Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat
and subsidiaries

Consolidated financial statements

December 31, 2017 and 2016

(With Independent Auditor's Report thereon)
(Free translation from Spanish language original)

KPMG Cárdenas Dosal, S.C.
Manuel Ávila Camacho 176 P1,
Reforma Social, Miguel Hidalgo,
C.P. 11650, Ciudad de México.
Teléfono: +01 (55) 5246 8300
kpmg.com.mx

Independent Auditors' Report

(Translation from Spanish language original)

The Board of Directors and Stockholders
Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat:

(Millions of Mexican pesos)

Opinion

We have audited the consolidated financial statements of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and subsidiaries (the Bank), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and subsidiaries, have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit Institutions in Mexico (the Accounting Criteria), issued by the National Banking and Securities Commission (the Banking Commission).

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 Bank in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, 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.

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Cancún, Q. Roo.
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Ciudad Juárez, Chih.
Culiacán, Sin.
Chihuahua, Chih.
Guadalajara, Jal.
Hermosillo, Son.
León, Gto.
Mérida, Yuc.
Mexicali, B.C.
Monterrey, N.L.
Puebla, Pue.
Querétaro, Qro.
Reynosa, Tamps.
Saltillo, Coah.
San Luis Potosí, S.L.P.
Tijuana, B.C.

Key audit matters

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

Allowance for loan losses $9,156

See notes 3 (i), 4 (a) and 10 (e) to the consolidated financial statements.

Key audit matter	How the key audit matter was addressed in our audit
The allowance for loan losses involves a high degree of Management judgement for the evaluation of the borrowers' ability to pay, considering the different factors in accordance with the methodologies for the credit portfolio rating process established by the Banking Commission, as well as the reliability on the documentation and its update, which serves as input for the determination of the allowance for loan losses.	The audit procedures applied to Management's determination of allowance for loan losses and its effect on the year's results, included selective tests of both the inputs used and the calculation method for the different loan portfolios based on the current methodologies established by the Banking Commission for each type of loan portfolio.

Derivative financial instruments non-listed in recognized markets $18,471 (assets) and $18,599 (liabilities) and hedging transactions $5,115 (assets) and $3,884 (liabilities)

See notes 3 (f) and 9 to the consolidated financial statements.

Key audit matter	How the key audit matter was addressed in our audit
Fair value determination of derivative financial instruments non-listed in recognized markets and hedging transactions, is carried out through the use of valuation techniques that involve a high degree of judgement by Management, mainly when it is required the use of inputs not observable in financial markets. In addition, the requirements that must be met for accounting for financial instruments classified as hedges, as well as documentation and monitoring to prove their effectiveness, involves a high degree of specialization applied by Management.	As part of our audit procedures, we obtained evidence of the approval by the Bank's Risk Committee, of the valuation model for derivative financial instruments and hedging operations used by Management. Likewise, through selective tests, we evaluated the reasonableness of those models, through the participation of our valuation specialists. In addition, through selective tests, we evaluated the fair value determination of the derivative products and hedging operations, the proper compliance with the criteria and documentation to be considered as such, as well as their effectiveness.

Current income tax and Employee Statutory Profit Sharing (ESPS) $546 and $154, respectively, and deferred $3,828 and $1,111, respectively	
See notes 3 (q) and 18 to the consolidated financial statements.	
Key audit matter	How the key audit matter was addressed in our audit
Determination of current and deferred income tax and ESPS is complex, mainly due to the interpretation of the legislation in force in the matter, requiring a high degree of Management's judgement. The valuation of deferred income tax and ESPS assets requires evaluating factors relating to the current and future operation of the Bank to estimate the realization of these assets.	The audit procedures applied to evaluate the reasonableness of the calculations determined by Management for the recognition of current and deferred income tax and ESPS, included selective tests of both the inputs used and the nature of the items used in the calculation, considering the legislation in force in tax matters, with the participation of our specialists. Additionally, we evaluated the reasonableness of the tax profit projections determined by the Bank's Management that support the probability of the realization of deferred income tax and ESPS.

Other information

Management is responsible for the other information. The other information comprises the information included In the Bank's Annual Report for the year ended December 31, 2017 which will be provided to the Banking Commission and the Mexican Stock Exchange (the Annual Report), but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is estimated to be available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information when available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statement or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements in accordance with the Accounting Criteria issued by the Banking Commission, 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the 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 aggregate, they could reasonably 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 judgement and maintain professional scepticism 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, then 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 Bank to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank 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.

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

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

KPMG Cárdenas Dosal S. C.

Ricardo Lara Uribe

Mexico City,
February 22, 2018.

Scotiabank Inverlat, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Ciudad de México

Consolidated balance sheets

December 31, 2017 and 2016

(Millions of Mexican pesos)

Assets	2017	2016
Cash and cash equivalents (note 6)	$ 31,851	33,023
Margin accounts	67	306
Investment securities (note 7):		
Trading	6,589	9,218
Available-for-sale	44,684	32,278
Held-to-maturity	4,678	5,457
	55,951	46,953
Debtors on repurchase/resell agreements (debtor balance) (note 8)	11,992	13,476
Derivatives (note 9):		
Trading purposes	18,479	19,392
Hedging purposes	5,115	1,274
	23,594	20,666
Valuation adjustment from hedging of financial assets (note 10c)	(530)	(571)
Current loan portfolio (note 10):		
Commercial loans:		
Business or commercial activity	124,089	92,543
Financial entities	35,264	29,474
Government entities	11,163	6,501
	170,516	128,518
Consumer loans	33,711	26,692
Residential mortgage loans:		
Medium and residential	103,092	90,174
Social interest housing	138	163
Loans acquired from INFONAVIT	1,244	–
	104,474	90,337
Total current loan portfolio	308,701	245,547
Past-due loan portfolio (note 10):		
Commercial loans:		
Business or commercial activity	3,170	2,825
Financial institutions	110	111
Consumer loans	1,016	763
Residential mortgage loans:		
Medium and residential	2,750	2,257
Social interest housing	23	23
Total past-due loan portfolio	7,069	5,979
Loan portfolio	315,770	251,526
Less:		
Allowance for loan losses (note 10e)	9,156	7,138
Total loan portfolio, net	306,614	244,388
Benefits receivable from securitization transactions (note 11)	75	50
Other accounts receivable, net	9,711	11,976
Foreclosed assets, net (note 12)	86	79
Premises, furniture and equipment, net (note 13)	3,636	3,482
Permanent investments (note 14)	52	51
Deferred icome taxes and employee statutory profit sharing, net (note 18)	4,939	4,081
Other assets:		
Deferred income charges, prepaid expenses and intangibles	3,784	2,837
Other short and long term assets	2	85
	3,786	2,922
Total assets	$ 451,824	380,882

Liabilities and stockholders' equity	2017	2016
Deposit funding (note 15):		
Demand deposits	$ 176,359	147,093
Time deposits:		
General public	92,998	74,667
Money market	24,072	19,750
Debt securities issued	26,254	13,528
Global account of deposits without movements	509	346
	320,192	255,384
Bank and other borrowings (note 16):		
Due on demand	180	897
Short-term	6,845	13,852
Long-term	6,597	6,749
	13,622	21,498
Traded securities to be settled (note 7b)	419	3,931
Creditors on repurchase/resell agreements (note 8)	28,046	19,317
Derivatives (note 9):		
Trading purposes	18,599	20,027
Hedging purposes	3,884	133
	22,483	20,160
Valuation adjustments of hedging financial liabilities (note 15b)	29	34
Other accounts payable:		
Income tax payable	1,045	830
Employee statutory profit sharing payable (note 18)	154	183
Creditors on settlement of transactions (notes 3c, 6, 7 and 9)	4,311	7,256
Creditors on margin account	31	–
Creditors on collateral received in cash	1,327	1,003
Sundry creditors and other accounts payable	8,370	6,856
	15,238	16,128
Subordinated debt issued (note 19)	2,101	2,100
Deferred credits and prepayments	1,341	1,114
Total liabilities	403,471	339,666
Stockholders' equity (note 20):		
Paid-in capital:		
Capital stock	10,104	9,304
Additional paid-in capital	473	473
	10,577	9,777
Earned capital:		
Statutory reserves	4,891	4,454
Retained earnings	26,191	22,257
Result from valuation of available-for-sale securities	(13)	(47)
Result from valuation of cash flow hedge instruments	423	337
Remeasurements of defined employee benefits	(264)	65
Net income	6,548	4,373
	37,776	31,439
Total stockholders' equity	48,353	41,216
Commitments and contingent liabilities (note 24)		
Total liabilities and stockholders' equity	$ 451,824	380,882

(Continued)

Scotiabank Inverlat, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Ciudad de México

Consolidated balance sheets, continued

December 31, 2017 and 2016

(Millions of Mexican pesos)

Memorandum accounts (note 22)

	2017		2016	
Contingent assets and liabilities		$ 3		$ 3
Loan commitments		187,382		150,687
Assets in trust or under mandate:				
Trusts	$ 190,564		$ 169,133	
Mandate	29,023	219,587	28,985	198,118
Assets in custody or under management		733,687		409,636
Collateral received by the entity		62,287		62,087
Collateral received and sold or pledged by the entity		20,595		18,683
Investments on behalf of customers		103,975		90,061
Interest earned but not collected arising from past-due loan portfolio		329		263
Other accounts		$ 1,211,354		$ 1,139,964

"At December 31, 2017 and 2016, the historical capital stock amounts to $8,853 and $8,053, respectively".

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory, nature and have been applied on a consistent basis. Accordingly they reflect the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated balance sheets were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Enrique Zorrilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

"These consolidated balance sheets faithfully match with the consolidated balance sheets originals, which are properly signed and held by the Institution."

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Scotiabank Inverlat, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Ciudad de México

Consolidated statements of income

Years ended December 31, 2017 and 2016

(Millions of Mexican pesos)

		2017	2016
Interest income (note 23)	$	35,187	24,572
Interest expense (note 23)		(15,721)	(8,857)
Financial margin		19,466	15,715
Allowance for loan losses (note 10e)		(4,015)	(2,945)
Financial margin adjusted for allowance for loan losses		15,451	12,770
Commission and fee income (note 23c)		4,160	3,631
Commission and fee expense		(742)	(661)
Financial intermediation income (note 23d)		242	479
Other operating income (note 23e)		2,377	2,885
Administrative and promotional expenses		(14,255)	(13,464)
		(8,218)	(7,130)
Net operating income		7,233	5,640
Equity method in the results of associated companies		1	2
Income before income taxes		7,234	5,642
Current income taxes (note 18)		(1,437)	(514)
Deferred income taxes, net (note 18)		751	(755)
		(686)	(1,269)
Net income	$	6,548	4,373

See accompanying notes to consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the revenues and disbursements relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of income were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Enrique Zorilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance
and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director
of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

"These consolidated statements of income faithfully match with the consolidated statements of income originals, which are properly signed and held by the Institution."

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Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
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Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Ciudad de México

Consolidated statements of changes in stockholders' equity

Years ended December 31, 2017 and 2016

(Millions of Mexican pesos)

	Paid-in capital		Earned capital						
	Capital stock	Additional paid-in capital	Statutory reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from valuation of cash flow hedge instruments	Remeasurements of defined employee benefits	Net income	Total stockholders' equity
Balances as of December 31, 2015	$ 8,381	473	3,988	18,059	(75)	(159)	–	4,655	35,322
Changes resulting from stockholders' resolutions:									
Resolution passed at the Ordinary General Stockholders' Meeting of April 29, 2016									
Creation of reserves	–	–	466	–	–	–	–	(466)	–
Appropriation of 2015 net income	–	–	–	4,189	–	–	–	(4,189)	–
Resolution passed at the Extraordinary General Stockholders' Meeting of April 22 and July 29, 2016									
Increase in capital stock (note 20a)	923	–	–	–	–	–	–	–	923
	923	–	466	4,189	–	–	–	(4,655)	923
Changes related to the recognition of comprehensive income (note 20c):									
Net income	–	–	–	–	–	–	–	4,373	4,373
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for ($260) and ($87), respectively (notes 7a, 9 and 18)	–	–	–	–	28	496	–	–	524
Result from application of new accounting criteria (note 4)	–	–	–	(37)	–	–	–	–	(37)
Remeasurements of defined employee benefits, net of deferred taxes and ESPS for ($158) and ($53), respectively (notes 4e, 17 and 18)	–	–	–	46	–	–	65	–	111
Total comprehensive income	–	–	–	9	28	496	65	4,373	4,971
Balances as of December 31, 2016	9,304	473	4,454	22,257	(47)	337	65	4,373	41,216
Changes resulting from stockholders' resolutions:									
Resolution passed at the Ordinary General Stockholders' Meeting of April 27, 2017									
Creation of reserves	–	–	437	–	–	–	–	(437)	–
Appropriation of 2016 net income	–	–	–	3,936	–	–	–	(3,936)	–
Increase in capital stock (note 20a)	800	–	–	–	–	–	–	–	800
	800	–	437	3,936	–	–	–	(4,373)	800
Changes related to the recognition of comprehensive income (note 20c):									
Net income	–	–	–	–	–	–	–	6,548	6,548
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for ($57) and ($19), respectively (notes 7a, 9 and 18)	–	–	–	–	34	86	–	–	120
Result from application of new accounting criteria, net of deferred taxes and ESPS for $24 and $8, respectively (note 4)	–	–	–	(48)	–	–	–	–	(48)
Remeasurements of defined employee benefits, net of deferred taxes and ESPS for $50 and $17, respectively (notes 4e, 17 and 18)	–	–	–	46	–	–	(329)	–	(283)
Total comprehensive income	–	–	–	(2)	34	86	(329)	6,548	6,337
Balances as of December 31, 2017	$ 10,104	473	4,891	26,191	(13)	423	(264)	6,548	48,353

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

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Enrique Zorrilla Fullaondo
General Director

SIGNATURE

____
Michael Coate
Deputy General Director of Finance and Business Intelligence

SIGNATURE

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Agustín Corona Gahbler
Deputy General Director of Group Audit

SIGNATURE

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H. Valerio Bustos Quiroz
Director of Group Accounting

"These consolidated statements of changes faithfully match with the consolidated statements of changes originals, which are properly signed and held by the Institution."

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and subsidiaries

Lorenzo Boturini 202, Col. Tránsito, C.P. 06820, Ciudad de México

Consolidated statements of cash flows

Years ended December 31, 2017 and 2016

(Millions of Mexican pesos)

	2017	2016
Net income	$ 6,548	4,373
Items not requiring (providing) cash flow:		
Impairment allowance or impairment reversal in investing and financing activities	(18)	15
Depreciation of premises, furniture and equipment	423	376
Amortization of deferred charges, prepaid expenses and intangible assets	259	119
Provisions, mainly allowance for loan losses	4,836	4,046
Current and deferred income taxes	686	1,269
Equity method in associated companies	(1)	(2)
Other, mainly valuation at fair value	(874)	54
Subtotal	5,311	5,877
Operating activities:		
Change in margin accounts	239	28
Change in investment securities	(12,506)	15,866
Change in debtors on repurchase / resell agreements	1,484	(1,134)
Change in derivatives (asset)	731	(15,915)
Change in loan portfolio	(66,808)	(38,815)
Change in benefits receivable from securitization transactions	34	39
Change in foreclosed assets	(14)	(20)
Change in other operating assets	2,123	2,464
Change in deposit funding	64,808	40,445
Change in bank and other borrowings	(7,876)	6,648
Change in creditors on repurchase / resell agreements	8,729	(28,764)
Change in derivatives (liabilities)	(810)	15,163
Change in subordinated debt issued	1	1
Change in other operating liabilities	(2,183)	136
Payments of income taxes	(329)	(631)
Net cash flows from operating activities	(12,377)	(4,489)
Investing activities:		
Proceeds from sale of property, plant and equipment	4	4
Payments for acquisition of premises, furniture and equipment	(581)	(403)
Payments for acquisition of subsidiaries	–	(72)
Collections of cash dividends	–	1
Payments for acquisition of intangible assets	(877)	(837)
Net cash flows from investing activities	(1,454)	(1,307)
Net cash flows from financing activities due to increase in capital stock	800	923
Net increase (decrease) in cash and cash equivalents	(1,172)	5,377
Cash and cash equivalents at beginning of the year	33,023	27,646
Cash and cash equivalents at end of the year	$ 31,851	33,023

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the cash in flows and cash out flows relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE

Enrique Zorrilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance and
Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director
of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

"These consolidated statements of cash flows faithfully match with the consolidated statements of cash flows originals, which are properly signed and held by the Institution."

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These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Description of business-

Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat ("the Bank"), located in Lorenzo Boturini 202, 2nd floor, Tránsito, 06820 in Mexico City is an entity constituted under Mexican laws. The Bank is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group") which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.4% of its capital stock. In accordance with the Credit Institutions Law, the Bank is authorized to carry out multiple-service banking transactions such as accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services, among others. The consolidated financial statements of the Bank include the operation of its subsidiaries for whom exercises control: Globalcard, S. A. de C. V., SOFOM, E. R., Grupo Financiero Scotiabank Inverlat (Globalcard); Inmobiliaria Scotia Inverlat, S. A. de C. V. (Inmobiliaria); Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios) which supports the management of the credit card business; Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados) which acts as trading member for futures and options contracts listed on the Mercado Mexicano de Derivados, S. A. de C. V. (MexDer) and is also holding company of two trusts named, Fideicomiso Socio Liquidador Posición Propia Número 101667 and Fideicomiso Socio Liquidador Posición de Terceros Número 10177 (MexDer Trusts), created for the purpose of entering into futures and options contracts for the Bank's own account and on behalf of third parties, respectively. The Bank operates all over the Mexican territory and its corporate headquarters are in Mexico City.

(2) Authorization and basis for presentation-

Authorization

On February 22, 2018, Enrique Zorrilla Fullaondo (General Director), Michael Coate (General Director Deputy Finance and Business Intelligence), Agustín Corona Gahbler (General Director Deputy Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying consolidated financial statements and related notes.

The Bank's consolidated financial statements include the Bank's subsidiaries for whom exercises control: Globalcard, Inmobiliaria, Scotia Servicios and Scotia Derivados. Significant balances and transactions with the Bank's companies have been eliminated in preparing the consolidated financial statements.

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The consolidation was carried out using the audited financial statements of the subsidiaries at December 31, 2017 and 2016. The consolidation of Globalcard is carried out beginning August 15, 2016.

The Stockholders and the National Banking and Securities Commission (“the Banking Commission”) are empowered to modify the consolidated financial statements after issuance. The 2017 attached consolidated financial statement will be submitted to the approval of the next Shareholders' Meeting.

Basis of presentation

a) Statement of compliance

The accompanying consolidated financial statements have been prepared, based on the banking legislation, in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico. The Banking Commission is responsible for the inspection and supervision of financial institutions, as well as reviewing their financial information.

The accounting criteria provide that in the absence of an specific accounting criterion of the Banking Commission for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF), the suppletory process as established by MFRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by MFRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the MFRS are met by the standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and later any other formal and recognized accounting standard, provided they do not contravene the accounting criteria of the Banking Commission.

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

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The significant financial statement captions subject to such estimates and assumptions include the valuation of financial instruments, allowance for loan losses, employees' benefits and the future realization and deferred taxes. The actual results may differ from those estimates and assumptions.

c) Functional and reporting currency

The aforementioned consolidated financial statements are presented in Mexican pesos, which is the same as the recording currency and the functional currency.

For purposes of disclosure in the notes to the consolidated financial statements, "pesos" or "$" refers to millions of Mexican Pesos, and when reference is made to "dollars" or "USD", it means millions of dollars of the United States of America.

d) Recognition of assets and liabilities related to financial instruments

Assets and liabilities related to the purchase and sale of foreign currencies, investment in securities, securities repurchase/resell agreements and derivatives are recognized in the consolidated financial statements on the trade date, regardless of the settlement date.

(3) Summary of significant accounting policies-

The accounting policies shown in this note have been applied on a consistent basis in the preparation of the consolidated financial statements, considering the accounting changes indicated in note 4.

(a) Recognition of the effects of inflation-

The accompanying consolidated financial statements include the recognition of inflation based on Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

Years ended December 31, 2017 and 2016 are considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Bank's financial information are not recognized. Should be back in an inflationary environment, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as inflationary. The accumulated inflation rate of the three preceding years, is shown in the following page.

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December 31,		UDI	Inflation Annual	Inflation Accumulated
2017	$	5.934551	6.68%	12.60%
2016		5.562883	3.38%	9.97%
2015		5.381175	2.10%	10.39%

(b) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, deposits with banks in pesos and dollars, as well as 24, 48, 72 and 96 hour foreign currency purchase and sale transactions. Also includes restricted cash and cash equivalents comprised of bank borrowings with original maturities of up to three days (“Call Money”), excess of plan assets for maximum obligation of employee benefits according to the MFRS D-3 “Employee benefits” and deposits in Banco de México (Central Bank) which include the regulation monetary deposits that the Bank is required to maintain in conformity with the provisions issued by the Central Bank for the purpose of regulating liquidity in the financial market; the deposits lack term and bear interest at the average funding rate, which are recognized in income statement as accrued.

The cash and cash equivalents are recognized at nominal value. For the bank accounts denominated in dollars, the exchange rate used for the translation is the one published by the Central Bank. The translation effect and interests earned are recognized in the results, as interest income or interest expense, accordingly, on an accrual basis.

Immediate collection notes will be recorded as other cash equivalent according to what is mentioned as follows:

- Transactions with Mexican entities: two business days after the transaction took place.
- Transactions with foreign entities: five business days after the transaction took place.

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When the notes mentioned in the last paragraph of the preceding page are not collected within the established deadlines, the related amounts will be transferred to the originating item, as applicable, either “Other accounts receivable” or “Loan portfolio”, and due consideration should be given to the provisions of criterion A-2, “Application of particular standards”, and B-6 “Loan portfolio”, respectively.

Transactions transferred to sundry debtors under the caption “Other accounts receivable”, not settled within fifteen days following the transfer date will be classified as past-due debts and an allowance for their total amount recorded will be recorded concurrently.

Notes received subject to collection are recorded in memorandum accounts under the caption “Other accounts”.

Checking account overdrafts, as reported in the statement of account issued by the corresponding credit institution, are shown in the caption “Sundry creditors and other accounts payable”. Likewise, the offset balance of receivable currencies against deliverable currencies, in case this results a credit balance.

The foreign exchange currencies acquired and agreed to be settled in purchase transactions to 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency for receiving), while the currency sold is recorded as cash outflow (foreign currency for delivery). The rights and obligations for the sales and purchases of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Other accounts receivable, net" and "Creditors on settlement of transactions”, respectively.

(c) Margin accounts-

The margin accounts granted in cash required to the Bank to operate derivatives in recognized markets are recorded at par value and presented in the caption “Margin accounts”. The value of margin accounts granted in cash is modified by margin calls or withdrawals made by the clearing house and for additional contributions or withdrawals made by the Bank.

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Returns and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year as accrued under "Interest income" and "Commission and fee expense", respectively. The partial or total amounts deposited or withdrawn in the clearinghouse owing to price fluctuations of derivatives are recognized in "Margin accounts". At December 31, 2017 and 2016, the balance in "Creditors on settlement of transactions" derived from the margin accounts amount to $48 and $338, respectively.

The compensation fund of MexDer Trusts is deposited in the Trust 30430 Asigna, Compensación y Liquidación (Asigna) in accordance with the established rules, provisions, internal regulation and operating manual of Asigna and is comprised of cash contributions made by the Trust based on the minimum initial contributions according to the open agreements recorded in their accounts. The compensation fund is recognized as restricted under the caption "Cash and cash equivalents".

(d) Investment securities-

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities listed in recognized markets, which are classified using the categories shown below, based on the intention and capability of management of the Bank on their ownership.

Trading securities-

Trading securities are those acquired with the intention of selling to get short-term gains arising from differences in prices resulting from its trading in the market. Securities at the time of acquisition are accounted for at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in income on the same date.

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Subsequently, and on every reporting date, securities are valued at fair value provided by an independent price vendor; valuation effects and results of the buy/sell are recognized in the year's income, within the caption "Financial intermediation income". When the securities are sold, the result of buy/sell is determined by the difference between purchase price and the sale price, this shall reclassify the result of valuation that has been previously recognized in the income statement, to the buy/sell result caption.

Interest earned from debt securities are determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity securities are recognized in the year's income when the right to receive payment arises under the caption "Interest income".

Available-for-sale securities-

Available-for-sale securities are those whose intention are not oriented to profit from differences in prices in the short term or does not have the intention or capacity to hold to maturity. The initial recognition and subsequent valuation is performed in the same manner as trading securities, except that the effect of valuation is recognized in stockholders' equity under the caption "Unrealized result from valuation of available-for-sale securities", and which is adjusted by the effect of deferred taxes, which is cancelled for its recognition in income at the time of sale within the caption of "Financial intermediation income". Accrued interest is recognized under the effective interest method under "Interest income or expense".

Interest earned is determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity instruments are recognized in the year's income when the right to receive payment arises in the financial statements caption "Interest income".

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Held-to-maturity securities-

Are those debt securities with fixed or determinable payments and with fixed maturity, regarding which the entity has the intention and capacity to hold until maturity. These securities are initially recognized at fair value which is presumably the price paid; and later are valued at amortized cost, which implies that the amortization of the premium or discount as well as the transaction costs form part of interest earned recognized in income under "Interest income". Interest is recognized in income as earned and when the securities are sold, the sales gain or loss is recognized for the difference between the net realizable value and the book value of the securities within the caption of "Financial intermediation income".

Security´s impairment-

Where sufficient objective evidence exists that a security available-for-sale or held-to-maturity has been impaired as a result of one or more events that occurred subsequent to initial recognition of security, the carrying amount of the security is modified and the impairment is recognized in the year-end results under the caption "Financial intermediation income". Regarding available-for-sale securities, the amount of loss recognized in equity is canceled.

If, in a subsequent period, the fair value of the security increases, and this effect is related objectively to an event occurring after the impairment was recognized in the income statement, the impairment is reversed in the year´s results, except if it is an equity instrument.

Value date transactions-

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities to be delivered, and are deducted from investments securities; the counter entry is a credit or debit to a settlement account, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type in position (government, bank, equity and other debt securities), this is reflected as a liability under "Traded securities to be settled".

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Reclassifications between categories-

The accounting criteria allows reclassifications from held-to-maturity to available-for-sale category, provided that the Bank does not have the intention or the ability to hold them until maturity. Valuation adjustments at the date of the reclassifications are recognized in stockholders' equity. In the case of reclassifications of securities to the category held to maturity, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission. Likewise, in the case of sales of held-to-maturity securities, this has to be informed to the Banking Commission. For the years ended December 31, 2017 and 2016, the Bank did not carried out any transfer between categories, nor sales of held-to-maturity securities.

(e) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction (repo), the Bank acting as seller recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as buyer recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account payable and the account receivable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

Over the term of the repo, the account receivable and the account payable are valued at the amortized cost, recognizing the interest on repos in the result of operations for the year as earned, in accordance with the effective interest method. The interest is recognized under the financial statement caption "Interest income" or "Interest expense", as appropriate. The account receivable and the account payable, as well as the interest earned are reported in the financial statement caption "Debtors under repurchase/resell agreements" and "Creditors under repurchase/resell agreements", respectively.

The Bank acting as repurchasee recognizes the received collateral in memorandum accounts within the caption of "Collateral received by the entity", in accordance with accounting criterion B-9 "Assets in custody and under management". Financial assets granted as collateral, when the Bank acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet within the caption of "Investment securities", reporting it as a restricted asset.

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Should the Bank, acting as repurchasee sell or pledge the collateral, the transaction proceeds and an account payable is recorded for the obligation to return the collateral to the repurchaser, which is valued, in the case of sale at fair value, or if pledged in another sale and repurchaser agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Bank acting as repurchasee turn becomes as repurchaser and the debit or credit balance is presented in the consolidated financial statement caption "Debtors under repurchase/resell agreements" or in "Collateral sold or pledged", as applicable.

Additionally, the collateral received, delivered or sold is recognized in memorandum accounts within the caption of "Collateral received and sold or pledged by the entity", in accordance with accounting criterion B-9 "Assets in custody and under management".

(f) Derivatives-

Transactions with derivative financial instruments comprise those carried out for trading and hedging purposes. Irrespective of their purpose, the derivatives are recognized at fair value.

The valuation effect of the derivatives for trading purposes is shown in the consolidated balance sheet and consolidated statement of income under "Derivatives", in the assets or liabilities, accordingly, and "Financial intermediation income", respectively. The effect of the derivatives credit risk (counterparty), must be determined according to the risk area methodology, and must be recognized in results in the period in which it occurs against the supplementary account.

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity, under the caption "Unrealized result from valuation of cash flow hedge instruments", while the ineffective portion of the change in fair value is recognized immediately in the consolidated income statement under "Financial intermediation income", and the counter-account with such effect are presented in the consolidated balance sheet under "Derivatives" caption.

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The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders' equity, is reclassified to the consolidated statement of income within the same caption that presents the result of valuation of hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year's results of operations.

If the cash flow hedge derivative reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is de-designated, while the valuation of the cash flow hedge derivative within stockholders' equity remains in this caption and is recognized in the year's results when the forecast transaction occurs, in the same caption which presents the gain or loss of the valuation attributable to the hedged risk.

The gain or loss arising from valuing the fair value hedge derivative is recognized in the consolidated balance sheet under "Derivatives" and in the consolidated statement of income in "Interest income" and "Financial intermediation income", since they correspond to interest rate hedges of loan portfolio and investments securities classified as available-for-sale, respectively. The result of valuation of the item attributable to the hedged risk is recognized on the consolidated balance sheet under "Valuation adjustments from hedging of financial assets" and recognized in the year's income in the case of loan portfolio, in "Interest income", while for investments securities classified as available-for-sale, in "Financial intermediation income".

Collaterals pledged and received in derivate transactions carried out over-the-counter

The collateral is a security obtained to ensure payment of the price agreed in contracts with derivative financial instruments on over-the-counter transactions.

The granting of collateral pledged in cash in derivative over-the-counter transactions are recorded as account receivable under the caption "Other accounts receivables", while collateral received in cash are recorded as "Other accounts payable".

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The collaterals pledged in securities are recorded as restricted securities by guarantees, and the collaterals received in securities from derivatives transactions are recorded in memorandum accounts.

(g) Settlement of clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, and/or derivatives, which have expired but have not been settled at the consolidated balance sheet date, including the amounts receivable or payable for purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

The balances of clearing accounts, credit and debit are offset as long as it has the contractual right to offset amounts recognized, there is an intention to settle on a net basis, realize the asset and settle the liability simultaneously.

The clearing accounts are shown under the financial statement caption "Other accounts receivable, net" or "Creditors on settlement of transactions", as appropriate.

(h) Loan portfolio-

Represents the balance of the total or partial dispositions of the credit lines provided to clients plus uncollected accrued interest, less interest collected in advance. The allowance for loan losses is presented deducting the loan portfolio balances.

Undrawn credit facilities are recorded in suspense accounts, under "Loan commitments". The withdrawn amount is recorded into the loan portfolio in the caption of the portfolio as appropriate.

At the time of contracting, transactions with letters of credit are recorded in memorandum accounts under "Loan commitments" which, upon being used by the client or its counterparty are transferred to the loan portfolio.

Credits loans pledged as collateral, are recognized as restricted credit loans.

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INFONAVIT Portfolio-

The portfolio under extension includes housing credits originated by the National Workers Housing Fund Institute (INFONAVIT) acquired by the entities, and that, under the terms of the INFONAVIT Law, have any extension in force in the payment of the amortization for capital and ordinary interest, at the end of the extension, the portfolio will receive the corresponding treatment of: Ordinary Amortization Regimen (ROA) or Special Amortization Regimen (REA), provided that the entity is contractually obliged to respect said extension under the same terms as the reference agencies.

REA is the form of payment to INFONAVIT of credits whose rights were acquired by the entity, provided for by the “Rules for granting credits to entitled workers of the National Worker Housing Fund Institute” issued by the Board of Directors of INFONAVIT, which indicate the methodology to make payments on such credits.

ROA is the form of payment to INFONAVIT of credits whose rights were acquired by the Bank, whereby it is agreed that the workers make payments on their credits through salary discounts made by the employer, entity or office.

Past-due loans and interest-

Outstanding loans and interest balances are classified as past-due according to the following criteria:

1. Knowledge that the borrower has filed for bankruptcy, under the Bankruptcy Law.

   An exemption exist from the rule mentioned for those loans that continues receiving payment in terms of the Bankruptcy Law under section VIII of article 43, as well as those loans granted under article 75, in relation to sections II and III of article 224 of the mentioned Law, however, if incurred in one of the cases provided in the following numeral 2, they will be recorded as past-Due loan portfolio.

(Continued)

2. Its installments have not been fully settled on the terms originally agreed, considering the following:

   a) If the debts consist in loans with a single payment of principal and interest at maturity, and have 30 or more calendar past-due days;

   b) If the debts refer to loans with a single payment of principal at maturity and periodic payments of interest, and the related interest payment has 90 or more calendar past-due days, or principal has 30 or more calendar past-due days;

   c) If debts consist of loans with principal and interest periodic partial payments, including mortgage loans, have 90 or more calendar past-due days;

   d) If debts consist of revolving loans, and unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when have 60 or more calendar past-due days; and

   e) Overdrafts from checking accounts of clients that has credit lines, and immediate payment notes receivable, upon occurrence of such event.

3. Regarding portfolio "in extension" and mortgage loans, when installments have not been settled in the terms originally agreed and are 90 or more days past due:

   a) Payments related to loans that the entity acquired from INFONAVIT or the Housing Fund of the Social Security and Services Institute of the State Workers (FOVISSSTE) in accordance with the corresponding payment method (REA and ROA), as well as

   b) Loans granted to individuals and aimed at housing remodeling or enhancement, without trading purpose and that are backed by the borrower's housing saving account.

(Continued)

The transfer of a loan such as those mentioned in number 3 of the preceding page to the past-due portfolio shall be subjected to an exceptional term of 180 or more days past due from the date in which:

a) Loan resources are available for the purpose for which they were granted;

b) The borrower starts a new job hence having a new employer, or

c) The entity has received a partial payment for the corresponding amortization. This exception only applies for ROA loans, and each of the payments made during the period represents at least 5% of the agreed amortization.

The aforementioned exceptions in sections a), b) and c), shall not be mutually exclusive.

When a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts. Also suspending the amortization in financial income accrued in the year's results. Once collected, such interest is recognized directly in consolidated income statement under “Interest income”. Recognition in consolidated income statement of interest income resumes when the portfolio ceases to be considered as past-due.

An allowance is constituted for an amount equal to the total of uncollected accrued interest corresponding to loans deemed past-due at the time the loan is transferred to the past-due portfolio. For past-due loans, which restructuring agrees to the capitalization of earned, uncollected interest previously recorded in memorandum accounts, an allowance is created for the total of such interest amount. The allowance is released when there is evidence of sustained payment.

Past-due loans are reclassified as current when the unpaid balances have been fully paid by the debtor (principal and interest, etc.), except for restructured loans or renewed, which are transferred to current portfolio when sustained payment has been made.

(Continued)

Sustained payments

It is considered that there is sustained payment when the borrower shows compliance of the payment without delay for the total amount of principal and interest, for at least three consecutive amortizations of the loan payment scheme, or in the case of loans with amortizations that cover periods greater than 60 calendar days, the payment of an exhibition.

In the cases of credits that the Bank acquires from INFONAVIT, in which it is obligated to respect the terms that the reference organisms contracted with the borrowers, it is considered that there is a sustained payment of the credit, when the borrower has covered without delay the total amount payable of principal and interest, at least one amortization in credits under ROA and three amortizations for credits under REA.

In loans with periodic payments of principal and interest whose amortizations are less than or equal to 60 days in which the periodicity of payment to minor periods is modified due to the application of a restructuring, a sustained payment of the loan is considered, when the borrower shows payment of amortizations equivalent to three consecutive amortizations of the original loan scheme.

In the case of consolidated loans, if two or more loan originate the reclassification to the caption "Past-due loan portfolio", in order to determine the three consecutive amortizations required for the existence of a sustained payment, the original loan repayment scheme should be considered, whose repayments equivalent to the longer term.

Regarding loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, it is considered that there is a sustained payment of the loan when any of the following assumptions occur:

a) the borrower has covered at least 20% of the original amount of the loan at the moment of the restructuring or renewal or,

b) the amount of interest accrued under the restructuring or renewal payment scheme corresponding to a period of 90 days had been covered.

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Prepayment of an amortization of restructured or renewed loan (amortization of restructured or renewed loan that have been paid without the occurrence of natural days equivalent to three consecutive amortizations of the loan amortization schedule or in the case of loans with amortization covering longer periods than 60 calendar days, the payment of an exhibition), other than those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, is not considered as a sustained payment.

In any case, in order for the Bank to show that there is sustained payment, in addition to ensuring that the borrower complies with the guidelines for sustained payment indicated in the preceding paragraphs, it must have evidence, at the disposal of the Banking Commission, to justify that the borrower has the payment capacity at the time the restructuring or renewal takes place to respond to the new credit conditions. The minimum evidence to be obtained is outlined below:

i. Probability of intrinsic noncompliance by the borrower,
ii. The guarantees granted to the restructured or renewed credit,
iii. The priority of payment against other creditors and,
iv. The liquidity of the borrower before the new financial structure of the financing.

Restructuring and renewals

A loan is considered restructured when the borrower makes any of the following requests to the Bank:

1) Loan guarantee extension or,

2) Changes to the loan original conditions or payment scheme, among which are:

   a) change in the interest rate for the remaining term of the loan contract;
   b) change in the currency or account unit, (for example VSM (number of minimum wages) or UDI);
   c) granting of a waiting period for the compliance of payment obligations agreed upon in the original terms of the contract, or credit term extension.

(Continued)

Unless there is evidence of sustained payments, past-due loans restructured or renewed shall remain within the past-due loan portfolio.

Loans with a single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed anytime shall be considered as past-due, while there is no evidence of sustained payment.

Current loans that are restructured or renewed, without at least 80% of the original loan term having elapsed, shall be deemed to be current only when the borrower had:

i) paid the total accrued interest, and
ii) paid the original principal loan amount at the renewal or restructuring date.

Current loans that are restructured or renewed during the course of the final 20% of the original term of the loan will be considered as current only when the borrower had:

i) fully paid the total interest accrued;
ii) covered the total original loan amount which at the date of the renewal or restructuring should had been paid, and
iii) paid 60% of the original loan amount.

Renewed or restructured loans where the borrower fails to meet the above conditions will be deemed past-due from the renewal or restructuring date until there is evidence that sustained payments are being made.

Those loans considered revolving, which have been restructured or renewed, will be considered as current when the borrower had paid off the totality of accrued interest, there are no invoicing periods past-due and there is evidence to prove the debtor’s repayment capability.

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Loan due and payable principal and interest amounts which, at the restructuring date, have been repaid in full and for which one or several of the following loan conditions have been changed, shall not be deemed restructured.

i) Guarantees: only when involving the extension or replacement with better quality guarantees.
ii) Interest rate: when the agreed-upon interest rate is improved.
iii) Currency: provided the rate corresponding to the new currency is applied.
iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

The loan portfolio restructurings or renewals are made in compliance with the General provisions applicable to credit institutions and the viability of them is analyzed particulary.

The Bank periodically evaluates if a past-due loan should remain in the consolidated balance sheet or be written-off, provided a provision has been created for 100% of the loan amounts. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan. Any recovery derived from loans which were previously written-off is recognized in the year's results.

Write-downs, cancellations, refunds or discounts are recorded against the provision for loan losses. In case the amount of these items exceeds the provision for loan losses balance related to the loan, a charge to provision is recorded up to the amount of the difference.

Fees

Fees charged for loan origination are recorded as a deferred loan, which shall be amortized against the current year results as interest income, under the linear method during the life of the loan, except those originated by revolving loans which shall be amortized over a 12-month period.

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Regarding fees charged for restructurings or renewals, they shall be added to the fees that would have been originated on the basis of the previous section and recognized as deferred loan amortized against the current year results as interests income, under the linear method during the new lifetime of the loan.

In this category shall not be included the fees recognized after the loan origination, those generated as part of loan maintenance or charged for loans not underwritten. In the case of fees charged for credit card annuity, whether it be the first annuity or the followings for renewal, they shall be recognized as a deferred loan and amortized over a 12-month period against the current year results in the caption of “fees and rates charged”.

Fees charged for a credit line origination not yet available shall be recognized as a deferred loan at the date, and amortized against current year´s results as interest income under the linear method over a 12-month period. In the case that the credit line be canceled before the 12- month period, the balance pending to amortize shall be recognized directly in the current year’s results under the caption of “fees and rates charged”, at the date of cancelation of the credit line.

Fees and rates others than those charged for loan origination shall be recognized against the current year’s results in the caption “fees and rates charged”, at the date of accrual. In the case that one part or the full compensation received for the collection of the corresponding fee or rate be obtained before the accrual of the related income, said prepayment shall be recognized as a liability.

Costs and expenses related to loan origination

The costs and expenses related to loan origination are recorded as a deferred charge, which is amortized to the income statement under the caption “Interest expense” during the average term of the loans, except for origination of revolving loans, which are amortized over a period of 12 months against the expense caption that corresponds according to its nature.

(Continued)

For preceding paragraph purposes, costs and expenses associated with the origination of loans, are only those that are incremental and related directly to activities performed by the entities to grant the loan, for example, credit evaluation of the debtor, evaluation and recognition of guaranties, credit terms negotiations, and closing of cancellation of the operation, including the proportional expense, based on time spent, related to employee benefits of those individuals working on such activities.

Acquisitions of credit portfolio

On the of portfolio acquisition date, the contractual value of the portfolio acquired must be recognized in credit portfolio, according to the type of portfolio that the originator has classified; the difference arising from the purchase price will be recorded as shown below:

a) When the acquisition price is lower than the contractual value thereof, in the income statement under other operating income (expenses), for up to the amount of preventive estimate for credit risks that, if applicable, is constituted according to the indications of the following paragraph and the excess as a deferred credit, which will be amortized as the respective charges are made, according to the proportion these represent of the contractual value of the credit;

b) When the purchase price of the portfolio is greater than the contractual value, as a deferred charge which will be amortized as the respective charges are made, according to the proportion these represent of the contractual value of the credit;

c) When it comes from the acquisition of revolving credits, the difference will be carried directly to the income statement of the year on the acquisition date.

(i) Allowance for loan losses-

Allowance for loan losses represents Bank’s management best estimate of probable losses inherent in the loan portfolio as well as guarantees issued and irrevocable loan commitments.

(Continued)

Commercial loans– The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the general regulations applicable to the methodology for rating of the loan portfolio of credit institutions (the "Provisions"), established by the Banking Commission. Commercial loans shall be subject to credit rating without including those loans with express warranty of Entities of the Federal Public Administration under direct budgetary control, productive State enterprises or those indicated in Section VI of Article 112 of the Provisions, in which the allowance percentage shall be equal to 0.5%.

The Provisions use a methodology which classifies the loan portfolio into different groups: in states and municipalities, investment projects with own source of payment, trustees acting under trusts, financial institutions and corporations and individuals with business activity not included in the aforementioned groups; the last group must be divided into two subgroups: corporations and individuals with business activity with annual net sales or revenues greater than 14 million UDIS and less than 14 million UDIS. For purposes of rating projects with own source of payment, the Provisions establish that the rating is calculated using risk analysis of the investment project according to their stage of construction or operation, and through the extra cost of labor and cash flows of the project. For other groups, expected loss methodology is established for credit risk, considering the probability of default, loss given default and exposure at default.

For the loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales equivalent or higher than 14 million UDIS, the Bank uses the methodology sets on Appendix 22 the Provisions issued by Banking Commission.

Loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales lesser than 14 million UDIS, is credit rated through the application of methodology set forth on Appendix 21 of the Provisions. For the financial institutions loans, the methodology set forth on Appendix 20 of the Provisions is used, which establishes the concept of probability of default, loss severity and exposure at default is used.

(Continued)

The estimates carried out at December 31, 2017 and 2016, were determined based on the risk levels and allowance percentage according to the following table:

Grade of risk	Range of allowance percentages	
A1	0.000	0.9%
A2	0.901	1.5%
B1	1.501	2.0%
B2	2.001	2.5%
B3	2.501	5.0%
C1	5.001	10.0%
C2	10.001	15.5%
D	15.501	45.0%
E	Higher than	45.0%

Mortgage loans including those originated and acquired from INFONAVIT-

Allowance for loans losses of mortgage is determined using the corresponding balances the last day of each month. Furthermore, factors such as the following are taken into consideration: (i) amount payable; (ii) payment made; (iii) house value; (iv) outstanding loan balance; (v) days of delinquency; (vi) loan denomination; and (vii) file documentation. Additionally, for the loans acquired from INFONAVIT factors, such as viii) ROA, ix) REA and x) PRO, are considered. The total amount to reserve for each assessed loan is the result of multiplying the probability of default for the loss given default and exposure at default.

In determining the loss given default the loan recovery rate components is used, which is affected if the loan has a guarantee trust or judicial agreement, classifying by regions at the federal boroughs in which such courts reside.

(Continued)

The risk grades and percentages of allowance for loan losses on December 31, 2017 and 2016, are as shown below:

Grade of risk	Range of allowance percentages	
A1	0.000	0.50%
A2	0.501	0.75%
B1	0.751	1.00%
B2	1.001	1.50%
B3	1.501	2.00%
C1	2.001	5.00%
C2	5.001	10.00%
D	10.001	40.00%
E	40.001	100.00%

Consumer loans-

To determine the allowance, the consumer loan portfolio is segregated into two groups: a) credit card transactions and other revolving loans, and b) non-revolving loans.

The allowance for losses regarding credit card and other revolving loans is calculated on a loan by loan basis, using the figures of the latest known payment period of each loan and other revolving loan and considering the following factors: i) balance due, ii) payment made, iii) credit line, iv) minimum payment requirement, v) payment default, vi) amount payable to the Institution, vii) amount due reported to credit information institutions as well as, viii) borrower's seniority in the Bank.

In addition, the calculation of allowance for loan losses corresponding to the non-revolving consumer loan portfolio takes into account the following: (i) amount due, (ii) payment made, (iii) days past due, (iv) total term, (v) remaining term, (vi) original loan amount, (vii) original value of the asset, (viii) loan balance and (ix) credit type.

(Continued)

The risk grades and percentages of provision for loan losses at December 31, 2017 and 2016, are shown as follows:

	Ranges of allowance percentages			
Grade of risk	**Non- revolving**		**Credit cards and other revolving loans**	
A1	0.00	2.0%	0.00	3.00%
A2	2.01	3.0%	3.01	5.00%
B1	3.01	4.0%	5.01	6.50%
B2	4.01	5.0%	6.51	8.00%
B3	5.01	6.0%	8.01	10.00%
C1	6.01	8.0%	10.01	15.00%
C2	8.01	15.0%	15.01	35.00%
D	15.01	35.0%	35.01	75.00%
E	35.01	100.0%	Higher than	75.01%

Impaired loan portfolio – For consolidated financial statement disclosure purposes, the Bank considers impaired loans to those commercial loans for which determine that there is a considerable probability that they could not be recovered in full, without giving consideration to improvements in risk levels resulting from the secured portion of the loan, as are loans that, although current, result from negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term, and loans payable by individuals classified as undesirable customers.

Additional identified reserves– Are established for those loans, which in management's opinion, may give cause for concern in the future given the particular situation of the customer, the industry or the economy. Furthermore, it includes estimates for items such as normal interest earned but not collected and other items which realization is considered to result in a loss to the Bank, as well as reserves maintained as prescribed by regulations.

(Continued)

Write-offs - The Bank has policies of write-offs for consumer and residential mortgages loans, according to established terms (6 and 35 months, respectively) that determine the practical impossibility of recovery; the write-offs cancel the loan balance against the allowance for loan losses previously recorded. When the loan to be written-off exceeds the balance of its related allowance, before making the write-off, the allowance should be increased up to the amount of the difference. Any amount recovered from previously written-off loans is recognized in income.

(j) Credit card loyalty program-

Based on paragraph 3 of criterion A-4 "Suppletory Application of Accounting Criteria", issued by the Banking Commission, the Bank has adopted the International Financial Reporting Interpretations Committee IFRIC13 "Customer loyalty program" of IFRS for recording credit card transactions related to the loyalty program. According with this interpretation, a portion of revenue from exchange fees are deferred until the obligation to deliver the rewards to which customers are entitled is incurred and amortized to income once that obligation is extinguished.

(k) Other accounts receivables-

Loans to officers and employees, collection rights and the accounts receivable related to debts whose maturity is agreed from origin to more than 90 calendar days term are evaluated by the Bank's management to determine the estimated recoverable amount and, as required, to create the corresponding allowance. The balances of other debit items are recorded into the income statement 90 days after their initial recording, if they correspond identified items and 60 days if the balances are unidentified, regardless of their chance of recovery, except for tax-related (VAT included) balances.

In cases where the amount receivable is not realized within 90 calendar days following the date at which they were booked in clearing accounts, they are recorded as past-due and a provision is booked for the total amount.

(Continued)

Overdrafts on checking accounts of customers, which do not have a loan facility for such purposes, shall be classified as past-due debts and credit institutions must simultaneously create a reserve for such classification for the total amount of the overdraft at the time when such event occurs.

(l) Securitization transactions-

The residual benefits on the securitization transactions are recognized in caption "Benefits receivable on securitization transactions" and are marked to market. Valuation adjustments are recognized in income under "Other operating income". Subsequent recoveries related to benefits to be received, are directly applied against the balance of such benefits.

The Trust where the securitization is recorded is not consolidated with the Bank in accordance with the established in paragraph 21 of transitory dispositions of accounting criteria C-5 "Consolidation of specific purpose entities" issued by the Banking Commission on September 19, 2008.

(m) Foreclosed assets or assets received in lieu of payment-

Foreclosed assets are recorded on the date the admission order of the judicial sale by which the foreclosure was decreed, became final and conclusive and is immediately available for execution.

Assets received in lieu of payment are recorded on the date the deed of payment, or that on which the transfer of title to the asset is formally executed.

The accounting recognition of a foreclosed assets considers the value of the tangible asset (at the lower of cost or fair value less strictly necessary costs and expenses incurred for foreclosure), as well as the net value of the asset arising the foreclosure. When the net value of the asset arising the foreclosure exceeds the value of the foreclosed asset, the loss is recognized in consolidated income statement caption "Other operating income". Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset.

(Continued)

The value of the asset originating the foreclosure and the relevant loan loss allowance set up as of that date are derecognized from the consolidated balance sheet.

Foreclosed assets and promised for sale are restricted to their carrying value; collections received on account of the asset are recorded as a liability. On the date of sale the resulting gain or loss is recognized in the consolidated income statement caption "Other operating income".

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the consolidated income statement caption "Other operating income" The Bank creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year's results of operations under "Other operating income", which are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, based on the provisions of foreclosed assets or assets received in payment methodology of the Banking Commission, as show below:

	Reserve percentage	
Months elapsed from the date of Foreclosure or received in lieu of payment	**Real Estate**	**Receivables, furniture, and equipment and investment securities**
Over 6	0%	0%
More than 6 to 12	0%	10%
More than 12 to 18	10%	20%
More than 18 to 24	10%	45%
More than 24 to 30	15%	60%
More than 30 to 36	25%	100%
More than 36 to 42	30%	100%
More than 42 to 48	35%	100%
More than 48 to 54	40%	100%
More than 54 to 60	50%	100%
More than 60	100%	100%

(Continued)

(n) Premises, furniture and equipment-

Premise, furniture and equipment are recorded at acquisition cost. Those assets acquired before December 31, 2007 were adjusted by using factors based on the UDI value from the date of acquisition through that date, which recognition of the effects of inflation on the financial information was suspended according to the MFRS. The components acquired in foreign currency are recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation is calculated using the straight-line method, based on the estimated useful lives by the Bank's management of the corresponding assets.

Depreciation amount of premises, furniture and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Bank periodically evaluates premises, furniture and equipment residual values to determine amounts to be depreciated.

The Bank evaluates periodically the net book values of premises, furniture and equipment, to determine whether there is an indication that these values exceed their recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the net book value of an asset exceeds its recoverable amount, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(o) Permanent investments-

The permanent investments where there is no control, join control or significant influence exists are classified as other investments, which are initially recognized and maintained valued at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statement of income caption "Other operating income", except if are from prior periods to the acquisition, in which case are decreased from the permanent investment.

(Continued)

(p) Other assets-

This caption includes mainly the intangible assets that relate to internally developed software, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate, by the straight-line method over the estimated useful life as determined by the Bank.

In case of any indication of impairment, the potential impairment loss is determined, and if the net carrying value exceeds the recoverable amount the asset value is written down and the impairment loss is recognized in the results of operations for the year.

Furthermore, in this caption, the projected net assets of the defined benefit plan are recognized and are recorded up to the amount of the plan asset ceiling, in accordance with the provisions of MFRS D-3 "Employee benefits". The excess of non-reimbursable resources provided by the Bank to cover employee benefits are recognized as restricted cash and cash equivalents under the caption "Cash and cash equivalents" (see notes 6 and 17).

(q) Income taxes and employee statutory profit sharing (ESPS)-

The income taxes and ESPS payable for the year are determined in conformity with the applicable tax provisions.

Income taxes payable are presented as liability in the consolidated balance sheet; when the tax prepayments exceed the income tax payable, the difference corresponds to an account receivable.

(Continued)

Deferred income taxes and deferred ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of IT for operating loss carryforwards. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

The deferred income tax asset is periodically valuated creating, where appropriate, valuation allowance for those temporary differences which might exist an uncertain recovery.

The deferred income tax asset or liability determined from the temporary deductible or taxable differences of the year, are presented in the in the consolidated balance sheet.

Current and deferred ESPS is presented in the caption “Administrative and promotional expenses”, in the consolidated statement of income.

(r) Capital leases-

Capital leases transactions are recorded as an asset with its corresponding liability for the equivalent at the lower of the present value of minimum lease payments and the market value of the leased asset. The difference between the face value of minimum lease payments and the obligation mentioned above, is recorded during the lease period in the consolidated income statement under the caption "Other operating income (expense)" The asset is depreciated in the same way as other assets held in property when you it is certain that at the end of the lease contract ownership of the leased asset is transferred, otherwise is depreciated over the term of the contract.

(Continued)

(s) Deposit funding-

This caption comprises demand and time deposits of the general public, including money market funding, the placement of debt certificates and bank bonds and the global account of deposits without movements. Interest is charged to expense on an accruals basis under "Interest expense". For instruments sold at a value different to their face value, the difference is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

(t) Provisions-

Based on management's estimates, the Bank recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable and arises as a consequence of past events.

(u) Bank and other borrowings-

Bank and other borrowings comprise short and long-term loans from domestic and foreign banks, loans obtained through credit auctions with the Central Bank and development fund financing. In addition, this caption includes discounted borrowings with agencies specializing in financing economic, production or development activities. Interest is recognized on accruals basis under the caption "Interest expense".

(v) Employees' benefits-

Short-term direct benefits

Short-term direct employee benefits are recognized in income of the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Bank has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

(Continued)

Long-term direct benefits

The Bank's net obligation in relation to direct long-term benefits (except for deferred ESPS - see note Income taxes and employee statutory profit sharing), and which the Bank is expected to pay at least twelve months after the date of the most recent consolidated balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value. Remeasurements are recognized in the results as accrued.

Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Bank has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when the conditions that require the recognition of restructuring costs are met, whichever occurs first. If benefits are not expected to be settled wholly within twelve months after the date of the most recent balance sheet presented, then they are discounted.

Defined contribution plans

The Bank has a defined contribution pension plan, where the amounts contributed by the Bank are recognized directly as expenses in the consolidated statement of income under "Administrative and promotional expenses" (see note 17).

Defined benefit plans

In addition, the Bank has a defined benefit plan in place that covers the pensions for retirement, the seniority premiums and legal compensation to which employees are entitled in accordance with the Federal Labor Law, as well as obligations related to corresponding to plans medical benefits, food coupons and life insurance for retirees.

Irrevocable trusts have been established for all plans to manage the respective plan funds and assets, except for severance compensation.

The obligations for defined benefit plans are calculated annually by actuaries using the projected unit credit method. When the calculation results in a possible asset for the Bank, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or reductions in future contributions thereto. To calculate the present value of economic benefits, any minimum financing requirement should be considered.

The labor cost of current service, which represents the periodic cost of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in administrative and promotional expenses. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments..

Modifications to the plans that affect past service cost are recognized in income immediately in the year the modification occurs, with no possibility of deferral in subsequent years. Furthermore, the effects of events of liquidation or reduction of obligations in the period that significantly reduce future service cost and/or significantly reduce the population eligible for benefits, are recognized in income of the period.

Remeasurements resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of OCI within stockholder's equity and is subsequently recycled to the results of the period, based on the average remaining working life of the employees.

According to the resolution published on December 31, 2015 by the Banking Commission, modifications to the plans and remeasurements accumulated until December 31, 2015, are gradually recognized during five years that conclude in 2020 (see note 4d).

(Continued)

(w) Subordinated debt issued-

The subordinated debt is recorded at contractual value and the interest are recognized on accrual basis in the consolidated income statement under the caption “Interest expense”.

(x) Revenue recognition-

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on past-due loans is recognized in income upon collection.

The interest collected in advance, origination loan fees and credit card annual fees are recorded within “Deferred credits and prepayments”, and applied to the year’s results of operations in “Interest income” and “Commission and fee income”, respectively, as accrued, in the term of the loan or during a year, as applicable.

The commissions from assets in custody or under management are recognized in income as accrued in “Commission and fee income”.

Fees on trust transactions are recognized in income as accrued in “Commission and fee income”. Such revenues are not accrued when fees are 90 or more calendar days past-due, and are recorded in memorandum accounts. When accrued revenues are collected, they are reported directly in income for the year.

Fees for restructured or renewed loans are recorded as deferred credits and amortized against the results of operations for the year in “Interest income” using the straight-line method during the new term of the loan.

(Continued)

Income from commissions collected on transactions in the derivative market are recorded in the consolidated statements of income as the service is provided under the caption "Commission and fee income".

Income from leasing is recognized in results as accrued.

(y) Foreign currency transactions-

Foreign currency transactions are recognized at the exchange rate prevailing on the date of execution, for consolidated financial statement presentation purposes. In the cases of currencies other than dollars are translated into dollars at the exchange rates as established the Provisions applicable to credit institutions, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank.

Foreign exchange gains and losses are reflected in results of operations for the year. At the year-end close date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated into pesos at the FIX exchange rate published by Central Bank, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(z) Contributions to IPAB-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective.

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS by individual, corporation or credit institution. The contributions to IPAB are recorded in income statement within the caption "Administrative and promotional expenses".

(Continued)

(aa) Memorandum accounts-

Memorandum accounts corresponds mainly to assets in custody or management and trust transactions.

Client's values held in custody, guarantee or under management, are recorded in the corresponding memorandum accounts in accordance with the accounting criteria established by the Banking Commission, and represent the maximum expected amount at which the Bank is obliged to respond to its clients.

The amounts of the assets in custody or under management are presented in the caption "Assets in custody or under management", while the trust transactions are presented in the caption "Assets in trust or under mandate".

(ab) Contingencies-

Liabilities or important losses related to contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent income, earnings or assets are not recognized until their realization is assured.

(4) Accounting changes-

2017 accounting changes-

The accounting changes recognized by the Bank in 2017 were derived from the adoption of the modifications to Banking Commission´s Provisions related to the change in the methodology for rating of non-revolving consumer loans and mortgage loans, as shown in the next page.

(Continued)

(a) Change in the rating methodology for non-revolving consumer and mortgage loans-

On January 6, 2017, it was published in the Official Federal Gazette (DOF) a resolution amending the Provisions to adjust the general methodology for allowance for loan losses of non-revolving consumer loans and mortgage loans, effective June 1, 2017. The modification includes new risk dimensions at the client level, debt levels, the payment behavior in the system and the specific risk profile of each product; additionally, probability of default, loss severity, and exposition to default are updated and adjusted. The amount of the allowance for loan losses has to be fully constituted twelve months after the entering into force of the modification, at the latest, according to the issuance in the DOF of June 26, 2017.

Derived from the resolution mentioned in the preceding paragraph, the Bank recorded a debit in the equity, within the retained earnings caption at June 30, 2017, the initial accumulated financial effect derived from the first time application of the methodology mentioned, which amounted $80 ($48 net of deferred tax and ESPS), $44 corresponding to the consumer non-revolving loans and $36 to the mortgage loans portfolio; regarding the auto loan portfolio it was recognized a cancellation of allowance for $58 in the consolidated statement of income within the “allowance for loan losses” caption, according to the Provisions.

The Bank made all reasonable efforts to determine the effect of the retrospective application of the adjustments to the general methodology for allowance of consumer non-revolving loans and mortgage loans, however, it was impractical due to (i) historical information does not have the same behavior and there may be inconsistencies, (ii) it is required that significant estimates be made of the previous period, and (iii) it is not possible to determine objectively whether required information to make such estimates was available in previous years.

Had these effects been recorded in the consolidated statements of income, the income for the year ended December 31, 2017 would have decreased by the aforementioned amounts recognized in stockholders' equity.

(Continued)

(b) Accounting criterion B-2 "Investment securities"-

On July 4, 2017, it was published in the DOF the accounting criterion B-2 "Investment securities", which became effective the next day of its issuance, with prospective effects. Changes on this accounting criterion relate to the extension of the time period during which a held-to-maturity security can be sold or reclassified, before its maturity date, without affecting the ability to use such category, and being more precise regarding the isolated events that are out of the control of the credit institutions, to keep using the held-to-maturity category when securities are sold or reclassified, with the purpose of aligning with IFRS; this change had no significant effects on the financial information presented by the Bank.

(c) 2017 MFRS Revisions-

In October 2016, CINIF issued the document referred to as "2017 MFRS Revisions", which contains precise modifications to some current MFRS. MFRS Revisions mentioned below that entered into force for the years beginning after January 1, 2017 did not generate important effects in the consolidated financial statements of the Bank.

- MFRS B-13 *"Subsequent events after the financial statements date"* and MFRS B-6 *"Statement of financial situation"*.
- MFRS C-11 *"Equity"*.
- MFRS B-3 *"Employee benefits"*

2017 accounting changes-

The accounting changes recognized by the Bank in 2016 were derived from the adoption of the modifications to Banking Commission´s Provisions related to the change in the methodology for rating of consumer loans and the adoption of MFRS D-3 "Employee benefits", as shown in the next page.

(Continued)

(d) Change in the methodology for the consumer loans' allowance for loan losses

On December 16, 2015, the Banking Commission published in the Official Federal Gazette a resolution amending the Provisions to adjust the general methodology for consumer loans' allowance for loan losses corresponding to credit cards and other revolving loans. The modification included factors such as the payment behavior and the indebtedness level of the borrowers, which is in line with the expected loss model; the entry into force of this change was on April 1, 2016. The financial impact was the creation of additional allowance for approximately $37 for credit cards that was recorded under the caption "Retained earnings" in the consolidated balance sheets; while the effect of "Other revolving loans" corresponded to an allowance release for $14, which was recognized as a credit to the allowance for loan losses in the consolidated statements of income in accordance with the Provisions.

The Bank made all reasonable efforts to determine the effect of the retrospective application of the adjustments to the general methodology for consumer loans' allowance for loan losses corresponding to credit cards operations and other revolving loans, however, it was impractical due to (i) historical information does not have the same behavior and there may be inconsistencies, (ii) it is required that significant estimates be made of the previous period, and (iii) it is not possible to determine objectively whether required information to make such estimates was available in previous years.

Had these effects been recorded in the consolidated statements of income, the income for the year ended December 31, 2016 would have decreased by the aforementioned amounts recognized in stockholders' equity.

(Continued)

(e) MFRS D-3 *"Employee benefits"*-

Progressive implementation of the adoption of MFRS D-3 "Employee benefits" issued by the Banking Commission

On December 31, 2015, a resolution was issued in the Official Gazette that amends the Provisions in which through the third transitory article, the Banking Commission sets out the terms to recognize changes for reformulation resulting from the adoption of the new MFRS D-3, which enters into force on January 1, 2016, and defines the term that credit institutions have to recognize in its stockholders' equity the total amount of outstanding balances to be amortized from profits or losses of defined benefit plan, as well as modifications to the plan, not recognized until December 31, 2015.

The resolution states that the institutions referred to in Article 2, Section I of the Credit Institutions Law, opting for the progressive implementation of the transitory article refered to, should start the recognition of the balances listed in numbering a) and b) of paragraph 81.2 of MFRS D-3, in the year 2016, recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, up to 100% within a maximum period of 5 years". Credit institutions can apply early recognition, provided that the corresponding year the Bank recognize at least 20%, or the total amount remaining in terms of the aforementioned transitory article.

Pending balances of amortization due to modifications to the defined benefit plan, as well as to the actuarial gains and losses of the plan, recognized in the captions "Retained earnings" and "Remeasurements of defined employee benefits", respectively, are as shown on the next page.

(Continued)

	Defined employee benefits modifications	Actuarial losses
Initial balance of (favorable) unfavorable effect on the adoption of MFRS D-3	$ (232)	2,170
First year of recognition in the stockholders' equity (2016)	46	(434)
Amortization of the past service in 2016	-	(126)
Balance at December 31, 2016 pending to be amortized and progressively applied during the next four years.	(186)	1,610
Second year of recognition in the stockholders' equity (2017)	46	(434)
Amortization of the past service in 2017	-	(85)
Balance at December 31, 2017 pending to be amortized and progressively applied during the three four years (see note 17)	$ (140)	1,091

The Bank made every reasonable effort to determine the effect of the retrospective application of the new standard, however, the determination was impractical due to significant estimates of the prior period were required and subsequent to the gradual recognition of 20% during the following four years so that financial effect was recorded as established in the third transitory of the Provisions indicated above.

(f) 2016 MFRS Revisions-

In December 2015, CINIF issued the document referred to as “2016 MFRS Revisions”, which contains precise modifications to some current MFRS. MFRS Revisions mentioned below that entered into force for the years beginning after January 1, 2016 did not generate important effects in the consolidated financial statements of the Bank.

- **MFRS C-7 “Investments in associates, joint ventures and other permanent investments”-** it establishes that investments or contributions in kind should be recognized based on fair value.

(Continued)

- **MFRS B-7 "Business acquisitions"-** it clarifies that acquisitions of entities under common control are not part of the scope of this MFRS, regardless of how the amount of the consideration was determined.

(5) Foreign currency position-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital computed as of the third immediately preceding quarter. Therefore, as of December 31, 2017 and 2016, the Bank's position is within the authorized limits. The foreign currency position is analyzed as follows:

	Millions of dollars		Equivalent in pesos	
	2017	2016	2017	2016
Assets	4,321	3,001	$ 84,963	61,879
Liabilities	(4,294)	(2,999)	(84,432)	(61,828)
Large (short) position	27	2	$ 531	51

At December 31, 2017, the position in foreign currency consists of 88.24% in U.S. dollars (87.74% in 2016) and 11.76% in other foreign currencies (12.26% in 2016).

The exchange rate relative to the U.S. dollar at December 31, 2017 and 2016, was $19.6629 pesos per dollar and $20.6194 pesos per dollar, respectively, and on the authorization issuance date of the consolidated financial statements, was $18.6574 pesos per dollar.

(6) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2017 and 2016 are as shown on the following page.

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		2017	2016
Cash in hand	$	6,189	6,186
Banks:			
Domestic		1,473	812
Foreign		8,004	7,011
Call money with maturity term minor or equal to four days		3,652	4,076
24 and 48 hour foreign currency sales		-	(5,163)
Other funds available (due on demand)		3	4
Restricted funds:			
Excess of maximum obligation for employee benefits		235	202
Compensation fund to operate derivatives		720	753
Deposits with the Central Bank		11,575	11,572
24, 48, 72 and 96-hour foreign currency purchase		-	7,570
	$	31,851	33,023

As of December 31, 2017 and 2016, deposits in the Central Bank correspond to monetary regulation deposits for $11,566, in both years, which have no defined maturity date, for what the Central Bank will inform in advance the date and the procedure for the withdrawal of the funds. The interest generated by deposits in the Central Bank at December 31, 2017 and 2016, were $9 and $6, respectively. The provisions in force issued by the Central Bank for the monetary regulation deposit, which may be comprised of cash, securities or both, at December 31, 2017 and 2016, the Bank keeps Reportable Monetary Regulation Bonds (BREMS-R) that amount to $3,091 and $3,090, respectively, which are part of the monetary regulation deposit (see note 7a).

At December 31, 2017 the Bank had an asset (liability) balance for foreign currency purchase and sale transactions payable at a later date than the date agreed for $4,684 and ($3,993), respectively, ($3,722 and ($6,134), respectively, at December 31, 2016), which were recognized in settlement accounts within “Other accounts receivable, net” and “Creditors on settlement of transactions”, as appropriate.

At December 31, 2017 and 2016, the Bank had the following "call money" with maturity terms minor or equal to four days:

Institution - Counterparties	2017 Amount	2017 Annual Rate	2017 Term	2016 Amount	2016 Annual Rate	2016 Term
HSBC México, S. A.	$ 2,201	7.25%	4 days	2,651	5.75%	3 days
Banco Nacional de Obras y Servicios Públicos, S. N. C.	-	-	-	900	5.75%	3 days
Nacional Financiera S. N. C.	1,501	7.25%	4 days	500	5.75%	3 days
Industrial and Commercial Bank of China México, S. A.	150	7.25%	4 days	25	5.75%	3 days
	$ 3,652			4,076		

At December 31, 2017 and 2016, foreign currency receivable and deliverable equivalent in pesos in connection with the purchases and sales to be settled within 24, 48, 72 and 96 hours are as follows:

	Receivable in pesos		Deliverable in pesos	
	2017	**2016**	**2017**	**2016**
Dollar	$ 5,432	7,239	(5,680)	(4,595)
Other currencies	160	331	(98)	(568)
	$ 5,592	7,570	(5,778)	(5,163)

According to the accounting Criteria, when the offset balance of the foreign currency to be delivered is greater than the foreign currency to be received, this balance is presented within the caption "Sundry creditors and other accounts payable". As of December 31, 2017, the net balance of $(186), is presented within the mentioned caption.

At December 31, 2017 and 2016, earnings from operations of buy/sell currencies amounted to $351 and $762, respectively, also, the valuation result amounts to $1,973 in 2017 and $(175) in 2016, which are recorded under the "Financial intermediation income" caption.

(Continued)

(7) Investment securities-

(a) At December 31, 2017 and 2016, the Bank's investment securities at fair value, except held to maturity, are as follows:

		2017	2016
Trading securities:			
Debt securities:			
Government securities	$	5,496	8,338
Bank promissory notes		643	410
Others		-	15
Equity shares		450	455
Trading		6,589	9,218
Available-for-sale securities:			
Debt securities:			
Government securities		37,845	28,722
Bank promissory notes		6,503	3,104
Others		336	450
Equity shares		-	2
Available-for-sale		44,684	32,278
Held-to-maturity securities:			
Special CETES of the UDI Trusts:			
Residential mortgages (note 10c)		1,587	2,367
Bonds		3,091	3,090
Held-to-maturity		4,678	5,457
Total investment securities	$	55,951	46,953

At December 31, 2017 and 2016, the fair value of the securities classified as trading, available-for-sale and held-to-maturity are analyzed in the following pages.

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		2017	2016
Trading securities:			
Government securities (restricted):			
Repurchase/resell agreements:			
BI CETES	$	387	1,119
IS BPA182		217	226
LD BONDESD		3,338	4,536
M BONOS		454	704
S UDIBONO		3	19
IQ BPAG91		829	594
IM BPAG28		21	75
		5,249	7,273
Value date purchases:			
BI CETES		4	12
M BONOS		243	948
S UDIBONO		-	105
		247	1,065
Total government securities		5,496	8,338
Bank promissory notes (unrestricted):			
Banking securities:			
51 SCOTIAG M6		-	159
Bank promissory notes (restricted):			
Repurchase/resell agreements:			
BANOBRA- PRLV		643	1
NAFINSA - CBBD		-	250
Total bank promissory notes		643	410
Subtotal, trading securities to the next page	$	6,139	8,748

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		2017	2016
Trading securities:			
Subtotal, trading securities from previous page	$	6,139	8,748
Others under repurchase/resell agreements:			
CBPC		-	15
Total other debt securities		-	15
Equity shares (unrestricted):			
SCOTIAG EMP		435	453
1A FCX *		3	-
1A TX *		2	-
1I EWZ *		6	-
1I GXG *		2	-
1I TWM *		2	2
Total equity shares		450	455
Total trading securities	$	6,589	9,218
Available-for-sale securities:			
Debt securities:			
Domestic government securities:			
BI CETES	$	3,408	614
LD BONDESD		5,171	13,563
FEFA		186	-
Subtotal, available-for-sale securities to the next page	$	8,765	14,177

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		2017	2016
Available-for-sale securities:			
Subtotal, available-for-sale securities from previous page	$	8,765	14,177
Foreign government securities:			
BRAZM14		-	1,293
BRAZE97		225	244
TBILN51		3,930	-
TBILC15		1,475	-
		5,630	1,537
Restricted securities:			
Under repurchase/resell agreements:			
S UDIBONO		318	307
LD BONDESD		21,437	10,710
CETES		8	-
M BONOS		1,687	1,991
		23,450	13,008
Total government securities		37,845	28,722
Bank promissory notes:			
Own position:			
BANOBRA		-	154
BANSAN		6,503	2,950
Total bank promissory notes		6,503	3,104
Total government securities and bank promissory notes, to the next page	$	44,348	31,826

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	Maturity		2017	2016
Total government securities and bank promissory notes, from previous page		$	44,348	31,826
Others:				
Own position:				
MOLYMET			-	151
UFINCB			200	199
UNFINCB			36	-
CABEI			100	100
Total others			336	450
Equity shares			-	2
Total available-for-sale securities		$	44,684	32,278
Held-to-maturity securities:				
Government securities:				
(special CETES)*:	Maturity			
CETES B4 270701	Jul 1, 2027	$	1,171	1,097
CETES B4 220804	Aug 4, 2022		2	2
CETES B4 220707	Jul 7, 2022		414	388
CETES B4 170713	Jul 13, 2017		-	867
CETES BC 170713	Jul 13, 2017		-	13
Total special CETES			1,587	2,367
BONOS XR BREMSR (restricted, note 6)			3,091	3,090
Total held-to-maturity securities		$	4,678	5,457

* Special cetes held by the Bank are derived from support programs for debtors of mortgage loans, signed on July 15 and 16, 2016 with the Federal Government, the Bank received the 5 annual payments over the discounts from the Federal Government, during years 2010 to 2015.

(Continued)

At December 31, 2017 and 2016, BREMS-R amounts to $3,091 and $3,090, respectively and are classified as securities held-to-maturity. The amount of these securities is part of monetary regulation deposit, thus these instruments may only be decreased as the monetary regulation deposit in cash increases.

As of December 31, 2017, the Bank held assets (liabilities) balance for transactions with securities settled on a date subsequent to the agreed-upon date for $419 and $(247) ($3,600 and $(734) as of December 31, 2016), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions", as appropriate.

The valuation result from available-for-sale securities as of December 31, 2017, recognized in other comprehensive income within stockholders' equity amounted to $55 less deferred income tax for $(16) and deferred ESPS for ($5); $48 less deferred income tax for $15 and deferred ESPS for $(5) as of December 31, 2016. The valuation result from securities available for sale in hedge transactions at fair value recognized in income statement for the years ended December 31, 2017 and 2016, the effect is zero.

For the years ended December 31, 2017 and 2016, the net gains from interest income, gains or losses from purchase and sale transactions, and valuation income from investments in securities are as follows:

		2017	**2016**
Trading	$	583	576
Available-for-sale		2,436	1,573
Held-to-maturity		340	192

(b) At December 31, 2017 and 2016, the fair value of the securities classified as traded securities to be settled are analyzed in the next page.

(Continued)

		2017	**2016**
Traded securities to be settled:			
Value date sales:			
Government securities			
BI CETES		-	(323)
M BONOS		(419)	(3,503)
S UDIBONO		-	(105)
Traded securities to be settled, unrestricted securities	$	(419)	(3,931)

(c) ***Issuers over 5% of the Bank's net capital-***

At December 31, 2017 and 2016 investment in non-governmental debt securities and exceeding 5% of the Bank's net capital are analyzed as follows:

2017

Issuer	**Series**	**Number of securities**	**Annual average rate**	**Term**	**Amount**
BANSAN	18012	6,505,236,129	7.25%	4	$ 6,503

2016

Issuer	**Series**	**Number of securities**	**Annual average rate**	**Term**	**Amount**
BANSAN	17011	2,951,413,550	5.75%	3	$ 2,950

(8) Securities on repurchase/resell agreements-

At December 31, 2017 and 2016, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Bank acts as repurchase or as repurchaser, are analyzed as shown on the following page.

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	Debtors on repurchase/resell agreements		Creditors on repurchase/resell agreements	
	2017	**2016**	**2017**	**2016**
IQ BPAG91	$ 2,001	1,865	(829)	(594)
IS IPAS	500	2,001	(217)	(226)
M BONOS	2,283	3,702	(2,139)	(2,691)
CBUR	-	-	-	(15)
BI CETES	-	1,000	(387)	(1,120)
LD BONDESD	26,704	20,309	(24,133)	(14,018)
PRLV	-	-	-	(1)
S UDIBONO	-	-	(320)	(326)
CBIC	100	490	-	-
CBBD	-	-	-	(251)
BPAG	1,001	2,787	(21)	(75)
Subtotal	$ 32,589	32,154	(28,046)	(19,317)
Collateral sold or pledged (creditor):				
IS BPAS	(500)	(2,001)	-	-
LD BONDESD	(17,996)	(12,485)	-	-
M BONOS	(2,001)	(2,702)	-	-
BI CETES	-	(1,000)	-	-
CBIC	(100)	(490)	-	-
	(20,597)	(18,678)	-	-
Debtors (creditors) on repurchase/resell agreements	$ 11,992	13,476	(28,046)	(19,317)

At December 31, 2017, the terms of resell/repurchase agreements vary between 4 and 28 days (3 and 28 days at December 31, 2016) with annual weighted rates of 7% acting as repurchasee, and 6% acting as repurchaser (5% and 6% annual weighted rates in 2016).

(Continued)

During the years ended December 31, 2017 and 2016, premiums collected amounted to $2,293 and $1,387, respectively; premiums paid amounted to $3,468 and $2,736, respectively, and are included in the consolidated statements of income under the caption "Interest income" and "Interest expense", respectively (see note 23b).

At December 31, 2017 and 2016, the Bank did not deliver collaterals in repurchase/ resell agreements.

At December 31, 2017, the Bank kept a debit (credit) balance on repurchase/resell agreements to be settled at a subsequent date for $49 and $(48), respectively, which were recognized within the "other accounts receivable, net" caption and "creditors on settlement of transactions" caption, as it corresponds.

(9) Derivatives-

At December 31, 2017 and 2016, the fair value of derivative financial instruments for trading and hedging purposes, recognized under the caption "Derivatives", is analyzed as follows:

		2017		2016	
		Assets	Liabilities	Assets	Liabilities
Trading purposes:					
Forwards	$	879	472	148	167
Options		779	614	848	638
Swaps		16,560	17,241	18,083	18,917
Package of derivative instruments		261	272	313	305
		18,479	18,599	19,392	20,027
Hedging purposes:					
Fair value hedges		590	58	576	-
Cash flow hedges		4,525	3,826	698	133
		5,115	3,884	1,274	133
	$	23,594	22,483	20,666	20,160

(Continued)

The net gain (loss) for the years ended December 31, 2017 and 2016, derived from the ineffectiveness of instruments used for cash-flow hedging purposes amounted to $2 and $14, respectively. The effect of gain from valuation relating to the effective hedge portion at December 31, 2017, amounts to $141 less deferred income tax for $(41) and deferred ESPS for $(14). At December 31, 2016, the gain from valuation relating to the effective hedge portion was $823 less deferred income tax for $(245) and deferred ESPS for $(82), which are presented in stockholders' equity. At December 31, 2017 and 2016, the amount of the impairment charge, of the hedging instruments amount to $(1) and $(1), respectively.

At December 31, 2017, the gain (loss) of cash flow hedge instruments that were reclassified from stockholders' equity to the year's results of operations within "Interest income" and "Interest expense" was $8 and $(167) ($5 and $(188) at December 31, 2016).

The net estimated effect, based on the results of January 2018 and projected to 12 months, of the accumulated ineffectiveness of hedging derivative transactions which are expected to be reclassified to consolidated statement of income during the following twelve months is $12.

At December 31, 2017 and 2016, the (loss) gain from valuation of fair value hedging derivatives was $(56) and $587, respectively; while the gain (loss) from valuation of the hedged item related to the hedged risk was $(41) and $(582), respectively.

At December 31, 2017 and 2016, the net valuation result on financial assets and liabilities related to trading derivatives amounted to $579 and $401, respectively. These amounts include the impairment or (reversal) for credit risk in the counterparty for $17 and ($14) respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains (losses) from buy/sell transactions and valuation results at December 31, 2017 amounted to $(360) and $(1,962), respectively ($762 and ($176), respectively in 2016) and are presented in "Financial intermediation income".

(Continued)

For the years ended December, 31 2017 and 2016, the Bank foresees that all transactions to hedge forecasted cash flows are highly likely to occur.

At December 31, 2017, the Bank had transactions settled on a date subsequent to the traded date for $23. At December 31, 2016, the Bank did not have transactions settled on a date subsequent to the traded date.

The Bank may reduce or modify the market risk mainly through two activities: converting fixed to variable rate financial assets and floating-rate to fixed rate financial liabilities. Both transformations are achieved using interest rate swaps and foreign exchange swaps related to different rates of interest.

At December 31, 2017, the Bank holds a total of 197 hedge derivative contracts (185 in 2016), 132 of these agreements (108 agreements in 2016) totaling $29,175 ($15,850 in 2016) are classified as hedges under the cash flow methodology; the remaining contracts relate to hedges under the fair value methodology $12,085 ($10,515 in 2016).

The Bank uses derivative financial instruments with the purpose of properly dealing with interest rate and exchange rate risks inherent to loan, deposit and investment on securities and on repurchase/resell agreements, all of which are characteristic of commercial banking. The most widely used instruments are interest rate and currency swaps, whereby floating rate instruments are transformed into fixed rate instruments and vice versa or assets denominated in foreign currency are translated into domestic currency or vice versa. Derivatives may be used for hedging cash flows or the economic value of various Bank assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

(10) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2017 and 2016, the classification of loans into current and past-due by currency (valued in local currency), is analyzed in the following page.

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	2017		2016	
	Current	**Past-due**	**Current**	**Past-due**
Assets:				
Local currency:				
Business or commercial activity	$105,301	2,882	75,944	2,610
Financial institutions	35,175	82	29,472	81
Government entities	11,163	-	6,501	–
Consumer loans	33,711	1,016	26,692	763
Medium and residential [1]	103,006	2,699	90,060	2,185
Social interest housing	138	23	163	23
Loan portfolio acquired from INFONAVIT	1,244	-	-	-
	289,738	6,702	228,832	5,662
Foreign currency translated:				
Business or commercial activity	18,788	288	16,599	215
Financial institutions	89	28	2	30
Medium and residential	86	51	114	72
	18,963	367	16,715	317
	$ 308,701	7,069	245,547	5,979
	315,770		251,526	
Memorandum accounts:				
Loan commitments (see note 22a)	27,092		20,234	
	$ 342,862		271,760	

As of December 31, 2017, the restricted balance of medium and residential portfolio is for $1,138. As of December 31, 2016, the Bank has no restricted loan portfolio.

(1) Includes $215 and $250 loans denominated in UDIS, in 2017 and 2016, respectively.

(Continued)

(b) Classification of loan portfolio by economic sector-

At December 31, 2017 and 2016, credit risk including loans, guarantees and loan commitments, classified by economic sector and the percentage of concentration are analyzed as follows:

		2017		2016	
		Amount	**%**	**Amount**	**%**
Agriculture, forestry and fishing	$	9,448	3	8,527	3
Commerce and tourism		35,966	10	29,903	11
Construction and housing *		120,816	35	103,797	38
Manufacturing		53,659	16	39,615	15
Consumer loans and credit cards		34,727	10	27,455	10
Community, social and personal services mainly government entities		29,596	9	14,926	6
Financial, insurance and real estate services		57,504	17	46,187	17
Transportation, warehousing and communication		1,146	-	1,350	-
	$	342,862	100	271,760	100

* Includes mortgage loan portfolio for $107,247 in 2017 and $92,617 in 2016.

(c) Additional loan portfolio information-

Annual weighted lending rates:

Annual weighted loan interest rates during 2017 and 2016, non-audited, were as follows:

	2017	2016
Commercial loans *	7.78%	5.76%
Personal loans	15.52%	14.58%
Credit cards	29.50%	25.75%
Residential mortgages	9.87%	9.95%

* Includes commercial, financial and government entities loans.

(Continued)

Loans rediscounted with funding:

The Mexican Government has established certain funds for the promotion and development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with funding. At December 31, 2017 and 2016, the amount of loans granted under these programs totaled $8,777 and $6,779, respectively, and the related liability is included in "Bank and other borrowings" (see note 16).

Restructured loans:

At December 31, 2017 and 2016, restructured and renewed loans are analyzed as follows:

	Current loans	Past-due loans	Total
2017			
Commercial loans	$ 4,534	1,072	5,606
Residential mortgages	4,978	297	5,275
Consumer loans	32	44	76
	$ 9,544	1,413	10,957
2016			
Commercial loans	$ 2,695	848	3,543
Residential mortgages	5,758	321	6,079
Consumer loans	40	36	76
	$ 8,493	1,205	9,698

During 2017 and 2016, the Bank carried out some modifications (exchange of better qualified guarantees, currency and partial payment dates) to the original terms of loans classified as commercial loans for $1,772 and $2,347, respectively, which were not considered restructures.

Current commercial loans restructured and renewed by the Bank during 2017 and 2016, which continue being current, amount to $587 and $1,103, respectively; for mortgage portfolio were $172 and $748, respectively.

During the years 2017 and 2016, the Bank recorded restructuring from past-due commercial loans which remained as past-due for $437 and $427, respectively. Also in 2017 the Bank made restructure from past-due mortgages loans for $22 ($28 in 2016).

The restructuring consumer loans current and past-due made by the Bank during 2017 amount to $32 and $44, respectively ($15 and $17, respectively in 2016).

During the years 2017 and 2016 no interest capitalization was carried out.

Risk concentration:

At December 31, 2017, the Bank, including its related party transactions, has nine economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is $58,553 and represents 149% of the basic capital at September 2017. At December 31, 2016, the Bank had five economic group debtor that exceeded such limit totaling $29,196 and represented 88% of its basic capital at September 2016. The total balance of the loans granted to the three largest borrowers as of December 31, 2017 and 2016, amounts to $28,884 and $19,119, respectively.

Loan portfolio acquired from INFONAVIT

As of December 31, 2017, the analysis of the loan portfolio, current and in extension, is presented in the next page.

(Continued)

Type of loan		Current portfolio	Portfolio in extension	Total
Acquired from INFONAVIT	$	1,244	-	1,244

On May 17, 2017, the Bank was selected through an auction process to acquire the co-participation rights in the origination of the credit loans denominated "Segundo Crédito (second loan)" that will be granted to INFONAVIT beneficiaries. On August 15, 2017, the Bank and INFONAVIT entered into an assignment contract to manage mortgage loans. INFONAVIT continues with management and collection of the loans assigned to the Bank, and is responsible for the actions needed to collect due loans.

During 2017, 2,215 credit loans were acquired from INFONAVIT, amounting $1,221.

As of December 31, 2017, there are no credit loans with 180 days past due or more that were not transferred to the past due loan portfolio, applying the exceptions according to the accounting criteria in force (ROA and REA).

REA – Applies to the beneficiaries that lost their jobs and the payments are being made directly by the debtor.

ROA – Applies to the beneficiaries with formal employment and payments are made by the employer through payroll discounts.

Past-due loan portfolio:

An analysis of past-due loans at December 31, 2017 and 2016, from the date the loans were considered past-due, are summarized on the next page.

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	1 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
2017					
Commercial *	$ 726	506	420	1,628	3,280
Consumer	945	58	8	5	1,016
Residential mortgages	1,304	544	547	378	2,773
	$ 2,975	1,108	975	2,011	7,069
2016					
Commercial *	$ 701	206	1,225	804	2,936
Consumer	694	57	10	2	763
Residential mortgages	1,026	450	543	261	2,280
	$ 2,421	713	1,778	1,067	5,979

* Includes commercial loans, loans to financial institutions and government entities.

The movement in the past-due loan portfolio for the years ended December 31, 2017 and 2016, is summarized below:

	2017	2016
Balance at beginning of year	$ 5,979	5,739
Globalcard acquisition effect	-	7
Settlements	(2,590)	(1,357)
Write-offs and write-downs	(1,844)	(1,602)
Net increase, for transfers from and to current loans	5,443	3,148
Foreign exchange fluctuation	81	44
	$ 7,069	5,979

(Continued)

The interest on the past-due loan portfolio not recognized in results of operations for the year ended December 31, 2017 amounted to $329 ($263 in 2016), which are recorded in memorandum accounts.

For the years ended December 31, 2017 and 2016, the Bank recorded write-offs from those past-due loans that had been fully reserved for $1,610 and $1,285, respectively. In both years there was no application of reserves to loans granted to related parties.

For the years ended December 31, 2017 and 2016, the Bank obtained recoveries from written-off loans for $183 and $196, respectively.

Additional guarantees

At December 31, 2017 and 2016, the Bank has no additional guarantees for the restructured loans.

Impaired loans:

At December 31, 2017, the balance of impaired commercial loans is $3,397 ($3,230 in 2016), from which $118 are recorded in current loans ($294 in 2016), and $3,279 are recorded in past-due loans ($2,936 in 2016).

Adjustment from valuation of financial asset hedging:

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial assets, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments for hedging financial assets.

At December 31, 2017 and 2016, the adjustment to the carrying value of the loan portfolio from the loss recognized in results of operations for the year is presented under the caption “Valuation adjustment from hedging of financial assets" in the consolidated balance sheet for $(530) and $(571), respectively.

(Continued)

(d) Sale of loan porfolio-

Sale of consumer loans (personal) of the Bank

On September 7, 2016, the Bank sold a totally written-off consumer loan portfolio to a non-related party, the face value of such loan portfolio was $904, thus income received and the book value gain of such loan portfolio sale was $6. The results of these transactions were recorded in the consolidated statement of income in "Other operating income" caption.

Sale of mortgage portfolio

On September 7, 2016, the Bank sold a past-due mortgage loan portfolio to a non-related party, the agreed sale price was $54 and the face value of such loan portfolio at the aforementioned date was $227, which was totally reserved, as a result of this sale the Bank recognized an income equal to the selling price for $54. Likewise, on September 7, 2016 the Bank sold a totally written-off mortgage loan portfolio with face value of $19; income received and book value for that portfolio was $5. The results of these transactions were recorded in the consolidated statement of income in "Other operating income" caption.

(e) Allowance for loan losses-

As of December 31, 2017 and 2016, as a result from the application of the new allowance for loan losses methodology, the probability of default, loss given default and exposure at default by type of loan portfolio, obtained as weighted average (unaudited) from the exposure at default, are as follows:

Type of loan portfolio	Probability of default	Loss given default	Exposure at default
2017			
Bank			
Commercial	4.31%	37.59%	$ 210,591
Residential mortgages	5.06%	17.46%	107,594
Personal loans	5.70%	71.79%	23,989
Revolving	11.90%	72.84%	4,142

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Type of loan portfolio	Probability of default	Loss given default	Exposure at default
Globalcard			
Revolving	10.84%	73.54%	$ 19,558
Personal loans	63.32%	72.51%	41
2016			
Bank			
Commercial	4.93%	42.19%	$ 154,905
Residential mortgages	3.43%	23.91%	92,616
Personal loans	5.54%	64.76%	19,003
Revolving	9.05%	72.58%	18,396
Globalcard			
Revolving	14.65%	74.07%	74

The parameters are weighted on the loans of each of the portfolios. Exposure at default shown for credit includes credit commitments.

At December 31, 2017, the credit rated loan portfolio and the allowance for loan losses are analyzed as follows:

Credit rated portfolio

Grade of risk	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 76,840	24,270	8,970	20,592	89,393	220,065
A-2	35,659	5,771	835	4,793	4,634	51,692
B-1	14,113	8,510	542	1,804	2,014	26,983
B-2	6,625	292	352	1,630	2,807	11,706
B-3	6,255	2,744	464	800	1,998	12,261
C-1	672	1,323	-	1,355	2,437	5,787
C-2	1,394	966	-	1,481	1,991	5,832
D	1,985	-	-	1,163	1,568	4,716
E	2,196	110	-	1,109	405	3,820
Total	$ 145,739	43,986	11,163	34,727	107,247	342,862

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Allowance for loan losses of the credit rated portfolio

Grade of risk	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 428	136	53	454	157	1,228
A-2	394	78	10	217	29	728
B-1	244	140	9	95	17	505
B-2	154	8	-	96	35	293
B-3	192	107	17	70	34	420
C-1	44	103	26	142	69	384
C-2	180	109	-	243	171	703
D	640	-	-	485	359	1,484
E	2,074	108	-	794	228	3,204
Subtotal	$ 4,350	789	115	2,596	1,099	8,949
Reserves for residential mortgages past-due loans						30
Operational risk reserve						14
Additional reserves						66
Specific reserves authorized by the Banking Commission						97
Total allowance for loan losses						$ 9,156

At December 31, 2016, the credit rated loan portfolio and the allowance for loan losses are analyzed as follows:

Credit rated portfolio

Grade of risk	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$ 57,418	18,872	6,367	16,561	73,565	172,783
A-2	24,604	3,266	35	3,287	10,463	41,655
B-1	8,516	5,269	-	2,002	2,105	17,892
B-2	5,704	2,827	50	1,096	1,569	11,246
B3	10,554	1,967	49	860	941	14,371
C-1	1,968	838	-	939	1,537	5,282
C-2	317	-	-	1,108	481	1,906
D	941	-	-	916	1,489	3,346
E	2,015	111	-	686	467	3,279
Total	$ 112,037	33,150	6,501	27,455	92,617	271,760

(Continued)

Allowance for loan losses of the credit rated portfolio

Grade of risk		Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$	323	116	35	376	140	990
A-2		273	49	-	161	62	545
B-1		148	96	-	98	18	360
B-2		126	68	1	68	19	282
B-3		328	59	2	68	16	473
C-1		84	56	-	107	44	291
C-2		36	-	-	195	36	267
D		399	-	-	394	309	1,102
E		1,773	110	-	466	200	2,549
Subtotal	$	3,490	554	38	1,933	844	6,859

Additional reserves for residential mortgages past-due loans	94
Operational risk reserve	35
Additional reserve for past-due accrued interest	53
Specific reserves authorized by the Banking Commission	97
Total allowance for loan losses	$ 7,138

The movement in the allowance for loan losses for the years ended December 31, 2017 and 2016 is summarized below:

		2017	2016
Balance at beginning of year	$	7,138	6,420
Globalcard acquisition effect		-	12
Provisions charged to results of operations		4,015	2,945
Provisions charged to retained earnings		80	37
Applications, write-downs and others		(1,846)	(1,465)
Allowance cancellation		(145)	(755)
Foreclosure		(64)	(137)
Exchange rate fluctuations		(22)	81
Balance at end of year	$	9,156	7,138

(Continued)

Change in methodology for the allowance determination of commercial loan portfolio with income or net annual sales greater than 14 million UDIS.

Until June 2016, the Bank calculated the allowance for loans losses for commercial loan portfolio to borrowers with income or net annual sales greater than 14 million UDIS with an internal methodology authorized by the Banking Commission; beginning July 2017, the Bank, by an official letter No. 142-3/10980/2015, informed the Banking Commission that since such month it would adopt the standard methodology established in its Provisions. The financial effect estimated by the Bank for the change in methodology increased allowance for loans losses by $182, which was recognized with a charge to the results for the year.

Credit loan program with INFONAVIT

On August 15, 2017, the Bank, as assignee, and INFONAVIT, as assignor, entered into an assignment contract to manage mortgage loans originated under the program denominated "Segundo Crédito" for $1,500 (see note 10c).

(f) Special accounting criteria for natural disasters support program-

Through official letters No. P-290/2017, dated September 15, 2017 and No. 320-1/14057/2017, dated October 17, 2017, the Banking Commission authorized the application of special accounting criteria regarding consumer, mortgage and commercial loans, with the purpose of helping the economic recovery of the clients living or working in the locations declared as "disaster zone" derived from the disasters caused by the hurricanes "Lidia" and "Katia" and the earthquakes occurred on September 7 and 19, 2017. The special criteria establishes that the credit loans of the affected clients is considered as "current portfolio".

The Bank applied mentioned criteria to its clients, as such, the total amount of the payments past due from those clients is for $4.

(11) Benefits to receive from securitizations-

On March 13, 2008, the Bank realized a securitization of a mortgage portfolio, through of a trust that issued debt securities for $2,500 with maturity in 20 years and an annual interest rate of 9.15%.

(Continued)

At December 31, 2017 and 2016, the amount of the portfolio assigned receivable amounted to $333 and $427, respectively, and the amount payable on the debt securities amounted to $271 and $351, respectively.

As part of the agreed transaction of the securitization, the Bank received a trust certificate, which is reported under the caption "Benefits receivable on securitization transactions" on the consolidated balance sheet, and is recorded at fair value, which was determined based on the expectations for recovery of the trust assets and the remaining cash flows once all obligations to bondholders are met. The fair value of benefits receivable on securitization transactions at December 31, 2017 and 2016 were $75 and $50 respectively, the valuation effect was recognized in "Other operating income" in the consolidated statement of income.

For the years ended December 31, 2017 and 2016, the assigned portfolio received prepayments of $27 and $67, respectively.

The Bank receives servicing fees from the trust, which are recognized in earnings when the services are provided, for the years ended December 31, 2017 and 2016, were $3 and $4, respectively.

(12) Foreclosed assets-

At December 31, 2017 and 2016, foreclosed assets are analyzed below:

		2017	2016
Premises	$	100	98
Furniture, values and foreclosed rights		11	11
		111	109
Allowance for impairment		(25)	(30)
	$	86	79

The movement of the allowance for impairment for the years ended December 31, 2017 and 2016 is analyzed in the following page.

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		2017	2016
Balance at beginning of year	$	(30)	(28)
Additional provisions due to aging charged to operations for the year		(7)	(9)
Credit to income on sale of assets		12	7
Balance at end of year	$	(25)	(30)

(13) Premises, furniture and equipment-

Premises, furniture and equipment and leasehold improvements at December 31, 2017 and 2016 are analyzed below:

		2017	2016	Annual depreciation and amortization rate
Land	$	497	499	-
Office premises		1,201	1,203	Various
Transportation equipment		6	9	25% and 33%
Leased transportation equipment		48	37	33%
Computer equipment		1,242	1,032	Various
Computer equipment in financial lease		21	21	20%
Office furniture and equipment		1,281	1,254	10%
Leasehold improvements		2,720	2,614	Various
		7,015	6,669	
Accumulated depreciation		(3,379)	(3,187)	
	$	3,636	3,482	

Depreciation charged to results of operations for the years ended December 31, 2017 and 2016 amounted to $423 and $376, respectively.

For the years ended December 31, 2017 and 2016, there was not an effect from impairment of leasehold improvements.

According to assessment carried out by the Bank, the residual value (except land) at December 31, 2017 and 2016, is minimum.

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(14) Permanent investments-

At December 31, 2017 and 2016, the Bank's permanent investments in equity, classified by activity, are analyzed below:

		2017	2016
Banking related services	$	45	44
Derivatives market operators		6	6
Security and protection		1	1
	$	52	51

(15) Deposit funding-

At December 31, 2017 and 2016, the deposit funding caption, is analyzed as follows:

		2017			2016		
		Currency			Currency		
		Local	Foreign	Total	Local	Foreign	Total
Demand deposits:							
Non-interest bearing	$	71,442	155	71,597	65,761	476	66,237
Interest bearing		59,623	45,139	104,762	48,271	32,585	80,856
		131,065	45,294	176,359	114,032	33,061	147,093
Time deposits:							
General public		92,998	-	92,998	74,667	-	74,667
Money market:							
Certificates of deposit (CD's)		19,604	-	19,604	19,482	-	19,482
Promissory notes		4,468	-	4,468	268	-	268
		24,072	-	24,072	19,750	-	19,750
Debt securities issued:							
Banking stock certificates		22,508	-	22,508	9,580	-	9,580
Bank bonds		3,746	-	3,746	3,948	-	3,948
		26,254	-	26,254	13,528	-	13,528
Global account of deposits without movements		501	8	509	346	-	346
Total deposit funding	$	274,890	45,302	320,192	222,323	33,061	255,384

(Continued)

The unaudited average weighted interest rates on deposit balances during the years ended December 31, 2017 and 2016, are as follows:

	2017		2016	
	Pesos	**Dollars**	**Pesos**	**Dollars**
Demand deposits	2.23%	0.17%	1.23%	0.09%
Time deposits:				
General public	5.70%	-	3.41%	0.01%
Money market	7.13%	-	3.98%	-

At December 31, 2017 and 2016, money market time deposits and debt securities issued among the public investors, are as follows:

(a) Money market time deposits-

Certificates of deposit (CD's)

At December 31, 2017 and 2016, the Bank issued CD's with par value of one hundred pesos for an amount of $19,604 and $19,482, respectively, as shown below:

December 31, 2017

Cedes-

Interest payment	Annual rate	Term in days	Amount
28 days	TIIE 28 + 0.12%	337	$ 1,000
28 days	TIIE 28 + 0.12%	337	1,500
28 days	TIIE 28 + 0.12%	340	1,200
28 days	TIIE 28 + 0.08%	225	1,000
28 days	TIIE 28 + 0.10%	281	500
28 days	TIIE 28 + 0.08%	225	200
28 days	TIIE 28 + 0.07%	169	700
Subtotal to the next page			$ 6,100

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Interest payment	Annual rate	Term in days		Amount
Subtotal from previous page			$	6,100
28 days	TIIE 28 + 0.10%	281		200
28 days	TIIE 28 + 0.10%	226		1,830
28 days	TIIE 28 + 0.10%	225		700
28 days	TIIE 28 + 0.10%	225		550
28 days	TIIE 28 + 0.13%	337		1,100
28 days	TIIE 28 + 0.08%	197		500
28 days	TIIE 28 + 0.07%	169		750
28 days	TIIE 28 + 0.03%	169		17
28 days	TIIE 28 + 0.06%	85		1,500
28 days	TIIE 28 + 0.13%	337		400
				13,647
Accrued interest				57
Subtotal CD's			$	13,704

Structured CD's-

Underlying	Periods			
TIIE 28	13	364	$	1,000
TIIE 28	13	364		500
TIIE 28	13	364		400
TIIE 28	13	364		1,500
TIIE 28	13	364		1,000
TIIE 28	13	364		1,000
TIIE 28	13	364		500
Subtotal structured CD's				5,900
Total CD's			$	19,604

(Continued)

December 31, 2016

CD's-

Interest payment	Annual rate	Term in days	Amount
28 days	TIIE 28 + 0.05%	85	$ 500
28 days	TIIE 28 + 0.0525%	169	1,300
28 days	TIIE 28 + 0.20%	169	600
28 days	TIIE 28 + 0.35%	197	2,000
28 days	TIIE 28 + 0.105%	168	1,000
28 days	TIIE 28 + 0.05%	197	2,000
28 days	TIIE 28 + 0.05%	225	500
28 days	TIIE 28 + 0.05%	197	1,400
28 days	TIIE 28 + 0.26%	197	1,000
28 days	TIIE 28 + 0.26%	225	1,000
28 days	TIIE 28 + 0.05%	225	1,000
28 days	TIIE 28 + 0.21%	197	550
28 days	TIIE 28 + 0.22%	225	550
28 days	TIIE 28 + 0.05%	169	300
28 days	TIIE 28 + 0.0450%	169	1,000
28 days	TIIE 28 + 0.050%	197	500
28 days	TIIE 28 + 0.050%	169	1,000
28 days	TIIE 28 + 0.050%	169	40
28 days	TIIE 28 + 0.060%	337	200
28 days	TIIE 28 + 0.05%	169	800
28 days	TIIE 28 + 0.08%	253	650
28 days	TIIE 28 + 0.10%	337	650
28 days	TIIE 28 + 0.05%	169	500
			19,040
Accrued interest			36
Subtotal CD's, to the next page			$ 19,076

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Underlying	Periods	Term in days		Amount
Subtotal CD's from previous page			$	19,076
Structured CD´s -				
TIIE 28	13	364		22
TIIE 28	13	364		28
TIIE 28	13	364		26
TIIE 28	13	364		187
TIIE 28	13	364		39
TIIE 28	13	364		37
TIIE 28	13	364		22
TIIE 28	13	364		29
TIIE 28	13	364		16
Subtotal structured CD´s				406
Total CD's			$	19,482

Structured CD´s pay interest on each payment date according to the periods established in the offering filing, if the underlying observation date is within the ranges established for each period.

Promissory notes-

At December 31, 2017 and 2016, the Bank issued promissory notes with par value of one peso approximately as follows:

December 31, 2017

Issuance date	Number of securities	Term in days	Annual rate		Amount
July 2017	538,150,002	361	7.43%	$	500
April 2017	535,388,889	365	7.43%		500
August 2017	315,816,667	262	7.45%		300
August 2017	537,158,000	364	7.25%		499
August 2017	1,140,974,682	181	7.54%		1,100
August 2017	650,000,000	365	7.63%		603
Subtotal to the next page				$	3,502

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Issuance date	Number of securities	Term in days	Annual rate	Amount
Subtotal from previous page				$ 3,502
August 2017	250,000,000	363	7.48%	232
September 2017	650,000,000	365	7.62%	604
				4,338
Accrued interest				130
				$ 4,468
December 31, 2016				
December 2016	250,000,000	196	6.50%	$ 241
December 2016	25,039,733	60	5.80%	25
				266
Accrued interest				2
				$ 268

(b) Debt securities issued-

At December 31, 2017 and 2016, the Bank issued banking stock certificates with par value of one hundred pesos, under the program authorized by the Baking Commission for up to $25,000, as shown below:

Banking stock certificates

December 31, 2017

Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate	Amount
September 17	34,500,000	3	28	14%	TIIE 28 +0.31%	$ 3,450
August 17	34,500,000	4	28	14%	TIIE 28 +0.36%	3,450
Subtotal to the next page						$ 6,900

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Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate	Amount
Subtotal from previous page						$ 6,900
April 17	28,750,000	5	28	12%	TIIE 28 +0.50%	2,875
March 17	34,500,000	3	28	14%	TIIE 28 +0.39%	3,450
November 15*	23,000,000	5	28	9%	TIIE 28 +0.40%	2,300
October 15*	20,000,000	3	28	8%	TIIE 28 +0.25%	2,000
June 13*	11,500,000	10	182	8%	7.30%	1,150
March 13*	34,500,000	5	28	8%	TIIE 28 +0.40%	3,450
December 05*	3,000,000	13	183	3%	9.75%	300
						22,425
Accrued interest						83
Total banking stock certificates						$ 22,508

December 31, 2016

Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate	Amount
November 2015	23,000,000	5	28	9%	TIIE 28 + 0.40%	$ 2,300
October 2015	20,000,000	3	28	8%	TIIE 28 + 0.25%	2,000
June 2013 *	11,500,000	10	182	8%	7.30%	1,150
March 2013 *	34,500,000	5	28	8%	TIIE 28 + 0.40%	3,450
October 2010 *	3,580,000	7	28	2%	TIIE 28 + 0.49%	358
December 2005 *	3,000,000	13	183	3%	9.75%	300
						9,558
Accrued interest						22
Total Banking stock certificates						$ 9,580

* Issued under the prior years program authorized by the Banking Commission

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Structured banking bonds

December 31, 2017

Issuance date	Number of securities	Term in days	Underlying		Amount
November 2017	150,000	129	USDMXN	$	13
November 2017	750,000	92	SPX		60
November 2017	1,321,340	540	IPC		132
November 2017	1,320,600	728	SPTSX60		132
October 2017	600,000	271	Nikkei 225 (NKY)		60
July 2017	415,200	323	USDMXN		42
June 2017	875,020	728	IXM		87
June 2017	357,700	1,092	IXM		36
May 2017	2,617,850	1,091	SX5E		262
May 2017	2,128,370	728	SX5E		213
April 2017	463,800	729	CAC 40		46
March 2017	343,800	363	SX5E		34
March 2017	455,400	729	SX5E		46
December 2016	916,650	727	Nikkei 225 (NKY)		92
October 2016	335,350	1,094	SX5E		34
October 2016	631,750	1,094	SPX		63
May 2016	2,508,500	728	TIIE 28		251
May 2016	304,800	896	TIIE 28		30
February 2016	688,800	1,096	SX5E		69
February 2016	1,156,200	1,093	SPX		116
February 2016	3,288,678	1,456	TIIE 28		329
December 2015	753,000	1,094	IBEX 35		75
December 2015	1,301,400	1,092	TIIE 28		130
December 2015	1,200,000	924	TIIE 28		120
November 2015	103,800	1,080	IXM SX7E		10
October 2015	2,244,950	1,098	SPX		224
September 2015	1,637,750	1,092	SXAE		164
August 2015	193,500	1,094	IXM SX7E		19
June 2015	300,000	1,093	SX7E		30
June 2015	285,000	1,278	SPX		29
June 2015	190,000	1,278	SX7E		19
May 2015	800,000	1,097	IXM SX5E		80
April 2015	4,256,400	1,091	IXM SX5E		426
February 2015	2,371,250	1,093	HSCEI		237
January 2015	362,082	1,094	SXEE		36
Total banking bonds				$	3,746

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December 31, 2016

Issuance date	Number of securities	Term in days	Underlying		Amount
December 2016	917,400	727	Nikkei 225 (NKY)	$	92
October 2016	338,350	1,094	SX5E		34
October 2016	634,750	1,094	SPX		63
May 2016	2,596,300	728	TIIE 28		260
May 2016	329,800	896	TIIE 28		33
May 2016	2,300,000	364	TIIE 28		230
February 2016	777,300	1,096	SX5E		78
February 2016	1,455,200	1,093	SPX		146
February 2016	3,767,100	1,456	TIIE 28		377
December 2015	774,400	1,094	IBEX 35		77
December 2015	1,415,300	1,092	TIIE 28		141
December 2015	1,250,000	730	SX5E		125
December 2015	1,200,000	924	TIIE 28		120
November 2015	521,200	728	TIIE 28		52
November 2015	2,577,700	728	TIIE 28		258
November 2015	103,800	1,080	IXM SX7E		10
October 2015	2,426,950	1,098	SPX		243
September 2015	1,755,550	1,092	SXAE		175
August 2015	193,500	1,094	IXM SX7E		19
June 2015	300,000	1,093	SX7E		30
June 2015	300,000	730	SX5E		30
June 2015	285,000	1,278	SPX		29
June 2015	190,000	1,278	SX7E		19
May 2015	800,000	1,097	IXM SX5E		80
April 2015	4,608,200	1,091	IXM SX5E		461
February 2015	2,528,250	1,093	HSCEI		253
January 2015	438,100	1,094	SXEE		44
October 2014	240,000	1,095	IPC		24
October 2014	649,000	1,096	IPC		65
April 2014	983,500	1,096	IPC		98
April 2014	473,500	1,096	IPC		47
March 2014	1,918,300	1,085	SX5E		192
March 2014	429,200	1,092	SX5E		43
Total banking bonds				$	3,948

(Continued)

Valuation adjustments of hedging financial liabilities:

The fair value hedges of interest rate risk of a portion of a portfolio comprised of financial liabilities, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments for hedging financial liabilities.

At December 31, 2017 and 2016, the loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial liabilities" in the consolidated balance sheet for $29 and $34, respectively.

(16) Bank and other borrowings-

At December 31, 2017 and 2016, bank and other borrowings are compromised as follows:

		2017	2016
Due on demand	$	180	897
Short-term:			
Local currency:			
Central Bank		-	200
Development banks [1]		1,874	1,825
Development agencies [1]		2,993	1,557
Other institutions		1,673	3,223
Accrued interest		63	55
		6,603	6,860
Dollars translated into local currency:			
Multiple banking		77	6,774
Development agencies [1]		116	191
Development banks [1]		48	19
Accrued interest		1	8
		242	6,992
Total short term and due on demand, carried forward	$	7,025	14,749

(1) Resources from development funds (See note 10c).

(Continued)

		2017	2016
Total short term and due on demand, brought forward	$	7,025	14,749
Long-term:			
Local currency:			
Development agencies (1)		3,553	2,986
Development banks (2)		1,000	-
Other organizations		1,856	3,536
		6,409	6,522
Dollars translated into local currency:			
Development agencies (1)		188	227
Total long-term		6,597	6,749
Total bank and other borrowings	$	13,622	21,498

(1) Resources from development funds (see note 10c).

(2) On December 11, 2017, the Bank obtained a loan for $1,000 with a term of 10 years bearing interest at a rate of 8.48% from Sociedad Hipotecaria Federal, S.N.C., which is guaranteed with the mortgage loan portfolio (see note 10a). At December 31, 2016, the Bank has no granted guarantees for bank and other borrowings.

At December 31, 2017 and 2016, long-term bank and other borrowings maturity dates are as follows:

Maturity		2017	2016
2018	$	-	1,924
2019		414	633
2020		1,611	1,878
2021		2,167	2,139
2022		1,247	175
Over 5 years		1,158	-
	$	6,597	6,749

(Continued)

Due to the operating characteristics of the interbank loans that the Bank maintains, such as access to funds via auctions, loans regulated by the Central Bank with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Bank, loans whose limit is agreed to daily by the lender. At December 31, 2016 and 2015, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

For the years 2017 and 2016, bank and other loans weighted average annual interest (unaudited) rates are as follows:

	2017 annual rates		2016 annual rates	
	Domestic currency	Foreign currency	Domestic currency	Foreign currency
Domestic banks	8.48%	-	-	3.32%
Development banks	8.49%	2.91%	6.55%	2.63%
Development agencies	7.29%	2.30%	5.73%	1.77%

(17) Employees' benefits-

The Bank has in place a defined contribution plan for pensions that covers all employees joining the Bank beginning on April 2006. The plan is optional for those employees who joined the Bank at an earlier date. The plan provides for established contributions by both the Bank and employees, which may be fully withdrawn by employees when aged 55.

For the years ended December 31, 2017 and 2016, the charge to results for the Bank's contributions to the defined contribution pension plan amounted to $64 and $69, respectively. under the caption "Administrative and promotional expenses" in the consolidated statement income.

The Bank has also a pension and post-retirement defined benefit plan to which employees make no contributions. All employees are entitled to this plan when aged 60 years old, with 5 years of service, or 55 years old, with 35 years of service, as provided for by the collective bargaining agreement.

The costs, obligations and assets of the defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2017 and 2016.

(Continued)

The components of the defined benefit cost for the years ended December 31, 2017 and 2016 are as follows:

		Seniority premium		Legal compensation		Pension plan		Other post-retirement benefits	
		2017	2016	2017	2016	2017	2016	2017	2016
Current service cost (CLSA)	$	10	10	21	19	18	22	84	97
Net interest on DBNA*		2	2	26	20	77	75	68	75
Actuarial (losses) gains generated in the year		-	-	52	24	-	-	-	-
Net, past service amortization		1	3	-	-	37	55	47	68
Reclassification of DBNA remeasurements recognized in OCI*		-	1	7	3	9	14	-	17
Defined benefit cost	$	**13**	**16**	**106**	**66**	**141**	**166**	**199**	**257**
Beginning balance of remeasurements of DBNL*	$	(8)	-	30	-	(62)	-	(236)	-
Initial progressive recognition of DBNA* remeasurements		6	6	-	-	172	172	256	256
Remeasurements generated in the year		(4)	(13)	6	33	61	(220)	(85)	(475)
Reclassification of remeasurements recognized in OCI of the year		-	(1)	(7)	(3)	(9)	(14)	-	(17)
Ending balance of remeasurements of DBNL*	**$**	**(6)**	**(8)**	**29**	**30**	**162**	**(62)**	**(65)**	**(236)**
Beginning balance of (DBNL) or DBNA*	$	(7)	1	(317)	(272)	(264)	(107)	84	277
Recognition of modifications to the plan in retained earnings (first year of progressive recognition)		-	-	-	-	16	16	30	30
Recognition of actuarial (gains) losses in OCI (first year of progressive recognition)		(6)	(6)	-	-	(172)	(172)	(256)	(256)
Net service cost		(12)	(12)	(99)	(63)	(95)	(97)	(152)	(172)
Amortization of actuarial losses		(1)	(3)	-	-	(37)	(55)	(47)	(68)
Plan contributions		-	-	-	-	(64)	(69)	-	-
Payments charged to DBNL*		-	-	90	51	-	-	-	-
Remeasurements recognized in OCI of the year		4	13	(6)	(33)	(61)	220	85	475
Restricted funds		-	-	-	-	-	-	(34)	(202)
Ending balance of (DBNL) or DBNA*	**$**	**(22)**	**(7)**	**(332)**	**(317)**	**(677)**	**(264)**	**(290)**	**84**

* Defined benefits net liability (DBNL) Defined benefits net asset (DBNA)

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The reconciliation of the financial position of the obligation and net projected asset (liability) as of December 31, 2017 and 2016 is as follows:

		Seniority premium		Legal compensation		Pension plan		Other post-retirement benefits	
		2017	2016	2017	2016	2017	2016	2017	2016
Defined benefit obligations (DBO)	$	(146)	(147)	(332)	(317)	(2,452)	(2,431)	(3,746)	(3,728)
Plan assets		110	119	-	-	1,402	1,602	2,891	2,973
Financial position of the obligation		(36)	(28)	(332)	(317)	(1,050)	(829)	(855)	(755)
Cumulative past service		-	-	-	-	(50)	(66)	(90)	(120)
Cumulative actuarial losses		14	21	-	-	423	631	655	959
Net projected asset (liability)	$	(22)	(7)	(332)	(317)	(677)	(264)	(290)	84

At December 31, 2017 and 2016, the remeasurements of defined employee benefits recorded in the OCI are analyzed as follows:

		2017	**2016**
Begining balance of remeasurements	$	(276)	-
Remeasurements gradually recorded (note 4d)		434	434
Reclassification of remeasurements recognized in OCI in the year		(16)	(35)
Remeasurements generated in the year		(22)	(675)
Final balance of remeasurements		120	(276)
Deferred IT[(1)]		108	158
Deferred ESPS[(1)]		36	53
Effect in equity, net of deferred IT and ESPS	$	264	(65)

[(1)] Calculated based on the Tax Provisions of deductibility for salaries and wages to the employees.

In the next page there is an analysis of movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2017 and 2016.

(Continued)

	2017	2016
Fair value of the assets at beginning of year	$ 4,694	4,971
Transfers to defined contribution fund	(64)	(69)
Restricted funds	(34)	(202)
Return on plan assets	289	438
Payments charged to the fund during the year	(482)	(444)
Fair value of the assets at end of year	$ 4,403	4,694

During the year 2017, the Bank transferred funds from the defined benefit plan to the defined contribution plan to cover contributions of the year amounting to $64 ($69 in 2016).

During 2017, it was not expected to have contributions to the defined benefits fund. During 2018, it is expected that $60 will be withdrawn from the fund of defined benefits.

The annual nominal rates as of December 31, 2017 and 2016 used in actuarial projections are as follows:

	2017	2016
Return on plan assets	9.30%	9.00%
Discount	9.30%	9.00%
Compensation increase	4.50%	4.50%
Increase in medical expenses	6.50%	6.50%
Estimated inflation	3.50%	3.50%

The expected return rate on the plan assets is the same to the discount rate in accordance with current standards.

The plan assets covering the pension, seniority premium, medical expense, food coupons, and life insurance for retirees benefit plans consist of 60% debt instruments and 40% equity instruments subject to a trust and managed by a Bank-designated Committee.

The effect from an increase or decrease by a percentage point in the rate of increase in medical expenses used for the actuarial projections at December 31, 2017 and 2016, are shown in the next page.

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	2017		**2016**	
	Annual rates	**DBO medical expense retirees**	**Annual anuales**	**DBO medical expense retireed**
With no modification	6.50%	$ 3,166	6.50%	$ 3,150
1% increase in medical inflation rate	7.50%	3,903	7.50%	3,882
1% decrease in medical inflation rate	5.50%	2,594	5.50%	2,581

As of December 31, 2017, the amortization periods in years for unrecognized items related to defined pension, seniority premium, other post-retirement benefits, and statutory severance compensation benefits are as follows:

	Pensions		**Seniority premium**		**Other post-retirement benefits**	**Statutory severance compensation**
	Retirement	**Disability**	**Retirement**	**Termination**		
Prior service –plan modifications	$ 3	-	3	-	3	-
Net actuarial loss/(gain) and reclassification of remeasurements (P)/ DBNA to be recognized in OCI	$ 18.63	8.22	13.27	-	14.69	7.91

The components of the stress-analysis in pesos as of December 31, 2017 and 2016, are shown below:

	Seniority premium		**Legal indemnity**		**Pension plan**		**Other post-retirement benefits**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Defined benefit obligations (DBO) as of December 31	$ 146	147	331	317	2,453	2,431	3,746	3,728
Significant actuarial assumptions as of December 31 Sensitivity analysis, discount rate 9.50% (+0.50%)	$ (3)	(4)	(5)	(5)	(98)	(100)	(244)	(254)
Discount rate 8.50% (-0.50%)	$ 4	4	6	5	106	108	272	284
Long-term inflation rate 3.75% (+0.25%)	$ 2	2	-	-	25	23	15	14
Long-term inflation rate 3.25% (-0.25%)	$ (2)	(2)	-	-	(21)	(23)	(14)	(13)

(Continued)

(18) Income taxes and employee statutory profit sharing (ESPS)-

IT Law effective as of January 1, 2014 establishes an IT rate of 30% for 2014 and later years. The current ESPS rate is 10%, for the years 2017 and 2016.

At December 31, 2017 and 2016, current IT and ESPS expense, is as follows:

		2017		**2016**	
		IT	**ESPS**	**IT**	**ESPS**
Current IT:					
Bank	$	409	154	463	173
IT additional provision		964	52	147	46
Reversed provisions from prior years (Bank)		(73)	(25)	(147)	(50)
Globalcard		71	-	-	-
Inmobiliaria		17	-	21	-
Derivative market entities		49	-	30	-
Current IT and ESPS		1,437	181	514	169
Deferred		(751)	(84)	755	242
	$	686	97	1,269	411

The Bank does not consolidate income tax results with its subsidiaries, thus the information presented below is for informational purposes only.

The Bank has not recognized a deferred tax liability on the undistributed earnings of its subsidiaries and associated companies, the Bank currently does not expect that these undistributed earnings be reinvested and be taxable in the near future.

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Deferred IT and ESPS:

The deferred tax and ESPS asset at December 31, 2017 and 2016 is analyzed below:

	2017		2016	
	IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:				
Trading	$ 205	68	225	75
Available-for-sale	7	3	23	8
Cash flow hedge swaps	(211)	(71)	(170)	(57)
Expense accruals and others	211	-	242	33
Remaining balance to be deducted of premises, furniture and equipment	97	89	-	63
Unearned fees collected	512	171	485	162
Pension plan	78	26	10	3
Remeasurements of defined employee benefits	(108)	(36)	(158)	(53)
Foreclosed assets	207	69	257	86
Tax loss carryforwards	-	-	153	-
Credit reserves surplus	538	179	498	166
Future loan write-offs	2,830	792	2,140	713
	4,366	1,290	3,705	1,199
Valuation allowance [1]	(538)	(179)	(645)	(178)
	$ 3,828	1,111	3,060	1,021
	$ 4,939		4,081	

At December 31, 2017, valuation allowance corresponds to the credit reserve surplus. At December 31, 2016 the valuation allowance for deferred IT and ESPS corresponds to the items of future loan write-offs for $535 and $178, respectively and to tax loss carryforwards for $110.

The (unfavorable) favorable effect in consolidated income statement and stockholders' equity, for the years ended December 31, 2017 and 2016 are presented in next page.

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		2017		2016	
		IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:					
Trading	$	(20)	(7)	(112)	(37)
Available-for-sale		(16)	(5)	(15)	(5)
Cash flow hedge swaps		(41)	(14)	(245)	(82)
Expense accruals and others		(31)	(33)	(102)	(21)
Remaining balance to be deducted of premises, furniture and equipment		97	26	33	6
Unearned fees collected		27	9	36	12
Pension plan		68	23	81	27
Remeasurements of defined employee benefits		50	17	(158)	(53)
Foreclosed assets		(50)	(17)	(8)	(2)
Tax loss carryforwards [1]		43	-	(2)	-
Credit reserves surplus [1]		(498)	(166)	(841)	(280)
Future loan write-offs [1]		1,255	257	160	53
	$	768	90	(1,173)	(382)
		$ 858		(1,555)	

The above movements are reflected in the consolidated financial statements as follows:

		2017		2016	
		IT	**ESPS**	**IT**	**ESPS**
In statement of income	$	751	84	(755)	(242)
In stockholders' equity:					
Valuation in available-for-sale securities		(16)	(5)	(15)	(5)
Remeasurements of defined employee benefits		50	17	(158)	(53)
Valuation of cash flow hedge swaps		(41)	(14)	(245)	(82)
Allowance for loan losses		24	8	-	-
	$	768	90	(1,173)	(382)
		$ 858		(1,555)	

[1] Net of valuation allowance

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The following is an analysis, for information purposes, of the effective tax rate of the Bank without subsidiaries for the fiscal years ended at December 31, 2017 and 2016:

	IT			ESPS
December 31, 2017	**Tax Base**	**Tax at 30%**	**Effective rate**	**at 10%**
Operating income	$ 8,337	(2,501)	(30%)	(834)
Allocation to current tax:				
Adjustment for effects of inflation	(2,427)	728	9%	243
Valuation of financial instruments	(552)	166	2%	55
Depreciation and amortization	160	(48)	(1%)	(16)
Non-deductibles expenses [(1)]	355	(107)	(1%)	(23)
Credit reserves surplus	(5,777)	1,733	20%	578
Allowance for loan losses	2,469	(741)	(9%)	(247)
Deductible loan write-offs	(1,310)	393	5%	131
Current and deferred ESPS	107	(32)	-	(11)
Deduction of paid ESPS	(299)	90	1%	-
Others, net	300	(90)	(1%)	(30)
Current tax	1,363	(409)	(5%)	(154)
Allocation to deferred tax: (IT at 30% and ESPS at 10%):				
Valuation of financial instruments	538	(161)	(2%)	(54)
Provisions and others	262	(80)	(1%)	(10)
Remaining balance to be deducted of premises, furniture and equipment	(260)	78	1%	26
Pension plan	(226)	68	1%	23
Foreclosed assets	168	(50)	-	(17)
Fees collected in advance	(90)	27	-	9
Credit reserves surplus	1,660	(498)	(6%)	(166)
Future loan write-offs	(2,623)	787	9%	262
Deferred tax	(571)	171	2%	73
Income tax	$ 792	(238)	(3%)	(81)

(1) For ESPS purposes the 47% deductible expense related to non-taxable income of the employees is not included, while for IT purposes, it is included.

At December 31, 2017, current and deferred tax of Globalcard amount $71 and $(526), respectively.

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December 31, 2016		IT Tax Base	IT Tax at 30%	IT Effective rate	ESPS at 10%
Operating income	$	5,483	(1,645)	(30%)	(548)
Allocation to current tax:					
Adjustment for effects of inflation		(1,044)	313	6%	104
Mark to market of investment securities		(508)	152	3%	51
Depreciation and amortization		(8)	2	-	1
Non-deductibles expenses [1]		352	(105)	(2%)	(24)
Loss on sale of loans		172	(51)	(1%)	(17)
Excess of allowance for loan losses		(4,538)	1,361	25%	454
Allowance for loan losses		2,181	(654)	(12%)	(218)
Deductible loan write-offs		(1,205)	362	7%	120
Current and deferred ESPS [2]		413	(124)	(2%)	(41)
Deduction of paid ESPS		(301)	90	2%	-
Others, net		548	(164)	(3%)	(55)
Current tax		1,545	(463)	(7%)	(173)[2]
Allocation to deferred tax: (IT at 30% and ESPS at 10%):					
Mark to market of investment securities		487	(146)	(3%)	(49)
Provisions and others		219	(65)	(1%)	(9)
Premises, furniture and equipment		(58)	17	-	6
Pension plan		(269)	81	1%	27
Foreclosed assets		26	(8)	-	(3)
Unearned fees collected		(118)	35	1%	12
Excess of allowance for loan losses		2,804	(841)	(15%)	(280)
Future loan write-offs		(531)	159	3%	53
Deferred tax		2,560	(768)	(14%)	(243)
Income tax	$	4,105	(1,231)	(21%)	(416)

(1) For ESPS purposes the 47% deductible expense related to non-taxable income of the employees is not included, while for IT purposes, it is included.

(2) At December 31, 2016, there is an unpaid ESPS with Globalcard of $10.

(Continued)

In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Other considerations:

In accordance with Mexican tax law, the tax authorities may examine transactions carried out during the five years prior to the most recent income tax return filed.

According to the IT Law, corporations carrying out transactions with related parties, whether domestic or foreign, are subject to a limits and tax obligations, to certain requirements as to the determination of the transaction prices, since these prices must be similar to those that would be used in arm's-length transactions.

(19) Subordinated debt issued-

At December 31, 2017 and 2016, the private issuance is comprised of 20,930,000 preferred capital subordinated debt securities which are non-convertible into shares with a face value of $100 pesos per security, equivalent to $2,093 in a term of 10 years maturing on December 5, 2024 and with interest payments in each period of 182 days at the annual fixed rate of 7.4%. At December 31, 2017 and 2016, the accrued interest amounts to $8 and $7, respectively.

(20) Stockholders' equity-

(a) Structure of capital stock-

On July 28, 2017, at the Extraordinary General Stockholders´ Meeting, it was agreed to increase the capital stock by $800, through the issuance of 800,000,000 of ordinary shares, series "F", with a nominal value of one peso each.

(Continued)

On April 22, 2016, the merger of the Bank with Comercializadora Snoosses, S. A. de C. V., related company, was approved in the Extraordinary General Stockholders´ Meeting, the merged company disappeared and the Bank subsisted as merging entity. As a result of the merger, the Bank´s assets and the Stockholders' equity increased for $53. For this purpose 53,500,000 "F" series of common shares with a nominal value of one peso each were issued.

On July 29, 2016, the Extraordinary General Stockholders´ Meeting agreed to increase the stockholders' equity for $870, through the issuance of 870,000,000 "F" series of common shares with a nominal value of one peso each, respectively.

After the stockholder´s equity increases mentioned above, at December 31, 2017 and 2016, the Stockholders' equity is comprised of 8,853,500,000 and 8,053,500,000, respectively, common shares, with a par value of one peso per share, divided into two series: 8,853,499,916 shares (8,053,499,916 shares in 2016) "F" series shares, and 84 "B" series shares at each year.

(b) Dividends declared-

The dividends paid to individuals and corporations resident abroad shall be subject to an additional tax of 10%, which is considered final and must be withheld by entities that distribute such dividends. The rule solely applies to dividends payment from earnings generated beginning January 1, 2014.

For the years ended December 31, 2017 and 2016, there was no dividends decree.

(c) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the total performance of the Bank and subsidiaries during the year, and includes the net income, plus the result of the valuation of available-for-sale securities and cash flow hedge transactions, as well as the remeasurements of defined employee benefits.

(Continued)

(d) Restrictions on stockholders' equity-

No individual or entity may acquire direct or indirect control of Series "B" shares in excess of 5% of the Bank's paid-in capital, through one or more simultaneous or successive transactions of any kind. If deemed appropriate, the SHCP may authorize the acquisition of a higher percentage, provided that it does not exceed 20% of the capital stock.

The Credit Institutions Law requires an appropriation of 10% of net income for the year to statutory reserves, until such reserves reach an amount equal to paid-in capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2017 the capital contribution account of the Bank (Cuenta de capital de aportación or CUCA, unaudited) and the net taxable income account of the Bank (Cuenta de utilidad fiscal neta or CUFIN, unaudited), amount to $14,397 and $3,336, respectively.

The retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends from the subsidiaries.

(e) Capitalization (unaudited)-

At December 31, 2017 and 2016, the Bank maintained a capitalization index in excess of 10.5%; accordingly, it is classified as Category I in both years in accordance with article 220 of the Provisions in both years, the capitalization index is determined by applying certain percentages according to the risk assigned pursuant to the rules established by the Central Bank. Below is the Bank's capitalization information (capitalization index reported to the Central Bank and subject to its approval).

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Capital as of December 31:

		2017	2016
Basic capital			
Common shares	$	10,577	9,777
Prior years results		26,183	22,257
Other elements of the comprehensive income (and other reserves)		11,587	9,182
Basic capital 1 before regulatory adjustments		48,347	41,216
Regulatory adjustments:			
Investment in financial subsidiaries		(1,704)	-
Defferred debits and prepayments		(4,319)	(4,549)
Investments in clearings		(44)	(311)
Deferred taxes, favorable items from temporary differences		(255)	(580)
Investment in other instruments		(135)	-
Total regulatory adjustments to capital		(6,457)	(5,440)
Basic Capital I		41,890	35,776
Total Basic Capital		41,890	35,776
Supplementary Capital			
Equity instruments		2,101	2,100
Reserves		-	23
Net Capital	$	43,991	37,899
Total risk weighted assets	$	302,473	274,286

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Equity and supplementary ratios

		2017	2016
Basic Capital I Ratio		13.85%	13.04%
Basic Capital Ratio		13.85%	13.04%
Supplementary Capital Ratio		0.69%	0.78%
Net Capital Ratio		14.54%	13.82%
Specific institutional supplement		16.65%	15.69%
Supplement capital conservation		2.50%	2.50%
Supplement of local systemic importance (D-SIB)		0.30%	0.15%
Tier 1 common equity available to cover supplements		6.85%	6.04%
Limits applicable to the inclusion of reserves in supplementary capital:			
Provisions eligible for inclusion in supplementary capital in respect of exposures subject to the standardized methodology (prior to apply the limit)	$	-	23
Limits applicable to the inclusion of reserves in supplementary capital under standardized methodology	$	1,572	1,302

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Total weighted assets at risk as of December 31, 2017:

		Risk weighted assets	Capital requirement
Exposed positions to market risk by risk factor:			
Transactions in pesos at nominal interest rates	$	11,836	947
Transactions with debt securities in pesos with premium and adjustable rates		687	55
Transactions in Mexican pesos at real interest rates or denominated in UDIS		283	23
Positions in UDIS or with returns linked to the INPC		49	4
Foreign currency transactions at nominal interest rates		330	26
Foreign currency positions or with exchange rate indexed returns		718	57
Equity positions or with returns indexed to the price of a single share or group of shares		766	61
Capital requirement for Gamma impact		9	1
Capital requirement for Vega impact		3,608	289
Total market risk	$	18,286	1,463

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		Risk weighted assets		Capital requirement
Weighted assets subject to credit risk by risk group:				
Group I-B (weighted at 2%)	$	8		1
Group II (weighted at 100%)		325		26
Group III (weighted at 20%)		2,154		172
Group III (weighted at 50%)		128		10
Group III (weighted at 100%)		2,984		239
Group IV (weighted at 20%)		1,664		133
Group V (weighted at 20%)		468		37
Group V (weighted at 150%)		1,141		91
Group VI (weighted at 50%)		29,311		2,345
Group VI (weighted at 75%)		16,090		1,287
Group VI (weighted at 100%)		50,576		4,046
Group VII-A (weighted at 10%)		1,109		89
Group VII-A (weighted at 20%)		8,896		712
Group VII-A (weighted at 23%)		16		1
Group VII-A (weighted at 25%)		37		3
Group VII-A (weighted at 50%)		5,033		403
Group VII-A (weighted at 57.5%)		4,120		330
Group VII-A (weighted at 100%)		114,762		9,181
Group VII-B (weighted at 23%)		285		23
Group VIII (weighted at 115%)		1,793		143
Group VIII (weighted at 150%)		1,846		148
Group IX (weighted at 100%)		23,763		1,901
Securitization with risk degree 2 (weighted at 20%)		47		4
Derivatives credit valuation adjustment		3,856		309
Total credit risk		270,412		21,634
Weighted assets subject to risk and capital requirement from operational risk		13,775		1,102
Total market, credit and operational risk	$	302,473		24,199
Annual average of positive net income for the past 36 months			$	16,820

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Total weighted assets at risk as of December 31, 2016:

		Risk weighted assets	Capital requirement
Exposed positions to market risk by risk factor:			
Transactions in Mexican pesos at nominal interest rates	$	28,886	2,311
Transactions with debt securities in pesos with premium and adjustable rates		1,266	101
Transactions in Mexican pesos at real interest rates or denominated in UDIS		244	20
Positions in UDIS or with returns linked to the INPC		3	-
Foreign currency transactions at nominal interest rates		701	56
Foreign currency positions or with exchange rate indexed returns		392	31
Equity positions or with returns indexed to the price of a single share or group of shares		4,609	369
Capital requirement for Gamma impact		4	-
Capital requirement for Vega impact		80	6
Total market risk, to the next page	$	36,185	2,894

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		Risk weighted assets	Capital requirement
Total market risk, from the previous page	$	36,185	2,894
Weighted assets subject to credit risk by risk group:			
Group II (weighted at 20%)		20	2
Group II (weighted at 100%)		1,537	123
Group III (weighted at 20%)		1,656	132
Group III (weighted at 50%)		6,581	526
Group III (weighted at 100%)		3,038	243
Group IV (weighted at 20%)		1,671	134
Group V (weighted at 20%)		274	22
Group V (weighted at 150%)		212	17
Group VI (weighted at 50%)		24,717	1,977
Group VI (weighted at 75%)		13,765	1,101
Group VI (weighted at 100%)		48,621	3,890
Group VII-A (weighted at 20%)		3,347	268
Group VII-A (weighted at 50%)		11,826	946
Group VII-A (weighted at 57.5%)		2,377	190
Group VII-A (weighted at 100%)		68,550	5,484
Group VII-A (weighted at 115%)		428	34
Group VII-A (weighted at 150%)		44	4
Group VIII (weighted at 115%)		1,595	128
Group VIII (weighted at 150%)		1,642	131
Group IX (weighted at 100%)		31,960	2,557
Securitization with risk degree 2 (weighted at 50%)		107	9
Total credit risk		223,968	17,918
Weighted assets subject to risk and capital requirement from operational risk		14,133	1,131
Total market, credit and operational risk	$	274,286	21,943
Annual average of positive net income for the past 36 months		$	89

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As of December 31, 2017, the net capital structure of the Bank of $43,991 had an increase of 16.1% compared to $37,898 of the year 2016, mainly due to the increase of the capital stock by $800 made in July 2017, and to the 2017 net income for $6,550, on the other hand, deductions in investment in financial entities increased.

The institution carried out its Capital Adequacy Assessment Exercise during 2017, this exercise was carefully planned and executed to evaluate the adequacy of capital and liquidity under conditions of stress in internal scenarios. The result of the exercise led to the conclusion that the institution's liquidity and capital would enable it to cope with the risks arising from defined stress scenarios, maintaining its capital ratio and liquidity indicators above minimum requirements.

On April 3, 2017, the Board of Governors of the Banking Commission ratified the Bank as a multiple banking institution of local systemic importance, through Official Letter No. 131/3048/2017. Its degree of systemic importance was defined as Grade I, so it should constitute a capital supplement of 60 basis points. Based on the aforementioned, the minimum regulatory capital that the Bank must maintain is 10.80% as of December 31, 2017. That supplement must be constituted in a period of four years completed in December 31, 2019.

As of December 31, 2017, the weightings involved in calculating the institutions' countercyclical capital supplement is zero.

(f) Capital management-

To evaluate the capital adequacy, the Bank starts from its Exposition Plan to obtain a prospective vision of the institution that allows to identify risks which is exposed and to make decisions when monitoring key metrics and indicators, such as: Capital, Liquidity, Profitability and Credit Losses.

The Exposition Plan has been structured based on a view of the country´s macroeconomic scenario and plans of the diverse business lines.

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At the same time, to ensure the compliance and the continuous monitoring of the capital sufficiency, the Bank has documented an Action Plan for the Conservation of Capital and Liquidity, which aims to implement early warning indicators, that are the base for the Liquidity and Capital Management Committee, carry out assessments and monitoring in accordance with the policies, as the impact and magnitude of the stress event.

On a quarterly basis, the capitalization notes are incorporated in the financial reports. Such notes have, among others, the following information: composition and integration of capital, composition of total risk weighted assets and by type of risk and estimates of Capital Index.

Likewise annual stress tests as established by the Banking Commission under various scenarios are performed, in order to ensure that the Bank has the sufficient capital to continue receiving funding and granting loans with these stress scenarios and business strategies. Additionally, an analysis of internal stress scenarios starting from the Plan of Exhibitions as base scenario, that integrate various adverse macroeconomic conditions is performed, in order to disclose exposure of the Bank at different risks.

(21) Related-party balances and transactions-

During the normal course of business, the Bank carries out transactions with related parties such as loans, investments, deposit funding, services, etc. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

The main transactions carried out with related parties for the years ended December 31, 2017 and 2016, are analyzed in the next page.

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	2017	2016
Income:		
Interest received	$ 1,061	875
Rents and maintenance	8	9
Commissions	178	122
Intermediation income	53	1,801
Financial advisory	62	57
Co-distribution and administration services	396	369
Others	7	13
Expenses:		
Interest paid	$ 58	8
Commissions	14	14
Interest and premiums on repurchase agreement	1,757	1,256
Financial advisory	506	616
Rents	17	17
Intermediation income	1,918	95
Management and promotion	220	-
Issuance and placement of debt instruments expense	16	-

Balances receivable from and payable to related parties as of December 31, 2017 and 2016 are as follows:

Holding company	2017	2016
Payable:		
Demand deposits	$ 301	526

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Other related parties		**2017**	**2016**
Receivable:			
Cash and cash equivalents	$	(3,055)	4,068
Debtor on repurchase/resell agreements		14,409	8,755
Derivatives		106,875	92,602
Commercial loans		7,380	5,140
Co-distribution		35	32
Other accounts receivable		3,212	476
Payable:			
Demand deposits	$	677	377
Creditors on repurchase/resell agreements		23,566	18,705
Collateral sold or pleged		2,981	4,476
Derivatives		107,270	93,556
Other accounts payables		362	4,033

On August 15, 2016, the purchase and sale agreement was signed between the Bank as buyer and the Group, in its capacity as seller, by which the Bank acquired all of the representative shares of Globalcard, related company, at book value of $72 at such date. Globalcard's business line is granting consumer loans and credit cards. This transaction was authorized by the Banking Commission through official letter No. UBVA/DGABV/130/2016. With the purpose of consolidate into one single financial entity the credit card business and reinforce commercial alliances and operative synergies, starting August 1, 2017, the credit card operation is concentrated in Globalcard.

For the years ended December 31, 2017 and 2016 there were no changes in the existing conditions of balances receivable from and payable to related parties, there were no items that are deemed irrecoverable or difficult collection and no reserve was required for non-collectability, except loans granted by the Bank where reserves are created according to the methodology of the Banking Commission.

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In accordance with Article 73bis of the Credit Institutions Law, the total amount of transactions with related parties is not to exceed 35% of the basic portion of the net capital (see note 20). The loans granted with related parties by the Bank as of December 31, 2017 and 2016 amount to $5,461 and $6,324, respectively. The deposits made by related parties as of December 31, 2017 and 2016 amount to $9 and $8, respectively.

For the years ended December 31, 2017 and 2016, the benefits granted to senior management amounted to $248 and $176, respectively.

(22) Memorandum accounts-

(a) Credit commitments-

Credit facilities:

As of December 31, 2017 and 2016, the balance of authorized credit facilities not withdraw amounted to $160,285 and $130,448, respectively, within that amount of committed facilities non-withdraw credit facilities amounted for $15,491 and $4,973, in the same year, and other credit commitments by $5 in 2017 and 2016.

Letters of credit:

As of December 31, 2017 and 2016, the Bank has issued letters of credit for $27,092 and $20,234, respectively.

As of December 31, 2017 and 2016, the allowance created for credit letters amount to $379 and $135, respectively, and are included in the allowance for loan losses.

(b) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2017 and 2016, is shown in the next page.

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		2017	2016
Trusts:			
Administrative	$	187,519	164,465
Guarantee		3,045	4,668
		190,564	169,133
Mandates		29,023	28,985
	$	219,587	198,118

Trust revenue accrued for the years ended December 31, 2017 and 2016 amounted $244 and $227, respectively and were recorded in the caption "Commission and fee income".

(c) Assets in custody or under management-

At December 31, 2017 and 2016, this caption is compromised of property and securities received in custody, guarantee or under management, as follows:

		2017	2016
Securities in custody:			
Securities vault	$	117	113
General vault		104	103
Investment transaction		1,508	1,129
Securities transactions		15,617	8,802
Other		2,789	35
Subtotal to the next page	$	20,135	10,182

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		2017	2016
Subtotal from previous page	$	20,135	10,182
Securities under management:			
Securities		84,762	69,111
Derivatives transactions:			
Futures		81,039	74,014
Swaps		547,744	256,320
Options		7	9
	$	733,687	409,636

Income arising from securities in custody for the years ended December 31, 2017 and 2016 amounts to $2 and $1, respectively.

(d) Collaterals received by the entity and collaterals received and sold or pledged by the entity-

Collaterals received and collaterals sold or delivered by the Bank at December 31, 2017 and 2016 are analyzed in the next page.

Collaterals received by the entity:		2017	2016
Repurchase / resell agreements:			
IQ BPAG91	$	2,001	1,867
LD BONDESD		26,406	20,315
IS BPA 182		498	2,001
IM BPAG		1,000	-
BPAG		-	2,790
M BONOS		2,011	3,707
BI CETES		-	1,000
CBIC		100	491
		32,016	32,171
Guarantees received for derivatives transactions		2,057	2,188
Guarantees received for credit operations		28,214	27,728
Total collateral received by the entity	$	62,287	62,087

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Collaterals received and sold or pledged by the entity:

		2017	2016
LD BONDESD	$	17,993	12,486
M BONOS		2,004	2,706
IS BPA 182		498	2,000
BI CETES		-	1,000
CBIC		100	491
	$	20,595	18,683

(e) Investments on behalf of customers-

As of December 31, 2017 and 2016 funds managed by the Bank following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

		2017	2016
Private equity	$	1,518	1,846
Government securities		50,494	41,114
Mutual funds		42,219	40,935
Bank securities not issued by the Bank		9,744	6,166
	$	103,975	90,061

The amount of any funds invested in the Bank's own instruments forms part of the liabilities included in the consolidated balance sheet.

(23) Additional information on operations and segments-

(a) Segment information-

The Bank's operations are classified in the following segments: "Credit and services" (acceptance of deposits, granting of loans) and "Trading and treasury" (securities, derivatives and currency transactions). For the years ended December 31, 2017 and 2016, income by segment is analyzed in the next page.

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December 31, 2017	Credit and services	Trading and treasury	Total
Interest income, net	$ 18,170	1,296	19,466
Commissions and fees, net; result from trading and other operating income (expense)	5,795	242	6,037
Net operating revenues	23,965	1,538	25,503
Allowance for loan losses	(4,015)	-	(4,015)
Administrative and promotional expenses	(13,483)	(772)	(14,255)
Income before income taxes	6,467	766	7,233
Equity method in the results of associated companies			1
Income taxes and deferred income, net			(686)
Net income			$ 6,548
December 31, 2016			
Interest income, net	$ 15,080	635	15,715
Commissions and fees, net; result from trading and other operating income (expense)	5,855	479	6,334
Net operating revenues	20,935	1,114	22,049
Allowance for loan losses	(2,945)	-	(2,945)
Administrative and promotional expenses	(12,945)	(519)	(13,464)
Income before income taxes	5,045	595	5,640
Equity method in the results of associated companies			2
Income taxes and deferred income, net			(1,269)
Net income			$ 4,373

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(b) Financial margin-

For the years ended December 31, 2017 and 2016, the financial margin in the consolidated statement of income is comprised as follows:

Interest income:

Interest income for the years ended December 31, 2017 and 2016 is comprised as follows:

	Credit and services	Trading and treasury	Total
December 31, 2017			
Cash and cash equivalents	$ -	1,395	1,395
Margin accounts	-	38	38
Investment securities	-	3,434	3,434
Securities on repurchase/ resell agreements	-	2,293	2,293
Current loan portfolio	27,322	-	27,322
Past-due loan portfolio	210	-	210
Loan origination fees	495	-	495
	$ 28,027	7,160	35,187
December 31, 2016			
Cash and cash equivalents	$ -	849	849
Margin accounts	-	5	5
Investment securities	-	2,441	2,441
Securities on repurchase/ resell agreements	-	1,387	1,387
Current loan portfolio	19,344	-	19,344
Past-due loan portfolio	45	-	45
Loan origination fees	484	-	484
Gain on currency translation	-	17	17
	$ 19,873	4,699	24,572

(Continued)

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2017 and 2016:

	2017		**2016**	
	Current	**Past-due**	**Current**	**Past-due**
Commercial	$ 9,256	51	5,187	37
Financial institutions	2,791	-	1,342	-
Consumer	5,598	10	4,438	8
Residential mortgages	9,571	149	8,497	-
Government entities	601	-	364	-
	$ 27,817	210	19,828	45
	$ 28,027		19,873	

For the years ended December 31, 2017 and 2016, commissions that represent a yield adjustment of 0.21%, 3.58% and 0.12%, for 2017, as well as 0.13%, 0.62% and 0.16% for 2016, respectively, are recorded within the total interest income from commercial, consumer and residential loans.

For the years ended December 31, 2017 and 2016, total interest income includes interest denominated in foreign currency amounting to 34 million dollars and 25 million dollars, respectively.

Loan origination fees for the years ended December 31, 2017 and 2016 are comprised as follows:

	2017	**2016**
Commercial	$ 178	172
Consumer	191	169
Residential mortgages	126	143
	$ 495	484

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Amortization term for the fees are from 12 to 360 months.

Interest expense:

Interest expense for the years ended December 31, 2017 and 2016 is comprised of the following:

		Credit and services	Trading and treasury	Total
2017				
Demand deposits	$	2,627	-	2,627
Time deposits		6,859	-	6,859
Debt securities issued		-	1,223	1,223
Bank and other borrowings		-	949	948
Subordinated debt issued		-	157	157
Interests in charge associated with the global account of deposits without movements		-	45	45
Securities on repurchase/resell agreements		-	3,468	3,468
Discounts debt issuance		-	6	6
Issuance and placement of debt securities expense		-	16	16
Loan origination fees and expenses		371	-	372
	$	9,857	5,864	15,721
2016				
Demand deposits	$	1,207	-	1,207
Time deposits		3,283	-	3,283
Debt securities issued		-	531	531
Bank and other borrowings		-	564	564
Subordinated debt issued		-	157	157
Interests in charge associated with the global account of deposits without movements		-	4	4
Securities on repurchase/resell agreements		-	2,736	2,736
Discounts debt issuance		-	8	8
Loan origination fees and expenses		299	-	299
Loss on currency translation		-	68	68
	$	4,789	4,068	8,857

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(c) Commission and fee income-

For the years ended December 31, 2017 and 2016, the commission and fee income are analyzed as follows:

		2017	2016
Letters of credit with no refinancing	$	151	99
Account handling		360	316
Trust activities		244	227
Fund transfers		154	145
Electronic banking services		135	104
Credit transactions		1,204	1,082
Other fees and commissions collected		1,912	1,658
	$	4,160	3,631

(d) Financial intermediation income-

For the years ended December 31, 2017 and 2016, financial intermediation income is analyzed as follows:

		2017	2016
Unrealized valuation:			
Investment securities	$	4	30
Derivatives:			
Trading		579	427
Hedging		1	13
Foreign currencies and precious metals		1,973	(175)
		2,557	295
Realized gain or (loss):			
Investment securities		(79)	(130)
Trading derivatives		(2,587)	(437)
Transaction costs		-	(11)
Foreign currencies and precious metals		351	762
		(2,315)	184
	$	242	479

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(e) Other operating income (expenses)-

For the years ended December 31, 2017 and 2016, other operating income (expenses) is analyzed as follows:

		2017	**2016**
Recoveries of loan portfolio	$	183	196
Dividends		96	31
Donations		(22)	(17)
Income on sale of foreclosed assets		191	197
Income from securitization		60	4
Taxation		1	1
Other recoveries		33	30
Income from credit insurance		969	905
Armored transportation fees		13	16
Distribution of shares of mutual funds		396	369
Loans to employees		141	86
Food coupons		190	268
Loan write-offs and losses		(541)	(296)
Cancellation of allowance for loan losses excess		718	-
Others, mainly support services		(51)	1,095
	$	2,377	2,885

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(f) Financial ratios (unaudited)-

The following are the main quarterly financial ratios of the Bank as of and for the years ended December 31, 2017 and 2016:

	2017			
	Fourth	**Third**	**Second**	**First**
Delinquency index	2.2%	2.2%	2.2%	2.2%
Coverage of past-due loan portfolio index	129.5%	128.5%	124.8%	126.3%
Operating efficiency (administrative and promotional expenses / average total assets)	3.1%	3.6%	3.5%	3.6%
ROE (annualized net income for the quarter / average stockholders' equity)	23.0%	11.1%	11.6%	13.2%
ROA (annualized net income for the quarter / average total assets)	2.4%	1.2%	1.2%	1.4%
Net capital / Assets at credit risk	16.27%(1)	15.85%	16.03%	16.52%
Net capital / Assets at credit, market and operational	14.54%(1)	14.31%	13.49%	13.46%
Liquidity (liquid assets / liquid liabilities)	45.3%	54.0%	48.8%	45.2%
Financial margin after allowance for loan losses / Average earning assets	3.8%	3.8%	4.2%	3.9%

	2016			
	Fourth	**Third**	**Second**	**First**
Delinquency index	2.4%	2.4%	2.6%	2.6%
Coverage of past-due loan portfolio index	119.4%	119.2%	110.6%	114.7%
Operating efficiency (administrative and promotional expenses / average total assets)	3.8%	4.0%	3.8%	3.6%
ROE (annualized net income for the quarter / average stockholders' equity)	12.6%	9.1%	8.6%	15.9%
ROA (annualized net income for the quarter / average total assets)	1.4%	1.0%	0.9%	1.7%
Net capital / Assets at credit risk	16.92%	16.71%	16.05%	16.06%
Net capital / Assets at credit, market and operational.	13.82%	13.61%	13.02%	12.45%
Liquidity (liquid assets / liquid liabilities)	46.0%	55.0%	57.3%	65.2%
Financial margin after allowance for loan losses / Average earning assets	4.2%	4.0%	4.3%	3.6%

(1) Subject to Central Bank's approval.

(Continued)

(24) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense in office property, software and other for the years ended December 31, 2017 and 2016, amounted to $951 and $946, respectively.

(b) Claims and trials-

In the normal course of the operations, the Bank is involved in some claims and trials, which are not expected to have an important negative effect in the future financial situation and in the results of its operations. In such cases that represent a probable loss or make a cash outflow, the Bank has made necessary provisions. As part of such trials, to the main judgments of nullity and claims against Servicio de Administración Tributaria (SAT-Mexican Internal Revenue Service) for fiscal years: 2005 and 2007, whose claims are mainly from differences in criteria applied in deductible allowance for loan losses, Value Added Tax and ESPS.

(25) Risk management (unaudited information)-

The following foot note focuses on the risk management of the Bank and its subsidiaries Globalcard and Scotia Derivados.

Certain amounts and/or percentages calculated in this note may vary slightly against the same amounts or percentages indicated in any other note to the consolidated financial statements due to rounding of the amounts.

The purpose of the comprehensive risk management function is to identify and measure risks, follow up on the impact that these risks may have on the operations and control their effects on income and shareholder value by applying the best mitigating strategies available, and the incorporation of the risk culture in daily transactions.

(Continued)

According to the General Provisions applicable to Credit Institutions in terms of risk management issued by the Banking Commission, the Board of Directors assumes responsibility over the Bank's risk management objectives, guidelines and policies. At least once a year, the Board of Directors should approve the objectives, guidelines and policies as well as the limit structure for the various types of risk.

Pursuant to the policies in force, the Board of Directors entrusts the implementation of the risk policies and the setting of specific limits by risk factor as well as the implementation of the procedures designed to measure, manage and control risks to the Risk Management Committee and the Comprehensive Risk Management Unit (UAIR).

Furthermore, the Risk Management Committee delegates responsibility to the Asset-Liability Committee for monitoring compliance of policies and procedures concerning market and liquidity risks. In like manner, the UAIR has policies for reporting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

The Bank's Comprehensive Risk Management Unit is represented by the Assistant General Risk Management (Risk DGA) and relies for the management and administration of the different types of risk (i.e. credit, liquidity, interest rate, market and operational, among others), on the Risk Vice-presidency (Risk VP), which in turn is organized into 6 managements designed to monitor and reduce the risks to which the institution is exposed; this in order to ensure an adecuate risk management to comply with the risk profile wanted and defined by the Management Board, and also to improve quality, diversification and composition of the diferent portfolios, optimizing the risk-return ratio; for the particular case of Globalcard, the UAIR is represented by Risk VP.

The UAIR is responsible for reviewing and submitting for the approval of the Risk Committee and/or the Board of Directors the different methodologies used to manage the risks to which the institution is exposed as well as the risk appetite framework, management policies for the different types of risk, global and specific exposure limits and the corresponding risk tolerance levels. Additionally, it is also responsible for providing Senior Management with reliable and timely information to support decision-making monitoring, management and administration of the different lines of business.

(Continued)

Finally, risk management is based on the best international practices because it has a regulatory framework that allows not only to comply with local regulations but also with corporate standards and guidelines established by the Parent Company (The Bank of Nova Scotia).

(a) Market risk-

The purpose of the market risk management function is to identify, measure, monitor, and control risks arising from interest, exchange rate, stock market price and index fluctuations and other risk factors that are present in the money, foreign exchange, capital and derivative instruments markets, in which the Bank maintains business positions for its own account.

The Bank's risk positions include fixed and floating rate money market instruments, stock, foreign exchange positions and derivatives such as: interest rate futures, futures, foreign exchange forwards and options, interest rate swaps, interest rate options and foreign currency swaps. For each portfolio, there are established and approved limits.

The market risk limits framework contemplates volumetric or notional amounts for value at risk, sensitivity, concentration, "stress" limits and due dates, among others.

Market risk management includes monitoring that the risk mitigating factors are up to date and accurate, in this regard, the established and approved limits for each one of the portfolios are daily monitoring and annually reviewed. Furthermore, the models used to manage market risk are reviewed at least biannually; and the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as the Market Risk indicators. It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the institution's Risk Appetite.

Market risk is managed is conducted through specialized systems that perform risk estimates such as risk value, sensitivity and stress tests.

(Continued)

The Bank's securities trading activities are directed primarily to providing service to its customers, accordingly, the Bank holds an inventory of financial instruments of shares, interest rates and foreign exchange, the access to market liquidity is available through offers to buy from and sell to other intermediaries. In addition, the Bank has treasury positions invested in the money market so that surplus cash generates the maximum yields. The trading securities portfolio (fixed and variable income and derivative instruments) is marked to market on a daily basis, such information is included daily in the corresponding reports.

Value-at-risk (VaR)

The VaR is an estimate of the potential loss of value within a specific level of statistical confidence, that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. VaR is calculated daily on all of the Bank's risk-exposed financial instruments and portfolios.

The VaR is calculated using the historical simulation method, with a 300-working day time span. To conform to the measurement methodologies used, the Group calculates the VaR considering a 99% confidence level and a 1 day holding period.

The global VaR observed at the end of a day during the fourth quarter of 2017 was $4.63; as a percentage of net capital ($41,912 at November 2017, latest figure available) at the period's end is equal to 0.01%. During the fourth quarter of 2017, the average one-day VaR, broken down by the Bank's risk factors is as follows:

	December 2017		December 2016	
Risk factor	**VaR 1 day** (Average)	**VaR 1 day** (Closing)	**VaR 1 day** (Average)	**VaR 1 day** (Closing)
Interest rates	4.86	4.68	6.79	7.01
Foreign exchange rates	0.14	0.31	2.89	2.89
Capitals	0.41	0.34	0.22	0.00
Total not diversified	5.41	5.33	9.90	9.90
Diversification effect	(0.62)	(0.70)	(2.65)	(2.39)
Total	4.79	4.63	7.25	7.51

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The average values of exposure to market risk of the securities trading portfolio in the period from October to December 2017 and 2016 were as follows:

December 2017	Position		VaR[1]	
	Average	Closing	Average	Closing
Bank	**724,039**	**725,134**	**4.79**	**4.63**
Mexican pesos:				
Money market	8,236	5,076	3.95	3.18
Interest rate swaps	588,925	585,542	5.78	4.09
CETES Forwards	-	-	-	-
Rate futures[2]	-	-	-	-
Caps & Floors	33,259	34,880	1.38	2.15
Interest rate market and rate derivatives/4	**630,420**	**625,498**	**4.86**	**4.68**
Shares	13	15	0.41	0.35
Capital derivatives (national underlying)	448	528	-	-
Capital derivatives (international underlying)	12,881	19,108		
Shares derivatives	-	-	-	-
IPC Futures	-	-	-	-
Equity shares portafolio	**13,342**	**19,651**	**0.41**	**0.34**
FX Forwards[3,4,5]	1,782	2,295	0.01	0.01
FX Trading[3,4]	-	-	0.02	0.19
Currency Options [4]	633	-	-	0.00
Dollar futures[4]	-	-	-	-
Currency Swaps[4]	1,668	1,773	0.12	0.13
Metal Forwards[4]	-	-	-	-
FX trading, currency and metals derivatives	**4,083**	**4,068**	**0.14**	**0.31**

1/ The VaR is expressed in millions of pesos.
2/ Only the VaR is shown as the position is in number of contracts operated in MexDer and is presented in separate tables.
3/ The forwards position is gross (long + short) while the exchange position is net (long – short)
4/ The position is expressed in millions of US dollars.
5/ Includes the net position of Treasury foreign exchange forwards.

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December 2016	**Position**		**VaR**	
	Average	**Closing**	**Average [1]**	**Closing[1]**
Bank	**734,122**	**692,366**	**7.25**	**7.51**
Mexican pesos:				
Money market	5,978	4,673	2.68	2.87
Interest rate swaps	632,089	601,729	3.88	9.19
CETES Forwards	-	-	-	-
Rate Forwards [2]	168	-	2.18	-
Caps & Floors	29,454	29,697	3.62	3.26
Market interest rates and rate derivatives /3	**667,689**	**636,099**	**6.79**	**7.01**
Equity shares	6	-	0.22	-
Capital derivatives (national underlying)/1	454	449	-	-
Capital derivatives (international underlying)	9,715	9,037		
Equity shares derivatives / 2	-	-	-	-
IPC Futures	-	-	-	-
Equity shares portafolio	**10,175**	**9,486**	**0.22**	**-**
FX Forwards [4,5,6]	1,379	850	0.78	0.41
FX trading [4,5]	-0	0	0.23	0.08
Currency Options [5]	639	661	2.65	2.46
Dollar forwards /[5]	-	-	-	-
Currency Swaps [5]	710	757	0.26	0.37
Metal Forwards[5]	-	-	-	-
FX trading, currency and Metals derivatives [3]	**2,728**	**2,269**	**2.89**	**2.89**

1/ The VaR is expressed in millions of pesos.
2/ Only the VaR is shown because the position is in number of contracts operated in MexDer and presented in separate tables.
3/ Observed holding period of FX, capital, interest rate and limit of the VaR is 1 day.
4/ The forwards position is gross (long + short) while the exchange position is net (long – short)
5/ The position is expressed in millions of US dollars.
6/ Includes the net position of Treasury foreign exchange forwards.

(Continued)

For interpretation purposes and as by way of example, the average one day VaR for the Bank in the Money market is $4.79. This means that under normal conditions, in 99 days out of 100 days, the maximum potential loss would be $4.79.

During the quarter October - December 2017, the Bank participated in the MexDer, operating interest rate futures contracts. Positions for the fourth quarter of 2017 (number of contracts) are shown as follows:

Underlying	Average	Closing
TIIE Swaps /1|	179,217	184,550

(1) The position is in number of contracts operated in the MexDer.

For comparative purposes, below is shown the positions in number of contracts negotiated in the fourth quarter of 2016:

Underlying Futures	Average	Closing
M bond futures /	666	-
Rate futures /1	666	-

(1) The position is in number of contracts operated in the MexDer.

Stress testing is performed daily, with the purpose of determining exposure to risk considering large abnormal fluctuations in market prices (changes in volatility and correlations between risk factors). The Risk Committee has approved stress limits.

The stress testing during the last quarter of 2017 shows a maximum loss of $356.2, which compared with the $2,000 limit, is within the acceptable parameters. Scenarios used for stress testing are the 1994 and 1998 crises as well as hypothetical scenarios.

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On the other hand, back-testing is performed monthly for comparing the theoretical losses and gains to the observed VaR and thus calibrate the models being used. The model's efficiency level is based on the approach established by the Bank for International Settlements (BIS). As for back-testing performed during the fourth quarter of 2017 show acceptable levels under the BIS approach.

For the valuation and risk models, references are used on updated prices, interest rate curves and other risk factors provided by the price supplier "Valuación Operativa y Referencias de Mercado, S. A. de C. V".

Sensitivities

Qualitative information on sensitivities

Daily, the market risk sensitivities are calculated for each portfolio to which the Bank is exposed. During 2017, no changes were made to the assumptions, methods or parameters used for this analysis.

Next, a description of the methods, parameters and assumptions used for the portfolio of stock, currency, interest rates and derivative products, is disclosed.

Interest rate portfolio

Sensitivity measures produced for fixed-income instruments (bonds) are based on estimating the behavior of the portfolio's value in response to a change in the market interest rates.

The sensitivities of the fixed-income instruments portfolio are based on durations and convexities, depending on the particular type of instrument, generating 2 types of measures: (i) the expected change in the portfolio value in response to a change of 1 bp (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 bp (1%) in the yield curve. For purposes of this disclosure, we only report the changes in 1 bp.

Two sensitivities are calculated for floating rate bonds: the one relating to the free-risk rate and the other for the spread. In zero-coupon bonds, the computation of the sensitivity of zero coupon instruments, the term to maturity, expressed in years, is used as duration.

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Interest rate derivatives

TIIE and CETE futures: This type of derivative instruments is modeled for purposes of calculating sensitivities such as the future of a zero-coupon rate and, therefore, its duration is taken into account in estimating its sensitivity.

M bond futures: The sensitivity considers the duration and convexity over the bonds deliverable under these contracts.

Interest rate swaps: For determining the sensitivity to changes in the yield curve of TIIE swaps a 1 bp change is made in each of the relevant points in the yield curve and a 1 and 100 bp is made parallel, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of these changes. For information purposes, just changes in 1 bp are reported.

Stock portfolio and IPC derivatives

Equity shares

For stock position purposes, the sensitivity is obtained calculating the Delta by issue within the portfolio. Delta is defined as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Equities derivatives

This sensitivity is calculated through the Delta. This portfolio has limits expressed in notional terms.

The Delta risk is defined as the change in the value of the option in response to a change of a predetermined magnitude in the price of the underlying asset (for example 1%). Its calculation is made by valuing the option with different underlying asset levels (one original and one with a +1% shock) and maintaining all other parameters constant.

In the case of non-linear products such as warrants and options, the Delta and the "Greeks", among which are gamma, rho, theta and vega, measures are deemed as sensitivity measures. The calculation of sensitivities is based on the formula for modeling options on futures known as the Black (1976) Option Pricing Formula.

(Continued)

There is no Greek letter associated to the sensitivity of dividend risk and in the case of options on indices and stock in the Bank, measurement is made by increasing the dividend rate 1% (i.e. from 1% to 1.01%).

Currency portfolio and currency derivatives

Currency

The sensitivity is calculated as the Delta by currency as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Currency derivatives

Currency forwards and futures: For this portfolio, the sensitivity is calculated for each currency in response to changes in the interest rate, as the present value result in response to a parallel or not parallel 1 basis point change along the respective yield curves, with all other factors remaining constant.

Currency options: For exchange rate options, sensitivities known for the Greek letters (i.e. Delta, Gamma, Vega, Theta and Rho) are calculated.

Cross Currency Interest Rate Swap (CCIRS): For determining the sensitivity to changes in the yields curve, a one basis point change is made along the respective yields curves, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of such changes. Also, a parallel analysis with a change of 100 basis point is made. In addition, a one basis point change is made not parallel to the yield curves by time gaps, maintaining all other factors constant. For purposes hereof, we only present the sensitivity for 1 basis point.

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Quantitative information on sensitivities

Interest rate sensitivities

The following table shows the sensitivity of one bp at December 31, 2017 and 2016:

Sensitivity 1pb	**December 2017**	**December 2016**
Fixed rate	0.073	(0.118)
Floating rate	0.030	0.038
Subtotal interest rate	0.103	(0.080)
Futures	0.000	0.000
Swaps	(0.371)	0.446
Caps & Floors	0.126	0.087
Subtotal interest rate derivatives	(0.245)	0.533
Total	(0.142)	0.453

At December 31, 2017, the Bank presents sensitivity in the interest rate portfolio of $(0.142), which means that for each basis point the interest rate increases, a profit of $0.142 would result.

The following table shows statistics for the fourth quarter of 2017, maximum, minimum and average. In average, the sensitivity was $0.03.

(Continued)

Sensitivity 1 pb	**Average**	**Maximum**	**Minimum**
Interest rate	0.08	0.37	(0.15)
Rate derivatives	(0.05)	0.20	(0.26)
Total	0.03	0.57	(0.41)

Equity shares and IPC derivatives

Sensitivities for the equity shares and IPC derivatives portfolio at December 31, 2017 and 2016 were zero, as there was no position under this concept.

FX derivatives and swaps.

Sensitivity 1pb	**December 2017 Closing**	**December 2016 Closing**
Spot Currency	0.000	0.000
Spot Metals	0.000	0.000
Subtotal	0.000	0.000
Forwards and Futures DEUA	0.000	0.001
OTC MXN/USD options	0.000	0.000
Swaps	(0.003)	(0.009)
Subtotal	(0.003)	(0.008)
Total	(0.003)	(0.008)

Foreign Exchange desk (spot/forward) does not present material exposures.

In the next page it is presented a table with the quarterly sensitivity of the portfolio of currencies and currency derivatives.

Sensitivity 1 pb	Average	Maximum	Minimum
Currencies	0.000	0.000	0.000
Currency derivatives	(0.003)	0.000	(0.004)
Total	(0.003)	0.000	(0.004)

Peso-dollar exchange options, "Greeks".

Below we present the position and sensitivities of the currency options portfolio at December 31, 2017:

Griegas	Delta	Gamma 1%	Gamma 5%	Vega
MXN/USD FX Options	0.00	0.00	0.00	0.00

(b) Liquidity and interest rate risk

The Bank assumes liquidity risks as an intrinsic part of its function as financial intermediary. The liquidity risk is the result of cash flow gaps. The objective of the liquidity risk management process is to guarantee that the Bank will be able to meet the totality of its obligations as they become due and payable. To such end, the Bank applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets.

The Bank manages exposure to liquidity risk and interest rate risk according to the applicable regulatory provisions and the better market practices, considering those positions for structural handling of the balance sheet.

Funding strategy is determined by the Group Treasury but condensed and authorized by the Assets and Liabilities Committee, where various departments of the Bank are involved, including business areas.

(Continued)

Liquidity and interest rate risk management includes monitoring that the risk mitigating factors are up to date and accurate, for which the limits set and approved for the management of these risks are reviewed annually and monitored periodically. Furthermore, the models used to manage liquidity and interest rate risks are reviewed at least biannually. Additionally, the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as of the liquidity and interest rate risk indicators.

Limits related to liquid assets, liquidity gaps, margin sensitivity and economic value sensitivity are among the limits applicable to the management of liquidity and interest rate risk. These limits are reviewed at least annually in order to validate that they are aligned with the institution's risk appetite. The structure of liquidity and interest rate risk limits contemplates volumetric or notional amounts.

It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the institution's Risk Appetite.

Liquidity and interest rate risk is conducted through specialized systems where risk estimates related to liquidity risk are performed.

Additionally, it is important to indicate that there are prospective metrics for liquidity and interest rate risk management, which are incorporated in the annual exercise of the Institution's Exposure Plan and Enterprise Wide Stress Testing.

The liquidity risk is monitored and controlled through accumulated liquidity gaps built through maturities and cash flows from payments of the different instruments of the balance sheet, both assets and liabilities, determining differences between payment obligations and receivables generated day to day. Cash flows include contractual maturity cash flows of the Bank (cash inflows and outflows).

For measuring liquidity risk, the cumulative liquidity gaps at the closing of December and the average of the fourth quarter were as shown on the next page.

(Continued)

	December 2017 (1)
10-day cumulative gap (MXN+UDI´s) (1)	$ (2,500)
30-day cumulative gap (MXN+UDI´s) (1)	(26,561)

(1) Millions of Mexican pesos

The cumulative liquidity gaps of Globalcard at December 31, 2017, were as follows:

	Diciembre 2017 (1)
30-day cumulative gap (MXN+UDI´s)	$ (.021)

(1) Millions of Mexican pesos

Cumulative liquidity gaps have implicit contractual maturities, including hedge derivatives positions.

Interest rate risk arises as a result of funding, placement and investment activities of the Bank and is derived from the uncertainty in earnings and/or value of the portfolio as a result of changes in interest rates, that occurs when there are mismatches (gaps) in the review of assets and liabilities with contractual maturity or subject to rate revision within a specified period, or else, when there are different reference rates for assets and liabilities. This risk materializes due to a change in interest rates such as a variance in financial margin.

Indicators such as sensitivity of economic value and margin sensitivity are used to measure interest rate risk using repricing gaps, built based on reference rates of assets and liabilities. In the case of fixed rate positions the indicators are modeled according to contractual amortizations and maturities, while positions referenced to a floating rate are modeled according to their next repricing date.

The methodology for calculating the indicators considered assumptions of stability of demand deposits and prepaid mortgages. The first is an analysis of crops while the second considers credit recency segmentation to assign it a prepaid rate.

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Both the sensitivity of Economic Value and the margin sensitivity contemplate an impact of ± 100 base points (bp) on interest rates and considers the maximum loss expected by currency.

The sensitivity of the Economic Value incorporates the impact of change in interest rates on total expected cash flows in a 20-year window and provides a measure of long-term impact of these variations, while the time window to estimate margin sensitivity is 12 months.

The variation between the economic value estimated and the estimated variation in the financial income for the Bank, at the end of December and on average for 2017, is shown as follows:

		2017[1]		2016	
		December	**Average**	**December**	**Average**
Economic value	$	592	657	371	239
Margin sensitivity		478	476	371	337

(1) Sensitivities based on the new interest rate model approved by the Risk Committee in August 2017. Average figures consider the August-December 2017 period, taking into account the change to the model assumptions.

The variation between the economic value estimated and the estimated variation in the financial income for the Bank, at the end of December and on average for 2017, is shown as follows:

	2017[1]	
	December	**Average**
Economic value	$ 2	2
Margin sensitivity	45	35

(1) Millions of Mexican pesos, aligned to the interest rate model of the Bank.

(Continued)

Treatment for securities available for sale – Below is the valued position for the Bank available for sale investments at December 2017 and 2016:

		December 2017	December 2016
Bank	$	6,603	3,104
Corporate		422	451
Government		37,659	28,721
Other*		-	2
Total	$	44,684	32,278

* It includes non-maturity assets such as shares and funds

Available-for-sale securities, as being integral part of the balance sheet management for the Bank, are monitored under the sensitivity measurements already explained (Economic Value and margin sensitivity) and therefore are excluded in the VaR calculation.

As of December 31, 2017, Globalcard had investment securities amounting $112. The purpose of such investment is the structural management of the balance sheet, and the corporate assumptions regarding sensitivity metrics are applicable.

The following page shows a summary of hedging derivatives at closing of December and average of the fourth quarter used by the Bank for interest rate and foreign exchange risk hedge purposes. These positions are excluded from the VaR calculation because their purpose is to hedge the structural balance of the Bank and the risk factor sensitivity is measured within the Economic Value of the Bank and Margin Sensitivity.

(Continued)

Strategy	December 2017 Notional	December 2016 Notional
Interest rate swaps paid at fixed rate (cash flows)	**22,085**	**15,350**
0y - 3y	7,160	10,090
3y - 5y	10,165	200
5y - 10y	4,760	5,060
Interest rate swaps paid at floating rate (cash flows)	**7,090**	**500**
0y - 3y	7,090	500
Interest rate swaps paid at fixed rate (fair value)	**12,008**	**10,264**
0y - 3y	5,403	3,284
3y - 5y	1,640	2,131
5y - 10y	4,965	4,849
Interest rate swaps paid at fixed rate (fair value in USD)	**3**	**12**
0y - 3y	3	11
3y - 5y	-	1

Bank's rating downgrade

The Bank periodically measures the impact and the consequences this scenario would have on liquidity measures and liquid assets. A summary of the requirements a downgrade of the institution would have on 3 levels at the end of December 2017 and the average of the fourth quarter of 2017 are shown below:

	2017	
	December	**Average Q4**
Downgrade (3 levels)	1,093	1,241

(Continued)

(c) Credit risk-

Credit risk is defined as the potential loss due to default by a borrower or counterparty in transactions carried out by the Bank. This risk affects not only the loan portfolio but the securities portfolio, transactions in derivatives and foreign exchange transactions.

The Bank's credit risk management is based on the application of well defined strategies for controlling this type of risk, which include the centralization of credit processes, the diversification of the portfolio, improved credit analysis, strict supervision and a credit risk rating model, this credit risk management includes financial instruments.

The Bank has three different levels of credit resolution: the Board of Directors, the Credit Committees and joint powers of the Credit department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used.

Credit risk is managed through specialized systems where risk estimates related to expected loss, not expected, and potential future exposures for counterparty credit risk.

In the case of the Bank, particularly in commercial loans, business areas continually evaluate the financial position of each client, by exhaustively reviewing and analyzing the risk of each loan at least once a year. When impairment of the financial position of the client is detected, the credit rating is changed. Thus, the Bank determines the changes in the risk profiles of each client. These reviews consider the global credit risk, including operations with financial instruments, derivatives and changes, Complementary reviews are conducted more frequently on identified higher than acceptable risks, at least quarterly.

There are origination models that evaluate the credit quality of the borrowers for the case of mortgage and consumer portfolio (personal loans, automotive loans, revolving and Globalcard), hereinafter referred to as the Bank's consumer portfolio, and there are also policies and procedures established to manage the authorization processes of new credits[1].

(Continued)

[1] Currently Globalcard does not have a new portfolio originaton; its the main activity is the portfolio management; However, Globalcard has the structure, policies and manuals for the origination of loans.

In the case of Globalcard, the control of management of the loans that is established in articles 20 and 21 of the Provisions, it is carried out through periodical review by the Retail Risk and PyME VP. The portfolio credit rating is performed on a monthly basis taking into account the default probability, loss severance and default exposure according to the Provisions; additionally, the transfer to portfolio past due also follows the regulatory rules.

Credit risk concentrations- The Bank has implemented policies and procedures to maintain a sound and diversified portfolio with a prudent and controlled risk. Among such policies are the setting of credit risk exposure limits, considering business unit, currency, term, sector, etc. The limits are authorized annually to the Risk Committee and/or the Board of Directors; their behavior is monitored and reported to the Risk Committee on a monthly basis and to the Board of Directors every quarter.

Methodology to identify, quantify, manage and control credit risk - The process to set exposure limits for each type of portfolio subject to credit risk contemplates the analysis of the information and identification of the risks inherent to each borrower, documented policies based on an authorization process and ongoing review. All credit exposures are monitored by the UAIR through the Associate Director of Credit Risk and Counterparty for each type of portfolio (commercial including derivative instruments, mortgage and consumer), the monitoring process considers informing the Risk Committee and the Board of Directors of the usage of specific limits, the excesses observed and the strategies implemented to restore parameters. Also, the Board delegates to the Risk Committee the power to authorize limits and updates methodologies for managing credit and counterparty risk.

Methodology used to determine allowances for loan losses - The Bank uses a credit risk classification system approved at the institutional level for commercial loans portfolio and score models and/or metrics of performance follow up for retail loans portfolio. Also, it has processes and systems that allow portfolio classification by risk level and estimating reserves in accordance with regulatory models from the Banking Commission.

(Continued)

Commercial loans

As of July 31, 2016, the Bank applies the Standard Models determined by the Banking Commission for the entire portfolio; at December 31, 2017 the portfolio is comprised as follows:

Group	Appendix CUB	% Total Portfolio
States and Municipalities	Appendix 18	1.76%
Investment Projects with own source of payment	Appendix 19	1.48%
Financial Sector Entities	Appendix 20	15.11%
Corporations and Individuals with business activities with income or sales less than 14MM UDIS *	Appendix 21	28.65%
Corporations and Individuals with business activities with income or sales greater than 14MM UDIS	Appendix 22	53.00%

** It includes trustees who act under trusts and "structured" loan schemes with modification of net worth that allow for the individual assessment of the related risk.*

The Bank uses the following Rating Agencies in the standard method: S&P, MOODY'S, FITCH, HR RATINGS y VERUM, based on Appendix 1-B of the Banking Commission "Mapping of rating and degrees of risk".

The grade of rating agencies is used by the Bank to Calculation of Probability of Default of clients:

- States and Municipalities
- Admissibility of guarantors with a risk level of 1 and/or 2.
- Clients located abroad, when they have a rating from a global scale agency, long term, risk level 1 and/or 2 and have no information of payment experience within the domestic Credit Information Companies.

(Continued)

Allowance for commercial loans is based on the individual assessment of the credit risk of debtors and their rating, in compliance with the general provisions.

Except to rate portfolio secured by or owned by the Federal Government, Central Bank and the Mexican Bank Savings Protection Institute or IPAB, in accordance with the Rule for rating the Loan Portfolio of Multiple Banking Institutions.

Credit risk hedging management and recognition process

The Bank has policies implemented for the evaluation of guarantees, which implies the review of each one of the elements and risks related, depending on the type, considering both the Guarantee policies and those corresponding to the Analysis and Evaluation of Credit, for which the Bank applies controls on the assessment of the guarantor/liable party, identifying the detail of the corporate structure and any significant aspect of subordination affecting the support provided.

The credit rating of the guarantor or liable party must be determined continuously and consistently during the term of the loan.

Control mechanisms for rating systems, including an analysis of independence, accountability and evaluation

The Bank has an application, “ScotiaCred”, used to control rating systems for Commercial loans in which credit application and authorization processes as well as the proper and complete record of the characteristics and requirements of each guarantee are described, defined in the institutional Guarantee catalog and are updated in time, including further amendments, if applicable.

This record enables the Bank to identify the collateral in their custody and maintain a clear separation from its own assets.

The ScotiaCred system classifies the portfolios and rates credits under the standard rating methodologies determined by the Banking Commission.

(Continued)

With regard to the allowances for borrowers related to consumer and mortgage portfolios, in addition to the commercial loan portfolio, the Bank uses the regulatory methodologies published in the CUB, based on the calculation of the Expected Loss for each of the loan portfolios using the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (ED) are based on specific information and characteristics of the assessed borrowers and loans.

The measurement and monitoring of the credit risk is also based on an expected and unexpected loss model carried out in a specialized tool and based on the methodology of CreditMetrics.

- The expected loss represents an estimate of the probability of default, loss given default and exposure at default in a 12-month period.

- The unexpected loss is a measure of dispersion around the expected loss and is calculated on the basis of risk parameters.

- Additionally, stress tests are performed for determining its impact on the portfolio's expected and unexpected loss, which are presented to and analyzed by the Risk Committee. These tests comply with internal standards and Provisions.

At the end of December 2017 and in average for the fourth quarter of 2017, the expected and unexpected loss over the Bank's total portfolio, commercial and consumer portfolio, was as follows:

		2017	
		Closing	**Average**
Expected loss			
Bank[1]	$	3,934	4,036
Globalcard		541	530
Total		**4,475**	**4,566**
Non expected loss			
Bank[1]		26,784	26,448
Globalcard		1,381	1,352
Total	$	**28,165**	**27,800**

*Only includes traditional loan portfolio (commercial and retail).

1/ Excludes credit card since this portfolio was transferred to Globalcard in August 2017.

For interpreting the expected and unexpected loss and by way of example, the average expected loss during the fourth quarter of 2017 was $4,566 which represents the amount the Bank expects to lose (in average) during the next twelve months by way of defaults given the characteristics of its portfolios; while the unexpected average loss was $27,800 and represents the necessary economic capital to maintain the Institution's solvency in the event of a large magnitude adverse event that has an impact on the credit portfolios.

Exposure of the loan portfolio by type of portfolio - At the end of December 2017, the total and average quarterly exposure of the loan portfolio for 2017 corresponds to the following:

	2017	
	December	**Average**
Mortgage loans	$ 107,248	105,882
Auto loans	20,412	19,639
Non-revolving personal loans	3,551	3,505
Revolving personal loans [1]	2,301	2,322
Commercial loans [2]	206,994	199,577
Total	$ 340,506	330,925
Globalcard	$ 8,462	8,306

1/ Excludes credit card since this portfolio was transferred to Globalcard in August 2017.

2/ Includes credit letters.

(Continued)

Risk Parameters (PD, LGD and ED) of the credit portfolio (December 2017)

Cartera	Exposición al Incumplimiento (EI)[1]	Probabilidad de Incumplimiento (PI)[2]	Severidad de la Pérdida (SP)[2]
Mortgage loans	$ 102,904	2.3%	15.2%
Non-revolving consumer loans	23,589	5.8%	71.3%
Revolving	3,985	14.5%	74.3%
Commercial Portfolio [3]	208,030	3.4%	42.8%
Investment Projects [4]	2,822	1.9%	45%
Globalcard revolving	40,690	8.7%	73.4%
Globalcard non-revolving	41	14.1%	71%

1/ Determined under regulatory methodology. (Exclude nonperforming loans).
2/ Weighted risk parameter from exposure to default. ((Exclude nonperforming loans)).
3/ Excludes Investment Projects.
4/ PI determined implicitly upon considering reserve determined under regulatory methodology between SP (45%).

The exposures by type of loan portfolio and by geographic region corresponding to the Bank detailed by subsidiary, Bank (Commercial, consumer, and mortgage portfolio) and Globalcard (Consumer revolving and non-revolving loan portfolio) are shown in the following tables.

(Continued)

Credit risk management information for the loan portfolio (figures in millions of Mexican pesos, except otherwise indicated)

a. The total amount of gross credit risk exposures at the end of December 2017 broken down by major types of credit portfolio include the following:

Commercial Loan Portfolio Total Exposures (Segment)	Exposures (disposed amount) December 2017
Government	$ 11,163
Corporate Baking	108,766
Enterprise Banking	85,863
Small and Medium-sized entities (SMEs)	1,203
Total	$ 206,995

Note: It includes letters of credit.

Retail loan portfolio	Pesos	Dollars translated	Total
Mortgage Loans	$ 107,111	137	**107,248**
Non-revolving loan portfolio 1	23,963	-	**23,963**
Revolving loan portfolio	2,275	-	**2,275**

[1/] Includes: Payroll Credit loans, Auto loans, Personal loans, Fairmont, Overdrafts, Restructures Scotialine

(Continued)

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GlobalCard, Total portfolio

Credit loan exposure by portfolio	2017	
	T4[1]	December
Non-revolving personal loans [1/]	$ 40	41
Revolving personal loans [2/]	8,266	8,422
Total	**$ 8,306**	**8,463**

1/ Includes personal loan non-revolving (Open market)
2/ Includes Credit Card portfolio

b. Distribution of exposures by economic sector

The distribution of exposures by economic sector broken down by major types of exposures, including the list of current, past-due and nonperforming loans, preventive reserves for credit risks is summarized as follows:

Distribution of exposures by economic sector, including, nonperforming loans, past-due loans and allowance									
Sector	Loan portfolio		Nonperforming			Total exposure	Allow-ance	Variation of allowance vs. previous quarter (Sep 17)	Average of days past-due
	Current loans	Past-due loans	Current loans	Past-due loans	Current loans				
Financial institutions	**$22,990**	**0**	**0**	**0**	**0**	**22,990**	**0**	**0**	**0**
Consumer	**25,260**	**20**	**0**	**296**	**283**	**25,577**	**545**	**15**	**268**
Financial Intermediaries and Investment	**28,065**	**0**	**0**	**110**	**113**	**28,175**	**634**	**17**	**1,134**
Food and beverages	**15,428**	**1**	**0**	**665**	**0**	**16,093**	**783**	**18**	**803**
Oil & Gas	**16,545**	**0**	**77**	**4**	**5**	**16,626**	**782**	**18**	**269**
Other Sectors	**95,255**	**271**	**94**	**1,912**	**2,236**	**97,533**	**2,634**	**441**	**35**
Total	**$203,543**	**292**	**171**	**2,987**	**2,637**	**206,994**	**5,378**	**509**	**0**

(Continued)

Retail loan portfolio (Bank and Globalcard) is not classified by economic sector as those loans are granted to individuals.

c. Distribution of exposures by region

The geographical distribution by region, including the list of the current, past-due and nonperforming loans, preventive reserves for credit risks is shown below:

Geographical distribution by region of commercial loans

Region	Loan portfolio		Non-performing		Total exposure December 2017	Allowance
	Current	Past-due	Current	Past-due		
Central	$ 18,549	-	0	410	18,959	433
Metropolitan	139,615	184	0	949	140,747	2,833
North	34,183	25	77	866	35,151	1,240
South	11,197	83	94	763	12,137	872
Total	$203,544	292	171	2,988	206,994	5,378

Beginning August 2017, revolving loan portfolio of the Bank is comprised only of Scotialine derived from the sale of Credit Card to its subsidiary Globalcard. For this footnote purposes, loan portfolio tables do not include the Scotialine balance for $26 corresponding to restructures and that due to regulation rules, have to be treated as personal loans. The total amount of Scotialine, considering restructures at December 31, 2017 is $2,301.

(Continued)

Geographical distribution

Geographical distribution by mayor states and mainly exposures as of December 31, 2017, are shown below:

Financial information by geographical distribution of the loan portfolio	Mortgage portfolio	Non-revolving loans 1	Revolving loans	Total
Chihuahua	4,063	1,276	120	5,459
Mexico City	30,728	3,582	513	34,823
Coahuila	4,126	1,307	93	5,526
State of Mexico	11,691	2,278	262	14,231
Guanajuato	3,237	709	62	4,008
Jalisco	11,341	1,123	135	12,599
Nuevo León	8,644	1,454	116	10,214
Puebla	2,718	889	73	3,680
Queretaro	6,420	550	50	7,020
Veracruz	2,732	1,110	116	3,958
Other	21,548	9,685	735	31,968
Total	**107,248**	**23,963**	**2,275**	**133,486**

[1/] *Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures*

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Geographical distribution of non-performing loans

Financial information by geographical distribution of the non-performing loans	**Mortgage portfolio***		**Non-revolving loans 1**		**Revolving loans**	
	Balance	**Allowance**	**Balance**	**Allow-ance**	**Balance**	**Allow-ance**
Chihuahua	$ 66	19	13	10	8	6
Coahuila	123	35	22	16	6	4
Mexico City	493	108	99	78	29	21
State of Mexico	49	10	6	4	2	1
Guanajuato	61	10	10	7	3	3
Jalisco	274	72	15	11	9	7
Nuevo León	193	42	19	15	9	7
Puebla	112	24	17	13	5	4
Queretaro	90	23	6	4	2	2
Veracruz	164	48	25	20	12	9
Other	1,148	324	183	144	72	54
Total	**$2,773**	**715**	**415**	**322**	**157**	**118**

[1/] *Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures*

**Mortgage portfolio excludes $97.2 corresponding to FOVI allowance for loan losses.*

[3/] *Non-performing loans portfolio is equal to the past due portfolio.*

(Continued)

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Geographical distribution by mayor states and mainly exposures as of December 31, 2017, of Globalcard, are shown below:

Financial information by geographical distribution of the loan portfolio	Non-revolving loans 1	Revolving loans	Total
Chihuahua	$ 1	444	445
Mexico City	9	2,052	2,062
Coahuila	2	325	327
State of Mexico	1	132	133
Guanajuato	-	231	231
Jalisco	2	560	562
Nuevo Leon	1	492	493
Puebla	1	242	243
Queretaro	2	242	244
Veracruz	1	334	335
Otros	21	3,367	3,388
Total	**$ 41**	**8,421**	**8,463**

[1/]*Includes non-revolving personal loans and Credit card restructures*

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Non-performing loans of Globalcard, detailed by mayor States including allowance for loan losses amount related to each geographic region.

Financial information by geographical distribution of the non-performing loans	**Non-revolving loans 1**		**Revolving loans**	
	Balance	**Allowance**	**Balance**	**Allowance**
Chihuahua	$ 1	-	22	16
Coahuila	2	1	15	11
Mexico City	5	4	76	55
State of Mexico	-	-	6	5
Guanajuato	-	-	12	9
Jalisco	2	1	26	20
Nuevo Leon	1	1	25	19
Puebla	-	-	12	9
Queretaro	1	1	10	8
Veracruz	-	-	25	19
Otros	12	12	188	141
Total	**$ 24**	**20**	**417**	**312**

(Continued)

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The breakdown of the current and past-due portfolio as of December 2017 by remaining term and type of loan is listed below:

Commercial loans

Current and past-due portfolio by remaining term			
Term	**Current**	**Past-due**	**Total exposure**
Cartera Vencida	**-**	**3,279**	**3,279**
Past-due loans	**86,982**	**-**	**86,982**
Up to 1 year	**24,582**	**-**	**24,582**
1 to 2 years	**20,627**	**-**	**20,627**
2 to 3 years	**18,401**	**-**	**18,401**
3 to 4 years	**27,432**	**-**	**27,432**
4 to 5 years	**25,691**	**-**	**25,691**
Total	**203,715**	**3,279**	**206,994**

Retail loans

Current and past-due portfolio by remaining term - Current (Average term)	**Months**	**Years**
Mortgage portfolio	178	15
Non-revolving loans 1	38	3
Revolving loans	-	-

[1/] *Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures*

(Continued)

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Current and past-due portfolio by remaining term - Current (Average term)	Months	Years
Mortgage portfolio	147	12
Non-revolving loans 1	33	3
Revolving loans	-	-

[1/] *Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures*

Current and past-due portfolio by remaining term - Total (Average term)	Months	Years
Mortgage portfolio	178	15
Non-revolving loans 1	38	3
Revolving loans	-	-

[1/] *Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures*

Exposures distribution of the current and past due portfolio by product

Financial Information – Loan portfolio Status	Current	Past due	Total
Mortgage portfolio	$ 104,475	2,773	**107,248**
Non-revolving loans 1	23,548	415	**23,963**
Revolving loans	2,118	157	**2,275**

[1/] *Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures*

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Loan portfolio by remaining term by product of Globalcard

Current and past-due portfolio by remaining term	Months	Years
Non-revolving personal loans[1]	23	1.92

1/ Includes non-revolving personal loans and Credit card restructures

d. List of credit risk allowances

The list of credit risk allowances classified according to Article 129 is as follows as of December 2017:

Commercial loans

Score	Allowance
A1	**$ 617**
A2	**481**
B1	**393**
B2	**286**
B3	**316**
C1	**173**
C2	**289**
D	**640**
E	**2,182**
Total	**$ 5,377**

(Continued)

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Retail loans
Allowance for loan losses classified under Article 129

Allowance for loan losses percentages			
Risk grading	**Mortgage loans**	**Non-revolving loans**	**Revolving loans**
A - 1	0 to 0.50	0 to 2.0	0 a 3.0
A - 2	0.501 a 0.75	2.01 to 3.0	3.01 to 5.0
B - 1	0.751 a 1.0	3.01 to 4.0	5.01 to 6.5
B - 2	1.001 a 1.50	4.01 to 5.0	6.51 to 8.0
B - 3	1.501 a 2.0	5.01 to 6.0	8.01 to 10.0
C - 1	2.001 a 5.0	6.01 to 8.0	10.01 to 15.0
C - 2	5.001 a 10.0	8.01 to 15.0	15.01 to 35.0
D	10.001 a 40.0	15.01 to 35.0	35.01 to 75.0
E	40.001 a 100.0	35.01 to 100.0	Greater than 75.01

Allowance for loan losses by risk grading	Mortgage loans	Non-revolving loans 1	Revolving loans	Total
A-1	$ 157	113	51	321
A-2	28	38	38	104
B-1	17	35	15	67
B-2	36	53	9	98
B-3	34	21	12	67
C-1	68	49	22	139
C-2	189	98	32	319
D	382	119	95	596
E	250	475	107	832
Total	**$ 1,161**	**1,001**	**381**	**2,543**

[1/] *Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures*
**Mortgage loan portfolio excludes $97.2 corresponding to the FOVI credit reserve.*

(Continued)

Allowance for loan losses classified under Article 129

Allowance for loan losses percentages		
Risk grading	**Non-revolving loans**	**Revolving loans**
A - 1	0 to 2.0	0 to 3.0
A - 2	2.01 to 3.0	3.01 to 5.0
B - 1	3.01 to 4.0	5.01 to 6.5
B - 2	4.01 to 5.0	6.51 to 8.0
B - 3	5.01 to 6.0	8.01 to 10.0
C - 1	6.01 to 8.0	10.01 to 15.0
C - 2	8.01 to 15.0	15.01 to 35.0
D	15.01 to 35.0	35.01 to 75.0
E	35.01 to 100.0	Greater than 75.01

Risk grading	Revolving personal loans	Non-revolving personal loans[1]
A-1	$ 291	0.00
A-2	140	0.05
B-1	45	0.05
B-2	34	0.17
B-3	38	0.01
C-1	70	0.17
C-2	113	0.19
D	271	0.52
E	210	20.13
Total	**$ 1,212**	**21.29**

(Continued)

e. Non-performing loans at December 2017: Allowances, variations, geographical distribution and write-offs:

Commercial loans

Allowance for loan losses – Non-performing loans	Amount
Beginning balance of Allowance **September 2017**	**$ 4,895**
Increase in provision	**450**
Increase in provision (SMEs)	**13**
Debits in results	**48**
Due to FX changes	**63**
Reserve cancellation	**0**
Write-offs, Dations and partial write-offs	**(14)**
Final balance of allowance **December 2017**	**$ 5,407**
Loan recovery	-
Loan recovery	-

* Includes additional allowance (past due interest and other)

Retal loans
Variation in allowance for loan losses and impaired loans during the period

Variation of allowance for loan losses	December 2016	December 2017	Variation
Mortgage loans	$ 966	1,161	**195**
Non-revolving loans 1	698	1,001	**303**
Revolving loans	$ 1,264	381	**(883)**

[1/] Includes: Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine restructures
** Mortgage loan portfolio excludes $97.2 corresponding to the FOVI credit reserve.*

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Retail loans
Reconciliation of changes in allowance for loan losses to nonperforming loans[3]

Variations in allowance for non-performing loans	Mortgage Portfolio	Non-revolving loans 1	Revolving loans
Allowance at December 31, 2016	**$ 612**	**208**	**342**
Releases[2]	(326)	(567)	(721)
Transfer from current to past-due portfolio	145	264	169
Transfer from past-due to current portfolio	(168)	(68)	(86)
Decreases in the balance of reserves (includes write-offs and debt forgiveness)	(93)	(21)	(8)
Increases in the balance of reserves	545	506	422
Allowance at December 31, 2017	**$ 715**	**322**	**118**

1/ It Includes Payroll loans, Auto loans, Personal loans, Fairmont, Overdrafts, Scotialine Restructures
2/ All credits that in the year no longer appeared for reasons like changes of status on the credit card, pay-offs, etc.
3/ non-performing loans equal past-due loans.

Variation in allowance for loan losses during the period[2] of Globalcard

Risk level	Change in allowance	Write-offs
Non-revolving loans[1]	$ 2	-
Revolving loans	56	164.54

1/ Includes non-revolving personal loans and credit card restructures

(Continued)

[2] Non-performing loans equal past due loans.

Reconciliation of changes in allowance for loan losses to nonperforming loans of Globalcard

Variations in allowance for non-performing loans	Revolving loans	Non-revolving loans 1
Allowance at September 30, 2017	**$ 289**	**17.94**
Releases[2]	(157)	(5.10)
Transfer from current to past-due portfolio	64	0.51
Transfer from past-due to current portfolio	(33)	(1.73)
Decreases in the balance of reserves (includes write-offs and debt forgiveness)	(1)	(1.11)
Increases in the balance of reserves	150	9.06
Allowance at December 31, 2017	**$ 312**	**19.57**

1/ Includes non-revolving personal loans and credit card restructures

Credit risk mitigation techniques (Applicable to Commercial loans portfolio)

The Bank has policies and processes that allow it to perform a valuation of guarantees. In general, it can be considered that there are no restrictions regarding the acceptance of guarantees. However, prior to acceptance, the impacts on profitability need to be assessed and determine whether it is feasible for the guarantee to be used as a mitigating factor in regulatory calculations of:

- Allowance for loan losses, and
- Capital requirements

(Continued)

Based on an identification of the guarantees that are part of the Bank's Guarantee Management System, or if the proposal differs from the standards established in this System. The value of guarantees is determined by accurately identifying the standard valuation methodology at the beginning and during the term of the loan, depending on their type, such as formal appraisals prepared by certified experts, in the case of real estate; in the case of securities, the market value defined by the corresponding Stock Exchange.

The types of real guarantees for Commercial Portfolio accepted by the institution are mainly: Pledge on Chattel, Pledge on Cash Deposits in SBI, Pledge on Inventories in Bonded Warehouse, Pledge on Machinery, Pledge on Vehicle, Pledge on Working Capital Loan (Treasury Guarantees), Pledge on Fixed Asset Loan (Treasury Guarantees), Civil Mortgage, Industrial Mortgage, Guarantee Trust.

The types of guarantors accepted by Commercial Portfolio by the institution are: Jointly Liable, Guarantor, Guarantee, Guarantee Letter, letter of credit standby and development entity guarantee.

Most of the concentration of guarantees the Bank has to reduce credit risk, is in the real non-financial guarantees.

As of December 2017 the coverage of the guarantees reported by the Bank in standard and intern methodology, which are applicable to commercial loans portfolio is shown below:

Guarantee amount	
Coverage	**Standard Methodology**
Eligible financial collateral	$ 1,028
Eligible non-financial collateral	13,152
Personal guarantees	796

(Continued)

The Bank does not have credit derivatives operations at closing of December 31, 2017.

Policies to ensure real guarantees and establish credit reserves

The guarantees covering loans, depending on their type and characteristics they can contribute to improve the level of credit risk and consequently the amount of required reserves. For these purposes two types of guarantees are considered: Personal guarantees and real guarantees.

Credits that have some of these guarantees, including the two types may adjust their rating to a higher level of risk. Probability of default with personal guarantees and loss given default (LGD) with real guarantees.

Guarantees used to improve the credit rating in addition to the specific requirements for the type (personal or real) in general must cover the following:

- The guarantee is granted and incorporated in the form and terms established in the applicable legal provisions and internal policies of the Bank.

- When a loan is covered by real and personal guarantees: If the real guarantee is granted simultaneously by the same personal guarantor, only one of them can improve the score.

- In syndicated loans with other Credit Institutions, the Bank may agree on the following rights in the corresponding credit agreement: First in order to collect on the guarantee; or the same degree of priority in the order to collect as the other participants, in cases where the guarantee is allocated proportionally among all Institutions involved in the credit.

(Continued)

Credit risk of financial instruments

Financial situation of each counterparty is evaluated periodically, and at least once a year an exhausting review and risk analysis is performed. Any impairment in the financial situation of the issuer/counterparty is reflected in its credit rating. Thus, the Bank determines the changes in the risk profiles of each client. These reviews consider the overall credit risk, including financial transactions, derivative instruments and currency transactions. In the case of identified risks, additional reviews are performed more frequently.

In the context of credit risk management performed by the Bank, gathering information, the execution of due diligence procedures, analysis of capacity and financial prosperity of the issuer/counterparty, the establishment of appropriate structures and interest rates is essential, as well as the foreclosure, rationale and supervision processes.

Credit risk in investment securities - Following is a summary of exposures, credit quality and concentration by risk level of investment securities for the Bank at the end of December 2017 and 2016:

	2017	%	2016	%
Held-to-maturity				
Bank	$ 4,679		5,457	
Subtotal	**4,679**	**8**	**5,457**	**12**
Available-for-sale				
Bank	44,684		32,278	
Subtotal	**44,684**	**79**	**32,278**	**71**
Trading securities				
Bank	5,091		4,676	
Global Card[(1)]	112		379	
Subtotal	**5,203**	**13**	**5,055**	**17**
Risk total	**$54,566**	**100**	**42,790**	**100**

(1) Al December 31, 2017 Globalcard had investment in securities amounting $111.8 million. The main purpose of such investments is the structural management of the balance sheet.

(Continued)

Credit risk in derivative transactions

In addition to the risk measures mentioned earlier for derivative transactions, the Bank quantifies its credit exposures in order to control the use of lines granted to its counterparties for the operation of derivative instruments. This control is carried out by calculating future potential exposure (PFE) at the counterparty level through specialized tools, incorporating mitigating risk elements such as netting agreements, collateral agreements and collateral. There are counterparty risk policies and monitoring of established limits that contemplate the process to be followed in the event of excesses occurring in them.

Following is presented the potential future exposure by counterparty credit risk and concentration by type of counterparty at the end of December 2017 and 2016 of the Bank and subsidiaries:

Type of counterparty	Potential future exposure	Concentration (%)*
December 2017		
Financial institutions	$ 3,933	84
Corporations	769	16
Total maximum exposure	4,702	100
December 2016		
Financial institutions	4,078	81
Corporations	956	19
Total maximum exposure	$ 5,034	100

**Al the closing of 2017, the three mayor exposures by counterparty represent 40% of the total amount.*

Methodology for setting credit limits for counterparties and capital allocation - The Bank, by establishing operating policies, defines capital allocation based on business criteria and risk appetite, i.e., customer eligibility criteria and setting maximum exposure limits are defined through the Credit Committees, considering potential future exposure by counterparty as the main risk parameter, estimated according to the methodology approved by the Risk Committee.

(Continued)

It is important to say that before entering into any operation that involves credit risk, a review process of the debtors/counterparties is carried out to evaluate their risk profile and to determine the exposure limit to be accepted by each one.

The Bank's business line is responsible for analyzing and proposing according to strategy, new counterparties and their respective limits and/or the update thereof. For that, the Credit area has defined well the structure of responsibilities and powers for authorization. All proposals are analyzed considering the level of potential future exposure related to the risk profile of each counterparty and the products required for operation. Once the limits are approved, they are monitored by the UAIR and reviewed annually by the Credit area or with more frequency in case any potential risk is detected or else the line of business requests it so.

The capital requirement for operations with derivatives is calculated under regulatory methodology, such is the case of the adjusted value for credit valuation or CVA.

The following table shows the gross fair value, the compensation benefit and the offset exposure at closing of December 2017 and 2016. The Bank does not maintain credit derivative positions for hedging (CDS).

Type of counterparty	**Gross Fair Value***	**Offset Exposure**
December 2017		
Financial institutions	$ 19,392	3,319
Corporations	320	164
Total	$ 19,712	3,483

(Continued)

Type of counterparty	Gross Fair Value*	Offset Exposure
December 2016		
Financial institutions	$ 19,844	14,749
Corporations	415	363
Total	$ 20,259	15,112

* It refers to the positive value of market valuation and also represents the current potential exposure

The above table shows mainly the exposure benefit as a result of the establishment of compensation agreements with counterparties. Such benefit represents the decrease in exposure to counterparty credit risk. These agreements allow compensating buying and selling positions for each counterparty in transactions with the same characteristics (instrument and underlying).

Also, the deposit guarantees and/or values held by the Bank at the closing of December 2017 and 2016 amount to $1,964 and $2,917, respectively.

The Bank has the guidelines of Bank of Nova Scotia (parent company) to identify the risk of adverse correlation during the credit authorization process for counterparty operations.

Operational risk-

The operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal controls failures or deficiencies, errors in transaction processing or storage or in data transmission as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk.

The Bank, has implemented policies and procedures enabling them to have an appropriate operational risk management process, which are mentioned in the following page.

(Continued)

Policies for operational risk management

These policies are intended for establishing the principles and management framework to identify, measure, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities and to promote a risk management culture throughout all the Bank.

Operational Risk Assessment

The Bank has a structured methodology for assessing operational risk, which allows the Bank to identify, assess and mitigate the risk inherent in its processes and business activity, which is applied to the entire structure, the assessment is based on the identification of inherent operational risk, assessing the effectiveness of controls in such risks, on which is determined a level of residual risk from which actions are set to mitigate identified risks.

Manual for Operational Risk Data Gathering and Classification.

These policies define the requirements for reporting the information that supports the measuring processes, as well as the scope of the data gathering process, the functions and responsibilities of the business units for gathering and reporting loss data, as its specific characteristics.

During the October – December 2017 period, the consolidated Bank recognized operational risk losses of $41.6, and the operational risks at closing of December 2017, which if materialized will have a negative impact, amount to $612.6, out of which $5.8 correspond to operational risk and $606.8 to legal risk, the 100% of the exposure has been provisioned.

(Continued)

Operational risk tolerance levels

This is an operational loss management tool that enables each area to know the tolerance levels of losses applicable to each assumed loss event, and serves as an incentive for the improvement of the operational risk management process and the adoption of the necessary action to minimize the risk of future losses.

Key risk indicators (KRI).

This process allows the Bank to establish indicators from process variables, which behavior is related to the level of risk assumed. By tracking each indicator, trends are identified that allow for managing the indicator’s values over time. Admissible thresholds are established for each of the selected indicators.

Calculation of capital.

The Bank uses the standard alternative method to determine its capital requirements for operational risk, whereas Globalcard uses basic indicator method to calculate capital for operational risk. Scotia Derivados does not determine capital requirements for its operational risk exposure

Estimate of legal risk losses

There is a methodology for estimating expected and unexpected legal risk losses through for estimating probable losses arising from an adverse outcome of trials in process. Such methodology is based on the loss experience of previous years that is used for determining the likelihood of loss associated with the ongoing legal issues through a statistical severity and occurrence analysis.

(Continued)

Technological risk

Technological risk is defined as the potential loss associated with damage, interruption, modification or failure resulting from the use of hardware, software, systems, applications, networks and any other cannel for transmitting information in rendering services to the customers of the Bank.

In order to attend to requirements of regulations in terms of technological risk, the Bank has technological risk management policies, which describe the guidelines and methodology for assessing technological risks. Furthermore, the DGA of Information Technology has policies, procedures and systems that contribute to compliance of the related requirements.

The technological risk methodology, which assesses vulnerabilities, considers the criticality of the information in terms of completeness, confidentiality, availability and continuity to identify the risks inherent in the technological applications and infrastructure, assess the controls in place and obtain the residual risk. As a result, the methodology sets forth a proposal of controls for mitigating the technological risk at an acceptable level.

The regular audits performed by an independent and skilled internal audit department include comprehensive reviews of the design, implementation and exploitation of the internal control systems in every business and support area, new products and systems and of the reliability and completeness of data processing operations.

(Continued)

Scotiabank Inverlat, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
and subsidiaries

Notes to the consolidated financial statements

(Millions of Mexican pesos)

Appendix 5. Disclosure Form of the Liquidity Coverage Ratio (LCR)

Reporting period: September - December 2017
Table 1.1 Disclosure Form of the Liquidity Coverage Ratio[3]

		Unweighted amount (average)	**Weighted amount (average)**
COMPUTABLE LIQUID ASSETS			
1	Total Computable Liquid Assets	Non applicable	51,177.24
CASH OUTFLOWS			
2	Non-guaranteed retail financing	116,263.83	8,986.27
3	Stable financing	52,384.24	2,613.54
4	Less stable financing	63,879.59	6,372.73
5	Wholesale financing not guaranteed	121,226.49	41,316.97
6	Operational deposits	55,210.46	13,170.71
7	Non-operational deposits	64,132.47	26,262.70
8	Unsecured debt	1,883.56	1,883.56
9	Guaranteed Wholesale Financing	Non applicable	204.03
10	Additional requirements:	138,454.69	14,237.36
11	Outflows related to financial derivative instruments and other guarantee requirements	4,205.46	4,098.83
12	Outflows related to losses on the financing of debt instruments	0.00	0.00
13	Credit lines and liquidity	134,249.23	10,138.53
14	Other contractual financing obligations	0.00	0.00
15	Other contingent financing obligations	48,784.40	781.83
16	**TOTAL CASH OUTFLOWS**	**Non applicable**	**65,526.46**

(Continued)

[3] Previous figures subject to review of the Central Bank

		Unweighted amount (average)	Weighted amount (average)
CASH INFLOWS			
17	Guaranteed cash inflows	31,230.29	0.06
18	Cash inflows for unsecured transactions	33,881.10	23,288.34
19	Other cash inflows	8,702.54	8,484.68
20	**TOTAL CASH INFLOWS**	**73,813.93**	**31,773.08**
			Adjusted amount
21	TOTAL COMPUTABLE LIQUID ASSETS	Non applicable	51,177.24
22	TOTAL NET OF CASH OUTFLOWS	Non applicable	33,851.76
23	LIQUIDITY COVERAGE RATIO	Non applicable	152.64%

(a) Calendar days comprised in the quarter that is being disclosed. 92 calendar days
(b) Main causes of the result of the Liquidity Coverage Ratio and the change on its main components.

- **During October 2017, the main changes that impacted the CCL are the following (considering a 30 day time window):[4]**

  - Main Cash Outflows:

  Cash outflows due to demand deposits for $32,230 and time deposits for $15,799, outflows derived from the Look Back Approach (LBA) and the estimate related to the impact on liquidity due to the possible impairment of the institution's rating in 3 levels for $1,151 and $1,189, respectively, outflows by undrawn credit commitments for $10,351.

(Continued)

[4] Weighted cash outflows and entries for the next 30 days considering the defined factors in the Provisions on liquidity requirements for credit institutions.

- Main Cash inflows:

Cash inflows for loan portfolios for $7,836, call money operations for $14,015 and maturity of securities with a rating lower than 2B for $6,522.

- Liquid assets:

Liquid assets mainly concentrated in Level 1; $31,898 in debt securities level 1, $13,502 in monetary regulation deposits, deposits in the Central Bank and TIIE active auctions, not including BREMS, as these are reported as debt securities level 1; additionally, available cash for $5,130 and $243 in securities level 2A.

- **During November 2017, the main changes that impacted the CCL are the following (considering a 30 day time window)[5]:**

- Main Cash Outflows:

Outflows due to demand deposits of $31,819 and time deposits of $15,907, outflows derived from the Look Back Approach (LBA) and the estimation related to the impact on liquidity due to the possible impairment of the institution's rating in 3 levels for $1,255 and $1,451, respectively, outflows by undrawn credit commitments for $10,624.

- Main Cash inflows:

Cash inflows for loan portfolios for $7,735, call money operations for $14,999 and maturity of securities with a rating lower than 2B for $6,531.

- Liquid assets:

Liquid assets mainly concentrated in Level 1; $32,402 in debt securities level 1, $12,307 in monetary regulation deposits, deposits in the Central Bank and TIIE active auctions, not including BREMS, as these are reported as debt securities level 1; additionally, available cash for $5,637 and securities level 2A.

(Continued)

[5] Weighted cash outflows and entries for the next 30 days considering the defined factors in the Provisions on liquidity requirements for credit institutions.

- **During December 2017, the main changes that impacted the CCL are the following (considering a 30 day time window)[6]:**

  - Main Cash Outflows:

  Outflows due to demand deposits of $33,274 and time deposits of $14,693, outflows derived from the Look Back Approach (LBA) and the estimation related to the impact on liquidity due to the possible impairment of the institution's rating in 3 levels for $1,317 and $1,093, respectively, outflows by undrawn credit commitments for $10,812.

  - Main Cash inflows:

  Cash inflows for loan portfolios for $8,834, call money operations for $11,554 and maturity of securities with a rating lower than 2B for $6,510.

  - Liquid assets:

  Liquid assets mainly concentrated in Level 1; $28,495 in debt securities level 1, $13,011 in monetary regulation deposits, deposits in the Central Bank and TIIE active auctions, $243 in securities level 2A; finally, available cash for $6,196.

(c) Changes in the main components of the quarter being reported;

September 2017 – October 2017 (26%)

The Liquidity Coverage Ratio increased by 26% compared to September 2017, mainly due to:

- Liquid assets level 1 increased by $4,217 due to increase in available-for-sale securities.
- Slight increase in cash outflows by $161 mainly due to the net effect between the increase in demand deposits and the decrease in outflows of professional funding the next 30 days.
- Increased inflows by $3,743 due to increase in call money and commercial loan cash flows

(Continued)

[6] Weighted cash outflows and entries for the next 30 days considering the defined factors in the Provisions on liquidity requirements for credit institutions.

October 2017 – November 2017 (-3%)
The Liquidity Coverage Ratio decreased by 3% compared to October 2017, mainly due to:

- Liquid assets level 1 decreased by $183, mainly due to Repurchase/resell agreements.
- Increase in cash outflows by $1,354 mainly due to an increase in professional funding.
- Increase of cash inflows of $811 due to an increase in call money.

November 2017 – December 2017 (-19%)
The Liquidity Coverage Ratio decreased by 19% compared to November 2017, mainly due to:

- Liquid assets decreased by $2,643, mainly due to a decrease in level 1 liquid assets by $3,907, concentrated in available-for-sale securities.
- Increase of cash outflows by $1,114, due to an increase in demand depotist and professional funding.
- Decrease of cash inflows by $1,939, mainly due to a decrease in call money.

(d) The change of the composition of eligible and computable liquid assets [7]*;*

Change of liquid assets Q4- 2017			
	October	**November**	**December**
Cash	10%	11%	13%
Deposits in Central Bank	27%	24%	27%
Level 1	63%	64%	59%
Level 2A	0%	1%	1%
Level 2B	0%	0%	0%
Total liquid assets weighted	**100%**	**100%**	**100%**

[7] Computable liquid assets under the guidelines established by the Central Bank.

(e) Concentration of financing sources;

Concentration of financing sources	October	November	December
DEPOSIT FUNDING			
Demand deposits	52%	52%	52%
Time deposits	37%	37%	35%
General public	30%	30%	28%
Money market	7%	7%	7%
Debt securities issued	8%	8%	9%
Global account of deposits without movements	0%	0%	0%
BANK AND OTHER BORROWINGS			
Due on demand	0%	0%	0%
Short-term	1%	1%	1%
Long-term	2%	2%	3%

(f) Exposures in derivative financial instruments and possible margin calls;

The Bank negotiates derivative products on behalf of its clients and takes positions on its own account, carries out transactions with derivative financial instruments, for hedging and/or trading purposes in accordance with established policies.

The general objectives of the derivative products that Scotiabank Inverlat operates are the following:

- Offer derivative financial instruments in the market, with a specific risk-performance profile, to meet the client’s needs according to their risk profile.
- Provide solutions to clients that allow them to fulfill their objectives of reducing, eliminating or modifying the risks assumed respecting the risk profile of each client.
- Carry out negotiation with derivative products with the purpose of generating higher revenues.
- Cover specific products or general risks, as well as optimize the management of funding.

(Continued)

Derivatives traded may be classified as trading, hedging or arbitrage.

The Bank has policies and manuals, with the guidelines and procedures related to the operation and the administration of derivatives. The applicable procedures for the monitoring and mitigation of the risks associated with the derivatives calculate future potential exposure, are the monitoring of the associated collateral, possible margin calls as a conservative measure and to be prepared for a possible increase in liquidity requirements as a result of a possible decline in the Bank's rating, the potential impact on collaterals is calculated periodically.

Potential Future Exposure (December 2017)	
With compensation agreement	2,456.8
Without compensation agreement	2,270.7
Possible margin call (December 2017)	
Collateral in Transit	45,1
Downgrade (December 2017)	
Downgrade 3 levels	1,093

The Bank's exposure to derivative financial instruments at the closing of December 2017 is as follows:

Net Exposure Derivatives	**Closing Position**
Risk factor	
Interest rate	625,498
Exchange rate	79,985
Capital market	19,651
Total	**725,134**

(g) *Foreign exchange mismatch;*

The general policy is to fund the assets with the same currency in which they are granted.

(h) A description of the level of centralization of liquidity management and the interaction between the units of the group;

In the Financial Group there is an area in charge of the liquidity management, Treasury Group, in whose responsibility it is to cover the excess and lack of liquidity of the institution, for which it receives information on a daily basis about the contractual flows that will take place in a current market day, as well as the expected short-term and medium-term liquidity expectations for the main products.

The different areas of the Bank that generate business must inform in advance at least 24-48 hours in the different committees (pipeline) or directly to the Group Treasury, its short, medium and long term strategy, in order to program its funding structure to meet those commitments.

(i) Outflows and entries cash flows that, if appropriate, are not captured in this framework, but which the Institution considers relevant because of its liquidity profile.

It is important to mention that for the calculation of the Liquidity Coverage Ratio, the cash flows of outflows and entries at the contractual level are recorded; however, the institution daily calculates liquidity gaps considering not only the outflow and entry cash at the contractual level but also considers estimated flows, in addition it extends the schedule of flows to a period of more than 30 days, so that the institution has the possibility to anticipate and take measures in order to meet the commitments after this period.

Likewise, the Institutions shall at least disclose the information corresponding to the immediately preceding quarter disclosed, in accordance with the following:

I. Quantitative information-

(a) The concentration limits for the different groups of guarantees received and the main sources of financing;

Within the policies approved by the institution in terms of liquidity, it is established that the institution will have a low dependence on the wholesale market, as well as maintaining diversified sources of funding and a low concentration of resources in specific depositors. This diversification is not only made because of the funding sources, but also by timing and variety of products.

(Continued)

In addition, the minimum credit quality of the guarantees received is also established. These guarantees may not be less than a level A credit rating.

In addition, the institution establishes deposit concentration limits with the purpose of ensuring the diversification of its sources of funding among its relevant currencies.

Deposits concentration	
Concept	**Limit**
Deposits concentration (MXN)	$4,500
Deposits concentration (USD)	80 USD

On the other hand, the institution monitors potential future exposure (PFE) at the counterparty level for the operation of derivative financial instruments and on the other hand the institution has credit limits to monitor exposure to counterparty credit risk.

Exposure to liquidity risk and financing needs are monitored taking into account possible legal, regulatory and operational limitations; for this, the Bank has a prudent policy of liquidity management risks; In addition, internal limits have been established for liquidity gaps and liquid assets. Liquidity mismatches are shown in the following section.

Exposures to liquidity risk are covered from a funding point of view with local counterparties; which is also in line with the established limits.

Currently, the LCR calculation incorporates positions of the Bank and its subsidiaries.

(Continued)

(b) Integration of balance sheet transactions by maturity and resulting liquidity gaps, including transactions recorded in memorandum accounts.

To have control over the mismatch generated by the nature of the balance between assets and liabilities, Scotiabank sets limits to its liquidity gaps in different time frames. The Bank also monitors the daily gaps during the next 253 days, in order to have a broader picture of the institution's obligations for more than 30 days; The gaps incorporate active and passive positions of the balance sheets as well as positions outside it. The results at December 31, 2017 and the average of the fourth quarter of 2017 are:

(Millions of Mexican pesos)	**Closing balance**	**Average balance**	**Limit**
10-day cumulative gap (MXN+UDIs)	(2,500)	(366)	(18,000)
30-day cumulative gap (MXN+UDIs)	(26,651)	(16,779)	(28,500)
Liquid assets	22,095	20,095	

The Bank also monitors daily gaps during the next 253 days, in order to have a broader picture of the institution's obligations for more than 30 days.

II. Qualitative information-

(a) The way in which liquidity risk is managed in the Institution, considering for that purpose the tolerance to such risk; structure and responsibilities for the management of liquidity risk; internal liquidity reports; the liquidity risk strategy and policies and practices across the business lines and with the Board of Directors;

One of the main objectives of Scotiabank is to generate value for its shareholders while maintaining the stability and solvency of the organization.

The principles of the Liquidity Risk Management process are:

- Ensure governance and supervision of liquidity risk, including clear guidelines of roles and responsibilities to ensure that monitoring, valuation, accounting, risk measurement, and risk management processes are independently conducted and reported.

- Identify, measure and manage the risk/return ratio, within the limits of tolerance and risk appetite established by the Board of Directors, ensuring that these activities are carried out in a prudent manner.

In the Financial Group there is an area in charge of the liquidity management, Treasury Group, in whose responsibility it is to cover the excess and lack of liquidity of the institution, for which it receives information on a daily basis about the contractual flows that will take place in a current market day, as well as the expected short-term and medium-term liquidity expectations for the main products. On the other hand, the area of Liquidity Risk Management has the responsibility to ensure that the main liquidity indicators are within the approved limits and that are aligned with the risk appetite of the institution, for such purposes the area of Liquidity Risk Management produces periodic information regarding liquid assets and liquidity gaps; in case of any deviation, must notify to the Group Treasury and involved areas in order to correct any deviation that could impact the institution's structural liquidity.

The internal liquidity reports as well as the policies in place with the purpose of the Integral Liquidity Risk Management are described in later sections.

(b) *Financing strategy, including diversification policies, and whether the financing strategy is centralized or decentralized;*

The funding strategy is determined by the Group Treasury of the institution but agreed and authorized by the Assets and Liabilities Committee. Where different areas of the Bank participate including business areas.

(Continued)

(c) Liquidity risk mitigation techniques used by the Institution;

The institution monitors the liquidity risk through different metrics and reports aligned with the risk appetite which include:

- LCR calculation (Liquidity Coverage Ratio)
- NSFR calculation (Net Stable Financing Ratio)
- Computation of liquid assets
- LDR calculation (Loan to Deposit Ratio)
- Monitoring Liquidity Gaps
- Monitoring of Deposits Concentration
- Monitoring of Bank Deposit
- Monitoring the Investment Portfolio
- Liquidity Stress Testing
- Liquidity Contingency Financing Plan
- Periodic reports to the Assets and Liabilities Committee of the Institution
- Periodic reports to the Risk Committee
- Reports to the Board of Directors
- Policies and Manuals related to Liquidity Risk Management
- Contingency Plan for Solvency and Liquidity Risks

In order to mitigate liquidity risk, the Bank has established prudent guidelines, policies and procedures, paying particular attention to:

- Measurement, monitoring and forecasting of commitments involving cash flows for the major currencies managed by the Bank (MXP + UDIs and USD).
- Seek an uniform distribution of cash flows, minimizing liquidity gaps between assets and liabilities, considering the potential impact of renewals, prepayments, withdrawals of deposits, origination of credit and non-payment of credits
- Maintain diversified funding sources.
- Establish correspondent and Bank borrowings programs to help maintain market access.
- Implement and maintain programs for the issuance of liabilities, and portfolio discount with specialized funds

(Continued)

- Maintain operational capacity in the liquidation systems established by the Central Bank, considering for this the guarantee requirements and limits established for this purpose
- Maintain liquid assets reserves to meet operating needs and contingencies of liquidity needs.

The Liquidity Contingency Financing Plan incorporates the corrective actions that the institution would have to start in case of contingency.

(d) An explanation of how stress tests are used; and

In accordance with the current standard stipulated in Appendix12-B of Provisions applicable to Credit Institutions, which requires liquidity exercises in stress scenarios, the Bank periodically tests this in order to ascertain its ability to face adverse scenarios and be able to meet their short-term obligations based on a 30-day survival horizon.

These stress scenarios include, among others, the following assumptions:

- Increase in the expected loss of credit portfolios
- Increase in withdrawal of deposits
- Disposal of lines of credit
- Increase in the Bank's obligations due to degradation of the institution's rating
- Exit of the main depositors of the Bank
- Loss of Market Value of the Institution's liquid assets

The institution's liquidity stress tests contemplate different scenarios (i.e. idiosyncratic, systemic and combined) with 3 levels of severity each. The results of the stress tests are presented periodically to the collegiate bodies of the institution.

Stress scenarios indicate an insight into liquidity gaps, liquid assets, and the institution's survival horizon, this information is critical for decision-making in order to maintain a solid position around liquid assets, as well as its short-term obligations in adverse scenarios. It is important to note that the institution has the Contingency Liquidity Financing Plan which incorporates the corrective actions that the institution would have to put in place in case of contingency.

(Continued)

(e) A description of contingent financing plans.

Periodically, Grupo Financiero Scotiabank Inverlat reviews all aspects of liquidity for the management of potential risks. The Contingency Liquidity Financing Plan is an integral component of this review and provides a frame of reference for determining the actions to be taken in the a crisis event and to be able to reestablish the Group's financial situation.

The general objectives of the Contingency Financing Plan are:

- Identify potential threats that may seriously affect the liquidity of the Group and Subsidiaries.
- Adhere to the early warning systems described in the Capital and Liquidity Conservation Action Plan.
- Establish action plans to treat liquidity risks that the Group may face during the crisis period.
- Propose actions to ensure that the global Group's liquidity risk is within the tolerance limits approved by the Board of Directors
- Ensure the availability of personnel, information and sources necessary in the crisis event to allow good decision-making.
- Ensure that information is provided to the Liquidity and Capital Management Committee opportunely.

In case of requiring additional liquidity to the ordinary, the Central Bank may grant financing through any of the following operations or combination of these: (i) simple guaranteed credit operations with monetary regulation deposits or deposits in Dollars that the Financial Group maintains in the Central Bank, or (ii) repurchase/resell agreements on eligible securities. This financing is subject to the procedure indicated in Circular 10/2015 of the Central Bank.

(Continued)

Considering the levels of the Liquidity Coverage Ratio presented during the fourth quarter of 2017, which were greater than 80%, and according to the Provision for credit institutions on liquidity requirements, the Bank during the 3 months of the fourth quarter of 2017, falls in Scenario I (i.e. Scenario I, when the Liquidity Coverage Ratio corresponding to each day of the previous month is at least 80 percent).

(26) Recently issued financial reporting standards-

Changes in the Provisions of the Banking Commission

On December 27, 2017, the Banking Commission published in the Official Gazette various modifications to the Accounting Criteria. These changes will be effective on January 1, 2019, Management is in the process of evaluating the effects that these modifications will have on the financial information.

Most relevant changes are shown below:

Criterion A-2 "Application of particular rules"

Certain MFRS issued by the CINIF are incorporated, with the purpose of being applicable to the credit institutions, so as the term for its application, in order for credit institutions to comply with them. Mentioned MFRS are the following: B-17 "Fair value determination", C-16 "Impairment of financial instruments receivable", C-19 "Financial instruments payable", C-20 "SPPI Financial instruments", D-1 "Revenue from contracts with customers" and D-2 "Costs from contracts with customers".

Criterion B-6 "Loan portfolio" and D-2 "Income statement"

Accounting Criteria for credit institutions are adjusted so these institutions be able to cancel, in the period of occurrence, excess of allowance for loan losses, as well as to recognize recovery of loans previously impaired in the "allowance for loan losses" caption in the consolidated income statement.

(Continued)

Derived from the modification mentioned in the previous paragraph, and in compliance with the resolution established, the Bank has chosen to early adopt the Criterion, impacting its financial statements at January 31, 2018, prospectively.

Standards recently issued by the CINIF

The CINIF has issued the MFRS and improvements listed below:

MFRS B-17 *"Determination of fair value"*- effective for years beginning on or after January 1, 2018 (January 1, 2019 for credit institutions). Changes in valuation or disclosure have to be recognized prospectively. It establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific MFRS.

MFRS C-16 *"Impairment of financial instruments receivable"*- effective for years beginning on January 1, 2018 (January 1, 2019 for credit institutions) with retrospective effects. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

The primary changes arising from this MFRS consist of determining when and how expected impairment losses on financial instruments receivable should be recognized, including:

- It establishes that impairment losses on financial instruments receivable should be recognized if the credit risk increases and thus it is concluded that a portion of future cash flows of the financial instruments receivable will not be recovered.

- It proposes recognizing the expected loss based on the entity's historical experience of credit losses, current conditions and reasonable and supportable forecasts of the various quantifiable future events that could affect the amount of future cash flows of the financial instruments receivable.

- With regard to interest-bearing financial instruments receivable, it establishes estimating how much of the financial instruments receivable amount is deemed recoverable and when, since the recoverable amount must be recorded at present value.

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MFRS C-19 *"Financial instruments payable"* - effective for years beginning on or after January 1, 2018 (January 1, 2019 for credit institutions) with retrospective effects. Some of the main points covered by this MFRS include the following:

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.

- Long-term liabilities are initially recognized at present value.

- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting net income or loss.

- It includes the provisions of IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", which was not provided for by the existing standard.

- The effect of extinguishing a financial liability should be presented as financial income (loss) in the comprehensive statement of income.

- It introduces the concepts of amortized cost in valuing financial liabilities and of the effective interest method based on the effective interest rate.

MFRS C-20 *"SPPI Financing instruments receivable"* - effective for years beginning January 1, 2018 (January 1, 2019 for credit institutions), and is applicable retrospectively. Some of the main aspects resulting from the adoption of this MFRS are as follows:

- Classification of financial instruments within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.

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- The valuation effect of investments in financial instruments is also focused on the business model.
- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable instruments, unless the entity changes its business model.
- An embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

MFRS D-1 *"Revenue from contracts with customers"*- establishes standards for the accounting recognition of revenues arising from contracts with customers and is effective for periods beginning on or after January 1, 2018 (January 1, 2019 for credit institutions), and is applicable retrospectively. It eliminates the supplementary application of International Accounting Standard (IAS) 18 *"Revenues"*, SIC 31 *"Revenues – Barter transactions of advertising services"*, IFRIC 13 *"Customer Loyalty Programs",* and IFRIC 18 *"Transfers of assets from customers"*. Additionally, this MFRS, along with MFRS D-2, repeals Bulletin D-7 *"Construction and manufacturing contracts of certain capital goods"* and IFRS 14 *"Construction, sales and service contracts related to real estate"*. Some of the primary changes are the following:

- The transfer of control as basis for the opportunity of revenue recognition is established.
- The identification of the obligations to be fulfilled in a contract is required.
- It indicates that the transaction amount between obligations to fulfill must be assigned based on independent sales prices.
- The concept "conditional account receivable" is introduced.
- The recognition of collection rights is required.
- Requirements and guidance on how to value the variable consideration and other aspects, upon valuing the income are established.

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MFRS D-2 "Costs from contracts with customers"- establishes rules for the accounting recognition of costs of sales of goods or provision of services. This is effective for periods starting on or after January 1, 2018 (January 1, 2019 for credit institutions), and is applicable retrospectively. Along with MFRS D-1 *"Revenues from contracts with customers"*, it repeals Bulletin D -7 *"Construction and manufacturing contracts of certain capital goods"* and IFRS 14 *"Construction, sales and service contracts related to real estate"*, except regarding the recognition of assets and liabilities in this type of contracts within the scope of other MFRS.

The primary change is the separation of the standard related to the recognition of revenues from contracts with customers, from the standard corresponding to the recognition of costs for contracts with customers. Additionally, it extends the scope of Bulletin D-7, referring exclusively to costs related to construction and manufacturing contracts for certain capital goods, to include costs related to all types of contracts with customers.

As explained before, the Banking Commission established January 1, 2019 as the effective date of application of the mentioned MFRS, Management is in the process of evaluating their impacts.

MFRS C-3 *"Accounts receivable"*- effective for years beginning on or after January 1, 2018, with retrospective effects, except for the valuation effects that may be prospectively recognized, if it is impractical to determine the effect on each one of the prior periods presented. Some of the primary changes presented are the following:

- it provides that accounts receivable based on a contract are deemed financial instruments, while some other accounts receivable, resulting of legal or tax provisions, may have certain characteristics of a financial instrument, such as bearing interest, but are not in themselves financial instruments.

- it provides that the allowance for doubtful trade receivables shall be recognized as revenue is earned, based on the expected credit losses, and the allowance shall be recorded as an expense, separately when significant, in the statement of comprehensive income.

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- it provides that, upon initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of the term, an adjustment must be made taking into consideration such present value.

- it requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

Management estimates that the adoption of this new MFRS will not generate important effects, since there are specific Criteria (B-6 "Loan portfolio" and A-2 "Application of particular rules") established by the Banking Commission.

MFRS C-9 ***"Provisions, Contingencies and Commitments"*****-** effective for years beginning on or after January 1, 2018. It supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this MFRS does not result in accounting changes in the financial statements. Some of the primary aspects covered by this MFRS include the following:

- The scope is narrowed by relocating the topic concerning accounting for financial liabilities to MFRS C-19 "Financial instruments payable".

- The definition of "liability" is modified by eliminating the qualifier "virtually unavoidable" and including the term "probable".

- The terminology used throughout the standard is updated to standardize the presentation with the rest of the MFRS.

2018 MFRS Revisions

In December 2017, the CINIF issued a document called "2018 MFRS Revisions" containing precise modifications to some of the existing MFRS. The main revisions that bring about accounting changes are mentioned in the next page.

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MFRS B-10 ***"Effects of inflation"*****-** Requires disclosing the percentage of accumulated inflation for the three previous fiscal years that served as the basis to describe the economic environment in which the entity operated in the current year as inflationary or non-inflationary, and the cumulative inflation percentage of three years, including the two previous years and that of the period itself, which will serve as a basis for rating the economic environment in which the entity will operate in the following year. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized retrospectively.

MFRS C-6 ***"Property, plant and equipment" and FRS C-8 "Intangible assets"*****-** Establishes that a method of depreciation and amortization of an asset based on the generation of economic benefits associated with its use is not appropriate, given that said amount may be affected by factors other than the pattern of consumption of economic benefits of the asset. Clarifies the meaning of the concept of consumption of future economic benefits of an asset. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized prospectively.

MFRS C-14 "***Transfer and derecognition of financial assets***"- Eliminates the requirement to recognize in earnings the effects of the subsequent recognition at fair value of a transferred asset and of the associated liability since it represented a contradiction with the requirement in the same standard that said recognition be made based on the relative rules, depending on the type of asset in question. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized retrospectively.

Management estimates that the adoption of MFRS revisions will not generate important effects.