

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, 2015
(With corresponding figures for 2014)

(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 of Scotiabank de Costa Rica, S.A.

We have audited the accompanying financial statements of Scotiabank de Costa Rica, S.A., which comprise the balance sheet as of December 31, 2015, and the statements of comprehensive 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 structure 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 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.

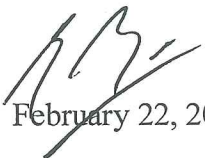
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank de Costa Rica, S.A. as of December 31, 2015, and of 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.

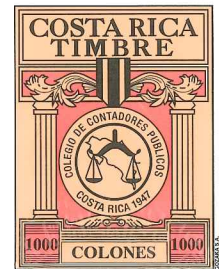
Basis of accounting

Without modifying 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 in accordance with the financial reporting provisions issued by CONASSIF and SUGEF. As a result, the accompanying financial statements may not be suitable for another purpose.


February 22, 2016

San José, Costa Rica
Erick Brenes Flores
Member No. 2520
Policy No. 0116 FIG 7
Expires 9/30/2016

KPMG



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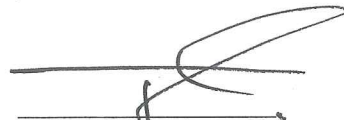
SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
BALANCE SHEET
As of December 31, 2015
(With corresponding figures for 2014)
(In colones)

ASSETS	Note	2015	2014
Cash and due from banks	4	215,735,235,673	190,276,030,570
Cash		26,786,064,654	20,979,436,948
Central Bank of Costa Rica		171,010,431,906	141,114,977,307
Local financial entities		812,462,875	623,697,681
Foreign financial entities		15,379,397,550	25,622,420,583
Other cash and due from banks		1,746,878,688	1,935,498,051
Investments in financial instruments	5	118,288,307,354	100,477,146,092
Trading		19,046,020,386	12,132,129,546
Available for sale		98,662,953,756	87,951,314,703
Accrued interest receivable		579,333,212	393,701,843
Loan portfolio	6	1,162,125,401,370	1,035,022,724,752
Current		1,103,454,086,805	985,718,124,821
Past due		56,564,741,977	43,301,465,227
In legal collections		8,094,839,734	9,312,154,630
Accrued interest receivable		12,045,905,852	10,301,545,370
(Allowance for loan losses)	6-b	(18,034,172,998)	(13,610,565,296)
Accounts and fees and commissions receivable	7	4,289,392,516	2,370,227,958
Fees and commissions		130,645,001	125,130,753
Accounts receivable for related party transactions		2,686,750,771	162,363,337
Other accounts receivable		3,054,474,482	3,148,814,724
(Allowance for doubtful accounts and fees and commissions receivable)	7	(1,582,477,738)	(1,066,080,856)
Foreclosed assets	8	2,142,612,068	3,337,130,642
Assets and securities acquired in lieu of payment		11,571,331,798	12,259,413,272
(Allowance for impairment and per legal requirement)	8	(9,428,719,730)	(8,922,282,630)
Investments in other companies, net		557,006	557,006
Property and equipment, net	9	17,620,407,243	14,143,625,518
Other assets	10	9,019,395,417	5,363,693,702
Deferred charges		925,936,251	913,332,595
Intangible assets		218,056,985	313,907,030
Other assets		7,875,402,181	4,136,454,077
TOTAL ASSETS		<u>1,529,221,308,647</u>	<u>1,350,991,136,240</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
BALANCE SHEET
As of December 31, 2015
(With corresponding figures for 2014)
(In colones)

<u>LIABILITIES AND EQUITY</u>	<u>Note</u>	<u>2015</u>	<u>2014</u>
<u>LIABILITIES</u>			
Obligations with the public	11	1,000,727,946,320	887,186,720,589
Demand		314,097,099,405	296,668,025,044
Term		680,469,137,477	586,538,021,062
Finance charges payable		6,161,709,438	3,980,674,483
Obligations with entities	12	341,184,104,488	287,902,086,772
Demand		25,733,751,567	1,927,335,376
Term		307,451,740,742	275,720,615,967
Other obligations with entities		6,942,628,565	9,090,551,317
Finance charges payable		1,055,983,614	1,163,584,112
Accounts payable and provisions	13	19,029,162,625	18,118,726,751
Deferred tax	13-a	1,641,836,199	827,855,423
Provisions	13-b	3,415,393,004	1,967,927,137
Other sundry accounts payable		13,971,933,422	15,322,944,191
Other liabilities	14	6,104,689,829	3,594,348,897
Deferred income		4,955,417,926	2,333,210,553
Allowance for stand-by credit losses	6-c	492,585,591	327,249,400
Other liabilities		656,686,312	933,888,944
TOTAL LIABILITIES		1,367,045,903,262	1,196,801,883,009
<u>EQUITY</u>			
Share capital		139,309,891,406	94,127,341,406
Paid-up capital	15-a	139,309,891,406	94,127,341,406
Non-capitalized capital contributions		14,957,901	32,011,757,901
Equity adjustments		6,916,028,372	4,234,987,558
Surplus from revaluation of property	15-c	6,369,342,638	4,046,716,566
Adjustment from valuation of available-for-sale investments		546,685,734	188,270,992
Capital reserves	15-d	10,715,939,895	10,185,428,762
Prior period retained earnings	15-e	443,987,604	3,169,053,332
Income for the year		4,774,600,207	10,460,684,272
TOTAL EQUITY		162,175,405,385	154,189,253,231
TOTAL LIABILITIES AND EQUITY		1,529,221,308,647	1,350,991,136,240
DEBIT MEMORANDA ACCOUNTS	17	228,901,091,333	205,968,913,860
TRUST ASSETS	18	1,388,739,285,386	1,193,949,074,088
TRUST LIABILITIES		446,964,103,079	386,162,406,832
TRUST EQUITY		941,775,182,307	807,786,667,256
OTHER DEBIT MEMORANDA ACCOUNTS	20	5,644,405,360,281	5,265,128,316,692
Own accounts		5,553,948,707,626	5,124,146,915,429
Third party accounts		90,456,652,655	90,687,001,312
Own accounts for custodial activities		-	223,000,000
Third party accounts for custodial activities		-	50,071,399,951



Jean-Luc Rich
Legal Representative



Marvin Fallas
General Accountant




Leonel Morales
Internal Auditor


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

SCOTIABANK DE COSTA RICA, S.A.
(A wholly-owned subsidiary of Grupo BNS de Costa Rica, S.A.)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2015
(With corresponding figures for 2014)
(In colones)

	Note	2015	Reclassified 2014
Finance income			
Cash and due from banks		1,218	131,161
Investments in financial instruments		4,374,039,804	3,360,406,373
Loan portfolio	21	83,490,045,058	75,466,172,810
Foreign exchange gain	23	-	9,226,695,398
Gain on available-for-sale financial instruments	5	686,830,361	242,504,344
Other finance income		1,316,774,901	1,359,056,746
Total finance income		89,867,691,342	89,654,966,832
Finance expense			
Obligations with the public	22-a	32,670,519,782	27,371,203,562
Obligations with financial entities	22-b	7,382,947,222	7,087,736,254
Foreign exchange loss	23	340,427,353	-
Loss on available-for-sale financial instruments	5	151,256,004	174,476,110
Other finance expense		98,466,707	140,846,782
Total finance expense		40,643,617,068	34,774,262,708
Allowance for impairment of assets	6-b-c, 7	10,876,388,353	6,670,315,846
Recovery of assets and decrease in allowances and provisions		2,106,314,778	1,907,510,012
GROSS FINANCE INCOME		40,454,000,699	50,117,898,290
Other operating income			
Service fees and commissions	24	14,855,447,064	13,596,240,968
Foreclosed assets		279,609,814	84,783,386
Foreign currency exchange and arbitrage		4,844,575,556	4,819,474,968
Other income with related parties		5,597,454,814	3,747,646,901
Other operating income		3,056,833,545	3,805,006,397
Total operating income		28,633,920,793	26,053,152,620
Other operating expenses			
Service fees and commissions		5,174,626,816	3,826,162,596
Foreclosed assets		2,722,883,773	2,615,871,158
Sundry assets		-	20,646,280
Provisions		2,248,835,164	1,673,100,546
Foreign currency exchange and arbitrage		236,790	121,934
Other expenses with related parties		1,654,804,381	146,002,306
Other operating expenses		2,146,315,837	1,602,661,626
Total other operating expenses		13,947,702,761	9,884,566,446
GROSS OPERATING INCOME		55,140,218,731	66,286,484,464
Administrative expenses			
Personnel expenses	25	27,576,314,295	25,148,647,681
Other administrative expenses	26	19,729,155,348	19,856,704,733
Total administrative expenses		47,305,469,643	45,005,352,414
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS			
Income tax	13a	7,834,749,088	21,281,132,050
Deferred tax		2,200,399,060	8,874,819,956
Decrease in income tax		34,159,431	26,273,274
Statutory allocations		28,339,336	254,454,612
Decrease in statutory allocations		428,761,458	1,107,522,974
		37,024,003	43,465,518
INCOME FOR THE YEAR		5,305,111,340	11,622,982,524
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Surplus on revaluation of property		2,322,626,072	-
Adjustment from valuation of available-for-sale investments, net		358,414,742	218,355,596
OTHER COMPREHENSIVE INCOME, NET OF TAX		2,681,040,814	218,355,596
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,986,152,154	11,841,338,120

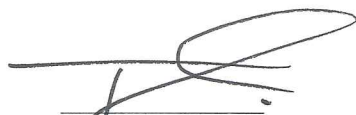

Jean-Luc Rich
Legal Representative


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Internal Auditor

SCOTIABANK DE COSTA RICA, S.A.
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STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2015
(With corresponding figures for 2014)
(In colones)

	Equity adjustments					Capital reserves	Prior period retained earnings	Total
	Share capital	Non-capitalized capital contributions	Revaluation of property	Valuation of available-for-sale investments	Total equity adjustments			
Balance at January 31, 2014	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
Transactions with shareholders recognized directly in equity								
Appropriation to legal reserve	-	-	-	-	-	1,162,298,252	(1,162,298,252)	-
Additional non-capitalized contributions received in cash	-	5,332,800,000	-	-	-	-	-	5,332,800,000
Additional capital contributions from retained earnings	-	26,664,000,000	-	-	-	-	(26,664,000,000)	-
Total transactions with shareholders recognized directly in equity	94,127,341,406	32,011,757,901	4,046,716,566	(30,084,604)	4,016,631,962	10,185,428,762	2,006,755,080	142,347,915,111
Other comprehensive income for the year:								
Income for the year	-	-	-	-	-	-	11,622,982,524	11,622,982,524
Adjustment from valuation of available-for-sale financial instruments, net of income tax	-	-	-	286,383,830	286,383,830	-	-	286,383,830
Net amount transferred to the statement of comprehensive income	-	-	-	(68,028,234)	(68,028,234)	-	-	(68,028,234)
Total comprehensive income for the year	-	-	-	218,355,596	218,355,596	-	11,622,982,524	11,841,338,120
Balance at December 31, 2014	94,127,341,406	32,011,757,901	4,046,716,566	188,270,992	4,234,987,558	10,185,428,762	13,629,737,604	154,189,253,231
Transactions with shareholders recognized directly in equity								
Appropriation to legal reserve	-	-	-	-	-	530,511,133	(530,511,133)	-
Non-capitalized additional cash contributions	-	13,185,750,000	-	-	-	-	(13,185,750,000)	-
Additional capital contributions from accrued income	45,182,550,000	(45,182,550,000)	-	-	-	-	-	-
Total transactions with shareholders recognized directly in equity	139,309,891,406	14,957,901	4,046,716,566	188,270,992	4,234,987,558	10,715,939,895	(86,523,529)	154,189,253,231
Other comprehensive income for the year:								
Income for the year	-	-	-	-	-	-	5,305,111,340	5,305,111,340
Surplus on revaluation of property	-	-	2,322,626,072	-	2,322,626,072	-	-	2,322,626,072
Adjustment from valuation of available-for-sale financial instruments, net of income tax	-	-	-	893,989,099	893,989,099	-	-	893,989,099
Net amount transferred to the statement of comprehensive income	-	-	-	(535,574,357)	(535,574,357)	-	-	(535,574,357)
Total comprehensive income for the year	-	-	2,322,626,072	358,414,742	2,681,040,814	-	5,305,111,340	7,986,152,154
Balance at December 31, 2015	139,309,891,406	14,957,901	6,369,342,638	546,685,734	6,916,028,372	10,715,939,895	5,218,587,811	162,175,405,385



Jean-Luc Rich
Legal Representative



Marvin Fallas
General Accountant




Leonel Morales
Internal Auditor

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

SCOTIABANK DE COSTA RICA, S.A.
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STATEMENT OF CASH FLOWS
For the year ended December 31, 2015
(With corresponding figures for 2014)
(In colones)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Income for the year	5,305,111,340	11,622,982,524
Items not requiring cash		
Net gain or loss on foreign exchange and development units	(189,850,847)	19,159,077,854
Loss on allowance for loan losses	7,676,043,401	5,262,315,846
Loss on allowance for foreclosed assets	1,349,213,805	1,602,981,614
Loss on other allowances	652,344,951	(17,000,002)
Expense for provision for severance benefits	430,358,073	140,000,000
Depreciation and amortization	1,765,589,886	1,513,939,524
Loss on sale and disposal of assets	48,063,219	-
Expense for other provisions	2,245,669,251	1,662,422,670
Deferred tax	(62,498,767)	(280,727,886)
Finance income	(87,864,084,862)	(78,826,579,183)
Finance expense	40,053,467,004	34,458,939,816
Income tax	2,200,399,060	8,874,819,956
Net (increase) decrease in assets		
Trading securities	(6,913,890,840)	(6,252,661,982)
Loans and cash advances	(134,710,572,729)	(92,931,467,652)
Foreclosed assets	(154,695,231)	2,879,431,289
Other assets	(6,601,891,726)	(22,822,907,485)
Net increase (decrease) in liabilities		
Demand and term obligations	112,673,074,753	82,321,887,162
Other accounts payable and provisions	3,568,236,862	1,601,059,731
Other liabilities	2,571,340,931	1,518,841,622
Interest collected	85,934,093,011	77,552,655,920
Interest paid	(37,980,032,547)	(33,556,688,203)
Taxes paid	(8,085,978,852)	(2,452,431,104)
Net cash flows from operating activities	<u>(16,090,490,853)</u>	<u>13,030,892,032</u>
Cash flows from investing activities		
Increase in financial instruments	(6,477,475,828,229)	(6,465,931,661,521)
Decrease in financial instruments	6,443,713,099,442	6,494,798,064,873
Acquisition of property and equipment	(1,908,420,167)	(1,815,422,746)
Sale of property and equipment	-	338,712,669
Net cash flows from (used in) investing activities	<u>(35,671,148,954)</u>	<u>27,389,693,275</u>
Cash flows from financing activities		
Other new financial obligations	116,084,126,668	156,613,549,601
Payment of obligations	(62,116,908,089)	(139,634,328,946)
Non-capitalized additional cash contributions	-	5,332,800,000
Net cash flows from financing activities	<u>53,967,218,579</u>	<u>22,312,020,655</u>
Net increase in cash	<u>2,205,578,772</u>	<u>62,732,605,962</u>
Cash at beginning of year	<u>238,006,610,091</u>	<u>175,274,004,129</u>
Cash at end of year	<u>240,212,188,863</u>	<u>238,006,610,091</u>



Jean-Luc Rich
Legal Representative



Marvin Fallas
General 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, 2015

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 (Panamá), S.A. (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, 2015, the Bank has 1,246 employees (2014: 1,196 employees), operates 34 branches (2014: 35 branches), and has a network of 158 automated teller machines (2014: 153 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 22, 2016.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

ii. Basis of measurement

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

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

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

(c) Functional and presentation currency

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

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

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

ii. Monetary unit and foreign exchange regulations

The parity of the colon with the U.S. dollar is determined in a free exchange market under the supervision of BCCR by using a managed float regime. As of December 31, 2015, the exchange rate was established at ¢531.94 and ¢544.87 to US\$1.00 for the purchase and sale of U.S. dollars, respectively (2014: ¢533.31 and ¢545.53, respectively).

iii. Valuation method for assets and liabilities

As of December 31, 2015, assets and liabilities denominated in U.S. dollars, Canadian dollars, and euros were valued at the buy rates of ¢531.94 to US\$1.00 (2014: ¢533.31 to US\$1.00), ¢458.8797 to CAD\$1.00 (2014: ¢458.8797 to CAD\$1.00), and ¢581.6764 to €1 (2014: ¢648.9849 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 financial liabilities*i. Recognition*

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

ii. Classification• Cash and cash equivalents

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

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

• Loan portfolio

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

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

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

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

(Continued)

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 the statement of comprehensive income. The Bank will exercise the option when the interest rate reaches the limit stipulated in the contract.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

- Deposits and debt instruments issued

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

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

iii. Derecognition

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

iv. Offsetting

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

v. Amortized cost measurement

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

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

vi. Fair value measurement

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

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

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

vii. Gains and losses on subsequent measurement

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

(f) Foreclosed assets

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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.

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

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

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

ii. Subsequent expenditure

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

iii. Depreciation

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

iv. Leased assets

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

(h) Other assets

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

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

(i) Impairment of non-financial assets

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

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

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

(j) Accounts payable and other accounts payable

Accounts payable and other accounts payable are recognized at cost.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(k) Provisions

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

(l) Legal reserve

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

(m) Revaluation surplus

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

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

(n) Use of estimates

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

(o) Allowance for loan losses

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

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

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

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

(p) Finance income and expense

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

(q) Fee and commission income

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(r) Operating lease payments

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

(s) Income tax*i. Current*

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

ii. Deferred

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

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

(t) Basic earnings per share

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(u) Employee benefitsi. *Severance benefits*

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

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

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

ii. *Short-term employee benefits**Statutory Christmas bonus*

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

Vacation

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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:

	2015	2014
Cash and due from banks:		
Minimum cash reserve	¢ 163,873,766,511	141,114,977,307
Drafts and transfers payable	778,747,877	1,946,381,408
Subtotal	<u>164,652,514,388</u>	<u>143,061,358,715</u>
Investments:		
Clearing house guarantee	5,608,167,379	1,691,320,208
Guarantee deposit for public utility payment collection	141,288,000	90,153,000
Other guarantees	39,329,419	55,170,249
Subtotal	<u>5,788,784,798</u>	<u>1,836,643,457</u>
Loans:		
Requirement for deposit-taking in demand accounts per art. 59 of IRNBS (Law No. 1644)	<u>58,675,671,052</u>	<u>43,873,938,842</u>
Subtotal	58,675,671,052	43,873,938,842
Accrued interest receivable:		
Committed investments	<u>20,459,067</u>	<u>12,667,627</u>
Subtotal	20,459,067	12,667,627
Other:		
Guarantee deposits	<u>85,286,336</u>	<u>114,305,689</u>
Subtotal	85,286,336	114,305,689
Total	<u>¢ 229,222,715,641</u>	<u>188,898,914,330</u>

Pursuant to Costa Rican banking legislation, the Bank maintains a minimum cash reserve in BCCR. As of December 31, 2015, 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:

	<u>2015</u>	<u>2014</u>
Assets:		
Cash and due from banks	¢ 943,779,565	1,336,527,607
Loan portfolio	11,822,010,652	15,652,478,343
Accounts and accrued interest receivable	2,686,750,771	162,363,337
Total assets	¢ <u>15,452,540,988</u>	<u>17,151,369,287</u>
Liabilities:		
Obligations with the public	¢ 9,337,630,232	5,676,499,687
Other financial obligations	208,296,249,529	185,034,188,688
Other accounts payable	927,396,821	-
Total liabilities	¢ <u>218,561,276,582</u>	<u>190,710,688,375</u>
Expenses:		
Finance	¢ 3,542,396,247	3,325,994,486
Operating	1,654,804,381	146,002,306
Total expenses	¢ <u>5,197,200,628</u>	<u>3,471,996,792</u>
Income:		
Finance	¢ 631,473,294	796,336,922
Operating	7,633,622,375	3,792,686,273
Total income	¢ <u>8,265,095,669</u>	<u>4,589,023,195</u>

As of December 31, 2015, compensation paid to key personnel amounts to ¢2,029,795,568 (2014: ¢1,782,589,658).

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2015 and 2014, the following economic interest groups are related to the Bank in accordance with SUGEF Directive 4-04:

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

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:

	2015	2014
Cash	¢ 26,786,064,654	20,979,436,948
Demand deposits in BCCR	171,010,431,906	141,114,977,307
Demand deposits in local financial entities	812,462,875	623,697,681
Demand deposits in foreign financial entities	15,379,397,550	25,622,420,583
Notes payable on demand	1,746,878,688	1,935,498,051
Total	¢ <u>215,735,235,673</u>	<u>190,276,030,570</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

		<u>2015</u>	<u>2014</u>
Cash and due from banks	¢	215,735,235,673	190,276,030,570
Highly-liquid short-term investments		<u>24,476,953,190</u>	<u>47,730,579,521</u>
Total	¢	<u><u>240,212,188,863</u></u>	<u><u>238,006,610,091</u></u>

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

		<u>2015</u>	<u>2014</u>
Local currency	¢	53,590,459,034	38,578,981,284
Foreign currency		<u>110,283,307,477</u>	<u>98,097,832,238</u>
Total minimum cash reserve	¢	<u><u>163,873,766,511</u></u>	<u><u>136,676,813,522</u></u>

As of December 31, 2015, highly-liquid short-term investments include securities acquired under reverse repurchase agreements for a total of ¢931,657,931 and US\$3,163,731 (2014: US\$3,923,051). Those securities bear interest at rates ranging between 3.31% and 4.85% per annum in colones and between 2.43% and 2.96% per annum in U.S. dollars (2014: between 0.05% and 2.62% per annum in U.S. dollars), and are included in cash equivalents.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

5. Investments in financial instruments

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

	<u>2015</u>	<u>2014</u>
Trading	¢ 19,046,020,386	12,132,129,546
Available for sale	98,662,953,756	87,951,314,703
Subtotal	117,708,974,142	100,083,444,249
Accrued interest receivable	579,333,212	393,701,843
Total	¢ <u>118,288,307,354</u>	<u>100,477,146,092</u>

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

	<u>2015</u>	<u>2014</u>
Open investment funds in colones managed by a local related party	¢ 1,402,416,712	-
Open investment funds in U.S. dollars managed by a local related party	1,601,810,942	2,340,718,549
Open investment funds in colones managed by a local entity	10,261,111,640	3,164,992,515
Open investment funds in U.S. dollars managed by a local entity	5,780,681,092	6,626,418,482
Total	¢ <u>19,046,020,386</u>	<u>12,132,129,546</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	<u>2015</u>	<u>2014</u>
<u>Local issuers:</u>		
Costa Rican Government	¢ 66,366,146,137	36,962,937,521
BCCR	12,533,567,286	19,847,233,328
Financial entities	172,357,400	3,654,788,653
Private issuers	8,260,018	9,837,143
Repurchase agreements	6,230,919,697	3,424,229,058
Subtotal	<u>85,311,250,538</u>	<u>63,899,025,703</u>
<u>Foreign issuers:</u>		
Governments	53,203,218	53,339,000
Financial entities	13,298,500,000	23,998,950,000
Subtotal	<u>13,351,703,218</u>	<u>24,052,289,000</u>
Total	<u>¢ 98,662,953,756</u>	<u>87,951,314,703</u>

As of December 31, 2015, investments in financial instruments in the amount of ¢5,788,784,798 (2014: ¢1,836,643,457) secure operations with several local institutions (see note 2).

As of December 31, 2015, investments in financial instruments bear interest at rates ranging between 1.25% and 8.53% per annum (2014: between 2.66% and 9.52% per annum) in colones, and between 0.10% and 4.93% per annum (2014: between 0.04% and 6.35% per annum) in U.S. dollars.

For the year ended December 31, 2015 and 2014, realized gain and loss on available-for-sale financial instruments is as follows:

	<u>2015</u>	<u>2014</u>
Realized gain on the sale of available-for-sale financial instruments	¢ 686,830,361	242,504,344
Realized loss on the sale of available-for-sale financial instruments	(151,256,004)	(174,476,110)
Net gain	<u>¢ 535,574,357</u>	<u>68,028,234</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

6. Loan portfolioa) Loan portfolio by origin

	<u>2015</u>	<u>2014</u>
Loans originated by the Bank	¢ 1,092,829,612,134	961,780,403,911
Loans purchased	<u>75,284,056,382</u>	<u>76,551,340,767</u>
Subtotal	1,168,113,668,516	1,038,331,744,678
Accrued interest receivable	12,045,905,852	10,301,545,370
Allowance for loan losses	<u>(18,034,172,998)</u>	<u>(13,610,565,296)</u>
Total	<u>¢ 1,162,125,401,370</u>	<u>1,035,022,724,752</u>

As of December 31, 2015, annual interest rates on loans ranged between 5.95% and 25% in colones (2014: between 7.20% and 25%) and between 3.50% and 14.25% (2014: between 3.50% and 14.25%) in U.S. dollars.

The purchased portfolio includes the portfolio acquired in the purchase and merger process with Banco Interfin, S.A. (October 2007). As of December 31, 2015, that portfolio amounts to ¢31,728,104,361 and US\$81,516,953 (2014: ¢28,209,252,092 and US\$89,944,834). 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, 2015, that portfolio amounts to US\$364,372 (2014: US\$700,548).

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.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	2015	2014
Opening balance	¢ 13,610,565,296	10,225,684,445
Allowance expense	9,046,999,996	6,475,603,460
Charged against allowance	(4,093,883,010)	(2,405,392,265)
Decrease in allowance	(503,956,598)	(1,375,000,000)
Translation effect for allowances in foreign currency	(25,552,686)	689,669,656
Closing balance	¢ <u>18,034,172,998</u>	<u>13,610,565,296</u>

c) Allowance for stand-by credit losses

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

	2015	2014
Opening balance	¢ 327,249,400	158,653,150
Allowance expense	377,000,001	161,712,386
Decrease in allowance	(211,000,000)	-
Translation effect for allowances in foreign currency	(663,810)	6,883,864
Closing balance	¢ <u>492,585,591</u>	<u>327,249,400</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

7. Accounts and fees and commissions receivable

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

	2015	2014
Fees and commissions	130,645,001	125,130,753
Related party transactions	2,686,750,771	162,363,337
Sundry credit card receivables	278,873,176	191,871,888
Advance payments to suppliers	957,492	639,972
Other expenses	475,914,896	462,231,518
Due from INS	53,166,557	31,252,508
Loan operations	1,030,965,090	502,564,396
ATH transactions	616,268,880	585,288,843
Other sundry accounts receivable	598,328,391	1,374,965,599
Subtotal	5,871,870,254	3,436,308,814
(Allowance for doubtful accounts and fees and commissions receivable)	(1,582,477,738)	(1,066,080,856)
Total	4,289,392,516	2,370,227,958

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

	2015	2014
Opening balance	1,066,080,856	1,078,177,015
Allowance expense	1,452,388,356	33,000,000
Charged against allowance	(137,606,307)	(13,563,706)
Decrease in allowance	(800,043,405)	(50,000,002)
Translation effect for allowances in foreign currency	1,658,238	18,467,549
Closing balance	1,582,477,738	1,066,080,856

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

8. Foreclosed assets, net

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

	<u>2015</u>	<u>2014</u>
Assets acquired in lieu of payment:		
Real property	¢ 11,133,161,876	11,671,808,358
Other	438,169,922	587,604,914
Subtotal	<u>11,571,331,798</u>	<u>12,259,413,272</u>
(Allowance for impairment and per legal requirements)	<u>(9,428,719,730)</u>	<u>(8,922,282,630)</u>
Net total	¢ <u><u>2,142,612,068</u></u>	<u><u>3,337,130,642</u></u>

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

	<u>2015</u>	<u>2014</u>
Opening balance	¢ 8,922,282,630	7,845,363,537
Loss on allowance	1,544,084,654	1,687,765,000
Charged against allowance for retirements or sales	(842,776,705)	(526,062,521)
Decrease in allowance	<u>(194,870,849)</u>	<u>(84,783,386)</u>
Closing balance	¢ <u><u>9,428,719,730</u></u>	<u><u>8,922,282,630</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

9. Property and equipment, net

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

	2014	Additions	Retirements	2015
<u>Cost</u>				
Land	¢ 1,405,990,980	-	-	1,405,990,980
Buildings and facilities	4,717,803,912	-	-	4,717,803,912
Furniture and equipment	3,398,930,886	315,465,313	(21,751,031)	3,692,645,168
Computer hardware	5,986,237,217	1,327,256,529	(4,406,166)	7,309,087,580
Vehicles	352,311,242	265,698,325	(70,263,024)	547,746,543
Subtotal	15,861,274,237	1,908,420,167	(96,420,221)	17,673,274,183
Accumulated depreciation	(6,248,322,344)	(1,288,895,375)	48,357,003	(7,488,860,716)
Net cost	9,612,951,893	619,524,792	(48,063,218)	10,184,413,467
<u>Revaluation</u>				
Cost	5,835,030,808	3,017,159,963	-	8,852,190,771
Accumulated depreciation	(1,304,357,183)	(111,839,812)	-	(1,416,196,995)
Net revaluation	4,530,673,625	2,905,320,151	-	7,435,993,776
Net total	¢ 14,143,625,518	3,524,844,943	(48,063,218)	17,620,407,243

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2014, property and equipment is as follows:

	2013	Additions	Retirements	2014
<u>Cost</u>				
Land	¢ 1,405,990,980	-	-	1,405,990,980
Buildings and facilities	4,715,528,912	2,275,000	-	4,717,803,912
Furniture and equipment	2,864,138,245	550,326,786	(15,534,145)	3,398,930,886
Computer hardware	5,019,276,821	1,262,820,960	(295,860,564)	5,986,237,217
Vehicles	364,990,013	-	(12,678,771)	352,311,242
Subtotal	14,369,924,971	1,815,422,746	(324,073,480)	15,861,274,237
Accumulated depreciation	(5,229,573,878)	(1,004,109,277)	(14,639,189)	(6,248,322,344)
Net cost	9,140,351,093	811,313,469	(338,712,669)	9,612,951,893
<u>Revaluation</u>				
Cost	5,835,030,808	-	-	5,835,030,808
Accumulated depreciation	(1,162,715,791)	(141,641,392)	-	(1,304,357,183)
Net revaluation	4,672,315,017	(141,641,392)	-	4,530,673,625
Net total	¢ 13,812,666,110	669,672,077	(338,712,669)	14,143,625,518

Depreciation expense for the year ended December 31, 2014 amounted to ¢1,145,750,669 and was charged against profit or loss.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

10. Other assets

As of December 31, other assets are as follows:

	<u>2015</u>	<u>2014</u>
<u>Deferred charges</u>		
Leasehold improvements - operating lease	¢ 925,936,251	913,332,595
Subtotal	925,936,251	913,332,595
<u>Intangible assets</u>		
Software	181,147,332	237,204,577
Other	36,909,653	76,702,453
Subtotal	218,056,985	313,907,030
<u>Other assets</u>		
Prepaid interest and fees and commissions	253,407,827	548,956,272
Prepaid taxes	2,252,759,347	-
Prepaid insurance	385,206,149	439,709,716
Other prepaid expenses	191,598,030	76,284,541
Stationery, office supplies, and other materials	47,425,455	47,928,565
Library and artwork	16,945,602	18,310,818
Construction work-in-progress	225,331,358	107,947,548
Software under development	955,881,260	536,624,579
Operations pending settlement	3,461,560,817	2,246,386,349
Guarantee deposits	85,286,336	114,305,689
Subtotal	7,875,402,181	4,136,454,077
Total	¢ 9,019,395,417	5,363,693,702

(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>2015</u>	<u>2014</u>
Depreciation of leased assets - operating lease	¢ -	20,646,280
Amortization of leasehold improvements	173,563,062	156,975,231
Amortization of software	191,291,637	190,567,344
Total	¢ <u>364,854,699</u>	<u>368,188,855</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

11. Obligations with the public

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

	<u>2015</u>	<u>2014</u>
<u>Demand</u>		
Deposits		
Checking accounts	¢ 268,921,483,502	251,460,639,007
Certified checks	29,737,064	30,008,417
Demand savings deposits	37,778,663,183	33,776,598,784
Matured term deposits	1,315,325,344	677,630,194
Overnight deposits	2,240,087,286	5,870,879,820
Subtotal deposits	<u>310,285,296,379</u>	<u>291,815,756,222</u>
Other obligations with the public		
Notes payable on demand - creditors	1,978,611,251	2,173,121,065
Drafts and transfers	778,747,877	1,946,381,408
Cashier's checks	992,032,038	694,842,167
Sundry demand obligations with the public	62,411,860	37,924,182
Subtotal other obligations with the public	<u>3,811,803,026</u>	<u>4,852,268,822</u>
Subtotal demand	<u>314,097,099,405</u>	<u>296,668,025,044</u>
<u>Term</u>		
Deposits		
Term deposits from the public	627,405,990,804	541,637,275,486
Term deposits from related parties	1,196,108,687	464,133,228
Term deposits pledged as guarantee	51,867,037,986	44,436,612,348
Subtotal term	<u>680,469,137,477</u>	<u>586,538,021,062</u>
<u>Other obligations with the public</u>		
Charges payable	6,161,709,438	3,980,674,483
Total	¢ <u>1,000,727,946,320</u>	<u>887,186,720,589</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2015, the balances of the issue of standardized bonds are included in current term deposit accounts. As of that date, term deposits include standardized bonds in the amount of ¢70,177,000,000 and US\$49,778,000 (2014: ¢20,280,000,000 and US\$30,000,000), bearing interest at rates ranging between 7.07% and 9.24% per annum in colones and between 3.26% and 5.43% per annum in U.S. dollars (2014: between 7.34% and 7.88% per annum in colones and between 4.35% and 4.89% 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, 2015, certificates of deposit bear interest at rates ranging between 2.72% and 11.55% per annum (2014: between 3.80% and 11.70% per annum) in Costa Rican colones and between 0.55% and 5.44% per annum (2014: between 0.85% and 5.45% per annum) in U.S. dollars.

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

As of December 31, 2015, 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	97,755 ¢	308,969,971,035
Restricted and inactive deposits	96	1,315,325,344
Other obligations with the public	-	3,811,803,026
Subtotal	<u>97,851</u>	<u>314,097,099,405</u>
Obligations with entities		
Deposits from other financial entities	12	25,733,751,567
Subtotal	<u>12</u>	<u>25,733,751,567</u>
Total demand obligations with customers	<u>97,863 ¢</u>	<u>339,830,850,972</u>
<u>Term</u>		
Obligations with the public		
Deposits from the public	7,507 ¢	623,282,699,490
Deposits from other financial entities	1	1,595,820,000
Deposits from State-owned entities	1	3,723,580,000
Restricted and inactive deposits	1,810	51,867,037,987
Subtotal	<u>9,319</u>	<u>680,469,137,477</u>
Obligations with entities		
Deposits from other financial entities	7	15,023,390,775
Subtotal	<u>7</u>	<u>15,023,390,775</u>
Total term obligations with customers	<u>9,326 ¢</u>	<u>695,492,528,252</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2014, 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	91,563 ¢	291,138,126,030
Restricted and inactive deposits	76	677,630,192
Other obligations with the public	-	4,852,268,822
Subtotal	<u>91,639</u>	<u>296,668,025,044</u>
Obligations with entities		
Deposits from other financial entities	<u>10</u>	<u>1,927,335,376</u>
Subtotal	<u>10</u>	<u>1,927,335,376</u>
Total demand obligations with customers	<u>91,649 ¢</u>	<u>298,595,360,420</u>
<u>Term</u>		
Obligations with the public		
Deposits from the public	7,892 ¢	537,334,928,714
Deposits from other financial entities	1	4,766,480,000
Restricted and inactive deposits	1,645	44,436,612,348
Subtotal	<u>9,538</u>	<u>586,538,021,062</u>
Obligations with entities		
Deposits from other financial entities	<u>8</u>	<u>9,292,985,721</u>
Subtotal	<u>8</u>	<u>9,292,985,721</u>
Total term obligations with customers	<u>9,546 ¢</u>	<u>595,831,006,783</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:

	<u>2015</u>	<u>2014</u>
Demand obligation		
Checking accounts of local financial entities	¢ 25,733,751,567	1,927,335,376
Subtotal demand obligations	<u>25,733,751,567</u>	<u>1,927,335,376</u>
Term obligations		
Term deposits from local financial entities	15,023,390,775	9,292,985,721
Loan with Mercantil Commerce Bank	7,979,100,000	5,333,100,000
Loan with Wells Fargo Bank, N.A.	17,156,074,558	2,399,895,000
Loan with BLADDEX	13,103,455,337	14,914,903,002
Loan with DEG	-	3,999,825,000
Loan with IIC	5,465,683,500	5,375,764,800
Loan with IBD	35,599,552,560	49,864,485,000
Loans with other entities	5,319,400,000	45,416,471
Obligations with related financial entities	<u>207,805,084,012</u>	<u>184,494,240,973</u>
Subtotal term obligations	<u>307,451,740,742</u>	<u>275,720,615,967</u>
Other obligations - financing with internacional organizations	5,319,400,000	7,999,650,000
Issued letters of credit	<u>1,623,228,565</u>	<u>1,090,901,317</u>
Subtotal other obligations with entities	<u>6,942,628,565</u>	<u>9,090,551,317</u>
Subtotal	<u>340,128,120,874</u>	<u>286,738,502,660</u>
Charges payable on obligations with financial and non-financial entities	<u>1,055,983,614</u>	<u>1,163,584,112</u>
Total	<u>¢ 341,184,104,488</u>	<u>287,902,086,772</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2015, other financial obligations bear interest at rates ranging between 0.75% and 4.10% per annum in U.S. dollars (2014: between 0.35% and 3.76% per annum in U.S. dollars, and at 7.05% per annum in colones).

Maturities of obligations with entities

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

	<u>2015</u>	<u>2014</u>
Less than 1 year	¢ 229,023,142,940	128,264,620,537
Between 1 and 2 years	45,703,183,535	110,970,422,053
Between 2 and 3 years	28,700,215,358	28,945,121,884
Between 3 and 4 years	26,156,629,215	14,825,168,186
Between 4 and 5 years	<u>10,544,949,826</u>	<u>3,733,170,000</u>
Subtotal	340,128,120,874	286,738,502,660
Charges payable on obligations with financial and non-financial entities	<u>1,055,983,614</u>	<u>1,163,584,112</u>
Total	¢ <u><u>341,184,104,488</u></u>	<u><u>287,902,086,772</u></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:

	<u>2015</u>	<u>2014</u>
Deferred tax	¢ 1,641,836,199	827,855,423
Provisions	<u>3,415,393,004</u>	<u>1,967,927,137</u>
Other sundry accounts payable:		
Tax liability	-	3,659,857,131
Court-ordered withholdings	10,398,922	35,335,872
Tax withholdings	908,135,887	491,378,492
Employee payroll taxes	983,629,949	943,725,386
Other third-party withholdings	6,906,583	-
Statutory allocations or surplus	391,737,454	1,053,163,928
Loan obligations with related parties (note 3)	947,396,821	-
Clearing house operations	2,405,259,324	2,151,585,846
Accrued vacation	268,235,942	218,573,763
Accrued statutory Christmas bonus	238,201,832	218,067,862
INS insurance policies	2,529,921,083	2,821,783,282
Term deposits	2,232,188,917	329,387,866
Credit balances of credit card customers	311,286,469	271,102,016
Outstanding stale checks	612,676,125	633,028,686
Public utility and tax payment collection services	683,119,890	506,002,144
Other sundry accounts payable	<u>1,442,838,224</u>	<u>1,989,951,917</u>
Subtotal other sundry accounts payable	13,971,933,422	15,322,944,191
Total	¢ <u><u>19,029,162,625</u></u>	<u><u>18,118,726,751</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(a) Income tax

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

	<u>2015</u>	<u>2014</u>
Income tax expense		
Local income tax	¢ 2,200,399,060	6,136,208,314
Decrease in local income tax	<u>(28,339,336)</u>	<u>(254,454,612)</u>
Subtotal	2,172,059,724	5,881,753,702
Deferred tax	34,159,431	26,273,274
Subtotal	<u>34,159,431</u>	<u>26,273,274</u>
Total income tax for the year	2,137,900,293	5,855,480,428
Prior year income tax (note 31)	-	2,738,611,642
Total	<u>¢ 2,137,900,293</u>	<u>8,594,092,070</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>2015</u>	<u>2014</u>
Expected income tax	¢ 2,350,424,726	6,384,339,615
Plus (less)		
Nondeductible expenses	1,078,661,122	703,512,462
Nontaxable income	(1,173,664,318)	(913,154,412)
Statutory allocations	<u>(117,521,237)</u>	<u>(319,217,237)</u>
Total income tax	<u>¢ 2,137,900,293</u>	<u>5,855,480,428</u>

Tax returns filed by the Bank for the years ended December 31, 2012, 2013, 2014, and 2015 are open to review by Tax Authorities. Income tax returns for the 1999-2005 tax years were audited by Tax Authorities (see note 31).

As of December 31, 2015 and 2014, deferred tax is attributable to unrealized gain on investments in available-for-sale financial instruments and revaluation surplus. A deferred tax asset represents a deductible temporary difference. A deferred tax liability represents a taxable temporary difference.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	<u>2015</u>	<u>2014</u>
<u>Deferred tax liabilities</u>		
Revaluation of assets	¢ 1,407,542,309	747,167,855
Unrealized gains on valuation of investments	234,293,890	80,687,568
Total	¢ <u>1,641,836,199</u>	<u>827,855,423</u>

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

	<u>2015</u>	<u>2014</u>
<u>Deferred tax assets</u>		
Opening balance	¢ -	12,893,403
Effect of unrealized gains on valuation of investments	-	(12,893,403)
Closing balance	<u>-</u>	<u>-</u>
<u>Deferred tax liabilities</u>		
Opening balance	827,855,423	773,441,125
Included in the statement of comprehensive income:		
Effect of revaluation of assets	660,374,463	(26,273,270)
Effect of unrealized gains on valuation of investments	153,606,313	80,687,568
Closing balance	¢ <u>1,641,836,199</u>	<u>827,855,423</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

(b) Provisions

As of December 31, provisions are as follows:

	2015	2014
Provisions for obligations	¢ 278,962,565	172,221,907
Provisions for redemption of miles	1,701,960,645	1,381,358,780
Provisión por cashback	3,995,088	-
Other provisions	1,430,474,706	414,346,450
Total	¢ 3,415,393,004	1,967,927,137

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

	2015	2014
<u>Provisions for employer</u>		
Opening balance	¢ 172,221,907	92,917,699
Provisioned	430,358,073	140,000,000
Used	(323,617,415)	(60,695,792)
Closing balance	278,962,565	172,221,907
<u>Provisions for pending litigation</u>		
Opening balance	-	2,939,720,468
Used	-	(2,939,720,468)
Closing balance	-	-
<u>Other provisions</u>		
Opening balance	1,795,705,230	1,267,152,687
Provisioned	5,506,616,815	4,150,122,929
Used	(4,165,891,606)	(3,621,570,386)
Closing balance	3,136,430,439	1,795,705,230
<u>Total</u>		
Opening balance	1,967,927,137	4,299,790,853
Provisioned	5,936,974,888	4,290,122,930
Used	(4,489,509,021)	(6,621,986,646)
Total	¢ 3,415,393,004	1,967,927,137

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

14. Other liabilities

As of December 31, other liabilities are as follows:

	2015	2014
Deferred finance income	¢ 4,674,531,450	2,271,866,309
Other deferred income	280,886,476	61,344,244
Allowance for stand-by credit losses	492,585,591	327,249,400
Operations pending settlement	656,671,764	881,929,164
Other operations pending application	14,548	51,959,780
Total	¢ <u>6,104,689,829</u>	<u>3,594,348,897</u>

15. Equitya) Share capital

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

As of December 31, 2014, the Bank's share capital was 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 ¢94,127,341,406).

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

b) Increase in capital

At an Extraordinary General Shareholders Meeting held on December 31, 2014, shareholders agreed to increase share capital by US\$60,000,000, as follows:

- Cash contributions from shareholders in the amount of US\$10,000,000 (equivalent to ¢5,332,800,000 at the buy exchange rate established by BCCR).
- Capitalization of prior period retained earnings in the amount of ¢26,664,000,000 (equivalent to US\$50,000,000 at the buy exchange rate established by BCCR).

Such increases in share capital were authorized by CONASSIF on July 1, 2015.

At an Extraordinary General Shareholders Meeting held on September 21, 2015, shareholders agreed to increase share capital through the capitalization of prior period retained earnings in the amount of ¢13,185,750,000 (equivalent to US\$25,000,000 at the buy exchange rate established by BCCR). This increase in share capital was authorized by CONASSIF on November 23, 2015.

c) Revaluation surplus

As of December 31, 2015 and 2014, revaluation surplus corresponds to the increase in fair value of property, which is updated based on an appraisal made by an independent appraiser.

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

d) 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, 2015 the financial statements include an appropriation to the legal reserve in the amount of ¢10,715,939,895 (2014: ¢10,185,428,762). No further appropriation is required once the legal reserve reaches 20% of share capital.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

e) Prior year retained earnings

As of December 31, 2015, prior year retained earnings amount to ¢5,218,587,811 (2014: ¢13,629,737,604).

16. Basic earnings per share

As of December 31, 2015, the calculation of basic earnings per share was based on the net profit attributable to shareholders, as follows:

	<u>2015</u>	<u>2014</u>
<u>Ordinary shares:</u>		
Profit or loss	¢ 5,305,111,340	11,622,982,524
Weighted average number of shares (denominator)	<u>273,873,384</u>	<u>263,873,384</u>
Profit or loss per ordinary share	<u>¢ 19,371</u>	<u>44,048</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>2015</u>	<u>2014</u>
Performance bonds	¢ 45,562,723,236	38,299,669,407
Bid bonds	1,310,337,313	911,939,081
Other guarantees	10,808,934,416	11,979,055,924
Letters of credit issued but unused	12,715,080,855	12,063,436,885
Letters of credit confirmed but unused	977,876,792	1,845,252,600
Pre-approved lines of credit	136,692,851,428	135,340,814,968
Credits pending disbursement	<u>20,833,287,293</u>	<u>5,528,744,995</u>
Total	<u>¢ 228,901,091,333</u>	<u>205,968,913,860</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. 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:

	<u>2015</u>	<u>2014</u>
Cash and due from banks	¢ 2,790,224,754	2,987,249,494
Investments in financial	112,202,038,916	128,014,568,181
Loan portfolio	816,423,863	1,532,043,215
Accounts and fees and commissions receivable	1,370,309,090	1,126,767,020
Foreclosed assets	547,092,931,726	420,850,295,804
Investments in other companies	576,223,090,103	462,040,851,255
Property and equipment	137,801,799,660	141,483,169,433
Other assets	2,326,940,280	950,925,895
Investments in property	8,115,526,994	34,963,203,791
Total	¢ <u>1,388,739,285,386</u>	<u>1,193,949,074,088</u>

19. Sureties

As of December 31, 2015 and 204, 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>2015</u>	<u>2014</u>
Other own debit memoranda accounts		
Guarantees received in the Bank's custody	¢ 50,570,859,282	39,803,540,440
Guarantees received in the custody of third parties	2,809,037,672,211	2,432,232,518,024
Lines of credit granted and pending Write-downs	318,212,708,584 14,383,825,954	258,437,464,855 11,942,050,026
Interest income on non-accrual loans	1,334,558,648	1,457,536,276
Supporting documentation	1,002,851,761,088	1,005,003,829,278
Other memoranda accounts	1,357,557,321,859	1,375,269,976,530
Subtotal	<u>5,553,948,707,626</u>	<u>5,124,146,915,429</u>
Third-party debit memoranda accounts		
Third-party assets and securities in custody	90,456,652,655	90,687,001,312
Subtotal	<u>90,456,652,655</u>	<u>90,687,001,312</u>
Own debit memoranda accounts for custodial activities		
Trading securities	-	223,000,000
Subtotal	<u>-</u>	<u>223,000,000</u>
Cash and receivables		
Trading securities	-	50,071,399,951
Subtotal	<u>-</u>	<u>50,071,399,951</u>
Total	¢ <u><u>5,644,405,360,281</u></u>	<u><u>5,265,128,316,692</u></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>2015</u>	<u>2014</u>
Current loans:		
checking account overdrafts	¢ 31,462,317	29,018,347
Accrued interest on loans with other funds	66,202,577,455	59,360,667,236
Accrued interest on credit cards	9,052,626,179	8,269,537,402
Accrued interest on factoring	7,383,764	-
Accrued interest on loans to State-owned banks	580,004,072	450,427,927
Accrued interest on loans to related parties	<u>577,977,733</u>	<u>795,056,678</u>
Subtotal	<u>76,452,031,520</u>	<u>68,904,707,590</u>
Past due loans and loans in legal collections:		
Accrued interest on loans with other funds	<u>7,038,013,538</u>	<u>6,561,465,220</u>
Total	<u>¢ 83,490,045,058</u>	<u>75,466,172,810</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	<u>2015</u>	<u>2014</u>
<u>Foreign exchange income:</u>		
Obligations with the public	¢ 1,312,883,977	(44,851,048,406)
Other financial obligations	577,600,365	(18,800,883,233)
Other accounts payable and provisions	80,283,646	(277,899,411)
Cash and due from banks	(530,278,200)	28,385,773,252
Investments in financial instruments	(155,878,145)	4,009,515,599
Current loans	(1,122,251,526)	53,568,275,879
Past due loans and loans in legal collections	(492,961,667)	6,300,263,661
Accounts and fees and commissions receivable	(9,825,803)	(19,107,301,943)
Total	¢ <u><u>(340,427,353)</u></u>	<u><u>9,226,695,398</u></u>

24. Service fees and commissions

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

	<u>2015</u>	<u>2014</u>
<u>Income:</u>		
Drafts and transfers	¢ 1,346,690,324	1,320,755,285
Trust management	987,642,472	831,755,151
Collections	17,207,865	18,050,014
Other banking mandates	475,433,740	443,289,373
Credit cards	8,982,166,576	7,753,622,743
Insurance underwriting	633,587,601	484,384,247
Other	2,412,718,486	2,744,384,155
	¢ <u><u>14,855,447,064</u></u>	<u><u>13,596,240,968</u></u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

25. Personnel expenses

As of December 31, personnel expenses are as follows:

	2015	2014
Salaries and bonuses, permanent staff	¢ 18,186,623,950	16,650,387,603
Compensation for board members and statutory examiners	18,770,819	23,998,519
Overtime	401,766,034	383,317,789
Travel expenses	507,878,005	411,779,913
Statutory Christmas bonus	1,533,404,032	1,415,394,754
Vacation	97,344,247	-
Incentives	56,580,958	40,862,199
Other compensation	101,991,509	116,994,709
taxes	4,163,791,338	3,747,327,234
Refreshments	240,315,461	246,026,401
Uniforms	26,997,202	47,741,729
Training	313,060,567	217,363,216
Employee insurance	356,707,354	338,696,494
Compulsory retirement savings account	845,472,468	764,651,917
Other	725,610,351	744,105,204
	¢ <u>27,576,314,295</u>	<u>25,148,647,681</u>

26. Other administrative expenses

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

	2015	2014
Outsourcing	¢ 5,917,514,418	6,535,864,158
Transportation and communications	1,033,252,540	959,674,947
Infrastructure	8,215,680,561	7,882,867,984
Overhead	4,562,707,829	4,478,297,644
	¢ <u>19,729,155,348</u>	<u>19,856,704,733</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. currency risk; and
 - b. interest rate risk.

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

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

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

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

i. Credit risk

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

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

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

	2015	2014
Cash and due from banks	¢ 215,735,235,673	190,276,030,570
Investments in financial	118,288,307,354	100,477,146,092
Loan portfolio	1,162,125,401,370	1,035,022,724,752
Accounts and fees and commissions receivable	4,289,392,516	2,370,227,958
Guarantees granted	57,681,994,965	51,190,664,412
Letters of credit issued but unused	12,715,080,855	12,063,436,885
Confirmed letters of credit	977,876,792	1,845,252,600
Total	¢ <u>1,571,813,289,525</u>	<u>1,393,245,483,269</u>

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	Customers		Banks		Stand-by	
	2015	2014	2015	2014	2015	2014
<i>Individually assessed loans with allowance</i>						
A1	¢ 978,479,873,947	856,699,354,334	58,698,597,896	43,916,010,110	212,045,103,357	75,761,079,122
A2	3,937,956,952	6,871,566,007	-	-	440,728,227	-
B1	86,003,642,595	93,756,842,228	-	-	2,500,677,246	2,141,780,319
B2	4,157,270,835	2,076,982,678	-	-	-	-
C1	11,445,673,753	10,474,572,866	-	-	1,251,752,352	710,030,171
C2	2,029,340,975	503,803,358	-	-	-	35,521,779
D	5,444,965,347	1,992,307,114	-	-	757,043,411	543,783,868
E	29,962,252,068	32,341,851,353	-	-	-	89,757,977
Total	¢ 1,121,460,976,472	1,004,717,279,938	58,698,597,896	43,916,010,110	216,995,304,593	79,281,953,236
Allowance for loan losses	(15,895,621,029)	(11,925,280,560)	(117,397,196)	(35,132,808)	(157,692,086)	(123,847,714)
Carrying amount	¢ 1,105,565,355,443	992,791,999,378	58,581,200,700	43,880,877,302	216,837,612,507	79,158,105,522
<i>Past due loans without allowance</i>						
A1	-	-	-	-	-	117,283,254,810
A2	-	-	-	-	-	639,958,225
B1	-	-	-	-	8,512,361,963	3,838,598,000
B2	-	-	-	-	131,966,062	65,334,947
C1	-	-	-	-	715,797,092	2,569,153,338
C2	-	-	-	-	50,168,275	22,013,013
D	-	-	-	-	207,019,897	136,097,982
E	-	-	-	-	2,288,473,449	2,132,551,307
Carrying amount	¢ -	-	-	-	11,905,786,738	126,686,961,622
Excess allowance over structural allowance	(2,021,154,773)	(1,650,151,928)	-	-	(334,893,505)	(203,401,686)
Carrying amount, net	¢ 1,103,544,200,670	991,141,847,450	58,581,200,700	43,880,877,302	228,408,505,740	205,641,665,458

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Individually assessed loans with allowance

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

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

Restructured loans

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

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

As of December 31, 2015, restructured loans amount to ¢3,884,240,992 (2014: ¢4,957,882,437).

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Notes to Financial Statements

Allowance for loan losses*Borrower classification*

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

- a. Group 1: Borrowers with total outstanding balances that exceed the SUGEF limit (2015 and 2014: ₡65,000,000).
- b. Group 2: Borrowers with total outstanding balances that are less than or equal to the SUGEF limit (2015 and 2014: ₡65,000,000).

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

- a. balances of back-to-back operations and the portion of bonds, sureties, and letters of credit covered by a previous deposit are excluded, and
- b. the stand-by principal balance should be treated as a credit equivalent.

Risk ratings

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

Borrower categories*Analysis of creditworthiness*

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

- a. *Financial position and expected cash flows:* Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.
- b. *Experience in the line of business and quality of management:* Analysis of management's ability to lead the business with appropriate controls and adequate support from the owners.

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

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

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

Analysis of historical payment behavior

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

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

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Borrower classification

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

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

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

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

Direct classification in risk rating E

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

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Minimum allowance

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

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

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

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

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

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

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

In compliance with the provisions of SUGEF Directive 1-05, as of December 31, 2015, the Bank must maintain a minimum allowance of ¢16,326,923,706 (2014: ¢12,131,589,571). SUGEF External Circular Letter 021-2008 dated May 30, 2008 indicates that the expense for the allowance for loan losses corresponds to the amount necessary to achieve the minimum structural allowance. Furthermore, there must be a duly documented technical justification for any excess above the minimum structural allowance, which is to be sent to SUGEF with the authorization request. The excess may not surpass 15% of the minimum structural allowance for the loan portfolio. This notwithstanding, if any additional allowances are required above the 15%, they must be taken from net earnings for the period pursuant to article 10 of IRNBS. However, Official Letter SGF-3374-2015 dated December 17, 2015 annulled SUGEF Official Letter 021-2008. Consequently, as of December 31, 2015, there is no limit on the booking of allowances determined according to regulatory provisions; such allowances are charged to profit or loss for the year.

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.

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Notes to Financial Statements

Allowance for other assets

Allowances should be established for the following assets:

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

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

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

Loan charge-off policy

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

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

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

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Notes to Financial Statements

	2014			
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1	851,858,598,862	851,173,238,789	43,916,010,110	43,880,877,301
A2	6,826,538,694	6,821,041,441	-	-
B1	93,225,711,949	92,309,722,487	-	-
B2	2,063,266,040	2,033,071,067	-	-
C1	10,438,872,730	9,683,480,591	-	-
C2	500,431,581	457,582,099	-	-
D	1,976,709,683	1,435,931,664	-	-
E	31,837,918,336	22,888,699,175	-	-
	<u>998,728,047,875</u>	<u>986,802,767,313</u>	<u>43,916,010,110</u>	<u>43,880,877,301</u>

Guarantees

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	<u>2015</u>	<u>2014</u>
<u>Individually assessed loans with allowance (including the balance for loans in legal collections):</u>		
Real property	¢ 161,110,772,941	178,236,208,715
Personal property	25,380,659,664	16,422,109,215
Other (trusts)	34,052,928,271	26,907,527,857
Subtotal	<u>220,544,360,876</u>	<u>221,565,845,787</u>
<u>Past due loans without allowance:</u>		
Real property	22,669,643,925	28,251,876,458
Personal property	4,549,351,850	5,604,797,953
Other (trusts)	10,004,704,704	176,218,000
Subtotal	<u>37,223,700,479</u>	<u>34,032,892,411</u>
<u>Current loans without allowance:</u>		
Real property	760,918,219,648	732,150,299,299
Personal property	392,270,703,371	282,192,947,981
Financial instruments	364,313,600	131,715,212
Other (trusts)	278,512,234,935	632,410,802,482
Subtotal	<u>1,432,065,471,554</u>	<u>1,646,885,764,974</u>
Total	<u>¢ 1,689,833,532,909</u>	<u>1,902,484,503,172</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:

	2015	2014
Investment certificates	¢ 108,898,225,429	35,162,907,279
Fiduciary	160,859,411,941	219,883,385,939
Mortgage	655,106,685,607	623,122,166,243
Chattel mortgage	184,573,674,487	116,289,346,375
State banking	58,675,671,052	43,873,938,842
Total direct loans	1,168,113,668,516	1,038,331,744,678
Accrued interest receivable	12,045,905,852	10,301,545,370
Allowance for loan losses	(18,034,172,998)	(13,610,565,296)
Total	¢ 1,162,125,401,370	1,035,022,724,752

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:

	<u>2015</u>	<u>2014</u>
Agriculture, livestock, hunting, and related activities	¢ 194,388,563	739,586,362
Manufacturing industry	7,429,997,248	3,842,692,070
Electricity, telecommunications, gas, and water	8,002,976,650	4,628,576,690
Construction, purchase, and repair of property	359,105,946,832	359,746,945,449
Trade	188,320,869,103	203,267,332,615
Transportation	468,701,072	934,492,952
Stock market	59,519,603,308	46,575,603,993
Real estate, business, and leasing activities	1,114,774,221	1,696,801,943
Education	9,752,099	15,228,228
Services	299,813,300,021	203,376,141,000
Consumer	244,133,359,399	213,508,343,376
Total direct loans	<u>1,168,113,668,516</u>	<u>1,038,331,744,678</u>
Accrued interest receivable	12,045,905,852	10,301,545,370
Allowance for loan losses	(18,034,172,998)	(13,610,565,296)
Total	<u>¢ 1,162,125,401,370</u>	<u>1,035,022,724,752</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:

	2015	2014
Costa Rica	¢ 1,163,449,337,756	1,022,716,096,537
Rest of Central America	749,461,134	8,792,621,109
Rest of North and South America	830,976,686	2,179,974,457
Caribbean	26,330,732	285,178,457
United States of America	2,536,950,057	3,420,008,213
Europe	440,313,479	790,981,585
Asia	80,298,672	146,884,320
	¢ <u>1,168,113,668,516</u>	<u>1,038,331,744,678</u>

Loan portfolio by arrears

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

	2015	2014
Current	¢ 1,103,454,086,805	985,718,124,821
1 to 30 days	39,350,204,393	34,654,003,475
31 to 60 days	11,378,449,690	6,968,708,480
61 to 90 days	3,692,853,464	1,134,061,680
91 to 120 days	1,474,309,327	310,264,573
121 to 180 days	456,803,764	174,017,494
More than 180 days	212,121,339	60,409,525
In legal collections	8,094,839,734	9,312,154,630
Total direct loans	1,168,113,668,516	1,038,331,744,678
Accounts and accrued interest	12,045,905,852	10,301,545,370
Allowance for loan losses	(18,034,172,998)	(13,610,565,296)
Total	¢ <u>1,162,125,401,370</u>	<u>1,035,022,724,752</u>

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Concentration of the portfolio in individual borrowers or economic interest groups

	2015		2014	
	No. of customers	Amount	No. of customers	Amount
Less than 5% of				
capital and reserves	45,925	¢ 1,055,748,740,389	41,019	¢ 933,714,507,716
Between 5% and 10% of capital and reserves	3	36,833,257,075	2	15,463,566,510
Between 10% and 15% of capital and reserves	2	16,856,000,000	3	45,279,731,618
Between 15% and 20% of capital and reserves	1	58,675,671,052	2	43,873,938,834
Total	45,931	¢ 1,168,113,668,516	41,026	¢ 1,038,331,744,678

At the balance sheet date, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. In 2015, 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 ¢112,364,928,127 (2014: ¢104,617,236,962).

Amount and number of loans in non-accrual status

	2015	2014
Loans in non-accrual status	¢ 10,238,074,163	9,856,846,220
Number of loans in non-accrual status	1,015	743

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	2015	2014
Loans in legal collections	¢ 8,094,839,734	9,312,154,630
Number of loans in legal collections	362	453
Percentage of total portfolio	0.69%	0.90%

Investments by rating

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

	2015	2014
AAA	¢ 8,260,018	490,041,162
AA	19,271,580,983	15,840,257,194
A	13,298,500,000	23,998,950,000
BB	70,335,833,423	37,905,660,849
B	14,794,799,718	21,848,535,044
Unrated	117,708,974,142	100,083,444,249
Accrued interest receivable	579,333,212	393,701,843
Total	¢ 118,288,307,354	100,477,146,092

Investments by geographic area

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

	2015	2014
Costa Rica	¢ 104,357,270,924	76,031,155,248
Rest of North and South America	13,298,500,000	18,665,850,000
United States of America	53,203,218	5,386,439,001
Total investments	117,708,974,142	100,083,444,249
Accrued interest receivable	579,333,212	393,701,843
Total	¢ 118,288,307,354	100,477,146,092

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

ii. Interest rate risk

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

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

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

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

Interest rate gap measurement

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

Sensitivity analysis

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

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

The annual income limit is designed to protect short-term income. As of December 31, 2015, that limit was calculated based on the assumption that all variable interest rates on assets and liabilities that reprice within 12 months of the calculation date will increase or decrease by 1% for operations in both foreign and local currency in the comparative periods (2015 and 2014). In the event that variable interest rates change as indicated above, the Bank's asset and liability portfolios would increase or decrease by ¢7,222,045,494 in 2015 (2014: increase or decrease by ¢487,348,971).

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

	Effect on fair value	
	2015	2014
<u>Positive change</u>		
Investments	¢ (4,185,828,177)	(2,026,056,437)
Loan portfolio	(7,704,297,661)	(31,444,466,126)
Term deposits	(6,732,898,110)	(4,722,560,413)
Obligations with entities	(4,201,386,972)	(4,199,408,610)
<u>Negative change</u>		
Investments	¢ 5,735,904,469	2,764,510,471
Loan portfolio	7,955,160,845	34,272,168,993
Term deposits	6,980,055,522	4,864,453,464
Obligations with entities	4,358,498,338	4,343,990,638

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2014, 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	9.25%	¢ 82,737,438	70,546,676	5,952,901	19,516,233	40,307,902	12,489,382	231,550,532
Liabilities	5.35%	30,010,118	34,372,309	41,702,335	45,654,845	18,958,900	9,132,197	179,830,704
Gap between assets and liabilities		52,727,320	36,174,367	(35,749,434)	(26,138,612)	21,349,002	3,357,185	51,719,828
<u>Foreign currency</u>								
Assets	5.44%	259,753,585	408,274,215	39,395,610	46,841,028	96,789,382	64,470,864	915,524,684
Liabilities	2.44%	89,313,798	251,363,445	111,650,662	112,046,337	104,781,469	56,102,292	725,258,003
Gap between assets and liabilities		¢ 170,439,787	156,910,770	(72,255,052)	(65,205,309)	(7,992,087)	8,368,572	190,266,681

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2014, 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							More than 30 days past due	Total
	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365		
Cash and due from banks	¢ 49,161,053	-	-	-	-	-	-	-	49,161,053
Minimum cash reserve in BCCR	47,029,125	15,124,826	9,649,068	10,759,363	20,356,103	21,935,628	16,260,863	-	141,114,976
Investments	12,525,831	48,785,202	3,164,040	9,962	4,438,575	6,747,907	24,805,629	-	100,477,146
Loan portfolio	54,505,882	45,898,976	49,108,833	33,460,811	65,473,272	53,464,271	728,752,508	17,968,738	1,048,633,291
Total recovery of assets	163,221,891	109,809,004	61,921,941	44,230,136	90,267,950	82,147,806	769,819,000	17,968,738	1,339,386,466
Obligations with the public	296,668,025	92,166,490	58,725,882	67,762,755	126,871,466	138,336,575	102,674,854	-	883,206,047
Obligations with financial entities	1,927,335	16,156,904	9,258,120	24,881,794	33,550,391	41,399,175	158,473,882	-	285,647,601
Charges payable	-	5,144,259	-	-	-	-	-	-	5,144,259
Total maturity of liabilities	298,595,360	113,467,653	67,984,002	92,644,549	160,421,857	179,735,750	261,148,736	-	1,173,997,907
Gap	¢ (135,373,469)	(3,658,649)	(6,062,061)	(48,414,413)	(70,153,907)	(97,587,944)	508,670,264	17,968,738	165,388,559

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

		2015							
		Balance	Nominal cash flows	Year					Thereafter
				1	2	3	4	5	
Obligations:									
Demand obligations with the public	¢	314,097,099	314,097,099	314,097,099	-	-	-	-	-
Term obligations with the public		680,469,137	709,290,349	541,891,732	60,916,818	37,156,293	-	69,324,428	1,078
Obligations with entities		307,451,741	309,333,056	193,651,228	47,932,996	30,425,184	-	37,323,648	-
	¢	<u>1,302,017,977</u>	<u>1,332,720,504</u>	<u>1,049,640,059</u>	<u>108,849,814</u>	<u>67,581,477</u>	<u>-</u>	<u>106,648,076</u>	<u>1,078</u>
		2013							
		Balance	Nominal cash flows	Year					Thereafter
				1	2	3	4	5	
Obligaciones:									
Demand obligations with the public	¢	296,668,025	296,668,025	296,668,025	-	-	-	-	-
Term obligations with the public		586,538,021	604,591,433	501,002,384	61,119,411	17,322,128	-	24,039,163	1,108,347
Obligations with entities		287,902,087	284,855,875	122,372,950	113,947,553	29,699,454	-	18,835,918	-
	¢	<u>1,171,108,133</u>	<u>1,186,115,333</u>	<u>920,043,359</u>	<u>175,066,964</u>	<u>47,021,582</u>	<u>-</u>	<u>42,875,081</u>	<u>1,108,347</u>

(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, 2015 and 2014, 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, assets and liabilities denominated in foreign currency are as follows:

	2015			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
<u>Assets</u>				
Cash and due from banks	254,401,364	2,774,544	1,628,758	16,335
Investments in financial instruments	119,172,998	-	-	-
Loan portfolio	1,744,317,660	-	840,618	-
Accounts and fees and commissions receivable	6,911,764	53,265	-	-
Investments in other companies	1,047	-	-	-
Other assets	2,212,857	-	-	-
Total assets	2,127,017,690	2,827,809	2,469,376	16,335
<u>Liabilities</u>				
Obligations with the public	1,246,248,262	1,233,422	2,640,643	-
Obligations with entities	596,990,798	-	-	-
Other accounts payable and provisions	9,385,130	1,245,475	-	-
Other liabilities	9,405,046	-	-	-
Total liabilities	1,862,029,236	2,478,897	2,640,643	-
Excess of assets over liabilities	264,988,454	348,912	(171,267)	16,335

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

	2014			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
<u>Assets</u>				
Cash and due from banks	245,340,063	2,235,145	2,210,733	-
Investments in financial instruments	140,606,674	-	-	-
Loan portfolio	1,573,344,972	-	611,908	-
Accounts and fees and commissions receivable	3,132,286	-	-	-
Investments in other companies	1,043	-	-	-
Other assets	4,823,614	1,456	-	-
Total assets	1,967,248,652	2,236,601	2,822,641	-
<u>Liabilities</u>				
Obligations with the public	1,701,674,015	657,112	1,886,147	-
Obligations with BCCR	-	-	311,292	-
Other accounts payable and provisions	8,115,560	1,644,106	-	-
Other liabilities	5,678,399	-	880	-
Total liabilities	1,715,467,974	2,301,218	2,198,319	-
Excess of assets over liabilities	251,780,678	(64,617)	624,322	-

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

As of December 31, 2014, the Bank's equity included ordinary shares for a total of US\$188,873,384 (equivalent to ¢94,127,341,405.66).

(Continued)

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Notes to Financial Statements

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

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

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

(Continued)

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As of December 31, 2014, 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							More than 30 days past due	Total
		Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365		
Cash and due from banks	US\$	59,191	-	-	-	-	-	-	-	59,191
Minimum cash reserve in BCCR		61,678	20,597	13,742	15,381	27,020	28,912	23,432	-	190,762
Investments		17,041	73,137	5,891	10	4,584	10,067	29,876	-	140,606
Loan portfolio		74,429	48,255	45,265	35,335	95,189	82,313	1,184,640	29,331	1,594,757
Total recovery of assets		212,339	141,989	64,898	50,726	126,793	121,292	1,237,948	29,331	1,985,316
Obligations with the public		380,049	127,645	84,263	95,282	165,753	178,419	145,213	-	1,176,624
Obligations with financial entities		2,182	23,436	14,051	46,302	60,236	76,698	297,152	-	520,057
Charges payable		-	6,188	-	-	-	-	-	-	6,188
Total maturity of liabilities		382,231	157,269	98,314	141,584	225,989	255,117	442,365	-	1,702,869
Gap	US\$	(169,892)	(15,280)	(33,416)	(90,858)	(99,196)	(133,825)	795,583	32,077	282,447

(Continued)

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Notes to Financial Statements

Sensitivity analysis

As of December 31, 2015 and 2014, the sensitivity analysis for the net position in foreign currency (total assets in foreign currency - total liabilities in foreign currency) is based on the buy reference rate in for the U.S. dollar. The position of the U.S. dollar is 99.5% of the total net position in foreign currency and is the vehicle currency to acquire currencies other than the U.S. dollar.

For December 31, 2015 and 2014, the maximum annual expected variation of the reference buy exchange rate of ¢69.27 and ¢73.23, respectively, has been determined through the calculation of a Value at Risk indicator, based on a historical analysis methodology, with a 99% confidence level and over a one-year holding period. Based on such holding period, the positive or negative effect of the increase or decrease in the exchange rate of the colon with respect to the U.S. dollar for the years ended December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
<u>Effect on profit or loss</u>		
Exchange rate variation		
Assets	¢ 150,862,847,622	144,452,184,170
Liabilities	(129,306,346,667)	(125,962,963,979)
Net	<u>¢ 21,556,500,955</u>	<u>18,489,220,191</u>

vi. Operational risk

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

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

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

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

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

vii. Capital risk

As of December 31, 2015, Costa Rican banking legislation requires private banks to maintain minimum paid-in capital greater than or equal to ¢12,946 million (2014: ¢11,917 million) as well as equity for an amount greater than or equal to 10% of risk-weighted assets, including off-balance sheet financial instruments.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

As of December 31, 2015 and 2014, the Bank's capital requirement based on its risk-weighted assets pursuant to SUGEF regulations is determined as described below.

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

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

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

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

	<u>2015</u>	<u>2014</u>
Tier I capital:		
Paid-up capital	¢ 139,309,891,406	94,127,341,406
Legal reserve	10,715,939,895	10,185,428,762
	<u>150,025,831,301</u>	<u>104,312,770,168</u>
Tier II capital:		
Revaluation adjustment	4,777,006,979	3,035,037,425
Non-capitalized contributions	14,957,901	32,011,757,901
Prior period retained earnings	443,987,604	3,169,053,332
Profit or loss for the period, net of appropriation to legal reserve	4,774,600,207	10,460,684,272
	<u>10,010,552,691</u>	<u>48,676,532,930</u>
Equity adjustments:		
Investments in other companies	(557,006)	(557,006)
	<u>(557,006)</u>	<u>(557,006)</u>
Total base capital	¢ <u>160,035,826,986</u>	<u>152,988,746,092</u>

As of December 31, 2015 and 2014, 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 market information concerning the financial instruments. These estimates do not reflect any premium or discount that could result from offering for sale a particular financial instrument at a given date. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Estimates could vary significantly if changes are made to those assumptions. In conformity with IFRSs, underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention to liquidate, curtail materially the scale of its operations, or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an enterprise would receive or pay in a forced transaction, involuntary liquidation, or distress sale.

(Continued)

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

	<u>2015</u>	<u>2014</u>
<u>Carrying amount</u>		
Cash and due from banks	¢ 215,735,235,673	190,276,030,570
Investments:		
Trading	19,046,020,386	12,132,129,546
Available for sale	98,662,953,756	87,951,314,703
Loan portfolio	1,168,113,668,516	1,035,022,724,752
Demand deposits	314,097,099,405	296,668,025,044
Term deposits	680,469,137,477	586,538,021,062
Financial obligations	341,184,104,488	287,902,086,772
<u>Fair value</u>		
Cash and due from banks	¢ 215,735,235,673	190,276,030,570
Investments:		
Trading	19,046,020,386	12,132,129,546
Available for sale	98,662,953,756	87,951,314,703
Loan portfolio	1,192,849,932,971	828,643,828,134
Demand deposits	314,097,099,405	296,668,025,044
Term deposits	676,439,144,716	585,363,495,993
Financial obligations	292,934,569,618	271,432,523,858

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

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

(Continued)

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Notes to Financial Statements

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

Fair value of financial instruments

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

		2015			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	98,662,953,756	-	-	98,662,953,756
Trading	¢	-	19,046,020,386	-	19,046,020,386
		2014			
		Level 1	Level 2	Level 3	Total
Available for sale	¢	87,951,314,703	-	-	87,951,314,703
Trading	¢	-	12,132,129,546	-	12,132,129,546

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

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

(Continued)

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Notes to Financial Statements

29. Concentration of assets and liabilities by geographic region

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

	2015	2014
<u>Assets:</u>		
Costa Rica	¢ 1,445,810,288,322	1,285,639,968,452
Rest of Central America	1,162,268,185	9,218,300,399
Rest of North and South America	1,369,198,276	3,114,097,974
Caribbean	50,067,317,347	18,962,797,617
United States of America	29,877,135,100	32,223,752,532
Europe	854,397,657	1,684,715,746
Asia	80,703,760	147,503,520
Total assets	¢ <u>1,529,221,308,647</u>	<u>1,350,991,136,240</u>
<u>Liabilities:</u>		
Costa Rica	¢ 1,001,698,784,259	886,872,743,361
Rest of Central America	26,781,917,314	28,971,423,505
Rest of North and South America	22,215,715,991	45,827,190,006
Caribbean	225,779,946,665	156,182,039,700
United States of America	82,597,092,543	72,504,524,569
Europe	7,205,219,088	6,002,039,854
Africa	734,251	1,262,745
Asia	766,493,151	440,659,269
Total liabilities	¢ <u>1,367,045,903,262</u>	<u>1,196,801,883,009</u>

30. Agreements

As of December 31, 2015 and 2014, 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.

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

- Leases may be terminated by either party provided that advance notice is given in accordance with the time period established in the respective agreement.
- b) Leases for warehouses, mainly to hold assets received in lieu of payment or assets in foreclosure.

For leases in effect as of December 31, 2015, projected lease payments for the upcoming years are as follows:

Year		Amount
2016	¢	1,169,250,931
2017		1,105,933,049
2018		879,232,987
2019		578,321,976
2020		400,686,465
More than 5 years		470,637,639
	¢	<u>4,604,063,047</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.

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 ¢729,207,358 for the income tax adjustments as follows:

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

(Continued)

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

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

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

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

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

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

(Continued)

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Notes to Financial Statements

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

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

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

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

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

(Continued)

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

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

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

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

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

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Notes to Financial Statements

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

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

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

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

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

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

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

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

As of the date of this report, the proceedings have been adjourned, given that the Large Taxpayer Administration cannot issue the jeopardy assessment of taxes because the regulation that authorized the Tax Administration to do so is under consideration of the Constitutional Court in view of a constitutional motion that has not been resolved as of December 31, 2015. Consequently, the jeopardy assessment of taxes has been postponed and is not final. Accordingly, the Bank's financial statements do not include a provision for the potential disbursements that may be required until the jeopardy assessment of taxes is resolved.

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.

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Notes to Financial Statements

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

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

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

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

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

b) IAS 7: Statement of Cash Flows

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

c) IAS 12: Income Taxes

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

d) IAS 16: Property, Plant and Equipment

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

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

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

(Continued)

SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

e) IAS 18: Revenue

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

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

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

- The Board requires that fee and commission income be recognized as a liability and booked under "Deferred income" (liability) and incremental direct costs amortized in "Deferred charges" (asset). Under IAS 39, fees and commissions and incremental costs are part of the amortized cost of financial instruments, rather than separate assets and liabilities.
- The Board requires that fee and commission income be deferred in "Other income" and costs be amortized in "Other expenses". Under IAS 18 and IAS 39, income and costs must be booked as part of "Finance income on financial instruments".

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SCOTIABANK DE COSTA RICA, S.A.

Notes to Financial Statements

- The Board requires that the effective interest rate be calculated over the financial instrument's contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).
- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the period.

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

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

g) IAS 27: Consolidated and Separate Financial Statements

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

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

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Notes to Financial Statements

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

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

h) IAS 28: Investments in Associates

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

i) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

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Notes to Financial Statements

l) IAS 38: Intangible Assets

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

m) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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

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

(Continued)

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Notes to Financial Statements

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

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

n) 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.

o) Revised IFRS 3: Business Combinations

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

(Continued)

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Notes to Financial Statements

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

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

q) IFRS 9: Financial Instruments

IFRS 9 replaces IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 amends the classification and measurement requirements for financial instruments, including a new financial instrument impairment model based on the premise of providing for expected credit losses and the new guidelines on hedge accounting. IFRS 9 does not change the principles for financial instrument recognition and derecognition provided for under IAS 39.

This Standard has not been adopted by the Board.

r) IFRS 10: Consolidated Financial Statements

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

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

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

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

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Notes to Financial Statements

s) IFRS 11: Joint Arrangements

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

t) IFRS 12: Disclosure of Interests in Other Entities

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

u) IFRS 13: Fair Value Measurement

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

v) IFRS 14: Regulatory Deferral Accounts

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

w) IFRS 15: Revenue from Contracts with Customers

This Standard was approved by the Board in May 2014. It provides a global framework for the recognition of revenue from contracts with customers and establishes the principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. This Standard replaces IAS 11, IAS 18, IFRS 13, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31. This Standard is effective for annual periods beginning on or after January 1, 2017. Early application is permitted. This Standard has not been adopted by the Board.

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Notes to Financial Statements

x) IFRIC 10: Interim Financial Reporting and Impairment

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

y) IFRIC 21: Levies

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

33. 2014 figures

Certain 2014 figures have been reclassified for purposes of comparison with the 2015 figures, as explained below:

Pursuant to article 8 of the minutes of meeting No. 1171-2015 held on June 1, 2015, CONASSIF informed through Notice C.N.S. 1171-08 dated June 2, 2015 of the agreement reached to amend the example statement of comprehensive income included in SUGEF Directive 31-04 "Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates," requiring the following amendments:

For the year ended December 31, 2015, foreign exchange gains and losses are presented on a net basis in the finance income section under "Gain (loss) on foreign exchange differences, net". In the 2014 audited financial statements, foreign exchange gains and losses were presented in the finance income and finance costs sections and amounted to ¢161,994,974,584 and ¢152,768,279,186, respectively.