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, 2017
(With corresponding figures for 2016)

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

KPMG, S. A.
KPMG Building
San Rafael de Escazú
Costa Rica
+506 2201 4100

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, 2017, 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, 2017, 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 26, 2018

San José, Costa Rica
Eric Alfaro Vargas
Member No. 1547
Policy No. 0116 FIG 7
Expires 9/30/2018

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

SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
BALANCE SHEET
As of December 31, 2017
(With corresponding figures for 2016)
(In colones)

	Note	2017	2016
ASSETS			
Cash and due from banks	**4**	**270,137,027,168**	**265,571,410,423**
Cash		28,677,124,348	23,995,540,765
Central Bank of Costa Rica		221,678,299,964	211,905,316,312
Local financial entities		2,258,228,098	869,458,406
Foreign financial entities		14,768,315,773	26,656,991,453
Other cash and due from banks		2,755,058,985	2,144,103,487
Investments in financial instruments	**5**	**111,746,769,603**	**108,637,338,129**
Trading		9,924,061,212	12,314,605,605
Available for sale		101,448,473,115	95,714,390,622
Accrued interest receivable		374,235,276	608,341,902
Loan portfolio	**6**	**1,306,456,174,780**	**1,256,544,125,979**
Current		1,235,992,853,153	1,200,039,176,663
Past due		73,512,241,636	58,069,759,806
In legal collections		14,470,643,439	9,413,839,966
Accrued interest receivable		15,065,287,839	10,477,549,179
(Allowance for loan losses)	6-b	(32,584,851,287)	(21,456,199,635)
Accounts and fees and commissions receivable	**7**	**4,711,883,213**	**2,650,066,297**
Fees and commissions receivable		95,205,746	152,781,749
Accounts receivable for related party transactions		2,921,577,352	1,087,697,162
Other accounts receivable		1,793,407,452	1,569,183,357
(Allowance for doubtful accounts and fees and commissions receivable)	7	(98,307,337)	(159,595,971)
Foreclosed assets	**8**	**2,558,446,198**	**2,104,852,170**
Assets and securities acquired in lieu of payment		10,637,115,482	10,943,986,860
(Allowance for impairment and per legal requirement)	8	(8,078,669,284)	(8,839,134,690)
Investments in other companies, net		**557,006**	**557,006**
Property and equipment, net	**9**	**16,372,606,387**	**17,375,009,144**
Other assets	**10**	**9,562,743,511**	**5,394,151,135**
Deferred charges		841,794,753	925,741,245
Intangible assets		600,272,743	451,020,499
Other assets		8,120,676,015	4,017,389,391
TOTAL ASSETS		**1,721,546,207,866**	**1,658,277,510,283**

(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, 2017
(With corresponding figures for 2016)
(In colones)

	Note	2017	2016
LIABILITIES AND EQUITY			
LIABILITIES			
Obligations with the public	11	**1,117,771,521,090**	**1,037,257,612,391**
Demand		313,756,319,261	320,425,183,616
Term		795,718,694,969	710,077,321,128
Finance charges payable		8,296,506,860	6,755,107,647
Obligations with entities	12	**404,534,293,453**	**421,901,997,113**
Demand		23,273,351,810	41,278,525,580
Term		371,568,864,401	367,585,680,403
Other obligations with entities		8,028,760,483	11,461,158,422
Finance charges payable		1,663,316,759	1,576,632,708
Accounts payable and provisions	13	**17,948,150,972**	**17,969,539,075**
Deferred tax	13-a	1,268,087,331	1,423,266,586
Provisions	13-b	3,541,252,484	4,539,624,247
Other sundry accounts payable		13,138,811,157	12,006,648,242
Other liabilities	14	**15,595,798,114**	**10,588,401,410**
Deferred income		6,823,294,262	6,803,258,826
Allowance for stand-by credit losses	6-c	261,175,029	354,451,271
Other liabilities		8,511,328,823	3,430,691,313
TOTAL LIABILITIES		**1,555,849,763,629**	**1,487,717,549,989**
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		**6,254,881,270**	**6,511,499,399**
Surplus from revaluation of property	15-b	6,369,342,638	6,369,342,638
Adjustment from valuation of available-for-sale investments		(114,461,368)	142,156,761
Capital reserves	15-c	**11,908,348,003**	**11,597,108,286**
Prior period retained earnings	15-d	**5,626,503,302**	**5,218,587,811**
Income for the year		**2,581,862,355**	**7,907,915,491**
TOTAL EQUITY		**165,696,444,237**	**170,559,960,294**
TOTAL LIABILITIES AND EQUITY		**1,721,546,207,866**	**1,658,277,510,283**
DEBIT MEMORANDA ACCOUNTS	17	**218,499,177,066**	**253,825,455,989**
TRUST ASSETS	18	**1,693,494,049,182**	**1,697,839,968,127**
TRUST LIABILITIES		**512,439,411,805**	**528,124,097,543**
TRUST EQUITY		**1,181,054,637,377**	**1,169,715,870,584**
OTHER DEBIT MEMORANDA ACCOUNTS	20	**12,679,414,764,419**	**6,764,968,427,693**
Own accounts		12,583,276,020,826	6,671,872,025,956
Third party accounts		96,138,743,593	93,096,401,737

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, 2017
(With corresponding figures for 2016)
(In colones)

	Note	2017	2016
Finance income			
Cash and due from banks		274	149
Investments in financial instruments		3,645,303,934	3,776,118,474
Loan portfolio	21	103,893,789,855	93,591,268,431
Foreign exchange gain	23	4,848,557,585	4,400,305,356
Gain on available-for-sale financial instruments	5	298,441,687	448,824,288
Other finance income		1,330,995,934	1,594,196,039
Total finance income		**114,017,089,269**	**103,810,712,737**
Finance expense			
Obligations with the public	22-a	40,238,428,195	35,392,378,665
Obligations with financial entities	22-b	13,398,665,977	10,919,869,009
Loss on available-for-sale financial instruments	5	25,601,825	65,337,852
Other finance expense		277,341,347	22,264,597
Total finance expense		**53,940,037,344**	**46,399,850,123**
Allowance for impairment of assets	6-b-c, 7	21,779,990,026	10,985,999,997
Recovery of assets and decrease in allowances and provisions		6,774,183,005	4,330,435,877
GROSS FINANCE INCOME		**45,071,244,904**	**50,755,298,494**
Other operating income			
Service fees and commissions	24	18,099,188,052	16,375,606,492
Foreclosed assets		640,742,125	1,024,152,465
Foreign currency exchange and arbitrage		4,807,202,162	4,966,640,433
Other income with related parties	3	5,488,825,339	5,794,826,381
Other operating income		4,572,382,508	2,582,939,786
Total operating income		**33,608,340,186**	**30,744,165,557**
Other operating expenses			
Service fees and commissions		5,446,598,497	5,797,452,034
Foreclosed assets		1,849,515,839	1,887,280,792
Provisions		1,960,182,553	2,727,701,052
Foreign currency exchange and arbitrage		957,534	520,707
Other expenses with related parties	3	5,233,920,933	3,154,005,211
Other operating expenses		2,318,526,037	2,011,509,556
Total other operating expenses		**16,809,701,393**	**15,578,469,352**
GROSS OPERATING INCOME		**61,869,883,697**	**65,920,994,699**
Administrative expenses			
Personnel expenses	25	30,732,458,503	29,625,038,394
Other administrative expenses	26	26,539,268,506	22,591,617,436
Total administrative expenses		**57,271,727,009**	**52,216,655,830**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**4,598,156,688**	**13,704,338,869**
Income tax	13-a	2,056,214,987	4,275,238,100
Deferred tax	13-a	45,200,056	45,200,056
Decrease in income tax	13-a	535,868,149	-
Statutory allocations		334,735,818	685,216,943
Decrease in statutory allocations		104,827,984	-
INCOME FOR THE YEAR		**2,893,102,072**	**8,789,083,882**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Adjustment from valuation of available-for-sale investments, net		(256,618,129)	(404,528,973)
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(256,618,129)**	**(404,528,973)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,636,483,943**	**8,384,554,909**

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 CHANGES IN EQUITY
For the year ended December 31, 2017
(With corresponding figures for 2016)
(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 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)
Realized net earnings in investments	-	-	-	(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
Transactions with shareholders recognized directly in equity								
Appropriation to legal reserve	-	-	-	-	-	311,239,717	(311,239,717)	-
Dividends paid in cash	-	-	-	-	-	-	(7,500,000,000)	(7,500,000,000)
Total transactions with shareholders recognized directly in equity	139,309,891,406	14,957,901	6,369,342,638	142,156,761	6,511,499,399	11,908,348,003	5,315,263,585	163,059,960,294
Other comprehensive income for the year:								
Income for the year	-	-	-	-	-	-	2,893,102,072	2,893,102,072
Surplus on revaluation of property	-	-	-	16,221,733	16,221,733	-	-	16,221,733
Realized net earnings in investments	-	-	-	(272,839,862)	(272,839,862)	-	-	(272,839,862)
Total comprehensive income for the year	-	-	-	(256,618,129)	(256,618,129)	-	2,893,102,072	2,636,483,943
Balance at December 31, 2017	139,309,891,406	14,957,901	6,369,342,638	(114,461,368)	6,254,881,270	11,908,348,003	8,208,365,657	165,696,444,237

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 CASH FLOWS
For the year ended December 31, 2017
(With corresponding figures for 2016)
(In colones)

	Note	2017	2016
Cash flows from operating activities			
Income for the year		2,893,102,072	8,789,083,882
Items not requiring cash			
Net gain or loss on foreign exchange		312,591,978	1,278,711,431
Loss on allowance for loan losses		16,127,582,203	7,800,000,008
Loss on allowance for foreclosed assets		80,613,558	4,609,736
Loss on other allowances		20,195,962	(383,000,005)
Expense for provision for severance benefits		300,000,000	339,993,615
Depreciation and amortization		2,063,461,497	1,924,327,115
Loss on sale and disposal of assets		575,894,259	51,344,529
Expense for other provisions		1,945,268,754	2,747,763,920
Deferred tax		(581,068,205)	(45,200,056)
Finance income		(107,539,093,789)	(97,367,386,905)
Finance expense		53,637,094,172	46,312,247,674
Income tax		2,056,214,987	4,275,238,100
Net (increase) decrease in assets			
Trading securities		2,390,544,393	6,731,414,781
Loans and cash advances		(30,930,526,929)	(77,885,794,768)
Foreclosed assets		2,534,901,972	3,895,147,391
Other assets		(3,284,837,180)	5,485,686,530
Net increase (decrease) in liabilities			
Demand and term obligations		51,405,509,275	13,372,395,316
Other accounts payable and provisions		434,446,814	(6,894,365,077)
Other liabilities		5,007,396,704	4,483,711,581
Interest collected		103,185,461,755	98,906,734,888
Interest paid		(52,009,010,908)	(45,198,200,371)
Taxes paid		(4,698,479,592)	(1,829,611,012)
Net cash flows from (used in) operating activities		**45,927,263,752**	**(23,205,147,697)**
Cash flows from investing activities			
Increase in financial instruments		(5,506,287,352,689)	(4,639,697,205,525)
Decrease in financial instruments		5,509,120,381,640	4,657,189,681,160
Acquisition of property and equipment	9	(1,103,009,803)	(1,266,014,645)
Net cash flows from investing activities		**1,730,019,148**	**16,226,460,990**
Cash flows from financing activities			
Other new financial obligations		354,198,225,397	438,686,526,023
Payment of obligations		(382,891,882,487)	(368,563,427,510)
Dividends paid	15-d	(7,500,000,000)	-
Net cash flows from (used in) financing activities		**(36,193,657,090)**	**70,123,098,513**
Net increase in cash		**11,463,625,810**	**63,144,411,806**
Cash at beginning of year	4	**303,356,600,669**	**240,212,188,863**
Cash at end of year	4	**314,820,226,479**	**303,356,600,669**

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) and BNS Internacional (Panamá), S.A. (86.879917% ownership interest), 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, 2017, the Bank has 1.293 employees (2016: 1.297 employees), operates 38 branches (2016: 34 branches), and has a network of 216 automated teller machines (2016: 173 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 February 26, 2018.

(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 -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, 2017, the exchange rate was established at ¢566.42 and ¢572.56 to US$1.00 for the purchase and sale of U.S. dollars, respectively (2016: ¢548.18 and ¢561.10, respectively).

iii. Valuation method for assets and liabilities

As of December 31, 2017, assets and liabilities denominated in U.S. dollars, Canadian dollars, and euros were valued at the buy rates of ¢566.42 to US$1.00 (2016: ¢548.18 to US$1.00), ¢449.6110 to CAD$1.00 (2016: ¢404.6803 to CAD$1.00), and ¢676.7020 to €1 (2016: ¢573.0674 to €1), respectively, in accordance with regulations established by BCCR.

(Continued)

(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.

(Continued)

- 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.

- Deposits and debt instruments issued

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

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

(Continued)

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 September 2010 or thereafter is established gradually by booking one-twenty-fourth of the value of such assets each month until the allowance is equivalent to 100% of the assets' carrying amount.

(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 semiannually 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.

(Continued)

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

ii. Short-term employee benefits

Statutory Christmas bonus

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

Vacation

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

International Share Acquisition Program for Employees

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

Global Incentive Pay Program

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

(v) 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:

		2017	2016
Cash and due from banks:			
Minimum cash reserve	¢	212,398,186,567	196,525,568,090
Drafts and transfers payable		847,971,973	3,115,849,363
		213,246,158,540	199,641,417,453
Investments:			
Clearing house guarantee		1,004,646,311	713,645,491
Guarantee deposit for public utility payment collection services		40,120,000	83,600,000
Other guarantees		1,161,379,373	121,405,719
		2,206,145,684	918,651,210
Loans:			
Requirement for deposit-taking in demand accounts per art. 59 of IRNBS (Law No. 1644)		52,934,274,549	53,471,367,204
Subtotal		52,934,274,549	53,471,367,204
Accrued interest receivable:			
Committed investments		36,464,232	-
Subtotal		36,464,232	-
Other:			
Guarantee deposits		163,559,537	153,052,652
Subtotal		163,559,537	153,052,652
Total	¢	268,586,602,542	254,184,488,519

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

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

3. Balances and transactions with related parties

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

		2017	2016
Assets:			
Cash and due from banks	¢	541,048,111	2,951,008,818
Loan portfolio		3,275,519,606	15,593,385,095
Accounts and accrued interest receivable		2,921,577,352	1,087,697,162
Total assets		6,738,145,069	19,632,091,075
Liabilities:			
Obligations with the public		14,242,839,330	19,529,304,121
Other financial obligations		181,505,308,784	222,063,063,688
Other accounts payable		2,103,804,819	2,089,254,904
Total liabilities		197,851,952,933	243,681,622,713
Expenses:			
Finance		4,727,238,060	5,977,964,662
Operating		5,233,920,933	3,154,005,211
Total expenses		9,961,158,993	9,131,969,873
Income:			
Finance		950,028,393	1,346,574,498
Operating		5,488,825,339	5,794,826,381
Total income	¢	6,438,853,732	7,141,400,879

As of December 31, 2017, compensation paid to key personnel amounts to ¢1,521,658,963 (2016: ¢1,688,950,131).

As of December 31, 2017, the following economic interest groups are related to the Bank in accordance with SUGEF Directive 4-04:

- Scotia Leasing Costa Rica, S.A.
- Scotia Safe, S.A. (previously Scotia Valores, S.A).
- Scotia Sociedad de Fondos de Inversión, S.A.
- Scotia Leasing Panamá, S.A.
- Scotia Leasing Honduras, S.A.
- Scotia Leasing Guatemala, S.A.
- Scotia Corredora de Seguros, S.A.
- Grupo BNS de Costa Rica, S.A.
- BNS Internacional, S.A.
- Corporación Mercabán de Costa Rica, S.A.
- Portic de Sotosol, S.A.
- The Bank of Nova Scotia (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, 2016, Arrinsa Leasing, S.A de C.V. and BNS Leasing de Costa Rica, S.A. were part of the economic interest group.

4. Cash and due from banks

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

		2017	2016
Cash	¢	28,677,124,348	23,995,540,765
Demand deposits in BCCR		221,678,299,964	211,905,316,312
Demand deposits in local financial entities		2,258,228,098	869,458,406
Demand deposits in foreign financial entities		14,768,315,773	26,656,991,453
Notes payable on demand		2,755,058,985	2,144,103,487
Total	¢	270,137,027,168	265,571,410,423

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

		2017	2016
Cash and due from banks	¢	270,137,027,168	265,571,410,423
Highly-liquid short-term investments		44,683,199,311	37,785,190,246
Total	¢	314,820,226,479	303,356,600,669

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:

		2017	2016
Local currency	¢	52,602,899,533	48,964,664,392
Foreign currency		159,795,287,034	147,560,903,698
Total minimum cash reserve	¢	212,398,186,567	196,525,568,090

As of December 31, 2017, highly-liquid short-term investments include securities acquired under reverse repurchase agreements for a total of ¢7,500,000,000 and US$65,645, 986 (2016: ¢5,311,556,200 and US$59,220,756). Those securities bear interest at rates ranging between 3.75% and 4.50% per annum for investments incolones and between 0.25% and 3.00% per annum for investments in U.S. dollars (2016: between 0.75% and 4.03% per annum in colones and between 0.10% and 3.04% per annum in U.S. dollars), and are included in cash equivalents.

(Continued)

5. Investments in financial instruments

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

		2017	2016
Trading	¢	9,924,061,212	12,314,605,605
Available for sale		101,448,473,115	95,714,390,622
Subtotal		111,372,534,327	108,028,996,227
Accrued interest receivable		374,235,276	608,341,902
Total	¢	111,746,769,603	108,637,338,129

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

		2017	2016
Open investment funds in colones managed by a local related party	¢	1,010,688,906	2,521,021,885
Open investment funds in U.S. dollars managed by a local related party		570,234,397	1,445,645,050
Open investment funds in colones managed by a local entity		1,384,617,625	302,259,391
Open investment funds in U.S. dollars managed by a local entity		6,958,520,284	8,045,679,279
Total	¢	9,924,061,212	12,314,605,605

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

		2017	2016
Local issuers:			
Costa Rican Government	¢	51,892,192,214	46,498,418,682
BCCR		20,289,685,473	22,622,072,975
Financial entities		57,784,200	141,221,800
Private issuers		8,971,413	8,592,760
Repurchase agreements		878,839,815	4,461,693,246
Subtotal		73,127,473,115	73,731,999,463
Foreign issuers:			
Governments		-	55,191,159
Financial entities		28,321,000,000	21,927,200,000
Subtotal		28,321,000,000	21,982,391,159
Total	¢	101,448,473,115	95,714,390,622

As of December 31, 2017, investments in financial instruments in the amount of ¢2,206,145,684 (2016: ¢918,651,210) secure operations with several local institutions (see note 2).

As of December 31, 2017, investments in financial instruments bear interest at rates ranging between 0.52% and 11.68% per annum (2016: between 0.04% and 11.04% per annum) in colones, and between 0.25% and 5.05% per annum (2016: between 0.10% and 5.05% per annum) in U.S. dollars.

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

		2017	2016
Realized gain on the sale of available-for-sale financial instruments	¢	298,441,687	448,824,288
Realized loss on the sale of available-for-sale financial instruments		(25,601,825)	(65,337,852)
Net gain	¢	272,839,862	383,486,436

(Continued)

6. Loan portfolio

a) Loan portfolio by origin

		2017	2016
Loans originated by the Bank	¢	1,244,685,452,189	1,194,197,944,890
Loans purchased		79,290,286,039	73,324,831,545
Subtotal		1,323,975,738,228	1,267,522,776,435
Accrued interest receivable		15,065,287,839	10,477,549,179
Allowance for loan losses		(32,584,851,287)	(21,456,199,635)
Total	¢	1,306,456,174,780	1,256,544,125,979

As of December 31, 2017, annual interest rates on loans ranged between 5.19% and 25% per annum in colones (2016: between 4.45% and 25% per annum) and between 4.50% and 14.25% per annum in U.S. dollars (2016: between 3.75% and 14.25%).

The purchased portfolio includes the portfolio acquired in the purchase and merger process with Banco Interfin, S.A. (October 2007). As of December 31, 2017, that portfolio amounts to ¢39,024,238,179 and US$71,088,676 (2016: ¢33,166,403,632 and US$73,173,805). 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.

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:

		2017	2016
Opening balance	¢	21,456,199,635	18,034,172,998
Allowance expense		21,442,894,071	10,347,184,898
Charged against allowance		(5,714,492,695)	(4,438,197,817)
Decrease in allowance		(5,215,207,759)	(2,943,999,996)
Translation effect for allowances in foreign currency		615,458,035	457,039,552
Closing balance	¢	32,584,851,287	21,456,199,635

c) Allowance for stand-by credit losses

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

		2017	2016
Opening balance	¢	354,451,271	492,585,591
Allowance expense		246,899,989	608,815,101
Cancellation of contingent credits against estimation		-	(555,260,501)
Decrease in allowance		(347,004,098)	(211,999,995)
Translation effect for allowances in foreign currency		6,827,867	20,311,075
Closing balance	¢	261,175,029	354,451,271

(Continued)

7. Accounts and fees and commissions receivable

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

		2017	2016
Fees and commissions	¢	95,205,746	152,781,749
Related party transactions (note 3)		2,921,577,352	1,087,697,162
Other accounts receivable:			
Sundry credit card receivables		655,691,084	820,044,756
Advance payments to suppliers		9,062,720	-
Other expenses receivable		55,196,047	20,886,836
Due from INS		14,012,858	26,263,827
ATH transactions		6,262,330	695,801,713
Other sundry accounts receivable		1,053,182,413	6,186,225
		1,793,407,452	1,569,183,357
Subtotal		4,810,190,550	2,809,662,268
(Allowance for doubtful accounts and fees and commissions receivable)		(98,307,337)	(159,595,971)
Total	¢	4,711,883,213	2,650,066,297

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

		2017	2016
Opening balance	¢	159,595,971	1,582,477,738
Allowance expense		90,195,966	29,999,998
Charged against allowance		(84,801,145)	(1,043,758,589)
Decrease in allowance		(70,000,005)	(413,000,003)
Translation effect for allowances in foreign currency		3,316,550	3,876,827
Closing balance	¢	98,307,337	159,595,971

8. Foreclosed assets, net

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

		2017	2016
Assets acquired in lieu of payment:			
Real property	¢	9,750,667,606	10,302,069,654
Other		886,447,876	641,917,206
Subtotal		10,637,115,482	10,943,986,860
(Allowance for impairment and per legal requirements)		(8,078,669,284)	(8,839,134,690)
Net total	¢	2,558,446,198	2,104,852,170

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

		2017	2016
Opening balance	¢	8,839,134,690	9,428,719,730
Increase on allowance		609,637,145	915,737,686
Charged against allowance for retirements or sales		(841,078,964)	(594,194,776)
Decrease in allowance		(529,023,587)	(911,127,950)
Closing balance	¢	8,078,669,284	8,839,134,690

(Continued)

9. Property and equipment, net

As of December 31, 2017, property and equipment, net is as follows:

	2016	Additions	Retirements	2017
Cost				
Land	1,405,990,980	-	-	1,405,990,980
Buildings and facilities	4,717,803,912	-	-	4,717,803,912
Furniture and equipment	3,896,164,139	214,168,915	(2,067,447,545)	2,042,885,509
Computer hardware	8,298,757,891	841,157,518	(3,206,833,885)	5,933,081,524
Vehicles	552,514,339	47,683,370	(64,798,583)	535,399,126
Subtotal	18,871,231,261	1,103,009,803	(5,339,080,013)	14,635,161,051
Accumulated depreciation	(8,808,887,876)	(1,406,190,284)	4,763,185,753	(5,451,892,407)
Net cost	10,062,343,385	(303,180,481)	(575,894,260)	9,183,268,644
Revaluation				
Cost	8,852,190,770	-	-	8,852,190,770
Accumulated depreciation	(1,539,525,011)	(123,328,016)	-	(1,662,853,027)
Net revaluation	7,312,665,759	(123,328,016)	-	7,189,337,743
Net total	17,375,009,144	(426,508,497)	(575,894,260)	16,372,606,387

During the year ended December 31, 2017, the depreciation expense amounts to ¢1,529,518,300 and is charged against profit or loss for the year.

As of December 31, 2016, property and equipment 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

Depreciation expense for the year ended December 31, 2016 amounted to ¢1,460,068,215 and was charged against profit or loss for the year.

(Continued)

10. Other assets

As of December 31, other assets are as follows:

		2017	2016
Deferred charges			
Leasehold improvements - operating lease	¢	841,794,753	925,741,245
Intangible assets			
Software		537,888,892	204,957,803
Other		62,383,851	246,062,696
Subtotal		600,272,743	451,020,499
Other assets			
Prepaid interest and fees and commissions		1,249,422,389	1,067,921,695
Prepaid taxes		1,697,874,472	-
Prepaid insurance		46,249,741	59,406,708
Other prepaid expenses		1,014,232,476	386,679,310
Stationery, office supplies, and other materials		101,499,552	60,013,603
Library and artwork		16,945,602	16,945,602
Construction work-in-progress		1,290,172,844	158,930,478
Software under development		1,161,069,212	1,254,197,421
Operations pending settlement		1,379,650,190	860,241,922
Guarantee deposits		163,559,537	153,052,652
Subtotal		8,120,676,015	4,017,389,391
Total	¢	9,562,743,511	5,394,151,135

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

		2017	2016
Amortization of leasehold improvements	¢	242,512,562	218,474,532
Amortization of software		291,430,635	245,784,368
Total	¢	533,943,197	464,258,900

11. Obligations with the public

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

		2017	2016
Demand			
Deposits:			
Checking accounts	¢	257,327,689,779	267,866,132,183
Certified checks		94,239,627	10,868,130
Demand savings deposits		41,552,318,509	40,574,918,395
Matured term deposits		2,593,497,921	1,027,258,715
Overnight deposits		7,588,385,900	5,819,658,297
Subtotal deposits		309,156,131,736	315,298,835,720
Other obligations with the public:			
Notes payable on demand - creditors		1,437,577,619	1,464,385,798
Drafts and transfers		847,971,973	3,115,849,363
Cashier's checks		2,233,830,304	435,638,844
Sundry demand obligations with the public		80,807,629	110,473,891
Subtotal other obligations with the public		4,600,187,525	5,126,347,896
Subtotal demand		313,756,319,261	320,425,183,616
Term			
Deposits:			
Term deposits from the public		728,240,286,988	658,857,383,442
Term deposits pledged as guarantee		67,478,407,981	51,219,937,686
Subtotal deposits		795,718,694,969	710,077,321,128
Charges payable for other obligations with the public		8,296,506,860	6,755,107,647
Total	¢	1,117,771,521,090	1,037,257,612,391

As of December 31, 2017, 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 ¢88,300,000,000 and US$74,959,000 (2016: ¢76,300,000,000 and US$69,598,000), bearing interest at rates ranging between 7.20% and 9.24% per annum in colones and between 4.35% and 5.43% per annum in U.S. dollars (2016: between 2.23% and 8.70% per annum in colones and between 2.45% and 9.24% per annum in U.S. dollars).

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Term deposits made through banks have terms ranging from a minimum of 31 days to a maximum of five years. As of December 31, 2017, certificates of deposit bear interest at rates ranging between 3.42% and 11.25% per annum (2016: between 2.72% and 10.12% per annum) in Costa Rican colones and between 0.44% and 5.70% per annum (2016: between 0.55% and 5.40% per annum) in U.S. dollars.

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

As of December 31 2017, demand and term deposits from customers, by number of customers and cumulative amount, are as follows:

	2017		
	Number		Cumulative amount
Demand			
Deposits from the public	142323	¢	306,562,633,816
Restricted and inactive deposits	163		2,593,497,920
Other obligations with the public	-		4,600,187,525
Subtotal	142486		313,756,319,261
Obligations with entities			
Deposits from other financial entities	68		23,271,973,269
Deposits from State-owned entities	1		1,000,000,000
Restrited and inactive deposits	1		1,378,541
Subtotal	70		24,273,351,810
Total demand obligations with customers	142556		338,029,671,071
Term			
Obligations with the public			
Deposits from the public	7244		728,240,286,989
Restrited and inactive deposits	1961		67,478,407,980
Subtotal	9205		795,718,694,969
Obligations with entities			
Deposits from other financial entities	11		27,099,953,908
Subtotal	11		27,099,953,908
Total demand obligations with customers	9216	¢	822,818,648,877

(Continued)

As of December 31 2016, demand and term deposits from customers by cumulative amount and number of customers are as follows:

	2016	
	Number	Cumulative amount
Demand		
Obligations with the public		
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
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)

12. Obligations with entities

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

		2017	2016
Demand obligation:			
Checking accounts of local financial entities	¢	16,191,305,216	28,991,036,314
Deferred term deposits		1,378,541	1,365,000
Deposits overnight		-	622,164,950
Checking accounts and related parties obligations		7,080,668,053	11,663,959,316
Subtotal demand obligations		23,273,351,810	41,278,525,580
Term obligations:			
Term deposits from local financial entities		20,595,044,384	22,516,608,328
Loan with local financial entities		7,931,396,556	-
Loan with Mercantil Commerce Bank		2,177,515,594	-
Loan with Wells Fargo Bank, N.A.		6,655,435,000	30,151,056,336
Loan with Bladex		17,582,642,501	7,674,520,000
Loan with DEG		15,104,533,522	16,445,400,000
Loan with Banco Mercantil SA CA MIAMI		-	1,836,371,567
Loan with IIC		1,118,679,500	3,357,302,500
Loan with IBD		6,976,028,720	13,496,191,600
Loan with Bank of America N A NEW YORK		4,956,175,000	-
Loan with International Finance Corporation (IFC)		42,481,500,000	-
Loans with other foreign entities		57,289,336,496	50,432,860,001
Obligations by resources taken from the Mercado Interbancario de Liquidez		1,000,000,000	-
Obligations with related financial entities		187,700,577,128	221,675,370,071
Subtotal term obligations		371,568,864,401	367,585,680,403
Other obligations with entities			
Financing with internacional		7,788,275,000	10,963,600,000
Issued letters of credit		240,485,483	497,558,422
Subtotal other obligations with entities		8,028,760,483	11,461,158,422
Subtotal		402,870,976,694	420,325,364,405
Charges payable on obligations with financial and non-financial entities		1,663,316,759	1,576,632,708
Total	¢	404,534,293,453	421,901,997,113

(Continued)

As of December 31, 2017, other financial obligations bear interest at rates of 8.20% per annum in Costa Rican colones and ranging between 1.37% and 5.13% per annum in U.S. dollars (2016: between 1.22% and 5.13% per annum in U.S. dollars).

Maturities of obligations with entities

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

		2017	2016
Less than 1 year	¢	248,262,435,537	259,987,518,161
Between 1 and 2 years		78,904,373,084	71,535,036,840
Between 2 and 3 years		34,067,364,519	58,201,444,802
Between 3 and 4 years		27,627,662,294	10,866,884,602
Between 4 and 5 years		7,789,907,308	19,734,480,000
More than 5 years		6,219,233,952	-
Subtotal		402,870,976,694	420,325,364,405
Charges payable on obligations with financial and non-financial entities		1,663,316,759	1,576,632,708
Total	¢	404,534,293,453	421,901,997,113

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

13. Accounts payable and provisions

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

		2017	2016
Deferred tax	¢	1,268,087,331	1,423,266,586
Provisions		3,541,252,484	4,539,624,247
Other sundry accounts payable:			
Tax liability		-	1,512,782,916
Court-ordered withholdings		140,707	231,120
Tax withholdings		1,094,645,961	948,113,753
Employee payroll taxes		1,167,460,970	1,076,907,910
Interest on the profit or surplus payable		229,907,834	685,216,943
Loan obligations with related parties (note 3)		2,103,804,819	2,089,254,904
Clearing house operations		4,396,299	36,681,430
Accrued vacation		796,509,895	307,422,372
Accrued statutory Christmas bonus		277,057,281	260,093,282
INS insurance policies		2,522,259,059	520,382,132
Term deposits		939,746,351	394,531,761
Credit balances of credit card customers		640,852,156	494,763,430
Outstanding stale checks		109,120,035	524,841,332
Public utility and tax payment collection services		285,097,427	530,871,386
Other sundry accounts payable		2,967,812,363	2,624,553,571
Subtotal other sundry accounts payable		13,138,811,157	12,006,648,242
Total	¢	17,948,150,972	17,969,539,075

(Continued)

(a) Income tax

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

		2017	2016
Income tax expense			
Local income tax	¢	2,056,214,987	4,275,238,100
Decrease in local income tax		535,868,149	-
Subtotal		1,520,346,838	4,275,238,100
Deferred tax		45,200,056	45,200,056
Total income tax for the year	¢	1,475,146,782	4,230,038,044

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:

		2017	2016
Expected income tax	¢	1,379,447,006	4,111,301,661
Plus (less)			
Nondeductible expenses		1,106,954,646	1,447,049,476
Nontaxable income		(942,282,520)	(1,122,748,010)
Statutory allocations		(68,972,350)	(205,565,083)
Total income tax	¢	1,475,146,782	4,230,038,044

As of December 31, 2017 and 2016, 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.

(Continued)

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

		2017	2016
Deferred tax liabilities			
Revaluation of assets	¢	1,219,032,463	1,249,897,028
Unrealized gains on valuation of investments		49,054,868	173,369,558
Total	¢	1,268,087,331	1,423,266,586

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

		2017	2016
Deferred tax liabilities			
Opening balance	¢	(1,423,266,585)	(1,641,836,199)
Included in the statement of comprehensive income:			
Effect of revaluation of assets		45,200,056	45,200,056
Effect of unrealized gains on valuation of investments		-	-
Subtotal		45,200,056	45,200,056
Included in equity:			
Effect of revaluation of assets		-	-
Effect of unrealized gains on valuation of investments		109,979,200	173,369,558
Subtotal		109,979,200	173,369,558
Closing balance	¢	(1,268,087,329)	(1,423,266,585)

(b) Provisions

As of December 31, provisions are as follows:

		2017	2016
Provisions for employer obligations	¢	360,059,892	347,356,292
Provisions for pending litigation		598,259,805	598,259,805
Provisions for redemption of miles		1,591,908,318	1,689,266,847
Provisions for cashback		19,029,039	10,718,871
Other provisions		971,995,430	1,894,022,432
Total	¢	3,541,252,484	4,539,624,247

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

		2017	2016
Provisions for employer obligations:			
Opening balance	¢	347,356,292	278,962,565
Provisioned		300,000,000	339,993,615
Used		(287,296,400)	(271,599,888)
Closing balance		360,059,892	347,356,292
Provisions for pending litigation:			
Opening balance		598,259,805	-
Provisioned		-	598,259,805
Closing balance		598,259,805	598,259,805
Other provisions:			
Opening balance		3,594,008,150	3,136,430,439
Provisioned		4,699,508,712	7,120,261,633
Used		(5,710,584,075)	(6,662,683,922)
Closing balance		2,582,932,787	3,594,008,150
Total:			
Opening balance		4,539,624,247	3,415,393,003
Provisioned		4,999,508,712	8,058,515,053
Used		(5,997,880,475)	(6,934,283,809)
Total	¢	3,541,252,484	4,539,624,247

14. Other liabilities

As of December 31, other liabilities are as follows:

		2017	2016
Deferred finance income	¢	6,244,517,535	5,774,619,498
Other deferred income		578,776,727	1,028,639,328
Allowance for stand-by credit losses		261,175,029	354,451,271
On hand leftovers		10,129,036	7,233,855
Operations pending settlement		8,197,586,100	3,404,365,572
Other operations pending application		303,613,687	19,091,886
Total	¢	15,595,798,114	10,588,401,410

(Continued)

15. Equity

a) Share capital

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

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.

c) Legal reserve

Under Article 154 of IRNBS, the Bank must allocate 10% of its net earnings for each semester to a legal reserve. As of December 31, 2017 the financial statements include an appropriation to the legal reserve in the amount of ¢11,908,348,003 (2016: ¢11,597,108,286). No further appropriation is required once the legal reserve reaches 20% of share capital.

d) Prior year retained earnings

As of December 31, 2017, prior year retained earnings amount to ¢8,208,365,657 (2016: ¢13,126,503,302).

During the year ended December 31, 2017, dividends were paid in the amount of ¢7,500,000.00, in accordance with the minutes of the General Shareholders Meeting held on December 20, 2017.

16. Basic earnings per share

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

		2017	2016
Ordinary shares:			
Net profit of the year	¢	2,893,102,072	8,789,083,882
Weighted average number of shares (denominator)		273,873,384	273,873,384
Profit per ordinary share	¢	10.564	32.092

(Continued)

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:

		2017	2016
Guarantees	¢	6,825,137,882	2,903,835,815
Performance bonds		28,370,838,495	46,912,163,330
Bid bonds		1,538,832,010	1,032,487,349
Other guarantees		17,467,956,346	18,136,722,859
Letters of credit issued but unused		3,518,388,466	7,740,804,824
Letters of credit confirmed but unused		639,935,425	264,770,940
Pre-approved lines of credit		156,183,265,492	166,498,564,971
Credits pending disbursement		3,954,822,950	10,336,105,901
Total	¢	218,499,177,066	253,825,455,989

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

17. 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:

		2017	2016
Cash and due from banks	¢	31,285,376,064	7,440,627,750
Investments in financial instruments		108,837,306,660	108,518,692,420
Loan portfolio		468,394,648,286	475,885,207,768
Accounts and fees and commissions receivable		3,041,135,256	1,895,419,417
Foreclosed assets		247,286,730,271	247,293,309,632
Investments in other companies		26,500,020,462	753,390,932,347
Property and equipment		85,222,435,370	83,645,636,167
Other assets		705,214,760,636	2,544,547,005
Investments in property		17,711,636,177	17,225,595,621
Total	¢	1,693,494,049,182	1,697,839,968,127

18. Sureties

As of December 31, 2017 and 2016, the Bank has issued no sureties.

19. Other memoranda accounts

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

		2017	2016
Other own debit memoranda accounts			
Guarantees received in the Bank's custody	¢	74,330,567,678	55,792,079,660
Guarantees received in the custody of third parties		9,551,610,587,736	3,696,177,786,420
Lines of credit granted and pending		369,013,572,944	416,293,565,966
Write-downs		24,841,223,959	21,306,289,738
Accrued interest receivable in suspense		1,798,550,312	1,432,115,479
Supporting documentation		1,057,014,761,962	1,028,362,408,831
Other memoranda accounts		1,504,666,756,235	1,452,507,779,862
Subtotal		12,583,276,020,826	6,671,872,025,956
Third-party debit memoranda accounts			
Third-party assets and securities in custody		96,138,743,593	93,096,401,737
Subtotal		96,138,743,593	93,096,401,737
Total	¢	12,679,414,764,419	6,764,968,427,693

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.

20. Finance income on loan portfolio

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

		2017	2016
Current loans:			
Accrued interest on checking account overdrafts	¢	22,875,294	21,346,850
Accrued interest on loans with other funds		83,423,634,707	74,502,650,478
Accrued interest on credit cards		10,661,863,070	10,056,578,230
Accrued interest on letter of credits issued		-	477,649
Accrued interest on loans to State-owned banks		674,401,377	598,510,109
Accrued interest on loans to related parties		950,056,722	1,346,574,498
Subtotal		95,732,831,170	86,526,137,814
Past due loans and loans in legal collections:			
Accrued interest on loans with other funds		8,160,958,685	7,065,130,617
Total	¢	103,893,789,855	93,591,268,431

21. Finance expense

(a) Obligations with the public

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

		2017	2016
Demand deposits	¢	2,710,309,457	2,870,787,697
Term deposits		37,528,118,738	32,521,590,968
	¢	40,238,428,195	35,392,378,665

(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:

		2017	2016
Demand obligations with financial entities	¢	569,437,809	681,489,373
Term obligations with financial entities		12,507,875,257	10,112,004,639
Term obligations with non-financial		321,352,911	126,374,997
	¢	13,398,665,977	10,919,869,009

22. 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:

		2017	2016
Foreign exchange income:			
Obligations with the public	¢	13,782,090,709	5,300,129,100
Other financial obligations		5,434,947,294	2,422,997,068
Other accounts payable and provisions		315,696,465	114,246,350
Cash and due from banks		11,591,874,542	6,795,749,327
Investments in financial instruments		3,212,792,984	2,088,246,185
Current loans		45,187,605,120	34,209,906,815
Past due loans and loans in legal collections		6,711,850,233	3,472,703,328
Accounts and fees and commissions receivable		4,297,471,130	781,103,582
Total		90,534,328,477	55,185,081,755
Foreign exchange expense:			
Obligations with the public		41,349,090,920	27,864,001,646
Other financial obligations		16,674,216,673	12,497,142,086
Other accounts payable and provisions		837,925,604	460,803,311
Cash and due from banks		6,430,724,979	1,116,732,540
Investments in financial instruments		1,287,072,476	448,041,766
Current loans		15,831,542,572	6,613,434,988
Past due loans and loans in legal collections		2,477,437,809	1,305,891,404
Accounts and fees and commissions receivable		797,759,859	478,728,658
Total		85,685,770,892	50,784,776,399
Total foreign exchange income, net	¢	4,848,557,585	4,400,305,356

23. Service fees and commissions

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

		2017	2016
Income:			
Drafts and transfers	¢	1,519,335,988	1,454,447,572
Foreign trade		1,797,421	2,714,572
Trust management		1,148,777,703	1,073,904,647
Collections		9,401,914	13,668,876
Consignments		14,301	57,086
Other banking mandates		858,331,816	520,526,023
Credit cards		10,427,055,199	9,732,394,567
Insurance underwiting		1,053,103,959	812,031,245
Other		3,081,366,751	2,765,861,904
Total	¢	18,099,185,052	16,375,606,492

24. Personnel expenses

As of December 31, personnel expenses are as follows:

		2017	2016
Salaries and bonuses, permanent staff	¢	19,703,222,164	19,777,157,513
Compensation for board members and statutory examiners		15,820,900	15,505,780
Overtime		488,241,902	498,351,952
Travel expenses		879,975,462	578,253,692
Statutory Christmas bonus		1,710,121,110	1,633,312,827
Vacation		884,700,305	92,319,607
Incentives		36,765,599	46,210,343
Other compensation		39,747,501	98,114,793
Employer social security		4,461,049,809	4,410,593,491
Refreshments		230,478,547	253,481,236
Uniforms		63,506,357	41,804,845
Training		95,231,738	95,970,083
Employee insurance		323,905,265	349,194,565
Compulsory retirement savings account		928,387,212	890,060,335
Other		871,304,632	844,707,332
	¢	30,732,458,503	29,625,038,394

(Continued)

25. Other administrative expenses

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

		2017	2016
Outsourcing	¢	9,496,819,924	6,137,644,698
Transportation and communications		1,091,155,862	1,186,866,294
Infrastructure		9,440,934,907	8,256,666,058
Overhead		6,510,357,813	7,010,440,386
	¢	26,539,268,506	22,591,617,436

26. 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.

(Continued)

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.

(Continued)

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

		2017	2016
Cash and due from banks	¢	270,137,027,168	265,571,410,423
Investments in financial instruments		111,746,769,603	108,637,338,129
Loan portfolio		1,306,456,174,780	1,256,544,125,979
Accounts and fees and commissions receivable		4,711,883,213	2,650,066,297
Guarantees granted		54,202,764,733	68,985,209,353
Letters of credit issued but unused		3,518,388,466	7,740,804,824
Confirmed letters of credit		639,935,425	264,770,940
Total	¢	1,751,412,943,388	1,710,393,725,945

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	
		2017	2016	2017	2016	2017	2016
Individually assessed loans with allowance							
A1	¢	1,103,304,352,847	1,063,803,090,596	53,045,516,167	55,513,057,139	58,054,076,095	84,756,487,577
A2		5,524,807,840	4,747,148,543	-	-	1,804,053	12,991,883
B1		97,844,257,024	96,344,022,572	-	-	3,257,732,715	1,631,115,099
B2		3,868,663,421	3,933,344,581	-	-	56,677,441	8,276,427
C1		30,114,785,909	22,308,495,377	-	-	1,496,899	954,816,980
C2		3,538,925,438	2,815,395,314	-	-	8,552,942	54,818
D		4,104,342,201	2,494,199,099	-	-	747,014,545	4,900,345
E		37,695,375,220	28,041,572,393	-	-	333,128,951	13,124,702
Total	¢	1,285,995,509,900	1,224,487,268,475	53,045,516,167	55,513,057,139	62,460,483,641	87,381,767,831
Allowance for loan losses		(30,802,287,847)	(18,991,706,743)	(265,227,581)	(171,241,783)	(74,128,325)	(128,672,923)
Carrying amount	¢	1,255,193,222,053	1,205,495,561,732	52,780,288,586	55,341,815,356	62,386,355,316	87,253,094,908
Past due loans without allowance							
A1		-	-	-	-	138,027,018,529	147,780,285,729
A2		-	-	-	-	411,667,527	431,267,984
B1		-	-	-	-	12,100,026,269	12,738,279,363
B2		-	-	-	-	177,371,060	169,317,588
C1		-	-	-	-	2,015,154,911	2,569,690,588
C2		-	-	-	-	43,623,567	81,261,164
D		-	-	-	-	927,343,510	214,591,696
E		-	-	-	-	2,336,488,053	2,458,994,045
Carrying amount	¢	-	-	-	-	156,038,693,426	166,443,688,157
Excess allowance over structural allowance		(1,517,335,859)	(2,339,775,965)	-	-	(187,046,704)	(299,679,244)
Carrying amount, net	¢	1,253,675,886,194	1,203,155,785,767	52,780,288,586	55,341,815,356	218,238,002,038	253,397,103,821

(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, 2017, restructured loans amount to ¢21,491,248,760 (2016: ¢10,041,787,443).

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 (2017 and 2016: ¢65,000,000).

b. Group 2: Borrowers with total outstanding balances that are less than or equal to the SUGEF limit (2017 and 2016: ¢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.

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.

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, 2017, the Bank must maintain a minimum allowance of ¢31,357,882,514 (2016: ¢119,291,621,449). 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, 2017 and 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 mentioned amendments, the balance of the new allowances is as follows:

		2017	2016
Counter-cyclical estimate of loan portfolio	¢	1,400,088,530	624,785,005
Generic estimate of non-foreign exchange portfolio		2,878,091,320	911,853,291
Generic estimate of debt coverage ratio		489,720,397	179,917,730
	¢	4,767,900,247	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.

(Continued)

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:

	2017			
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1	1,096,558,235,022	1,087,717,615,023	53,045,516,167	52,780,288,586
A2	5,479,875,016	5,449,560,247	-	-
B1	97,206,039,178	95,784,999,696	-	-
B2	3,837,418,174	3,777,512,255	-	-
C1	29,906,542,409	27,634,017,209	-	-
C2	3,511,752,311	3,274,129,340	-	-
D	4,070,218,701	2,909,002,845	-	-
E	37,139,667,602	20,360,623,952	-	-
	1,277,709,748,413	1,246,907,460,567	53,045,516,167	52,780,288,586

	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	-	-
B22	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

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:

		2017	2016
Individually assessed loans with allowance (including the balance for loans in legal collections):			
Real property	¢	158,532,917,410	144,100,736,690
Personal property		48,821,654,142	29,024,023,872
Other (trusts)		100,700,250,904	60,917,793,800
Subtotal		308,054,822,456	234,042,554,362
Past due loans without allowance:			
Real property		28,822,935,868	29,353,783,204
Personal property		6,389,437,415	5,586,208,938
Other (trusts)		2,140,958,323	2,581,790,434
Subtotal		37,353,331,606	37,521,782,576
Current loans without allowance:			
Real property		800,418,592,189	764,958,086,414
Personal property		435,697,878,976	467,471,050,011
Other (trusts)		624,932,297,009	391,174,573,318
Subtotal		1,861,048,768,174	1,623,603,709,743
Total	¢	2,206,456,922,236	1,895,168,046,681

(Continued)

Loan portfolio by type of guarantee

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

		2017	2016
Investment certificates	¢	97,579,497,329	61,321,085,146
Fiduciary		165,339,726,938	443,557,489,951
Mortgage		830,416,290,073	530,335,832,232
Chattel mortgage		177,705,949,339	178,837,001,902
State banking		52,934,274,549	53,471,367,204
Total direct loans		1,323,975,738,228	1,267,522,776,435
Accrued interest receivable		15,065,287,839	10,477,549,179
Allowance for loan losses		(32,584,851,287)	(21,456,199,635)
Total	¢	1,306,456,174,780	1,256,544,125,979

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:

		2017	2016
Agriculture, livestock, hunting, and related activities	¢	136,164,162	165,420,644
Manufacturing industry		914,971,674	3,375,701,539
Electricity, telecommunications, gas, and water		4,542,200,896	4,785,652,295
Construction, purchase, and repair of property		382,199,386,634	365,894,904,330
Trade		275,530,691,189	251,053,247,497
Transportation		115,431,155	182,647,130
Stock market		52,934,274,549	53,471,367,204
Real estate, business, and leasing activities		592,874,210	766,885,801
Education		3,482,129	7,308,906
Services		345,056,469,972	324,090,161,268
Consumer		261,949,791,658	263,729,479,821
Total direct loans		1,323,975,738,228	1,267,522,776,435
Accrued interest receivable		15,065,287,839	10,477,549,179
Allowance for loan losses		(32,584,851,287)	(21,456,199,635)
Total	¢	1,306,456,174,780	1,256,544,125,979

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:

		2017	2016
Costa Rica	¢	1,318,395,830,426	1,262,966,899,394
Rest of Central America		993,457,671	1,314,664,621
Rest of North and South America		1,193,334,446	815,776,158
Caribbean		18,973,473	24,153,984
United States of America		2,359,361,880	1,777,700,700
Europe		614,715,960	557,638,254
Asia		400,064,372	65,943,324
	¢	1,323,975,738,228	1,267,522,776,435

Loan portfolio by arrears

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

		2017	2016
Current	¢	1,235,992,853,153	1,200,039,176,663
1 to 30 days		50,263,786,527	43,199,841,402
31 to 60 days		12,722,658,056	10,205,892,246
61 to 90 days		5,629,981,991	3,128,633,930
91 to 120 days		996,327,000	388,853,137
121 to 180 days		1,093,517,826	895,117,350
More than 180 days		2,805,970,236	251,421,741
In legal collections		14,470,643,439	9,413,839,966
Total direct loans		1,323,975,738,228	1,267,522,776,435
Accounts and accrued interest		15,065,287,839	10,477,549,179
Allowance for loan losses		(32,584,851,287)	(21,456,199,635)
Total	¢	1,306,456,174,780	1,256,544,125,979

(Continued)

Concentration of the portfolio in individual borrowers or economic interest groups

	2017			2016		
	No. of customers		Amount	No. of customers		Amount
Capital and reserves:						
Less than 5%	48,290	¢	1,174,471,633,324	48,358	¢	1,150,948,104,727
Between 5% and 10%	8		96,569,830,355	4		43,694,202,428
Between 10% and 15%	-		-	1		19,409,102,076
Between 15% and 20%	2		52,934,274,549	2		53,471,367,204
Total	48,300	¢	1,323,975,738,228	48,365	¢	1,267,522,776,435

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 2017, 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 ¢149,504,104,904 (2016: ¢116,574,671,708).

Amount and number of loans in non-accrual status

		2017	2016
Loans in non-accrual status	¢	19,366,458,499	10,949,232,196
Number of loans in non-accrual status		1,111	1,124

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

		2017	2016
Loans in legal collections	¢	14,470,643,439	9,413,839,966
Number of loans in legal collections		438	430
Percentage of total portfolio		1.09%	0.74%

Investments by rating

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

		2017	2016
AAA	¢	8,971,413	8,592,760
AA		9,981,845,415	12,511,018,560
A		28,321,000,000	21,927,199,791
BB		56,301,693,784	62,195,888,116
B		16,759,023,715	11,386,297,000
Total investments by risk rating		111,372,534,327	108,028,996,227
Accrued interest receivable		374,235,276	608,341,902
Total	¢	111,746,769,603	108,637,338,129

Investments by geographic area

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

		2017	2016
Costa Rica	¢	83,051,534,327	86,046,605,068
United States of America		28,321,000,000	21,982,391,159
Total investments		111,372,534,327	108,028,996,227
Accrued interest receivable		374,235,276	608,341,902
Total	¢	111,746,769,603	108,637,338,129

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.

(Continued)

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, 2017, 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 (2017 and 2016). In the event that variable interest rates change as indicated above, the Bank's asset and liability portfolios would increase or decrease by ¢9,387,461,620 in 2017 (2016: increase or decrease by ¢8,557,688,195).

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	
		2017	2016
Positive change			
Investments	¢	(5,287,572,790)	(32,023,584,477)
Loan portfolio		(36,541,633,997)	(34,958,848,469)
Term deposits		(8,727,003,436)	(7,663,310,711)
Obligations with entities		(779,566,155)	(4,965,854,866)
Negative change			
Investments	¢	3,155,515,222	10,016,389,284
Loan portfolio		39,685,959,092	37,938,607,000
Term deposits		9,030,863,658	7,938,212,551
Obligations with entities		799,146,367	5,147,839,400

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2017, 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	7.96%	¢	112,160,401	29,075,003	100,815,157	45,210,097	15,042,089	14,710,463	317,013,210
Liabilities	5.99%		39,605,761	65,224,442	57,195,855	30,251,119	47,444,552	40,354,317	280,076,046
Gap between assets and liabilities			72,554,640	(36,149,439)	43,619,302	14,958,978	(32,402,463)	(25,643,854)	36,937,164
Foreign currency									
Assets	5.94%		347,034,493	64,509,991	544,843,841	87,250,427	49,163,307	71,151,324	1,163,953,383
Liabilities	3.10%		322,207,985	146,281,282	185,634,846	78,981,965	147,744,791	91,093,127	971,943,996
Gap between assets and liabilities		¢	24,826,508	(81,771,291)	359,208,995	8,268,462	(98,581,484)	(19,941,803)	192,009,387

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

(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)

As of December 31, 2017, 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	¢	57,738,841	-	-	-	-	-	-	-	57,738,841
Minimum cash reserve in BCCR		61,998,791	17,112,692	12,438,834	10,722,515	29,886,444	36,756,672	43,482,238	-	212,398,186
Investments		10,298,296	44,486,095	634,512	3,491,038	3,379,303	12,007,995	37,449,530	-	111,746,769
Loan portfolio		69,596,362	48,716,190	47,375,048	58,764,827	85,487,245	74,409,916	916,969,429	37,722,009	1,339,041,026
Total recovery of assets		199,632,290	110,314,977	60,448,394	72,978,380	118,752,992	123,174,583	997,901,197	37,722,009	1,720,924,822
Obligations with the public		313,756,319	86,051,579	62,419,373	55,226,789	156,863,396	199,435,230	235,722,327	-	1,109,475,013
Obligations with financial entities		23,273,352	21,717,644	15,148,494	11,365,904	129,764,428	46,752,128	154,608,541	-	402,630,491
Charges payable		-	9,959,824	-	-	-	-	-	-	9,959,824
Total maturity of liabilities		337,029,671	117,729,047	77,567,867	66,592,693	286,627,824	246,187,358	390,330,868	-	1,522,065,328
Gap	¢	(137,397,381)	(7,414,069)	(17,119,472)	6,385,687	(167,874,832)	(123,012,775)	607,570,329	37,722,009	198,859,494

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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)

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

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

Investment portfolios are managed locally with overall guidance and oversight provided by the regional Treasury Department of Grupo BNS de Costa Rica, S.A.

The Bank's limit structure is as follows:

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

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

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):

		2017							
				Year					
Obligations:		Balance	Nominal cash flows	1	2	3	4	5	Thereafter
Demand obligations with the public	¢	313,756,319	313,756,319	313,756,319	-	-	-	-	-
Term obligations with the public		795,718,695	842,569,175	598,485,261	96,920,884	73,974,654	-	73,188,376	-
Obligations with financial entities		402,870,977	379,699,313	373,802,228	-	-	-	5,897,085	-
	¢	1,512,345,991	1,536,024,807	1,286,043,808	96,920,884	73,974,654	-	79,085,461	-

		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 financial 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

(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, 2017 and 2016, 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:

	2017			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
Assets				
Cash and due from banks	331,325,987	2,237,494	3,244,938	63,461
Investments in financial instruments	165,855,254	-	-	-
Loan portfolio	1,809,227,461	-	560,578	-
Accounts and fees and commissions receivable	7,064,237	-	-	-
Investments in other companies	983	-	-	-
Other assets	4,020,010	164,984	-	-
Total assets	2,317,493,932	2,402,478	3,805,516	63,461
Liabilities				
Obligations with the public	1,407,690,102	1,315,498	1,572,384	-
Obligations with entities	647,698,710	-	-	-
Other accounts payable and provisions	11,716,973	2,235,468	-	-
Other liabilities	18,671,670	-	13,477	-
Total liabilities	2,085,777,455	3,550,966	1,585,861	-
Excess of assets over liabilities	231,716,477	(1,148,488)	2,219,655	63,461

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

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 and preferred shares in foreign currency

As of December 31, 2017 and 2016, 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, 2017, 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$	54,950	-	-	-	-	-	-	-	54,950
Minimum cash reserve in BCCR		81,845	24,362	17,828	16,329	42,371	48,057	51,322	-	282,114
Investments		13,726	65,285	1,067	11	5,966	18,819	60,982	-	165,856
Loan portfolio		89,061	43,933	53,515	73,492	120,643	95,771	1,323,231	56,313	1,855,959
Total recovery of assets		239,582	133,580	72,410	89,832	168,980	162,647	1,435,535	56,313	2,358,879
Obligations with the public		396,233	123,470	90,393	81,933	211,849	245,532	253,188	-	1,402,598
Obligations with financial entities		21,927	27,518	20,044	18,933	216,021	81,003	259,465	-	644,911
Charges payable		-	10,378	-	-	-	-	-	-	10,378
Total maturity of liabilities		418,160	161,366	110,437	100,866	427,870	326,535	512,653	-	2,057,887
Gap	US$	(178,578)	(27,786)	(38,027)	(11,034)	(258,890)	(163,888)	922,882	56,313	300,992

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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)

Sensitivity analysis

As of December 31, 2017 and 2016, 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, 2017 and 2016, the maximum annual expected variation of the reference buy exchange rate of ¢67.76 and ¢67.88, 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 periods ended as of December 31 is as follows:

		2017	2016
Effect on profit or loss			
Exchange rate variation			
Assets	¢	169,187,973,819	162,904,988,092
Liabilities		(146,364,934,394)	(140,887,422,829)
Net	¢	22,823,039,425	22,017,565,263

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, 2017, Costa Rican banking legislation requires private banks to maintain minimum paid-in capital greater than or equal to ¢14,758 million (2016: ¢14,046 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, 2017 and 2016, 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:

		2017	2016
Tier I capital:			
Paid-up capital	¢	139,309,891,406	139,309,891,406
Legal reserve		11,908,348,003	11,597,108,286
		151,218,239,409	150,906,999,692
Tier II capital:			
Revaluation adjustment		4,777,006,979	4,777,006,979
Adjustments for fair value changes in of available-for-sale investments		(114,461,368)	-
Non-capitalized contributions		14,957,901	14,957,901
Prior period retained earnings		5,626,503,302	5,218,587,811
Profit or loss for the period, net of appropriation to legal reserve		2,581,862,355	7,907,915,491
		12,885,869,169	17,918,468,182
Equity adjustments:			
Investments in other companies		(557,006)	(557,006)
		(557,006)	(557,006)
Total base capital	¢	164,103,551,572	168,824,910,868

As of December 31, 2017 and 2016, the capital adequacy ratio has been kept above the statutory ratio of 10%, maintaining a normal risk rating.

viii. Asset laundering risk

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

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

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

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

ix. IT risk

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

x. Legal risk

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

(Continued)

27. 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:

		2017	2016
Carrying amount			
Cash and due from banks	¢	270,137,027,168	265,571,410,423
Investments:			
Trading		9,924,061,212	12,314,605,605
Available for sale		101,448,473,115	95,714,390,622
Loan portfolio		1,323,975,738,228	1,267,522,776,435
Demand deposits		313,756,319,261	320,425,183,616
Term deposits		795,718,694,969	710,077,321,128
Financial obligations		404,534,293,453	421,901,997,113
Fair value			
Cash and due from banks	¢	270,137,027,168	265,571,410,423
Investments:			
Trading		9,924,061,212	12,314,605,605
Available for sale		101,448,473,115	95,714,390,622
Loan portfolio		1,136,798,957,721	995,796,936,300
Demand deposits		313,756,319,261	320,425,183,616
Term deposits		786,294,497,370	711,570,130,458
Financial obligations		376,946,274,875	347,411,338,708

(Continued)

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.

(Continued)

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:

		2017			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	101,448,473,115	-	-	101,448,473,115
Trading	¢	-	9,924,061,212	-	9,924,061,212

		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

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.

28. Concentration of assets and liabilities by geographic region

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

		2017	2016
Assets:			
Costa Rica	¢	1,635,551,878,673	1,571,632,626,147
Rest of Central America		1,058,962,696	1,680,184,483
Rest of North and South America		1,639,120,319	3,369,551,722
Caribbean		65,638,477,782	55,431,269,086
United States of America		15,529,313,528	24,971,375,480
Europe		1,424,125,401	1,126,233,249
Africa		303,949,027	-
Asia		400,380,440	66,270,116
Total assets	¢	1,721,546,207,866	1,658,277,510,283
Liabilities:			
Costa Rica	¢	1,110,426,149,131	1,044,791,805,423
Rest of Central America		56,185,611,921	43,843,695,577
Rest of North and South America		60,493,246,498	58,972,577,052
Caribbean		184,658,683,683	221,580,617,249
United States of America		100,253,896,208	78,392,391,531
Europe		34,766,794,893	28,850,380,840
Africa		1,083,721	495,036
Asia		9,063,034,593	11,285,587,281
Rest of North America		1,262,981	-
Total liabilities	¢	1,555,849,763,629	1,487,717,549,989

29. Agreements

As of December 31, 2017 and 2016, 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, 2017, projected lease payments for the upcoming years are as follows:

Year		2017	2016
1 year	¢	1,276,442,763	1,272,693,450
2 years		1,044,447,893	1,088,097,672
3 years		881,773,769	812,619,160
4 years		633,050,817	654,008,791
5 years		343,527,499	432,847,292
More than 5 years		259,055,019	310,640,998
	¢	4,438,297,760	4,570,907,363

30. Contingencies

(a) Tax

a.1 In the first half of 2008, the 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.

(Continued)

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.

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.

(Continued)

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.

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.

(Continued)

On September 4, 2013, a formal 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.

(Continued)

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.

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.

On November 27, 2017, the National Taxpayer Administration notified Decisive Ruling No. DT10R-129-17, which rejects the administrative claim filed by the Bank against Notice of Deficiency No. 1-10-040-14-010-041-03. On January 31, 2018, the Bank filed a motion for reconsideration before the National Taxpayer Administration against the decisive ruling. Currently, a response is pending from the National Taxpayer Administration on the aforementioned motion for reconsideration.

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.

31. 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:

(Continued)

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.

(Continued)

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.

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.

(Continued)

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.

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.

(Continued)

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.

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.

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.

(Continued)

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.

(Continued)

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, 2017. Early application is permitted. This Standard has not been adopted by the Board.

(Continued)

x) 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.

y) 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.

z) IFRIC 22: Foreign currency transactions and advance considerations

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

aa) IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This Interpretation has not been adopted by CONASSIF.

x) 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.

y) 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.

z) IFRIC 22: Foreign currency transactions and advance considerations

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

aa) IFRIC 23: Uncertainty over Income Tax Treatments

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax base, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. This Interpretation has not been adopted by CONASSIF.