	–	7,288	7,288	–
IAS 16	7,067	748	–	–	409	8,224	8,224	–
Other adjustments and reclassifications	7,904	83	–	–	–	7,987	19,697	(11,710)
Adjustments for business combination	13,264	–	–	–	–	13,264	13,264	–
Amortizations for business combination	(2,007)	482	–	–	(2,462)	(3,987)	–	(3,987)
Assets (Liabilities) for taxes	(254,576)	(40,577)	74,822	(138)	(2,788)	(223,256)	211,768	435,024

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	Net balance as of January 1, 2020	Recognized in income statement	Recognized in other comprehensive income	Recognized in equity	Balances as of December 31, 2021		
					Net	Assets for deferred taxes	Liabilities for deferred taxes
Valuation of debt securities investments	(10,799)	(258)	29,955	150	19048	19,048	–
Rights in residual securities	(1,007)	1,007	–	–	–	–	–
Difference in unrealized exchange	–	(3,630)	–	(455)	(4,085)	–	(4,085)
Equity instruments	(6,228)	150	(1,636)	–	(7,714)	–	(7,714)
Financial derivatives	(1,317)	3,367	(2,613)	(1,650)	(2,213)	–	(2,213)
Cost of furniture, personal property and computer equip.	2,164	1,836	–	397	4,397	4,397	–
Cost of real estate, land and buildings	(26,034)	158	–	(3,771)	(29,647)	–	(29,647)
Technical investment and innovation	(1,682)	(3,850)	–	(1,004)	(6,537)	–	(6,537)
Deferred charges	(22,753)	(4,357)	–	(3,905)	(31,015)	–	(31,015)
Prepaid expenses	1,122	(1,077)	–	51	96	96	–
Tax credits	619	264	–	(15)	868	868	–
Credit portfolio	(214,603)	(26,195)	33,653	1,733	(205,412)	–	(205,412)
Covid Portfolio	142,994	(120,131)	–	2,560	25,423	25,422	–
Goods received as payment in kind	(58,066)	(8,890)	–	–	(66,956)	–	(66,956)
Other assets differences	5,190	(65)	–	5	5,120	5,120	–
Actuarial calculation	3,087	(728)	–	458	2,817	2,817	–
Deferred income	(530)	(25)	–	–	(555)	–	(555)
Industry and commerce tax	–	–	–	–	–	–	–
Liability provisions	9,409	(1,961)	–	824	8,272	8,272	–
Other liabilities differences	7,288	–	–	–	7,288	7,288	–
IAS 16	5,326	1,008	–	735	7,068	7,068	–
Other adjustments and reclassifications	7,903	2	–	–	7,904	23,365	(15,461)
Adjustments for business combination	13,265	–	–	–	13,265	13,265	–
Amortizations for business combination	(3,918)	(306)	–	2,217	(2,007)	–	(2,007)
Assets (Liabilities) for taxes	(254,576)	(163,681)	59,359	(1,682)	(254,576)	117,026	(371,602)

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Tax credits

Article 123 of Law 1819/29 of December 2016 creates a transitional regime for offsetting tax losses and presumptive income and minimum base excesses generated before 2017. As of December 31, 2022 and 2021, below is the detail of the unused tax losses and presumptive income excess on which the subsidiary Scotia Securities recorded deferred tax assets:

	December 31, 2022	December 31, 2021
Tax losses maturing at:		
Not maturing date	\$ -	-
December 31, 2030	1,164	1,164
December 31, 2031	855	787
December 31, 2032	-	530
December 31, 2033	318	-
December 31, 2034	275	-
Total tax credit	2,612	2,481

Current and deferred tax effect on each component of the other comprehensive income/losses in equity account:

Current and deferred tax effect on each component of the other comprehensive income/losses is described below:

	December 31, 2022			December 31, 2021		
	Amount before taxes	Deferred taxes	Net	Amount before taxes	Deferre d taxes	Net
Comprehensive income for the year	\$ -	-	173,805	-	-	222,027
Items that can be reclassified to income for the year	37,925	(14,204)	23,721	7,807	(2,613)	5,194
Cash flow hedge	37,925	(14,204)	23,721	7,807	(2,613)	5,194
Items not to be reclassified to income for the year	(223,988)	89,026	(134,962)	(246,721)	61,972	(184,749)
Fair value exchange from financial instruments	(162,486)	68,198	(94,288)	(65,527)	28,319	(37,208)
Financial instruments portfolio	(61,502)	20,828	(40,674)	(181,194)	33,653	(147,541)
Total changes in comprehensive income	(186,063)	74,822	(111,241)	(238,914)	59,359	(179,555)
Total with comprehensive change	\$		62,564			42,472

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Assets and liabilities by current income tax

The balances of current income tax on accounts receivable and/or payable are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Assets		
Credit balances of income tax	251,425	468,868
Total assets	<u>251,425</u>	<u>468,868</u>

For financial statements reporting purposes, the Bank offset assets and liabilities deferred tax set forth in paragraph 74 of IAS 12 and assets and liabilities current tax set forth in paragraph 71 of IAS 12, pursuant to the tax provisions in force in Colombia on the legal right to offset assets and liabilities for current taxes,

Uncertainties in open tax positions

As of December 2022 and 2021 there is no fiscal uncertainties that requires creating a provision for that concept, taking into account that the income and complementary taxes process is governed by the current tax scheme, Therefore, there are no risks that could create an additional tax obligation,

Transfer prices

Pursuant to the provisions set forth in Laws 788/2002 and 863/2003 and 1607/2012 and 1819/2016, regulated by Decree 2120/2017, the Bank prepared a study on transfer pricing on operations carried out with foreign economic associates during 2020. The study did not lead to adjustments that affected the Bank revenues, costs and tax expenses.

Although the 2022 transfer pricing study is currently under elaboration, no significant changes are expected in relation to the previous year,

Deferred tax with respect to investments in associates

In compliance with paragraph 39 of IAS 12, the company did not record deferred tax liabilities relating to temporary differences from investments in associates to the extent that it can control the timing of the reversal of such differences and this is not expected to occur in the foreseeable future,

The temporary differences for the items indicated as of December 31, 2022 and 2021, amounted to \$0 and \$(12,138) million, respectively.

Tax Reform for Equality and Social Justice

A new tax reform was adopted by means of Law 2277 of December 13, 2022. This reform introduces some modifications to the income tax, which are presented below:

- The income tax general tariff remains at 35% for local companies and similar entities, permanent establishments of foreign entities and the foreign legal entities with or without residence required to file an income tax return.
- For the financial institutions, insurers, reinsurers, stock brokers, agricultural brokers, commodities exchange, and agricultural or agro-industrial products or other commodities and infrastructure suppliers in the stock market, a 5% surcharge was established in addition to the general income tax general tariff for the taxable periods from 2023 to 2027, for a total rate of 40%, if they have taxable income equal or higher than 120,000 Tax Value Units (UVT in Spanish) (equivalent to \$5,089 for 2023). The surcharge will be subject to an advance of 100%.

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- A minimum tax was established for the residents in Colombia, setting an additional tax in case the income tax cleared with some adjustments is lower than 15% of the profit before taxes with some adjustments. Given this, the taxpayers shall: (i) Determine the cleared tax of the Colombian taxpayer or the cleared tax of the group, in case it is part of a corporate group; (ii) Determine the cleared profit of the Colombian taxpayer or of the group in case it is part of a corporate group; and (iii) Determine the cleared tax rate of the Colombian taxpayer or of the group in case it is part of a corporate group. If the effective rate (cleared tax / cleared profit) is lower than 15%, the tax must be computed and added to the taxpayer or group, in case it is part of a corporate group.

The Economic and Social Zones (ZESE in Spanish) are exempted from this regulation during the period where their income tax tariff is zero (0%), as well as the taxpayers whose cleared profit is equal or lower than zero, which are regulated by the provisions of Article 32 of the Tax Statute (Concessions), the state industrial or commercial or mixed economy corporations that work on games of luck and chance and liquor, hotels and theme parks, provided they are not required to file a report country-by-country.

- The aggregate amount of the ordinary net income that comprises some revenues that do not represent income, special deductions, exempt income and tax discounts, is limited to 3% per annum.
- Article 158-1 was derogated, thus eliminating the possibility to deduct the costs and expenses related to investment in CTel, i.e., these investments will only allow a tax discount. It is still possible to take as a tax discount 30% of the investment in Science, Technology and Innovation (CTel), that are approved by the National Tax Benefits Council (CNBT in Spanish); the previous regulation established a 25% discount.
- It is no longer possible to apply as a tax discount 50% of the Industry, Commerce and Signs Tax (ICA in Spanish) effectively paid before filing the tax return. 100% of the amount earned and paid will be deductible, prior to filing the income tax return.
- 100% of the taxes, encumbrances and contributions is still deductible, effectively paid during the taxable year, that have a causality relationship with the generation of income (except for the income tax). 50% of the tax on financial movements (GMF in Spanish) will be deductible, irrespective of any causality relationship, or not, with the income generating activity.
- The payment on affiliations to social clubs, labor expenses of support personnel in housing or other activities not related to the income generating activity, will not be deductible, along with the personal expenses of partners, stakeholders, shareholders, clients and/or their relatives, all of which will be considered as revenues in kind for the beneficiaries.
- It is established that the non-deductible amounts due to sentences from administrative, judicial or arbitration processes correspond to the amounts that have a penalty or sanction nature or as an indemnizations due to damages (Number 3 of Article 105 of the Tax Statute).
- The tax rate on occasional gains is established at 15%.
- A 10% income tax withholding rate is established for the dividends received by local companies, which nature does not represent income or occasional gains (in the past 7.5%), which may be transferred to a resident individual or a foreign investor. The exceptions established by the regulations in force remain effective. The dividends and interests received by permanent establishments of foreign or local companies, which nature does not represent income or occasional gains, will have a special tax rate of 20%.

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- The rate on taxable dividends will be determined as follows: (i) Applying the income tax rate corresponding to the year when they are ordered (35%), and (ii) the rate that corresponds to the non-taxable dividends will be applied to the remaining amount, depending on the beneficiary (the table of article 241 of the Tax Statute will apply if it is a resident individual or an illiquid estate of the deceased residents).
- Dividends decreed taken to profit of the years 2016 and previous ones, will preserve the treatment in force in that moment, and the dividends corresponding to profit obtained as from 2017 that is decreed as from 2023, will be regulated by the tariffs provided by Law 2277 of December 2022.

20. Other assets, net

Below is the other assets detail:

	December 31, 2022	December 31, 2021
Pre-payments	\$ 104,728	106,432
Art and cultural goods	2,844	2,844
Assets received in lieu of payment	128,236	136,330
Other assets (1)	42,487	35,946
Impairment	(29,668)	(23,396)
Total other assets	\$ 248,627	258,156

(1) Following are the details of assets received in lieu of payment:

	December 31, 2022	December 31, 2021
Property rights and participations	\$ 120,019	129,685
Investments	641	641
Machinery and others (a)	7,576	6,004
Total assets received in lieu of payment	\$ 128,236	136,330

21. Clients' Deposits y short-term liabilities

The clients' deposits received by the Bank under Bank's operations are detailed below:

	December 31, 2022	December 31, 2021
Deposits in bank current account	\$ 2,029,744	2,426,175
Term Deposits Certificates	13,645,216	10,395,815
Savings deposits	16,356,345	17,308,889
Others	839,789	653,310
	\$ 32,871,094	30,784,189

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Term certificate time duration

The following is the duration classification of term deposit certificates:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Issued less than 6 months	\$ 2,668,230	1,720,590
Issued equal to 6 months and less than 12 months	2,364,614	1,874,944
Issued equal to 12 months and less than 18 months	3,728,665	1,904,052
Issued equal to 18 months or more	4,883,707	4,896,229
	<u>\$ 13,645,216</u>	<u>10,395,815</u>

In accordance with each collection method, the annual effective interest on the average daily balances yield by these liabilities at the end of December 31, 2022 and 2021 were as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Current accounts	2.14%	0.57%
Term Deposits Certificates in legal currency	8.14%	4.02%
Common savings deposits	5.18%	1.55%

The interest paid on customer deposits as of December 31, 2022 and 2021 was \$1,576,838 and \$679,629, respectively,

22. Financial obligations

Below is the detail of the financial institutions short-term obligations and deposits:

Short-term financial obligations	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Undertakings to transfer investments in simultaneous operations	\$ 266,335	927,760
Undertakings originated in positions in short of simultaneous operations	69,777	560,614
Commitment to sell investments in open repos (1)	-	600,097
Foreign banks	1,686,322	903,912
BANCOLDEX	-	2,044
FINAGRO	5,539	-
	<u>\$ 2,027,973</u>	<u>2,994,427</u>

(1) The bank uses repo funding lines with the Central Bank (Banco de la República) due to an increase in foreign exchange positions.

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Short-term financial obligations - Effective interest rate

The following is a summary of the average annual effective interest rates on financial obligation:

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Minimum</u> %	<u>Maximum</u> %	<u>Minimum</u> %	<u>Maximum</u> %
Interbank funds	11.25%	12.60%	0.03%	2.46%
Repos and simultaneous operations	4.51%	5.44%	1.30%	1.82%

The repos, simultaneous and interbank operations are carried out at market conditions,

Long-term financial obligations

	<u>December 31, 2022</u>	<u>December 31, 2021</u>	<u>Current interest rate</u>
Foreign Banks	\$ 1,400,172	463,617	Between 4.62% y 5.45%
Financiera de Desarrollo Territorial S,A, FINDETER	272,442	77,136	Between 12.3% y 13.52%
BANCOLDEX	112,013	87,403	Between 11.83% y 13.92%
Fund for the Financing of the Agricultural Sector (FINAGRO)	205,256	44,293	Between 12.59% y 13.86%
Financial leases (1)	185,128	204,160	
Employee savings plan	7,752	7,970	
	<u>\$ 2,182,763</u>	<u>884,579</u>	

(1) The financial obligations movement is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Opening balance as of January 1	\$ 3,879,006	2,214,800
Disbursements	107,716,748	83,552,042
New lease contracts	3,048	3,227
Increases on rate of rental adjustments	14,307	2,094
Interest accrual on loans	133,464	24,731
Interest accrual on leases	13,518	15,546
Interests paid	(125,625)	(24,334)
Loans paid off	(107,780,389)	(82,012,441)
Payment of leases	(37,118)	(38,913)
Write off of leases	2,775	(19,970)
Contract term change adjustment	391,002	162,224
Balance as of December 31	<u>\$ 4,210,736</u>	<u>3,879,006</u>

Interest paid on financial obligations as of December 31, 2022 and 2021 were \$125,625 and \$24,334, respectively. The increase is the result of the interest rates increase agreed for these liabilities in 2022.

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Maturity by timelines of short-term financial obligations

December 31, 2022					
	Up to a month	Up to a month and less than three months	More than three months and less than six months	Más de seis meses y no más de un año	Total
Undertakings originated in positions of simultaneous operations	\$ 266,335	-	-	-	266,335
Undertakings originated in positions in short of simultaneous operations	69,777	-	-	-	69,777
Commitment to sell investments in open repos	-	-	-	-	-
Foreign banks	147,500	705,192	693,773	139,857	1,686,322
BANCOLDEX	-	-	-	-	-
FINAGRO	5,539	-	-	-	5,539
Total short-term	\$ 489,151	705,192	693,773	139,857	2,027,973

December 31, 2021					
	Up to a month	Up to a month and less than three months	More than three months and less than six months	More than six months and less than a year	Total
Undertakings originated in positions of simultaneous operations	\$ 927,760	-	-	-	927,760
Undertakings originated in positions in short of simultaneous operations	560,514	-	-	-	560,514
Commitment to sell investments in open repos	600,097	-	-	-	600,097
Foreign banks	241,490	361,702	226,324	74,396	903,912
Foreign banks - BANCOLDEX	-	-	2,044	-	2,044
Total short-term	2,329,861	361,702	228,368	74,396	2,994,327

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Long-term financial obligations

	December 31, 2022									
	Current Portion				Non-current Portion					
	Up to three months		More than three months and less than a year		Total current portion	More than a year			Total non-current portion	Total long-term portion
	Up to a month	More than a month than less than three months	More than three months and less than six months	More than six months and less than a year		Between one to three years	More than three years and less than five years	More than five years		
Foreign banks \$	14,195	89,675	30,191	289,453	423,514	708,481	268,177	-	976,658	1,400,172
FINDETER	-	-	1,378	4,059	5,437	153,513	113,492	-	267,005	272,442
BANCOLDEX	284	1,477	512	12,576	14,849	94,550	635	1,979	97,164	112,013
(FINAGRO)	1,002	-	74,343	18,960	94,305	108,736	2,215	-	110,951	205,256
Financial leases	2,014	4,064	6,186	12,704	24,968	55,546	63,963	40,651	160,160	185,128
Employee savings plan	251	311	584	1,191	2,337	3,719	1,696	-	5,415	7,752
	\$ 17,746	95,527	113,194	338,943	565,410	1,124,545	450,178	42,630	1,617,353	2,182,763

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December 31, 2021										
Current portion					Non-current portion					
Up to three months		More than three months and less than a year			Total current portion	More than a year			Total non-current portion	Total long-term portion
Up to a month	More than a month than less than three months	More than three months and less than six months	More than six months and less than a year	Between one to three years		More than three years and less than five years	More than five years			
Foreign banks	\$ 10,102	114,535	44,717	35,514	204,868	123,668	135,081	-	258,749	463,617
FINDETER	-	1,173	1,010	940	3,123	8,329	65,684	-	74,013	77,136
BANCOLDEX	-	1,587	1,232	7,039	9,858	76,096	1,449	-	77,545	87,403
FINAGRO	-	213	2,181	610	3,004	40,348	941	-	41,289	44,293
Financial leases	1,903	3,840	5,845	11,921	23,509	50,716	58,401	71,534	180,651	204,160
Employee savings plan	111	360	697	958	2,126	4,177	1,667	-	5,844	7,970
	\$ 12,116	121,708	55,682	56,982	246,488	303,334	263,223	71,534	638,091	884,579

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23. Benefits to Employees

Below is the detail of the liabilities for employee benefits balances:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Short-term benefits (1)	\$ 73,393	61,371
Long-term benefits (2)	7,355	8,963
Post-employment benefits	1,166	1,140
	<u>\$ 81,914</u>	<u>71,474</u>

(1) Short-term benefits: Those are the following one:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Wages	955	735
Severance payments	\$ 19,086	17,816
Interests on severance payments	2,215	2,065
Holiday leave	28,903	28,491
Noncontractual bonuses	6,905	6,800
Bonuses	4,555	5,332
Other	10,774	132
	<u>\$ 73,393</u>	<u>61,371</u>

a) There has been an increase during this year, due to additional provisions on discretionary bonuses.

(1) Long-term benefits - seniority bonus: The Bank gives its employees extra-legal long-term seniority bonuses during their work life, depending on the number of service years, every five (5), ten (10), fifteen (15) and twenty (20) years, etc., calculated as days of salary.

(2) Post-employment benefits: It corresponds to retirement pensions. The actuarial calculation at December 31, 2022, was prepared based on a discount rate of 11.00%, the increase pension rate of 4.00%, and the inflation rate of 3.00%.

The following is the changes of long-term benefits:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Obligation for long-term benefits	\$ 6,010	6,602
Costs of the current period services	748	774
Cost for past period services	32	362
Interest costs	483	100
Bank-directly paid benefits	(664)	(910)
Increase by business combination	(3)	503
Remedies:		
a. Change effect on financial assumptions	(1,103)	(1,150)
b. Effects of changes by experience	(535)	(271)
Obligation for benefits defined at the end of the year	\$ 4,968	6,010

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Actuarial assumptions

The variables used to calculate the projected liability for long-term benefits are shown below:

	<u>2022</u>	<u>2021</u>
Discount rate	11,00%	8.50%
Salary increase rate	4.00%	4.00%
Inflation rate	3.00%	3.00%

The employee turnover rate is calculated based on a general turnover rate average of the last three years,

The employee's expected life is calculated based on mortality tables RV-08 ("Valid Rentiers"), This mortality table was prepared using the experience in the period 2005 - 2008 by the administrators of the System General Pensions, System of Work Accidents and Life Insurance Companies,

The discount rate is assigned according to plan duration, Therefore, longer plans have a higher rate than a short-term plans, so for longer time plans, the TES curve will be of greater interest,

Sensitivity analysis

The sensitivity analysis of the post-employment benefits liability of the different variables is as follows:

	<u>2022</u>	<u>2021</u>
Discount rate		
a, Discount rate -25 bp decreased in	\$ 5,379	6,377
b, Discount rate +25 bp increased in	5,220	6,168
c, Salaries increase rate -25 bp decrease in	3,796	4,440

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
1. Assumptions used to determine the defined benefit obligation		
a. Discount rate	11.00%	5.75%
b. Salaries increase rate	4.00%	4.00%
c. Long-term inflation rate	3.00%	3.00%
2. Assumptions used to determine defined benefit cost		
a. Discount rate	7.50%	6.50%
b. Salaries increase rate	4.00%	4.00%
c. Long-term inflation rate	3.00%	3.00%

Expected benefits payments

The future benefit payments expected in the next 10 years, which reflect services, as the case may be, are expected to be paid as follows:

	<u>Expected payment</u>
- For year 1	\$ 734
- For year 2	877
- For year 3	831
- For year 4	937
- For year 5	866
- For next 5 years	4,609

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On December 22, 2016, the Ministry of Commerce, Industry and Tourism issued Decree 2131, which requires financial information preparers to disclose in their financial statement notes the calculation of the pension liabilities for which they are responsible, in accordance with the parameters established in Decree No. 1625 of 2016.

As of December 31, 2022, the amount of the actuarial calculation based on the parameters established in Decree No. 1625 of 2016 is \$987, and the difference in the retirement pension liability determined based on actuarial assumptions defined in International Accounting Standard 19 "Employee Benefits" is less than \$178.

24. Provisions

The table below shows the provisions detail:

	December 31, 2022	December 31, 2021
Ongoing labor lawsuits and litigation (1)	\$ 6,483	3,964
Decommissioning (2)	4,361	4,817
Other provisions	7,546	8,812
Total	18,390	17,593

- (1) As of December 31, 2022 and 2021, 617 and 457 labor and administrative civil claims have been filed against the Bank. The claims amount to \$141,756 and \$137,830, respectively, recorded in contingent accounts, for which a provision was created based on the probability of event occurrence.
- (2) The most relevant variance is due to provisions related to operating risk, for the Bank as for the Fiduciaria

The movement in provisions is as follows:

December 31, 2022				
	Lawsuits and litigation in process	Decommis- sioning	Other provisions	Total
Balance as of December 31, 2021	\$ 3,964	4,817	8,812	17,593
Provisions established over the year	15,885	176	23,186	39,247
Provisions used over the year	(12,806)	(632)	(24,210)	(37,648)
Provisions not used over the year,	(560)	-	(242)	(802)
Balance as of December 31, 2022	\$ 6,483	4,361	7,546	18,390

December 31, 2020				
	Lawsuits and litigation in process	Decommis- sioning	Other provisions	Total
Balance as of December 31, 2020	\$ 12,000	5,233	1,059	18,292
Provisions established over the year	4,274	44	14,990	19,308
Provisions used over the year	(11,090)	(460)	(6,257)	(17,807)
Provisions not used over the year,	(1,220)	-	(980)	(2,200)
Balance as of December 31, 2021	\$ 3,964	4,817	8,812	17,593

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25. Accounts payable and other liabilities

	December 31, 2022	December 31, 2021
Employment deductions and contributions	\$ 89,376	74,162
Suppliers and services payable	111,994	92,568
Payments to credit obligations	28,158	18,010
Commissions y fees	18,672	1,346
Sales taxes payable	51,692	26,505
Sundry creditors	24,945	77,007
Liquidated deposit insurance payable	51,721	51,002
ACH transferences – Internet	50,174	28,676
Dividendos	849	-
Ingreso recibido por anticipado Cardif AXA (1)	28,756	39,345
Programas de fidelización	13,770	15,420
Cuentas por pagar forward y swaps (2)	80,342	-
Sundry	84,728	87,678
Total	635,177	511,719

- (1) The Bank gave Cardif Colombia Seguros Generales S.A. the exclusivity right to sell its insurance products and the access to the clients database during a period of 15 years. Cardif's exclusivity right generates a liability on the income received in advance that will be amortized in income during the term of the contract (180 months).
- (2) The increase is due to the compliance with the liquidation of forward and swap operations still to be paid to the central counterparties chamber at December 31, 2022, with compliance with T+1; and compliance with derivative operations T+2.

26. Long-term outstanding investment securities

Issue	Loan value	Placement year	December 31, 2022	December 31, 2021
Issue 2012 by public offer, FS series issue 300,000 bonds of par value \$1,000 (pesos) each,	(1) 300,000	2012	-	308,522
Issue 2014 by public offer, FS series issues 150,000 bonds of par value \$1,000 (pesos) each,	(2) 150,000	2014	151,412	150,831
Issue 2016 by public offer, FS series issue 150,000 bonds of par value \$1,000 (pesos) each	(3) 150,000	2016	151,076	150,635
Issue 2017 by public offer, FS series issues 125,000 bonds of par value \$1,000 (pesos) each,	(4) 125,000	2017	126,453	125,830
Issue 2019 by public offer, FS 125,000 bonds of par value \$1,000 (pesos) each,	(5) 450,000	2019	455,512	450,375
Issue 2020 by private offer, 224,700 bonds of par value \$1,000 (pesos) each, (see note 2(b)).	(6) 224,700	2020	230,270	224,759

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Issue		Loan value	Placement year	December 31, 2022	December 31, 2021
Issue 2022 perpetual bonds.	(7)	250,000	2022	259,196	-
				\$ 1,373,919	1,410,952

- (1) The issue 2012 subordinated bonds paid in 2022. Those bonds were placed in a series: FS Series by public offer in \$300,000 in two issues; their due date was on February 28, 2022 for \$150,000 and October 3, 2022 for \$150,000 at an IPC rate plus spread of 4.64% and 4.14% respectively, payable at semester due.
- (2) The issue 2014 subordinated bonds were placed in a series: FS Series by public offer in \$150,000 in a ten (10) years term, opening date on December 11, 2014 and due date on December 11, 2024, at an IPC rate plus spread of 4.58%, payable at semester due and made up of 10 bonds.
- (3) The issue 2016 subordinated bonds were placed in a series: FS Series by public offer in \$150,000 in a ten (10) years term, opening date on June 16, 2016 and due date on June 16, 2026, at an IPC rate plus spread of 4.61%, payable at semester due and made up of 30 bonds.
- (4) The issue 2017 subordinated bonds were placed in a series: FS Series by public offer in \$125,000 in a ten (10) years term, opening date on December 5, 2017 and due date on December 5, 2027, at an IPC rate plus spread of 3.89%, payable at semester due and made up of 38 bonds.
- (5) The subordinated bonds issued in 2019 were placed by private offer for \$450,000 for a term of ten (10) years. Their opening date was June 28, 2019, and they accrue fixed interest of 10.00% payable six months in arrears. The principal will be fully redeemed upon their maturity.
- (6) The subordinated bonds issued in 2020 were placed by private offer for \$224,000 for a term of ten (10) years. and they accrue fixed interest of 10.00% payable six months in arrears. The principal will be fully redeemed upon their maturity.
- (7) During 2022 there were issued perpetual bonds (See Note 2b).

At December 31, 2022 and 2021, expenses were accrued on these liabilities for \$163,575 and \$135,451, including the monetary adjustment at an annual effective rate on the daily average balances of 12.75% and 8.00%, respectively.

The interests paid on subordinate bonds at December 31, 2022 and 2021, amounted to \$150,608 and \$131,998, respectively.

The following is the breakdown of the outstanding investment securities maturities as of December 31, 2022 and 2021:

Year	December 31, 2022	December 31, 2021
2022	-	300,000
2024	150,000	150,000
After 2024	1,199,700	949,700
	\$ 1,349,700	1,399,700

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27. Equity

The equity breakdown is shown below:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Capital stock:		
Subscribed and paid-in Capital:		
Authorized Capital	\$ 350,000	350,000
Unsubscribed Capital	(27,921)	(27,921)
Total Capital stock	<u>\$ 322,079</u>	<u>322,079</u>
Reserves:		
Legal reserve:		
Appropriation of earnings (1)	\$ 1,635,624	1,521,982
Occasional reserves:		
Charity and donations	1,500	-
Fiscal reserve	1,750	1,750
Total Reserves	<u>\$ 1,638,874</u>	<u>1,523,732</u>

- (1) In 2021, the legal reserve was released for \$314,048 and the occasional reserve for \$1,500, to absorb losses obtained in 2020 for \$315,548, as approved by the General Shareholders Meeting.

Legal Reserve

In accordance with the legal regulations in force, the Bank must create a legal reserve through appropriation of ten percent (10%) of each year net profits until reaching fifty percent (50%) of the subscribed capital stock, However, it can be reduced below the previous percentage to wipe-off excess losses of retained earnings,

Reserve for tax provisions

Reserve created until December 31, 2015 for fiscal depreciation excess over accounting depreciation, Pursuant to Article 290 of the Tax Statute, these reserves may be released when the tax depreciation requested is less than depreciation recorded in the income statement,

Occasional reserves

The occasional reserves are determined by the General Shareholders' Meeting for cash or shares distribution of dividends, future capitalizations or for specific donation defined by the Shareholders' Meeting,

Dividends decreed

Dividends are decreed and paid to shareholders based on the unconsolidated net income of the immediately preceding year. The dividends decreed were the following:

	<u>Year 2022</u>	<u>Year 2021</u>
Unconsolidated earnings of the immediately preceding period	Payment of dividends in cash in \$1.48 for each one of the 49,934,785,677 outstanding shares for an amount of \$73,903; creation of a legal reserve for \$113,642 and a donation reserve of \$1,500.	Losses made in 2020 were absorbed in 2021.
Total outstanding common shares	49,934.79	49,934.79
Total dividends decreed	<u><u>73,903.00</u></u>	<u>-</u>

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Common shares

As of December 31, 2022 and 2021, the Bank's authorized capital was \$350,000, represented by 54,263,565,891 shares, with a par value of six pesos and forty-five cents (\$ 6.45 m/cents) each, and a total of shares subscribed and paid in 49,934,785,677 as of December 31, 2022 and 2021.

	<u>December 31, 2022</u>		<u>December 31, 2021</u>	
	<u>Number of shares</u>	<u>Participation</u>	<u>Number of shares</u>	<u>Participation</u>
Grupo Mercantil Colpatría S.A.				
Mercantil Colpatría S.A.	12,444,335,299	24.92%	12,444,335,299	24.92%
Vince Business Corp	9,863,115,465	19.75%	9,863,115,465	19.75%
Barlie Global INC	906,756,185	1.88%	906,756,185	1.82%
Acciones y Valores Colpatría S.A.	937,957,387	1.82%	682,960,440	1.37%
Compañía de Inversiones Colpatría S.A.	222,238,448	0.45%	254,996,947	0.51%
Salud Colpatría S.A.	-	0.00%	222,238,448	0.45%
Subtotal	<u>24,374,402,784</u>	<u>48.82%</u>	<u>24,374,402,784</u>	<u>48.82%</u>
Bank Of Nova Scotia (BNS)				
Multiacciones S.A.	<u>25,481,192,743</u>	<u>51.03%</u>	<u>25,481,192,743</u>	<u>51.03%</u>
Other minority	<u>79,190,150</u>	<u>0.15%</u>	<u>79,190,150</u>	<u>0.15%</u>
Total	<u>49,925,785,677</u>	<u>100.00%</u>	<u>49,934,785,677</u>	<u>100.00%</u>

There are no shares with preferential rights, privileges and restrictions for dividend distribution purposes,

Other comprehensive income

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Differences in loan portfolio impairment	\$ 228,494	269,169
Gains or losses on Financial Instruments	(89,913)	4,375
Cash flow and foreign currency hedging*	23,444	(278)
	<u>\$ 162,025</u>	<u>273,266</u>

Pursuant to the provisions of the Financial Superintendence of Colombia, the Bank recorded the adjustment resulting from the difference in the credit portfolio impairment of the financial statement in other comprehensive income separated from that of the consolidated financial statement,

The variance in the financial instruments comprehensive result is due to the appraisal of debt and equity instruments. The latter, especially due to the depreciation of investment in ACH COLOMBIA S.A. and Credibanco, amounting to \$16,957.

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28. Fee revenues and other services, net

Net fee revenue is as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Fee revenues		
Banking services (1)	\$ 253,880	212,135
Affiliated establishments (2)	484,185	425,195
Income from fiduciary rights fees	34,604	32,985
Collection management	49,467	44,518
Credit card handling fees	330,005	321,344
Other sundry (3)	50,890	47,236
Total Fee Revenues	\$ 1,203,031	1,083,413
Fees and other services expenses		
Banking services	\$ (48,901)	(30,058)
Fees	(95,618)	(94,139)
Product placement	(99,573)	(134,230)
Use of transactional channels	(173,218)	(175,303)
Cencosud business cost	(57,671)	(60,998)
Collection management	(30,429)	(37,714)
Codensa contract of mandate	(5,205)	(6,544)
Other sundry (4)	(117,340)	(68,385)
Fee expenses	\$ (627,955)	(607,371)
Fee revenues, net	\$ 575,076	476,042

- (1) In 2022, there was an increase in the average transactions made by the users, compared to 2021.
- (2) There is an increase due to a higher number of transactions directly related to the use of the portfolio, mainly credit cards.
- (3) The main component of miscellaneous revenues corresponds to income on collections, income on commissions DCC, and income on insurance commissions from Cardif and AXA.
- (4) The main expenses include the information centers (debt hubs), Servibanca, purchases at the social security forms, among others.

29. Expenses for employee benefits

The main expenses for employee benefits are the following concepts:

	<u>December 31,2022</u>	<u>December 31, 2021</u>
Salary	\$ (220,493)	(216,728)
Gross wage	(131,395)	(138,992)
Bonuses (1)	(42,433)	(80,035)
Pension contributions	(47,599)	(51,368)
Holiday leave	(31,234)	(28,266)
Contributions to Family Compensation Funds	(23,895)	(25,007)
Legal bonus	(20,557)	(21,712)
Noncontractual bonus	(41,508)	(40,842)

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Severance payment		(20,569)	(20,108)
Other benefits to employees	\$	(56,782)	(47,950)
		(636,465)	(671,008)

1. Expenses related to this item decreased in 2021 due to the termination of contracts by mutual consent.

30. Other revenues

Other revenues breakdown is as follows:

	December 31, 2022	December 31, 2021
Exchange difference, net (1)	-	166,543
By sale of non-current assets	-	2,462
For sale of property and equipment	1,306	3,597
Dividends and shares	5,680	3,903
Recovery of investment properties impairment	153,365	178,096
Sale of portfolio (2)	70,460	77,461
Other sundry	52,331	36,620
Total	\$ 283,142	468,682

- (1) At December 31, 2022, the net exchange difference was taken to the expense (see note 31).

- (2) This item's movement is detailed in note 13.

31. Other expenses

Other expenses breakdown is as follows:

	December 31, 2022	December 31, 2021
Other expenses		
Taxes and rates (1)	\$ (258,834)	(226,310)
Exchange difference (2)	(94,461)	-
Advertisement, propaganda and public relations	(135,201)	(109,775)
Amortization of property and equipment	(1,967)	(4,460)
Amortization of intangible	(95,842)	(84,956)
Property and equipment depreciation	(60,269)	(63,683)
Loss in non-financial assets sale	(2,634)	-
Enel Contract	(55,346)	(56,968)
Loss on claims risk	(38,027)	(32,042)
Insurances	(121,191)	(117,790)
Maintenance and repair	(118,076)	(121,392)
Leases	(14,166)	(20,224)
Electronic data processing	(16,139)	(16,962)
Transportation	(40,566)	(40,399)
Temporary	(20,385)	(22,740)
Stationary	(21,201)	(20,982)
Utilities	(51,480)	(53,030)
Other sundry	(149,440)	(194,323)
Total	\$ (1,295,225)	(1.186,036)

- (1) Tax and encumbrances detail is as follows:

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	December 31, 2022	December 31, 2021
Tax and encumbrances		
Taxes and encumbrances	\$ (11,228)	(15,783)
Taxes assumed	(56,899)	(55,314)
Tax on financial movements	(69,062)	(40,757)
Industry and Commerce	(106,263)	(104,218)
Deductible Sales Tax	(15,382)	(10,238)
Total	\$ (258,834)	(226,310)

- (2) The Exchange difference is reported net. At December 31, 2022, the expense is due to the Market Representative Exchange Rate (TRM in Spanish) that present a positive variation of \$829.04 in respect to December 31, 2021; at December closing, the revaluation generated income for \$309,295 and an expense of \$403,756.

32. Contingencies

Legal contingencies: As of December 31, 2022, and 2021, the Bank faced administrative and judicial proceedings. Such proceedings claims were valued based on analysis and reports issued by the attorneys in charge and the following contingencies were determined.

Labor proceedings: As of December 31, 2022, and 2021 there were labor lawsuits in \$5,756 and \$9,336 respectively. No provisions were created for proceedings with a risk rating less than 50%

Civil proceedings: As of December 31, 2022 and 2021, the result of the claims valuation of the civil lawsuits amounted to \$13,148 and \$128,448, respectively. There are proceedings with risk rating less than 50% in \$337,419 and \$118,952, respectively, for which no provision have been created,

Administrative and other proceedings: The claims in tax administrative and judicial proceedings filed by national tax authorities, in some cases, establish sanctions in which the Bank would incur pursuant to its activities exercise as an entity collecting National and Territorial taxes, and in others determine higher taxes pursuant to its taxpayer status, As of December 31, 2022, and 2021 the amount of the different claims amounted to \$45 and \$69, respectively, These proceedings rating risk is 100%, therefore they are fully provisioned,

As of December 31, 2022, the subsidiary Fiduciaria Colpatría S.A. has eighteen processes that do not represent a contingency value. These processes have a loss probability of less than 50%, and therefore do not require any type of provision.

As of December 31, 2022, there are no contingencies or actions brought against Scotia Securities (Colombia) S.A. Sociedad Comisionista de Bolsa.

33. Lending/Borrowing Obligations

In the development of its normal operations, the Bank grants guarantees to its clients whereby it irrevocably commits itself to pay third parties in the case the clients fail to comply with their obligations to said third parties, with the same financial assets credit risk by loan portfolio, The guarantees and letters of credit granting are subject to the same loan disbursement approval policies in terms of clients' credit quality and the guarantees considered appropriate to the circumstances are obtained,

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The following is the breakdown of the loan commitments in unused lines of credit:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Guarantees	\$ 2,843,949	3,032,109
Unused letters of credit	18,106	17,499
Overdraft limits	212,123	151,246
Unused credit card limit	13,226,205	12,964,145
Opening of credit	2,095,652	2,287,159
Approved credits not disbursed	2,379,009	2,732,342
	<u>\$ 20,775,044</u>	<u>21,184,500</u>

The following is the breakdown of the commitments by type of currency:

Currency	<u>December 31, 2022</u>	<u>December 31, 2021</u>
COP	\$ 19,800,316	20,194,150
USD	960,675	978,724
EUR	14,053	11,626
	<u>\$ 20,775,044</u>	<u>21,184,500</u>

34. **Related parties**

The existence of relationships with related parties such as shareholders, members of the Board of Directors and Bank Directors, subordinate entities and parent company entities, are clear examples of persons or entities that influence or may have an effect on the Bank's income or financial situation. It was also considered that the aforementioned parties are able to make transactions that other parties, that lack a relationship, would not be able to, and therefore, the assets and liabilities balances are recorded as a result of the balances reconciliation, as well as the income and expenses accrued at each period that correspond to operations with related parties.

Shareholders: Shareholders that individually hold more than 10% of the Bank's share capital and those shareholders whose individual stake is lower than the foregoing percentage, but in respect of which there are operations exceeding 5% of the technical equity.

Key management personnel: Personnel with authority and responsibility to plan, direct and control the Bank's activities directly or indirectly, including any Bank's director or administrator, as well as Legal Representatives, Members of the Board of Directors, and the President and the Vice Presidents,

Subordinated Entities: Entities over which the Bank has control are: Fiduciaria Colpatria S.A., Scotia Securities (Colombia) S.A., Comisionista de Bolsa, Crédito Fácil Codensa S.A.; Compañía de Financiamiento and Gestiones y Cobranzas S.A. Affiliate that was authorized in AGA to distribute the remaining amounts, as of November 30, 2022.

Other engaged not subordinated entities:

Transactions with related parties: The Bank may enter into transactions, agreements or contracts with related parties, with the understanding that any of said operations shall be carried out at fair values, in accordance with market conditions and rates,

Amongst the Bank and its related parties none of the following instances occurred during the periods ended December 31, 2022 and 2021:

- Loans implying an obligation not included in the mutual contract scope for the borrower,

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- Loans with interest rates different from those normally paid or charged to third parties under similar terms, risk, etc,
- Operations with characteristics different from those operations carried out with third parties.

Below appear the balances of assets and liabilities with related parties:

	December 31, 2022		
	The Bank Nova Scotia	Mercantil Colpatría	Other Grupo Colpatría and BNS entities (1)
Assets and liabilities			
Correspondents	\$ 2,492	-	-
Forward transactions	683,120	-	27
Loans receivable	-	18	22,451
Receivables	774	91	12,613
Total assets	\$ 686,386	109	35,091
Liabilities			
Deposits and short-term liabilities	-	8,090	407,393
Credit facilities (2)	-	-	2.853,917
Interest on rate – bonds	-	5,269	29,754
Forward transactions	528,721	-	-
Other payables	11,169	-	2,691
Bonds	-	267,603	661,097
Other liabilities	-	-	-
Total liabilities	\$ 539,890	280,962	3,954,852
	December 31, 2021		
	The Bank Nova Scotia	Mercantil Colpatría	Other Grupo Colpatría and BNS entities
Assets and liabilities			
Correspondents	\$ 5,350	-	-
Forward transactions	355,669	1,348	-
Loans receivable	-	39	6,256
Receivables	7,245	-	5,700
Total assets	\$ 368,264	1,387	11,956
Deposits and short-term liabilities	-	6,024	178,656
Credit facilities (2)	-	-	1,367,019
Interest on rate – bonds	-	375	856
Forward transactions	411,253	-	-
Other payables	11,965	-	-
Bonds	-	267,603	426,097
Other liabilities	-	-	1,457
Total liabilities	\$ 423,218	274,002	1,974,085

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	December 31, 2022		
	The Bank Nova Scotia	Mercantil Colpatría	Other Grupo Colpatría and BNS entities
Income and Expenses			
Forward	\$ 1,958,972	-	1,981
Other income	34,639	-	76
Interest and commission	-	1	209,949
Total income	\$ 1,993,611	1	212,006
Interest and commission	\$ 14,558	27,140	130,959
Forward	2,127,361	-	-
Other expenses	42,228	-	37,973
Total expenses	\$ 2,184,147	27,140	168,932

	December 31, 2021		
	The Bank Nova Scotia	Mercantil Colpatría	Other Grupo Colpatría and BNS entities
Income and expenses			
Forward	\$ 1,188,707	1,348	-
Other income	13,102	-	100
Interest and commission	-	1	123,554
Total income	\$ 1,201,809	1,349	123,654
Interest and commission	\$ -	70,768	74,474
Forward	1,334,790	-	-
Other expenses	35,335	-	45,969
Total expenses	\$ 1,370,125	70,768	120,443

- (1) The other Group Companies are, namely Acciones y Valores Colpatría S.A., Acciones y Valores S.A., Nuevo Milenio S.A., AXA Colpatría Capitalizadora S.A., AXA Colpatría Seguros de Vida S.A., AXA Colpatría Seguros S.A., Colpatría Medicina Prepagada S.A., Compañía de Inversiones Colpatría S.A., Constructora Colpatría S.A., Constructora San Isidro S.A., GSG Gestiones y Servicios Globales S.A., Multiacciones S.A.S., Olimpia Management S.A. Salud Colpatría S.A., Scotiabank Caribbean, Scotiabank Chile, Scotiabank Costa Rica, Scotiabank El Salvador, Scotiabank Mexico. Scotiabank Panama, Scotiabank Perú, Scotiabank Puerto Rico and Scotiabank República Dominicana,
- (2) Corresponds to financing of foreign currency and working capital operations in USD\$ 593,305,230 and USD\$ 343,372,117 as of December 31, 2022 and 2021 these transactions are negotiated at market rates,

The average rate of operations in effect as of December 31, 2022 and 2021 is 0.51% and 0.59%, with final maturing as of August 31, 2007 and March 25, 2026, respectively,

Economic associates: Operations among related parties are all those operations among members of the Board of Directors, legal representatives and key management personnel:

Some of the key personnel of the Bank's management are also members of the key management personnel of subordinate entities,

The compensation of key management personnel includes wedges and short-term benefits such as bonuses and vacations,

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The employee benefits of key management personnel are as follows:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Wages	\$ 12,627	13,445
Bonuses	13,972	13,638
Other benefits	57	13
	<u>\$ 26,656</u>	<u>27,096</u>

35. Law on conglomerates

Law 1870/2017 regulates the new framework for Financial Conglomerates in Colombia and creates new instruments for supervision, understanding and consolidation thereof,

On February 7, 2019 by resolution of the Financial Superintendence of Colombia (SFC), Scotiabank Colpatria SA was identified as part of a Financial Conglomerate in Colombia and Bank of Nova Scotia (BNS) as the Financial Holding of that conglomerate,

Now, since BNS is domiciled and incorporated abroad in accordance with the provisions of article 7 of Law 1870, on September 24, 2019, by means of Resolution 1257 of Colombia's Financial Superintendency, the supervision carried out in Colombia by Colombia's Financial Superintendency and that carried out by the OSFI (Office of the Superintendent of Financial Institutions) in Canada, were subject to the homologation of equivalent practices, excluding Scotiabank from the application of the provisions set forth in Title I of Act 1870.

36. Approval of financial statements

The consolidated financial statements and accompanying notes were authorized by the Board of Directors and the Statutory Representative for issuance in accordance with Minutes No. 712 of February 24, 2023, to be presented to the General Shareholders' Meeting for its approval or modification.

37. Subsequent events

No subsequent events occurred in Scotiabank Colpatria S.A. between December 31, 2022 and the date of the statutory auditor's report, that have an impact on these consolidated financial statements.

This is a true and official translation N° 600/2023 of a document issued in Spanish. Translation carried out by Jeannette Insignares M., official and sworn-in translator and interpreter in English-Spanish and Spanish-English pursuant to Resolution 133 of 1992 delivered by the Ministry of Justice. Given in Bogotá, July 27, 2023.

Jeannette Insignares Melo
Traductora e intérprete oficial juramentada
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Resolución 133/1992 de Minjusticia

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