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

Financial Information Required by the
Superintendency General of Financial Entities

Fiancial Statements

As of December 31, 2016
(With corresponding figures for 2015)

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

KPMG, S. A.
Edificio KPMG
Boulevard Multiplaza
San Rafael de Escazú, Costa Rica

Teléfono (506) 2201-4100
Fax (506) 2201-4131
www.kpmg.co.cr

Independent Auditors' Report

The Superintendency General of Financial Entities (SUGEF)
and the Board of Directors and Shareholders
Scotiabank de Costa Rica, S.A.

Opinion

We have audited the financial statements of Scotiabank de Costa Rica, S.A. (the Bank), which comprise the balance sheet as of December 31, 2016, the statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with the accounting regulations issued by the National Financial System Oversight Board (CONASSIF) and the Superintendency General of Financial Entities (SUGEF).

Basis for Opinion

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

Emphasis of Matter – Basis of Accounting

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

Key Audit Matters

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

Key audit matter	Auditor's response
Compliance with the regulations for the determination of the allowance for loan losses	
We have established compliance with SUGEF Directive 1-05 *Regulations for Borrower Classification* to determine borrower classification as a key audit matter. This regulation establishes the guidelines to determine the allowance for loan losses (see note 27). According to this regulation, the allowance for loan losses is determined through the application of pre-established percentages for each borrower according to the assigned risk rating, which considers arrears, creditworthiness, and historical payment behavior. The elements to consider as basis of the calculation for the creation of the allowance are: loan balances for each borrower, current interest, and contingent operations. The allowance percentage is applied to the net balance not secured by collaterals that can be used to mitigate credit risk, according to the mitigation percentages established in the aforementioned regulation.	Our audit procedures included the following: • We assessed the design and operating efficiency of IT controls on the information systems used by management to calculate arrears in the loan portfolio. We also performed detailed testing of a sample to confirm the days of arrears used in the calculation. • We tested the transfer of data between the interfaces of the loan information systems and the systems used by the Bank to determine the borrower classification and to calculate the allowance for loan losses. • We recalculated the minimum allowance for loan losses on direct and stand-by credits measured by the Bank's management, based on the information furnished by management. We tested the integrity of data for this information.

Key audit matter	Auditor's response
	• We performed detailed testing of a sample of borrowers, to confirm whether management complied with the analysis of creditworthiness required by the regulation, as well as the assessment of the collaterals that can be used to mitigate credit risk. This procedure included an assessment of the work performed by external experts on the valuation of collaterals. • Furthermore, we compared the level of historical payment behavior used by management with the information provided by SUGEF's Credit Information Center.
Lawsuits in process due to amendments to income tax returns As indicated in note 31, the Bank was subject to a review by the Tax Authorities for fiscal years 2010, 2011, 2012, and 2013. As a result, notices of deficiency and observations were issued in relation to the filed income tax returns. This was considered a key audit matter because the recognition and measurement of provisions, disclosure of contingent liabilities related to these lawsuits, and analysis of the different concepts of the notices of deficiency and observations requires significant judgments and estimates by management and its tax advisors, due to the uncertainty of the tax treatment of the subject matter in dispute, which shall be determined until they are resolved by the pertinent tax and judicial authorities. Since the determination of the tax treatment depends on future resolutions by the tax and judicial authorities, the estimate of the provisions is subject to inherent uncertainty. Consequently, the analysis to determine a reasonable range for those provisions is performed within that context of uncertainty.	• With the participation of our tax specialists, we reviewed management's analysis, including judgments, estimates, and conclusions reached, for each of the concepts included in the notices of deficiency and observations, as well as the amount of the provisions recognized by the Bank and disclosed in the financial statements. • We obtained and evaluated the responses to the confirmations received from the Bank's tax advisor's regarding the status of the legal proceedings initiated against the aforementioned notices of deficiency and factors considered to determine the probability of a favorable outcome for the Bank.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

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

KPMG

February 21, 2017

San José, Costa Rica
Eric Alfaro Vargas
Member No. 1547
Policy No. 0116 FIG 7
Expires 9/30/2017

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and affixed to the original document

SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
BALANCE SHEET
As of December 31, 2016
(With corresponding figures for 2015)
(In colones)

	Note	2016	2015
ASSETS			
Cash and due from banks	**4**	**265,571,410,423**	**215,735,235,673**
Cash		23,995,540,765	26,786,064,654
Central Bank of Costa Rica		211,905,316,312	171,010,431,906
Local financial entities		869,458,406	812,462,875
Foreign financial entities		26,656,991,453	15,379,397,550
Other cash and due from banks		2,144,103,487	1,746,878,688
Investments in financial instruments	**5**	**108,637,338,129**	**118,288,307,354**
Trading		12,314,605,605	19,046,020,386
Available for sale		95,714,390,622	98,662,953,756
Accrued interest receivable		608,341,902	579,333,212
Loan portfolio	**6**	**1,256,544,125,979**	**1,162,125,401,370**
Current		1,200,039,176,663	1,103,454,086,805
Past due		58,069,759,806	56,564,741,977
In legal collections		9,413,839,966	8,094,839,734
Accrued interest receivable		10,477,549,179	12,045,905,852
(Allowance for loan losses)	6-b	(21,456,199,635)	(18,034,172,998)
Accounts and fees and commissions receivable	**7**	**2,650,066,297**	**4,289,392,516**
Fees and commissions receivable		152,781,749	130,645,001
Accounts receivable for related party transactions		1,087,697,162	2,686,750,771
Other accounts receivable		1,569,183,357	3,054,474,482
(Allowance for doubtful accounts and fees and commissions receivable)	7	(159,595,971)	(1,582,477,738)
Foreclosed assets	**8**	**2,104,852,170**	**2,142,612,068**
Assets and securities acquired in lieu of payment		10,943,986,860	11,571,331,798
(Allowance for impairment and per legal requirement)	8	(8,839,134,690)	(9,428,719,730)
Investments in other companies, net		**557,006**	**557,006**
Property and equipment, net	**9**	**17,375,009,144**	**17,620,407,243**
Other assets	**10**	**5,394,151,135**	**9,019,395,417**
Deferred charges		925,741,245	925,936,251
Intangible assets		451,020,499	218,056,985
Other assets		4,017,389,391	7,875,402,181
TOTAL ASSETS		1,658,277,510,283	1,529,221,308,647

(Continued)

SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
BALANCE SHEET
As of December 31, 2016
(With corresponding figures for 2015)
(In colones)

	Note	2015	2014
LIABILITIES AND EQUITY			
LIABILITIES			
Obligations with the public	11	**1,037,257,612,391**	**1,000,727,946,320**
Demand		320,425,183,616	314,097,099,405
Term		710,077,321,128	680,469,137,477
Finance charges payable		6,755,107,647	6,161,709,438
Obligations with entities	12	**421,901,997,113**	**341,184,104,488**
Demand		41,278,525,580	25,733,751,567
Term		367,585,680,403	307,451,740,742
Other obligations with entities		11,461,158,422	6,942,628,565
Finance charges payable		1,576,632,708	1,055,983,614
Accounts payable and provisions	13	**17,969,539,075**	**19,029,162,625**
Deferred tax	13-a	1,423,266,586	1,641,836,199
Provisions	13-b	4,539,624,247	3,415,393,004
Other sundry accounts payable		12,006,648,242	13,971,933,422
Other liabilities	14	**10,588,401,410**	**6,104,689,829**
Deferred income		6,803,258,826	4,955,417,926
Allowance for stand-by credit losses	6-c	354,451,271	492,585,591
Other liabilities		3,430,691,313	656,686,312
TOTAL LIABILITIES		1,487,717,549,989	1,367,045,903,262
EQUITY			
Share capital		**139,309,891,406**	**139,309,891,406**
Paid-up capital	15-a	139,309,891,406	139,309,891,406
Non-capitalized capital contributions		**14,957,901**	**14,957,901**
Equity adjustments		**6,511,499,399**	**6,916,028,372**
Surplus from revaluation of property	15-c	6,369,342,638	6,369,342,638
Adjustment from valuation of available-for-sale investments		142,156,761	546,685,734
Capital reserves	15-d	**11,597,108,286**	**10,715,939,895**
Prior period retained earnings	15-e	**5,218,587,811**	**443,987,604**
Income for the year		**7,907,915,491**	**4,774,600,207**
TOTAL EQUITY		170,559,960,294	162,175,405,385
TOTAL LIABILITIES AND EQUITY		1,658,277,510,283	1,529,221,308,647
DEBIT MEMORANDA ACCOUNTS	17	253,825,455,989	228,901,091,333
TRUST ASSETS	18	1,697,839,968,127	1,388,739,285,386
TRUST LIABILITIES		528,124,097,543	446,964,103,079
TRUST EQUITY		1,169,715,870,584	941,775,182,307
OTHER DEBIT MEMORANDA ACCOUNTS	20	6,764,968,427,693	5,644,405,360,281
Own accounts		6,671,872,025,956	5,553,948,707,626
Third party accounts		93,096,401,737	90,456,652,655

Manfred Sáenz
Legal Representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

SCOTIABANK DE COSTA RICA, S.A.

(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2016

(With corresponding figures for 2015)

(In colones)

	Note	2016	2015
Finance income			
Cash and due from banks		149	1,218
Investments in financial instruments		3,776,118,474	4,374,039,804
Loan portfolio	21	93,591,268,431	83,490,045,058
Foreign exchange gain	23	4,400,305,356	-
Gain on available-for-sale financial instruments	5	448,824,288	686,830,361
Other finance income		1,594,196,039	1,316,774,901
Total finance income		**103,810,712,737**	**89,867,691,342**
Finance expense			
Obligations with the public	22-a	35,392,378,665	32,670,519,782
Obligations with financial entities	22-b	10,919,869,009	7,382,947,222
Foreign exchange loss	23	-	340,427,353
Loss on available-for-sale financial instruments	5	65,337,852	151,256,004
Other finance expense		22,264,597	98,466,707
Total finance expense		**46,399,850,123**	**40,643,617,068**
Allowance for impairment of assets	6-b-e, 7	10,985,999,997	10,876,388,353
Recovery of assets and decrease in allowances and provisions		4,330,435,877	2,106,314,778
GROSS FINANCE INCOME		**50,755,298,494**	**40,454,000,699**
Other operating income			
Service fees and commissions	24	16,375,606,492	14,855,447,064
Foreclosed assets		1,024,152,465	279,609,814
Foreign currency exchange and arbitrage		4,966,640,433	4,844,575,556
Other income with related parties		5,794,826,381	5,597,454,814
Other operating income		2,582,939,786	3,056,833,545
Total operating income		**30,744,165,557**	**28,633,920,793**
Other operating expenses			
Service fees and commissions		5,797,452,034	5,174,626,816
Foreclosed assets		1,887,280,792	2,722,883,773
Provisions		2,727,701,052	2,248,835,164
Foreign currency exchange and arbitrage		520,707	236,790
Other expenses with related parties		3,154,005,211	1,654,804,381
Other operating expenses		2,011,509,556	2,146,315,837
Total other operating expenses		**15,578,469,352**	**13,947,702,761**
GROSS OPERATING INCOME		**65,920,994,699**	**55,140,218,731**
Administrative expenses			
Personnel expenses	25	29,625,038,394	27,576,314,295
Other administrative expenses	26	22,591,617,436	19,729,155,348
Total administrative expenses		**52,216,655,830**	**47,305,469,643**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**13,704,338,869**	**7,834,749,088**
Income tax	13a	4,275,238,100	2,200,399,060
Deferred tax	13a	45,200,056	34,159,431
Decrease in income tax	13a	-	28,339,336
Statutory allocations		685,216,943	428,761,458
Decrease in statutory allocations		-	37,024,003
INCOME FOR THE YEAR		8,789,083,882	5,305,111,340
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus on revaluation of property		-	2,322,626,072
Adjustment from valuation of available-for-sale investments, net		(404,528,973)	358,414,742
OTHER COMPREHENSIVE INCOME, NET OF TAX		(404,528,973)	2,681,040,814
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		8,384,554,909	7,986,152,154

Manfred Sáenz
Legal Representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

SCOTIABANK DE COSTA RICA, S.A.
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STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2016
(With corresponding figures for 2015)
(In colones)

	Share capital	Non-capitalized capital contributions	Equity adjustments: Revaluation of property	Equity adjustments: Valuation of available-for-sale investments	Equity adjustments: Total equity adjustments	Capital reserves	Prior period retained earnings	Total
Balance at January 31, 2014	**94,127,341,406**	**32,011,757,901**	**4,046,716,566**	**188,270,992**	**4,234,987,558**	**10,185,428,762**	**13,629,737,604**	**154,189,253,231**
Transactions with shareholders recognized directly in equity								
Appropriation to legal reserve	-	-	-	-	-	530,511,133	(530,511,133)	-
Additional non-capitalized contributions received in cash	-	13,185,750,000	-	-	-	-	(13,185,750,000)	-
Additional capital contributions from retained earnings	45,182,550,000	(45,182,550,000)	-	-	-	-	-	-
Total transactions with shareholders recognized directly in equity	**139,309,891,406**	**14,957,901**	**4,046,716,566**	**188,270,992**	**4,234,987,558**	**10,715,939,895**	**(86,523,529)**	**154,189,253,231**
Other comprehensive income for the year:								
Income for the year	-	-	-	-	-	-	5,305,111,340	5,305,111,340
Surplus on revaluation of property	-	-	2,322,626,072	-	2,322,626,072	-	-	2,322,626,072
Adjustment from valuation of available-for-sale financial instruments, net of income tax	-	-	-	893,989,099	893,989,099	-	-	893,989,099
Net amount transferred to the statement of comprehensive income	-	-	-	(535,574,357)	(535,574,357)	-	-	(535,574,357)
Total comprehensive income for the year	-	-	**2,322,626,072**	**358,414,742**	**2,681,040,814**	-	**5,305,111,340**	**7,986,152,154**
Balance at December 31, 2015	**139,309,891,406**	**14,957,901**	**6,369,342,638**	**546,685,734**	**6,916,028,372**	**10,715,939,895**	**5,218,587,811**	**162,175,405,385**
Transactions with shareholders recognized directly in equity								
Appropriation to legal reserve	-	-	-	-	-	881,168,391	(881,168,391)	-
Total transactions with shareholders recognized directly in equity	**139,309,891,406**	**14,957,901**	**6,369,342,638**	**546,685,734**	**6,916,028,372**	**11,597,108,286**	**4,337,419,420**	**162,175,405,385**
Other comprehensive income for the year:								
Income for the year	-	-	-	-	-	-	8,789,083,882	8,789,083,882
Adjustment from valuation of available-for-sale financial instruments, net of income tax	-	-	-	(21,042,537)	(21,042,537)	-	-	(21,042,537)
Net amount transferred to the statement of comprehensive income	-	-	-	(383,486,436)	(383,486,436)	-	-	(383,486,436)
Total comprehensive income for the year	-	-	-	**(404,528,973)**	**(404,528,973)**	-	**8,789,083,882**	**8,384,554,909**
Balance at December 31, 2016	**139,309,891,406**	**14,957,901**	**6,369,342,638**	**142,156,761**	**6,511,499,399**	**11,597,108,286**	**13,126,503,302**	**170,559,960,294**

Manfred Sáenz
Legal Represenative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2016
(With corresponding figures for 2015)
(In colones)

	Note	2016	2015
Cash flows from operating activities			
Income for the year		8,789,083,882	5,305,111,340
Items not requiring cash			
Net gain or loss on foreign exchange		1,278,711,431	(189,850,847)
Loss on allowance for loan losses		7,800,000,008	7,676,043,401
Loss on allowance for foreclosed assets		4,609,736	1,349,213,805
Loss on other allowances		(383,000,005)	652,344,951
Expense for provision for severance benefits		339,993,615	430,358,073
Depreciation and amortization		1,924,327,115	1,765,589,886
Loss on sale and disposal of assets		51,344,529	48,063,219
Expense for other provisions		2,747,763,920	2,245,669,251
Deferred tax		(45,200,056)	(62,498,767)
Finance income		(97,367,386,905)	(87,864,084,862)
Finance expense		46,312,247,674	40,053,467,004
Income tax		4,275,238,100	2,200,399,060
Net (increase) decrease in assets			
Trading securities		6,731,414,781	(6,913,890,840)
Loans and cash advances		(77,885,794,768)	(134,710,572,729)
Foreclosed assets		3,895,147,391	(154,695,231)
Other assets		5,485,686,530	(6,601,891,726)
Net increase (decrease) in liabilities			
Demand and term obligations		13,372,395,316	112,673,074,753
Other accounts payable and provisions		(6,894,365,077)	3,568,236,862
Other liabilities		4,483,711,581	2,571,340,931
Interest collected		98,906,734,888	85,934,093,011
Interest paid		(45,198,200,371)	(37,980,032,547)
Taxes paid		(1,829,611,012)	(8,085,978,852)
Net cash flows from operating activities:		**(23,205,147,697)**	**(16,090,490,854)**
Cash flows from investing activities			
Increase in financial instruments		(4,639,697,205,525)	(6,477,475,828,229)
Decrease in financial instruments		4,657,189,681,160	6,443,713,099,442
Acquisition of property and equipment	9	(1,266,014,645)	(1,908,420,167)
Net cash flows from (used in) investing activities:		**16,226,460,990**	**(35,671,148,954)**
Cash flows from financing activities			
Other new financial obligations		438,686,526,023	116,084,126,668
Payment of obligations		(368,563,427,510)	(62,116,908,089)
Net cash flows from financing activities:		**70,123,098,513**	**53,967,218,579**
Net increase in cash		**63,144,411,806**	**2,205,578,771**
Cash at beginning of year	4	**240,212,188,863**	**238,006,610,091**
Cash at end of year	4	**303,356,600,669**	**240,212,188,863**

Manfred Sáenz
Legal Representative

David Morales
General Accountant

Leonel Morales
Internal Auditor

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

1. Summary of operations and significant accounting policies

(a) Reporting entity

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

The Bank is a wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A., which is owned by Corporación Mercaban de Costa Rica, S.A. (13.120054% ownership interest) (19.747236% en 2015) and BNS Internacional (Panamá), S.A. (86.879917% ownership interest) (80.252720% en 2015), which in turn are wholly-owned by Scotia International Limited. The latter is wholly-owned by The Bank of Nova Scotia.

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

As of December 31, 2016, the Bank has 1.297 employees (2015: 1.246 employees), operates 34 branches (2015: 34 branches), and has a network of 173 automated teller machines (2015: 158 automated teller machines). The Bank's customers, regulatory agencies, and the general public can access relevant information about the Bank and the services it offers at its website www.scotiabankcr.com.

(b) Basis of preparation

i. Statement of compliance

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

The financial statements were authorized for issue by the Board of Directors on April 25, 2017.

(Continued)

ii. Basis of measurement

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

- held-for-trading and available-for-sale assets are measured at fair value.
- Property is stated at revalued cost.

Methods used for fair value measurement are discussed in note 1-e (vi).

(c) Functional and presentation currency

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

(d) Foreign currency

i. Foreign currency transactions

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

ii. Monetary unit and foreign exchange regulations

The parity of the colon with the U.S. dollar is determined in a free exchange market under the supervision of BCCR by using a managed float regime. As of December 31, 2016, the exchange rate was established at ¢548.18 and ¢561.10 to US$1.00 for the purchase and sale of U.S. dollars, respectively (2015: ¢531.94 and ¢544.87, respectively).

iii. Valuation method for assets and liabilities

As of December 31, 2016, assets and liabilities denominated in U.S. dollars, Canadian dollars, and euros were valued at the buy rates of ¢548.18 to US$1.00 (2015: ¢531.94 to US$1.00), ¢404.6803 to CAD$1.00 (2015: ¢382.7733 to CAD$1.00), and ¢573.0674 to €1 (2015: ¢581.6764 to €1), respectively, in accordance with regulations established by BCCR.

(e) Financial assets and financial liabilities

i. Recognition

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

ii. Classification

- Cash and cash equivalents

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

Cash and cash equivalents are carried at amortized cost in the balance sheet.

- Loan portfolio

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

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

The loan portfolio is presented at the amount of outstanding principal. Interest on loans is calculated based on the outstanding principal and contractual interest rates, and is accounted for as income on the accrual basis of accounting. The Bank follows the policy of suspending interest accruals on loans when principal or interest is more than 90 days past due.

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

- Investments in financial instruments

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

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

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

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

- Securities purchased under reverse repurchase agreements

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

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

- Derivative financial instruments

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

Any valuation gains or losses are recorded in the statement of comprehensive income. The Bank will exercise the option when the interest rate reaches the limit stipulated in the contract.

- Deposits and debt instruments issued

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

(Continued)

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

iii. *Derecognition*

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

iv. *Offsetting*

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

v. *Amortized cost measurement*

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

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

vi. *Fair value measurement*

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

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

(Continued)

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

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

vii. *Gains and losses on subsequent measurement*

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

(f) Foreclosed assets

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

- The book balance corresponding to principal, current interest and interest on loan arrears, insurance, and administrative expenses derived from the loan or account receivable being settled.

- The market value on the date the asset was recognized.

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

(Continued)

(g) Property and equipment

i. Own assets

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

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

ii. Subsequent expenditure

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

iii. Depreciation

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

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

iv. Leased assets

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

(h) Other assets

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

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

(Continued)

(i) Impairment of non-financial assets

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

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

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

(j) Accounts payable and other accounts payable

Accounts payable and other accounts payable are recognized at cost.

(k) Provisions

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

(l) Legal reserve

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

(Continued)

(m) Revaluation surplus

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

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

(n) Use of estimates

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

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

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

(o) Allowance for loan losses

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

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

(Continued)

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

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

(p) Finance income and expense

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

(q) Fee and commission income

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

(r) Operating lease payments

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

(s) Income tax

i. Current

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

ii. Deferred

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

A deferred tax asset is recognized only to the extent that there is a reasonable probability that it will be realized.

(t) Basic earnings per share

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

(u) Employee benefits

i. Severance benefits

Costa Rican legislation requires the payment of severance benefits to employees in the event of death, retirement, or dismissal without just cause, equivalent to 7 days' salary for employees with between 3 and 6 months of service, 14 days' salary for employees with between 6 months and 1 year of service, and an amount prescribed by the Employee Protection Law for employees with more than 1 year of service, up to a maximum of 8 years.

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

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

ii. *Short-term employee benefits*

Statutory Christmas bonus

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

Vacation

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

International Share Acquisition Program for Employees

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

Global Incentive Pay Program

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

(v) Trusts

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

(Continued)

2. Restricted assets

As of December 31, restricted assets are as follows:

		2016	2015
Cash and due from banks:			
Minimum cash reserve	¢	196,525,568,090	163,873,766,511
Drafts and transfers payable		3,115,849,363	778,747,877
Subtotal		199,641,417,453	164,652,514,388
Investments:			
Clearing house guarantee		713,645,491	5,608,167,379
Guarantee deposit for public utility payment collection services		83,600,000	141,288,000
Other guarantees		121,405,719	39,329,419
Subtotal		918,651,210	5,788,784,798
Loans:			
Requirement for deposit-taking in demand accounts per art. 59 of IRNBS (Law No. 1644)		53,471,367,204	58,675,671,052
Accrued interest receivable:			
Committed investments		-	20,459,067
Other:			
Guarantee deposits		153,052,652	85,286,336
Total	¢	254,184,488,519	229,222,715,641

Pursuant to Costa Rican banking legislation, the Bank maintains a minimum cash reserve in BCCR. As of December 31, 2016, that reserve is calculated as a percentage of third-party deposits (see note 4).

3. Balances and transactions with related parties

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

		2016	2015
Assets:			
Cash and due from banks	¢	2,951,008,818	943,779,565
Value investments		-	13,295,500,000
Loan portfolio		15,593,385,095	11,822,010,652
Accounts and accrued interest receivable		1,087,697,162	2,686,750,771
Total assets	¢	19,632,091,075	28,748,040,988
Liabilities:			
Obligations with the public	¢	19,529,304,121	9,337,630,232
Other financial obligations		222,063,063,688	208,296,249,529
Other accounts payable		2,089,254,904	927,396,821
Total liabilities	¢	243,681,622,713	218,561,276,582
Expenses:			
Finance	¢	5,977,964,662	3,542,396,247
Operating		3,154,005,211	1,654,804,381
Total expenses	¢	9,131,969,873	5,197,200,628
Income:			
Finance	¢	1,346,574,498	631,473,294
Operating		5,796,465,480	7,633,622,375
Total income	¢	7,143,039,978	8,265,095,669

As of December 31, 2016, compensation paid to key personnel amounts to ¢1,688,950,131 (2015: ¢2,029,795,568).

As of December 31, 2016, the following economic interest groups are related to the Bank in accordance with SUGEF Directive 4-04:

- Scotia Leasing Costa Rica, S.A.
- Scotia Valores, S.A.
- Scotia Sociedad de Fondos de Inversión, S.A.
- Scotia Leasing Panamá, S.A.
- Scotia Leasing Honduras, S.A.
- Arrinsa Leasing, S.A. de C.V.
- Scotia Leasing Guatemala, S.A.
- Scotia Corredora de Seguros, S.A.
- Grupo BNS de Costa Rica, S.A.
- BNS Internacional, S.A.
- Corporación Mercabán de Costa Rica, S.A.
- Portic de Sotosol, S.A.
- The Bank of Nova Scotia (Costa Rica), S.A.
- BNS Leasing de Costa Rica, S.A.
- Scotia Tarjetas de Costa Rica, S.A.

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

As of December 31, 2015, the Bank of Nova Scotia (Costa Rica), S.A., BNS Leasing de Costa Rica, S.A., and Scotia Tarjetas de Costa Rica, S.A. were not part of the economic interest group, since they were acquired by Grupo BNS de Costa Rica, S.A. on February 1, 2016.

4. Cash and due from banks

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

		2016	2015
Cash	¢	23,995,540,765	26,786,064,654
Demand deposits in BCCR		211,905,316,312	171,010,431,906
Demand deposits in local financial entities		869,458,406	812,462,875
Demand deposits in foreign financial entities		26,656,991,453	15,379,397,550
Notes payable on demand		2,144,103,487	1,746,878,688
Total	¢	265,571,410,423	215,735,235,673

(Continued)

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

		2016	2015
Cash and due from banks	¢	265.571.410.423	215.735.235.673
Highly-liquid short-term investments		37.785.190.246	24.476.953.190
Total	¢	303.356.600.669	240.212.188.863

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

		2016	2015
Local currency	¢	48,964,664,392	53,590,459,034
Foreign currency		147,560,903,698	110,283,307,477
Total minimum cash reserve	¢	196,525,568,090	163,873,766,511

As of December 31, 2016, highly-liquid short-term investments include securities acquired under reverse repurchase agreements for a total of ¢5,311,556,200 and US$59,220,756 (2015: ¢931,657,931 and US$3,163,731). Those securities bear interest at rates ranging between 0.75% and 4.03% per annum in colones and between 0.10% and 3.04% per annum in U.S. dollars (2015: between 3.31% and 4.85% per annum in colones and between 2.43% and 2.96% per annum in U.S. dollars), and are included in cash equivalents.

5. Investments in financial instruments

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

		2016	2015
Trading	¢	12,314,605,605	19,046,020,386
Available for sale		95,714,390,622	98,662,953,756
Subtotal		108,028,996,227	117,708,974,142
Accrued interest receivable		608,341,902	579,333,212
Total	¢	108,637,338,129	118,288,307,354

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

		2016	2015
Open investment funds in colones managed by a local related party	¢	2,521,021,885	1,402,416,712
Open investment funds in U.S. dollars managed by a local related party		1,445,645,050	1,601,810,942
Open investment funds in colones managed by a local entity		302,259,391	10,261,111,640
Open investment funds in U.S. dollars managed by a local entity		8,045,679,279	5,780,681,092
Total	¢	12,314,605,605	19,046,020,386

(Continued)

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

		2016	2015
Local issuers:			
Costa Rican Government	¢	46,498,418,682	66,366,146,137
BCCR		22,622,072,975	12,533,567,286
Financial entities		141,221,800	172,357,400
Private issuers		8,592,760	8,260,018
Repurchase agreements		4,461,693,246	6,230,919,697
Subtotal		73,731,999,463	85,311,250,538
Foreign issuers:			
Governments		55,191,159	53,203,218
Financial entities		21,927,200,000	13,298,500,000
Subtotal		21,982,391,159	13,351,703,218
Total	¢	95,714,390,622	98,662,953,756

As of December 31, 2016, investments in financial instruments in the amount of ¢918,651,210 (2015: ¢5,788,784,798) secure operations with several local institutions (see note 2).

As of December 31, 2016, investments in financial instruments bear interest at rates ranging between 0.04% and 11.04% per annum (2015: between 1.25% and 8.53% per annum) in colones, and between 0.10% and 5.05% per annum (2015: between 0.10% and 4.93% per annum) in U.S. dollars.

For the year ended December 31, 2016 and 2015, realized gain and loss on available-for-sale financial instruments is as follows:

		2016	2015
Realized gain on the sale of available-for-sale financial instruments	¢	448,824,288	686,830,361
Realized loss on the sale of available-for-sale financial instruments		(65,337,852)	(151,256,004)
Net gain	¢	383,486,436	535,574,357

(Continued)

6. Loan portfolio

a) Loan portfolio by origin

		2016	2015
Loans originated by the Bank	¢	1,194,197,944,890	1,092,829,612,134
Loans purchased		73,324,831,545	75,284,056,382
Subtotal		1,267,522,776,435	1,168,113,668,516
Accrued interest receivable		10,477,549,179	12,045,905,852
Allowance for loan losses		(21,456,199,635)	(18,034,172,998)
Total	¢	1,256,544,125,979	1,162,125,401,370

As of December 31, 2016, annual interest rates on loans ranged between 4.45% and 25% in colones (2015: between 5.95% and 25%) and between 3.75% and 14.25% (2015: between 3.50% and 14.25%) in U.S. dollars.

The purchased portfolio includes the portfolio acquired in the purchase and merger process with Banco Interfin, S.A. (October 2007). As of December 31, 2016, that portfolio amounts to ¢33,166,403,632 and US$73,173,805 (2015: ¢31,728,104,361 and US$81,516,953). This account also includes a portfolio purchased from a related party (December 2008) as part of the disassociation of such related party from the financial group. As of December 31, 2016, that portfolio amounts to US$83,935 (2015: US$364,372).

b) Allowance for loan losses

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

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

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

		2016	2015
Opening balance	¢	18,034,172,998	13,610,565,296
Allowance expense		10,347,184,898	9,046,999,996
Charged against allowance		(4,438,197,817)	(4,093,883,010)
Decrease in allowance		(2,943,999,996)	(503,956,598)
Translation effect for allowances in foreign currency		457,039,552	(25,552,686)
Closing balance	¢	21,456,199,635	18,034,172,998

c) Allowance for stand-by credit losses

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

		2016	2015
Opening balance	¢	492.585.591	327.249.400
Allowance expense		608.815.101	377.000.001
Cancellation of contingent credits against estimation		(555.260.501)	-
Decrease in allowance		(211.999.995)	(211.000.000)
Translation effect for allowances in foreign currency		20.311.075	(663.810)
Closing balance	¢	354.451.271	492.585.591

(Continued)

7. Accounts and fees and commissions receivable

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

		2016	2015
Fees and commissions	¢	152,781,749	130,645,001
Related party transactions (note 3)		1,087,697,162	2,686,750,771
Sundry credit card receivables		820,044,756	278,873,176
Advance payments to suppliers		-	957,492
Other expenses		20,886,836	475,914,896
Due from INS		26,263,827	53,166,557
Loan operations		-	1,030,965,090
ATH transactions		695,801,713	616,268,880
Other sundry accounts receivable		6,186,225	598,328,391
		1,569,183,357	3,054,474,482
Subtotal		2,809,662,268	5,871,870,254
(Allowance for doubtful accounts and fees and commissions receivable)		(159,595,971)	(1,582,477,738)
Total	¢	2,650,066,297	4,289,392,516

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

		2016	2015
Opening balance	¢	1,582,477,738	1,066,080,856
Allowance expense		29,999,998	1,452,388,356
Charged against allowance		(1,043,758,589)	(137,606,307)
Decrease in allowance		(413,000,003)	(800,043,405)
Translation effect for allowances in foreign currency		3,876,827	1,658,238
Closing balance	¢	159,595,971	1,582,477,738

8. Foreclosed assets, net

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

		2016	2015
Assets acquired in lieu of payment:			
Real property	¢	10,302,069,654	11,133,161,876
Other		641,917,206	438,169,922
Subtotal		10,943,986,860	11,571,331,798
(Allowance for impairment and per legal requirements)		(8,839,134,690)	(9,428,719,730)
Net total	¢	2,104,852,170	2,142,612,068

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

		2016	2015
Opening balance	¢	9.428.719.730	8.922.282.630
Increase on allowance		915.737.686	1.544.084.654
Charged against allowance for retirements or sales		(594.194.776)	(842.776.705)
Decrease in allowance		(911.127.950)	(194.870.849)
Closing balance	¢	8.839.134.690	9.428.719.730

9. Property and equipment, net

As of December 31, 2016, property and equipment, net is as follows:

	2015	Additions	Retirements	2016
Cost				
Land	1,405,990,980	-	-	1,405,990,980
Buildings and facilities	4,717,803,912	-	-	4,717,803,912
Furniture and equipment	3,692,645,169	203,518,970	-	3,896,164,139
Computer hardware	7,309,087,580	1,027,624,015	(37,953,704)	8,298,757,891
Vehicles	547,746,543	34,871,660	(30,103,864)	552,514,339
Subtotal	17,673,274,184	1,266,014,645	(68,057,568)	18,871,231,261
Accumulated depreciation	(7,488,860,716)	(1,336,740,199)	16,713,039	(8,808,887,876)
Net cost	10,184,413,468	(70,725,554)	(51,344,529)	10,062,343,385
Revaluation				
Cost	8,852,190,770	-	-	8,852,190,770
Accumulated depreciation	(1,416,196,995)	(123,328,016)	-	(1,539,525,011)
Net revaluation	7,435,993,775	(123,328,016)	-	7,312,665,759
Net total	17,620,407,243	(194,053,570)	(51,344,529)	17,375,009,144

(Continued)

During the year ended December 31, 2016, the depreciation expense amounts to ¢1,460,068,215 and is charged against profit or loss for the year.

As of December 31, 2015, property and equipment is as follows:

	2014	Additions	Retirements	2015
Cost				
Land	1,405,990,980	-	-	1,405,990,980
Buildings and facilities	4,717,803,912	-	-	4,717,803,912
Furniture and equipment	3,398,930,886	315,465,313	(21,751,031)	3,692,645,169
Computer hardware	5,986,237,217	1,327,256,529	(4,406,166)	7,309,087,580
Vehicles	352,311,242	265,698,325	(70,263,024)	547,746,543
Subtotal	15,861,274,237	1,908,420,167	(96,420,221)	17,673,274,184
Accumulated depreciation	(6,248,322,344)	(1,288,895,375)	48,357,003	(7,488,860,716)
Net cost	9,612,951,893	619,524,792	(48,063,218)	10,184,413,468
Revaluation				
Cost	5,835,030,808	3,017,159,963	-	8,852,190,770
Accumulated depreciation	(1,304,357,183)	(111,839,812)	-	(1,416,196,995)
Net revaluation	4,530,673,625	2,905,320,151	-	7,435,993,775
Net total	14,143,625,518	3,524,844,943	(48,063,218)	17,620,407,243

Depreciation expense for the year ended December 31, 2015 amounted to ¢1,400,735,187 and was charged against profit or loss for the year.

Pursuant to local regulations, the Bank must perform a valuation of its productive assets at least every five years. During 2015, the market value of land, buildings, and facilities of the Bank was assessed by an independent appraiser, with cutoff as of September 30, 2015. Such appraisal determined increases in the fair value of land, buildings, and facilities in the amount of ¢702,046,991 and ¢2,315,112,972, respectively (for a total of ¢3,017,159,963). Furthermore, after the asset revaluation was accounted for, a deferred tax liability was booked in the amount of ¢694,533,892 (see note 13a). Due to the valuation techniques used, they are classified as Level 3 of the fair value hierarchy.

10. Other assets

As of December 31, other assets are as follows:

		2016	2015
Deferred charges			
Leasehold improvements - operating lease	¢	925,741,245	925,936,251
Intangible assets			
Software		204,957,803	181,147,332
Other		246,062,696	36,909,653
Other assets			
Prepaid interest and fees and commissions		1,067,921,695	253,407,827
Prepaid taxes		-	2,252,759,347
Prepaid insurance		59,406,708	385,206,149
Other prepaid expenses		386,679,310	191,598,030
Stationery, office supplies, and other materials		60,013,603	47,425,455
Library and artwork		16,945,602	16,945,602
Construction work-in-progress		158,930,478	225,331,358
Software under development		1,254,197,421	955,881,260
Operations pending settlement		860,241,922	3,461,560,817
Guarantee deposits		153,052,652	85,286,336
Subtotal		4,017,389,391	7,875,402,181
Total	¢	5,394,151,135	9,019,395,417

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

		2016	2015
Amortization of leasehold improvements		218,474,532	173,563,062
Amortization of software		245,784,368	191,291,637
Total	¢	464,258,900	364,854,699

11. Obligations with the public

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

		2016	2015
Demand			
Deposits:			
Checking accounts	¢	267.866.132.183	268.921.483.502
Certified checks		10.868.130	29.737.064
Demand savings deposits		40.574.918.395	37.778.663.183
Matured term deposits		1.027.258.715	1.315.325.344
Overnight deposits		5.819.658.297	2.240.087.286
Subtotal deposits		315.298.835.720	310.285.296.379
Other obligations with the public:			
Notes payable on demand - creditors		1.464.385.798	1.978.611.251
Drafts and transfers		3.115.849.363	778.747.877
Cashier's checks		435.638.844	992.032.038
Sundry demand obligations with the public		110.473.891	62.411.860
Subtotal other obligations with the public		5.126.347.896	3.811.803.026
Subtotal demand		320.425.183.616	314.097.099.405
Term			
Deposits:			
Term deposits from the public		658.857.383.442	627.405.990.804
Term deposits from related parties		-	1.196.108.687
Term deposits pledged as guarantee		51.219.937.686	51.867.037.986
Subtotal deposits		710.077.321.128	680.469.137.477
Other obligations with the public:			
Charges payable		6.755.107.647	6.161.709.438
Total	¢	1.037.257.612.391	1.000.727.946.320

As of December 31, 2016, the balances of the issue of standardized bonds are included in current term deposit accounts. As of that date, term deposits include standardized bonds in the amount of ¢76,300,000,000 and US$69,598,000 (2015: ¢70,177,000,000 and US$49,778,000), bearing interest at rates ranging between 2.23% and 8.70% per annum in colones and between 2.45% and 9.24% per annum in U.S. dollars (2015: between 7.07% and 9.24% per annum in colones and between 3.26% and 5.43% per annum in U.S. dollars).

(Continued)

Term deposits made through banks have terms ranging from a minimum of 31 days to a maximum of five years. As of December 31, 2016, certificates of deposit bear interest at rates ranging between 2.72% and 10.12% per annum (2015: between 2.72% and 11.55% per annum) in Costa Rican colones and between 0.55% and 5.40% per annum (2015: between 0.55% and 5.44% per annum) in U.S. dollars.

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

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

	2016		
	Number		Cumulative amount
Demand			
Deposits from the public	104036	¢	314,271,577,005
Restricted and inactive deposits	78		1,027,258,715
Other obligations with the public	-		5,126,347,896
Subtotal	104114		320,425,183,616
Obligations with entities			
Deposits from other financial entities	14		28,991,036,314
Subtotal	14		28,991,036,314
Total demand obligations with customers	104128		349,416,219,930
Term			
Obligations with the public			
Deposits from the public	7728		658,857,383,442
Deposits from other financial entities	-		-
Deposits from State-owned entities	-		-
Restrited and inactive deposits	1881		51,219,937,686
Subtotal	9609		710,077,321,128
Obligations with entities			
Deposits from other financial entities	15		22,516,608,328
Subtotal	15		22,516,608,328
Total demand obligations with customers	9624	¢	732,593,929,456

(Continued)

As of December 31, 2015, deposits from customers by cumulative amount and number of customers are as follows:

	2015		
	Number		Cumulative amount
Demand			
Obligations with the public			
Deposits from the public	97755	¢	308,969,971,035
Restricted and inactive deposits	96		1,315,325,344
Other obligations with the public	-		3,811,803,026
Subtotal	97851		314,097,099,405
Obligations with entities			
Deposits from other financial entities	12		25,733,751,567
Subtotal	12		25,733,751,567
Total demand obligations with customers	97863		339,830,850,972
Term			
Obligations with the public			
Deposits from the public	7507		623,282,699,490
Deposits from other financial entities	1		1,595,820,000
Deposits from State-owned entities	1		3,723,580,000
Restrited and inactive deposits	1810		51,867,037,987
Subtotal	9319		680,469,137,477
Obligations with entities			
Deposits from other financial entities	7		15,023,390,775
Subtotal	7		15,023,390,775
Total demand obligations with customers	9326	¢	695,492,528,252

12. Obligations with entities

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

		2016	2015
Demand obligation:			
Checking accounts of local financial entities	¢	28.991.036.314	25.733.751.567
Deferred term deposits		1.365.000	-
Deposits overnight		622.164.950	-
Checking accounts and related parties obligations		11.663.959.316	-
Subtotal demand obligations		41.278.525.580	25.733.751.567
Term obligations:			
Term deposits from local financial entities		22.516.608.328	15.023.390.775
Loan with Mercantil Commerce Bank		-	7.979.100.000
Loan with Wells Fargo Bank, N.A.		30.151.056.336	17.156.074.558
Loan with Bladex		7.674.520.000	13.103.455.337
Loan with DEG		16.445.400.000	-
Préstamo con Banco Mercantil SA CA MIAMI		1.836.371.567	-
Loan with IIC		3.357.302.500	5.465.683.500
Loan with IBD		13.496.191.600	35.599.552.560
Loans with other entities		50.432.860.001	5.319.400.000
Obligations with related financial entities		221.675.370.071	207.805.084.012
Subtotal term obligations		367.585.680.403	307.451.740.742
Other obligations - financing with internacional organizations		10.963.600.000	5.319.400.000
Issued letters of credit		497.558.422	1.623.228.565
Subtotal other obligations with entities		11.461.158.422	6.942.628.565
Subtotal		420.325.364.405	340.128.120.874
Charges payable on obligations with financial and non-financial entities		1.576.632.708	1.055.983.614
Total	¢	421.901.997.113	341.184.104.488

(Continued)

As of December 31, 2016, other financial obligations bear interest at rates ranging between 1.22% and 5.13% per annum in U.S. dollars (2015: between 0.75% and 4.10% per annum in U.S. dollars).

Maturities of obligations with entities

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

		2016	2015
Less than 1 year	¢	259,987,518,161	229,023,142,940
Between 1 and 2 years		71,535,036,840	45,703,183,535
Between 2 and 3 years		58,201,444,802	28,700,215,358
Between 3 and 4 years		10,866,884,602	26,156,629,215
Between 4 and 5 years		19,734,480,000	10,544,949,826
Subtotal		420,325,364,405	340,128,120,874
Charges payable on obligations with financial and non-financial entities		1,576,632,708	1,055,983,614
Total	¢	421,901,997,113	341,184,104,488

13. Accounts payable and provisions

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

		2016	2015
Deferred tax	¢	1,423,266,586	1,641,836,199
Provisions		4,539,624,247	3,415,393,004
Other sundry accounts payable:			
Tax liability		1,512,782,916	-
Court-ordered withholdings		231,120	10,398,922
Tax withholdings		948,113,753	908,135,887
Employee payroll taxes		1,076,907,910	983,629,949
Other third-party withholdings		-	6,906,583
Interest on the profit or surplus payable		685,216,943	391,737,454
Loan obligations with related parties (note 3)		2,089,254,904	947,396,821
Clearing house operations		36,681,430	2,405,259,324
Accrued vacation		307,422,372	268,235,942
Accrued statutory Christmas bonus		260,093,282	238,201,832
INS insurance policies		520,382,132	2,529,921,083
Term deposits		394,531,761	2,232,188,917
Credit balances of credit card customers		494,763,430	311,286,469
Outstanding stale checks		524,841,332	612,676,125
Public utility and tax payment collection services		530,871,386	683,119,890
Other sundry accounts payable		2,624,553,571	1,442,838,224
Subtotal other sundry accounts payable		12,006,648,242	13,971,933,422
Total	¢	17,969,539,075	19,029,162,625

(a) Income tax

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

		2016	2015
Income tax expense			
Local income tax	¢	4,275,238,100	2,200,399,060
Decrease in local income tax		-	(28,339,336)
Subtotal		4,275,238,100	2,172,059,724
Deferred tax		45,200,056	34,159,431
Subtotal		45,200,056	34,159,431
Total income tax for the year		4,230,038,044	2,137,900,293

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

The difference between income tax expense and the amount computed by applying the corresponding income tax rate (30%) to income is reconciled as follows:

		2016	2015
Expected income tax	¢	4,111,301,661	2,350,424,726
Plus (less)			
Nondeductible expenses		1,447,049,475	1,078,661,122
Nontaxable income		(1,122,748,009)	(1,173,664,318)
Statutory allocations		(205,565,083)	(117,521,237)
Total income tax	¢	4,230,038,044	2,137,900,293

Tax returns filed by the Bank for the years ended December 31, 2013, 2014, and 2015 are open to review by Tax Authorities. Income tax returns for the 1999-2005 and for the 2010-2013 tax years were audited by Tax Authorities (see note 31).

As of December 31, 2016 and 2015, deferred tax is attributable to unrealized gain on investments in available-for-sale financial instruments and revaluation surplus. A deferred tax asset represents a deductible temporary difference. A deferred tax liability represents a taxable temporary difference.

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

		2016	2015
Deferred tax liabilities			
Revaluation of assets	¢	1,249,897,028	1,407,542,309
Unrealized gains on valuation of investments		173,369,558	234,293,890
Total	¢	1,423,266,586	1,641,836,199

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

		2016	2015
Deferred tax liabilities			
Opening balance	¢	(1.641.836.199)	(827.855.423)
Included in the statement of comprehensive income:			
Effect of revaluation of assets		157.645.281	34.159.435
Effect of unrealized gains on valuation of investments		-	-
Subtotal		157.645.281	34.159.435
Included in equity:			
Effect of revaluation of assets		-	(694.533.892)
Effect of unrealized gains on valuation of investments		60.924.332	(153.606.319)
Subtotal		60.924.332	(848.140.211)
Closing balance	¢	(1.423.266.586)	(1.641.836.199)

(b) Provisions

As of December 31, provisions are as follows:

		2016	2015
Provisions for employer obligations	¢	347.356.292	278.962.565
Provisions for pending litigation		598.259.805	-
Provisions for redemption of miles		1.689.266.847	1.701.960.645
Provisions for cashback		10.718.871	3.995.088
Other provisions		1.894.022.432	1.430.474.706
Total	¢	4.539.624.247	3.415.393.004

(Continued)

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

		2016	2015
Provisions for employer obligations:			
Opening balance	¢	278.962.565	172.221.907
Provisioned		339.993.615	430.358.073
Used		(271.599.888)	(323.617.415)
Closing balance		347.356.292	278.962.565
Provisions for pending litigation:			
Provisioned		598.259.805	-
Closing balance		598.259.805	-
Other provisions:			
Opening balance		3.136.430.439	1.795.705.230
Provisioned		7.120.261.633	5.506.616.815
Used		(6.662.683.922)	(4.165.891.606)
Closing balance		3.594.008.150	3.136.430.439
Total:			
Opening balance		3.415.393.004	1.967.927.137
Provisioned		8.058.515.053	5.936.974.888
Used		(6.934.283.810)	(4.489.509.021)
Total	¢	4.539.624.247	3.415.393.004

14. Other liabilities

As of December 31, other liabilities are as follows:

		2016	2015
Deferred finance income	¢	5,774,619,498	4,674,531,450
Other deferred income		1,028,639,328	280,886,476
Allowance for stand-by credit losses		354,451,271	492,585,591
On hand leftovers		7,233,855	-
Operations pending settlement		3,404,365,572	656,671,764
Other operations pending application		19,091,886	14,548
Total	¢	10,588,401,410	6,104,689,829

(Continued)

15. Equity

a) Share capital

As of December 31, 2016 and 2015, the Bank's share capital is represented by 273,873,384 ordinary registered shares of US$1.00 par value each, for a total of US$273,873,384 (equivalent to ¢139,309,891,406).

b) Revaluation surplus

As of December 31, 2016 and 2015, revaluation surplus corresponds to the increase in fair value of property, which is updated based on an appraisal made by an independent appraiser and authorized by the respective college.

During the year ended December 31, 2015, a revaluation of assets (land, buildings, and facilities) was performed, which resulted in an increase in the revaluation surplus (net of deferred tax) of ¢2,322,626,072.

c) Legal reserve

Under Article 154 of IRNBS, the Bank must allocate 10% of its net earnings for each period to a legal reserve. As of December 31, 2016 the financial statements include an appropriation to the legal reserve in the amount of ¢11,597,108,286 (2015: ¢10,715,939,895). No further appropriation is required once the legal reserve reaches 20% of share capital.

d) Prior year retained earnings

As of December 31, 2016, prior year retained earnings amount to ¢13,126,503,302 (2015: ¢5,218,587,811).

(Continued)

16. Basic earnings per share

As of December 31, 2016, the calculation of basic earnings per share was based on the net profit attributable to shareholders, as follows:

		2016	2015
Ordinary shares:			
Profit or loss	¢	8,789,083,882	5,305,111,340
Weighted average number of shares (denominator)		273,873,384	273,873,384
Profit or loss per ordinary share	¢	32.092	19.371

17. Memoranda accounts

As of December 31, in the normal course of business, the Bank has contingencies off the balance sheet that involve a certain degree of credit and liquidity risk.

As of December 31, memoranda accounts are as follows:

		2016	2015
Performance bonds	¢	46.912.163.330	45.562.723.236
Bid bonds		1.032.487.349	1.310.337.313
Other guarantees		18.136.722.859	10.808.934.416
Guarantees		2.903.835.815	-
Letters of credit issued but unused		7.740.804.824	12.715.080.855
Letters of credit confirmed but unused		264.770.940	977.876.792
Pre-approved lines of credit		166.498.564.971	136.692.851.428
Credits pending disbursement		10.336.105.901	20.833.287.293
Total	¢	253.825.455.989	228.901.091.333

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

(Continued)

18. Trust assets

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

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

		2016	2015
Cash and due from banks	¢	7,440,627,750	2,790,224,754
Investments in financial instruments		108,518,692,420	112,202,038,916
Loan portfolio		475,885,207,768	816,423,863
Accounts and fees and commissions receivable		1,895,419,417	1,370,309,090
Foreclosed assets		247,293,309,632	547,092,931,726
Investments in other companies		753,390,932,347	576,223,090,103
Property and equipment		83,645,636,167	137,801,799,660
Other assets		2,544,547,005	2,326,940,280
Investments in property		17,225,595,621	8,115,526,994
Total	¢	1,697,839,968,127	1,388,739,285,386

19. Sureties

As of December 31, 2016 and 2015, the Bank has issued no sureties.

20. Other memoranda accounts

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

		2016	2015
Other own debit memoranda accounts			
Guarantees received in the Bank's custody	¢	55.792.079.660	50.570.859.282
Guarantees received in the custody of third parties		3.696.177.786.420	2.809.037.672.211
Lines of credit granted and pending		416.293.565.966	318.212.708.584
Write-downs		21.306.289.738	14.383.825.954
Accrued interest receivable in suspense		1.432.115.479	1.334.558.648
Supporting documentation		1.028.362.408.831	1.002.851.761.088
Other memoranda accounts		1.452.507.779.862	1.357.557.321.859
Subtotal		6.671.872.025.956	5.553.948.707.626
Third-party debit memoranda accounts			
Third-party assets and securities in custody		93.096.401.737	90.456.652.655
Subtotal		93.096.401.737	90.456.652.655
Total	¢	6.764.968.427.693	5.644.405.360.281

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

(Continued)

21. Finance income on loan portfolio

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

		2016	2015
Current loans:			
Accrued interest on checking account overdrafts	¢	21,346,850	31,462,317
Accrued interest on loans with other funds		74,502,650,478	66,202,577,455
Accrued interest on credit cards		10,056,578,230	9,052,626,179
Accrued interest on factoring		477,649	7,383,764
Accrued interest on loans to State-owned banks		598,510,109	580,004,072
Accrued interest on loans to related parties		1,346,574,498	577,977,733
Subtotal		86,526,137,814	76,452,031,520
Products on loans overdue and in legal collections:			
Accrued interest on loans with other funds		7,065,130,617	7,038,013,538
Total	¢	93,591,268,431	83,490,045,058

22. Finance expense

(a) Obligations with the public

As of December 31, finance expense for obligations with the public is as follows:

		2016	2015
Demand deposits	¢	2,870,787,697	3,281,211,970
Term deposits		32,521,590,968	29,389,307,812
	¢	35,392,378,665	32,670,519,782

(b) Obligations with financial and non-financial entities

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

		2016	2015
Demand obligations with financial entities	¢	681,489,373	64,267,132
Term obligations with financial entities		10,112,004,639	7,113,970,845
Term obligations with non-financial entities		126,374,997	204,709,245
	¢	10,919,869,009	7,382,947,222

23. Foreign exchange differences

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

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

		2016	2015
Foreign exchange income (expense):			
Obligations with the public	¢	(22.563.872.546)	1.312.883.977
Other financial obligations		(10.074.145.018)	577.600.365
Other accounts payable and provisions		(346.556.961)	80.283.646
Cash and due from banks		5.679.016.787	(530.278.200)
Investments in financial instruments		1.640.204.419	(155.878.145)
Current loans		27.596.471.827	(1.122.251.526)
Past due loans and loans in legal collections		2.166.811.924	(492.961.667)
Accounts and fees and commissions receivable		302.374.924	(9.825.803)
Total	¢	4.400.305.356	(340.427.353)

24. Service fees and commissions

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

		2016	2015
Income:			
Drafts and transfers	¢	1,454,447,572	1,346,690,324
Foreign trade		2,714,572	-
Trust management		1,073,904,647	987,642,472
Collections		13,668,876	17,207,865
Other banking mandates		520,526,023	475,433,740
Credit cards		9,732,394,567	8,982,166,576
Insurance underwriting		812,031,245	633,587,601
Other		2,765,918,990	2,412,718,486
	¢	16,375,606,492	14,855,447,064

25. Personnel expenses

As of December 31, personnel expenses are as follows:

		2016	2015
Salaries and bonuses, permanent staff	¢	19,777,157,513	18,186,623,950
Compensation for board members and statutory examiners		15,505,780	18,770,819
Overtime		498,351,952	401,766,034
Travel expenses		578,253,692	507,878,005
Statutory Christmas bonus		1,633,312,827	1,533,404,032
Vacation		92,319,607	97,344,247
Incentives		46,210,343	56,580,958
Other compensation		98,114,793	101,991,509
Employer social security		4,410,593,491	4,163,791,338
Refreshments		253,481,236	240,315,461
Uniforms		41,804,845	26,997,202
Training		95,970,083	313,060,567
Employee insurance		349,194,565	356,707,354
Compulsory retirement savings account		890,060,335	845,472,468
Other		844,707,332	725,610,351
	¢	29,625,038,394	27,576,314,295

(Continued)

26. Other administrative expenses

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

		2016	2015
Outsourcing	¢	6,137,644,698	5,917,514,418
Transportation and communications		1,186,866,294	1,033,252,540
Infrastructure		8,256,666,058	8,215,680,561
Overhead		7,010,440,386	4,562,707,829
	¢	22,591,617,436	19,729,155,348

27. Risk management

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

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

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

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

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

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

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

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

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

i. Credit risk

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

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

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

		2016	2015
Cash and due from banks	¢	265,571,410,423	215,735,235,673
Investments in financial instruments		108,637,338,129	118,288,307,354
Loan portfolio		1,256,544,125,979	1,162,125,401,370
Accounts and fees and commissions receivable		2,650,066,297	4,289,392,516
Guarantees granted		68,985,209,353	57,681,994,965
Letters of credit issued but unused		7,740,804,824	12,715,080,855
Confirmed letters of credit		264,770,940	977,876,792
Total	¢	1,710,393,725,945	1,571,813,289,525

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

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

(Continued)

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

		Customers		Banks		Stand-by	
		2016	2015	2016	2015	2016	2015
Individually assessed loans with allowance							
A1	¢	1,063,803,090,596	978,479,873,947	53,513,057,139	58,698,597,896	84,756,487,577	212,045,103,357
A2		4,747,148,543	3,937,956,952	-	-	12,991,883	440,728,227
B1		96,344,022,572	86,003,642,595	-	-	1,631,115,099	2,500,677,246
B2		3,933,344,581	4,157,270,835	-	-	8,276,427	-
C1		22,308,495,377	11,445,673,753	-	-	954,816,980	1,251,752,352
C2		2,815,395,314	2,029,340,975	-	-	54,818	-
D		2,494,199,099	5,444,965,347	-	-	4,900,345	757,043,411
E		28,041,572,393	29,962,252,068	-	-	13,124,702	-
Total	¢	1,224,487,268,475	1,121,460,976,472	53,513,057,139	58,698,597,896	87,381,767,831	216,995,304,593
Allowance for loan losses		(18,991,706,743)	(15,936,652,334)	(171,241,783)	(117,397,196)	(128,672,923)	(272,874,176)
Carrying amount	¢	1,205,495,561,732	1,105,524,324,138	53,341,815,356	58,581,200,700	87,253,094,908	216,722,430,417
Past due loans without allowance							
A1		-	-	-	-	147,780,285,729	-
A2		-	-	-	-	431,267,984	-
B1		-	-	-	-	12,738,279,363	8,512,361,963
B2		-	-	-	-	169,317,588	131,966,062
C1		-	-	-	-	2,569,690,588	715,797,092
C2		-	-	-	-	81,261,164	50,168,275
D		-	-	-	-	214,591,696	207,019,897
E		-	-	-	-	2,458,994,045	2,288,473,449
Carrying amount	¢	-	-	-	-	166,443,688,157	11,905,786,738
Excess allowance over structural allowance		(2,339,775,965)	(2,021,154,773)	-	-	(299,679,244)	(334,893,505)
Carrying amount, net	¢	1,203,155,785,767	1,103,503,169,365	53,341,815,356	58,581,200,700	253,397,103,821	228,293,323,650

(Continued)

Individually assessed loans with allowance

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

Starting March 31, 2014, an additional allowance is established for the covered portion equivalent to 0.50% of the covered balance, which shall be applied gradually over the 48-month term established by the regulation.

Restructured loans

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

a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest has been postponed to a future date beyond the date stipulated under current contractual conditions.

b. Modified loan: Loan operation in which at least one of the current contractual payment conditions has been modified, excluding extensions, additional payments not agreed in the payment schedule, additional payments with the purpose of reducing the amount of installments, or changes in the currency while respecting the agreed maturity date.

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

As of December 31, 2016, restructured loans amount to ¢10,041,787,443 (2015: ¢3,884,240,992).

(Continued)

Allowance for loan losses

Borrower classification

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

a. Group 1: Borrowers with total outstanding balances that exceed the SUGEF limit (2016 and 2015: ¢65,000,000).

b. Group 2: Borrowers with total outstanding balances that are less than or equal to the SUGEF limit (2016 and 2015: ¢65,000,000).

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

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

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

Risk ratings

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

Borrower categories

Analysis of creditworthiness

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

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

b. *Experience in the line of business and quality of management:* Analysis of management's ability to lead the business with appropriate controls and adequate support from the owners.

c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.

d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.

e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, development and operating licenses and permits, representation of products or foreign offices, relationships with significant customers and suppliers, sales agreements, legal risks, and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, etc.

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

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

Analysis of historical payment behavior

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

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

(Continued)

Borrower classification

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

Risk rating	Allowance percentage-uncovered	Allowance percentage-covered	Arrears	Historical payment behaviour	Creditworthiness
A1	0,00%	0,00%	30 days or less	Level 1	Level 1
A2	0,00%	0,00%	30 days or less	Level 2	Level 1
B1	5,00%	0,50%	60 days or less	Level 1	Level 1 or level 2
B2	10,00%	0,50%	60 days or less	Level 2	Level 1 or level 2
C1	25,00%	0,50%	90 days or less	Level 1	Level 1 or level 2 or level 3
C2	50,00%	0,50%	90 days or less	Level 2	Level 1 or level 2 or level 3
D	75,00%	0,50%	120 days or less	Level 1 or level 2	Level 1 or level 2 or level 3 or level 4

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

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

Direct classification in risk rating E

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

(Continued)

Minimum allowance

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

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

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

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

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

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

(Continued)

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

In compliance with the provisions of SUGEF Directive 1-05, as of December 31, 2016, the Bank must maintain a minimum allowance of ¢19,291,621,449 (2015: ¢16,326,923,706). SUGEF External Circular Letter 021-2008 dated May 30, 2008 indicates that the expense for the allowance for loan losses corresponds to the amount necessary to achieve the minimum structural allowance. Furthermore, there must be a duly documented technical justification for any excess above the minimum structural allowance, which is to be sent to SUGEF with the authorization request. The excess may not surpass 15% of the minimum structural allowance for the loan portfolio. This notwithstanding, if any additional allowances are required above the 15%, they must be taken from net earnings for the period pursuant to article 10 of IRNBS. However, Official Letter SGF-3374-2015 dated December 17, 2015 annulled SUGEF Official Letter 021-2008. Consequently, as of December 31, 2016, there is no limit on the booking of allowances determined according to regulatory provisions; such allowances are charged to profit or loss for the year.

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

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

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

(Continued)

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

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

		2016	2015
Counter-cyclical estimate of loan portfolio	¢	624,785,005	-
Generic estimate of non-foreign exchange portfolio		911,853,291	-
Generic estimate of debt coverage ratio	¢	179,917,730	-
		1,716,556,026	-

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

a. Accounts and accrued interest receivable unrelated to credit operations based on arrears calculated from the first day overdue or the date booked in the accounting records, as follows:

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

b. Foreclosed assets held for more than two years from the date of acquisition for 100% of their value.

Loan charge-off policy

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

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

	2016			
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1	1,059,257,382,282	1,055,852,998,168	53,513,057,139	53,341,815,356
A2	4,732,928,152	4,717,720,953	-	-
B1	95,966,539,812	94,522,537,702	-	-
B2	3,915,390,070	3,874,839,360	-	-
C1	22,260,145,947	20,382,449,026	-	-
C2	2,801,975,925	2,507,875,446	-	-
D	2,478,868,653	1,546,279,969	-	-
E	27,670,002,632	16,733,350,960	-	-
	1,219,083,233,473	1,200,138,051,584	53,513,057,139	53,341,815,356

	2015			
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1	972,563,853,982	970,606,894,232	58,698,597,896	58,581,200,700
A2	3,907,990,924	3,900,115,010	-	-
B1	85,475,952,563	84,325,905,772	-	-
B2	4,131,391,844	4,031,351,858	-	-
C1	11,399,326,928	10,521,051,043	-	-
C2	2,014,027,739	1,848,151,755	-	-
D	5,430,053,802	2,865,024,557	-	-
E	29,555,240,776	20,483,723,301	-	-
	1,114,477,838,558	1,098,582,217,528	58,698,597,896	58,581,200,700

Guarantees

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

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

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

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

		2016	2015
Individually assessed loans with allowance (including the balance for loans in legal collections):			
Real property	¢	144,100,736,690	161,110,772,941
Personal property		29,024,023,872	25,380,659,664
Other (trusts)		60,917,793,800	34,052,928,271
Subtotal		234,042,554,362	220,544,360,875
Past due loans without allowance:			
Real property		29,353,783,204	22,669,643,925
Personal property		5,586,208,938	4,549,351,850
Other (trusts)		2,581,790,434	10,004,704,704
Subtotal		37,521,782,576	37,223,700,479
Current loans without allowance:			
Real property		764,958,086,414	760,918,219,648
Personal property		467,471,050,011	392,270,703,371
Financial instruments		-	364,313,600
Other (trusts)		391,174,573,318	278,512,234,935
Subtotal		1,623,603,709,743	1,432,065,471,555
Total	¢	1,895,168,046,681	1,689,833,532,909

(Continued)

Loan portfolio by type of guarantee

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

		2016	2015
Investment certificates	¢	61,321,085,146	108,898,225,429
Fiduciary		443,557,489,951	160,859,411,941
Mortgage		530,335,832,232	655,106,685,607
Chattel mortgage		178,837,001,902	184,573,674,487
State banking		53,471,367,204	58,675,671,052
Total direct loans		1,267,522,776,435	1,168,113,668,516
Accrued interest receivable		10,477,549,179	12,045,905,852
Allowance for loan losses		(21,456,199,635)	(18,034,172,998)
Total	¢	1,256,544,125,979	1,162,125,401,370

The portion of the portfolio concentrated in State banking corresponds to a loan granted in compliance with article 59 of IRNBS.

Loan portfolio by sector

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

		2016	2015
Agriculture, livestock, hunting, and related activities	¢	165,420,644	194,388,563
Manufacturing industry		3,375,701,539	7,429,997,248
Electricity, telecommunications, gas, and water		4,785,652,295	8,002,976,650
Construction, purchase, and repair of property		365,894,904,330	359,105,946,832
Trade		251,053,247,497	188,320,869,103
Transportation		182,647,130	468,701,072
Stock market		53,471,367,204	59,519,603,308
Real estate, business, and leasing activities		766,885,801	1,114,774,221
Education		7,308,906	9,752,099
Services		324,090,161,268	299,813,300,021
Consumer		263,729,479,821	244,133,359,399
Total direct loans		1,267,522,776,435	1,168,113,668,516
Accrued interest receivable		10,477,549,179	12,045,905,852
Allowance for loan losses		(21,456,199,635)	(18,034,172,998)
Total	¢	1,256,544,125,979	1,162,125,401,370

(Continued)

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

Loan portfolio by geographic area

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

		2016	2015
Costa Rica	¢	1,262,966,899,394	1,163,449,337,756
Rest of Central America		1,314,664,621	749,461,134
Rest of North and South America		815,776,158	830,976,686
Caribbean		24,153,984	26,330,732
United States of America		1,777,700,700	2,536,950,057
Europe		557,638,254	440,313,479
Asia		65,943,324	80,298,672
	¢	1,267,522,776,435	1,168,113,668,516

Loan portfolio by arrears

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

		2016	2015
Current	¢	1,200,039,176,663	1,103,454,086,805
1 to 30 days		43,199,841,402	39,350,204,393
31 to 60 days		10,205,892,246	11,378,449,690
61 to 90 days		3,128,633,930	3,692,853,464
91 to 120 days		388,853,137	1,474,309,327
121 to 180 days		895,117,350	456,803,764
More than 180 days		251,421,741	212,121,339
In legal collections		9,413,839,966	8,094,839,734
Total direct loans		1,267,522,776,435	1,168,113,668,516
Accounts and accrued interest		10,477,549,179	12,045,905,852
Allowance for loan losses		(21,456,199,635)	(18,034,172,998)
Total	¢	1,256,544,125,979	1,162,125,401,370

(Continued)

Concentration of the portfolio in individual borrowers or economic interest groups

	2016			2015		
	No. of customers		Amount	No. of customers		Monto
Capital and reserves:						
Less than 5%	48.358	¢	1.150.948.104.727	45925	¢	1.055.748.740.389
Between 5% and 10%	4		43.694.202.428	3		36.833.257.075
Between 10% and 15%	1		19.409.102.076	1		16.856.000.000
Between 15% and 20%	2		53.471.367.204	2		58.675.671.052
Total	48.365	¢	1.267.522.776.435	45.931	¢	1.168.113.668.516

At the balance sheet date, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. In 2016, loans to the Bank's most important customers or economic interest groups, whose loans individually represent 5% or more of share capital and capital reserves, amount to ¢116,574,671,708 (2015: ¢112,364,928,127).

Amount and number of loans in non-accrual status

		2016	2015
Loans in non-accrual status	¢	10,949,232,196	10,238,074,163
Number of loans in non-accrual status		1,124	1,015

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

		2016	2015
Loans in legal collections	¢	9,413,839,966	8,094,839,734
Number of loans in legal collections		430	362
Percentage of total portfolio		0.74%	0.69%

(Continued)

Investments by rating

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

		2016	2015
AAA	¢	8.592.760	8.260.018
AA		12.511.018.560	19.271.580.983
A		21.927.199.791	13.298.500.000
BB		62.195.888.116	70.335.833.423
B		11.386.297.000	14.794.799.718
Total investments by risk rating		108.028.996.227	117.708.974.142
Accrued interest receivable		608.341.902	579.333.212
Total	¢	108.637.338.129	118.288.307.354

Investments by geographic area

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

		2016	2015
Costa Rica	¢	86,046,605,068	104,357,270,924
Rest of North and South America		-	13,298,500,000
United States of America		21,982,391,159	53,203,218
Total investments		108,028,996,227	117,708,974,142
Accrued interest receivable		608,341,902	579,333,212
Total	¢	108,637,338,129	118,288,307,354

ii. Interest rate risk

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

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

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

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

Interest rate gap measurement

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

- A simple gap is the difference between the amount of assets, liabilities, and off-balance sheet instruments with interest rates that are expected to reprice within a specific period.

- A cumulative gap is the net amount of all simple gaps up to, and including, the end date of the reporting period. Interest rate limits are applied to control structural interest rate risk at Bank, unit, and currency levels.

Sensitivity analysis

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

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

(Continued)

The annual income limit is designed to protect short-term income. As of December 31, 2016, that limit was calculated based on the assumption that all variable interest rates on assets and liabilities that reprice within 12 months of the calculation date will increase or decrease by 1% for operations in both foreign and local currency in the comparative periods (2016 and 2015). In the event that variable interest rates change as indicated above, the Bank's asset and liability portfolios would increase or decrease by ¢8,557,688,195 in 2016 (2015: increase or decrease by ¢7,222,045,494).

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

		Effect on fair value	
		2016	2015
Positive change			
Investments	¢	(32,023,584,477)	(4,185,828,177)
Loan portfolio		(34,958,848,469)	(7,704,297,661)
Term deposits		(7,663,310,711)	(6,732,898,110)
Obligations with entities		(4,965,854,866)	(4,201,386,972)
Negative change			
Investments	¢	10,016,389,284	5,735,904,469
Loan portfolio		37,938,607,000	7,955,160,845
Term deposits		7,938,212,551	6,980,055,522
Obligations with entities		5,147,839,400	4,358,498,338

As of December 31, 2016, the interest rate gap report for the Bank's assets and liabilities is as follows (in thousands of colones):

	Average interest rate		Days						
			1-30	31-90	91-180	181-360	361-720	More than 720	Total
Local currency									
Assets	7.74%	¢	94,316,311	13,792,522	104,971,097	51,364,272	18,442,705	18,954,547	301,841,454
Liabilities	5.15%		27,319,382	49,436,255	48,441,066	30,151,355	32,974,418	60,995,330	249,317,806
Gap between assets and liabilities			66,996,929	(35,643,733)	56,530,031	21,212,917	(14,531,713)	(42,040,783)	52,523,648
Foreign currency									
Assets	5.51%		326,074,703	72,465,070	517,919,623	127,101,118	38,872,965	37,522,892	1,119,956,371
Liabilities	2.82%		227,504,912	126,114,099	261,399,694	64,950,469	129,947,249	94,694,378	904,610,801
Gap between assets and liabilities		¢	98,569,791	(53,649,029)	256,519,929	62,150,649	(91,074,284)	(57,171,486)	215,345,570

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As of December 31, 2015, the interest rate gap report for the Bank's assets and liabilities is as follows (in thousands of colones):

	Average interest rate		Days 1-30	31-90	91-180	181-360	361-720	More than 720	Total
Local currency									
Assets	8.25%	¢	107,208,478	104,800,713	22,198,697	20,731,076	16,789,038	37,619,274	309,347,276
Liabilities	5.79%		35,267,205	60,230,194	44,809,372	52,479,801	14,319,056	60,350,282	267,455,910
Gap between assets and liabilities			71,941,273	44,570,519	(22,610,675)	(31,748,725)	2,469,982	(22,731,008)	41,891,366
Foreign currency									
Assets	5.47%		268,544,024	457,710,012	57,256,808	63,096,997	98,588,614	79,848,524	1,025,044,979
Liabilities	2.40%		130,080,859	270,311,016	133,062,878	122,989,806	62,092,254	62,037,099	780,573,912
Gap between assets and liabilities		¢	138,463,165	187,398,996	(75,806,070)	(59,892,809)	36,496,360	17,811,425	244,471,067

(Continued)

iii. Liquidity and financing risk

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

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

(Continued)

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As of December 31, 2016, the asset and liability term matching report (expressed in thousands of colones) sent to SUGEF and prepared in conformity with the Financial Data Class section of the SUGEF's SICVECA Information Manual is as follows:

		Days								
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	More than 30 days past due	Total
Cash and due from banks	¢	69,045,842	-	-	-	-	-	-	-	69,045,842
Minimum cash reserve in BCCR		65,076,031	12,346,018	15,352,666	16,411,531	24,020,109	27,229,914	36,089,299	-	196,525,568
Investments		12,922,948	39,323,947	280,120	6,722,083	5,768,430	9,913,448	33,706,362	-	108,637,338
Loan portfolio		64,969,495	45,172,837	51,344,482	47,989,361	91,592,972	70,444,289	882,197,443	24,289,447	1,278,000,326
Total recovery of assets		212,014,316	96,842,802	66,977,268	71,122,975	121,381,511	107,587,651	951,993,104	24,289,447	1,652,209,074
Obligations with the public		320,425,184	66,218,119	77,404,246	88,998,975	128,887,365	146,861,159	201,707,457	-	1,030,502,505
Obligations with financial entities		41,278,526	27,099,359	47,111,472	15,397,430	93,121,509	35,481,664	160,337,846	-	419,827,806
Charges payable		-	8,331,740	-	-	-	-	-	-	8,331,740
Total maturity of liabilities		361,703,710	101,649,218	124,515,718	104,396,405	222,008,874	182,342,823	362,045,303	-	1,458,662,051
Gap	¢	(149,689,394)	(4,806,415)	(57,538,449)	(33,273,430)	(100,627,363)	(74,755,172)	589,947,801	24,289,447	193,547,023

(Continued)

As of December 31, 2015, the asset and liability term matching report (expressed in thousands of colones) sent to SUGEF and prepared in conformity with the Financial Data Class section of the SUGEF's SICVECA Information Manual is as follows:

		Days								
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	More than 30 days past due	Total
Cash and due from banks	¢	51,861,469	-	-	-	-	-	-	-	51,861,469
Minimum cash reserve in BCCR		53,820,919	15,801,449	11,985,272	13,937,476	22,084,481	20,151,252	26,092,918	-	163,873,767
Investments		19,625,354	27,785,104	391,937	44,010	2,397,073	9,811,333	58,233,497	-	118,288,308
Loan portfolio		71,292,337	36,883,246	55,375,707	50,470,252	75,673,641	62,572,063	802,571,718	25,320,610	1,180,159,574
Total recovery of assets		196,600,079	80,469,799	67,752,916	64,451,738	100,155,195	92,534,648	886,898,133	25,320,610	1,514,183,118
Obligations with the public		314,097,099	94,202,206	71,863,233	85,803,352	137,740,648	125,706,622	165,153,077	-	994,566,237
Obligations with financial entities		25,733,752	9,104,389	20,920,049	22,040,610	66,615,130	82,985,984	111,104,978	-	338,504,892
Charges payable		-	7,217,693	-	-	-	-	-	-	7,217,693
Total maturity of liabilities		339,830,851	110,524,288	92,783,282	107,843,962	204,355,778	208,692,606	276,258,055	-	1,340,288,822
Gap	¢	(143,230,772)	(30,054,488)	(25,030,365)	(43,392,224)	(104,200,583)	(116,157,958)	610,640,078	25,320,610	173,894,296

(Continued)

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

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

Investment portfolios are managed locally with overall guidance and oversight provided by the regional Treasury Department of Grupo BNS.

The Bank's limit structure is as follows:

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

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

(Continued)

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Notes to Financial Statements

Residual contractual maturities of financial liabilities

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

		2016							
				Year					
Obligations:		Balance	Nominal cash flows	1	2	3	4	5	Thereafter
Demand obligations with the public	¢	320,425,184	320,425,184	320,425,184	-	-	-	-	-
Term obligations with the public		710,077,321	753,438,795	545,380,561	83,516,759	54,726,607	-	69,813,544	1,324
Obligations with entities		367,585,680	371,585,845	194,670,207	73,495,250	74,406,260	-	29,014,128	-
	¢	1,398,088,185	1,445,449,824	1,060,475,952	157,012,009	129,132,867	-	98,827,672	1,324

		2015							
				Year					
Obligaciones:		Balance	Nominal cash flows	1	2	3	4	5	Thereafter
Demand obligations with the public	¢	314,097,099	314,097,099	314,097,099	-	-	-	-	-
Term obligations with the public		680,469,137	709,290,349	541,891,732	60,916,818	37,156,293	-	69,324,428	1,078
Obligations with entities		307,451,741	309,333,056	193,651,228	47,932,996	30,425,184	-	37,323,648	-
	¢	1,302,017,978	1,332,720,504	1,049,640,059	108,849,814	67,581,477	-	106,648,076	1,078

(Continued)

iv. Market risk

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

v. Currency risk

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

As of December 31, 2016 and 2015, the Bank has monetary assets and liabilities that are denominated in currencies other than the Costa Rican colon.

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

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

(a) Monetary position in foreign currency

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

	2016			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
Assets				
Cash and due from banks	352,813,997	2,617,189	1,765,055	34,686
Investments in financial instruments	141,177,247	-	-	-
Loan portfolio	1,833,576,177	-	600,591	-
Accounts and fees and commissions receivable	2,856,987	-	-	-
Investments in other companies	1,016	-	-	-
Other assets	2,888,095	173,373	-	-
Total assets	2,333,313,519	2,790,562	2,365,646	34,686
Liabilities				
Obligations with the public	1,332,230,963	1,760,167	2,496,683	-
Obligations with entities	717,286,386	-	-	-
Other accounts payable and provisions	8,204,987	1,786,187	-	-
Other liabilities	12,586,200	-	-	-
Total liabilities	2,070,308,536	3,546,354	2,496,683	-
Excess of assets over liabilities	263,004,983	(755,792)	(131,037)	34,686

(Continued)

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

	2015			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
Assets				
Cash and due from banks	254.401.364	2.774.544	1.628.758	16.335
Investments in financial instruments	119.172.998	-	-	-
Loan portfolio	1.744.317.660	-	840.618	-
Accounts and fees and commissions receivable	6.911.764	53.265	-	-
Investments in other companies	1.047	-	-	-
Other assets	2.212.857	-	-	-
Total assets	2.127.017.690	2.827.809	2.469.376	16.335
Liabilities				
Obligations with the public	1.246.248.262	1.233.422	2.640.643	-
Obligations with entities	596.990.798	-	-	-
Other accounts payable and provisions	9.385.130	1.245.475	-	-
Other liabilities	9.405.046	-	-	-
Total liabilities	1.862.029.236	2.478.897	2.640.643	-
Excess of assets over liabilities	264.988.454	348.912	(171.267)	16.335

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

(b) Ordinary shares in foreign currency

As of December 31, 2016 and 2015, the Bank's equity included ordinary shares for a total of US$273,873,384 (equivalent to ¢139,309,891,406).

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

As of December 31, 2016, the asset and liability term matching report (expressed in thousands of U.S. dollars) for items denominated in foreign currency sent to SUGEF and prepared in conformity with the Financial Data Class section of the SUGEF's SICVECA Information Manual is as follows:

		Days								
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	More than 30 days past due	Total
Cash and due from banks	US$	87,450	-	-	-	-	-	-	-	87,450
Minimum cash reserve in BCCR		89,925	15,841	24,194	21,403	35,919	37,370	44,530	-	269,182
Investments		17,713	58,764	461	111	9,168	11,300	43,659	-	141,176
Loan portfolio		86,321	50,062	56,896	56,837	124,557	92,552	1,360,800	36,933	1,864,958
Total recovery of assets		281,409	124,667	81,551	78,351	169,644	141,222	1,448,989	36,933	2,362,766
Obligations with the public		418,978	81,249	120,598	110,446	185,058	187,931	225,178	-	1,329,438
Obligations with financial entities		47,916	44,211	80,171	22,170	164,764	62,239	292,491	-	713,962
Charges payable		-	9,118	-	-	-	-	-	-	9,118
Total maturity of liabilities		466,894	134,578	200,769	132,616	349,822	250,170	517,669	-	2,052,518
Gap	US$	(185,485)	(9,911)	(119,218)	(54,265)	(180,178)	(108,948)	931,320	36,933	310,248

(Continued)

As of December 31, 2015, the asset and liability term matching report (expressed in thousands of U.S. dollars) for items denominated in foreign currency sent to SUGEF and prepared in conformity with the Financial Data Class section of the SUGEF's SICVECA Information Manual is as follows:

		Days								
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	More than 30 days past due	Total
Cash and due from banks	US$	50,880	-	-	-	-	-	-	-	50,880
Minimum cash reserve in BCCR		68,878	20,748	16,259	16,101	29,559	24,015	31,763	-	207,323
Investments		14,220	30,269	-	10	1,558	10,738	62,378	-	119,173
Loan portfolio		87,114	39,769	51,236	46,346	116,829	90,855	1,303,237	31,692	1,767,078
Total recovery of assets		221,092	90,786	67,495	62,457	147,946	125,608	1,397,378	31,692	2,144,454
Obligations with the public		400,512	122,848	96,684	99,181	182,144	147,981	195,699	-	1,245,049
Obligations with financial entities		23,919	11,895	36,101	36,510	122,646	152,284	208,867	-	592,222
Charges payable		-	6,690	-	-	-	-	-	-	6,690
Total maturity of liabilities		424,431	141,433	132,786	135,691	304,790	300,265	404,566	-	1,843,962
Gap	US$	(203,339)	(50,647)	(65,291)	(73,234)	(156,844)	(174,657)	992,812	31,692	300,492

(Continued)

Sensitivity analysis

As of December 31, 2016 and 2015, the sensitivity analysis for the net position in foreign currency (total assets in foreign currency - total liabilities in foreign currency) is based on the buy reference rate in for the U.S. dollar. The position of the U.S. dollar is 99.5% of the total net position in foreign currency and is the vehicle currency to acquire currencies other than the U.S. dollar.

For December 31, 2016 and 2015, the maximum annual expected variation of the reference buy exchange rate of ¢67.88 and ¢69.27, respectively, has been determined through the calculation of a Value at Risk indicator, based on a historical analysis methodology, with a 99% confidence level and over a one-year holding period. Based on such holding period, the positive or negative effect of the increase or decrease in the exchange rate of the colon with respect to the U.S. dollar for the years ended December 31, 2016 and 2015 is as follows:

		2016	2015
Effect on profit or loss			
Exchange rate variation			
Assets	¢	162,904,988,092	150,862,847,622
Liabilities		(140,887,422,829)	(129,306,346,667)
Net	¢	22,017,565,263	21,556,500,955

vi. Operational risk

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

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

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

- implementation of the Operational Risk Management Framework;
- appropriate segregation of duties;
- requirements for the effective reconciliation and monitoring of transactions;

(Continued)

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

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

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

vii. Capital risk

As of December 31, 2016, Costa Rican banking legislation requires private banks to maintain minimum paid-in capital greater than or equal to ¢14,046 million (2015: ¢12,946 million) as well as equity for an amount greater than or equal to 10% of risk-weighted assets, including off-balance sheet financial instruments.

As of December 31, 2016 and 2015, the Bank's capital requirement based on its risk-weighted assets pursuant to SUGEF regulations is determined as described below.

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

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

Tier II capital: calculated as the sum of equity adjustments for property revaluations up to a maximum of 75% of the adjustments to the fair value of available-for-sale investments, additional paid-in capital, prior period retained earnings, and profit or loss for the period, less statutory deductions.

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

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

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

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

		2016	2015
Tier I capital:			
Paid-up capital	¢	139,309,891,406	139,309,891,406
Legal reserve		11,597,108,286	10,715,939,895
		150,906,999,692	150,025,831,301
Tier II capital:			
Revaluation adjustment		4,777,006,979	4,777,006,979
Non-capitalized contributions		14,957,901	14,957,901
Prior period retained earnings		5,218,587,811	443,987,604
Profit or loss for the period, net of appropriation to legal reserve		7,907,915,491	4,774,600,207
		17,918,468,182	10,010,552,691
Equity adjustments:			
Investments in other companies		(557,006)	(557,006)
		(557,006)	(557,006)
Total base capital	¢	168,824,910,868	160,035,826,986

As of December 31, 2016 and 2015, the capital adequacy ratio has been kept above the statutory ratio of 10%, maintaining a normal risk rating.

viii. <u>Asset laundering risk</u>

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

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

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

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

ix. IT risk

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

x. Legal risk

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

28. Fair value

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

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

		2016	2015
Carrying amount			
Cash and due from banks	¢	265,571,410,423	215,735,235,673
Investments:			
Trading		12,314,605,605	19,046,020,386
Available for sale		95,714,390,622	98,662,953,756
Loan portfolio		1,267,522,776,435	1,168,113,668,516
Demand deposits		320,425,183,616	314,097,099,405
Term deposits		710,077,321,128	680,469,137,477
Financial obligations		421,901,997,113	341,184,104,488
Fair value			
Cash and due from banks	¢	265,571,410,423	215,735,235,673
Investments:			
Trading		12,314,605,605	19,046,020,386
Available for sale		95,714,390,622	98,662,953,756
Loan portfolio		995,796,936,300	1,192,849,932,971
Demand deposits		320,425,183,616	314,097,099,405
Term deposits		711,570,130,458	676,439,144,713
Financial obligations		347,411,338,708	292,934,569,618

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

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

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

- The fair value of loans is determined by creating portfolios with similar financial characteristics. The fair value of each class of loan is calculated by discounting cash flows expected until maturity. The discount rate is determined by comparing market benchmark rates, the results of analyses of the rates used by other local financial institutions, and projections made by the Bank's management, such that an average rate is determined that reflects the inherent credit and interest rate risks. Given that the portfolio is relatively new and largely comprised of mortgage loans for terms of longer than five years, applying the present value method gives rise to a difference in fair value, which diminishes as the portfolio matures. Assumptions related to credit risk, cash flows, and discounted interest rates are determined by management using available market information.

- The fair value of term deposits and financial obligations was calculated by discounting committed cash flows. The discount interest rate used represents the average market rate, determined by management according to the term, amount, and currency, for term deposits and financial obligations with similar maturities.

Fair value of financial instruments

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

		2016			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	95,714,390,622	-	-	95,714,390,622
Trading	¢	-	12,314,605,605	-	12,314,605,605

		2015			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	98,662,953,756	-	-	98,662,953,756
Trading	¢	-	19,046,020,386	-	19,046,020,386

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

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

(Continued)

29. Concentration of assets and liabilities by geographic region

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

		2016	2015
Assets:			
Costa Rica	¢	1,571,632,626,147	1,445,810,288,322
Rest of Central America		1,680,184,483	1,162,268,185
Rest of North and South America		3,369,551,722	1,369,198,276
Caribbean		55,431,269,086	50,067,317,347
United States of America		24,971,375,480	29,877,135,100
Europe		1,126,233,249	854,397,657
Asia		66,270,116	80,703,760
Total assets	¢	1,658,277,510,283	1,529,221,308,647
Liabilities:			
Costa Rica	¢	1,044,791,805,423	1,001,698,784,259
Rest of Central America		43,843,695,577	26,781,917,314
Rest of North and South America		58,972,577,052	22,215,715,991
Caribbean		221,580,617,249	225,779,946,665
United States of America		78,392,391,531	82,597,092,543
Europe		28,850,380,840	7,205,219,088
Africa		495,036	734,251
Asia		11,285,587,281	766,493,151
Total liabilities	¢	1,487,717,549,989	1,367,045,903,262

30. Agreements

As of December 31, 2016 and 2015, the Bank's lease agreements include the following:

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

- Most leases are denominated in U.S. dollars.
- Leases are operating leases with security deposits and any improvements become the property of the lessor on expiration or termination of the agreement.
- Leases contain automatic renewal clauses.

- Leases may be terminated by either party provided that advance notice is given in accordance with the time period established in the respective agreement.

b) Leases for warehouses, mainly to hold assets received in lieu of payment or assets in foreclosure.

For leases in effect as of December 31, 2016, projected lease payments for the upcoming years are as follows:

Year		Amount
2017	¢	1,272,693,450
2018		1,088,097,672
2019		812,619,160
2020		654,008,791
2021		432,847,292
More than 5 years		310,640,998
	¢	4,570,907,363

31. Contingencies

(a) Tax

a.1 In the first half of 2008, the Large Taxpayer Administration audited the income tax returns filed and income tax payments made by the Bank for the tax years running from 2000 through 2005. Initially, the audit covered several aspects that were later dismissed. However, a difference in the proportion of deductible expenses resulted in a notice of deficiency. Accordingly, Scotiabank de Costa Rica, S.A. paid a total of ¢729,207,358 for the income tax adjustments as follows:

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

Notwithstanding, the payment of interest and fines was made under protest. In October 2013, the Administrative Litigation Court exhausted all administrative recourse and the case is to be discussed in the Courts of Justice. Therefore, resolutions have not yet been handed down.

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In respect of the payment of interest and fines, an administrative litigation claim was filed with the appropriate courts arguing that the treatment given to the Bank was discriminatory in respect of the other entities of the national banking system, which interest and fines were remitted by the Tax Administration. Additionally, the Bank alleged that the penalty proceedings could not continue, as intended by the Tax Administration, violating the due process, because the Tax Court established a new basis of assessment of tax and the Tax Administration had to initiate new penalty proceedings since any related payments should have the treatment as the payment of principal. In this regard, a ruling was handed down in the first instance, which was against our interests and appealed before the First Chamber of the Supreme Court. There is background that other courts of the same instance have been in favor of our arguments, which have also been confirmed by the Court of Appeals.

In respect of Ruling TFA-85-2010 of April 12, 2010, issued by the First Chamber of the Tax Court, the Tax Administration and the Office of the Attorney General of the Republic filed an appeal for damages in the administrative litigation venue to declare the aforementioned ruling as injurious to the interests of the Costa Rican State and annul that ruling accordingly. Through ruling No. 21-2013 of March 25, 2013, the Administrative Litigation Court upheld the claim against the Bank in every respect. An appeal for nullification was filed in due time and form since the Bank considers that the above resolution disregards the existence of banking regulations, while other sections of the Administrative Litigation Court have indeed admitted in favor of other banks what was dismissed by the Eight Section. The appeal for nullification is pending resolution by the First Chamber of the Supreme Court. In this respect, an additional argument is used in which the Court of Appeals validates our thesis by handing down rulings related to the legal proceedings of other financial entities.

Management and the legal counsel and tax advisors consider that it is likely (exceeding 50%) that a favorable final ruling will be handed down on the case. Accordingly, management does not consider it necessary to book a provision therefor.

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a.2 Income tax returns of Banco Interfin, S.A. (BI) (merged with Scotiabank de Costa Rica, S.A. in 2007) for the 1999-2005 tax years were audited by Tax Authorities starting 2006. On November 12, 2007, the Bank received a notice of deficiency for ¢6,679,899,566 because the Tax Authorities did not accept the method used to calculate the income tax liability. The Tax Administration sought to charge a fine amounting to ¢1,669,974,892 and, as of July 28, 2008, interest amounted to ¢5,601,205,949. This was in spite of the fact that in prior years the same Tax Authorities had authorized that method, which was in effect until 2006. On December 24, 2007, BI filed a claim against the aforementioned notice of deficiency. On March 31, 2008, the Large Taxpayer Administration notifies BI of ruling No. DT10R-033-07 dated February 29, 2008 dismissing the claim filed in our defense. On May 19, 2008, a motion for reconsideration with an appeal to a higher court was filed against the aforementioned ruling, which was dismissed through ruling No. AU-10-R130-008 dated July 22, 2008 and served on July 23, 2008. Accordingly, the case was taken to the Administrative Tax Court. On September 25, 2008, the Large Taxpayer Administration notified BI of ruling No. INFRAC. DT10R-182-08 dated September 17, 2008 through which the penalty or fine sought was dismissed (remitted). On December 16, 2008, through ruling No. 151-08 dated December 8, 2008 and in accordance with Official Letter No. DGT-439-2008 dated July 25, 2008, interest payable by BI was remitted by the General Directorate of the Treasury.

On February 21, 2012, through ruling No. TFA-070-2012 dated February 20, 2012, the Administrative Tax Court notified the Bank of the case of BI by partially upholding the motion for reconsideration and dismissing the following: (i) adjustment for taxable income declared as nontaxable income (foreign exchange differences for investments in Costa Rica, article 23, paragraph c) of the Income Tax Law); (ii) adjustment for rejected financing expenses for dematerialized term certificates; (iii) adjustment for financing expenses for dematerialized term certificates; (iv) partially revoked adjustment for nondeductible expenses related to nontaxable income and deductible expenses related to taxable income; and (v) an order establishes to return the file to the Large Taxpayer Administration for it to make the corresponding calculation for a new tax assessment.

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According to a decision of the Tax Court, the administrative appeal brought by the Large Taxpayer Administration ended in February 2012. Subsequently, the National Large Taxpayer Administration issued a resolution in June 2013 claiming the collection of an income tax adjustment and interest for ¢5,452,656,823 and ¢6,418,147,485, respectively. As a result, a new motion for reconsideration with a subsidiary appeal was filed against the aforementioned resolution. A decision thereon is still pending. Additionally, interest was also remitted by the General Directorate of the Treasury since August 2013.

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

On September 28, 2012, the Tax Administration issued ruling No. SFGCN-AL-074-2012 passed at 14 o'clock on September 25, 2012 against which a motion for reconsideration with an appeal to a higher court was filed on July 18, 2012.

The aforementioned motion was partially upheld through ruling No. OT10R-117-12 passed at 15 o'clock on October 23, 2012. An appeal was filed with the Administrative Tax Court against the above ruling on November 15, 2012.

Through ruling No. TFA No. 131-2013 passed at 10 o'clock on April 9, 2013, the Administrative Tax Court partially upheld the aforementioned appeal and ordered the Tax Administration to perform a new tax assessment that includes the interest remitted for this case.

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

On September 4, 2013, a motion for reconsideration was filed with the Large Taxpayer Tax Administration against ruling No. SFGCN-AL-107-13 passed at 15 o' clock on July 22, 2013, requesting to fully eliminate the collection of interest in connection with the determination procedures against the Bank for the tax periods running from 2000 though 2005, considering the remission by the competent body, and dismiss the reform established in detriment of the Bank, which modifies the assessment of the proportionality factors used to determine the Bank's nondeductible expense for the tax years running from 1999 through 2005. Instead, the proportionality factors provided in the determination procedures should be applied.

Through ruling No. DGH-030-2013 passed at 15 hours and 5 minutes on August 23, 2013 and served on September 16, 2013, the General Directorate of the Treasury accepts the recommendation of the Tax Administration issued in Official Letter No. DGT-650-2013 on remission of interest calculated from July 24, 2008 through July 23, 2013, arising from automatic income tax assessments performed for the periods running from 2000 through 2005. Interest remitted amounts to a total of ¢1,623,700,750.

Through ruling No. TFA-328-2014 passed at 11 o'clock on July 8, 2014, proceedings are concluded. Additionally, through rulings No. SFGCN-AL-074-12 passed at 14 o'clock on September 25, 2012, No. OT10R-117-12 passed at 15 o'clock on October 23, 2012, and No. OT10R-099-13 passed at 10 o'clock on November 21, 2013, the Administrative Tax Court partially revokes the payment of taxes for the 2004 and 2005 tax years; accordingly, the amounts of ¢582,283,290.48 and ¢266,025,543.35, respectively, should be reduced from the taxable base since such amounts correspond to nontaxable income arising from foreign exchange differences from investment securities pursuant to paragraph c) of article 23 of the Income Tax Law.

As to the remaining matters, the Court confirms the mentioned ruling and orders the Tax Administration to perform a new act for the payment of taxes for the 2004 and 2005 tax years.

(Continued)

According to rulings No. SFGCN-AL-074-12 passed at 14 o'clock on September 25, 2012 issued by the the National Large Taxpayer Administration and No. OT10R-117-12 passed at 15 o'clock on October 23, 2012, the remaining tax debts for the periods running from 1999 through 2003 are as follows:

Tax year		Income tax adjustment
1999	¢	276,963,666
2000	¢	487,713,681
2001	¢	653,693,001
2002	¢	1,056,045,485
2003	¢	1,170,684,896

On September 26, 2014, the Tax Administration issued ruling No. SFGCBN-AL-189-14 dated September 24, 2014, according to which a new calculation was made of the adjustment of income taxes for the 2004 and 2005 periods. Such automatic decision was modified by ruling No. AU10R-162-14 dated October 7, 2014 due to a calculation error in the 2005 tax payment. Through the aforementioned ruling, the Large Taxpayer Administration recalculated the income tax payment in the amount of ¢1,015,964,672 and ¢1,271,224,507 for the 2004 and 2005 tax periods, respectively. The corresponding collection period was initiated.

Notwithstanding the aforementioned, an automatic recalculation for the 2005 tax year was notified. Through ruling No. AU10R-162-14 passed at 9 o'clock on October 7, 2014, the National Large Taxpayer Administration amends ruling No. SFGCBN-AL-189-14 since it had a calculation error. The corresponding adjustment is made as of the 2005 tax period in the amount of ¢1,017,266,709.

By virtue of the above, the total income tax payment was established as follows:

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

(Continued)

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

As previously indicated, in 2012 the Bank recognized a provision in its financial statements in the amount of ¢2,939,720,468. For that reason, the payment made under protest on November 18, 2014 was booked against such provision, and the remaining amount of ¢2,738,611,642 was charged to profit or loss for 2014.

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

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

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

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On July 25, 2016, the First Section of the Second Judicial Circuit of Goicoechea, San José, (Annex A) of the Administrative Court issued Ruling No. 70-2016 regarding the processing of file No. 13-007925-1027, whereby it expressly declared that it "partially admits the objection of lack of legal grounds filed by the State. Accordingly, the claim filed by Scotiabank de Costa Rica, S.A. against the State was partially admitted, understanding as rejected the matters not expressly approved. Ruling TFA-522-2012 of November 6, 2012 at 11:30 hours on of the First Chamber of the Administrative Court was partially annulled, and it orders the recognition of the amount of ¢545,136,239 as a tax credit in favor of Scotiabank de Costa Rica, S.A. and orders the State to pay the legal costs". The Office of the Attorney General of the Republic filed an appeal for annulment against that ruling; consequently, the judicial proceedings remain open until a final decision is issued by the First Chamber of the Supreme Court of Justice.

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

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

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

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

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

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

As a result of the analysis by management of Scotiabank de Costa Rica, S.A. and in the opinion of the tax advisors, a favorable outcome is probable for most of the adjustments discussed in this case. However, management established a provision in the amount of ¢598,259,805 (¢756,779,565, undiscounted amount), which is the present value of the amount that management considers may obtain an unfavorable outcome, discounted over three years (term within which a ruling is expected to be issued by the Tax Court on the allegations presented), with a market discount rate.

32. Transition to International Financial Reporting Standards (IFRSs)

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

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

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

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

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

Pursuant to the Regulations, adoption of new IFRSs or Interpretations issued by the IASB, as well as any other revisions of IFRSs adopted will require the prior authorization of the Board.

Following is a summary of some of the main differences between the accounting standards issued by the Board and IFRSs, as well as the IFRSs or Interpretations of the International Financial Reporting Interpretations Committee (IFRICs) yet to be adopted:

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

The Board has only authorized preparation of the cash flow statement using the indirect method. The direct method is also acceptable under this Standard.

c) IAS 12: Income Taxes

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

d) IAS 16: Property. Plant and Equipment

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

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

Moreover, under IAS 16, depreciation continues on property, plant and equipment, even if the asset is idle. The Standard issued by the Board allows entities to suspend the depreciation of idle assets and reclassify them as foreclosed assets.

e) IAS 18: Revenue

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

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

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

- The Board requires that fee and commission income be recognized as a liability and booked under "Deferred income" (liability) and incremental direct costs amortized in "Deferred charges" (asset). Under IAS 39, fees and commissions and incremental costs are part of the amortized cost of financial instruments, rather than separate assets and liabilities.

- The Board requires that fee and commission income be deferred in "Other income" and costs be amortized in "Other expenses". Under IAS 18 and IAS 39, income and costs must be booked as part of "Finance income on financial instruments".

- The Board requires that the effective interest rate be calculated over the financial instrument's contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).

- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the period.

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

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

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

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h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

l) IAS 38: Intangible Assets

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

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m) IAS 39: Financial Instruments: Recognition and Measurement

The Board requires that the loan portfolio be classified pursuant to SUGEF Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. As a result of the analysis by management of Scotiabank de Costa Rica, S.A. and in the opinion of the tax advisors, a favorable outcome is probable for most of the adjustments discussed in this case. Aditionally, on June 17, 2016, through resolution SGF-1729-2016, the Board approved the SUGEF Directive 19-16 "*Regulation for the Determination and Recording of Countercyclical Estimates*" which obliges the entities oversight by SUGEF to the recording of a generic estimation which is applied to the loan portfolio that shows no evidence of current imparment, with the purpose of mitigate the effects of the economic cycle on the financial results derived from the estimate for non-payment of the loan portfolio.

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

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

- The option of classifying loans and receivables as available for sale was established.

- Securities quoted in an active market may be classified as available for sale, held for trading, or held to maturity.

- The "fair value option" was established to designate any financial instrument to be measured at fair value through profit or loss, provided a series of requirements are met (e.g. the instrument has been measured at fair value since the original acquisition date).

- The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

Banks regulated by SUGEF may not classify investments in financial instruments as held to maturity. The above classifications do not necessarily adhere to IAS 39.

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

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

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

o) <u>Revised IFRS 3: Business Combinations</u>

This Standard establishes that a business combination between jointly controlled entities can be performed at cost or at fair value. The Board only permits booking of these transactions measuring the assets and liabilities at fair value.

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

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

q) IFRS 9: Financial Instruments

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

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

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s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

u) IFRS 13: Fair Value Measurement

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

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

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

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x) IFRS: Leases

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

y) IFRIC 10: Interim Financial Reporting and Impairment

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

z) IFRIC 21: Levies

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