

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

As of December 31, 2013
(With corresponding figures for 2012)

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



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Independent Auditors' Report

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

We have audited the accompanying financial statements of Scotiabank de Costa Rica, S.A. (the Bank), which comprise the balance sheet as of December 31, 2013, and the statements of income, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of the accounting regulations issued by the National Financial System Oversight Board (CONASSIF) and the Superintendency General of Financial Entities (SUGEF).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2013, and its financial performance and cash flows for the year then ended in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF.

Basis of Accounting

Without qualifying our opinion, we draw attention to note 1-b to the financial statements, which describes the basis of accounting. The financial statements have been prepared by management in accordance with the accounting regulations issued by CONASSIF and SUGEF. As a result, the accompanying financial statements may not be suitable for another purpose.

February 24, 2014

San José, Costa Rica
Erick Brenes Flores
Member No. 2520
Policy No. 0116 FIG 7
Expires 9/30/2014

KPMG



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

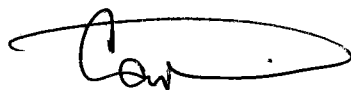
SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
BALANCE SHEET
As of December 31, 2013
(With corresponding figures for 2012)
(In colones)

ASSETS	Note	2013	2012
Cash and due from banks	4	175,274,004,129	162,492,263,892
Cash		17,833,831,968	15,826,648,117
Central Bank		120,854,225,095	118,225,108,472
Local financial entities		867,755,278	438,733,987
Foreign financial entities		11,447,806,722	7,937,814,193
Other cash and due from banks		24,270,385,066	20,063,959,123
Investments in financial instruments	5	71,488,512,557	60,297,732,599
Trading		5,879,467,564	5,468,234,684
Available for sale		64,859,267,339	53,728,224,162
Accrued interest receivable		749,777,654	1,101,273,753
Loan portfolio	6	890,713,859,346	858,992,129,488
Current		841,323,549,507	806,262,859,291
Past due		40,321,320,543	45,995,300,912
In legal collections		10,623,127,445	10,468,836,306
Accrued interest receivable		8,671,546,296	8,138,982,496
(Allowance for loan losses)	6-b	(10,225,684,445)	(11,873,849,517)
Accounts and fees and commissions receivable	7	2,504,869,115	1,442,498,259
Fees and commissions		77,499,566	64,427,594
Accounts receivable for related party transactions		348,598,589	286,654,784
Deferred tax and income tax receivable	13-a	12,893,403	91,751,430
Other accounts receivable		3,144,054,572	2,311,201,745
(Allowance for doubtful accounts and fees and commissions receivable)	7	(1,078,177,015)	(1,311,537,294)
Foreclosed assets	8	2,799,006,145	2,065,174,765
Assets and securities acquired in lieu of payment		10,644,369,682	9,127,178,779
(Allowance for impairment and per legal requirement)	8	(7,845,363,537)	(7,062,004,014)
Investments in other companies, net		557,006	557,006
Property and equipment, net	9	12,339,259,783	11,497,308,492
Other assets	10	9,016,374,293	5,808,746,365
Deferred charges		834,623,035	522,245,801
Intangible assets		353,650,164	281,674,010
Other assets		7,828,101,094	5,004,826,554
TOTAL ASSETS		1,164,136,442,374	1,102,596,410,866

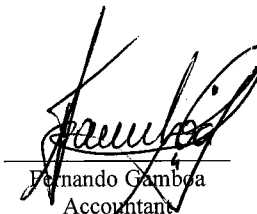
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SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
BALANCE SHEET
As of December 31, 2013
(With corresponding figures for 2012)
(In colones)

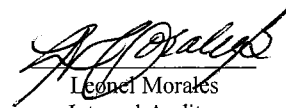
	Note	2013	2012
<u>LIABILITIES AND EQUITY</u>			
<u>LIABILITIES</u>			
Obligations with the public	11	759,207,347,675	710,379,191,419
Demand		242,594,872,627	224,268,926,605
Term		513,438,237,911	482,853,708,229
Finance charges payable		3,174,237,137	3,256,556,585
Obligations with entities	12	252,026,168,617	243,728,448,835
Demand		532,961,331	1,643,010,100
Term		249,639,688,391	240,239,633,408
Other obligations with entities		785,749,050	809,615,996
Finance charges payable		1,067,769,845	1,036,189,331
Accounts payable and provisions	13	13,974,016,082	17,701,106,038
Deferred tax	13-a	773,441,125	799,714,399
Provisions	13-b	4,299,790,853	4,327,903,304
Other sundry accounts payable		8,900,784,104	12,573,488,335
Other liabilities	14	1,913,794,889	1,589,462,952
Deferred income		260,799,702	253,516,302
Allowance for stand-by credit losses	6-c	158,653,150	256,242,777
Other liabilities		1,494,342,037	1,079,703,873
TOTAL LIABILITIES		1,027,121,327,263	973,398,209,244
<u>EQUITY</u>			
Share capital		94,127,341,406	64,314,222,000
Paid-up capital	15-a	94,127,341,406	64,314,222,000
Non-capitalized capital contributions		14,957,901	29,781,037,177
Equity adjustments	15-b	4,016,631,962	3,832,629,895
Surplus from revaluation of property		4,046,716,566	4,046,716,566
Adjustment for valuation of available-for-sale investments		(30,084,604)	(214,086,671)
Equity reserves	15-c	9,023,130,510	8,264,543,381
Prior period retained earnings	15-d	23,005,769,169	14,466,307,186
Income for the year		6,827,284,163	8,539,461,983
TOTAL EQUITY		137,015,115,111	129,198,201,622
TOTAL LIABILITIES AND EQUITY		1,164,136,442,374	1,102,596,410,866
DEBIT MEMORANDA ACCOUNTS	17	181,070,764,405	158,840,375,948
TRUST ASSETS	18	284,145,811,703	265,424,914,730
TRUST LIABILITIES		40,446,788,162	14,939,990,247
TRUST EQUITY		243,699,023,541	250,484,924,483
OTHER DEBIT MEMORANDA ACCOUNTS	20	4,930,556,474,641	5,169,841,354,950
Own accounts		4,751,766,605,261	5,028,687,091,206
Third party accounts		84,295,689,114	85,473,494,919
Own accounts for custodial activities		21,830,156,390	18,697,479,200
Third party accounts for custodial activities		72,664,023,876	36,983,289,625



Carlos Brina
Legal Representative



Fernando Gamboa
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.)

INCOME STATEMENT
For the year ended December 31, 2013
(With corresponding figures for 2012)
(In colones)


	Note	2013	2012
Finance income			
Cash and due from banks		61,076	299,319
Investments in financial instruments		4,015,556,540	4,019,138,729
Loan portfolio	21	66,334,259,545	65,357,652,481
Gain on available-for-sale financial instruments	5	541,390,765	17,540,773
Other finance income		1,090,783,479	887,669,597
Total finance income		71,982,051,405	70,282,300,899
Finance expense			
Obligations with the public	22-a	24,425,568,336	21,715,974,013
Obligations with financial entities	22-b	5,707,629,044	5,408,895,231
Loss on foreign exchange differences and "development units"	23	1,568,682,739	675,947,080
Loss on available-for-sale financial instruments	5	158,713,098	173,451,613
Other finance expense		152,282,201	167,491,858
Total finance expense		32,012,875,418	28,141,759,795
Allowance for impairment of assets	6-b, 6-c, 7	2,082,000,281	2,726,771,786
Recovery of assets and decreases in allowances and provisions		766,699,439	259,847,554
GROSS FINANCE INCOME		38,653,875,145	39,673,616,872
Other operating income			
Service fees and commissions	24	11,460,300,213	10,584,710,288
Foreclosed assets		844,241	81,596,062
Foreign currency exchange and arbitrage		5,039,375,008	4,871,961,305
Other income with related parties		3,413,501,821	2,119,492,917
Other operating income		3,696,814,183	5,918,053,105
Total other operating income		23,610,835,466	23,575,813,677
Other operating expenses			
Service fees and commissions		3,489,158,537	2,912,260,683
Foreclosed assets		2,188,842,921	3,125,147,929
Sundry assets		41,292,562	41,292,561
Provisions		1,265,500,000	1,605,627,554
Foreign currency exchange and arbitrage		47,370,531	315,302
Other expenses with related parties		30,093,101	56,000,000
Other operating expenses		1,706,713,200	1,387,292,943
Total other operating expenses		8,768,970,852	9,127,936,972
GROSS OPERATING INCOME		53,495,739,759	54,121,493,577
Administrative expenses			
Personnel expenses	25	24,031,116,837	23,101,440,998
Other administrative expenses	26	18,440,782,635	17,396,202,387
Total administrative expenses		42,471,899,472	40,497,643,385
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		11,023,840,287	13,623,850,192
Income tax	13-a	(2,888,670,509)	(3,457,285,844)
Statutory allocations		(549,298,486)	(681,192,509)
INCOME FOR THE YEAR		7,585,871,292	9,485,371,839



Carlos Brina
Legal Representative



Fernando Gamboa
Accountant

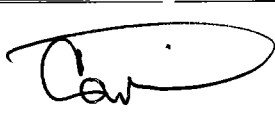


Leonel Morales
Internal Auditor


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

SCOTIABANK DE COSTA RICA, S.A.
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2013
(With corresponding figures for 2012)
(In colones)

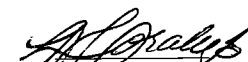
	<u>Equity adjustments</u>						Prior period retained earnings	Total
	Share capital	Non-capitalized capital contributions	Revaluation of property	Valuation of available-for-sale investments	Total equity adjustments	Equity reserves		
Balance at December 31, 2011	64,314,222,000	29,781,037,177	4,046,716,566	(240,080,500)	3,806,636,066	7,318,633,525	14,466,307,186	119,686,835,954
Income for the year	-	-	-	-	-	945,909,856	9,485,371,839	-
Legal reserves	-	-	-	-	-	-	(945,909,856)	-
Adjustment for valuation of available-for-sale financial instruments, net of deferred tax	-	-	-	(129,917,011)	(129,917,011)	-	-	(129,917,011)
Net amount transferred to the income statement	-	-	-	155,910,840	155,910,840	-	-	155,910,840
Balance at December 31, 2012	64,314,222,000	29,781,037,177	4,046,716,566	(214,086,671)	3,832,629,895	8,264,543,381	23,005,769,169	129,198,201,622
Income for the year	-	-	-	-	-	758,587,129	7,585,871,292	-
Legal reserves	-	-	-	-	-	-	(758,587,129)	-
Adjustment for valuation of available-for-sale financial instruments, net of deferred tax	-	-	-	566,679,734	566,679,734	-	-	566,679,734
Net amount transferred to the income statement	-	-	-	(382,677,667)	(382,677,667)	-	-	(382,677,667)
Conversion of non-capitalized capital contributions to ordinary and registered shares	29,813,119,406	(29,766,079,276)	-	-	-	-	-	-
Balance at December 31, 2013	94,127,341,406	14,957,901	4,046,716,566	(30,084,604)	4,016,631,962	9,023,130,510	29,833,053,332	137,015,115,111



Carlos Brina
Legal Representative



Fernando Gamboa
Accountant

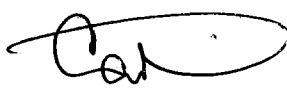


Leonel Morales
Internal Auditor

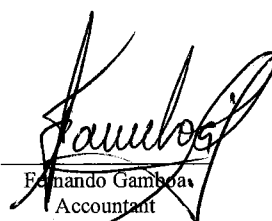
The accompanying notes are an integral part of the financial statements.

SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
CASH FLOW STATEMENT
For the year ended December 31, 2013
(With corresponding figures for 2012)
(In colones)

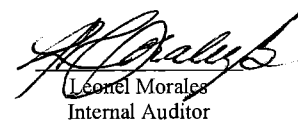
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Income for the year	7,585,871,292	9,485,371,839
Items not requiring cash		
Net gain or loss on foreign exchange and "development units"	(41,054,333)	(212,927,798)
Loss on allowance for loan losses	1,796,000,438	2,061,683,247
Loss on allowance for foreclosed assets	1,146,500,000	2,048,000,000
Loss on other allowances	59,000,280	665,088,539
Expense for provision for severance benefits	150,000,000	203,627,554
Depreciation and amortization	1,178,542,149	1,100,952,739
Expense for other provisions	1,110,906,819	2,824,018,373
Deferred tax	(26,273,274)	(26,273,274)
Finance income	(70,349,816,085)	(69,376,791,210)
Finance expense	30,133,197,380	27,124,869,244
Income tax	2,914,943,783	3,483,559,118
Net (increase) decrease in assets		
Trading securities	(411,232,880)	588,005,865
Loans and cash advances	(47,613,336,770)	(41,996,230,513)
Foreclosed assets	2,319,518,353	2,719,179,246
Other assets	(4,828,368,962)	(1,995,333,770)
Net increase (decrease) in liabilities		
Demand and term obligations	56,457,585,675	39,287,867,188
Other accounts payable and provisions	(3,063,322,066)	(994,481,373)
Other liabilities	418,331,495	1,109,383,211
Interest collected	70,168,748,384	69,373,165,939
Interest paid	(30,183,936,314)	(26,560,269,699)
Taxes paid	(4,716,518,293)	(1,944,660,817)
Net cash flows from operating activities	<u>14,205,287,071</u>	<u>18,967,803,648</u>
Cash flows from investing activities		
Increase in financial instruments	(4,866,779,218,818)	(3,111,100,929,571)
Decrease in financial instruments	4,855,447,480,420	3,108,803,900,722
Acquisition of property, furniture and equipment	(1,750,450,983)	(1,117,381,054)
Sale of property, furniture and equipment	39,496,396	18,917,006
Net cash flows used in investing activities	<u>(13,042,692,985)</u>	<u>(3,392,099,302)</u>
Cash flows from financing activities		
Other new financial obligations	247,528,926,578	242,677,818,155
Settlement of obligations	(235,909,780,427)	(250,966,645,942)
Net cash flows from (used in) financing activities	<u>11,619,146,151</u>	<u>(8,288,827,787)</u>
Net increase in cash and cash equivalents	<u>12,781,740,237</u>	<u>7,286,876,559</u>
Cash at beginning of year	<u>162,492,263,892</u>	<u>155,205,387,333</u>
Cash at end of year	<u>175,274,004,129</u>	<u>162,492,263,892</u>



Carlos Brina
Legal Representative



Fernando Gamboa
Accountant



Leonel Morales
Internal Auditor

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

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

December 31, 2013

1. Summary of operations and significant accounting policies

(a) Reporting entity

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

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

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

As of December 31, 2013, the Bank has 1,189 employees (2012: 1,221 employees), operates 35 branches (2012: 37 branches), and has a network of 145 automated teller machines (2012: 132 automated teller machines). The Bank's customers, regulatory agencies, and the general public can access relevant information about the Bank and the services it offers at its website www.scotiabankcr.com.

(b) Basis of preparation

i. Statement of compliance

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

The financial statements were authorized for issue by the Board of Directors on February 24, 2014.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

ii. Basis of measurement

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

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value.

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

(c) Functional and presentation currency

The financial statements and notes thereto are presented in colones (¢), which is the monetary unit of the Republic of Costa Rica, in accordance with CONASSIF and SUGEF regulations and any items not provided therein, in accordance with International Financial Reporting Standards (IFRSs).

*(d) Foreign currency**i. Foreign currency transactions*

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

ii. Monetary unit and foreign exchange regulations

The parity of the colon with the U.S. dollar is determined in a free exchange market under the supervision of BCCR by using exchange rate bands. As of December 31, 2013, the exchange rate was established at ¢495.01 and ¢507.80 to US\$1.00 for the purchase and sale of U.S. dollars, respectively (2012: ¢502.07 and ¢514.32, respectively).

iii. Valuation method for assets and liabilities

As of December 31, 2013, assets and liabilities denominated in U.S. dollars, Canadian dollars, and euros were valued at the buy rates of ¢495.01 to US\$1.00 (2012: ¢502.07 to US\$1.00), ¢462.92 to CAD\$1.00 (2012: ¢504.64 to CAD\$1.00), and ¢682.61 to €1.00 (2012: ¢663.28 to €1), respectively, in accordance with regulations established by BCCR.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(e) Financial assets and liabilities*i. Recognition*

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

ii. Classification• Cash and cash equivalents

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

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

• Loan portfolio

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

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

- Investments in financial instruments

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

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

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

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

- Securities purchased under reverse repurchase agreements

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

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

- Derivative financial instruments

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

Any valuation gains or losses are recorded in profit or loss. The Bank will exercise the option when the interest rate reaches the limit stipulated in the contract.

- Deposits and debt instruments issued

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

iii. Derecognition

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

iv. Offsetting

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

v. Amortized cost measurement

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

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

vi. Fair value measurement

The fair value of financial instruments is based on their quoted market prices 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 observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions, and other risks affecting the specific instrument.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Valuation techniques include present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. The Bank selects the valuation model that most adequately reflects the fair value of each class of financial instrument based on its complexity. Unlike market prices, fair values cannot be implicitly determined using professional judgment. Models used are revised periodically to update market factors and allow the Bank to obtain data 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 to be impaired, at which time the loss is recognized in profit or loss. When the financial assets are sold, collected, or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to profit or loss.

(f) Foreclosed assets

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(g) Property and equipment*i. Own assets*

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

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

ii. Subsequent costs

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

iii. Depreciation

Depreciation and amortization are recognized in profit or loss on a straight-line basis 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 five years.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Leased assets are carried at cost and amortized straight line based on the category of property and equipment.

(i) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss 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 value in use. The net selling price is equivalent to the value obtained in an arm's length transaction. Value in use is the present value of future cash flows and disbursements derived from continuing use of an asset and from its disposal at the end of its useful life.

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

(j) Accounts payable and other accounts payable

Accounts payable and other accounts payable are recognized at cost.

(k) Provisions

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

(l) Legal reserve

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(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 recorded through profit or loss.

(n) Use of estimates

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

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

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

(o) Allowance for loan losses

SUGEF defines a credit 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.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

(p) Finance income and expense

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

(q) Fee and commission income

Fee and commission income arises on services provided by the Bank. Fees and commissions are recognized as the related services are performed. In the event that a commission is deferred, it is recognized over the term of the service and calculated using the effective interest method if the amount of the commission exceeds the costs incurred to provide the service. In the case of loan fees, cost analyses performed by the Bank show that direct costs incurred to provide the service exceed income earned. Accordingly, loan fees are recognized as income in profit or loss when collected.

(r) Operating lease payments

Payments made under operating leases are recognized in profit or loss 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.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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 computed by dividing the profit attributable to ordinary shareholders by the weighted-average number of ordinary shares outstanding during such period.

*(u) Employee benefits**i. Severance benefits*

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

*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.

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)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

2. Restricted assets

As of December 31, restricted assets are as follows:

	2013	2012
Cash and due from banks:		
Minimum cash reserve	¢ 120,854,225,095	118,225,108,472
Drafts and transfers payable	1,464,243,713	1,508,412,202
Subtotal	<u>122,318,468,808</u>	<u>119,733,520,674</u>
Investments:		
Clearing house guarantee	1,249,541,368	1,095,282,872
Guarantee deposit for public utility payment collection services	339,583,000	126,326,000
Other guarantees	13,975,008	9,056,314
Subtotal	<u>1,603,099,376</u>	<u>1,230,665,186</u>
Loans:		
Requirement for deposit-taking in demand accounts per art. 59 of IRNBS (Law No. 1644)	36,998,283,232	36,376,087,634
Subtotal	<u>36,998,283,232</u>	<u>36,376,087,634</u>
Accrued interest receivable:		
Committed investments	31,691,282	38,346,125
Subtotal	<u>31,691,282</u>	<u>38,346,125</u>
Other:		
Guarantee deposits	97,487,422	66,042,242
Subtotal	<u>97,487,422</u>	<u>66,042,242</u>
Total	<u>¢ 161,049,030,120</u>	<u>157,444,661,861</u>

Pursuant to Costa Rican financial legislation, the Bank maintains a minimum cash reserve in BCCR. As of December 31, 2013 and 2012, that reserve is calculated as a percentage of third-party deposits (see note 4).

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

3. Balances and transactions with related parties

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

	2013	2012
Assets:		
Cash and due from banks	¢ 1,247,635,324	1,169,255,774
Loan portfolio	1,197,127,330	1,437,413,717
Accounts and accrued interest receivable	348,598,588	286,654,784
Total assets	¢ <u>2,793,361,242</u>	<u>2,893,324,275</u>
Liabilities:		
Obligations with the public	¢ 7,720,621,594	7,548,521,899
Other financial obligations	155,293,997,238	192,579,992,930
Total liabilities	¢ <u>163,014,618,832</u>	<u>200,128,514,829</u>
Expenses:		
Finance	¢ 3,634,343,769	4,105,615,733
Operating	-	56,000,000
Total expenses	¢ <u>3,634,343,769</u>	<u>4,161,615,733</u>
Income:		
Finance	¢ 107,677,261	385,539,410
Operating	3,432,287,010	2,119,492,917
Total income	¢ <u>3,539,964,271</u>	<u>2,505,032,327</u>

As of December 31, 2013, compensation paid to key personnel amounts to ¢1,943,318,480 (2012: ¢1,689,367,910).

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2013, the following economic interest groups are related to the Bank in accordance with SUGEF Directive 4-04:

- Scotia Leasing Costa Rica, S.A.
- Scotia Valores, S.A.
- Scotia Sociedad de Fondos de Inversión, S.A.
- Scotia Leasing Panamá, S.A.
- Scotia Leasing Nicaragua, S.A.
- Scotia Leasing Honduras, S.A.
- Arrinsa Leasing, S.A. de C.V.
- Scotia Leasing Guatemala, S.A.
- Scotia Corredora de Seguros, S.A.
- Grupo BNS de Costa Rica, S.A.
- BNS Internacional, S.A.
- Corporación Mercabán de Costa Rica, S.A.
- Portic de Sotosol, S.A.

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

4. Cash and due from banks

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

	2013	2012
Cash	¢ 17,833,831,968	15,826,648,117
Demand deposits in BCCR	120,854,225,095	118,225,108,472
Demand deposits in local financial entities	867,755,278	438,733,987
Demand deposits in foreign financial entities	11,447,806,722	7,937,814,193
Notes payable on demand	3,072,933,033	2,380,026,064
Subtotal	<u>154,076,552,096</u>	<u>144,808,330,833</u>
Highly-liquid short-term investments	21,197,452,033	17,683,933,059
Total	¢ <u>175,274,004,129</u>	<u>162,492,263,892</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Pursuant to current banking legislation, the Bank must maintain a biweekly average minimum cash reserve in BCCR. The minimum cash reserve is calculated biweekly based on average daily balances of specific operations subject to this requirement. The corresponding amount is deposited and remains restricted in BCCR and must meet two conditions: 1) the average minimum cash reserve required at the end of a biweekly period must be covered by the biweekly average of end-of-day checking account deposits with a delay of two biweekly periods, and 2) during the reserve control period, the end-of-day balance of deposits in BCCR must be greater than 97.5% of the minimum cash reserve required in the prior two biweekly periods. As of December 31, the required minimum cash reserve (corresponding to the average for the second half of December) is as follows:

	2013	2012
Local currency	¢ 28,232,890,205	25,127,929,451
Foreign currency	92,157,934,681	92,286,817,074
Total minimum cash reserve	<u>¢ 120,390,824,886</u>	<u>117,414,746,525</u>

As of December 31, 2013, highly-liquid short-term investments include securities acquired under reverse repurchase agreements for a total of ¢3,525,975,863 and US\$6,564,319 (2012: ¢4,510,282,107 and US\$1,043,199). Those securities bear interest at rates ranging between 4.03% and 5.47% per annum (2012: between 4% and 7.54% per annum) in colones and at rates ranging between 2.27% and 2.33% per annum (2012: between 0.33% and 1.99% per annum) in U.S. dollars, and are included in cash equivalents.

5. Investments in financial instruments

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

	2013	2012
Trading	¢ 5,879,467,564	5,468,234,684
Available for sale	64,859,267,339	53,728,224,162
Subtotal	<u>70,738,734,903</u>	<u>59,196,458,846</u>
Accrued interest receivable	749,777,654	1,101,273,753
Total	<u>¢ 71,488,512,557</u>	<u>60,297,732,599</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	<u>2013</u>	<u>2012</u>
Open investment funds in colones managed by a local related party	¢ 1,615,527,201	2,260,617,289
Open investment funds in U.S. dollars managed by a local related party	1,776,153,503	2,956,743,158
Open investment funds in colones managed by a local entity	244,927,865	250,874,237
Open investment funds in U.S. dollars managed by a local entity	2,242,858,995	-
Total	¢ <u>5,879,467,564</u>	<u>5,468,234,684</u>

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

	<u>2013</u>	<u>2012</u>
<u>Local issuers:</u>		
Costa Rican Government	¢ 35,523,695,334	35,203,898,828
BCCR	16,896,094,369	12,838,873,125
Financial entities	7,354,472,635	3,739,321,530
Private issuers	13,975,008	-
Repurchase agreements	2,597,192,767	848,756,285
Subtotal	<u>62,385,430,113</u>	<u>52,630,849,768</u>
<u>Foreign issuers:</u>		
Governments	<u>2,473,837,226</u>	<u>1,097,374,394</u>
Subtotal	<u>2,473,837,226</u>	<u>1,097,374,394</u>
Total	¢ <u>64,859,267,339</u>	<u>53,728,224,162</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2013, investments in financial instruments in the amount of ¢1,603,099,376 (2012: ¢1,230,665,186) secure operations with several local institutions (see note 2).

As of December 31, 2013, investments in financial instruments bear interest at rates ranging between 3.76% and 9.52% per annum (2012: between 4% and 17.07% per annum) in colones, and between 0.79% and 3.96% per annum (2012: between 0.33% and 5% per annum) in U.S. dollars.

For the year ended December 31, 2013 and 2012, realized gain and loss on available-for-sale financial instruments is as follows:

	<u>2013</u>	<u>2012</u>
Realized gain on the sale of available-for-sale financial instruments	¢ 541,390,765	17,540,773
Realized loss on the sale of available-for-sale financial instruments	(158,713,098)	(173,451,613)
Gain (loss), net	<u>¢ 382,677,667</u>	<u>(155,910,840)</u>

6. Loan portfolioa) Loan portfolio by origin

	<u>2013</u>	<u>2012</u>
Loans originated by the Bank	¢ 816,444,801,395	768,257,909,176
Loans purchased	75,823,196,100	94,469,087,333
Subtotal	<u>892,267,997,495</u>	<u>862,726,996,509</u>
Accrued interest receivable	8,671,546,296	8,138,982,496
Allowance for loan losses	(10,225,684,445)	(11,873,849,517)
Total	<u>¢ 890,713,859,346</u>	<u>858,992,129,488</u>

As of December 31, 2013, annual interest rates on loans ranged between 6.65% and 25% (2012: between 10.25% and 25%) in colones and between 3.50% and 14.25% (2012: between 3.50% and 14.25%) in U.S. dollars.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

The purchased portfolio includes the portfolio acquired in the purchase and merger process with Banco Interfin, S.A. (October 2007). As of December 31, 2013, that portfolio amounts to ¢24,344,345,034 and US\$102,916,301 (2012: ¢24,380,018,935 and US\$137,601,755). This account also includes a portfolio purchased from a related party (December 2008) as part of the disassociation of such related party from the financial group. As of December 31, 2013, that portfolio amounts to US\$1,079,277 (2012: US\$1,996,437).

b) Allowance for loan losses

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

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

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

	2013	2012
Opening balance	¢ 11,873,849,517	12,522,276,032
Allowance expense	1,890,000,000	1,914,322,704
Charged against allowance	(3,398,609,296)	(2,495,226,130)
Translation effect for allowances in foreign currency	(139,555,776)	(67,523,089)
Closing balance	¢ <u>10,225,684,445</u>	<u>11,873,849,517</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

c) Allowance for stand-by credit losses

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

	<u>2013</u>	<u>2012</u>
Opening balance	¢ 256,242,777	109,553,925
Allowance expense	33,000,001	147,360,543
Decrease in allowance	(126,999,559)	-
Translation effect for allowances in foreign currency	(3,590,069)	(671,691)
Closing balance	¢ <u>158,653,150</u>	<u>256,242,777</u>

7. Accounts and fees and commissions receivable

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

	<u>2013</u>	<u>2012</u>
Fees and commissions	¢ 77,499,566	64,427,594
Related party transactions	348,598,589	286,654,784
Deferred and income tax	12,893,403	91,751,430
Sundry credit card receivables	859,104,759	35,301,559
Advance payments to suppliers	155,106,992	121,463,302
Other expenses	586,148,238	490,277,924
Due from INS	53,529,809	128,114,472
ATH transactions	537,996,926	593,078,044
Other sundry accounts receivable	952,167,848	942,966,444
Subtotal	3,583,046,130	2,754,035,553
(Allowance for doubtful accounts and fees and commissions receivable)	(1,078,177,015)	(1,311,537,294)
Total	¢ <u>2,504,869,115</u>	<u>1,442,498,259</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	2013	2012
Opening balance	¢ 1,311,537,294	655,012,467
Allowance expense	159,000,280	665,088,539
Charged against allowance	(286,143,181)	(9,157,294)
Decrease in allowance	(100,000,000)	-
Translation effect for allowances in foreign currency	(6,217,378)	593,582
Closing balance	¢ 1,078,177,015	1,311,537,294

8. Foreclosed assets, net

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

	2013	2012
Assets acquired in lieu of payment		
Real property	¢ 10,121,369,861	8,510,001,702
Other	522,999,821	617,177,077
Subtotal	10,644,369,682	9,127,178,779
(Allowance for impairment and per legal requirements)	(7,845,363,537)	(7,062,004,014)
Net total	¢ 2,799,006,145	2,065,174,765

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, movement in the allowance for foreclosed assets is as follows:

	2013	2012
Opening balance	¢ 7,062,004,014	5,948,716,722
Loss on allowance	1,146,500,000	2,048,000,000
Charged against allowance for retirements or sales	(363,140,477)	(934,712,708)
Closing balance	¢ 7,845,363,537	7,062,004,014

9. Property and equipment

As of December 31, 2013, property and equipment is as follows:

	2012	Additions	Retirements	2013
<u>Cost</u>				
Land	1,405,990,980	-	-	1,405,990,980
Buildings and facilities	3,812,502,308	-	-	3,812,502,308
Furniture and equipment	2,612,815,555	251,322,690	-	2,864,138,245
Computer hardware	3,735,680,386	1,419,138,566	(135,542,131)	5,019,276,821
Vehicles	292,435,743	79,989,727	(7,435,457)	364,990,013
Subtotal	11,859,424,972	1,750,450,983	(142,977,588)	13,466,898,367
Accumulated depreciation	(4,233,223,287)	(807,371,035)	103,481,192	(4,937,113,130)
Cost, net	7,626,201,685	943,079,948	(39,496,396)	8,529,785,237
<u>Revaluation</u>				
Cost	4,684,890,647	-	-	4,684,890,647
Accumulated depreciation	(813,783,840)	(61,632,261)	-	(875,416,101)
Revaluation, net	3,871,106,807	(61,632,261)	-	3,809,474,546
Net total	11,497,308,492	881,447,687	(39,496,396)	12,339,259,783

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Depreciation expense for the year ended December 31, 2013 amounted to ₡869,003,296 and was charged against profit or loss.

Pursuant to local regulations and IAS 16, assets must be revalued at least once every five years. Accordingly, the fair values of land, buildings, and facilities owned by the Bank were assessed through appraisals made by independent appraisers as of May 31, 2010. Those appraisals determined that the carrying amounts of land, buildings, and facilities as of that date approximate the fair values of the assets. As a result, no adjustment was included in the accounting books for revaluation of fixed assets.

As of December 31, 2012, property and equipment is as follows:

	2011	Additions	Retirements	2012
<u>Cost</u>				
Land	1,405,990,980	-	-	1,405,990,980
Buildings and facilities	3,812,502,308	-	-	3,812,502,308
Furniture and equipment	2,437,675,718	175,139,837	-	2,612,815,555
Computer hardware	2,878,868,438	859,961,962	(3,150,014)	3,735,680,386
Vehicles	233,483,524	82,279,255	(23,327,036)	292,435,743
Subtotal	10,768,520,968	1,117,381,054	(26,477,050)	11,859,424,972
Accumulated depreciation	(3,561,409,555)	(679,373,776)	7,560,044	(4,233,223,287)
Cost, net	7,207,111,413	438,007,278	(18,917,006)	7,626,201,685
<u>Revaluation</u>				
Cost	4,684,890,647	-	-	4,684,890,647
Accumulated depreciation	(752,151,579)	(61,632,261)	-	(813,783,840)
Revaluation, net	3,932,739,068	(61,632,261)	-	3,871,106,807
Net total	11,139,850,481	376,375,017	(18,917,006)	11,497,308,492

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Depreciation expense for the year ended December 31, 2012 amounted to ¢740,646,084 and was charged against profit or loss.

10. Other assets

As of December 31, other assets are as follows:

	<u>2013</u>	<u>2012</u>
<u>Deferred charges</u>		
Leasehold improvements - operating lease	¢ 834,623,035	522,245,801
Subtotal	834,623,035	522,245,801
<u>Intangible assets</u>		
Software	212,041,763	281,674,010
Other	141,608,401	-
Subtotal	353,650,164	281,674,010
<u>Other assets</u>		
Prepaid interest and fees and commissions	678,606,897	178,527,677
Prepaid insurance	134,378,189	131,492,810
Other prepaid expenses	204,794,393	62,021,407
Stationery, office supplies, and other materials	43,836,233	39,396,670
Leased assets - operating lease	1,473,406,327	1,514,698,888
Library and artwork	17,720,958	17,720,958
Construction work-in-progress	4,204,335	400,974,156
Software under development	60,145,802	130,019,928
Other sundry assets	2,174,916	2,174,916
Operations pending settlement	5,111,345,622	2,461,756,902
Guarantee deposits	97,487,422	66,042,242
Subtotal	7,828,101,094	5,004,826,554
Total	¢ 9,016,374,293	5,808,746,365

Leased assets correspond to assets leased to other companies of the financial group.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	<u>2013</u>	<u>2012</u>
Depreciation of leased assets - operating lease	¢ 41,292,562	41,292,561
Amortization of leasehold improvements	178,872,743	267,460,202
Amortization of software	89,373,548	51,553,892
Total	<u>¢ 309,538,853</u>	<u>360,306,655</u>

11. Obligations with the public

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

	<u>2013</u>	<u>2012</u>
<u>Demand</u>		
<u>Deposits</u>		
Checking accounts	¢ 158,397,827,873	148,070,051,469
Certified checks	49,548,803	48,015,475
Demand savings deposits	30,985,600,713	31,883,869,418
Matured term deposits	889,760,901	1,060,147,478
Overnight deposits	46,892,098,143	37,576,551,276
Subtotal deposits	<u>237,214,836,433</u>	<u>218,638,635,116</u>
<u>Other obligations with the public</u>		
Notes payable on demand - creditors	2,780,328,111	3,010,444,055
Drafts and transfers	1,464,243,713	1,508,412,202
Cashier's checks	1,119,883,181	1,111,435,232
Sundry demand obligations with the public	15,581,189	-
Subtotal other obligations with the public	<u>5,380,036,194</u>	<u>5,630,291,489</u>
Subtotal demand	<u>242,594,872,627</u>	<u>224,268,926,605</u>

(continued)

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

<u>Term</u>		
Deposits		
Term deposits from the public	473,328,792,507	442,863,157,965
Term deposits from related parties	1,262,848,538	2,537,594,743
Term deposits pledged as guarantee	38,846,596,866	37,452,955,521
Subtotal deposits	¢ 513,438,237,911	482,853,708,229
Other obligations with the public		
Subtotal term	513,438,237,911	482,853,708,229
Charges payable	3,174,237,137	3,256,556,585
Total	¢ 759,207,347,675	710,379,191,419

As of December 31, 2013 and 2012, balances corresponding to the issue of commercial paper and standardized bonds are included in current term deposit accounts.

As of December 31, 2013, term deposits include standardized bonds for ¢5,000,000,000 and US\$24,150,000 (2012: US\$28,917,686), bearing interest at 7.88% per annum (2012: nil) in colones, and between 3% and 4.89% per annum (2012: between 2.72% and 3.80% per annum) in U.S. dollars.

Term deposits made through banks have terms ranging from a minimum of 31 days to a maximum of five years. As of December 31, 2013, certificates of deposit bear interest at rates ranging between 4.35% and 11.50% per annum (2012: between 5.40% and 12% per annum) in colones and between 1.05% and 5.70% per annum (2012: between 1.05% and 5.55% per annum) in U.S. dollars.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

As of December 31, 2013, deposits from customers by cumulative amount and number of customers are as follows:

	<u>Number of customers</u>	<u>Cumulative amount</u>
<u>Demand</u>		
Obligations with the public		
Deposits from the public	93,804	¢ 236,325,075,533
Restricted and inactive deposits	103	889,760,900
Other obligations with the public	-	5,380,036,194
Subtotal	<u>93,907</u>	<u>242,594,872,627</u>
Obligations with entities		
Deposits from other financial entities	11	532,961,331
Subtotal	<u>11</u>	<u>532,961,331</u>
Total demand obligations with customers	<u>93,918</u>	<u>¢ 243,127,833,958</u>
<u>Term</u>		
Obligations with the public		
Deposits from the public	7,738	¢ 469,261,187,461
Deposits from other financial entities	5	5,172,377,249
Deposits from State-owned entities	1	158,076,335
Restricted and inactive deposits	1,476	38,846,596,866
Subtotal	<u>9,220</u>	<u>513,438,237,911</u>
Obligations with entities		
Deposits from other financial entities	5	7,541,211,700
Subtotal	<u>5</u>	<u>7,541,211,700</u>
Total term obligations with customers	<u>9,225</u>	<u>¢ 520,979,449,611</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2012, deposits from customers by cumulative amount and number of customers are as follows:

	<u>Number of customers</u>	<u>Cumulative amount</u>
<u>Demand</u>		
Obligations with the public		
Deposits from the public	90,980	¢ 217,578,487,638
Restricted and inactive deposits	93	1,060,147,478
Other obligations with the public	-	5,630,291,489
Subtotal	<u>91,073</u>	<u>224,268,926,605</u>
Obligations with financial entities		
Deposits from other financial entities	<u>11</u>	<u>1,643,010,100</u>
Subtotal	<u>11</u>	<u>1,643,010,100</u>
Total demand obligations with customers	<u>91,084</u>	<u>¢ 225,911,936,705</u>
 <u>Term</u>		
Obligations with the public		
Deposits from the public	7,317	¢ 434,582,649,702
Deposits from other financial entities	6	8,982,865,581
Deposits from State-owned entities	3	1,835,237,425
Restricted and inactive deposits	<u>1,274</u>	<u>37,452,955,521</u>
Subtotal	<u>8,600</u>	<u>482,853,708,229</u>
Obligations with financial entities		
Deposits from other financial entities	<u>1</u>	<u>444,200,000</u>
Subtotal	<u>1</u>	<u>444,200,000</u>
Total term obligations with customers	<u>8,601</u>	<u>¢ 483,297,908,229</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

12. Obligations with entities

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

	2013	2012
Demand obligations		
Checking accounts of local financial entities	\$ 532,961,331	1,643,010,100
Subtotal demand obligations	<u>532,961,331</u>	<u>1,643,010,100</u>
Term obligations		
Term deposits from local financial entities	7,541,211,700	444,200,000
Loan with Mercantil Commerce Bank	7,425,150,000	7,531,050,000
Loan with Wells Fargo Bank, N.A.	2,976,350,488	3,213,248,000
Loan with BLADDEX	12,375,250,000	12,551,750,000
Loan with DEG	7,425,150,000	11,296,575,000
Loan with Standard Chartered Bank	2,073,680,235	3,383,838,428
Loan with IIC	6,652,934,400	-
Loan with IBD	48,263,475,000	-
Loans with other entities	168,480,245	9,893,099,448
Obligations with related financial entities	154,738,006,323	191,925,872,532
Subtotal term obligations	<u>249,639,688,391</u>	<u>240,239,633,408</u>
Other obligations with entities		
Issued letters of credit	785,749,050	809,615,996
Subtotal other obligations with entities	<u>785,749,050</u>	<u>809,615,996</u>
Subtotal	<u>250,958,398,772</u>	<u>242,692,259,504</u>
Charges payable on obligations with financial and non-financial entities	1,067,769,845	1,036,189,331
Total	<u>\$ 252,026,168,617</u>	<u>243,728,448,835</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2013, other financial obligations bear interest at 7.05% per annum (2012: at 11%) in colones, and between 0.49% and 3.74% per annum (2012: between 0.55% and 5.28% per annum) in U.S. dollars.

Maturities of obligations with entities

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

	<u>2013</u>	<u>2012</u>
Less than 1 year	¢ 98,580,137,021	122,870,277,545
Between 1 and 2 years	42,411,033,202	32,142,637,771
Between 2 and 3 years	82,705,599,957	20,333,288,197
Between 3 and 4 years	18,946,249,375	55,480,886,731
Between 4 and 5 years	8,315,379,217	10,978,657,106
More than 5 years	-	886,512,154
Subtotal	<u>250,958,398,772</u>	<u>242,692,259,504</u>
Charges payable on obligations with financial and non-financial entities	<u>1,067,769,845</u>	<u>1,036,189,331</u>
Total	<u>¢ 252,026,168,617</u>	<u>243,728,448,835</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

13. Accounts payable and provisions

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

	2013	2012
Deferred tax	¢ 773,441,125	799,714,399
Provisions	4,299,790,853	4,327,903,304
Other sundry accounts payable:		
Tax liability	266,223,267	2,103,848,953
Court-ordered withholdings	14,095,293	4,488,126
Tax withholdings	414,164,553	363,550,185
Employee payroll taxes	936,386,401	849,386,299
Statutory allocations or surplus	540,298,487	672,192,510
Clearing house operations	3,347,709,329	2,183,170,458
Accrued vacation	280,657,166	319,577,511
Accrued statutory Christmas bonus	212,203,528	240,005,796
Other accounts and fees and commissions payable:		
INS insurance policies	108,428,533	1,933,320,048
Term deposits	162,493,698	1,755,139,742
Credit balances of credit card customers	296,960,698	260,842,356
Outstanding stale checks	382,886,291	181,122,662
Public utility and tax payment collection services	558,418,016	113,648,194
Other sundry accounts payable	1,379,858,844	1,593,195,495
Subtotal other sundry accounts payable	<u>8,900,784,104</u>	<u>12,573,488,335</u>
Total	<u>¢ 13,974,016,082</u>	<u>17,701,106,038</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(a) Income tax

As of December 31, 2013 and 2012, income tax expense for the year is as follows:

	<u>2013</u>	<u>2012</u>
Income tax expense		
Local income tax	¢ 2,914,943,783	3,483,559,118
Subtotal	2,914,943,783	3,483,559,118
Decrease in income tax		
Decrease in income tax for the period	26,273,274	26,273,274
Subtotal	26,273,274	26,273,274
Total, net	¢ <u>2,888,670,509</u>	<u>3,457,285,844</u>

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

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

	<u>2013</u>	<u>2012</u>
Expected income tax	¢ 3,307,152,086	4,087,155,058
Plus (less)		
Nondeductible expenses	999,068,398	1,458,479,880
Nontaxable income	(1,226,487,155)	(1,857,718,067)
Statutory allocations	(164,789,546)	(204,357,753)
Total income tax	¢ <u>2,914,943,783</u>	<u>3,483,559,118</u>

Tax returns filed by the Bank for the years ended December 31, 2010, 2011, and 2012 are open to review by Tax Authorities. Income tax returns for the 1999-2005 tax years were audited by Tax Authorities (see note 31).

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2013 and 2012, deferred tax is attributable to unrealized gain on investments in available-for-sale financial instruments and revaluation surplus. A deferred tax asset represents a deductible temporary difference. A deferred tax liability represents a taxable temporary difference.

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

	<u>2013</u>	<u>2012</u>
<u>Deferred tax assets</u>		
Unrealized gains on valuation of investments	¢ 12,893,403	91,751,430
Total	¢ <u>12,893,403</u>	<u>91,751,430</u>
<u>Deferred tax liabilities</u>		
Revaluation of assets	¢ 773,441,125	799,714,399
Total	¢ <u>773,441,125</u>	<u>799,714,399</u>

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

	<u>2013</u>	<u>2012</u>
<u>Deferred tax assets</u>		
Opening balance	¢ 91,751,430	102,891,643
Included in profit or loss:		
Effect of unrealized gains on valuation of investments	(78,858,027)	(11,140,213)
Closing balance	¢ <u>12,893,403</u>	<u>91,751,430</u>
<u>Deferred tax liabilities</u>		
Opening balance	¢ 799,714,399	825,987,673
Included in profit or loss:		
Effect of revaluation of assets	(26,273,274)	(26,273,274)
Closing balance	¢ <u>773,441,125</u>	<u>799,714,399</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(b) Provisions

As of December 31, provisions are as follows:

	<u>2013</u>	<u>2012</u>
Provisions for obligations	¢ 92,917,699	125,676,284
Provisions for pending litigation	2,939,720,468	2,939,720,468
Provisions for redemption of miles	1,163,367,686	1,262,506,552
Other provisions	103,785,000	-
Total	¢ <u>4,299,790,853</u>	<u>4,327,903,304</u>

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

	<u>2013</u>	<u>2012</u>
Provisions for employer obligations		
Opening balance	¢ 125,676,284	65,395,947
Provisioned	150,000,000	203,627,554
Used	(182,758,585)	(143,347,217)
Closing balance	<u>92,917,699</u>	<u>125,676,284</u>
Provisions for pending litigation		
Opening balance	<u>2,939,720,468</u>	<u>2,939,720,468</u>
Closing balance	<u>2,939,720,468</u>	<u>2,939,720,468</u>
Other provisions		
Opening balance	1,262,506,552	1,008,397,617
Provisioned	1,214,691,819	2,824,018,373
Used	(1,210,045,685)	(2,569,909,438)
Closing balance	<u>1,267,152,686</u>	<u>1,262,506,552</u>
Total		
Opening balance	4,327,903,304	4,013,514,032
Provisioned	1,364,691,819	3,027,645,927
Used	(1,392,804,270)	(2,713,256,655)
Total	¢ <u>4,299,790,853</u>	<u>4,327,903,304</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

14. Other liabilities

As of December 31, other liabilities are as follows:

	2013	2012
Deferred finance income	¢ 198,393,522	253,516,302
Other deferred income	62,406,180	-
Allowance for stand-by credit losses	158,653,150	256,242,777
Operations pending settlement	984,472,141	1,079,703,873
Other operations pending application	509,869,896	-
Total	¢ 1,913,794,889	1,589,462,952

15. Equitya) Share capital

As of December 31, 2013, the Bank's share capital is represented by 188,873,384 ordinary registered shares of US\$1.00 par value each, for a total of US\$188,873,384 (equivalent to ¢94,127,341,405.66).

As of December 31, 2012, the Bank's share capital is represented by 30,080,000,000 ordinary registered shares of ¢1.00 par value each, for a total of ¢30,080,000,000, and 70,100,000 preferred shares of US\$1.00 par value each, for total of US\$70,100,000 (equivalent to ¢34,234,222,000).

At a Special Preferred Shareholders Meeting held on October 21, 2010, an agreement was reached to convert the 70,100,000 preferred registered shares in U.S. dollars into an equal number of ordinary registered shares in U.S. dollars.

At an Extraordinary General Shareholders Meeting held on October 22, 2010, an agreement was reached to recognize and accept the conversion of preferred registered shares in U.S. dollars into ordinary registered shares in U.S. dollars. Additionally, shareholders agreed to convert the issue currency of the total ordinary registered shares in colones to U.S. dollars, equivalent to US\$59,335,240.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

At an Extraordinary General Shareholders Meeting held on December 2, 2010, shareholders agreed to increase share capital by US\$39,438,144, as follows:

- Cash contributions from shareholders for a total of US\$19,446,941 (equivalent to ₡9,811,119,923), which include an amount of ₡47,040,129.50 related to the effect of the exchange rate used and recognized in profit or loss for the year.
- Capitalization of prior year retained earnings for a total of ₡9,999,999,564.66 (equivalent to US\$19,991,203).

The amount of US\$20,000,000 (equivalent to ₡10,002,000,000) was received on May 26, 2011 as a cash contribution.

The above changes and increases in share capital were duly authorized by CONASSIF on December 3, 2013.

b) Revaluation surplus

As of December 31, 2013 and 2012, revaluation surplus amounts to ₡4,046,716,566.

c) Legal reserve

Under Article 154 of IRNBS, the Bank must allocate 10% of its net earnings for each period to a legal reserve. As of December 31, 2013 and 2012, the financial statements include an appropriation to the legal reserve in the amount of ₡9,023,130,510 and ₡8,264,543,381, respectively. No further appropriation is required once the legal reserve reaches 20% of share capital.

d) Prior year retained earnings

As of December 31, 2013, prior year retained earnings amount to ₡29,833,053,332 (2012: ₡23,005,769,169).

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

16. Basic earnings per share

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

	<u>2013</u>	<u>2012</u>
<u>Ordinary shares:</u>		
Profit or loss	¢ 7,585,871,292	9,485,371,839
Weighted average number of shares (denominator)	188,873,384	188,873,384
Profit or loss per ordinary share	¢ <u>40.164</u>	<u>50.221</u>

17. Memoranda accounts

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

As of December 31, memoranda accounts are as follows:

	<u>2013</u>	<u>2012</u>
Performance bonds	¢ 28,489,071,749	23,890,253,216
Bid bonds	846,367,053	757,557,481
Other guarantees	10,185,511,814	1,912,088,931
Letters of credit issued but unused	6,147,772,631	2,634,798,357
Letters of credit confirmed but unused	24,750,500	70,289,800
Pre-approved lines of credit	130,157,102,387	118,809,338,542
Credits pending disbursement	5,220,188,271	10,766,049,621
Total	¢ <u>181,070,764,405</u>	<u>158,840,375,948</u>

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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. The assets and liabilities are not recognized in the Bank's financial statements. The Bank does not guaranty these assets and thus is not exposed to any related credit risk.

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

	2013	2012
Cash and due from banks	¢ 5,306,533,042	4,453,193,970
Investments in financial instruments	93,102,190,690	90,648,016,667
Loan portfolio	1,542,287,767	1,498,188,812
Accounts and fees and commissions	4,061,956,730	3,701,567,941
Foreclosed assets	2,163,254,071	2,163,254,071
Property and equipment	137,473,718,374	136,964,296,800
Other assets	32,114,577,843	17,895,293,430
Investments in property	8,381,293,186	8,101,103,039
Total	¢ <u>284,145,811,703</u>	<u>265,424,914,730</u>

19. Sureties

As of December 31, 2013 and 2012, the Bank has issued no sureties.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

20. Other memoranda accounts

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

	<u>2013</u>	<u>2012</u>
Other own debit memoranda accounts		
Guarantees received in the Bank's custody	¢ 31,266,367,892	639,721,860,215
Guarantees received in the custody of third parties	2,225,175,203,400	1,906,830,713,817
Lines of credit granted and pending	244,786,876,293	217,127,489,524
Write-downs	10,333,305,728	8,567,414,496
Interest income on non-accrual loans	1,399,653,737	1,589,822,422
Supporting documentation	944,840,171,114	955,930,391,131
Other memoranda accounts	<u>1,293,965,027,097</u>	<u>1,298,919,399,601</u>
Subtotal	<u>4,751,766,605,261</u>	<u>5,028,687,091,206</u>
Third-party debit memoranda accounts		
Third-party assets and securities in custody	<u>84,295,689,114</u>	<u>85,473,494,919</u>
Subtotal	<u>84,295,689,114</u>	<u>85,473,494,919</u>
Own debit memoranda accounts for custodial activities		
Trading securities	<u>21,830,156,390</u>	<u>18,697,479,200</u>
Subtotal	<u>21,830,156,390</u>	<u>18,697,479,200</u>
Third-party debit memoranda accounts for custodial activities		
Cash and receivables	10,599,591,729	9,563,785,309
Trading securities	<u>62,064,432,147</u>	<u>27,419,504,316</u>
Subtotal	<u>72,664,023,876</u>	<u>36,983,289,625</u>
Total	<u>¢ 4,930,556,474,641</u>	<u>5,169,841,354,950</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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 on loan portfolio

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

	<u>2013</u>	<u>2012</u>
Current loans:		
Accrued interest on checking account overdrafts	¢ 24,470,915	40,347,299
Accrued interest on loans with other funds	52,533,212,026	50,409,673,970
Accrued interest on credit cards	7,405,454,251	6,661,648,431
Accrued interest on factoring	44,944,081	92,537,036
Accrued interest on loans to State-owned banks	388,963,447	479,027,830
Accrued interest on loans to related parties	101,157,087	382,017,324
Subtotal	<u>60,498,201,807</u>	<u>58,065,251,890</u>
Accrued interest on loans with other funds	5,800,567,974	7,243,097,242
Accrued interest on credit cards	35,489,764	49,303,349
Subtotal	<u>5,836,057,738</u>	<u>7,292,400,591</u>
Total	¢ <u><u>66,334,259,545</u></u>	<u><u>65,357,652,481</u></u>

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22. Finance expense(a) Obligations with the public

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

	2013	2012
Demand deposits	¢ 1,993,673,922	1,744,161,214
Term deposits	22,431,894,414	19,971,812,799
	¢ <u>24,425,568,336</u>	<u>21,715,974,013</u>

(b) Obligations with financial entities

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

	2013	2012
Demand obligations	¢ 12,223,431	12,590,469
Term obligations	5,695,405,613	5,396,304,762
	¢ <u>5,707,629,044</u>	<u>5,408,895,231</u>

23. Foreign exchange differences

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

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	<u>2013</u>	<u>2012</u>
Foreign exchange income (expense):		
Obligations with the public	¢ 7,547,109,971	3,594,040,991
Other financial obligations	3,353,006,883	966,029,043
Other accounts payable and provisions	96,826,925	(37,456,381)
Cash and due from banks	(1,656,777,202)	(888,874,878)
Investments in financial instruments	(384,697,288)	(241,635,020)
Current loans	(9,073,957,918)	(3,201,407,286)
Past due loans and loans in legal collections	(1,260,363,065)	(861,922,262)
Accounts and fees and commissions	(189,831,045)	(4,721,287)
Total	¢ <u>(1,568,682,739)</u>	<u>(675,947,080)</u>

24. Service fees and commissions

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

	<u>2013</u>	<u>2012</u>
Income:		
Drafts and transfers	¢ 1,155,138,600	1,180,165,165
Trust management	455,869,557	423,477,612
Collections	18,234,023	18,742,526
Other banking mandates	392,262,945	284,757,997
Credit cards	7,344,055,977	6,567,450,395
Other	2,094,739,111	2,110,116,593
Total	¢ <u>11,460,300,213</u>	<u>10,584,710,288</u>

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SCOTIABANK DE COSTA RICA, S.A.

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25. Personnel expenses

As of December 31, personnel expenses are as follows:

	2013	2012
Salaries and bonuses, permanent staff	¢ 16,113,673,970	14,407,401,731
Compensation for board members and statutory examiners	15,820,808	11,454,194
Overtime	332,509,349	269,090,538
Travel expenses	440,802,653	466,346,839
Statutory Christmas bonus	1,350,628,631	1,226,501,726
Vacation	-	60,000,000
Incentives	14,926,517	1,460,496,680
Other compensation	116,777,598	126,801,477
Employer social security taxes	3,540,462,307	3,034,680,692
Refreshments	224,426,575	239,595,092
Uniforms	6,932,987	58,437,079
Training	227,338,702	174,443,543
Employee insurance	245,885,763	275,585,936
Compulsory retirement savings account	738,463,530	628,634,677
Other	662,467,447	661,970,794
Total	¢ <u>24,031,116,837</u>	<u>23,101,440,998</u>

26. Other administrative expenses

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

	2013	2012
Outsourcing	¢ 5,555,851,896	5,592,432,572
Transportation and communications	1,132,783,278	1,019,116,739
Infrastructure	7,627,411,739	7,230,106,247
Overhead	4,124,735,722	3,554,546,829
Total	¢ <u>18,440,782,635</u>	<u>17,396,202,387</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

27. Risk management

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

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

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

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

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The 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.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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 classification. The Bank's systems and procedures for credit risk management include formal analyses and, if relevant, the reclassification of every loan. Credit analyses include periodic evaluations of the financial position of the Bank's customers. For personal banking and small enterprises, portfolios are monitored constantly and evaluated monthly through the customer's account internal system, whereby loans are reviewed. 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:

	2013	2012
Cash and due from banks	¢ 175,274,004,129	162,492,263,892
Investments in financial instruments	71,488,512,557	60,297,732,599
Loan portfolio	890,713,859,346	858,992,129,488
Accounts and fees and commissions	2,504,869,115	1,442,498,259
Guarantees granted	39,520,950,616	26,559,899,628
Letters of credit issued but unused	6,147,772,631	2,634,798,357
Confirmed letters of credit	24,750,500	70,289,800
Total	¢ <u>1,185,674,718,894</u>	<u>1,112,489,612,023</u>

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SCOTIABANK DE COSTA RICA, S.A.

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

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

The following table shows the Bank's credit risk and impairment on loans:

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SCOTIABANK DE COSTA RICA, S.A.

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Individually assessed loans with allowance

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

Past due loans without allowance

Past due loans without allowance correspond to loan operations for which contractual payments are one day or more past due but have a guarantee greater than or equal to the balance owed to the Bank. Accordingly, no allowance is generated for such loans.

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 loan is restructured, it remains in this category regardless of improvement in the borrower's position after restructuring. Following are the different types of restructured loans:

- a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest has been postponed to a future date beyond the date stipulated under current contractual conditions.
- b. Modified loan: Loan operation in which at least one of the current contractual payment conditions has been modified, excluding extensions, additional payments not agreed in the payment schedule, additional payments with the purpose of reducing the amount of installments, or changes in the currency while respecting the agreed maturity date.
- c. Refinanced loan: Loan operation in which at least one payment of principal or interest is made fully or partially with another loan extended to the borrower or to an individual from its economic interest group by the same financial intermediary or any other entity of the same financial group or conglomerate. In the event of full settlement of the loan operation, the new loan operation is considered to be refinanced. In the event of partial settlement, both the new loan operation and the existing loan operation are considered to be refinanced.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

	Customers		Banks		Stand-by	
	2013	2012	2013	2012	2013	2012
<i>Individually assessed loans with allowance</i>						
A 1	¢ 390,953,782,967	419,009,512,596	36,998,283,232	36,417,776,795	43,607,075,336	31,126,274,643
A 2	3,972,530,883	5,405,594,219	-	-	40,546,517	-
B 1	12,606,131,234	5,851,677,691	-	-	45,560,682	2,005,412,772
B 2	664,735,083	443,404,516	-	-	-	-
C 1	1,071,006,949	2,335,872,435	-	-	44,972,457	16,560,157
C 2	144,630,328	696,848,251	-	-	-	-
D	1,620,729,728	608,084,186	-	-	-	-
E	25,444,458,231	26,314,128,207	-	-	20,242,607	-
Total	¢ 436,478,005,403	460,665,122,101	36,998,283,232	36,417,776,795	43,758,397,599	33,148,247,572
Allowance for loan losses	(9,825,412,520)	(10,809,403,816)	(184,991,416)	(182,088,884)	(80,780,084)	(61,350,319)
Carrying amount	¢ 426,652,592,883	449,855,718,285	36,813,291,816	36,235,687,911	43,677,617,515	33,086,897,253
<i>Past due loans without allowance</i>						
A 1	10,227,145,331	9,346,012,704	-	-	1,248,480	-
A 2	1,386,131,698	1,532,220,836	-	-	-	-
B 1	1,695,410,056	1,887,235,472	-	-	-	-
B 2	816,006,249	514,717,954	-	-	-	-
C 1	755,951,141	2,075,689,042	-	-	-	-
C 2	369,471,777	65,435,853	-	-	-	-
D	216,675,443	562,944,467	-	-	-	-
E	3,295,610,692	3,326,785,365	-	-	198,004	200,828
Carrying amount	¢ 18,762,402,387	19,311,041,693	-	-	1,446,484	200,828
<i>Current loans without allowance</i>						
A 1	372,024,263,772	314,172,392,005	-	-	124,811,552,138	115,859,678,645
A 2	2,083,517,273	3,030,040,241	-	-	732,732,702	808,144,288
B 1	18,688,911,407	17,718,061,687	-	-	5,190,700,550	1,365,895,094
B 2	7,353,329	-	-	-	44,153,865	63,788,964
C 1	12,481,157,636	16,644,404,975	-	-	3,567,823,686	4,605,921,548
C 2	-	-	-	-	42,712,144	48,541,978
D	1,199,775,229	672,837,247	-	-	626,272,689	532,758,224
E	2,215,874,123	2,234,302,261	-	-	2,294,972,549	2,407,198,807
Carrying amount	¢ 408,700,852,769	354,472,038,416	-	-	137,310,920,323	125,691,927,548
Excess allowance over minimum allowance	(215,280,509)	(882,356,817)	-	-	(77,873,066)	(194,892,458)
Carrying amount, net	¢ 853,900,567,530	822,756,441,577	36,813,291,816	36,235,687,911	180,912,111,256	158,584,133,171

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As of December 31, 2013, restructured loans amount to ¢2,665,043,689 (2012: ¢9,957,060,986).

Allowance for loan losses*Borrower classification*

The Bank must classify its borrowers into the following two groups:

- a. Group 1: Borrowers with total outstanding balances that exceed the SUGEF limit (2013 and 2012: ¢65,000,000).
- b. Group 2: Borrowers with total outstanding balances that are less than or equal to the SUGEF limit (2013 and 2012: ¢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 classification*Analysis of creditworthiness*

The Bank must define effective mechanisms to determine the creditworthiness of borrowers in Group 1. Based on whether the borrowers are individuals or legal entities, those mechanisms should enable the Bank to evaluate the following:

- 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.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

- b. *Experience in the line of business and quality of management:* Analysis of management's ability to lead the business with appropriate controls and adequate support from the owners.
- c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.
- d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.
- e. *Other factors:* Analysis of other factors that affect the borrower's creditworthiness. In the case of legal entities, considerations include, but are not limited to, environmental issues, technological aspects, development and operating licenses and permits, representation of products or foreign offices, relationships with significant customers and suppliers, sales agreements, legal risks, and country risk (the latter for foreign-domiciled borrowers). In the case of individuals, the following borrower characteristics may be taken into consideration: marital status, age, level of education, profession, gender, etc.

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

The Bank must classify the borrower's creditworthiness into 4 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 assessed jointly. Joint classification of creditworthiness may only be used to determine the allowance percentage for operations in which the parties are borrower and co-borrower.

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 must to classify historical payment behavior into 3 levels: level 1 - good historical payment behavior, level 2 - acceptable historical payment behavior, and level 3 - poor historical payment behavior.

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SCOTIABANK DE COSTA RICA, S.A.

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Borrower ratings

Borrowers in Group 1 are to be rated by the Bank based on arrears, historical payment behavior, and creditworthiness. Borrowers in Group 2 are to be rated based on arrears and historical payment behavior, as follows:

<u>Risk rating</u>	<u>Allowance percentage</u>	<u>Arrears</u>	<u>Historical payment behavior</u>	<u>Creditworthiness</u>
A1	0.5%	30 days or less	Level 1	Level 1
A2	2%	30 days or less	Level 2	Level 1
B1	5%	60 days or less	Level 1	Level 1 or level 2
B2	10%	60 days or less	Level 2	Level 1 or level 2
C1	25%	90 days or less	Level 1	Level 1 or level 2 or level 3
C2	50%	90 days or less	Level 1 or level 2	Level 1 or level 2 or level 3
D	75%	120 days or less	Level 1 or level 2	Level 1 or level 2 or level 3 or level 4

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

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

Direct classification in risk rating E

The Bank must classify borrowers in risk rating E who do not meet the conditions to be classified in any of the risk ratings defined above, are in bankruptcy, a meeting of creditors, a court protected reorganization procedure, or takeover, or if the Bank considers classification in this risk category to be appropriate.

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Minimum allowance

The minimum allowance is equivalent to the total outstanding balance of each credit 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 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.

Allowance percentages based on borrower risk rating are as follows:

Risk rating	Allowance percentage
A1	0.5%
A2	2%
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 the individual allowances for each loan operation constitutes the minimum allowance.

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In compliance with the provisions of SUGEF Directive 1-05, as of December 31, 2013, the Bank must maintain a minimum allowance of ¢10,090,878,277 (2012: ¢11,052,860,591). SUGEF External Circular Letter 021-2008 dated May 30, 2008, indicates that the expense for the allowance for loan losses corresponds to the amount necessary to reach the required minimum allowance. Furthermore, there must be a duly documented technical justification for any excess above the minimum required allowance, which is to be sent to SUGEF with the authorization request. The excess may not surpass 15% of the minimum required allowance for the loan portfolio. This notwithstanding, if any additional allowances are required above the 15%, they must be taken from net earnings for the period pursuant to article 10 of IRNBS.

Credit equivalent

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

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

Allowances for other assets

Allowances must be established for the following assets:

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

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

- b. Foreclosed assets held for more than two years for 100% of their value.

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Write-off policy:

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

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

2013				
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1	388,851,534,120	387,873,914,504	36,998,283,232	36,813,291,816
A2	3,949,001,259	3,931,310,158	-	-
B1	12,578,808,276	12,105,225,018	-	-
B2	663,217,479	636,199,354	-	-
C1	1,064,239,199	907,395,749	-	-
C2	144,196,681	79,694,787	-	-
D	1,613,691,916	1,057,816,192	-	-
E	25,238,065,215	17,685,785,862	-	-
	<u>434,102,754,145</u>	<u>424,277,341,624</u>	<u>36,998,283,232</u>	<u>36,813,291,816</u>
2012				
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1	416,979,889,958	415,939,869,639	36,417,776,795	36,235,687,911
A2	5,372,501,185	5,345,541,622	-	-
B1	5,835,523,158	5,626,122,116	-	-
B2	439,979,168	422,705,370	-	-
C1	2,325,479,025	2,015,177,748	-	-
C2	691,994,260	559,003,424	-	-
D	603,815,863	358,429,088	-	-
E	25,716,654,621	16,889,584,412	-	-
	<u>457,965,837,238</u>	<u>447,156,433,419</u>	<u>36,417,776,795</u>	<u>36,235,687,911</u>

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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 fair value at the time the loan is granted. Those values are generally not updated unless the loan is individually impaired.

Personal or corporate: Sureties are also accepted from individuals or legal entities. The guarantor's ability to honor the debt obligations on the borrower's behalf as well as the integrity of the guarantor's credit history are assessed.

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

Estimated fair values of collateral and other investments held as financial investments are as follows:

	<u>2013</u>	<u>2012</u>
Individually assessed loans with allowance (including the balance for loans in legal collections):		
Real property	¢ 213,260,019,487	269,560,746,978
Personal property	163,461,348,996	158,941,539,698
Financial instruments	65,661,336	-
Other (trusts)	31,094,426,853	53,029,747,744
Subtotal	<u>407,881,456,672</u>	<u>481,532,034,420</u>
Past due loans without allowance:		
Real property	31,033,487,201	48,431,422,738
Personal property	3,319,932,367	2,552,744,963
Financial instruments	-	23,875,000
Other (trusts)	4,307,466,649	3,790,964,178
Subtotal	<u>38,660,886,217</u>	<u>54,799,006,879</u>
Current loans without allowance:		
Real property	745,096,694,291	569,579,370,723
Personal property	119,214,148,617	71,261,047,363
Financial instruments	118,024,176	26,066,649,492
Other (trusts)	252,945,221,762	286,151,647,226
Subtotal	<u>1,117,374,088,846</u>	<u>953,058,714,804</u>
Total	<u>¢ 1,563,916,431,735</u>	<u>1,489,389,756,103</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Loan portfolio by type of guarantee

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

	2013	2012
Investment certificates	¢ 29,744,671,654	28,817,500,476
Assignment of trust agreements	297,912,522	3,113,611,390
Fiduciary	162,486,326,382	147,302,346,802
Mortgage	542,184,144,282	539,905,199,179
Chattel mortgage	120,556,659,423	107,212,251,028
State banking	36,998,283,232	36,376,087,634
Total direct loans	<u>892,267,997,495</u>	<u>862,726,996,509</u>
Accrued interest receivable	8,671,546,296	8,138,982,496
Allowance for loan losses	(10,225,684,445)	(11,873,849,517)
Total	<u>¢ 890,713,859,346</u>	<u>858,992,129,488</u>

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Loan portfolio by sector

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

	2013	2012
Agriculture, livestock, hunting, and related activities	¢ 1,279,058,537	1,288,263,642
Fishing and aquaculture	7,425,150	-
Manufacturing industry	6,098,827,997	11,238,547,634
Electricity, telecommunications, gas, and water	5,742,692,667	7,408,816,319
Construction, purchase, and repair of property	329,244,700,446	347,333,916,151
Trade	148,928,617,876	138,529,147,396
Hospitality	702,697,599	663,779,643
Transportation	1,556,425,172	1,986,029,183
Stock market	42,491,343,446	41,827,893,222
Real estate, business, and leasing activities	8,115,027,013	16,306,341,394
Education	19,992,172	25,343,706
Services	162,173,473,945	123,987,382,909
Consumer	185,907,715,475	172,131,535,310
Total direct loans	<u>892,267,997,495</u>	<u>862,726,996,509</u>
Accrued interest receivable	8,671,546,296	8,138,982,496
Allowance for loan losses	(10,225,684,445)	(11,873,849,517)
Total	<u>¢ 890,713,859,346</u>	<u>858,992,129,488</u>

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)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Loan portfolio by geographic area

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

	2013	2012
Costa Rica	¢ 870,071,441,635	837,056,251,906
Rest of Central America	15,019,132,349	17,732,473,992
Rest of North and South America	2,030,534,356	2,190,032,546
Caribbean	281,007,720	304,054,522
United States of America	3,712,808,755	4,013,473,949
Europe	913,804,498	1,160,337,122
Africa	-	45,833,950
Asia	239,268,182	224,538,522
	<u>¢ 892,267,997,495</u>	<u>862,726,996,509</u>

Loan portfolio by arrears

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

	2013	2012
Current	¢ 841,323,549,507	806,262,859,291
1 to 30 days	32,779,249,106	36,321,015,670
31 to 60 days	5,892,467,631	4,553,872,935
61 to 90 days	906,736,569	2,951,454,274
91 to 120 days	409,089,836	424,759,080
121 to 180 days	255,125,403	360,062,685
More than 180 days	78,651,998	1,384,136,268
In legal collections	10,623,127,445	10,468,836,306
Total direct loans	<u>892,267,997,495</u>	<u>862,726,996,509</u>
Accrued interest receivable	8,671,546,296	8,138,982,496
Allowance for loan losses	(10,225,684,445)	(11,873,849,517)
Total	<u>¢ 890,713,859,346</u>	<u>858,992,129,488</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Concentration of the portfolio in individual borrowers or economic interest groups

	2013		2012	
	No. of customers	Amount	No. of customers	Amount
Less than 5% of capital and reserves	38,057	787,367,400,542	36,998	754,018,196,289
Between 5% and 10% of capital and reserves	8	55,859,375,861	6	38,681,326,492
Between 10% and 15% of capital and reserves	1	12,042,937,869	3	33,651,386,094
Between 15% and 20% of capital and reserves	2	36,998,283,223	-	-
Greater than 20% of capital and reserves	-	-	1	36,376,087,634
Total	38,068	892,267,997,495	37,008	862,726,996,509

As of December 31, 2013 and 2012, exposures greater than 20% of capital and reserves correspond to a loan granted to State-owned banks in compliance with article 59 of IRNBS.

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. Loans to the Bank's most important customers or economic interest groups, whose loans individually represent 5% or more of share capital and capital reserves, amount to ¢104,900,596,953 (2012: ¢108,708,800,220).

Amount and number of loans in non-accrual status

	2013	2012
Loans in non-accrual status	¢ 11,365,994,682	12,637,794,339
Number of loans in non-accrual status	682	765

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	2013	2012
Loans in legal collections	¢ 10,623,127,445	10,468,836,306
Number of loans in legal collections	357	497
Percentage of total portfolio	1.19%	1.21%

Investments by rating

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

	2013	2012
AAA	¢ 1,595,075,542	51,128,000
AA	14,513,984,046	7,602,550,214
A	5,940,120,000	-
BBB	531,279,382	1,097,374,396
BB	69,355,727,966	48,143,581,952
B	-	18,482,687,343
Unrated	-	1,503,070,000
Total	91,936,186,936	76,880,391,905
Accrued interest receivable	749,777,654	1,101,273,753
Highly-liquid short-term investments	(21,197,452,033)	(17,683,933,059)
Total	¢ 71,488,512,557	60,297,732,599

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Investments by geographic area

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

	2013	2012
Costa Rica	¢ 68,264,897,677	58,099,084,451
Rest of North and South America	531,279,382	1,097,374,395
United States of America	1,942,557,844	-
Total investments	<u>70,738,734,903</u>	<u>59,196,458,846</u>
Accrued interest receivable	749,777,654	1,101,273,753
Total	<u>¢ 71,488,512,557</u>	<u>60,297,732,599</u>

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 margin between assets and liabilities. The Bank also manages the sensitivity of the gap between repricing periods for assets and liabilities to expected changes in rates through weekly gap reports that are analyzed by ALCO.

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Interest rate gap measurement

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

- A simple gap is the difference between the amount of assets, liabilities, and off-balance sheet instruments with interest rates that are expected to reprice within a specific period.
- A cumulative gap is the net amount of all simple gaps up to, and including, the end date of the reporting period. Interest rate limits are applied to control structural interest rate risk at 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.

The annual income limit is designed to protect short-term income. As of December 31, 2013 and 2012, that limit was calculated based on the assumption that all interest rates on assets and liabilities that reprice within 12 months of the calculation date will increase or decrease by 1% for operations in both foreign and local currency. In the event that variable interest rates change as indicated above, the Bank's asset and liability portfolios would increase or decrease by ¢2,776,232,138 in 2013 (2012: increase or decrease by ¢3,705,115,258).

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

	Effect on fair value			
	2013		2012	
Investments	¢ (4,346,462,424)	6,125,468,572	(3,261,591,269)	4,302,786,076
Loan portfolio	¢ (10,986,397,572)	11,317,312,808	(12,043,830,267)	12,445,824,444
Term deposits	¢ (3,525,955,324)	3,606,463,919	(3,163,562,093)	3,233,975,592
Obligations with entities	¢ (16,069,881)	16,118,890	(28,113,969)	28,242,477

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2013, the interest rate gap report for the Bank's assets and liabilities is as follows (in thousands of colones):

	Average interest rate	Days						Total
		1-30	31-90	91-180	181-360	361-720	More than 720	
<u>Local currency</u>								
Assets	8.82%	69,917,495	45,841,821	5,213,762	19,144,137	18,118,658	9,607,596	167,843,469
Liabilities	5.14%	25,254,578	22,637,787	29,099,237	28,994,562	8,545,339	13,192,474	127,723,977
Gap between assets and liabilities		44,662,917	23,204,034	(23,885,475)	(9,850,425)	9,573,319	(3,584,878)	40,119,492
<u>Foreign currency</u>								
Assets	5.48%	184,958,247	362,340,279	43,995,280	61,560,585	95,579,612	95,035,777	843,469,780
Liabilities	2.62%	97,317,074	196,679,812	123,739,161	83,885,396	47,659,449	119,942,935	669,223,827
Gap between assets and liabilities		¢ 87,641,173	165,660,467	(79,743,881)	(22,324,811)	47,920,163	(24,907,158)	174,245,953

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2012, the interest rate gap report for the Bank's assets and liabilities is as follows (in thousands of colones):

	Average interest rate	Days						Total
		1-30	31-90	91-180	181-360	361-720	More than 720	
<u>Local currency</u>								
Assets	11.10%	¢ 69,769,656	55,284,191	5,879,561	11,659,843	8,425,981	4,738,191	155,757,423
Liabilities	6.22%	27,241,225	18,983,433	27,191,978	21,051,204	6,225,357	8,582,752	109,275,949
Gap between assets and liabilities		¢ 42,528,431	36,300,758	(21,312,417)	(9,391,361)	2,200,624	(3,844,561)	46,481,474
<u>Foreign currency</u>								
Assets	5.53%	¢ 165,381,425	282,903,460	64,200,472	50,786,070	105,089,398	140,705,550	809,066,375
Liabilities	2.44%	94,290,794	186,090,422	111,219,196	91,943,253	33,159,431	128,417,496	645,120,592
Gap between assets and liabilities		¢ 71,090,631	96,813,038	(47,018,724)	(41,157,183)	71,929,967	12,288,054	163,945,783

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

iii. Liquidity and financing risk

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2013, 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								Total
	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	
Cash and due from banks	¢ 33,222,327	-	-	-	-	-	-	-	33,222,327
Minimum cash reserve in BCCR	37,859,603	13,431,723	11,272,297	10,115,151	20,027,028	16,158,331	11,990,092	-	120,854,225
Investments	6,629,245	26,559,787	1,838,556	6,098,968	3,055,064	13,013,115	35,491,229	-	92,685,964
Loan portfolio	46,472,450	31,001,793	38,050,314	32,736,801	57,329,967	40,516,157	636,687,810	18,144,251	900,939,543
Total recovery of assets	124,183,625	70,993,303	51,161,167	48,950,920	80,412,059	69,687,603	684,169,131	18,144,251	1,147,702,059
Obligations with the public	242,594,873	81,290,262	68,594,720	62,013,560	124,340,084	101,526,485	75,673,128	-	756,033,112
Obligations with financial entities	532,961	16,373,392	9,049,866	17,108,070	30,752,609	23,977,491	152,378,262	-	250,172,651
Charges payable	-	4,242,007	-	-	-	-	-	-	4,242,007
Total maturity of liabilities	243,127,834	101,905,661	77,644,586	79,121,630	155,092,693	125,503,976	228,051,390	-	1,010,447,770
Gap	¢ (118,944,209)	(30,912,357)	(26,483,418)	(30,170,710)	(74,680,634)	(55,816,373)	456,117,741	18,144,251	137,254,289

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2012, 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								Total
	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	
Cash and due from banks	26,583,222	-	-	-	-	-	-	-	26,583,222
Minimum cash reserve in BCCR	37,176,174	14,698,969	9,344,809	12,720,903	16,952,280	16,814,879	10,517,094	-	118,225,108
Investments	6,569,509	23,448,275	305,799	3,579,676	7,144,570	16,323,450	20,610,387	-	77,981,666
Loan portfolio	45,371,264	22,600,034	29,278,540	38,890,599	53,698,002	40,138,316	620,745,391	20,143,833	870,865,979
Total recovery of assets	115,700,169	60,747,278	38,929,149	55,191,178	77,794,852	73,276,645	651,872,871	20,143,833	1,093,655,975
Obligations with the public	224,268,927	88,733,491	55,208,706	74,719,435	101,697,429	99,869,643	62,625,005	-	707,122,635
Obligations with financial entities	1,643,010	17,110,292	14,005,958	26,757,145	39,617,330	22,926,927	119,821,982	-	241,882,644
Charges payable	-	4,292,746	-	-	-	-	-	-	4,292,746
Total maturity of liabilities	225,911,937	110,136,529	69,214,663	101,476,580	141,314,758	122,796,570	182,446,987	-	953,298,024
Gap	(110,211,768)	(49,389,250)	(30,285,515)	(46,285,402)	(63,519,907)	(49,519,925)	469,425,884	20,143,833	140,357,951

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

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

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

The Bank's limit structure is as follows:

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Residual contractual maturities of financial liabilities

As of December 31, 2013, nominal cash flows of financial liabilities are as follows (in thousands of colones):

Obligations:	Balance	Nominal cash flows	Year					Thereafter
			1	2	3	4	5	
Demand obligations with the public	242,594,873	242,594,873	242,594,873	-	-	-	-	-
Term obligations with the public	513,438,238	542,581,725	460,086,169	39,621,980	19,087,000	-	22,352,122	1,434,454
Obligations with entities	252,026,169	252,987,665	95,470,716	45,825,211	84,119,883	19,233,801	8,338,054	-
¢	1,008,059,280	1,038,164,263	798,151,758	85,447,191	103,206,883	19,233,801	30,690,176	1,434,454

As of December 31, 2012, nominal cash flows of financial liabilities are as follows (in thousands of colones):

Obligations:	Balance	Nominal cash flows	Year					Thereafter
			1	2	3	4	5	
Demand obligations with the public	224,268,927	224,268,957	224,268,927	-	-	-	-	-
Term obligations with the public	482,853,708	503,590,412	435,156,818	36,777,984	11,207,720	-	19,200,442	1,247,448
Obligations with entities	243,728,449	249,132,479	124,656,549	34,615,986	22,055,485	55,983,948	10,939,566	880,945
¢	950,851,084	976,991,848	784,082,294	71,393,970	33,263,205	55,983,948	30,140,008	2,128,393

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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, 2013 and 2012, the Bank has monetary assets and liabilities that are denominated in currencies other than the Costa Rican colon.

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(a) Monetary position in foreign currency

As of December 31, 2013, assets and liabilities denominated in foreign currency are as follows:

	2013			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
<u>Assets</u>				
Cash and due from banks	221,716,172	1,564,412	991,788	20
Investments in financial instruments	94,809,611	-	-	-
Loan portfolio	1,566,739,143	-	200,439	-
Accounts and fees and commissions receivable	2,023,429	241,073	-	-
Investments in other companies	1,125	-	-	-
Other assets	3,402,033	-	-	-
Total assets	1,888,691,513	1,805,485	1,192,227	20
<u>Liabilities</u>				
Obligations with the public	1,145,924,224	738,974	1,075,067	-
Obligations with BCCR	494,990,363	-	-	-
Other accounts payable and provisions	3,232,126	1,321,468	-	-
Other liabilities	2,526,760	-	-	-
Total liabilities	1,646,673,473	2,060,442	1,075,067	-
Excess of assets over liabilities	242,018,040	(254,957)	117,160	20

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2012, assets and liabilities denominated in foreign currency are as follows:

	2012			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
<u>Assets</u>				
Cash and due from banks	207,383,890	1,517,507	605,862	15
Investments in financial instruments	68,655,572	-	-	-
Loan portfolio	1,495,210,763	-	160,345	-
Accounts and fees and commissions receivable	1,214,202	482,966	-	-
Investments in other companies	1,109	-	-	-
Other assets	3,755,814	-	-	-
Total assets	1,776,221,350	2,000,473	766,207	15
<u>Liabilities</u>				
Obligations with the public	1,067,708,381	936,402	680,884	-
Obligations with entities	480,815,730	-	-	-
Other accounts payable and provisions	7,521,210	1,010,450	-	-
Other liabilities	2,786,929	-	30,086	-
Total liabilities	1,558,832,250	1,946,852	710,970	-
Excess of assets over liabilities	217,389,100	53,621	55,237	15

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

(b) Ordinary and preferred shares in foreign currency

As of December 31, 2013, the Bank's equity included ordinary shares for a total of US\$188,873,384 (equivalent to ₡94,127,341,405.66).

As of December 31, 2012, the Bank's equity included preferred shares for a total of US\$70,100,000 (equivalent to ₡34,234,222,000).

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

As of December 31, 2013, the asset and liability term matching report (expressed in thousands of U.S. dollars) for items denominated in foreign currency sent to SUGEF and prepared in conformity with the Financial Data Class section of the SUGEF's SICVECA Information Manual is as follows:

		Days							Total	
		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
Cash and due from banks	US\$	31,393	-	-	-	-	-	-	-	31,393
Minimum cash reserve in BCCR		56,392	21,058	19,775	17,845	33,235	25,538	19,311	-	193,154
Investments		8,561	22,854	1,682	5,945	3,020	18,460	34,287	-	94,810
Loan portfolio		69,270	42,144	57,439	42,675	94,429	69,547	1,176,154	32,077	1,583,735
Total recovery of assets		165,617	86,056	78,896	66,466	130,684	113,546	1,229,751	32,077	1,903,091
Obligations with the public		334,646	124,061	117,031	105,403	197,325	150,965	114,654	-	1,144,086
Obligations with financial entities		171	25,952	16,504	34,289	59,621	47,197	307,737	-	491,471
Charges payable		-	5,944	-	-	-	-	-	-	5,944
Total maturity of liabilities		334,818	155,957	133,535	139,692	256,946	198,162	422,391	-	1,641,501
Gap	US\$	(169,201)	(69,901)	(54,639)	(73,226)	(126,262)	(84,616)	807,360	32,077	261,590

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2012, the asset and liability term matching report (expressed in thousands of U.S. dollars) for items denominated in foreign currency sent to SUGEF and prepared in conformity with the Financial Data Class section of the SICVECA Information Manual is as follows:

		Days							Total
		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	
Cash and due from banks	US\$	24.759	-	-	-	-	-	-	24.759
Minimum cash reserve in BCCR		52.885	21.891	15.981	22.794	26.337	27.764	17.299	184.951
Investments		6.594	21.037	561	130	11.983	11.985	16.366	68.656
Loan portfolio		62.797	25.514	36.915	44.091	93.223	69.156	1.148.119	1.514.390
Total recovery of assets		147.035	68.442	53.457	67.015	131.543	108.905	1.181.784	1.792.756
Obligations with the public		304.595	126.174	92.114	131.382	151.802	160.029	99.707	1.065.803
Obligations with BCCR		-	-	-	-	-	-	-	-
Obligations with financial entities		225	33.980	27.697	53.294	78.561	45.117	238.320	477.194
Charges payable		-	5.755	-	-	-	-	-	5.755
Total maturity of liabilities		304.820	165.909	119.811	184.676	230.363	205.146	338.027	1.548.752
Gap	US\$	(157.785)	(97.467)	(66.354)	(117.661)	(98.820)	(96.241)	843.757	244.004

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

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Sensitivity analysis

As of December 31, 2013 and 2012, the sensitivity analysis for the net position in foreign currency (total assets in foreign currency - total liabilities in foreign currency) is based on the buy reference rate in for the U.S. dollar because the position in U.S. dollars represents 99.5% of the total net position in foreign currency. Also, the U.S. dollar is the vehicle currency through which other currencies are traded.

For 2013 and 2012, the analysis determined a maximum expected variation of ¢4.73 to US\$1.00 and a maximum expected increase of ¢366.61 to US\$1.00 (2012: ¢259.98). The maximum variation is determined by analyzing daily variations with a 514-day observation window. The maximum increase is represented by the difference between the buy reference rate for the U.S. dollar and the exchange rate band ceiling in MONEX. Considering the Bank's foreign currency position in U.S. dollars, as of December 31, 2013, an increase or decrease in the exchange rate of the colon with respect to the U.S. dollar would give rise to maximum foreign exchange gains or losses of ¢88,705,322,747 and ¢1,144,381,891, respectively (2012: ¢56,516,818,218 and ¢1,028,250,443, respectively), as follows:

	<u>2013</u>	<u>2012</u>
Effect on profit or loss		
Increase in exchange rate		
Assets	¢ 693,691,716,578	461,782,026,573
Liabilities	(604,986,393,831)	(405,265,208,355)
Net	<u>¢ 88,705,322,747</u>	<u>56,516,818,218</u>
Decrease in exchange rate		
Assets	¢ 8,949,274,000	8,401,526,985
Liabilities	(7,804,892,109)	(7,373,276,542)
Net	<u>¢ 1,144,381,891</u>	<u>1,028,250,443</u>

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

vi. Operational risk

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

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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, 2013, Costa Rican banking legislation requires private banks to maintain minimum paid-in capital greater than or equal to ¢11,117 million (2012: ¢10,134 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, 2013 and 2012, 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-up 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 financial instruments, 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 entity of the same financial group or conglomerate are to be deducted from the sum of Tier I and Tier II capital.

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

The 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 strategy.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	2013	2012
Tier I capital:		
Paid-up capital	¢ 94,127,341,406	64,314,222,000
Legal reserve	9,023,130,510	8,264,543,381
	<u>103,150,471,916</u>	<u>72,578,765,381</u>
Tier II capital:		
Revaluation adjustment	3,035,037,425	3,035,037,425
Adjustments for fair value changes	(30,084,604)	(214,086,671)
Non-capitalized contributions	14,957,901	29,781,037,177
Prior period retained earnings	23,005,769,169	14,466,307,186
Profit or loss for the period, net of appropriation to legal reserve	6,827,284,163	8,539,461,983
	<u>32,852,964,054</u>	<u>55,607,757,100</u>
Equity adjustments:		
Investments in other companies	(557,006)	(557,006)
	<u>(557,006)</u>	<u>(557,006)</u>
Total base capital	¢ <u>136,002,878,964</u>	<u>128,185,965,475</u>

As of December 31, 2013 and 2012, the capital adequacy ratio has been kept above the statutory ratio of 10%, maintaining a normal risk rating.

viii. Asset laundering risk

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

(Continued)

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Notes to Financial Statements

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

	2013	
	Carrying amount	Fair value
Cash and due from banks	¢ 175,274,004,129	175,274,004,129
Investments:		
Trading	¢ 5,879,467,564	5,879,467,564
Available for sale	¢ 64,859,267,339	64,859,267,339
Loan portfolio	¢ 882,042,313,050	838,727,902,775
Demand deposits	¢ 242,594,872,627	242,594,872,627
Term deposits	¢ 513,438,237,911	510,153,433,184
Financial obligations	¢ 250,958,398,772	253,135,173,706

	2012	
	Carrying amount	Fair value
Cash and due from banks	¢ 162,492,263,892	162,492,263,892
Investments:		
Trading	¢ 5,468,234,684	5,468,234,684
Available for sale	¢ 53,728,224,162	53,728,224,162
Loan portfolio	¢ 850,853,146,992	817,837,639,625
Demand deposits	¢ 224,268,926,605	224,268,926,605
Term deposits	¢ 482,853,708,229	479,082,072,043
Financial obligations	¢ 242,692,259,504	249,132,479,076

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

- (a) The carrying amounts of cash and due from banks, accrued interest receivable, accounts receivable, demand deposits and customer savings deposits, accrued interest payable, and other liabilities approximate fair value because of the short maturity of these instruments.
- (b) Fair values of investments are determined based on the reference price of the share or bond published on stock exchanges and in electronic stock information systems.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

29. Concentration of assets and liabilities by geographic region

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

	2013	2012
<u>Assets:</u>		
Costa Rica	¢ 1,121,907,293,656	1,067,687,702,775
Rest of Central America	15,335,960,805	17,922,999,497
Rest of North and South America	3,624,888,405	4,415,909,689
Caribbean	294,976,672	326,479,246
United States of America	21,394,282,011	10,575,328,074
Europe	1,339,772,643	1,396,379,462
Africa	-	46,091,773
Asia	239,268,182	225,520,350
Total assets	¢ <u>1,164,136,442,374</u>	<u>1,102,596,410,866</u>
<u>Liabilities:</u>		
Costa Rica	¢ 752,704,716,974	700,784,407,044
Rest of Central America	28,295,864,532	23,644,354,279
Rest of North and South America	47,053,945,857	47,332,136,448
Caribbean	117,093,746,832	158,248,275,304
United States of America	72,315,023,737	28,918,232,079
Europe	9,508,266,135	13,760,238,333
Africa	1,860,403	1,392,997
Asia	147,902,793	709,172,760
Total liabilities	¢ <u>1,027,121,327,263</u>	<u>973,398,209,244</u>

(Continued)

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Notes to Financial Statements

30. Agreements

As of December 31, 2013, the Bank's lease agreements include the following:

- a) Operating leases in shopping centers and other commercial premises for branch and ATM locations, with the following characteristics:
- Most leases are denominated in U.S. dollars.
 - Leases are operating leases with security deposits and any improvements become the property of the lessor on expiration or termination of the agreement.
 - Leases contain automatic renewal clauses.
 - Leases may be terminated by either party provided that advance notice is given in accordance with the terms established in the respective agreement.
- b) Warehouse leases, mainly to hold assets received in lieu of payment or assets in foreclosure.

For leases in effect as of December 31, 2013, projected lease payments for the upcoming years are as follows:

2014	¢	1,107,261,633
2015		961,196,627
2016		833,860,279
2017		663,715,734
2018		513,555,119
Thereafter		884,499,268
	¢	<u>4,964,088,660</u>

31. Contingencies

(a) Tax

- a.1 In the first half of 2008, the Large Taxpayer Administration audited the income tax returns filed and income tax payments made by the Bank for the tax years running from 2000 through 2005. Initially, the audit covered several aspects that were later dismissed. However, a difference in the proportion of deductible expenses resulted in a notice of deficiency because of unintentional arithmetic errors that gave rise to differences between the calculation and the proportionality established by the Tax Court.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

The Tax Court handed down a decision on the administrative proceedings related to the income tax adjustment, thereby exhausting administrative recourse since 2010. Accordingly, the Bank paid a total of ¢642,502,531, including principal (¢331,155,211) and interest (¢311,347,320), for the income tax adjustments corresponding to the aforementioned periods. Notwithstanding, the interest payment was made under protest and the amount corresponding to the fine was not paid since both the fine and the interest were challenged with the Tax Administration. However, the fine was subsequently paid under protest as well. In October 2013, the Administrative Litigation Court ordered to discuss the case again in the administrative venue, and therefore, resolutions have not yet been handed down.

In respect of the payment of interest and fines, an administrative litigation claim was filed with the appropriate courts arguing that the treatment given to the Bank was discriminatory in respect of the other entities of the national banking system. Additionally, the Bank alleged that the penalty proceedings could not continue, as intended by the Tax Administration, violating the due process, because the Tax Court established a new basis of assessment of tax and the Tax Administration had to initiate new penalty proceedings. In this regard, a ruling was handed down in the first instance, which was appealed before the First Chamber of the Supreme Court.

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

Management and the legal counsel and tax advisors consider that it is more likely than not (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.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

- a.2 Income tax returns of Banco Interfin (merged with Scotiabank de Costa Rica, S.A. in 2007) for the 1999-2005 tax years were audited by Tax Authorities in 2007. On November 12, 2007, the Bank received a notice of deficiency for ¢6,679,899,566 because the Tax Authorities did not accept the method used to calculate the income tax liability. This was in spite of the fact that in prior years the same Tax Authorities had authorized that method, which was in effect until 2006. The Bank filed an administrative appeal with the Large Taxpayer Administration and subsequently filed an appeal with the Tax Court. The Tax Administration remitted the interest on income tax corresponding to the 1999, 2000, 2001, 2002, 2003, 2004, and 2005 tax years.

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

Additionally, through challenges filed with the Tax Administration, the Bank demonstrated that both the fine and interest were remitted by the General Directorate of the Treasury through ruling No. 151-08 passed at 12 o'clock on December 8, 2008 and by the Large Taxpayer Administration through Ruling INFRAC DT10R-182-08 of September 17, 2008, respectively. Without prejudice to the appeals filed, the Bank requested the General Directorate of the Treasury to again declare as remitted the interest that the Tax Administration was seeking to collect. As a result, the Bank received Ruling DGH-030-2013 of August 23, 2013, which remitted interest from July 24, 2008 to July 23, 2013 in the amount of ¢1,623,700,750.

Additionally, the Bank filed for a full trial and hearing in the administrative litigation venue against Ruling TFA-070-2012 of February 20, 2012 of the First Chamber of the Tax Court.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

- a.3 The tax advisors and management of the Bank estimate that obtaining a favorable outcome is probable based on the regulations for the determination of nondeductible expenses provided under Decision No. 16-05 of the Tax Administration; the fact that the methodology applied to calculate the tax base had been previously agreed by the banking sector and regulatory and tax authorities; and particularly, the soundness of the technical arguments in respect of the lawfulness and diligence of management's defense and the fact that the tax adjustments were substantially unfounded. Notwithstanding, management has applied conservative criteria and, in 2012, booked a provision in the amount of ¢2,939,720,468, corresponding to a reliable estimate of the possible tax obligation. This decision was communicated to SUGEF.
- a.4 Banco Interfin filed its final income tax return and paid the amount of ¢545,136,230 in September 2007 as a result of its merger by absorption with Scotiabank de Costa Rica, S.A. from October 1 of that year. At the 2007 year-end, the Bank declared the aforementioned sum as a tax credit, which was applied in the 2008 income tax return. In 2009, the Large Taxpayer Administration filed administrative proceedings since it considers that the final income tax return of Banco Interfin was not provisional and, therefore, no tax credit should be recognized in favor of the Bank. The Large Taxpayer Administration challenged the tax credit, and after hearing the corresponding arguments, the Tax Court still maintains the opinion that the tax return filed by Banco Interfin is provisional. As a result of the above and given that prior Tax Court decisions uphold the opinion of management and dismiss the thesis of the Tax Administration, no provision has been booked therefor because there is a high probability of a favorable outcome.
- (b) Other

i. Repurchase agreements

For these operations, Scotia Valores, S.A. and Scotia Sociedad de Fondos de Inversión, S.A. are contingently liable for the remaining balance after purchasing a security which amount is lower than the amount payable to the corresponding buyer.

ii. Secondary liability

Pursuant to article 142 of the Internal Regulations of the Central Bank of Costa Rica, the Corporation is liable in an unlimited and subsidiary manner for complying with the obligations of each of the entities comprising financial group, including the obligations assumed prior to the creation of the Group.

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Notes to Financial Statements

32. Transition to International Financial Reporting Standards (IFRSs)

Through various resolutions, CONASSIF (the Board) agreed to partial adoption starting January 1, 2004 of IFRSs promulgated by the International Accounting Standards Board (IASB). In order to regulate application of those Standards, the Board issued the Terms of the Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers (the Regulations) and approved a comprehensive revision of those Regulations on December 17, 2007.

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

Pursuant to the Regulations and in applying IFRSs in effect as of January 1, 2008, any new IFRSs or Interpretations issued by the IASB, as well as any other revisions of IFRSs adopted that will be applied by regulated entities, will require the prior authorization of the Board.

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

a) IAS 1: Presentation of Financial Statements

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

b) Revised IAS 1: Presentation of Financial Statements

The revised Standard introduces the term “total comprehensive income”, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of operations and all non-owner changes in equity in a single statement) or in a statement of operations and a separate statement of comprehensive income. The revised Standard became mandatory for 2009 financial statements and has not been adopted by the Board.

c) IAS 7: Statement of Cash Flows

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

d) IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors

SUGEF has authorized the booking of notices of deficiency received from Tax Authorities against prior period retained earnings under certain circumstances.

e) IAS 12: Income Taxes

The Board has not included all deferred income tax items in SUGEF’s Chart of Accounts. Consequently, entities have been required to recognize those items in accounts considered to be inappropriate under this Standard. For example, deferred tax income is not offset in the deferred tax expense account, but rather deferred tax income and expense are presented in separate accounts.

f) IAS 16: Property, Plant and Equipment

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

Additionally, SUGEF has allowed certain regulated entities to convert (capitalize) revaluation surplus into share capital. This Standard only permits realization of revaluation surplus through the sale or depreciation of the asset. As a result of this treatment, regulated entities must recognize the effect of any impaired fixed assets in profit or loss, since the effect cannot be credited to equity. Under this Standard, impairment is charged to revaluation surplus and any difference is recognized in profit or loss.

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

g) IAS 18: Revenue

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

The Board has also allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. This Standard does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs. Accordingly, when costs exceed income, loan fee and commission income is not deferred, since the Board only allows the net excess of income over expenses to be deferred. This treatment does not conform to IAS 18 and IAS 39, which prescribe separate treatment for income and expenses (see comments on IAS 39).

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

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

i) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under this Standard, 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, in this case, this Standard requires that investments be accounted for at cost.

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

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

j) IAS 28: Investments in Associates

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

k) 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). SUGIVAL determines whether issues fulfill the requirements of share capital.

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

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

m) IAS 37: Provisions, Contingent Liabilities and Contingent Assets

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

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Notes to Financial Statements

n) IAS 38: Intangible Assets

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

o) IAS 39: Financial Instruments: Recognition and Measurement

The Board requires that the loan portfolio be classified pursuant to SUGEF Directive 1-05 and that the allowance for loan losses be determined based on that classification. It also allows excess allowances to be booked. This Standard requires that the allowance for loan losses be determined based on a financial analysis of actual losses. This Standard also prohibits the booking of provisions for contingent accounts. Any excess allowance must be reversed in the income statement.

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

- The option of classifying loans and receivables as available for sale was established.
- Securities quoted in an active market may be classified as available for sale, held for trading, or held to maturity.
- The “fair value option” was established to designate any financial instrument to be measured at fair value through profit or loss, provided a series of requirements are met (e.g. the instrument has been measured at fair value since the original acquisition date).
- The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

The Board has also allowed capitalization of direct costs incurred for assessment of the borrower’s financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, and preparation and processing of documents, net of loan fee and commission income. However, this Standard only permits capitalization of incremental transaction costs, which are to be presented as part of the financial instrument and may not be netted against loan fee and commission income (see comments on IAS 18).

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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 held-for-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 held-for-trading financial assets, provided there is an express statement of intent to trade them within 90 days from the acquisition date.

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

The above classifications do not necessarily adhere to IAS 39.

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

p) IAS 40: Investment Property

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

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Notes to Financial Statements

q) Revised IFRS 3: Business Combinations

The revised Standard (2008) incorporates the following changes:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing ownership interest in the acquiree will be measured at fair value, with the gain or loss recognized in profit or loss.
- Any noncontrolling (minority) interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

The revised Standard became mandatory for 2010 financial statements with prospective application required and has not been adopted by the Board.

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

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

s) Amendments to IFRS 7: Financial Instruments: Disclosures

In March 2009, the IASB issued certain amendments to this Standard, which require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

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Notes to Financial Statements

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefor, are required to be disclosed for each class of financial instruments.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called. These amendments have not been adopted by the Board.

t) IFRS 9: Financial Instruments

This Standard deals with classification and measurement of financial assets. The requirements of this Standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The Standard contains two primary measurement categories for financial assets: amortized cost and fair value. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale, and loans and receivables. For an investment in an equity instrument which is not held for trading, the Standard permits an irrevocable election, at initial recognition, on an individual share-by-share basis, to present all fair value changes in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss at a later date.

The Standard requires that derivatives embedded in contracts with a host contract that is a financial asset within the scope of the Standard not be separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

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Notes to Financial Statements

This Standard requires entities to determine whether presenting the effects of changes in the credit risk of a liability designated at fair value through profit or loss would create an accounting mismatch based on facts and circumstances at the date on which the financial liability is initially recognized.

The Standard is effective for annual periods beginning on or after January 1, 2015. Early application is permitted. This Standard has not been adopted by the Board.

u) 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.

When application of this Standard results in an investor consolidating an investee that is a business that was not previously consolidated, the investor must:

- 1) determine the date when the investor obtained control of that investee on the basis of the requirements of this Standard.
- 2) measure the assets, liabilities and noncontrolling interests as if acquisition accounting had been applied from that date.

If (2) is impracticable, then the deemed acquisition date must be the beginning of the earliest period for which retroactive application is practicable, which may be the current period.

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

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Notes to Financial Statements

v) IFRS 11: Joint Arrangements

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

w) IFRS 12: Disclosure of Interests in Other Entities

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

x) IFRS 13: Fair Value Measurement

This Standard was issued in May 2011 and clarifies the definition of fair value, establishes a single procedure for measuring fair value, and defines the measurements and applications required or permitted in IFRSs. This Standard is effective for annual periods beginning on or after January 1, 2013. Early application is permitted. This Standard has not been adopted by the Board.

y) IFRIC 10: Interim Financial Reporting and Impairment

This Interpretation prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument, or a financial asset carried at cost. This Interpretation applies to goodwill, investments in equity instruments, and financial assets carried at cost from the date that an entity first applied the measurement criteria of IAS 36 and IAS 39 (i.e. January 1, 2004). The Board permits the reversal of allowances.

z) IFRIC 12: Service Concession Arrangements

This Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. This Interpretation applies to both:

- infrastructure that the operator constructs or acquires from a third party for the purpose of the service arrangement; and
- existing infrastructure to which the grantor gives the operator access for the purpose of the service arrangement.

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This Interpretation became mandatory for annual periods beginning on or after July 1, 2009 and has not been adopted by the Board.

aa) IFRIC 13: Customer Loyalty Programs

This Interpretation gives guidance on the accounting by entities that grant loyalty award credits to customers as part of a sales transaction which, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. This Interpretation became mandatory for annual periods beginning on or after January 1, 2011 and has not been adopted by the Board.

bb) IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. Also, it considers the minimum funding requirements to fund a post-employment or other long-term defined benefit plan. It also addresses when a minimum funding requirements might give rise to a liability. This Interpretation became mandatory for annual periods beginning on or after January 1, 2011 with retrospective application required and has not been adopted by the Board.

cc) IFRIC 16: Hedges of a Net Investment in a Foreign Operation

This Interpretation allows entities that use the step-by-step consolidation method to choose an accounting policy that hedges currency risk to determine the amount of the cumulative foreign currency translation reserve that is reclassified to profit or loss on the disposal of a net investment in a foreign operation, which is equivalent to the amount that would have been reclassified had the entity used the direct method of consolidation. This Interpretation became mandatory for annual periods beginning on or after July 1, 2009 and has not been adopted by the Board.

dd) IFRIC 17: Distributions of Non-cash Assets to Owners

This Interpretation gives guidance on the accounting of distributions of non-cash assets to owners at the beginning and end of the reporting period.

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If, after the end of a reporting period but before the financial statements are authorized for issue, an entity declares a dividend to distribute a non-cash asset, it must disclose:

- a) the nature of the asset to be distributed;
- b) the carrying amount of the asset to be distributed as of the end of the reporting period; and
- c) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique, and the method used to determine fair value and, when a valuation technique is used, the assumptions applied.

This Interpretation became mandatory for annual periods beginning on or after July 1, 2009 and has not been adopted by the Board.

ee) IFRIC 18: Transfers of Assets from Customers

This Interpretation gives guidance on the accounting of transfers of items of property, plant and equipment by entities that receive such transfers from their customers. This Interpretation also applies to agreements in which an entity receives cash when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and that the entity must then use the item either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to both. This Interpretation became mandatory for annual periods beginning on or after July 1, 2009 and has not been adopted by the Board.

ff) IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

This Interpretation gives guidance on the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This Interpretation became mandatory for annual periods beginning on or after July 1, 2010 and has not been adopted by the Board.

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Notes to Financial Statements

33. Notes to the financial statements that do not apply to the Bank

For 2013 and 2012, the following notes, included in appendices 3, 4, and 5 of the Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates, do not apply to the Bank:

- Movement in the allowance for investments.
- Profitability indicators.
- Current and term brokerage transactions and portfolio management.
- Investment fund management agreements.
- Pension fund management agreements.