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, 2019

(With corresponding figures for 2018)

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

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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 balance sheet as of December 31, 2019, 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, 2019, 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.

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.

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.

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.

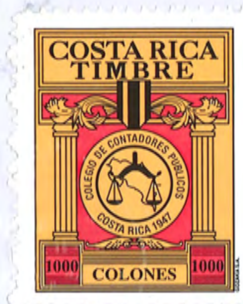
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

KPMG



February 26, 2020

San José, Costa Rica
Eric Alfaro Vargas
Member No. 1547
Policy No. 0116 FIG 7
Expires 9/30/2020

¢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.)
BALANCE SHEET
As of December 31, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
ASSETS			
Cash and due from banks	4	**307,296,438,221**	**337,933,935,673**
Cash		31,026,043,282	30,806,545,311
Central Bank of Costa Rica		253,492,149,000	282,386,572,864
Local financial entities		517,392,630	1,448,695,720
Foreign financial entities		19,811,333,863	19,841,040,161
Other cash and due from banks		2,449,519,446	3,451,081,617
Investments in financial instruments	5	**167,974,884,054**	**119,606,348,593**
Trading		494,901,470	1,532,577,284
Available for sale		165,766,597,958	117,468,719,272
Derivative financial instruments		71,320	-
Accrued interest receivable		1,713,313,306	605,052,037
Loan portfolio	6	**1,563,988,416,442**	**1,694,440,233,333**
Current		1,468,776,345,427	1,604,023,775,554
Past due		107,906,012,507	111,412,202,655
In legal collection		24,596,175,439	18,362,361,921
Accrued interest receivable		21,761,893,940	21,999,196,632
(Allowance for loan losses)	6-b	(59,052,010,871)	(61,357,303,429)
Accounts and fees and commissions receivable	7	**16,388,709,091**	**26,303,508,838**
Fees and commissions receivable		108,412,485	77,808,660
Accounts receivable for related party transactions	3	2,033,597,759	4,772,972,064
Deferred income tax and income tax receivable	13-a	13,075,359,887	13,075,359,887
Other accounts receivable		1,469,058,643	8,661,429,824
(Allowance for doubtful accounts and fees and commissions receivable)	7	(297,719,683)	(284,061,597)
Foreclosed assets	8	**5,640,686,569**	**6,167,529,439**
Assets and securities acquired in lieu of payment		14,735,213,338	13,392,919,106
(Allowance for impairment of foreclosed assets and per legal requirement)	8	(9,094,526,769)	(7,225,389,667)
Investments in other companies, net		**557,006**	**557,006**
Property and equipment, net	9	**18,249,865,803**	**26,110,729,667**
Other assets	10	**14,278,752,966**	**19,883,798,017**
Deferred charges		2,637,841,320	706,202,785
Intangible assets, net		2,446,676,362	988,725,853
Other assets		9,194,235,284	18,188,869,379
TOTAL ASSETS		**2,093,818,310,152**	**2,230,446,640,566**

(Continued)

SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
BALANCE SHEET
As of December 31, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
LIABILITIES AND EQUITY			
LIABILITIES			
Obligations with the public	11	**1,344,305,233,028**	**1,313,607,517,680**
Demand		389,944,919,678	379,776,958,043
Term		944,253,846,969	924,927,325,906
Finance charges payable		10,106,466,381	8,903,233,731
Obligations with entities	12	**443,208,886,207**	**614,657,916,935**
Demand		25,547,405,545	48,447,450,563
Term		416,030,700,627	558,205,689,030
Other obligations with entities		130,100,239	5,057,024,206
Finance charges payable		1,500,679,796	2,947,753,136
Accounts payable and provisions	13	**34,688,530,979**	**29,778,452,555**
Deferred tax	13-a	1,117,527,908	509,733,202
Provisions	13-b	4,331,799,933	4,182,338,003
Other sundry accounts payable		29,239,203,138	25,086,381,350
Other liabilities	14	**9,516,969,476**	**18,311,629,579**
Deferred income		7,108,555,948	6,970,235,944
Allowance for stand-by credit losses	6-c	165,715,606	244,055,077
Other liabilities		2,242,697,922	11,097,338,558
TOTAL LIABILITIES		**1,831,719,619,690**	**1,976,355,516,749**
EQUITY			
Share capital		**226,449,722,072**	**226,449,722,072**
Paid-in capital	15-a	226,449,722,072	226,449,722,072
Non-capitalized capital contributions		**14,958,141**	**14,958,141**
Equity adjustments		**6,537,637,549**	**8,478,744,453**
Surplus from revaluation of property	15-b	4,674,153,611	10,844,977,765
Adjustment for valuation of available-for-sale investments		1,863,483,938	(2,366,233,312)
Capital reserves	15-c	**19,356,328,754**	**18,606,701,145**
Prior period retained earnings	15-d	**5,025,132,160**	**(96,888,001)**
Income for the year		**4,714,911,786**	**637,886,007**
TOTAL EQUITY		**262,098,690,462**	**254,091,123,817**
TOTAL LIABILITIES AND EQUITY		**2,093,818,310,152**	**2,230,446,640,566**
DEBIT MEMORANDA ACCOUNTS	17	**420,021,964,851**	**458,305,486,681**
TRUST ASSETS	18	**1,775,830,271,135**	**1,792,082,076,628**
TRUST LIABILITIES		**478,838,678,103**	**515,492,177,328**
TRUST EQUITY		**1,296,991,593,032**	**1,276,589,899,300**
OTHER DEBIT MEMORANDA ACCOUNTS	20	**9,119,840,401,432**	**10,252,822,413,291**
Own accounts		9,023,089,519,977	10,150,350,461,350
Third party accounts		96,750,881,455	102,471,951,941

Luis Gómez Portuguez
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, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
Finance income			
Cash and due from banks		138	2.023
Investments in financial instruments		7,453,425,179	6,443,373.633
Loan portfolio	21	181,264,008,620	145,814,141.183
Gain on available-for-sale financial instruments	5	122,226,761	37,683,809
Gain on derivative financial instruments		112,520	-
Other finance income		1,769,147,763	1,822,989.896
Total finance income		**190,608,920,981**	**154,118,190,544**
Finance costs			
Obligations with the public	22-a	60,500,449,193	48,222,800.290
Obligations with financial entities	22-b	17,613,573,017	19,668,073.419
Foreign exchange losses	23	488,692,246	1,735,376.942
Loss on available-for-sale financial instruments	5	2,267,724	20,820.850
Other finance costs		3,396,560,493	3,458,615.810
Total finance costs		**82,001,542,673**	**73,105,687,311**
Allowance for impairment of assets	6-b-c, 7	49,831,885,482	37,513,834.668
Recovery of assets and decrease in allowances and provisions		12,151,497,129	7,841,590.909
GROSS FINANCE INCOME		**70,926,989,955**	**51,340,259,474**
Other operating income			
Service fees and commissions	24	50,142,589,895	39,296,276,682
Foreclosed assets		348,760,168	2,518,990.810
Foreign currency exchange and arbitrage		6,013,595,021	4,994,773.368
Other income with related parties	3	10,020,789,706	8,083,031.779
Other operating income		17,076,393,292	6,785,262.057
Total operating income		**83,602,128,082**	**61,678,334,696**
Other operating expenses			
Service fees and commissions		31,221,190,585	19,121,459.652
Foreclosed assets		4,646,576,427	2,696,460.242
Provisions		5,720,024,040	3,650,687.514
Foreign currency exchange and arbitrage		4,910,618	1,220.068
Other expenses with related parties	3	10,539,309,611	9,489,427.214
Other operating expenses		7,170,429,750	1,941,470.026
Total other operating expenses		**59,302,441,031**	**36,900,724,716**
GROSS OPERATING INCOME		**95,226,677,006**	**76,117,869,454**
Administrative expenses			
Personnel expenses	25	38,799,217,120	37,233,923.415
Other administrative expenses	26	47,729,320,681	37,478,865.227
Total administrative expenses		**86,528,537,801**	**74,712,788,642**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**8,698,139,205**	**1,405,080,812**
Income tax	13-a	4,000,931,599	216,187.829
Deferred tax		(1,204,935,768)	625,692.883
Decrease in income tax		-	216,187.829
Statutory allocations		619,782,007	70,276.936
Decrease in statutory allocations		182,178,028	-
INCOME FOR THE YEAR		**5,464,539,395**	**709,110,993**

(Continued)

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, 2019

(With corresponding figures for 2018)

(In colones)

	Note	2019	2018
INCOME FOR THE YEAR		**5,464,539,395**	**709,110,993**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Adjustment for valuation of available-for-sale investments, net		4,229,717,250	(2,251,802,236)
OTHER COMPREHENSIVE INCOME, NET OF TAX		**4,229,717,250**	**(2,251,802,236)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**9,694,256,645**	**(1,542,691,243)**

Luis Gómez Portuguez
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 CHANGES IN NET EQUITY
For the year ended December 31, 2019
(With corresponding figures for 2018)
(In colones)

	Notes	Share capital	Non-capitalized capital contributions	Equity adjustments: Revaluation of property	Equity adjustments: Valuation of available-for-sale investments	Equity adjustments: Total equity adjustments	Capital reserves	Prior period retained earnings	Total
Balance at December 31, 2017		**139,309,891,406**	**14,957,901**	**6,369,342,638**	**(114,461,368)**	**6,254,881,270**	**11,908,348,003**	**8,208,365,657**	**165,696,444,237**
Transactions with shareholders recognized directly in equity									
Effect of merger by absorption of The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.	32	87,139,830,666	240	4,475,635,127	30,292	4,475,665,419	6,627,128,156	(6,405,253,658)	91,837,370,823
Appropriation to legal reserve		-	-	-	-	-	71,224,986	(71,224,986)	-
Dividends paid in cash	15-d	-	-	-	-	-	-	(1,900,000,000)	(1,900,000,000)
Total transactions with shareholders recognized directly in equity		**226,449,722,072**	**14,958,141**	**10,844,977,765**	**(114,431,076)**	**10,730,546,689**	**18,606,701,145**	**(168,112,987)**	**255,633,815,060**
Other comprehensive income for the year:									
Income for the year		-	-	-	-	-	-	709,110,993	709,110,993
Adjustment from valuation of available-for-sale financial instruments, net of deferred tax		-	-	-	(2,234,939,277)	(2,234,939,277)	-	-	(2,234,939,277)
Realized net gain on investments		-	-	-	(16,862,959)	(16,862,959)	-	-	(16,862,959)
Total comprehensive income for the year		-	-	-	**(2,251,802,236)**	**(2,251,802,236)**	-	**709,110,993**	**(1,542,691,243)**
Balance at December 31, 2018		**226,449,722,072**	**14,958,141**	**10,844,977,765**	**(2,366,233,312)**	**8,478,744,453**	**18,606,701,145**	**540,998,006**	**254,091,123,817**
Transactions with shareholders recognized directly in equity									
Appropriation to legal reserve		-	-	-	-	-	749,627,609	(749,627,609)	-
Dividends paid in cash	15-d	-	-	-	-	-	-	(1,686,690,000)	(1,686,690,000)
Total transactions with shareholders recognized directly in equity		**226,449,722,072**	**14,958,141**	**10,844,977,765**	**(2,366,233,312)**	**8,478,744,453**	**19,356,328,754**	**(1,895,319,603)**	**252,404,433,817**
Other comprehensive income for the year:									
Income for the year		-	-	-	-	-	-	5,464,539,395	5,464,539,395
Realization of surplus from revaluation of land, buildings and facilities, net of deferred tax, corresponding to the sale of buildings	15-b	-	-	(6,170,824,154)	-	(6,170,824,154)	-	6,170,824,154	-
Adjustment from valuation of available-for-sale financial instruments, net of deferred tax		-	-	-	4,349,676,287	4,349,676,287	-	-	4,349,676,287
Realized net gain on investments		-	-	-	(119,959,037)	(119,959,037)	-	-	(119,959,037)
Total comprehensive income for the year		-	-	**(6,170,824,154)**	**4,229,717,250**	**(1,941,106,904)**	-	**11,635,363,549**	**9,694,256,645**
Balance at December 31, 2019		**226,449,722,072**	**14,958,141**	**4,674,153,611**	**1,863,483,938**	**6,537,637,549**	**19,356,328,754**	**9,740,043,946**	**262,098,690,462**

Luis Gómez Portuguez
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.
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STATEMENT OF CASH FLOWS
For the year ended December 31, 2019
(With corresponding figures for 2018)
(In colones)

	Note	2019	2018
Cash flows from operating activities			
Income for the year		5,464,539,395	709,110,993
Items not requiring cash			
Net gain on foreign exchange differences		(16,324,568,151)	(17,341,917,198)
Net expense on allowance for loan losses		43,959,396,163	33,729,914,538
Net expense (gain) on allowance for foreclosed assets		2,972,087,715	(907,306,065)
Net expense on other allowances		340,964,517	109,870,971
Expense for severance benefits provision		701,946,070	980,828,920
Depreciation and amortization		2,802,572,512	2,633,130,399
Net (gain) loss on sale and disposal of assets		(8,570,103,192)	1,486,824,901
Gain on sale of realizable assets		(1,102,950,613)	-
Expense for other provisions		2,347,778,860	641,085,519
Finance income		(188,717,433,799)	(152,257,523,882)
Finance costs		78,114,022,210	67,890,873,709
Income tax expense		4,000,931,599	216,187,829
Deferred tax (income) expense		(1,204,935,768)	625,692,883
Net (increase) decrease in assets			
Trading securities		(1,037,675,814)	8,391,483,928
Loans and cash advances		17,123,964,541	(130,196,595,214)
Foreclosed assets		6,386,931,018	128,906,900
Other assets		4,896,285,969	18,047,459,048
Fees and commissions and accounts receivable		9,595,993,614	995,058,271
Net increase (decrease) in liabilities			
Demand and term obligations		87,777,704,405	(405,173,249,396)
Other accounts payable and provisions		877,554,604	267,127,832
Other liabilities		(8,794,660,103)	1,448,949,938
Interest collected		187,846,475,222	145,092,798,328
Interest paid		(78,357,862,900)	(65,999,710,461)
Taxes paid		(1,835,355,325)	-
Net cash from (used in) operating activities		**149,263,602,749**	**(488,480,997,309)**
Cash flows from investing activities			
Increase in financial instruments		(7,202,809,046,049)	(5,102,534,845,709)
Decrease in financial instruments		7,178,000,363,694	5,158,781,967,562
Acquisition of property and equipment	9	(5,402,330,532)	(3,542,968,011)
Cash from sale of land and building		19,739,484,158	-
Net cash (used in) from investing activities		**(10,471,528,729)**	**52,704,153,842**
Cash flows from financing activities			
Other new financial obligations		353,693,753,656	3,816,256,523,978
Payment of obligations		(500,043,503,949)	(3,371,268,838,879)
Dividends paid		(1,686,690,000)	(1,900,000,000)
Net cash (used in) from financing activities		**(148,036,440,293)**	**443,087,685,099**
Net (decrease) increase in cash and cash equivalents		**(9,244,366,273)**	**7,310,841,632**
Cash from the merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.		-	**53,869,313,825**
Cash and cash equivalents at beginning of year	4	**376,000,381,936**	**314,820,226,479**
Cash and cash equivalents at end of year	4	**366,756,015,663**	**376,000,381,936**

Luis Gómez Portuguez
Legal Representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

The accompanying notes are an integral part of these financial statements.

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) (2018: 86.879917%), 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, 2019, the Bank has 1,772 employees, operates 34 branches and has a network of 208 ATMs (2018: 1,846 employees, 41 branches and 211 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.

On July 1, 2018, the subsidiary Scotiabank de Costa Rica, S.A. performed the merger by absorption of the subsidiaries The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A., as authorized by Official Letter CNS-142/04 of June 27, 2018, issued by CONASSIF (see Note 32).

(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 21, 2020.

ii. Basis of measurement

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

- held-for-trading assets and available-for-sale assets are measured at fair value
- 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

Assets and liabilities denominated in foreign currency are translated into colones at the spot exchange rate at the balance sheet date, except transactions with a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the spot exchange rates at the dates of the transactions. Translation gains or losses are recognized in profit or loss.

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 by using a managed float regime. As of December 31, 2019, the exchange rate was established at ¢570.09 and ¢576.49 to US$1.00 for the purchase and sale of US dollars, respectively (2018: ¢604.39 and ¢611.75, respectively).

iii. *Valuation method for assets and liabilities*

As of December 31, 2019, assets and liabilities denominated in US dollars, Canadian dollars and euro were valued at the buy rates of ¢570.09 to US$1.00 (2018: 604.39 to US$1.00), ¢436.3490 to CAD$1.00 (2018: ¢443.1662 to CAD$1.00) and ¢638.2158 to €1 (2018: ¢693.1145 to €1), respectively, in accordance with regulations established by BCCR.

(e) Financial assets and financial liabilities

i. *Recognition*

The Bank initially recognizes loans and advances, deposits and debt instruments issued on the date on which they are originated. Regular-way purchases and sales of financial assets are recognized on the trade date, which is the date on which the Bank commits to purchase or sell the asset. All assets and liabilities are initially recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

ii. *Classification*

- 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 balance sheet.

- 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.

(Continued)

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 90 days past due.

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

- Investments in financial instruments

Investments in financial instruments are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held for trading or available for sale.

Under current regulations, trading instruments are investments in open investment funds that the Bank holds for the purpose of short-term profit taking.

Available-for-sale assets are financial assets that are not held for trading purposes originated by the Bank or held to maturity.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity. According to regulations, the Bank is barred from holding investments in financial instruments classified as held to maturity.

- 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.

(Continued)

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.

- 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.

iii. 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.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the financial statements when the Bank has a legally enforceable right to set off the amounts and it intends to settle them on a net basis.

v. 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.

(Continued)

vi. 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.

vii. 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) <u>Foreclosed assets</u>

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

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

(Continued)

If foreclosed assets are not sold within two years from the date of acquisition, completion of production or retirement, as appropriate, an allowance should be recorded equivalent to the asset's carrying amount. The allowance for foreclosed assets acquired in September 2010 or thereafter is established gradually by booking one-twenty-fourth of the value of such assets each month until the allowance is equivalent to 100% of the assets' carrying amount.

(g) 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.

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

iv. Leased assets

Assets leased under operating leases are not recognized in the balance sheet, since the Bank does not assume substantially all the risks and rewards of ownership.

(Continued)

(h) Other assets

Leasehold improvements are amortized straight line over the life of the lease.

Software is carried at cost and amortized straight line over three years.

(i) Impairment of non-financial assets

At each balance sheet 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 revaluation decrease for assets recorded at 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.

(j) Accounts payable and other accounts payable

Accounts payable and other accounts payable are recognized at cost.

(k) Provisions

A provision is recognized in the balance sheet 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 balance sheet date, directly affecting the statement of comprehensive income.

(Continued)

(l) 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.

(m) 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.

(n) 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.

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.

(o) 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.

(Continued)

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.

The allowance for stand-by credit losses is presented under "Other liabilities" in the liability section of the balance sheet.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(Continued)

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.

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.

(v) <u>Trusts</u>

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.

(Continued)

2. Restricted assets

As of December 31, restricted assets are as follows:

		2019	2018
Cash and due from banks			
Minimum legal reserve	¢	250,716,026,714	276,401,246,690
Drafts and transfers payable		960,801,342	975,282,889
		251,676,828,056	277,376,529,579
Investments			
Clearing house guarantee		1,148,821,949	1,753,863,023
Security deposits for public utility payment collection services		139,440,658	126,487,451
Other guarantees		9,296,309	9,720,335,381
		1,297,558,916	11,600,685,855
Loans			
Requirement for deposit-taking in demand accounts per Art. 59 of IRNBS (Law No. 1644)		65,403,222,269	61,570,534,114
Subtotal		65,403,222,269	61,570,534,114
Accrued interest receivable			
Comitted investments		13,312,559	75,305,878
Subtotal		13,312,559	75,305,878
Other assets			
Security deposits		457,284,261	249,675,450
Legal requirements		22,974,058	-
Subtotal		480,258,319	249,675,450
Total	¢	318,871,180,119	350,872,730,876

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)

3. Balances and transactions with related parties

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

		2019	2018
Assets:			
Cash and due from banks	¢	969,181,649	470,420,756
Loan portfolio			
Related companies		20,746,327	11,057,063
Employees		1,228,318,298	18,862,616
Total loan portfolio		1,249,064,625	29,919,679
Accounts and accrued interest receivable			
Related companies		2,028,702,121	4,582,411,171
Employees		1,602,224	190,560,893
Expenses receivable		3,293,414	-
Total accounts and accrued interest receivable		2,033,597,759	4,772,972,064
Investments in other companies		557,006	557,006
Total assets	¢	4,252,401,039	5,273,869,505
Liabilities:			
Obligations with the public			
Related companies	¢	6,139,760,352	8,141,847,237
Employees		350,149,379	973,858,526
Total obligations with the public		6,489,909,731	9,115,705,763
Other financial obligations		334,321,678,566	376,958,520,335
Other accounts payable		3,524,913,214	3,501,759,003
Total liabilities	¢	344,336,501,511	389,575,985,101
Expenses:			
Finance costs	¢	9,322,601,458	8,857,858,050
Operating expenses		10,539,309,611	9,489,427,214
Total expenses	¢	19,861,911,069	18,347,285,264
Income:			
Finance income	¢	57,402,778	84,716,186
Operating income		10,020,789,706	13,455,551,173
Total income	¢	10,078,192,484	13,540,267,359

As of December 31, 2019, compensation paid to key personnel amounts to ¢1,431,382,146 (2018: ¢1,425,470,997).

(Continued)

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, 2019, 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.
- Portic de Sotosal, S.A.
- The Bank of Nova Scotia (Costa Rica), S.A. (merged with Scotiabank de Costa Rica S.A. on July 1, 2018).
- Scotia Tarjetas de Costa Rica, S.A. (merged with Scotiabank de Costa Rica S.A. on July 1, 2018).

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

(Continued)

4. Cash and due from banks

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

		2019	2018
Cash	¢	31,026,043,282	30,806,545,311
Demand deposits in BCCR		253,492,149,000	282,386,572,864
Demand deposits in local financial entities		517,392,630	1,448,695,720
Demand deposits in foreign financial entities		19,811,333,863	19,841,040,161
Notes payable on demand		2,418,340,608	3,451,081,617
Restricted cash and due from banks		31,178,838	-
Total	¢	307,296,438,221	337,933,935,673

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

		2019	2018
Cash and due from banks	¢	307,296,438,221	337,933,935,673
Higly liquid investments		59,459,577,442	38,066,446,263
Total	¢	366,756,015,663	376,000,381,936

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:

(Continued)

		2019	2018
Local currency	¢	51,811,382,355	59,287,916,247
Foreign currency		198,904,644,359	217,113,330,443
Total minimum legal reserve	¢	250,716,026,714	276,401,246,690

As of December 31, 2019, highly liquid short-term investments include securities acquired under reverse repurchase agreements for a total of ¢12,738,206,111 and US$81,954,378 (2018: 446,190,713 and US$62,245,000). Those securities bear interest at rates ranging between 6.64% and 11.5% per annum for investments in colones and between 0.73% and 9.32% per annum for investments in US dollars (2018: between 6.38% and 6.47% per annum in colones and between 0.30% and 5.25% per annum 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:

		2019	2018
Held for trading	¢	494,901,470	1,532,577,284
Available for sale		165,766,597,958	117,468,719,272
Difference in position in derivative financial instruments		71,320	-
Subtotal		166,261,570,748	119,001,296,556
Accrued interest receivable		1,713,313,306	605,052,037
Total	¢	167,974,884,054	119,606,348,593

As of December 31, trading investments by issuer are as follows:

		2019	2018
Open investment funds in US dollars managed by a local related party	¢	360,091,083	373,727,077
Open investment funds in colones managed by a local entity		134,810,387	866,436,504
Open investment funds in US dollars managed by a local entity		-	292,413,703
Total	¢	494,901,470	1,532,577,284

As of December 31, available-for-sale investments by issuer are as follows:

		2019	2018
Local issuers:			
Costa Rican Government	¢	106,161,328,695	73,348,594,442
BCCR		16,001,333,610	25,004,011
Financial entities		139,440,659	144,530,876
Private issuers		9,296,309	9,695,497
Repurchase agreements		6,399,348,685	13,301,411,995
Subtotal		128,710,747,958	86,829,236,821
Foreign issuers:			
Governments		-	419,982,451
Financial entities		37,055,850,000	30,219,500,000
Subtotal		37,055,850,000	30,639,482,451
Total	¢	165,766,597,958	117,468,719,272

As of December 31, 2019, investments in financial instruments in the amount of ¢1,297,558,916 (2018: ¢11,600,685,855) secure operations with several local institutions (see Note 2).

As of December 31, 2019, investments in financial instruments bear interest at rates ranging between 1.75% and 8.70% per annum (2018: between 6.35% and 14.62% per annum) in colones and between 0.73% and 7.83% per annum (2018: between 0.30% and 7.83% per annum) in US dollars.

During the year ended December 31, realized gain and loss on available-for-sale financial instruments is as follows:

		2019	2018
Realized gain on the sale of available-for-sale financial instruments	¢	122,226,761	37,683,809
Realized loss on the sale of available-for-sale financial instruments		(2,267,724)	(20,820,850)
Net gain	¢	119,959,037	16,862,959

6. Loan portfolio

a) Loan portfolio by origin

		2019	2018
Loans originated by the Bank	¢	692,533,432,575	1,469,273,374,828
Loans purchased		908,745,100,798	264,524,965,302
Subtotal		1,601,278,533,373	1,733,798,340,130
Accrued interest receivable		21,761,893,940	21,999,196,632
Allowance for loan losses		(59,052,010,871)	(61,357,303,429)
Total	¢	1,563,988,416,442	1,694,440,233,333

As of December 31, 2019, loans bear interest at rates ranging between 10.70% and 49.90% per annum in colones (2018: between 3.00% and 49.90% per annum) and between 9.05% and 45.00% per annum in US dollars (2018: between 4.75% and 35.20%).

As of December 31, 2019, the portfolio acquired in the purchase and merger of The Bank of Nova Scotia (Costa Rica), S.A. (July 2018) amounts to ¢117,976,244,066 and US$1,277,550,559 (2018: ¢165,764,196,008 and US$44,464,704) and Banco Interfin, S.A. (October 2007) for ¢33,800,727,050 and US$7,929,842,393 (2018: ¢37,498,968,463 and US$56,896,670).

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.

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

		2019	2018
Opening balance	¢	61,357,303,429	32,584,851,287
Allowance expense		48,714,475,160	36,697,677,968
Charged against allowance		(44,035,147,619)	(21,281,690,803)
Decrease in allowance		(4,755,078,997)	(2,925,040,425)
Translation effect of allowances in foreign currency		(2,229,541,102)	689,873,397
Allowance for the loan portfolio acquired in the merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.		-	15,591,632,005
	¢	59,052,010,871	61,357,303,429

c) <u>Allowance for stand-by credit losses</u>

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

		2019	2018
Opening balance	¢	244,055,077	261,175,029
Allowance expense		75,999,995	146,176,990
Decrease in allowance		(143,671,970)	(188,899,995)
Translation effect for allowances in foreign currency		(10,667,496)	12,997,590
Allowance for the loan portfolio acquired in the merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.		-	12,605,463
	¢	165,715,606	244,055,077

7. Accounts and fees and commissions receivable

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

		2019	2018
Fees and commissions	¢	108,412,485	77,808,660
Related party transactions (note 3)		2,033,597,759	4,772,972,064
Deferred tax		13,075,359,887	13,075,359,887
Other accounts receivable:			
Sundry credit card receivables		974,567,916	1,040,600,670
Other expenses receivable		419,414,639	137,972,710
Due from INS		12,830,485	25,893,661
ATH transactions		11,253,398	7,533,469
Other sundry accounts receivable		50,992,205	7,449,429,314
		1,469,058,643	8,661,429,824
Subtotal		16,686,428,774	26,587,570,435
Allowance for doubtful accounts and fees and commission receivable		(297,719,683)	(284,061,597)
Total	¢	16,388,709,091	26,303,508,838

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

		2019	2018
Opening balance	¢	284,061,597	98,307,337
Allowance expense		1,041,410,327	669,979,710
Charged against allowance		-	(80,198,218)
Decrease in allowance		(1,013,801,130)	(560,108,739)
Translation effect of allowances in foreign currency		(13,951,111)	7,752,563
Reclassified allowances from merger		-	148,328,944
Closing balance	¢	297,719,683	284,061,597

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:

		2019	2018
Assets acquired in lieu of payment:			
Real property	¢	13,862,307,539	12,232,071,519
Other		872,905,799	1,160,847,587
Subtotal		14,735,213,338	13,392,919,106
Allowance for impairment of foreclosed assets and per legal requirements		(9,094,526,769)	(7,225,389,667)
	¢	5,640,686,569	6,167,529,439

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

		2019	2018
Opening balance	¢	7,225,389,667	8,078,669,284
Increase in allowance		3,320,847,884	1,581,176,899
Charged against allowance for sale or disposal of foreclosed assets		(1,102,950,613)	(810,554,076)
Decrease in allowance		(348,760,169)	(2,488,482,964)
Reclassified allowances from merger		-	864,580,524
	¢	9,094,526,769	7,225,389,667

9. Property and equipment, net

Property and equipment is as follows:

		2018	Additions	Disposals	2019
Cost					
Land	¢	2,651,832,468	-	(1,174,888,000)	1,476,944,468
Buildings and facilities		9,032,472,130	-	(4,564,817,631)	4,467,654,499
Furniture and equipment		7,150,914,599	2,373,740,778	(71,167,073)	9,453,488,304
Computer hardware		14,573,814,308	2,959,382,284	(52,949,111)	17,480,247,481
Vehicles		526,385,784	69,207,470	(85,656,487)	509,936,767
Subtotal		33,935,419,289	5,402,330,532	(5,949,478,302)	33,388,271,519
Accumulated depreciation		(19,342,059,801)	(1,999,973,921)	1,534,710,182	(19,807,323,540)
		14,593,359,488	3,402,356,611	(4,414,768,120)	13,580,947,979
Revaluation					
Cost		13,549,921,230	-	(8,532,924,637)	5,016,996,593
Accumulated depreciation		(2,032,551,051)	(93,839,509)	1,778,311,791	(348,078,769)
Net revaluation		11,517,370,179	(93,839,509)	(6,754,612,846)	4,668,917,824
	¢	26,110,729,667	3,308,517,102	(11,169,380,966)	18,249,865,803

During the year ended December 31, 2019, the depreciation expense amounted to ¢2,093,813,430 and was charged to profit or loss for the year.

Disposals of land and buildings performed during 2019 relate to the sale of two properties, as detailed in Note 15-b.

The merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas S.A. gives rise to significant additions in fixed assets (see the note on Relevant Fact No. 32)

	2017	Acquisition by merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.	Additions	Disposals	2018
Cost					
Land	1,405,990,980	1,245,841,488	-	-	2,651,832,468
Buildings and facilities	4,717,803,912	4,947,580,892	6,790,307	(639,702,981)	9,032,472,130
Furniture and equipment	2,042,885,509	5,249,317,242	545,675,238	(686,963,390)	7,150,914,599
Computer hardware	5,933,081,523	5,993,204,565	2,779,109,647	(131,581,427)	14,573,814,308
Vehicles	535,399,126	4,819,746	133,785,425	(147,618,513)	526,385,784
Subtotal	14,635,161,051	17,440,763,933	3,465,360,617	(1,605,866,311)	33,935,419,289
Accumulated depreciation	(5,451,892,407)	(12,369,914,081)	(1,749,778,741)	229,525,428	(19,342,059,801)
	9,183,268,644	5,070,849,852	1,715,581,876	(1,376,340,883)	14,593,359,488
Revaluation					
Cost	8,852,190,770	4,656,644,151	77,607,394	(36,521,085)	13,549,921,230
Accumulated depreciation	(1,662,853,027)	(233,842,361)	(61,892,730)	(73,962,933)	(2,032,551,051)
Net revaluation	7,189,337,743	4,422,801,790	15,714,664	(110,484,018)	11,517,370,179
	16,372,606,387	9,493,651,642	1,731,296,540	(1,486,824,901)	26,110,729,667

During the year ended December 31, 2018, the depreciation expense amounted to ¢1,811,671,471 and was charged to profit or loss for the year.

Pursuant to local regulations, the Bank must perform a valuation of its productive assets at least once every five years. Accordingly, in 2018 the fair values of land, buildings and facilities held by The Bank of Nova Scotia (Costa Rica), S.A. were assessed through appraisals made by independent appraisers as of April 30, 2018. The appraisals identified increases in the fair value of land in the amount of ¢2,350,671,971 and in the fair value of buildings and facilities in the amount of ¢219,087,486, for a total of ¢2,569,759,457. In addition, as a result of the recording of the appraisals and the revaluation of those assets, a deferred tax liability was booked in the amount of ¢65,726,246. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

10. Other assets

As of December 31, other assets are as follows:

		2019	2018
Deferred charges			
Leasehold improvements - operating lease	¢	921,118,979	706,202,785
Direct deferred costs related to loans		1,716,722,341	-
Subtotal		2,637,841,320	706,202,785
Intangible assets			
Software		2,168,129,038	759,760,019
Other		278,547,324	228,965,834
Subtotal		2,446,676,362	988,725,853
Other assets			
Prepaid interest and fees and commissions		185,690,735	517,599,102
Prepaid taxes		-	2,090,430,644
Prepaid insurance		418,677,846	43,292,507
Other prepaid expenses		1,321,722,814	1,806,734,087
Stationery, office supplies and other materials		381,318,893	231,426,689
Library and artwork		16,945,602	16,945,602
Construction work-in-progress		972,189,574	3,943,949,657
Software under development		198,452,078	341,880,560
Operations pending settlement		5,241,953,481	8,946,935,081
Security deposits		457,284,261	249,675,450
Subtotal		9,194,235,284	18,188,869,379
Total	¢	14,278,752,966	19,883,798,017

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

		2019	2018
Amortization of leasehold improvements	¢	212,465,328	247,222,407
Amortization of software		496,293,754	574,236,521
Total	¢	708,759,082	821,458,928

11. Obligations with the public

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

		2019	2018
Demand			
Deposits:			
Checking accounts	¢	324,358,867,335	309,702,539,521
Certified checks		4,058,664	10,112,565
Demand savings deposits		54,180,554,398	55,884,228,636
Matured term deposits		1,358,433,438	4,146,333,298
Overnight deposits		7,193,103,425	6,962,119,279
Subtotal deposits		387,095,017,260	376,705,333,299
Other obligations with the public:			
Notes payable on demand - creditors		1,327,876,736	1,111,336,001
Drafts and transfers		960,801,342	975,282,889
Cashier's checks		451,925,778	823,762,137
Sundry demand obligations with the public		109,298,562	161,243,717
Subtotal other obligations with the public		2,849,902,418	3,071,624,744
Subtotal demand		389,944,919,678	379,776,958,043
Term			
Deposits:			
Term deposits from the public		878,093,947,721	856,405,426,788
Term deposits pledged as guarantee		66,159,899,248	68,521,899,118
Subtotal deposits		944,253,846,969	924,927,325,906
Charges payable for other obligations with the public		10,106,466,381	8,903,233,731
Total	¢	1,344,305,233,028	1,313,607,517,680

As of December 31, 2019, 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 ¢128,175,000,000 and US$43,309,000 (2018: ¢82,125,000,000 and US$49,459,000), bearing interest at rates ranging between 6.29% and 9.24% per annum in colones and between 3.82% and 5.43% per annum in US dollars (2018: between 7.50% and 9.24% per annum in colones and between 4.89% and 5.43% per annum in US dollars).

(Continued)

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, 2019, certificates of deposit bear interest at rates ranging between 3.25% and 12.11% per annum (2018: between 3.42% and 12.11% per annum) in colones and between 0.65% and 8.91% per annum (2018: between 0.22% and 6.52% 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:

	2019			2018		
	No. of customers		Cumulative amount	No. of customers		Cumulative amount
Demand:						
Obligations with the public						
Deposits from the public	168807	¢	385,736,583,822	169605	¢	372,559,000,001
Restricted and inactive deposits	82		1,358,433,438	197		4,146,333,298
Other obligations	-		2,849,902,418	-		3,071,624,744
Subtotal	168889		389,944,919,678	169802		379,776,958,043
Obligations with entities						
Deposits from other financial entities	49		25,547,405,545	57		48,447,450,563
Deposits from State-owned entities	-		-	1		9,400,000,000
Subtotal	49		25,547,405,545	58		57,847,450,563
Total demand obligations with customers	168938	¢	415,492,325,223	169860	¢	437,624,408,606

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

	2019			2018		
	No. of customers		Cumulative amount	No. of customers		Cumulative amount
Term:						
Obligations with the public						
Deposits from the public	7,138	¢	878,093,947,725	7,654	¢	856,394,126,792
Deposits from other financial	-		-	1		11,300,000
Restricted and inactive deposits	1,693		66,159,899,244	1,785		68,521,899,114
Subtotal	8,831		944,253,846,969	9,439		924,927,325,906
Obligations with entities						
Deposits from other financial entities	4		345,527,969,905	12		23,484,317,402
Subtotal	4		345,527,969,905	12		23,484,317,402
Total demand obligations with customers	8,835	¢	1,289,781,816,874	9,451	¢	948,411,643,308

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Notes to the Financial Statements

12. Obligations with entities

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

		2019	2018
Demand obligations:			
Checking accounts of local financial entities	¢	19,407,645,193	40,305,603,326
Checking accounts and obligations with related parties		6,139,760,352	8,141,847,237
		25,547,405,545	48,447,450,563
Term obligations:			
Term deposits from local financial entities		12,193,656,063	22,270,313,711
Loans with local financial entities		14,046,372,508	14,604,239,815
Loan with DEG		7,601,200,950	12,087,800,604
Loan with Wells Fargo Bank, N.A.		12,968,211,853	23,420,112,500
Loan with Citizen		-	6,799,387,500
Loan with ECO		814,413,471	2,590,241,476
Loan with Bladex		-	5,076,796,825
Loan with Landeshbank		151,853,283	18,012,099,076
Loan with Popular		-	4,532,925,000
Loan with Republick		-	2,266,462,500
Loan with SUMIMOTO		1,840,784,626	9,588,859,521
Loan with THE OPEC FUND		4,275,675,000	9,065,850,000
Loan with Banco de Occidente		2,850,450,000	-
Loan with Bank of America, N.A. New York		1,296,154,543	2,266,462,500
Loan with International Finance Corporation (IFC)		24,432,428,938	38,853,642,987
Loan with Corporación Interamericana de Inversiones		225,185,550	716,202,150
Obligations with related financial entities		333,334,313,842	376,654,292,865
Obligations for deferred liquidity operations		-	9,400,000,000
Subtotal term obligations		416,030,700,627	558,205,689,030
Financing from international organizations		-	4,532,925,000
Issued letters of credit		130,100,239	524,099,206
Subtotal other obligations with entities		130,100,239	5,057,024,206
Subtotal		441,708,206,411	611,710,163,799
Charges payable on obligations with financial and non-financial entities		1,500,679,796	2,947,753,136
Total	¢	443,208,886,207	614,657,916,935

(Continued)

As of December 31, 2019, other financial obligations bear interest at 7.95% (2018: between 4.57% and 8.69%) per annum in colones and between 1.92% and 5.80% (2018: between 3.21% and 5.43%) per annum in US dollars.

Maturities of obligations with entities

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

		2019	2018
Less than 1 year	¢	343,922,295,873	436,702,071,556
1-2 years		57,730,885,397	95,664,582,715
2-3 years		8,411,923,075	56,084,065,206
3-4 years		4,888,286,457	8,781,358,726
4-5 years		16,387,787,370	3,229,812,961
More than 5 years		10,367,028,239	11,248,272,635
Subtotal		441,708,206,411	611,710,163,799
Charges payable on obligations with financial and non-financial entities		1,500,679,796	2,947,753,136
Total	¢	443,208,886,207	614,657,916,935

13. Accounts payable and provisions

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

		2019	2018
Deferred tax	¢	1,095,369,524	509,733,202
Provisions		4,331,799,933	4,182,338,003
Creditors - purchase of goods and services		5,521,322	5,853,517
Taxes payable		2,165,576,274	-
Employer contributions		-	65,581,956
Court-ordered withholdings		3,228,779	1,650,839
Tax withholdings		1,824,241,261	1,991,028,530
Employee withholdings		1,333,981,967	1,509,501,472
Other third-party withholdings payable		2,975,483	-
Statutory allocations or excess payable		437,603,979	70,276,936
Loan obligations with related parties (Note 3)		3,524,913,214	3,501,759,003
Clearing house operations		93,012,598	-
Accrued vacation		835,169,450	1,059,985,999
Accrued statutory Christmas bonus		312,346,231	342,677,794
INS insurance policies		2,646,206,993	3,098,626,035
Accounts payable related to term obligations		259,550,925	842,007,070
Credit balances of credit card customers		5,033,534,535	5,303,859,552
Matured checks outstanding		243,957,202	924,446,341
Public utility and tax collection services		2,137,962,100	788,215,251
Other sundry accounts payable		8,379,420,825	5,580,911,055
Subtotal		29,239,203,138	25,086,381,350
Total	¢	34,666,372,595	29,778,452,555

(a) Income tax

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

		2019	2018
Income tax expense			
Income tax	¢	4,000,931,599	216,187,829
Decrease in income tax		-	216,187,829
Subtotal		4,000,931,599	-
Deferred tax		-	670,892,939
Decrease in deferred tax		(1,204,935,768)	(45,200,056)
Subtotal		(1,204,935,768)	625,692,883
Total income tax, net	¢	2,795,995,831	625,692,883

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 income tax expense and the amount that would result from applying the corresponding income tax rate (30%) to income is reconciled as follows:

		2019	2018
Expected income tax	¢	2,608,500,100	421,524,244
Plus (less)			
Nondeductible expenses		5,036,376,524	1,963,603,284
Nontaxable income		(3,458,010,423)	(1,688,369,029)
Statutory allocations		(185,934,602)	(24,923,899)
Tax base		-	(671,834,600)
Total income tax	¢	4,000,931,599	-

As of December 31, 2019 and 2018, deferred tax is attributable to unrealized gains on investments in available-for-sale financial instruments and revaluation surplus. A deferred tax asset represents a deductible temporary difference. A deferred tax liability represents a taxable temporary difference.

Deferred tax is attributable to the following:

		2019	2018
Deferred tax assets			
Migration of balances due to merger - deferred tax assets	¢	13,075,359,887	13,075,359,887
Total		13,075,359,887	13,075,359,887
Deferred tax liabilities			
Revaluation of assets	¢	318,891,929	1,523,827,694
Unrealized gain (loss) on valuation of investments		798,635,979	(1,014,094,492)
Total	¢	1,117,527,908	509,733,202

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

		As of December 31, 2018	Included in the income statement	Included in equity	As of December 31, 2019
Deferred tax asset transferred due to merger	¢	13,075,359,887	-	-	13,075,359,887
Unrealized gains on valuation of investments		1,014,094,492	-	(1,812,730,471)	(798,635,979)
Revaluation of assets		(1,523,827,694)	1,204,935,765	-	(318,891,929)
	¢	12,565,626,685	1,204,935,765	(1,812,730,471)	11,957,831,979

		As of December 31, 2017	Deferred tax asset transferred	Included in the income statement	Included in equity	As of December 31, 2018
Deferred tax asset transferred due to merger	¢	-	13,746,252,826	(670,892,939)	-	13,075,359,887
Unrealized loss on valuation of investments		49,054,868	(12,981)	-	965,052,605	1,014,094,492
Revaluation of assets		(1,317,142,199)	(957,087,142)	45,200,056	705,201,591	(1,523,827,694)
	¢	(1,268,087,331)	12,789,152,703	(625,692,883)	1,670,254,196	12,565,626,685

(Continued)

(b) Provisions

As of December 31, provisions are as follows:

		2019	2018
Provisions for employer obligations	¢	72,274,400	295,678,205
Provisions for pending litigation		342,054,000	598,259,805
Provisions for redemption of credit card miles		1,578,056,099	1,699,576,048
Provisions for cashback		336,942,489	449,058,464
Provision for employee incentives		1,612,837,723	750,130,259
Other provisions		389,635,222	389,635,222
Total	¢	4,331,799,933	4,182,338,003

Movement in provisions is as follows:

		2019	2018
Provisions for employer obligations:			
Opening balance	¢	295,678,205	360,059,892
Provisioned		712,500,000	980,828,920
Used		(935,903,805)	(1,045,210,607)
Closing balance		72,274,400	295,678,205
Provisions for pending litigation:			
Opening balance		598,259,805	598,259,805
Provisioned		3,283,102,012	-
Used		(3,539,307,817)	-
Closing balance		342,054,000	598,259,805
Other provisions			
Opening balance		3,288,399,993	2,582,932,787
Provisioned		7,235,684,461	7,714,330,335
Used		(6,606,612,921)	(7,008,863,129)
Closing balance		3,917,471,533	3,288,399,993
Total:			
Opening balance		4,182,338,003	3,541,252,484
Provisioned		11,231,286,473	8,695,159,255
Used		(11,081,824,543)	(8,054,073,736)
Total	¢	4,331,799,933	4,182,338,003

(Continued)

14. Other liabilities

As of December 31, other liabilities are as follows:

		2019	2018
Deferred finance income	¢	7,007,278,662	6,696,325,369
Other deferred income		101,277,286	273,910,575
Allowance for stand-by credit losses		165,715,606	244,055,077
Excess cash on hand		21,834,828	52,867,961
Operations pending settlement		1,752,023,592	8,801,458,419
Other operations pending application		468,839,502	2,243,012,178
Total	¢	9,516,969,476	18,311,629,579

15. Equity

a) Share capital

As of December 31, 2019 and 2018, 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).

In the General Shareholder's Meeting held on February 13, 2018, the shareholders agreed the merger by absorption of The Bank of Nova Scotia (Costa Rica), S.A., Scotia Tarjetas, S.A. and Scotiabank de Costa Rica, S.A., in which the latter entity prevailed. Consequently, the share capital of Scotiabank de Costa Rica, S.A. was modified. As of December 31, 2018, the share capital was established at 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) Revaluation surplus

As of December 31, 2019, revaluation surplus amounts to ¢4,674,153,611 (2018: ¢10,844,977,765).

On June 27, 2019, an agreement was formalized for the sale and subsequent lease of the administrative buildings located in La Sabana (buildings and land only) in the amount of US$34,093,551. The contractual terms and conditions establish that the owner will transfer ownership to the offeror, including all personal property, tools, spare parts and replacement inventory used for operation of the property. The buildings will be subsequently leased to Scotiabank de Costa Rica, S.A. for 10 years. As part of the transaction, Scotiabank de Costa Rica, S.A. granted a mortgage loan of US$24,000,000 to the buyer and received US$10,093,551 in cash. A gain was recognized in profit or loss for the sale of the buildings in the amount of US$15,098,077 (equivalent to ¢8,741,484,919 at the exchange rate of ¢578.98). Moreover, the sale of that property resulted in the realization of surplus from revaluation of that property, which was subsequently transferred to prior period retained earnings, in the amount of ¢6,170,824,154.

As of December 31, 2018, the revaluation surplus increased due to the increase in fair value of property, which was updated based on an appraisal performed in May 2018, by an independent appraiser, authorized by the corresponding professional association, for one of the companies acquired, The Bank of Nova Scotia (Costa Rica), S.A.

c) 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, 2019, the legal reserve included in the financial statements amounts to ¢19,356,328,754 (2018: ¢18,606,701,145). This appropriation will continue until reaching 20% of outstanding share capital.

d) Prior period retained earnings

As of December 31, 2019, prior period retained earnings amount to ¢9,740,043,946 (2018: ¢540,998,006).

As of December 31, 2019, dividends were paid in the amount of ¢1,686,690,000, in accordance with the minutes of the General Shareholders Meeting held on August 20, 2019.

As of December 31, 2018, dividends were paid in the amount of ¢1,000,000,000 and ¢900,000,000, in accordance with the minutes of the General Shareholders Meeting held on June 8, 2018 and September 29, 2018, respectively.

16. Basic earnings per share

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

		2019	2018
Ordinary shares:			
Net profit or loss	¢	4,714,911,786	637,886,007
Weighted average number of shares (denominator)		427,372,354	427,372,354
Earnings per ordinary share	¢	11.032	1.493

17. Memoranda accounts

The Bank has off-balance sheet contingencies resulting from its ordinary course of business that involve a certain degree of credit and liquidity risk.

Memoranda accounts are as follows:

		2019	2018
Guarantees	¢	4,693,022,924	4,696,937,649
Performance bonds		32,779,256,462	32,658,675,359
Bid bonds		495,910,922	1,085,642,093
Other guarantees		10,195,101,924	12,465,248,660
Letters of credit issued but unused		5,449,804,857	9,079,535,591
Lines of credit (automatic use)		363,986,839,051	394,664,474,387
Pre-approved lines of credit		2,393,524,211	3,654,972,942
Forward contracts		28,504,500	-
Total	¢	420,021,964,851	458,305,486,681

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 and thus is not exposed to any related credit risk.

(Continued)

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

		2019	2018
Cash and due from banks	¢	70,937,592,498	12,556,970,606
Investments in financial instruments		91,835,520,774	113,374,094,954
Loan portfolio		455,286,476,529	484,253,773,076
Accounts and fees and commissions		2,278,944,898	3,427,077,856
Foreclosed assets		270,008,203,615	270,008,203,615
Investments in other companies		24,645,062,906	26,066,825,745
Property and equipment		104,768,590,073	99,281,981,652
Other assets		738,057,211,711	765,127,978,495
Investment property		18,012,668,131	17,985,170,629
Total	¢	1,775,830,271,135	1,792,082,076,628

19. Sureties

As of December 31, 2019 and 2018, the Bank has issued no sureties.

20. Other memoranda accounts

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

		2019	2018
Guarantees received in custody of the Bank	¢	65,945,003,241	76,781,069,653
Guarantees received in custody of third parties		5,678,305,442,759	6,731,670,138,262
Lines of credit granted but unused		357,589,126,603	310,648,062,895
Write-offs		194,614,049,388	144,680,199,538
Unearned interest on non-accrual loans		3,209,033,616	2,655,441,577
Supporting documentation		1,062,779,791,347	1,116,660,038,737
Other memoranda accounts		1,660,647,073,023	1,767,255,510,688
Subtotal		9,023,089,519,977	10,150,350,461,350
Third-party assets and securities in custody		96,750,881,455	102,471,951,941
Subtotal		96,750,881,455	102,471,951,941
Total	¢	9,119,840,401,432	10,252,822,413,291

(Continued)

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.

21. Finance income from the loan portfolio

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

		2019	2018
Current loans:			
Accrued interest on checking account overdrafts	¢	20,620,516	16,471,275
Accrued interest on loans with other funds		112,803,346,023	99,468,525,805
Accrued interest on credit cards		48,102,575,873	30,012,751,076
Accrued interest on loans to State-owned banks		1,031,072,181	983,153,490
Accrued interest on loans to related parties		57,402,778	84,716,186
Subtotal		162,015,017,371	130,565,617,832
Past due loans and loans in legal collection:			
Accrued interest on loans with other funds		11,905,632,018	10,539,447,671
Accrued interest on credit cards		7,343,359,231	4,709,075,680
Subtotal		19,248,991,249	15,248,523,351
Total	¢	181,264,008,620	145,814,141,183

22. Finance costs

(a) Obligations with the public

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

		2019	2018
Demand deposits	¢	4,020,286,750	3,069,078,886
Term deposits		56,480,162,443	45,153,721,404
	¢	60,500,449,193	48,222,800,290

(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:

		2019	2018
Demand obligations with financial entities	¢	1,082,395,354	1,148,242,632
Term obligations with financial entities		16,466,727,811	18,233,248,539
Obligations with non-financial entities		64,449,852	286,582,248
	¢	17,613,573,017	19,668,073,419

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:

	2019	2018
Foreign exchange income:		
Obligations with the public	298,180,688,421	19,506,163,698
Other financial obligations	125,198,164,469	9,119,539,610
Other accounts payable and provisions	7,333,418,337	768,441,208
Cash and due from banks	181,386,702,747	22,499,421,216
Investments in financial instruments	20,006,149,774	6,296,843,990
Current loans	233,352,272,417	86,523,815,958
Past due loans and loans in legal collection	42,807,062,141	11,596,594,929
Accounts and fees and commissions receivable	1,421,636,934,486	261,093,404,913
Total	2,329,901,392,792	417,404,225,522
Foreign exchange expense:		
Obligations with the public	239,752,726,831	81,224,383,522
Other financial obligations	101,690,697,257	42,294,380,887
Other accounts payable and provisions	1,415,661,131,516	259,939,413,390
Cash and due from banks	198,616,087,743	4,899,679,512
Investments in financial instruments	24,215,082,180	1,713,731,966
Current loans	290,876,069,534	20,601,667,253
Past due loans and loans in legal collection	46,685,193,269	5,129,428,651
Accounts and fees and commissions receivable	12,893,096,708	3,336,917,283
Total	2,330,390,085,038	419,139,602,464
Foreign exchange loss	(488,692,246)	(1,735,376,942)

(Continued)

24. Service fees and commissions

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

		2019	2018
Fee and commission income:			
Drafts and transfers	¢	1,797,602,859	1,708,659,885
Foreign trade		2,253,308	2,700,864
Trust management		1,117,137,661	1,148,549,577
Collections		5,772,485	11,496,089
Consignments		-	71
Other banking mandates		860,183,440	872,288,366
Credit cards		26,037,191,378	23,612,326,618
Insurance underwiting		1,594,444,496	1,171,534,779
Other		18,728,004,268	10,768,720,433
	¢	50,142,589,895	39,296,276,682

25. Personnel expenses

As of December 31, personnel expenses are as follows:

		2019	2018
Salaries and bonuses - permanent staff	¢	25,738,957,141	23,814,189,609
Compensation for board members and statutory examiners		9,870,275	17,191,920
Overtime		351,696,734	587,717,667
Travel expenses		474,269,119	1,192,375,471
Statutory Christmas bonus		2,254,823,330	2,081,971,889
Vacation		1,035,605,752	972,463,476
Incentives		12,340,678	20,399,573
Other compensation		8,212,935	62,078,394
Employer social security taxes		5,941,963,089	5,451,457,773
Refreshments		230,855,665	425,956,361
Uniforms		41,376,740	15,266,805
Training		94,751,498	152,672,394
Employee insurance		395,966,838	299,264,394
Compulsory retirement savings account		1,192,263,801	1,098,578,126
Other		1,016,263,525	1,042,339,563
	¢	38,799,217,120	37,233,923,415

26. Other administrative expenses

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

		2019	2018
Outsourcing	¢	18,057,927,093	14,427,909,187
Transportation and communications		1,674,205,928	1,386,935,562
Infrastructure		15,170,165,740	14,875,756,363
Overhead		12,827,021,920	6,788,264,115
	¢	47,729,320,681	37,478,865,227

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 balance sheet is mainly comprised 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.

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.

(Continued)

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

		2019	2018
Cash and due from banks	¢	307,296,438,221	337,933,935,673
Investments in financial instruments		167,974,884,054	119,606,348,593
Loan portfolio		1,563,988,416,442	1,694,440,233,333
Accounts and fees and commissions receivable		16,366,550,707	26,303,508,838
Guarantees granted		48,163,292,232	50,906,503,761
Letters of credit issued but unused		5,449,804,857	9,079,535,591
Total	¢	2,109,239,386,513	2,238,270,065,789

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.

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:

		Customers		Banks		Stand-by	
		2019	2018	2019	2018	2019	2018
Individually assessed loans with allowance:							
A1	¢	1,236,786,500,553	1,399,170,174,416	65,481,780,865	61,660,825,928	52,286,698,407	58,908,292,694
A2		11,786,584,137	7,027,591,800	-	-	2,304,355	6
B1		179,798,289,710	156,879,375,800	-	-	1,276,821,004	2,980,156,160
B2		6,536,284,847	4,186,304,000	-	-	388	2,382,288
C1		42,850,828,639	44,916,247,300	-	-	243,305,982	379,303,808
C2		4,663,500,407	4,566,475,900	-	-	-	60,439
D		24,732,943,119	11,493,166,218	-	-	2,365,685,638	1,343,981,931
E		50,403,715,036	65,897,375,400	-	-	73,950,707	112,310,095
Total	¢	1,557,558,646,448	1,694,136,710,834	65,481,780,865	61,660,825,928	56,248,766,481	63,726,487,421
Allowance for loan losses		(52,388,601,892)	(59,212,389,097)	(327,408,904)	(308,304,130)	(46,664,041)	(81,117,999)
Carrying amount	¢	1,505,170,044,556	1,634,924,321,737	65,154,371,961	61,352,521,798	56,202,102,440	63,645,369,422
Current loans without allowance							
A1		-	-	-	-	303,948,577,562	307,200,654,566
A2		-	-	-	-	1,149,609,081	740,348,644
B1		-	-	-	-	24,212,332,173	29,748,615,437
B2		-	-	-	-	327,624,345	226,489,563
C1		-	-	-	-	28,903,177,357	46,465,873,383
C2		-	-	-	-	121,588,469	80,021,642
D		-	-	-	-	1,808,707,600	2,002,185,755
E		-	-	-	-	3,273,077,283	8,114,810,268
Carrying amount	¢	-	-	-	-	363,744,693,870	394,578,999,258
Excess allowance over structural allowance		(6,336,000,075)	(1,836,610,202)	-	-	(119,051,565)	(162,937,078)
Net carrying amount	¢	1,498,834,044,481	1,633,087,711,535	65,154,371,961	61,352,521,798	419,827,744,745	458,061,431,602

(Continued)

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 31, 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. Following are the various types:

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.

c. 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.

As of December 31, 2019, restructured loans amount to ¢33,793,231,950 (2018: ¢31,284,542,290).

Allowance for loan losses

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 (2019 and 2018: ¢100,000,000 and ¢65,000,000, respectively).

b. Group 2: Borrowers with total outstanding balances that are less than or equal to the SUGEF limit (2019 and 2018: ¢100,000,000 and ¢65,000,000, respectively).

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.

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)

Borrower classification

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

Risk rating	Specifc allowance percentage - uncovered portion	Specific allowance percentage - covered portion	Arrears	Historical payment behavior	Creditworthiness
A1	0.00%	0.00%	30 days or less	Level 1	Level 1
A2	0.00%	0.00%	30 days or less	Level 2	Level 1
B1	5.00%	0.50%	60 days or less	Level 1	Level 1 or Level 2
B2	10.00%	0.50%	60 days or less	Level 2	Level 1 or Level 2
C1	25.00%	0.50%	90 days or less	Level 1	Level 1, Level 2, or Level 3
C2	50.00%	0.50%	90 days or less	Level 2	Level 1, Level 2, or Level 3
D	75.00%	0.50%	120 days or less	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

In all cases, borrowers without valid authorization for a credit check through SUGEF's CIC cannot be classified in risk rating A1 to B2.

Likewise, borrowers with at least one loan operation purchased from a financial intermediary domiciled in Costa Rica and regulated by SUGEF must be classified for at least one month in the rating of greater risk between the rating assigned by the selling financial intermediary and the rating assigned by the buying bank at the time of the purchase.

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.

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:

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

(Continued)

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:

Arrears	Allowance percentage
0 to 30 days	20%
31 to 60 days	50%
More than 61 days	100%

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

In compliance with the provisions of SUGEF Directive 1-05, as of December 31, 2019, the Bank must maintain a minimum allowance of ¢52,762,674,837 (2018: ¢59,601,811,226). 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, 2019 and 2018, 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. An additional general allowance was also established for loans exposed to currency risk.

(Continued)

The counter-cyclical allowance is calculated based on the historical average balances of the portfolio rated A1 and A2 for the past 10 years. Starting July 2016, it will be recognized gradually by calculating 7% of the Bank's net earnings of the current month.

Starting September 2016, non-foreign currency generators: an additional 1.5% must be reserved for new loans that are granted in US dollars corresponding to customers that do not generate foreign currencies.

Debt service coverage ratio (DSCR): borrowers with a debt-to-income ratio higher than 35% of indebtedness will require an additional reserve of 1%, with a gradual application during 2016 starting at 55% and ending at 35% in 2020. It is effective starting September 2016.

In Official Letter CNS-1416/13 dated May 15, 2018, CONASSIF set forth the prudential considerations related to the approval of the "Regulations to Determine and Book Counter-cyclical Allowances" and the amendment to the agreements, SUGEF Directive 1-05 "Regulations for Borrower Classification". Those provisions are summarized as follows:

Proposal for the counter-cyclical allowance: once the amendment enters into effect, the percentage will start at 5.00% and increase gradually until reaching 7% on June 1, 2020.

Proposal for the general allowance for borrowers that do not generate cash flows in a foreign currency: decrease the allowance to 1.00% when the amendment to the regulations enters into effect, increase it to 1.25% as of June 1, 2019 and resume at 1.50% starting June 1, 2020.

Proposal for the general allowance for borrowers whose debt service coverage ratio is higher than the prudential indicator: postpone the application of the allowance for a borrower when it exceeds the debt service coverage ratio prudential indicator. However, financial institutions are encouraged to use this indicator in their loan granting processes.

Through Resolution SGF-0077-2019 dated January 14, 2019, SUGEF provided prudential considerations related to the approval of the *Regulations to Determine and Book Counter-cyclical Allowances*, which establish the following:

When the amendment to the regulations enters into effect, the accumulation percentage will be decreased temporarily from 5.00% to 2.50%. This applies to the entities that have yet to reach the objective of the counter-cyclical allowance as of December 31, 2018.

(Continued)

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

		2019	2018
Counter-cyclical allowance - direct loans	¢	6,054,202,232	1,850,002,000
General allowance - non-foreign currency		5,460,055,385	4,030,435,239
General allowance - debt service coverage ratio		739,922,350	892,975,146
	¢	12,254,179,967	6,773,412,385

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.

Allowance for other assets

Allowances should be established for the following assets:

a. Accounts and accrued interest receivable unrelated to loan operations, based on arrears calculated from the first day overdue or the date booked in the accounting records, 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. Foreclosed assets that have not been sold or leased within two years from the date of their acquisition, an allowance equivalent to 100% of their value.

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.

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

	2019			
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1	1,230,761,353,263	1,218,561,060,527	65,481,780,865	65,154,371,961
A2	11,703,268,194	11,622,487,459	-	-
B1	178,949,190,026	176,573,713,636	-	-
B2	6,480,968,701	6,339,879,729	-	-
C1	42,709,584,801	38,301,970,483	-	-
C2	4,621,245,054	4,206,972,158	-	-
D	24,642,898,899	18,414,930,768	-	-
E	49,514,702,843	22,973,595,130	-	-
	1,549,383,211,781	1,496,994,609,890	65,481,780,865	65,154,371,961

	2018			
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1	1,392,743,569,467	1,380,686,842,841	61,660,825,928	61,352,521,798
A2	6,976,280,208	6,929,695,404	-	-
B1	155,922,095,107	153,398,130,427	-	-
B2	4,148,702,796	4,054,917,853	-	-
C1	44,796,303,299	38,652,529,197	-	-
C2	4,529,110,588	4,021,983,358	-	-
D	11,423,347,343	5,969,841,934	-	-
E	64,962,071,927	32,403,423,988	-	-
	1,685,501,480,735	1,626,117,365,002	61,660,825,928	61,352,521,798

(Continued)

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.

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

		2019	2018
Individually assessed loans with allowance (including the balance for loans in legal collection):			
Real property	¢	238,782,150,922	210,055,218,872
Personal property		113,982,163,609	54,703,031,958
Other (trusts)		248,972,759,435	235,429,678,533
Subtotal		601,737,073,966	500,187,929,363
Past due loans without allowance:			
Real property		27,467,332,255	27,708,883,287
Personal property		7,696,522,831	6,968,730,137
Other (trusts)		222,931,595,474	4,755,642,421
Subtotal		258,095,450,560	39,433,255,845
Current loans without allowance:			
Real property		837,215,322,943	818,265,159,998
Personal property		466,374,572,320	742,429,201,014
Other (trusts)		768,583,146,521	718,665,451,880
Subtotal		2,072,173,041,784	2,279,359,812,892
Total	¢	2,932,005,566,310	2,818,980,998,100

(Continued)

Loan portfolio by type of guarantee

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

		2019	2018
Investment certificates	¢	59,787,791,192	32,615,668,308
Fiduciary		527,640,252,387	877,247,259,487
Mortgage		724,999,187,117	558,854,863,006
Chattel mortgage		223,448,080,408	203,510,015,215
State-owned banks		65,403,222,269	61,570,534,114
Total direct loans		1,601,278,533,373	1,733,798,340,130
Accounts and accrued interest receivable		21,761,893,940	21,999,196,632
Allowance for loan losses		(59,052,010,871)	(61,357,303,429)
Total	¢	1,563,988,416,442	1,694,440,233,333

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:

		2019	2018
Agriculture, livestock, hunting, and related activities	¢	68,523,210	108,968,954
Manufacturing		98,907,075	529,002,779
Electricity, telecommunications, gas and water		3,824,005,223	4,463,208,156
Construction, purchase, and repair of property		373,234,809,072	410,223,871,399
Trade		283,350,311,874	383,155,908,532
Hospitality (Hotels and restaurants)		-	3,688,676
Transportation		28,428,611	30,692,013
Stock market		65,423,968,595	61,570,534,114
Real estate, business, and leasing activities		-	138,556,395
Education		-	693,579
Services		441,396,593,960	397,090,485,003
Consumer		433,852,985,753	476,482,730,530
Total direct loans		1,601,278,533,373	1,733,798,340,130
Accrued interest receivable		21,761,893,940	21,999,196,632
Allowance for loan losses		(59,052,010,871)	(61,357,303,429)
Total	¢	1,563,988,416,442	1,694,440,233,333

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.

Loan portfolio by geographic area

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

		2019	2018
Costa Rica	¢	1,593,518,425,195	1,728,644,543,282
Central America		874,024,589	336,519,822
Rest of North and South America		1,833,347,409	1,407,742,645
Caribbean		309,074,048	17,085,300
United States of America		3,740,693,468	2,623,907,283
Europe		735,082,693	601,813,685
Africa		44,449,245	-
Asia		223,436,726	166,728,113
	¢	1,601,278,533,373	1,733,798,340,130

Loan portfolio by arrears

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

		2019	2018
Current	¢	1,468,776,345,427	1,604,023,775,554
1 to 30 days		56,532,030,510	59,832,952,119
31 to 60 days		22,655,865,368	23,383,415,797
61 to 90 days		12,735,877,471	12,556,576,103
91 to 120 days		5,749,661,225	7,107,917,833
121 to 180 days		5,631,544,472	7,685,985,008
More than 180 days		4,601,033,461	845,355,795
In legal collection		24,596,175,439	18,362,361,921
Total direct loans		1,601,278,533,373	1,733,798,340,130
Accounts and accrued interest receivable		21,761,893,940	21,999,196,632
Allowance for loan losses		(59,052,010,871)	(61,357,303,429)
Total	¢	1,563,988,416,442	1,694,440,233,333

Concentration of the portfolio in individual borrowers or economic interest groups

	2019			2018		
	No. of customers		Amount	No. of customers		Amount
Capital and reserves:						
Less than 5%	115317	¢	1,436,946,630,343	119276	¢	1,524,294,151,465
5% to 10%	4		70,708,180,762	6		92,515,604,554
10% to 15%	3		93,623,722,268	4		116,988,584,111
Total	115324	¢	1,601,278,533,373	119286	¢	1,733,798,340,130

At the balance sheet 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, 2019, 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 ¢245,806,050,827 (2018: ¢209,504,188,665).

Amount and number of loans in non-accrual status

		2019	2018
Loans in non-accrual status	¢	40,578,414,597	34,001,620,556
Number of loans in non-accrual status		5,863	5,779

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

		2019	2018
Loans in legal collection	¢	24,596,175,439	18,362,361,921
Number of loans in legal collection		932	549
Percentage of total loan portfolio		1.54%	1.06%

Investments by risk rating

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

		2019	2018
AAA	¢	9,367,627	9,695,497
AA		634,342,129	1,677,108,160
A		37,055,850,000	30,639,482,451
BB		-	73,373,594,504
B		128,562,010,992	13,301,415,944
Total investments by risk rating		166,261,570,748	119,001,296,556
Accrued interest receivable		1,713,313,306	605,052,037
Total	¢	167,974,884,054	119,606,348,593

Investments by geographic area

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

		2019	2018
Costa Rica	¢	129,205,720,748	88,361,814,105
United States of America		37,055,850,000	30,639,482,451
Total investments		166,261,570,748	119,001,296,556
Accrued interest receivable		1,713,313,306	605,052,037
Total	¢	167,974,884,054	119,606,348,593

ii. Interest rate risk

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

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.

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, 2019, 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 comparative periods (2019 and 2018). In the event that variable interest rates change as indicated above, the Bank's asset and liability portfolios for the period ended December 31, 2019 would increase or decrease by ¢10,743,507,076 (2018: increase or decrease by ¢3,030,453,514).

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

		Effect on fair value	
		2019	2018
Positive change			
Investments	¢	(7,761,510,657)	(1,835,539,060)
Loan portfolio	¢	(39,595,641,984)	(33,861,982,537)
Term deposits	¢	(10,564,403,449)	(9,237,490,127)
Obligations with entities	¢	(4,397,727,262)	(5,676,142,791)
Negative change			
Investments	¢	13,867,083,791	2,037,060,806
Loan portfolio	¢	42,891,659,255	36,525,728,300
Term deposits	¢	10,952,523,050	9,545,382,632
Obligations with entities	¢	4,569,268,829	5,873,874,212

(Continued)

As of December 31, 2019, the interest rate gap report for the Bank's assets and liabilities is as follows (in thousands of colones):

	Average interest rate		Days						
			1-30	31-90	91-180	181-360	361-720	More than 720	Total
Local currency									
Assets	14.12%	¢	271,005,245	38,901,249	148,993,896	77,470,036	20,808,578	80,637,557	637,816,561
Liabilities	6.40%		98,080,670	74,597,519	66,430,397	37,422,171	40,213,609	27,245,094	343,989,460
Gap			172,924,575	(35,696,270)	82,563,499	40,047,865	(19,405,031)	53,392,463	293,827,101
Foreign currency									
Assets	6.09%		366,016,006	113,163,987	357,203,498	93,002,692	67,369,382	239,603,600	1,236,359,165
Liabilities	3.26%		240,665,943	172,638,339	314,582,665	100,722,635	145,846,736	131,423,131	1,105,879,449
Gap		¢	125,350,063	(59,474,352)	42,620,833	(7,719,943)	(78,477,354)	108,180,469	130,479,716

As of December 31, 2018, the interest rate gap report for the Bank's assets and liabilities is as follows (in thousands of colones):

	Average interest rate		Days						
			1-30	31-90	91-180	181-360	361-720	More than 720	Total
Local currency									
Assets	13.48%	¢	290,353,768	38,255,646	132,282,342	55,269,478	23,741,114	46,553,524	587,290,157
Liabilities	6.19%		59,305,049	74,410,366	59,695,306	34,737,140	43,281,931	30,623,222	301,797,759
Gap			231,048,719	(36,154,720)	72,587,036	20,532,338	(19,540,817)	15,930,302	285,492,398
Foreign currency									
Assets	6.52%		411,272,224	105,012,321	489,434,758	217,103,050	40,385,538	78,664,890	1,339,807,243
Liabilities	3.48%		311,376,685	180,588,801	389,000,205	97,735,481	183,934,967	115,114,309	1,276,260,800
Gap		¢	99,895,539	(75,576,480)	100,434,553	119,367,569	(143,549,429)	(36,449,419)	63,546,443

(Continued)

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, 2019, 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								
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	More than 30 days past due	Total
Cash and due from banks	¢	56,580,412	-	-	-	-	-	-	-	56,580,412
Minimum legal deposit in BCCR		76,245,517	22,970,320	13,169,471	13,338,281	29,500,161	41,905,051	53,587,225	-	250,716,026
Investments		2,208,215	58,574,809	884,840	61,251	39,765	15,299,272	90,906,732	-	167,974,884
Loan portfolio		88,514,666	80,779,954	103,915,364	82,028,218	116,354,073	79,450,615	995,885,533	76,112,005	1,623,040,428
Total recovery of assets		223,548,810	162,325,083	117,969,675	95,427,750	145,893,999	136,654,938	1,140,379,490	76,112,005	2,098,311,750
Obligations with the public		389,944,920	124,165,409	66,999,602	73,862,327	155,930,823	228,414,226	294,881,460	-	1,334,198,767
Obligations with financial entities		25,547,405	47,404,218	24,799,397	34,162,381	85,099,642	126,779,152	97,785,911	-	441,578,106
Charges payable		-	11,607,146	-	-	-	-	-	-	11,607,146
Total maturity of liabilities		415,492,325	183,176,773	91,798,999	108,024,708	241,030,465	355,193,378	392,667,371	-	1,787,384,019
Gap	¢	(191,943,515)	(20,851,690)	26,170,676	(12,596,958)	(95,136,466)	(218,538,440)	747,712,119	76,112,005	310,927,731

(Continued)

As of December 31, 2018, 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								
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	More than 30 days past due	Total
Cash and due from banks	¢	58,510,739	-	-	-	-	-	-	-	58,510,739
Minimum legal deposit in BCCR		85,351,137	19,847,510	14,256,488	15,380,022	39,503,375	47,948,814	54,113,900	-	276,401,246
Investments		2,137,629	42,694,936	1,249,146	1,070,304	2,906,054	9,631,544	59,916,736	-	119,606,349
Loan portfolio		85,367,264	108,654,464	100,176,868	102,086,786	137,826,364	141,564,041	1,009,940,356	69,946,435	1,755,562,578
Total recovery of assets		231,366,769	171,196,910	115,682,502	118,537,112	180,235,793	199,144,399	1,123,970,992	69,946,435	2,210,080,912
Obligations with the public		379,776,958	89,815,768	66,179,802	71,262,862	191,316,987	238,846,664	267,505,243	-	1,304,704,284
Obligations with financial entities		48,447,450	63,525,496	47,171,333	32,879,146	130,066,446	114,088,101	175,008,092	-	611,186,064
Charges payable		-	11,850,987	-	-	-	-	-	-	11,850,987
Total maturity of liabilities		428,224,408	165,192,251	113,351,135	104,142,008	321,383,433	352,934,765	442,513,335	-	1,927,741,335
Gap	¢	(196,857,639)	6,004,660	2,331,368	14,395,104	(141,147,640)	(153,790,366)	681,457,657	69,946,435	282,339,577

(Continued)

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.

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Residual contractual maturities of financial liabilities

Nominal cash flows of financial liabilities for each period are as follows (in thousands of colones):

		2019							
				Years					
Obligations:		Balance	Nominal cash flows	1	2	3	4	5	More than 5 years
Demand obligations with the public	¢	389,944,920	389,944,920	389,944,920	-	-	-	-	-
Term obligations with the public		944,253,847	978,061,205	680,306,676	120,462,142	85,163,651	-	92,101,454	27,282
Demand obligations with entities		25,547,406	25,547,406	25,547,406	-	-	-	-	-
Obligations with financial entities		416,160,801	425,233,430	316,313,304	60,764,919	10,189,820	-	32,371,680	5,593,707
	¢	1,775,906,974	1,818,786,961	1,412,112,306	181,227,061	95,353,471	-	124,473,134	5,620,989

		2018							
				Years					
Obligations:		Balance	Nominal cash flows	1	2	3	4	5	More than 5 years
Demand obligations with the public	¢	379,776,958	379,776,958	379,776,958	-	-	-	-	-
Term obligations with the public		924,927,326	970,722,659	694,508,219	131,131,466	58,244,336	-	86,838,638	-
Demand obligations with entities		48,447,451	48,447,451	48,447,451	-	-	-	-	-
Obligations with financial entities		558,205,689	570,920,287	382,410,858	102,940,248	56,951,558	-	21,229,364	7,388,259
	¢	1,911,357,424	1,969,867,355	1,505,143,486	234,071,714	115,195,894	-	108,068,002	7,388,259

(Continued)

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, 2019 and 2018, 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.

(a) Monetary position in foreign currency

As of December 31, 2019, assets and liabilities denominated in foreign currency are as follows:

	US dollar	Canadian dollar	Euro	Pounds sterling
Assets				
Cash and due from banks	400,995,754	7,449,127	2,133,075	116,956
Investments in financial instruments	212,471,635	-	-	-
Loan portfolio	1,799,300,069	-	360,553	-
Accounts and fees and commissions receivable	4,588,112	7,548	-	-
Investments in other companies	977	-	-	-
Other assets	6,670,694	106,260	37	-
Total assets	2,424,027,241	7,562,935	2,493,665	116,956
Liabilities				
Obligations with the public	1,630,608,896	2,352,992	1,776,495	-
Obligations with entities	718,664,681	-	-	-
Other accounts payable and provisions	26,452,751	3,238,532	1,000	-
Other liabilities	11,669,708	8,300	-	-
Total liabilities	2,387,396,036	5,599,824	1,777,495	-
Excess of assets over liabilities	36,631,205	1,963,111	716,170	116,956

As of December 31, 2018, assets and liabilities denominated in foreign currency are as follows:

	US dollar	Canadian dollar	Euro	Pounds sterling
Assets				
Cash and due from banks	416,799,328	4,557,333	3,098,974	117,526
Investments in financial instruments	177,215,647	-	-	-
Loan portfolio	1,918,500,468	-	560,552	-
Accounts and fees and commissions receivable	17,145,330	-	-	-
Investments in other companies	922	-	-	-
Other assets	12,257,876	131,428	-	-
Total assets	2,541,919,571	4,688,761	3,659,526	117,526
Liabilities				
Obligations with the public	1,590,516,795	1,125,111	1,884,226	-
Obligations with entities	913,461,188	-	-	-
Other accounts payable and provisions	21,897,854	2,323,597	-	-
Other liabilities	20,199,399	-	158,036	-
Total liabilities	2,546,075,236	3,448,708	2,042,262	-
Excess of assets over liabilities	(4,155,665)	1,240,053	1,617,264	117,526

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, 2019 and 2018, the Bank's equity included ordinary shares for a total of US$427,372,354, equivalent to ¢226,449,722.

(Continued)

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

As of December 31, 2019, 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								
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	More than 30 days past due	Total
Cash and due from banks	US$	60,338	-	-	-	-	-	-	-	60,338
Minimum legal deposit in BCCR		106,978	28,623	19,305	17,913	43,828	58,515	73,739	-	348,901
Investments		2,248	80,402	1,552	11	10	21,326	106,920	-	212,469
Loan portfolio		101,249	45,757	78,395	39,449	138,547	92,343	1,279,540	87,841	1,863,121
Total recovery of assets		270,813	154,782	99,252	57,373	182,385	172,184	1,460,199	87,841	2,484,829
Obligations with the public		477,147	135,625	91,779	84,443	208,370	278,191	350,572	-	1,626,127
Obligations with financial entities		31,448	69,220	37,925	59,835	149,003	220,949	147,977	-	716,357
Charges payable		-	10,351	-	-	-	-	-	-	10,351
Total maturity of liabilities		508,595	215,196	129,704	144,278	357,373	499,140	498,549	-	2,352,835
Gap	US$	(237,782)	(60,414)	(30,452)	(86,905)	(174,988)	(326,956)	961,650	87,841	131,994

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2018, 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								
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	More than 30 days past due	Total
Cash and due from banks	US$	59,617	5,000	-	-	-	-	-	-	64,617
Minimum legal deposit in BCCR		107,915	25,478	19,906	22,315	55,164	61,496	66,953	-	359,227
Investments		1,990	66,310	2,067	11	10	12,636	94,191	-	177,215
Loan portfolio		96,900	84,698	70,706	59,788	162,050	188,015	1,243,840	73,022	1,979,019
Total recovery of assets		266,422	181,486	92,679	82,114	217,224	262,147	1,404,984	73,022	2,580,078
Obligations with the public		455,231	110,770	90,842	101,171	251,710	279,619	296,117	-	1,585,460
Obligations with financial entities		37,252	79,561	72,740	50,745	213,660	188,130	266,336	-	908,424
Charges payable		-	12,212	-	-	-	-	-	-	12,212
Total maturity of liabilities		492,483	202,543	163,583	151,916	465,370	467,749	562,453	-	2,506,097
Gap	US$	(226,060)	(21,057)	(70,904)	(69,802)	(248,146)	(205,602)	842,531	73,022	73,982

(Continúa)

Sensitivity analysis

As of December 31, 2019 and 2018, 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 buy 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, 2019 and 2018, the maximum annual expected variation of the reference buy exchange rate of ¢66.66 and ¢71.38, respectively, 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 periods ended December 31 is as follows:

		2019	2018
Effect on profit or loss			
Exchange rate variation			
Assets	¢	170,665,647,581	182,110,984,966
Liabilities		(159,562,179,996)	(173,261,162,030)
Net effect on profit or loss	¢	11,103,467,585	8,849,822,936

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.

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, 2019, Costa Rican banking legislation requires private banks to maintain minimum paid-in capital greater than or equal to ¢16,348 million (2018: ¢15,610 million) as well as equity for an amount greater than or equal to 10% of risk-weighted assets, including off-balance sheet financial instruments.

As of December 31, 2019 and 2018, the Bank's capital requirement based on its risk-weighted assets pursuant to SUGEF regulations is determined as described below.

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 available-for-sale investments, 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.

(Continúa)

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

		2019	2018
Tier I capital:			
Paid-in capital	¢	226,449,722,072	226,449,722,072
Legal reserve		19,356,328,755	18,606,701,145
		245,806,050,827	245,056,423,217
Tier II capital:			
Revaluation adjustment		3,505,615,212	8,133,733,323
Adjustments due to changes in the fair value		-	(2,366,233,312)
Non-capitalized contributions		14,958,140	14,958,140
Prior period retained earnings		5,028,271,031	(239,338,212)
Profit or loss for the period, net of appropriation to legal reserve		4,711,772,914	637,886,007
		13,260,617,297	6,181,005,946
Equity adjustments:			
Investments in other companies		(557,006)	(557,006)
		(557,006)	(557,006)
Total capital base	¢	259,066,111,118	251,236,872,157

As of December 31, 2019 and 2018, 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.

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:

		2019	2018
Carrying amount			
Cash and due from banks	¢	307,296,438,221	337,933,935,673
Investments:			
Trading		494,901,470	1,532,577,284
Available for sale		165,766,597,958	117,468,719,272
Loan portfolio		1,601,278,533,373	1,733,798,340,130
Demand deposits		389,944,919,678	379,776,958,043
Term deposits		944,253,846,969	924,927,325,906
Financial obligations		443,208,886,207	614,657,916,935
Fair value			
Cash and due from banks	¢	307,296,438,221	337,933,935,673
Investments:			
Trading		494,901,470	1,532,577,284
Available for sale		165,766,597,958	117,468,719,272
Loan portfolio		1,523,320,657,756	1,316,640,649,620
Demand deposits		389,944,919,678	379,776,958,043
Term deposits		915,983,273,048	866,478,383,861
Financial obligations		509,089,146,866	502,120,628,441

The following assumptions were used by management to estimate the fair value of each class of financial instruments on the balance sheet:

- 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.

- Fair values of investments are determined based on the reference price for the share or bond published on securities exchanges and in electronic stock information systems.

(Continúa)

- 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.

(Continúa)

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:

		2019			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	165,766,597,958	-	-	165,766,597,958
Held for trading	¢	-	494,901,470	-	494,901,470

		2018			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	117,468,719,272	-	-	117,468,719,272
Held for trading	¢	-	1,532,577,284	-	1,532,577,284

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:

		2019	2018
Assets:			
Costa Rica	¢	2,029,147,613,982	2,180,383,745,595
Central America		1,102,275,614	391,936,966
Rest of North and South America		2,588,916,725	1,585,001,646
Caribbean		310,301,307	17,100,922
United States of America		58,621,287,146	45,849,342,160
Europe		891,481,586	2,048,293,313
Africa		932,227,342	3,653,254
Asia		224,206,450	167,566,710
Total assets	¢	2,093,818,310,152	2,230,446,640,566
Liabilities:			
Costa Rica	¢	1,376,614,198,388	1,388,559,203,516
Central America		26,040,924,856	36,767,592,603
Rest of North and South America		12,907,581,207	44,146,102,353
Caribbean		338,123,470,873	355,988,961,783
United States of America		59,717,719,830	104,128,265,738
Europe		15,532,394,819	44,434,200,553
Africa		1,705,655	29,106,098
Asia		2,781,624,062	2,301,452,860
Rest of North America		-	631,245
Total liabilities	¢	1,831,719,619,690	1,976,355,516,749

30. Agreements

As of December 31, 2019 and 2018, 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, 2019, 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		2019	2018
1 year	¢	2,727,030,053	1,632,178,162
2 years		2,580,673,559	1,437,389,309
3 years		2,417,447,241	1,135,744,304
4 years		2,109,353,885	912,385,935
5 years		2,065,887,489	680,105,562
More than 5 years		6,160,446,186	1,611,670,000
	¢	18,060,838,413	7,409,473,272

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		90,119,688
	¢	729,207,358

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

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.

(Continúa)

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.

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.

(Continúa)

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.

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.

(Continúa)

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 ¢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 ¢1,669,974,892 and, as of July 28, 2008, interest amounted to ¢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 June 31, 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 2, 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.

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.

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

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.

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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.

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

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	¢	5,678,332,110

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.

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. 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.

In this respect, an ordinary trial was filed with the Administrative Court to review the resolution of the Tax Court in connection with the lack of evidence to demonstrate the sum used as tax credit.

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 ¢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; consequently, the judicial proceedings remain open until a final decision is issued by the First Chamber of the Supreme Court of Justice.

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 ¢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.

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. 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 Large 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 against conformation resolution No. AU10R-085-18. On December 20, 2018, the National Large Taxpayer Administration notified resolution N° AP10R-165-18, which accepts the appeal since it was filed in due time and form and summons the Bank to appear before the Tax Court to reiterate or ratify its arguments.

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Finally, on August 7, 2019 the Tax Court notified resolution No. 341-P-2019, in which it partially admitted the appeal filed by the Bank. 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 ¢3,539,307,817 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.

Management and the tax advisors consider that it is likely that most of the adjustments presented in this case will be approved.

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

(a) Tax proceedings

a.1 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.

Through Resolution No. SFGCN-AL-031-12 received on March 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 31, 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 30, 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.

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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.

a.2 *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 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.3 *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.

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

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 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.

On May 18, 2018, the National Large Taxpayer Administration issued Determination Resolution No. DT10R-057-18, which rejected the motion for dismissal, the statute of limitations and the objection filed. On March 22, 2019, an appeal was filed against the aforementioned resolution.

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.

a.4 Income tax for fiscal year 2015

On February 20, 2018, the Tax Administration notified the Bank of the beginning of a tax review related to income tax for fiscal year 2015. On May 14, 2018, the Tax Administration notified Provisional Regularization Proposal No. DGCN-SF-PD-2-2018-15-31-03 within the determination proceedings file, indicating an additional tax payment of ¢613,659,542 plus interest in the amount of ¢165,157,025, for fiscal year 2015.

On May 28, 2018, within the term granted by the Tax Administration, pleadings and evidence were presented against Provisional Regularization Proposal No. DGCN-SF-PD-2-2018-15-31-03. In the final hearing held on June 12, 2018, the Bank was given the report on the pleadings and evidence presented, as well as that of Provisional Regularization Proposal No. DGCN-SF-PD-2-2018-13-341-03.

On June 21, 2018, the Bank received Notice of Deficiency and Observations No. DGCN-SF-PD-2-2018-9-41-03. On August 6, 2018, an administrative claim was filed against said notice of deficiency, within the legal term established for that purpose. A determination resolution is still pending.

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 commercial license tax corresponding to fiscal years 2010 and 2011, in the amount of ¢353,130,157 plus interest. The Company filed a motion for reconsideration and appeal to a higher court was filed, requesting its annulment.

Subsequently, through Official Communication No. FT-2013 of December 5, 2014, the Municipality of San José annulled the collection of municipal license tax for fiscal years 2010 and 2011. Accordingly, management did not book a provision therefor.

On December 18, 2014, through Official Communication No. 989-DGT-OMISO-2014, the Municipality of San José notified a new tax assessment process related to a municipal license tax for periods 2011 and 2012. 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 March 2015 close, for ¢223,606,866.

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. 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.

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

On November 22, 2018, a motion for declaration of lapsing, given that more than 11 months have passed and the claim filed has not been resolved.

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.

On December 13, 2019, 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 payable to the State, plus ¢992,721,229 in interest generated as of the date of notification. As of that date, pursuant to Article 81 of the *Code of Tax Standards and Procedures* (CNPT), the Bank was also notified of Sanctioning Ruling No. DGCN-SF-PS-44-2018-15-5138-03 which determined a sanction equivalent to 50% of the adjustment determined to the income tax declared for fiscal year 2016, in the amount of ¢1,560,818,449.

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. On October 10, 2019, the Bank filed an administrative claim against this notice of deficiency and observations.

The Sanctioning Ruling is pending notification from the National Large Taxpayer Division.

Management considers that it is likely (exceeding 50%) that the Bank will be able to defend its positions once the litigation process is completed.

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32. Subsequent events

Through Official Letter CNS-142/04 issued on June 27, 2018, CONASSIF notified the authorization for the merger through absorption of The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A. by Scotiabank de Costa Rica, S.A. This merger was performed on July 1, 2018.

The value of assets and liabilities assumed and incorporated into the balance sheet of Scotiabank de Costa Rica, S.A., from both The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A., as of the merger date, is the following:

	The Bank of Nova Scotia (Costa Rica), S.A.	**Scotia Tarjetas, S.A.**	**Merger of both companies**
ASSETS			
Cash and due from banks	47,787,713,469	6,081,600,358	53,869,313,827
Investments in financial instruments	40,829,693,750	35,723,014,167	76,552,707,917
Loan portfolio	180,086,769,586	34,863,188,141	214,949,957,727
Accounts and fees and commissions receivable	546,575,041	14,768,918,754	15,315,493,795
Foreclosed assets	27,695,475	47,184,977	74,880,452
Property and equipment, net	9,292,538,027	201,113,614	9,493,651,641
Other assets	2,151,252,916	350,517,916	2,501,770,832
TOTAL ASSETS	280,722,238,264	92,035,537,927	372,757,776,191
LIABILITIES			
Obligations with the public	199,668,072,257	298,478,497	199,966,550,754
Obligations with entities	9,945,083,377	59,449,325,890	69,394,409,267
Accounts payable and provisions	7,779,133,281	2,513,533,802	10,292,667,083
Other liabilities	739,247,205	527,634,329	1,266,881,534
TOTAL LIABILITIES	218,131,536,120	62,788,972,518	280,920,508,638
EQUITY			
Share capital	51,763,842,347	35,375,988,319	87,139,830,666
Non-capitalized capital contributions	240	-	240
Surplus from revaluation of property	4,475,635,127	-	4,475,635,127
Unrealized gains/losses	42,743	24,510	67,253
Deferred tax adjustment	(12,824)	(24,510)	(37,334)
Capital reserves	6,168,920,486	458,207,671	6,627,128,157
Prior period retained earnings	1,603,056,472	905,234,343	2,508,290,815
Prior period accumulated deficit	(1,272,958,510)	(7,597,984,443)	(8,870,942,953)
Income for the year	(147,823,937)	105,119,519	(42,704,418)
TOTAL EQUITY	62,590,702,144	29,246,565,409	91,837,267,553
TOTAL LIABILITIES AND EQUITY	280,722,238,264	92,035,537,927	372,757,776,191

(Continúa)

Income and expenses for the period recognized in the Bank's profit or loss from prior periods, corresponding to The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A. are as follows:

	The Bank of Nova Scotia (Costa Rica), S.A.	Scotia Tarjetas, S.A.	Merger of both companies
FINANCE INCOME			
Finance income	21,819,979,788	7,722,960,261	29,542,940,049
Foreign exchange differences and DU	17,241,166,427	8,897,736,360	26,138,902,787
TOTAL FINANCE INCOME	39,061,146,215	16,620,696,621	55,681,842,836
FINANCE COSTS			
Finance costs	(5,689,016,638)	(1,092,122,060)	(6,781,138,698)
Foreign exchange differences and DU	(17,512,741,237)	(8,465,064,444)	(25,977,805,681)
TOTAL FINANCE COSTS	(23,201,757,875)	(9,557,186,504)	(32,758,944,379)
OPERATING INCOME			
Other operating income	10,937,511,776	13,469,028,046	24,406,539,823
TOTAL OPERATING INCOME	10,937,511,776	13,469,028,046	24,406,539,823
OPERATING EXPENSES			
Other operating expenses	(8,935,636,625)	(11,116,297,457)	(20,051,934,081)
Administrative expenses	(12,431,790,473)	(4,227,888,951)	(16,659,679,423)
TOTAL OPERATING EXPENSES	(21,367,427,097)	(15,344,186,407)	(36,711,613,505)
PROVISIONS			
Allowance for impairment of assets	(7,988,819,454)	(4,330,800,003)	(12,319,619,456)
Allowance for recovery of assets	1,093,084,868	-	1,093,084,868
Decrease in allowances and provisions	1,272,368,474	-	1,272,368,474
TOTAL PROVISIONS	(5,623,366,112)	(4,330,800,003)	(9,954,166,114)
PROFIT BEFORE TAX	(193,893,093)	857,551,753	663,658,660
Income tax	(107,656,606)	(1,116,158,528)	(1,223,815,134)
Deferred tax	166,528,489	363,726,293	530,254,782
Statutory allocations	(12,802,727)	-	(12,802,727)
TOTAL TAX	(46,069,156)	(752,432,235)	(706,363,079)
NET PROFIT	(147,823,937)	105,119,519	(42,704,419)

33. Transition to International Financial Reporting Standards (IFRS)

Through various resolutions, CONASSIF agreed to partial adoption starting January 1, 2004 of IFRS published by the International Accounting Standards Board (IASB).

In order to regulate application of those Standards, CONASSIF issued the terms of the *Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN and SUGESE and to Non-financial Issuers* (the Regulations) and approved a comprehensive revision of those Regulations on December 17, 2007.

On May 11, 2010, CONASSIF issued official letter C.N.S. 413-10 to revise the Regulations, whereby regulated entities adopted IFRS and the corresponding Interpretations issued by the IASB in effect as of January 1, 2008, except for the special treatment indicated in Chapter II of the aforementioned Regulations.

Subsequently, through official letter C.N.S. 1034-08 dated April 4, 2013, CONASSIF published a number of amendments to SUGEF Directive 31-04 *Regulations on the Financial Reporting of Financial Entities, Groups and Conglomerates* in respect of the presentation of annual financial statements, unaudited interim consolidated and separate financial statements prepared by the entity and audited consolidated and separate financial statements. Also, CONASSIF amended SUGEF Directive 34-02 *Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN and SUGESE and to Non-financial Issuers* to adopt IFRS in effect as of January 1, 2011, except for the special treatments indicated in Chapter II of the Regulations. These amendments are effective for annual reporting periods beginning on or after January 1, 2014.

When the regulations issued by CONASSIF differ from IFRS, noncompliance with such IFRS and the nature of the specific departure applicable to the entity must be disclosed for each reporting period.

Pursuant to the Regulations, the adoption of new IFRS or interpretations issued by the IASB, as well as any other revisions of IFRS adopted will require the prior authorization of CONASSIF.

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.

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 1: Presentation of Financial Statements

The presentation of financial statements required by CONASSIF differs in many respects from presentation under this Standard. Following are some of the most significant differences:

SUGEF regulations do not allow certain transactions, such as clearing house balances, gains or losses on the sale of financial instruments, gains or losses on foreign exchange differences, income taxes, etc. to be presented on a net basis. Given their nature, IFRS require those balances to be presented net to prevent assets and liabilities or profit or loss from being overstated.

Interest receivable and payable is presented in the main asset or liability account rather than as other assets or other liabilities.

b) IAS 7: Statement of Cash Flows

CONASSIF has only authorized preparation of the cash flow statement using the indirect method. The direct method is also acceptable under this Standard. In addition, this Standard requires disclosure of the changes in the liabilities that arise from financing activities derived from cash flows as well as those that do not entail cash flows, for example exchange rate variations.

c) IAS 12: Income Taxes

SUGEF's Chart of Accounts presents deferred income tax assets, liabilities, income and expenses separately. IAS 12 permits the presentation of assets and liabilities on a net basis if the taxes are levied on the same taxable entity. In accordance with this Standard, income or expenses must be presented on a net basis as part of total income tax.

d) IAS 16: Property. Plant and Equipment

The regulations issued by CONASSIF require the revaluation of property through appraisals made by independent appraisers at least once every five years, eliminating the option to carry these assets at cost or to revalue other types of assets.

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Additionally, SUGEF has allowed certain regulated entities to convert (capitalize) revaluation surplus into share capital. This Standard only permits realization of revaluation surplus through the sale or depreciation of the asset. As a result of this treatment, regulated entities must recognize the effect of any impaired fixed assets in profit or loss, since the effect cannot be charged against equity. Under this Standard, impairment is charged to revaluation surplus and any difference is recognized in profit or loss. The amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 eliminate the option of capitalizing the surplus derived from revaluation of assets for financial statements as of December 31, 2014.

Moreover, under this Standard, depreciation continues on property, plant and equipment, even if the asset is idle. The regulation issued by CONASSIF allows entities to suspend the depreciation of idle assets and reclassify them as foreclosed assets.

e) IAS 18: Revenue

CONASSIF has allowed regulated financial entities to recognize loan fees and commissions collected prior to January 1, 2003 as revenue. Additionally, CONASSIF has permitted the deferral of 25%, 50% and 100% of loan fees and commissions for transactions completed in 2003, 2004 and 2005, respectively. IAS 18 prescribes deferral of 100% of those fees and commissions over the loan term.

Until December 31, 2013, CONASSIF allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents and settlement of the operation. IAS 18 does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs.

Accordingly, loan fee and commission income originating prior to December 31, 2013 may not be deferred in full. This treatment does not conform to IAS 18 and IAS 39. With the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, CONASSIF adopted the accounting treatment prescribed by IAS 18 and IAS 39 for fees and commissions and transaction costs as of January 1, 2014. However, the following differences remain between the accounting regulations issued by CONASSIF and IAS 18 and IAS 39, as follows:

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- CONASSIF requires that fee and commission income be recognized as a liability and booked under "Deferred income" (liability) and incremental direct costs be amortized in "Deferred charges" (asset). Under IAS 39, fees and commissions and incremental costs are part of the amortized cost of financial instruments, rather than separate assets and liabilities.
- CONASSIF requires that fee and commission income be deferred in "Other income" and costs be amortized in "Other expenses". Under IAS 18 and IAS 39, income and costs must be booked as part of "Finance income on financial instruments".
- Under SUGEF regulations, the effective interest rate must be calculated over the financial instrument's contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).
- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the year.

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

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

g) IAS 27: Consolidated and Separate Financial Statements

CONASSIF requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under IAS 27, effective as of 2011 (replaced by IFRS 10, effective as of 2012), a parent is required to present consolidated financial statements. A parent need not present consolidated financial statements when the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use, provided certain other requirements are also met. However, IAS 27, effective as of 2011, requires that investments be accounted for at cost. With the amendments to IAS 27 effective starting 2014, in the preparation of separate financial statements investments in subsidiaries and associates can be measured at cost according to IFRS 9 or using the equity method described in IAS 28. However, the amendments to IAS 27 have not been adopted by CONASSIF.

In the case of financial groups, the holding company must consolidate the financial statements of all of the companies of the group in which it holds an ownership interest of twenty-five percent (25%) or more, irrespective of control. For such purposes, proportionate consolidation should not be used, except in the consolidation of investments in joint arrangements.

Amended IAS 27 (2008) requires accounting for changes in ownership interests in a subsidiary, while maintaining control, to be recognized as an equity transaction. When a Group loses control of a subsidiary, any ownership interest retained in the former subsidiary is to be measured at fair value with the gain or loss recognized in profit or loss. The amendments to this standard became mandatory for 2010 financial statements. These amendments have not been adopted by CONASSIF.

With the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, savings and credit cooperatives and the Education Savings and Loan Association, as holding companies, are not required to consolidate the interim and annual audited financial statements of their investees, such as funeral homes and other entities not related to the financial and stock market sector, except for entities that own or manage the cooperatives' personal and real property, which must be consolidated.

h) IAS 28: Investments in Associates

CONASSIF requires consolidation of investments in companies in which an entity holds twenty-five percent (25%) or more ownership interest, irrespective of any considerations of control. Such treatment does not conform to IAS 27 and IAS 28.

i) Revised IAS 32: Financial Instruments - Presentation

The revised Standard provides new guidelines clarifying the classification of financial instruments as liabilities or equity (e.g. preferred shares). SUGEVAL determines whether issues fulfill the requirements of share capital.

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j) Amendments to IAS 32: Financial Instruments - Presentation and IAS 1: Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to the Standards require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. These amendments have not been adopted by CONASSIF.

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

SUGEF prescribes recognition of a provision for possible losses on contingent assets. This type of provision is prohibited under IAS 37.

l) 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.

m) IAS 39: Financial Instruments: Recognition and Measurement

CONASSIF requires that the loan portfolio be classified pursuant to SUGEF Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. Furthermore, on June 17, 2016, through Official Letter SGF-1729-2016, CONASSIF approved SUGEF Directive 19-16 "Regulations to Determine and Book Counter-cyclical Allowances", which requires entities supervised by SUGEF to book a general allowance for the loan portfolio with no current indications of impairment, in order to mitigate the effects of the economic cycle on the profit or loss derived from the loan portfolio allowance.

IAS 39 requires that the allowance for loan losses be determined based on a financial analysis of actual losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the income statement.

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The revised Standard introduced changes with respect to classification of financial instruments, which have not been adopted by CONASSIF. Those changes include the following:

- The option of classifying loans and receivables as available for sale was established.
- Securities quoted in an active market may be classified as available for sale, held for trading or held to maturity.
- The "fair value option" was established to designate any financial instrument to be measured at fair value through profit or loss, provided a series of requirements are met (e.g. the instrument has been measured at fair value since the original acquisition date).
- The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

Regular purchases and sales of securities are to be recognized using settlement date accounting only.

Depending on the type of entity, financial assets are to be classified as follows:

a) Pooled portfolios
Investments in pooled investment funds, pension and mandatory retirement saving funds, similar trusts and Demand Cash Management Accounts (OPABs) are to be classified as available for sale.

b) Own investments of regulated entities
Investments in financial instruments of regulated entities are to be classified as available for sale.

Own investments in open investment funds are to be classified as trading financial assets. Own investments in closed investment funds are to be classified as available for sale.

Entities regulated by SUGEVAL and SUGEF may classify other investments in financial instruments as trading instruments, provided there is an express statement of intent to trade them within 90 days from the acquisition date.

Banks regulated by SUGEF may not classify investments in financial instruments as held to maturity.

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The above classifications do not necessarily adhere to the provisions of IAS 39.

The amendment to this Standard clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amended Standard became mandatory for 2010 financial statements with retrospective application required. These amendments have not been adopted by CONASSIF.

n) IAS 40: Investment Property

This Standard allows entities to choose between the fair value model and the cost model to measure their investment property. The regulation issued by CONASSIF only allows entities to use the fair value model to measure this type of assets except in the cases for which no clear evidence is provided to determine their fair value.

o) Revised IFRS 3: Business Combinations

This Standard establishes that a business combination between entities under common control can be performed at cost or at fair value. CONASSIF only permits booking of these transactions measuring the assets and liabilities at fair value.

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

CONASSIF requires booking an allowance of one-twenty-fourth 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.

q) IFRS 9: Financial Instruments

This Standard replaces IAS 39 "*Financial Instruments: Recognition and Measurement.*" IFRS 9 amends the classification and measurement requirements for financial instruments, including a new financial instrument impairment model based on the premise of providing for expected credit losses and the new guidelines on hedge accounting. IFRS 9 does not change the principles for financial instrument recognition and derecognition provided for under IAS 39. The Standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. This Standard has not been adopted by CONASSIF.

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r) IFRS 10: Consolidated Financial Statements

This Standard provides a revised control definition and application guidance therefor. This Standard supersedes IAS 27 (2008) and SIC 12, "*Consolidation - Special Purpose Entities,*" and is applicable to all investees.

Early application is permitted. Entities that apply this Standard early must disclose that fact and simultaneously apply IFRS 11, IFRS 12, IAS 27 (as amended in 2011) and IAS 28 (as amended in 2011).

An entity is not required to make adjustments to the accounting for its involvement with an investee when entities that were previously consolidated or unconsolidated in accordance with IAS 27 (2008), SIC 12 and this Standard continue to be consolidated or continue not to be consolidated.

The Standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. This Standard has not been adopted by CONASSIF.

s) IFRS 11: Joint Arrangements

This Standard was issued in May 2011 with an effective date of January 1, 2013. The Standard addresses the inconsistencies in the accounting for joint arrangements and requires a single accounting treatment for interests in jointly controlled entities. This Standard has not been adopted by CONASSIF.

t) IFRS 12: Disclosure of Interests in Other Entities

This Standard was issued in May 2011 with an effective date of January 1, 2013. This Standard requires an entity to disclose information that enables users of financial statements to evaluate the nature and financial effects of its ownership interests in other entities, including joint arrangements, associates, structured entities and off-balance-sheet activities. This Standard has not been adopted by CONASSIF.

u) IFRS 13: Fair Value Measurement

This Standard clarifies the definition of fair value, establishes a single procedure for measuring fair value and defines the measurements and applications required or permitted in IFRS. This Standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. This Standard has not been adopted by CONASSIF.

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v) IFRS 14: Regulatory Deferral Accounts

This Standard was approved in January 2014. It specifies the accounting policies for regulatory deferral account balances arising from a rate regulation. This Standard is effective for annual periods beginning on or after January 1, 2016. Early application is permitted. This Standard has not been adopted by CONASSIF.

w) IFRS 15: Revenue from Contracts with Customers

This Standard was approved in May 2014. It provides a global framework for the recognition of revenue from contracts with customers and establishes the principles to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. This Standard replaces IAS 11, IAS 18, IFRS 13, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. This Standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. This Standard has not been adopted by CONASSIF.

x) IFRS 16: Leases

This Standard was approved in January 2016. It establishes the guidelines for recognition, measurement, presentation and disclosure of leases. This Standard replaces IAS 17, IFRIC 4, SIC 15 and SIC 27. This Standard is effective for annual periods beginning on or after January 1, 2019. Early application is permitted for those entities that will perform the early adoption of IFRS 15. This Standard has not been adopted by CONASSIF.

y) IFRS 17: Insurance Contracts

This Standard was approved in March 2017. It establishes the guidelines for recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied by to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This Standard replaces IFRS 4 *Insurance Contracts*. It is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for those entities that will perform the early adoption of IFRS 9 and IFRS 15. This Standard has not been adopted by CONASSIF.

z) IFRIC 10: Interim Financial Reporting and Impairment

This Interpretation prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill. CONASSIF permits the reversal thereof.

aa) IFRIC 21: Levies

This Interpretation addresses the accounting of liabilities related to the payment of levies imposed by governments. This Interpretation is effective for annual periods beginning on or after January 1, 2014. Early application is permitted. This Interpretation has not been adopted by CONASSIF.

bb) IFRIC 22: Foreign currency transactions and advance considerations

The Interpretation covers foreign currency transactions (or a portion thereof) when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income (or the corresponding portion thereof). This Interpretation is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRIC 22 has not been adopted by CONASSIF.

cc) IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

This interpretation has not been adopted by CONASSIF. However, Article 10 of the *Regulations on Financial Information* provides that in the event of a dispute of a specific tax treatment by the Tax Administration, which begins with a notice of deficiency, the entity must:

a. Book against profit or loss for the period in the case that, in accordance with the assessment made by senior management, a conclusion is reached that the entity has an obligation of immediate enforceability with the Tax Administration.

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b. Book a provision for those treatments not considered in the items above; the amount must reflect the uncertainty of each tax treatment in dispute, according to the method that best predicts its resolution as established in IFRIC 23.

Upon initial application of IFRIC 23, entities must apply the transition established in item "b" above.

The amount of the provision for the tax treatments in dispute notified before December 31, 2018, corresponding to fiscal year 2017 and prior periods, will be booked at the greater of the best estimate of the amount payable to the Tax Administration 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.