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

Financial Statements

As of December 31, 2018
(With corresponding figures for 2017)

(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 of 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, 2018, 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, 2018, 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 has not been modified in this regard.

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.

The key audit matter	How the matter was addressed in our audit
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 in this area included: • assessing the design and operating efficiency of IT controls on the information systems used by management to calculate arrears in the loan portfolio; performing detailed testing of a sample to confirm the days of arrears used in the calculation; • testing 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; • recalculating 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; testing the integrity of data for this information. • performing 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; • comparing the level of historical payment behavior used by management with the information provided by SUGEF's Credit Information Center.

The key audit matter	How the matter was addressed in our audit
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.	Our audit procedures in this area included: • involving our tax specialists to review 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; • obtaining and evaluating 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.

KPMG

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 25, 2019

San José, Costa Rica
Eric Alfaro Vargas
Member No. 1547
Policy No. 0116 FIG 7
Expires 9/30/2019

¢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, 2018
(With corresponding figures for 2017)
(In colones)

	Note	2018	2017
ASSETS			
Cash and due from banks	**4**	**337,933,935,673**	**270,137,027,168**
Cash		30,806,545,311	28,677,124,348
Central Bank of Costa Rica		282,386,572,864	221,678,299,964
Local financial entities		1,448,695,720	2,258,228,098
Foreign financial entities		19,841,040,161	14,768,315,773
Other cash and due from banks		3,451,081,617	2,755,058,985
Investments in financial instruments	**5**	**119,606,348,593**	**111,746,769,603**
Trading		1,532,577,284	9,924,061,212
Available for sale		117,468,719,272	101,448,473,115
Accrued interest receivable		605,052,037	374,235,276
Loan portfolio	**6**	**1,694,440,233,333**	**1,306,456,174,780**
Current		1,604,023,775,554	1,235,992,853,153
Past due		111,412,202,655	73,512,241,636
In legal collection		18,362,361,921	14,470,643,439
Accrued interest receivable		21,999,196,632	15,065,287,839
(Allowance for loan losses)	**6-b**	(61,357,303,429)	(32,584,851,287)
Accounts and fees and commissions receivable	**7**	**26,303,508,838**	**4,711,883,213**
Fees and commissions receivable		77,808,660	95,205,746
Accounts receivable for related party transactions	**3**	4,772,972,064	2,921,577,352
Deferred income tax and income tax receivable		13,075,359,887	-
Other accounts receivable		8,661,429,824	1,793,407,452
(Allowance for doubtful accounts and fees and commissions receivable)	**7**	(284,061,597)	(98,307,337)
Foreclosed assets	**8**	**6,167,529,439**	**2,558,446,198**
Assets and securities acquired in lieu of payment		13,392,919,106	10,637,115,482
(Allowance for impairment and per legal requirement)	**8**	(7,225,389,667)	(8,078,669,284)
Investments in other companies, net		**557,006**	**557,006**
Property and equipment, net	**9**	**26,110,729,667**	**16,372,606,387**
Other assets	**10**	**19,883,798,017**	**9,562,743,511**
Deferred charges		706,202,785	841,794,753
Intangible assets, net		988,725,853	600,272,743
Other assets		18,188,869,379	8,120,676,015
TOTAL ASSETS		**2,230,446,640,566**	**1,721,546,207,866**

(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, 2018
(With corresponding figures for 2017)
(In colones)

	Note	2018	2017
LIABILITIES AND EQUITY			
LIABILITIES			
Obligations with the public	11	**1,313,607,517,680**	**1,117,771,521,090**
Demand		379,776,958,043	313,756,319,261
Term		924,927,325,906	795,718,694,969
Finance charges payable		8,903,233,731	8,296,506,860
Obligations with entities	12	**614,657,916,935**	**404,534,293,453**
Demand		48,447,450,563	23,273,351,810
Term		558,205,689,030	371,568,864,401
Other obligations with entities		5,057,024,206	8,028,760,483
Finance charges payable		2,947,753,136	1,663,316,759
Accounts payable and provisions	13	**29,778,452,555**	**17,948,150,972**
Deferred tax	13-a	509,733,202	1,268,087,331
Provisions	13-b	4,182,338,003	3,541,252,484
Other sundry accounts payable		25,086,381,350	13,138,811,157
Other liabilities	14	**18,311,629,579**	**15,595,798,114**
Deferred income		6,970,235,944	6,823,294,262
Allowance for stand-by credit losses	6-c	244,055,077	261,175,029
Other liabilities		11,097,338,558	8,511,328,823
TOTAL LIABILITIES		**1,976,355,516,749**	**1,555,849,763,629**
EQUITY			
Share capital		**226,449,722,072**	**139,309,891,406**
Paid-in capital	15-a	226,449,722,072	139,309,891,406
Non-capitalized capital contributions		**14,958,141**	**14,957,901**
Equity adjustments		**8,478,744,453**	**6,254,881,270**
Surplus from revaluation of property	15-b	10,844,977,765	6,369,342,638
Adjustment for valuation of available-for-sale investments		(2,366,233,312)	(114,461,368)
Capital reserves	15-c	**18,606,701,145**	**11,908,348,003**
Prior period retained earnings	15-d	**(96,888,001)**	**5,626,503,302**
Income for the year		**637,886,007**	**2,581,862,355**
TOTAL EQUITY		**254,091,123,817**	**165,696,444,237**
TOTAL LIABILITIES AND EQUITY		**2,230,446,640,566**	**1,721,546,207,866**
DEBIT MEMORANDA ACCOUNTS	17	**458,305,486,681**	**218,499,177,066**
TRUST ASSETS	18	**1,792,082,076,628**	**1,693,494,049,182**
TRUST LIABILITIES		**515,492,177,328**	**512,439,411,805**
TRUST EQUITY		**1,276,589,899,300**	**1,181,054,637,377**
OTHER DEBIT MEMORANDA ACCOUNTS	20	**10,252,822,413,291**	**12,679,414,764,419**
Own accounts		10,150,350,461,350	12,583,276,020,826
Third party accounts		102,471,951,941	96,138,743,593

Luis Gómez Portuguez 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, 2018
(With corresponding figures for 2017)
(In colones)

	Note	2018	2017
Finance income			
Cash and due from banks		2,023	274
Investments in financial instruments		6,443,373,633	3,645,303,934
Loan portfolio	21	145,814,141,183	103,893,789,855
Foreign exchange gains, net	23	-	4,848,557,585
Gain on available-for-sale financial instruments	5	37,683,809	298,441,687
Other finance income		1,822,989,896	1,330,995,934
Total finance income		**154,118,190,544**	**114,017,089,269**
Finance costs			
Obligations with the public	22-a	48,222,800,290	40,238,428,195
Obligations with financial entities	22-b	19,668,073,419	13,398,665,977
Foreign exchange losses, net	23	1,735,376,942	-
Loss on available-for-sale financial instruments	5	20,820,850	25,601,825
Other finance costs		3,458,615,810	277,341,347
Total finance costs		**73,105,687,311**	**53,940,037,344**
Allowance for impairment of assets	6-b-c, 7	37,513,834,668	21,779,990,026
Recovery of assets and decrease in allowances and provisions		7,841,590,909	6,774,183,005
GROSS FINANCE INCOME		**51,340,259,474**	**45,071,244,904**
Other operating income			
Service fees and commissions	24	39,296,276,682	18,099,188,052
Foreclosed assets		2,518,990,810	640,742,125
Foreign currency exchange and arbitrage		4,994,773,368	4,807,202,162
Other income with related parties	3	8,083,031,779	5,488,825,339
Other operating income		6,785,262,057	4,572,382,508
Total operating income		**61,678,334,696**	**33,608,340,186**
Other operating expenses			
Service fees and commissions		19,121,459,652	5,446,598,497
Foreclosed assets		2,696,460,242	1,849,515,839
Provisions		3,650,687,514	1,960,182,553
Foreign currency exchange and arbitrage		1,220,068	957,534
Other expenses with related parties	3	9,489,427,214	5,233,920,933
Other operating expenses		1,941,470,026	2,318,526,037
Total other operating expenses		**36,900,724,716**	**16,809,701,393**
GROSS OPERATING INCOME		**76,117,869,454**	**61,869,883,697**
Administrative expenses			
Personnel expenses	25	37,233,923,415	30,732,458,503
Other administrative expenses	26	37,478,865,227	26,539,268,506
Total administrative expenses		**74,712,788,642**	**57,271,727,009**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**1,405,080,812**	**4,598,156,688**
Income tax	13-a	216,187,829	2,056,214,987
Deferred tax		625,692,883	45,200,056
Decrease in income tax		216,187,829	535,868,149
Statutory allocations		70,276,936	334,735,818
Decrease in statutory allocations		-	104,827,984
INCOME FOR THE YEAR		**709,110,993**	**2,893,102,072**

(Continued)

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, 2018

(With corresponding figures for 2017)

(In colones)

	Note	2018	2017
INCOME FOR THE YEAR		**709,110,993**	**2,893,102,072**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Adjustment for valuation of available-for-sale investments, net		(2,251,802,236)	(256,618,129)
OTHER COMPREHENSIVE INCOME, NET OF TAX		**(2,251,802,236)**	**(256,618,129)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,542,691,243)**	**2,636,483,943**

Luis Gómez Portuguez
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, 2018
(With corresponding figures for 2017)
(In colones)

	Note	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, 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	15.d	-	-	-	-	-	-	(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
Adjustment for valuation of available-for-sale financial instruments, net of deferred tax		-	-	-	16,221,733	16,221,733	-	-	16,221,733
Realized net gain on 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
Transactions with shareholders recognized directly in equity									
Effect of merger by absorption of The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.	32	87,139,830,666	240	4,475,635,127	30,292	4,475,665,419	6,627,128,156	(6,405,253,658)	91,837,370,823
Appropriation to legal reserve		-	-	-	-	-	71,224,986	(71,224,986)	-
Dividends paid in cash	15.d	-	-	-	-	-	-	(1,900,000,000)	(1,900,000,000)
Total transactions with shareholders recognized directly in equity		226,449,722,072	14,958,141	10,844,977,765	(114,431,076)	10,730,546,689	18,606,701,145	(168,112,987)	255,633,815,060
Other comprehensive income for the year:									
Income for the year		-	-	-	-	-	-	709,110,993	709,110,993
Adjustment from valuation of available-for-sale financial instruments, net of deferred tax		-	-	-	(2,234,939,277)	(2,234,939,277)	-	-	(2,234,939,277)
Realized net gain on investments		-	-	-	(16,862,959)	(16,862,959)	-	-	(16,862,959)
Total comprehensive income for the year		-	-	-	(2,251,802,236)	(2,251,802,236)	-	709,110,993	(1,542,691,243)
Balance at December 31, 2018		226,449,722,072	14,958,141	10,844,977,765	(2,366,233,312)	8,478,744,453	18,606,701,145	540,998,006	254,091,123,817

Luis Gómez Portuguez
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, 2018
(With corresponding figures for 2017)
(In colones)

	Note	2018	2017
Cash flows from operating activities			
Income for the year		709,110,993	2,893,102,072
Items not requiring cash			
Net gain or loss on foreign exchange		18,471,844,841	312,591,978
Net expense on allowance for loan losses		33,729,914,538	16,127,582,203
Net expense on allowance for foreclosed assets		(907,306,065)	80,613,558
Net expense on other allowances		109,870,971	20,195,961
Expense for severance benefits provision		980,828,920	300,000,000
Depreciation and amortization		2,633,130,399	2,063,461,497
Loss on sale and disposal of assets		1,486,824,901	575,894,259
Expense for other provisions		641,085,519	1,945,268,754
Deferred tax		(261,387,884)	(581,068,205)
Finance income		(152,257,523,882)	(107,539,093,789)
Finance costs		67,890,873,709	53,637,094,172
Income tax		216,187,829	2,056,214,987
Net (increase) decrease in assets			
Trading securities		8,391,483,928	2,390,544,394
Loans and cash advances		(130,196,595,214)	(30,930,526,929)
Foreclosed assets		128,906,900	2,534,901,972
Other assets		242,729,742,140	(3,284,837,180)
Net increase (decrease) in liabilities			
Demand and term obligations		(405,173,249,396)	51,405,509,275
Other accounts payable and provisions		(258,346,778,261)	434,446,814
Other liabilities		1,448,949,938	5,007,396,704
Interest collected		145,092,798,328	103,185,461,755
Interest paid		(65,999,710,461)	(52,009,010,908)
Taxes paid		-	(4,698,479,592)
Net cash (used in) from operating activities		**(488,480,997,309)**	**45,927,263,752**
Cash flows from investing activities			
Increase in financial instruments		(5,102,534,845,709)	(5,506,287,352,689)
Decrease in financial instruments		5,158,781,967,562	5,509,120,381,640
Acquisition of property and equipment	9	(3,542,968,011)	(1,103,009,803)
Net cash from investing activities		**52,704,153,842**	**1,730,019,148**
Cash flows from financing activities			
Other new financial obligations		3,816,256,523,978	354,198,225,397
Payment of obligations		(3,371,268,838,879)	(382,891,882,487)
Dividends paid		(1,900,000,000)	(7,500,000,000)
Net cash from (used in) financing activities		**443,087,685,099**	**(36,193,657,090)**
Net increase in cash and cash equivalents		**7,310,841,632**	**11,463,625,810**
Cash from the merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.	32	**53,869,313,825**	**-**
Cash and cash equivalents at beginning of year		**314,820,226,479**	**303,356,600,669**
Cash and cash equivalents at end of year	4	**376,000,381,936**	**314,820,226,479**

Luis Gómez Portuguez
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 in turn is owned by Corporación Mercaban de Costa Rica, S.A. (13.120054% ownership interest) and by BNS Internacional, S.A. (an entity domiciled in Panama, 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 deposit-taking 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, 2018, the Bank has 1,846 employees, operates 41 branches and has a network of 211 ATMs (2017: 1,293 employees, 38 branches and 216 ATMs). The Bank's customers, regulating entities, and the general public can access relevant information about the Bank and the services it offers at its website www.scotiabankcr.com.

On July 1, 2018, the subsidiary Scotiabank de Costa Rica, S.A. performed the merger by absorption of the subsidiaries The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A., as authorized by Official Letter CNS-142/04 of June 27, 2018, issued by CONASSIF (see Note 32).

(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 21, 2019.

ii. Basis of measurement

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

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

The methods used for fair value measurement are discussed in Note e (vi).

(c) Functional and presentation currency

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

(d) Foreign currency

i. Foreign currency transactions

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

(Continued)

ii. Monetary unit and foreign exchange regulations

The parity of the colon with the US dollar is determined in a free exchange market under the supervision of BCCR by using a managed float regime. As of December 31, 2018, the exchange rate was established at ¢604.39 and ¢611.75 to US$1.00 for the purchase and sale of US dollars, respectively (2017: ¢566.42 and ¢572.56, respectively).

iii. Valuation method for assets and liabilities

As of December 31, 2018, assets and liabilities denominated in US dollars, Canadian dollars, and euro were valued at the buy rates of ¢604.39 to US$1.00 (2017: ¢566.42 to US$1.00), ¢443.1662 to CAD$1.00 (2017: ¢449.6110 to CAD$1.00), and ¢693.1145 to €1 (2017: ¢676.7020 to €1), respectively, in accordance with regulations established by BCCR.

(e) Financial assets and financial liabilities

i. Recognition

The Bank initially recognizes loans and advances, deposits, and debt instruments issued on the date on which they are originated. Regular-way purchases and sales of financial assets are recognized on the trade date, which is the date on 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 that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

- Loan portfolio

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

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

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

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

- Investments in financial instruments

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

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

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

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

(Continued)

- 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.

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 legally enforceable right to set off the amounts and it intends to settle them 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.

(Continued)

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, uncertainty of market factors, pricing assumptions, and other variables affecting the specific instrument.

Valuation techniques include the net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. The Bank determines the valuation model that most adequately reflects the fair value of each class of financial instrument. 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.

(Continued)

(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.

(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 as incurred.

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

ii. Subsequent costs

Costs incurred to replace a component of an item of property and equipment are capitalized and accounted for separately. Subsequent expenditure is only capitalized when it increases 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 using the straight-line method over the estimated useful lives of the assets, as follows:

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

iv. Leased assets

Assets leased under operating leases are not recognized in the 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.

(i) Impairment of non-financial assets

At each balance sheet date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the 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 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 related objectively 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.

(Continued)

(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.

(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

In preparing these financial statements, management has made judgments, estimates, and assumptions that affect the application of the Bank's 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.

(Continued)

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.

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 under “Other liabilities” in the liability section of the balance sheet.

(p) Finance income and finance costs

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

(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, 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 calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during such period.

(Continued)

(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 seven days' salary for employees with between three and six months of service, 14 days' salary for employees with between six months and one year of service, and an amount prescribed by the *Employee Protection Law* for employees with more than one year of service, up to a maximum of eight years.

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

The 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:

		2018	2017
Cash and due from banks			
Minimum legal reserve	¢	276,401,246,690	212,398,186,567
Drafts and transfers payable		975,282,889	847,971,973
		277,376,529,579	213,246,158,540
Investments			
Clearing house guarantee		1,753,863,023	1,004,646,311
Security deposits for public utility payment collection services		126,487,451	40,120,000
Other guarantees		9,720,335,381	1,161,379,373
		11,600,685,855	2,206,145,684
Loans			
Requirement for deposit-taking in demand accounts per Art. 59 of IRNBS (Law No. 1644)		61,570,534,114	52,934,274,549
Subtotal		61,570,534,114	52,934,274,549
Accrued interest receivable			
Comitted investments		75,305,878	36,464,232
Subtotal		75,305,878	36,464,232
Other assets			
Security deposits		249,675,450	163,559,537
Subtotal		249,675,450	163,559,537
Total	¢	350,872,730,876	268,586,602,542

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

3. Balances and transactions with related parties

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

		2018	2017
Assets:			
Cash and due from banks	¢	470,420,756	541,048,111
Loan portfolio		1,628,540,509	3,275,519,606
Accounts and accrued interest receivable		4,772,972,064	2,921,577,352
Total assets	¢	6,871,933,329	6,738,145,069
Liabilities:			
Obligations with the public	¢	2,772,252,419	14,242,839,330
Other financial obligations		376,958,520,335	181,505,308,784
Other accounts payable		3,501,759,003	2,103,804,819
Total liabilities	¢	383,232,531,757	197,851,952,933
Expenses:			
Finance costs	¢	298,356,067	4,727,238,060
Operating expenses		9,489,427,214	5,233,920,933
Total expenses	¢	9,787,783,281	9,961,158,993
Income:			
Finance income	¢	144,254,437	950,028,393
Operating income		8,033,031,779	5,488,825,339
Total income	¢	8,177,286,216	6,438,853,732

As of December 31, 2018, compensation paid to key personnel amounts to ¢1,425,470,997 (2017: ¢1,521,658,963).

Operating income and expenses with related parties correspond to accounts due from and due to related parties, both local and foreign, that operate in El Salvador, Mexico, Colombia, Peru, Chile, Dominican Republic and Canada.

(Continued)

Operating expenses correspond to the following services: corporate administrative and technical expenses (TSA), reconciliation of debit and credit card processing, collections and customer service, information technology and storage services, data management and processing in a Data Center Consolidation, among other.

Operating income corresponds to payments received for corporate services for the use of the banking platform, lease of physical space and administrative services. The services rendered to foreign related parties correspond mainly to IT services, regional risk management and other administrative services, as well as the reimbursement of third-party services for the integration project.

As of December 31, 2018, 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. (formerly 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 Sotosal, S.A.
- The Bank of Nova Scotia (Costa Rica), S.A. (merged with Scotiabank de Costa Rica S.A. on July 1, 2018).
- Scotia Tarjetas, S.A. (merged with Scotiabank de Costa Rica S.A. on July 1, 2018).

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

4. Cash and due from banks

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

		2018	2017
Cash	¢	30,806,545,311	28,677,124,348
Demand deposits in BCCR		282,386,572,864	221,678,299,964
Demand deposits in local financial entities		1,448,695,720	2,258,228,098
Demand deposits in foreign financial entities		19,841,040,161	14,768,315,773
Notes payable on demand		3,451,081,617	2,755,058,985
Total	¢	337,933,935,673	270,137,027,168

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

		2018	2017
Cash and due from banks	¢	337,933,935,673	270,137,027,168
Highly liquid investments		38,066,446,263	44,683,199,311
Total	¢	376,000,381,936	314,820,226,479

Pursuant to current banking legislation, the Bank must maintain a biweekly average minimum legal reserve in BCCR. The minimum legal 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 legal 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 legal reserve required in the prior two biweekly periods. The required minimum legal reserve (corresponding to the average for the second biweekly period) is as follows:

		2018	2017
Local currency	¢	59,287,916,247	52,602,899,533
Foreign currency		217,113,330,443	159,795,287,034
Total minimum legal reserve	¢	276,401,246,690	212,398,186,567

(Continued)

As of December 31, 2018, highly-liquid short-term investments include securities acquired under reverse repurchase agreements for a total of ¢446,190,713 and US$62,245.000 (2017: ¢7,500,000,000 and US$65,645,986). Those securities bear interest at rates ranging between 6.38% and 6.47% per annum for investments in colones and between 0.30% and 5.25% per annum for investments in US dollars (2017: between 3.75% and 4.50% per annum in colones and between 0.25% and 3.00% per annum in US dollars), and are included in cash equivalents.

5. Investments in financial instruments

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

		2018	2017
Held for trading	¢	1,532,577,284	9,924,061,212
Available for sale		117,468,719,272	101,448,473,115
Subtotal		119,001,296,556	111,372,534,327
Accrued interest receivable		605,052,037	374,235,276
Total	¢	119,606,348,593	111,746,769,603

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

		2018	2017
Open investment funds in colones managed by a local related party	¢	-	1,010,688,906
Open investment funds in US dollars managed by a local related party		373,727,077	570,234,397
Open investment funds in colones managed by a local entity		866,436,504	1,384,617,625
Open investment funds in US dollars managed by a local entity		292,413,703	6,958,520,284
Total	¢	1,532,577,284	9,924,061,212

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

		2018	2017
Local issuers:	¢		
Costa Rican Government		73,348,594,442	51,892,192,214
BCCR		25,004,011	20,289,685,473
Financial entities		144,530,876	57,784,200
Private issuers		9,695,497	8,971,413
Repurchase agreements		13,301,411,995	878,839,815
Subtotal		86,829,236,821	73,127,473,115
Foreign issuers:			
Governments		419,982,541	-
Financial entities		30,219,500,000	28,321,000,000
Subtotal		30,639,482,451	28,321,000,000
Total	¢	117,468,719,272	101,448,473,115

As of December 31, 2018, investments in financial instruments in the amount of ¢11,600,685,855 (2017: ¢2,206,145,684) secure operations with several local institutions (see Note 2).

As of December 31, 2018, investments in financial instruments bear interest at rates ranging between 6.35% and 14.62% per annum (2017: between 0.52% and 11.68% per annum) in colones, and between 0.30% and 7.83% per annum (2017: between 0.25% and 5.05% per annum) in US dollars.

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

		2018	2017
Realized gain on the sale of available-for-sale financial instruments	¢	37,683,809	298,441,687
Realized loss on the sale of available-for-sale financial instruments		(20,820,850)	(25,601,825)
Net gain	¢	16,862,959	272,839,862

6. Loan portfolio

a) Loan portfolio by origin

		2018	2017
Loans originated by the Bank	¢	1,469,273,374,828	1,244,685,452,189
Loans purchased		264,524,965,302	79,290,286,039
Subtotal		1,733,798,340,130	1,323,975,738,228
Accrued interest receivable		21,999,196,632	15,065,287,839
Allowance for loan losses		(61,357,303,429)	(32,584,851,287)
	¢	1,694,440,233,333	1,306,456,174,780

As of December 31, 2018, loans bear interest at rates ranging between 3.00% and 49.9% per annum in colones (2017: between 5.19% and 25% per annum) and between 4.75% and 35.20% per annum in US dollars (2017: between 4.50% and 14.25%).

The purchased portfolio includes the portfolio acquired in the purchase and merger of The Bank of Nova Scotia (Costa Rica), S.A. (July 2018), which as of 2018 amounts to ¢165,764,196,008 and US$44,464,704, and Banco Interfin, S.A. (October 2007) for ¢37,498,968,463 and US$56,896,670 (2017: ¢39,024,238,179 and US$71.088.676).

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.

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

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

		2018	2017
Opening balance	¢	32,584,851,287	21,456,199,635
Allowance expense		36,697,677,968	21,442,894,071
Charged against allowance		(21,281,690,803)	(5,714,492,695)
Decrease in allowance		(2,925,040,425)	(5,215,207,759)
Translation effect of allowances in foreign currency		689,873,397	615,458,035
Allowance for the loan portfolio acquired in the merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.		15,591,632,005	-
	¢	61,357,303,429	32,584,851,287

c) Allowance for stand-by credit losses

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

		2018	2017
Opening balance	¢	261,175,029	354,451,271
Allowance expense		146,176,990	246,899,989
Decrease in allowance		(188,899,995)	(347,004,098)
Translation effect for allowances in foreign currency		12,997,590	6,827,867
Allowance for the loan portfolio acquired in the merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.		12,605,463	-
	¢	244,055,077	261,175,029

7. Accounts and fees and commissions receivable

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

		2018	2017
Fees and commissions	¢	77,808,660	95,205,746
Related party transactions (note 3)		4,772,972,064	2,921,577,352
Deferred tax		13,075,359,887	-
Other accounts receivable:			
Sundry credit card receivables		1,040,600,670	655,691,084
Advance payments to suppliers		-	9,062,720
Other expenses receivable		137,972,710	55,196,047
Due from INS		25,893,661	14,012,858
ATH transactions		7,533,469	6,262,330
Other sundry accounts receivabe		7,449,429,314	1,053,182,413
		8,661,429,824	1,793,407,452
Subtotal		26,587,570,435	4,810,190,550
Allowance for doubtful accounts and fees and commission receivable		(284,061,597)	(98,307,337)
Total	¢	26,303,508,838	4,711,883,213

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

		2018	2017
Opening balance	¢	98,307,337	159,595,971
Allowance expense		669,979,710	90,195,966
Charged against allowance		(80,198,218)	(84,801,145)
Decrease in allowance		(560,108,739)	(70,000,005)
Translation effect of allowances in foreign currency		7,752,563	3,316,550
Reclassified allowances from merger		148,328,944	-
Closing balance	¢	284,061,597	98,307,337

(Continued)

8. Foreclosed assets

As of December 31, foreclosed assets are presented net of the allowance for impairment of foreclosed assets and per legal requirements, as follows:

		2018	2017
Assets acquired in lieu of payment:			
Real property	¢	12,232,071,519	9,750,667,606
Other		1,160,847,587	886,447,876
Subtotal		13,392,919,106	10,637,115,482
Allowance for impairment of foreclosed assets and per legal requirements		(7,225,389,667)	(8,078,669,284)
	¢	6,167,529,439	2,558,446,198

Movement in the allowance for impairment of foreclosed assets and per legal requirements is as follows:

		2018	2017
Opening balance	¢	8,078,669,284	8,839,134,690
Increase in allowance		1,581,176,899	609,637,145
Charged against allowance for sale or disposal of foreclosed assets		(810,554,076)	(841,078,964)
Decrease in allowance		(2,488,482,964)	(529,023,587)
Reclassified allowances from merger		864,580,524	-
	¢	7,225,389,667	8,078,669,284

9. Property and equipment, net

Property and equipment is as follows:

	2017	Acquisition by merger with The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A.	Additions	Disposals	2018
Cost					
Land	1,405,990,980	1,245,841,488	-	-	2,651,832,468
Buildings and facilities	4,717,803,912	4,947,580,892	6,790,307	(639,702,981)	9,032,472,130
Furniture and equipment	2,042,885,509	5,249,317,242	545,675,238	(686,963,390)	7,150,914,599
Computer hardware	5,933,081,523	5,993,204,565	2,779,109,647	(131,581,427)	14,573,814,308
Vehicles	535,399,126	4,819,746	133,785,425	(147,618,513)	526,385,784
Subtotal	14,635,161,051	17,440,763,933	3,465,360,617	(1,605,866,311)	33,935,419,289
Accumulated depreciation	(5,451,892,407)	(12,369,914,081)	(1,749,778,741)	229,525,428	(19,342,059,801)
	9,183,268,644	5,070,849,852	1,715,581,876	(1,376,340,883)	14,593,359,488
Revaluation					
Cost	8,852,190,770	4,656,644,151	77,607,394	(36,521,085)	13,549,921,230
Accumulated depreciation	(1,662,853,027)	(233,842,361)	(61,892,730)	(73,962,933)	(2,032,551,051)
Net revaluation	7,189,337,743	4,422,801,790	15,714,664	(110,484,018)	11,517,370,179
	16,372,606,387	9,493,651,642	1,731,296,540	(1,486,824,901)	26,110,729,667

During the year ended December 31, 2018, the depreciation expense amounted to ¢1,811,671,471 and was charged to profit or loss for the year.

Pursuant to local regulations, the Bank must perform a valuation of its productive assets at least once every five years. Accordingly, in 2018 the fair values of land, buildings and facilities held by The Bank of Nova Scotia (Costa Rica), S.A. were assessed through appraisals made by independent appraisers as of April 30, 2018. The appraisals identified increases in the fair value of land in the amount of ¢2,350,671,971 and in the fair value of buildings and facilities in the amount of ¢219,087,486, for a total of ¢2,569,759,457. In addition, as a result of the recording of the appraisals and the revaluation of those assets, a deferred tax liability was booked in the amount of ¢65,726,246. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

	2016	Additions	Disposals	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)	5,933,081,523
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)
	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
	17,375,009,144	(426,508,497)	(575,894,260)	16,372,606,387

Depreciation expense for the year ended December 31, 2017 amounted to ¢1,529,518,300 and was charged to profit or loss for the year.

10. Other assets

As of December 31, other assets are as follows:

		2018	2017
Deferred charges			
Leasehold improvements - operating lease	¢	706,202,785	841,794,753
Intangible assets			
Software		759,760,019	537,888,892
Other		228,965,834	62,383,851
Subtotal		988,725,853	600,272,743
Other assets			
Prepaid interest and fees and commissions		517,599,102	1,249,422,389
Prepaid taxes		2,090,430,644	1,697,874,472
Prepaid insurance		43,292,507	46,249,741
Other prepaid expenses		1,806,734,087	1,014,232,476
Stationery, office supplies and other materials		231,426,689	101,499,552
Library and artwork		16,945,602	16,945,602
Construction work-in-progress		3,943,949,657	1,290,172,844
Software under development		341,880,560	1,161,069,212
Operations pending settlement		8,946,935,081	1,379,650,190
Security deposits		249,675,450	163,559,537
Subtotal		18,188,869,379	8,120,676,015
Total	¢	19,883,798,017	9,562,743,511

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

		2018	2017
Amortization of leasehold improvements	¢	247,222,407	242,512,562
Amortization of software		574,236,521	291,430,635
Total	¢	821,458,928	533,943,197

11. Obligations with the public

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

		2018	2017
Demand			
Deposits:			
Checking accounts	¢	309,702,539,521	257,327,689,779
Certified checks		10,112,565	94,239,627
Demand savings deposits		55,884,228,636	41,552,318,509
Matured term deposits		4,146,333,298	2,593,497,921
Overnight deposits		6,962,119,279	7,588,385,900
Subtotal deposits		376,705,333,299	309,156,131,736
Other obligations with the public:			
Notes payable on demand - creditors		1,111,336,001	1,437,577,619
Drafts and transfers		975,282,889	847,971,973
Cashier's checks		823,762,137	2,233,830,304
Sundry demand obligations with the public		161,243,717	80,807,629
		3,071,624,744	4,600,187,525
Subtotal demand		379,776,958,043	313,756,319,261
Term			
Deposits:			
Term deposits from the public		856,405,426,788	728,240,286,988
Term deposits pledged as guarantee		68,521,899,118	67,478,407,981
Subtotal deposits		924,927,325,906	795,718,694,969
Charges payable for other obligations with the public		8,903,233,731	8,296,506,860
Total	¢	1,313,607,517,680	1,117,771,521,090

As of December 31, 2018, 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 ¢82,125,000,000 and US$49,959,000 (2017: ¢88,300,000,000 and US$74,959,000), bearing interest at rates ranging between 7.50% and 9.24% per annum in colones and between 4.89% and 5.43% per annum in US dollars (2017: between 7.20% and 9.24% per annum in colones and between 4.35% and 5.43% per annum in US dollars).

(Continued)

Term deposits made over the counter have terms ranging from a minimum of 31 days to a maximum of five years. As of December 31, 2018, certificates of deposit bear interest at rates ranging between 3.42% and 12.1195% per annum (2017: between 3.42% and 11.25% per annum) in colones and between 0.22% and 6.52% per annum (2017: between 0.44% and 5.70% per annum) in US dollars.

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

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

	2018		2017	
	No. of customers	Cumulative amount	No. of customers	Cumulative amount
Demand:				
Obligations with the public				
Deposits from the public	169605	372,559,000,001	142323	306,562,633,816
Restricted and inactive deposits	197	4,146,333,298	163	2,593,497,920
Other obligations	-	3,071,624,744	-	4,600,187,525
Subtotal	169802	379,776,958,043	142486	313,756,319,261
Obligations with entities				
Deposits from other financial entities	57	48,447,450,563	68	23,271,973,269
Deposits from State-owned entities	1	9,400,000,000	1	1,000,000,000
Restricted and inactive deposits	-	-	1	1,378,541
Subtotal	58	57,847,450,563	70	24,273,351,810
Total demand obligations with customers	169860	437,624,408,606	142556	338,029,671,071

(Continued)

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

	2018		2017	
	No. of customers	Cumulative amount	No. of customers	Cumulative amount
Term:				
Obligations with the public				
Deposits from the public	7654	856,394,126,792	7244	728,240,286,989
Restricted and inactive deposits	1785	68,521,899,114	1961	67,478,407,980
Subtotal	9439	924,927,325,906	9205	795,718,694,969
Obligations with entities				
Deposits from other financial entities	12	23,484,317,402	11	27,099,953,908
Subtotal	12	23,484,317,402	11	27,099,953,908
Total term obligations with customers	9451	948,411,643,308	9216	822,818,648,877

(Continued)

12. Obligations with entities

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

		2018	2017
Demand obligations:			
Checking accounts of local financial entities	¢	40,305,603,326	16,191,305,216
Matured term deposits		-	1,378,541
Checking accounts and obligations with related parties		8,141,847,237	7,080,668,053
		48,447,450,563	23,273,351,810
Term obligations:			
Term deposits from local financial entities		22,270,313,711	20,595,044,384
Loans with local financial entities		14,604,239,815	7,931,396,556
Loan with Mercantil Commerce Bank		-	2,177,515,594
Loan with DEG		12,087,800,604	15,104,533,522
Loan with Wells Fargo Bank, N.A.		23,420,112,500	6,655,435,000
Loan with Bladex		5,076,796,825	17,582,642,501
Loan with SUMIMOTO		9,588,859,521	-
Loan with THE OPEC FUND		9,065,850,000	8,496,300,000
Loan with IIC		716,202,150	1,118,679,500
Loan with IDB		-	6,976,028,720
Loan with Bank of America, N.A. New York		2,266,462,500	4,956,175,000
Loan with International Finance Corporation		38,853,642,987	42,481,500,000
Other loans with foreign financial entities		34,201,115,552	48,793,036,496
Obligations for funds taken from the Integrated Liquidity Market		-	1,000,000,000
Obligations with related financial entities		376,654,292,865	187,700,577,128
Subtotal term obligations		558,205,689,030	371,568,864,401
Financing from international organizations		4,532,925,000	7,788,275,000
Issued letters of credit		524,099,206	240,485,483
Subtotal other obligations with entities		5,057,024,206	8,028,760,483
Subtotal		611,710,163,799	402,870,976,694
Charges payable on obligations with financial and		2,947,753,136	1,663,316,759
Total	¢	614,657,916,935	404,534,293,453

(Continued)

As of December 31, 2018, other financial obligations bear interest at rates ranging between 4.57% and 8.69% (2017: 8.20%) per annum in colones and between 3.21% and 5.43% (2017: between 1.37% and 5.13%) per annum in US dollars.

Maturities of obligations with entities

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

		2018	2017
Less than 1 year	¢	436,702,071,556	248,262,435,537
1-2 years		95,664,582,715	78,904,373,084
2-3 years		56,084,065,206	34,067,364,519
3-4 years		8,781,358,726	27,627,662,294
4-5 years		3,229,812,961	7,789,907,308
More than 5 years		11,248,272,635	6,219,233,952
Subtotal		611,710,163,799	402,870,976,694
Charges payable on obligations with financial and non-financial entities		2,947,753,136	1,663,316,759
Total	¢	614,657,916,935	404,534,293,453

13. Accounts payable and provisions

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

		2018	2017
Deferred tax	¢	509,733,202	1,268,087,331
Provisions		4,182,338,003	3,541,252,484
Other sundry accounts payable:			
Creditors - purchase of goods and services		5,853,517	-
Employer contributions		65,581,956	-
Court-ordered withholdings		1,650,839	140,707
Tax withholdings		1,991,028,530	1,094,645,961
Employee withholdings		1,509,501,472	1,167,460,970
Statutory allocations		70,276,936	229,907,834
Loan obligations with related parties (Note		3,501,759,003	2,103,804,819
Clearing house operations		-	4,396,299
Accrued vacation		1,059,985,999	796,509,895
Accrued statutory Christmas bonus		342,677,794	277,057,281
INS insurance policies		3,098,626,035	2,522,259,059
Term deposits with related parties		842,007,070	939,746,351
Credit balances of credit card customers		5,303,859,552	640,852,156
Matured checks outstanding		924,446,341	109,120,035
Public utility and tax collection services		788,215,251	285,097,427
Other sundry accounts payable		5,580,911,055	2,967,812,363
Subtotal		25,086,381,350	13,138,811,157
Total	¢	29,778,452,555	17,948,150,972

(a) Income tax

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

		2018	2017
Income tax expense			
Income tax	¢	216,187,829	2,056,214,987
Decrease in income tax		216,187,829	535,868,149
Subtotal		-	1,520,346,838
Deferred tax		45,200,056	45,200,056
Decrease in deferred tax		(670,892,939)	-
Subtotal		(625,692,883)	45,200,056
Total income tax, net	¢	625,692,883	1,475,146,782

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 that would result from applying the corresponding income tax rate (30%) to income is reconciled as follows:

		2018	2017
Expected income tax	¢	421,524,244	1,379,447,006
Plus (less)			
Nondeductible expenses		1,963,603,284	1,152,154,702
Nontaxable income		(1,688,369,029)	(942,282,520)
Statutory allocations		(24,923,899)	(68,972,350)
Total income tax	¢	-	1,520,346,838

As of December 31, 2018 and 2017, deferred tax is attributable to unrealized gains 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.

Deferred tax is attributable to the following:

		2018	2017
Deferred tax assets			
Migration of balances due to merger - deferred tax assets	¢	13,075,359,887	-
Total		13,075,359,887	-
Deferred tax liabilities			
Revaluation of assets	¢	1,523,827,694	1,219,032,463
Unrealized (loss) gain on valuation of investments		(1,014,094,492)	49,054,868
Total	¢	509,733,202	1,268,087,331

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

		As of December 31, 2017	Deferred tax asset transferred	Included in the income statement	Included in equity	As of December 31, 2018
Deferred tax asset transferred due to merger		-	13,746,252,826	(670,892,939)	-	13,075,359,887
Unrealized loss on valuation of investments	¢	49,054,868	(12,981)	-	965,052,605	1,014,094,492
Revaluation of assets		(1,317,142,199)	(957,087,142)	45,200,056	705,201,591	(1,523,827,694)
	¢	(1,268,087,331)	12,789,152,703	(625,692,883)	1,670,254,196	12,565,626,685

		As of December 31, 2016	Included in the income statement	Included in equity	As of December 31, 2017
Unrealized loss on valuation of investments	¢	(60,924,332)	-	109,979,200	49,054,868
Revaluation of assets		(1,362,342,255)	45,200,056	-	(1,317,142,199)
	¢	(1,423,266,587)	45,200,056	109,979,200	(1,268,087,331)

(b) Provisions

As of December 31, provisions are as follows:

		2018	2017
Provisions for employer obligations	¢	295,678,205	360,059,892
Provisions for pending litigation		598,259,805	598,259,805
Provisions for redemption of credit card miles		1,699,576,048	1,591,908,318
Provisions for cashback		449,058,464	19,029,039
Other provisions		389,635,222	971,995,430
Total	¢	4,182,338,003	3,541,252,484

Movement in provisions is as follows:

		2018	2017
Provisions for employer obligations:			
Opening balance	¢	360,059,892	347,356,292
Provisioned		980,828,920	300,000,000
Used		(1,045,210,607)	(287,296,400)
Closing balance		295,678,205	360,059,892
Provisions for pending litigation:			
Opening balance		598,259,805	598,259,805
Closing balance		598,259,805	598,259,805
Other provisions:			
Opening balance		2,582,932,787	3,594,008,150
Provisioned		7,714,330,335	4,699,508,712
Used		(7,008,863,129)	(5,710,584,075)
Closing balance		3,288,399,993	2,582,932,787
Total:			
Opening balance		3,541,252,484	4,539,624,247
Provisioned		8,695,159,255	4,999,508,712
Used		(8,054,073,736)	(5,997,880,475)
Total	¢	4,182,338,003	3,541,252,484

14. Other liabilities

As of December 31, other liabilities are as follows:

		2018	2017
Deferred finance income	¢	6,696,325,369	6,244,517,535
Other deferred income		273,910,575	578,776,727
Allowance for stand-by credit losses		244,055,077	261,175,029
Excess cash on hand		52,867,961	10,129,036
Operations pending settlement		8,801,458,419	8,197,586,100
Other operations pending application		2,243,012,178	303,613,687
Total	¢	18,311,629,579	15,595,798,114

(Continued)

15. Equity

a) Share capital

In the General Shareholder's Meeting held on February 13, 2018, the merger by absorption of The Bank of Nova Scotia (Costa Rica), S.A., Scotia Tarjetas, S.A. and Scotiabank de Costa Rica, S.A. was agreed, in which the latter entity prevailed. Consequently, the share capital of Scotiabank de Costa Rica, S.A. was modified. As of December 31, 2018, the share capital was established at 427,372,354 common and nominal shares, with a par value of US$1.00, for a total of US$427,372,354 (equivalent to ¢226,449,722,072).

As of December 31, 2017, the Bank's share capital was represented by 273,873,384 ordinary registered shares of US$1.00 par value, for a total of US$273,873,384 (equivalent to ¢139,309,891,406).

b) Revaluation surplus

As of December 31, 2018, the revaluation surplus increased due to the increase in fair value of property, which was updated based on an appraisal performed in May 2018, by an independent appraiser, authorized by the corresponding professional association, for one of the companies acquired, The Bank of Nova Scotia (Costa Rica), S.A.

As of December 31, 2017, revaluation surplus corresponds to the increase in the fair value of property, which is updated based on an appraisal performed by an independent appraiser.

c) Legal reserve

In compliance with Article No. 154 of IRNBS, the Bank appropriates 10% of its net earnings to a legal reserve, semiannually. As of December 31, 2018, the legal reserve included in the financial statements amounts to ¢18,606,701,145 (2017: ¢11,908,348,003). This appropriation will continue until reaching 20% of outstanding share capital.

d) Prior period retained earnings

As of December 31, 2018, prior period retained earnings amount to ¢544,136,878 (2017: ¢8,208,365,657).

(Continued)

During the year ended December 31, 2018, dividends were paid in the amount of ¢1,000,000,000 and ¢900,000,000, in accordance with the minutes of the General Shareholders Meeting held on June 8, 2018 and September 29, 2018, respectively.

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

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

		2018	2017
Ordinary shares:			
Net profit or loss	¢	637,886,007	2,581,862,355
Weighted average number of shares		427,372,354	273,873,384
Earnings per ordinary share	¢	1.493	9.427

17. Memoranda accounts

As of December 31, the Bank has off-balance sheet contingencies resulting from its ordinary course of business that involve a certain degree of credit and liquidity risk.

As of December 31, memoranda accounts are as follows:

		2018	2017
Guarantees	¢	4,696,937,649	6,825,137,882
Performance bonds		32,658,675,359	28,370,838,495
Bid bonds		1,085,642,093	1,538,832,010
Other guarantees		12,465,248,660	17,467,956,346
Letters of credit issued but unused		9,079,535,591	3,518,388,466
Letters of credit confirmed but unused		-	639,935,425
Pre-approved lines of credit		394,664,474,387	156,183,265,492
Credits pending disbursement		3,654,972,942	3,954,822,950
Total	¢	458,305,486,681	218,499,177,066

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

18. Trust assets

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

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

		2018	2017
Cash and due from banks	¢	12,556,970,606	31,285,376,064
Investments in financial instruments		113,374,094,954	108,837,306,660
Loan portfolio		484,253,773,076	468,394,648,286
Accounts and fees and commissions receivable		3,427,077,856	3,041,135,256
Foreclosed assets		270,008,203,615	247,286,730,271
Investments in other companies		26,066,825,745	26,500,020,462
Property and equipment		99,281,981,652	85,222,435,370
Other assets		765,127,978,495	705,214,760,636
Investment property		17,985,170,629	17,711,636,177
Total	¢	1,792,082,076,628	1,693,494,049,182

19. Sureties

As of December 31, 2018 and 2017, the Bank has issued no sureties.

20. Other memoranda accounts

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

		2018	2017
Guarantees received in the Bank's custody	¢	76,781,069,653	74,330,567,678
Guarantees received in the custody of third parties		6,731,670,138,262	9,551,610,587,736
Lines of credit granted but unused		310,648,062,895	369,013,572,944
Write-offs		144,680,199,538	24,841,223,959
Unearned interest on non-accrual loans		2,655,441,577	1,798,550,312
Supporting documentation		1,116,660,038,737	1,057,014,761,962
Other memoranda accounts		1,767,255,510,688	1,504,666,756,235
Subtotal		10,150,350,461,350	12,583,276,020,826
Third-party debit memoranda accounts			
Third-party assets and securities in custody		102,471,951,941	96,138,743,593
Subtotal		102,471,951,941	96,138,743,593
Total	¢	10,252,822,413,291	12,679,414,764,419

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.

21. Finance income from the loan portfolio

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

	2018	2017
Current loans:		
Accrued interest on checking account overdrafts	16,471,275	22,875,294
Accrued interest on loans with other funds	99,468,525,805	83,423,634,707
Accrued interest on credit cards	30,012,751,076	10,661,863,070
Accrued interest on loans to State-owned banks	983,153,490	674,401,377
Accrued interest on loans to related parties	84,716,186	950,056,722
Subtotal	130,565,617,832	95,732,831,170
Past due loans and loans in legal collection:		
Accrued interest on loans with other funds	10,539,447,671	8,160,958,685
Accrued interest on credit cards	4,709,075,680	-
Subtotal	15,248,523,351	8,160,958,685
Total	145,814,141,183	103,893,789,855

22. Finance costs

(a) Obligations with the public

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

		2018	2017
Demand deposits	¢	3,069,078,886	2,710,309,457
Term deposits		45,153,721,404	37,528,118,738
	¢	48,222,800,290	40,238,428,195

(b) Obligations with financial and non-financial entities

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

		2018	2017
Demand obligations with financial entities	¢	1,148,242,632	569,437,809
Term obligations with financial entities		18,233,248,539	12,507,875,257
Obligations with non-financial entities		286,582,248	321,352,911
	¢	19,668,073,419	13,398,665,977

23. Foreign exchange differences

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

As of December 31, the net foreign exchange income and expenses is as follows:

	2018	2017
Foreign exchange income:		
Obligations with the public	19,506,163,698	13,782,090,709
Other financial obligations	9,119,539,610	5,434,947,294
Other accounts payable and provisions	768,441,208	315,696,465
Cash and due from banks	22,499,421,216	11,591,874,542
Investments in financial instruments	6,296,843,990	3,212,792,984
Current loans	86,523,815,958	45,187,605,120
Past due loans and loans in legal collection	11,596,594,929	6,711,850,233
Accounts and fees and commissions receivable	261,093,404,913	4,297,471,130
Total	417,404,225,522	90,534,328,477
Foreign exchange expense:		
Obligations with the public	81,224,383,522	41,349,090,920
Other financial obligations	42,294,380,887	16,674,216,673
Other accounts payable and provisions	259,939,413,390	837,925,604
Cash and due from banks	4,899,679,512	6,430,724,979
Investments in financial instruments	1,713,731,966	1,287,072,476
Current loans	20,601,667,253	15,831,542,572
Past due loans and loans in legal collection	5,129,428,651	2,477,437,809
Accounts and fees and commissions receivable	3,336,917,283	797,759,859
Total	419,139,602,464	85,685,770,892
Foreign exchange gain (loss)	(1,735,376,942)	4,848,557,585

(Continued)

24. Service fees and commissions

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

		2018	2017
Income:			
Drafts and transfers	¢	1,708,659,885	1,519,335,988
Foreign trade		2,700,864	1,797,421
Trust management		1,148,549,577	1,148,777,703
Collections		11,496,089	9,401,914
Consignments		71	14,301
Other banking mandates		872,288,366	858,331,816
Credit cards		23,612,326,618	10,427,055,199
Insurance underwiting		1,171,534,779	1,053,103,959
Other		10,768,720,433	3,081,366,951
	¢	39,296,276,682	18,099,188,052

25. Personnel expenses

As of December 31, personnel expenses are as follows:

		2018	2017
Salaries and bonuses - permanent staff	¢	23,814,189,609	19,703,222,164
Compensation for board members and statutory examiners		17,191,920	15,820,900
Overtime		587,717,667	488,241,902
Travel expenses		1,192,375,471	879,975,462
Statutory Christmas bonus		2,081,971,889	1,710,121,110
Vacation		972,463,476	884,700,305
Incentives		20,399,573	36,765,599
Other compensation		62,078,394	39,747,501
Employer social security taxes		5,451,457,773	4,461,049,809
Refreshments		425,956,361	230,478,547
Uniforms		15,266,805	63,506,357
Training		152,672,394	95,231,738
Employee insurance		299,264,394	323,905,265
Compulsory retirement savings account		1,098,578,126	928,387,212
Other		1,042,339,563	871,304,632
	¢	37,233,923,415	30,732,458,503

26. Other administrative expenses

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

		2018	2017
Outsourcing	¢	14,427,909,187	9,496,819,924
Transportation and communications		1,386,935,562	1,091,155,862
Infrastructure		14,875,756,363	9,440,934,907
Overhead		6,788,264,115	6,510,357,813
	¢	37,478,865,227	26,539,268,506

27. Risk management

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

- credit risk
- liquidity and financing risk
- market risk:
  a. currency risk
  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
- legal risk.

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

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

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

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

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

i. Credit risk

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

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

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

		2018	2017
Cash and due from banks	¢	337,933,935,673	270,137,027,168
Investments in financial instruments		119,606,348,593	111,746,769,603
Loan portfolio		1,694,440,233,333	1,306,456,174,780
Accounts and fees and commissions receivable		26,303,508,838	4,711,883,213
Guarantees granted		50,906,503,761	54,202,764,733
Letters of credit issued but unused		9,079,535,591	3,518,388,466
Confirmed letters of credit		-	639,935,425
Total	¢	2,238,270,065,789	1,751,412,943,388

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 State-owned 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 Bank’s exposure to credit risk on the loan portfolio and the measurement of impairment are as follows:

	Customers		Banks		Stand-by	
	2018	2017	2018	2017	2018	2017
Individually assessed loans with allowance:						
A1	¢ 1,399,170,174,416	1,103,304,352,847	61,660,825,928	53,045,516,167	58,908,292,694	58,054,076,095
A2	7,027,591,800	5,524,807,840	-	-	6	1,804,053
B1	156,879,375,800	97,844,257,024	-	-	2,980,156,160	3,257,732,715
B2	4,186,304,000	3,868,663,421	-	-	2,382,288	56,677,441
C1	44,916,247,300	30,114,785,909	-	-	379,303,808	1,496,899
C2	4,566,475,900	3,538,925,438	-	-	60,439	8,552,942
D	11,493,166,218	4,104,342,201	-	-	1,343,981,931	747,014,545
E	65,897,375,400	37,695,375,220	-	-	112,310,095	333,128,951
Total	¢ 1,694,136,710,834	1,285,995,509,900	61,660,825,928	53,045,516,167	63,726,487,421	62,460,483,641
Allowance for loan losses	(59,212,389,097)	(30,802,287,847)	(308,304,130)	(265,227,581)	(81,117,999)	(74,128,325)
Carrying amount	¢ 1,634,924,321,737	1,255,193,222,053	61,352,521,798	52,780,288,586	63,645,369,422	62,386,355,316
Current loans without allowance						
A1	-	-	-	-	307,200,654,566	138,027,018,529
A2	-	-	-	-	740,348,644	411,667,527
B1	-	-	-	-	29,748,615,437	12,100,026,269
B2	-	-	-	-	226,489,563	177,371,060
C1	-	-	-	-	46,465,873,383	2,015,154,911
C2	-	-	-	-	80,021,642	43,623,567
D	-	-	-	-	2,002,185,755	927,343,510
E	-	-	-	-	8,114,810,268	2,336,488,053
Carrying amount	¢ -	-	-	-	394,578,999,257	156,038,693,426
structural allowance	(1,836,610,202)	(1,517,335,859)	-	-	(162,937,078)	(187,046,704)
Net carrying amount	¢ 1,633,087,711,535	1,253,675,886,194	61,352,521,798	52,780,288,586	458,061,431,601	218,238,002,038

(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 an outstanding 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 full or partial payment of principal or interest is made 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, 2018, restructured loans amount to ¢31,284,542,290 (2017: ¢21,491,248,760).

(Continued)

Allowance for loan losses

Borrower classification

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

a. Group 1: Borrowers with total outstanding balances that exceed the SUGEF limit (2018 and 2017: ¢65,000,000).

b. Group 2: Borrowers with total outstanding balances that are less than or equal to the SUGEF limit (2018 and 2017: ¢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.

(Continued)

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

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

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

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

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

Analysis of historical payment behavior

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

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

(Continued)

Borrower classification

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

Risk rating	Specifc allowance percentage - uncovered portion	Specific allowance percentage - covered portion	Arrears	Historical payment behavior	Creditworthiness
A1	0.00%	0.00%	30 days or less	Level 1	Level 1
A2	0.00%	0.00%	30 days or less	Level 2	Level 1
B1	5.00%	0.50%	60 days or less	Level 1	Level 1 or Level 2
B2	10.00%	0.50%	60 days or less	Level 2	Level 1 or Level 2
C1	25.00%	0.50%	90 days or less	Level 1	Level 1, Level 2, or Level 3
C2	50.00%	0.50%	90 days or less	Level 2	Level 1, Level 2, or Level 3
D	75.00%	0.50%	120 days or less	Level 1 or Level 2	Level 1, Level 2, Level 3, or Level 4

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

Likewise, borrowers with at least one loan operation purchased from a financial intermediary domiciled in Costa Rica and regulated by SUGEF must be classified for at least one month in the rating of greater risk between the rating assigned by the 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. The specific allowance is calculated on the covered and uncovered balance of each credit operation. The allowance for 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	Specific allowance percentage
A1	0%
A2	0%
B1	5%
B2	10%
C1	25%
C2	50%
D	75%
E	100%

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

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

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

In compliance with the provisions of SUGEF Directive 1-05, as of December 31, 2018, the Bank must maintain a minimum allowance of ¢59,520,693,227 (2017: ¢31,357,882,514). SUGEF Official 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 year 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, 2018 and 2017, there is no limit on the booking of allowances determined according to regulatory provisions; such allowances are absorbed by 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.

(Continued)

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-foreign currency generators: an additional 1.5% must be reserved for new loans that are granted in US dollars corresponding to customers that do not generate foreign currencies.

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

In Official Letter CNS-1416/13 dated May 15, 2018, CONASSIF set forth the prudential considerations related to the approval of the "Regulations to Determine and Book Counter-cyclical Allowances" and the amendment to the agreements, SUGEF Directive 1-05 "Regulations for Borrower Classification". Those provisions are summarized as follows:

Proposal for the counter-cyclical allowance: once the amendment enters into effect, the percentage will start at 5.00% and increase gradually until reaching 7% on June 1, 2020.

Proposal for the general allowance for borrowers that do not generate cash flows in a foreign currency: decrease the allowance to 1.00% when the amendment to the regulations enters into effect, increase it to 1.25% as of June 1, 2019, and resume at 1.50% starting June 1, 2020.

Proposal for the general allowance for borrowers whose debt service coverage ratio is higher than the prudential indicator: postpone the application of the allowance for a borrower when it exceeds the debt service coverage ratio prudential indicator. However, financial institutions are encouraged to use this indicator in their loan granting processes.

Due to the application of the aforementioned transition provisions and corresponding amendments, the accounting balance of the new allowances is as follows:

		2018	2017
Counter-cyclical allowance - direct loans	¢	1,850,002,000	1,400,088,530
Allowance for loans that do not generate cash		4,030,435,239	2,878,091,320
Allowance for loans granted to borrowers whose		892,975,146	489,720,397
	¢	6,773,412,385	4,767,900,247

Credit equivalent

The following stand-by credit 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 corresponding credit equivalent 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
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 loan 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 that have not been sold or leased within two years from the date of their acquisition, an allowance equivalent to 100% of their value.

(Continued)

Loan write-off policy

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

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

2018

Loans to customers		Loans to banks	
Gross	Net	Gross	Net
1,392,743,569,467	1,380,686,842,841	61,660,825,928	61,352,521,798
6,976,280,208	6,929,695,404	-	-
155,922,095,107	153,398,130,427	-	-
4,148,702,796	4,054,917,853	-	-
44,796,303,299	38,652,529,197	-	-
4,529,110,588	4,021,983,358	-	-
11,423,347,343	5,969,841,934	-	-
64,962,071,927	32,403,423,988	-	-
1,685,501,480,735	1,626,117,365,002	61,660,825,928	61,352,521,798

2017

Loans to customers		Loans to banks	
Gross	Net	Gross	Net
1,096,558,235,022	1,087,717,615,023	53,045,516,167	52,780,288,586
5,479,875,016	5,449,560,247	-	-
97,206,039,178	95,784,999,696	-	-
3,837,418,174	3,777,512,255	-	-
29,906,542,409	27,634,017,209	-	-
3,511,752,311	3,274,129,340	-	-
4,070,218,701	2,909,002,845	-	-
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

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.

(Continued)

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, the estimated fair values of collaterals are as follows:

		2018	2017
Individually assessed loans with allowance (including the balance for loans in legal collection):			
Real property	¢	210,055,218,872	158,532,917,410
Personal property		54,703,031,958	48,821,654,142
Other (trusts)		235,429,678,533	100,700,250,904
Subtotal		500,187,929,363	308,054,822,456
Past due loans without allowance:			
Real property		27,708,883,287	28,822,935,868
Personal property		6,968,730,137	6,389,437,415
Other (trusts)		4,755,642,421	2,140,958,323
Subtotal		39,433,255,845	37,353,331,606
Current loans without allowance:			
Real property		818,265,159,998	800,418,592,188
Personal property		742,429,201,014	435,697,878,976
Other (trusts)		718,665,451,880	624,932,297,009
Subtotal		2,279,359,812,892	1,861,048,768,173
Total	¢	2,818,980,998,100	2,206,456,922,235

Loan portfolio by type of guarantee

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

		2018	2017
Investment certificates	¢	32,615,668,308	97,579,497,329
Fiduciary		877,247,259,487	165,339,726,938
Mortgage		558,854,863,006	830,416,290,073
Chattel mortgage		203,510,015,215	177,705,949,339
State-owned banks		61,570,534,114	52,934,274,549
Total direct loans		1,733,798,340,130	1,323,975,738,228
Accounts and accrued interest receivable		21,999,196,632	15,065,287,839
Allowance for loan losses		(61,357,303,429)	(32,584,851,287)
Total	¢	1,694,440,233,333	1,306,456,174,780

The portion of the portfolio concentrated in State banking corresponds to loans granted in compliance with Article 59 of IRNBS.

(Continued)

Loan portfolio by sector

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

		2018	2017
Agriculture, livestock, hunting, and related activities	¢	108,968,954	136,164,162
Manufacturing		529,002,779	914,971,674
Electricity, telecommunications, gas and water		4,463,208,156	4,542,200,896
Construction, purchase, and repair of property		410,223,871,399	382,199,386,634
Trade		383,155,908,532	275,530,691,189
Hospitality (Hotels and restaurants)		3,688,676	-
Transportation		30,692,013	115,431,155
Stock market		61,570,534,114	52,934,274,549
Real estate, business, and leasing activities		138,556,395	592,874,210
Education		693,579	3,482,129
Services		397,090,485,003	345,056,469,972
Consumer		476,482,730,530	261,949,791,658
Total direct loans		1,733,798,340,130	1,323,975,738,228
Accrued interest receivable		21,999,196,632	15,065,287,839
Allowance for loan losses		(61,357,303,429)	(32,584,851,287)
Total	¢	1,694,440,233,333	1,306,456,174,780

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.

(Continued)

Loan portfolio by geographic area

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

		2018	2017
Costa Rica	¢	1,728,644,543,282	1,318,395,830,426
Central America		336,519,822	993,457,671
Rest of North and South America		1,407,742,645	1,193,334,446
Caribbean		17,085,300	18,973,473
United States of America		2,623,907,283	2,359,361,880
Europe		601,813,685	614,715,960
Asia		166,728,113	400,064,372
	¢	1,733,798,340,130	1,323,975,738,228

Loan portfolio by arrears

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

		2018	2017
Current	¢	1,604,023,775,554	1,235,992,853,153
1 to 30 days		59,832,952,119	50,263,786,527
31 to 60 days		23,383,415,797	12,722,658,056
61 to 90 days		12,556,576,103	5,629,981,991
91 to 120 days		7,107,917,833	996,327,000
121 to 180 days		7,685,985,008	1,093,517,826
More than 180 days		845,355,795	2,805,970,236
In legal collection		18,362,361,921	14,470,643,439
Total direct loans		1,733,798,340,130	1,323,975,738,228
Accounts and accrued interest		21,999,196,632	15,065,287,839
Allowance for loan losses		(61,357,303,429)	(32,584,851,287)
Total	¢	1,694,440,233,333	1,306,456,174,780

(Continued)

Concentration of the portfolio in individual borrowers or economic interest groups

	2018		2017	
	No. of customers	Amount	customers	Amount
Capital and reserves:				
Less than 5%	119276	1,524,294,151,465	48290	1,174,471,633,324
5% to 10%	6	92,515,604,554	8	96,569,830,355
10% to 15%	4	116,988,584,111	0	-
15% to 20%	0	-	2	52,934,274,549
Total	119286	1,733,798,340,130	48300	1,323,975,738,228

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. As of December 31, 2018, loans to the Bank's most important customers or economic interest groups that individually represent 5% or more of share capital and capital reserves amount to ¢209,504,188,665 (2017: ¢149,504,104,904).

Amount and number of loans in non-accrual status

		2018	2017
Loans in non-accrual status	¢	34,001,620,556	19,366,458,499
Number of loans in non-accrual		5,779	1,111

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

		2018	2017
Loans in legal collection	¢	18,362,361,921	14,470,643,439
Number of loans in legal collection		549	438
Percentage of total loan portfolio		1.06%	1.09%

Investments by risk rating

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

		2018	2017
AAA	¢	9,695,497	8,971,413
AA		1,677,108,160	9,981,845,415
A		30,639,482,451	28,321,000,000
BB		73,373,594,504	56,301,693,784
B		13,301,415,944	16,759,023,715
Total investments by risk rating		119,001,296,556	111,372,534,327
Accrued interest receivable		605,052,037	374,235,276
Total	¢	119,606,348,593	111,746,769,603

Investments by geographic area

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

		2018	2017
Costa Rica	¢	88,361,814,105	83,051,534,327
United States of America		30,639,482,451	28,321,000,000
Total investments		119,001,296,556	111,372,534,327
Accrued interest receivable		605,052,037	374,235,276
Total	¢	119,606,348,593	111,746,769,603

ii. Interest rate risk

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

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

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

The Bank follows the policy of including a clause in all loan agreements providing for the periodic repricing of interest rates; 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, 2018, 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 (2018 and 2017). In the event that variable interest rates change as indicated above, the Bank's asset and liability portfolios for the period ended December 31, 2018 would increase or decrease by ¢3,030,453,514 (2017: increase or decrease by ¢9,387,461,620).

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	
		2018	2017
Positive change			
Investments	¢	(1,835,539,060)	(5,287,572,790)
Loan portfolio		(33,861,982,537)	(36,541,633,997)
Term deposits		(9,237,490,127)	(8,727,003,436)
Obligations with entities		(5,676,142,791)	(779,566,155)
Negative change			
Investments	¢	2,037,060,806	3,155,515,222
Loan portfolio		36,525,728,300	39,685,959,092
Term deposits		9,545,382,632	9,030,863,658
Obligations with entities		5,873,874,212	799,146,367

As of December 31, 2018, 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	13.48%	¢	290,353,768	38,255,646	132,282,342	55,269,478	23,741,114	46,553,524	587,290,157
Liabilities	6.19%		59,305,049	74,410,366	59,695,306	34,737,140	43,281,931	30,623,222	301,797,759
Gap			231,048,719	(36,154,720)	72,587,036	20,532,338	(19,540,817)	15,930,302	285,492,398
Foreign currency									
Assets	6.52%		411,272,224	105,012,321	489,434,758	217,103,050	40,385,538	78,664,890	1,339,807,243
Liabilities	3.48%		311,376,685	180,588,801	389,000,205	97,735,481	183,934,967	115,114,309	1,276,260,800
Gap		¢	99,895,539	(75,576,480)	100,434,553	119,367,569	(143,549,429)	(36,449,419)	63,546,443

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			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		¢	24,826,508	(81,771,291)	359,208,995	8,268,462	(98,581,484)	(19,941,803)	192,009,387

(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.

As of December 31, 2018, 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	¢	58,510,739	-	-	-	-	-	-	-	58,510,739
Minimum legal deposit in BCCR		85,351,137	19,847,510	14,256,488	15,380,022	39,503,375	47,948,814	54,113,900	-	276,401,246
Investments		2,137,629	42,694,936	1,249,146	1,070,304	2,906,054	9,631,544	59,916,736	-	119,606,349
Loan portfolio		85,367,264	108,654,464	100,176,868	102,086,786	137,826,364	141,564,041	1,009,940,356	69,946,435	1,755,562,578
Total recovery of assets		231,366,769	171,196,910	115,682,502	118,537,112	180,235,793	199,144,399	1,123,970,992	69,946,435	2,210,080,912
Obligations with the public		379,776,958	89,815,768	66,179,802	71,262,862	191,316,987	238,846,664	267,505,243	-	1,304,704,284
Obligations with financial entities		48,447,450	63,525,496	47,171,333	32,879,146	130,066,446	114,088,101	175,008,092	-	611,186,064
Charges payable		-	11,850,987	-	-	-	-	-	-	11,850,987
Total maturity of liabilities		428,224,408	165,192,251	113,351,135	104,142,008	321,383,433	352,934,765	442,513,335	-	1,927,741,335
Gap	¢	(196,857,639)	6,004,660	2,331,368	14,395,104	(141,147,640)	(153,790,366)	681,457,657	69,946,435	282,339,577

(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 legal deposit 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)

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.

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

Residual contractual maturities of financial liabilities

Nominal cash flows of financial liabilities for each period are as follows (in thousands of colones):

		2018							
				Years					
Obligations:		Balance	Nominal cash flows	1	2	3	4	5	More than 5 years
Demand obligations with the public	¢	379,776,958	379,776,958	379,776,958	-	-	-	-	-
Term obligations with the public		924,927,326	970,722,659	694,508,219	131,131,466	58,244,336	-	86,838,638	-
Demand obligations with entities		48,447,451	48,447,451	48,447,451	-	-	-	-	-
Obligations with financial entities		558,205,689	570,920,287	382,410,858	102,940,248	56,951,558	-	21,229,364	7,388,259
	¢	1,911,357,424	1,969,867,355	1,505,143,486	234,071,714	115,195,894	-	108,068,002	7,388,259

		2017							
				Years					
Obligations:		Balance	Nominal cash flows	1	2	3	4	5	More than 5 years
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	-

(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, 2018 and 2017, 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 US 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.

(Continued)

(a) Monetary position in foreign currency

As of December 31, 2018, assets and liabilities denominated in foreign currency are as follows:

	US dollar	Canadian dollar	Euro	Pounds sterling
Assets				
Cash and due from banks	416,799,328	4,557,333	3,098,974	117,526
Investments in financial instruments	177,215,647	-	-	-
Loan portfolio	1,918,500,468	-	560,552	-
Accounts and fees and commissions receivable	17,145,330	-	-	-
Investments in other companies	922	-	-	-
Other assets	12,257,876	131,428	-	-
Total assets	2,541,919,571	4,688,761	3,659,526	117,526
Liabilities				
Obligations with the public	1,590,516,795	1,125,111	1,884,226	-
Obligations with entities	913,461,188	-	-	-
Other accounts payable and provisions	21,897,854	2,323,597	-	-
Other liabilities	20,199,399	-	158,036	-
Total liabilities	2,546,075,236	3,448,708	2,042,262	-
Excess of assets over liabilities	(4,155,665)	1,240,053	1,617,264	117,526

As of December 31, 2017, assets and liabilities denominated in foreign currency are as follows:

	US dollar	Canadian dollar	Euro	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

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

(b) Ordinary shares in foreign currency

As of December 31, 2018, the Bank's equity included ordinary shares for a total of US$427,372,354, equivalent to ¢226,449,722,072 (2017: US$273,873,384, equivalent to ¢139,309,891,406).

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

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

As of December 31, 2018, the asset and liability term matching report (expressed in thousands of US 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$	59,617	5,000	-	-	-	-	-	-	64,617
Minimum legal deposit in BCCR		107,915	25,478	19,906	22,315	55,164	61,496	66,953	-	359,227
Investments		1,990	66,310	2,067	11	10	12,636	94,191	-	177,215
Loan portfolio		96,900	84,698	70,706	59,788	162,050	188,015	1,243,840	73,022	1,979,019
Total recovery of assets		266,422	181,486	92,679	82,114	217,224	262,147	1,404,984	73,022	2,580,078
Obligations with the public		455,231	110,770	90,842	101,171	251,710	279,619	296,117	-	1,585,460
Obligations with financial entities		37,252	79,561	72,740	50,745	213,660	188,130	266,336	-	908,424
Charges payable		-	12,212	-	-	-	-	-	-	12,212
Total maturity of liabilities		492,483	202,543	163,583	151,916	465,370	467,749	562,453	-	2,506,097
Gap	US$	(226,060)	(21,057)	(70,904)	(69,802)	(248,146)	(205,602)	842,531	73,022	73,982

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to the Financial Statements

As of December 31, 2017, the asset and liability term matching report (expressed in thousands of US 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 legal deposit 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

(Continued)

Sensitivity analysis

As of December 31, 2018 and 2017, the sensitivity analysis for the net position in foreign currency (total assets in foreign currency minus total liabilities in foreign currency) is based on the buy reference rate in for the US dollar. The position of the US dollar is 99.5% of the total net position in foreign currency and is the vehicle currency to acquire currencies other than the US dollar.

As of December 31, 2018 and 2017, the maximum annual expected variation of the reference buy exchange rate of ¢71.38 y ¢68.62, respectively, has been determined through the calculation of a Value at Risk indicator, based on a historical analysis methodology, with a 99% confidence level and over a one-year holding period. Based on such holding period, the positive or negative effect of the increase or decrease in the exchange rate of the colon with respect to the US dollar for the periods ended December 31, 2018 and 2017 is as follows:

		2018	2017
Effect on profit or loss			
Exchange rate variation			
Assets	¢	182,110,984,966	169,187,973,819
Liabilities		(173,261,162,030)	(146,364,934,394)
Net effect on profit or loss	¢	8,849,822,936	22,823,039,425

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.

(Continued)

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

- implementation of the Operational Risk Management Framework;
- appropriate segregation of duties;
- requirements for the effective reconciliation and monitoring of transactions;
- compliance with legal and regulatory requirements;
- documentation of controls and procedures;
- communication and application of guidelines for business conduct;
- risk mitigation, including insurance where this is effective;
- reporting of operational losses and proposed remedial actions;
- comprehensive 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, 2018, Costa Rican banking legislation requires private banks to maintain minimum paid-in capital greater than or equal to ¢15,610 million (2017: ¢14,758 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, 2018 and 2017, 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.

(Continued)

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

		2018	2017
Tier I capital:			
Paid-in capital	¢	226,449,722,072	139,309,891,406
Legal reserve		18,606,701,145	11,908,348,003
		245,056,423,217	151,218,239,409
Tier II capital:			
Revaluation adjustment		8,133,733,323	4,777,006,979
Adjustments due to changes in the fair value of available-for-sale investments		(2,366,233,312)	(114,461,368)
Non-capitalized contributions		14,958,140	14,957,901
Prior period retained earnings		(239,338,212)	5,626,503,302
Profit or loss for the period, net of appropriation to legal reserve		637,886,007	2,581,862,355
		6,181,005,946	12,885,869,169
Equity adjustments:			
Investments in other companies		(557,006)	(557,006)
		(557,006)	(557,006)
Total base capital	¢	251,236,872,157	164,103,551,572

As of December 31, 2018 and 2017, the capital adequacy ratio has been kept above the statutory ratio of 10%, maintaining a normal risk rating.

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

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

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

(Continued)

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

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

ix. IT risk

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

x. Legal risk

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

28. Fair value

Fair value estimates are made at a specific date based on market information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given date. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Estimates could vary significantly if changes are made to those assumptions. In conformity with IFRS, underlying the definition of fair value is a presumption that the Bank 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 the Bank 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:

		2018	2017
Carrying amount			
Cash and due from banks	¢	337,933,935,673	270,137,027,168
Investments:			
Trading		1,532,577,284	9,924,061,212
Available for sale		117,468,719,272	101,448,473,115
Loan portfolio		1,733,864,069,338	1,323,975,738,228
Demand deposits		379,776,958,043	313,756,319,261
Term deposits		924,927,325,906	795,718,694,969
Financial obligations		614,657,916,935	404,534,293,453
Fair value			
Cash and due from banks	¢	337,933,935,673	270,137,027,168
Investments:			
Trading		1,532,577,284	9,924,061,212
Available for sale		117,468,719,272	101,448,473,115
Loan portfolio		1,316,640,649,620	1,136,798,957,721
Demand deposits		379,776,958,043	313,756,319,261
Term deposits		866,478,383,861	786,294,497,370
Financial obligations		502,120,628,441	376,946,274,875

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.

(Continued)

- 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 risk 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, financial instruments measured at fair value by the level in the fair value hierarchy are as follows:

		2018			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	117,468,719,272	-	-	117,468,719,272
Held for trading	¢	-	1,532,577,284	-	1,532,577,284

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

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.

29. Concentration of assets and liabilities by geographic region

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

		2018	2017
Assets:			
Costa Rica	¢	2,180,383,745,595	1,635,551,878,673
Central America		391,936,966	1,058,962,696
Rest of North and South America		1,585,001,646	1,639,120,319
Caribbean		17,100,922	65,638,477,782
United States of America		45,849,342,160	15,529,313,528
Europe		2,048,293,313	1,424,125,401
Africa		3,653,254	303,949,027
Asia		167,566,710	400,380,440
Total assets	¢	2,230,446,640,566	1,721,546,207,866
Liabilities:			
Costa Rica	¢	1,388,559,203,516	1,110,426,149,131
Central America		36,767,592,603	56,185,611,921
Rest of North and South America		44,146,102,353	60,493,246,498
Caribbean		355,988,961,783	184,658,683,683
United States of America		104,128,265,738	100,253,896,208
Europe		44,434,200,553	34,766,794,893
Africa		29,106,098	1,083,721
Asia		2,301,452,860	9,063,034,593
Rest of North America		631,245	1,262,981
Total liabilities	¢	1,976,355,516,749	1,555,849,763,629

(Continued)

30. Agreements

As of December 31, 2018 and 2017, 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 US dollars.
- Leases are operating leases with security deposits and any improvements shall 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, projected lease payments for the upcoming years are as follows:

Year		2018	2017
1 year	¢	1,632,178,162	1,276,442,763
2 years		1,437,389,309	1,044,447,893
3 years		1,135,744,304	881,773,769
4 years		912,385,935	633,050,817
5 years		680,105,562	343,527,499
More than 5 years		1,611,670,000	259,055,019
	¢	7,409,473,272	4,438,297,760

31. Contingencies

(a) Tax

a.1 In the first half of 2008, the Tax Administration performed a tax review of the income tax returns filed and income tax payments made by the Bank for fiscal years 2000 to 2005. The tax review initially covered several aspects that were later dismissed. It issued a notice of deficiency related to a difference in the proportionality of deductible expenses. Consequently, the Bank 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
	¢	729,207,358

The Tax Court declared exhaustion of the administrative venue in October 2013. Thus, the issue shall be discussed at the Courts of Justice and is pending final resolution.

Regarding the payment of interest and fines, an administrative litigation claim was filed before the competent courts, arguing that the treatment given to the Bank was discriminatory in respect of the other entities of the national banking system, to whom interest and fines were remitted by the Tax Administration. Additionally, it was claimed that the sanctioning proceedings could not continue as intended by the Tax Administration, violating due process, because the Tax Court established a new basis of assessment of tax and the Tax Administration had to initiate new sanctioning proceedings, since any related payments should have the same treatment as the payment of principal. In this regard, a ruling was handed down in first instance, against the interests of the Bank, which was appealed before the First Chamber of the Supreme Court. Other courts of the same instance have supported the argument presented by the Bank, 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 Court upheld the claim against the Bank in all respects. A motion for reconsideration and appeal to a higher court 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 Court have indeed admitted an accepted in favor of other banks what was dismissed by the Eighth Section.

On February 8, 2018, the National Taxpayer Administration notified Settlement Resolutions No. LIQ10R-002-2018 and No. INFRAC.LIQ10R-003-18, whereby it sought to execute through the administrative venue the payment of the principal, interest and fines corresponding to the adjustment made to fiscal years 2000, 2001, 2002, 2003, 2004 and 2005, as set forth in Administrative Court ruling No. 21-2013 and subsequently confirmed by the judgment N° 828-2015 of the First Chamber. The Bank filed an appeal for annulment and reversal against both rulings on February 15, 2018, claiming, among other, the lack of jurisdiction of the National Taxpayer Administration to execute and settle judicial rulings.

The National Taxpayer Administration rejects all appeals for annulment filed by the Bank, as notified on April 24, 2018. On May 2, 2018 the Bank filed another appeal against both resolutions before the Tax Court, reiterating the lack of jurisdiction of the tax authorities. However, the General Finance Administration issued resolution No. RES-DGH-040-2018 on May 30, 2018, whereby it rejected the alleged “request for remission of interest and fines.”

Regarding the appeal filed, the National Taxpayer Administration notified the Bank of resolution No. RES-DGH-059-2018, which admitted the appeal for annulment, recognizing the existence of an error in the interpretation of that decided by the judicial instances and that the manner in which the aspects of the sanction were heard was inadmissible, since the appeal should be resolved in the administrative instance with jurisdiction. However, in relation to the remission of interest, it ratified that set forth in resolution No. RES-DGH-040-2018 and confirmed the inadmissibility of the remission requested. On August 16, 2018, the Bank filed an appeal against resolution No. RES-DGH-059-2018.

The Bank is currently awaiting resolution of the appeals filed against the Settlement Resolutions notified by the National Taxpayer Administration as well as the resolution by the General Finance Administration that denied the request for remission of interest.

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 The income tax returns of Banco Interfin, S.A. (BI) (merged with the subsidiary Scotiabank de Costa Rica, S.A. in 2007) for fiscal years 1999-2005 were subject to a tax review initiated by the Tax Administration in 2006. On November 12, 2007, BI received a notice of deficiency for ¢6,679,899,566 because the Tax Administration did not accept the method used to calculate the income tax. The Tax Administration assessed a fine amounting to ¢1,669,974,892 and, as of July 28, 2008, interest amounted to ¢5,601,205,949, in spite of the fact that in prior years the Tax Administration 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 June 31, 2008, the Large Taxpayer Administration notified BI of ruling No. DT10R-033-07 dated February 29, 2008, dismissing the claim filed in its 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 2, 2008 and notified on July 23, 2008. Accordingly, the case was taken to the Tax Court. On September 25, 2008, the Large Taxpayer Administration notified BI of ruling No. INFRAC. DT10R-182-08 dated September 17, 2008 whereby the penalty or fine was dismissed (remitted). On December 16, 2008, through ruling No. 151-08 dated December 8, 2008 and in accordance with Official Letter No. DGT-439-2008 dated July 25, 2008, interest payable by BI was remitted by the Tax Administration.

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

(Continued)

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

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

On June 28, 2012, the Tax Administration notified ruling No. SFGCN-AL-074-2012, issued on June 25, 2012, against which a motion for reconsideration with an appeal to a higher court was filed on July 18, 2012.

The aforementioned motion was partially admitted through ruling No. OT10R-117-12 issued on October 23, 2012. An appeal was filed with the Tax Court against the above ruling on November 15, 2012. Through ruling No. TFA No. 131-2013 dated April 9, 2013, the Tax Court partially admitted the aforementioned appeal and ordered the Tax Administration to perform a new tax assessment that 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 motion for reconsideration was filed with the Large Taxpayer Administration against ruling No. SFGCN-AL-107-13 issued on July 22, 2013, requesting to fully eliminate the collection of interest in connection with the determination proceedings against the Bank for fiscal years 2000 to 2005. Through ruling No. DGH-030-2013 issued on August 23, 2013 and notified on September 16, 2013, the Ministry of Finance accepted the recommendation of the Tax Administration issued in Official Letter No. DGT-650-2013 on remission of interest calculated from July 24, 2008 through July 23, 2013, arising from official income tax assessments performed for the tax years from 2000 to 2005. Remitted interest amounts to a total of ¢1,623,700,750.

Through ruling No. TFA-328-2014 issued on July 8, 2014, the proceedings were concluded. Additionally, through rulings No. SFGCN-AL-074-12 dated September 25, 2012, No. OT10R-117-12 dated October 23, 2012, and No. OT10R-099-13 dated November 21, 2013, the Tax Court partially revoked the payment of taxes for tax years 2004 and 2005; 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*.

Furthermore, the Court confirmed the appealed ruling and ordered the Tax Administration to perform a new tax assessment for tax years 2004 and 2005.

According to rulings No. SFGCN-AL-074-12 dated September 25, 2012 issued by the Large Taxpayer Administration and No. OT10R-117-12 dated October 23, 2012, the remaining tax liabilities for the periods from 1999 to 2003 are as follows:

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

(Continued)

On September 26, 2014, the Tax Administration issued ruling No. SFGCBN-AL-189-14 dated September 24, 2014, whereby a new calculation was made of the adjustment of income taxes for the 2004 and 2005 periods. Notwithstanding the above, an official recalculation for the 2005 tax year was notified. Through ruling No. AU10R-162-14 issued on October 7, 2014, the Large Taxpayer Administration amended ruling No. SFGCBN-AL-189-14 as a result of a calculation error. The corresponding adjustment made as of the 2005 fiscal year amounted to ¢1,017,266,709.

Accordingly, the total income tax payment was established as follows:

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

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

Through the resolution dated February 14, 2018, the Administrative Court summoned the parties to Oral Proceedings to be held on August 1, 2019.

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

a.3 Banco Interfin, S.A. (BI) filed its final income tax return and paid the amount of ¢545,136,230 in September 2007 as a result of its merger by absorption with Scotiabank from October 1 of that year. At the 2007 year-end, the subsidiary Scotiabank de Costa Rica, S.A. declared the aforementioned sum as a tax credit, which was applied in the 2008 income tax return. In 2009, the Large Taxpayer Administration filed administrative proceedings since it considered that the final income tax return of BI was not provisional and, therefore, no tax credit was recognized in favor of Scotiabank. 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.

In this respect, an ordinary trial was filed with the Administrative Court to review the resolution of the Tax Court in connection with the lack of evidence to demonstrate the sum used as tax credit.

On July 25, 2016, the First Section of the Second Judicial Circuit of Goicoechea, San José, (Annex A) of the Administrative Court issued Ruling No. 70-2016 regarding the processing of file No. 13-007925-1027, whereby it expressly declared that it “partially admits the objection of lack of legal grounds filed by the State. Accordingly, the claim filed by Scotiabank de Costa Rica, S.A. against the State was partially admitted, understanding as rejected the matters not expressly approved. Ruling TFA-522-2012 issued on November 6, 2012 by 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 fiscal years 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.

(Continued)

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.

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

On November 24, 2016, Scotiabank de Costa Rica, S.A. filed an administrative claim before the National Large Taxpayer Administration against the aforementioned notice of deficiency and requested the declaration of the statute of limitations regarding the National Large Taxpayer Administration's ability to review and issue any adjustment to fiscal years 2010 and 2011 and declaration of the nullity of the proceedings. On November 27, 2017, the National Taxpayer Administration notified Determination Resolution 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 determination resolution.

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

(Continued)

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 (undiscounted amount of ¢756,779,565), 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.

The Bank of Nova Scotia (Costa Rica), S.A. (merged with Scotiabank de Costa Rica, S.A.)

(a) Tax proceedings

a.1 Tax case 1999-2005 Banco Uno, S.A.

On November 12, 2007, a notice of deficiency was communicated to Banco Uno, S.A., with an adjustment of ¢747,540,090.

Through Resolution No. SFGCN-AL-031-12 received on March 29, 2012, the Large Taxpayer Administration presented the total debt payable, consisting of principal and interest in the amount of ¢641,891,119 and ¢746,824,237, respectively. However, Tax Court Ruling No. 24-2014 dated January 31, 2014 confirmed the remission of interest and the tax assessment issued by the Tax Administration.

Nevertheless, a new tax assessment was issued by the Tax Administration, against which a motion for reconsideration and appeal to a higher court was filed before the Tax Court. On October 30, 2014, a notice was received of Ruling No. TFA-672-2014, which resolved the appeal against the last settlement in the amount of ¢641,891,119, with no recourse. Payment was made under protest on December 4, 2014. The corresponding administrative proceedings were filed at court to refute the actions of the Tax Administration. Such proceedings are currently in process. If the outcome is favorable, the amount paid in December 2014, plus interest, will be reimbursed.

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

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

a.2 Tax case 1999-2003 Banco CMB (Costa Rica), S.A.

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

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

Nevertheless, through Tax Court ruling No. 052-2014, notified on February 27, 2014, the Court ruled in favor of Banco CMB, revoking all actions of the tax review corresponding to the determination proceedings, in view of the statute of limitations presented as part of the arguments to defend the case, which was accepted.

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

a.3 Banco CMB (Costa Rica) S.A. – Income tax for fiscal year 2011

On August 29, 2013, the Large Taxpayer Administration notified the Bank of the beginning of a tax review related to income tax for fiscal year 2011.

On June 3, 2014, the Tax Administration notified the provisional regularization proposal, which proposed an adjustment to income tax for fiscal year 2011. The Bank did not agree, therefore it filed a brief containing pleadings and evidence against this proposal. However, the Final Regularization Proposal confirmed the determination made.

(Continued)

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

On August 6, 2014, the Bank appeared before the Tax Court and provided grounds for the appeal filed. The Tax Court annulled the jeopardy assessment of taxes due to a defect in motivation.

On October 10, 2014, the Bank was informed of the suspension of the jeopardy assessment of taxes. Through Vote No. 2016-012496 of August 31, 2016, the Constitutional Chamber declared Article 144 unconstitutional, and the version prior to the amendment in 2012 remained in effect.

On October 20, 2016, the Tax Administration communicated Notice of Deficiency No. 1-10-041-13-037-041-03, indicating an adjustment in the income tax for fiscal year 2011, determining additional tax in the amount of ¢675,073,027, plus interest, which as of that date amounted to ¢250,849,924, for a total of ¢925,922,951. On November 29, 2016, an administrative claim was filed against the aforementioned notice of deficiency.

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

a.4 Income tax for fiscal year 2015

On February 20, 2018, the Tax Administration notified the Bank of the beginning of a tax review related to income tax for fiscal year 2015. On May 14, 2018, the Tax Administration notified Provisional Regularization Proposal No. DGCN-SF-PD-2-2018-15-31-03 within the determination proceedings file, indicating an additional tax payment of ¢613,659,542 plus interest in the amount of ¢165,157,025, for fiscal year 2015.

On May 28, 2018, within the term granted by the Tax Administration, pleadings and evidence were presented against Provisional Regularization Proposal No. DGCN-SF-PD-2-2018-15-31-03. In the final hearing held on June 12, 2018, the Bank was given the report on the pleadings and evidence presented, as well as that of Provisional Regularization Proposal No. DGCN-SF-PD-2-2018-13-341-03.

On June 21, 2018, the Bank received Notice of Deficiency and Observations No. DGCN-SF-PD-2-2018-9-41-03. On August 6, 2018, an administrative claim was filed against said notice of deficiency, within the legal term established for that purpose. A determination resolution is still pending.

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

Scotia Tarjetas, S.A. (merged with Scotiabank Costa Rica, S.A.)

a.1 Tax proceedings 2012- 2013

On September 9, 2016, the National Large Taxpayer Audit Area performed a tax review to confirm the veracity of the income tax returns filed by Scotia Tarjetas, S.A. in the fiscal years 2012 and 2013.

Through Provisional Regularization Proposal No. 1-10-86-016-022-31-03, notified on September 26, 2017, the following adjustments were communicated: i) readjustment of bad debt expenses; ii) rejection of expenses for Loyalty Programs, and iii) adjustment due to the proportionality of nondeductible expenses and nontaxable income.

On October 12, 2017, Scotia Tarjetas, S.A. filed claims and evidence against the Provisional Regularization Proposal. The National Large Taxpayer Audit Area issued and notified the “Report on claims filed against Provisional Regularization Proposal No. 1-10-086-16-024-33-03”. The final hearing was summoned on November 14, 2016. It was held on November 17, 2017 and Regularization Proposal No. 1-10-086-16-27-341-03 was delivered on that date. Five days after the hearing, Scotia Tarjetas, S.A. expressed its full disagreement with the aforementioned regularization proposal.

On November 27, 2017, Notice of Deficiency and Observations No. 1-10-086-16-018-41-03 was notified, which determined that Scotia Tarjetas, S.A. must pay for the 2012 period a principal of ¢3,597,274,456. As of the date of issue of the aforementioned notice, that amount has generated interest amounting to ¢2,184,411,897, for a total of ¢5,781,686,353. For fiscal year 2013, a principal of ¢4,106,706,978 was determined. As of the date of issue of the notice of deficiency, that amount has generated interest amounting to ¢1,946,636,489, for a total of ¢6,053,343,467.

On January 17, 2018, a claim was filed against Notice of Deficiency and Observations No. 1-10-086-16-018-41-03.

Currently, a determination resolution from the Tax Administration is pending.

Management and the tax advisors consider that there is reasonable probability of a favorable outcome for the Bank in these proceedings, between 50% and 90%.

32. Subsequent events

Through Official Letter CNS-142/04 issued on June 27, 2018, CONASSIF notified the authorization for the merger through absorption of The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A. by Scotiabank de Costa Rica, S.A. This merger was performed on July 1, 2018.

The value of assets and liabilities assumed and incorporated into the balance sheet of Scotiabank de Costa Rica, S.A., from both The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A., as of the merger date, is the following:

	The Bank of Nova Scotia (Costa Rica), S.A.	**Scotia Tarjetas, S.A.**	**Merger of both companies**
ASSETS			
Cash and due from banks	47,787,713,469	6,081,600,358	53,869,313,827
Investments in financial instruments	40,829,693,750	35,723,014,167	76,552,707,917
Loan portfolio	180,086,769,586	34,863,188,141	214,949,957,727
Accounts and fees and commissions receivable	546,575,041	14,768,918,754	15,315,493,795
Foreclosed assets	27,695,475	47,184,977	74,880,452
Property and equipment, net	9,292,538,027	201,113,614	9,493,651,641
Other assets	2,151,252,916	350,517,916	2,501,770,832
TOTAL ASSETS	280,722,238,264	92,035,537,927	372,757,776,191
LIABILITIES			
Obligations with the public	199,668,072,257	298,478,497	199,966,550,754
Obligations with entities	9,945,083,377	59,449,325,890	69,394,409,267
Accounts payable and provisions	7,779,133,281	2,513,533,802	10,292,667,083
Other liabilities	739,247,205	527,634,329	1,266,881,534
TOTAL LIABILITIES	218,131,536,120	62,788,972,518	280,920,508,638
EQUITY			
Share capital	51,763,842,347	35,375,988,319	87,139,830,666
Non-capitalized capital contributions	240	-	240
Surplus from revaluation of property	4,475,635,127	-	4,475,635,127
Unrealized gains/losses	42,743	24,510	67,253
Deferred tax adjustment	(12,824)	(24,510)	(37,334)
Capital reserves	6,168,920,486	458,207,671	6,627,128,157
Prior period retained earnings	1,603,056,472	905,234,343	2,508,290,815
Prior period accumulated deficit	(1,272,958,510)	(7,597,984,443)	(8,870,942,953)
Income for the year	(147,823,937)	105,119,519	(42,704,418)
TOTAL EQUITY	62,590,702,144	29,246,565,409	91,837,267,553
TOTAL LIABILITIES AND EQUITY	280,722,238,264	92,035,537,927	372,757,776,191

(Continued)

Income and expenses for the period recognized in the Bank's profit or loss from prior periods, corresponding to The Bank of Nova Scotia (Costa Rica), S.A. and Scotia Tarjetas, S.A. are as follows:

	The Bank of Nova Scotia (Costa Rica), S.A.	Scotia Tarjetas, S.A.	Merger of both companies
FINANCE INCOME			
Finance income	21,819,979,788	7,722,960,261	29,542,940,049
Foreign exchange differences and DU	17,241,166,427	8,897,736,360	26,138,902,787
TOTAL FINANCE INCOME	39,061,146,215	16,620,696,621	55,681,842,836
FINANCE COSTS			
Finance costs	(5,689,016,638)	(1,092,122,060)	(6,781,138,698)
Foreign exchange differences and DU	(17,512,741,237)	(8,465,064,444)	(25,977,805,681)
TOTAL FINANCE COSTS	(23,201,757,875)	(9,557,186,504)	(32,758,944,379)
OPERATING INCOME			
Other operating income	10,937,511,776	13,469,028,046	24,406,539,823
TOTAL OPERATING INCOME	10,937,511,776	13,469,028,046	24,406,539,823
OPERATING EXPENSES			
Other operating expenses	(8,935,636,625)	(11,116,297,457)	(20,051,934,081)
Administrative expenses	(12,431,790,473)	(4,227,888,951)	(16,659,679,423)
TOTAL OPERATING EXPENSES	(21,367,427,097)	(15,344,186,407)	(36,711,613,505)
PROVISIONS			
Allowance for impairment of assets	(7,988,819,454)	(4,330,800,003)	(12,319,619,456)
Allowance for recovery of assets	1,093,084,868	-	1,093,084,868
Decrease in allowances and provisions	1,272,368,474	-	1,272,368,474
TOTAL PROVISIONS	(5,623,366,112)	(4,330,800,003)	(9,954,166,114)
PROFIT BEFORE TAX	(193,893,093)	857,551,753	663,658,660
Income tax	(107,656,606)	(1,116,158,528)	(1,223,815,134)
Deferred tax	166,528,489	363,726,293	530,254,782
Statutory allocations	(12,802,727)	-	(12,802,727)
TOTAL TAX	(46,069,156)	(752,432,235)	(706,363,079)
NET PROFIT	(147,823,937)	105,119,519	(42,704,419)

33. Transition to International Financial Reporting Standards (IFRS)

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

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

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

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

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

Pursuant to the Regulations, the adoption of new IFRS or interpretations issued by the IASB, as well as any other revisions of IFRS adopted will require the prior authorization of CONASSIF.

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

RFI is effective starting January 1, 2020, with some exceptions. A summary of some of the main differences between the accounting regulations issued by CONASSIF and IFRS, as well as IFRS or Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) yet to be adopted, is presented below:

a) IAS 1: Presentation of Financial Statements

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

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

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

b) IAS 7: Statement of Cash Flows

CONASSIF has only authorized preparation of the cash flow statement using the indirect method. The direct method is also acceptable under this Standard. In addition, this Standard requires disclosure of the changes in the liabilities that arise from financing activities derived from cash flows as well as those that do not entail cash flows, for example exchange rate variations.

c) IAS 12: Income Taxes

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

d) IAS 16: Property. Plant and Equipment

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

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

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

e) IAS 18: Revenue

CONASSIF has allowed regulated financial entities to recognize loan fees and commissions collected prior to January 1, 2003 as revenue. Additionally, CONASSIF has permitted the deferral of 25%, 50%, and 100% of loan fees and commissions for transactions completed in 2003, 2004, and 2005, respectively. IAS 18 prescribes deferral of 100% of those fees and commissions over the loan term.

Until December 31, 2013, CONASSIF allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. IAS 18 does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs.

(Continued)

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

- CONASSIF requires that fee and commission income be recognized as a liability and booked under “Deferred income” (liability) and incremental direct costs be amortized in “Deferred charges” (asset). Under IAS 39, fees and commissions and incremental costs are part of the amortized cost of financial instruments, rather than separate assets and liabilities.
- CONASSIF requires that fee and commission income be deferred in “Other income” and costs be amortized in “Other expenses”. Under IAS 18 and IAS 39, income and costs must be booked as part of “Finance income on financial instruments”.
- Under SUGEF regulations, the effective interest rate must be calculated over the financial instrument’s contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).
- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument’s amortized cost or the calculation of the foreclosed asset’s carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the year.

f) <u>IAS 21: The Effects of Changes in Foreign Exchange Rates</u>

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

(Continued)

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

(Continued)

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

SUGEF prescribes recognition of a provision for possible losses on contingent assets. This type of provision is prohibited under IAS 37.

l) IAS 38: Intangible Assets

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

(Continued)

m) IAS 39: Financial Instruments: Recognition and Measurement

CONASSIF requires that the loan portfolio be classified pursuant to SUGEF Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. Furthermore, on June 17, 2016, through Official Letter SGF-1729-2016, CONASSIF approved SUGEF Directive 19-16 "Regulations to Determine and Book Counter-cyclical Allowances", which requires entities supervised by SUGEF to book a general allowance for the loan portfolio with no current indications of impairment, in order to mitigate the effects of the economic cycle on the profit or loss derived from the loan portfolio allowance.

IAS 39 requires that the allowance for loan losses be determined based on a financial analysis of actual losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the income statement.

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

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

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

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

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

Banks regulated by SUGEF may not classify investments in financial instruments as held to maturity.

The above classifications do not necessarily adhere to the provisions of IAS 39.

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

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

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

(Continued)

o) Revised IFRS 3: Business Combinations

This Standard establishes that a business combination between entities under common control can be performed at cost or at fair value. CONASSIF only permits booking of these transactions measuring the assets and liabilities at fair value.

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

CONASSIF requires booking an allowance of one-twenty-fourth of the value of non-current assets classified as available for sale each month, so that if they are not sold within two years from acquisition, an allowance is recognized equivalent to 100% of the assets' carrying amount. IFRS 5 requires that these assets be recorded at the lower of the carrying amount or fair value less costs to sell, discounted to the present value of the assets that will be sold in periods greater than one year. Accordingly, assets could be understated, with excess allowances.

q) IFRS 9: Financial Instruments

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

r) IFRS 10: Consolidated Financial Statements

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

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

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

(Continued)

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

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

u) IFRS 13: Fair Value Measurement

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

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

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

x) IFRS 16: Leases

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

y) IFRS 17: Insurance Contracts

This Standard was approved in March 2017. It establishes the guidelines for recognition, measurement, presentation, and disclosure of insurance contracts issued. It also requires similar principles to be applied by to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This Standard replaces IFRS 4 *Insurance Contracts*. It is effective for annual periods beginning on or after January 1, 2021. Early application is permitted for those entities that will perform the early adoption of IFRS 9 and IFRS 15. This Standard has not been adopted by CONASSIF.

z) IFRIC 10: Interim Financial Reporting and Impairment

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

(Continued)

aa) <u>IFRIC 21: Levies</u>

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

bb) <u>IFRIC 22: Foreign currency transactions and advance considerations</u>

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

cc) <u>IFRIC 23: Uncertainty over Income Tax Treatments</u>

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. In these circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities applying the requirements of IAS 12 on the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. This Interpretation is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

This interpretation has not been adopted by CONASSIF. However, Article 10 of the *Regulations on Financial Information* provides that in the event of a dispute of a specific tax treatment by the Tax Administration, which begins with a notice of deficiency, the entity must:

a. Book against profit or loss for the period in the case that, in accordance with the assessment made by senior management, a conclusion is reached that the entity has an obligation of immediate enforceability with the Tax Administration.

b. Book a provision for those treatments not considered in the items above; the amount must reflect the uncertainty of each tax treatment in dispute, according to the method that best predicts its resolution as established in IFRIC 23.

(Continued)

Upon initial application of IFRIC 23, entities must apply the transition established in item "b" above.

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