

SCOTIABANK DE COSTA RICA, S.A.  
(A wholly owned subsidiary of Grupo BNS de Costa Rica, S.A.)

Financial Information Required by the  
Superintendency General of Financial Entities

Financial Statements

As of December 31, 2020

*(With Independent Auditors' Report Thereon)*

(Translation into English of the original  
Independent Auditors' Report issued in Spanish)



**KPMG, S. A.**  
KPMG Building  
San Rafael de Escazú  
Costa Rica  
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## Independent Auditors' Report

To the Board of Directors and Shareholders of  
Scotiabank de Costa Rica, S.A.

### *Opinion*

We have audited the financial statements of Scotiabank de Costa Rica, S.A. (the Bank), which comprise the statement of financial position as of December 31, 2020, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2020, and of its financial performance and its cash flows for the year then ended in accordance with the accounting regulations issued by the National Financial System Oversight Board (CONASSIF) and the Superintendency General of Financial Entities (SUGEF).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (the IESBA Code), along with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Costa Rica, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of Matter – Basis of Accounting*

We draw your attention to note 1.b to the financial statements, which describes the basis of accounting. The financial statements have been prepared in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF. As a result, the financial statements may not be suitable for another purpose. Our opinion has not been modified in this regard.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



The key audit matter

How the matter was addressed in our audit

*Compliance with the regulations for the determination of the allowance for loan losses*

We have established compliance with SUGEF Directive 1-05 *Regulations for Borrower Classification*, which establishes the guidelines to determine the allowance for loan losses, as a key audit matter due to its importance as a result of the combination of elements set forth in the regulations for such a determination (see Note 27).

According to this regulation, the allowance for loan losses is determined through the application of pre-established percentages for each borrower according to the assigned risk rating, which considers arrears, creditworthiness, and historical payment behavior. The elements to consider as basis of the calculation for the creation of the allowance are the loan balance for each borrower, current interest, and contingent operations.

The allowance percentage is applied to the covered balance and to the net balance not secured by collaterals that can be used to mitigate credit risk (uncovered balance), according to the mitigation percentages established in the aforementioned regulation.

Our audit procedures in this area included:

- assessing the design and operating efficiency of IT controls on the information systems used by management to calculate arrears in the loan portfolio; performing detailed testing of a sample to confirm the days of arrears used in the calculation;
- testing the transfer of data between the interfaces of the loan information systems and the systems used by the Bank to determine the borrower classification and to calculate the allowance for loan losses;
- recalculating the minimum allowance for loan losses on direct and stand-by credits measured by the Bank's management, based on the information furnished by management; testing the integrity of data for this information.
- performing detailed testing of a sample of borrowers, to confirm whether management complied with the analysis of creditworthiness required by the regulation, as well as the assessment of the collaterals that can be used to mitigate credit risk. This procedure included an assessment of the work performed by external experts on the valuation of collaterals;
- comparing the level of historical payment behavior used by management with the information provided by SUGEF's Credit Information Center.



### The key audit matter

#### *Lawsuits in process due to amendments to income tax returns*

As indicated in note 31, the Bank was subject to a review by the Tax Authorities for fiscal years 2010, 2011, 2012, and 2013. As a result, notices of deficiency and observations were issued in relation to the filed income tax returns. This was considered a key audit matter because the recognition and measurement of provisions, disclosure of contingent liabilities related to these lawsuits, and analysis of the different concepts of the notices of deficiency and observations requires significant judgments and estimates by management and its tax advisors, due to the uncertainty of the tax treatment of the subject matter in dispute, which shall be determined until they are resolved by the pertinent tax and judicial authorities.

Since the determination of the tax treatment depends on future resolutions by the tax and judicial authorities, the estimate of the provisions is subject to inherent uncertainty. Consequently, the analysis to determine a reasonable range for those provisions is performed within that context of uncertainty.

*Responsibilities of Management and Those Charged with Governance for the Financial Statements*  
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting regulations issued by CONASSIF and SUGEF, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Our audit procedures in this area included:

- involving our tax specialists to review management's analysis, including judgments, estimates, and conclusions reached, for each of the concepts included in the notices of deficiency and observations, as well as the amount of the provisions recognized by the Bank and disclosed in the financial statements;
- obtaining and evaluating the responses to the confirmations received from the Bank's tax advisor's regarding the status of the legal proceedings initiated against the aforementioned notices of deficiency and factors considered to determine the probability of a favorable outcome for the Bank.



Those charged with governance are responsible for overseeing the Bank's financial reporting process.

*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

February 26, 2021

San José, Costa Rica  
Eric Alfaro Vargas  
Member No. 1547  
Policy No. 0116 FIG 7  
Expires 09/30/2021

€1,000 tax stamp paid pursuant to Law No. 6663  
and affixed to the original document



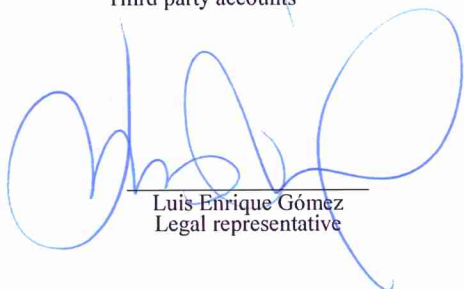
**SCOTIABANK DE COSTA RICA, S.A.**  
**(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)**  
**STATEMENT OF FINANCIAL POSITION**  
**As of December 31, 2020**  
(In colones)

	<u>Note</u>	<u>2020</u>
<b><u>ASSETS</u></b>		
<b>Cash and due from banks</b>	<b>4</b>	<b>329,347,576,040</b>
Cash		42,456,566,215
Central Bank of Costa Rica		264,890,658,476
Local financial entities		4,095,072,680
Foreign financial entities		16,737,106,262
Notes payable on demand		1,123,596,988
Restricted cash and due from banks		44,575,419
<b>Investments in financial instruments</b>	<b>5</b>	<b>161,640,046,977</b>
At fair value through profit or loss		15,739,833,359
At fair value through other comprehensive income		69,372,839,203
At amortized cost		75,343,416,072
Derivative financial instruments		13,396,586
Accrued interest receivable		1,204,148,487
(Allowance for impairment of investments in financial instruments)		(33,586,730)
<b>Loan portfolio</b>	<b>6</b>	<b>1,530,621,163,981</b>
Current		1,415,990,335,340
Past due		124,531,377,885
In legal collection		22,448,377,384
(Deferred income on loan portfolio)		(6,979,679,514)
Accrued interest receivable		45,107,995,007
(Allowance for loan losses)	<b>6-b</b>	<b>(70,477,242,121)</b>
<b>Accounts and fees and commissions receivable</b>	<b>7</b>	<b>11,517,438,100</b>
Fees and commissions receivable		108,526,305
Accounts receivable for related party transactions	<b>3</b>	1,713,340,297
Deferred tax and income tax receivable	<b>13-a</b>	9,493,291,620
Other accounts receivable		630,105,127
(Allowance for impairment of accounts and fees and commissions receivable)	<b>7</b>	(427,825,249)
<b>Foreclosed assets</b>	<b>8</b>	<b>5,539,147,209</b>
Assets and securities acquired in lieu of payment		19,255,362,019
(Allowance for impairment of foreclosed assets and per legal requirements)	<b>8</b>	<b>(13,716,214,810)</b>
<b>Investments in other companies, net</b>		<b>557,006</b>
<b>Property, furniture and equipment, net</b>	<b>9</b>	<b>38,439,915,527</b>
<b>Other assets</b>	<b>10</b>	<b>17,053,124,418</b>
Deferred charges		1,798,028,429
Intangible assets, net		3,189,302,545
Other assets		12,065,793,444
<b>TOTAL ASSETS</b>		<b><u>2,094,158,969,258</u></b>

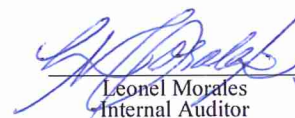
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**SCOTIABANK DE COSTA RICA, S.A.**  
**(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)**  
**STATEMENT OF FINANCIAL POSITION**  
**As of December 31, 2020**  
(In colones)

	<u>Note</u>	<u>2020</u>
<b><u>LIABILITIES AND EQUITY</u></b>		
<b><u>LIABILITIES</u></b>		
<b>Obligations with the public</b>	<b>11</b>	<b>1,451,343,457,946</b>
Demand		447,221,905,832
Term		995,972,352,131
Finance charges payable		8,149,199,983
<b>Obligations with entities</b>	<b>12</b>	<b>341,692,714,604</b>
Demand		25,600,026,674
Term		314,999,670,862
Other obligations with entities		260,781,472
Finance charges payable		832,235,596
<b>Accounts payable and provisions</b>	<b>13</b>	<b>32,074,291,484</b>
Deferred tax	13-a	1,106,560,613
Provisions	13-b	4,086,796,161
Other accounts payable		26,880,934,710
<b>Other liabilities</b>	<b>14</b>	<b>6,386,437,967</b>
Deferred income		12,588,842
Other liabilities		6,373,849,125
<b>TOTAL LIABILITIES</b>		<b>1,831,496,902,001</b>
<b><u>EQUITY</u></b>		
<b>Share capital</b>		<b>226,449,722,072</b>
Paid-in capital	15-a	226,449,722,072
<b>Non-capitalized capital contributions</b>		<b>14,958,141</b>
<b>Equity adjustments – Other comprehensive income</b>		<b>5,154,907,436</b>
<b>Reserves</b>	15-b	<b>19,665,886,924</b>
<b>Prior period retained earnings</b>	15-c	<b>8,593,708,015</b>
<b>Income for the year</b>		<b>2,782,884,669</b>
<b>TOTAL EQUITY</b>		<b>262,662,067,257</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,094,158,969,258</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>	<b>17</b>	<b>456,855,391,056</b>
<b>TRUST ASSETS</b>	<b>18</b>	<b>1,762,102,009,983</b>
<b>TRUST LIABILITIES</b>		<b>481,718,846,497</b>
<b>TRUST EQUITY</b>		<b>1,271,458,015,656</b>
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	<b>20</b>	<b>9,811,067,618,004</b>
Own accounts		9,706,442,341,865
Third party accounts		104,625,276,139

  
Luis Enrique Gómez  
Legal representative

  
David Morales  
General Accountant

  
Leonel Morales  
Internal Auditor

The accompanying notes are an integral part of these financial statements



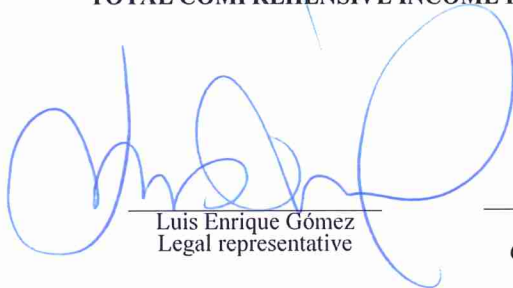
**SCOTIABANK DE COSTA RICA, S.A.**  
**(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended December 31, 2020**  
(In colones)

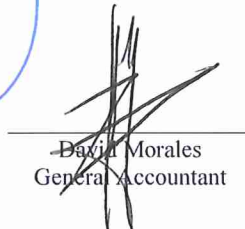
	<b>Note</b>	<b>2020</b>
<b>Finance income</b>		
Cash and due from banks		81
Investments in financial instruments		8,177,619,550
Loan portfolio	21	162,746,596,616
Gain on foreign exchange differences, net	23	1,150,022,998
Gain on financial instruments at fair value through other comprehensive income	5	2,534,743,263
Gain on derivative financial instruments		290,144,488
Other finance income		1,606,305,993
<b>Total finance income</b>		<b>176,505,432,989</b>
<b>Finance costs</b>		
Obligations with the public	22-a	56,736,282,856
Obligations with financial entities	22-b	9,849,640,974
Loss on financial instruments at fair value through other comprehensive income	5	474,247,144
Other finance costs		1,616,445,103
<b>Total finance costs</b>		<b>68,676,616,077</b>
Allowance for impairment of assets		51,053,031,001
Recovery of assets and decrease in allowances and provisions		19,543,820,598
<b>GROSS FINANCE INCOME</b>		<b>76,319,606,509</b>
<b>Other operating income</b>		
Service fees and commissions	24	32,493,188,312
Foreign currency exchange and arbitrage		5,774,706,831
Other income with related parties	3	10,720,697,960
Other operating income		7,779,453,410
<b>Total operating income</b>		<b>56,768,046,513</b>
<b>Other operating expenses</b>		
Service fees and commissions		19,494,727,749
Foreclosed assets		6,610,274,116
Provisions		5,333,200,662
Foreign currency exchange and arbitrage		1,078,678
Other expenses with related parties	3	10,361,288,314
Other operating expenses		8,430,774,189
<b>Total other operating expenses</b>		<b>50,231,343,708</b>
<b>GROSS OPERATING INCOME</b>		<b>82,856,309,314</b>
<b>Administrative expenses</b>		
Personnel expenses	25	36,522,226,341
Other administrative expenses	26	39,930,468,995
<b>Total administrative expenses</b>		<b>76,452,695,336</b>
<b>NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS</b>		<b>6,403,613,978</b>
Income tax	13-a	531,230,909
Deferred tax	13-a	3,227,935,893
Deferred tax income	13-a	768,334,285
Statutory allocations		320,338,622
<b>INCOME FOR THE YEAR</b>		<b>3,092,442,839</b>


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**SCOTIABANK DE COSTA RICA, S.A.**  
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**STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended December 31, 2020**  
(In colones)

	<b>Note</b>	<b>2020</b>
<b>INCOME FOR THE YEAR</b>		<b>3,092,442,839</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		
Deferred tax on surplus from revaluation of property		(581,678,373)
Unrealized loss on valuation of investments at fair value through other comprehensive income		(705,668,736)
Deferred tax on valuation of investments at fair value through other comprehensive income		211,700,621
Net gain on valuation of investments reclassified to profit or loss		(2,060,496,119)
Deferred tax on valuation of investments at fair value through other comprehensive income reclassified to profit or loss		618,148,836
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		<b>(2,517,993,771)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>574,449,068</b>

  
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Luis Enrique Gómez  
Legal representative

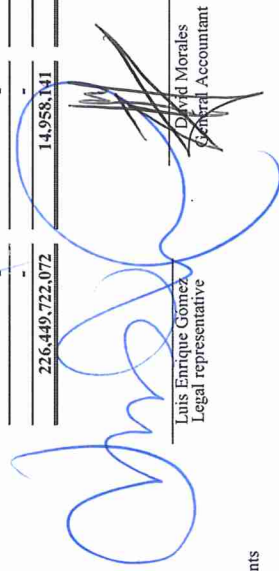
  
\_\_\_\_\_  
Daxin Morales  
General Accountant

  
\_\_\_\_\_  
Leonel Morales  
Internal Auditor

The accompanying notes are an integral part of these financial statements

**SCOTIABANK DE COSTA RICA, S.A.**  
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**STATEMENT OF CHANGES IN NET EQUITY**  
For the year ended December 31, 2020  
(In colones)

Notes	Share capital	Non-capitalized capital contributions	Equity adjustments - other comprehensive income	Reserves	Prior period retained earnings	Total
Balance at December 31, 2019	226,449,722.072	14,958,141	6,537,637,549	19,356,328,754	9,740,043,946	262,098,690,462
Changes in accounting policies	-	-	1,135,263,658	-	(1,146,333,931)	(11,072,273)
Balance at January 1, 2020	226,449,722.072	14,958,141	7,672,901,207	19,356,328,754	8,593,708,015	262,087,618,189
Transactions with shareholders recognized directly in equity	-	-	-	-	-	-
Appropriation to legal reserve	-	-	-	309,558,170	(309,558,170)	-
<b>Total transactions with shareholders recognized directly in equity</b>	-	-	-	309,558,170	(309,558,170)	-
<b>Other comprehensive income for the year:</b>	-	-	-	-	3,092,442,839	3,092,442,839
Income for the year	-	-	-	-	-	(581,678,373)
Deferred tax on surplus from revaluation of property	-	-	(581,678,373)	-	-	-
Unrealized loss on valuation of investments at fair value through other comprehensive income	-	-	(705,668,736)	-	-	(705,668,736)
Deferred tax on valuation of investments at fair value through other comprehensive income	-	-	-	-	-	-
Net gain on valuation of investments reclassified to profit or loss	-	-	211,700,621	-	-	211,700,621
Deferred tax on valuation of investments at fair value through other comprehensive income reclassified to profit or loss	-	-	(2,060,496,119)	-	-	(2,060,496,119)
<b>Total comprehensive income for the year</b>	-	-	618,148,836	-	-	618,148,836
Balance at December 31, 2020	226,449,722.072	14,958,141	5,154,907,436	19,665,886,974	11,376,597,684	262,662,067,257

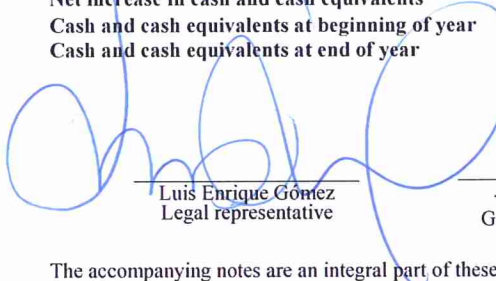
  
Luis Enrique Gómez  
Legal representative

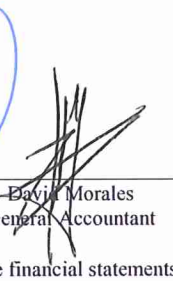
  
Leonel Morales  
Internal Auditor

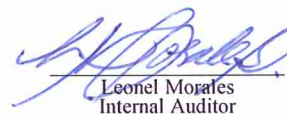
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**SCOTIABANK DE COSTA RICA, S.A.**  
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**STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2020**  
(In colones)

	<u>Note</u>	<u>2020</u>
<b>Cash flows from operating activities</b>		
Income for the year		3,092,442,839
<b>Items not requiring cash</b>		
Unrealized losses on foreign exchange differences and DU, net		20,060,827,545
Allowance for loan losses and stand-by credits		53,126,691,957
Income due to decrease in allowance for foreclosed assets		(676,856,330)
Severance provision		1,000,378,123
Net expense for allowance for impairment of investments		715,843,810
Net expense on other allowances		5,634,706,011
Expense for other provisions		1,492,401,725
Depreciation and amortization		4,016,838,806
Deferred tax income		(768,334,285)
Finance income		(173,458,959,429)
Disposal of furniture and equipment	9	863,236,739
Finance costs		66,585,923,832
Income tax expense		531,230,909
		<b>(17,783,627,748)</b>
<b>Net (increase) decrease in assets</b>		
Loans and cash advances		78,738,467,443
Accounts and fees and commissions receivable		5,919,435,419
Right-of-use assets		(21,782,239,441)
Available-for-sale assets		2,522,625,257
<b>Net increase (decrease) in liabilities</b>		
Demand and term obligations		26,774,048,610
Other accounts payable and provisions		(5,606,339,138)
Other liabilities		(3,130,531,509)
Interest collected		150,622,023,181
Interest paid		(69,211,634,429)
Taxes paid		(2,341,150,151)
<b>Net cash from operating activities</b>		<b>144,721,077,494</b>
<b>Cash flows from investing activities</b>		
Increase in financial instruments		(6,723,929,062,174)
Decrease in financial instruments		6,745,817,288,175
Acquisition of property and equipment	9	(1,808,170,558)
Other assets		(4,254,086,722)
<b>Net cash from investing activities</b>		<b>15,825,968,721</b>
<b>Cash flows from financing activities</b>		
New financial obligations		127,451,937,521
Payment of obligations		(253,860,656,979)
<b>Net cash used in financing activities</b>		<b>(126,408,719,458)</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents held</b>		<b>21,210,850,544</b>
<b>Net increase in cash and cash equivalents</b>		<b>12,927,476,213</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>366,756,015,663</b>
<b>Cash and cash equivalents at end of year</b>	4	<b>400,894,342,420</b>

  
Luis Enrique Gómez  
Legal representative

  
David Morales  
General Accountant

  
Leonel Morales  
Internal Auditor

The accompanying notes are an integral part of these financial statements

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020

1. Summary of operations and significant accounting policies

(a) Reporting entity

Scotiabank de Costa Rica, S.A. (the Bank) was organized as a corporation in October 1998 in the Republic of Costa Rica. The address of the Bank's registered office is Sabana Norte, Avenida de las Américas, San José, Costa Rica.

The Bank is a wholly owned subsidiary of Grupo BNS de Costa Rica, S.A., which in turn is owned by Corporación Mercaban de Costa Rica, S.A. (13.120054% ownership interest) and by BNS Internacional, S.A. (an entity domiciled in Panama, 86.879917% ownership interest), which in turn are wholly owned by Scotia International Limited. The latter is wholly owned by The Bank of Nova Scotia.

As an institution dedicated to financial intermediation activities in the Costa Rican market, the Bank is regulated by the Internal Regulations of the National Banking System (IRNBS), the Internal Regulations of the Central Bank of Costa Rica and the rules and regulations established by the National Financial System Oversight Board (CONASSIF), the board of directors of the Central Bank of Costa Rica (BCCR) and the Superintendency General of Financial Entities (SUGEF). The Bank's main activities are granting loans and deposit-taking from the public through investment certificates and savings and checking accounts. The Bank also buys and sells foreign currency, makes SWIFT transfers, leases safe deposit boxes and performs other banking operations.

As of December 31, 2020, the Bank has 1,624 employees, operates 28 branches and has a network of 193 ATMs. The Bank's customers, regulating entities and the general public can access relevant information about the Bank and the services it offers at its website [www.scotiabankcr.com](http://www.scotiabankcr.com).

(b) Basis of preparation

*i. Statement of compliance*

The financial statements have been prepared in accordance with accounting regulations issued by CONASSIF and SUGEF

The financial statements were authorized for issue by the board of directors on February 25, 2021.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

On September 11, 2018, CONASSIF issued the Regulation on Financial Information (RFI), effective from January 1, 2020, except for that indicated in final provision I, which entered into effect on January 1, 2019. RFI seeks to regulate the application of International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards (IASB), considering prudential or regulatory accounting treatments, as well as the definition of a specific treatment or methodology when IFRS suggest two or more alternatives for application.

As indicated in Note 32-a, due to the modifications made to the chart of accounts of financial entities and the inclusion of several accounting policies, financial entities are not required to present their financial statements with comparative figures for the prior year.

*ii. Basis of measurement*

The financial statements have been prepared on a historical cost basis, except for the following:

- financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI), which are measured at fair value; and
- property is stated at revalued cost.

The methods used for fair value measurement are discussed in Note e (vi).

(c) Functional and presentation currency

These financial statements and notes thereto are presented in colones (¢), which is the currency of the Republic of Costa Rica, in accordance with CONASSIF and SUGEF regulations.

(d) Foreign currency

*i. Foreign currency transactions*

Monetary assets and liabilities denominated in foreign currency are translated into colones at the exchange rate at the date of the statement of financial position, except for transactions with a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the exchange rates at the dates of the transactions. Translation gains or losses are recognized in profit or loss.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

*ii. Monetary unit and foreign exchange regulations*

The parity of the colon with the US dollar is determined in a free exchange market under the supervision of BCCR through a managed float regime. As of December 31, 2020, the exchange rate was established at ¢610.53 and ¢617.30 to US\$1.00 for the purchase and sale of US dollars, respectively.

CONASSIF Minutes No. CNS-1545 dated November 28, 2019 set forth that from January 1, 2020, regulated entities must use the reference sell rate established by BCCR prevailing at the time of the transaction in order to record the translation from foreign currency into Costa Rican colones, the official currency.

*iii. Valuation method for assets and liabilities*

As of December 31, 2020, assets and liabilities denominated in US dollars, Canadian dollars and euro were valued at the sale rates of ¢617.30 to US\$1.00, ¢482.7182 to CAD\$1.00 and ¢759.6494 to €1, respectively, in accordance with regulations established by BCCR.

(e) Financial instruments

*i. Financial assets*

All regular-way purchases and sales of financial assets are recognized (and derecognized) based on the trade date, which is the date when the Bank commits to purchase or sell an asset. All assets are initially recognized on the trade date, which is the date when the Bank becomes a party to the contractual provisions of the instrument.

All recognized financial assets are subsequently measured at amortized cost or at fair value, based on the classification of the financial assets.

Classification of financial assets

The Bank classifies financial assets as measured at: amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL). This classification is based on the business model determined to manage the financial asset and its contractual cash flows, i.e. the nature and purpose of the acquisition of the financial asset.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A debt instrument is measured at fair value through other comprehensive income (FVOCI) if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

All other financial assets are classified as measured at fair value through profit or loss (FVTPL). As per SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), participations in open investment funds are recorded under this category.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This choice is made for each investment. All other financial assets are measured as at FVTPL.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Business model assessment

The Bank makes an assessment of the objective of the business model in which financial instruments are held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's key management personnel;
- the risks that affect the performance of the portfolios (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. Financial assets held for trading or managed whose performance is assessed on a fair value basis are measured at fair value through profit or loss (FVTPL), given that they are not maintained to collect contractual cash flows nor to obtain contractual cash flows and sell those financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

- Investments in equity instruments measured as available for sale under IAS 39 are generally measured at FVTPL under IFRS 9.

Impairment of financial assets

The Bank recognizes an allowance for expected credit losses (ECL) on investments in financial instruments measured at amortized cost or at fair value through other comprehensive income. The ECL amount is updated at each reporting date to reflect changes in credit risk since initial recognition of the corresponding financial instrument.

The allowance for loan losses and the allowance for accounts and commissions receivable booked by the Bank will be calculated based on the regulatory provisions of SUGEF Directive 1-05 *Regulations for Borrower Classification* and SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*. For the subsidiary, Scotialeasing de Costa Rica, S.A., a modified version is applied, in conformity with SUGEF Directive 1-05.

For investments in financial instruments, the Bank assesses the impairment of these financial assets using the ECL model. This model requires considerable judgement about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis.

The loss allowance is recognized at an amount equal to lifetime ECL, except for investments in financial instruments with a low credit risk, for which the recognized amount is 12-month ECL.

Measurement of ECL for investments in financial instruments

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive); and
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Definition of default

The Bank considers a financial instrument to be in default when:

- there is a decrease in the issuer's external rating;
- the contractual payments are not made when they are due or within the established grace period;
- there is a virtual certainty of suspension of payments;
- there is a probability of bankruptcy, or a bankruptcy filing or a similar action has been made;
- the financial asset is no longer traded in an active market due to the financial difficulties.

In assessing whether a borrower is impaired, the Bank considers indicators that are:

- qualitative and quantitative,
- based on data developed internally and obtained from external sources
- Inputs into the assessment of whether the financial assets are impaired and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

When determining whether the risk of default of a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The Bank identifies whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as of the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure.

The assessment of whether credit risk has increased significantly since initial recognition requires identifying the initial date of recognition of the instrument.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on the variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. The Bank uses these grades for purposes of identifying significant increases in credit risk. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades satisfactory and special mention is smaller than the difference between credit risk grades special mention and substandard.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of the PD

Credit risk grades are a primary input into the determination of the term structure of PD for structures. The Bank collects performance and default information about its credit risk exposures analyzed by region, by type of product, and others.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in PD and changes in key macroeconomic variables, as well as an in-depth analysis of other factors on the risk of losses.

Determining significant increases in credit risk

The Bank has established a general framework that incorporates quantitative and qualitative information to determine whether the credit risk of a financial asset has increased significantly since initial recognition.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The initial framework is aligned with the Bank's internal credit risk management process. The criteria to determine whether credit risk has increased significantly will vary by portfolio and will include limits based on defaults.

The Bank assesses whether the credit risk of a particular exposure has increased significantly since initial recognition if, based on the quantitative modeling of the Bank, the remaining lifetime of probability of ECL increased significantly since initial recognition. In determining the credit risk increase, the remaining lifetime ECL is adjusted due to changes in maturities.

In certain cases, using its expert judgment and relevant historical experience, the Bank can determine that the credit risk of an exposure has increased significantly, based on qualitative indicators which it considers indicative of this increase, the effect of which would not be fully reflected otherwise through a timely quantitative analysis.

Inputs for measurement of ECL

The key inputs into the measurement of ECL are usually the term structure of the following variables:

- probability of default (PD)
- loss given default (LGD)
- exposure at default (EAD).

These parameters derive from statistical models developed internally and other historical information. These models are adjusted to reflect projected information, as described below:

- PD estimates are made as of a certain date, calculated based on statistical models, and analyzed using rating tools adjusted to the different categories of counterparties and exposures. The statistical models analyze the data internally collected, which includes qualitative and quantitative factors. If a counterparty or exposure migrates between the different rating classifications, this will cause a change in the estimated PD. The PD is estimated considering the contractual maturity terms of exposures and estimated prepayment rates.
- LGD is the magnitude of the likely loss if there is default. The Bank estimates LGD parameters based on a history of recovery rates of claims against defaulted counterparties.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

- EAD measures the expected exposure in the event of default. The Bank derives EAD from the current exposure to the counterparty and the potential changes in the current amount allowed under the contract, including amortization and prepayments. The EAD of a financial asset is its carrying amount at the time of default.

Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. Based on the recommendations of the Bank's Credit Risk area, the support of expert economists and considering an array of current and forward-looking information, the Bank formulates a base case of the forecast of the relevant economic variables and a representative range of other possible forecasted scenarios. This process entails developing two or more additional economic scenarios considering the relative probabilities of each outcome.

External information includes economic data and projections published by governmental bodies and monetary authorities in the countries in which the Bank operates, supranational organizations such as the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund, and academic projections, and information from the private sector and rating agencies.

The base case represents the most-likely outcome, aligned with information used by the Bank for strategic and budgeting purposes. The other scenarios represent more optimistic or pessimistic outcomes. The Bank periodically carries out stress-testing to calibrate its determination of other representative scenarios.

ii. *Financial liabilities*

Financial liabilities are classified as measured at amortized cost, using the effective interest rate method, or at fair value through profit or loss.

Recognition, derecognition and measurement

Financial liabilities are recognized on the trade date, which is the date on which the Bank commits to purchase or sell the financial instrument.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Financial liabilities are initially recognized at fair value. For financial liabilities at FVOCI, transaction costs are recognized in the statement of comprehensive income when incurred; for liabilities at amortized cost they are recorded as part of the initial value of the instrument. Transaction costs are incremental costs incurred to acquire assets or sell financial liabilities. They include fees, commissions and other items paid to agents, brokers, advisors and intermediaries; rates set by regulating agencies and stock exchanges; taxes and other duties.

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at fair value through profit or loss.

*iii. Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

*iv. Presentation of the allowance for ECL in the statement of financial position*

Loss allowances for ECL are presented in the statement of financial position as follows:

- *financial assets measured at amortized cost:* as a deduction from the gross carrying amount of the assets;
- *debt instruments measured at fair value through other comprehensive income:* no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However the loss allowance is disclosed and is recognized in retained earnings.

*v. Derecognition*

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

*vi. Amortized cost measurement*

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

All non-trading financial assets and liabilities and originated loans and receivables are measured at amortized cost less impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and amortized against finance income or expense.

*vii. Fair value measurement*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs.

The determination of fair value for financial assets and liabilities for which there is no market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other variables affecting the specific instrument.

Valuation techniques include the net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. The Bank determines the valuation model that most adequately reflects the fair value of each class of financial instrument. Unlike market prices, fair values cannot be implicitly determined using professional judgment. Models used are revised periodically to update market factors and allow the Bank to determine the fair value of its financial instruments.

Management of the Bank considers such valuations necessary and appropriate to ensure that its instruments are accurately presented in the financial statements.

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

*viii. Gains and losses on subsequent measurement*

Gains and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity until the investment is considered impaired, at which time the loss is recognized in the statement of comprehensive income. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the statement of comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than two months that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

(g) Loan portfolio

The loan portfolio includes loans, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and generally provide funds to a borrower. Loans are initially measured at fair value plus origination costs.

Restructured loans are financial assets for which the Bank has changed the original term, interest rate, monthly payment or collateral as a result of borrower payment difficulties.

The loan portfolio is presented at the amount of outstanding principal. Interest on loans is calculated based on the outstanding principal and contractual interest rates and is accounted for as income on the accrual basis of accounting. The Bank follows the policy of suspending interest accruals on loans when principal or interest is more than 180 days past due.

Non-accrual loans are stated at their estimated recovery value by applying the policy for impairment.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(h) Securities purchased under reverse repurchase agreements

Reverse repurchase agreements are generally short-term financing transactions backed by securities in which the Bank purchases securities at a discounted market price and agrees to sell them to the debtor on a specific date in the future and at a stated price. The difference between the purchase and resale price is recognized as income by the effective interest method.

Market prices of the underlying securities are monitored. In the event of a permanent and material reduction in the value of a specific security, the Bank adjusts the amortized cost of the security against profit or loss.

(i) Derivative financial instruments

Derivative financial instruments are initially recognized at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The Bank does not hold derivative financial instruments for trading purposes.

Valuation gains or losses are recorded in the consolidated statement of comprehensive income. The Bank will exercise the option when the interest rate reaches the agreed limit.

(j) Deposits and debt instruments issued

Deposits and debt instruments issued are the Bank's sources of debt funding.

Deposits and debt instruments issued are initially measured at fair value plus any directly attributable transaction costs and subsequently measured at their amortized cost using the effective interest method.

(k) Foreclosed assets

Foreclosed assets include assets received as partial or total settlement of loans that are not recovered under the contractual repayment terms. Foreclosed assets are recorded at the lower of the following:

- the carrying amount, corresponding to the principal, current interest and late interest, insurance and administrative expenses derived from the loan or account receivable being settled.
- the market value on the date the asset was recognized.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The allowance for foreclosed assets must be established gradually by booking one-forty-eighth of the value of such assets each month until the allowance is equivalent to 100% of the asset's carrying amount. This allowance will be recorded as of the month when the asset was awarded or received in lieu of payment.

(1) Property and equipment

*i. Own assets*

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Significant improvements are capitalized, while minor repairs and maintenance that do not extend the useful life or improve the asset are directly expensed as incurred.

Property is subject to revaluation adjustments at least once every five years based on an appraisal made by an independent appraiser. The effect of this revaluation is recognized in equity.

When immovable property is revalued, the accumulated depreciation as of the revaluation date must be updated so that the net carrying amount is equivalent to its revalued amount.

*ii. Subsequent costs*

Costs incurred to replace a component of an item of property and equipment are capitalized and accounted for separately. Subsequent expenditure is only capitalized when it increases the future economic benefits. All other costs are recognized in the statement of comprehensive income when incurred.

*iii. Depreciation*

Depreciation and amortization are charged to profit or loss for the period using the straight-line method over the estimated useful lives of the assets, as follows:

Building	50 years
Vehicles	10 years
Furniture and equipment	10 years
Computer hardware	5 years
Leasehold improvements	10 years

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(m) Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. The contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*i. As a lessee*

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Bank recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvement made to branches or offices.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The Bank presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

*ii. As a lessor*

At inception or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

When the Bank acts as lessor of an asset, the sum of the current value of the amounts receivable from the lessee and the residual value guarantee, which is usually the exercise price of the purchase option at the end of the contract, is recorded as financing to third parties; therefore, it is included in the “loan portfolio” in the statement of financial position.

(n) Other assets

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Software is carried at cost and it is amortized on a straight-line basis over a term of three years.

(o) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive income for assets carried at cost and treated as a decrease arising from revaluation for assets recorded at their revalued amounts.

The recoverable amount of an asset is the greater of its net selling price and its value in use. The net selling price is equivalent to the value obtained in an arm’s length transaction. Value in use is the present value of future cash flows and disbursements expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

If, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the write-down, the write-down is adjusted through the statement of comprehensive income or statement of changes in equity, as appropriate.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(p) Accounts payable and other accounts payable

Accounts payable and other accounts payable are recognized at amortized cost.

(q) Provisions

A provision is recognized in the statement of financial position if, as a result of a past event, the Bank has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision made approximates settlement value; however, final amounts may vary. The estimated value of provisions is adjusted at the statement of financial position date, directly affecting the statement of comprehensive income.

(r) Legal reserve

Pursuant to Costa Rican legislation, the Bank appropriates semiannually 10% of its net earnings to a legal reserve, up to 20% of outstanding share capital.

(s) Revaluation surplus

Property is subject to revaluation adjustments at least once every five years based on an appraisal made by an independent appraiser authorized by the corresponding professional association.

Revaluation surplus included in equity may be transferred directly to retained earnings when the surplus is realized. The entire surplus is realized upon retirement or disposal of the assets. The transfer of revaluation surplus to retained earnings is not made through the statement of comprehensive income.

(t) Use of estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Material estimates that are particularly susceptible to significant changes are related to determination of the allowances for loan losses, determination of the fair value of financial instruments, determination of the useful lives of property and equipment and determination of provisions for credit card points and miles.

(u) Allowance for loan losses

SUGEF defines a loan operation as any operation formalized by a financial intermediary and related to any type of underlying instrument or document, whereby the Bank assumes a risk. Credit operations include loans, finance leases, factoring, guarantees, advances, checking account overdrafts, bank acceptances, accrued interest and open letters of credit.

The loan portfolio is valued in accordance with the provisions established in SUGEF Directive 1-05. The most relevant provisions of the directive are summarized in Note 27.

Increases in the allowance for loan losses resulting from application of SUGEF Directive 1-05 are included in the accounting records under prior approval from SUGEF, in conformity with Article 10 of IRNBS.

(v) Finance income and finance costs

Finance income and finance costs are recognized in the statement of comprehensive income as they accrue, taking into account the effective yield or interest rate. Finance income and finance costs include amortization of any premium or discount during the term of the instrument and until its maturity.

(w) Fee and commission income

Fee and commission income arises on services provided by the Bank and is recognized when the corresponding service is provided. When fees and commissions are an integral part of the return on the underlying operation, they are deferred over the term of the operation and amortized using the effective interest method.

(x) Operating lease payments

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(y) Income tax

i. *Current*

Current tax comprises the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustment to the tax payable in respect of previous years.

ii. *Deferred*

Deferred tax is recognized using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In accordance with International Accounting Standard No. 12 (IAS 12), temporary differences are identified as either taxable temporary differences (which result in future taxable amounts) or deductible temporary differences (which result in future deductible amounts). A deferred tax liability represents a taxable temporary difference, while a deferred tax asset represents a deductible temporary difference.

A deferred tax asset is recognized only to the extent that there is a reasonable probability that it will be realized. At the end of each reporting period, an assessment must be made whether future taxable profits will be available against which the deferred tax asset can be used; otherwise, it must be decreased to the expected recoverable amount.

Deferred tax assets and liabilities are valued using the tax rates expected to be applied in the period in which the liability is paid or the asset is realized, based on the rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(z) Basic earnings per share

Basic earnings per share is a measure of an entity's performance over the reporting period and is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during such period.

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(aa) Employee benefits

i. *Severance benefits*

Costa Rican legislation requires the payment of severance benefits to employees in the event of death, retirement or dismissal without just cause, equivalent to seven days' salary for employees with between three and six months of service, 14 days' salary for employees with between six months and one year of service and an amount prescribed by the *Employee Protection Law* for employees with more than one year of service, up to a maximum of eight years.

Pursuant to such law, all employers must contribute 3% of monthly employee salaries during the entire term of employment to the Supplemental Pension System. Contributions are collected through the Costa Rican Social Security Administration (CCSS) and are then transferred to pension fund operators selected by employees.

The Bank follows the policy of making monthly transfers to the Employees Association equivalent to 4% of salaries of member employees for management and custody, which are expensed in the period incurred. The aforementioned contributions are considered advance severance payments.

ii. *Short-term employee benefits*

*Statutory Christmas bonus*

Costa Rican legislation requires the payment of one-twelfth of an employee's monthly salary for each month of service. That payment is made to the employee in December, even in the event of dismissal. The Bank follows the policy of establishing a monthly accrual therefor.

*Vacation*

Costa Rican legislation entitles employees to a certain number of vacation days for every year of service. The Bank follows the policy of provisioning the payment of vacation days on an accrual basis. The Bank established a provision for payment of vacation benefits to its employees.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

*International Share Acquisition Program for Employees*

The Bank offers its employees the opportunity to participate in an International Share Acquisition Program for shares of The Bank of Nova Scotia. Employees who meet the requirements to receive this benefit and wish to participate must contribute up to 6% of their nominal wage, while the Bank contributes 50% of each employee's contribution. These amounts are transferred to Plan Management at the parent company and invested in the purchase of ordinary shares on the open market; consequently, the subsequent increase in the price of shares does not represent an expense for the Bank.

*Global Incentive Pay Program*

The Bank offers its employees an annual bonus in addition to the base salary, provided that the parent company reaches its strategic goals at a global level.

(bb) Trusts

Assets managed by the Bank as trustee are not considered part of the Bank's equity and, therefore, are not included in the financial statements. Fee and commission income derived from trust management is recognized on the accrual basis.

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

2. Restricted assets

As of December 31, restricted assets are as follows:

	<u>2020</u>
Cash and due from banks	
Minimum legal reserve	¢ 253,595,533,876
Drafts and transfers payable	<u>2,237,615,237</u>
	<u>255,833,149,113</u>
Investments	
Clearing house guarantee	1,283,479,481
Security deposits for public utility payment collection services	110,720,429
Other guarantees	<u>16,317,276</u>
	<u>1,410,517,186</u>
Loans	
Requirement for deposit-taking in demand accounts per Art. 59 of IRNBS (Law No. 1644)	<u>77,382,374,889</u>
Subtotal	<u>77,382,374,889</u>
Accrued interest receivable	
Committed investments	<u>9,687,179</u>
Subtotal	<u>9,687,179</u>
Other assets	
Security deposits	396,581,433
Legal requirements	<u>44,575,419</u>
Subtotal	<u>441,156,852</u>
Total	¢ <u><u>335,076,885,219</u></u>

Pursuant to Costa Rican banking legislation, the Bank maintains a minimum legal reserve in BCCR. That reserve is calculated as a percentage of third-party deposits (see Note 4).

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

3. Balances and transactions with related parties

As of December 31, balances and transactions with related parties are as follows:

	<u>2020</u>
Assets:	
Cash and due from banks	¢ 1,068,044,949
Investments (Note 5)	395,107,791
Loan portfolio	
Employees	1,435,030,001
Total loan portfolio	<u>1,435,030,001</u>
Accounts and accrued interest receivable (Note 7)	
Related parties	1,711,989,122
Employees	1,351,175
Total accounts and accrued interest receivable	<u>1,713,340,297</u>
Total assets	<u>¢ 4,611,523,038</u>
Liabilities:	
Obligations with the public	
Related parties (Note 12)	¢ 10,728,263,011
Employees	637,735,765
Other obligations – Related parties	881,176,305
Total obligations with the public	<u>12,247,175,081</u>
Other financial obligations (Note 12)	236,251,935,582
Interest on other financial obligations	208,339,565
Other accounts payable and provisions (Note 13)	3,655,807,612
Total liabilities	<u>¢ 252,363,257,840</u>
Expenses:	
Finance costs	¢ 3,888,281,401
Operating expenses	10,361,288,314
Total expenses	<u>¢ 14,249,569,715</u>
Income:	
Finance income	¢ 79,955
Operating income	10,720,697,960
Total income	<u>¢ 10,720,777,915</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020, compensation paid to key personnel amounts to ¢2,027,786,556.

Operating income and expenses with related parties correspond to accounts due from and due to related parties, both local and foreign, that operate in El Salvador, Mexico, Colombia, Peru, Chile, Dominican Republic and Canada.

Operating expenses correspond to the following services: corporate administrative and technical expenses (TSA), reconciliation of debit and credit card processing, collections and customer service, information technology and storage services, data management and processing in a Data Center Consolidation, among other.

Operating income corresponds to payments received for corporate services for the use of the banking platform, lease of physical space and administrative services. The services rendered to foreign related parties correspond mainly to IT services, regional risk management and other administrative services, as well as the reimbursement of third-party services for the integration project.

As of December 31, 2020, the following economic interest groups are related to the Bank in accordance with SUGEF Directive 4-04:

- Scotia Leasing Costa Rica, S.A.
- Scotia Safe, S.A. (formerly Scotia Valores, S.A.)
- Scotia Sociedad de Fondos de Inversión, S.A.
- Scotia Leasing Panamá, S.A.
- Scotia Leasing Honduras, S.A.
- Scotia Leasing Guatemala, S.A.
- Scotia Corredora de Seguros, S.A.
- Grupo BNS de Costa Rica, S.A.
- BNS Internacional, S.A.
- Corporación Mercabán de Costa Rica, S.A.

Additionally, The Bank of Nova Scotia (Toronto) and all its direct and indirect subsidiaries worldwide are considered related parties.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

4. Cash and due from banks

As of December 31, cash and due from banks is as follows:

	2020
Cash	¢ 42,456,566,215
Demand deposits in BCCR	264,890,658,476
Demand deposits in local financial entities	4,095,072,680
Demand deposits in foreign financial entities	16,737,106,262
Notes payable on demand	1,123,596,988
Restricted cash and due from banks	44,575,419
Total	¢ <u>329,347,576,040</u>

For purposes of the statement of cash flows, cash and due from banks and cash equivalents are as follows:

	2020
Cash and due from banks	¢ 329,347,576,040
Highly liquid investments	71,546,766,380
Total	¢ <u>400,894,342,420</u>

Pursuant to current banking legislation, the Bank must maintain a biweekly average minimum legal reserve in BCCR. The minimum legal reserve is calculated biweekly based on average daily balances of specific operations subject to this requirement. The corresponding amount is deposited and remains restricted in BCCR and must meet two conditions: 1) the average minimum legal reserve required at the end of a biweekly period must be covered by the biweekly average of end-of-day checking account deposits with a delay of two biweekly periods and 2) during the reserve control period, the end-of-day balance of deposits in BCCR must be greater than 97.5% of the minimum legal reserve required in the prior two biweekly periods. The required minimum legal reserve (corresponding to the average for the second biweekly period) is as follows:

	2020
Local currency	¢ 56,023,719,141
Foreign currency	197,571,814,735
Total minimum legal reserve	¢ <u>253,595,533,876</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020, highly liquid short-term investments include securities acquired under reverse repurchase agreements for a total of ¢22,000,000,000 and US\$26,208,292. Those securities bear interest at rates ranging between 0.01% and 1.50% per annum for investments in colones and between 0.01% and 3.00% per annum for investments in US dollars and are included in cash equivalents.

5. Investments in financial instruments

As of December 31, investments in financial instruments are classified as follows:

	<u>2020</u>
At fair value through profit or loss	¢ 15,739,833,359
At fair value through other comprehensive income	69,372,839,203
At amortized cost	75,343,416,072
Difference in position in derivative financial instruments	<u>13,396,586</u>
Subtotal	160,469,485,220
Accrued interest receivable	1,204,148,487
(Allowance for impairment)	<u>(33,586,730)</u>
Total	<u>¢ 161,640,046,977</u>

On January 1, 2020, the Bank adopted SUGEF Directive 30-18, *Regulation on Financial Information* (RFI), which modified the classification of investments in financial instruments in conformity with the guidelines of IFRS 9 *Financial Instruments*.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

a) Investments at fair value through profit or loss.

As of December 31, investments at fair value through profit or loss, by issuer, are as follows:

	<u>2020</u>
Open investment funds in US dollars managed by a local related party (Note 3)	¢ 395,107,791
Open investment funds in colones managed by a local entity	13,946,745,456
Open investment funds in US dollars managed by a local entity	<u>1,397,980,112</u>
Total	<u>¢ 15,739,833,359</u>

b) Investments at fair value through other comprehensive income

As of December 31, investments at fair value through other comprehensive income, by issuer, are as follows:

	<u>2020</u>
<u>Local issuers:</u>	
Costa Rican Government	¢ <u>69,372,839,203</u>
Total	<u>¢ 69,372,839,203</u>

During the year ended December 31, realized gains and losses on investments at fair value through other comprehensive income are as follows:

	<u>2020</u>
Realized gain on financial instruments at fair value through other comprehensive income	¢ 2,534,743,263
Realized loss on financial instruments at fair value through other comprehensive income	<u>(474,247,144)</u>
Net gain	<u>¢ 2,060,496,119</u>

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

c) Investments at amortized cost

As of December 31, investments at amortized cost are as follows:

	<u>2020</u>
<u>Local issuers:</u>	
Costa Rican Government	¢ 8,030,018,368
BCCR	30,148,360,000
Financial entities	127,037,704
Subtotal	<u>38,305,416,072</u>
<u>Foreign issuers:</u>	
Financial entities	<u>37,038,000,000</u>
Subtotal	<u>37,038,000,000</u>
Total	<u>¢ 75,343,416,072</u>

As of December 31, 2020, investments in financial instruments in the amount of ¢1,410,517,186 secure operations with several local institutions (see Note 2).

As of December 31, 2020, the Bank holds no investments that secure tri-party repurchase agreements. As of December 31, 2020, the Bank holds no investments to secure operations in the integrated liquidity market.

As of December 31, 2020, investments in financial instruments bear interest at rates ranging between 4.32% and 10.44% per annum, in colones and between 0.07% and 9.32% per annum in US dollars.

The Bank limits its exposure to credit risk by investing in liquid debt instruments and only with counterparties that have a credit rating equal to or greater than the sovereign risk rating for Costa Rica.

The Bank monitors changes in credit risk by reviewing the credit risk ratings published by external agencies. To determine whether the published risk ratings are up to date and whether there has been a significant increase in credit risk as of the reporting date that has not been reflected in the published ratings, the Bank reviews changes in returns of the securities along with the public information available regarding the issuers.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The probability of default (PD) parameter is based on default rate studies published by Standard and Poor's (S&P), which determine the specific PD for each credit rating. The loss given default (LGD) generally reflects a recovery rate of 52%, except when an instrument is impaired, in which case the loss estimate is based on the market price of the instrument and its effective interest rate.

The breakdown of the investments by risk rating is as follows:

	<u>Stage 1</u>	<u>2020</u>
<u>Investments at fair value through other comprehensive income</u>		
B-	¢ 69,372,839,203	69,372,839,203
	<u>¢ 69,372,839,203</u>	<u>69,372,839,203</u>
<u>Investments at amortized cost</u>		
AAA	¢ 10,144,275	10,144,275
AA+	116,893,429	116,893,429
A1	37,038,000,000	37,038,000,000
BB-	38,178,378,368	38,178,378,368
	<u>¢ 75,343,416,072</u>	<u>75,343,416,072</u>

As of December 31, activity in the allowance for ECL on financial instruments is as follows:

	<u>Stage 1</u>	<u>2020</u>
<u>Investments at fair value through other comprehensive income</u>		
Balance as of January 1	¢ 1,135,263,658	1,135,263,658
Allowance for new investments	385,043,438	385,043,438
Write offs	(671,804,975)	(671,804,975)
Remeasurement of allowance for impairment	(51,619,845)	(51,619,845)
Balance as of December 31	<u>¢ 796,882,276</u>	<u>796,882,276</u>
<u>Investments at amortized cost</u>		
Balance as of January 1	¢ 11,072,273	11,072,273
Allowance for new investments	33,586,730	33,586,730
Write-offs	(11,072,273)	(11,072,273)
Balance as of December 31	<u>¢ 33,586,730</u>	<u>33,586,730</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

6. Loan portfolio

a) Loan portfolio by origin

	<u>2020</u>
Loans originated by the Bank	¢ 1,073,271,664,953
Loans purchased	489,698,425,656
Subtotal	<u>1,562,970,090,609</u>
Accrued interest receivable	45,107,995,007
Deferred income from loan portfolio	(6,979,679,514)
Allowance for loan losses	<u>(70,477,242,121)</u>
Total	<u>¢ 1,530,621,163,981</u>

As of December 31, 2020, loans bear interest at rates ranging between 10.70% and 37.65% per annum in colones and between 9.05% and 30.30% per annum in US dollars.

As of December 31, 2020, the portfolio acquired in the purchase and merger of The Bank of Nova Scotia (Costa Rica), S.A. (July 2018) amounts to ¢77,362,998,200 and US\$594,805,820 and Banco Interfin, S.A. (October 2007) for ¢21,583,313,526 and US\$38,196,146.

b) Allowance for loan losses

The allowance for loan losses is based on a periodic evaluation of the probability of recovery of loan balances in conformity with SUGEF regulations. Management considers the allowance to be sufficient to absorb any future losses that could be incurred on recovery of the loan portfolio, based on SUGEF criteria.

The evaluation considers a number of factors, including current economic conditions, prior experience with the allowance, the portfolio structure, borrower liquidity, the quality of guarantees and SUGEF regulations.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, movement in the allowance for loan losses is as follows:

	<u>2020</u>
Opening balance	¢ 59,052,010,871
Allowance expense	49,527,851,054
Charged against allowance	(27,362,362,626)
Decrease in allowance	(13,910,515,724)
Translation effect of allowances in foreign currency	2,545,005,050
	¢ <u><u>69,851,988,625</u></u>

With the entrance into effect of SUGEF Directive 30-18 in January 2020, the allowance for stand-by credits was reclassified. It was previously presented under other liabilities in the financial statements. As of the modification, the allowance for stand-by credits is now classified within the items of the allowance for loan losses, under assets.

c) Allowance for stand-by credit losses

As of December 31, movement in the allowance for stand-by credit losses is as follows:

	<u>2020</u>
Opening balance	¢ 165,715,606
Allowance expense	473,174,497
Decrease in allowance	(24,500,000)
Translation effect for allowances in foreign currency	10,863,393
	¢ <u><u>625,253,496</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

7. Accounts and fees and commissions receivable

As of December 31, accounts and fees and commissions receivable are as follows:

	2020
Fees and commissions	¢ <u>108,526,305</u>
Related party transactions (Note 3)	<u>1,713,340,297</u>
Deferred tax	<u>9,493,291,620</u>
Other accounts receivable:	
Sundry credit card receivables	480,457,223
Other expenses receivable	114,340,184
Due from INS	6,185,121
ATH transactions	25,674,998
Taxes receivable	2,606,287
Other sundry accounts receivable	841,314
	<u>630,105,127</u>
Subtotal	11,945,263,349
Allowance for doubtful accounts and fees and commissions receivable	(427,825,249)
Total	¢ <u><u>11,517,438,100</u></u>

As of December 31, movement in the allowance for doubtful accounts and fees and commissions receivable is as follows:

	2020
Opening balance	¢ <u>297,719,683</u>
Allowance expense	336,161,640
Charged against allowance	(44,986,304)
Decrease in allowance	(181,462,300)
Translation effect of allowances in foreign currency	20,392,530
Closing balance	¢ <u><u>427,825,249</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

8. Foreclosed assets

As of December 31, foreclosed assets are presented net of the allowance for impairment of foreclosed assets and per legal requirements, as follows:

	<u>2020</u>
Assets acquired in lieu of payment:	
Real property	¢ 18,361,081,854
Other	894,280,165
Subtotal	<u>19,255,362,019</u>
Allowance for impairment of foreclosed assets and per legal requirements	<u>(13,716,214,810)</u>
	<u>¢ 5,539,147,209</u>

As of December 31, movement in the allowance for impairment of foreclosed assets and per legal requirements is as follows:

	<u>2020</u>
Opening balance	¢ 9,094,526,769
Increase in allowance	5,298,544,371
Charged against allowance for sale or disposal of foreclosed assets	<u>(676,856,330)</u>
	<u>¢ 13,716,214,810</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

9. Property, furniture and equipment, net

Property, furniture and equipment is as follows:

	Land	Revalued land	Buildings	Revalued buildings	Furniture and equipment	Computer hardware	Vehicles	Right-of-use assets on furniture, equipment and other	Right-of-use assets on buildings	Total
<u>Cost</u>										
Balance as of December 31, 2019	1,476,944,468	3,957,756,660	4,467,654,499	1,059,239,935	9,453,488,304	17,480,247,481	509,936,767	-	-	38,405,268,114
Effect of implementation of SUGEF Directive 30-18 (*)	-	-	-	-	-	-	-	114,425,106	23,988,804,161	24,103,229,267
Balance as of January 1, 2020	1,476,944,468	3,957,756,660	4,467,654,499	1,059,239,935	9,453,488,304	17,480,247,481	509,936,767	114,425,106	23,988,804,161	62,508,497,381
Additions	541,884,282	-	237,244,101	-	55,981,849	973,060,326	-	-	-	1,808,170,558
Disposals	-	-	-	-	(64,365,841)	(182,363,039)	-	-	(745,903,082)	(992,631,962)
Balance as of December 31, 2020	2,018,828,750	3,957,756,660	4,704,898,600	1,059,239,935	9,445,104,312	18,270,944,768	509,936,767	114,425,106	23,242,901,079	63,324,035,977
<u>Accumulated depreciation and impairment</u>										
Balance as of December 31, 2019	-	-	(2,314,391,655)	(348,078,769)	(5,904,428,142)	(11,436,908,838)	(151,594,905)	-	-	(20,155,402,309)
Effect of implementation of SUGEF Directive 30-18 (*)	-	-	-	-	-	-	-	(26,336,126)	(2,294,653,702)	(2,320,989,828)
Balance as of January 1, 2020	-	-	(2,314,391,655)	(348,078,769)	(5,904,428,142)	(11,436,908,838)	(151,594,905)	(26,336,126)	(2,294,653,702)	(22,476,392,137)
Additions	-	-	(179,847,627)	(28,771,453)	(530,851,724)	(1,747,141,032)	(50,511,700)	-	-	(2,537,123,536)
Disposals	-	-	-	-	50,956,289	11,070,018	-	-	67,368,916	129,395,223
Balance as of December 31, 2020	-	-	(2,494,239,282)	(376,850,222)	(6,384,323,577)	(13,172,979,852)	(202,106,605)	(26,336,126)	(2,227,284,786)	(24,884,120,450)
Net balance	2,018,828,750	3,957,756,660	2,210,659,318	682,389,713	3,060,780,735	5,097,964,916	307,830,162	88,088,980	21,015,616,293	38,439,915,527

(\*) As part of the adoption of IFRS 16 and with the entrance into effect of SUGEF Directive 30-18, on January 1, 2020 the Bank recognized right-of-use assets in the amount of ₡24,103,229,267 and a depreciation expense of ₡2,320,989,828.

During the year ended December 31, 2020, the depreciation expense amounted to ₡2,537,123,536 and was charged to profit or loss for the year.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

10. Other assets

As of December 31, other assets are as follows:

	<u>2020</u>
<u>Deferred charges</u>	
Leasehold improvements - operating lease	¢ <u>1,798,028,429</u>
Subtotal	1,798,028,429
<u>Intangible assets</u>	
Software	2,607,584,106
Other	<u>581,718,439</u>
Subtotal	3,189,302,545
<u>Other assets</u>	
Prepaid taxes	97,878,209
Prepaid insurance	53,107,147
Other prepaid expenses	736,156,189
Stationery, office supplies and other materials	300,776,284
Library and artwork	16,018,133
Construction work-in-progress	577,217,109
Software under development	973,390,883
Operations pending settlement	8,879,718,020
Internal reciprocal accounts	34,950,038
Security deposits	<u>396,581,432</u>
Subtotal	<u>12,065,793,444</u>
Total	¢ <u><u>17,053,124,418</u></u>

As of December 31, expenses charged to profit or loss for depreciation and amortization of other assets are as follows:

	<u>2020</u>
Amortization of leasehold improvements	¢ 182,810,653
Amortization of software	<u>1,296,904,618</u>
Total	¢ <u><u>1,479,715,271</u></u>

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

11. Obligations with the public

As of December 31, obligations with the public are as follows:

	<u>2020</u>
<u>Demand</u>	
Deposits:	
Checking accounts	¢ 377,206,973,623
Certified checks	54,550,186
Demand savings deposits	61,926,478,816
Matured term deposits	1,888,413,337
Overnight deposits	1,778,893,500
Subtotal deposits	<u>442,855,309,462</u>
Other obligations with the public:	
Notes payable on demand - creditors	804,283,990
Drafts and transfers	2,237,615,237
Cashier's checks	1,207,180,275
Sundry demand obligations with the public	117,516,868
Subtotal demand obligations	<u>4,366,596,370</u>
Subtotal demand obligations	<u>447,221,905,832</u>
<u>Term</u>	
Deposits:	
Term deposits from the public	931,972,077,952
Term deposits pledged as guarantee	64,000,274,179
Subtotal deposits	<u>995,972,352,131</u>
Charges payable for other obligations with the public	8,149,199,983
Total	<u>¢ 1,451,343,457,946</u>

As of December 31, 2020, the balances of the issue of standardized bonds are included in current term deposit accounts. As of that date, term deposits include standardized bonds in the amount of ¢117,275,000,000 and US\$8,100,000 bearing interest at rates ranging between 4.71% and 7.94% per annum in colones and 5.00% per annum in US dollars.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Term deposits made over the counter have terms ranging from a minimum of 31 days to a maximum of five years. As of December 31, 2020, certificates of deposit bear interest at rates ranging between 1.53% and 10.98% per annum in colones and between 0.36% and 8.91% per annum in US dollars.

(a) Deposits from customers by number of customers and cumulative amount

As of December 31, demand deposits from customers, by number of customers and cumulative amount, are as follows:

	2020	
	<u>Number</u>	<u>Cumulative amount</u>
<u>Demand:</u>		
Obligations with the public		
Deposits from the public	166,295 ¢	440,966,896,126
Restricted and inactive deposits	105	1,888,413,336
Other obligations	-	4,366,596,370
Subtotal	<u>166,400</u>	<u>447,221,905,832</u>
Obligations with entities		
Deposits from other financial entities	<u>34</u>	<u>25,600,026,674</u>
Subtotal	<u>34</u>	<u>25,600,026,674</u>
Total demand obligations with customers	<u>166,434 ¢</u>	<u>472,821,932,506</u>

As of December 31, term deposits from customers by number of customers and cumulative amount are as follows:

	2020	
	<u>Number</u>	<u>Cumulative amount</u>
<u>Term:</u>		
Obligations with the public		
Deposits from the public	6,802 ¢	930,737,477,956
Deposits from other financial entities	1	1,234,600,000
Restricted and inactive deposits	<u>1,525</u>	<u>64,000,274,175</u>
Subtotal	<u>8,328</u>	<u>995,972,352,131</u>
Obligations with entities		
Lease liabilities	52	23,489,169,314
Deposits from other financial entities	<u>3</u>	<u>291,510,501,548</u>
Subtotal	<u>55</u>	<u>314,999,670,862</u>
Total demand obligations with customers	<u>8,383 ¢</u>	<u>1,310,972,022,993</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

12. Obligations with entities

As of December 31, obligations with entities are as follows:

	<u>2020</u>
Demand obligations:	
Checking accounts of local financial entities	¢ 14,871,763,663
Checking accounts and obligations with related parties (Note 3)	<u>10,728,263,011</u>
	<u>25,600,026,674</u>
Term obligations:	
Term deposits from local financial entities	9,837,083,227
Loans with local financial entities	13,358,817,175
Loan with DEG	4,115,334,774
Loan with Wells Fargo Bank, N.A.	14,719,472,986
Loan with International Finance Corporation (IFC)	13,227,857,804
Lease liabilities	23,489,169,313
Obligations with related financial entities (Note 3)	<u>236,251,935,582</u>
Subtotal term obligations	<u>314,999,670,862</u>
Other obligations with financial entities	
Issued letters of credit	<u>260,781,472</u>
Subtotal other obligations with entities	<u>260,781,472</u>
Subtotal	<u>340,860,479,008</u>
Charges payable on obligations with financial and non-financial entities	832,235,596
Total	<u>¢ 341,692,714,604</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020, other financial obligations bear interest at 5.70% per annum in colones and between 0.21% and 3.77% per annum in US dollars.

Maturities of obligations with entities

As of December 31, obligations with entities mature as follows:

	2020
Less than 1 year	¢ 218,927,714,212
1-2 years	49,347,264,896
2-3 years	24,477,983,419
3-4 years	18,907,205,873
4-5 years	4,097,894,224
More than 5 years	25,102,416,384
Subtotal	<u>340,860,479,008</u>
Charges payable on obligations with financial and non-financial entities	832,235,596
Total	<u>¢ 341,692,714,604</u>

Lease liabilities

The initial recording of lease liabilities is as follows:

	2020
Balance as of December 31, 2019	¢ -
Effect of implementation of SUGEF Directive 30-18 (Note 32-a)	24,103,229,267
Balance as of January 1, 2020	<u>¢ 24,103,229,267</u>

The Bank's lease liabilities as of December 31, 2020, are as follows:

	2020
Leases in colones	¢ 200,783,553
Leases in US dollars	23,288,385,760
Total	<u>¢ 23,489,169,313</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020, leases payable bear interest at a rate of 11.59% per annum in Costa Rican colones and between 7.58% and 8.84% per annum in US dollars, with maturities between 01/31/2021 and 02/28/2038. The Bank booked an interest expense for these obligations in the amount of ¢1,787,780,214.

The maturities of discounted contractual cash flows related to lease liabilities are as follows:

	2020
Less than 1 year	¢ 1,398,533,633
1-2 years	1,489,496,045
2-5 years	4,347,676,269
More than five years	16,253,463,366
Total	¢ <u>23,489,169,313</u>

As of December 31, 2020, movement in lease liabilities is as follows:

	2020
Balance as of January 1, 2020	<u>24,103,229,267</u>
Cash flows from financing activities	
Payment of lease liabilities	<u>(4,525,156,102)</u>
Total changes in cash flows from financing activities	19,578,073,165
Other changes	
Settlement of leases	(750,820,506)
Foreign exchange differences	4,661,916,654
Balance as of December 31, 2020	¢ <u>23,489,169,313</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

13. Accounts payable and provisions

As of December 31, accounts payable and provisions are as follows:

	<u>2020</u>
Deferred tax	¢ 1,106,560,613
Provisions	<u>4,086,796,161</u>
Other sundry accounts payable	
Difference in position of derivative financial instruments	100,836
Professional fees	75,586,611
Taxes payable	355,657,032
Tax withholdings	1,619,408,305
Employee withholdings	1,251,693,535
Other third-party withholdings payable	2,061,202
Statutory allocations or excess payable	320,338,622
Loan obligations with related parties (Note 3)	3,655,807,612
Clearing house operations	103,132,870
Accrued vacation	614,981,542
Accrued statutory Christmas bonus	278,425,249
Contributions to the Superintendencies' budget	61,110,255
INS insurance policies	3,240,639,537
Credit balances of credit card customers	2,780,879,045
Matured checks outstanding	173,597,907
Public utility and tax collection services	892,926,159
Other sundry accounts payable	<u>11,454,588,391</u>
Subtotal	<u>26,880,934,710</u>
Total	¢ <u><u>32,074,291,484</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(a) Income tax

As of December 31, the income tax expense for the year is as follows:

	<u>2020</u>
Income tax expense	
Income tax	¢ 531,230,909
Subtotal	<u>531,230,909</u>
Deferred tax	
Deferred tax	3,227,935,893
Decrease in deferred tax	<u>(768,334,285)</u>
Subtotal	<u>2,459,601,608</u>
Total income tax, net	<u>¢ 2,990,832,517</u>

Pursuant to the *Costa Rican Income Tax Law*, the Bank is required to file annual income tax returns as of December 31 of each year.

As of December 31, the difference between the income tax expense and the amount that would result from applying the corresponding income tax rate (30%) to income is reconciled as follows:

	<u>2020</u>
Expected income tax	¢ 1,922,025,854
Plus (less)	
Non-deductible expenses	1,108,381,459
Non-taxable income	<u>(39,574,796)</u>
Total income tax	<u>¢ 2,990,832,517</u>

As of December 31, 2020, deferred tax is attributable to unrealized gains on investments in financial instruments at fair value through other comprehensive income and revaluation surplus. A deferred tax asset represents a deductible temporary difference. A deferred tax liability represents a taxable temporary difference.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Deferred tax is attributable to the following:

	<u>2020</u>
<u>Deferred tax assets</u>	
Unrealized losses on valuation of investments	ϕ 114,341,578
Migration of balances due to merger - deferred tax assets	8,610,615,758
Tax treatment of leases under IFRS 16	768,334,284
Total	<u>9,493,291,620</u>
<u>Deferred tax liabilities</u>	
Revaluation of assets	ϕ 878,411,918
Unrealized gain (loss) on valuation of investments	228,148,695
Total	<u>ϕ 1,106,560,613</u>

As of December 31, movement in deferred tax is as follows:

	<u>As of December 31, 2019</u>	<u>Included in the income statement</u>	<u>Included in equity</u>	<u>As of December 31, 2020</u>
Unrealized losses on valuation of investments	ϕ -	-	114,341,578	114,341,578
Deferred tax asset transferred due to merger	13,075,359,887	(3,227,935,893)	(1,236,808,236)	8,610,615,758
Tax treatment of leases under IFRS 16	-	768,334,284	-	768,334,284
Unrealized gains on valuation of investments	(798,635,979)	-	570,487,284	(228,148,695)
Revaluation of assets	(318,891,929)	-	(559,519,989)	(878,411,918)
	<u>ϕ 11,957,831,979</u>	<u>(2,459,601,609)</u>	<u>(1,111,499,363)</u>	<u>8,386,731,007</u>

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(b) Provisions

As of December 31, provisions are as follows:

	<u>2020</u>
Provisions for employer obligations	¢ 1,072,652,523
Provisions for pending litigation	975,550,498
Provisions for redemption of credit card miles	1,039,606,483
Provisions for cashback	342,430,347
Provision for employee incentives	656,556,310
Total	¢ <u><u>4,086,796,161</u></u>

Movement in provisions is as follows:

	<u>2020</u>
<u>Provisions for employer obligations:</u>	
Opening balance	¢ 72,274,400
Provisioned	1,696,514,377
Used	(696,136,254)
Closing balance	<u>1,072,652,523</u>
<u>Provisions for pending litigation:</u>	
Opening balance	342,054,000
Provisioned	739,647,409
Used	(106,150,911)
Closing balance	<u>975,550,498</u>
<u>Other provisions</u>	
Opening balance	3,917,471,533
Provisioned	6,178,130,487
Used	(8,057,008,880)
Closing balance	<u>2,038,593,140</u>
<u>Total</u>	
Opening balance	4,331,799,933
Provisioned	8,614,292,273
Used	(8,859,296,045)
Total	¢ <u><u>4,086,796,161</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

14. Other liabilities

As of December 31, other liabilities are as follows:

	2020
Other deferred income	¢ 12,588,842
Excess cash on hand	18,932,018
Operations pending settlement	6,290,082,173
Other operations pending application	64,834,934
Total	¢ <u>6,386,437,967</u>

15. Equity

a) Share capital

As of December 31, 2020, share capital is represented by 427,372,354 ordinary registered shares with a par value of US\$1.00 for a total of US\$427,372,354 (equivalent to ¢226,449,722,072).

b) Legal reserve

In compliance with Article No. 154 of IRNBS, the Bank appropriates 10% of its net earnings to a legal reserve, semiannually. As of December 31, 2020, the legal reserve included in the financial statements amounts to ¢19,665,886,924. This appropriation will continue until reaching 20% of outstanding share capital.

c) Prior period retained earnings

As of December 31, 2020, prior period retained earnings amount to ¢8,593,708,015.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

16. Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders, as follows:

		<u>2020</u>
<u>Ordinary shares:</u>		
Net profit or loss	¢	2,782,884,669
Weighted average number of shares (denominator)		427,372,354
Earnings per ordinary share	¢	<u><u>6.512</u></u>

17. Memoranda accounts

The Bank has off-balance sheet commitments and contingencies that arise in the normal course of business and involve elements of credit and liquidity risk, as follows:

		<u>2020</u>
Guarantees	¢	4,534,635,916
Performance bonds		21,063,891,066
Bid bonds		328,963,871
Other guarantees		11,408,205,550
Letters of credit issued but unused		8,339,352,206
Lines of credit (automatic use)		398,148,188,939
Pre-approved lines of credit		9,157,302,117
Forward contracts		3,874,851,391
Total	¢	<u><u>456,855,391,056</u></u>

Pre-approved lines of credit correspond to unused credit available to credit card customers.

18. Trust assets

The Bank has subscribed trust agreements whereby it agrees as trustee to manage assets in accordance with the instructions contained in the agreements. Assets and liabilities are not recognized in the Bank's financial statements. The Bank does not guarantee these assets; therefore, it is not exposed to any related credit risk.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, trust capital is invested in the following assets:

	2020
Cash and due from banks	¢ 18,679,902,998
Investments in financial instruments	84,227,972,053
Loan portfolio	455,102,451,487
Accounts and fees and commissions receivable	2,287,945,875
Foreclosed assets	270,008,203,614
Investments in other companies	17,060,645,109
Property, furniture and equipment	159,080,399,805
Other assets	737,151,137,279
Investment property	18,503,351,763
Total	¢ <u>1,762,102,009,983</u>

19. Sureties

As of December 31, 2020, the Bank has issued no sureties.

20. Other memoranda accounts

As of December 31, other memoranda accounts are as follows:

	2020
Guarantees received in custody of the Bank	¢ 61,386,031,805
Guarantees received in custody of third parties	6,129,741,521,811
Lines of credit granted but unused	370,389,462,605
Write-offs	217,046,031,716
Unearned interest on non-accrual loans	3,828,343,810
Supporting documentation	1,136,939,747,011
Other memoranda accounts	1,787,111,203,107
Subtotal	<u>9,706,442,341,865</u>
Third-party assets and securities in custody	<u>104,625,276,139</u>
Subtotal	<u>104,625,276,139</u>
Total	¢ <u>9,811,067,618,004</u>

Management of funds and securities on behalf of third parties includes banking mandates, such as assets received under simple custody and under agreements in which the Bank acts as agent or custodian.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

21. Finance income from the loan portfolio

As of December 31, finance income from the loan portfolio is as follows:

	2020
Current loans	
Individuals	109,794,707,032
Development Banking System	708,969,344
Business	2,464,162,208
Corporate	29,490,026,935
Financial sector	62,301,767
Subtotal	<u>142,520,167,286</u>
Past due loans and loans in legal collection	
Individuals	17,396,888,201
Business	431,053,365
Corporate	2,393,583,435
Financial sector	4,904,329
Subtotal	<u>20,226,429,330</u>
	<u>¢ 162,746,596,616</u>

22. Finance costs

(a) Obligations with the public

As of December 31, finance costs for obligations with the public are as follows:

	2020
Demand deposits	5,643,332,909
Term deposits	51,092,949,947
	<u>¢ 56,736,282,856</u>

(b) Obligations with financial and non-financial entities

As of December 31, finance costs for obligations with financial and non-financial entities are as follows:

	2020
Demand obligations with financial entities	769,736,481
Term obligations with financial entities	9,079,904,493
	<u>¢ 9,849,640,974</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

23. Foreign exchange differences

Gains or losses arising on translation of balances and transactions denominated in foreign currencies are presented in the statement of comprehensive income.

As of December 31, foreign exchange income and expenses, net, is as follows:

	<u>2020</u>
<u>Foreign exchange income:</u>	
Obligations with the public	191,172,118,333
Other financial obligations	64,675,831,380
Other accounts payable and provisions	5,283,395,693
Cash and due from banks	166,065,783,602
Investments in financial instruments	23,196,605,896
Current loans	248,047,544,669
Past due loans and loans in legal collection	44,159,659,575
Accounts and fees and commissions receivable	9,865,442,486
Total	<u>752,466,381,634</u>
<u>Foreign exchange expense:</u>	
Obligations with the public	273,393,561,039
Other financial obligations	90,236,823,434
Other accounts payable and provisions	7,592,634,730
Cash and due from banks	144,854,933,059
Investments in financial instruments	15,976,331,237
Current loans	172,559,670,937
Past due loans and loans in legal collection	37,452,953,497
Accounts and fees and commissions receivable	9,249,450,703
Total	<u>751,316,358,636</u>
Foreign exchange gain	<u>1,150,022,998</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

24. Service fees and commissions

As of December 31, service fee and commission income is as follows:

	2020
Fee and commission income:	
Drafts and transfers	1,578,311,789
Foreign trade	564,340
Trust management	1,070,196,745
Collections	3,078,425
Other banking mandates	732,369,218
Credit cards	14,610,893,052
Insurance underwriting	1,420,901,773
Other	13,076,872,970
	<u>32,493,188,312</u>

25. Personnel expenses

As of December 31, personnel expenses are as follows:

	2020
Salaries and bonuses - permanent staff	24,568,061,591
Overtime	190,315,245
Travel expenses	147,312,448
Statutory Christmas bonus	2,111,866,942
Vacation	1,003,434,071
Incentives	4,013,252
Other compensation	145,431,309
Employer social security taxes	5,694,866,666
Refreshments	166,911,418
Uniforms	31,053,053
Training	20,615,069
Employee insurance	358,906,164
Compulsory retirement savings account	1,163,540,845
Other	915,898,268
	<u>36,522,226,341</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

26. Other administrative expenses

As of December 31, other administrative expenses are as follows:

	2020
Outsourcing	15,369,956,188
Transportation and communications	1,167,216,693
Infrastructure	14,985,760,650
Overhead	8,407,535,464
	<u>39,930,468,995</u>

27. Risk management

The Bank has exposure to the following risks from its use of financial instruments and from its intermediation and financial service activities:

- credit risk
- liquidity and financing risk
- market risk:
  - a. currency risk
  - b. interest rate risk.

The Bank also has exposure to the following operational and regulatory risks:

- operational risk
- capital risk
- asset laundering risk
- IT risk
- legal risk.

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank's statement of financial position is mainly composed of financial instruments.

The board of directors is responsible for the establishment and oversight of the Bank's risk management policies for financial instruments. The board of directors has established the Asset and Liability Committee (ALCO), the Credit Committee, the Corporate Risk Committee and the Investment Committee, among others, which are responsible for managing and periodically monitoring the Bank's risk exposure.

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The Bank is also subject to CONASSIF and SUGEF regulations on risk concentration, liquidity, capital structure, etc.

Management is responsible for the formulation of the Bank's risk management strategy and ALCO is responsible for setting guidelines for managing interest rates, accrued interest receivable, the Bank's foreign currency position, margins and liquidity. The Corporate Risk Committee is responsible for reporting on risk management performed by the Comprehensive Risk Management Unit.

The parent company has also established maximum risk exposure limit guidelines.

i. Credit risk

Credit risk is the risk of financial loss to the Bank if a customer fails to meet its contractual obligations.

The Bank monitors credit risk on an ongoing basis through reports on portfolio status and risk rating. The Bank's systems and procedures for credit risk management include formal analyses and, if relevant, the reclassification of each loan. Credit analyses include periodic evaluations of the financial position of the Bank's customers. For personal banking and small enterprises, portfolios are monitored permanently and evaluated monthly through the customer's account/credit review internal system. For commercial and corporate banking, once a loan is granted to a customer, a complete review based on the customer's financial results is performed once a year. Credit operations must receive prior approval from the committees established according to the limits corresponding to each committee. The Bank also receives guarantees to manage its risk exposure.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset and unused letters of credit, as follows:

	2020
Cash and due from banks	¢ 329,347,576,040
Investments in financial instruments	161,640,046,977
Loan portfolio	1,530,621,163,981
Accounts and fees and commissions receivable	11,517,438,100
Guarantees granted	37,335,696,403
Letters of credit issued but unused	8,339,352,206
Total	¢ <u>2,078,801,273,707</u>

Cash and due from banks corresponds to cash on hand, cash in vaults and bank deposits. Bank deposits are mainly placed in top-rated financial institutions and accordingly, credit risk on those deposits is considered to be minimal.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The Bank is exposed to a significant concentration of credit risk in Latin America, specifically in Costa Rica on loans granted to State-owned entities. The Bank manages that risk through periodic analyses of the country's economic, political and financial environment and its potential impact on each sector. For such purposes, the Bank obtains a thorough understanding of its customers and of their capacity to generate sufficient cash flows to honor their debt commitments.

The Bank's exposure to credit risk on the loan portfolio and the measurement of impairment are as follows:

	<u>Customers</u>	<u>Banks</u>	<u>Stand-by credits</u>
	<u>2020</u>	<u>2020</u>	<u>2020</u>
<i>Individually assessed loans with allowance:</i>			
A1	¢ 1,257,808,185,039	77,426,400,651	21,332,778,950
A2	18,559,732,784	-	35,563
B1	113,348,680,931	-	1,418,713,051
B2	8,818,033,934	-	38,427
C1	42,201,204,217	-	540,758,454
C2	5,663,206,714	-	28,179,159
D	31,685,568,331	-	4,340,416,989
E	52,567,073,015	-	103,193,462
Total	¢ 1,530,651,684,965	77,426,400,651	27,764,114,055
Allowance for loan losses	(57,011,699,894)	(318,032,847)	(194,700,163)
Carrying amount	¢ 1,473,639,985,071	77,108,367,804	27,569,413,892
<i>Current loans without allowance</i>			
A1	-	-	-
A2	-	-	-
B1	-	-	-
B2	-	-	-
C1	-	-	-
C2	-	-	-
D	-	-	-
E	-	-	-
Carrying amount	¢ -	-	-
Excess allowance over structural allowance	(12,952,809,217)	-	-
Net carrying amount	¢ 1,460,687,175,854	77,108,367,804	27,569,413,892

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Individually assessed loans with allowance

Pursuant to SUGEF Directive 1-05, a risk rating is assigned to all loan operations. Applicable allowance percentages are determined based on that risk rating. Individually assessed loans with allowance are loan operations for which, after deducting the loan guarantee, there is still an outstanding balance to which the percentage determined for the risk rating assigned by the Bank will be applied.

Starting March 30, 2014, an additional allowance is established for the covered portion equivalent to 0.50% of the covered balance, which shall be applied gradually over the 48-month term established by the regulation.

Restructured loans

Restructured loans are loans for which the original contractual conditions have been modified due to negotiations with customers or where the Bank has made concessions that it would not otherwise consider, i.e. when the customer's financial position is not impaired. Once the loans are restructured, they remain in this category irrespective of any strengthening of the borrower's financial position after the restructuring.

The various types of restructured loans are as follows:

- a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest has been postponed to a future date beyond the date stipulated under current contractual conditions.
- b. Modified loan: Loan operation in which at least one of the current contractual payment conditions has been modified, excluding extensions, additional payments not agreed in the payment schedule, additional payments with the purpose of reducing the amount of installments or changes in the currency while respecting the agreed maturity date.

The type of special restructured loan is as follows:

- a. Refinanced loan: Loan operation in which at least one full or partial payment of principal or interest is made with another loan extended to the borrower or to an individual from its economic interest group by the same financial intermediary or any other entity of the same financial group or conglomerate. In the event of full settlement of the loan operation, the new loan operation is considered to be refinanced. In the event of partial settlement, both the new loan operation and the existing loan operation are considered to be refinanced.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020, restructured loans amount to ₡44,775,546,429.

Allowance for loan losses

As of December 31, 2020, the loan portfolio is valued in conformity with that set forth in SUGEF Directive 1-05, *Regulations for Borrower Classification*, approved by CONASSIF. The provisions set forth in that regulation are summarized below:

*Borrower classification*

The Bank is required to classify its borrowers into the following two groups:

- a. Group 1: Borrowers with total outstanding balances that exceed the SUGEF limit (2020: ₡100,000,000.).
- b. Group 2: Borrowers with total outstanding balances that are less than or equal to the SUGEF limit (2020: ₡100,000,000.).

For purposes of borrower classification, the following should be considered when calculating total outstanding balances:

- a. balances of back-to-back operations and the portion of bonds, sureties and letters of credit covered by a previous deposit are excluded and
- b. the stand-by principal balance should be treated as a credit equivalent.

Risk ratings

The Bank must individually classify its borrowers in one of eight risk ratings, identified as A1, A2, B1, B2, C1, C2, D and E, with rating A1 as the lowest credit risk and rating E as the highest credit risk.

Borrower categories

*Analysis of creditworthiness*

The Bank must define effective mechanisms to determine the creditworthiness of borrowers. Based on whether the borrowers are individuals or legal entities, those mechanisms should permit an assessment of the following aspects:

- a. *Financial position and expected cash flows*: Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

- b. *Experience in the line of business and quality of management:* Analysis of management's ability to lead the business with appropriate controls and adequate support from the owners.
- c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.
- d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.
- e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, development and operating licenses and permits, representation of products or foreign offices, relationships with significant customers and suppliers, sales agreements, legal risks and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, etc.

When a borrower has been assigned a risk rating by a rating agency, that rating should be an additional consideration when assessing the borrower's creditworthiness.

The Bank is required to classify the borrower's creditworthiness into one of four levels: level 1 - has the ability to pay, level 2 - has minor weaknesses in ability to pay, level 3 - has serious weaknesses in ability to pay and level 4 - has no ability to pay. For purposes of this classification, the borrower and co-borrower(s) must be evaluated jointly. Joint classification of creditworthiness may only be used to determine the allowance percentage for operations in which the parties are borrower and co-borrower.

*Analysis of historical payment behavior*

The Bank must determine a borrower's historical payment behavior based on the level assigned to the borrower by SUGEF's Credit Information Center (CIC).

The Bank is required to classify historical payment behavior into one of three levels: level 1 - good historical payment behavior, level 2 - acceptable historical payment behavior and level 3 - poor historical payment behavior.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Borrower classification

Borrowers are to be classified by the Bank in accordance with evaluation parameters for arrears, historical payment behavior and creditworthiness, as follows:

<u>Risk rating</u>	<u>Arrears</u>	<u>Historical payment behavior</u>	<u>Creditworthiness</u>
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1, Level 2, or Level 3
C2	90 days or less	Level 2	Level 1, Level 2, or Level 3
D	120 days or less	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

Direct classification in risk rating E

Borrowers are to be assigned a risk rating of E if they fail to meet the conditions for any of the risk ratings defined above, are in a state of bankruptcy, meeting of creditors, court protected reorganization procedure or takeover or if the Bank considers assignment of such rating to be appropriate.

Minimum allowance

The minimum allowance is equivalent to the total of the general allowance and the specific allowance. The general allowance is equivalent to 0.5% of the total amount outstanding corresponding to the loan portfolio rated A1 and A2, without reducing the effect of guarantees. The specific allowance is calculated on the covered and uncovered balance of each credit operation. The allowance for the uncovered balance is equivalent to the total outstanding balance of each loan operation less the adjusted weighted value of the corresponding guarantee, multiplying the resulting amount by the allowance percentage corresponding to the risk rating of the borrower or co-borrower in the lowest risk rating. If the result of this calculation is negative or zero, the allowance is zero. If the total outstanding balance includes a stand-by principal balance, the credit equivalent indicated below should be considered. The allowance for the covered balance of each credit operation is equivalent to the result of multiplying the covered amount by the corresponding allowance percentage established for rating B through E, equivalent to 0.5%. This allowance shall be applied gradually until reaching 0.5% over the 48-month term established by the regulation.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The adjusted value of guarantees must be weighted with 100% when the borrower or co-borrower with the lowest risk rating is rated C2 or lower, with 80% when rated D and with 60% when rated E.

Specific allowance percentages for the uncovered portion based on borrower risk rating are as follows:

<u>Risk rating</u>	<u>Specific allowance percentage</u>
A1	0%
A2	0%
B1	5%
B2	10%
C1	25%
C2	50%
D	75%
E	100%

As an exception in the case of risk rating E, the minimum allowance for loans to borrowers whose historical payment behavior is classified in level 3 should be calculated as follows:

<u>Arrears</u>	<u>Specific allowance percentage - Uncovered portion</u>	<u>Specific allowance percentage - Covered portion</u>	<u>Creditworthiness (Group 1 borrowers)</u>	<u>Creditworthiness (Group 2 borrowers)</u>
Current	5%	0.50%	Level 1	Level 1
30 days or less	10%	0.50%	Level 1	Level 1
60 days or less	25%	0.50%	Level 1 or Level 2	Level 1 or Level 2
90 days or less	50%	0.50%	Level 1 or Level 2 or Level 3 or Level 4	Level 1 or Level 2 or Level 3 or Level 4
More than 90 days	100%	0.50%	Level 1 or Level 2 or Level 3 or Level 4	Level 1 or Level 2 or Level 3 or Level 4

The sum of allowances for each loan operation constitutes the minimum allowance.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

In compliance with the provisions of SUGEF Directive 1-05, as of December 31, 2019, the Bank must maintain a minimum allowance of  $\text{¢}57,524,432,904$ . SUGEF Official Letter 021-2008 dated May 30, 2008 indicates that the expense for the allowance for loan losses corresponds to the amount necessary to achieve the minimum structural allowance. Furthermore, there must be a duly documented technical justification for any excess above the minimum structural allowance, which is to be sent to SUGEF with the authorization request. The excess may not surpass 15% of the minimum structural allowance for the loan portfolio. This notwithstanding, if any additional allowances are required above the 15%, they must be taken from net earnings for the year pursuant to Article 10 of IRNBS. However, Official Letter SGF-3374-2015 dated December 17, 2015 annulled SUGEF Official Letter 021-2008. Consequently, as of December 31, 2020, there is no limit on the booking of allowances determined according to regulatory provisions; such allowances are absorbed by profit or loss for the year.

Through Official Letter SGF-R-2233-2016, CONASSIF informed that Article 6 of minutes of meeting No. 1258-2016 held on June 7, 2016, in accordance with SUGEF's Official Letter SGF-1729-2016 of May 26, 2016, approved SUGEF Directive 19-16 "Regulations to Determine and Book Counter-cyclical Allowances", amendment to SUGEF Directive 1-05 "Regulations for Borrower Classification" and amendment to SUGEF Directive 3-06 "Regulations on Capital Adequacy of Financial Entities", published on June 17, 2016 in Digital Issue No. 100 of the Official Gazette. These amendments consider the incorporation of a new evaluation criterion to determine the borrower's creditworthiness, starting from the most recent income tax return filed. Additionally, for cases in which the sum of the total balances owed is greater than the limit established by the Superintendency (Group 1), the amendments introduce the debt service coverage ratio (DSCR) as a determining factor of a borrower's (individual's) financial strength to meet its obligations in a timely manner.

The use of the income tax return as an element to determine the creditworthiness of Group 1 borrowers was eliminated in May 2020, through SUGEF resolution SGF-1759-2020 dated May 25, 2020.

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

By means of Official Letter CNS-1416/13 dated May 24, 2018, CONASSIF amended the following agreements:

- i. SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowance*, in effect one month after the publication entered into effect, starting with 5%, then 6% from June 1, 2019 and 7% from June 1, 2020. Subsequently, through resolution SGF-3966-2018 dated December 21, 2018, SUGEF temporarily decreased the percentage to 2.5% as of January 1, 2019, subject to review in the first six months of 2019 (December 2018: 5.00%). This change in the regulation entails that the minimum counter-cyclical allowance will be completed between 13 and 14 years, in average; SUGEF considers that this is not excessive and leaves room to implement other amendments;
- ii. SUGEF Directive 1-05 *Regulations for Borrower Classification* with respect to the *additional general allowance for non-foreign currency generators*, temporarily reducing the percentage of this allowance while also modifying the current definitions of “generator” and “non-generator.” The allowance is reduced to 1.00% of the enforcement of this amendment; 1.25% from June 1, 2019 and resuming at 1.50% from June 1, 2020 (June 2018: starting September 2016, an additional 1.5% must be reserved for new loans granted in US dollars corresponding to non-currency generators). For the *additional general allowance for borrowers* with a ratio higher than the prudential indicator in the coverage of the debt service for direct loans, it postponed the application of the allowance for borrowers that exceeded the thresholds of the IIR ratio (installment/income ratio higher than 35% of indebtedness originally it indicated that an additional 1% should be reserved, with gradual application, starting from 55% in 2016 and ending with 35% in 2020. Finally, regarding the *charge to the principal to borrowers with foreign currency risk exposure*, since it is included in the implementation of the additional general allowance of 1.50% for non-foreign currency generators, which does not differentiate whether the borrower is high or low risk, it considered convenient to eliminate the application of the 125% weighting factor.

The Official Letter was published in the Official Gazette on June 1, 2018 and these changes entered into effect in August 2018.

Pursuant to Resolution SGF-2336-2019 dated August 1, 2019, point A. “Maximum arrears and medium arrears” and point C. “Direct classification in Level 3)” of section II. “Analysis of the historical payment behavior” of the General Guidelines to SUGEF Directive 1-05 are amended, eliminating direct classification to level 3 of historical payment behavior for those operations settled through legal collections proceedings.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Through Resolution SGF-0902-2020 dated March 16, 2020, SUGEF decreased from 2.5% to 0.0% the minimum accrual percentage established in Transition Provision II of SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances* as of the March 2020 close, and it will be subject to review during 2020. In addition, through resolution SGF-0971-2020 dated March 20, 2020, SUGEF set at 0.00% the “M” factor referred to in Article 6 of SUGEF Directive 19-16. This minimum percentage level required for the counter-cyclical allowance is applicable as of the March 2020 close, and it will be subject to review during 2020.

Due to the application of the aforementioned transition provisions and corresponding amendments, the carrying amount of the new allowances is as follows:

	<u>2020</u>
Counter-cyclical allowance - direct loans	¢ 6,201,534,159
General allowance - non-foreign currency generators	7,026,673,093
General allowance - debt service coverage ratio	635,780,071
	<u>¢ 13,863,987,323</u>

Credit equivalent

The following stand-by credit operations must be converted to credit equivalents based on the credit risk they represent. The credit equivalent is obtained by multiplying the balance of the stand-by principal by the corresponding credit equivalent conversion factor, as follows:

- a. bid bonds and export letters of credit without prior deposit: 0.05
- b. other sureties and guarantees without prior deposit: 0.25
- c. pre-approved lines of credit: 0.50.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Allowance for other assets

- a. As of December 31, 2020, the Bank establishes the allowance for other assets in accordance with SUGEF Directive 1-05 and the amendment published in Official Gazette No. 168, dated August 28, 2009; and for accounts and accrued interest receivable unrelated to loan operations, based on arrears calculated from the first day overdue or from the date booked, as follows:

Arrears	Allowance percentage
30 days or less	2%
60 days or less	10%
90 days or less	50%
120 days or less	75%
More than 120 days	100%

- b. For those foreclosed assets that have not been sold or leased within two years from the date of acquisition, an allowance equivalent to 100% of their value must be created.

Loan write-off policy

The Bank writes off any loan (and any allowance for losses) identified as uncollectible after analyzing significant changes in the financial conditions of the borrower that prevent the fulfillment of payment commitments or when it is determined that the guarantee is insufficient to cover the full amount of the credit facility granted or legal recourse to execute the guarantee has been exhausted.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Set out below is an analysis of the gross and net amounts (of allowances for loan losses) of individually assessed loans by risk rating:

		2020			
		Loans to customers		Loans to banks	
		Gross	Net	Gross	Net
A1	¢	1,257,808,185,039	1,244,228,505,785	77,426,400,651	77,108,367,804
A2		18,559,732,784	18,406,529,808	-	-
B1		113,348,680,931	110,880,437,078	-	-
B2		8,818,033,934	8,555,669,082	-	-
C1		42,201,204,217	38,435,038,411	-	-
C2		5,663,206,714	4,777,213,599	-	-
D		31,685,568,331	22,120,780,278	-	-
E		52,567,073,015	26,235,811,030	-	-
	¢	<u>1,530,651,684,965</u>	<u>1,473,639,985,071</u>	<u>77,426,400,651</u>	<u>77,108,367,804</u>

Guarantees

Collateral: The Bank accepts collateral guarantees (usually mortgages or chattel mortgages) to secure its loans. The value of those guarantees is established by appraisals made by independent appraisers who determine the estimated market value at the time the loan is granted. Those values are generally not updated unless the loan is individually impaired.

Personal or corporate: Sureties are also accepted from individuals or legal entities. An assessment is made of the guarantor's ability to honor the debts in the event the borrower is unable to do so, as well as of the integrity of the guarantor's credit history.

Collateral guarantees are not usually provided for loans and advances to banks, investments in financial instruments or credit card loans.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The reference to the transition provisions included in the regulations is provided below:

COMMUNICATION	DATE	DIRECTIVE	PROVISIONS
CNS 1564-06-2020	03/13/2020	SUGEF Directive 1-05	Transition Provision XV, Art. 4 and Art. 3, number 2, subparagraph i: a special operation is the operation that has been modified more than twice within 24 months, through restructuring, extension, refinancing or a combination thereof. An exception is granted to Group 2 borrowers who as of the date of entrance into effect of this amendment have had two restructurings within the last 24 months. They may restructure the operation one more time during the period ended June 30, 2021, without it qualifying as a special operation. Valid until June 30, 2021.
CNS 1566-03-2020	03/24/2020	SUGEF Directive 19-16	Transition Provision I: As of the date of this amendment and until December 31, 2020, the adjustment due to decrease in analytical account 139.02.M.02 (Counter-cyclical component) referred to in subparagraph b) of Article 5 <i>Accounting Records</i> , shall be suspended once the profit for the month reaches an amount equal to the average profit of the last 24 months.
CNS 1566-03-2020	03/24/2020	SUGEF Directive 1-05	Transition Provision XVI, Art. 7 and 7bis: there is an exception from performing an evaluation of the borrower's creditworthiness under stress scenarios only during the follow-up stage. Effective from the date of this amendment until March 31, 2021.
CNS 1566-03-2020	03/24/2020	SUGEF Directive 1-05	Transition Provision XVII: At the discretion of each regulated entity, the entity can also take immediate action regarding exceptions to its credit policies and procedures and the presentation of information usually required for the analysis of creditworthiness solely to ensure the timely granting of extensions, restructurings, refinancing or a combination thereof. Effective from the date of this amendment until March 31, 2021.
CNS 1566-03-2020	03/24/2020	SUGEF Directive 1-05	Transition Provision XVII: An exception is made in the definition set forth in subparagraph k) <i>Restructured operation</i> , regarding the granting of grace periods and extension of a grace period previously granted. The foregoing is to qualify as a special loan operation. Effective from the date of this amendment until June 30, 2021.
CNS 1566-03-2020	03/24/2020	SUGEF Directive 15-16	Transition Provision V: regarding the assessment of the payment capacity of borrowers of the Development Banking System, an exception from performing an evaluation of the borrower's creditworthiness under stress scenarios only during the follow-up stage is granted. Effective from the date of this amendment until March 31, 2021.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

COMMUNICATION	DATE	DIRECTIVE	PROVISIONS
CNS 1566-03-2020	03/24/2020	SUGEF Directive 24-00, SUGEF Directive 17-13	Transition Provision 14: based on elements of systemic risk, or when necessary to protect the financial system's stability, having issued a resolution based on adequate grounds, SUGEF may modify the parameters that determine the level of normalcy or irregularity of the liquidity indicators. Effective from the date of this amendment until September 30, 2020.
CNS 1566-03-2020	03/24/2020	SUGEF Directive 24-00	Suspends the application of subparagraph g) of Art. 22 of SUGEF Directive 24-00. 53b) [57] When a financial entity has losses for six or more months, whether consecutive or not, during the last 12 months.
CNS 1569-05-2020	04/14/2020	SUGEF Directive 3-06	Transition Provision XI: Suspends the application of the additional charge by term set forth in Art. 18bis of SUGEF Directive SUGEF 3-06, both for new and restructured loans. Effective as of the March 2020 close and until March 31, 2021.
CNS 1569-05-2020	04/14/2020	SUGEF Directive 1-05	Transition Provision XIX: For purposes of subsection k) of Article 3 of these regulations, an exception is made for any modification to the contractual conditions that entails the extension of the agreed maturity date. Effective from the date of this amendment until June 30, 2021.
CNS 1572-07-2020	04/28/2020	SUGEF Directive 3-06	Transition Provision XIII: the correction factor referred to in Art. 23 of this Directive is set at "3". Article 23. Capital requirement for price risk. The capital requirement for price risk is equal to the VaR calculated with cutoff on the last day of each month, multiplied by a correction factor of "6". Effective from the date of this amendment until June 30, 2021.
CNS 1572-06-2020 CNS 1573-10-2020	05/08/2020	SUGEF Directive 1-05	Eliminate the second to last paragraph of Article 7 of SUGEF Directive 1-05, <i>Regulations for Borrower Classification</i> . "In addition, for borrowers that are legal entities, the presentation of the income tax return for the most recent fiscal period is a key requirement to classify its creditworthiness as Level 1. This provision will be applicable for borrowers with new loans subscribed as of the entry into effect of this amendment. A new loan will be understood in conformity with that indicated in Art. 11bis of this Regulation.
CNS 1579-09-2020	06/04/2020	SUGEF Directive 1-05	Transition Provision XX: numbers ii) and iii) of item 3 of subsection i) Special loan operation, of Article 3. Definitions, of these Regulations, shall read as follows: "3. Revolving credit, except in the following cases: i. [...] ii. that intended to finance defined business cycles, except for working capital. iii. that intended to finance working capital, iv. [...]" Effective from the date of this amendment until June 30, 2021.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

COMMUNICATION	DATE	DIRECTIVE	PROVISIONS
CNS 1602-07	09/01/2020	SUGEF Directive 1-05	Transition Provision XV: For Group 1 and Group 2 borrowers, according to Article 4 of these regulations, from the date of entrance into effect of this amendment and solely for the purposes of subsection i, number 2, of Article 3 of these regulations, entities may perform the number and types of restructuring, extension, refinancing or combination thereof that it considers necessary, without the loan being classified as a special operation. Effective until June 30, 2021.
CNS 1624-04	11/27/2020	SUGEF Directive 1-05	Article 12. Minimum allowance (...): As an exception to risk rating E, an entity with loans with a borrower whose historical payment behavior is classified in Level 3, must calculate the minimum specific allowance for those borrowers.
CNS 1624-04	11/27/2020	SUGEF Directive 1-05	Transition Provision XXII, the balance of allowances booked for borrowers in risk rating E with a historical payment behavior of Level 3 cannot be decreased as a result of this amendment. It only allows decreased amounts to be reassigned to increases in specific allowances for borrowers reclassified to risk ratings C1, C2, D and E pursuant to Articles 10 and 11 of SUGEF Directive 1-05. Effective from the date of entrance into effect of amendment to Art. 12 of these Regulations and until December 31, 2021.
SGF 4178-2020	11/26/2020	SUGEF Directive 1-05	Modify the table included in the payment for reporting to SUGEF of Section E. Qualification of the creditworthiness, subsection 2) "Definition of the levels of creditworthiness of borrowers in Group 1 and Group 2" as follows: a) Modify subsection c) of the criteria for classification corresponding to Level 2, so that it reads as follows: "c. The results show that under a normal scenario there are weaknesses in the payment capacity, which can be overcome to address the credit obligations under the agreed terms." b) Modify subsection a) of the criteria for classification corresponding to Level 3, so that it reads as follows: "a. The results show that under a normal scenario there are weaknesses in the payment capacity that cannot be overcome to address the credit obligations under the agreed terms."

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, the estimated fair values of collaterals are as follows:

	<u>2020</u>
<u>Individually assessed loans with allowance (including the balance for loans in legal collection):</u>	
Real property	¢ 135,862,288,915
Personal property	52,356,082,998
Other (trusts)	367,500,889,361
Subtotal	<u>555,719,261,274</u>
<u>Past due loans without allowance:</u>	
Real property	32,881,326,116
Personal property	9,442,862,593
Other (trusts)	6,769,359,085
Subtotal	<u>49,093,547,794</u>
<u>Current loans without allowance:</u>	
Real property	817,631,417,009
Personal property	452,293,557,649
Other (trusts)	1,003,064,245,534
Subtotal	<u>2,272,989,220,192</u>
Total	<u>¢ 2,877,802,029,260</u>

Loan portfolio by type of guarantee

As of December 31, the concentration of the loan portfolio by type of guarantee is as follows:

	<u>2020</u>
Investment certificates	¢ 47,932,064,902
Fiduciary	353,149,669,812
Mortgage	870,065,203,450
Chattel mortgage	214,440,777,556
State-owned banks	77,382,374,889
Total direct loans	<u>1,562,970,090,609</u>
Accounts and accrued interest receivable	45,107,995,007
Allowance for loan losses	(70,477,242,121)
Deferred income from loan portfolio	(6,979,679,514)
Total	<u>¢ 1,530,621,163,981</u>

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The portion of the portfolio concentrated in State banking corresponds to loans granted in compliance with Article 59 of IRNBS.

Loan portfolio by sector

As of December 31, the loan portfolio by sector is as follows:

	<u>2020</u>
Agriculture, livestock, hunting, and related activities	φ 51,944,438
Electricity, telecommunications, gas and water	3,188,817,796
Construction, purchase, and repair of property	377,956,466,411
Trade	175,669,370,863
Stock market	77,382,978,089
Services	558,188,281,533
Consumer	<u>370,532,231,479</u>
Total direct loans	1,562,970,090,609
Accrued interest receivable	45,107,995,007
Allowance for loan losses	(70,477,242,121)
Deferred income from loan portfolio	<u>(6,979,679,514)</u>
Total	φ <u><u>1,530,621,163,981</u></u>

In recent years, the Bank has been developing a program to offer housing loans with terms of up to 30 years, which has resulted in significant growth in its housing loan portfolio. Those loans are secured by mortgages.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Loan portfolio by geographic area

As of December 31, the loan portfolio by geographic area is as follows:

	2020
Costa Rica	¢ 1,554,005,338,128
Central America	914,589,183
Rest of North and South America	2,193,770,021
Caribbean	315,496,375
United States of America	4,409,881,929
Europe	881,614,546
Africa	22,204,367
Asia	227,196,060
	¢ <u>1,562,970,090,609</u>

Loan portfolio by arrears

As of December 31, the loan portfolio by arrears is as follows:

	2020
Current	¢ 1,415,990,335,340
1 to 30 days	63,541,291,687
31 to 60 days	32,076,258,657
61 to 90 days	17,479,603,964
91 to 120 days	5,356,829,274
121 to 180 days	5,087,162,487
More than 180 days	990,231,815
In legal collection	22,448,377,385
Total direct loans	1,562,970,090,609
Accounts and accrued interest receivable	45,107,995,007
Allowance for loan losses	(70,477,242,121)
Deferred income from loan portfolio	(6,979,679,514)
Total	¢ <u>1,530,621,163,981</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Concentration of the portfolio in individual borrowers or economic interest groups

	2020	
	<u>No. of customers</u>	<u>Amount</u>
Capital and reserves:		
Less than 5%	105,462 ¢	1,396,001,917,836
5% to 10%	3	57,696,632,884
10% to 15%	1	31,889,165,000
15% to 20%	2	77,382,374,889
Total	<u>105,468 ¢</u>	<u>1,562,970,090,609</u>

At the statement of financial position date there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. As of December 31, 2020, loans to the Bank's most important customers or economic interest groups that individually represent 5% or more of share capital and capital reserves amount to ¢246,115,608,998.

Amount and number of loans in non-accrual status

Loans in non-accrual status	¢	<u>2020</u> <u>33,882,600,960</u>
Number of loans in non-accrual status		<u>4,306</u>

Amount and number of loans in legal collection and percentage of total portfolio

Loans in legal collection	¢	<u>2020</u> <u>22,448,377,384</u>
Number of loans in legal collection		<u>634</u>
Percentage of total loan portfolio		<u>1.40%</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Investments by risk rating

As of December 31, investments by risk rating are as follows:

	2020
AAA	¢ 10,144,277
AA	15,856,726,789
A	37,038,000,000
B	38,178,378,369
F1+	69,372,839,200
Unrated	13,396,585
Total investments by risk rating	160,469,485,220
Accrued interest receivable	1,204,148,487
Allowance for impairment	(33,586,730)
Total	¢ 161,640,046,977

Investments by geographic area

As of December 31, investments by geographic area are as follows:

	2020
Costa Rica	¢ 123,431,485,220
United States of America	37,038,000,000
Total investments	160,469,485,220
Accrued interest receivable	1,204,148,487
Allowance for impairment	(33,586,730)
Total	¢ 161,640,046,977

ii. Interest rate risk

The Bank is exposed to the effects of changes in market interest rates on its financial position and cash flows.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The Bank manages this risk by maintaining reasonable interest rate margins between assets and liabilities. The Bank also manages the sensitivity of the gap between repricing periods for assets and liabilities to expected changes in rates through weekly gap reports that are analyzed by ALCO.

With respect to interest rates, the Bank monitors market behavior. Interest rates on assets and liabilities are adjusted based on market trends. Lending rates are set based on the following market benchmark rates: in colones, the basic deposit rate of BCCR and in US dollars, the New York Prime Rate and LIBOR. Most lending rates are variable and adjustable every one to three months for better matching with the deposits portfolio. All deposits have fixed rates and a maximum term of 60 months. The average term is four months.

The Bank follows the policy of including a clause in all loan agreements providing for the periodic repricing of interest rates; decisions on terms, financing and loans are made to minimize interest rate risk. The Investment Committee considers the risk of rate fluctuations when making decisions involving the purchase of securities.

Interest rate gap measurement

The interest rate gap is measured for purposes of analyzing the interest rate risk of the Bank's financing and investing activities.

- A simple gap is the difference between the amount of assets, liabilities and off-balance sheet instruments with interest rates that are expected to reprice within a specific period.
- A cumulative gap is the net amount of all simple gaps up to and including, the end date of the reporting period. Interest rate limits are applied to control structural interest rate risk at Bank, unit and currency levels.

Sensitivity analysis

The Bank has established limits to manage exposure to interest rate risk by segregating its financial portfolios by local currency and foreign currency because the corresponding benchmark interest rates behave differently.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

For operations in local currency, the Bank has established limits to manage interest rate exposure to a parallel shift in the yield curves of +/- 100 basis points (bp).

The annual income limit is designed to protect short-term income. As of December 31, 2020, that limit was calculated based on the assumption that all variable interest rates on assets and liabilities that reprice within 12 months of the calculation date will increase or decrease by 1% for operations in both foreign and local currency in the period 2020. In the event that variable interest rates change as indicated above, the Bank's asset and liability portfolios for the period ended December 31, 2020 would increase or decrease by ¢11,253,269,556.

The effect of a change in market interest rates on the fair value of the portfolio of fixed-rate financial instruments is as follows:

		2020	
		Positive change	Negative change
Investments	¢	(22,987,615,727)	7,994,518,552
Loan portfolio	¢	(34,774,657,202)	37,657,866,806
Term deposits	¢	(9,826,761,125)	10,157,182,224
Obligations with entities	¢	(4,652,487,383)	4,900,407,456

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020, the interest rate gap report for the Bank's assets and liabilities is as follows (in thousands of colones):

	Average interest rate	Days						Total
		1-30	31-90	91-180	181-360	361-720	More than 720	
<u>Local currency</u>								
Assets	11.98%	295,120,413	36,230,972	120,174,941	58,840,858	22,725,864	67,569,143	600,662,191
Liabilities	4.78%	87,789,270	47,412,416	81,316,643	36,422,767	38,659,263	37,757,292	329,357,651
Gap		207,331,143	(11,181,443)	38,858,297	22,418,090	(15,933,399)	29,811,851	271,304,540
<u>Foreign currency</u>								
Assets	5.61%	364,443,150	56,085,384	358,315,777	209,819,979	38,606,451	183,070,680	1,210,341,420
Liabilities	3.18%	155,797,459	161,328,575	300,209,663	105,372,199	176,176,676	127,640,322	1,026,524,895
Gap		208,645,692	(105,243,191)	58,106,114	104,447,779	(137,570,225)	55,430,358	183,816,526

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

iii. Liquidity and financing risk

Liquidity risk is the risk that the Bank will be unable to meet its obligations. The Bank mitigates this risk by establishing limits on the minimum portion of the Bank's funds that must be held in highly liquid instruments and establishing composition limits on inter-bank facilities and financing.

The Bank has designed liquidity indicators, term matching for additional time bands and concentration and volatility analyses for each source of financing in order to determine and anticipate the volatility of funds.



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020, the asset and liability term matching report (expressed in thousands of colones) sent to SUGEF and prepared in conformity with the Financial Data Class section of the SUGEF's SICVECA Information Manual is as follows:

	Days						Total
	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	75,752,042	-	-	-	-	-	75,752,042
Minimum legal deposit in BCCR	78,963,137	20,559,261	15,225,958	17,828,241	33,686,047	34,372,846	253,595,534
Investments	16,950,812	69,861,739	5,360,910	-	90,402	5,833,124	161,673,633
Loan portfolio	123,742,900	72,118,557	74,648,675	64,083,210	86,311,859	82,663,059	1,608,078,086
Total recovery of assets	295,408,891	162,539,557	95,235,543	81,911,451	120,088,308	122,869,029	2,099,099,295
Obligations with the public	447,221,906	121,666,660	87,590,120	105,030,283	189,077,510	197,269,208	1,443,194,259
Obligations with financial entities	25,600,025	23,378,233	20,995,340	25,248,721	53,760,665	69,683,947	340,599,696
Charges payable	-	8,981,436	-	-	-	-	8,981,436
Total maturity of liabilities	472,821,931	154,026,329	108,585,460	130,279,004	242,838,175	266,953,155	1,792,775,391
Gap	(177,413,040)	8,513,228	(13,349,917)	(48,367,553)	(122,749,867)	(144,084,126)	306,323,904

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The Bank monitors its liquidity position on a daily basis and maintains liquid assets in excess of its liquid liabilities. Additionally, the Bank reviews its matching of terms on a weekly basis and formulates deposit-taking, financing and investment strategies so as to minimize any existing gaps. The Bank also has liquidity risk, investment risk and corporate risk policies in place to assist ALCO in making decisions that affect liquidity.

ALCO is responsible for the strategic management of the investment portfolio.

Investment portfolios are managed locally with overall guidance and oversight provided by the regional Treasury Department of Grupo BNS de Costa Rica, S.A.

The Bank's limit structure is as follows:

- Limits are applied to each investment portfolio.
- Sensitivity limits and issuer limits may also be applied, depending on the type of instruments held and the size and complexity of the portfolio.
- Concentration limits and sublimits are applied to investment portfolios based on the type of instrument held, the type of issuer (governmental or corporate entity), investment quality, currency and country. Concentration limits are specified in the authorization and management agreements.
- Quality criteria are specified in the authorizations based on ratings assigned to instruments and issuers as well as on type of issuer, approved markets, currency and term of the instruments.

The Treasury Department maintains a portfolio of short-term liquid assets, largely made up of liquid investments, advances to banks and other inter-bank facilities to ensure that the Bank has sufficient liquidity to meet its short-term needs.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Residual contractual maturities of financial liabilities

As of December 31, nominal cash flows of financial liabilities for each period are as follows (in thousands of colones):

Obligations:	Balance	Nominal cash flows	Years					More than 5 years
			1	2	3	4	5	
Demand obligations with the public	447,221,906	447,221,906	447,221,906	-	-	-	-	-
Term obligations with the public	995,972,352	1,260,218,282	961,999,194	151,079,992	75,162,392	-	71,971,048	5,656
Demand obligations with entities	25,600,027	25,600,027	25,600,027	-	-	-	-	-
Obligations with financial entities	315,260,452	332,160,341	189,026,506	52,937,329	27,262,503	-	47,615,104	15,318,899
	<u>1,784,054,737</u>	<u>2,065,200,556</u>	<u>1,623,847,633</u>	<u>204,017,321</u>	<u>102,424,895</u>	<u>-</u>	<u>119,586,152</u>	<u>15,324,555</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

iv. Market risk

Market risk is the risk that the value of a financial asset held by the Bank will decrease as a result of changes in interest rates, foreign exchange rates, equity prices and other financial variables, as well as the market's reaction to political and economic events due to underlying gains and losses. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

v. Currency risk

The Bank is exposed to currency risk when the value of its assets and liabilities denominated in foreign currency is affected by exchange rate variations and the corresponding amounts are mismatched.

As of December 31, 2020, the Bank has monetary assets and liabilities that are denominated in currencies other than the Costa Rican colon.

Currency risk is controlled by limits established by management and a daily restriction imposed by BCCR, which allows a maximum variation of 4.00% over total equity expressed in US dollars.

The Bank is exposed to the effects of exchange rate fluctuations and, therefore, reviews its exposure limits on a daily basis. The Bank also uses indicators to monitor the sensitivity of its net foreign currency position to expected changes in the exchange rate with respect to the capital base.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(a) Monetary position in foreign currency

As of December 31, 2020, assets and liabilities denominated in foreign currency are as follows:

	US dollar	Canadian dollar	Euro	Pounds sterling
<b>Assets</b>				
Cash and due from banks	395,336,495	8,055,429	2,266,196	118,121
Investments in financial instruments	185,239,826	-	-	-
Loan portfolio	1,637,297,227	-	350,521	-
Accounts and fees and commissions receivable	3,040,785	2,170	-	-
Investments in other companies	904	-	-	-
Other assets	6,856,655	64,316	-	-
<b>Total assets</b>	<b>2,227,771,892</b>	<b>8,121,915</b>	<b>2,616,717</b>	<b>118,121</b>
<b>Liabilities</b>				
Obligations with the public	1,644,413,955	2,294,665	1,871,255	-
Obligations with entities	502,085,233	-	-	-
Other accounts payable and provisions	32,915,009	2,270,047	-	-
Other liabilities	3,987,710	-	20	-
<b>Total liabilities</b>	<b>2,183,401,907</b>	<b>4,564,712</b>	<b>1,871,275</b>	<b>-</b>
<b>Excess of assets over liabilities</b>	<b>44,369,985</b>	<b>3,557,203</b>	<b>745,442</b>	<b>118,121</b>

Monetary positions are not hedged. The Bank considers its positions to be acceptable since it can buy or sell US dollars or other currencies in the market when necessary.

(b) Ordinary shares in foreign currency

As of December 31, 2020, the Bank's equity included ordinary shares for a total of US\$427,372,354, equivalent to ¢226,449,722.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

(c) Term matching for assets and liabilities in foreign currency

As of December 31, 2020, the asset and liability term matching report (expressed in thousands of US dollars) for items denominated in foreign currency sent to SUGEF and prepared in conformity with the Financial Data Class section of the SUGEF's SICVECA Information Manual is as follows:

	Days						Total
	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	84,527	-	-	-	-	-	84,527
Minimum legal deposit in BCCR	96,566	23,276	18,829	22,754	47,207	46,769	320,058
Investments	4,422	77,529	8,684	-	10	9,390	185,240
Loan portfolio	122,951	35,738	42,445	27,385	89,093	97,062	1,715,885
Total recovery of assets	308,466	136,543	69,958	50,139	136,310	153,221	2,305,710
Obligations with the public	488,397	123,917	100,167	121,097	249,644	248,222	1,641,009
Obligations with financial entities	26,589	30,725	28,911	40,798	84,436	112,241	500,523
Charges payable	-	8,642	-	-	-	-	8,642
Total maturity of liabilities	514,986	163,284	129,078	161,895	334,080	360,463	2,150,174
Gap	(206,520)	(26,741)	(59,120)	(11,756)	(197,770)	(207,242)	(155,336)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Sensitivity analysis

As of December 31, 2020, the sensitivity analysis for the net position in foreign currency (total assets in foreign currency minus total liabilities in foreign currency) is based on the sale reference rate for the US dollar. The position of the US dollar is 99.5% of the total net position in foreign currency and is the vehicle currency to acquire currencies other than the US dollar.

As of December 31, 2020, the maximum annual expected variation of the reference buy exchange rate of ¢70.73 has been determined through the calculation of a Value at Risk indicator, based on the historical analysis methodology, with a 99% confidence level and over a one-year holding period. Based on such holding period, the positive or negative effect of the increase or decrease in the exchange rate of the colon with respect to the US dollar for the period ended December 31 is as follows:

	<u>2020</u>
<u>Effect on profit or loss</u>	
Exchange rate variation	
Assets	¢ 158,258,661,244
Liabilities	(154,847,366,018)
Net effect on profit or loss	¢ <u>3,411,295,226</u>

vi. Operational risk

Operational risk is the risk of direct or indirect loss to which the Bank is exposed resulting from external events, human error or ineffective or faulty processes, procedures, systems or controls. All Bank's businesses and supporting activities are exposed to operational risk in any form, which may give rise to financial losses, regulatory sanctions and reputational damage.

Responsibility for implementing the Operational Risk Management Framework is assigned to senior management in each business area and functional units to ensure ongoing operational risk management.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

This responsibility is supported by operational risk management standards such as:

- implementation of the Operational Risk Management Framework;
- appropriate segregation of duties;
- requirements for the effective reconciliation and monitoring of transactions;
- compliance with legal and regulatory requirements;
- documentation of controls and procedures;
- communication and application of guidelines for business conduct;
- risk mitigation, including insurance where this is effective;
- reporting of operational losses and proposed remedial actions;
- comprehensive plan to restore activities and ensure that services are provided, including plans to resume key operations and the use of internal or external facilities;
- development of contingency plans;
- employee training; and
- personnel development through leadership and performance strategies

The aforementioned Bank policies are supported by a program of periodic reviews conducted with the oversight of the different supporting units, including the Operational Risk Unit. Follow-up activities provide an early warning of emerging events that require timely action of management to avoid major issues. Follow-up activities also enable the review and analysis of the risk profile in respect of the risk appetite to determine the situations that will soon exceed or have exceeded certain limits.

The results of these reviews are documented and submitted to the Corporate Risk Committee and the board of directors periodically.

vii. Capital risk

As of December 31, 2020, Costa Rican banking legislation requires private banks to maintain minimum paid-in capital greater than or equal to ₡16,970 million as well as equity for an amount greater than or equal to 10% of risk-weighted assets, including off- the statement of financial position financial instruments.

As of December 31, 2020, the Bank's capital requirement based on its risk-weighted assets pursuant to SUGEF regulations is determined as described below.

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The Bank analyzes its regulatory capital considering the following:

Tier I capital: ordinary and preferred paid-in capital plus reserves.

Tier II capital: calculated as the sum of equity adjustments for property revaluations up to a maximum of 75% of the adjustments to the fair value of financial instruments at fair value through other comprehensive income, additional paid-in capital, prior period retained earnings and profit or loss for the period, less statutory deductions.

Deductions: Investments in other companies and loans granted to the controlling company of the same financial group or conglomerate are to be deducted from the sum of primary and secondary capital.

Risk-weighted assets: Assets and contingent liabilities are weighted according to the risk grade established by regulations plus a price risk adjustment per capital requirements.

The Bank's policy is to maintain a strong capital base so as to maintain a balance between shareholder capital and return on investment. Throughout the year, the Bank has complied with capital requirements and no significant changes were made to its capital management.

As of December 31, the Bank's Tier I and Tier II capital is as follows:

	<u>2020</u>
Tier I capital:	
Paid-in capital	€ 226,449,722,072
Legal reserve	<u>19,493,940,072</u>
	<u>245,943,662,144</u>
Tier II capital:	
Revaluation adjustment	3,505,615,207
Non-capitalized contributions	14,958,140
Prior period retained earnings	8,912,279,653
Profit or loss for the period, net of appropriation to legal reserve	<u>1,761,110,417</u>
	<u>14,193,963,417</u>
Equity adjustments:	
Investments in other companies	<u>(557,006)</u>
	<u>(557,006)</u>
Total capital base	€ <u><u>260,137,068,555</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2020, the capital adequacy ratio (CAR) has been kept above the statutory ratio of 10%, maintaining a normal risk rating.

viii. Asset laundering risk

The Bank is exposed to the risk that products and services could be utilized to conceal funds derived from illegal activities. This situation could lead to sanctions for violation of Costa Rican legislation on asset laundering prevention (Law No. 8204 and related regulations) and could damage the Bank's reputation.

The Bank has implemented controls to reduce and prevent the laundering of assets in the form of policies and procedures that adhere to the highest standards and are consistent with both international standards and parent company policies.

Those policies include the "Know Your Customer" asset laundering prevention policy and the "Know Your Employees" policy. All personnel receive ongoing anti-asset laundering training.

The Bank periodically monitors customer accounts based on risk rating in order to identify potential suspicious transactions and to report suspicious transactions to the Financial Intelligence Unit when necessary.

ix. IT risk

IT risk is the risk of economic loss derived from an event related to access to or use of technology, affecting the development of the entity's business processes and risk management by jeopardizing the information's confidentiality, completeness, availability, efficiency, reliability and timeliness.

x. Legal risk

Legal risk is the risk of losses due to the incorrect application of, erroneous interpretations in the application of or failure to apply Costa Rican laws and regulations. Noncompliance with laws and regulations could lead to warnings from local regulatory authorities, economic sanctions or penalties that could damage the Bank's reputation.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

28. Fair value

Fair value estimates are made at a specific date based on market information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given date. These estimates are subjective in nature and involve uncertainties and matters of significant judgment; therefore, they cannot be determined with precision. Estimates could vary significantly if changes are made to those assumptions. In conformity with IFRS, underlying the definition of fair value is a presumption that the Bank is a going concern without any intention to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that the Bank would receive or pay in a forced transaction, involuntary liquidation or distress sale.

As of December 31, the fair value of financial instruments is as follows:

	2020	
	Carrying amount	Fair value
Cash and due from banks	¢ 329,347,576,040	329,347,576,040
Investments:		
At fair value through profit or loss	¢ 15,739,833,359	15,739,833,359
At fair value through other comprehensive income	¢ 69,372,839,203	69,372,839,203
At amortized cost	¢ 75,343,416,072	75,343,416,072
Loan portfolio	¢ 1,562,970,090,609	1,547,517,045,619
Demand deposits	¢ 447,221,905,832	447,221,905,832
Term deposits	¢ 995,972,352,131	1,196,586,529,024
Financial obligations	¢ 341,692,714,604	288,774,670,219

The following assumptions were used by management to estimate the fair value of each class of financial instruments in the statement of financial position:

- The carrying amounts of cash and due from banks, accrued interest receivable, accounts receivable, demand deposits and customer savings deposits, accrued interest payable and other liabilities approximate fair value due to the short-term maturity of these instruments.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

- The fair values of investments are determined based on the reference price for the share or bond published in stock markets and in electronic stock information systems, except for investments at amortized cost, which correspond to repurchases, overnight deposits and term certificates of deposit, for which the amortized cost is very similar to their fair value.
- The fair value of loans is determined by creating portfolios with similar financial characteristics. The fair value of each class of loan is calculated by discounting cash flows expected until maturity. The discount rate is determined by comparing market benchmark rates, the results of analyses of the rates used by other local financial institutions and projections made by the Bank's management, such that an average rate is determined that reflects the inherent credit risk and interest rate risks. Given that the portfolio is relatively new and largely comprised of mortgage loans for terms of longer than five years, applying the present value method gives rise to a difference in fair value, which diminishes as the portfolio matures. Assumptions related to credit risk, cash flows and discounted interest rates are determined by management using available market information.
- The fair value of term deposits and financial obligations was calculated by discounting committed cash flows. The discount interest rate used represents the average market rate, determined by management according to the term, amount and currency, for term deposits and financial obligations with similar maturities.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Fair value of financial instruments

As of December 31, financial instruments measured at fair value by the level in the fair value hierarchy are as follows:

	2020			Total
	Level 1	Level 2	Level 3	
Investments at fair value through other comprehensive income	69,372,839,203	-	-	69,372,839,203
Investments at fair value through profit or loss	-	15,739,833,359	-	15,739,833,359
Investments at amortized cost	-	75,343,416,072	-	75,343,416,072

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The table above sets out information about financial instruments measured at fair value using a valuation method. The fair value hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: significant inputs that are unobservable for the asset or the liability.

29. Concentration of assets and liabilities by geographic region

As of December 31, assets and liabilities are concentrated by geographic region as follows:

	<u>2020</u>
<u>Assets:</u>	
Costa Rica	¢ 2,031,196,103,958
Central America	1,313,538,505
Rest of North and South America	2,937,425,230
Caribbean	322,095,040
United States of America	57,241,657,721
Europe	896,233,827
Africa	186,647
Asia	229,523,970
Oceania	22,204,360
Total assets	¢ <u><u>2,094,158,969,258</u></u>
<u>Liabilities:</u>	
Costa Rica	¢ 1,736,962,694,612
Central America	30,883,951,595
Rest of North and South America	14,713,776,788
Caribbean	5,269,367,293
United States of America	33,251,812,132
Europe	7,366,936,924
Africa	50,598,008
Asia	2,997,764,649
Total liabilities	¢ <u><u>1,831,496,902,001</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

30. Agreements

As of December 31, 2020, the Bank's lease agreements include the following:

- a) Operating leases in shopping centers and other commercial premises for branch and ATM locations, with the following characteristics:
- Most leases are denominated in US dollars.
  - Leases are operating leases with security deposits and any improvements shall become the property of the lessor on expiration or termination of the agreement.
  - Leases contain automatic renewal clauses.
  - Leases may be terminated by either party provided that advance notice is given in accordance with the time period established in the respective agreement.
- b) Leases for warehouses, mainly to hold assets received in lieu of payment or assets in foreclosure.

As of December 31, 2020, the Bank has the following lease agreement:

- a) Operating lease of two buildings where the Bank's main offices are located. The lease term is 10 years, renewable for 5 years for four consecutive times. The lease amount is US\$208,823, which shall increase 3% per annum. In the event of early termination of the lease during the first lease term, the lessee must pay the equivalent of the total installments remaining until the end of the initial lease term.

For leases in effect, projected lease payments for the upcoming years are as follows:

Year		2020
1 year	¢	2,793,090,072
2 years		2,690,909,813
3 years		2,511,147,891
4 years		2,250,497,761
5 years		2,206,374,446
More than 5 years		8,563,456,592
	¢	<u>21,015,476,575</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

31. Contingencies

(a) Tax

- a.1 In the first half of 2008, the Tax Administration performed a tax review of the income tax returns filed and income tax payments made by the Bank for fiscal years 2000 to 2005. The tax review initially covered several aspects that were later dismissed. It issued a notice of deficiency related to a difference in the proportionality of deductible expenses. Consequently, the Bank paid a total of ¢729,207,358 for the income tax adjustments, as follows:

Principal	¢	331,155,211
Interest		307,932,459
Fine and interest		<u>90,119,688</u>
	¢	<u><u>729,207,358</u></u>

The Tax Court declared exhaustion of the administrative venue in October 2013. Thus, the issue shall be discussed at the Courts of Justice.

Regarding the payment of interest and fines, an administrative litigation claim was filed before the competent courts, arguing that the treatment given to the Bank was discriminatory in respect of the other entities of the national banking system, which received a remission of interest and fines by the Tax Administration. Additionally, it was claimed that the sanctioning proceedings could not continue as intended by the Tax Administration, violating due process, because the Tax Court established a new basis of assessment of tax and the Tax Administration had to initiate new sanctioning proceedings, since any related payments should have the same treatment as the payment of principal. In this regard, a ruling was handed down in first instance, contrary to the interests of the Bank, which was appealed before the First Chamber of the Supreme Court. Other courts of the same instance have supported the argument presented by the Bank, which have also been confirmed by the Court of Appeals.

In respect of Ruling TFA-85-2010 of April 12, 2010, issued by the First Chamber of the Tax Court, the Tax Administration and the Office of the Attorney General of the Republic filed an appeal for damages in the administrative litigation venue to declare the aforementioned ruling as injurious to the interests of the Costa Rican State and annul that ruling accordingly. Through ruling No. 21-2013 of March 25, 2013, the Administrative Court upheld the claim against the Bank in all respects. A motion for reconsideration and appeal to a higher court was filed in due time and form, since the Bank considers that the above resolution disregards the existence of banking regulations, while other sections of the Administrative Court have indeed admitted an accepted in favor of other banks what was dismissed by the Eighth Section.

(Continued)



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

On February 8, 2018, the National Large Taxpayer Administration notified Settlement Resolutions No. LIQ10R-002-2018 and No. INFRAC.LIQ10R-003-18, whereby it sought to execute through the administrative venue the payment of the principal, interest and fines corresponding to the adjustment made to fiscal years 2000, 2001, 2002, 2003, 2004 and 2005, as set forth in Administrative Court ruling No. 21-2013 and subsequently confirmed by the judgment N° 828-2015 of the First Chamber. The Bank filed an appeal for annulment and reversal against both rulings on February 15, 2018, claiming, among other, the lack of jurisdiction of the National Large Taxpayer Administration to execute and settle judicial rulings.

The National Large Taxpayer Administration rejected all appeals for annulment filed by the Bank, as notified on April 24, 2018. On May 2, 2018 the Bank filed another appeal against both resolutions before the Tax Court, reiterating the lack of jurisdiction of the tax authorities. However, the General Finance Administration issued resolution No. RES-DGH-040-2018 on May 30, 2018, whereby it rejected the alleged “request for remission of interest and fines.”

Regarding the appeal filed, the National Large Taxpayer Administration notified the Bank of resolution No. RES-DGH-059-2018, which admitted the appeal for annulment, recognizing the existence of an error in the interpretation of that decided by the judicial instances and that the manner in which the aspects of the sanction were heard was inadmissible, since the appeal should be resolved in the administrative instance with jurisdiction. However, in relation to the remission of interest, it ratified that set forth in resolution No. RES-DGH-040-2018 and confirmed the inadmissibility of the remission requested. On August 16, 2018, the Bank filed an appeal against resolution No. RES-DGH-059-2018.

Through Resolution No. 057-2019 of March 13, 2019, the Tax Court annulled the appealed tax assessment, given that the settlement resolution occurred before the resolution of remission of interest by the General Finance Administration. Subsequently, the National Large Taxpayer Administration issued Settlement Resolution No. LIQ10R-121-19, notified to Scotiabank on May 30, 2019, which established the amount of ¢131,781,357 as increase in the income tax for years 2000 to 2005, as well as ¢300,025,487 as interest on that debt.

On June 7, 2019, the Bank filed an appeal against that settlement resolution. In ruling No. 490-P-2019, notified to the Bank on September 27, 2019, the Tax Court once again rejected the appeal and confirmed the resolution. Therefore, the Bank had to pay ¢431,806,844, whereby it settled the owed amounts.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As to the sanctioning proceedings related to this case, in ruling No. 505-S-2019 the Tax Court declared the annulment of resolutions No. INFRAC.LIQ.AU10R-030-2018 and No. INFRAC.LIQ10R-003-18 and all related acts. It also ordered the administrative sanctioning file to be resent to the National Large Taxpayer Administration so that it would notify the sanctioning resolution and grant the legal terms to file the remedies considered appropriate.

Regarding the payment of the principal and interest, the case is closed given that the Bank paid the owed amounts. As to the sanctioning proceedings, management and the legal counsel and tax advisors consider that it is likely (exceeding 50%) that a favorable final ruling will be handed down. Accordingly, management does not consider it necessary to book a provision therefor.

- a.2 The income tax returns of Banco Interfin, S.A. (BI) (merged with the subsidiary Scotiabank de Costa Rica, S.A. in 2007) for fiscal years 1999-2005 were subject to a tax review initiated by the Tax Administration in 2006. On November 12, 2007, BI received a notice of deficiency for  $\text{¢}6,679,899,566$  because the Tax Administration did not accept the method used to calculate the income tax. The Tax Administration assessed a fine amounting to  $\text{¢}1,669,974,892$  and, as of July 28, 2008, interest amounted to  $\text{¢}5,601,205,949$ , in spite of the fact that in prior years the Tax Administration had authorized that method, which was in effect until 2006. On December 24, 2007, BI filed a claim against the aforementioned notice of deficiency. On September 30, 2008, the National Large Taxpayer Administration notified BI of ruling No. DT10R-033-07 dated February 29, 2008, dismissing the claim filed in its defense. On May 19, 2008, a motion for reconsideration with an appeal to a higher court was filed against the aforementioned ruling, which was dismissed through ruling No. AU-10-R130-008 dated July 22, 2008 and notified on July 23, 2008. Accordingly, the case was taken to the Tax Court. On September 25, 2008, the National Large Taxpayer Administration notified BI of ruling No. INFRAC. DT10R-182-08 dated September 17, 2008 whereby the penalty or fine was dismissed (remitted). On December 16, 2008, through ruling No. 151-08 dated December 8, 2008 and in accordance with Official Letter No. DGT-439-2008 dated July 25, 2008, interest payable by BI was remitted by the Tax Administration.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

On February 21, 2012, through ruling No. TFA-070-2012 dated February 20, 2012, the Tax Court partially admitted the motion for reconsideration and rejected the following: (i) adjustment for taxable income declared as nontaxable income (foreign exchange differences for investments in Costa Rica, paragraph c), Article 23 of the *Income Tax Law*); (ii) adjustment for rejected finance costs for dematerialized term certificates of deposit; (iii) adjustment for finance costs for dematerialized term certificates of deposit; (iv) partially revoked adjustment for nondeductible expenses related to nontaxable income and deductible expenses related to taxable income; (v) an order to return the file to the National Large Taxpayer Administration to make the corresponding calculation for a new tax assessment.

According to a decision of the Tax Court, the administrative proceedings opened by the National Large Taxpayer Administration were concluded in February 2012. Subsequently, the National Large Taxpayer Administration issued a tax assessment in June 2013, for an income tax adjustment and interest for ¢5,452,656,823 and ¢6,418,147,485, respectively. As a result, a new motion for reconsideration and appeal to a higher court was filed against the aforementioned resolution, which was duly resolved and the administrative venue was thus exhausted in September 2014 with regard to the payment of that resolved by the Tax Court. Furthermore, interest was remitted by the Tax Administration since August 2013.

The tax advisors and management estimate that obtaining a favorable outcome is probable based on the regulations for the determination of nondeductible expenses provided under Decision No. 16-05 of the Tax Administration; the fact that the methodology applied to calculate the tax base had been previously agreed by the banking sector and regulatory and tax authorities; and particularly, the soundness of the technical arguments in respect of the lawfulness and diligence of management's defense and the fact that the tax adjustments were substantially unfounded. Notwithstanding, management has applied conservative criteria and, in 2012, booked a provision in the amount of ¢2,939,720,468, corresponding to a reliable estimate of the possible tax obligation. This decision was communicated to SUGEF.

On September 28, 2012, the Tax Administration notified ruling No. SFGCN-AL-074-2012, issued on September 25, 2012, against which a motion for reconsideration with an appeal to a higher court was filed on July 18, 2012.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The aforementioned motion was partially admitted through ruling No. OT10R-117-12 issued on October 23, 2012. An appeal was filed with the Tax Court against the above ruling on November 15, 2012. Through ruling No. TFA No. 131-2013 dated April 9, 2013, the Tax Court partially admitted the aforementioned appeal and ordered the Tax Administration to perform a new tax assessment that includes the interest remitted for this case.

On July 30, 2013, ruling No. SFGCN-AL-107-13 was notified, which determined a new assessment of taxes payable by the Bank and established principal and interest in the amount of ¢5,798,622,831 and ¢1,623,700,750, respectively.

On September 4, 2013, a motion for reconsideration was filed with the National Large Taxpayer Administration against ruling No. SFGCN-AL-107-13 issued on July 22, 2013, requesting to fully eliminate the collection of interest in connection with the determination proceedings against the Bank for fiscal years 2000 to 2005. Through ruling No. DGH-030-2013 issued on August 23, 2013 and notified on September 16, 2013, the Ministry of Finance accepted the recommendation of the Tax Administration issued in Official Letter No. DGT-650-2013 on remission of interest calculated from July 24, 2008 through July 23, 2013, arising from official income tax assessments performed for the tax years from 2000 to 2005. Remitted interest amounts to a total of ¢1,623,700,750.

Through ruling No. TFA-328-2014 issued on July 8, 2014, the proceedings were concluded. Additionally, through rulings No. SFGCN-AL-074-12 dated September 25, 2012, No. OT10R-117-12 dated October 23, 2012 and No. OT10R-099-13 dated November 21, 2013, the Tax Court partially revoked the payment of taxes for tax years 2004 and 2005; accordingly, the amounts of ¢582,283,290.48 and ¢266,025,543.35, respectively, should be reduced from the taxable base since such amounts correspond to nontaxable income arising from foreign exchange differences from investment securities pursuant to paragraph c) of Article 23 of the *Income Tax Law*.

Furthermore, the Court confirmed the appealed ruling and ordered the Tax Administration to perform a new tax assessment for tax years 2004 and 2005.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

According to rulings No. SFGCN-AL-074-12 dated September 25, 2012 issued by the National Large Taxpayer Administration and No. OT10R-117-12 dated October 23, 2012, the remaining tax liabilities for the periods from 1999 to 2003 are as follows:

Fiscal year		Income tax adjustment
1999	¢	276,963,666
2000		487,713,681
2001		653,693,001
2002		1,056,045,485
2003		1,170,684,896
Total	¢	<u>3,645,100,729</u>

On September 26, 2014, the Tax Administration issued ruling No. SFGCBN-AL-189-14 dated September 24, 2014, whereby a new calculation was made of the adjustment of income taxes for the 2004 and 2005 periods. Notwithstanding the above, an official recalculation for the 2005 tax year was notified. Through ruling No. AU10R-162-14 issued on October 7, 2014, the National Large Taxpayer Administration amended ruling No. SFGCBN-AL-189-14 as a result of a calculation error. The corresponding adjustment made as of the 2005 fiscal year amounted to ¢1,017,266,709.

Accordingly, the total income tax payment was established as follows:

Fiscal year		Income tax adjustment
1999	¢	276,963,666
2000		487,713,681
2001		653,693,001
2002		1,056,045,485
2003		1,170,684,896
2004		1,015,964,672
2005		1,017,266,709
Total	¢	<u>5,678,332,110</u>

As a result of the tax payment process, the Tax Administration sought payment for a total of ¢5,678,332,110 corresponding to the income tax adjustment as detailed above, which was paid by the Bank under protest on November 18, 2014.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Through the resolution dated February 14, 2018, the Administrative Court summoned the parties to the trial, to be held on August 1, 2019. The trial was held on that date and all necessary case activity was performed. The notification of the resolution dated August 13, 2019 at 16h20 was received on August 14, whereby the parties were given three days to refer to and make the claims they consider relevant in relation to the evidence submitted by the plaintiff. On September 19, 2019 the judgment was notified, which dismissed the claim filed by the Bank against the State, in addition to the motion to declare administrative acts as detrimental to the interest of the State. Consequently, the Bank filed an appeal for reversal on October 11, 2019; the decision on admissibility of the appeal is pending.

As a result of the analysis performed by the Bank's management and in the opinion of the tax advisors, the probability of obtaining a favorable outcome in this case is considered to be from 50% to 90%.

- a.3 Banco Interfin, S.A. (BI) filed its final income tax return and paid the amount of ¢545,136,230 in September 2007 as a result of its merger by absorption with Scotiabank from October 1 of that year. At the 2007 year-end, the subsidiary Scotiabank de Costa Rica, S.A. declared the aforementioned sum as a tax credit, which was applied in the 2008 income tax return. In 2009, the National Large Taxpayer Administration filed administrative proceedings since it considered that the final income tax return of BI was not provisional and, therefore, no tax credit was recognized in favor of Scotiabank. The National Large Taxpayer Administration challenged the tax credit and after hearing the corresponding arguments, the Tax Court still maintains the opinion that the tax return filed by BI is provisional. Consequently, since the jurisprudence of that administrative level confirms the opinion of the Bank's management and of its tax advisors, the probability of obtaining a favorable outcome in this case is considered to be from 50% to 90%.

In this regard, the Bank filed an ordinary trial in the administrative litigation venue to review the resolution of the Administrative Tax Court in connection with the lack of evidence to demonstrate the sum used as tax credit. In addition, this investigation refers to the way in which the 2007 income tax return was filed, rather than the use given in 2008. Therefore, any resolution issued by the Courts of Justice will not be applicable against the Bank, since the statute of limitations has lapsed in favor of the Bank.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

On July 25, 2016, the First Section of the Second Judicial Circuit of Goicoechea, San José, (Annex A) of the Administrative Court issued Ruling No. 70-2016 regarding the processing of file No. 13-007925-1027, whereby it expressly declared that it “partially admits the objection of lack of legal grounds filed by the State. Accordingly, the claim filed by Scotiabank de Costa Rica, S.A. against the State was partially admitted, understanding as rejected the matters not expressly approved. Ruling TFA-522-2012 issued on November 6, 2012 by the First Chamber of the Administrative Court was partially annulled and it orders the recognition of the amount of  $\text{¢}545,136,239$  as a tax credit in favor of Scotiabank de Costa Rica, S.A. and orders the State to pay the legal costs”. The Office of the Attorney General of the Republic filed an appeal for annulment against that ruling. On August 27, 2020, Scotiabank filed the response to the appeal for annulment. To date, the resolution of the First Chamber is pending.

- a.4 On October 28, 2014, the National Large Taxpayer Administration notified the Bank of the beginning of a tax review for fiscal years 2010 to 2013. As a result of this review, on March 27, 2015, the Tax Administration notified the Bank of a Provisional Regularization Proposal, given that the Tax Administration made an adjustment considering an increase in the tax base due to the reclassification of income declared as non-taxable and expenses declared as deductible, which it considered to be taxable and non-deductible, respectively. The adjustment in the tax payment proposed by the National Large Taxpayer Administration amounted to  $\text{¢}4,504,817,717$ , plus interest.

On April 3 and 13, 2015, the Bank presented its arguments against the Provisional Regularization Proposal and Proposed Sanctioning Ruling, as it considered them contrary to the body of law, which reserves the right to challenge them at the corresponding procedural time and reiterating the position of the arguments filed against such Proposal.

On April 17, 2015, the National Large Taxpayer Administration notified the Bank of the Provisional Regularization Proposal whereby it confirms the adjustments made by the Tax Administration in the Provisional Regularization Proposal.

In September 2012, a number of tax provisions were amended, such as article 144 of the Tax Standards and Procedures Code. The amendment was relevant because it required all taxpayers to pay an income tax readjustment, without there being a ruling from an administrative first instance, but only with the determination by the tax reviewers. In July 2014, the constitutional motion filed against the aforementioned article 144 of the Tax Standards and Procedures Code was resolved.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Through Vote No. 2016-012496 of August 31, 2016, the Constitutional Chamber declared Article 144 unconstitutional, considering that the Article infringed due process and the taxpayers' right to defend themselves, because the Tax Administration was entitled to demand payment of the amount it determined before the taxpayers could file the corresponding legal remedies. Since the issue of that ruling, the National Large Taxpayer Administration resumed the administrative proceedings and notified Notice of Deficiency and Observations No. 10-040-010-041-031, confirming the adjustments made.

On November 24, 2016, Scotiabank de Costa Rica, S.A. filed an administrative claim before the National Large Taxpayer Administration against the aforementioned notice of deficiency and requested the declaration of the statute of limitations regarding the National Large Taxpayer Administration's ability to review and issue any adjustment to fiscal years 2010 and 2011 and declaration of the nullity of the proceedings. Additionally, it requested declaration of the inadmissibility of the adjustment since it contravenes the regulations and current jurisprudential criteria.

On November 27, 2017, the National Large Taxpayer Administration notified Determination Resolution No. DT10R-129-17, which rejects the administrative claim filed by the Bank against Notice of Deficiency No. 1-10-040-14-010-041-03. On January 31, 2018, the Bank filed a motion for reconsideration before the National Taxpayer Administration against the determination resolution.

On August 27, 2018, resolution No. AU10R-085-18 was notified, which confirmed the full amount of the adjustment. On October 9, 2018, the Bank filed an appeal before the Tax Court.

Finally, on August 7, 2019 the Tax Court notified resolution No. 341-P-2019, in which it partially admitted the appeal filed by the SBCR. On one hand, it confirmed the adjustments relating to the rejection of donation expenses and the decrease in non-deductible expenses on non-taxable income. On the other hand, it annulled (in favor of the Bank) the adjustment related to non-taxable income arising from the sale of shares of the non-domiciled entity, VISA.

Consequently, on October 3, 2019, the Bank paid under protest  $\text{¢}3,539,307,817$ , (approximately \$6,113.533) corresponding to the tax adjustments for fiscal years 2011 and 2013.

Regarding the claims dismissed by the Tax Court, the Bank will file proceedings leading to a declaratory judgment before the Administrative Court.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Management and the tax advisors consider that it is likely that most of the adjustments presented in this case will be approved. However, a provision was created in the amount of ¢598,259,805 (undiscounted amount ¢756,779,565), which corresponds to the present value of the amount that it considers would be necessary in the event of an unfavorable ruling.

*The Bank of Nova Scotia (Costa Rica), S.A., (merged with Scotiabank de Costa Rica, S.A.)*

a) Tax proceedings

*a.1 Municipal license tax Banco Interfin S.A.*

There is a claim with the Municipality of San José requesting the reimbursement of the payment of commercial license tax in the amount of ¢411,311,914 by Banco Interfin, even though it had already been merged through absorption with Scotiabank.

On February 3, 2009, the transfer of municipal license tax No. 1430899080001 was requested, from Banco Interfin S.A. to Scotiabank de Costa Rica S.A.

On July 7, 2009, Scotiabank de Costa Rica S.A. submitted a request for duplicate payments of municipal license tax, given that it had been paid even though Banco Interfin no longer had economic activities, thus paying the same tax twice.

The request was rejected by the Tax Management Department of the Municipality of San José, through official communication No. DGT-098-1-2016, dated September 9, 2016, claiming that the merger was not communicated until 2009.

The legal representatives filed a motion for reconsideration and an appeal. The motion for reconsideration was rejected through resolution No. DGT-0853-2017 by the Tax Management Department of 10h30 of October 26, 2017, while the appeal was rejected through resolution No. ALCALDÍA-02241-2017 of November 15 of that same year.

In view of the Municipality's negative rulings, the corresponding appeal was filed before the Third Section of the Tax Court, which acts as indirect higher entity.

On September 10, 2019, ruling No. 438-2019 by the Third Section of the Tax Court was notified, which denied the reimbursement of the balance, thus exhausting the administrative venue. Thus, the Bank must assess whether to continue the claim through the judicial venue by filing a lawsuit.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

*a.2 Tax case 1999-2005 Banco Uno, S.A.*

On November 12, 2007, a notice of deficiency in the amount of ¢747,540,090 was communicated to Banco Uno, S.A.

An administrative appeal was filed before the Large Taxpayer Administration against such notice of deficiency, which was dismissed. A motion for reconsideration and appeal to a higher court was filed against the decisive ruling, which was also dismissed. On August 14, 2008, the Bank appeared before the Tax Court to present the substantiation of the appeal, timely presented in a subsidiary manner. The Tax Court issued a ruling, which was partially favorable to the Bank. By means of Resolution No. 161-08, dated March 8, 2008, the Tax Authorities remitted interest on income tax for the periods 2000, 2001, 2002, 2003, 2004 and 2005.

Through Resolution No. SFGCN-AL-031-12 received on June 29, 2012, the National Large Taxpayer Administration presented the total debt payable, consisting of principal and interest in the amount of ¢641,891,119 and ¢746,824,237, respectively. However, Tax Court Ruling No. 24-2014 dated January 30, 2014 confirmed the remission of interest and the tax assessment issued by the Costa Rican Tax Administration.

Nevertheless, a new tax assessment was issued by the Tax Administration, against which a motion for reconsideration and appeal to a higher court was filed before the Tax Court. On October 31, 2014, a notice was received of Ruling No. TFA-672-2014, which resolved the appeal against the last settlement in the amount of ¢641,891,119, with no recourse. Payment was made under protest on December 4, 2014. The corresponding administrative proceedings were filed at court to refute the actions of the Tax Administration. Such proceedings are currently in process. If the outcome is favorable, the amount paid in December 2014, plus interest, will be reimbursed.

On December 4, 2014, a notice was received from the Administrative Court, indicating that the dates of the oral proceedings are July 2 and 3, 2015. The Court subsequently suspended the hearing. A new time and date for the oral proceedings are pending.

The management and tax advisors consider that there is reasonable probability of a favorable outcome for Banco Uno, S.A. in these proceedings, taking into account the steps taken to date, the grounds (of fact and of law) used in the claim and the administrative and judicial background of this case. Accordingly, management does not consider it necessary to book a provision therefor.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

*a.3 Tax case 1999-2003 Banco CMB (Costa Rica), S.A.*

Through Notice of Deficiency No. 1931000174345, the Tax Administration of San José assessed a fine in the amount of ₡131,767,418.25, equivalent to 25% of the adjustments made to the income tax returns for fiscal years 1999 to 2003.

On January 15, 2008, a formal administrative claim and appeal for annulment was filed against the aforementioned sanctioning notice of deficiency. The Tax Administration of San José rejected the appeal for annulment. Consequently, on September 6, 2011, a motion for reconsideration and appeal to a higher court was filed before the Tax Court.

Finally, on November 6, 2013, a brief was filed before the Tax Court to support the arguments included in the appeal, which was timely presented. A resolution from such Court is pending.

Nevertheless, through Tax Court ruling No. 052-2014, notified on February 27, 2014, the Court ruled in favor of Banco CMB, revoking all actions of the tax review corresponding to the determination proceedings, in view of the statute of limitations presented as part of the arguments to defend the case, which was accepted.

Management and the tax advisors consider that there is reasonable probability of a favorable outcome for the Bank in these proceedings, taking into account the steps taken to date, the grounds (of fact and of law) used in the claim and the administrative and judicial background of this case. Accordingly, management does not consider it necessary to book a provision therefor.

*a.4 Banco CMB (Costa Rica) S.A. – Income tax for fiscal year 2011*

On August 29, 2013, the National Large Taxpayer Administration notified the Bank of the beginning of a tax review related to income tax for fiscal year 2011.

On June 3, 2014, the Tax Administration notified the provisional regularization proposal, which proposed an adjustment to income tax for fiscal year 2011. The Bank did not agree; therefore it filed a brief containing pleadings and evidence against this proposal. However, the Final Regularization Proposal confirmed the determination made.

Since the Bank rejected the Regularization Proposal, the Tax Administration notified a jeopardy assessment of taxes on April 28, 2014, confirming the adjustment. On June 9, 2014, the Bank filed a formal appeal.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

On August 6, 2014, the Bank appeared before the Tax Court and provided grounds for the appeal filed. The Tax Court annulled the jeopardy assessment of taxes due to a defect in motivation.

On October 10, 2014, the Bank was informed of the suspension of the jeopardy assessment of taxes. Through Vote No. 2016-012496 of August 31, 2016, the Constitutional Chamber of the Supreme Court of Justice declared Article 144 unconstitutional and the version prior to the amendment in 2012 remained in effect.

On October 20, 2016, the Tax Administration communicated Notice of Deficiency No. 1-10-041-13-037-041-03, indicating an adjustment in the income tax for fiscal year 2011, determining additional tax in the amount of ₡675,073,027, plus interest, which as of that date amounted to ₡250,849,924, for a total of ₡925,922,951. On November 29, 2016, an administrative claim was filed against the aforementioned notice of deficiency. Based on the procedure in effect starting from the vote of the Constitutional Chamber, once the Administrative Claim against the Notice of Deficiency and Observations is resolved, the Final Resolution will be issued, which is pending.

On June 3, 2014, the Bank was notified of the sanctioning resolution proposal, against which it filed a claim. However, through the sanctioning resolution notified on April 22, the Tax Administration communicated the assessment of a fine in the amount of ₡168,768,257.

On June 9, 2014, an appeal for reversal was filed. Since the Tax Court annulled the jeopardy assessment of taxes, it also declared the annulment of the sanctioning resolution proposal. On October 20, 2016, a notice was received, whereby the Tax Court resumed the sanctioning proceedings, which is subject to the Final Resolution.

On November 29, 2016, an administrative claim was filed against the aforementioned notice of deficiency. In view of the current process, based on the vote of the Constitutional Chamber, the Large Taxpayer Administration issued Final Resolution No. DT10R-057-18 on May 18, 2018, at 14h00. This resolution rejected the appeal for annulment and the motion of statute of limitations. A term of 30 days was granted to file an appeal for reversal, which was filed on July 17, 2018, but was also rejected.

On March 22, 2019, an appeal was filed against the aforementioned resolution. The Bank is currently awaiting the decision on said appeal. On May 20, 2019, the brief of appearance and additional allegations was filed before the Tax Court.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Management and the tax advisors consider that there is reasonable probability of a favorable outcome for the Bank in these proceedings, taking into account the diligence in processing and providing grounds for the proceeding, the steps taken to date, the grounds filed against the adjustments and the evidence provided. Accordingly, management does not consider it necessary to book a provision therefor.

*Scotia Tarjetas, S.A. (merged with Scotiabank Costa Rica, S.A.)*

*a.1 Municipal license tax 2011 – 2012*

In December 2012, Citi Tarjetas de Costa Rica, S.A. (now Scotia Tarjetas, S.A.) received a notification from the Municipality of San José, claiming allegedly unpaid municipal license tax corresponding to fiscal years 2011 and 2012. The amount claimed is approximately ₡527 million, including the fine and interest. On that same month, the Bank filed its defense allegations.

On December 8, 2014, the Municipality of San José notified official communication No. FT-2013, which partially accepted the appeal for reversal filed, since the defense allegations were based on the fact that a procedure had been followed to discontinue the municipal licenses that were reclassified. Finally, the collection communication notified in December 2012 was annulled.

Our external legal counsel spoke with the Legal Department of the Municipality of San José and indicated that the reclassification is being annulled given that it was in relation to two municipal tax licenses that the Bank sought to discontinue. It is worth noting that while there are periods subject to review, the Municipality may initiate similar proceedings. On December 18, 2014, the Municipality notified official communication No. 989-DGT-Omiso-2014, which begins a new review process, but not only on one municipal license for years 2011-2012. A period of ten business days was granted for the Bank to file its response. Because of the holiday vacation period, this term elapsed mid-January 2015.

On January 5, 2015, a brief was filed against Official Communication No. 989-DGT-OMISO-2014. There have been no communications from the municipality since that date regarding the assessment of the municipal license tax for such periods. It is worth noting that while there are periods open to review, the municipality can initiate similar proceedings.

According to the probability of a favorable outcome analyzed with the tax advisors, management decided to provision 100% of the amount indicated as of the June 2015 close, for ₡223,606,866.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

*a.2 Tax proceedings 2012- 2013*

On September 9, 2016, the National Large Taxpayer Audit Area performed a tax review to confirm the veracity of the income tax returns filed by Scotia Tarjetas, S.A. in the fiscal years 2012 and 2013.

Through Provisional Regularization Proposal No. 1-10-86-016-022-31-03, notified on September 26, 2017, the following adjustments were communicated: i) readjustment of bad debt expenses; ii) rejection of expenses for Loyalty Programs and iii) adjustment due to the proportionality of nondeductible expenses and nontaxable income.

On October 12, 2017, Scotia Tarjetas, S.A. filed claims and evidence against the Provisional Regularization Proposal. The National Large Taxpayer Audit Area issued and notified the “Report on claims filed against Provisional Regularization Proposal No. 1-10-086-16-024-33-03”. The final hearing was summoned on November 14, 2016. It was held on November 17, 2017 and Regularization Proposal No. 1-10-086-16-27-341-03 was delivered on that date. Five days after the hearing, Scotia Tarjetas, S.A. expressed its full disagreement with the aforementioned regularization proposal.

On November 27, 2017, Notice of Deficiency and Observations No. 1-10-086-16-018-41-03 was notified, which determined that Scotia Tarjetas, S.A. must pay for the 2012 period a principal of ₡3,597,274,456. As of the date of issue of the aforementioned notice, that amount has generated interest amounting to ₡2,184,411,897, for a total of ₡5,781,686,353 (approximately \$10,143,309). For fiscal year 2013, a principal of ₡4,106,706,978 was determined. As of the date of issue of the notice of deficiency, that amount has generated interest amounting to ₡1,946,636,489, for a total of ₡6,053,343,467 (approximately \$10,619,901).

On January 17, 2018, a claim was filed against Notice of Deficiency and Observations No. 1-10-086-16-018-41-03.

Currently awaiting for the Large Taxpayer Administration to resolve the claim filed; a Final Resolution will be issued.

On November 22, 2018, an objection due to expiration was filed, given that more than 11 months have elapsed and the claim has not been resolved. The Bank is currently awaiting a decision regarding this objection.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

On November 1, 2019, Determination Resolution No. DT10R-211-19 was notified, which rejected the claim filed against the notice of deficiency and confirmed the adjustments determined. Similarly, there is a term of 30 days to file the corresponding motion, ending on December 13, 2019.

On December 13 the Bank filed the corresponding appeal for reversal. A resolution from the Tax Administration is pending.

Management and the tax advisors consider that there is reasonable probability of a favorable outcome for the Bank in these proceedings, between 50% and 90%.

*a.3 Tax proceedings 2016*

On November 9, 2018, the National Large Taxpayer Administration notified the Bank of a beginning of a tax review related to income tax for fiscal year 2016, along with the first request for information.

On July 23, 2019, the Tax Administration notified the Bank of a Provisional Regularization Proposal, document No. DGCN-SF-PD-44-2018-4-31-03, which indicated an additional tax amount of ¢3,121,636,897, (approximately \$5,476,556) payable to the State, plus ¢992,721,229 (approximately \$1,741,616) in interest generated as of the date of notification.

On August 8, 2019, the Bank filed its allegations against the Provisional Regularization Proposal.

On August 29, 2019, the National Large Taxpayer Division notified the bank of Notice of Deficiency and Observations, document No. DGCN-SF-PD-44-2018-23-41-03, which confirmed the additional tax debt determined in the Provisional Regularization Proposal.

The Bank filed an administrative claim against the notice of deficiency on October 10, 2019, in due form and time.

The Bank is currently waiting for the administrative claim to be resolved.

On July 23, 2019, the Tax Court notified to the Bank proposed sanctioning ruling No. DGCN-SF-PS-44-2018-15-5138-03, in conformity with Article 81 of the *Code of Tax Standards and Procedures*, which determined a penalty equivalent to 50% of the adjustment determined on the income tax filed by the Bank for fiscal year 2016, in the amount of ¢1,560,818,449 (approximately \$2,738,278).

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The Bank expressed in due time and form its disagreement with the proposed sanctioning ruling. The Bank is awaiting notification of the sanctioning ruling by the National Large Taxpayer Administration.

As a result of the analysis performed by the Bank's management and in the opinion of the tax advisors, the probability of obtaining a favorable outcome in this case is considered to be from 50% to 90%.

32. Significant and subsequent events

a) Implementation of SUGEF Directive 30-18 *Regulation on Financial Information*

As of January 1, 2020, SUGEF Directive No. 30-18 *Regulation on Financial Information* entered into effect. It seeks to regulate the application of International Financial Reporting Standards (IFRS) and their interpretations, and establishes that IFRS should be fully applied, except for the prudential or regulatory treatments indicated therein.



SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The Bank prepared the financial statements in conformity with the regulatory guidelines for the period beginning on January 1, 2020. The main adjustments and reclassifications made due to this implementation are summarized below:

Accounts	Balance as of December 31, 2019, previously reported	Effect of implementation of SUGEF Directive 30- 18	Final Balance as of January 1, 2020
<u>Statement of financial position</u>			
i. Allowance for stand-by credits – Liability	¢ (165,715,606)	165,715,606	-
i. Allowance for stand-by credits – Asset	¢ -	(165,715,606)	(165,715,606)
ii. Investments in financial instruments held for trading	¢ 494,901,470	(494,901,470)	-
ii. Investments in available-for- sale financial instruments	¢ 165,766,597,958	(165,766,597,958)	-
ii. Investments in financial instruments at FVOCI	¢ -	494,901,470	494,901,470
ii. Investments in financial instruments at FVTPL	¢ -	106,161,328,695	106,161,328,695
ii. Investments in financial instruments at amortized cost	¢ -	59,605,269,263	59,605,269,263
iii. Impairment of investments in financial instruments at FVOCI	¢ -	(1,135,263,658)	(1,135,263,658)
iii. Impairment of investments in financial instruments at amortized cost	¢ -	(11,072,273)	(11,072,273)
iv. Deferred income from loan portfolio – Asset	¢ -	(7,108,555,948)	(7,108,555,948)
iv. Deferred income from loan portfolio – Liability	¢ (7,108,555,948)	7,108,555,948	-
v. Right-of-use asset – Buildings	¢ -	23,988,804,162	23,988,804,162
v. Right-of-use asset – Furniture and equipment	¢ -	114,425,105	114,425,105
v. Lease liabilities	¢ -	(24,103,229,267)	(24,103,229,267)

- i. Reclassification of the allowance for impairment of stand-by credits, which was presented in the statement of financial position under “other liabilities” until December 2019. With the adoption of SUGEF Directive 30-18, this allowance must be presented within the allowance for impairment of the loan portfolio (allowance for loan losses), under “assets”.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

- ii. Investments in available-for-sale financial instruments in the amount of ¢165,766,597,958 were reclassified to investments in financial instruments at FVOCI and investments in financial instruments at amortized cost for ¢59,605,269,263. In addition, investments in financial instruments held for trading in the amount of ¢494,901,470 were reclassified to investments in financial instruments at FVTPL, according to the classification criteria established in IFRS 9.
  - iii. Adjustment corresponding to the initial recognition of the allowance for impairment of investments in financial instruments in conformity with IFRS 9 *Financial Instruments*, in the amount of ¢1,146,335,931, of which ¢1,135,263,658 correspond to investments at FVOCI and ¢11,072,273 to investments at amortized cost. The amounts for this allowance were deducted from prior period retained earnings.
  - iv. Prepaid interest income and commissions from disbursements of loan operations were previously presented in the statement of financial position under other liabilities. Starting January 1, 2020, these balances are shown in the net balances of the loan portfolio.
  - v. Since IFRS 16 *Leases* entered into effect, right-of-use assets and lease liabilities were recognized for lease agreements. Management recognized a right-of-use asset for buildings in the amount of ¢23,988,804,162, a right-of-use asset for furniture and equipment in the amount of ¢114,425,105, and a lease liability in the amount of ¢24,103,229,267.
- b) Conditions related to the Covid-19 pandemic

In December 2019 the appearance of a new strain of coronavirus was identified, causing the Covid-19 global pandemic during the first semester of 2020. During the first months of 2020, coronavirus (Covid-19) spread all over the world, resulting in the disruption of production and supply chains as well as international trade, causing a global economic recession that has affected several industries. The global authorities, including those of Costa Rica, have adopted measures such as the temporary closing of businesses in order to protect social balance, the economy, and the health and life of the population. Other measures include travel restrictions and social distancing.

These measures were taken in order to prevent the collapse of the public health system and to ensure specialized medical attention when needed, thus protecting the life of people who can be cured if they receive adequate attention. This situation caused adverse effects on profit or loss, financial position and liquidity of global economies, including the Costa Rican economy.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

After Covid-19 cases were first reported in Costa Rica in March 2020, the temporary closing of several economic activities was ordered, which has resulted in an economic slowdown. As of the second semester of 2020, a strategy named “the hammer and the dance” has been applied, to perform a controlled opening of the main economic activities, lifting of travel restrictions, social distancing and commercial activities.

As of the date of this report, several vaccines have been approved by the competent global health authorities and are being applied. The Costa Rican Ministry of Health has purchased a batch of vaccines and designed a vaccination plan for the whole country, starting in January 2021 with vaccination of the most vulnerable population, first-line health workers and continuing until reaching coverage of the entire population and thus reach herd immunity, which will allow business activity to resume under the new normal.

As part of an international financial group, the Bank is characterized by having a long-term view, which has historically guided its strategy and will continue to be key to its growth. The experience gained over the years has also allowed for the consolidation of knowledge on risk assessment and capital allocation, which are fundamental to business continuity and employee, customer and supplier welfare in times of high volatility and uncertainty, such as the ones caused by this health crisis with adverse economic effects.

To date, the impact has not been significant for the financial group “The Bank of Nova Scotia” nor for any of its foreign operations, which have not presented significant difficulties in continuing to operate. The Group has a solid capital, liquidity and solvency position that allow it to adequately confront the current situation.

The main factors that may affect the Bank’s financial statements, based on information available and analyses performed as of the date of this report, are described below:

Human talent

Job retention and people’s wellbeing have been a priority for the Bank. As of the date of the financial statements, more than 85% of employees are working remotely, following the government’s instructions on preventive social distancing. Furthermore, protection measures have been taken for those individuals who perform functions that are essential to the continuity of services or processes at the physical premises.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Customer support and mitigation programs:

Another of the Group's priorities is to provide help and support to its clients. Therefore, as part of the mitigation process and to support customers whose economic conditions were affected or their payment capacity reduced, the following terms were granted on the loan portfolio during the first nine months of the pandemic, for customers with arrears less than 90 days:

- Grace period of four months on the payment of credit card minimums
- Extension of the payment for a term of three months for unsecured personal loans, moving those installments to the end of the loan term.
- For all other credit products, at the request of the customers, grace periods and extensions were granted in conformity with the specific needs of each customer who requested them. Charges related to interest, insurance and fees are sent to the end of the term for mortgages that mature before December 31, 2020.

Starting December 2020, new relief programs were implemented, more long-term and focused on customers in the sectors most affected by the pandemic, namely:

- Extend the term of the operation, thus reducing the monthly installment.
- Consolidate personal loans, credit cards and charges due to Covid in a mortgage operation.
- Authorize partial payments only for mortgages and secured loans, extending from 3 to 6 months the payment of capital and 50% of interest, insurance and other charges (temporarily reducing the monthly payment amount). Covid charges are unified, added to the 50% interest and divided over 48 installments.

The Bank's management will continue monitoring and modifying its operational and financial strategies to mitigate the potential risks to its business. As of the date of this report, the effects continue to be uncertain; therefore, no allowance has been created.

Impairment of financial and non-financial assets

As of the reporting date, there is no evidence of impairment on the liquidity, solvency and soundness indicators in relation to the impairment of financial assets in investment portfolios, loan portfolios and non-financial assets used in the Bank's and its subsidiaries normal operations. Local regulators and the parent company perform constant monitoring to assess that the financial position and the main financial indicators (liquidity, interest rates, aging of the loan portfolio, deposit-taking and maturities) do not show significant impairment that may affect the financial position of the Group and its subsidiaries.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The Bank's management also evaluates different forward-looking scenarios, considering the current situation, to ensure compliance with its obligations and the continuity of its operations and those of its subsidiaries.

As a result of this analysis, it was evidenced that the Group and its subsidiaries have a financial, equity and operational position that allow them to adequately confront the current situation and continue as a going concern.

c) Relevant event

On June 20, 2020, Law No. 9859 was published, which is an amendment to the *Law to Promote Competition and Effective Consumer Protection* of December 20, 1994, which seeks to regulate interest rates charged on credit and microcredit products and establish a regulation on usury rates.

This law established limits on financial operations, commercial operations and microloans, as well as the methodology to be used by BCCR to establish the interest rate caps twice a year, in July and in January, except for microcredits, which shall be calculated by adding the simple average of the weighted average of the lending rate for the last 12 months, as follows:

- The maximum annual interest rate for all types of credits, except for microcredits, will be calculated by adding the simple average of the weighted average of the lending rate for the last 12 months, plus 12.8%, and the result of this sum will be multiplied by 1.5.
- For microcredits, the maximum annual rate shall be calculated by adding the simple average of the weighted average of the lending rate for the last 12 months, plus 13.18%, and the result of this sum will be multiplied by 2.085. Microcredits are those which do not exceed 1.5 times the base salary of a level 1 office worker of the Judicial Branch, approximately 675 thousand colones.

For contracts, deals or transactions agreed in currencies other than the Costa Rican colon, the maximum interest rate shall be determined using the simple average of the weighted average of the lending rate for the last 12 months negotiated by the group with other deposit-taking entities in US dollars, calculated by BCCR.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

For the second semester of 2020, the Central Bank (BCCR) published the following annual maximum interest rates for loan operations in colones, US dollars and other currencies, as follows:

All types of loans (except for microcredits)

Colones	37.69%
US dollars	30.36%

Microcredits

Colones	53.18%
Colones	42.99%
<u>Loans in other currencies</u>	7.44%

As of the date of these financial statements, the Bank reviewed and adjusted its effective interest rates for credits and microcredits to the interest rates established by BCCR, in conformity with the law. Furthermore, management is in the process of analyzing the potential effects of the implementation of this amendment to the Law on Consumer Protection.

d) Comparative financial statements

IAS 1 *Presentation of Financial Statements* requires comparative information to be disclosed in respect of the previous period. However, RFI includes an exception in Transition Provision I, so that the presentation of the intermediate and annual audited financial statements for 2020 does not require the presentation of comparative figures.

33. Transition to International Financial Reporting Standards (IFRS)

On September 11, 2018, CONASSIF issued the *Regulation on Financial Information* (RFI), which seeks to regulate the application of IFRS and its interpretations (SIC and IFRIC) issued by the International Accounting Standards (IASB), considering prudential or regulatory accounting treatments, as well as the definition of a specific treatment or methodology when IFRS suggest two or more alternatives for application. Moreover, RFI establishes the content, preparation, referral, presentation and publication of the financial statements of individual financial entities, groups and conglomerates regulated by the four superintendencies. RFI is effective starting January 1, 2020, with some exceptions.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

A summary of some of the main differences between the accounting regulations issued by CONASSIF and IFRS, as well as IFRS or Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) yet to be adopted, is presented below:

a) IAS 21: The Effects of Changes in Foreign Exchange Rates

CONASSIF requires that the financial statements of regulated entities be presented in Costa Rican colones as the functional currency.

Additionally, regulated entities must use the reference sell exchange rate set by BCCR that prevails at the time that the operation to record the translation of the foreign currency into the official currency, 'the Costa Rican colon', is made.

At each month close, the corresponding reference exchange rate will be used as indicated in the paragraph above, effective at the last day of each month, for the recognition of the adjustment due to foreign exchange differences in the monetary items in foreign currency.

According to this Standard, in preparing the financial statements, each entity will determine its functional currency. The entity will translate the items in foreign currency into the functional currency and will report on the effects of this translation. As indicated above, CONASSIF determined that both the presentation of financial information and the accounting records of foreign currency transactions should be translated into colones, irrespective of the functional currency.

b) IAS 38: Intangible Assets

The commercial banks listed in Article 1 of IRNBS (Law No. 1644) may present organization and installation expenses as an asset in the balance sheet. However, those expenses must be fully amortized using the straight-line method over a maximum of five years. Also, under SUGEF regulations, intangible assets must be amortized over five years. This is not in accordance with IAS 38.

c) IFRS 5: Non-current Assets Held for Sale and Discontinued Operations

This Standard establishes that entities shall measure non-current assets (or disposal groups) classified as held for sale at the lower of the carrying amount and fair value less cost to sell. CONASSIF regulations adhere to this Standard.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

CONASSIF requires booking an allowance of one-forty-eighth of the value of non-current assets classified as available for sale each month, so that if they are not sold within two years from acquisition, an allowance is recognized equivalent to 100% of the assets' carrying amount. IFRS 5 requires that these assets be recorded at the lower of the carrying amount or fair value less costs to sell, discounted to the present value of the assets that will be sold in periods greater than one year. Accordingly, assets could be understated, with excess allowances.

d) IFRS 9: Financial Instruments

- i. For application of IFRS 9, particularly the measurement of ECL, the prudential regulations issued by CONASSIF will be maintained for the loan portfolio, accounts receivable and stand-by credits granted, until this Standard is modified.
- ii. The application of the measurement of ECL on investment funds of the money market category, as provided under IFRS 9, required by Articles 3 and 18 of the RFI, will be effective on January 1, 2022.
- iii. Regulated entities should have policies and procedures in place to determine the amount of the suspension of the booking of the accrual of commissions and interest on loan operations. However, the accrual suspension term should not exceed 180 days.

e) IAS 37: Provisions. Contingent Liabilities and Contingent Assets

Article 10 of IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments:

- i. The provisions of Article 10 of IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments will be effective beginning January 1, 2019. On initial application of IFRIC 23, entities must apply the transition established in item (b) of paragraph B2 of that Interpretation.
- ii. The amount of the provision for the tax treatments in dispute notified before December 31, 2018, corresponding to tax periods 2017 and previous periods, will be booked at the greater of the best estimate of the amount payable to the Tax Authorities regarding the notice of deficiency (principal, interest, and fines), according to IAS 12, and 50% of the principal from the correction of the self-assessment of the tax obligation.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

The booking of the provision for tax treatments in dispute for the periods indicated in the paragraph above may be accounted for in any of the following ways:

- a. Booking against profit or loss for the period, in monthly installments, using the straight-line method, no later than June 30, 2021, or
- b. Booking a single adjustment to the opening balance of prior period retained earnings until reaching the provision amount. Adjustments derived from subsequent evaluations of the amounts in dispute will be treated as adjustments to allowances, for which IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors will be applied.
- c. If the provision amount is greater than the opening balance of prior-period retained earnings, the adjustment will be attributed first to the opening balance of prior-period retained earnings, and for complementing, the indications of item a. will be followed.

On January 31, 2019 at the latest, the entity, with tax treatments in dispute for the periods indicated in this provision, should report with the respective superintendency the method (a), (b) or (c) above, based on SUGEF Directive 30-18, that will be used until the resolution or settlement of the tax obligation.