# GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Financial information required by the Superintendency
General of Financial Entities

Consolidated Financial Statements

December 31, 2019
*(With corresponding figures for 2018)*

(With Independent Auditors' Report thereon)

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

**KPMG, S. A.**
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# Independent Auditors' Report

To the Board of Directors and Shareholders of Grupo BNS de Costa Rica, S.A. and Subsidiaries

*Opinion*

We have audited the consolidated financial statements of Grupo BNS de Costa Rica, S.A. and Subsidiaries (the Corporation), which comprise the consolidated balance sheet as of December 31, 2019, the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as of December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the financial reporting provisions of the accounting regulations issued by the National Financial System Oversight Board (CONASSIF), Superintendency General of Financial Entities (SUGEF), Superintendency General of Securities (SUGEVAL) and the Superintendency General of Insurance (SUGESE).

*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 Consolidated Financial Statements* section of our report. We are independent of the Corporation 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 consolidated 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 consolidated financial statements, which describes the basis of accounting. The consolidated financial statements have been prepared in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF, SUGEF, SUGEVAL and SUGESE. As a result, the consolidated financial statements may not be suitable for another purpose. Our opinion has not been modified in this regard.

*Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF, SUGEF, SUGEVAL and SUGESE, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Corporation'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 Corporation'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 consolidated 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 Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.

KPMG

March 27, 2020

San José, Costa Rica
Eric Alfaro Vargas
Member No. 1547
Policy No. 0116 FIG 7
Expires 09/30/2020

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

**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET**
**As of December 31, 2019**
*(With corresponding figures for 2018)*
(In colones)

| | Note | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash and due from banks** | **4, 31** | **307,378,475,373** | **337,941,765,114** |
| 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 | | 599,429,782 | 1,456,525,161 |
| 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, 31** | **168,716,221,319** | **120,454,652,333** |
| Trading | | 494,901,470 | 1,532,577,284 |
| Available for sale | | 166,502,728,092 | 118,310,544,173 |
| Derivative financial instruments | | 71,320 | - |
| Accrued interest receivable | | 1,718,520,437 | 611,530,876 |
| **Loan portfolio** | **6, 31** | **1,712,785,972,181** | **1,843,238,871,185** |
| Current | | 1,602,036,615,070 | 1,738,649,083,938 |
| Past due | | 122,335,948,600 | 124,642,487,471 |
| In legal collection | | 26,600,686,469 | 20,814,029,591 |
| Accrued interest receivable | | 22,626,007,324 | 22,753,443,842 |
| (Allowance for loan losses) | **6-b** | (60,813,285,282) | (63,620,173,657) |
| **Accounts and fees and commissions receivable** | **7** | **19,593,155,683** | **29,749,101,572** |
| Fees and commissions receivable | | 367,546,746 | 256,224,849 |
| Accounts receivable for related party transactions | **3** | 2,033,597,759 | 3,477,615,400 |
| Deferred tax | **14** | 14,020,663,261 | 15,210,945,347 |
| Other accounts receivable | | 4,028,100,247 | 11,585,383,325 |
| (Allowance for doubtful accounts and fees and commissions receivable) | **7** | (856,752,330) | (781,067,349) |
| **Foreclosed assets** | **8** | **7,134,224,605** | **8,160,724,610** |
| Assets and securities acquired in lieu of payment | | 17,043,816,527 | 14,539,650,087 |
| Other foreclosed assets | | - | 1,803,800,949 |
| (Allowance for impairment of foreclosed assets and per legal requirements) | | (9,909,591,922) | (8,182,726,426) |
| **Investments in other companies, net** | | **23,964,717** | **23,964,717** |
| **Property and equipment, net** | **9** | **19,268,542,175** | **27,142,760,101** |
| **Other assets** | **11** | **17,390,100,633** | **24,407,887,537** |
| Deferred charges | | 2,637,841,320 | 706,202,785 |
| Intangible assets | | 3,233,641,032 | 2,841,313,832 |
| Other assets | | 11,518,618,281 | 20,860,370,920 |
| **TOTAL ASSETS** | | **2,252,290,656,686** | **2,391,119,727,169** |

Continued...

**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED 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** | 12, 31 | **1,344,305,233,026** | **1,313,610,871,320** |
| Demand | | 389,944,919,678 | 379,776,958,043 |
| Term | | 944,253,846,967 | 924,930,679,546 |
| Finance charges payable | | 10,106,466,381 | 8,903,233,731 |
| **Obligations with entities** | 13, 31 | **549,136,948,854** | **725,480,731,332** |
| Demand | | 20,346,943,167 | 41,206,200,098 |
| Term | | 526,856,196,627 | 675,844,978,839 |
| Other obligations with entities | | 130,100,239 | 5,057,024,206 |
| Finance charges payable | | 1,803,708,821 | 3,372,528,189 |
| **Accounts payable and provisions** | 15 | **44,439,903,044** | **40,918,052,613** |
| Deferred tax | 14 | 1,832,414,897 | 4,170,484,936 |
| Provisions | 15-a | 9,361,284,175 | 9,273,139,605 |
| Other sundry accounts payable | | 33,246,203,972 | 27,474,428,072 |
| **Other liabilities** | 16 | **10,021,129,147** | **18,723,131,734** |
| 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 | | 2,746,857,593 | 11,508,840,713 |
| **TOTAL LIABILITIES** | | **1,947,903,214,071** | **2,098,732,786,999** |
| **EQUITY** | | | |
| **Share capital** | | **217,507,247,742** | **217,507,247,742** |
| Paid-in capital | 17-a | 217,507,247,742 | 217,507,247,742 |
| **Non-capitalized capital contributions** | 17-b | **6,401,741,251** | **6,401,741,251** |
| **Equity adjustments** | | **6,558,042,757** | **8,464,010,964** |
| Surplus from revaluation of property | 17-c | 4,674,153,613 | 10,844,977,767 |
| Adjustment for valuation of available-for-sale investments | | 1,883,889,144 | (2,380,966,803) |
| **Capital reserves** | 17-d | **21,333,195,700** | **20,411,360,411** |
| **Prior period retained earnings** | 17-e | **45,773,403,956** | **33,638,208,413** |
| **Income for the year** | | **6,813,811,209** | **5,964,371,389** |
| **TOTAL EQUITY** | | **304,387,442,615** | **292,386,940,170** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,252,290,656,686** | **2,391,119,727,169** |
| **DEBIT MEMORANDA ACCOUNTS** | 19 | **420,021,964,851** | **458,305,486,681** |
| **TRUST ASSETS** | 20 | **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** | 22 | **9,162,223,115,513** | **10,302,779,084,277** |
| Own accounts | | 9,023,237,646,983 | 10,150,520,777,665 |
| Third party accounts | | 138,958,746,953 | 152,231,585,035 |
| Third party accounts for custodial activities | | 26,721,577 | 26,721,577 |

Luis Gómez Portuguez
Legal Representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED 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 | 953,263,813 |
| Investments in financial instruments | | 7,499,329,541 | 7,247,576,201 |
| Loan portfolio | 25 | 181,001,935,269 | 173,166,686,461 |
| Finance leases | | 12,060,148,959 | 9,851,230,415 |
| Gain on foreign exchange and development units, net | 27 | - | 69,523,318 |
| Gain on available-for-sale financial instruments | 5 | 122,226,761 | 44,223,019 |
| Gain on derivative financial instruments | | 529,815 | - |
| Other finance income | | 3,226,816,536 | 3,778,044,607 |
| **Total finance income** | | **203,910,987,019** | **195,110,547,834** |
| **Finance costs** | | | |
| Obligations with the public | 26-a | 60,402,149,278 | 53,193,353,523 |
| Obligations with financial entities | 26-b | 20,440,195,922 | 23,328,206,501 |
| Loss on foreign exchange and development units, net | 27 | 2,455,861,420 | - |
| Loss on available-for-sale financial instruments | 5 | 2,267,724 | 20,820,850 |
| Loss on investment property | | - | 361,920,000 |
| Loss on derivative financial instruments | | 417,295 | - |
| Other finance costs | | 3,405,294,701 | 4,319,479,982 |
| **Total finance costs** | | **86,706,186,340** | **81,223,780,856** |
| Allowance for impairment of assets | 6-a-b, 7 | 51,532,786,179 | 51,349,293,717 |
| Recovery of assets and decrease in allowances and provisions | | 12,990,608,346 | 13,414,667,926 |
| **GROSS FINANCE INCOME** | | **78,662,622,846** | **75,952,141,187** |
| **Other operating income** | | | |
| Service fees and commissions | 28 | 55,041,310,291 | 57,466,444,102 |
| Foreclosed assets | | 672,959,664 | 2,621,497,330 |
| Foreign currency exchange and arbitrage | | 6,013,638,943 | 5,589,247,707 |
| Other income with related parties | | 5,465,989,197 | 4,498,959,782 |
| Other operating income | | 25,366,452,858 | 19,393,291,253 |
| **Total operating income** | | **92,560,350,953** | **89,569,440,174** |
| **Other operating expenses** | | | |
| Service fees and commissions | | 31,225,818,761 | 27,934,419,227 |
| Foreclosed assets | | 5,848,142,126 | 3,530,579,975 |
| Sundry assets | | 595,043,600 | 121,247,928 |
| Provisions | | 5,722,179,368 | 4,142,409,527 |
| Foreign currency exchange and arbitrage | | 4,910,618 | 1,220,068 |
| Other expenses with related parties | | 10,539,309,611 | 9,945,348,205 |
| Other operating expenses | | 15,036,836,708 | 14,105,215,580 |
| **Total other operating expenses** | | **68,972,240,792** | **59,780,440,510** |
| **GROSS OPERATING INCOME** | | **102,250,733,007** | **105,741,140,851** |
| **Administrative expenses** | | | |
| Personnel expenses | 29 | 39,488,058,927 | 44,823,020,078 |
| Other administrative expenses | 30 | 50,192,657,768 | 51,141,191,379 |
| **Total administrative expenses** | | **89,680,716,695** | **95,964,211,457** |
| **NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS** | | **12,570,016,312** | **9,776,929,394** |
| Income tax | 14 | (7,358,919,698) | (1,479,967,307) |
| Deferred tax | 14 | 2,962,153,863 | (1,943,398,307) |
| Statutory allocations | | (619,782,007) | (83,079,663) |
| Decrease in statutory allocations | | 182,178,028 | 12,760,260 |
| **INCOME FOR THE YEAR** | | **7,735,646,498** | **6,283,244,377** |
| Income for the year attributed to the controller | | **7,735,646,498** | **6,283,244,377** |

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**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended December 31, 2019**
*(With corresponding figures for 2018)*
(In colones)

| | Note | 2019 | 2018 |
|---|---|---|---|
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | | | |
| Surplus from revaluation of property | | - | 2,504,034.110 |
| Adjustment for valuation of available-for-sale investments, net of income tax | | 4,264,855,947 | (2,222,779.730) |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | | **4,264,855,947** | **281,254,380** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **12,000,502,445** | **6,564,498,757** |
| Total comprehensive income for the year attributable to the controller | | **12,000,502,445** | **6,564,498,757** |

Luis Gómez Portuguez
Legal Representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the year ended December 31, 2019**
*(With corresponding figures for 2018)*
(In colones)

| | Note | Share capital | Non-capitalized capital contributions | Equity adjustments: Revaluation of property | Equity adjustments: Changes in the fair value of available-for-sale investments | Total equity adjustments | Capital reserves | Prior period retained earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2017** | | 217,507,247,742 | 993,101,251 | 8,340,943,657 | (158,187,073) | 8,182,756,584 | 20,092,487,423 | 33,638,208,413 | 280,413,801,413 |
| **Transactions with shareholders recognized directly in equity** | | | | | | | | | |
| Non-capitalized contributions received in cash | 17-b | - | 5,408,640,000 | - | - | - | - | - | 5,408,640,000 |
| Appropriation to legal reserve | | - | - | - | - | - | 318,872,988 | (318,872,988) | - |
| **Total transactions with shareholders recognized directly in equity** | | - | 5,408,640,000 | - | - | - | 318,872,988 | (318,872,988) | 5,408,640,000 |
| **Other comprehensive income for the year:** | | | | | | | | | |
| Income for the year | | - | - | - | - | - | - | 6,283,244,377 | 6,283,244,377 |
| Surplus from revaluation of property | | - | - | 2,504,034,110 | - | 2,504,034,110 | - | - | 2,504,034,110 |
| Adjustment from valuation of available-for-sale financial instruments, net of deferred tax | | - | - | - | (2,199,377,561) | (2,199,377,561) | - | - | (2,199,377,561) |
| Net realized gain on valuation of investments transferred to the consolidated statement of comprehensive income | | - | - | - | (23,402,169) | (23,402,169) | - | - | (23,402,169) |
| **Total comprehensive income for the year** | | - | - | 2,504,034,110 | (2,222,779,730) | 281,254,380 | - | 6,283,244,377 | 6,564,498,757 |
| **Balance at December 31, 2018** | | 217,507,247,742 | 6,401,741,251 | 10,844,977,767 | (2,380,966,803) | 8,464,010,964 | 20,411,360,411 | 39,602,579,802 | 292,386,940,170 |
| **Transactions with shareholders recognized directly in equity** | | | | | | | | | |
| Appropriation to legal reserve | | - | - | - | - | - | 921,835,289 | (921,835,289) | - |
| **Total transactions with shareholders recognized directly in equity** | | - | - | - | - | - | 921,835,289 | (921,835,289) | - |
| **Other comprehensive income for the year:** | | | | | | | | | |
| Income for the year | | - | - | - | - | - | - | 7,735,646,498 | 7,735,646,498 |
| Realization of surplus from revaluation of land, buildings and facilities, net of deferred tax, corresponding to the sale of buildings | 17-c | - | - | (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 | | - | - | - | 4,264,855,947 | 4,264,855,947 | - | - | 4,264,855,947 |
| **Total comprehensive income for the year** | | - | - | (6,170,824,154) | 4,264,855,947 | (1,905,968,207) | - | 13,906,470,652 | 12,000,502,445 |
| **Balance at December 31, 2019** | | 217,507,247,742 | 6,401,741,251 | 4,674,153,613 | 1,883,889,144 | 6,558,042,757 | 21,333,195,700 | 52,587,215,165 | 304,387,442,615 |

Luis Gómez Portuguez
Legal Representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED 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** | | | |
| Profit for the year | | 7,735,646,498 | 6,283,244,377 |
| **Items not requiring cash** | | | |
| (Gains) losses on foreign exchange differences and development units, net | | (15,494,960,727) | 18,819,612,289 |
| Losses on allowance for loan losses, net | 6-b, 6-c | 44,697,354,884 | 45,625,541,085 |
| Expense for provision for severance benefits | | 722,867,550 | 1,131,005,886 |
| Losses (gains) on other allowances, net | | 4,363,791,571 | (537,040,778) |
| Expense for provision for credit card miles | | 2,347,778,860 | 1,474,545,440 |
| Depreciation and amortization | | 4,446,017,049 | 4,112,453,064 |
| Deferred tax (income) expense | 14 | (2,962,153,863) | 1,943,398,307 |
| Loss on sale of investment property | | - | 361,920,000 |
| Gain on sale of foreclosed assets | | (2,507,259,927) | - |
| (Gain) loss on sale and disposal of assets, net | | (8,181,400,553) | 719,022,254 |
| Finance income | | (200,561,413,769) | (190,265,493,077) |
| Finance costs | | 80,842,345,200 | 76,521,560,024 |
| Income tax | 14 | 7,358,919,698 | 1,479,967,307 |
| | | **(77,192,467,529)** | **(32,330,263,822)** |
| **Net (increase) decrease in assets** | | | |
| Trading securities | | 1,037,675,814 | 8,391,483,928 |
| Loans and cash advances | | 5,828,580,467 | (174,413,885,295) |
| Fees and commissions and accounts receivable | | 13,167,557,298 | 249,749,575,189 |
| Foreclosed assets | | 10,426,895,559 | 3,128,373,265 |
| Other assets | | 4,665,732,580 | (10,088,638,459) |
| **Net increase (decrease) in liabilities** | | | |
| Demand and term obligations | | 87,918,717,164 | (66,671,740,193) |
| Other accounts payable and provisions | | (3,424,343,336) | (259,067,138,983) |
| Other liabilities | | (8,702,002,587) | 833,264,986 |
| | | **33,726,345,430** | **(280,468,969,384)** |
| Interest collected | | 199,581,860,726 | 189,884,528,799 |
| Interest paid | | (81,207,931,918) | (75,665,745,291) |
| Taxes paid | | (3,594,824,060) | (3,123,511,681) |
| **Net cash flows from (used in) operating activities** | | **148,505,450,178** | **(169,373,697,557)** |
| **Cash flows from investing activities** | | | |
| Increase in financial instruments | | (7,297,359,614,900) | (6,283,588,484,969) |
| Decrease in financial instruments | | 7,270,572,890,553 | 6,285,505,036,802 |
| Acquisition of property and equipment | 9 | (5,777,828,404) | (3,543,311,194) |
| Cash from sale of investment property | | - | 1,672,090,909 |
| Cash from sale of land and building | | 19,739,484,158 | - |
| **Net cash flows (used in) from investment activities** | | **(12,825,068,593)** | **45,331,548** |
| **Cash flows from financing activities** | | | |
| Other new financial obligations | | 404,830,263,800 | 553,627,711,915 |
| Settlement of obligations | | (549,680,803,947) | (398,602,765,430) |
| Non-capitalized capital contributions received in cash | 17-b | - | 5,408,640,000 |
| **Net cash flows (used in) from financing activities** | | **(144,850,540,147)** | **160,433,586,485** |
| **Net decrease in cash and cash equivalents** | | **(9,170,158,562)** | **(8,894,779,524)** |
| **Cash and cash equivalents at beginning of year** | | **376,008,211,377** | **384,902,990,901** |
| **Cash and cash equivalents at end of year** | 4 | **366,838,052,815** | **376,008,211,377** |

Luis Gómez Portuguez
Legal Representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

1. Summary of operations and significant accounting policies

(a) Reporting entity

Grupo BNS de Costa Rica, S.A. (the Corporation) was organized in October 1998 in the Republic of Costa Rica. It is regulated by the National Financial System Oversight Board (CONASSIF), the Board of Directors of the Central Bank of Costa Rica, and the Superintendency General of Financial Entities (SUGEF). The address of the Corporation's registered office is Sabana Norte, Avenida de las Américas, San José, Republic of Costa Rica.

The Corporation, through its subsidiaries, is dedicated to brokerage and financial intermediation activities, securities trading, insurance brokerage, investment fund management, leasing of assets, investment banking, and other activities permitted under the Internal Regulations of the Central Bank of Costa Rica.

The Corporation is owned by Corporación Mercaban de Costa Rica, S.A., which has 13.325188% ownership interest and BNS Internacional, S.A. (Panamá), which has 86.674782% ownership interest, which in turn are wholly owned by Scotia International Limited. The latter is wholly owned by The Bank of Nova Scotia.

As of December 31, 2019, the Corporation has a total of 1,800 employees (2018: 1,827 employees), operates 34 branches (2018: 41 branches), and has a network of 208 automated teller machines (ATMs) (2018: 211 ATMs) under the control of the subsidiaries Scotiabank de Costa Rica, S.A. and The Bank of Nova Scotia Costa Rica, S.A.

The Corporation's website is www.scotiabankcr.com.

(b) Basis of preparation

*i. Statement of compliance*

The consolidated financial statements have been prepared in accordance with accounting regulations issued by National Financial System Oversight Board (CONASSIF), the Superintendency General of Financial Entities (SUGEF), the National Securities Commission (SUGEVAL), and the Superintendency General of Insurance (SUGESE).

The consolidated financial statements were authorized for issue by the board of directors on March 25, 2020.

*ii. Basis of measurement*

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

- Held-for-trading assets, available-for-sale assets and investment property are measured at fair value
- property is stated at revalued cost.

Methods used for fair value measurement are discussed in Note f (vi).

(c) Basis of consolidation

*Subsidiaries*

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to directly or indirectly govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences.

As of December 31, the consolidated financial statements include the financial figures of the following subsidiaries:

| | Ownership interest | |
|---|---|---|
| Name of subsidiary | 2019 | 2018 |
| Scotiabank de Costa Rica, S.A. | 100% | 100% |
| Scotia SAFE, S.A. (formerly Scotia Valores, S.A.) | 100% | 100% |
| Scotia Leasing Costa Rica, S.A. | 100% | 100% |
| Scotia Sociedad de Fondos de Inversión, S.A. | 100% | 100% |
| Scotia Corredora de Seguros, S.A. | 100% | 100% |

(Continued)

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.

In preparing the consolidated financial statements, the individual financial statements of the controlling company and its subsidiaries were consolidated line by line. The carrying amount of the controlling company's investment in its subsidiaries and the balances arising from intra-group transactions were eliminated.

(d) Functional and presentation currency

The consolidated financial statements and notes thereto are presented in colones (¢), which is the monetary unit of the Republic of Costa Rica and the functional currency used to reflect the balances and transactions of the Corporation, in accordance with CONASSIF and SUGEF regulations.

As of December 31, 2019 and 2018, the accounting records of the Costa Rican subsidiaries are kept in colones (¢).

(e) 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 for 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 Costa Rican colon with the US dollar is determined in a free exchange market under the supervision of BCCR 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 for the purchase and sale of US dollars, 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 €1.00 (2018: ¢693.1145 to €1.00), respectively, in accordance with CONASSIF regulations.

(f) Financial assets and financial liabilities

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 Corporation's instruments include cash and due from banks (cash and cash equivalents), investments in financial instruments, loan portfolio, receivables, derivative instruments, demand and term deposits, obligations, and payables, as discussed below.

*i. Recognition*

The Corporation initially recognizes loans and advances, deposits, and debt instruments issued on the date that they are originated. Regular-way purchases and sales of financial assets are recognized on the trade date at which the Corporation commits to purchase or sell the asset. All financial assets and liabilities are initially recognized on the trade date, which is the date that the Corporation 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 insignificant risk of changes in their fair value and are used by the Corporation in the management of its short-term commitments.

Cash and cash equivalents are carried at 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.

The loan portfolio also includes finance leases, which mainly correspond to leases of vehicles, computer hardware, and machinery and equipment. Finance leases are recognized using the finance method, which recognizes finance leases at the present value of the future cash flows of the corresponding agreement. The difference between the total contractual amount and the cost of the leased asset is recorded as unearned interest and amortized to loan interest income over the life of the lease using the effective interest method.

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

The loan portfolio is presented at the value 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 Corporation 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 recoverable amount using the impairment policy.

- Investments in financial instruments

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

Under current regulations, trading instruments are investments in open investment funds that the Corporation 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 Corporation, or held to maturity. Available-for-sale assets include certain debt securities.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Corporation has the positive intent and ability to hold to maturity. According to regulations, entities regulated by SUGEF, SUGEVAL, and SUGESE are 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 Corporation 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 using 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 Corporation adjusts the amortized cost of the security against profit or loss.

- Derivative financial instruments

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

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

- Deposits and debt instruments issued

Deposits and debt instruments issued are part of the Corporation's main 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.

(Continued)

*iii. Derecognition*

A financial asset is derecognized when the Corporation 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 statement of financial position when the Corporation has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously, except for cases in which SUGEF regulations do not permit such treatment.

*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 on initial recognition minus the 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 finance cost.

*vi. Fair value measurement*

The fair value of financial instruments is based on their quoted market price at the consolidated 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 risks affecting the specific instrument.

(Continued)

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

Management of the Corporation considers such valuations necessary and appropriate to ensure that its instruments are accurately presented in the consolidated 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 unless the investment is considered to be impaired, in which case the loss is recognized in the consolidated 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 consolidated statement of comprehensive income.

(g) Foreclosed assets

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 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.

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 is to be established gradually by booking one-twenty-fourth of the value of such assets each month until the allowance is equivalent to 100% of the asset's carrying amount.

(h) 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 when incurred.

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

*ii. Subsequent expenditure*

Costs incurred to replace a component of an item of property and equipment are capitalized and accounted for separately. Subsequent expenditure is capitalized only when it increases the future economic benefits. All other expenditure is recognized in the consolidated 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 consolidated balance sheet, since the Corporation does not assume substantially all the risks and rewards of ownership.

(Continued)

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services, or for administrative purposes.

Investment property is initially recognized at cost. Transaction costs are included at initial recognition. Subsequent to initial recognition, investment property is adjusted to fair value. Gains or losses arising from changes in the fair value of investment property are recognized in profit or loss in the period in which the gains or losses arise.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

When no prices quoted in an active market are available, valuation is performed by discounting the estimated cash flows expected to be generated by the leases, using a discount rate that reflects the current assessment of the specific risks inherent to the amount and term of net annual cash flows.

(j) Other assets

i. *Acquired goodwill*

Acquired goodwill arises on business acquisitions. Acquired goodwill represents the excess of the cost of the acquisition over the fair value of the assets and liabilities of the acquired subsidiaries.

Goodwill must be tested for impairment periodically, and any impairment loss in respect of goodwill must be recognized in profit or loss as a decrease in acquired goodwill.

*ii.* *Other intangible assets*

Other intangible assets acquired by the Corporation are booked at cost less accumulated amortization and impairment losses.

(Continued)

*iii. Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits. All other expenditure is recognized in the consolidated statement of comprehensive income when incurred.

*iv. Amortization*

Amortization is charged to current operations using the straight-line method over the estimated life of the related assets. Acquired goodwill must be amortized over a useful life of five years, based on the regulations.

(k) Impairment of non-financial assets

At each reporting date, the Corporation 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 assets' 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 consolidated 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 assets is the greater of their net selling price and 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 derived from 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 objectively linked to an event occurring after the write-down, the write-down is adjusted through the consolidated statement of comprehensive income or the consolidated statement of changes in equity, as appropriate.

(l) Accounts payable and other accounts payable

Accounts payable and other accounts payable are recognized at cost.

(m) Provisions

A provision is recognized in the consolidated balance sheet when the Corporation has acquired a legal or constructive obligation as a result of a past event, 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 consolidated balance sheet date, directly affecting the consolidated statement of comprehensive income.

(n) Legal reserve

In accordance with the Internal Regulations of the National Banking System (IRNBS) of Costa Rica, banking entities must establish a legal reserve equivalent to 10% of earnings for the tax year. That reserve is calculated annually and applied semiannually. For Costa Rican non-banking entities, the reserve is determined based on current commercial legislation, which stipulates that 5% of each year's earnings must be appropriated to a reserve, up to 20% of outstanding share capital.

(o) 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 prior period 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 prior period retained earnings is not made through the consolidated statement of comprehensive income.

(p) Use of estimates

The preparation of the consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

(Continued)

Estimates and significant 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 allowance for loan losses, determination of the fair value of financial instruments, determination of the useful lives of property and equipment, accounting for contingent liabilities, and determination of provisions for credit card miles.

(q) Allowance for loan losses

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

The loan portfolio of the subsidiary Scotiabank de Costa Rica, S.A. is valued in accordance with the provisions established in SUGEF Directive 1-05. The most relevant provisions of the directive are summarized in Note 31.

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 in the liability section of the consolidated balance sheet under "Other liabilities".

For all other subsidiaries, the Corporation's classification and analysis criteria are used. All criteria are based on an individual analysis of the quality of guarantees, the customer's creditworthiness, and the debt service of each customer, among other factors. The Corporation requires that all loans be classified based on risk of default and lending conditions and that a minimum allowance be established for each classification.

(r) Finance income and finance costs

Finance income and finance costs are recognized in the consolidated 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.

(s) Fee and commission income

Fee and commission income arises on services provided by the Corporation and is recognized when the 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 rate method.

(t) Operating lease payments

Payments made under operating leases are recognized in the consolidated 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.

(u) 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 method. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In accordance with 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.

(v) Basic earnings per share

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

(w) Severance benefits

*i. Severance benefits*

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

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

The subsidiaries follow the policy of making monthly transfers to the Employee 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 subsidiaries follow 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 subsidiaries follow the policy of provisioning the payment of vacation days on an accrual basis. The subsidiaries have established a provision for payment of vacation benefits to its employees.

*iii. Other benefits*

*International Share Acquisition Program for Employees*

The subsidiaries offer 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 each subsidiary 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 Corporation.

*Global Incentive Pay Program*

The subsidiaries offer their employees an annual bonus in addition to the base salary, provided that the parent company reaches its strategic goals globally.

(x) Trusts

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

(Continued)

2. Collateralized or restricted assets

As of December 31, collateralized or restricted assets are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Cash and due from banks: | | | |
| Minimum legal deposit (Note 4) | ¢ | 250,716,026,714 | 276,401,246,690 |
| Drafts and transfers payable (Note 12) | | 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 deposit for public utility payment collection services | | 139,440,658 | 126,487,451 |
| Legal department 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 1644 | | 65,403,222,269 | 61,570,534,114 |
| Other: | | | |
| Committed investments | | 13,312,559 | 75,305,878 |
| Other assets: | | | |
| Security deposits (Note 11) | | 457,334,261 | 249,725,450 |
| Legal requirements | | 22,974,058 | - |
| | | 480,308,319 | 249,725,450 |
| Total restricted assets | ¢ | 318,871,230,119 | 350,872,780,876 |

Pursuant to Costa Rican financial legislation, the subsidiary Scotiabank de Costa Rica, S.A. maintains a minimum legal deposit in BCCR. That reserve is calculated as a percentage of third-party deposits (see Note 4).

3. Balances and transactions with related parties

As of December 31, the consolidated financial statements include balances and transactions with related parties, as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Assets: | | | |
| Cash and due from banks | ¢ | 969,181,649 | 470,420,756 |
| Investments (Note 5) | | 360,091,083 | 373,727,077 |
| Loan portfolio | | | |
| Employees | | 1,228,318,299 | 18,862,616 |
| Total loan portfolio | | 1,228,318,299 | 18,862,616 |
| Accounts and accrued interest receivable (Note 7) | | | |
| Related companies | | 2,028,702,121 | 197,491,095 |
| Employees | | 1,602,224 | 18,912,616 |
| Expenses receivable | | 3,293,414 | 3,261,211,689 |
| Total accounts and accrued interest receivable | | 2,033,597,759 | 3,477,615,400 |
| Total assets | ¢ | 4,231,097,707 | 3,966,898,772 |
| Liabilities | | | |
| Obligations with the public | | | |
| Related companies (Note13) | ¢ | 939,297,974 | 571,903,189 |
| Employees | | 350,149,379 | 973,858,526 |
| Total obligations with the public | | 1,289,447,353 | 1,545,761,715 |
| Other financial obligations (Note 13) | | 444,159,809,842 | 493,477,656,174 |
| Interest on other financial obligations | | 1,290,393,750 | 1,941,380,024 |
| Other accounts payable and provisions (Note 15) | | 3,525,020,106 | 3,501,759,003 |
| Total liabilities | ¢ | 450,264,671,051 | 500,466,556,916 |
| Expenses: | | | |
| Finance costs | ¢ | 12,128,967,090 | 12,361,553,961 |
| Operating expenses | | 10,539,309,611 | 9,945,348,205 |
| Total expenses | ¢ | 22,668,276,701 | 22,306,902,166 |
| Income: | | | |
| Operating income | ¢ | 5,465,989,197 | 4,498,959,782 |
| Total income | ¢ | 5,465,989,197 | 4,498,959,782 |

(Continued)

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

As of December 31, 2019, compensation paid to key personnel of the Corporation's subsidiaries amounts to ¢1,829,020,159 (2018: ¢2,034,772,024).

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 mainly corresponds to payments received for services rendered to foreign related parties, which are related to IT services, regional risk management and other administrative services.

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 | | 599,429,782 | 1,456,525,161 |
| 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 cash and due from banks | ¢ | 307,378,475,373 | 337,941,765,114 |

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

| | | 2019 | 2018 |
|---|---|---|---|
| Cash and due from banks | ¢ | 307,378,475,373 | 337,941,765,114 |
| Highly liquid investments | | 59,459,577,442 | 38,066,446,263 |
| Total cash and due from banks and cash equivalents | ¢ | 366,838,052,815 | 376,008,211,377 |

Pursuant to current banking legislation, the subsidiary Scotiabank de Costa Rica, S.A. must maintain a minimum legal deposit in BCCR for each biweekly period. The minimum legal deposit 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 deposit 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 deposit required in the prior two biweekly periods.

As of December 31, 2019, the required minimum legal deposit (corresponding to the average for the second half of December) amounts to ¢250,716,026,714 (2018: ¢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 in colones and between 0.73% and 9.32% per annum in US dollars (2018: between 6.38% and 6.48% 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 |
|---|---|---|---|
| Trading | ¢ | 494,901,470 | 1,532,577,284 |
| Available for sale | | 166,502,728,092 | 118,310,544,173 |
| Difference in position in derivative financial instruments | | 71,320 | - |
| Subtotal | | 166,997,700,882 | 119,843,121,457 |
| Accrued interest receivable | | 1,718,520,437 | 611,530,876 |
| Total | ¢ | 168,716,221,319 | 120,454,652,333 |

Trading investments by issuer are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Open investment funds in US dollars managed by a local related party (Note 3) | ¢ | 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 are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Local issuers: | | | |
| Costa Rican Government | ¢ | 106,897,458,829 | 74,190,419,344 |
| BCCR | | 16,001,333,610 | 25,004,010 |
| 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 | | 129,446,878,092 | 87,671,061,722 |
| 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 | ¢ | 166,502,728,092 | 118,310,544,173 |

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 and 2018, the Corporation holds no investments that secure tri-party repurchase agreements. As of December 31, 2019 and 2018, the Corporation holds no investments to secure operations in the integrated liquidity market.

As of December 31, 2019, investments in financial instruments bear interest at rates ranging between 1.75% and 8.70% per annum (2018: between 0.01% and 14.62% per annum) in colones, between 0.62% and 7.83% per annum (2018: between 0.01% and 7.83% per annum) in US dollars and between 3.79% and 9.58% per annum (2018: between 0.62% and 6.65% per annum) in DU.

Realized gains and losses on available-for-sale financial instruments are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Realized gain on the sale of available-for-sale financial instruments | ¢ | 122,226,761 | 44,223,019 |
| Realized loss on available-for-sale financial instruments | | (2,267,724) | (20,820,850) |
| Net gain | ¢ | 119,959,037 | 23,402,169 |

6. Loan portfolio

(a) Loan portfolio by origin

| | | 2019 | 2018 |
|---|---|---|---|
| Loans originated by the Corporation | ¢ | 842,228,149,341 | 1,619,580,635,698 |
| Loans purchased | | 908,745,100,798 | 264,524,965,302 |
| Subtotal | | 1,750,973,250,139 | 1,884,105,601,000 |
| Accrued interest receivable | | 22,626,007,324 | 22,753,443,842 |
| Allowance for loan losses | | (60,813,285,282) | (63,620,173,657) |
| Total | ¢ | 1,712,785,972,181 | 1,843,238,871,185 |

As of December 31, 2019, loans bear interest at rates ranging between 8.00% and 49.90% per annum (2018: between 3.00% and 49.90% per annum) in colones and between 5.00% and 45% per annum (2018: between 4.75% and 35.20% per annum) in US dollars.

The purchased portfolio includes the portfolio acquired in the purchase and merger process with The Bank of Nova Scotia Costa Rica, S.A. (July 2018) with a balance of ¢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) with a balance of ¢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

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

| | | 2019 | 2018 |
|---|---|---|---|
| Opening balance | ¢ | 63,620,173,657 | 52,130,435,883 |
| Allowance expense | | 50,276,323,478 | 50,334,512,663 |
| Charged against allowance | | (45,342,374,132) | (34,177,391,294) |
| Decrease in allowance | | (5,511,296,619) | (4,318,672,727) |
| Translation effect for allowances in foreign currency | | (2,229,541,102) | 2,223,881,334 |
| Decrease in allowance due to sale of portfolio | | - | (2,572,592,202) |
| | ¢ | 60,813,285,282 | 63,620,173,657 |

(c) Allowance for stand-by credit losses

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

| | | 2019 | 2018 |
|---|---|---|---|
| Opening balance | ¢ | 244,055,077 | 621,479,451 |
| Allowance expense | | 75,999,995 | 175,581,053 |
| Decrease in allowance | | (143,671,970) | (565,879,904) |
| Translation effect for allowances in foreign currency | | (10,667,496) | 12,874,477 |
| | ¢ | 165,715,606 | 244,055,077 |

(Continued)

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 | ¢ | 367,546,746 | 256,224,849 |
| Related party transactions (Note 3) | | 2,033,597,759 | 3,477,615,400 |
| Deferred tax (Note 14) | | 14,020,663,261 | 15,210,945,347 |
| Other accounts receivable: | | | |
| Sundry credit card receivables | | 974,567,916 | 8,208,021,227 |
| Advance payments to suppliers | | - | 33,400,429 |
| Other expenses receivable | | 419,414,639 | 139,839,134 |
| Insurance policies due from customers | | 17,485,200 | 98,865,818 |
| ATH operations receivable | | 11,253,398 | 7,533,469 |
| Judgment liens | | 534,455,083 | 605,530,292 |
| Account receivable – Ministry of Finance | | 1,475,137,734 | 1,475,137,734 |
| Other sundry accounts | | 595,786,277 | 1,017,055,222 |
| | | 4,028,100,247 | 11,585,383,325 |
| Subtotal | | 20,449,908,013 | 30,530,168,921 |
| (Allowance for doubtful accounts and fees and commissions receivable) | | (856,752,330) | (781,067,349) |
| Total accounts and fees and commissions receivable | ¢ | 19,593,155,683 | 29,749,101,572 |

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

| | | 2019 | 2018 |
|---|---|---|---|
| Opening balance | ¢ | 781,067,349 | 591,196,267 |
| Allowance expense | | 1,180,462,706 | 839,200,001 |
| Charged against allowance | | - | (78,968,762) |
| Decrease in allowance | | (1,050,796,558) | (573,148,289) |
| Translation effect for allowances in foreign currency | | (53,981,167) | 2,788,132 |
| | ¢ | 856,752,330 | 781,067,349 |

8. Foreclosed assets, net

As of December 31, foreclosed assets are presented net of the allowance for foreclosed assets, as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Assets and securities acquired in lieu of payment: | | | |
| Real property | ¢ | 13,862,307,539 | 12,236,860,153 |
| Personal property | | 3,181,508,988 | 2,302,789,934 |
| Other assets | | - | 1,803,800,949 |
| Subtotal | | 17,043,816,527 | 16,343,451,036 |
| (Allowance for impairment of foreclosed assets and per legal requirements) | | (9,909,591,922) | (8,182,726,426) |
| | ¢ | 7,134,224,605 | 8,160,724,610 |

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

| | | 2019 | 2018 |
|---|---|---|---|
| Opening balance | ¢ | 8,182,726,426 | 9,304,319,687 |
| Increase in allowance | | 4,582,885,591 | 1,688,390,474 |
| Charged against allowance for sale or disposal of foreclosed assets | | (2,507,259,927) | (318,500,771) |
| Decrease in allowance | | (348,760,168) | (2,491,482,964) |
| | ¢ | 9,909,591,922 | 8,182,726,426 |

The allowance expense is recorded as part of expenses for foreclosed assets in the consolidated statement of comprehensive income.

9. Property and equipment, net

As of December 31, property and equipment, net is as follows:

| | 2018 | Additions | Retirements | 2019 |
|---|---|---|---|---|
| Cost | | | | |
| Land | 3,347,790,869 | - | (1,223,003,941) | 2,124,786,928 |
| Buildings and facilities | 9,455,024,715 | - | (4,564,817,631) | 4,890,207,084 |
| Furniture and equipment | 7,097,299,003 | 2,373,740,776 | (10,674,526) | 9,460,365,253 |
| Computer hardware | 14,220,527,661 | 3,334,880,158 | (52,949,111) | 17,502,458,708 |
| Vehicles | 526,385,784 | 69,207,470 | (85,656,487) | 509,936,767 |
| Other | (124,489,799) | - | 124,489,799 | - |
| Subtotal | 34,522,538,233 | 5,777,828,404 | (5,812,611,897) | 34,487,754,740 |
| Accumulated depreciation | (19,143,387,471) | (2,000,123,215) | 1,255,380,292 | (19,888,130,394) |
| Net cost | 15,379,150,762 | 3,777,705,189 | (4,557,231,605) | 14,599,624,346 |
| Revaluation | | | | |
| Cost | 14,062,285,509 | - | (9,045,288,914) | 5,016,996,595 |
| Accumulated depreciation | (2,298,676,170) | (93,839,509) | 2,044,436,913 | (348,078,766) |
| Net revaluation | 11,763,609,339 | (93,839,509) | (7,000,852,001) | 4,668,917,829 |
| Net total | 27,142,760,101 | 3,683,865,680 | (11,558,083,606) | 19,268,542,175 |

The depreciation expense for the year ended December 31, 2019 amounts to ¢2,093,962,724 and is charged to profit or loss.

Disposals of land and buildings performed during 2019 relate to the sale of two properties, as detailed in Note 17-c.

As of December 31, property and equipment, net is as follows:

| | 2017 | Additions | Retirements | 2018 |
|---|---|---|---|---|
| Cost | | | | |
| Land | 3,347,790,869 | - | - | 3,347,790,869 |
| Buildings and facilities | 10,081,148,677 | 13,579,019 | (639,702,981) | 9,455,024,715 |
| Furniture and equipment | 7,190,129,695 | 596,113,043 | (688,943,735) | 7,097,299,003 |
| Computer hardware | 11,554,499,859 | 2,799,833,707 | (133,805,905) | 14,220,527,661 |
| Vehicles | 540,218,872 | 133,785,425 | (147,618,513) | 526,385,784 |
| Other | (124,489,799) | - | - | (124,489,799) |
| Subtotal | 32,589,298,173 | 3,543,311,194 | (1,610,071,134) | 34,522,538,233 |
| Accumulated depreciation | (17,261,442,665) | (2,666,182,031) | 784,237,225 | (19,143,387,471) |
| Net cost | 15,327,855,508 | 877,129,163 | (825,833,909) | 15,379,150,762 |
| Revaluation | | | | |
| Cost | 11,451,439,744 | 2,647,366,850 | (36,521,085) | 14,062,285,509 |
| Accumulated depreciation | (2,155,685,515) | (142,990,655) | - | (2,298,676,170) |
| Net revaluation | 9,295,754,229 | 2,504,376,195 | (36,521,085) | 11,763,609,339 |
| Net total | 24,623,609,737 | 3,381,505,358 | (862,354,994) | 27,142,760,101 |

The depreciation expense for the year ended December 31, 2018 amounts to ¢2,809,172,686 and is charged to profit or loss.

Pursuant to local regulations, the Corporation must perform a valuation of its productive assets at least once every five years. Accordingly, in 2018, the market values of land, buildings and facilities held by The Bank of Nova Scotia Costa Rica, S.A. (merged with Scotiabank de Costa Rica, S.A. starting July 1, 2018) were assessed through appraisals made by an independent appraiser as of April 30, 2018. The appraisals identified increases in the fair value of land, buildings and facilities in the amount of ¢2,350,671,971 and ¢219,087,486, respectively (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. Investment property

In September 2010, the subsidiary Scotia Leasing Costa Rica, S.A. acquired a building located in Pasadena, Texas, USA. The building is leased to the entity US General Services Administration.

The financial statements of the subsidiary Scotia Leasing Costa Rica, S.A. presented this asset as investment property, since it considered that income obtained from this lease agreement flowed directly as economic benefits to the subsidiary and the agreement subscribed between the parties guaranteed reliable income in the short and long term, which agreed with the goodwill of the place in which the asset was located.

As of October 31, 2018, the sale of investment property was formalized in the amount of US$2,900,000 between the Lessor (owner) and Genesis (offeror). According to the contractual conditions, the owner will transfer the ownership title to the offeror, including all personal property, tools, spare parts and replacement inventory used for operation of the property. The amount will be paid in cash and can be adjusted for deposits, charges, credits, trusts and prorating performed in accordance with contractual conditions. As a result of the transaction, the amount of US$2,772,034 was received in cash, and accounts due to the offeror were derecognized in the amount of US$127,966 (equivalent to ¢1,672,091,023 and ¢77,188,977, respectively, at the buy rate set by BCCR of ¢603.20 to US$1.00). The transaction also resulted in a loss amounting to US$600,000 (equivalent to ¢361,920,000 at the buy rate set by BCCR of ¢603.20 to US$1.00) that was recognized in profit or loss.

*Fair value hierarchy*

The fair value of investment property was determined by independent appraiser with renowned professional skills and recent experience in the location and type of investment property subject to valuation. The independent appraiser determines the fair value of investment property of Scotia Leasing Costa Rica, S.A. on an annual basis.

The fair value of investment properties is categorized as Level 3 in the fair value hierarchy based on the inputs of the valuation technique used.

*Valuation techniques and significant unobservable inputs*

The table below sets out the valuation techniques and significant unobservable inputs used in measuring the fair value of investment property.

| Valuation technique | Significant unobservable inputs | Correlation between key unobservable inputs and fair value measurement |
|---|---|---|
| *Discounted cash flows:* The valuation model considers the present value of the net cash flows that will be generated by the property, considering the expected growth rate of lease payments, the lease term, and other costs not paid by the lessee. Expected net cash flows are discounted using discount rates, adjusted for risk and other factors. The discount rate is estimated by considering building quality and location, lessee credit quality, and lease terms. | • Growth of market lease payment (2018: 2%-3%, 2.6% weighted average).<br>• Lease term (2018: lease agreement maturing in 2023, in which a building is leased to a single tenant; accordingly, no vacancy periods are considered).<br>• Discount rate adjusted for risk (2018: 7.25%). | The estimated fair value would increase (decrease) if:<br>• the expected growth of the market lease payment increased (decreased)<br>• the lease term were shorter (longer)<br>• the current tenant vacated the building (decrease)<br>• the discount rate adjusted for risk were lower (higher). |

As of December 31, movement in investment property is as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Opening balance | ¢ | - | 1,991,590,000 |
| Sale of investment property | | - | (1,749,280,000) |
| Loss on sale of investment property | | - | (361,920,000) |
| Translation effect | | - | 119,610,000 |
| Closing balance | ¢ | - | - |

11. 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 | - |
| | | 2,637,841,320 | 706,202,785 |
| Intangible assets: | | | |
| Software | | 2,168,129,038 | 777,131,686 |
| Other | | 1,065,511,994 | 2,064,182,146 |
| | | 3,233,641,032 | 2,841,313,832 |
| Other assets: | | | |
| Prepaid interest and fees and commissions | | 185,690,735 | 517,599,102 |
| Prepaid taxes | | 627,029,207 | 2,915,108,875 |
| Prepaid insurance | | 2,099,136,232 | 1,876,569,795 |
| Other prepaid expenses | | 1,327,215,774 | 1,808,877,665 |
| Stationery, office supplies, and other | | 381,318,893 | 242,779,134 |
| Library and artwork | | 16,945,602 | 16,945,602 |
| Construction work in progress | | 972,189,574 | 3,943,949,657 |
| Software development | | 198,452,078 | 341,880,560 |
| Operations pending settlement | | 5,253,305,925 | 8,946,935,080 |
| Guarantee deposits (Note 2) | | 457,334,261 | 249,725,450 |
| Subtotal | | 11,518,618,281 | 20,860,370,920 |
| | ¢ | 17,390,100,633 | 24,407,887,537 |

As of December 31, expenses charged to profit or loss for the year related to the amortization of other assets are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Amortization of leasehold improvements | ¢ | 212,465,328 | 283,127,358 |
| Amortization of software | | 496,293,754 | 615,546,810 |
| Amortization of other assets | | 1,048,251,642 | 404,606,210 |
| Total expense for amortization of other assets | ¢ | 1,757,010,724 | 1,303,280,378 |

(Continued)

12. Obligations with the public

As of December 31, demand and term 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 |
| | | 387,095,017,260 | 376,705,333,299 |
| Other obligations with the | | | |
| Notes payable on demand - creditors | | 1,327,876,736 | 1,111,336,001 |
| Drafts and transfers payable (Note 2) | | 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 | ¢ | 878,093,947,719 | 856,408,780,428 |
| Term deposits pledged as guarantee | | 66,159,899,248 | 68,521,899,118 |
| | | 944,253,846,967 | 924,930,679,546 |
| Charges payable for obligations with the public | | 10,106,466,381 | 8,903,233,731 |
| Total obligations with the public | ¢ | 1,344,305,233,026 | 1,313,610,871,320 |

(Continued)

The fair value of deposits in checking and savings accounts corresponds to the amount payable on demand, which is equivalent to their carrying amounts. Those deposits earn interest at variable rates based on average account balances.

As of December 31, 2019 and 2018, balances corresponding to the issue of commercial paper and standardized bonds are included in current term deposit accounts.

As of December 31, 2019, 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$49,959,000), 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).

Term deposits made through banks 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 12.1195% per annum (2018: between 3.42% and 12.1195% per annum) in Costa Rican colones and between 0.65% and 17.25% per annum (2018: between 0.22% and 6.52% per annum) in US dollars.

Additionally, the Corporation raises funds by selling financial instruments and from MIL under agreements whereby the Corporation commits to repurchase those financial instruments on a specific date in the future and at a predetermined price plus interest. As of December 31, 2019 and 2018, there are no investments securing operations in the integrated liquidity market.

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Number of customers | | Cumulative amount | Number of customers | | Cumulative amount |
| Demand: | | | | | | |
| Obligations with the public | | | | | | |
| Deposits from the public | 168,807 | ¢ | 385,736,583,822 | 169,605 | ¢ | 372,559,000,001 |
| Restricted and inactive deposits | 82 | | 1,358,433,438 | 197 | | 4,146,333,298 |
| Other obligations with the public | - | | 2,849,902,418 | - | | 3,071,624,744 |
| | 168,889 | ¢ | 389,944,919,678 | 169,802 | ¢ | 379,776,958,043 |
| Obligations with entities | | | | | | |
| Deposits from other financial entities | 44 | ¢ | 20,346,943,167 | 61 | ¢ | 31,806,200,098 |
| State-owned entities | - | | - | 1 | | 9,400,000,000 |
| | 44 | ¢ | 20,346,943,167 | 62 | ¢ | 41,206,200,098 |
| Total demand obligations with customers | 168,933 | ¢ | 410,291,862,845 | 169,864 | ¢ | 420,983,158,141 |

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Number of customers | | Cumulative amount | Number of customers | | Cumulative amount |
| Term: | | | | | | |
| Obligations with the public | | | | | | |
| Deposits with the public | 7,138 | ¢ | 878,093,947,719 | 7,654 | ¢ | 856,397,480,428 |
| Deposits from other financial entities | - | | - | 1 | | 11,300,000 |
| Restricted and inactive | 1,693 | | 66,159,899,248 | 1,785 | | 68,521,899,118 |
| Subtotal | 8,831 | ¢ | 944,253,846,967 | 9,440 | ¢ | 924,930,679,546 |
| Obligations with entities | | | | | | |
| Deposits from other financial entities | 4 | ¢ | 12,193,656,063 | 13 | ¢ | 22,270,313,711 |
| Subtotal | 4 | ¢ | 12,193,656,063 | 13 | ¢ | 22,270,313,711 |
| Total term obligations with customers | 8,835 | ¢ | 956,447,503,030 | 9,453 | ¢ | 947,200,993,257 |

## 13. 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 | 40,295,960,211 |
| Overdrafts in demand account in local financial entities | | - | 338,336,698 |
| Checking accounts and obligations with related parties (Note 3) | | 939,297,974 | 571,903,189 |
| | | 20,346,943,167 | 41,206,200,098 |
| Term obligations: | | | |
| Term deposits from local financial entities | | 12,193,656,063 | 22,270,313,711 |
| Loans from local financial entities | | 14,046,372,508 | 14,604,239,815 |
| Other loans from foreign financial entities | | 56,456,358,214 | 136,092,769,139 |
| Obligations with related financial entities (Note 3) | | 444,159,809,842 | 493,477,656,174 |
| Deferred liquidity operations | | - | 9,400,000,000 |
| | | 526,856,196,627 | 675,844,978,839 |
| Other obligations with financial entities: | | | |
| Financing with international organizations | | - | 4,532,925,000 |
| Issued letters of credit | | 130,100,239 | 524,099,206 |
| | | 130,100,239 | 5,057,024,206 |
| Subtotal obligations with financial entities | | 547,333,240,033 | 722,108,203,143 |
| Charges payable on obligations with financial and non-financial entities | | 1,803,708,821 | 3,372,528,189 |
| Total obligations with financial entities | ¢ | 549,136,948,854 | 725,480,731,332 |

(Continued)

As of December 31, 2019, other financial obligations bear interest at 7.95% per annum in colones and between 1.92% and 5.81% per annum in US dollars (2018: between 4.57% and 8.69% per annum in colones and between 1.37% and 5.20% 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 | ¢ | 449,547,329,495 | 547,100,110,900 |
| 1 to 2 years | | 57,730,885,397 | 95,664,582,715 |
| 2 to 3 years | | 8,411,923,075 | 56,084,065,206 |
| 3 to 4 years | | 4,888,286,457 | 8,781,358,726 |
| 4 to 5 years | | 16,387,787,370 | 3,229,812,961 |
| More than 5 years | | 10,367,028,239 | 11,248,272,635 |
| | | 547,333,240,033 | 722,108,203,143 |
| Charges payable on obligations with financial and non-financial entities | | 1,803,708,821 | 3,372,528,189 |
| Total obligations with entities | ¢ | 549,136,948,854 | 725,480,731,332 |

14. Income tax

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

| | | 2019 | 2018 |
|---|---|---|---|
| Income tax expense | | | |
| Income tax | ¢ | 7,358,919,698 | 1,479,967,307 |
| Subtotal current tax expense | | 7,358,919,698 | 1,479,967,307 |
| Deferred tax | | | |
| (Decrease) Increase in deferred tax | | (2,962,153,863) | 1,943,398,307 |
| Total income tax, net | ¢ | 4,396,765,835 | 3,423,365,614 |

As of December 31, the difference between income tax expense and the amounts computed by applying the corresponding income tax rate to pretax income is reconciled as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Expected income tax | ¢ | 4,743,251,305 | 2,933,078,818 |
| Plus (less): | | | |
| Nondeductible expenses | | 5,638,249,478 | 5,575,864,183 |
| Nontaxable income | | (6,623,384,849) | (2,196,233,841) |
| Effect of tax treatment for leases | | 824,584,503 | (714,032,598) |
| Statutory allocations | | (185,934,602) | (24,923,899) |
| Effect of negative tax base of certain subsidiaries | | - | (510,971,221) |
| Other non-deductible expenses | | - | (670,892,939) |
| Effect of tax treatment of merged companies | | - | (968,522,889) |
| | ¢ | 4,396,765,835 | 3,423,365,614 |

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

As of December 31, deferred tax is attributable to the following:

| | | 2019 | 2018 |
|---|---|---|---|
| Deferred tax assets: | | | |
| Unrealized losses on valuation of investments | ¢ | 4,691,711 | 1,020,421,640 |
| Allowances for accounts receivable | | 14,015,971,550 | 14,190,523,707 |
| Total deferred tax assets | ¢ | 14,020,663,261 | 15,210,945,347 |
| Deferred tax liabilities: | | | |
| Revaluation of assets | ¢ | 318,891,929 | 1,523,827,694 |
| Unrealized gains on valuation of investments | | 798,635,979 | - |
| Tax treatment of leases | | 714,886,989 | 2,646,657,242 |
| Total deferred tax liabilities | ¢ | 1,832,414,897 | 4,170,484,936 |

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2019 and 2018, movement in deferred tax, net is as follows:

| | | As of December 31, 2018 | Included in the consolidated statement of comprehensive income | Included in equity | As of December 31, 2019 |
|---|---|---|---|---|---|
| Unrealized gains/losses on valuation of investments | ¢ | 1,020,421,640 | - | (1,814,365,908) | (793,944,268) |
| Allowances | | 14,190,523,707 | (174,552,157) | - | 14,015,971,550 |
| Tax treatment of leases | | (2,646,657,242) | 1,931,770,253 | - | (714,886,989) |
| Revaluation of assets | | (1,523,827,694) | 1,204,935,765 | - | (318,891,929) |
| | ¢ | 11,040,460,411 | 2,962,153,861 | (1,814,365,908) | 12,188,248,364 |

| | | As of December 31, 2017 | Included in the consolidated statement of comprehensive income | Included in equity | As of December 31, 2018 |
|---|---|---|---|---|---|
| Unrealized gains/losses on valuation of investments | ¢ | (30,315,298) | (20,851,329) | 1,071,588,267 | 1,020,421,640 |
| Allowances | | 15,259,684,750 | (1,069,161,043) | - | 14,190,523,707 |
| Tax treatment of leases | | (1,749,878,105) | (896,779,137) | - | (2,646,657,242) |
| Revaluation of assets | | (1,370,468,313) | 45,200,056 | (198,559,437) | (1,523,827,694) |
| Provisions | | 1,806,854 | (1,806,854) | - | - |
| | ¢ | 12,110,829,888 | (1,943,398,307) | 873,028,830 | 11,040,460,411 |

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

15. Accounts payable and provisions

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

| | | 2019 | 2018 |
|---|---|---|---|
| Deferred tax (Note 14) | ¢ | 1,832,414,897 | 4,170,484,936 |
| Provisions | | 9,361,284,175 | 9,273,139,605 |
| Other sundry accounts payable: | | | |
| Professional fees | | 8,566,731 | 3,599,118 |
| Creditors - goods and services | | 1,605,905,747 | 1,690,893,813 |
| Tax liability | | 4,083,187,232 | 319,091,594 |
| Employer withholdings | | 6,803,755 | 69,845,478 |
| Court-ordered withholdings | | 3,228,779 | 1,650,839 |
| Tax withholdings | | 1,909,202,294 | 2,049,123,443 |
| Employee withholdings | | 1,351,201,317 | 1,529,329,925 |
| Other third-party withholdings | | 2,977,374 | 1,891 |
| Statutory allocations or surplus | | 437,603,979 | 70,276,936 |
| Related parties (Note 3) | | 3,525,020,106 | 3,501,759,003 |
| Clearing house operations | | 93,012,598 | - |
| Accrued vacation | | 837,504,027 | 1,062,844,338 |
| Accrued statutory Christmas bonus | | 317,774,193 | 348,173,758 |
| INS insurance policies | | 2,646,206,993 | 3,098,626,035 |
| Term deposits with related parties | | 259,550,925 | 842,007,070 |
| Credit balances of credit card customers | | 5,033,534,535 | 5,303,859,552 |
| Stale checks outstanding | | 243,957,202 | 924,446,341 |
| Public utility and tax payment collection services | | 2,137,962,100 | 788,215,251 |
| Other sundry accounts payable | | 8,743,004,085 | 5,870,683,687 |
| | | 33,246,203,972 | 27,474,428,072 |
| Total other sundry accounts payable: | ¢ | 44,439,903,044 | 40,918,052,613 |

(Continued)

a) Provisions

| | | 2019 | 2018 |
|---|---|---|---|
| Employer obligations | ¢ | 83,226,408 | 307,599,416 |
| Pending litigation | | 5,043,028,710 | 5,299,234,515 |
| Redemption of miles | | 1,578,056,099 | 1,699,576,048 |
| Cashback | | 336,942,486 | 449,058,464 |
| Other | | 2,320,030,472 | 1,517,671,162 |
| | ¢ | 9,361,284,175 | 9,273,139,605 |

As of December 31, 2019, provisions for pending litigation correspond to the provisions created for the subsidiaries, as follows: Scotiabank de Costa Rica, S.A. provision in the amount of ¢342,054,000 (2018: ¢598,259,805) and Scotia Leasing de Costa Rica, S.A. for a discounted amount of ¢875,140,359 and undiscounted amount of ¢1,107,024,630 (for both years). Both cases relate to tax reviews performed by the Tax Administration that resulted in notices of deficiency. Furthermore, as part of the process of acquisition of the subsidiaries The Bank of Nova Scotia Costa Rica, S.A. (known as Banco Citibank de Costa Rica, S.A. before February 1, 2016), Scotia Tarjetas de Costa Rica, S.A. (known as Citi Tarjetas de Costa Rica, S.A. before February 1, 2016), and BNS Leasing de Costa Rica, S.A. (known as Citi Leasing Costa Rica, S.A. before February 1, 2016). As of December 31, 2019 and 2018, it was determined that lawsuits pending resolution should be booked in conformity with IFRS 3 *Business Combinations* in the amount of ¢3,825,834,351 (see Note 35).

As of December 31, movement in provisions is as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Provisions for employer obligations: | | | |
| Opening balance | ¢ | 307,599,416 | 375,079,165 |
| Increase in provision | | 722,867,550 | 1,131,005,886 |
| Used | | (947,240,558) | (1,198,485,635) |
| Closing balance | | 83,226,408 | 307,599,416 |
| Provisions for pending | | | |
| Opening balance | | 5,299,234,515 | 7,846,116,349 |
| Increase in provision | | 3,283,102,012 | - |
| Decrease in provision | | - | (2,546,881,834) |
| Used | | (3,539,307,817) | - |
| Closing balance | | 5,043,028,710 | 5,299,234,515 |
| Provisions for redemption of miles and cashback: | | | |
| Opening balance | | 2,148,634,512 | 1,622,091,695 |
| Increase in provision | | 3,875,805,828 | 1,474,545,440 |
| Used | | (4,109,441,755) | (948,002,623) |
| Closing balance | | 1,914,998,585 | 2,148,634,512 |
| Other provisions: | | | |
| Opening balance | | 1,517,671,162 | 1,489,306,803 |
| Increase in provision | | 3,359,878,633 | 7,587,364,370 |
| Used | | (2,557,519,323) | (7,559,000,011) |
| Closing balance | | 2,320,030,472 | 1,517,671,162 |
| Total provisions | | | |
| Opening balance | | 9,273,139,605 | 11,332,594,012 |
| Increase in provision | | 11,241,654,023 | 10,192,915,696 |
| Decrease in provision | | - | (2,546,881,834) |
| Used | | (11,153,509,453) | (9,705,488,269) |
| Total provisions | ¢ | 9,361,284,175 | 9,273,139,605 |

(Continued)

16. 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 (Note 6.c) | | 165,715,606 | 244,055,077 |
| Cash overage | | 21,834,828 | 41,154,473 |
| Operations pending settlement | | 1,752,023,592 | 10,934,208,564 |
| Other operations pending application | | 972,999,173 | 533,477,676 |
| | ¢ | 10,021,129,147 | 18,723,131,734 |

17. Equity

a) Share capital

As of December 31, 2018 and 2017, the Corporation's share capital is represented by 423,714,614 ordinary registered shares of US$1.00 par value, for a total of US$423,714,614 (equivalent to ¢217,507,247,742).

b) Increase in capital

At an Extraordinary General Shareholders Meeting held on December 26, 2018, the shareholders agreed to increase share capital in the amount of US$9,000,000, through cash contributions made by shareholders in the amount of US$9,000,000 (equivalent to ¢5,408,640,000 at the buy rate set by BCCR on the date on which the contribution was received).

As of December 31, 2019 and 2018, the balance of non-capitalized capital contributions is ¢6,401,741,251.

c) Revaluation surplus

As of December 31, 2019 and 2018, revaluation surplus corresponds to the increase in the fair values of properties owned by the subsidiaries. Fair values of properties are adjusted base on an appraisal made by an independent appraiser.

As of December 31, 2019, the balance of the revaluation surplus is ¢4,674,153,613 (2018: ¢10,844,977,767).

On June 27, 2019, two buildings owned by the subsidiary Scotiabank de Costa Rica, S.A. were sold. Consequently, the revaluation surplus decreased by ¢6,170,824,154 and was transferred to retained earnings.

As of May 31, 2018, there was a revaluation surplus of ¢2,504,034,110 for the company The Bank of Nova Scotia (Costa Rica) S.A., which was merged with Scotiabank de Costa Rica, S.A. on July 1, 2018.

d) Legal reserve

Under Article 154 of IRNBS, entities must allocate 10% of their net earnings for each year to a legal reserve. As of December 31, 2019, the consolidated financial statements include a legal reserve in the amount of ¢21,333,195,700 (2018: ¢20,411,360,411).

e) Prior period retained earnings

As of December 31, 2019, prior period retained earnings amount to ¢52,587,215,165 (2018: ¢39,602,579,802).

f) Adjustment for valuation of available-for-sale investments

The subsidiaries book available-for-sale investments at fair value. The effect of revaluation is included in the separate statement of changes in equity under the "Equity adjustments" account, as unrealized gains or losses on valuation of available-for-sale investments.

18. Basic earnings per share

As of December 31, the calculation of basic earnings per share is based on the net profit attributable to shareholders, as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Ordinary shares: | | | |
| Profit for the year | ¢ | 7,735,646,498 | 6,283,244,377 |
| Profit for the year, net of legal reserve, available to ordinary shareholders | | 6,813,811,209 | 5,964,371,389 |
| Weighted-average number of shares | | 423,714,614 | 423,714,614 |
| Earnings per ordinary share | ¢ | 16.081 | 14.076 |

19. Memoranda accounts

In the ordinary course of business, the Corporation has contingencies off the consolidated balance sheet that involve a certain degree of credit and liquidity risk.

As of December 31, memoranda accounts are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Sureties | ¢ | 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 |
| Pre-approved lines of credit | | 363,986,839,051 | 394,664,474,387 |
| Credits pending disbursement | | 2,393,524,211 | 3,654,972,942 |
| Forward contracts | | 28,504,500 | - |
| Total memoranda accounts | ¢ | 420,021,964,851 | 458,305,486,681 |

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

20. Trust assets

The Corporation has subscribed trust agreements whereby it agrees as trustee to manage and act as custodian for funds in accordance with the instructions contained in the agreements.

These funds received from trusts and customers for management are duly segregated from the Corporation's equity and, therefore, do not appear in its consolidated financial statements. The Corporation does not guarantee these assets and thus is not exposed to any related credit risk.

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 | | 91,835,520,774 | 113,374,094,954 |
| Loan portfolio | | 455,286,476,529 | 484,253,773,076 |
| Accounts and fees and commissions receivable | | 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 |
| Investments in property | | 18,012,668,131 | 17,985,170,629 |
| Total | ¢ | 1,775,830,271,135 | 1,792,082,076,628 |

21. Sureties

As of December 31, 2019 and 2018, the Corporation has not issued sureties.

22. Other memoranda accounts

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

| | | 2019 | 2018 |
|---|---|---|---|
| Other own debit memoranda accounts: | | | |
| Guarantees received held in custody | ¢ | 65,945,003,241 | 76,781,069,653 |
| Guarantees received in custody of third parties | | 5,678,310,442,759 | 6,731,675,138,262 |
| Lines of credit granted but unused | | 357,589,126,603 | 310,648,062,895 |
| Write-offs | | 194,614,049,388 | 144,680,199,538 |
| Accrued interest receivable on loans in non-accrual status | | 3,315,298,373 | 2,783,895,643 |
| Supporting documentation | | 1,062,779,791,347 | 1,116,660,038,737 |
| Other memoranda accounts | | 1,660,683,935,272 | 1,767,292,372,937 |
| | | 9,023,237,646,983 | 10,150,520,777,665 |
| Third-party debit memoranda accounts: | | | |
| Third-party assets and securities in custody | | 96,750,881,455 | 102,471,951,941 |
| Assets of managed funds (Note 24) | | 42,207,865,498 | 49,750,147,205 |
| | | 138,958,746,953 | 152,222,099,146 |
| Third-party debit memoranda accounts for custodial activities: | | | |
| Trading securities held in custody | | 26,721,577 | 26,721,577 |
| | | 26,721,577 | 26,721,577 |
| Total other debit memoranda accounts | ¢ | 9,162,223,115,513 | 10,302,769,598,388 |

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 entity acts as agent or custodian.

23. Tri-party repurchase agreements and term operations

The Corporation enters into agreements to buy and sell securities at certain future dates (tri-party repurchase agreements). Those agreements represent securities that one party has committed to sell and the other party has committed to buy on an agreed-upon date and at a stated price. The difference between the contractual value and the value of the security represents an additional guarantee for the agreement and corresponds to a portion of the security held in custody.

Securities that back tri-party repurchase agreements and term operations are held in Central de Valores de la Bolsa Nacional de Valores, S.A. (CEVAL) or in foreign institutions with which CEVAL has custodial agreements.

## 24. Investment fund management agreements

As of December 31, memoranda accounts included the following items pertaining to active investment funds:

| | | 2019 | | | 2018 |
|---|---|---|---|---|---|
| | | Assets | Liabilities | Net assets | Net assets |
| In colones: | | | | | |
| Fondo de Inversión No Diversificado Público Scotia (Scotia Public Non-Diversified Investment Fund) | ¢ | 840,816,678 | 1,699,292 | 839,117,386 | 909,277,762 |
| Fondo de Inversión No Diversificado Certifondo Scotia C (Scotia Certifondo C Investment Fund) | | 7,407,901,884 | 5,819,669 | 7,402,082,216 | 9,856,732,551 |
| | ¢ | 8,248,718,562 | 7,518,961 | 8,241,199,602 | 10,766,010,313 |
| In US dollars: | | | | | |
| Fondo de Inversión No Diversificado Público D Scotia (Scotia Public Non-Diversified D Investment Fund) | US$ | 4,117,949 | 3,636 | 4,114,313 | 4,868,662 |
| Fondo de Inversión No Diversificado Exposición al Mercado de Renta Fija Scotia (Scotia Fixed-income Non-Diversified Money Market Exposure Investment Fund) | | 5,990,984 | 5,323 | 5,985,661 | 7,115,073 |
| Fondo de Inversión No Diversificado Exposición al Mercado Accionario USA (Scotia Non-Diversified U.S. Stock Market Exposure Investment Fund) | | 6,503,258 | 8,369 | 6,494,889 | 6,816,422 |
| Fondo de Inversión No Diversificado Exposición al Mercado Accionario Internacional Scotia (Scotia Non-Diversified International Stock Market Exposure Investment Fund) | | 3,981,705 | 5,273 | 3,976,432 | 4,454,189 |
| Fondo de Inversión No Diversificado Certifondo Scotia D (Scotia Certifondo D Non-Diversified Investment Fund) | | 39,032,728 | 22,789 | 39,009,939 | 41,262,973 |
| | US$ | 59,626,624 | 45,390 | 59,581,234 | 64,517,319 |
| Total expressed in colones | ¢ | 33,992,542,076 | 25,876,385 | 33,966,665,896 | 38,993,622,781 |
| Total | ¢ | 42,241,260,638 | 33,395,346 | 42,207,865,498 | 49,759,633,094 |

Main policies for funds managed by the Corporation are as follows:

In the interest of the investor, the Investment Committee sets the policy for selecting securities that comprise the investment funds. Securities are selected to create diversified portfolios that can be managed actively, while respecting the parameters established in the fund management agreements. Investments in securities are executed through SUGEVAL-approved investment systems within the National Financial System and on authorized securities exchanges.

Securities that back investments in the funds are held in the custody of the subsidiary Scotia Valores, S.A.

Fund securities are jointly owned by all investors with signed agreements.

Pursuant to CONASSIF regulations, pooled investment funds are valued daily at market prices.

Market prices are determined using the SUGEVAL methodology. The corresponding effect is charged against or credited to the "Unrealized (negative) goodwill on portfolio valuation" account in the fund's net assets.

Effective January 23, 2006, SUGEVAL Directive SGV-A-116 stipulates that all fixed income securities, including securities with maturities or remaining amortization periods of 180 days or less and excluding money market or short-term investment funds, must be valued at market prices. For money market or short-term investment funds, returns or losses corresponding to the period from the moment the funds cease to be valued at market prices until maturity are to be distributed by the fund manager using the effective interest method.

(Continued)

## 25. Finance income on loan portfolio

As of December 31, finance income on 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 | | 112,598,675,450 | 104,446,022,969 |
| Accrued interest on credit cards | | 48,102,575,873 | 51,433,135,378 |
| Accrued interest on loans to State-owned banks | | 1,031,072,181 | 983,153,490 |
| Subtotal current loans | | 161,752,944,020 | 156,878,783,112 |
| Past due loans and loans in legal collection | | | |
| Accrued interest on loans with other funds | | 11,905,632,018 | 11,553,396,952 |
| Accrued interest on credit cards | | 7,343,359,231 | 4,734,506,397 |
| Subtotal past due loans and loans in legal collection | | 19,248,991,249 | 16,287,903,349 |
| | ¢ | 181,001,935,269 | 173,166,686,461 |

## 26. 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 | ¢ | 3,982,063,417 | 3,192,114,152 |
| Term deposits | | 56,420,085,861 | 50,001,239,371 |
| | ¢ | 60,402,149,278 | 53,193,353,523 |

(b) Obligations with financial and non-financial entities

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

| | | 2019 | 2018 |
|---|---|---|---|
| Term obligations with financial entities | ¢ | 1,082,395,354 | 1,148,556,848 |
| Demand obligations with financial entities | | 19,293,350,716 | 21,893,067,405 |
| Obligations with non-financial entities | | 64,449,852 | 286,582,248 |
| | ¢ | 20,440,195,922 | 23,328,206,501 |

27. Foreign exchange differences

Gains or losses arising on translation of balances and transactions denominated in foreign currency are presented in the consolidated statement of comprehensive income as "Foreign exchange differences".

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Notes to the Consolidated Financial Statements

As of December 31, net foreign exchange income and expense are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Foreign exchange income: | | | |
| Obligations with the public | ¢ | 298,180,688,421 | 27,732,989,225 |
| Other financial obligations | | 136,837,018,761 | 16,133,539,038 |
| Other accounts payable and provisions | | 7,596,741,805 | 3,581,568,343 |
| Cash and due from banks | | 182,090,144,571 | 27,983,382,846 |
| Investments in financial instruments | | 20,042,188,515 | 8,736,342,604 |
| Current loans | | 239,406,903,810 | 100,026,026,681 |
| Past due loans and loans in legal collection | | 43,576,387,128 | 12,803,535,510 |
| Accounts and fees and commissions receivable | | 1,421,799,559,292 | 261,632,689,889 |
| Total foreign exchange income | | 2,349,529,632,303 | 458,630,074,136 |
| Foreign exchange expense: | | | |
| Obligations with the public | | 239,753,100,313 | 88,717,897,459 |
| Other financial obligations | | 106,912,595,798 | 57,021,020,577 |
| Other accounts payable and provisions | | 1,416,410,628,866 | 260,717,817,003 |
| Cash and due from banks | | 200,056,028,606 | 8,974,637,239 |
| Investments in financial instruments | | 24,294,644,749 | 4,312,204,800 |
| Current loans | | 303,881,166,649 | 25,696,834,068 |
| Past due loans and loans in legal collection | | 47,706,718,399 | 5,480,385,712 |
| Accounts and fees and commissions receivable | | 12,970,610,343 | 7,639,753,960 |
| Total foreign exchange expense: | | 2,351,985,493,723 | 458,560,550,818 |
| Foreign exchange income, net | ¢ | (2,455,861,420) | 69,523,318 |

28. 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 | 1,857,621,424 |
| Foreign trade | | 2,253,308 | 2,700,864 |
| Certified checks | | - | 34,365 |
| Trust management | | 1,117,137,661 | 1,156,027,136 |
| Banking mandates | | - | 8,477,254 |
| Collections | | 5,772,485 | 11,706,839 |
| Consignments | | - | 71 |
| Other banking mandates | | 860,183,440 | 872,288,366 |
| Credit cards | | 26,037,191,378 | 30,358,996,476 |
| Investment fund management | | 520,808,998 | 666,935,033 |
| Insurance underwriting | | 5,972,355,894 | 4,620,858,187 |
| Other fees and commissions | | 18,728,004,268 | 17,910,798,087 |
| | ¢ | 55,041,310,291 | 57,466,444,102 |

29. Personnel expenses

As of December 31, personnel expenses are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Salaries and bonuses, permanent staff | ¢ | 26,179,560,620 | 28,942,986,965 |
| Compensation for board members and statutory examiners | | 20,647,095 | 20,347,845 |
| Overtime | | 357,665,095 | 651,581,050 |
| Travel expenses | | 480,597,826 | 1,224,363,051 |
| Statutory Christmas bonus | | 2,296,021,765 | 2,529,480,762 |
| Vacation | | 1,054,855,255 | 1,201,856,607 |
| Incentives | | 12,340,678 | 20,399,573 |
| Severance benefits | | - | 137,317,575 |
| Other compensation | | 8,242,935 | 62,100,894 |
| Employer social security taxes | | 6,045,542,048 | 6,695,539,478 |
| Refreshments | | 230,855,665 | 427,037,294 |
| Uniforms | | 41,376,740 | 15,266,805 |
| Training | | 94,851,498 | 160,764,892 |
| Employee insurance | | 404,907,419 | 366,287,289 |
| Compulsory retirement savings account | | 1,215,027,751 | 1,266,699,674 |
| Other personnel expenses | | 1,045,566,537 | 1,100,990,324 |
| | ¢ | 39,488,058,927 | 44,823,020,078 |

30. Other administrative expenses

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

| | | 2019 | 2018 |
|---|---|---|---|
| Outsourcing | ¢ | 18,694,540,678 | 23,631,985,234 |
| Transportation and communications | | 1,680,961,460 | 2,098,961,841 |
| Infrastructure | | 15,242,859,594 | 16,533,180,193 |
| Overhead | | 14,574,296,036 | 8,877,064,111 |
| | ¢ | 50,192,657,768 | 51,141,191,379 |

31. Risk management

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

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

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

- operational risk
- capital risk
- asset laundering risk
- legal risk
- IT 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 Corporation's consolidated balance sheet is mainly comprised of financial instruments.

The board of directors is responsible for the establishment and oversight of the Corporation'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 Corporation's risk exposure.

(Continued)

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

Management is responsible for the formulation of the Corporation's risk management strategy and ALCO is responsible for setting guidelines for managing interest rates, accrued interest receivable, the Corporation's foreign currency position, margins, and liquidity. The parent company has also established maximum risk exposure limit guidelines. The Corporate Risk Committee is responsible for reporting on risk management performed by the Comprehensive Risk Management Unit.

i. Credit risk

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

The Corporation monitors its credit risk on an ongoing basis through reports on the status of the portfolio and its classification. The Corporation'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 Corporation'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 Corporation also receives guarantees to manage its risk exposure.

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

| | | 2019 | 2018 |
|---|---|---|---|
| Cash and due from banks | ¢ | 307,378,475,373 | 337,941,765,114 |
| Investments in financial instruments | | 168,716,221,319 | 120,454,652,333 |
| Loan portfolio | | 1,712,785,972,181 | 1,843,238,871,185 |
| Accounts and fees and commissions receivable | | 19,593,155,683 | 29,749,101,572 |
| 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 | ¢ | 2,262,086,921,645 | 2,391,370,429,556 |

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 Corporation is exposed to a significant concentration of credit risk in Latin America, specifically in Costa Rica on loans granted to Costa Rican entities. The Corporation 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 Corporation obtains a thorough understanding of its customers and of their capacity to generate sufficient cash flows to honor their debt commitments.

Financial assets that represent potential credit risk for the Corporation mainly include bank deposits, investments in financial instruments, and loans. Bank deposits are mainly placed in prestigious financial institutions.

The following table shows the Corporation's credit risk and impairment on loans:

| | | Customers | | Banks | | Stand-by | |
|---|---|---|---|---|---|---|---|
| | | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| *Individually assessed loans with allowance* | | | | | | | |
| A1 | ¢ | 1,379,547,977,263 | 1,543,651,128,831 | 65,481,780,865 | 61,660,825,928 | 52,286,698,407 | 58,908,292,694 |
| A2 | | 11,786,584,137 | 7,043,819,213 | - | - | 2,304,355 | 6 |
| B1 | | 183,017,697,687 | 158,700,048,578 | - | - | 1,276,821,004 | 2,980,156,160 |
| B2 | | 6,536,284,847 | 4,187,403,162 | - | - | 388 | 2,382,288 |
| C1 | | 44,328,151,735 | 46,093,273,095 | - | - | 243,305,982 | 379,303,808 |
| C2 | | 4,663,500,407 | 4,567,469,606 | - | - | - | 60,439 |
| D | | 25,326,675,300 | 11,752,534,988 | - | - | 2,365,685,638 | 1,343,981,931 |
| E | | 52,910,605,222 | 69,202,541,441 | - | - | 73,950,707 | 112,310,095 |
| Total | | 1,708,117,476,598 | 1,845,198,218,914 | 65,481,780,865 | 61,660,825,928 | 56,248,766,481 | 63,726,487,421 |
| Allowance for loan losses | | (54,149,876,303) | (61,412,027,246) | (327,408,904) | (308,304,130) | (46,664,041) | (81,117,999) |
| Carrying amount | | 1,653,967,600,295 | 1,783,786,191,668 | 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 | 8,114,810,267 |
| Carrying amount | | - | - | - | - | 363,744,693,870 | 394,578,999,257 |
| Excess allowance over structural allowance | | (6,336,000,075) | (1,899,842,281) | - | - | (119,051,565) | (162,937,078) |
| Carrying amount, net | ¢ | 1,647,631,600,220 | 1,781,886,349,387 | 65,154,371,961 | 61,352,521,798 | 419,827,744,745 | 458,061,431,601 |

(Continued)

Individually assessed loans with allowance

According to regulations established in SUGEF Directive 1-05 applicable to the subsidiary Scotiabank de Costa Rica, S.A., all loan operations are assigned a risk rating and the applicable allowance percentages are determined based on that rating. Individually assessed loans with allowance are loan operations for which, after deducting the loan guarantee, there is still a balance to which the percentage determined for the risk classification assigned by Scotiabank de Costa Rica, S.A. and The Bank of Nova Scotia (Costa Rica), S.A. will be applied.

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

Restructured loans

Restructured loans are loans for which the original contractual conditions have been modified due to negotiations with customers or where the Corporation 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 different types of restructured loans:

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

(Continued)

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

Allowance for loan losses:

i. Subsidiary Scotiabank de Costa Rica, S.A.

*Borrower classification*

The subsidiary Scotiabank de Costa Rica, S.A. must 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 subsidiary Scotiabank de Costa Rica, S.A. 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 representing the lowest credit risk and rating E representing the highest credit risk.

Borrower classification

*Analysis of creditworthiness*

The subsidiary Scotiabank de Costa Rica, S.A. must define effective mechanisms to determine the creditworthiness of borrowers in Group 1. 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, gender, 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 subsidiary Scotiabank de Costa Rica, S.A. must classify the borrower's creditworthiness into 4 levels: level 1 - has the ability to pay, level 2 - has minor weaknesses in the ability to pay, level 3 - has serious weaknesses in the ability to pay, and level 4 - has no ability to pay. For purposes of this classification, the borrower and co-borrower(s) must be assessed 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 subsidiary Scotiabank de Costa Rica, S.A. must determine a borrower's historical payment behavior based on the level assigned to the borrower by SUGEF's Credit Information Center (CIC).

The subsidiary Scotiabank de Costa Rica, S.A. must classify historical payment behavior into 3 levels: level 1 - good historical payment behavior, level 2 - acceptable historical payment behavior, and level 3 - poor historical payment behavior.

Borrower classification

Borrowers in Group 1 and Group 2 are to be classified by the subsidiary Scotiabank de Costa Rica, S.A., based on arrears, historical payment behavior, and creditworthiness, as follows:

| Risk rating | Specific 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 or level 2 or level 3 |
| C2 | 50.00% | 0.50% | 90 days or less | Level 2 | Level 1 or level 2 or level 3 |
| D | 75.00% | 0.50% | 120 days or less | Level 1 or level 2 | Level 1 or level 2 or 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 seller and the rating assigned by the buyer at the time of the purchase.

Direct classification in risk rating E

The subsidiary Scotiabank de Costa Rica, S.A. must rate borrowers in risk rating E who do not meet the conditions to be rated in any of the risk ratings defined above, are in bankruptcy, a meeting of creditors, a court protected reorganization procedure, or takeover, or if the subsidiary considers classification in this risk 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. This allowance is calculated on the covered and uncovered balance of each credit operation. The allowance on 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 | Allowance percentage |
|---|---|
| A1 | 0% |
| A2 | 0% |
| B1 | 5% |
| B2 | 10% |
| C1 | 25% |
| C2 | 50% |
| D | 75% |
| E | 100% |

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

| 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 subsidiary Scotiabank de Costa Rica, S.A. must maintain a minimum allowance of ¢52,762,674,837 (2018: ¢59,601,811,226). SUGEF External Circular 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 that 15%, they must be taken from net earnings for the year pursuant to Article 10 of the IRNBS. However, through Official Letter SGF-3374-2015 dated December 17, 2015, SUGEF External Circular Letter 021-2008 was repealed; accordingly, as of December 2019 and 2018, there is no limit on the booking of allowances determined according to regulatory provisions; such allowances are charged to 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.

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 net earnings for the current month.

Starting June 2016, non-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 currencies.

Debt service coverage ratio: borrowers with a debt-to-income ratio highly 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.

(Continued)

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% starting 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.

As of December 31, as a result of the application of the transition provisions of the aforementioned amendments, the balance of these allowances is as follows:

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

Credit equivalent

The following stand-by loan 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 credit 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; and
c. Preapproved lines of credit: 0.50.

Allowances for other assets

Allowances should be established for the following assets:

a. Accounts and accrued interest receivable unrelated to credit 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 held for more than two years from the date of acquisition for 100% of their value.

ii. Leasing subsidiary

The subsidiary Scotia Leasing has adopted criteria and policies to determine the minimum allowance for loan losses in accordance with the regulations established in SUGEF Directive 1-05, which are also applicable to the subsidiary Scotiabank de Costa Rica, S.A.

Loan write-off policy

The Corporation 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.

As of December 31, set out below is an analysis of the gross and net (of allowances for loan losses) amounts of individually assessed loans by risk rating:

| | 2019 | | | |
|---|---|---|---|---|
| | Loans to customers | | Loans to banks | |
| | Gross | Net | Gross | Net |
| A1 ¢ | 1,373,522,829,968 | 1,360,369,076,063 | 65,481,780,865 | 65,154,371,961 |
| A2 | 11,703,268,194 | 11,622,487,459 | - | - |
| B1 | 182,168,598,003 | 179,764,350,823 | - | - |
| B2 | 6,480,968,701 | 6,339,879,729 | - | - |
| C1 | 44,186,907,897 | 39,721,032,640 | - | - |
| C2 | 4,621,245,054 | 4,206,972,158 | - | - |
| D | 25,236,631,080 | 18,872,511,711 | - | - |
| E | 52,021,593,029 | 24,086,290,264 | - | - |
| ¢ | 1,699,942,041,926 | 1,644,982,600,847 | 65,481,780,865 | 65,154,371,961 |

| | 2018 | | | |
|---|---|---|---|---|
| | Loans to customers | | Loans to banks | |
| | Gross | Net | Gross | Net |
| A1 ¢ | 1,529,147,434,893 | 1,521,655,669,929 | 61,660,825,928 | 61,352,521,798 |
| A2 | 6,976,280,208 | 6,929,695,404 | - | - |
| B1 | 158,075,857,210 | 155,528,334,844 | - | - |
| B2 | 4,148,702,796 | 4,054,917,853 | - | - |
| C1 | 45,962,030,450 | 39,742,342,050 | - | - |
| C2 | 4,529,110,588 | 4,021,983,358 | - | - |
| D | 11,676,614,609 | 6,145,947,463 | - | - |
| E | 68,548,020,973 | 34,098,874,038 | - | - |
| ¢ | 1,829,064,051,727 | 1,772,177,764,939 | 61,660,825,928 | 61,352,521,798 |

Guarantees

Collateral: The Corporation 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 fair 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, estimated fair values of collateral are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| allowance (including the balance for loans in legal collection): | | | |
| Real property | ¢ | 238,782,150,922 | 210,055,218,872 |
| Personal property | | 326,387,559,675 | 248,870,728,080 |
| Other (trusts) | | 248,972,759,435 | 235,429,678,533 |
| Subtotal | | 814,142,470,032 | 694,355,625,485 |
| Past due loans without | | | |
| 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 | ¢ | 3,144,410,962,376 | 3,013,148,694,222 |

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 | 32,446,438,800 |
| Fiduciary | | 527,585,703,785 | 877,331,407,910 |
| Mortgage | | 724,999,187,117 | 558,854,863,006 |
| Chattel mortgage | | 223,448,080,408 | 203,510,015,215 |
| State banking | | 65,403,222,269 | 61,570,534,114 |
| Other | | 149,749,265,368 | 150,392,341,955 |
| Total direct loans | | 1,750,973,250,139 | 1,884,105,601,000 |
| Accrued interest receivable | | 22,626,007,324 | 22,753,443,842 |
| Allowance for loan losses | | (60,813,285,282) | (63,620,173,657) |
| Total loan portfolio | ¢ | 1,712,785,972,181 | 1,843,238,871,185 |

The portion of the portfolio concentrated in State-owned banks corresponds to a loan granted in compliance with Article 59 of IRNBS.

In the recent years, the subsidiary Scotiabank de Costa Rica, S.A. 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 sector

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

| | | 2019 | 2018 |
|---|---|---|---|
| Agriculture, livestock, hunting, and related activities | ¢ | 1,349,049,703 | 2,197,302,760 |
| Fishing and aquaculture | | 836,129,691 | 816,088,156 |
| Manufacturing industry | | 3,393,276,598 | 5,843,092,425 |
| Electricity, telecommunications, gas, and water | | 4,460,393,242 | 5,143,900,507 |
| Construction, purchase, and repair of property | | 376,718,675,673 | 415,355,972,741 |
| Trade | | 305,067,899,908 | 407,387,596,998 |
| Hospitality | | 1,784,870,036 | 2,539,111,645 |
| Transportation | | 4,987,422,590 | 5,401,517,925 |
| Stock market | | 65,369,419,993 | 61,823,912,045 |
| Real estate, business, and leasing activities | | - | 138,556,395 |
| Education | | - | 693,579 |
| Services | | 544,180,873,766 | 488,047,098,405 |
| Consumer | | 442,825,238,939 | 489,410,757,419 |
| Total direct loans | | 1,750,973,250,139 | 1,884,105,601,000 |
| Accrued interest receivable | | 22,626,007,324 | 22,753,443,842 |
| Allowance for loan losses | | (60,813,285,282) | (63,620,173,657) |
| Total loan portfolio | ¢ | 1,712,785,972,181 | 1,843,238,871,185 |

Loan portfolio by geographic area

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

| | | 2019 | 2018 |
|---|---|---|---|
| Costa Rica | ¢ | 1,743,213,141,961 | 1,878,951,804,152 |
| Rest of Central America | | 874,024,589 | 336,519,822 |
| Rest of North and South | | 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 |
| | ¢ | 1,750,973,250,139 | 1,884,105,601,000 |

Loan portfolio by arrears

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

| | | 2019 | 2018 |
|---|---|---|---|
| Current | ¢ | 1,602,036,615,070 | 1,738,649,083,938 |
| 1 to 30 days | | 65,387,871,700 | 69,154,611,390 |
| 31 to 60 days | | 25,825,908,543 | 25,490,692,183 |
| 61 to 90 days | | 14,154,614,395 | 13,581,494,440 |
| 91 to 120 days | | 6,323,124,770 | 7,342,582,525 |
| 121 to 180 days | | 5,723,869,407 | 7,735,534,713 |
| More than 180 days | | 4,920,559,785 | 1,337,572,220 |
| In legal collection | | 26,600,686,469 | 20,814,029,591 |
| Total direct loans | | 1,750,973,250,139 | 1,884,105,601,000 |
| Accounts and accrued interest receivable | | 22,626,007,324 | 22,753,443,842 |
| Allowance for loan losses | | (60,813,285,282) | (63,620,173,657) |
| Total credit portfolio | ¢ | 1,712,785,972,181 | 1,843,238,871,185 |

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% | 127,980 | ¢ | 1,586,641,347,109 | 100,879 | ¢ | 1,674,601,412,335 |
| 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 | 127,987 | ¢ | 1,750,973,250,139 | 100,889 | ¢ | 1,884,105,601,000 |

At the consolidated 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 Corporation's most important customers or economic interest groups, whose loans 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 |
|---|---|---|---|
| Amount of loans in non-accrual status | ¢ | 42,582,925,627 | 36,453,288,226 |
| Number of loans in non-accrual status | | 6,032 | 5,939 |

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

| | | 2019 | 2018 |
|---|---|---|---|
| Amount of loans in legal collection | ¢ | 26,600,686,469 | 20,814,029,591 |
| Number of loans in legal collection | | 1,101 | 709 |
| Percentage of total portfolio | | 1.52% | 1.10% |

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 | 1,671,884,469 |
| A | | 37,055,850,000 | 30,639,482,451 |
| BB | | 736,130,134 | 74,220,643,096 |
| B | | 128,562,010,992 | 13,301,415,944 |
| Total investments by risk rating | | 166,997,700,882 | 119,843,121,457 |
| Accrued interest receivable | | 1,718,520,437 | 611,530,876 |
| Total investments in financial instruments | ¢ | 168,716,221,319 | 120,454,652,333 |

Investments by geographic area

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

| | | 2019 | 2018 |
|---|---|---|---|
| Costa Rica | ¢ | 129,941,850,882 | 89,203,639,006 |
| United States of America | | 37,055,850,000 | 30,639,482,451 |
| Total investments | | 166,997,700,882 | 119,843,121,457 |
| Accrued interest receivable | | 1,718,520,437 | 611,530,876 |
| Total investments in financial instruments | ¢ | 168,716,221,319 | 120,454,652,333 |

ii. Interest rate risk

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

The Corporation manages this risk by maintaining reasonable interest rate margins between assets and liabilities. The Corporation 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 Corporation 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 Costa Rican 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 Corporation follows the policy of including a clause in all loan agreements providing for the periodic repricing of interest rates, and 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 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 entity, unit, and currency levels.

Sensitivity analysis

The Corporation 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 and foreign currency, the Corporation 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 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 for comparative periods 2019 and 2018. In the event that variable interest rates change as indicated above, the Corporations' asset and liability portfolios would increase or decrease by ¢10,541,153,329 in 2019 (2018: increase or decrease of ¢2,910,079,013).

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 | Negative Change | Positive Change | Negative Change |
| Investments | ¢ | (7,770,634,033) | 13,867,086,798 | (1,867,363,115) | 2,018,638,362 |
| Loan Portfolio | ¢ | (43,844,711,062) | 47,357,212,676 | (37,638,277,868) | 40,489,792,275 |
| Term deposits | ¢ | (10,564,403,449) | 10,952,523,050 | (9,237,490,127) | 9,545,382,632 |
| Obligations With entities | ¢ | (4,400,630,865) | 4,572,200,115 | (5,679,405,852) | 5,877,170,038 |

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2019, the interest rate terms for the Corporation's assets and liabilities (differences between the recovery of assets and the maturity of liabilities), pursuant to SUGEF regulations, is as follows (in thousands of colones):

| | | Days | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 0-30 | 31-90 | 91-180 | 181-360 | 361-720 | More than 720 | Total |
| Local currency | | | | | | | | |
| Assets | | | | | | | | |
| Cash and due from banks | ¢ | 40,491,380,972 | - | - | - | - | - | 40,491,380,972 |
| Investments | | 9,292,893,964 | 671,934,622 | 948,794,157 | 2,722,084,953 | 10,515,575,067 | 26,565,764,477 | 50,717,047,240 |
| Loan portfolio | | 256,502,244,306 | 141,730,750,131 | 18,371,624,967 | 30,759,834,927 | 75,075,334,965 | 58,158,699,146 | 580,598,488,442 |
| Total recovery of assets | ¢ | 306,286,519,242 | 142,402,684,753 | 19,320,419,124 | 33,481,919,880 | 85,590,910,032 | 84,724,463,623 | 671,806,916,654 |
| Liabilities | | | | | | | | |
| Demand obligations with the public | | 66,178,411,626 | - | - | - | - | - | 66,178,411,626 |
| Term obligations with the public | | 43,887,081,845 | 82,837,117,591 | 71,367,641,476 | 58,886,118,247 | 26,828,537,863 | 18,109,717,068 | 301,916,214,090 |
| Obligations with financial entities | | 31,622,440,134 | 4,301,518,390 | 1,510,000,000 | - | - | - | 37,433,958,524 |
| Total maturity of liabilities | ¢ | 141,687,933,605 | 87,138,635,981 | 72,877,641,476 | 58,886,118,247 | 26,828,537,863 | 18,109,717,068 | 405,528,584,240 |
| Asset and liability gap | ¢ | 164,598,585,637 | 55,264,048,772 | (53,557,222,352) | (25,404,198,367) | 58,762,372,169 | 66,614,746,555 | 266,278,332,414 |
| Foreign currency | | | | | | | | |
| Assets | | | | | | | | |
| Cash and due from banks | ¢ | 5,302,828,505 | - | - | - | - | - | 5,302,828,505 |
| Investments | | 27,368,221 | 3,792,075 | 850,426 | 16,012,874 | 333,880,565 | 520,476,796 | 902,380,957 |
| Loan portfolio | | 4,087,637,402 | 5,860,876,728 | 7,712,882,808 | 14,920,459,176 | 43,039,850,166 | 64,566,212,562 | 140,187,918,842 |
| Total recovery of assets | ¢ | 9,417,834,128 | 5,864,668,803 | 7,713,733,234 | 14,936,472,050 | 43,373,730,731 | 65,086,689,358 | 146,393,128,304 |
| Liabilities | | | | | | | | |
| Demand obligations with the public | | 322,044,682 | - | - | - | - | - | 322,044,682 |
| Term obligations with the public | | 162,040,230 | 179,940,107 | 221,748,517 | 305,728,516 | 195,662,992 | 224,044,504 | 1,289,164,866 |
| Obligations with financial entities | | 30,545,836,968 | 52,294,377,499 | 24,971,414,047 | 3,990,667,952 | 10,917,648 | 2,134,759 | 111,815,348,873 |
| Total maturity of liabilities | ¢ | 31,029,921,880 | 52,474,317,606 | 25,193,162,564 | 4,296,396,468 | 206,580,640 | 226,179,263 | 113,426,558,421 |
| Asset and liability gap | ¢ | (21,612,087,752) | (46,609,648,803) | (17,479,429,330) | 10,640,075,582 | 43,167,150,091 | 64,860,510,095 | 32,966,569,883 |

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018, the interest rate terms for the Corporation's assets and liabilities (differences between the recovery of assets and the maturity of liabilities), pursuant to SUGEF regulations, is as follows (in thousands of colones):

| | | Days | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 0-30 | 31-90 | 91-180 | 181-360 | 361-720 | More than 720 | Total |
| Local currency | | | | | | | | |
| Assets | | | | | | | | |
| Cash and due from banks | ¢ | 41,188,952,113 | - | - | - | - | - | 41,188,952,113 |
| Investments | | 3,506,857,750 | 1,158,065,650 | 2,988,354,107 | 2,170,194,938 | 3,269,325,894 | 31,339,620 | 13,124,137,959 |
| Loan portfolio | | 287,976,214,085 | 131,357,608,508 | 21,101,475,726 | 36,804,977,693 | 54,703,481,610 | 50,577,179,271 | 582,520,936,893 |
| Total recovery of assets | ¢ | 332,672,023,948 | 132,515,674,158 | 24,089,829,833 | 38,975,172,631 | 57,972,807,504 | 50,608,518,891 | 636,834,026,965 |
| Liabilities | | | | | | | | |
| Demand obligations with the public | | 66,178,411,626 | - | - | - | - | - | 66,178,411,626 |
| Term obligations with the public | | 28,305,780,910 | 54,370,369,308 | 42,489,915,316 | 74,315,142,038 | 34,737,140,178 | 30,623,221,609 | 264,841,569,359 |
| Obligations with financial entities | | 30,780,396,444 | 5,324,936,877 | 792,016,000 | 95,223,691 | - | - | 36,992,573,012 |
| Total maturity of liabilities | ¢ | 125,264,588,980 | 59,695,306,185 | 43,281,931,316 | 74,410,365,729 | 34,737,140,178 | 30,623,221,609 | 368,012,553,997 |
| Asset and liability gap | ¢ | 207,407,434,968 | 72,820,367,973 | (19,192,101,483) | (35,435,193,098) | 23,235,667,326 | 19,985,297,282 | 268,821,472,968 |
| Foreign currency | | | | | | | | |
| Assets | | | | | | | | |
| Cash and due from banks | ¢ | 6,910,174,438 | - | - | - | - | - | 6,910,174,438 |
| Investments | | 72,381,868 | 2,612,250 | 2,748,430 | 16,662,595 | 366,645,892 | 496,987,564 | 958,038,599 |
| Loan portfolio | | 4,593,199,794 | 6,135,113,633 | 7,927,602,142 | 15,511,117,359 | 43,510,408,363 | 64,880,233,593 | 142,557,674,884 |
| Total recovery of assets | ¢ | 11,575,756,100 | 6,137,725,883 | 7,930,350,572 | 15,527,779,954 | 43,877,054,255 | 65,377,221,157 | 150,425,887,921 |
| Liabilities | | | | | | | | |
| Demand obligations with the public | | 322,044,682 | - | - | - | - | - | 322,044,682 |
| Term obligations with the public | | 132,042,519 | 214,063,100 | 279,662,521 | 312,245,144 | 171,376,052 | 173,770,472 | 1,283,159,808 |
| Obligations with financial entities | | 41,638,806,740 | 50,187,416,580 | 10,291,197,942 | 17,203,161,504 | 2,086,039 | 30,535,771 | 119,353,204,576 |
| Total maturity of liabilities | ¢ | 42,092,893,941 | 50,401,479,680 | 10,570,860,463 | 17,515,406,648 | 173,462,091 | 204,306,243 | 120,958,409,066 |
| Asset and liability gap | ¢ | (30,517,137,841) | (44,263,753,797) | (2,640,509,891) | (1,987,626,694) | 43,703,592,164 | 65,172,914,914 | 29,467,478,855 |

(Continued)

iii. Liquidity and financing risk

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

The Corporation 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.

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Notes to the Consolidated Financial Statements

As of December 31, 2019, the Corporation's asset and liability terms (in thousands of colones), pursuant to SUGEF regulations, are matched as follows:

| | | Demand | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 360 days | More than 360 days | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Local currency | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and due from banks | ¢ | 22,223,077 | - | - | - | - | - | - | - | 22,223,077 |
| Minimum legal deposit in BCCR | | 15,258,468 | 6,652,860 | 2,164,067 | 3,126,201 | 4,513,998 | 8,546,456 | 11,549,334 | - | 51,811,384 |
| Investments in financial instruments | | 925,726 | 12,738,277 | - | 55,000 | 34,064 | 3,141,290 | 29,964,941 | - | 46,859,298 |
| Loan portfolio | | 30,793,647 | 54,894,473 | 59,369,319 | 59,685,946 | 37,814,146 | 27,695,766 | 274,819,076 | 26,106,380 | 571,178,753 |
| Total recovery of assets | ¢ | 69,200,918 | 74,285,610 | 61,533,386 | 62,867,147 | 42,362,208 | 39,383,512 | 316,333,351 | 26,106,380 | 692,072,512 |
| Liabilities | | | | | | | | | | |
| Obligations with the public | ¢ | 117,928,142 | 46,847,105 | 14,677,511 | 25,722,359 | 37,141,151 | 69,820,185 | 95,024,149 | - | 407,160,602 |
| Obligations with financial entities | | 7,506,891 | 7,942,723 | 3,178,892 | 50,807 | 154,449 | 818,229 | 13,371,427 | - | 33,023,418 |
| Charges payable | | - | 5,706,116 | - | - | - | - | - | - | 5,706,116 |
| Total maturity of liabilities | ¢ | 125,435,033 | 60,495,944 | 17,856,403 | 25,773,166 | 37,295,600 | 70,638,414 | 108,395,576 | - | 445,890,136 |
| currency | ¢ | (56,234,115) | 13,789,666 | 43,676,983 | 37,093,981 | 5,066,608 | (31,254,902) | 207,937,775 | 26,106,380 | 246,182,376 |

| | | Demand | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 360 days | More than 360 days | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Foreign currency, expressed in colones | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and due from banks | ¢ | 34,439,372 | - | - | - | - | - | - | - | 34,439,372 |
| Minimum legal deposit in BCCR | | 60,987,050 | 16,317,460 | 11,005,404 | 10,212,080 | 24,986,163 | 33,358,595 | 42,037,892 | - | 198,904,644 |
| Investments in financial instruments | | 1,282,489 | 45,836,532 | 884,840 | 6,251 | 5,701 | 12,157,983 | 61,683,128 | - | 121,856,924 |
| Loan portfolio | | 57,721,018 | 29,591,712 | 47,268,528 | 25,112,624 | 86,610,697 | 67,384,454 | 836,604,411 | 52,127,061 | 1,202,420,505 |
| Total recovery of assets | ¢ | 154,429,929 | 91,745,704 | 59,158,772 | 35,330,955 | 111,602,561 | 112,901,032 | 940,325,431 | 52,127,061 | 1,557,621,445 |
| Liabilities | | | | | | | | | | |
| Obligations with the public | ¢ | 272,016,778 | 77,318,304 | 52,322,092 | 48,139,968 | 118,789,672 | 158,594,041 | 199,857,311 | - | 927,038,166 |
| Obligations with financial entities | | 12,894,601 | 69,448,229 | 48,129,690 | 59,480,579 | 109,915,136 | 129,951,553 | 84,359,935 | - | 514,179,723 |
| Charges payable | | - | 6,204,060 | - | - | - | - | - | - | 6,204,060 |
| Total maturity of liabilities | ¢ | 284,911,379 | 152,970,593 | 100,451,782 | 107,620,547 | 228,704,808 | 288,545,594 | 284,217,246 | - | 1,447,421,949 |
| Matching of assets and liabilities in foreign currency, expressed in colones | ¢ | (130,481,450) | (61,224,889) | (41,293,010) | (72,289,592) | (117,102,247) | (175,644,562) | 656,108,185 | 52,127,061 | 110,199,496 |

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2018, the Corporation's asset and liability terms are matched as follows (in thousands of Costa Rican colones), pursuant to SUGEF regulations:

| | | Demand | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 360 days | More than 360 days | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Local currency | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and due from banks | ¢ | 22,479,156 | - | - | - | - | - | - | - | 22,479,156 |
| Minimum legal deposit in BCCR | | 20,128,430 | 4,449,123 | 2,225,600 | 1,892,871 | 6,162,721 | 10,781,137 | 13,648,034 | - | 59,287,916 |
| Investments in financial instruments | | 933,969 | 2,618,058 | - | 1,063,796 | 2,900,509 | 2,035,843 | 3,040,950 | - | 12,593,125 |
| Loan portfolio | | 26,801,680 | 57,658,049 | 57,564,204 | 66,063,361 | 40,233,323 | 28,608,142 | 264,925,162 | 25,886,088 | 567,740,009 |
| Total recovery of assets | ¢ | 70,343,235 | 64,725,230 | 59,789,804 | 69,020,028 | 49,296,553 | 41,425,122 | 281,614,146 | 25,886,088 | 662,100,206 |
| Liabilities | | | | | | | | | | |
| Obligations with the public | ¢ | 104,640,117 | 22,869,831 | 11,275,553 | 10,116,126 | 39,185,693 | 69,847,478 | 88,535,108 | - | 346,469,906 |
| Obligations with financial entities | | 25,065,369 | 15,434,113 | 3,207,770 | 2,209,086 | 932,250 | 384,382 | 14,037,432 | - | 61,270,402 |
| Charges payable | | - | 4,470,065 | - | - | - | - | - | - | 4,470,065 |
| Total maturity of liabilities | ¢ | 129,705,486 | 42,774,009 | 14,483,323 | 12,325,212 | 40,117,943 | 70,231,860 | 102,572,540 | - | 412,210,373 |
| currency | ¢ | (59,362,251) | 21,951,221 | 45,306,481 | 56,694,816 | 9,178,610 | (28,806,738) | 179,041,606 | 25,886,088 | 249,889,833 |

| | | Demand | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 360 days | More than 360 days | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Foreign currency, expressed in colones | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and due from banks | ¢ | 39,061,362 | - | - | - | - | - | - | - | 39,061,362 |
| Minimum legal deposit in BCCR | | 65,222,707 | 15,398,387 | 12,030,888 | 13,487,151 | 33,340,655 | 37,167,677 | 40,465,866 | - | 217,113,331 |
| Investments in financial instruments | | 1,203,660 | 40,077,067 | 1,249,146 | 6,508 | 6,044 | 7,636,921 | 57,682,183 | - | 107,861,529 |
| Loan portfolio | | 58,565,584 | 55,225,339 | 45,530,464 | 38,608,028 | 105,799,931 | 129,016,768 | 859,739,455 | 46,633,468 | 1,339,119,037 |
| Total recovery of assets | ¢ | 164,053,313 | 110,700,793 | 58,810,498 | 52,101,687 | 139,146,630 | 173,821,366 | 957,887,504 | 46,633,468 | 1,703,155,259 |
| Liabilities | | | | | | | | | | |
| Obligations with the public | ¢ | 275,136,841 | 66,949,290 | 54,904,249 | 61,146,736 | 152,131,295 | 168,999,186 | 178,970,134 | - | 958,237,731 |
| Obligations with financial entities | | 16,140,831 | 88,580,290 | 59,677,702 | 64,666,998 | 139,378,606 | 130,898,614 | 160,970,660 | - | 660,313,701 |
| Charges payable | | - | 7,805,697 | - | - | - | - | - | - | 7,805,697 |
| Total maturity of liabilities | ¢ | 291,277,672 | 163,335,277 | 114,581,951 | 125,813,734 | 291,509,901 | 299,897,800 | 339,940,794 | - | 1,626,357,129 |
| Matching of assets and liabilities in foreign currency, expressed in colones | ¢ | (127,224,359) | (52,634,484) | (55,771,453) | (73,712,047) | (152,363,271) | (126,076,434) | 617,946,710 | 46,633,468 | 76,798,130 |

(Continued)

The Corporation monitors its liquidity position on a daily basis and maintains liquid assets in excess of its liquid liabilities. Additionally, the Corporation 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 Corporation 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.

The Corporation'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 Corporation has sufficient liquidity to meet its short-term needs.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Residual contractual maturities of financial liabilities

As of December 31, 2019, nominal cash flows of financial liabilities are as follows (expressed in thousands of colones):

| | | | | 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 |
| Obligations with entities | | 547,333,240 | 562,212,390 | 453,292,264 | 60,764,919 | 10,189,820 | - | 32,371,680 | 5,593,707 |
| | ¢ | 1,881,532,007 | 1,930,218,515 | 1,523,543,860 | 181,227,061 | 95,353,471 | - | 124,473,134 | 5,620,989 |

As of December 31, 2018, nominal cash flows of financial liabilities are as follows (expressed in thousands of colones):

| | | | | 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 | | 924,930,680 | 1,019,170,110 | 742,955,670 | 131,131,466 | 58,244,336 | - | 86,838,638 | - |
| Obligations with entities | | 675,844,979 | 687,835,977 | 499,326,548 | 102,940,248 | 56,951,558 | - | 21,229,364 | 7,388,259 |
| | ¢ | 1,980,552,617 | 2,086,783,045 | 1,622,059,176 | 234,071,714 | 115,195,894 | - | 108,068,002 | 7,388,259 |

iv. Market risk

Market risk is the risk that value of a financial asset held by the Corporation 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 Corporation 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 Corporation 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% over total equity expressed in US dollars.

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

(Continued)

(a) Monetary position in foreign currency

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

| | 2019 | | | |
|---|---|---|---|---|
| | US dollars | Canadian dollars | Euro | Pounds sterling |
| Assets | | | | |
| Cash and due from banks | 401,067,732 | 7,449,127 | 2,133,075 | 116,956 |
| Investments in financial instruments | 213,750,325 | - | - | - |
| Loan portfolio | 2,042,382,265 | - | 360,553 | - |
| Accounts and fees and commissions | 5,446,784 | 7,548 | - | - |
| Investments in other companies | 977 | - | - | - |
| Other assets | 6,679,832 | 106,260 | 37 | - |
| Total assets | 2,669,327,915 | 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 | 904,765,404 | - | - | - |
| Other accounts payable and provisions | 35,736,228 | 3,238,532 | 1,000 | - |
| Other liabilities | 12,361,850 | 8,300 | - | - |
| Total liabilities | 2,583,472,378 | 5,599,824 | 1,777,495 | - |
| Excess of assets over liabilities | 85,855,537 | 1,963,111 | 716,170 | 116,956 |

(Continued)

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

| | 2018 | | | |
|---|---|---|---|---|
| | US dollars | Canadian dollars | Euro | Pounds sterling |
| Assets | | | | |
| Cash and due from banks | 416,811,964 | 4,557,333 | 3,098,974 | 117,526 |
| Investments in financial instruments | 178,463,457 | - | - | - |
| Loan portfolio | 2,151,478,628 | - | 560,552 | - |
| Accounts and fees and commissions | 15,790,798 | - | - | - |
| Investments in other companies | 922 | - | - | - |
| Other assets | 21,893,137 | 131,428 | 128,424 | - |
| Total assets | 2,784,438,906 | 4,688,761 | 3,787,950 | 117,526 |
| Liabilities: | | | | |
| Obligations with the public | 1,590,518,855 | 1,125,111 | 1,884,226 | - |
| Obligations with entities | 1,098,269,234 | - | - | - |
| Other accounts payable and provisions | 29,763,323 | 2,323,597 | - | - |
| Other liabilities | 20,780,686 | - | 158,036 | - |
| Total liabilities | 2,739,332,098 | 3,448,708 | 2,042,262 | - |
| Excess of assets over liabilities | 45,106,808 | 1,240,053 | 1,745,688 | 117,526 |

Monetary positions are not hedged. The Corporation 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 Corporation's equity included ordinary shares for a total of US$423,714,614 (equivalent to ¢217,507,247,742).

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

As of December 31, 2019, the terms of assets and liabilities in foreign currency (in thousands of US dollars), pursuant to SUGEF regulations, are matched as follows:

| | Demand | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 360 days | More than 360 days | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | |
| Cash and due from banks | ¢ 60,410 | - | - | - | - | - | - | - | 60,410 |
| Minimum legal deposit in BCCR | 106,978 | 28,623 | 19,305 | 17,913 | 43,828 | 58,515 | 73,739 | - | 348,901 |
| Investments | 2,250 | 80,402 | 1,552 | 11 | 10 | 21,326 | 108,199 | - | 213,750 |
| Loan portfolio | 101,249 | 51,907 | 82,914 | 44,050 | 151,925 | 118,200 | 1,467,495 | 91,437 | 2,109,177 |
| Total recovery of assets | 270,887 | 160,932 | 103,771 | 61,974 | 195,763 | 198,041 | 1,649,433 | 91,437 | 2,732,238 |
| LIABILITIES | | | | | | | | | |
| 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 | 22,619 | 121,820 | 84,425 | 104,335 | 192,803 | 227,949 | 147,977 | - | 901,928 |
| Charges payable | - | 10,883 | - | - | - | - | - | - | 10,883 |
| Total maturity of liabilities | 499,766 | 268,328 | 176,204 | 188,778 | 401,173 | 506,140 | 498,549 | - | 2,538,938 |
| Difference | ¢ (228,879) | (107,396) | (72,433) | (126,804) | (205,410) | (308,099) | 1,150,884 | 91,437 | 193,300 |

As of December 31, 2018, the terms of assets and liabilities in foreign currency (in thousands of US dollars), pursuant to SUGEF regulations, are matched as follows:

| | Demand | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 360 days | More than 360 days | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | |
| Cash and due from banks | ¢ 64,629 | - | - | - | - | - | - | - | 64,629 |
| Minimum legal deposit in BCCR | 107,915 | 25,478 | 19,906 | 22,315 | 55,164 | 61,496 | 66,953 | - | 359,227 |
| Investments | 1,992 | 66,310 | 2,067 | 11 | 10 | 12,636 | 95,439 | - | 178,465 |
| Loan portfolio | 96,900 | 91,374 | 75,333 | 63,879 | 175,052 | 213,466 | 1,422,491 | 77,158 | 2,215,653 |
| Total recovery of assets | 271,436 | 183,162 | 97,306 | 86,205 | 230,226 | 287,598 | 1,584,883 | 77,158 | 2,817,974 |
| LIABILITIES | | | | | | | | | |
| Obligations with the public | 455,231 | 110,772 | 90,842 | 101,171 | 251,710 | 279,619 | 296,117 | - | 1,585,462 |
| Obligations with financial entities | 26,706 | 146,561 | 98,740 | 106,995 | 230,610 | 216,580 | 266,336 | - | 1,092,528 |
| Charges payable | - | 12,915 | - | - | - | - | - | - | 12,915 |
| Total maturity of liabilities | 481,937 | 270,248 | 189,582 | 208,166 | 482,320 | 496,199 | 562,453 | - | 2,690,905 |
| Difference | ¢ (210,501) | (87,086) | (92,276) | (121,961) | (252,094) | (208,601) | 1,022,430 | 77,158 | 127,069 |

(Continued)

Sensitivity analysis

As of December 31, 2019 and 2018, the sensitivity analysis for the net position in foreign currency (total assets in foreign currency less total liabilities in foreign currency) is based on the buy reference rate for the US dollar because the position in US dollars represents 99.5% of the total net position in foreign currency. Also, the US dollar is the vehicle currency through which other currencies are traded.

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 a 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, 2019 and 2018 is as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Effect of exchange rate variations on profit or loss: | | | |
| Assets | ¢ | 187,390,239,467 | 207,890,487,237 |
| Liabilities | | (172,789,470,997) | (196,065,913,602) |
| Net | ¢ | 14,600,768,470 | 11,824,573,635 |

vi. Operational risk

Operational risk is the risk of direct or indirect loss to which the Corporation is exposed resulting from external events, human error, or ineffective or faulty processes, procedures, systems, or controls. All Corporation'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 planning for resuming activities and ensuring that services are not interrupted, including plans to restore key operations and the use of internal or external facilities
- development of contingency plans
- employee training
- personnel development through leadership and performance strategies.

The aforementioned Corporation policies are supported by 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

Costa Rican banking legislation requires the financial group to maintain a capital surplus at all times (i.e. a ratio of one or more obtained by dividing the sum of transferable surpluses of the companies in the group and the individual surplus of the controlling company by the absolute value of the sum of individual deficits).

The capital surplus or capital deficit of a financial group or conglomerate is calculated as the individual surplus or deficit of the controlling company plus the transferable surpluses and minus the individual deficits of the companies in the financial group or conglomerate.

The individual surplus of each company in the financial group is calculated as the excess of the capital base over the respective minimum capital requirement for each type of company as stipulated in the CONASSIF prudential standards.

The Corporation analyzes its regulatory capital with consideration for the following:

a) Tier I capital: ordinary and preferred paid-up capital plus reserves.
b) Tier II capital: calculated as the sum of equity adjustments for property revaluations up to a maximum of 75% of the balance of the corresponding equity account, unrealized gains on investments in available-for-sale financial instruments, non-capitalized contributions, prior period retained earnings, and profit or loss for the period, less statutory deductions.
c) Deductions: investments in other companies and loans granted to the controlling entity of the same financial group or conglomerate are to be deducted from the sum of Tier I and Tier II capital.
d) Risk-weighted assets: Assets and contingent liabilities are weighted according to the risk rating established by regulations plus a price risk adjustment per capital requirements.

The Corporation'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 Corporation has complied with capital requirements and no significant changes were made to its capital management strategy.

As of December 31, 2019 and 2018, the capital adequacy ratio has been kept above the statutory ratio of 10%, maintaining a normal risk rating.

viii. Asset laundering risk

The Corporation, through its subsidiaries, 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 Corporation's reputation.

The Corporation 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 training on anti-asset laundering prevention.

The Corporation periodically monitors customer accounts based on risk rating in order to identify potential suspicious transactions and communicate suspicious transactions to the financial intelligence unit when necessary.

ix. IT risk

IT risk is the risk of economic losses 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 loss 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, and/or penalties that could damage the Corporation's reputation.

32. Fair value

Fair value estimates are made at a specific date based on relevant market information and 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 and, therefore, 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 an enterprise 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 an enterprise 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 | |
|---|---|---|---|
| | | Carrying amount | Fair value |
| Cash and due from banks | ¢ | 307,378,475,373 | 307,378,475,373 |
| Investments: | | | |
| Trading | ¢ | 494,901,470 | 494,901,470 |
| Available for sale | ¢ | 166,502,728,092 | 166,502,728,092 |
| Loan portfolio | ¢ | 1,750,973,250,139 | 1,893,101,002,773 |
| Demand deposits | ¢ | 389,944,919,678 | 389,944,919,678 |
| Term deposits | ¢ | 944,253,846,967 | 915,983,273,048 |
| Financial obligations | ¢ | 549,136,948,854 | 620,340,383,010 |

| | | 2018 | |
|---|---|---|---|
| | | Carrying amount | Fair value |
| Cash and due from banks | ¢ | 337,941,765,114 | 337,941,765,114 |
| Investments: | | | |
| Trading | ¢ | 1,532,577,284 | 1,532,577,284 |
| Available for sale | ¢ | 118,310,544,173 | 118,310,544,173 |
| Loan portfolio | ¢ | 1,884,105,601,000 | 1,521,719,704,141 |
| Demand deposits | ¢ | 379,776,958,043 | 379,776,958,043 |
| Term deposits | ¢ | 924,930,679,546 | 1,261,780,992,287 |
| Financial obligations | ¢ | 725,480,731,332 | 641,634,266,694 |

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

(a) 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 because of the short maturity of these instruments.

(b) 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.

(c) The fair value of loans is determined by accruing and classifying 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 Corporation's management, such that an average rate is determined that reflects the inherent credit 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.

(d) The fair value of demand and term deposits 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.

Fair value of financial instruments

As of December 31, the following table analyzes financial instruments measured at fair value by the level in the fair value hierarchy:

| | | 2019 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Available for sale | ¢ | 166,502,728,092 | - | - | 166,502,728,092 |
| Trading | ¢ | - | 494,901,470 | - | 494,901,470 |

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Available for sale | ¢ | 118,310,544,173 | - | - | 118,310,544,173 |
| 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.

33. Concentration of assets and liabilities by geographic region

As of December 31, the concentration of assets and liabilities by geographic region is as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Assets: | | | |
| Costa Rica | ¢ | 2,187,619,960,516 | 2,341,049,901,996 |
| Rest of Central America | | 1,102,275,614 | 398,867,168 |
| Rest of North and South | | 2,588,916,725 | 1,575,366,760 |
| Caribbean | | 310,301,307 | 26,735,808 |
| 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 | ¢ | 2,252,290,656,686 | 2,391,119,727,169 |
| Liabilities: | | | |
| Costa Rica | ¢ | 1,381,669,267,744 | 1,391,645,085,892 |
| Rest of Central America | | 26,040,924,856 | 37,989,691,684 |
| Rest of North and South | | 12,907,581,207 | 44,146,102,353 |
| Caribbean | | 449,251,995,898 | 473,240,697,646 |
| United States of America | | 59,717,719,830 | 104,945,818,428 |
| 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 | | - | 631,485 |
| Total liabilities | ¢ | 1,947,903,214,071 | 2,098,732,786,999 |

34. Agreements

The agreements in effect as of December 31, 2019 and 2018 subscribed by the subsidiaries of Grupo BNS de Costa Rica, S.A. and third parties are summarized below:

*Agreement with the Costa Rican National Stock Exchange* – For the rendering of services of the Bloomberg system.

*Agreement with BN Valores, Puesto de Bolsa, S.A.* – for commissions for the execution of brokerage transactions and the custody of securities.

*Agreement with EFG Capital Market Ltd., Bulltick LLC., American Express Bank Ltd., Bear Stearns Companies Inc., and ITAU Bank Limited* – For the rendering of brokerage services and custody of securities.

*Agreement with Lidersoft* – For the rendering of professional IT services.

*Agreement with the Costa Rican National Insurance Institute* – Agreement on the business relationships and operations related to the brokerage activities of Scotia Corredora de Seguros, S.A. with the Costa Rican National Insurance Institute.

*Agreement with ASSA Compañía de Seguros, S.A.* – Agreement on the business relationships and operations related to the brokerage activities of Scotia Corredora de Seguros, S.A. with ASSA Compañía de Seguros, S.A.

*Agreement with Quálitas Compañía de Seguros (Costa Rica), S.A.* - Agreement on the business relationships and operations related to the brokerage activities of Scotia Corredora de Seguros, S.A. with Quálitas Compañía de Seguros (Costa Rica), S.A.

*Agreement with Mapfre Seguros Costa Rica S.A.* - Agreement on the business relationships and operations related to the brokerage activities of Scotia Corredora de Seguros, S.A. with Mapfre Seguros Costa Rica, S.A.

*Agreement with Pan American Life Insurance de Costa Rica, S.A.* - Agreement on the business relationships and operations related to the brokerage activities of Scotia Corredora de Seguros, S.A. with Pan American Life Insurance de Costa Rica, S.A.

(Continued)

*Agreement with Best Meridian Insurance* Company – Agreement on the business relationships and operations related to the brokerage activities of Scotia Corredora de Seguros, S.A. with the insurance company.

Leases:

a) Leases as lessee:

As of December 31, 2019 and 2018, the Corporation has leases through its subsidiaries, the most important being:

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 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.

The Corporation also leases warehouses, mainly to hold assets received in lieu of payment or assets in foreclosure.

As of December 31, 2019, the subsidiary Scotiabank de Costa Rica, S.A. has the following lease agreement:

i. Operating lease of two buildings where the subsidiary'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 as of December 31, 2019, projected lease payments for the upcoming years are as follows:

| Years | | Amount |
|---|---|---|
| 1 | ¢ | 2,727,030,053 |
| 2 | | 2,580,673,559 |
| 3 | | 2,417,447,241 |
| 4 | | 2,109,353,885 |
| 5 | | 2,065,887,489 |
| More than 5 | | 6,160,446,186 |
| | ¢ | 18,060,838,413 |

b) Leases as lessor:

As of December 31, the Corporation's loan portfolio includes finance lease agreements. The recovery of leases of the lessor subsidiary is as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Lease receivable, gross | ¢ | 159,302,662,643 | 148,467,042,745 |
| Unearned finance income | | (9,553,397,275) | 1,756,069,702 |
| | ¢ | 149,749,265,368 | 150,223,112,447 |
| Recoveries | | | |
| Less than 1 year | ¢ | 33,210,786,803 | 34,065,811,288 |
| 1 to 5 years | | 116,538,478,565 | 116,157,301,159 |
| | ¢ | 149,749,265,368 | 150,223,112,447 |
| Loans receivable, gross (includes unearned finance income) | | | |
| Less than 1 year | ¢ | 44,491,912,493 | 44,399,191,742 |
| 1 to 5 years | | 114,810,750,150 | 104,067,851,003 |
| | ¢ | 159,302,662,643 | 148,467,042,745 |

35. Contingencies

(a) Income tax

*Scotiabank de Costa Rica S.A.*

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 for fiscal years 2000 to 2005. The tax review initially covered a number of aspects that were later dismissed; however, a difference in the proportionality of deductible expenses resulted in a notice of deficiency. Consequently, the subsidiary Scotiabank de Costa Rica, S.A. paid a total of ¢729,207,358 for the income tax adjustments related to those fiscal years, as follows:

| | | |
|---|---|---|
| Principal | ¢ | 331,155,211 |
| Interest | | 307,932,459 |
| Fine and interest | | 90,119,688 |
| | ¢ | 729,207,358 |

Notwithstanding, the payment of interest and fines was made under protest. 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 subsidiary Scotiabank de Costa Rica, S.A. was discriminatory in respect of the other entities of the national banking system, to whom interest and fines were remitted by the Tax Administration. Additionally, the subsidiary Scotiabank de Costa Rica, S.A. claimed that the sanctioning proceedings could not continue as intended by the Tax Administration, violating the due process, because the Tax Court established a new basis of assessment of tax and the Tax Administration had to initiate new penalty proceedings, since any related payments should have the treatment as the payment of principal. In this regard, a ruling was handed down in first instance, against the interests of the subsidiary Scotiabank de Costa Rica, S.A., which was appealed before the First Chamber of the Supreme Court. Other courts of the same instance have supported the argument, which have also been confirmed by the Court of Appeals.

In respect of Ruling TFA-85-2010 of April 12, 2010, issued by the First Chamber of the Tax Court, the Tax Administration and the Office of the Attorney General of the Republic filed an appeal for damages in the administrative litigation venue to declare the aforementioned ruling as detrimental to the public interest, and annul that ruling accordingly. Through ruling No. 21-2013 of March 25, 2013, the Administrative Court admitted the claim against the subsidiary Scotiabank de Costa Rica, S.A. in all respects. A motion for reconsideration and appeal to a higher court was filed in due time and form, since that subsidiary 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 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 No. 828-2015 of the First Chamber. The subsidiary Scotiabank de Costa Rica, S.A. filed an appeal for annulment and reversal against both rulings on February 15, 2018, claiming, among other, the lack of jurisdiction of the National Taxpayer Administration to execute and settle judicial rulings.

The National Taxpayer Administration rejects all appeals for annulment filed by the subsidiary Scotiabank de Costa Rica, S.A., as notified on April 24, 2018. On May 2, 2018, that subsidiary 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 Taxpayer Administration notified the subsidiary Scotiabank de Costa Rica, S.A. 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 subsidiary Scotiabank de Costa Rica, S.A. filed an appeal against resolution No. RES-DGH-059-2018.

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

On June 7, 2019, the subsidiary filed an appeal against that settlement resolution. In ruling No. 490-P-2019, notified to the subsidiary on September 27, 2019, the Tax Court once again rejected the appeal and confirmed the resolution. Therefore, the subsidiary 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 subsidiary 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.

(Continued)

a.2 The income tax returns of Banco Interfin, S.A. (BI) (merged with Scotiabank de Costa Rica, S.A. in 2007) for fiscal years 1999-2005 were audited by Tax Authorities in 2006. On November 12, 2007, BI received a notice of deficiency in the amount of ¢6,679,899,566 because the Tax Authorities did not accept the method used to calculate the income tax. The Tax Authorities 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 Authorities 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 March 31, 2008, the Large Taxpayer Administration notified BI of ruling No. DT10R-033-07 dated February 29, 2008, dismissing the claim filed by BI. On May 19, 2008, a motion for reconsideration with an appeal to a higher court was filed against the aforementioned ruling, which was dismissed through ruling No. AU-10-R130-008 dated July 22, 2008 and notified on July 23, 2008. Accordingly, the case was taken to the Tax Court. On September 25, 2008, the 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 (or forgiven) by the General Finance 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) of 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 Large Taxpayer Administration to make the corresponding calculation for a new tax assessment.

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

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

On September 28, 2012, the Tax Administration notified ruling No. SFGCN-AL-074-2012 dated September 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 dated October 23, 2012. An appeal was filed with the Tax Court against the above ruling on November 15, 2012. Through ruling No. TFA 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 included the resolution which remitted the interest for this case.

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

On September 4, 2013, a motion for reconsideration was filed with the Large Taxpayer Administration against ruling No. SFGCN-AL-107-13, requesting to fully eliminate the collection of interest in connection with the determination procedures against Scotiabank de Costa Rica, S.A. for the fiscal years running from 2000 through 2005. Through ruling No. DGH-030-2013 dated 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 periods running from 2000 through 2005. Interest remitted amounts to ¢1,623,700,750.

The proceedings concluded through ruling No. TFA-328-2014 dated July 8, 2014. Additionally, through rulings No. SFGCN-AL-074-12 dated September 25, 2012, No. OT10R-117-12 issued at 15:00 hours on October 23, 2012, and No. OT10R-099-13 dated November 21, 2013, the Tax Court partially revoked the payment of taxes for the 2004 and 2005 tax years; accordingly, the amounts of ¢582,283,290.48 and ¢266,025,543.35, respectively, should be deducted from the tax 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 the 2004 and 2005 fiscal years.

According to Settlement Resolution No. SFGCN-AL-074-12 dated September 25, 2012, issued by the Large Taxpayer Administration, and No. OT10R-117-12 dated October 23, 2012, the remaining tax liabilities for the periods running from 1999 through 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 to 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 at 09:00 on October 7, 2014, the Large Taxpayer Administration amended ruling No. SFGCBN-AL-189-14 as a result of a calculation error. The corresponding adjustment for the 2005 tax period 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 subsidiary Scotiabank de Costa Rica, S.A. 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 subsidiary against the State, in addition to the motion to declare administrative acts as detrimental to the interest of the State. Consequently, the subsidiary Scotiabank de Costa Rica, S.A. 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 Corporation'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 de Costa Rica, S.A. 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 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 de Costa Rica, S.A. The 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.

(Continued)

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 for 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 of November 6, 2012 of the First Chamber of the Administrative Court was partially annulled, and it orders the recognition of the amount of ¢545,136,239 (five hundred forty-five million one hundred thirty-six thousand two hundred thirty-nine colones) 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 Large Taxpayer Administration notified Scotiabank de Costa Rica, S.A. of the beginning of a tax review for the tax periods from 2010 to 2013. As a result of this review, on March 27, 2015, the Tax Administration notified Scotiabank de Costa Rica, S.A. 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 Large Taxpayer Administration amounted to ¢4,504,817,717 plus interest.

On April 3 and 13, 2015, Scotiabank de Costa Rica, S.A. 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 Large Taxpayer Administration notified Scotiabank de Costa Rica, S.A. 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 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 Large Taxpayer Administration against the aforementioned notice of deficiency and requested the declaration of the statute of limitations regarding the 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 Decisive Ruling No. DT10R-129-17, which rejects the administrative claim filed by Scotiabank de Costa Rica, S.A. against Notice of Deficiency No. 1-10-040-14-010-041-03. On January 31, 2018, Scotiabank de Costa Rica, S.A. filed a motion for reconsideration before the National Large Taxpayer Administration.

On August 27, 2018, resolution No. AU10R-085-18 was notified, which rejected the arguments of Scotiabank de Costa Rica, S.A. and confirmed the full amount of the adjustment. On October 9, 2018, Scotiabank de Costa Rica, S.A. filed an appeal before the Tax Court against conformation resolution No. AU10R-085-18. On December 20, 2018, the National Taxpayer Administration notified resolution No. AP10R-165-18, which accepts the appeal since it was filed in due time and form, and summons Scotiabank de Costa Rica, S.A. to appear before the Tax Court to reiterate or ratify its arguments.

Finally, on August 7, 2019 the Tax Court notified resolution No. 341-P-2019, in which it partially admitted the appeal filed by Scotiabank de Costa Rica, S.A. 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 subsidiary) the adjustment related to non-taxable income arising from the sale of shares of the non-domiciled entity, VISA.

Consequently, on October 3, 2019 Scotiabank de Costa Rica, S.A. 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 subsidiary will file proceedings leading to a declaratory judgment before the Administrative Court.

As a result of the analysis made by management of Scotiabank de Costa Rica, S.A. and in the opinion of the tax advisors, a favorable outcome is probable for most of the adjustments discussed in this case.

*The Bank of Nova Scotia (Costa Rica), S.A., (merged with Scotiabank 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 was communicated by the Tax Authorities to Banco Uno, S.A., with an adjustment of ¢747,540,090.

Through Resolution No. SFGCN-AL-031-12, received on March 29, 2012, the 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 Tax Authorities.

Nevertheless, a new tax assessment was issued by the Tax Authorities, 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 Authorities. Such proceedings are currently in process. If the outcome is favorable, the amount paid in December 2014, plus interest, will be reimbursed.

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

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

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 (Costa Rica), S.A., revoking all actions of the Tax Audit 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 Banco CMB (Costa Rica), 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.3 *Banco CMB (Costa Rica) S.A. – Income tax for fiscal year 2011*

On August 29, 2013, the Large Taxpayer Administration notified Banco CMB (Costa Rica) S.A. 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. Banco CMB did not agree; therefore, it filed a brief containing pleadings and evidence against this proposal. However, the Final Regularization Proposal confirmed the determination made.

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

On August 6, 2014, Banco CMB 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, Banco CMB was informed of the suspension of the jeopardy assessment of taxes. Through Vote No. 12496-16 of August 31, 2016, the Constitutional Chamber of the Supreme Court of Justice declared Article 144 of the Tax Code of Standards and Procedures 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 Banco CMB 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 Authorities notified the subsidiary Scotiabank de Costa Rica, S.A. of the beginning of a tax review related to income tax for fiscal year 2015. On May 14, 2018, the Tax Authorities 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 Authorities, 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 subsidiary 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 subsidiary Scotiabank de Costa Rica, S.A. received Notice of Deficiency 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. We are currently awaiting notification of the determination resolution.

Management and the tax advisors consider that there is reasonable probability of a favorable outcome for the subsidiary Scotiabank de Costa Rica, S.A. 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 and ii) rejection of expenses for Loyalty Programs. In addition, an adjustment was made 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.

(Continued)

On January 17, 2018, a claim was filed against Notice of Deficiency and Observations No. 1-10-086-16-018-41-03. Currently, a decisive ruling from the Tax Administration is pending.

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, Scotia Tarjetas, S.A. filed the corresponding appeal for reversal. A resolution from the Tax Administration is pending.

As a result of the analysis performed by the Corporation'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 *Tax proceedings 2016*

On November 9, 2018, the National Large Taxpayer Division notified Scotia Tarjetas, S.A. 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 Scotia Tarjetas, S.A. 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), Scotia Tarjetas, S.A. 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 Scotia Tarjetas, S.A. 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, Scotia Tarjetas, S.A. filed an administrative claim against this notice of deficiency and observations.

(Continued)

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

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

*Scotia SAFE, S.A. (previously Scotia Valores, S.A.)*

a.1 The Large Taxpayer Administration objected the income tax return filed by Scotia SAFE, S.A. in 2009 in the amount of ¢185,092,106, since in the opinion of the Tax Administration non-taxable income and non-deductible expenses were presented incorrectly in the determination of taxable liquid income. On November 29, 2011, the subsidiary filed an administrative claim against the notice of deficiency since it considered that the notice contravenes that set forth in Articles 1, 7 and 23 of the *Income Tax Law*, as well as Article 11 of its Regulations.

On October 7, 2016, through Settlement Resolution No. LIQ10R-029-16, the Ministry of Finance notified the payment of the adjustment determined in the amount of ¢185,092,106, plus interest of ¢65,380,495.95, for a total of ¢250,472,602.05. The indicated amounts were paid under protest on October 21, 2016, in order to continue with the corresponding judicial proceedings, within the term granted to make the payment as indicated in Articles 40 and 144 of the *Code of Tax Standards and Procedures.* This payment was recognized in the statement of comprehensive income in 2016. On November 10, 2017, through Payment Request No. SRCST-RP-064-2017, the General Tax Division requested Scotia SAFE, S.A. to pay a fine of approximately ¢47 million.

On November 2, 2018, Scotia SAFE, S.A. filed ordinary proceedings leading to a declaratory judgement against the State and requested the Administrative Court to declare absolute nullity for illegality of the notice of deficiency, as well as absolute nullity for illegality of the sanctioning notice of deficiency.

On January 4, 2019, the Office of the Attorney General of the Republic ruled against the proceedings filed. The subsidiary submitted the corresponding reply.

On March 14, 2019, a preliminary hearing was held, in which the subsidiary requested the appointment of an expert witness. The expert witness was appointed and presented his report on August 30, 2019. The parties filed their observations to the report within the established term. Currently, the Tax Court has yet to set a date for the public trial.

In the opinion of management of Scotia SAFE, S.A. and tax advisors, it is more probable than not (probability of more than 50%) that Scotia SAFE, S.A. will be successful in the defense of its positions after the end of the litigation procedure.

a.2 On September 17, 2015, the National Large Taxpayer Division performed a tax assessment for the years ended December 31, 2012 and 2013 and determined, in their opinion, adjustments to the taxable base for the calculation of income tax. Such adjustments require the payment of an additional tax amount of ¢174,210,877 plus interest amounting to ¢58,218,212. On January 15, 2016, the National Large Taxpayer Division notified the subsidiary that the jeopardy assessment of taxes was not final, that it had been postponed until the constitutional motion against Article 144 was resolved by the Constitutional Chamber.

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 Division resumed the administrative proceedings and notified Notice of Deficiency and Observations No. 1-10-043-15-066-041-03 for 2016, confirming the aforementioned amounts.

On December 5, 2016, the subsidiary filed an administrative claim against the Notice of Deficiency before the National Large Taxpayer Division. Through a determination resolution, the National Large Taxpayer Division partially accepted the motion.

On January 11, 2019, the subsidiary filed an appeal for annulment regarding the amounts that were not accepted.

On January 16, 2020, the National Large Taxpayer Division notified the subsidiary that the appeal for reversal was rejected. However, the subsidiary will file an appeal for annulment before the Tax Court. Management and the tax advisors consider that it is more probable than not (exceeding 50%) that the subsidiary will obtain a favorable outcome. Consequently, the financial statements do not include a provision for this concept.

(Continued)

*Scotia Leasing de Costa Rica, S.A.*

a.1 Starting 2012, as a result of a tax assessment performed by the National Large Taxpayer Audit Area of the Tax Administration of San José, a notice of deficiency was issued in respect of the 2010 income tax return filed by Scotia Leasing Costa Rica, S.A. for a total of ¢1,013,572,409, due to incorrect presentation of nontaxable income in the calculation of taxable net income, in the opinion of the Tax Authorities.

In September 2012, Scotia Leasing de Costa Rica, S.A. filed an administrative claim against the aforementioned notice of deficiency. On December 13, 2012, Ruling SF-DT-01-R-5002-12 was issued, whereby the Tax Authorities rejected the motion for nullity and dismissed the claim filed by Scotia Leasing de Costa Rica, S.A. On January 22, 2013, Scotia Leasing de Costa Rica, S.A. filed a motion for reconsideration with an appeal to a higher court against such ruling and the Tax Authorities rejected the motion through Ruling No. SF-AUD- 01-R-0448-13. However, through Ruling No. SF-AUD-01-R-1246-13 issued by the Tax Administration of San José on July 27, 2013, the motion filed with the Tax Court was upheld. Through Ruling TFA-094-2014 dated March 13, 2014, the Tax Court is acknowledged of the motion for reconsideration and such motion is dismissed, confirming in all respects the appealed ruling. In light of the above, all administrative recourse has been exhausted.

On June 2, 2014, Scotia Leasing de Costa Rica, S.A. receives payment requirement No. ATSJO-GETE-RP-062-2014 from the Tax Administration, which requests payment of principal and interests accumulated as of that date. Pursuant to the aforementioned ruling, in the opinion of the tax advisors there is a high possibility that proceedings will continue in the Administrative Court (through judicial proceedings) to obtain a favorable outcome for Scotia Leasing de Costa Rica, S.A. Accordingly, paying principal and interest under protest and continuing the process is recommendable. On June 4, 2014, Scotia Leasing de Costa Rica, S.A. paid principal and interest under protest (¢1,013,572,409 and ¢461,565,324.75, respectively) for a total of ¢1,475,137,733.75, which was included in the income statement.

On September 5, 2014, Scotia Leasing de Costa Rica, S.A. filed a lawsuit against the administrative acts as follows:

i. SF-DT-01-R-5002-12 issued at 8:32 hours on November 8, 2012 by the Tax Administration of San José.
ii. SF-AUD-01-R-0448-13 issued at 8:10 hours on April 29, 2013 by the Tax Administration of San José.
iii. TFA-094-2014 issued at 14:00 hours on June 13, 2014 by the First Chamber of the Tax Court.

Through Vote No. 82-2016-VII of August 22, 2016, the Seventh Section of the Tax Court admitted the claim, considering that:

> "...the administrative actions did not follow the legal and regulatory precepts, taxing a fictitious gain resulting from the accounting in colones of an item in foreign currency, rather than a real exchange rate operation, the rest is a liability originated by loans acquired by the subsidiary, which does not constitute a capital gain, given that these are debits not contemplated in the legal tax regulations...".

Consequently, the operative paragraphs of the vote determined that:

> "... the objection of lack of legal grounds is rejected. The following resolutions are annulled: SF-DT-01-R-5002-12 of November 8, 2012, issued by the Tax Administration of San José; SF-AUD-01-F-448-13 of April 29, 2013, issued by the Tax Administration of San José, and TFA-094-2014 of March 13, 2014, issued by the First Chamber of the Tax Court. The State is ordered to pay the amount of ¢1,475,137,733.75 plus legal interest and indexation since June 4, 2014 until the payment is made. The legal costs of both parties shall be covered by the State...".
> This resolution is not final.

The State filed an appeal for nullification before the First Chamber of the Supreme Court of Justice. A resolution by the First Chamber is pending.

Due to the foregoing, management does not consider necessary the booking an allowance for the assessment of the account receivable recognized due to the payment made under protest.

a.2 In April 2016, the Large Taxpayer Division began an income tax assessment of Scotia Leasing de Costa Rica, S.A. for fiscal years 2012 and 2013. A notice of deficiency was issued during the period ended December 31, 2016, for an additional income tax amount of ¢1,476,032,840, mainly corresponding to an adjustment due to a decrease in deductible expenses arising from differences determined in the calculation of the depreciation of assets in operating leases with a finance function, according to decree No. 32876-H published in Official Gazette No. 29 of February 9, 2006, which regulates the taxation of operating leases in the finance function and finance leases.

Management performed an analysis along with the tax advisors and legal counsel and concluded that the Tax Administration did not perform an adequate valuation of operating leases in the finance function which had been settled early by customers, failing to consider them within the final calculation of the amounts to be adjusted.

On March 1, 2018, official communication DT10R-026-18 was received, whereby the National Large Taxpayer Division notified the subsidiary that the appeal for annulment was rejected, and the appeal filed by the subsidiary's management was also dismissed. The subsidiary filed a motion for reconsideration of this resolution on April 25, 2018.

On September 25, 2019, the National Large Taxpayer Division notified the subsidiary of confirmation resolution No. AU10R-191-19, which rejects the motion for reconsideration and confirms all of the adjustments made by the Tax Review Area.

The subsidiary filed an appeal before the Tax Court on November 6, 2019.

On December 20, 2019, the subsidiary submitted a brief of ratification of arguments to the Tax Court. As of the date of this report, a resolution of the appeal filed is pending.

Consequently, management established a provision for this case in the amount of ¢875,140,358 (undiscounted amount of ¢1,107,024,630), which is the present value of the amount that it considers it can obtain in the event of an unfavorable outcome, discounted over a three-year term (term in which the Tax Court is expected to resolve the allegations presented) and a market discount rate.

a.3 *Tax audit and notice of deficiency - BNS Leasing Costa Rica, S.A., a company merged with Scotia Leasing Costa Rica, S.A.*

On November 25, 2015, the Tax Administration notified the beginning of a tax assessment of BNS Leasing de Costa Rica, S.A. (merged with Scotia Leasing de Costa Rica, S.A.). On May 2, 2016, it notified the Provisional Regularization Proposal, indicating a tax debt corresponding to income tax for fiscal years 2012 and 2013, in the amount of ¢362,368,521 and ¢156,881,521, respectively.

BNS Leasing de Costa Rica, S.A. did not agree with the determination; therefore, it filed pleadings against it on May 16, 2016. On September 14, 2016, the final hearing was held, in which the Tax Administration delivered the report on the pleadings filed against the Provisional Regularization Proposal and granted a hearing to express conformity or disconformity with the determination. On September 21, 2016, the BNS Leasing de Costa Rica, S.A. expressed full disconformity with the Regularization Proposal.

On September 22, 2016, BNS Leasing de Costa Rica, S.A. was informed of the suspension of the jeopardy assessment of taxes, since the Constitutional Chamber was analyzing a constitutional motion against Article 144 of the *Code of Tax Standards and Procedures*. On 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, notification was sent of Notice of Deficiency and Observations No. 1-10-054-15-039-041-03, issued on October 11, 2016, whereby the Large Taxpayer Administration continued the determination proceedings. On November 29, 2016, BNS Leasing de Costa Rica, S.A. filed a formal administrative claim against the notice of deficiency.

Parallel to the beginning of the determination proceedings, on May 2, 2016, the Sanctioning Resolution Proposal was notified, in conformity with Article 81 of the Tax Code, which establishes a fine in the amount of ¢128,188,227 for fiscal year 2012 and ¢61,278,146 for fiscal year 2013. Pleadings were filed against this proposal. The Sanctioning Resolution was suspended by virtue of the constitutional motion against Article 144 of the *Code of Tax Standards and Procedures*, since the sanctioning proceeding is related to the main process. On October 19, 2016, the Tax Administration informed that the sanctioning proceeding was resumed.

On February 8, 2019, the determination resolution was notified. On June 17, the Tax Administration notified the subsidiary of the request for payment, granting 15 business days to pay the amounts previously indicated, ending on July 1, 2019. The payment was made in due time and form. Currently waiting for the judicial proceedings to begin.

a.4 *Claims for damages - BNS Leasing de Costa Rica, S.A., a company merged with con Scotia Leasing Costa Rica, S.A.*

The State filed a claim for damages with the Tax Court against BNS Leasing de Costa Rica, S.A. due to the exemption from property tax related to two vehicles that were under lease agreements at the time. The request was processed in 2009. The Tax Court ruled in favor of BNS Leasing de Costa Rica, S.A.

The insurance company declared the vehicles to be a total loss due to accidents in which they were involved. Accordingly, BNS Leasing de Costa Rica, S.A. requested the respective exemption for the 2009 period, which was denied in the first instance by the respective Administrative Body of the Tax Administration and then granted by the Tax Court. The counterclaim was filed on July 18, 2012.

The Administrative Court admitted the claim filed by the State and, consequently, the annulment of the resolution of the Tax Court, which granted the exemption on the property tax. Consequently, on March 12, 2013, an appeal for review by a higher court was filed before the First Chamber of the Supreme Court of Justice against the decision of the Administrative Court.

Through Resolution No. 00889-F-S1-2018, the First Chamber rejected the appeal for review by a higher court filed by the State. Therefore, the case has been resolved.

36. Repurchase operations

In these operations, the subsidiaries Scotia SAFE, S.A. (before Scotia Valores, S.A.) and Scotia Sociedad de Fondos de Inversión, S.A. are contingently responsible for the uncovered balance upon settlement of an operation's security, at an amount lower than that payable to the corresponding buyer.

37. Secondary liability

In conformity with Article 142 of the *Internal Regulations of the Central Bank of Costa Rica*, the Corporation shall have secondary liability, without limitation, to compliance with the obligations that each entity in the financial group is in charge of, including obligations contracted prior to the integration of the Group.

38. Relevant events

At the Shareholders Ordinary Meeting of Scotiabank de Costa Rica, S.A. held on February 13, 2018, the merger by absorption of The Bank of Nova Scotia (Costa Rica), S.A., Scotia Tarjetas, S.A. (companies acquired through a purchase-sale agreement by Grupo BNS de Costa Rica, S.A. on February 1, 2016) and Scotiabank de Costa Rica, S.A. was agreed, in which the latter entity prevailed. An increase in the capital of Scotiabank de Costa Rica, S.A. was authorized in the amount equivalent to the capital of The Bank of Nova Scotia Costa Rica, S.A. and Scotia Tarjetas, S.A. Consequently, the registered, paid-in capital of Scotiabank de Costa Rica, S.A. will amount to ¢226,449,722,072 represented by 427,372,354 ordinary, registered shares of ¢1.00 par value.

39. Conditions related to the COVID-19 Pandemic

In December 2019 the appearance of a new strain of coronavirus was identified, causing the COVID-19 global pandemic during the first quarter of 2020. The coronavirus has negatively affected the economic conditions of companies worldwide, generating a macroeconomic uncertainty that may significantly affect our operations as well as those of our customers and vendors. The general effect of the coronavirus outbreak is uncertain at this time. Consequently, we are still in the process of analyzing and forecasting the potential impact on our operations, which may be significant and adverse. The Corporation's management will continue to monitor and modify its operating and financial strategies to mitigate the potential risks to our business.

40. 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.

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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) <u>IAS 1: Presentation of Financial Statements</u>

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.

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:

- 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.

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.

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.

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) <u>IAS 40: Investment Property</u>

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.

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.

(Continued)

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.

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.

(Continued)

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.

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.