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

Consolidated Financial Statements

December 31, 2021
*(With corresponding figures for 2020)*

(With Independent Auditors' Report thereon)

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

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# Independent Auditors' Report

To the Board of Directors and Shareholders of
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 statement of financial position as of December 31, 2021, 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, 2021, 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.

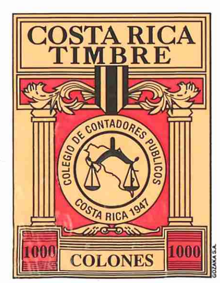
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Group audit. We remain solely responsible for our audit opinion.

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




April 6, 2022

San José, Costa Rica
Erick Brenes Flores
Member No. 2520
Policy No. 0116 FIG 7
Expires 09/30/2022

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and affixed to the original document

**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**As of December 31, 2021**
*(With corresponding figures for 2020)*
(In colones)

| | Note | 2021 | 2020 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash and due from banks** | **4, 29** | **339,821,256,580** | **329,361,878,183** |
| Cash | | 62,236,559,182 | 42,456,566,215 |
| Central Bank of Costa Rica | | 217,688,092,091 | 264,890,658,475 |
| Local financial entities | | 2,027,139,613 | 4,109,374,823 |
| Foreign financial entities | | 22,263,338,952 | 16,737,106,262 |
| Notes payable on demand | | 1,332,644,236 | 1,123,596,989 |
| Restricted cash and due from banks | | 34,273,482,506 | 44,575,419 |
| **Investments in financial instruments** | **5, 29** | **190,085,432,484** | **162,300,696,943** |
| At fair value through profit or loss | | 16,147,396,873 | 15,752,235,673 |
| At fair value through other comprehensive income | | 103,865,635,950 | 69,372,839,203 |
| At amortized cost | | 67,903,203,067 | 75,987,039,300 |
| Derivative financial instruments | | - | 13,396,586 |
| Accounts and accrued interest receivable | | 2,198,654,672 | 1,216,833,516 |
| (Allowance for impairment of investments in financial instruments) | | (29,458,078) | (41,647,335) |
| **Loan portfolio** | **6, 29** | **1,647,824,620,171** | **1,678,025,390,101** |
| Current | | 1,542,383,620,147 | 1,542,394,469,870 |
| Past due | | 110,271,169,287 | 140,822,647,077 |
| In legal collection | | 23,339,084,374 | 24,865,845,022 |
| (Deferred income on loan portfolio) | | (7,479,907,291) | (7,116,396,483) |
| Accounts and accrued interest receivable | | 39,303,936,474 | 49,664,454,694 |
| (Allowance for loan losses) | 6-b | (59,993,282,820) | (72,605,630,079) |
| **Accounts and fees and commissions receivable** | **7** | **7,855,627,223** | **12,859,900,965** |
| Fees and commissions receivable | | 253,972,079 | 382,603,716 |
| Accounts receivable for related party transactions | 3 | 746,887,975 | 1,730,088,846 |
| Deferred tax | 13 | 3,090,274,307 | 8,386,731,007 |
| Other accounts receivable | | 4,352,680,999 | 3,484,328,231 |
| (Allowance for impairment of accounts and fees and commissions receivable) | 7 | (588,188,137) | (1,123,850,835) |
| **Assets held for sale** | **8** | **6,856,785,500** | **7,736,885,988** |
| Assets and securities acquired in lieu of payment | | 17,368,790,296 | 22,875,085,603 |
| (Allowance for impairment of assets held for sale and per legal requirement) | | (10,512,004,796) | (15,138,199,615) |
| **Investments in other companies, net** | | **23,964,717** | **23,964,717** |
| **Property, furniture and equipment, net** | **9** | **41,284,217,089** | **39,445,387,130** |
| **Other assets** | **10** | **17,726,863,142** | **20,073,967,261** |
| Deferred charges | | 1,745,395,898 | 1,798,028,428 |
| Intangible assets, net | | 2,406,161,517 | 3,249,838,290 |
| Other assets | | 13,575,305,727 | 15,026,100,543 |
| **TOTAL ASSETS** | | **2,251,478,766,906** | **2,249,828,071,288** |

(Continued)

**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**As of December 31, 2021**
*(With corresponding figures for 2020)*
(In colones)

| | Note | 2021 | 2020 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| **Obligations with the public** | 11, 29 | **1,452,553,885,400** | **1,451,343,457,944** |
| Demand | | 537,630,228,070 | 447,221,905,831 |
| Term | | 908,864,767,138 | 995,972,352,130 |
| Finance charges payable | | 6,058,890,192 | 8,149,199,983 |
| **Obligations with the Central Bank of Costa Rica** | 12 | **50,208,272,778** | - |
| Term | | 49,950,000,000 | - |
| Finance charges payable | | 258,272,778 | - |
| **Obligations with entities** | 12, 29 | **378,823,932,639** | **442,234,489,565** |
| Demand | | 55,996,775,845 | 16,070,395,445 |
| Term | | 322,264,965,518 | 424,994,814,611 |
| Other obligations with entities | | 166,608,153 | 260,781,472 |
| Finance charges payable | | 395,583,123 | 908,498,037 |
| **Accounts payable and provisions** | 14 | **46,097,755,313** | **38,686,611,133** |
| Deferred tax | 13 | 455,953,838 | 1,023,742,114 |
| Provisions | 14-a | 11,609,513,536 | 9,113,144,199 |
| Other accounts payable | | 34,032,287,939 | 28,549,724,820 |
| **Other liabilities** | 15 | **5,650,129,730** | **6,987,984,049** |
| Deferred income | | 195,286 | 14,929,767 |
| Other liabilities | | 5,649,934,444 | 6,973,054,282 |
| **TOTAL LIABILITIES** | | **1,933,333,975,860** | **1,939,252,542,691** |
| **EQUITY** | | | |
| **Share capital** | | **222,915,887,742** | **222,915,887,742** |
| Paid-in capital | 16-a | 222,915,887,742 | 222,915,887,742 |
| **Non-capitalized capital contributions** | 16-b | **993,101,251** | **993,101,251** |
| **Equity adjustments – Other comprehensive income** | 16-c | **6,726,023,458** | **5,154,937,293** |
| **Reserves** | 16-d | **22,303,646,062** | **21,854,594,501** |
| **Prior period retained earnings** | | **58,488,360,418** | **51,431,674,707** |
| **Income for the year** | | **6,717,772,115** | **8,225,333,103** |
| **TOTAL EQUITY** | | **318,144,791,046** | **310,575,528,597** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,251,478,766,906** | **2,249,828,071,288** |
| **DEBIT MEMORANDA ACCOUNTS** | 17 | **465,024,752,070** | **456,855,391,057** |
| **TRUST ASSETS** | 18 | **1,751,835,703,941** | **1,762,102,009,981** |
| **TRUST LIABILITIES** | | **474,171,196,391** | **481,718,846,496** |
| **TRUST EQUITY** | | **1,264,993,462,952** | **1,271,458,015,655** |
| **OTHER DEBIT MEMORANDA ACCOUNTS** | 20 | **9,627,692,143,701** | **9,861,350,262,006** |
| Own debit memoranda accounts | | 9,454,273,421,300 | 9,707,593,628,313 |
| Third-party debit memoranda accounts | | 173,418,722,401 | 153,756,633,693 |

Luis Enrique Gómez
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, 2021**
*(With corresponding figures for 2020)*
(In colones)

| | Note | 2021 | 2020 |
|---|---|---|---|
| **Finance income** | | | |
| Cash and due from banks | | 30 | 80 |
| Investments in financial instruments | | 6,616,781,055 | 8,223,345,050 |
| Loan portfolio | 23 | 148,546,874,117 | 175,541,787,502 |
| Gain on foreign exchange differences and DU, net | 25 | 2,815,185,006 | 3,556,134,915 |
| Gain on financial instruments at fair value through profit or loss | | 54,259 | - |
| Gain on financial instruments at fair value through other comprehensive income | 5 | 2,757,298,035 | 2,534,743,263 |
| Gain on derivative financial instruments | | - | 290,144,487 |
| Other finance income | | 2,143,812,139 | 1,629,075,023 |
| **Total finance income** | | **162,880,004,641** | **191,775,230,320** |
| **Finance costs** | | | |
| Obligations with the public | 24-a | 46,462,420,069 | 56,603,605,335 |
| Obligations with the Central Bank of Costa Rica | | 330,074,398 | - |
| Obligations with financial entities | 24-b | 6,504,556,849 | 10,995,928,870 |
| Loss on financial instruments at fair value through profit or loss | | 103,597 | - |
| Loss on financial instruments at fair value through other comprehensive income | 5 | 55,110,483 | 474,247,144 |
| Loss on derivative instruments | | 9,052,424 | - |
| Other finance costs | | 345,325,956 | 1,627,850,237 |
| **Total finance costs** | | **53,706,643,776** | **69,701,631,586** |
| Allowance for impairment of assets | 6-a-b, 7 | 46,288,397,487 | 53,755,963,473 |
| Recovery of assets and decrease in allowances and provisions | | 14,045,573,186 | 21,044,296,535 |
| **GROSS FINANCE INCOME** | | **76,930,536,564** | **89,361,931,796** |
| **Other operating income** | | | |
| Service fees and commissions | 26 | 38,154,344,705 | 37,226,758,311 |
| Assets held for sale | | 5,934,896,198 | 332,124,059 |
| Gain on investments in other companies | | 3,173,466 | 8,204,129 |
| Foreign currency exchange and arbitrage | | 5,915,913,870 | 5,783,389,159 |
| Other income with related parties | | 6,964,051,178 | 6,237,673,515 |
| Other operating income | | 8,640,052,742 | 15,820,344,681 |
| **Total operating income** | | **65,612,432,159** | **65,408,493,854** |
| **Other operating expenses** | | | |
| Service fees and commissions | | 19,106,899,668 | 19,496,679,471 |
| Assets held for sale | | 5,757,557,839 | 8,804,692,895 |
| Provisions | | 5,893,311,449 | 5,335,971,616 |
| Foreign currency exchange and arbitrage | | 1,095,560 | 1,078,678 |
| Other expenses with related parties | | 11,650,683,496 | 10,361,288,315 |
| Other operating expenses | | 9,840,705,148 | 16,897,089,080 |
| **Total other operating expenses** | | **52,250,253,160** | **60,896,800,055** |
| **GROSS OPERATING INCOME** | | **90,292,715,563** | **93,873,625,595** |
| **Administrative expenses** | | | |
| Personnel expenses | 27 | 36,814,561,097 | 37,147,551,128 |
| Other administrative expenses | 28 | 38,560,251,644 | 42,228,445,248 |
| **Total administrative expenses** | | **75,374,812,741** | **79,375,996,376** |
| **NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS** | | **14,917,902,822** | **14,497,629,219** |
| Income tax | 13 | 7,458,946,107 | 5,430,558,693 |
| Statutory allocations | | 292,133,039 | 320,338,622 |
| **INCOME FOR THE YEAR** | | **7,166,823,676** | **8,746,731,904** |

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**GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
**For the year ended December 31, 2021**
*(With corresponding figures for 2020)*
(In colones)

| | Note | 2021 | 2020 |
|---|---|---|---|
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Deferred tax on surplus from property | | - | (581,678,373) |
| Effect of surplus from revaluation of property, net of deferred tax | | (324,140,856) | - |
| **Items that are or may be reclassified subsequently to profit or loss** | | | |
| Unrealized gain (loss) on valuation of investments at fair value through other comprehensive income | | 4,911,356,103 | (705,668,736) |
| Deferred tax on valuation of investments at fair value through other comprehensive income | | (1,473,406,831) | 211,700,621 |
| Net gain on valuation of investments reclassified to profit or loss | | (2,702,187,552) | (2,060,496,119) |
| Deferred tax on valuation of investments at fair value through other comprehensive income reclassified to profit or loss | | 810,656,266 | 618,148,836 |
| Impairment of investments at fair value through other comprehensive income | | 302,699,596 | - |
| **OTHER COMPREHENSIVE INCOME, NET OF TAX** | | **1,524,976,726** | **(2,517,993,771)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **8,691,800,402** | **6,228,738,133** |

Luis Enrique Gómez
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, 2021**
*(With corresponding figures for 2020)*
(In colones)

| | Note | Share capital | Non-capitalized capital contributions | Equity adjustments - Other comprehensive income | Reserves | Prior-period retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2020** | | 217,507,247,742 | 6,401,741,251 | 7,672,931,064 | 21,333,195,700 | 51,431,674,707 | 304,346,790,464 |
| **Transactions with shareholders recognized directly in equity** | | | | | | | |
| Conversion of non-capitalized capital contributions into ordinary shares | 16-a | 5,408,640,000 | (5,408,640,000) | - | - | - | - |
| Appropriation to legal reserve | | - | - | - | 521,398,801 | (521,398,801) | - |
| **Transactions with shareholders recognized directly in equity** | | 5,408,640,000 | (5,408,640,000) | - | 521,398,801 | (521,398,801) | - |
| **Other comprehensive income for the year:** | | | | | | | |
| Income for the year | | - | - | - | - | 8,746,731,904 | 8,746,731,904 |
| Deferred tax on surplus from property | | - | - | (581,678,373) | - | - | (581,678,373) |
| Unrealized loss on valuation of investments at FVOCI | | - | - | (705,668,736) | - | - | (705,668,736) |
| Deferred tax on valuation of investments at FVOCI | | - | - | 211,700,621 | - | - | 211,700,621 |
| Net gain on valuation of investments reclassified to profit or loss | | - | - | (2,060,496,119) | - | - | (2,060,496,119) |
| Deferred tax on valuation of investments at FVOCI reclassified to profit or loss | | - | - | 618,148,836 | - | - | 618,148,836 |
| **Total comprehensive income for the year** | | - | - | (2,517,993,771) | - | 8,746,731,904 | 6,228,738,133 |
| **Balance at December 31, 2020** | | 222,915,887,742 | 993,101,251 | 5,154,937,293 | 21,854,594,501 | 59,657,007,810 | 310,575,528,597 |
| Changes in accounting policies | 34 | - | - | - | - | (1,122,537,953) | (1,122,537,953) |
| **Balance at January 1, 2021** | | 222,915,887,742 | 993,101,251 | 5,154,937,293 | 21,854,594,501 | 58,534,469,857 | 309,452,990,644 |
| **Transactions with shareholders recognized directly in equity** | | | | | | | |
| Appropriation to legal reserve | | - | - | - | 449,051,561 | (449,051,561) | - |
| **Transactions with shareholders recognized directly in equity** | | - | - | - | 449,051,561 | (449,051,561) | - |
| **Other comprehensive income for the year:** | | | | | | | |
| Income for the year | | - | - | - | - | 7,166,823,676 | 7,166,823,676 |
| Decrease in surplus from revaluation, net of deferred tax | | - | - | (278,031,417) | - | (46,109,439) | (324,140,856) |
| Unrealized gain on valuation of investments at FVOCI | | - | - | 4,911,356,103 | - | - | 4,911,356,103 |
| Deferred tax on valuation of investments at FVOCI | | - | - | (1,473,406,831) | - | - | (1,473,406,831) |
| Net gain on valuation of investments reclassified to profit or loss | | - | - | (2,702,187,552) | - | - | (2,702,187,552) |
| Deferred tax on valuation of investments at FVOCI reclassified to profit or loss | | - | - | 810,656,266 | - | - | 810,656,266 |
| Impairment of investments at FVOCI | | - | - | 302,699,596 | - | - | 302,699,596 |
| **Total comprehensive income for the year** | | - | - | 1,571,086,165 | - | 7,120,714,237 | 8,691,800,402 |
| **Balance at December 31, 2021** | | 222,915,887,742 | 993,101,251 | 6,726,023,458 | 22,303,646,062 | 65,206,132,533 | 318,144,791,046 |

Luis Enrique Gómez
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, 2021**
*(With corresponding figures for 2020)*
*(In colones)*

| | Note | 2021 | 2020 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Income for the year | | 7,166,823,676 | 8,746,731,904 |
| **Adjustments for** | | | |
| Unrealized gains on foreign exchanges differences, net | | (2,815,185,006) | (3,556,134,915) |
| Allowance for loan losses and stand-by credits | | 37,553,160,388 | 37,383,459,349 |
| Income due to decrease in allowance for foreclosed assets | | (4,626,194,819) | (1,357,341,873) |
| Severance provision | | 595,355,833 | 1,708,923,047 |
| Net expense (income) for allowance for impairment of investments | | 284,719,650 | (274,340,047) |
| Net income (expense) for other allowances | | (77,601,306) | 6,891,709,810 |
| Expense for other provisions | | 2,910,750,776 | 2,191,173,690 |
| Depreciation and amortization | | 6,857,082,510 | 7,077,462,328 |
| Income tax | 13 | 7,458,946,107 | 5,430,558,693 |
| Interest income | | (155,163,655,172) | (183,765,132,552) |
| Interest expense | | 52,966,976,918 | 67,599,534,205 |
| Disposal of furniture and equipment | | - | 184,702,569 |
| | | (46,888,820,445) | (51,738,693,792) |
| **Net (increase) decrease in assets** | | | |
| Loans and cash advances | | 12,035,259,085 | 106,477,154,812 |
| Accounts and fees and comissions receivable | | 4,238,969,630 | 5,611,709,941 |
| Available-for-sale assets | | 20,853,589,595 | 5,547,718,275 |
| Other assets | | 615,484,315 | (4,890,010,824) |
| **Net increase (decrease) in liabilities** | | | |
| Demand and term obligations | | (45,004,495,333) | 26,774,048,609 |
| Other accounts payable and provisions | | (2,493,302,788) | (10,668,077,772) |
| Other liabilities | | (1,337,854,319) | (3,033,145,098) |
| | | (57,981,170,260) | 74,080,704,151 |
| Interest received | | 164,542,352,236 | 157,228,372,103 |
| Interest paid | | (55,570,201,623) | (70,452,011,387) |
| Taxes paid | | (2,106,228,814) | (5,804,677,527) |
| **Net cash from operating activities** | | **48,884,751,539** | **155,052,387,340** |
| **Cash flows from investing activities** | | | |
| Increase in financial instruments | | (6,942,841,865,917) | (6,331,784,295,151) |
| Decrease in financial instruments | | 6,904,974,059,863 | 6,355,361,622,896 |
| Acquisition of property and equipment | | (4,177,356,499) | (1,808,170,558) |
| **Net cash (used in) from other investing activities** | | **(42,045,162,553)** | **21,769,157,187** |
| **Cash flows from financing activities** | | | |
| New financial obligations | | 334,575,404,417 | 146,307,430,523 |
| Payment of obligations | | (361,753,331,984) | (310,711,007,533) |
| **Net cash from (used in) financing activities** | | **(27,177,927,567)** | **(164,403,577,010)** |
| **Net (decrease) increase in cash and cash equivalents** | | **(7,070,511,756)** | **34,070,591,748** |
| Cash and cash equivalents at beginning of year | | 400,908,644,563 | 366,838,052,815 |
| Effect of exchange rate fluctuations on cash and cash equivalents held | | 13,267,826,825 | 21,652,624,231 |
| **Cash and cash equivalents at end of year** | 4 | **393,838,132,807** | **400,908,644,563** |

Luis Enrique Gómez
Legal representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

1. Summary of operations and significant accounting policies

(a) Reporting entity

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.

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).

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

The financial statements were authorized for issue by the board of directors on March 28, 2022.

*ii. Basis of measurement*

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

- financial instruments at fair value through profit or loss (FVTPL) and financial instruments at fair value through other comprehensive income (FVOCI), which are measured at fair value; and
- property is stated at revalued cost
- assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell and a regulatory allowance is applied.

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

(c) Basis of consolidation

*Subsidiaries*

Subsidiaries are entities controlled by the Corporation. The Corporation 'controls' an entity if:

- it has power over the investment;
- it is exposed to, or has rights to, variable returns from its involvement with the entity, and
- has the ability to affect those returns through its power over the entity.

The Corporation reassesses whether it has control over an entity if there are changes to one or more of the three elements of control listed above. Changes in the Corporation's investments in subsidiaries that do not result in a loss of control are recorded as equity transactions.

The carrying amount of investments is adjusted to reflect changes in the corresponding investments in subsidiaries.

Profit or loss and each component of other comprehensive income is attributed to controlling and non-controlling interests. The comprehensive income of the subsidiaries is attributed to controlling and non-controlling interests even if it results in a deficit for the latter.

(Continued)

When the Corporation loses control over a subsidiary, gains or losses on disposal are calculated as the difference between:

(i) the sum of the fair value of the consideration received and the fair value of any interest retained, and

(ii) the carrying amount of the assets (including goodwill) and liabilities of the subsidiary. Amounts previously recognized in other items of comprehensive income related to the subsidiary are booked in the same manner in the event of disposal of the relevant assets or liabilities.

Due to regulatory requirements, the Corporation's consolidated financial statements must present investments in subsidiaries using the equity method, from the date when the investment is acquired to the date when it becomes an associate, joint venture or special purpose vehicle.

The consolidated financial statements include the financial figures of the following subsidiaries:

| | Ownership interest | |
|---|---|---|
| Name of subsidiary | 2021 | 2020 |
| Scotiabank de Costa Rica, S.A. | 100% | 100% |
| Scotia SAFE, 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% |

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, 2021 and 2020, the accounting records of the Costa Rican subsidiaries are kept in colones (¢).

(Continued)

(e) Foreign currency

*i. Foreign currency transactions*

Monetary assets and liabilities denominated in foreign currency are translated into colones (¢) at the exchange rates at the date of the statement of financial position, except for transactions with a contractually agreed exchange rate. Transactions in foreign currency during the year are translated at the 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, 2021, the exchange rate was established at ¢639.06 and ¢645.25 to US$1.00 for the purchase and sale of US dollars, respectively (2020: ¢610.53 and ¢617.30 to US$1.00, respectively).

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

*iii. Valuation method for assets and liabilities*

As of December 31, 2021, assets and liabilities denominated in US dollars, Canadian dollars and euro were valued at the sell rates of ¢645.25 to US$1.00, ¢504.2986 to CAD$1.00 and ¢729.2616 to €1, respectively, in accordance with the regulations established by BCCR (2020: ¢617.30 to US$1.00, ¢482.7182 to CAD$1.00 and ¢759.6494 to €1, respectively).

(f) Financial instruments

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.

(Continued)

The Corporation has adopted IFRS 9 *Financial Instruments*, issued in July 2014, with initial application as of January 1, 2020, in conformity with the CONASSIF's regulatory provisions. However, the measurement of expected credit losses of the subsidiary Scotiabank de Costa Rica, S.A. will continue to be calculated following the prudential regulations issued for the loan portfolio and stand-by credits (SUGEF Directive 1-05 *Regulations for Borrower Classification* and SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*). The new standard requires key changes in the classification, measurement and presentation of financial assets and certain aspects of the accounting for financial liabilities.

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets and liabilities (other than financial assets at fair value through profit or loss) are added or subtracted from the fair value of the financial assets or liabilities, as applicable, on initial recognition. Transaction costs that are directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are immediately recognized in profit or loss.

The effects of the initial application of IFRS 9 on the Corporation and its subsidiaries were adjusted through retained earnings from periods prior to January 1, 2020.

*i.* <u>*Financial assets*</u>

All regular-way purchases and sales of financial assets are recognized (and derecognized) based on the trade date, which is the date when the Corporation commits to purchase or sell an 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.

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

*Classification of financial assets*

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

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

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

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

(Continued)

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

*Business model assessment*

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Corporation’s key management personnel;

- the risks that affect the performance of the portfolios (and the financial assets held within that business model) and its strategy for how those risks are managed;

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity. Financial assets held for trading or managed whose performance is assessed on a fair value basis are measured at fair value through profit or loss (FVTPL), given that they are not maintained to collect contractual cash flows nor to obtain contractual cash flows and sell those financial assets.

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

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

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

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

*Impairment of financial assets*

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

The allowance for loan losses and the allowance for accounts and commissions receivable booked by the Corporation will be calculated based on the regulatory provisions of SUGEF Directive 1-05 *Regulations for Borrower Classification* and SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*.

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

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

(Continued)

*Measurement of ECL for investments in financial instruments*

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

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

- *Financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows.

*Definition of default*

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

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

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

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

(Continued)

*Significant increase in credit risk*

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

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

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

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

*Credit risk grades*

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

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

(Continued)

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

*Generating the term structure of the PD*

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

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

*Determining significant increases in credit risk*

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

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

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

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

*Inputs for measurement of ECL*

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

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

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

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

- LGD is the magnitude of the likely loss if there is default. The Corporation estimates LGD parameters based on a history of recovery rates of claims against defaulted counterparties.

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

*Forward-looking information*

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

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

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

*ii. Financial liabilities*

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

*Recognition, derecognition and measurement*

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

(Continued)

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

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

*iii. Offsetting*

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

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

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

- *financial assets measured at amortized cost:* as a deduction from the gross carrying amount of the assets;

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

*v. Derecognition*

A financial asset is derecognized when the 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.

*vi. Amortized cost measurement*

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured 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.

*vii. 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.

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.

(Continued)

*viii. Gains and losses on subsequent measurement*

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

(g) 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.

(h) 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 180 days past due.

(Continued)

Non-accrual loans are stated at their estimated recoverable amount using the impairment policy.

(i) 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.

(j) 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.

(k) 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.

(l) Assets held for sale

Assets held for sale include assets received as partial or total satisfaction of loans that are not recovered under the contractual repayment terms. Assets held for sale 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

- At fair value less costs to sell.

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

(m) 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. The effect of this revaluation is recognized in equity.

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

*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.

(Continued)

*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 |

(n) Intangible assets

*(i) Software*

Software acquired is measured at cost less accumulated amortization and any accumulated impairment losses.

*(ii) 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.

*(iii) Amortization*

Amortization is charged to current operations using the straight-line method over the estimated life of the related assets.

(o) Leases

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

*i. As a lessee*

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

(Continued)

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

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

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

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

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

*ii. As a lessor*

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

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

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

(p) 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.

*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.

(q) 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.

(Continued)

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.

(r) Accounts payable and other accounts payable

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

(s) 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 date of the consolidated statement of financial position, directly affecting the consolidated statement of comprehensive income.

(t) 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.

(u) 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.

(v) 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.

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.

(w) 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 30.

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.

(Continued)

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. Note 29 describes the policies on the calculation of the allowance for loan losses and the allowance for impairment of leases.

(x) 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.

(y) Fee and commission income

Fee and commission income arises on services provided by the subsidiaries 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.

(z) Income tax

*i. Current*

Current tax comprises the expected tax payable on the taxable income for the year, using tax rates enacted at the date of the consolidated statement of financial position and any adjustment to the tax payable for 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. At the end of each reporting period, an assessment must be made whether future taxable profits will be available against which the deferred tax asset can be used; otherwise, it must be decreased to the expected recoverable amount.

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

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

(aa) Employee 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.

(bb) 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:

| | | 2021 | 2020 |
|---|---|---|---|
| Cash and due from banks: | | | |
| Minimum legal deposit (Note 4) | ¢ | 210,935,920,755 | 253,595,533,876 |
| Contingent guarantee of the Deposit Guarantee Fund - Minimum legal deposit | | 34,230,884,204 | - |
| Drafts and transfers payable (Note 11) | | 2,033,720,988 | 2,237,615,237 |
| | | 247,200,525,947 | 255,833,149,113 |
| Investments: | | | |
| Clearing house guarantee | | 1,447,270,379 | 1,283,479,481 |
| Security deposits for public utility payment collection services | | 111,995,427 | 110,720,429 |
| Other guarantees | | 64,793,398,854 | 16,317,276 |
| | | 66,352,664,660 | 1,410,517,186 |
| Loans: | | | |
| Requirement for deposit-taking in demand accounts per Art. 59 of IRNBS (Law No. 1644) | | 52,032,170,636 | 77,382,374,889 |
| Accrued interest receivable: | | | |
| Committed investments | | 1,432,428,736 | 9,687,179 |
| Other assets: | | | |
| Security deposits (Note 10) | | 408,618,638 | 396,631,433 |
| Legal requirements | | 42,598,302 | 44,575,419 |
| | | 451,216,940 | 441,206,852 |
| Total | ¢ | 367,469,006,919 | 335,076,935,219 |

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

(Continued)

3. Balances and transactions with related parties

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

| | | 2021 | 2020 |
|---|---|---|---|
| Assets: | | | |
| Cash and due from banks | ¢ | 376,908,381 | 1,068,044,949 |
| Investments (Note 5) | | 417,606,862 | 395,107,791 |
| Loan portfolio | | | |
| Employees | | 1,047,328,341 | 1,430,203,982 |
| Accrued interest receivable | | 3,873,979 | - |
| Total loan portfolio | | 1,051,202,320 | 1,430,203,982 |
| Accounts and accrued interest receivable (Note 7) | | | |
| Related parties | | 8,996,520 | 9,441,828 |
| Employees | | 196,610 | 1,351,175 |
| Expenses receivable | | 737,694,845 | 1,719,295,843 |
| Total accounts and accrued interest receivable | | 746,887,975 | 1,730,088,846 |
| Total assets | ¢ | 2,592,605,538 | 4,623,445,568 |
| Liabilities: | | | |
| Related parties (Note 12) | ¢ | 1,517,764,149 | 1,198,631,782 |
| Employees | | 493,944,335 | 637,735,765 |
| Total obligations with the public | | 2,011,708,484 | 1,836,367,547 |
| Other financial obligations (Note 12) | | 263,324,621,525 | 346,247,079,332 |
| Interest on other financial obligations | | 150,299,315 | 284,602,005 |
| Other accounts payable and provisions ( Note14) | | 4,711,065,336 | 3,655,807,612 |
| Total liabilities | ¢ | 270,197,694,660 | 352,023,856,496 |
| Expenses: | | | |
| Finance costs | ¢ | 1,824,607,312 | 5,034,569,295 |
| Operating expenses | | 11,650,683,496 | 10,361,288,315 |
| Total expenses | ¢ | 13,475,290,808 | 15,395,857,610 |
| Income: | | | |
| Finance income | ¢ | 5,156,842 | 7,664 |
| Operating income | | 6,964,051,178 | 6,237,673,515 |
| Other commissions (Note 27 ) | | 12,653 | - |
| Total income | ¢ | 6,969,220,673 | 6,237,681,179 |

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

(Continued)

As of December 31, 2021, compensation paid to key personnel of the Corporation's subsidiaries amounts to ¢2,179,973,849 (2020: ¢2,147,202,143).

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:

| | | 2021 | 2020 |
|---|---|---|---|
| Cash | ¢ | 62,236,559,182 | 42,456,566,215 |
| Demand deposits in BCCR | | 217,688,092,091 | 264,890,658,475 |
| Demand deposits in local financial entities | | 2,027,139,613 | 4,109,374,823 |
| Demand deposits in foreign financial entities | | 22,263,338,952 | 16,737,106,262 |
| Notes payable on demand | | 1,332,644,236 | 1,123,596,989 |
| Restricted cash and due from banks | | 34,273,482,506 | 44,575,419 |
| Total | ¢ | 339,821,256,580 | 329,361,878,183 |

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

| | | 2021 | 2020 |
|---|---|---|---|
| Cash and due from banks | ¢ | 339,821,256,580 | 329,361,878,183 |
| Highly liquid investments | | 54,016,876,227 | 71,546,766,380 |
| Total | ¢ | 393,838,132,807 | 400,908,644,563 |

i. Minimum legal deposit

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 deposit 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, 2021, the required minimum legal deposit (corresponding to the average for the second half of December) amounts to ¢210,935,920,755 (2020: ¢253,595,533,876).

ii. Deposit Guarantee Fund, Law No. 9816

On February 12, 2020, the *Law for the Creation of the Deposit Guarantee Fund and of the Resolution Mechanisms of Financial Intermediaries* (Law No. 9816) was enacted. A deposit guarantee fund (DGF) is created to strengthen the financial safety network, contribute toward financial stability, protect the funds of small savers and promote confidence and competitiveness of the National Financial System.

The *Regulations on the management of the Deposit Guarantee Fund and other guarantee funds* were published in Alcance 23 of the Official Gazette dated Wednesday, February 3, 2021, and became effective three months later.

The Deposit Guarantee Fund is created as autonomous capital; it guarantees up to six million colones (¢6,000,000) the deposits maintained by individuals and legal entities in the financial intermediaries, in conformity with the terms and conditions set forth in the law and applicable regulations.

Secured deposits are all deposits or savings, either demand or term, held by individuals and legal entities in the financial intermediaries, guaranteed either in full or partially. Deposit-taking in local and international securities markets, whether primary or secondary markets, is not contemplated in the guarantees established by Law No. 9816.

The entities that make contributions to the Deposit Guarantee Fund include: financial intermediaries supervised by SUGEF, which make obligatory and non-revocable contributions to the Deposit Guarantee Fund pursuant to Law No. 9816. These include commercial State-owned banks, private banks, Banco Popular y de Desarrollo Comunal (BPDC), branches of foreign banks, employee associations supervised by SUGEF, savings and credit cooperatives, Caja de Ande and all other financial intermediaries subject to supervision by SUGEF. This does not include BANHVI or mutual savings and credit funds, nor savings and credit cooperatives related to other guarantee funds.

*Management and capital of the Deposit Guarantee Fund*

The Deposit Guarantee Fund will be managed by an individual named by the board of directors of BCCR, who will manage the fund's assets and liabilities according to the policies, procedures and regulations approved by CONASSIF for that purpose, assess its profit or loss and recommend pertinent changes based on the applicable technical grounds.

The capital of the Deposit Guarantee Fund is autonomous and non-seizable, separate from the capital of BCCR; it shall not be affected by the obligations of the financial intermediaries, and is composed of the following:

- contributions made by the financial intermediaries;
- donations or contributions from individuals, public institutions or national or international private institutions;
- voluntary contributions from the financial intermediaries, additional to the mandatory contributions to this fund;
- contributions or donations from similar public or private funds;
- funds from the minimum legal deposit or liquidity reserve of the financial intermediaries as a contingency in the event of insufficient funds;
- amounts recovered in bankruptcy or liquidation processes;
- unclaimed guarantees by the secured depositors;
- capital decreases due to operating and administrative costs, direct payment of the guarantee or support provided by the Deposit Guarantee Fund to a resolution process.

The costs of the Deposit Guarantee Fund cannot exceed 7.5% of annual contributions.

The fund is initially managed in three areas:

a) contributions made by State-owned banks and BPDC;
b) contributions made by private banks, branches of foreign banks and non-banking financial entities; and
c) contributions from savings and credit cooperatives; employee associations supervised by SUGEF and Caja de Ande.

*Calculation of the contributions*

Contributions are calculated based on the average guaranteed deposits from the last quarter and are payable within ten business days from the end of each quarter through direct debit from the BCCR reserve accounts.

The contribution made by each financial intermediary to the Deposit Guarantee Fund will be a maximum of 0.15% of the deposits guaranteed by the entity per annum; comprised of a fixed contribution of 0.10% and a risk-adjusted variable contribution ranging from 0.01% to 0.05%. The risk-adjusted contribution shall be determined using the simple quarterly average of the capital ratio of each entity on the last day of the last month of each quarter.

As of December 31, the required amount of the Guarantee Deposit Fund is as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Local currency | ¢ | 8,566,136,649 | - |
| Foreign currency | | 25,664,747,555 | - |
| Total | ¢ | 34,230,884,204 | - |

iii. Reverse repurchase agreements as cash equivalents

As of December 31, 2021, highly liquid short-term investments include securities acquired under reverse repurchase agreements for a total of ¢8,267,778,803 and US$70,901,352 (2020: ¢22,000,000,000 and US$26,208,292). Those securities bear interest at rates ranging between 1.10% and 1.39% per annum in colones (2020: between 1.05% and 1.50%) and between 0.01% and 1.25% per annum in US dollars (2020: between 0.01% 3.00%) and are included in cash equivalents.

5. Investments in financial instruments

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

| | | 2021 | 2020 |
|---|---|---|---|
| At fair value through profit or loss | ¢ | 16,147,396,873 | 15,752,235,673 |
| At fair value through other comprehensive income | | 103,865,635,950 | 69,372,839,203 |
| At amortized cost | | 67,903,203.067 | 75,987,039,300 |
| Difference in position in derivative financial instruments | | - | 13,396,586 |
| Subtotal | | 187,916,235,890 | 161,125,510,762 |
| Accrued interest receivable | | 2,198,654,672 | 1,216,833,516 |
| (Allowance for impairment of investments in financial instruments) | | (29,458,078) | (41,647,335) |
| Total | ¢ | 190,085,432,484 | 162,300,696,943 |

a) Investments at fair value through profit or loss.

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

| | | 2021 | 2020 |
|---|---|---|---|
| Costa Rican Government | ¢ | 4,136,726 | 12,402,314 |
| Open investment funds in US dollars managed by a local related party (Note 3) | | 417,606,862 | 395,107,791 |
| Open investment funds in colones managed by a local entity | | 6,191,730,851 | 13,946,745,456 |
| Open investment funds in US dollars managed by a local entity | | 9,533,922,434 | 1,397,980,112 |
| Total | ¢ | 16,147,396,873 | 15,752,235,673 |

b) Investments at fair value through other comprehensive income

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

| | | 2021 | 2020 |
|---|---|---|---|
| Local issuers: | | | |
| Costa Rican Government | ¢ | 103,865,635,950 | 69,372,839,203 |

(Continued)

Realized gains and losses on financial instruments at fair value through other comprehensive income are as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Realized gain on financial instruments at fair value through other comprehensive income | ¢ | 2,757,298,035 | 2,534,743,263 |
| Realized loss on financial instruments at fair value through other comprehensive income | | (55,110,483) | (474,247,144) |
| Net gain | ¢ | 2,702,187,552 | 2,060,496,119 |

c) Investments at amortized cost

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

| | | 2021 | 2020 |
|---|---|---|---|
| Local issuers: | | | |
| Costa Rican Government | ¢ | 11,444,835,702 | 8,673,641,595 |
| BCCR | | 17,614,225,000 | 30,148,360,000 |
| Financial entities | | 129,142,365 | 127,037,705 |
| Subtotal | | 29,188,203,067 | 38,949,039,300 |
| Foreign issuers: | | | |
| Financial entities | | 38,715,000,000 | 37,038,000,000 |
| Subtotal | | 38,715,000,000 | 37,038,000,000 |
| Total | ¢ | 67,903,203,067 | 75,987,039,300 |

As of December 31, 2021, investments in financial instruments in the amount of ¢66,352,664,660 (2020: ¢1,410,517,186), secure operations with several local institutions (see Note 2).

As of December 31, 2021 and 2020, the Corporation holds no investments that secure tri-party repurchase agreements. As of December 31, 2021 and 2020, the Corporation holds no investments to secure operations in the integrated liquidity market.

As of December 31, 2021 and 2020, investments in financial instruments bear interest at rates ranging between 2.16% and 8.03% per annum in colones (2020: between 4.32% and 10.44%) between 0.01% and 9.47% per annum in US dollars (2020: between 0.07% and 9.32%), and between 3.79% and 9.58% per annum in DU for both years.

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

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

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

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

| | | 2021 | 2020 |
|---|---|---|---|
| *Investments at FVOCI* | | | |
| Risk rating - B- Sovereign | ¢ | 103,865,635,950 | 69,372,839,203 |
| Gross carrying amount | | 103,865,635,950 | 69,372,839,203 |
| Allowance for impairment | | (1,099,581,872) | (796,882,276) |
| Net carrying amount | ¢ | 102,766,054,078 | 68,575,956,927 |
| *Investments at amortized cost* | | | |
| AAA | ¢ | 10,694,438 | 10,144,275 |
| AA+ | | 118,447,927 | 116,893,429 |
| A1 | | - | 37,038,000,000 |
| A2 | | 38,715,000,000 | - |
| Risk rating - B- Sovereign | | 29,059,060,702 | 38,822,001,596 |
| Gross carrying amount | ¢ | 67,903,203,067 | 75,987,039,300 |
| Allowance for impairment | | (29,458,078) | (41,647,335) |
| Net carrying amount | ¢ | 67,873,744,989 | 75,945,391,965 |

(Continued)

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

| | | Stage 1 | |
|---|---|---|---|
| | | 2021 | 2020 |
| *Investments at FVOCI* | | | |
| Balance as of January 1 | ¢ | 796,882,276 | 1,135,263,658 |
| Allowance for new investments | | 782,079,132 | 385,043,438 |
| Write-offs | | (380,587,471) | (671,804,975) |
| Remeasurement of the allowance for impairment | | (98,792,065) | (51,619,845) |
| Balance as of December 31 | ¢ | 1,099,581,872 | 796,882,276 |
| *Investments at amortized cost* | | | |
| Balance as of January 1 | ¢ | 41,647,335 | 20,276,800 |
| Allowance for new investments | | 21,010,759 | 41,647,335 |
| Write-offs | | (33,586,730) | (20,276,800) |
| Remeasurement of allowance for impairment | | 386,714 | - |
| Balance as of December 31 | ¢ | 29,458,078 | 41,647,335 |

6. Loan portfolio

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

| | | 2021 | 2020 |
|---|---|---|---|
| Loan portfolio | ¢ | 1,675,993,873,808 | 1,708,082,961,969 |
| Accrued interest receivable | | 39,303,936,474 | 49,664,454,694 |
| Deferred income from loan portfolio | | (7,479,907,291) | (7,116,396,483) |
| Allowance for loan losses | | (59,993,282,820) | (72,605,630,079) |
| | ¢ | 1,647,824,620,171 | 1,678,025,390,101 |

As of December 31, 2021, loans bear interest at rates ranging between 6.30% and 39.00% per annum in colones (2020: between 6.85% and 37.65%) and between 4.37% and 31.00% per annum in US dollars (2020: between 4.47% and 30.30%).

(a) Allowance for loan losses – subsidiary Scotiabank de Costa Rica, S.A.

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

| | | 2021 | 2020 |
|---|---|---|---|
| Opening balance | ¢ | 69,851,988,625 | 59,052,010,871 |
| Allowance expense | | 42,562,684,210 | 49,527,851,054 |
| Write-offs | | (52,454,071,136) | (27,362,362,626) |
| Decrease in allowance | | (6,592,699,998) | (13,910,515,724) |
| Foreign exchange differences | | 1,955,843,024 | 2,545,005,050 |
| | ¢ | 55,323,744,725 | 69,851,988,625 |

(b) Allowance for stand-by credit losses – subsidiary Scotiabank de Costa Rica, S.A.

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

| | | 2021 | 2020 |
|---|---|---|---|
| Opening balance | ¢ | 625,253,497 | 165,715,606 |
| Allowance expense | | 409,999,995 | 473,174,497 |
| Decrease in allowance | | (89,999,997) | (24,500,000) |
| Translation effect for allowances in foreign currency | | 31,295,689 | 10,863,394 |
| | ¢ | 976,549,184 | 625,253,497 |

(c) Allowance for loan losses – subsidiary Scotia Leasing de Costa Rica

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

| | 2021 | | | | 2020 |
|---|---|---|---|---|---|
| | 12-month ECL | Lifetime ECL, not credit-impaired | Lifetime ECL, credit-impaired | Total | Total |
| Balance at January 1 | 1,321,795,171 | 1,443,519,851 | 950,480,803 | 3,715,795,825 | 1,761,274,411 |
| Remeasurement of loss allowance | 683,963,657 | 127,449,013 | 238,013,673 | 1,049,426,343 | 1,317,449,522 |
| Transferred to 12-month ECL | 550,645,969 | (505,678,936) | (44,967,033) | - | - |
| Transferred to lifetime ECL – not credit-impaired | (179,600,345) | 264,549,055 | (84,948,710) | - | - |
| Transferred to lifetime ECL – credit-impaired | (13,471,902) | (110,635,434) | 124,107,336 | - | - |
| New financial assets originated or purchased | 79,281,978 | 3,631,893 | - | 82,913,871 | - |
| Financial assets that have been derecognized | (133,859,928) | (269,827,244) | (685,035,501) | (1,088,722,673) | - |
| Write-offs | (2,458,000) | (12,162,719) | (51,803,736) | (66,424,455) | (950,335,975) |
| Balance at December 31 | 2,306,296,600 | 940,845,479 | 445,846,832 | 3,692,988,911 | 2,128,387,958 |

(Continued)

## 7. Accounts and fees and commissions receivable

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

| | | 2021 | 2020 |
|---|---|---|---|
| Fees and commissions | ¢ | 253,972,079 | 382,603,716 |
| Related party transactions (Note 3) | | 746,887,975 | 1,730,088,846 |
| Deferred tax (Note 13) | | 3,090,274,307 | 8,386,731,007 |
| Other accounts receivable: | | | |
| Sundry accounts receivable related to credit cards | | 984,784,557 | 480,457,223 |
| Other expenses receivable | | 1,031,994,365 | 114,340,184 |
| Insurance policies due from customers | | 353,787 | 12,105,690 |
| ATH transactions | | 24,948,631 | 25,674,998 |
| Judgment liens | | 171,635,048 | 770,090,620 |
| Account receivable - Ministry of Finance | | 1,475,137,734 | 1,475,137,734 |
| Other sundry accounts receivable | | 502,150,153 | 443,988,105 |
| Income tax receivable | | 161,676,724 | 162,533,677 |
| | | 4,352,680,999 | 3,484,328,231 |
| Subtotal | | 8,443,815,360 | 13,983,751,800 |
| (Allowance for doubtful accounts and fees and commission receivable) | | (588,188,137) | (1,123,850,835) |
| Total | ¢ | 7,855,627,223 | 12,859,900,965 |

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

| | | 2021 | 2020 |
|---|---|---|---|
| Opening balance | ¢ | 1,123,850,835 | 856,752,330 |
| Allowance expense | | 463,281,031 | 777,847,266 |
| Charged against allowance | | (456,585,184) | (56,438,552) |
| Decrease in allowance | | (540,882,337) | (472,087,022) |
| Foreign exchange differences | | (1,476,208) | 17,776,813 |
| | ¢ | 588,188,137 | 1,123,850,835 |

(Continued)

8. Assets held for sale

As of December 31, assets held for sale are presented net of the allowance for assets held for sale and per legal requirement, as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Assets acquired in lieu of payment: | | | |
| Real property | ¢ | 14,869,470,129 | 18,361,081,854 |
| Personal property | | 2,499,320,167 | 4,514,003,749 |
| Subtotal | | 17,368,790,296 | 22,875,085,603 |
| (Allowance for impairment of assets held for sale and per legal requirement) | | (10,512,004,796) | (15,138,199,615) |
| | ¢ | 6,856,785,500 | 7,736,885,988 |

As of December 31, movement in the allowance for impairment of assets held for sale and per legal requirement is as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Opening balance | ¢ | 15,138,199,615 | 9,909,591,922 |
| Increase in allowance | | 3,321,286,025 | 6,585,949,566 |
| Write-offs | | (2,947,963,932) | (1,357,341,873) |
| Decrease in allowance | | (4,999,516,912) | - |
| | ¢ | 10,512,004,796 | 15,138,199,615 |

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

## 9. Property, furniture and equipment, net

As of December 31, 2021, property, furniture and equipment is as follows:

| | Land | Revalued land | Building | Revalued building | Furniture and equipment | Computer hardware | Vehicles | Right-of-use assets on furniture, equipment and other | Right-of-use assets on building | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | | |
| Balance as of December 31, 2020 | 2,666,671,210 | 3,957,756,660 | 5,127,451,185 | 1,059,239,935 | 9,451,981,264 | 18,293,155,995 | 509,936,767 | 114,425,105 | 23,242,901,079 | 64,423,519,200 |
| Remeasurement due to variation in installment | - | - | - | - | - | - | - | - | 2,595,870,493 | 2,595,870,493 |
| Additions | - | 164,416,692 | 3,293,850,177 | 135,511,996 | 256,208,024 | 627,298,298 | - | - | 792,165,718 | 5,269,450,905 |
| Disposals | - | - | - | (31,282,164) | - | - | - | - | (1,269,541,318) | (1,300,823,482) |
| Balance as of December 31, 2021 | 2,666,671,210 | 4,122,173,352 | 8,421,301,362 | 1,163,469,767 | 9,708,189,288 | 18,920,454,293 | 509,936,767 | 114,425,105 | 25,361,395,972 | 70,988,017,116 |
| **Accumulated depreciation and impairment:** | | | | | | | | | | |
| Balance as of December 31, 2020 | - | - | (2,559,162,725) | (376,850,222) | (6,391,200,526) | (13,195,191,081) | (202,106,605) | (26,336,126) | (2,227,284,786) | (24,978,132,071) |
| Additions | - | - | (214,505,845) | (29,405,541) | (500,636,867) | (2,026,384,660) | (50,511,700) | (26,336,125) | (2,289,034,412) | (5,136,815,150) |
| Disposals | - | - | - | - | - | - | - | - | 411,147,194 | 411,147,194 |
| Balance as of December 31, 2021 | - | - | (2,773,668,570) | (406,255,763) | (6,891,837,393) | (15,221,575,741) | (252,618,305) | (52,672,251) | (4,105,172,004) | (29,703,800,027) |
| Net balance | 2,666,671,210 | 4,122,173,352 | 5,647,632,792 | 757,214,004 | 2,816,351,895 | 3,698,878,552 | 257,318,462 | 61,752,854 | 21,256,223,968 | 41,284,217,089 |

The depreciation expense for the year ended December 31, 2021, amounted to ¢5,136,815,150 and was charged to profit or loss.

As of December 31, 2020 property, furniture and equipment, net is as follows:

| | Land | Revalued land | Building | Revalued building | Furniture and equipment | Computer hardware | Vehicles | Right-of-use assets on furniture, equipment and other | Right-of-use assets on building | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | | | | |
| Balance as of January 1, 2020 | 2,124,786,928 | 3,957,756,660 | 4,890,207,084 | 1,059,239,935 | 9,460,365,253 | 17,502,458,708 | 509,936,767 | 114,425,106 | 23,988,804,161 | 63,607,980,602 |
| Additions | 541,884,282 | - | 237,244,101 | - | 55,981,849 | 973,060,326 | - | - | - | 1,808,170,558 |
| Disposals | - | - | - | - | (64,365,838) | (182,363,039) | - | - | (745,903,082) | (992,631,959) |
| Balance as of December 31, 2020 | 2,666,671,210 | 3,957,756,660 | 5,127,451,185 | 1,059,239,935 | 9,451,981,264 | 18,293,155,995 | 509,936,767 | 114,425,106 | 23,242,901,079 | 64,423,519,201 |
| **Accumulated depreciation and impairment:** | | | | | | | | | | |
| Balance as of January 1, 2020 | - | - | (2,366,110,330) | (348,078,769) | (5,911,305,092) | (11,459,120,067) | (151,594,905) | (26,336,126) | (2,294,653,702) | (22,557,198,991) |
| Additions | - | - | (193,052,395) | (28,771,453) | (530,851,724) | (1,747,141,032) | (50,511,700) | - | - | (2,550,328,304) |
| Disposals | - | - | - | - | 50,956,290 | 11,070,018 | - | - | 67,368,916 | 129,395,224 |
| Balance as of December 31, 2020 | - | - | (2,559,162,725) | (376,850,222) | (6,391,200,526) | (13,195,191,081) | (202,106,605) | (26,336,126) | (2,227,284,786) | (24,978,132,071) |
| Net balance | 2,666,671,210 | 3,957,756,660 | 2,568,288,460 | 682,389,713 | 3,060,780,738 | 5,097,964,914 | 307,830,162 | 88,088,980 | 21,015,616,293 | 39,445,387,130 |

The depreciation expense for the year ended December 31, 2020, amounted to ¢2,550,328,304 and was charged to profit or loss.

(Continued)

10. Other assets

As of December 31, other assets are as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Deferred charges: | | | |
| Leasehold improvements - operating lease, net | ¢ | 1,745,395,898 | 1,798,028,428 |
| Subtotal | | 1,745,395,898 | 1,798,028,428 |
| Intangible assets: | | | |
| Software, net | | 2,019,032,366 | 2,607,584,107 |
| Other | | 387,129,151 | 642,254,183 |
| Subtotal | | 2,406,161,517 | 3,249,838,290 |
| Other assets: | | | |
| Prepaid taxes | | 1,798,131,949 | 2,004,303,504 |
| Prepaid insurance | | 336,160,453 | 1,084,769,896 |
| Other prepaid expenses | | 523,544,044 | 746,725,989 |
| Stationery, office supplies and other materials | | 297,953,776 | 300,776,284 |
| Library and artwork | | 16,018,133 | 16,018,133 |
| Construction work-in-progress | | 216,198,639 | 577,217,109 |
| Software under development | | 942,131,332 | 973,390,883 |
| Operations pending settlement | | 9,015,738,763 | 8,879,964,830 |
| Internal reciprocal accounts | | 20,810,000 | 34,950,038 |
| Security deposits (Note 2) | | 408,618,638 | 396,631,433 |
| Subtotal | | 13,575,305,727 | 15,014,748,099 |
| | ¢ | 17,726,863,142 | 20,062,614,817 |

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

| | | 2021 | 2020 |
|---|---|---|---|
| Amortization of leasehold improvements | ¢ | 71,266,032 | 182,810,654 |
| Amortization of software | | 1,588,465,584 | 1,296,904,616 |
| Amortization of other assets | | 60,535,744 | 726,428,926 |
| Total | ¢ | 1,720,267,360 | 2,206,144,196 |

## 11. Obligations with the public

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

| | | 2021 | 2020 |
|---|---|---|---|
| Demand | | | |
| Deposits: | | | |
| Checking accounts | ¢ | 460,763,543,257 | 377,206,973,623 |
| Certified checks | | 39,385,165 | 54,550,186 |
| Demand savings deposits | | 70,211,934,873 | 61,926,478,816 |
| Matured term deposits | | 1,640,234,055 | 1,888,413,336 |
| Overnight deposits | | 1,446,147,125 | 1,778,893,500 |
| | | 534,101,244,475 | 442,855,309,461 |
| Other obligations with the public: | | | |
| Notes payable on demand - creditors | | 546,878,863 | 804,283,990 |
| Drafts and transfers (Note 2) | | 2,033,720,988 | 2,237,615,237 |
| Cashier's checks | | 763,053,000 | 1,207,180,275 |
| Sundry demand obligations with the public | | 185,330,744 | 117,516,868 |
| Subtotal other obligations with the public | | 3,528,983,595 | 4,366,596,370 |
| Subtotal demand obligations | ¢ | 537,630,228,070 | 447,221,905,831 |
| Term | | | |
| Deposits: | | | |
| Term deposits from the public | ¢ | 843,314,001,538 | 931,972,077,951 |
| Term deposits pledged as guarantee | | 65,338,737,276 | 64,000,274,179 |
| Term deposits with related parties | | 212,028,324 | - |
| | | 908,864,767,138 | 995,972,352,130 |
| Charges payable for other obligations with the public | | 6,058,890,192 | 8,149,199,983 |
| Total | ¢ | 1,452,553,885,400 | 1,451,343,457,944 |

As of December 31, 2021, the balances of the issue of standardized bonds are included in current term deposit accounts. As of that date, term deposits include standardized bonds in the amount of ¢97,150,000,000 and US$8,100,000 (2020: ¢117,275,000,000 and US$8,100,000) bearing interest at rates ranging from 3.82% to 7.94% per annum in colones and at 5.00% per annum in US dollars (2020: from 4.71% to 7.94% per annum in colones and at 5.00% 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, 2021, certificates of deposit bear interest at rates ranging between 0.88% and 10.98% per annum in Costa Rican colones and between 0.29% and 6.79% per annum in US dollars (2020: from 1.53% to 10.98% per annum in colones and from 0.36% to 8.91% per annum in US dollars).

12. Obligations with entities

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

| | | 2021 | 2020 |
|---|---|---|---|
| *Obligations with BCCR:* | | | |
| Loan with BCCR | ¢ | 49,950,000,000 | - |
| | | 49,950,000,000 | - |
| *Demand obligations:* | | | |
| Checking accounts of local financial entities | ¢ | 54,479,011,696 | 14,871,763,663 |
| Checking accounts and obligations with related parties (Note 3) | | 1,517,764,149 | 1,198,631,782 |
| | | 55,996,775,845 | 16,070,395,445 |
| *Term obligations:* | | | |
| Term deposits from local financial entities | | 10,088,726,903 | 9,837,083,227 |
| Loans with local financial entities | | 12,574,155,044 | 13,358,817,175 |
| Other loans from foreign financial entities | | 2,765,357,152 | 32,062,665,564 |
| Lease liabilities | | 25,712,104,894 | 23,489,169,313 |
| Obligations with related financial entities (Note 3) | | 263,24,621,525 | 346,247,079,332 |
| Obligations for deferred liquidity operations | | 7,800,000,000 | - |
| Subtotal | | 322,264,965,518 | 424,994,814,611 |
| *Other obligations with financial entities* | | | |
| Issued letters of credit | | 212,321,448 | 260,781,472 |
| (Deferred commissions) | | (45,713,295) | - |
| Subtotal | | 166,608,153 | 260,781,472 |
| Subtotal other obligations with entities | | 428,378,349,516 | 441,325,991,528 |
| Charges payable on obligations with BCCR | | 258,272,778 | - |
| Charges payable on obligations with financial and non-financial entities | | 395,583,123 | 908,498,037 |
| Total | ¢ | 429,032,205,417 | 442,234,489,565 |

As of December 31, 2021, other financial obligations bear interest rates ranging from 0.80% to 5.20% in colones (2020: at 5.70%) and from 0.17% to 3.77% per annum in US dollars (2020: from 0.21% to 3.77%).

Obligations with BCCR correspond to a special financing facility (deferred term operation, ODP) created in order to provide the financial intermediaries regulated by SUGEF with financing in local currency, in the medium term and at low cost, with the condition that those funds be transferred, also in favorable conditions, to the homes and companies affected by the COVID-19 pandemic. This measure seeks to provide solvency in the medium term to mitigate the negative economic effects of COVID-19 and to support the economic recovery, employment and to protect the stability of the financial system. The line of credit is secured by the collaterals available and eligible according to the system of guarantees of the Integrated Liquidity Market (MIL), in colones and in US dollars. In addition, the guarantee must cover the full amount granted over the entire term of the loan.

The amounts approved for this line of credit with BCCR are ¢33,650,000,000 with a financing term of two years and ¢16,300,000,000 with a term of four years. Disbursements shall be made according to the approved Plan of Use. The principal and interest are payable on maturity; the interest rate is equivalent to the rate of the monetary policy on the date of formalization plus an adjustment component of five basis points. The rate will be effective for the full term of the loan (fixed rate).

The Corporation commits to complying with the following general conditions:

- i. Comply with the plan previously approved by BCCR under the established terms.
- ii. Channel the funds of the ODP to its customers (individuals and companies) affected by the crisis due to the COVID-19 pandemic.
- iii. The funds from this special financing facility provided by BCCR cannot be used to grant new loans in foreign currency.
- iv. Existing loans in foreign currency can be converted into loans in colones, but only as part of restructuring and refinancing operations. Loans in foreign currency converted into loans in colones may not exceed 25% of the funds of the special financing facility assigned to the Corporation.
- v. Dividends and surplus (as applicable) cannot be paid during the first twelve months from the date when this facility enters into effect (from September 3, 2020 to September 3, 2021), except for commitments related to preferred shares.

(Continued)

vi. ODP funds cannot be used for the early payment of liabilities with its economic interest group nor to grant extensions, restructuring, refinancing or new loans to its economic interest group.

vii. An interest rate floor cannot be established, nor penalties for early payment by customers who benefit from ODP funds.

viii. The Corporation commits to not generating surcharges or penalties for restructuring, refinancing and extensions granted.

ix. Submit monthly updates to BCCR on the progress of the Plan of Use of the funds, by operation, in XML format. Moreover, provide additional information that the Corporation considers essential to the approval and monitoring of said plan.

In the event of noncompliance with any of the general or specific conditions, BCCR will unilaterally cancel the financing facility granted and demand repayment in full of the funds disbursed to date, plus the corresponding interest, within five business days.

Maturities of obligations with entities

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

| | | 2021 | 2020 |
|---|---|---|---|
| Less than 1 year | ¢ | 293,802,109,516 | 275,083,623,706 |
| 1-2 years | | 65,166,996,887 | 93,656,867,923 |
| 2-3 years | | 20,989,494,004 | 24,477,983,419 |
| 3-4 years | | 17,594,152,757 | 18,907,205,873 |
| 4-5 years | | 3,695,289,837 | 4,097,894,224 |
| More than 5 years | | 27,176,019,810 | 25,102,416,383 |
| | | 428,424,062,811 | 441,325,991,528 |
| Charges payable on obligations with BCCR | | 258,272,778 | - |
| Charges payable on obligations with financial and non-financial entities | | 395,583,123 | 908,498,037 |
| Deferred commissions | | (45,713,295) | - |
| Total | ¢ | 429,032,205,417 | 442,234,489,565 |

Lease liabilities

As of December 31, lease liabilities are as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Leases in colones | ¢ | 286,022,250 | 200,783,553 |
| Leases in US dollars | | 25,426,082,644 | 23,288,385,760 |
| Total | ¢ | 25,712,104,894 | 23,489,169,313 |

Leases payable bear interest at 11.59% per annum in colones and between 7.58% and 8.84% per annum in US dollars, with maturities between January 31, 2021 and February 28, 2038.

The maturity of discounted contractual cash flows related to lease liabilities is as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Less than 1 year | ¢ | 1,250,325,689 | 1,398,533,633 |
| 1-2 years | | 1,252,193,210 | 1,489,496,045 |
| 2-5 years | | 3,906,495,637 | 4,347,676,269 |
| More than 5 years | | 19,303,090,358 | 16,253,463,366 |
| Total | ¢ | 25,712,104,894 | 23,489,169,313 |

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

| | | 2021 | 2020 |
|---|---|---|---|
| Balance at beginning of year | ¢ | 23,489,169,313 | 24,103,229,267 |
| Payment of lease liabilities | | (1,334,458,601) | (4,525,156,102) |
| Total changes in cash flows from financing activities | | 22,154,710,712 | 19,578,073,165 |
| Other changes | | | |
| New leases | | 792,165,717 | - |
| Settlement of leases | | (885,089,431) | (750,820,506) |
| Variation in installment | | 2,595,870,493 | - |
| Foreign exchange differences | | 1,054,447,403 | 4,661,916,654 |
| Balance at end of year | ¢ | 25,712,104,894 | 23,489,169,313 |

13. Income tax

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

| | | 2021 | 2020 |
|---|---|---|---|
| Current tax | ¢ | 3,448,460,703 | 1,721,490,295 |
| Deferred tax | | 2,555,447,552 | 3,709,068,398 |
| Changes in prior-period income tax | | 1,455,037,852 | - |
| Total income tax, net | ¢ | 7,458,946,107 | 5,430,558,693 |

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

| | | 2021 | 2020 |
|---|---|---|---|
| Expected income tax | ¢ | 4,429,752,019 | 4,613,051,326 |
| Plus (less) | | | |
| Non-deductible expenses | | 1,439,578,973 | 3,039,750,417 |
| Non-taxable income | | (1,072,453,153) | (39,574,796) |
| Effect of tax treatment for leases | | 1,207,030,416 | (2,182,668,254) |
| Changes in prior-period income tax | | 1,455,037,852 | - |
| Total | ¢ | 7,458,946,107 | 5,430,558,693 |

Movement in deferred tax, net is as follows:

| 2021 | | Net balance as of January 1, | Included in the income statement | Included in equity | As of December 31, Net balance | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|
| Unrealized losses on valuation of investments | | 114,341,578 | - | (78,416,634) | 35,924,944 | 35,924,944 | - |
| Allowances | ¢ | 9,884,535,264 | (4,129,554,845) | (917,682,940) | 4,837,297,479 | 4,837,297,479 | - |
| Provisions | | - | 644,048,700 | - | 644,048,700 | 644,048,700 | - |
| Leases | | (1,529,327,336) | 922,865,732 | - | (606,461,604) | - | (606,461,604) |
| Unrealized gains on valuation of investments | | (228,148,695) | - | (584,333,920) | (812,482,615) | - | (812,482,615) |
| Revaluation of assets | | (878,411,918) | 7,192,861 | (592,787,378) | (1,464,006,435) | - | (1,464,006,435) |
| Deferred tax asset (liability), before offsetting | | 7,362,988,893 | (2,555,447,552) | (2,173,220,872) | 2,634,320,469 | 5,517,271,123 | (2,882,950,654) |
| Offsetting | | - | - | - | - | (2,426,996,816) | 2,426,996,816 |
| Deferred tax asset (liability) | ¢ | 7,362,988,893 | (2,555,447,552) | (2,173,220,872) | 2,634,320,469 | 3,090,274,307 | (455,953,838) |

| 2020 | | Net balance as of January 1, | Included in the income statement | Included in equity | As of December 31, Net balance | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|
| Unrealized losses on valuation of investments | | - | - | 114,341,578 | 114,341,578 | 114,341,578 | - |
| Allowances | ¢ | 14,015,971,550 | (2,894,628,051) | (1,236,808,235) | 9,884,535,264 | 9,884,535,264 | - |
| Tax treatment of leases | | (714,886,989) | (814,440,347) | - | (1,529,327,336) | - | (1,529,327,336) |
| Unrealized gains on valuation of investments | | (793,944,268) | - | 565,795,573 | (228,148,695) | - | (228,148,695) |
| Revaluation of assets | | (318,891,929) | - | (559,519,989) | (878,411,918) | - | (878,411,918) |
| Deferred tax asset (liability), before offsetting | | 12,188,248,364 | (3,709,068,398) | (1,116,191,073) | 7,362,988,893 | 9,998,876,842 | (2,635,887,949) |
| Offsetting | | - | - | - | - | (1,612,145,835) | 1,612,145,835 |
| Deferred tax asset (liability) | ¢ | 12,188,248,364 | (3,709,068,398) | (1,116,191,073) | 7,362,988,893 | 8,386,731,007 | (1,023,742,114) |

(Continued)

## 14. Accounts payable and provisions

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

| | | 2021 | 2020 |
|---|---|---|---|
| Deferred tax (Note 13) | ¢ | 455,953,838 | 1,023,742,114 |
| Provisions | | 11,609,513,536 | 9,113,144,199 |
| Other sundry accounts payable: | | | |
| Difference in position in derivative financial instruments | | 29,614,303 | 100,836 |
| Professional fees | | 14,223,878 | 84,331,283 |
| Creditors - goods and services | | 961,740,625 | 644,199,655 |
| Taxes payable | | 1,612,380,803 | 363,254,414 |
| Employer withholdings | | 4,003,807 | 2,776,056 |
| Tax withholdings | | 1,347,899,314 | 1,649,707,143 |
| Employee withholdings | | 1,554,683,048 | 1,271,997,454 |
| Other third-party withholdings payable | | 1,214,849 | 2,061,202 |
| Statutory allocations or excess payable | | 292,133,039 | 320,338,622 |
| Related parties (Note 3) | | 4,711,065,336 | 3,655,807,612 |
| Clearing house operations | | 143,399,607 | 103,132,870 |
| Accrued vacation | | 669,646,609 | 618,553,041 |
| Accrued statutory Christmas bonus | | 351,298,933 | 283,609,034 |
| Contributions to the Superintendencies' Budget | | 26,185,757 | 61,110,255 |
| INS insurance policies | | 2,411,459,409 | 3,240,639,537 |
| Term deposits with related parties | | 57,358,530 | 17,585,358 |
| Credit balances of credit card customers | | 4,969,111,260 | 2,780,879,045 |
| Matured checks outstanding | | 197,313,379 | 173,597,907 |
| Public utility and tax collection services | | 1,045,051,312 | 892,926,159 |
| Other sundry accounts payable | | 13,632,504,141 | 12,383,117,337 |
| Subtotal | | 34,032,287,939 | 28,549,724,820 |
| Total | ¢ | 46,097,755,313 | 38,686,611,133 |

### a) Provisions

| | | 2021 | 2020 |
|---|---|---|---|
| Provisions for employer obligations | ¢ | 494,809,093 | 1,081,327,690 |
| Provisions for pending litigation | | 5,978,051,812 | 5,676,525,208 |
| Provisions for restructuring costs | | 948,321,121 | - |
| Other provisions | | 1,192,043,611 | 1,039,606,483 |
| Provisions for cashback | | 191,341,496 | 342,430,347 |
| Provision for employee incentives | | 2,804,946,403 | 973,254,471 |
| Total | ¢ | 11,609,513,536 | 9,113,144,199 |

(Continued)

As of December 31, 2021, provisions for pending litigation are provisions created by the subsidiary Scotiabank de Costa Rica, S.A. in the amount of ¢2,152,217,461 (2020: ¢975,550,498), derived from the tax reviews performed by the Tax Authorities that resulted in a notice 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, 2021 and 2020, 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 34).

Movement in provisions is as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Provisions for employer obligations: | | | |
| Opening balance | ¢ | 1,081,327,690 | 83,226,408 |
| Provisioned | | 595,355,833 | 1,708,923,047 |
| Used | | (1,181,874,430) | (710,821,765) |
| Closing balance | | 494,809,093 | 1,081,327,690 |
| Provisions for pending litigation: | | | |
| Opening balance | | 5,676,525,208 | 5,043,028,710 |
| Provisioned | | 1,176,666,962 | 739,647,409 |
| Used | | (875,140,358) | (106,150,911) |
| Closing balance | | 5,978,051,812 | 5,676,525,208 |
| Other provisions: | | | |
| Opening balance | | 2,355,291,301 | 4,235,029,057 |
| Provisioned | | 10,204,726,747 | 6,204,204,029 |
| Used | | (7,423,365,417) | (8,083,941,785) |
| Closing balance | | 5,136,652,631 | 2,355,291,301 |
| Total | | | |
| Opening balance | | 9,113,144,199 | 9,361,284,175 |
| Provisioned | | 11,976,749,542 | 8,652,774,485 |
| Used | | (9,480,380,205) | (8,900,914,461) |
| Total | ¢ | 11,609,513,536 | 9,113,144,199 |

15. Other liabilities

As of December 31, other liabilities are as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Other deferred income | ¢ | 195,286 | 14,929,767 |
| Excess cash on hand | | 13,929,063 | 18,932,018 |
| Operations pending settlement | | 5,081,428,783 | 6,290,082,173 |
| Other operations pending application | | 554,576,598 | 664,040,091 |
| | ¢ | 5,650,129,730 | 6,987,984,049 |

16. Equity

a) Share capital

As of December 31, 2021 and 2020, the Corporation's share capital is represented by 432,714,614 ordinary registered shares with a par value of US$1.00, for a total of US$432,714,614 (equivalent to ¢222,915,887,742).

Through Official Communication CNS-1627/06 dated December 7, 2020, CONASSIF approved the increase in the Corporation's capital 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). The increase is from non-capitalized capital contributions approved in the Extraordinary General Shareholders' Meeting of December 26, 2018.

b) Increase in capital

As of December 31, 2021 and 2020, the balance of non-capitalized capital contributions is ¢993,101,251.

c) Equity adjustments – other comprehensive income

As of December 31, equity adjustments are as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Surplus from revaluation of property | ¢ | 3,814,443,823 | 4,092,475,239 |
| Adjustment due to valuation of investments at FVOCI | | 2,911,579,635 | 1,062,462,054 |
| | ¢ | 6,726,023,458 | 5,154,937,293 |

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, 2021, the consolidated financial statements include a legal reserve in the amount of ¢22,303,646,062 (2020: ¢21,854,594,501).

e) Prior period retained earnings

As of December 31, 2021, prior period retained earnings amount to ¢66,176,835,310 (2020: ¢59,645,655,366).

17. 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:

| | | 2021 | 2020 |
|---|---|---|---|
| Guarantees | ¢ | 9,745,912,982 | 4,534,635,916 |
| Performance bonds | | 21,020,549,260 | 21,063,891,066 |
| Bid bonds | | 224,952,112 | 328,963,871 |
| Other guarantees | | 13,543,379,591 | 11,408,205,550 |
| Letters of credit issued but unused | | 9,459,914,476 | 8,339,352,207 |
| Lines of credit (automatic use) | | 389,776,528,218 | 398,148,188,940 |
| Pre-approved lines of credit | | 18,263,358,147 | 9,157,302,116 |
| Forwards contracts | | 2,990,157,284 | 3,874,851,391 |
| Total | ¢ | 465,024,752,070 | 456,855,391,057 |

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

18. 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.

(Continued)

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

| | | 2021 | 2020 |
|---|---|---|---|
| Cash and due from banks | ¢ | 18,485,450,705 | 18,679,902,998 |
| Investments in financial instruments | | 81,484,911,816 | 84,227,972,053 |
| Loan portfolio | | 455,002,787,920 | 455,102,451,487 |
| Accounts and fees and commissions | | 3,830,160,182 | 2,287,945,874 |
| Assets held for sale | | 269,854,414,156 | 270,008,203,615 |
| Investments in other companies | | 15,738,002,952 | 17,060,645,109 |
| Property and equipment | | 143,948,862,687 | 159,080,399,804 |
| Other assets | | 739,687,721,796 | 737,151,137,278 |
| Investments in property | | 23,803,391,727 | 18,503,351,763 |
| Total | ¢ | 1,751,835,703,941 | 1,762,102,009,981 |

19. Sureties

As of December 31, 2021 and 2020, the Corporation has not issued sureties.

20. Other memoranda accounts

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

| | | 2021 | 2020 |
|---|---|---|---|
| Other own debit memoranda accounts: | | | |
| Guarantees received in custody of the Corporation | ¢ | 59,249,578,498 | 61,386,031,806 |
| Guarantees received in custody of third parties | | 5,797,115,766,006 | 6,130,667,471,811 |
| Lines of credit granted but unused | | 341,892,735,941 | 370,389,462,605 |
| Write-offs | | 255,946,181,907 | 217,046,031,717 |
| Unearned interest on non-accrual loans | | 4,032,614,756 | 3,986,482,100 |
| Supporting documentation | | 1,180,845,079,796 | 1,136,939,747,011 |
| Other memoranda accounts | | 1,815,191,464,396 | 1,787,178,401,263 |
| | | 9,454,273,421,300 | 9,707,593,628,313 |
| Third-party debit memoranda accounts: | | | |
| Third-party assets and securities in custody | | 109,287,198,007 | 104,625,276,169 |
| Assets of managed funds (Note 23) | | 64,131,524,394 | 49,131,357,524 |
| | | 173,418,722,401 | 153,756,633,693 |
| Total | ¢ | 9,627,692,143,701 | 9,861,350,262,006 |

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.

21. 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.

22. Investment fund management agreements

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

| | | 2021 | | | 2020 |
|---|---|---|---|---|---|
| | | Assets | Liabilities | Net assets | Net assets |
| In colones: | | | | | |
| Fondo de Inversión No Diversificado Scotia Certifondo C (Scotia "Certifondo" Non-Diversified Fund Series C) | | 5,592,356,208 | 9,427,996 | 5,582,928,211 | 8,444,897,852 |
| | ¢ | 5,592,356,208 | 9,427,996 | 5,582,928,211 | 8,444,897,852 |
| In US dollars: | | | | | |
| Fondo de Inversión No Diversificado Scotia Exposición a Renta Fija Global (Scotia Non-Diversified Fixed Income Fund) | | 10,891,117 | 18,099 | 10,873,018 | 5,467,728 |
| Fondo de Inversión No Diversificado Scotia Exposición a Acciones Estados Unidos (Scotia Non-Diversified US Equity Fund) | | 17,103,747 | 32,832 | 17,070,915 | 6,525,254 |
| Fondo de Inversión No Diversificado Scotia Exposición a Acciones Globales (Scotia Non-Diversified International Equity Fund) | | 9,588,921 | 20,995 | 9,567,926 | 3,993,018 |
| Fondo de Inversión No Diversificado Scotia Certifondo D (Scotia "Certifondo" Non-Diversified Fund Series D) | | 53,265,978 | 39,990 | 53,225,988 | 49,924,351 |
| | US$ | 90,849,763 | 111,916 | 90,737,847 | 65,910,351 |
| Total expressed in colones | ¢ | 58,620,809,982 | 72,213,799 | 58,548,596,183 | 40,686,459,672 |
| Total | ¢ | 64,213,165,784 | 81,641,795 | 64,131,524,394 | 49,131,357,524 |

(Continued)

The 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.

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)

## 23. Finance income on loan portfolio

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

| | | 2021 | 2020 |
|---|---|---|---|
| Current loans: | | | |
| Individuals | ¢ | 98,683,126,788 | 121,424,455,541 |
| Development Banking System | | 365,420,546 | 708,969,345 |
| Business | | 3,852,576,447 | 2,886,165,520 |
| Corporate | | 26,360,192,329 | 29,777,936,834 |
| Financial sector | | 3,452,725 | 8,493,943 |
| Subtotal | | 129,264,768,835 | 154,806,021,183 |
| Past due loans and loans in legal collection: | | | |
| Individuals | ¢ | 17,093,000,815 | 17,804,295,824 |
| Development Banking System | | 3,249,182 | - |
| Business | | 867,410,160 | 499,541,069 |
| Corporate | | 1,318,129,683 | 2,429,611,004 |
| Financial sector | | 315,442 | 2,318,422 |
| Subtotal | | 19,282,105,282 | 20,735,766,319 |
| Total | ¢ | 148,546,874,117 | 175,541,787,502 |

## 24. Finance costs

### (a) Obligations with the public

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

| | | 2021 | 2020 |
|---|---|---|---|
| Demand deposits | ¢ | 5,219,091,757 | 5,576,032,402 |
| Term deposits | | 41,243,328,312 | 51,027,572,933 |
| | ¢ | 46,462,420,069 | 56,603,605,335 |

(Continued)

(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:

| | | 2021 | 2020 |
|---|---|---|---|
| Demand obligations with financial entities | ¢ | 1,063,967,482 | 769,736,482 |
| Term obligations with financial entities | | 5,440,589,367 | 10,226,192,388 |
| | ¢ | 6,504,556,849 | 10,995,928,870 |

## 25. 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”.

As of December 31, net foreign exchange gains and losses are as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Foreign exchange gains: | | | |
| Obligations with the public | ¢ | 127,707,778,793 | 191,172,118,333 |
| Other financial obligations | | 36,046,939,163 | 72,427,280,082 |
| Other accounts payable and provisions | | 4,264,290,031 | 20,394,171,422 |
| Cash and due from banks | | 80,779,267,808 | 167,159,536,247 |
| Investments in financial instruments | | 16,453,652,508 | 23,321,152,066 |
| Current loans | | 155,093,715,600 | 267,184,170,877 |
| Past due loans and loans in legal collection | | 26,033,831,040 | 45,933,374,020 |
| Accounts and fees and commissions receivable | | 8,156,719,411 | 26,105,235,311 |
| Total | | 454,536,194,354 | 813,697,038,358 |
| Foreign exchange losses: | | | |
| Obligations with the public | | 176,013,011,373 | 273,393,561,040 |
| Other financial obligations | | 48,005,855,410 | 107,398,913,489 |
| Other accounts payable and provisions | | 5,465,995,343 | 22,813,446,841 |
| Cash and due from banks | | 67,511,440,983 | 145,506,912,016 |
| Investments in financial instruments | | 12,215,802,518 | 16,042,223,212 |
| Current loans | | 113,514,747,142 | 181,489,255,330 |
| Past due loans and loans in legal collection | | 21,406,151,938 | 38,187,717,505 |
| Accounts and fees and commissions receivable | | 7,588,004,641 | 25,308,874,010 |
| Total | | 451,721,009,348 | 810,140,903,443 |
| Net foreign exchange gain | ¢ | 2,815,185,006 | 3,556,134,915 |

## 26. Service fees and commissions

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

| | | 2021 | 2020 |
|---|---|---|---|
| Fee and commission income: | | | |
| Drafts and transfers | ¢ | 1,755,632,352 | 1,578,311,790 |
| Foreign trade | | 999,258 | 564,340 |
| Certified checks | | 3,499 | - |
| Trust management | | 1,079,130,768 | 1,070,196,745 |
| Collections | | 8,324,460 | 3,078,425 |
| Other banking mandates | | 1,045,361,897 | 732,369,218 |
| Credit cards | | 8,243,245,273 | 14,610,893,052 |
| Investment fund management | | 604,976,461 | 457,601,312 |
| Insurance underwriting | | 5,700,077,770 | 5,696,870,458 |
| Operations with related parties (Note 3) | | 12,653 | - |
| Other | | 19,716,580,314 | 13,076,872,971 |
| | ¢ | 38,154,344,705 | 37,226,758,311 |

## 27. Personnel expenses

As of December 31, personnel expenses are as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Salaries and bonuses - permanent staff | ¢ | 25,005,294,511 | 24,965,996,964 |
| Compensation for board members and statutory examiners | | 23,743,815 | 34,833,309 |
| Overtime | | 179,742,108 | 192,256,225 |
| Travel expenses | | 109,457,419 | 148,507,235 |
| Statutory Christmas bonus | | 2,152,785,212 | 2,146,955,481 |
| Vacation | | 1,027,771,702 | 1,019,571,363 |
| Incentives | | 14,126,599 | 4,013,252 |
| Other compensation | | 1,761,430 | 145,431,309 |
| Employer social security taxes | | 5,769,547,709 | 5,787,520,807 |
| Refreshments | | 81,757,223 | 166,911,418 |
| Uniforms | | 10,996,753 | 31,053,053 |
| Training | | 14,702,221 | 20,615,070 |
| Employee insurance | | 358,836,051 | 366,345,078 |
| Compulsory retirement savings account | | 1,174,965,360 | 1,183,022,417 |
| Other | | 889,072,984 | 934,518,147 |
| | ¢ | 36,814,561,097 | 37,147,551,128 |

(Continued)

28. Other administrative expenses

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

| | | 2021 | 2020 |
|---|---|---|---|
| Outsourcing | ¢ | 14,176,428,925 | 16,196,070,487 |
| Transportation and communications | | 1,176,766,341 | 1,211,117,461 |
| Infrastructure | | 14,039,306,724 | 15,032,012,429 |
| Overhead | | 9,167,749,654 | 9,789,244,871 |
| | ¢ | 38,560,251,644 | 42,228,445,248 |

29. 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 statement of financial position is mainly comprised of financial instruments.

(Continued)

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.

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.

(Continued)

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

| | | 2021 | 2020 |
|---|---|---|---|
| Cash and due from banks | ¢ | 339,821,256,580 | 329,361,878,183 |
| Investments in financial instruments | | 190,085,432,484 | 162,300,696,943 |
| Loan portfolio | | 1,647,824,620,171 | 1,678,025,390,101 |
| Accounts and fees and commissions receivable | | 11,647,727,530 | 15,240,381,084 |
| Guarantees granted | | 44,534,793,945 | 37,335,696,403 |
| Letters of credit issued but unused | | 9,459,914,476 | 8,339,352,207 |
| Total | ¢ | 2,243,373,745,186 | 2,230,603,394,921 |

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 | |
|---|---|---|---|---|---|---|---|
| | | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| *Individually assessed loans with allowance:* | | | | | | | |
| 1 | ¢ | 3,430,829,635 | - | 52,060,267,436 | - | - | - |
| 3 | | 20,119,095 | - | - | - | - | - |
| A1 | | 1,345,216,212,707 | 1,392,668,299,577 | - | 77,382,374,889 | 22,896,490,365 | 21,332,778,950 |
| A2 | | 19,277,402,900 | 18,559,732,784 | - | - | 2,718,721 | 35,563 |
| B1 | | 126,373,027,365 | 116,554,899,598 | - | - | 1,334,713,883 | 1,418,713,051 |
| B2 | | 14,433,296,073 | 8,818,033,934 | - | - | 47,382,467 | 38,427 |
| C1 | | 58,807,909,284 | 43,714,740,713 | - | - | 12,239,995,658 | 540,758,454 |
| C2 | | 5,372,911,023 | 5,663,206,714 | - | - | - | 28,179,159 |
| D | | 25,039,105,005 | 32,270,857,799 | - | - | 2,335,521,369 | 4,340,416,989 |
| E | | 57,786,822,468 | 54,998,874,172 | - | - | 38,677,375 | 103,193,462 |
| Total | ¢ | 1,655,757,635,555 | 1,673,248,645,291 | 52,060,267,436 | 77,382,374,889 | 38,895,499,838 | 27,764,114,055 |
| Allowance for loan losses | | (55,201,091,946) | (59,140,087,852) | (23,850,793) | (318,032,847) | (539,831,843) | (194,700,163) |
| Carrying amount | ¢ | 1,600,556,543,609 | 1,614,108,557,439 | 52,036,416,643 | 77,064,342,042 | 38,355,667,995 | 27,569,413,892 |
| Excess allowance over structural allowance | | (3,525,455,539) | (12,952,809,217) | - | - | (703,052,699) | - |
| Net carrying amount | ¢ | 1,597,031,088,070 | 1,601,155,748,222 | 52,036,416,643 | 77,064,342,042 | 37,652,615,296 | 27,569,413,892 |

(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.

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.

(Continued)

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.

Due to the emergency health crisis caused by the pandemic, SUGEF included several transition provisions in the regulations, mostly related to the special loan operation classification mentioned above.

The main modifications are that the regulation will qualify as a special operation any operation that has been modified more than twice within 24 months, through restructuring, extension, refinancing or a combination thereof. An exception is granted to Group 2 borrowers which as of the date of entrance into effect of this amendment have had two restructurings within the last 24 months; such borrowers are able to restructure their loan once again during the period ending June 30, 2021 without it qualifying as a special operation. At the discretion of each regulated entity, the entity can also take immediate action regarding exceptions to its credit policies and procedures the presentation of information usually required for the analysis of creditworthiness solely to ensure the timely granting of extensions, restructurings, refinancing or a combination thereof.

The following table includes the references to the transition provisions in the regulation as a response to the declaration of national emergency:

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

(Continued)

| COMMUNICATION | DATE | DIRECTIVE | PROVISIONS |
|---|---|---|---|
| CNS 1566-03-2020 | 03/24/2020 | SUGEF Directive 24-00<br>SUGEF Directive 17-13 | **Transition Provision XIV**: based on elements of systemic risk, or when necessary to protect the financial system's stability, having issued a resolution based on adequate grounds, SUGEF may modify the parameters that determine the level of normalcy or irregularity of the liquidity indicators. Effective from the date of this amendment until September 30, 2020. |
| CNS 1566-03-2020 | 03/24/2020 | SUGEF Directive 24-00 | Suspends the application of subparagraph g) of Art. 22 of SUGEF Directive 24-00. [53b] [57] When a financial entity has losses for six or more months, whether consecutive or not, during the last 12 months. |
| CNS 1569-05-2020 | 04/14/2020 | SUGEF Directive 3-06 | **Transition Provision XI**: Suspends the application of the additional charge by term set forth in Art. 18bis of SUGEF Directive SUGEF 3-06, both for new and restructured loans. Effective as of the March 2020 close and until March 31, 2021. |
| CNS 1569-05-2020 | 04/14/2020 | SUGEF Directive 1-05 | **Transition Provision XIX**: For purposes of subsection k) of Article 3 of these regulations, an exception is made for any modification to the contractual conditions that entails the extension of the agreed maturity date. Effective from the date of this amendment until June 30, 2021. |
| CNS 1572-07-2020 | 04/28/2020 | SUGEF Directive 3-06 | **Transition Provision XIII**: the correction factor referred to in Art. 23 of this Directive is set at "3". Article 23. Capital requirement for price risk. The capital requirement for price risk is equal to the VaR calculated with cutoff on the last day of each month, multiplied by a correction factor of "6". Effective from the date of this amendment until June 30, 2021. |
| CNS 1572-06-2020<br>CNS 1573-10-2020 | 05/08/2020 | SUGEF Directive 1-05 | Eliminate the second to last paragraph of Article 7 of SUGEF Directive 1-05, *Regulations for Borrower Classification*. "In addition, for borrowers that are legal entities, the presentation of the income tax return for the most recent fiscal period is a key requirement to classify its creditworthiness as Level 1. This provision will be applicable for borrowers with new loans subscribed as of the entry into effect of this amendment. A new loan will be understood in conformity with that indicated in Art. 11bis of this Regulation. |
| CNS 1572-06-2020<br>CNS 1573-10-2020 | 05/08/2020 | SUGEF Directive 12-10 | Modify letter c, Article 8, of the Regulations for Compliance with Law No. 8204, SUGEF Directive 12-10, in conformity with the following text:<br>Modify letter c, Article 9, of the Regulations for Compliance with Law No. 8204, SUGEF Directive 12-10, in conformity with the following text: |

(Continued)

| COMMUNICATION | DATE | DIRECTIVE | PROVISIONS |
|---|---|---|---|
| CNS 1579-09-2020 | 06/04/2020 | SUGEF Directive 1-05 | **Transition Provision XX**: numbers ii) and iii) of item 3 of subsection i) Special loan operation, of Article 3. Definitions, of these Regulations, shall read as follows:<br>“3. Revolving credit, except in the following cases:<br>i. […]<br>ii. that intended to finance defined business cycles, except for working capital.<br>iii. that intended to finance working capital,<br>iv. […]”<br>Effective from the date of this amendment until June 30, 2021. |
| CNS 1602-07 | 09/01/2020 | SUGEF Directive 1-05 | **Transition Provision XV**: For Group 1 and Group 2 borrowers, according to Article 4 of these regulations, from the date of entrance into effect of this amendment and solely for the purposes of subsection i, number 2, of Article 3 of these regulations, entities may perform the number and types of restructuring, extension, refinancing or combination thereof that it considers necessary, without the loan being classified as a special operation. Effective until June 30, 2021. |
| CNS 1624-04 | 11/27/2020 | SUGEF Directive 1-05 | Article 12. Minimum allowance (…): As an exception to risk rating E, an entity with loans with a borrower whose historical payment behavior is classified in Level 3, must calculate the minimum specific allowance for those borrowers. |
| CNS 1624-04 | 11/27/2020 | SUGEF Directive 1-05 | **Transition Provision XXII**, the balance of allowances booked for borrowers in risk rating E with a historical payment behavior of Level 3 cannot be decreased as a result of this amendment. It only allows decreased amounts to be reassigned to increases in specific allowances for borrowers reclassified to risk ratings C1, C2, D and E pursuant to Articles 10 and 11 of SUGEF Directive 1-05. Effective from the date of entrance into effect of amendment to Art. 12 of these Regulations and until December 31, 2021. |

| COMMUNICATION | DATE | DIRECTIVE | PROVISIONS |
|---|---|---|---|
| SGF 4178-2020 | 11/26/2020 | SUGEF Directive 1-05 | Modify the table included in the payment for reporting to SUGEF of Section E. Qualification of the creditworthiness, subsection 2) “Definition of the levels of creditworthiness of borrowers in Group 1 and Group 2” as follows:<br>a) Modify subsection c) of the criteria for classification corresponding to Level 2, so that it reads as follows:<br>“c. The results show that under a normal scenario there are weaknesses in the payment capacity, which can be overcome to address the credit obligations under the agreed terms.”<br>b) Modify subsection a) of the criteria for classification corresponding to Level 3, so that it reads as follows:<br>“a. The results show that under a normal scenario there are weaknesses in the payment capacity that cannot be overcome to address the credit obligations under the agreed terms.” |

As of December 31, 2021, restructured loans amount to ¢57,226,108,481 (2020: ¢44,775,546,429).

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

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

a. balances of back-to-back operations and the portion of bonds, sureties and letters of credit covered by a previous deposit are excluded and

b. the stand-by principal balance should be treated as a credit equivalent.

Risk ratings

The 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.

On June 20, 2020, Law No. 9859, known as the law against usury, entered into effect. It establishes the maximum annual interest rate that can be charged on financing operations. SUGEF added Transition Provision XXI to the *Regulations for Borrower Classification*, SUGEF Directive 1-05, which reads as follows:

“For borrowers with loan operations restructured or refinanced due to the entrance into effect of the interest rate caps for credits and microcredits established in Law No. 9859, for a period equivalent to three consecutive installments as per the loan payment plan, supervised entities must maintain the risk rating reported to SUGEF in the month prior to the approval of the restructuring or refinancing of the affected operation. It shall vary only if according to the valuations made by the entity it is necessary to apply a risk rating lower than that reported to SUGEF.

After the period indicated in the previous paragraph has elapsed, when applicable, the entity may classify the borrower in a lower risk rating following the parameters established in these Regulations and shall be reported to SUGEF with that risk rating as of the month immediately following the period indicated.”

*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 | Arrears | Historical payment behavior | Creditworthiness |
|---|---|---|---|
| A1 | 30 days or less | Level 1 | Level 1 |
| A2 | 30 days or less | Level 2 | Level 1 |
| B1 | 60 days or less | Level 1 | Level 1 or Level 2 |
| B2 | 60 days or less | Level 2 | Level 1 or Level 2 |
| C1 | 90 days or less | Level 1 | Level 1, Level 2 or Level 3 |
| C2 | 90 days or less | Level 2 | Level 1, Level 2 or Level 3 |
| D | 120 days or less | Level 1 or Level 2 | Level 1, Level 2, Level 3 or Level 4 |

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.

Allowance for loan losses:

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%.

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

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

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

(Continued)

As an exception in the case of risk rating E, the minimum allowance for loans to borrowers whose historical payment behavior is classified as Level 3, the subsidiary Scotiabank de Costa Rica, S.A. should be calculated as follows:

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

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, 2021, the subsidiary Scotiabank de Costa Rica, S.A. must maintain a minimum allowance of ¢52,071,785,671 (2020: ¢57,524,432,904).

Through Official Letter SGF-R-2233-2016, CONASSIF informed that Article 6 of minutes of meeting No. 1258-2016 held on September 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 September 17, 2016 in Digital Issue No. 100 of the Official Gazette. 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.

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

i. SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowance*, in effect one month after the publication entered into effect, starting with 5%, then 6% from June 1, 2019 and 7% from June 1, 2020. Subsequently, through resolution SGF-3966-2018 dated December 21, 2018, SUGEF temporarily decreased the percentage to 2.5% as of January 1, 2019, subject to review in the first six months of 2019. This change in the regulation entails that the minimum counter-cyclical allowance will be completed between 13 and 14 years, in average; SUGEF considers that this is not excessive and leaves room to implement other amendments;

ii. SUGEF Directive 1-05 *Regulations for Borrower Classification* with respect to the *additional general allowance for non-foreign currency generators*, temporarily reducing the percentage of this allowance while also modifying the current definitions of "generator" and "non-generator." The allowance is reduced to 1.00% of the enforcement of this amendment; 1.25% from June 1, 2019 and resuming at 1.50% from June 1, 2020. For the *additional general allowance for borrowers* with a ratio higher than the prudential indicator in the coverage of the debt service for direct loans, it postponed the application of the allowance for borrowers that exceeded the thresholds of the IIR ratio (installment/income ratio higher than 35% of indebtedness originally it indicated that an additional 1% should be reserved, with gradual application, starting from 55% in 2016 and ending with 35% in 2020. Finally, regarding the *charge to the principal to borrowers with foreign currency risk exposure,* since it is included in the implementation of the additional general allowance of 1.50% for non-foreign currency generators, which does not differentiate whether the borrower is high or low risk, it considered convenient to eliminate the application of the 125% weighting factor.

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

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

(Continued)

Through Resolution SGF-0902-2020 dated March 16, 2020, SUGEF decreased from 2.5% to 0.0% the minimum accrual percentage established in Transition Provision II of SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances* as of the March 2020 close, and it will be subject to review during 2021. In addition, through resolution SGF-0971-2020 dated March 20, 2020, SUGEF set at 0.00% the "M" factor referred to in Article 6 of SUGEF Directive 19-16. This minimum percentage level required for the counter-cyclical allowance is applicable as of the March 2020 close, and it will be subject to review during 2020.

Through official communication CNS-1617/08 dated November 5, 2020, CONASSIF suspended the accrual of counter-cyclical allowances until December 2021. The official communication reads as follows:

Add Transition Provision III to the *Regulations to Determine and Book Counter-cyclical Allowances*, SUGEF Directive 19-16, with the following text: Transition Provision III. As of the date of this amendment and until December 31, 2021, the accrual and reduction of counter-cyclical allowances, according to the formula set forth in Article 4 of these regulations and in the application of Transition Provision II, shall be suspended.

Similarly, as of December 1, 2020 and until December 31, 2021, the total or partial reclassification of the balance accumulated in accounts 139.02.M.02 (counter-cyclical allowance) and 139.52.M.03 (counter-cyclical allowance for stand-by credits) shall only be performed in the same amount as account 139.01 (Specific allowance for the loan portfolio). Thus, the size of the reclassification is determined solely by increases in specific allowances for borrowers reclassified to risk categories C1, C2, D and E, in conformity with Articles 10 and 11 of SUGEF Directive 1-05 and categories 4, 5 and 6 according to section 2 of Appendix 3 "Standard Methodology" of SUGEF Directive 15-16.

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

| | | 2021 | 2020 |
|---|---|---|---|
| Counter-cyclical allowance - direct loans | ¢ | - | 6,201,534,159 |
| General allowance - non-foreign currency | | 6,534,914,134 | 7,026,673,093 |
| General allowance - debt service coverage ratio | | 462,444,121 | 635,780,071 |
| | ¢ | 6,997,358,255 | 13,863,987,323 |

Allowance for impairment of the development banking portfolio

The development banking system and microcredit portfolios are valued in conformity with the provisions of SUGEF Directive 15-16 *Regulations on Credit Risk Management and Evaluation for the Development Banking System* approved by CONASSIF. The provisions are summarized below:

*General allowance*

For the portfolios subject to the aforementioned Regulations with arrears of 30 days or less, the Corporation must book a general allowance of 0.25% for loans denominated in local currency and in foreign currency placed with borrowers that generate cash flows in foreign currency, and 0.50% in the case of loans denominated in foreign currency and placed with borrowers that do not generate cash flows in foreign currency.

*Methodologies for borrower classification*

Appendix 3 of SUGEF Directive 15-16 develops the methodology established by the Regulator (the "standard methodology") applicable to loan activities subject to Law No. 9274.

*Borrower classification for the microcredit portfolio*

The microcredit portfolio shall be classified depending on the borrower's arrears, based on the following criteria:

| Risk rating | Classification criteria |
|---|---|
| 1 | a) Borrowers up to date on their payments to the entity (i.e. current), or<br>b) Borrowers with arrears of less than 30 days to the entity |
| 2 | Borrowers with arrears of more than 30 days to the entity |
| 3 | Borrowers with arrears of more than 60 days and up to 90 days to the entity |
| 4 | Borrowers with arrears of more than 90 days and up to 120 days to the entity |
| 5 | Borrowers with arrears of more than 120 days and up to 180 days to the entity |
| 6 | Borrowers with arrears of more than 180 days to the entity |

The arrears used must be the borrower's maximum arrears at each monthly close, for any of its operations with the entity within the framework of Law No. 9274.

(Continued)

*Borrower classification for the development banking system*

SUGEF Directive 15-16 establishes that the development banking portfolio shall be rated based on the borrower's arrears and number of restructuring occurrences for any of the operations performed under Law No. 9274, based on the following criteria:

| Risk rating | Classification criteria |
|---|---|
| 1 | a) Borrowers up to date on their payments to the entity (i.e. current), or<br>b) Borrowers with arrears of less than 30 days to the entity |
| 2 | Borrowers with arrears of 30 to 60 days to the entity. |
| 3 | a) Borrowers with arrears of 60 to 90 days to the entity, or<br>b) Borrowers with arrears of less than 60 days to the entity, who have had arrears greater than 90 days with the Development Banking System during the last 12 months, or<br>c) Borrowers with arrears less than 60 days to the entity, that have been subject to at least one restructuring in any of its operations with the entity during the last 12 months. |
| 4 | a) Borrowers with arrears of 90 to 120 days to the entity.<br>b) Borrowers with arrears of less than 90 days to the entity, who have had arrears greater than 120 days with the Development Banking System during the last 12 months, or<br>c) Borrowers with arrears of less than 90 days to the entity, that have been subject to at least one restructuring in any of their operations with the entity during the last 12 months. |
| 5 | Borrowers with arrears of 120 to 180 days to the entity. |
| 6 | Borrowers with arrears of more than 180 days to the entity. |

The arrears used must be the borrower's maximum arrears at each monthly close, for any of its operations, with the entity or the Development Banking System, within the framework of Law No. 9274.

*Calculation of general allowances*

Risk rating 1 for the microfinance, development, and second-tier banking portfolios will be subject to a general allowance of 0.25% in the case of loans denominated in local currency and in foreign currency and placed in borrowers that generate cash flows in foreign currency, and 0.50% in the case of loans denominated in foreign currency and placed in borrowers that do not generate cash flows in foreign currency. Through General Guidelines to Directive 15-16, SUGEF will establish the definition of borrowers that do not generate cash flows.

The amount of the general allowance is calculated multiplying the allowance percentages indicated for exposure to noncompliance, without considering credit risk mitigation.

*Calculation of specific allowances*

To calculate the specific allowances for risk ratings 2 to 6 of the microfinance, development banking and second-tier banking portfolios, the following percentages shall be used:

| Risk rating | Specific allowance percentage (uncovered portion) |
|---|---|
| 1 | 0% |
| 2 | 5% |
| 3 | 25% |
| 4 | 50% |
| 5 | 70% |
| 6 | 100% |

To consider the mitigation effects on credit risk and calculate the amount of the allowance for risk ratings 2 to 6, the following method will be applied:

*Deduction method*

The deduction method will be applicable to loans secured with the collaterals accepted by SUGEF Directive SUGEF 15-16 (Appendix 3 Section 5, subsections a to d).

The deduction method consists of determining the uncovered portion by taking the exposure amount in the event of default and deducting the amount recoverable through the collateral.

The specific allowance percentage corresponding to the borrower’s risk rating must be applied to the uncovered portion. The allowance percentage applicable to the recoverable amount is 0.5%.

(Continued)

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. Assets held for sale at a rate of one-forty-eighth per month.

ii. Leasing subsidiary - Scotia Leasing Costa Rica, S.A.

*Policy applicable from January 1, 2021*

The formula for the calculation of expected credit losses (ECL) is as follows:

$$ECL = \sum_{t=1}^{T} \frac{PD_t * LGD_t * EAD_t}{(1+r)^t}$$

Where:
$PD_t$: probability of default at time “t”
$LGD_t$: loss given default at time “t”
$EAD_t$: exposure at default in period “t”
$r$: effective interest rate of the instrument

The ECL model measures the loss allowance through 12-month ECL or lifetime ECL. For this purpose, financial assets must be classified into Stages 1, 2 or 3, depending on whether credit risk has increased significantly since initial recognition. The criteria used to determine the stages of the ECL model, in compliance with the rebuttable presumptions established in IFRS 9, are as follows:

| Stage | Details | Criteria | ECL |
|---|---|---|---|
| Stage 1 | Leases that have not had a significant increase in credit risk since initial recognition. | Arrears: currently and historically 30 days or less | 12-month |
| Stage 2 | Leases that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. | Arrears: currently and historically more than 30 days but less than 90 days | Useful life of the lease |
| Stage 3 | Leases that have objective evidence of impairment. | Arrears: currently more than 90 days | Useful life of the lease |

The calculation of ECL over the useful life of the lease requires forecasting cash shortages for each operation over its remaining useful life. The remaining useful life of each instrument is determined based on the contractual term of each lease operation. Cash flow projections are prepared monthly; therefore, the specific maturity of each operation is used to calculate ECL. Lease operations for which 12-month ECL are recognized are referred to as “Stage 1 financial instruments”. Lease operations for which lifetime ECL are recognized but are not credit impaired are referred to as “Stage 2 financial instruments”. Lease operations for which lifetime ECL are recognized and that are credit-impaired are referred to as “Stage 3 financial instruments”, with a probability of default of 100%.

a. Probability of default (PD)

The probability of default is an estimate of the likelihood of default over a given time horizon.

Based on the criteria used to determine the stages of financial instruments, default is when the borrower is more than 90 days past due. To calculate PD, IFRS 9 requires entities to take into consideration past events, current conditions and forecasts of future economic conditions. For past events, the historical behavior of the lease portfolio is analyzed for the four years prior to the reporting date.

To calculate PD, the portfolio is grouped into segments with similar credit risk characteristics. Due to its size, the portfolio of Scotia Leasing Costa Rica, S.A. was divided into 9 segments, by type of customer and arrears, as follows:

| **Segment** | **Type of customer** | **Arrears** |
|---|---|---|
| Comercial_01 | Commercial | Current |
| Pymes_01 | SMEs | Current |
| Consumo_01 | Personal | Current |
| Comercial_02 | Commercial | 1 to 45 days past due |
| Pymes_02 | SMEs | 1 to 45 days past due |
| Personas/Consumo _02 | Personal | 1 to 45 days past due |
| Comercial_03 | Commercial | 46 to 90 days past due |
| Pymes_03 | SMEs | 46 to 90 days past due |
| Consumo_03 | Personal | 46 to 90 days past due |

The Point in Time (PiT) calibration and the Forward-looking information (FLI) adjustment are applied to historical loss rates to consider recent portfolio conditions and forecasts of macroeconomic variables that have historically affected their behavior.

The calculation of 12-month ECL and lifetime ECL for each segment consists of four steps, as detailed below:

*Calculation of cumulative default rates*

Cumulative default rates (CDR) are used as a proxy of PD for the ECL model. The calculation consists of separating the portfolio's historical data into cohorts to determine default rates.

(Continued)

Default rates are calculated for each of the aforementioned segments, using four years of historical data of Scotia Leasing Costa Rica, S.A.'s portfolio. Therefore, the model calculates cumulative default rates for a maximum horizon of 36 months.

Each cohort is determined by the reporting date of the leases and the time horizon for which the default rate is calculated (6 months, 12 months, 18 months, etc.).

Once the default rates for each cohort are determined, the weighted average of the cumulative rates is calculated for the different time horizons, using the total number of operations as weighting factor.

*Point in Time (PiT) calibration*

To consider the current conditions of the lease portfolio in the PD calculation, average default rates are calibrated "Through the cycle" (TTC) of each segment with the behavior of the default rate for the last three months to obtain the Point in Time (PiT) PD.

The PiT calibration is based on the behavior of the forecasted 12-month ECL by type of customer over the last three months. The Bayes' formula compares the average historical loss rates for each type of customer to the forecasted default rate for the last three months and adjusts the CDR of the corresponding segments based on the increase or decrease in the rate for the last three months.

*Lifetime ECL*

Lifetime ECL are calculated using a forecast of future losses over the remaining life of each instrument in the portfolio.

This requires the creation of lifetime probability curves for each of the segments previously described. The calculation of the probability curve uses as input the cumulative default rates for each of the time horizons established (6 months, 12 months, 18 months, etc.) to forecast default rates in the long term.

*Forward-looking information (FLI) adjustment*

In order to include macroeconomic forecasts in the ECL model, the entity must analyze the sensitivity of 12-month ECL to variations in macroeconomic variables. The analysis to incorporate forward-looking information consists of four stages:

- analyzing the correlation
- developing the econometric model
- determining the adjustment factors
- defining scenarios.

For the correlation analysis, a database is created with the 12-month ECL as dependent variable and a set of macroeconomic variables for regression.

Based on the characteristics and conformation of Scotia Leasing Costa Rica, S.A.'s portfolio, the macroeconomic variables included in the analysis are the monthly index of economic activity (MIEA), the consumer price index (CPI) and the unemployment rate, all of which are published monthly by BCCR.

Once the entity identifies the economic variables best correlated to the dependent variable, the econometric model is created.

The economic scenarios used as of December 31, 2021, included the following key indicators:

| As of December 31, | Year-on-year variation of the MIEA |
|---|---|
| Base scenario | |
| 5-year average | 3.01% |
| Peak | 3.63% |
| Optimistic scenario (Upside) | |
| 5-year average | 4.20% |
| Peak | 4.82% |
| Pessimistic scenario (Downside) | |
| 5-year average | (0.32%) |
| Trough | (0.56%) |

| | 2021 | | |
|---|---|---|---|
| As of December 31, | Optimistic | Base | Pessimistic |
| Scenario probability weighting | 10% | 75% | 15% |

The regression model allows determining the forecasted default rate using the selected macroeconomic variables as inputs. Macroeconomic forecasts are published bi-annually by the International Monetary Fund (IMF), and they contemplate a five-year horizon. The ECL model incorporates such forecasts and as of year 5 of the Lifetime ECL curve it assumes that they will revert to the mean.

Once the regression model is built to forecast default rates based on macroeconomic forecasts, an adjustment factor is determined, which compares historical loss rates to the PD forecasted by the regression model.

Since the level of ECL must be determined through an assessment of various possible results, several macroeconomic scenarios are considered. There are four possible scenarios:

- Base scenario: corresponds to the value of the macroeconomic forecast published by the IMF, which is expected to be most likely scenario and is assigned a weight of 15%.
- Pessimistic scenario (Downside): corresponds to the value of the economic variable published by IMF with a +/- 1 standard deviation in its historical distribution. It is assigned a weight of 15%.
- Optimistic scenario (Upside): corresponds to the value of the economic variable published by IMF with a +/- 0.25 standard deviation in its historical distribution. It is assigned a weight of 10%.
- Scenario without a forward-looking information adjustment: the scenario without a forward-looking information adjustment seeks to remove uncertainty related to macroeconomic forecasts and the assumptions of the regression model. It only contemplates historical and current conditions of the portfolio and is assigned a weight of 60%.

b. Loss given default (LGD)

LGD reflects the non-recoverable percentage of the exposed balance after the related collateral is sold. LGD is built using the historical sales of assets held for sale during the last four years and comparing the selling price to the exposed balance of the operation, considering expenses related to the sale of the asset.

LGD is calculated for operations in which the collateral is a vehicle. For operations pledged with machinery and equipment, an LGD of 80% is used due to the low historical rate of sale of those assets and their fast depreciation.

c. Recovery rate

The recovery rate is the percentage of operations, per type of customer, that reaches default but is able to return to a “normal” status.

An operation is considered normal if it remains current (arrears = 0 days) during the 12 months after default.

To calculate the recovery rate, the historical data are divided into cohorts and the number of operations that achieved recovery post-default in each cohort is determined. The recovery rate is thus defined as the proportion of defaulted operations in each cohort that remain current (arrears = 0 days) during the 12 months after default.

d. Exposure at default (EAD)

EAD is the carrying amount of the operation at the time of default.

EAD considers the exposure amount of the operation at the reporting date plus expected payments during the remaining term of the operation. It requires establishing the amortization plan of each operation in the portfolio. Therefore, it assumes that all operations have monthly payments, under the level monthly payments method.

Once the variables are determined, the formula to calculate ECL for the lease portfolio is applied to obtain the impairment amount as of the date of calculation.

*Policy applicable before January 1, 2021*

During 2020, Scotia Leasing Costa Rica, S.A. applied the same policies used by Scotiabank de Costa Rica, S.A., in conformity with that set forth in SUGEF Directive 1-05.

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:

| | | 2021 | | | |
|---|---|---|---|---|---|
| | | Loans to customers | | Loans to banks | |
| | | Gross | Net | Gross | Net |
| 1 | ¢ | 3,430,829,635 | 3,418,146,883 | 52,060,223,971 | 52,036,373,178 |
| 3 | | 20,119,095 | 19,056,733 | - | - |
| A1 | | 1,351,155,871,313 | 1,330,028,209,590 | - | - |
| A2 | | 19,277,402,900 | 19,124,235,822 | - | - |
| B1 | | 126,413,903,455 | 123,975,070,161 | - | - |
| B2 | | 14,433,296,073 | 13,993,957,679 | - | - |
| C1 | | 58,829,182,650 | 56,425,359,920 | - | - |
| C2 | | 5,372,911,023 | 4,455,587,405 | - | - |
| D | | 25,039,105,005 | 16,329,148,089 | - | - |
| E | | 57,786,822,468 | 34,021,239,309 | - | - |
| | ¢ | 1,661,759,443,617 | 1,601,790,011,590 | 52,060,223,971 | 52,036,373,178 |

| | | 2020 | | | |
|---|---|---|---|---|---|
| | | Loans to customers | | Loans to banks | |
| | | Gross | Net | Gross | Net |
| A1 | ¢ | 1,409,049,592,795 | 1,381,481,926,220 | 77,382,374,889 | 77,338,349,127 |
| A2 | | 18,559,732,784 | 18,406,529,808 | - | - |
| B1 | | 116,554,899,598 | 114,056,008,635 | - | - |
| B2 | | 8,818,033,934 | 8,555,669,082 | - | - |
| C1 | | 43,714,740,713 | 39,875,596,759 | - | - |
| C2 | | 5,663,206,714 | 4,777,213,599 | - | - |
| D | | 32,270,857,799 | 22,553,489,341 | - | - |
| E | | 54,998,874,172 | 27,362,041,644 | - | - |
| | ¢ | 1,689,629,938,509 | 1,617,068,475,088 | 77,382,374,889 | 77,338,349,127 |

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:

| | | 2021 | 2020 |
|---|---|---|---|
| Individually assessed loans with allowance (including the balance for loans in legal collection): | | | |
| Real property | ¢ | 157,859,321,054 | 135,862,288,915 |
| Personal property | | 213,179,009,831 | 250,474,099,913 |
| Other (trusts) | | 406,671,001,591 | 367,500,889,361 |
| Subtotal | | 777,709,332,476 | 753,837,278,189 |
| Past due loans without allowance: | | | |
| Real property | | 30,491,248,657 | 32,881,326,116 |
| Personal property | | 6,482,593,780 | 9,442,862,593 |
| Other (trusts) | | 9,043,472,387 | 6,769,359,085 |
| Subtotal | | 46,017,314,824 | 49,093,547,794 |
| Current loans without allowance: | | | |
| Real property | | 736,532,861,664 | 817,631,417,009 |
| Personal property | | 273,742,903,541 | 452,293,557,649 |
| Other (trusts) | | 1,041,339,525,756 | 1,003,064,245,534 |
| Subtotal | | 2,051,615,290,961 | 2,272,989,220,192 |
| Total | ¢ | 2,875,341,938,261 | 3,075,920,046,175 |

(Continued)

Loan portfolio by guarantee

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

| | | 2021 | 2020 |
|---|---|---|---|
| Investment certificates | ¢ | 90,532,963,143 | 47,932,064,902 |
| Fiduciary | | 189,716,871,108 | 352,743,604,092 |
| Mortgage | | 963,059,779,476 | 870,065,203,450 |
| Chattel mortgage | | 259,315,130,321 | 214,440,777,556 |
| State-owned banks | | 52,032,170,639 | 77,382,374,889 |
| Other | | 121,336,959,121 | 145,518,937,080 |
| Total direct loans | | 1,675,993,873,808 | 1,708,082,961,969 |
| Accrued interest receivable | | 39,303,936,474 | 49,664,454,694 |
| Deferred income from loan portfolio | | (7,479,907,291) | (7,116,396,483) |
| Allowance for loan losses | | (59,993,282,820) | (72,605,630,079) |
| Total | ¢ | 1,647,824,620,171 | 1,678,025,390,101 |

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:

| | | 2021 | 2020 |
|---|---|---|---|
| Agriculture, livestock, hunting and related activities | ¢ | 633,359,327 | 748,042,926 |
| Fishing and aquaculture | | 369,088,162 | 456,297,585 |
| Manufacturing industry | | 5,328,101,171 | 5,121,744,120 |
| Electricity, telecommunications, gas and water | | 77,504,085 | 3,188,817,796 |
| Construction, purchase and repair of property | | 364,778,833,548 | 381,916,651,991 |
| Trade | | 122,771,449,901 | 197,866,876,173 |
| Hospitality | | 2,259,925,270 | 2,712,458,848 |
| Transportation | | 509,388,700 | 2,385,996,499 |
| Stock market | | 51,881,426,191 | 76,976,912,367 |
| Services | | 766,859,655,151 | 622,026,369,908 |
| Consumer | | 360,433,483,465 | 414,682,793,756 |
| Activities of government entities and bodies | | 18,566,640 | - |
| Public administration | | 73,092,197 | - |
| Total direct loans | | 1,675,993,873,808 | 1,708,082,961,969 |
| Accrued interest receivable | | 39,303,936,474 | 49,664,454,694 |
| Deferred income from loan portfolio | | (7,479,907,291) | (7,116,396,483) |
| Allowance for loan losses | | (59,993,282,820) | (72,605,630,079) |
| Total | ¢ | 1,647,824,620,171 | 1,678,025,390,101 |

Loan portfolio by geographic area

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

| | | 2021 | 2020 |
|---|---|---|---|
| Costa Rica | ¢ | 1,663,862,224,275 | 1,699,118,209,488 |
| Central America | | 3,536,379,457 | 914,589,183 |
| Rest of North and South America | | 2,645,688,621 | 2,193,770,021 |
| Caribbean | | 238,576,421 | 315,496,375 |
| United States of America | | 4,321,759,250 | 4,409,881,929 |
| Europe | | 1,097,231,366 | 881,614,546 |
| Asia | | 269,866,915 | 227,196,060 |
| Africa | | 22,147,503 | 22,204,367 |
| | ¢ | 1,675,993,873,808 | 1,708,082,961,969 |

Loan portfolio by arrears

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

| | | 2021 | 2020 |
|---|---|---|---|
| Current | ¢ | 1,542,383,620,147 | 1,542,394,469,870 |
| 1 to 30 days | | 62,926,058,796 | 74,926,087,977 |
| 31 to 60 days | | 25,293,931,183 | 35,058,381,409 |
| 61 to 90 days | | 12,831,515,124 | 18,907,567,914 |
| 91 to 120 days | | 4,361,656,359 | 5,570,099,342 |
| 121 to 180 days | | 4,115,495,485 | 5,218,295,872 |
| More than 180 days | | 742,512,340 | 1,142,214,563 |
| In legal collection | | 23,339,084,374 | 24,865,845,022 |
| Total direct loans | | 1,675,993,873,808 | 1,708,082,961,969 |
| Accrued interest receivable | | 39,303,936,474 | 49,664,454,694 |
| Deferred income from loan portfolio | | (7,479,907,291) | (7,116,396,483) |
| Allowance for loan losses | | (59,993,282,820) | (72,605,630,079) |
| Total | ¢ | 1,647,824,620,171 | 1,678,025,390,101 |

Concentration of the portfolio in individual borrowers or economic interest groups

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | No. of customers | | Amount | No. of customers | | Amount |
| Capital and reserves: | | | | | | |
| Less than 5% | 103,252 | ¢ | 1,447,332,825,812 | 117,839 | ¢ | 1,541,114,789,196 |
| 5% to 10% | 6 | | 100,119,289,773 | 3 | | 57,696,632,884 |
| 10% to 15% | 3 | | 83,675,670,636 | 1 | | 31,889,165,000 |
| 15% to 20% | 1 | | 44,866,087,587 | 2 | | 77,382,374,889 |
| Total | 103,262 | ¢ | 1,554,808,077,599 | 117,845 | ¢ | 1,562,970,090,609 |

At the date of the consolidated statement of financial position, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. As of December 31, 2020, loans to the Corporation's most important customers or economic interest groups, whose loans individually represent 5% or more of share capital and capital reserves, amount to ¢246,405,960,434 (2020: ¢246,115,608,998).

Amount and number of loans in non-accrual status

| | | 2021 | 2020 |
|---|---|---|---|
| Loans in non-accrual status | ¢ | 32,478,541,228 | 36,300,068,597 |
| Number of loans in non-accrual status | | 3,304 | 4,575 |

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

| | | 2021 | 2020 |
|---|---|---|---|
| Loans in legal collection | ¢ | 23,339,084,374 | 24,865,845,022 |
| Number of loans in legal collection | | 754 | 903 |
| Percentage of total loan portfolio | ¢ | 1.39% | 1.41% |

Investments by risk rating

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

| | | 2021 | 2020 |
|---|---|---|---|
| AAA | ¢ | 10,694,438 | 10,144,277 |
| AA | | 16,261,708,077 | 15,856,726,789 |
| A | | 38,715,000,000 | 37,038,000,000 |
| BB | | 1,227,240,780 | 656,025,541 |
| B | | 6,453,459,770 | 38,178,378,369 |
| Risk rating lower than B | | 125,248,132,825 | 69,372,839,200 |
| Unrated | | - | 13,396,586 |
| Total investments by risk rating | | 187,916,235,890 | 161,125,510,762 |
| Accrued interest receivable | | 2,198,654,672 | 1,216,833,516 |
| (Allowance for impairment) | | (29,458,078) | (41,647,335) |
| Total | ¢ | 190,085,432,484 | 162,300,696,943 |

(Continued)

Investments by geographic area

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

| | | 2021 | 2020 |
|---|---|---|---|
| Costa Rica | ¢ | 149,201,235,890 | 124,087,510,762 |
| United States of America | | 38,715,000,000 | 37,038,000,000 |
| Total investments | | 187,916,235,890 | 161,125,510,762 |
| Accrued interest receivable | | 2,198,654,672 | 1,216,833,516 |
| (Allowance for impairment) | | (29,458,078) | (41,647,335) |
| Total | ¢ | 190,085,432,484 | 162,300,696,943 |

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, 2021 and 2020, 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 period 2021 and 2020. In the event that variable interest rates change as indicated above, the Corporations' asset and liability portfolios would increase or decrease by ¢10,886,320,683 (2020: ¢10,781,848,701).

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 | | | |
|---|---|---|---|---|---|
| | | 2021 | | 2020 | |
| | | Positive change | Negative change | Positive change | Negative change |
| Investments | ¢ | (3,749,122,513) | 9,676,534,407 | (22,947,160,678) | 8,036,917,744 |
| Loan portfolio | ¢ | (46,465,460,227) | 50,475,270,189 | (37,749,310,488) | 40,779,719,890 |
| Term deposits | ¢ | (9,238,039,676) | 9,521,448,384 | (9,826,761,125) | 10,157,182,224 |
| Obligations with entities | ¢ | (3,037,817,136) | 3,149,486,213 | (5,886,014,605) | 6,169,297,567 |

(Continued)

As of December 31, 2021, 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):

| | | 0-30 | 31-90 | 91-180 | 181-360 | 361-720 | More than 720 | Total |
|---|---|---|---|---|---|---|---|---|
| Local currency | - | | | | | | | |
| Assets | - | | | | | | | |
| Cash and due from banks | ¢ | 42,864,342,907 | - | - | - | - | - | 42,864,342,907 |
| Investments | | 15,230,859,156 | 442,406,800 | 509,718,041 | 5,115,757,964 | 15,462,414,286 | 12,071,610,861 | 48,832,767,108 |
| Loan portfolio | | 245,489,690,529 | 134,727,960,232 | 16,409,816,152 | 41,278,049,058 | 89,163,117,231 | 122,149,725,871 | 649,218,359,073 |
| Total recovery of assets | ¢ | 303,584,892,592 | 135,170,367,032 | 16,919,534,193 | 46,393,807,022 | 104,625,531,517 | 134,221,336,732 | 740,915,469,088 |
| Liabilities | | | | | | | | |
| Demand obligations with the public | | 66,178,411,626 | - | - | - | - | - | 66,178,411,626 |
| Term obligations with the public | | 33,397,191,138 | 58,898,449,912 | 32,120,951,638 | 41,145,859,555 | 38,735,720,066 | 30,031,013,856 | 234,329,186,165 |
| Obligations with financial entities | | 22,693,831,706 | 3,197,347,226 | - | - | 3,700,000 | - | 25,894,878,932 |
| Total maturity of liabilities | ¢ | 122,269,434,470 | 62,095,797,138 | 32,120,951,638 | 41,145,859,555 | 38,739,420,066 | 30,031,013,856 | 326,402,476,723 |
| Assets and liability gap | ¢ | 181,315,458,122 | 73,074,569,894 | (15,201,417,445) | 5,247,947,467 | 65,886,111,451 | 104,190,322,876 | 414,512,992,365 |
| | | | | | | | | |
| Foreign currency | - | | | | | | | |
| Assets | | | | | | | | |
| Cash and due from banks | ¢ | 9,109,875,696 | - | - | - | - | - | 9,109,875,696 |
| Investments | | 103,438,682 | 5,688,327 | 3,436,126 | 19,952,227 | 305,858,054 | 510,141,787 | 948,515,203 |
| Loan portfolio | | 9,217,048,724 | 5,892,041,153 | 7,125,569,478 | 14,112,873,262 | 32,608,565,840 | 48,819,548,827 | 117,775,647,284 |
| Total recovery of assets | ¢ | 18,430,363,102 | 5,897,729,480 | 7,129,005,604 | 14,132,825,489 | 32,914,423,894 | 49,329,690,614 | 127,834,038,183 |
| Liabilities | | | | | | | | |
| Demand obligations with the public | | 322,044,682 | - | - | - | - | - | 322,044,682 |
| Term obligations with the public | | 118,462,244 | 201,901,259 | 207,947,436 | 297,618,237 | 182,676,072 | 99,882,807 | 1,108,488,055 |
| Obligations with financial entities | | 12,333,246,641 | 14,727,237,970 | 24,887,182,501 | 29,642,148,736 | 30,251,416 | 10,560,529 | 81,630,627,793 |
| Total maturity of liabilities | ¢ | 12,773,753,567 | 14,929,139,229 | 25,095,129,937 | 29,939,766,973 | 212,927,488 | 110,443,336 | 83,061,160,530 |
| Assets and liability gap | ¢ | 5,656,609,535 | (9,031,409,749) | (17,966,124,333) | (15,806,941,484) | 32,701,496,406 | 49,219,247,278 | 44,772,877,653 |

(Continued)

As of December 31, 2020, 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 | ¢ | 44,223,558,682 | - | - | - | - | - | 44,223,558,682 |
| Investments | | 36,156,357,514 | 162,333,685 | 180,727,314 | 498,723,229 | 4,612,254,092 | 8,188,104,086 | 49,798,499,920 |
| Loan portfolio | | 259,460,377,277 | 120,428,074,088 | 23,064,794,538 | 36,747,926,439 | 57,459,391,948 | 64,227,221,994 | 561,387,786,284 |
| Total recovery of assets | ¢ | 339,840,293,473 | 120,590,407,773 | 23,245,521,852 | 37,246,649,668 | 62,071,646,040 | 72,415,326,080 | 655,409,844,886 |
| Liabilities | | | | | | | | |
| Demand obligations with the public | | 66,178,411,626 | - | - | - | - | - | 66,178,411,626 |
| Term obligations with the public | | 64,804,551,021 | 78,232,335,143 | 37,250,094,440 | 47,412,415,749 | 36,422,767,151 | 37,753,592,369 | 301,875,755,873 |
| Obligations with financial entities | | 23,007,029,778 | 3,084,308,153 | 1,409,168,230 | - | - | 3,700,000 | 27,504,206,161 |
| Total maturity of liabilities | ¢ | 153,989,992,425 | 81,316,643,296 | 38,659,262,670 | 47,412,415,749 | 36,422,767,151 | 37,757,292,369 | 395,558,373,660 |
| Assets and liability gap | ¢ | 185,850,301,048 | 39,273,764,477 | (15,413,740,818) | (10,165,766,081) | 25,648,878,889 | 34,658,033,711 | 259,851,471,226 |
| | | | | | | | | |
| Foreign currency | - | | | | | | | |
| Assets | | | | | | | | |
| Cash and due from banks | ¢ | 5,832,084,638 | - | - | - | - | - | 5,832,084,638 |
| Investments | | 80,715,066 | 10,171,917 | 1,218,528 | 12,282,689 | 308,414,195 | 440,238,766 | 853,041,161 |
| Loan portfolio | | 8,696,120,790 | 6,817,639,447 | 7,886,582,070 | 15,263,476,630 | 40,174,914,696 | 60,071,472,070 | 138,910,205,703 |
| Total recovery of assets | ¢ | 14,608,920,494 | 6,827,811,364 | 7,887,800,598 | 15,275,759,319 | 40,483,328,891 | 60,511,710,836 | 145,595,331,502 |
| Liabilities | | | | | | | | |
| Demand obligations with the public | | 322,044,682 | - | - | - | - | - | 322,044,682 |
| Term obligations with the public | | 134,341,419 | 228,536,616 | 258,191,094 | 259,679,563 | 169,573,603 | 161,492,501 | 1,211,814,796 |
| Obligations with financial entities | | 7,754,173,529 | 9,633,034,144 | 17,002,957,701 | 31,754,034,683 | 17,887,392,422 | 26,874,680,695 | 110,906,273,174 |
| Total maturity of liabilities | ¢ | 8,210,559,630 | 9,861,570,760 | 17,261,148,795 | 32,013,714,246 | 18,056,966,025 | 27,036,173,196 | 112,440,132,652 |
| Assets and liability gap | ¢ | 6,398,360,864 | (3,033,759,396) | (9,373,348,197) | (16,737,954,927) | 22,426,362,866 | 33,475,537,640 | 33,155,198,850 |

(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.

As of December 31, 2021, 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 | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Local currency | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and due from banks | ¢ | 27,116,930 | - | - | - | - | - | - | - | 27,116,930 |
| Minimum legal deposit in BCCR | | 20,535,025 | 2,137,340 | 2,805,698 | 3,305,777 | 3,068,980 | 3,881,817 | 8,172,481 | - | 43,907,118 |
| Investments in financial instruments | | 6,762,161 | 8,735,262 | - | - | 80,716 | 3,950,940 | 25,191,395 | - | 44,720,474 |
| Loan portfolio | | 32,230,201 | 51,428,299 | 43,220,691 | 47,990,226 | 44,585,334 | 41,417,315 | 338,641,561 | 15,456,996 | 614,970,623 |
| Total recovery of assets | ¢ | 86,644,317 | 62,300,900 | 46,026,389 | 51,296,003 | 47,735,030 | 49,250,073 | 372,005,437 | 15,456,996 | 730,715,145 |
| Liabilities | | | | | | | | | | |
| Obligations with the public | ¢ | 175,485,565 | 15,104,427 | 25,128,316 | 32,149,389 | 30,368,005 | 38,410,295 | 80,614,368 | - | 397,260,365 |
| Obligations with financial entities | | 25,150,226 | 13,888,884 | 2,704,416 | 632,151 | 210,882 | 430,178 | 11,980,606 | - | 54,997,343 |
| Charges payable | | - | 2,546,509 | - | - | - | - | - | - | 2,546,509 |
| Total maturity of liabilities | ¢ | 200,635,791 | 31,539,820 | 27,832,733 | 32,781,540 | 30,578,887 | 38,840,473 | 92,594,974 | - | 454,804,217 |
| Matching of assets and liabilities in local currency | ¢ | (113,991,475) | 30,761,081 | 18,193,656 | 18,514,463 | 17,156,143 | 10,409,600 | 279,410,464 | 15,456,996 | 275,910,928 |

| | | Demand | 1 to 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | 181 to 360 days | More than 360 | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Foreign currency, expressed | | | | | | | | | | |
| Assets | | | | | | | | | | |
| Cash and due from banks | ¢ | 101,768,406 | - | - | - | - | - | - | - | 101,768,406 |
| Minimum legal deposit in BCCR | | 60,243,706 | 10,628,911 | 9,606,263 | 9,450,660 | 19,459,970 | 27,898,688 | 29,740,604 | - | 167,028,802 |
| Investments in financial instruments | | 11,550,430 | 56,518,077 | 1,898,329 | 7,219 | 1,819,735 | 10,525,930 | 63,074,695 | - | 145,394,416 |
| Loan portfolio | | 56,227,828 | 44,887,550 | 29,473,081 | 24,976,040 | 61,633,922 | 59,700,690 | 773,197,326 | 50,230,751 | 1,100,327,187 |
| Total recovery of assets | ¢ | 229,790,370 | 112,034,539 | 40,977,673 | 34,433,919 | 82,913,627 | 98,125,308 | 866,012,625 | 50,230,751 | 1,514,518,812 |
| Liabilities | | | | | | | | | | |
| Obligations with the public | ¢ | 362,144,663 | 70,618,255 | 63,819,056 | 62,697,785 | 129,699,335 | 185,751,550 | 174,503,987 | - | 1,049,234,631 |
| Obligations with financial entities | | 30,997,713 | 26,220,676 | 8,798,526 | 32,355,014 | 64,490,629 | 87,710,493 | 72,691,347 | - | 323,264,398 |
| Charges payable | | - | 3,907,964 | - | - | - | - | - | - | 3,907,964 |
| Total maturity of liabilities | ¢ | 393,142,376 | 100,746,895 | 72,617,583 | 95,052,799 | 194,189,964 | 273,462,043 | 247,195,334 | - | 1,376,406,992 |
| Matching of assets and liabilities in foreign currency, expressed in colones | ¢ | (163,352,005) | 11,287,644 | (31,639,910) | (60,618,880) | (111,276,336) | (175,336,735) | 618,817,291 | 50,230,751 | 138,111,820 |

(Continued)

As of December 31, 2020, 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 a 60 days | 61 a 90 days | 91 a 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 | ¢ | 23,573,347 | - | - | - | - | - | - | - | 23,573,347 |
| Minimum legal deposit in BCCR | | 19,353,137 | 6,190,736 | 3,603,023 | 3,782,355 | 4,545,090 | 5,502,225 | 13,047,153 | - | 56,023,719 |
| Investments in financial instruments | | 14,221,296 | 22,002,957 | - | - | 91,013 | 38,523 | 10,983,814 | - | 47,337,604 |
| Loan portfolio | | 47,844,989 | 50,553,779 | 48,669,064 | 47,372,614 | 31,827,568 | 23,760,813 | 274,543,861 | 34,975,210 | 559,547,898 |
| Total recovery of assets | ¢ | 104,992,768 | 78,747,471 | 52,272,087 | 51,154,969 | 36,463,672 | 29,301,561 | 298,574,829 | 34,975,210 | 686,482,568 |
| Liabilities | | | | | | | | | | |
| Obligations with the public | ¢ | 145,734,465 | 45,172,870 | 25,757,102 | 30,277,077 | 34,972,391 | 44,041,614 | 104,244,249 | - | 430,199,767 |
| Obligations with financial entities | | 5,269,552 | 4,411,897 | 3,148,295 | 64,165 | 1,638,392 | 397,352 | 12,757,457 | - | 27,687,110 |
| Charges payable | | - | 3,646,893 | - | - | - | - | - | - | 3,646,893 |
| Total maturity of liabilities | ¢ | 151,004,017 | 53,231,659 | 28,905,396 | 30,341,242 | 36,610,783 | 44,438,966 | 117,001,706 | - | 461,533,770 |
| Matching of assets and liabilities in local currency | ¢ | (46,011,249) | 25,515,812 | 23,366,691 | 20,813,728 | (147,112) | (15,137,406) | 181,573,123 | 34,975,210 | 224,948,797 |

| | | 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 | ¢ | 52,192,997 | - | - | - | - | - | - | - | 52,192,997 |
| Minimum legal deposit in BCCR | | 59,610,000 | 14,368,526 | 11,622,935 | 14,045,886 | 29,140,957 | 28,870,621 | 39,912,891 | - | 197,571,815 |
| Investments in financial instruments | | 2,729,516 | 47,858,782 | 5,360,910 | - | 6,173 | 5,796,193 | 53,253,166 | - | 115,004,740 |
| Loan portfolio | | 75,897,911 | 30,247,553 | 29,417,538 | 19,935,491 | 62,822,425 | 75,101,234 | 853,826,824 | 50,950,543 | 1,198,199,519 |
| Total recovery of assets | ¢ | 190,430,424 | 92,474,861 | 46,401,383 | 33,981,376 | 91,969,555 | 109,768,049 | 946,992,880 | 50,950,543 | 1,562,969,072 |
| Liabilities | | | | | | | | | | |
| Obligations with the public | ¢ | 301,487,441 | 76,493,790 | 61,833,019 | 74,753,206 | 154,105,119 | 153,227,594 | 191,094,323 | - | 1,012,994,491 |
| Obligations with financial entities | | 11,206,909 | 26,142,449 | 22,862,608 | 29,544,238 | 69,098,023 | 101,038,963 | 153,484,911 | - | 413,378,100 |
| Charges payable | | - | 5,410,805 | - | - | - | - | - | - | 5,410,805 |
| Total maturity of liabilities | ¢ | 312,694,350 | 108,047,043 | 84,695,627 | 104,297,444 | 223,203,142 | 254,266,557 | 344,579,234 | - | 1,431,783,396 |
| Matching of assets and liabilities in foreign currency, expressed in colones | ¢ | (122,263,926) | (15,572,182) | (38,294,244) | (70,316,067) | (131,233,587) | (144,498,508) | 602,413,647 | 50,950,543 | 131,185,676 |

(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)

Residual contractual maturities of financial liabilities

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

| | | 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Obligations: | | Balance | Nominal cash flow | 1 | 2 | 3 | 4 | 5 | More than 5 years |
| Demand obligations with the public | ¢ | 537,630,228 | 537,630,228 | 537,630,228 | - | - | - | - | - |
| Term obligations with the public | | 908,864,767 | 1,114,562,046 | 857,660,540 | 149,120,769 | 76,265,953 | - | 31,513,911 | 873 |
| Demand obligations with entities | | 55,996,776 | 55,996,776 | 55,996,776 | - | - | - | - | - |
| Obligations with entities | | 372,381,574 | 381,208,638 | 299,019,292 | 57,504,924 | 2,826,709 | - | 19,159,877 | 2,697,836 |
| | ¢ | 1,874,873,345 | 2,089,397,688 | 1,750,306,836 | 206,625,693 | 79,092,662 | - | 50,673,788 | 2,698,709 |

| | | 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Obligations: | | Balance | Nominal cash flow | 1 | 2 | 3 | 4 | 5 | More than 5 years |
| Demand obligations with the public | ¢ | 447,221,906 | 447,221,906 | 447,221,906 | - | - | - | - | - |
| Term obligations with the public | | 995,972,352 | 1,260,218,282 | 961,999,194 | 151,079,992 | 75,162,392 | - | 71,971,048 | 5,656 |
| Demand obligations with entities | | 16,070,395 | 16,070,395 | 16,070,395 | - | - | - | - | - |
| Obligations with entities | | 425,255,596 | 442,308,010 | 224,548,335 | 127,563,169 | 27,262,503 | - | 47,615,104 | 15,318,899 |
| | ¢ | 1,884,520,249 | 2,165,818,593 | 1,649,839,830 | 278,643,161 | 102,424,895 | - | 119,586,152 | 15,324,555 |

(Continued)

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, 2021 and 2020, 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.

(a) Monetary position in foreign currency

As of December 31, 2021, assets and liabilities denominated in foreign currency are as follows:

| | US dollar | Canadian dollar | Euro | Pounds sterling |
|---|---|---|---|---|
| Assets | | | | |
| Cash and due from banks | 408,174,819 | 7,578,615 | 2,059,854 | 120,901 |
| Investments in financial instruments | 225,286,982 | - | - | - |
| Loan portfolio | 1,629,744,121 | - | 106,129 | - |
| Accounts and fees and commissions | 4,028,647 | 57,635 | - | - |
| Investments in other companies | 863 | - | - | - |
| Other assets | 6,586,603 | 840 | - | - |
| Total assets | 2,273,822,035 | 7,637,090 | 2,165,983 | 120,901 |
| Liabilities | | | | |
| Obligations with the public | 1,627,734,135 | 1,041,197 | 2,749,797 | - |
| Obligations with entities | 501,810,876 | - | - | - |
| Other accounts payable and provisions | 41,181,306 | 2,368,988 | - | - |
| Other liabilities | 2,341,685 | - | - | - |
| Total liabilities | 2,173,068,002 | 3,410,185 | 2,749,797 | - |
| Excess of assets over liabilities | 100,754,033 | 4,226,905 | (583,814) | 120,901 |

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

| | US dollar | Canadian dollar | Euro | Pounds sterling |
|---|---|---|---|---|
| Assets | | | | |
| Cash and due from banks | 395,359,045 | 8,055,429 | 2,266,196 | 118,121 |
| Investments in financial instruments | 186,276,720 | - | - | - |
| Loan portfolio | 1,859,059,047 | - | 350,521 | - |
| Accounts and fees and commissions | 4,088,197 | 2,170 | - | - |
| Investments in other companies | 904 | - | - | - |
| Other assets | 6,873,778 | 64,316 | - | - |
| Total assets | 2,451,657,689 | 8,121,915 | 2,616,717 | 118,121 |
| Liabilities | | | | |
| Obligations with the public | 1,644,413,955 | 2,294,665 | 1,871,255 | - |
| Obligations with entities | 671,340,141 | - | - | - |
| Other accounts payable and provisions | 40,573,984 | 2,270,047 | - | - |
| Other liabilities | 4,765,096 | - | 20 | - |
| Total liabilities | 2,361,093,176 | 4,564,712 | 1,871,275 | - |
| Excess of assets over liabilities | 90,564,513 | 3,557,203 | 745,442 | 118,121 |

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, 2021 and 2020, the Corporation’s equity included ordinary shares for a total of US$432,714,614 (equivalent to ¢222,915,887,742).

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

Notes to the Consolidated Financial Statements

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

As of December 31, 2021, 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 | 31 to 60 | 61 to 90 | 91 to 180 | 181 to 360 | More than 360 | More than 30 days past due | Total |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | |
| Cash and due from banks | 157,719 | - | - | - | - | - | - | - | 157,719 |
| Minimum legal deposit in BCCR | 93,365 | 16,473 | 14,888 | 14,647 | 30,159 | 43,237 | 46,092 | - | 258,859 |
| Investments | 17,901 | 87,591 | 2,942 | 11 | 2,820 | 16,313 | 97,752 | - | 225,330 |
| Loan portfolio | 87,141 | 69,566 | 45,677 | 38,708 | 95,519 | 92,523 | 1,198,291 | 77,847 | 1,705,273 |
| Total recovery of assets | 356,126 | 173,630 | 63,507 | 53,365 | 128,498 | 152,073 | 1,342,135 | 77,847 | 2,347,181 |
| LIABILITIES | | | | | | | | | |
| Obligations with the public | 561,247 | 109,443 | 98,906 | 97,168 | 201,006 | 287,875 | 270,444 | - | 1,626,090 |
| Obligations with financial entities | 48,040 | 40,636 | 13,636 | 50,143 | 99,947 | 135,933 | 112,656 | - | 500,991 |
| Charges payable | - | 6,057 | - | - | - | - | - | - | 6,057 |
| Total maturity of liabilities | 609,287 | 156,136 | 112,542 | 147,312 | 300,953 | 423,808 | 383,100 | - | 2,133,138 |
| Gap | (253,161) | 17,493 | (49,035) | (93,946) | (172,455) | (271,735) | 959,035 | 77,847 | 214,044 |

(Continued)

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

Notes to the Consolidated Financial Statements

As of December 31, 2020, 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 | 31 to 60 | 61 to 90 | 91 to 180 | 181 to 360 | More than 360 | More than 30 past due | Total |
|---|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | | |
| Cash and due from banks | 84,550 | - | - | - | - | - | - | - | 84,550 |
| Minimum legal deposit in BCCR | 96,566 | 23,276 | 18,829 | 22,754 | 47,207 | 46,769 | 64,657 | - | 320,058 |
| Investments | 4,422 | 77,529 | 8,684 | - | 10 | 9,390 | 86,268 | - | 186,303 |
| Loan portfolio | 122,951 | 49,000 | 47,655 | 32,295 | 101,770 | 121,661 | 1,383,163 | 82,538 | 1,941,033 |
| Total recovery of assets | 308,489 | 149,805 | 75,168 | 55,048 | 148,987 | 177,820 | 1,534,089 | 82,538 | 2,531,944 |
| LIABILITIES | | | | | | | | | |
| Obligations with the public | 488,397 | 123,917 | 100,167 | 121,097 | 249,644 | 248,222 | 309,565 | - | 1,641,008 |
| Obligations with financial entities | 18,155 | 42,350 | 37,036 | 47,860 | 111,936 | 163,679 | 248,639 | - | 669,655 |
| Charges payable | - | 8,765 | - | - | - | - | - | - | 8,765 |
| Total maturity of liabilities | 506,552 | 175,032 | 137,203 | 168,957 | 361,580 | 411,901 | 558,204 | - | 2,319,429 |
| Gap | (198,062) | (25,226) | (62,035) | (113,909) | (212,593) | (234,081) | 975,885 | 82,538 | 212,515 |

(Continued)

Sensitivity analysis

As of December 31, 2021 and 2020, the sensitivity analysis for the net position in foreign currency (total assets in foreign currency minus total liabilities in foreign currency) is based on the sale reference rate for the US dollar 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, 2021 and 2020, the maximum annual expected variation of the reference sale exchange rate of ¢72.78 and ¢70.73, respectively, has been determined through the calculation of a Value at Risk (VaR) 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, 2021 and 2020 is as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Effect on profit or loss | | | |
| Exchange rate variation: | | | |
| Assets | ¢ | 167,354,579,566 | 174,703,702,623 |
| Liabilities | | (159,261,220,539) | (167,674,448,358) |
| Net effect on profit or loss | ¢ | 8,093,359,027 | 7,029,254,265 |

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 relation to 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. <u>Capital risk</u>

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 adjustments to the fair value of on investments in financial instruments at fair value through other comprehensive income, additional paid-in capital, prior period retained earnings and profit or loss for the period, less statutory deductions.
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, 2021 and 2020, 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.

## 30. 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.

(Continued)

As of December 31, the fair value of financial instruments measured at amortized cost is as follows:

| | Level | | 2021 | 2020 |
|---|---|---|---|---|
| Carrying amount | | | | |
| Cash and due from banks | | ¢ | 339,821,256,580 | 329,361,878,183 |
| Investments at amortized cost | | | 67,903,203,067 | 75,987,039,300 |
| Loan portfolio | | | 1,647,824,620,171 | 1,678,025,390,101 |
| Demand deposits | | | 593,627,003,915 | 447,221,905,831 |
| Term deposits | | | 908,864,767,138 | 995,972,352,130 |
| Financial obligations | | | 372,381,573,671 | 442,234,489,565 |
| Fair value | | | | |
| Cash and due from banks | - | ¢ | 339,821,256,580 | 329,361,878,183 |
| Investments at amortized cost | - | | 67,903,203,067 | 75,987,039,300 |
| Loan portfolio | 3 | | 1,500,194,426,291 | 1,676,055,162,738 |
| Demand deposits | - | | 593,627,003,915 | 447,221,905,831 |
| Term deposits | 3 | | 1,085,351,921,431 | 1,196,586,529,024 |
| Financial obligations | 3 | | 370,124,612,706 | 390,601,887,702 |

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

(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. For investments at amortized cost, their fair value approaches their carrying amount due to their short-term nature.

(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:

| | | 2021 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Fair value through other comprehensive income | ¢ | 103,865,635,950 | - | - | 103,865,635,950 |
| Fair value through profit or loss | ¢ | - | 16,147,396,873 | - | 16,147,396,873 |

| | | 2020 | | | |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | Total |
| Fair value through other comprehensive income | ¢ | 69,372,839,203 | - | - | 69,372,839,203 |
| Fair value through profit or loss | ¢ | - | 15,752,235,673 | - | 15,752,235,673 |

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.

(Continued)

31. Concentration of assets and liabilities by geographic region

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

| | | 2021 | 2020 |
|---|---|---|---|
| Assets: | | | |
| Costa Rica | ¢ | 2,181,934,988,660 | 2,189,227,026,935 |
| Central America | | 3,937,939,402 | 1,320,845,226 |
| Rest of North and South America | | 2,653,510,685 | 2,880,454,864 |
| Caribbean | | 299,739,793 | 379,065,406 |
| United States of America | | 64,848,209,030 | 57,241,657,721 |
| Europe | | 1,114,668,724 | 896,233,827 |
| Africa | | 209,384,684 | 186,647 |
| Asia | | 272,426,235 | 229,523,970 |
| Oceania | | - | 22,204,367 |
| Total assets | ¢ | 2,255,270,867,213 | 2,252,197,198,963 |
| Liabilities: | | | |
| Costa Rica | ¢ | 1,752,178,045,575 | 1,737,027,409,233 |
| Central America | | 33,114,425,802 | 30,883,951,595 |
| Rest of North and South America | | 20,234,272,498 | 14,713,776,788 |
| Caribbean | | 87,043,440,455 | 115,340,773,481 |
| United States of America | | 21,960,768,929 | 33,251,812,132 |
| Europe | | 5,402,030,756 | 7,366,936,924 |
| Africa | | 52,301,141 | 50,598,008 |
| Asia | | 16,170,088,234 | 2,997,764,649 |
| Total liabilities | ¢ | 1,936,155,373,390 | 1,941,633,022,810 |

32. Agreements

The agreements in effect as of December 31, 2021 and 2020, 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.

*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.

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

<u>Leases:</u>

a) <u>As lessee:</u>

As of December 31, 2021 and 2020, the Corporation has leases through its subsidiaries, the most important being:

a) Operating leases in shopping centers and other commercial premises for branch and ATM locations, with the following characteristics:

- Most leases are denominated in US dollars.
- Leases are operating leases with security deposits and any improvements become the property of the lessor on expiration or termination of the agreement.
- Leases contain automatic renewal clauses.
- Leases may be terminated by either party provided that advance notice is given in accordance with the time period established in the respective agreement.

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

As of December 31, 2021 and 2020, the subsidiary Scotiabank de Costa Rica, S.A. has the following lease agreement:

a) 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, projected lease payments for the upcoming years are as follows:

| Years | | 2021 | 2020 |
|---|---|---|---|
| 1 year | ¢ | 3,176,729,530 | 2,793,090,072 |
| 2 years | | 3,051,577,217 | 2,690,909,813 |
| 3 years | | 2,789,300,105 | 2,511,147,891 |
| 4 years | | 2,735,895,675 | 2,250,497,761 |
| 5 years | | 2,608,890,112 | 2,206,374,446 |
| More than 5 years | | 6,012,025,353 | 8,563,456,592 |
| | ¢ | 20,374,417,992 | 21,015,476,575 |

b) As lessor:

The Corporation’s loan portfolio includes finance lease agreements. The recovery of leases of the lessor subsidiary is as follows:

| | | 2021 | 2020 |
|---|---|---|---|
| Lease receivables, gross | ¢ | 124,723,272,603 | 150,224,754,946 |
| Unearned interest income | | (3,386,313,482) | (4,705,817,867) |
| Receivables, net | ¢ | 121,336,959,121 | 145,518,937,079 |
| | | | |
| Recoveries | | | |
| Less than 1 year | ¢ | 35,470,912,166 | 39,384,607,802 |
| 1 to 5 years | | 85,866,046,955 | 106,134,329,277 |
| | ¢ | 121,336,959,121 | 145,518,937,079 |
| | | | |
| Lease receivables, net (including unearned interest income): | | | |
| Less than 1 years | ¢ | 43,552,056,329 | 47,037,637,834 |
| 1 to 5 years | | 81,171,216,274 | 103,187,117,112 |
| | ¢ | 124,723,272,603 | 150,224,754,946 |

## 33. 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.

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.

Regarding 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.

(Continued)

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 ¢131,781,357.00 (approx. US$227,629) 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.

(Continued)

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.

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 September 30, 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.

(Continued)

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 September 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 regarding 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.

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 National Large Taxpayer Division 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, considering that it was remitted by the competent body. Furthermore, it requested the annulment of the amendment to the proportionality factors used to determine the non-deductible expense of the Bank for fiscal years 1999 to 2005 and to apply instead those set forth in the determination proceedings. 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 National Large Taxpayer Division 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 |
| Total | ¢ | 3,645,100,729 |

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. This ex officio decision was modified through ruling No. AU10R-162-14, dated October 7, 2014, due to an error in the 2005 tax calculation. Through the aforementioned ruling, the National Large Taxpayer Division recalculated the income tax payment in the amount of ¢1,015,964,672 and ¢1,271,224,507 for the 2004 and 2005 tax periods, respectively. The corresponding collection period was initiated. Notwithstanding the above, an official recalculation for fiscal year 2005 was notified. Through ruling No. AU10R-162-14 issued at 09:00 on October 7, 2014, the National Large Taxpayer Division 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 under protest by the subsidiary Scotiabank de Costa Rica, S.A. 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. The notification of the resolution dated August 13, 2019 at 16h20 was received on August 14, whereby the parties were given three days to refer to and make the claims they consider relevant in relation to the evidence submitted by the plaintiff. On September 19, 2019, the judgment was notified, which dismissed the claim filed by the 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.

On March 15, 2021, a writ was notified to the Bank, summoning it to refer to the appeal filed by the Attorney General's Office by April 6, 2021, at the latest. As a result of the analysis performed by the Bank's management and in the opinion of the tax advisors, the probability of obtaining a favorable outcome in this case is considered to be from 50% to 90%.

a.3 Banco Interfin, S.A. (BI) filed its final income tax return and paid the amount of ¢545,136,230 in September 2007 as a result of its merger by absorption with Scotiabank de Costa Rica, S.A. (the Bank) from October 1 of that year. At the 2007 year-end, the subsidiary Scotiabank de Costa Rica, S.A. declared the aforementioned sum as a tax credit, which was applied in the 2008 income tax return. In 2009, the National Large Taxpayer Division 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 National Large Taxpayer Division challenged the tax credit and after hearing the corresponding arguments, the Tax Court still maintains the opinion that the tax return filed by BI is provisional.

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

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.

On January 6, 2021, the First Chamber of the Supreme Court of Justice notified Ruling No. 002522-F-S1-2020 dated November 10, 2020, whereby the appeal filed by the State was dismissed. The general costs of the appeal will be charged to the State. Moreover, it confirmed the position of the Administrative Court, which declared the partial annulment of the Tax Court's ruling.

Based on the foregoing, this case comes to an end.

a.4 On October 28, 2014, the National Large Taxpayer Division 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 National Large Taxpayer Division 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 National Large Taxpayer Division 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.

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

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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. 10-040-010-041-031, confirming the adjustments made.

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

On November 27, 2017, the National Large Taxpayer Division 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 Division.

On August 27, 2018, resolution No. AU10R-085-18 was notified, which rejected the arguments of the subsidiary 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.

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

Consequently, on October 3, 2019, the subsidiary Scotiabank de Costa Rica, S.A. paid under protest ¢3,539,307,817 (approx. US$6,113,533) corresponding to the tax adjustments for fiscal years 2011 and 2013.

On October 4, 2019, the Tax Administration notified Settlement Resolution No. LIQ10R-196-2019, whereby it seeks to collect the tax adjustments determined for fiscal years 2010 and 2012, in conformity with Tax Court resolution No. 341-P-2019. For 2010 the principal amount is ¢907,672,653, plus interest of ¢585,796,501, while for 2012 the principal is ¢1,233,319,289, plus interest of ¢432,145,631.

The subsidiary Scotiabank de Costa Rica, S.A. filed a motion for reconsideration of the aforementioned resolution with the National Large Taxpayer Division on October 11, 2019. Notwithstanding the foregoing, through Settlement Resolution Confirmation No. LIQAU10R-205-2019, the Tax Administration confirmed the notified settlement resolution.

On October 17, 2019, the National Large Taxpayer Division notified Sanction Proposal No. SA-PMM-006-2019, due to an alleged infraction to Article 80 of the *Code of Tax Standards and Procedures*. On February 26, 2018, the Tax Administration notified the subsidiary Scotiabank de Costa Rica, S.A. of Proposed Sanctioning Rulings No. 2-10-040-14-01-5178-03 and No. 2-10-040-14-01-582-03, which confirmed the sanction in the amount of ¢1,270,464,277.49.

On April 3, 2018, that subsidiary filed a motion for reconsideration of the aforementioned rulings. As of the date of this report, the motion is pending resolution.

To the detriment of that adjudged by the Tax Court in Resolution No. TFA-341-2019, whereby it annulled the adjustment concerning the reclassification of income declared by the subsidiary Scotiabank de Costa Rica, S.A. as non-taxable income, tax review for verification and investigation (No. 1-10-040-14-101-011-03) was reopened, seeking to re-audit the adjustments annulled by the Court.

On November 8, that subsidiary filed a motion for dismissal of the reopening of the tax review. That motion is pending resolution.

On March 4, 2020, a final hearing was held. The Tax Administration notified Regularization Proposal No. 1-10-040-14-6-321-03. The subsidiary expressed its disagreement five business days later.

On March 18, 2020, the subsidiary Scotiabank de Costa Rica, S.A. received Notice of Deficiency and Observations No. 1-10-040-14-7-41-03, whereby the Tax Administration identified additional tax payable regarding items declared as non-taxable income that it considered should be reclassified to taxable income. Therefore, the additional tax assessment amounts to ¢10,659,887 and ¢193,080,596 for fiscal years 2010 and 2012, respectively.

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On April 2, that subsidiary paid under protest the income tax adjustments for fiscal years 2010 and 2012, as per Notice of Deficiency and Observations No. 1-10-040-14-7-41-03. On March 18, 2020, the National Large Taxpayer Division notified the subsidiary of the Sanctioning Notices of Deficiency No. 2-10-040-14-7-5138-03 and No. 2-10-040-14-8-5138-03, based on Article 81 of the *Code of Tax Standards and Procedures*, which imposed a sanction of 25% of the adjustment determined in the tax review reopened for fiscal year 2010, equivalent to ¢1,210,919, and a sanction of 50% of the adjustment determined in the tax review reopened for fiscal year 2012, equivalent to ¢50,653,618.

On November 21, 2020, the subsidiary Scotiabank de Costa Rica, S.A. filed proceedings leading to a declaratory judgment against Resolution No. 341-P-2019, Confirmation Resolution No. AU10R-085-18, Determination Resolution No. DT10R-129-17, Notice of Deficiency and Observations No. 1-10-040-14-010-041-03, Provisional Regularization Proposal No. 1-10-040-14-073-031-03 and Regularization Proposal No. 1-040-14-102-341-03. All of the foregoing were issued by the National Large Taxpayer Division in relation to the income tax returns for fiscal years 2010, 2011, 2012 and 2013.

On January 20, 2022, the preliminary hearing for this case was held. The time and date for the oral proceedings are pending, where the evidence admitted in the preliminary hearing will be evaluated and the parties will be able to provide concluding allegations before a judgment is issued.

As a result of the analysis made by management of the subsidiary 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. However, a provision was created in the amount of ¢598,259,805 (undiscounted amount ¢756,779,565), which corresponds to the present value of the amount that it considers would be necessary in the event of an unfavorable ruling.

a.5 There is a claim with the Municipality of San José requesting the reimbursement of the payment of commercial license tax in the amount of ¢411,311,914 by Banco Interfin S.A., even though it had already been merged through absorption with Scotiabank.

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

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

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

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

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

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

On May 10, 2021, the brief containing the application was filed, seeking the annulment of the administrative acts that resulted in the reclassification of the municipal license tax by the Municipality of San José between September 2007 and December 2008.

On May 18, 2021, a writ dated May 13, 2021 was notified, whereby the Court admits the proceedings leading to a declaratory judgment and summons the defendant to submit its response to petition within 30 business days.

On June 23, 2021, a writ was notified by the Court, indicating that the response to petition was filed and giving the subsidiary Scotiabank de Costa Rica, S.A. three days to file the corresponding reply. On June 28, 2021, the Bank filed its reply, within the established term.

On September 10, 2021, an official letter was received, indicating that the State's representatives must submit the administrative file, and the hearing was rescheduled to November 17, 2021.

On September 17, 2021, the subsidiary was requested to refer to the file provided by the State's representatives by September 22, 2021. The hearing was held on November 17, 2021; the process was declared a matter of law and final pleadings were made. A resolution from the Court is pending.

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In the opinion of management of the subsidiary and the tax advisors, the probability of obtaining a favorable outcome in this case is considered to be from 50% to 90%.

a.6 *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.

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

Through Resolution No. SFGCN-AL-031-12, received on June 29, 2012, the National Large Taxpayer Division presented the total debt payable, consisting of principal and interest in the amount of ¢641,891,119 and ¢746,824,237, respectively. However, Tax Court Ruling No. 24-2014 dated January 30, 2014 confirmed the remission of interest and the tax assessment issued by the 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 31, 2014, a notice was received of Ruling No. TFA-672-2014, which resolved the appeal against the last settlement in the amount of ¢641,891,119, with no recourse. Payment was made under protest on December 4, 2014. The corresponding administrative proceedings were filed at court to refute the actions of the Tax 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 the subsidiary 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.7 *Tax case 1999-2003 Banco CMB (Costa Rica), S.A.*

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

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

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

Nevertheless, through Tax Court ruling No. 052-2014, notified on February 27, 2014, the Court ruled in favor of Banco CMB (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.8 *Banco CMB (Costa Rica) S.A. – Income tax for fiscal year 2011*

On August 29, 2013, the National Large Taxpayer Division 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, the subsidiary 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. Based on the procedure in effect starting from the vote of the Constitutional Chamber, once the Administrative Claim against the Notice of Deficiency and Observations is resolved, the Final Resolution will be issued, which is pending.

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

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

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

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

Ruling No. 574-P-2019 dated October 29, 2019, rejected the appeal *ad portas*. On November 8, 2019, a brief was submitted confirming the legal capacity of the legal representative.

Ruling No. 197-P-2020 annulled Ruling No. 574-P-2019 and ordered the appeal to be heard. On December 3, 2020, the subsidiary Scotiabank de Costa Rica, S.A. is summoned to appear before the Tax Court regarding the appeal.

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

a.9 *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 2011 and 2012. The amount claimed is approximately ¢527 million, including the fine and interest. On that same month, the Bank filed its defense allegations.

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

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

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

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

a.10 *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, the subsidiary 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 the subsidiary 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 (approx. US$10,143,309). For fiscal year 2013, a principal of ¢4,106,706,978 was determined. As of the date of issue of the notice of deficiency, that amount has generated interest amounting to ¢1,946,636,489, for a total of ¢6,053,343,467 (approx. US$10,619,901).

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

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

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

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

On December 13, Scotia Tarjetas, S.A. filed the corresponding appeal for reversal. A resolution from the Tax Administration is pending.

On May 6, 2020, an appeal was filed against the Determination Resolution. Therefore, through Resolution No. AP10R--089-2020, notified on May 26, the subsidiary Scotiabank de Costa Rica, S.A. was summoned to appear before the Tax Court. On July 7, 2020, a record of appearance was filed before the Tax Court.

On April 8, 2021, the Tax Court notified Resolution No. TFA-161-P-2021, which partially upheld the motion for dismissal regarding the adjustment to the bad debt expenses for fiscal years 2012 and 2013, based on the Notice of Deficiency; and rejected the adjustments to authorized expenses related to non-taxable income, reclassification to non-taxable income and recovery of accounts rejected as deductible expenses for bad debt.

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On June 4, 2021, writ No. OT10R-080-2021 issued on May 31, 2021 at nine hours was notified, which had a retroactive effect on the tax review that sought to determine the increase in the tax base for fiscal years 2012 and 2013.

On June 7, 2021, the Tax Administration sent a request for information regarding fiscal years 2012 and 2013. The subsidiary Scotiabank de Costa Rica, S.A. requested an extension to send the information on June 17, 2021. On June 21, 2021, Resolution No. LIQ10R-078-2021 was notified, which settled the tax assessment declared as final in Resolution No. TFA-161-P-2021. On June 29, 2021, the request for information (dated June 7, 2021) was answered by the subsidiary. On September 14, 2021, a new request for information was notified, which the subsidiary submitted in due time on September 28, 2021, indicating that it does not have further information to provide.

On November 3, 2021, the Request for Information made to the taxpayer under review, No. 1-10-086-16-19-211-03, was notified. It requested information about the sale of bad debt portfolios. The subsidiary submitted a response on November 26, 2021. On December 21, 2021, Official Letter No. SFGCN-078-2021 was notified, which informed the subsidiary of the request for information made to third parties.

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.11 *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 (approx. US$5,476,556) payable to the State, plus ¢992,721,229 (approx. US$1,741,616) in interest generated as of the date of notification.

On August 8, 2019, the subsidiary Scotiabank de Costa Rica, S.A. filed its allegations against the Provisional Regularization Proposal.

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.

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

On November 5, 2021, the National Large Taxpayer Division notified Resolution No. DT10R-146-2021, which partially upheld the administrative claim filed by the subsidiary. The National Large Taxpayer Division identified an income tax adjustment for fiscal year 2016, corresponding to a principal of ¢729,926,641 and interest of ¢241,653,090.

On December 20, 2021, the subsidiary filed a motion for reconsideration against the aforementioned Resolution No. DT10R-146-2021. That motion is pending resolution as of the date of this report.

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

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

The aforementioned administrative act confirmed the determination initially communicated through Regularization Proposal No. DGCN-SF-PD-5-2019-20-321-03 regarding the increase in the tax base due to an increase in interest income recorded in memoranda accounts (interest income on non-accrual loans) and a decrease in deductible expenses due to the inadmissibility of bad debt expenses related to credit cards.

On September 18, 2019, the corresponding claim was filed against the notice of deficiency. An extension of the term was requested, but it was rejected by the Tax Administration.

Due to more than six months of inactivity by the Tax Administration, on July 10, 2020, a brief was filed claiming lapsing of the proceedings. On December 23, 2020, Determination Resolution No. DT10R-170-2020 was notified, which rejected the administrative claim filed and the objection of lapsing of proceedings, confirmed the tax adjustments determined and gave a term of 30 days to file a motion for reconsideration.

On February 12, 2021, a motion for reconsideration was filed against Determination Resolution No. DT10R-170-2020. On June 2, 2021, Resolution No. AU10R-065-202 was notified, which rejected the motion for reconsideration and provided a term of 30 business days to file an appeal. On July 14, 2021, an appeal was filed. On August 24, 2021, a writ was notified, which indicated that the appeal was admitted and summoned the subsidiary Scotiabank de Costa Rica, S.A. to appear before the Tax Court. On October 5, 2021, the record of appearance was filed with the Tax Court. A resolution is pending.

On September 10, 2019, Notice of Deficiency No. DGCN-SF-PD-5-2019-23-5138-03 was notified, pursuant to Article 81 of the *Code of Tax Standards and Procedures*. It communicated to the subsidiary the sanction due to violation of the tax laws, as defined in Article 81 of the *Code of Tax Standards and Procedures*, categorized as a minor offense (50%). On September 24, 2020, the notice of deficiency was challenged. The subsidiary is pending notification of a sanctioning resolution.

Based on the steps taken by the Corporation to date and the grounds (of fact and of law), the probability of obtaining a favorable outcome in this case is between 51% and 90%.

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

a.1 The National Large Taxpayer Division 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, 2018, through Payment Request No. SRCST-RP-064-2018, 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.

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.

(Continued)

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.

On October 26, 2020, Tax Court decision No. TFA-594-P-2020 was communicated, which resolved the appeal filed by Scotia SAFE regarding the adjustments to the income tax.

The decision partially annulled resolution N° DT10R-138-18, regarding the suspension of the calculation of interest generated from January 16 to September 21, 2016. However, it conformed the adjustments made by the Tax Administration.

On December 4, 2020, the amount of ¢127,041,365 was paid under protest. A judicial claim is being prepared to file administrative proceedings to challenge the resolution issued by 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.

*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 regarding 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 March 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. A routine review of files identified Resolution No. 002769-F-S1-2020, which partially admitted the appeal filed referring to the order to pay costs, leaving the sentence unchanged in all of the remaining items.

On August 27, 2021, a brief requesting enforcement of the judgment was submitted. The enforcement is still 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 On March 17, 2016, the National Large Taxpayer Division notified Scotia Leasing of the beginning of tax review No. 1-10-065-16-004-011-03.

Through Provisional Regularization Proposal No. 1-10-065-16-026-031-03, notified August 29, 2016, the National Large Taxpayer Division determined an adjustment in favor of the Treasury in the amount of ¢987,376,536 (approximately US$1,705,519.72) for 2012 and ¢1,053,581,177.00 (approximately US$1,819,876.62) for 2013. Additionally, through document No. 2-10-065-16-046-5138-03, a sanction was determined in the amount of ¢339,285,358 (US$586,055) and ¢398,731,062 (approximately US$688,737.95) for 2012 and 2013, respectively.

On September 12, 2016, Scotia Leasing de Costa Rica, S.A. filed an appeal for annulment against Sanctioning Ruling Proposal No. 2-10-065-16-046-5138-03.

On October 21, 2016, the National Large Taxpayer Division notified Provisional Regularization Proposal No. 1-10-065-6-032-341-03, which determined the existence of a debt in favor of the Treasury in the amount of ¢1,000,106,895 (approximately US$1,727,509.19) for 2012 and ¢1,068,542,004 (approximately US$1,845,718.83) for 2013.

On October 28, 2016, Scotia Leasing de Costa Rica, S.A. filed before the National Large Taxpayer Division a statement indicating its disagreement with Regularization Proposal No. 1-10-065-16-032-341-03. As a result, on October 31, 2016, the National Large Taxpayer Division notified Notice of Deficiency No. 1-10-065-16-087-041-03, which ratified the arguments presented in the provisional proposal.

Based on the foregoing, on December 14, 2016, Scotia Leasing de Costa Rica, S.A. filed before the National Large Taxpayer Division an administrative claim against Notice of Deficiency and Observations No. 1-10-065-16-087-041-03, requesting the annulment of the procedure and the unlawfulness of the adjustments.

On March 6, 2018, the National Large Taxpayer Division notified Scotia Leasing de Costa Rica, S.A. of Determination Resolution No. DT10R-026-18, at 12:00 hours, dated March 1, 2018, whereby the National Large Taxpayer Division confirmed everything set forth in the aforementioned notice of deficiency. On April 25, 2018, the Corporation filed a motion for reconsideration against that resolution.

On September 25, 2019, the National Large Taxpayer Division notified the leasing 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.

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.

The subsidiary filed an appeal before the Tax Court on November 6, 2019. Through writ No. AP10R-222-19, notified by the National Large Taxpayer Division on November 12, 2019, the appeal was confirmed to be filed in due time and form and 30 business days from the date of notice were given to the Corporation appear before the Tax Court to ratify arguments.

On December 20, 2019, the subsidiary submitted a brief of ratification of arguments to the Tax Court.

As a result on June 17, 2021, the Tax Court notified the Corporation of resolution No. 378-P-2021, which dismissed the appeal filed.

On March 5, 2021, Scotia Leasing de Costa Rica, S.A. filed a proceedings leading to a declaratory judgment against Confirmation Resolution No. AU10R-191-19, issued by the National Large Taxpayer Division, related to the increase in the tax base of the income tax declared for FY 2012 and 2013. It also challenged Sanctioning Ruling Proposal No. 2-10-065-16-045-5138, based on Article 81 of the *Code of Tax Standards and Procedures*, related to the sanction imposed as a result of the adjustment calculated for FY 2010 and 2012.

On June 10, 2021, the Attorney General's Office filed a response to petition. Currently, the Corporation is preparing an answer to that response and the preliminary hearing is scheduled for May 25, 2022, at 10:00 am.

On August 29, 2016, the National Large Taxpayer Division notified Scotia Leasing de Costa Rica, S.A. of proposed sanctioning ruling No. 2-10-065-16-046-5138-03, in conformity with Article 81 of the *Code of Tax Standards and Procedures*, which established a penalty equivalent to 50% of the adjustment determined, which amounts to ¢738,016,420,00.

The corresponding claims were filed against said proposed sanctioning ruling. However, on October 29, 2019, the Tax Authorities notified sanctioning ruling No. DGCN-2-10-054-15-29-5178-03, which fully confirms the penalty imposed in the proposed sanctioning ruling.

Based on the foregoing, on December 9, 2019, an appeal for reversal was filed before the National Large Taxpayer Division against sanctioning ruling No. DGCN-2-10-054-15-29-5178-03 notified on October 29, 2019.

On June 5, 2020, the National Taxpayer Division notified Resolution No. INFRAC.AU10R-094-2020, whereby it rejected the motions for annulment filed by the Corporation and ratified the administrative infraction based on Article 81 of the Code of Tax Standards and Procedures. On July 15, 2020, the Corporation filed an appeal against Ruling No. INFRAC.AU10R-094-2020.

The Corporation is currently waiting for the motion filed to be resolved.

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 National Large Taxpayer Division 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, and due to a material error, that resolution was not notified to the lawyers in charge of the proceedings. On June 17, 2019, 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.

On November 24, 2021, a claim was filed before the Administrative Court. On December 17, 2021, a writ was notified which admitted the claim, and the State’s representatives were asked/required to provide a reply.

a.4 Claims for damages - BNS Leasing de Costa Rica, S.A., a company merged with 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, the subsidiary 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.

Taking into account the steps taken by the subsidiary to date, and the grounds (of fact and of law) used in the claim, the tax advisors consider the probability of obtaining a favorable outcome in this case to be between 51% and 90%.

## 34. Changes in accounting policies

As of January 1, 2021, the subsidiary Scotia Leasing Costa Rica, S.A applied changes to its accounting policies regarding financial assets, as described in Note 29.

The following table summarizes the impact on the new measurement:

| *Retained earnings* | | 2021 |
|---|---|---|
| Initial recognition of ECL on the lease portfolio | ¢ | (1,587,407,870) |
| Deferred tax | | 464,869,917 |
| | ¢ | (1,122,537,953) |
| *Allowance for loan losses* | | |
| Initial recognition of ECL on the lease portfolio | ¢ | 1,587,407,870 |

The Corporation considers it impractical to recognize ECL on the lease portfolio as of January 1, 2020, due to the cost/benefit of obtaining the historical information to build all of the variables that the calculation entails. The measurement of ECL was calculated as of January 1, 2021.

## 35. COVID-19

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

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

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

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

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

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

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

Human talent

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

Customer support and mitigation programs:

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

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

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

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

As part of the measures adopted to manage the crisis caused by the pandemic, the Corporation evaluated the loans of borrowers who requested it since their payment capacity was affected, providing a temporary modification to help them face the COVID-19 crisis.

As a result, as of December 31, 2021, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢507,657,316,922, representing 33% of the total loan portfolio.

<u>Impairment of financial and non-financial assets</u>

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

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

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

The general effect of the coronavirus outbreak is uncertain at this time. Consequently, the Corporation is still in the process of analyzing and forecasting the potential impact on its operations.

The Corporation's management will continue to monitor and modify its operating and financial strategies to mitigate the potential risks to its business.

36. Relevant event

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

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

- The maximum annual interest rate for all types of credits, except for microcredits, will be calculated by adding the simple average of the weighted average of the lending rate for the last 12 months, plus 12.8%, and the result of this sum will be multiplied by 1.5.

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

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

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

All types of loans (except for microcredits)

| | |
|---|---|
| Colones | 37.69 % |
| US Dollars | 30.36 % |
| Microcredits | |
| Colones | 53.18 % |
| US Dollars | 42.99 % |
| Loans in other currencies | 7.44 % |

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

37. LIBOR benchmark reform

The UK Financial Conduct Authority (FCA) will cease to publish one of the world's most important interest rate benchmarks known as LIBOR (London Interbank Offer Rate) in all currencies and terms after December 31, 2021, except for LIBOR rates in US dollars for terms of one day and of one, three, six and twelve months, which will cease to be published on June 30, 2023.

The US Federal Reserve created the Alternative Reference Rates Committee (ARRC), which established a new interest rate benchmark for financial products in US dollars called SOFR (Secured Overnight Financing Rate), published since April 2018. The eurozone, Japan and Switzerland are also creating new interest rate benchmarks.

In view of this situation, the Costa Rican financial authorities have requested the financial system to perform the relevant analyses to measure the impacts and prepare transition plans to replace LIBOR.

The banking industry has observed a number of challenges and impacts arising from the transition, which are grouped into the following eight areas applicable to the subsidiary Scotiabank de Costa Rica, S.A. at the corporate level. Globally, the Interest Rate Benchmark Reform project focuses its efforts on these areas to ensure a successful transition:

- finance
- customers
- risk assessment and management
- taxes
- accounting
- infrastructure
- regulations
- market adoption.

Due to the scope and potential impact of this initiative, the subsidiary Scotiabank de Costa Rica, S.A. has implemented quarterly supervision committees at the corporate level (the entire bank) and quarterly supervision committees for each division or business line, including International Banking, Capital Markets and Corporate Banking, Global Payment Business, Treasury Group, Canadian Banking and Equity Management.

The subsidiary Scotiabank de Costa Rica, S.A. has made significant operating and technological efforts to assess the impacts of this change, identify changes to related processes and operations in order to achieve an orderly transition to the new interest rate benchmarks and prevent risks due to the discontinuation of the rate.

Some of the steps taken include:

- determining alternative interest rate benchmarks and their feasibility at the local level, coordinating team trainings, approving the budgets necessary to implement the project, and completing internal procedures for new initiatives, among other;
- identifying the contracts affected, including fallback clauses in new contracts, amending current contracts, and determining the impact on profitability, among other;
- defining a communication strategy with customers by segment; delivering personalized letters to customers; creating an information portal with frequently asked questions and information additional to the website of the subsidiary Scotiabank de Costa Rica, S.A., among other.

The initiative has a solid corporate governance, monitored by the parent company, and it involves all of the affected areas. No material impacts are expected.

According to the analyses performed, the financial operations affected by LIBOR (asset type, liabilities maturing after December 31, 2021) are as follows:

| Type of operation | Number of contracts maturing after December 31, 2021 | Amount in colones |
|---|---|---|
| Consumer loans | 362 | 7,763,350,281 |
| Corporate loans | 164 | 122,832,273,567 |
| Liabilities | 13 | 152,334,307,164 |
| Other (private) | 9 | 3,646,714,096 |

38. <u>Accrued interest receivable over 180 days</u>

Due to the COVID-19 pandemic, from March 2020 to the date of this report, as part of the customer support programs, exceptional conditions were granted to customers and in many cases the extension periods granted had to be extended. Consequently, there are cases in which such grace periods have exceeded 180 days. Under Article 19 of the SUGEF Directive 30-18 Regulation of Financial Information (RFI), "Regulated entities should have policies and procedures in place to determine the time of the suspension of the booking of the accrual of commissions and interest on loan operations. However, the accrual suspension term should not exceed 180 days".

To protect the equity ratio and profitability of the financial entities, in communication CNS-1698/08 dated November 10, 2021, CONASSIF established the following guidelines:

- Within a maximum term of 48 months starting from January 1, 2022, the balance of accrued interest receivable over 180 days, booked in account "138 Accrued interest receivable on loan portfolio" with cutoff as of October 31, 2021, must be fully covered by an allowance. If the entity reclassified accrued interest receivable over 180 days to the account "140 Accounts and commissions receivable", the entity must apply to this interest the same treatment as indicated above.

Accordingly, the minimum allowance percentage of the balance of accrued interest receivable over 180 days that the entity must have at the end of each semester is as follows:

| Period ending | Minimum allowance percentage of the balance of accrued interest receivable over 180 days |
|---|---|
| June 30, 2022 | 9% |
| December 31, 2022 | 18% |
| June 30, 2023 | 30% |
| December 31, 2023 | 42% |
| June 30, 2024 | 56% |
| December 31, 2024 | 70% |
| June 30, 2025 | 85% |
| December 31, 2025 | 100% |

- To protect equity, as a prudential measure, from the effective date of this agreement the entity must not pay dividends, surplus or other similar benefits to its partners, shareholders or associates, or distribute bonds, incentives or other compensation to officials or employees, as long as the allowance amount of accrued interest receivable over 180 days does not exceed 60% of the carrying amount of such interest. For the purposes of this paragraph, the entity may supplement the aforementioned 60% by earmarking prior-period retained earnings to increase the booked balance of voluntary reserves created specifically to cover the entity's losses, which have been declared as non-redeemable through an agreement by the entity's maximum directing body, up to 30% of the balance of that accrued interest receivable.

As of December 31, 2021, accrued interest receivable over 180 days for operations with relief plans amounts to ¢2,379,995,792. The position of the subsidiary Scotiabank de Costa Rica, S.A. is conservative; therefore, as of that date, the allowance for impairment of accrued interest receivable over 180 days amounts to ¢2,258,375,000, representing a coverage of 95%.

## 39. Transition to International Financial Reporting Standards (IFRS)

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

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

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

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

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

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

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

### b) IAS 38: Intangible Assets

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

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

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

CONASSIF requires an allowance for impairment to be booked as one-forty-eighth of the value of the asset, until reaching 100% of its carrying amount.

During the term of 24 months from the date when the asset is awarded or received, the entity may request from the Superintendency an extension of two years to sell the asset. The Superintendency may deny the request for an extension (providing reasonable grounds) and require the creation of an allowance for 100% of the asset's carrying amount during the first 24 months. If an extension is provided, the allowance can be created over the term approved by the Superintendency.

d) IFRS 9: Financial Instruments

a) For application of IFRS 9, particularly the measurement of ECL, the prudential regulations issued by CONASSIF will be maintained for the loan portfolio, accounts receivable and stand-by credits granted, until this Standard is modified.

b) The application of the measurement of ECL on investment funds of the money market category, as provided under IFRS 9, required by Articles 3 and 18 of the RFI, will be effective on January 1, 2022.

c) Regulated entities should have policies and procedures in place to determine the amount of the suspension of the booking of the accrual of commissions and interest on loan operations. However, the accrual suspension term should not exceed 180 days.

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

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

i. The provisions of Article 10 of IAS 12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments will be effective beginning January 1, 2019. On initial application of IFRIC 23, entities must apply the transition established in item (b) of paragraph B2 of that Interpretation.

(Continued)

ii. The amount of the provision for the tax treatments in dispute notified before December 31, 2018, corresponding to tax periods 2017 and previous periods, will be booked at the greater of the best estimate of the amount payable to the Tax Authorities regarding the notice of deficiency (principal, interest and fines), according to IAS 12 and 50% of the principal from the correction of the self-assessment of the tax obligation.

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

a. Booking against profit or loss for the period, in monthly installments, using the straight-line method, no later than December 31, 2021, or

b. Booking a single adjustment to the opening balance of prior period retained earnings until reaching the provision amount. Adjustments derived from subsequent evaluations of the amounts in dispute will be treated as adjustments to allowances, for which IAS 8 Accounting Polices, Changes in Accounting Estimates and Errors will be applied.

iii. If the provision amount is greater than the opening balance of prior-period retained earnings, the adjustment will be attributed first to the opening balance of prior-period retained earnings and for complementing, the indications of item a. will be followed.

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