

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

December 31, 2013

(With corresponding figures for 2012)

(With Independent Auditors' Report Thereon)

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



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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Grupo BNS de Costa Rica, S.A. and Subsidiaries (the Corporation), which comprise the consolidated balance sheet as of December 31, 2013, and the consolidated statements of income, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The consolidated 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

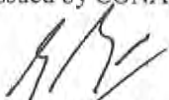
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo BNS de Costa Rica, S.A. and Subsidiaries as of December 31, 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF.

Basis of Accounting

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


March 20, 2014

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

KPMG

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

KPMG, S.A., una sociedad anónima costarricense, es
firma miembro de KPMG International Cooperative, una
cooperativa suiza.




GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As of December 31, 2013
(With corresponding figures for 2012)
(In colones)

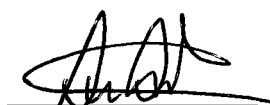
	Note	2013	2012
ASSETS			
Cash and due from banks	4 & 31	175,727,007,753	163,392,999,555
Cash		17,833,831,968	15,826,648,117
Central Bank		121,001,258,711	118,593,697,769
Local financial entities		943,272,064	484,873,566
Foreign financial entities		11,454,318,925	8,104,679,778
Other cash and due from banks		24,494,326,085	20,383,100,325
Investments in financial instruments	5 & 31	83,311,013,865	70,762,860,264
Trading		5,879,467,564	5,468,234,684
Available for sale		76,533,367,049	64,010,977,655
Accrued interest receivable		898,179,252	1,283,647,925
Loan portfolio	6 & 31	960,341,903,278	928,180,557,822
Current		905,023,978,780	870,110,652,033
Past due		46,263,966,002	51,397,858,207
In legal collections		11,302,430,080	10,954,936,402
Accrued interest receivable		9,000,149,808	8,501,004,442
(Allowance for loan losses)	6-b	(11,248,621,392)	(12,783,893,262)
Accounts and fees and commissions receivable	7	4,079,861,315	2,972,642,574
Fees and commissions		110,690,778	84,525,172
Accounts receivable for brokerage transactions		753,642	9,415,394
Accounts receivable for related party transactions	3	413,689,474	308,422,616
Deferred tax receivable	14	444,124,078	450,170,190
Other accounts receivable		4,414,886,702	3,548,728,258
(Allowance for doubtful accounts and fees and commissions receivable)	7	(1,304,283,359)	(1,428,619,056)
Foreclosed assets	8	2,937,080,710	2,153,012,243
Assets and securities acquired in lieu of payment		10,644,369,682	9,127,178,779
Other		319,062,752	248,362,456
(Allowance for impairment and per legal requirement)		(8,026,351,724)	(7,222,528,992)
Investments in other companies, net		23,964,729	1,595,444,325
Property and equipment, net	9	13,868,185,300	13,062,104,777
Investment property	10	2,369,096,198	2,345,790,249
Other assets	11	10,600,551,954	7,466,247,528
Deferred charges		901,110,952	596,880,105
Intangible assets		1,352,871,154	1,947,163,970
Other assets		8,346,569,848	4,922,203,453
TOTAL ASSETS		1,253,258,665,102	1,191,931,659,337

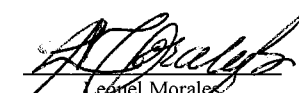
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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As of December 31, 2013
(With corresponding figures for 2012)
(In colones)

	Note	2013	2012
<u>LIABILITIES AND EQUITY</u>			
<u>LIABILITIES</u>			
Obligations with the public	12 & 31	751,418,102,915	709,433,336,215
Demand		236,998,193,424	221,673,391,923
Term		511,254,582,949	481,119,425,486
Other obligations with the public		-	3,373,952,776
Finance charges payable		3,165,326,542	3,266,566,030
Obligations with entities	13 & 31	316,016,405,542	301,701,519,919
Demand		608,262,012	1,725,154,318
Term		313,504,830,930	298,017,112,366
Other obligations with entities		785,749,050	809,615,996
Finance charges payable		1,117,563,550	1,149,637,239
Accounts payable and provisions	15	19,094,290,078	25,129,330,099
Accounts payable for brokerage services		480,204,864	888,486,054
Deferred tax payable	14	2,712,647,213	2,724,913,750
Provisions	15-a	4,613,787,618	4,641,900,069
Other sundry accounts payable		11,287,650,383	16,874,030,226
Other liabilities	16	1,913,794,889	1,589,462,952
Deferred income		260,799,702	253,516,302
Allowance for stand-by credit losses	6-c	158,653,150	256,242,777
Other liabilities		1,494,342,037	1,079,703,873
TOTAL LIABILITIES		1,088,442,593,424	1,037,853,649,185
<u>EQUITY</u>			
Share capital		99,551,201,391	69,477,602,250
Paid-up capital	17-a	99,551,201,391	69,477,602,250
Non-capitalized capital contributions	17-b	993,101,251	30,999,501,251
Equity adjustments		4,044,936,035	3,303,760,121
Surplus from revaluation of property	17-c	4,046,716,566	4,046,716,566
Adjustment for valuation of available-for-sale investments	17-e	(1,780,531)	(197,330,199)
Adjustment for financial statement translation		-	(545,626,246)
Equity reserves	17-d	11,956,456,546	11,081,327,451
Prior period retained earnings	17-f	39,215,819,075	28,880,230,589
Income for the year		9,054,557,380	10,335,588,490
TOTAL EQUITY		164,816,071,678	154,078,010,152
TOTAL LIABILITIES AND EQUITY		1,253,258,665,102	1,191,931,659,337
DEBIT MEMORANDA ACCOUNTS	19	181,070,764,405	158,840,375,948
TRUST ASSETS	20	284,145,811,703	265,424,914,730
TRUST LIABILITIES		40,446,788,162	14,939,990,247
TRUST EQUITY		243,699,023,541	250,484,924,483
OTHER DEBIT MEMORANDA ACCOUNTS	22	5,504,793,548,266	5,697,187,367,945
Own accounts		4,752,014,624,847	5,028,903,435,773
Third party accounts		181,247,374,457	149,414,216,018
Own accounts for custodial activities		38,944,783,140	31,774,787,063
Third party accounts for custodial activities		532,586,765,822	487,094,929,091


Carlos Brina
Assistant General Manager



Sergio Soto
Accountant


Leonel Morales
Internal Auditor


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

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2013
(With corresponding figures for 2012)
(In colones)


	Note	2013	2012
Finance income			
Cash and due from banks		112,270	27,112,321
Investments in financial instruments		4,595,340,115	4,548,304,957
Loan portfolio	25	66,226,582,284	65,042,757,261
Financial leases		4,908,053,864	5,668,716,210
Gain on available-for-sale financial instruments	5	810,830,730	53,932,923
Other finance income		1,750,144,893	1,533,818,204
Total finance income		78,291,064,156	76,874,641,876
Finance expense			
Obligations with the public	26-a	24,374,174,082	21,706,831,568
Obligations with financial entities	26-b	6,534,797,710	6,599,894,743
Loss on foreign exchange differences and "development units"	27	1,745,247,243	575,188,778
Loss on available-for-sale financial instruments	5	169,702,955	183,558,478
Other finance expense		159,566,763	187,586,187
Total finance expense		32,983,488,753	29,253,059,754
Allowance for impairment of assets	6-b, 6-c, & 7	2,457,156,261	3,625,035,110
Recovery of assets and decrease in allowances and provisions		777,891,126	270,031,953
GROSS FINANCE INCOME		43,628,310,268	44,266,578,965
Other operating income			
Service fees and commissions	28	17,289,656,390	15,341,460,661
Foreclosed assets		45,681,343	121,836,253
Gain on investments in other companies		-	50,838,561
Foreign currency exchange and arbitrage		5,263,200,342	5,040,208,620
Other income with related parties		1,327,519,856	-
Other operating income		9,023,170,367	11,882,942,058
Total other operating income		32,949,228,298	32,437,286,153
Other operating expenses			
Service fees and commissions		3,613,627,420	3,034,815,821
Foreclosed assets		2,253,697,377	3,258,368,107
Loss on liquidation of nonconsolidable subsidiary		642,781,956	-
Sundry assets		59,000,060	80,608,063
Provisions		1,266,447,182	1,605,627,554
Foreign currency exchange and arbitrage		204,290,269	108,545,068
Other expenses with related parties		30,093,101	-
Other operating expenses		6,887,117,327	6,585,064,649
Total other operating expenses		14,957,054,692	14,673,029,262
GROSS OPERATING INCOME		61,620,483,874	62,030,835,856
Administrative expenses			
Personnel expenses	29	26,753,472,670	25,632,019,284
Other administrative expenses	30	20,180,503,623	19,728,074,401
Total administrative expenses		46,933,976,293	45,360,093,685
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS			
Income tax	14	14,686,507,581	16,670,742,171
Deferred tax	14	(4,297,550,038)	(5,935,000,497)
Statutory allocations		90,027,418	1,342,679,616
		(549,298,486)	(681,192,509)
INCOME FOR THE YEAR		9,929,686,475	11,397,228,781



Carlos Brina
Assistant General Manager



Sergio Soto
Accountant

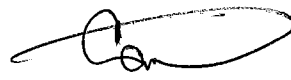


Leonel Morales
Internal Auditor

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

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


Note	Equity adjustments					Total equity adjustments	Equity reserves	Prior period retained earnings	Total
	Share capital	Non-capitalized capital contributions	Revaluation of property	Adjustment for financial statement translation	Change in fair value of available-for-sale investments				
Balance at December 31, 2011	69,477,602,250	33,038,181,350	4,046,716,566	(517,035,740)	(306,715,007)	3,222,965,819	10,019,687,160	28,880,230,589	144,638,667,168
Adjustment for financial statement translation	-	-	-	(87,090,964)	-	(87,090,964)	-	-	(87,090,964)
Unrealized loss on valuation of available-for-sale investments	-	-	-	-	(20,240,747)	(20,240,747)	-	-	(20,240,747)
Realized loss on disposal of available-for-sale investments	-	-	-	-	129,625,555	129,625,555	-	-	129,625,555
Appropriation to legal reserve	-	-	-	-	-	-	1,061,640,291	(1,061,640,291)	-
Income for the year	-	-	-	-	-	-	-	11,397,228,781	11,397,228,781
Return of paid-up contributions through assignment of subsidiary shares	-	(2,038,680,099)	-	58,500,458	-	58,500,458	-	-	(1,980,179,641)
Balance at December 31, 2012	69,477,602,250	30,999,501,251	4,046,716,566	(545,626,246)	(197,330,199)	3,303,760,121	11,081,327,451	39,215,819,079	154,078,010,152
Adjustment for financial statement translation	-	-	-	(82,501,010)	-	(82,501,010)	-	-	(82,501,010)
Liquidation of adjustment for financial statement translation due to liquidation of nonconsolidable subsidiary	-	-	-	628,127,256	-	628,127,256	-	-	628,127,256
Unrealized gain on valuation of available-for-sale investments	-	-	-	-	836,677,443	836,677,443	-	-	836,677,443
Realized gain on disposal of available-for-sale investments	-	-	-	-	(641,127,775)	(641,127,775)	-	-	(641,127,775)
Appropriation to legal reserve	-	-	-	-	-	-	875,129,095	(875,129,095)	-
Income for the year	-	-	-	-	-	-	-	9,929,686,475	9,929,686,475
Conversion of non-capitalized capital contributions into ordinary registered shares	30,073,599,141	(30,006,400,000)	-	-	-	-	-	-	67,199,141
Balance at December 31, 2013	99,551,201,391	993,101,251	4,046,716,566	-	(1,780,531)	4,044,936,035	11,956,456,546	48,270,376,455	164,816,071,678



Carlos Brina
Assistant General Manager



Sergio Soto
Accountant



Leniel Morales
Internal Auditor


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

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2013
(With corresponding figures for 2012)
(In colones)


	Note	2013	2012
Cash flows from operating activities			
Income for the year		9,929,686,475	11,397,228,781
Items not requiring cash			
Net gain on foreign exchange differences and "development units"		(396,678,404)	(1,068,998,104)
Net effect on profit or loss of subsidiaries transferred through assignment of shares		(20,938,783)	75,548,067
Loss on financial statement translation effect due to liquidation of nonconsolidable foreign subsidiary		628,924,195	-
Effect of adjustment from valuation of share capital denominated in U.S. dollars		67,199,141	-
Loss on allowance for loan losses		2,051,580,634	2,128,522,454
Expense for provision for severance benefits		150,000,000	224,466,730
Loss on other allowances		1,507,883,935	2,797,422,093
Expense for provision for credit card miles		1,215,500,000	1,402,000,000
Expense for other provisions		2,316,258,166	1,873,338,832
Depreciation and amortization	9 & 11	1,864,208,251	1,776,147,294
Income from deferred tax	14	(90,027,418)	(1,342,679,616)
Net gain on investments in other companies		(20,171,485)	(50,838,561)
Loss on disposal of assets		39,496,395	35,112,810
Loss on valuation of investment property at fair value		-	598,583,285
Finance income		(75,729,976,263)	(75,259,778,428)
Finance expense		30,908,971,792	28,306,726,311
Income tax	14	4,297,550,038	4,592,320,881
		(21,280,533,331)	(22,514,877,171)
Net (increase) decrease in assets			
Trading securities		(31,999,113,600)	588,005,865
Loans and cash advances		(48,764,238,461)	(50,174,569,049)
Accounts and fees and commissions receivable		(1,473,817,974)	1,145,316,221
Foreclosed assets		2,281,730,062	2,790,904,980
Net increase (decrease) in liabilities			
Demand and term obligations		49,574,426,098	39,481,660,453
Other accounts payable and provisions		(6,591,011,495)	(1,790,253,881)
Other liabilities		324,331,933	2,599,707,956
		(57,928,226,768)	(27,874,104,626)
Interest collected		75,616,299,570	74,466,147,909
Interest paid		(31,042,284,969)	(27,774,348,506)
Taxes paid		(7,268,173,246)	(3,972,871,196)
Net cash flows (used in) from operating activities		(20,622,385,413)	14,844,823,581
Cash flows from investing activities			
Increase in financial instruments		(4,891,999,748,545)	(3,168,881,164,005)
Decrease in financial instruments		4,910,789,775,251	3,163,576,137,045
Acquisition of property, furniture and equipment	9	(1,767,123,519)	(1,118,792,199)
Other assets		(4,076,966,076)	(2,454,772,021)
Net cash flows from (used in) investing activities		12,945,937,111	(8,878,591,180)
Cash flows from financing activities			
Other new financial obligations		238,455,084,564	206,771,656,743
Settlement of obligations		(219,952,981,196)	(204,462,086,976)
Investing activities of nonconsolidable subsidiary, net of taxes paid	17-b	318,310,313	-
Cash from liquidation of nonconsolidable subsidiary		1,190,042,819	-
Cash from subsidiaries transferred through assignment of shares	17-b & 36	-	(1,506,753,898)
Net cash flows from financing activities		20,010,456,500	802,815,869
Net increase in cash and cash equivalents		12,334,008,198	6,769,048,270
Cash at beginning of year		163,392,999,555	156,623,951,285
Cash at end of year		175,727,007,753	163,392,999,555



Carlos Brina
Assistant General Manager



Sergio Soto
Accountant



Leonel Morales
Internal Auditor

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2013

(With corresponding figures for 2012)

1. Summary of operations and significant accounting policies

(a) Reporting entity

Grupo BNS de Costa Rica, S.A. (the Corporation) was organized in October 1998 in the Republic of Costa Rica. It is regulated by the National Financial System Oversight Board (CONASSIF), the Board of Directors of the Central Bank of Costa Rica, and the Superintendency General of Financial Entities (SUGEF). The address of the Corporation's registered office is Sabana Norte, Avenida de las Américas, San José, Republic of Costa Rica.

The Corporation, through its subsidiaries, is dedicated to brokerage and financial intermediation activities, securities trading, insurance brokerage, investment fund management, the leasing of assets, investment banking, and other activities permitted under the Internal Regulations of the Central Bank of Costa Rica.

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

As of December 31, 2013, the Corporation has 1,243 employees (2012: 1,272 employees), operates 35 branches (2012: 37 branches), and has a network of 145 automated teller machines (2012: 132 automated teller machines) managed by Scotiabank de Costa Rica, S.A.

The Corporation's website is www.scotiabankcr.com.

(b) Basis of preparation

i. Statement of compliance

The consolidated financial statements have been prepared in accordance with accounting regulations issued by CONASSIF, SUGEF, the National Securities Commission (SUGEVAL), and the Superintendency General of Insurance (SUGESE).

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The consolidated financial statements were authorized for issue by the Board of Directors on March 20, 2014.

ii. Basis of measurement

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

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

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

(c) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to directly or indirectly govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences.

As of December 31, the consolidated financial statements include the financial figures of the following subsidiaries:

<u>Name of subsidiary</u>	<u>Ownership interest</u>	
	<u>2013</u>	<u>2012</u>
Scotiabank de Costa Rica, S.A.	100%	100%
Scotia Valores, S.A.	100%	100%
Scotia Leasing de Costa Rica, S.A.	100%	100%
Scotia Sociedad de Fondos de Inversión, S.A.	100%	100%
Scotia Corredora de Seguros, S.A.	100%	100%

On April 24, 2012, CONASSIF authorized the withdrawal from BNS de Costa Rica, S.A. financial group of Scotia Leasing Nicaragua, S.A., Scotia Leasing Honduras, S.A., Scotia Leasing Guatemala, S.A., Arrendadora Interfin El Salvador, S.A. de C.V., Corporación Privada de Inversiones de Centroamérica, S.A., Scotia Leasing Panamá, S.A., Corporación Privada de Inversiones, S.A., and Scotia Trust de Costa Rica, S.A. starting January 1, 2012 (see note 36).

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At the General Ordinary and Extraordinary Shareholders' Meeting held on February 16, 2012, an agreement was reached to modify the articles of incorporation of the subsidiary Scotia Corredora de Seguros, S.A. to change its name from Scotia Agencia de Seguros, S.A. to Scotia Corredora de Seguros, S.A. This change was approved by SUGESE through letter SGS-DES-R-920-2012 of November 15, 2012 and recorded in the Public Registry through a deed dated November 28, 2012.

In preparing the consolidated financial statements, the individual financial statements of the controlling company and its subsidiaries were consolidated line by line. The carrying amounts of the controlling company's investments in its subsidiaries and the balances arising from intra-group transactions were eliminated. As explained below, the financial statements of Financiera Arrendadora Centroamericana, S.A. (FINARCA) were not included in the consolidated financial statements as of December 31, 2012. The Corporation's investments in those subsidiaries were accounted for by the equity method.

CONASSIF regulations stipulate that irrespective of control, the controlling company must consolidate the financial statements of any subsidiary in which it holds an ownership interest of 25% or more. Such consolidation was not performed for the year ended December 31, 2012 in respect of FINARCA, which is an entity wholly owned by the Corporation, because its inclusion in the financial group has not been authorized by SUGEF. Failure to include the financial statements of FINARCA in the Corporation's consolidation process does not comply with International Financial Reporting Standards (IFRSs).

During the year ended December 31, 2013, the controlling company ceased the operations of FINARCA, which was approved by the Superintendency General of Financial Entities of Nicaragua in November 2013. As a result of the liquidation of the nonconsolidable subsidiary, the controlling company received a reimbursement of its investment in the amount of ¢318,310,313 (equivalent to US\$644,993) net of taxes paid in Nicaragua and ¢1,190,042,819 (equivalent to US\$2,411,385) as reimbursement of equity at the date of liquidation. Additionally, an adjustment was made for the translation of the financial statements of the foreign nonconsolidable subsidiary. That adjustment was recognized in profit or loss for the year in the amount of ¢628,127,256.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Functional and presentation currency

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

As of December 31, 2013 and 2012, the accounting records of the Costa Rican subsidiaries are kept in colones. As of December 31, 2012, FINARCA's accounting records are kept in Nicaraguan cordobas.

(e) 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 that have 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 the Banco Central de Costa Rica (BCCR) by using exchange rate bands. As of December 31, 2013, the exchange rate was established at ¢495.01 and ¢507.80 to US\$1.00 for the purchase and sale of U.S. dollars, respectively (2012: ¢502.07 and ¢514.32, respectively).

iii. Valuation method for assets and liabilities

As of December 31, 2013, assets and liabilities denominated in U.S. dollars, Canadian dollars, and euros were valued at the buy rates of ¢495.01 to US\$1.00 (2012: ¢502.07 to US\$1.00), ¢462.93 to CAD\$1.00 (2012: ¢504.64 to CAD\$1.00), and ¢682.62 to €1.00 (2012: ¢663.28 to €1.00), respectively, in accordance with CONASSIF regulations.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iv. Financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries have been translated as follows:

- Assets and liabilities have been translated at the closing exchange rate.
- Equity has been translated at the exchange rate in effect on the transaction date (historical rates).
- Income and expenses have been translated at average exchange rates for the year.
- The effect of translation of the financial statements of foreign subsidiaries is presented in the “Adjustment for financial statement translation” account in equity. Accumulated gains or losses arising on translation in prior years are presented in the “Prior year retained earnings” account.
- The translation of financial statements gave rise to an adjustment for translation in the amount of ¢82,501,010 for the nine months ended September 30, 2013 (December 31, 2012: ¢87,090,964). As a result of the termination of operations of the Nicaraguan subsidiary in October 2013, an accumulated adjustment for translation was made as of that date in the amount of ¢628,127,256 and presented in profit or loss for the year.

(f) Financial assets and liabilities

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. The Corporation’s instruments include cash and due from banks (cash and cash equivalents), investments in financial instruments, loan portfolio, receivables, derivative instruments, demand and term deposits, obligations, and payables, as discussed below.

i. Recognition

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. *Classification*

- Cash and cash equivalents

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

Cash and cash equivalents are carried at 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.

The loan portfolio also includes finance leases, which mainly correspond to leases of vehicles, computer hardware, and machinery and equipment. Finance leases are recognized by the finance method, which recognizes finance leases at the present value of the future cash flows of the corresponding agreement. The difference between the total contractual amount and the cost of the leased asset is recorded as unearned interest and amortized to loan interest income accounts over the life of the lease by the effective interest method.

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

The loan portfolio is presented at the value of outstanding principal. Interest on loans is calculated based on the outstanding principal and contractual interest rates, and is accounted for as income on the accrual basis of accounting. The Corporation 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)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated 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 trading or available for sale.

Under current regulations, trading instruments are investments in open investment funds that the Corporation 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 Corporation, or held to maturity. Available-for-sale assets include certain debt securities.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Corporation has the positive intent and ability to hold to maturity. According to regulations, entities regulated by SUGEF, SUGEVAL, the Pensions Superintendency (SUPEN), and SUGESE are barred from holding investments in financial instruments classified as held-to-maturity.

- Securities acquired under reverse repurchase agreements

Reverse repurchase agreements are generally short-term financing transactions backed by securities in which the Corporation 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 Corporation 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 by the fair value method. The Corporation does not hold derivative financial instruments.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Any valuation gains or losses are recorded in profit or loss.

- Deposits and debt instruments issued

Deposits and debt instruments issued are part of the Corporation's main 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 Corporation 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 Corporation has a legal right to set off the recognized amounts and intends to settle on a net basis, except the cases for which SUGEF regulations do not permit such treatment.

v. Amortized cost measurement

The amortized cost of a financial asset or 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)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated 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 risks affecting the specific instrument.

Valuation techniques include present value and discounted cash flow models, comparison to similar instruments for which observable market prices exist, and other valuation models. The Corporation 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 Corporation to determine the fair value of its financial instruments.

Management of the Corporation 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 unless the investment is considered to be impaired, in which case the loss is recognized in the income statement. When the financial assets are sold, collected, or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to profit or loss.

(g) 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)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated 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 after 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 asset's carrying amount.

(h) 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 charged directly to expense when incurred.

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

ii. Subsequent costs

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

iii. Depreciation

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

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

iv. Leased assets

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(i) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services, or for administrative purposes.

Investment property is initially recognized at cost. Transaction costs are included at initial recognition. Subsequent to initial recognition, investment property is adjusted to fair value. Gains or losses arising from changes in the fair value of investment property are recognized in profit or loss in the period in which the gains or losses arise.

The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

When no prices quoted in an active market are available, valuation is performed by discounting the estimated cash flows expected to be generated by the leases, using a discount rate that reflects the current assessment of the specific risks inherent to the amount and term of net annual cash flows.

(j) Other assets

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

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

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

(k) Goodwill acquired

Goodwill acquired arises on business acquisitions. Goodwill acquired represents the excess of the cost of the acquisition over the value of the assets and liabilities of the acquiree.

The Chart of Accounts approved by CONASSIF stipulates that goodwill must be tested for impairment and that any impairment loss in respect of goodwill must be recognized in profit or loss as a decrease in goodwill acquired. This notwithstanding, as of July 1, 2010, goodwill acquired must be amortized to profit or loss straight line over a maximum estimated useful life of five years.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(l) Impairment of non-financial assets

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

The recoverable amount of an asset is the greater of its net selling price and 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 derived from continuing use of an asset and from its disposal at the end of its useful life.

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

(m) Accounts payable and other accounts payable

Accounts payable and other accounts payable are recognized at cost.

(n) Provisions

A provision is recognized in the balance sheet if, as a result of a past event, the Corporation 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 income statement.

(o) Legal reserve

In accordance with the Internal Regulations of the National Banking System (IRNBS) of Costa Rica, banking entities must establish a legal reserve equivalent to 10% of earnings for the tax year. That reserve is calculated annually and applied semiannually. For Costa Rican non-banking entities, the reserve is determined based on current commercial legislation, which stipulates that 5% of each year's earnings must be appropriated to a reserve, up to 20% of outstanding share capital.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(p) Revaluation surplus

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

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

(q) Use of estimates

The preparation of the consolidated 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 those estimates.

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

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

(r) Allowance for loan losses

SUGEF defines a credit operation as any operation formalized by a financial intermediary and related to any type of underlying instrument or document, whereby the entity 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 of the subsidiary Scotiabank de Costa Rica, S.A. is valued in accordance with the provisions established in SUGEF Directive 1-05. The most relevant provisions of the directive are summarized in note 31.

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

For all other subsidiaries, the Corporation's classification and analysis criteria are used. All criteria are based on an individual analysis of the quality of guarantees, the customer's creditworthiness, and the debt servicing of each customer, among other factors. The Corporation requires that all loans be classified based on risk of default and lending conditions and that a minimum allowance be established for each classification.

(s) Finance income and expense

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

(t) Fee and commission income

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

(u) Operating lease payments

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

(v) Income tax

i. Current

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. Deferred

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, and 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.

(w) 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.

(x) Severance benefits

i. Severance benefits

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

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The subsidiaries follow 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 subsidiaries follow 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 subsidiaries follow the policy of provisioning the payment of vacation days on an accrual basis.

iii. Other benefits

International Share Acquisition Program for Employees

The subsidiaries offer 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 each subsidiary 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 Corporation.

Global Incentive Pay Program

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(y) Trusts

Assets managed by the Corporation as trustee are not considered part of the Corporation'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.

2. Collateralized or restricted assets

As of December 31, collateralized or restricted assets are as follows:

	<u>2013</u>	<u>2012</u>
Cash and due from banks:		
Minimum cash reserve	¢ 120,854,225,095	117,414,746,525
Guarantee Fund - National Stock Exchange	1,688,184,732	319,141,202
Drafts and transfers payable	-	1,508,412,202
Subtotal	<u>122,542,409,827</u>	<u>119,242,299,929</u>
Investments:		
Clearing house guarantee	1,249,541,368	1,095,282,872
Guarantee deposit for public utility payment collection services	339,583,000	126,326,000
Assigned investments - repurchase agreements	-	3,847,128,305
Investments - Liquidity market (MIL) guarantee	5,962,190,920	-
Legal department guarantees	13,975,008	9,056,314
Subtotal	<u>7,565,290,296</u>	<u>5,077,793,491</u>
Loans:		
Requirement for deposit-taking in demand accounts per art. 59 of IRNBS (Law No. 1644)	36,998,283,232	36,376,087,634
Subtotal	<u>36,998,283,232</u>	<u>36,376,087,634</u>
Other:		
Committed investments	31,691,282	26,665,604
Subtotal	<u>31,691,282</u>	<u>26,665,604</u>
Other assets:		
Guarantee deposits	109,189,063	77,743,883
Subtotal	<u>109,189,063</u>	<u>77,743,883</u>
Total	<u>¢ 167,246,863,700</u>	<u>160,800,590,541</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

3. Balances and transactions with related parties

As of December 31, the consolidated financial statements include balances and transactions with related parties, as follows:

	2013	2012
Assets:		
Cash and due from banks	¢ 1,247,635,324	1,169,255,774
Loan portfolio	413,689,474	434,099,992
Accounts and accrued interest receivable	392,402,296	308,422,616
Investments in other companies	-	1,570,702,035
Total assets	¢ <u>2,053,727,094</u>	<u>3,482,480,417</u>
Liabilities:		
Obligations with the public	¢ 455,069,218	2,998,806,354
Other financial obligations	211,914,619,791	247,592,400,901
Other accounts payable and commissions	75,300,681	70,166,269
Other liabilities	10,265,735	47,691,579
Total liabilities	¢ <u>212,455,255,425</u>	<u>250,709,065,103</u>
Expenses:		
Finance	¢ 4,184,207,551	4,942,969,236
Operating	30,093,101	-
Total expenses	¢ <u>4,214,300,652</u>	<u>4,942,969,236</u>
Income:		
Finance	¢ -	814,521
Operating	11,069,134	11,638,429
Other income	1,347,691,341	50,838,561
Total income	¢ <u>1,358,760,475</u>	<u>63,291,511</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2013, compensation paid to key personnel of the Corporation's subsidiaries amounts to ¢2,135,818,243 (2012: ¢1,932,803,429).

4. Cash and due from banks

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

	2013	2012
Cash	¢ 17,833,831,968	15,826,648,117
Demand deposits in BCCR	121,001,258,711	118,593,697,769
Demand deposits in local financial entities	943,272,064	484,873,566
Demand deposits in foreign financial entities	11,454,318,925	8,104,679,778
Notes payable on demand	3,072,933,033	2,380,026,064
Restricted cash and due from banks	223,941,019	319,141,202
Subtotal	<u>154,529,555,720</u>	<u>145,709,066,496</u>
Highly-liquid short-term investments	<u>21,197,452,033</u>	<u>17,683,933,059</u>
Total	<u>¢ 175,727,007,753</u>	<u>163,392,999,555</u>

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

As of December 31, 2013, the required minimum cash reserve (corresponding to the average for the second half of December) amounts to ¢120,390,824,886 (2012: ¢117,414,746,525).

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

5. Investments in financial instruments

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

	2013	2012
Trading	¢ 5,879,467,564	5,468,234,684
Available for sale	76,533,367,049	64,010,977,655
Subtotal	82,412,834,613	69,479,212,339
Accrued interest receivable	898,179,252	1,283,647,925
Total	¢ <u>83,311,013,865</u>	<u>70,762,860,264</u>

As of December 31, trading investments are as follows:

	2013	2012
Open investment funds in colones managed by a local related party	¢ 1,615,527,204	2,260,617,289
Open investment funds in U.S. dollars managed by a local related party	1,776,153,301	2,956,743,158
Open investment funds in colones managed by a local entity	244,927,865	250,874,237
Open investment funds in U.S. dollars managed by local entities	2,242,859,194	-
Total	¢ <u>5,879,467,564</u>	<u>5,468,234,684</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2013	2012
<u>Local issuers:</u>		
Government of Costa Rica	¢ 44,924,991,987	45,005,563,067
BCCR	17,008,776,989	13,219,624,379
Financial entities	9,028,953,606	3,839,659,530
Private issuers	13,975,008	-
Repurchase agreements	2,597,192,767	848,756,285
Subtotal	73,573,890,357	62,913,603,261
<u>Foreign issuers:</u>		
Governments	2,959,476,692	1,097,374,394
Subtotal	2,959,476,692	1,097,374,394
Total	¢ 76,533,367,049	64,010,977,655

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

As of December 31, 2012, the Corporation holds investments in the amount of ¢2,406,757,500 and US\$2,868,865 securing repurchase agreements. As of December 31, 2013, the Corporation holds investments in the liquidity market (MIL) in the amount of ¢3,153,450,000 and US\$5,674,109 (see note 12).

As of December 31, 2013, available-for-sale investments bear interest at rates ranging between 0.65% and 13.81% per annum (2012: between 4% and 17.07% per annum) in colones and between 0.79% and 6.65% per annum (2012: between 0.33% and 5% per annum) in U.S. dollars.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31, realized gains and losses on available-for-sale financial instruments are as follows:

	<u>2013</u>	<u>2012</u>
Liquidation of realized gain on sale of available-for-sale securities	¢ 810,830,730	53,932,923
Realized loss on available-for-sale financial instruments	<u>(169,702,955)</u>	<u>(183,558,478)</u>
Gain (loss), net	<u>¢ 641,127,775</u>	<u>(129,625,555)</u>

6. Loan portfolio

(a) Loan portfolio by origin

	<u>2013</u>	<u>2012</u>
Loans originated by the Corporation	¢ 886,767,178,762	837,994,359,309
Loans purchased	<u>75,823,196,100</u>	<u>94,469,087,333</u>
Subtotal	962,590,374,862	932,463,446,642
Accrued interest receivable	9,000,149,808	8,501,004,442
Allowance for loan losses	<u>(11,248,621,392)</u>	<u>(12,783,893,262)</u>
Total	<u>¢ 960,341,903,278</u>	<u>928,180,557,822</u>

As of December 31, 2013, annual interest rates on loans ranged between 6.65% and 25% (2012: between 10.25% and 25%) in colones and between 3.5% and 14.25% (2012: between 3.5% and 14.25%) in U.S. dollars.

(b) Allowance for loan losses

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

	<u>2013</u>	<u>2012</u>
Opening balance	¢ 12,783,893,262	13,498,142,379
Allowance expense	2,062,772,325	2,131,927,334
Charged against allowance	(3,436,232,621)	(2,495,226,130)
Decrease in allowance	(11,191,691)	(3,404,880)
Translation effect for allowances in foreign currency	<u>(150,619,883)</u>	<u>(347,545,441)</u>
Closing balance	<u>¢ 11,248,621,392</u>	<u>12,783,893,262</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Allowance for stand-by credit losses

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

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

7. Accounts and fees and commissions receivable

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

	<u>2013</u>	<u>2012</u>
Fees and commissions	¢ 110,690,778	84,525,172
Brokerage operations	753,642	9,415,394
Related party transactions	413,689,474	308,422,616
Deferred tax	444,124,078	450,170,190
Sundry credit card receivables	859,104,759	35,301,559
Advance payments to suppliers	155,106,992	121,463,302
Other expenses	586,148,238	490,277,924
Insurance policies due from customers	313,728,308	345,423,722
Loan operations	2,557,969	63,877,247
Judgement liens	437,890,496	996,585,343
Vehicle taxes	440,427,720	365,572,423
Other sundry accounts receivable	1,619,922,220	1,130,226,738
Subtotal	5,384,144,674	4,401,261,630
(Allowance for doubtful accounts and fees and commissions receivable)	(1,304,283,359)	(1,428,619,056)
Total	¢ <u>4,079,861,315</u>	<u>2,972,642,574</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2013	2012
Opening balance	¢ 1,428,619,056	734,291,876
Allowance expense	361,383,935	747,163,948
Charged against allowance	(379,369,613)	(40,232,770)
Decrease in allowance	(100,000,000)	-
Translation effect for allowances in foreign currency	(6,350,019)	(12,603,998)
Closing balance	¢ <u>1,304,283,359</u>	<u>1,428,619,056</u>

8. Foreclosed assets

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

	2013	2012
Assets acquired in lieu of payment		
Real property	¢ 10,121,369,861	8,510,001,702
Personal property	522,999,821	617,177,077
Other	319,062,752	248,362,456
Subtotal	10,963,432,434	9,375,541,235
(Allowance for impairment and per legal requirements)	(8,026,351,724)	(7,222,528,992)
Net total	¢ <u>2,937,080,710</u>	<u>2,153,012,243</u>

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

	2013	2012
Opening balance	¢ 7,222,528,992	6,479,428,094
Loss on allowance	1,146,500,000	2,050,258,145
Charged against allowance for retirements or sales	(342,677,268)	(1,017,653,067)
Translation effect for allowances in foreign currency	-	(289,504,180)
Closing balance	¢ <u>8,026,351,724</u>	<u>7,222,528,992</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The expense for the allowance for foreclosed assets is recorded as part of expenses for foreclosed assets in the consolidated income statement.

9. Property and equipment

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

	2012	Additions	Retirements	2013
<u>Cost</u>				
Land	1,405,990,980	-	-	1,405,990,980
Buildings and facilities	4,715,528,912	-	-	4,715,528,912
Furniture and equipment	2,646,325,115	251,768,951	(15,717,351)	2,882,376,715
Computer hardware	3,838,758,359	1,435,364,841	(210,183,409)	5,063,939,791
Vehicles	314,704,270	79,989,727	(7,435,457)	387,258,540
Subtotal	12,921,307,636	1,767,123,519	(233,336,217)	14,455,094,938
Accumulated depreciation	(4,616,690,497)	(836,286,046)	193,751,888	(5,259,224,655)
Cost, net	8,304,617,139	930,837,473	(39,584,329)	9,195,870,283
<u>Revaluation</u>				
Cost	5,835,030,808	-	-	5,835,030,808
Accumulated depreciation	(1,077,543,170)	(85,172,621)	-	(1,162,715,791)
Revaluation, net	4,757,487,638	(85,172,621)	-	4,672,315,017
Net total	13,062,104,777	845,664,852	(39,584,329)	13,868,185,300

Depreciation expense for the year ended December 31, 2013 amounted to ¢921,458,667 and was charged against profit or loss.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2011	Additions	Retirements	2012
<u>Cost</u>				
Land	1,541,989,087	-	(135,998,107)	1,405,990,980
Buildings and facilities	4,805,353,610	-	(89,824,698)	4,715,528,912
Furniture and equipment	2,532,900,999	175,139,836	(61,715,720)	2,646,325,115
Computer hardware	3,013,105,220	861,373,108	(35,719,969)	3,838,758,359
Vehicles	255,752,051	82,279,255	(23,327,036)	314,704,270
Other	-	-	-	-
Subtotal	12,149,100,967	1,118,792,199	(346,585,530)	12,921,307,636
Accumulated depreciation	(4,039,722,726)	(698,469,338)	121,501,567	(4,616,690,497)
Cost, net	8,109,378,241	420,322,861	(225,083,963)	8,304,617,139
<u>Revaluation</u>				
Cost	5,835,030,808	-	-	5,835,030,808
Accumulated depreciation	(992,370,549)	(85,172,621)	-	(1,077,543,170)
Revaluation, net	4,842,660,259	(85,172,621)	-	4,757,487,638
Net total	12,952,038,500	335,150,240	(225,083,963)	13,062,104,777

Depreciation expense for the year ended December 31, 2012 amounted to ¢783,641,959 and was charged against profit or loss.

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

10. Investment property

In September 2010, the subsidiary Scotia Leasing Costa Rica, S.A. acquired a building located in Pasadena, Texas, USA. The building is leased to the U.S. General Services Administration (see note 34).

As of December 31, 2013 and 2012, the Corporation's consolidated financial statements present this building as an asset under "Investment property" since rental income derived from the lease constitutes economic benefits that flow directly to the Corporation and the agreement subscribed between the parties guarantees dependable short- and long-term income for the Corporation consistent with the capital appreciation of the location of the leased asset.

Appraisals were performed by independent appraisers in 2012 to determine the fair value of investment property. The application of different valuation methods determined a fair value of US\$4,620,000 (equivalent to ¢2,286,946,200, using the income capitalization approach) and of US\$4,615,000 (equivalent to ¢2,284,471,150, using the sales comparison approach). Accordingly, the Corporation booked a loss on valuation of investment property at fair value for US\$1,091,725 (equivalent to ¢540,414,792), corresponding to the difference between the carrying amount of US\$5,711,725 (equivalent to ¢2,827,360,992) and the fair value of the property determined by the independent appraisers.

As of December 31, 2013, an appraisal was performed by independent appraisers. The application of different valuation methods determined a fair value of investment property that ranges between US\$4,500,000 (equivalent to ¢2,227,545,000, using the income capitalization approach) and US\$4,770,000 (equivalent to ¢2,361,197,700, using the sales comparison approach).

As of December 31, movement in investment property is as follows:

	2013	2012
Opening balance	¢ 2,345,790,249	2,757,886,818
Loss on change in fair value of investment property	-	(598,583,285)
Translation effect	23,305,949	186,486,716
Closing balance	¢ <u>2,369,096,198</u>	<u>2,345,790,249</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

11. Other assets

As of December 31, other assets are as follows:

	<u>2013</u>	<u>2012</u>
<u>Deferred charges</u>		
Leasehold improvements - operating lease	¢ 901,110,952	596,880,105
Subtotal	<u>901,110,952</u>	<u>596,880,105</u>
<u>Intangible assets</u>		
Goodwill acquired, net of amortization	999,185,571	1,665,309,285
Software	212,077,182	281,854,685
Other	141,608,401	-
Subtotal	<u>1,352,871,154</u>	<u>1,947,163,970</u>
<u>Other assets</u>		
Prepaid interest and fees and commissions	678,606,897	178,527,677
Estimated taxes	866,579,181	151,203,518
Prepaid insurance	1,191,385,844	1,360,450,626
Other prepaid expenses	211,972,247	65,710,469
Stationery, office supplies, and other	43,836,233	39,396,670
Library and artwork	17,720,958	17,720,958
Construction work-in-progress	4,204,335	400,974,156
Software under development	109,554,552	166,543,678
Other sundry assets	2,174,916	2,174,916
Operations pending settlement	5,111,345,622	2,461,756,902
Guarantee deposits	109,189,063	77,743,883
Subtotal	<u>8,346,569,848</u>	<u>4,922,203,453</u>
Total	¢ <u><u>10,600,551,954</u></u>	<u><u>7,466,247,528</u></u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	<u>2013</u>	<u>2012</u>
Amortization of leasehold improvements	¢ 187,019,130	274,289,776
Amortization of software	89,518,805	52,091,844
Amortization of goodwill acquired	<u>666,123,715</u>	<u>666,123,715</u>
Total	<u>¢ 942,661,650</u>	<u>992,505,335</u>

As of December 31, goodwill acquired is as follows:

	<u>2013</u>	<u>2012</u>
Entity dedicated to investment banking	¢ 301,997,214	601,662,022
Entities dedicated to operating and financial leasing	659,793,357	1,001,322,263
Acquisition of Insurance Agency	<u>37,395,000</u>	<u>62,325,000</u>
Total	<u>¢ 999,185,571</u>	<u>1,665,309,285</u>

As of December 31, movement in goodwill acquired is as follows:

	<u>2013</u>	<u>2012</u>
Opening balance	¢ 1,665,309,286	2,331,433,000
Amortization for the year	<u>(666,123,715)</u>	<u>(666,123,715)</u>
Closing balance	<u>¢ 999,185,571</u>	<u>1,665,309,285</u>

Impairment testing of goodwill acquired

a) *Financial intermediation business*

The total carrying amount of the assets comprising the cash-generating unit for the financial intermediation business is ¢1,164,136,442,374 (approximately US\$2,351,743,283). That total includes an intangible asset with an indefinite useful life that has a carrying amount of ¢360,997,214 (approximately US\$729,273).

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Recoverable amounts estimated using the value in use method for assets comprising the cash-generating unit exceed the carrying amounts of the respective assets.

For value in use calculations, all assets that contribute to the generation of projected cash flows are considered to be assets comprising the cash-generating unit, i.e. investments, the loan portfolio, accounts receivable, fixed assets, and other assets.

Cash flows are projected for a five-year period based on assumptions established by the Corporation. Cash flows are extrapolated for an additional 10-year period under the assumption that the useful life of the essential asset (loan portfolio) is 15 years. The discount rate applied to cash flows is 5.76%, which is a weighted percentage of (i) an annual cost of equity of 15% and (ii) an annual borrowing rate of 4.48%, taking into consideration the Corporation's financial structure.

The following main assumptions were used to project and extrapolate cash flows:

- Investments in financial instruments: 3% increase each year through the fifth year.
- Loan portfolio: 8% increase each year through the fifth year.
- Accounts receivable, fixed assets, and other assets: 1% increase each year through the fifth year.
- Cash flow extrapolation: annual growth rate of 5%.

The results of management's assessment are particularly sensitive to changes in the following factors:

Discount rate: An increase of 100 basis points in the discount rate would reduce the recoverable amount by ₡152,241,273,932 (approximately US\$307,551,916).

Loan portfolio growth: A decrease of 100 basis points in the growth rate would increase the recoverable amount by ₡47,726,775,965 (approximately US\$96,415,781).

b) *Leasing business*

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units of Scotia Leasing de Costa Rica, S.A. The recoverable amounts of Scotia Leasing de Costa Rica, S.A.'s cash-generating units are based on value in use.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The total carrying amount of the assets comprising the cash-generating unit for the leasing business is ¢78,139,602,710 (approximately US\$157,854,594). That total includes an intangible asset with an indefinite useful life that has a carrying amount of ¢600,793,357 (approximately US\$1,213,699).

Recoverable amounts estimated using the value in use method for assets comprising the cash-generating unit exceed the carrying amounts of the respective assets.

For value in use calculations, all assets that contribute to the generation of projected cash flows are considered to be assets comprising the cash-generating unit, i.e. lease portfolios (third-party and own leases), accounts receivable, fixed assets, and other assets.

Cash flows are projected for a five-year period based on assumptions determined by the Corporation. The discount rate applied to cash flows is 4.90%, which is a weighted percentage of (i) an annual cost of equity of 15% and (ii) an annual borrowing rate of 3.25%, taking into consideration the Corporation's financial structure.

The following main assumptions were used to project and extrapolate cash flows:

- Lease portfolios for both third-party and own leases: steady growth of 6% each year through the fifth year.
- Accounts receivable, fixed assets, and other assets: a 1% increase each year through the fifth year.

The results of management's assessment are particularly sensitive to changes in the following factors:

Discount rate: An increase of 100 basis points in the discount rate would reduce the recoverable amount by ¢3,547,142,632 (approximately US\$7,165,800).

Loan portfolio growth: A decrease of 1 percentage point in the growth rate would increase the recoverable amount by ¢550,028,645 (approximately US\$1,111,147).

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) *Insurance business*

The total carrying amount of the assets comprising the cash-generating unit for the insurance business is ¢1,668,890,093 (approximately US\$3,371,427). That total includes an intangible asset with an indefinite useful life that has a carrying amount of ¢37,395,000 (equivalent to US\$75,544).

For the year ended December 31, 2013, there have been no significant changes - and no significant changes are expected in the immediate future- that have an adverse effect on Scotia Corredora de Seguros, S.A. in terms of the legal, economic, technological, or market environment in which Scotia Corredora de Seguros, S.A. operates, and that indicate that the future performance of the insurance business will differ with respect to the earnings obtained as of December 31, 2013.

As of December 31, 2013 and for the year then ended, the insurance business generated earnings in the amount of ¢683,714,443.

Management tested the above assets for impairment in accordance with the guidelines of IAS 36. The results of that impairment testing showed no evidence of impairment in the carrying amounts of the assets.

Values assigned to the key assumptions represent management's opinion regarding trends in the financial services industry, the leasing industry, and the local pension plan management business, and are based on internal and external sources as well as historical data.

If there is any evidence of impairment, the impairment loss is to be recognized against intangible assets and then against fixed assets. However, the scope of IAS 36 explicitly excludes the impairment of financial assets.

Amortization

For the year ended December 31, 2013, the systematic amortization of goodwill acquired gave rise to an amortization expense in the amount of ¢666,123,715 (2012: ¢666,123,715).

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Obligations with the public

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

	<u>2013</u>	<u>2012</u>
<u>Demand</u>		
Deposits		
Checking accounts	¢ 155,790,059,305	147,179,817,547
Certified checks	49,548,803	48,015,475
Demand savings deposits	30,985,600,713	31,883,869,418
Matured term deposits	889,760,901	1,060,147,478
Overnight deposits	43,903,187,508	35,871,250,516
Subtotal deposits	<u>231,618,157,230</u>	<u>216,043,100,434</u>
Other obligations with the public		
Notes payable on demand - creditors	2,780,328,111	3,010,444,055
Drafts and transfers	1,464,243,713	1,508,412,202
Cashier's checks	1,119,883,181	1,111,435,232
Sundry demand obligations with the public	15,581,189	-
Subtotal other obligations with the public	<u>5,380,036,194</u>	<u>5,630,291,489</u>
Total demand	<u>236,998,193,424</u>	<u>221,673,391,923</u>
<u>Term</u>		
Deposits		
Term deposits from the public	472,407,986,083	442,863,157,965
Term deposits from related parties	-	803,312,000
Term deposits pledged as guarantee	38,846,596,866	37,452,955,521
Total term	<u>511,254,582,949</u>	<u>481,119,425,486</u>
<u>Other obligations with the public</u>		
Tri-party repurchase agreements (securities) - term buyer	-	3,373,952,776
Total other obligations with the public	<u>-</u>	<u>3,373,952,776</u>
Charges payable on obligations with the public	3,165,326,542	3,266,566,030
Total	<u>¢ 751,418,102,915</u>	<u>709,433,336,215</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The fair value of deposits in checking and savings accounts corresponds to the amount payable on demand, which is equivalent to their carrying amounts.

Those deposits earn interest at variable rates based on average account balances.

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

As of December 31, 2013, term deposits include standardized bonds for ¢5,000,000,000 and US\$24,150,000 (2012: US\$28,917,686), bearing interest at 7.88% per annum (2012: nil) in colones, and between 2.99% and 4.89% per annum (2012: between 2.72% and 3.80% per annum) in U.S. dollars.

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

Additionally, the Corporation raises funds by selling financial instruments and from MIL under agreements whereby the Corporation commits to repurchase those financial instruments on a specific date in the future and at a predetermined price plus interest. As of December 31, 2012, those agreements amount to ¢3,373,952,776.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

	<u>Number of customers</u>	<u>Cumulative amount</u>
<u>Demand</u>		
Obligations with the public		
Deposits from the public	93,802 ¢	230,728,396,330
Restricted and inactive deposits	103	889,760,900
Other obligations with the public	-	5,380,036,194
Subtotal	<u>93,905</u>	<u>236,998,193,424</u>
Obligations with entities		
Deposits from other financial entities	<u>11</u>	<u>532,961,331</u>
Subtotal	<u>11</u>	<u>532,961,331</u>
Total demand obligations with customers	<u>93,916 ¢</u>	<u>237,531,154,755</u>
 <u>Term</u>		
Obligations with the public		
Deposits from the public	7,738 ¢	467,077,532,499
Deposits from other financial entities	5	5,172,377,249
Deposits from State-owned entities	1	158,076,335
Restricted and inactive deposits	<u>1,476</u>	<u>38,846,596,866</u>
Subtotal	<u>9,220</u>	<u>511,254,582,949</u>
Obligations with entities		
Deposits from other financial entities	<u>3</u>	<u>7,541,211,700</u>
Subtotal	<u>3</u>	<u>7,541,211,700</u>
Total term obligations with customers	<u>9,223 ¢</u>	<u>518,795,794,649</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	<u>Number of customers</u>	<u>Cumulative amount</u>
<u>Demand</u>		
Obligations with the public		
Deposits from the public	90,980	¢ 214,982,952,956
Restricted and inactive deposits	93	1,060,147,478
Other obligations with the public	-	5,630,291,489
Subtotal	<u>91,073</u>	<u>221,673,391,923</u>
Obligations with financial entities		
Deposits from other financial entities	11	1,643,010,100
Subtotal	<u>11</u>	<u>1,643,010,100</u>
Total demand obligations with customers	<u>91,084</u>	<u>¢ 223,316,402,023</u>
<u>Term</u>		
Obligations with the public		
Deposits from the public	7,317	¢ 432,848,366,959
Deposits from other financial entities	6	8,982,865,581
Deposits from State-owned entities	3	1,835,237,425
Restricted and inactive deposits	1,274	37,452,955,521
Other obligations with the public	1	3,373,952,776
Subtotal	<u>8,601</u>	<u>484,493,378,262</u>
Obligations with entities		
Deposits from other financial entities	1	444,200,000
Subtotal	<u>1</u>	<u>444,200,000</u>
Total term obligations with customers	<u>8,602</u>	<u>¢ 484,937,578,262</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

13. Obligations with entities

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

	<u>2013</u>	<u>2012</u>
Demand obligations		
Checking accounts of local financial entities	¢ 532,961,331	1,643,010,100
Demand account overdrafts - Local financial entities	<u>75,300,681</u>	<u>82,144,218</u>
Subtotal demand obligations	<u>608,262,012</u>	<u>1,725,154,318</u>
Term obligations		
Term deposits from local financial entities	7,541,211,700	444,200,000
Other loans from entities	89,374,892,366	50,744,782,160
Liquidity market resources	5,278,730,534	-
Obligations with related financial entities	<u>211,309,996,330</u>	<u>246,828,130,206</u>
Subtotal term obligations	<u>313,504,830,930</u>	<u>298,017,112,366</u>
Other obligations with entities		
Issued letters of credit	<u>785,749,050</u>	<u>809,615,996</u>
Subtotal other obligations with entities	<u>785,749,050</u>	<u>809,615,996</u>
Subtotal	<u>314,898,841,992</u>	<u>300,551,882,680</u>
Charges payable on obligations with financial and non-financial entities	<u>1,117,563,550</u>	<u>1,149,637,239</u>
Total	<u>¢ 316,016,405,542</u>	<u>301,701,519,919</u>

As of December 31, 2013, obligations with entities bear interest at 7.05% per annum (2012: at 11% per annum) in colones and at rates ranging between 0.49% and 3.74% per annum (2012: between 0.60% and 5.40% per annum) in U.S. dollars.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Maturities of obligations with entities

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

	<u>2013</u>	<u>2012</u>
Less than 1 year	¢ 148,436,004,895	177,898,643,776
Between 1 and 2 years	51,556,467,069	35,087,515,837
Between 2 and 3 years	87,940,341,597	20,837,549,499
Between 3 and 4 years	18,946,249,375	55,480,886,731
Between 4 and 5 years	8,019,779,056	10,360,774,683
More than 5 years	-	886,512,154
Subtotal	<u>314,898,841,992</u>	<u>300,551,882,680</u>
Charges payable on obligations with financial entities	<u>1,117,563,550</u>	<u>1,149,637,239</u>
Total	<u>¢ 316,016,405,542</u>	<u>301,701,519,919</u>

14. Income tax

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

	<u>2013</u>	<u>2012</u>
Income tax expense		
Current tax	¢ 4,297,550,038	5,935,000,497
Deferred tax	<u>(90,027,418)</u>	<u>(1,342,679,616)</u>
Total income tax - net	<u>¢ 4,207,522,620</u>	<u>4,592,320,881</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, the difference between income tax expense and the amounts computed by applying the corresponding income tax rate to pretax income is reconciled as follows:

	<u>2013</u>	<u>2012</u>
Expected income tax	4,405,952,274	5,001,222,651
Plus (less):		
Nondeductible expenses	1,400,696,821	1,931,467,878
Nontaxable income	(1,447,303,521)	(2,097,062,295)
Effect of tax treatment of leases	(118,037,273)	1,242,212,039
Deductible expenses from statutory allocations	(164,789,546)	(204,357,753)
Effect of negative tax base for certain subsidiaries	221,031,283	71,254,598
Effect on profit or loss of subsidiaries transferred through assignment of shares	-	(9,736,621)
	<u>¢ 4,297,550,038</u>	<u>5,935,000,497</u>

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	<u>2013</u>	<u>2012</u>
<u>Deferred tax assets</u>		
Unrealized gains on valuation of investments	¢ 15,114,635	93,875,045
Allowances	429,009,443	356,295,145
Total	<u>¢ 444,124,078</u>	<u>450,170,190</u>
<u>Deferred tax liabilities</u>		
Revaluation of assets	¢ 773,441,125	799,714,399
Unrealized loss on valuation of investments	14,351,553	9,304,970
Tax treatment of leases	1,924,854,535	1,915,894,381
Total	<u>¢ 2,712,647,213</u>	<u>2,724,913,750</u>

Movement in deferred tax, net is as follows:

	<u>As of December 31, 2012</u>	<u>Included in income statement</u>	<u>Included in equity</u>	<u>As of December 31, 2013</u>
Unrealized gains on valuation of investments	¢ 84,570,075	-	(83,806,993)	763,082
Allowances	356,295,145	72,714,298	-	429,009,443
Tax treatment of leases	(1,915,894,381)	(8,960,154)	-	(1,924,854,535)
Revaluation of assets	(799,714,399)	26,273,274	-	(773,441,125)
	<u>¢ (2,274,743,560)</u>	<u>90,027,418</u>	<u>(83,806,993)</u>	<u>(2,268,523,135)</u>

	<u>As of December 31, 2011</u>	<u>Included in income statement</u>	<u>Included in equity</u>	<u>As of December 31, 2012</u>
Unrealized gains on valuation of investments	¢ 121,099,980	270,296,601	(306,826,506)	84,570,075
Allowances	268,430,428	87,864,717	-	356,295,145
Tax treatment of leases	(2,874,616,194)	958,721,813	-	(1,915,894,381)
Revaluation of assets	(825,987,673)	26,273,274	-	(799,714,399)
	<u>¢ (3,311,073,459)</u>	<u>1,343,156,405</u>	<u>(306,826,506)</u>	<u>(2,274,743,560)</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

15. Accounts payable and provisions

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

	<u>2013</u>	<u>2012</u>
Brokerage services	¢ 480,204,864	888,486,054
Deferred tax (note 14)	2,712,647,213	2,724,913,750
Provisions	4,613,787,618	4,641,900,069
<u>Other sundry accounts payable:</u>		
Professional fees	320,707	246,356
Creditors - goods and services	1,286,221,939	2,216,660,557
Tax liability	510,201,997	3,480,825,205
Employer withholdings	125,888,323	80,357,458
Court-ordered withholdings	14,095,293	4,488,126
Tax withholdings	470,275,011	401,515,068
Employee withholdings	961,968,588	872,256,492
Other third-party withholdings	-	99,600
Statutory allocations or surplus	540,298,487	672,192,510
Related parties	29,127,364	47,691,579
Clearing house operations	3,347,709,329	2,183,170,458
Accrued vacation	280,657,166	330,066,759
Accrued statutory Christmas bonus	246,084,531	262,519,772
Fees and commissions for custodial services	465,909	1,024,670
<u>Other accounts and fees and commissions payable:</u>		
INS insurance policies	357,855,716	2,204,039,109
Term deposits	162,493,698	1,755,139,742
Credit balances of credit card customers	296,960,698	260,842,356
Outstanding stale checks	382,886,291	181,122,662
Public utility and tax payment collection services	558,418,016	113,648,194
Other sundry accounts payable	1,715,721,320	1,806,123,553
Total	¢ <u>19,094,290,078</u>	<u>25,129,330,099</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a) Provisions

	<u>2013</u>	<u>2012</u>
Provisions for employer obligations	¢ 92,917,699	125,676,284
Provisions for pending litigation	2,939,720,468	2,939,720,468
Provisions for redemption of miles	1,163,367,686	1,262,506,552
Other provisions	417,781,765	313,996,765
Total	¢ <u>4,613,787,618</u>	<u>4,641,900,069</u>

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

	<u>2013</u>	<u>2012</u>
Provisions for employer obligations		
Opening balance	¢ 125,676,284	93,288,780
Provisioned	150,000,000	224,466,730
Used	(182,758,585)	(192,079,226)
Closing balance	<u>92,917,699</u>	<u>125,676,284</u>
Provisions for pending litigation		
Opening balance	<u>2,939,720,468</u>	<u>2,939,720,468</u>
Closing balance	<u>2,939,720,468</u>	<u>2,939,720,468</u>
Provisions for redemption of miles		
Opening balance	1,262,506,552	960,101,485
Provisioned	1,215,500,000	1,402,000,000
Used	(1,314,638,866)	(1,099,594,933)
Closing balance	<u>1,163,367,686</u>	<u>1,262,506,552</u>
Other provisions		
Opening balance	313,996,765	150,317,752
Provisioned	2,316,258,166	1,873,338,832
Used	(2,212,473,166)	(1,709,659,819)
Closing balance	<u>417,781,765</u>	<u>313,996,765</u>
Total		
Opening balance	4,641,900,069	4,143,428,485
Provisioned	3,681,758,166	3,499,805,562
Used	(3,709,870,617)	(3,001,333,978)
Total	¢ <u>4,613,787,618</u>	<u>4,641,900,069</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

16. Other liabilities

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

17. Equity

a) Share capital

As of December 31, 2013, the Corporation's share capital is represented by 201,153,696 ordinary registered shares of US\$1.00 par value each, for a total of US\$201,153,696, equivalent to ¢99,551,201,391.

On December 3, 2013, CONASSIF authorized a change to the composition of ordinary and preferred share capital as well as to the denomination of ordinary share capital from colones to U.S. dollars and an increase in such ordinary share capital by US\$59,991,203 (equivalent to ¢30,073,599,565). Those transactions gave rise to an adjustment in the valuation of share capital in colones in the amount of ¢67,199,141, which was presented in profit or loss for the year.

As of December 31, 2012, the Corporation's share capital is represented by 47,583,591,250 ordinary registered shares of ¢1.00 par value each and 47,300,000 preferred shares of US\$1.00 par value each, for total preferred shares of US\$47,300,000 (equivalent to ¢21,894,011,000), for a total share capital of ¢69,477,602,250.

At a Special Preferred Shareholders Meeting held on October 21, 2010, an agreement was reached to convert the 47,300,000 preferred registered shares in U.S. dollars into an equal number of ordinary registered shares in U.S. dollars.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At an Extraordinary General Shareholders Meeting held on October 22, 2010, an agreement was reached to recognize and accept the conversion of preferred registered shares in U.S. dollars into ordinary registered shares in U.S. dollars. Additionally, shareholders agreed to convert the issue currency of the 47,583,591,250 ordinary registered shares in colones to U.S. dollars. As a result of these agreements, share capital would become represented by 139,234,757 ordinary registered shares of US\$1.00 par value each, for a total of US\$139,234,757.

At an Extraordinary General Shareholders Meeting held on December 2, 2010, shareholders agreed to increase share capital by US\$39,991,203, as follows:

- Cash contributions from shareholders for a total of US\$20,000,000 (equivalent to ₡10,071,600,000), which include an amount of ₡67,200,000 related to the effect of the exchange rate used and recognized in profit or loss for the year.
- Capitalization of prior period retained earnings for a total of ₡9,999,999,564.66 (equivalent to US\$19,991,203).

An additional cash contribution in the amount of US\$20,000,000 (equivalent to ₡10,002,000,000) was made on May 26, 2011.

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

On April 24, 2012, CONASSIF authorized the withdrawal from BNS de Costa Rica, S.A. financial group of the entities listed in note 36 through the return of capital to the majority shareholder by endorsing the shares of such subsidiaries. The value of the equity of the subsidiaries assigned through the endorsement of shares as of April 24, 2012 amounts to ₡2,038,680,099.

b) Revaluation surplus

As of December 31, 2013 and 2012, revaluation surplus corresponds to the increase in the fair values of properties owned by the subsidiaries. Fair values of properties are adjusted based on appraisals made by independent appraisers.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Legal reserve

Under article 154 of IRNBS, the subsidiary Scotiabank de Costa Rica, S.A. must allocate 10% of its net earnings for each period to a legal reserve. For all other subsidiaries, the legal reserve is determined based on current commercial legislation, which stipulates that 5% of each year's earnings must be appropriated to a reserve, up to 20% of outstanding share capital. No further appropriation is required once the legal reserve reaches 20% of outstanding share capital. For the years ended December 31, 2013 and 2012, the consolidated financial statements include an appropriation to the legal reserve in the amount of ¢875,129,095 and ¢1,061,640,291, respectively.

d) Unrealized gain or loss

The subsidiaries record available-for-sale investments at market value. Any adjustment to those values is recognized as an unrealized gain or loss in the "Equity adjustments" account in the consolidated statement of changes in equity.

18. Basic earnings per share

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

	<u>2013</u>	<u>2012</u>
<u>Ordinary shares:</u>		
Profit or loss	¢ 9,929,686,475	11,397,228,781
Weighted average number of shares (denominator)	201,153,696	201,153,696
Profit or loss per ordinary share	¢ <u>49.364</u>	<u>56.659</u>

19. Memoranda accounts

In the normal course of business, the Corporation has contingencies off the balance sheet that involve a certain degree of credit and liquidity risk.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, memoranda accounts are as follows:

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

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

20. Trust assets

The Corporation has subscribed trust agreements whereby it agrees as trustee to manage and act as custodian for funds in accordance with the instructions contained in the agreements.

These funds received from trusts and customers for management are duly segregated from the Corporation's equity and, therefore, do not appear in its consolidated financial statements. The Corporation does not guarantee these assets and thus is not exposed to any related credit risk.

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

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

21. Sureties

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

22. Other memoranda accounts

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

	2013	2012
Other own debit memoranda accounts		
Guarantees received in the Bank's custody	31,266,367,892	639,721,860,215
Guarantees received in the custody of third parties	2,225,180,203,400	1,906,835,713,817
Lines of credit granted and pending	244,786,876,293	217,127,489,524
Write-downs	10,509,009,573	8,743,118,341
Interest income on non-accrual loans	1,466,969,478	1,625,463,144
Supporting documentation	944,840,171,114	955,930,391,131
Other memoranda accounts	1,293,965,027,097	1,298,919,399,601
Subtotal	<u>4,752,014,624,847</u>	<u>5,028,903,435,773</u>
Third-party debit memoranda accounts		
Third-party assets and securities in custody	84,295,689,114	85,473,494,919
Net assets of managed funds (note 24)	96,951,685,343	57,934,158,662
Portfolio management	-	6,006,562,437
Subtotal	<u>181,247,374,457</u>	<u>149,414,216,018</u>
Own debit memoranda accounts for custodial activities		
Trading securities held in custody	27,953,795,146	24,627,489,822
Pledged trading securities (guaranty trust)	5,705,229,650	3,753,787,720
Futures contracts pending settlement	5,285,758,344	3,393,509,521
Subtotal	<u>38,944,783,140</u>	<u>31,774,787,063</u>
Third-party debit memoranda accounts for custodial activities		
Cash and receivables	10,936,768,999	10,065,424,512
Trading securities held in custody	300,490,860,351	219,933,154,181
Trading securities received as guaranty (guaranty trust)	50,361,173,148	61,611,279,170
Pledged trading securities (guaranty trust)	75,824,867,790	80,424,434,740
Futures contracts pending settlement	94,973,095,534	115,060,636,488
Subtotal	<u>532,586,765,822</u>	<u>487,094,929,091</u>
Total	<u>¢ 5,504,793,548,266</u>	<u>5,697,187,367,945</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated 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 entity acts as agent or custodian.

23. Tri-party repurchase agreements and term operations

The Corporation enters into agreements to buy and sell securities at certain future dates (tri-party repurchase agreements and term operations). Those agreements are comprised of securities that one party has committed to sell and the other party has committed to buy on an agreed-upon date and at a stated price. The difference between the contractual value and the value of the security represents an additional guarantee for the operation and corresponds to a portion of the security held in custody.

As of December 31, 2013 and 2012, the structure of tri-party repurchase agreements and term operations on the Corporation's own behalf and on behalf of third parties is as follows:

Own

Tri-party repurchase agreements

Detail	Maturities of				2013 Total	2012 Total
	Maturities of 1 to 30 days	Maturities of 31 to 60 days	Maturities of 61 to 90 days	Maturities of 91 to 180 days		
Colones:						
Purchases	¢ 4,691,453,407	-	-	-	4,691,453,407	3,217,356,514
Total colones	¢ 4,691,453,407	-	-	-	4,691,453,407	3,217,356,514
U.S. dollars:						
Purchases	US\$ 1,200,592	-	-	-	1,200,592	350,853
Total U.S. dollars	US\$ 1,200,592	-	-	-	1,200,592	350,853

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Third parties

Tri-party repurchase agreements

Detail		Maturities of				2013 Total	2012 Total
		Maturities of 1 to 30 days	Maturities of 31 to 60 days	Maturities of 61 to 90 days	Maturities of 91 to 180 days		
Colones:							
Purchases	¢	7,634,670,170	239,216,103	-	-	7,873,886,273	36,748,338,870
Sales		12,603,346,242	587,675,555	-	-	13,191,021,797	33,360,265,017
Total colones	¢	20,238,016,412	826,891,658	-	-	21,064,908,070	70,108,603,887
U.S. dollars:							
Purchases	US\$	91,306,010	6,716,011	-	-	98,022,021	56,655,670
Sales		50,831,496	452,937	-	-	51,284,433	32,877,727
Total U.S. dollars	US\$	142,137,506	7,168,948	-	-	149,306,454	89,533,397

Securities that back tri-party repurchase agreements and term operations are held in the Central Securities Depository Institution of the Costa Rican National Stock Exchange (CEVAL) or in foreign institutions with which CEVAL has custodial agreements.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

24. Investment fund management agreements

As of December 31, the following items pertaining to active investment funds are booked in memoranda accounts:

	2013			2012	
	Assets	Liabilities	Net assets	Net liabilities	
<u>In colones:</u>					
Fondo de Inversión no Diversificado Público Scotia [Scotia Public Non-Diversified Investment	¢	13,811,419,483	85,116,212	13,726,303,271	12,892,162,937
Fondo de Inversión Diversificado Scotia (Scotia Diversified Investment		27,317,912,156	8,341,285	27,309,570,871	9,464,886,507
Fondo de Inversión Certifondo Scotia C (Scotia <i>Certifondo C</i> Investment Fund)		4,006,040,196	1,814,857	4,004,225,339	1,103,595,096
	¢	<u>45,135,371,835</u>	<u>95,272,354</u>	<u>45,040,099,481</u>	<u>23,460,644,540</u>
<u>In U.S. dollars:</u>					
Fondo de Inversión no Diversificado Público D Scotia (Scotia Public Non-Diversified D Investment Fund)	US\$	60,185,424	14,748	60,170,676	45,565,235
Fondo de Inversión no Diversificado Exposición al Mercado de Dinero a Nivel Mundial Scotia [Scotia Global Non-Diversified Money Market Exposure Investment Fund]		2,358,434	2,531	2,355,903	2,315,362
Fondo de Inversión no Diversificado Exposición al Mercado de Renta Fija Scotia [Scotia Fixed-income Non-Diversified Money Market Exposure Investment Fund]		6,970,373	8,274	6,962,099	7,123,454
Fondo de Inversión no Diversificado Exposición al Mercado Accionario USA (Scotia Non-Diversified U.S. Stock Market Exposure Investment Fund)		8,687,666	128,907	8,558,759	6,930,901
Fondo de Inversión no Diversificado Exposición al Mercado Accionario Internacional Scotia (Scotia Non-Diversified International Stock Market Exposure Investment Fund)		3,951,146	27,578	3,923,568	3,436,158
Fondo de Inversión Certifondo no Diversificado Scotia D (Scotia <i>Certifondo D</i> Non-Diversified Investment Fund)		22,904,166	5,398	22,898,768	3,291,654
	US\$	<u>105,057,209</u>	<u>187,436</u>	<u>104,869,773</u>	<u>68,662,764</u>
Total, expressed in colones	¢	<u>52,004,369,027</u>	<u>92,782,694</u>	<u>51,911,586,333</u>	<u>34,473,514,122</u>
Total	¢	<u>97,139,740,862</u>	<u>188,055,048</u>	<u>96,951,685,343</u>	<u>57,934,158,662</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Main policies for funds managed by the Corporation are as follows:

In the interest of the investor, the Investment Committee sets the policy for selecting securities that comprise the investment funds. Securities are selected to create diversified portfolios that can be managed actively, while respecting the parameters established in the fund management agreements. Investments in securities are executed through SUGEVAL-approved investment systems within the National Financial System and on authorized securities exchanges.

Securities that back investments in the funds are held in the custody of the subsidiary Scotia Valores, S.A.

Fund securities are jointly owned by all investors with signed agreements.

Pursuant to CONASSIF regulations, pooled investment funds are valued daily at market prices.

Market prices are determined using the SUGEVAL methodology. The corresponding effect is charged against or credited to the "Unrealized (negative) goodwill on portfolio valuation" account in the fund's net assets.

Effective January 23, 2006, SUGEVAL Directive SGV-A-116 stipulates that all fixed income securities, including securities with maturities or remaining amortization periods of 180 days or less and excluding money market or short-term investment funds, must be valued at market prices. For money market or short-term investment funds, returns or losses corresponding to the period from the moment the funds cease to be valued at market prices until maturity are to be distributed by the fund manager using the effective interest method.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

25. Loan portfolio income

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

	<u>2013</u>	<u>2012</u>
Current loans:		
Accrued interest on checking account overdrafts	¢ 24,177,549	39,364,430
Accrued interest on loans with other funds	52,526,984,680	50,476,507,400
Accrued interest on credit cards	7,405,454,251	6,661,648,431
Accrued interest on factoring	44,944,081	92,537,036
Accrued interest on issued letters of credit	538	1,516
Accrued interest on loans to State-owned banks	388,963,447	479,027,830
Accrued interest on other loans	-	125,887
Subtotal	<u>60,390,524,546</u>	<u>57,749,212,530</u>
Past due loans and loans in legal collections		
Accrued interest on loans with other funds	5,800,567,974	7,244,241,382
Accrued interest on credit cards	35,489,764	49,303,349
Subtotal	<u>5,836,057,738</u>	<u>7,293,544,731</u>
Total	<u>¢ 66,226,582,284</u>	<u>65,042,757,261</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

26. Finance expense

(a) Obligations with the public

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

	<u>2013</u>	<u>2012</u>
Demand deposits	¢ 1,967,450,763	1,722,919,115
Term deposits	22,358,053,602	19,893,540,373
Repurchase and tri-party repurchase agreements and securities lending	<u>48,669,717</u>	<u>90,372,080</u>
Total	<u>¢ 24,374,174,082</u>	<u>21,706,831,568</u>

(b) Obligations with financial entities

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

	<u>2013</u>	<u>2012</u>
Demand obligations	¢ 12,223,431	12,590,469
Term obligations	<u>6,522,574,279</u>	<u>6,587,304,274</u>
Total	<u>¢ 6,534,797,710</u>	<u>6,599,894,743</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

27. Foreign exchange differences

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

As of December 31, net foreign exchange losses are as follows:

	<u>2013</u>	<u>2012</u>
Foreign exchange gain (loss):		
Obligations with the public	¢ 7,488,419,910	3,580,355,653
Other financial obligations	4,155,144,056	1,311,885,586
Other accounts payable and provisions	134,224,701	(7,814,351)
Cash and due from banks	(2,118,619,698)	(1,457,700,166)
Investments in financial instruments	(471,014,288)	(280,043,842)
Current loans	(9,505,571,634)	(2,993,934,049)
Past due loans and loans in legal collections	(1,332,587,574)	(957,200,200)
Accounts and fees and commissions receivable	(95,242,716)	229,262,591
Net foreign exchange loss	¢ <u>(1,745,247,243)</u>	<u>(575,188,778)</u>

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

28. Service fees and commissions

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

	<u>2013</u>	<u>2012</u>
Income:		
Drafts and transfers	¢ 1,155,138,600	1,180,165,165
Foreign trade	-	1,476
Trust management	455,869,557	424,484,972
Sundry custodial services	67,819	17,249
Collections	18,234,023	18,742,526
Deposits	149,497	155,195
Other banking mandates	392,262,945	284,757,997
Credit cards	7,344,055,977	6,567,450,395
Investment fund management	1,019,870,598	577,444,882
Insurance underwriting	1,961,356,232	1,593,694,264
Brokerage operations (local market - third parties)	2,539,102,223	2,146,148,238
Brokerage operations (foreign markets - third parties)	280,412,693	413,008,537
Related party transactions	11,069,134	11,638,429
Other	2,112,067,092	2,123,751,336
Total	<u>¢ 17,289,656,390</u>	<u>15,341,460,661</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

29. Personnel expenses

As of December 31, personnel expenses are as follows:

	<u>2013</u>	<u>2012</u>
Salaries and bonuses, permanent staff	¢ 17,981,922,730	17,648,499,342
Compensation for board members and statutory examiners	18,785,838	14,684,239
Overtime	332,630,979	269,533,427
Travel expenses	468,375,245	493,665,837
Statutory Christmas bonus	1,515,457,434	1,358,632,005
Vacation	1,294,133	61,423,686
Incentives	17,973,794	16,244,719
Other compensation	118,185,798	128,202,377
Employer social security taxes	3,967,565,782	3,399,303,041
Refreshments	225,884,915	242,377,838
Uniforms	6,932,987	58,437,079
Training	254,402,918	192,173,994
Employee insurance	262,860,908	291,449,708
Compulsory retirement savings account	828,639,164	711,789,012
Other	752,560,045	745,602,980
Total	¢ <u>26,753,472,670</u>	<u>25,632,019,284</u>

30. Other administrative expenses

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

	<u>2013</u>	<u>2012</u>
Outsourcing	¢ 6,069,027,063	6,185,042,184
Transportation and communications	1,157,511,319	1,058,548,783
Infrastructure	7,782,402,984	7,411,414,194
Overhead	5,171,562,257	5,073,069,240
Total	¢ <u>20,180,503,623</u>	<u>19,728,074,401</u>

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

31. Risk management

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

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

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

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

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

The Board of Directors is responsible for the establishment and oversight of the Corporation'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 Corporation's risk exposure.

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Management is responsible for the formulation of the Corporation's risk management strategy and ALCO is responsible for setting guidelines for managing interest rates, accrued interest receivable, the Corporation's foreign currency position, margins, and liquidity. The parent company has also established maximum risk exposure limit guidelines. 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 Corporation if a customer fails to meet its contractual obligations.

The Corporation monitors its credit risk on an ongoing basis through reports on the status of the portfolio and its classification. 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 Corporation also receives guarantees to manage its risk exposure.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated 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:

	2013	2012
Cash and due from banks	¢ 175,727,007,753	163,392,999,555
Investments in financial instruments	83,311,013,865	70,762,860,264
Loan portfolio	960,341,903,278	928,180,557,822
Accounts and fees and commissions receivable	4,079,861,315	2,972,642,574
Guarantees granted	39,520,950,616	26,559,899,628
Letters of credit issued but unused	6,147,772,631	2,634,798,357
Confirmed letters of credit	24,750,500	70,289,800
Total	¢ <u>1,269,128,509,458</u>	<u>1,194,574,048,000</u>

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 Corporation is exposed to a significant concentration of credit risk in Latin America, specifically in Costa Rica on loans granted to Costa Rican entities. The Corporation 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 Corporation obtains a thorough understanding of its customers and of their capacity to generate sufficient cash flows to honor their debt commitments.

Financial assets that represent potential credit risk for the Corporation mainly include bank deposits, investments in financial instruments, and loans. Bank deposits are mainly placed in prestigious financial institutions.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Customers		Banks		Stand-by	
	2013	2012	2013	2012	2013	2012
<i>Individually assessed loans with allowance</i>						
A1	459,534,079,856	487,186,334,634	36,998,283,232	36,417,776,795	43,607,075,336	31,126,274,643
A2	3,972,530,883	5,405,594,219	-	-	40,546,517	-
B1	13,658,982,692	7,037,339,902	-	-	45,560,682	2,005,412,772
B2	664,735,083	598,772,588	-	-	-	-
C1	1,377,581,644	2,382,472,985	-	-	44,972,457	16,560,157
C2	144,630,328	708,796,553	-	-	-	-
D	1,652,684,930	644,054,996	-	-	-	-
E	26,123,760,866	26,800,228,303	-	-	20,242,607	-
Total	507,128,986,282	530,763,594,180	36,998,283,232	36,417,776,795	43,758,397,599	33,148,247,572
Allowance for loan losses	(10,848,349,467)	(11,719,447,561)	(184,991,416)	(182,088,884)	(80,780,084)	(61,350,319)
Carrying amount	496,280,636,815	519,044,146,619	36,813,291,816	36,235,687,911	43,677,617,515	33,086,897,253
<i>Past due loans without allowance</i>						
A1	10,227,145,331	9,346,012,704	-	-	1,248,480	-
A2	1,386,131,698	1,532,220,836	-	-	-	-
B1	1,695,410,056	1,887,235,472	-	-	-	-
B2	816,006,249	514,717,954	-	-	-	-
C1	755,951,141	2,075,689,042	-	-	-	-
C2	369,471,777	65,435,853	-	-	-	-
D	216,675,443	562,944,467	-	-	-	-
E	3,295,610,692	3,326,785,365	-	-	198,004	-
Carrying amount	18,762,402,387	19,311,041,693	-	-	1,446,484	-
<i>Current loans without allowance</i>						
A1	372,024,263,772	314,172,392,005	-	-	124,811,552,138	115,859,678,645
A2	2,083,517,273	3,030,040,241	-	-	732,732,702	808,144,288
B1	18,688,911,407	17,718,061,687	-	-	5,190,700,550	1,365,895,094
B2	7,353,329	-	-	-	44,153,865	63,788,964
C1	12,481,157,636	16,644,404,975	-	-	3,567,823,686	4,605,921,548
C2	-	-	-	-	42,712,144	48,541,978
D	1,199,775,229	672,837,247	-	-	626,272,689	532,758,224
E	2,215,874,123	2,234,302,261	-	-	2,294,972,549	2,407,198,807
Carrying amount	408,700,852,769	354,472,038,416	-	-	137,310,920,323	125,691,927,548
Excess allowance over minimum allowance	(215,280,509)	(882,356,817)	-	-	(77,873,066)	(194,892,458)
Carrying amount, net	923,528,611,462	891,944,869,911	36,813,291,816	36,235,687,911	180,912,111,256	158,583,932,343

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Individually assessed loans with allowance

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

That criterion is consistently applied by the remaining Corporation subsidiaries.

Past due loans without allowance

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

Restructured loans

Restructured loans are loans for which the original contractual conditions have been modified due to negotiations with customers or where the Corporation 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 of restructured loans.

- a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest has been postponed to a future date beyond the date stipulated under current contractual conditions.
- b. Modified loan: Loan operation in which at least one of the current contractual payment conditions has been modified, excluding extensions, additional payments not agreed in the payment schedule, additional payments with the purpose of reducing the amount of installments, or changes in the currency while respecting the agreed maturity date.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

Allowance for loan losses

- i. Scotiabank de Costa Rica, S.A.

Borrower classification

The subsidiary Scotiabank de Costa Rica, S.A. must classify its borrowers into the following two groups:

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

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

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

Risk ratings

The subsidiary Scotiabank de Costa Rica, S.A. 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 representing the lowest credit risk and rating E representing the highest credit risk.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Borrower classification

Analysis of borrower's creditworthiness

The subsidiary Scotiabank de Costa Rica, S.A. must define effective mechanisms to determine the creditworthiness of borrowers in Group 1. Based on whether the borrowers are individuals or legal entities, those mechanisms should permit an assessment of the following aspects:

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

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.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The subsidiary Scotiabank de Costa Rica, S.A. must classify the borrower's creditworthiness into 4 levels: level 1 - has the ability to pay, level 2 - has minor weaknesses in the ability to pay, level 3 - has serious weaknesses in the ability to pay, and level 4 - has no ability to pay. For purposes of this classification, the borrower and co-borrower(s) must be assessed jointly. Joint classification of creditworthiness may only be used to determine the allowance percentage for operations in which the parties are borrower and co-borrower.

Analysis of historical payment behavior

The subsidiary Scotiabank de Costa Rica, S.A. must determine a borrower's historical payment behavior based on the level assigned to the borrower by SUGEF's Credit Information Center (CIC).

The subsidiary Scotiabank de Costa Rica, S.A. must classify historical payment behavior into three levels: level 1 - good historical payment behavior, level 2 - acceptable historical payment behavior, and level 3 - poor historical payment behavior.

Assignment of risk ratings

Borrowers in Group 1 are to be classified by the subsidiary Scotiabank de Costa Rica, S.A. based on arrears, historical payment behavior, and creditworthiness. Borrowers in Group 2 are to be rated based on arrears and historical payment behavior, as follows:

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

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 bank and the rating assigned by the buying bank at the time of the purchase.

Direct assignment of risk rating E

The subsidiary Scotiabank de Costa Rica, S.A. must rate borrowers in risk rating E who do not meet the conditions to be rated in any of the risk ratings defined above, are in bankruptcy, a meeting of creditors, a court protected reorganization procedure, or takeover, or if the subsidiary considers classification in this risk rating to be appropriate.

Minimum allowance

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

Allowance percentages based on borrower risk rating are as follows:

<u>Risk rating</u>	<u>Allowance percentage</u>
A1	0.5%
A2	2%
B1	5%
B2	10%
C1	25%
C2	50%
D	75%
E	100%

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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:

<u>Arrears</u>	<u>Allowance percentage</u>
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, 2013, the subsidiary Scotiabank de Costa Rica, S.A. must maintain a minimum allowance of ¢10,090,878,277 (2012: ¢11,052,860,591). SUGEF External Circular Letter 021-2008 dated May 30, 2008 indicates that the expense for the allowance for loan losses corresponds to the amount necessary to achieve the minimum required allowance. Furthermore, there must be a duly documented technical justification for any excess above the minimum required allowance, which is to be sent to SUGEF with the authorization request. The excess may not surpass 15% of the minimum required allowance for the loan portfolio. This notwithstanding, if any additional allowances are required above that 15%, they must be taken from net earnings for the period pursuant to article 10 of IRNBS.

Credit equivalent

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

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

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Allowances for other assets

Allowances should be established for the following assets:

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

<u>Arrears</u>	<u>Allowance percentage</u>
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.

- ii. Leasing subsidiary

The subsidiary Scotiabank de Costa Rica, S.A. has adopted criteria and policies to determine the minimum allowance for loan losses in accordance with the regulations established in SUGEF Directive 1-05.

Loan charge-off policy

The Corporation 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.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		2013				
		Loans to customers		Loans to banks		
		Gross	Net	Gross	Net	
A1	¢	457,755,140,677	456,288,703,669	¢	36,998,283,232	36,813,291,816
A2		3,949,001,259	3,931,310,158		-	-
B1		13,631,659,734	13,142,836,285		-	-
B2		663,217,479	636,199,354		-	-
C1		1,370,813,894	1,189,227,195		-	-
C2		176,151,883	88,159,624		-	-
D		2,292,994,551	1,266,473,078		-	-
E		25,238,065,215	17,685,785,862		-	-
	¢	<u>505,077,044,693</u>	<u>494,228,695,225</u>	¢	<u>36,998,283,232</u>	<u>36,813,291,816</u>

		2012				
		Loans to customers		Loans to banks		
		Gross	Net	Gross	Net	
A1	¢	484,786,723,790	483,402,612,988	¢	36,417,776,795	36,235,687,911
A2		5,372,501,185	5,345,541,622		-	-
B1		7,021,185,369	6,799,927,702		-	-
B2		595,347,240	562,536,711		-	-
C1		2,372,079,575	2,052,458,277		-	-
C2		703,942,562	563,782,747		-	-
D		639,786,673	358,429,088		-	-
E		26,202,754,717	16,889,584,412		-	-
	¢	<u>527,694,321,111</u>	<u>515,974,873,547</u>	¢	<u>36,417,776,795</u>	<u>36,235,687,911</u>

Guarantees

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

	2013	2012
Individually assessed loans with allowance (including the balance for loans in legal collections):		
Real property	¢ 213,260,019,487	269,560,746,978
Personal property	260,598,925,129	252,779,471,240
Financial instruments	65,661,336	-
Other (trusts)	31,094,426,853	53,029,747,744
Subtotal	<u>505,019,032,805</u>	<u>575,369,965,962</u>
Past due loans without allowance:		
Real property	31,033,487,201	48,431,422,738
Personal property	3,319,932,367	2,552,744,963
Financial instruments	-	23,875,000
Other (trusts)	4,307,466,649	3,790,964,178
Subtotal	<u>38,660,886,217</u>	<u>54,799,006,879</u>
Current loans without allowance:		
Real property	745,096,694,291	569,579,370,723
Personal property	119,214,148,617	71,261,047,363
Financial instruments	118,024,176	26,066,649,492
Other (trusts)	252,945,221,762	286,151,647,226
Subtotal	<u>1,117,374,088,846</u>	<u>953,058,714,804</u>
Total	<u>¢ 1,661,054,007,868</u>	<u>1,583,227,687,645</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated 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:

	<u>2013</u>	<u>2012</u>
Investment certificates	¢ 29,744,671,654	28,817,500,476
Assignment of trust agreements	297,912,522	3,113,611,390
Fiduciary	161,834,111,622	146,299,033,077
Mortgage	542,184,144,282	539,905,199,179
Chattel mortgage	120,556,659,423	107,212,251,028
State banking	36,998,283,232	36,376,087,634
Other	<u>70,974,592,127</u>	<u>70,739,763,858</u>
Total direct loans	962,590,374,862	932,463,446,642
Accrued interest receivable	9,000,149,808	8,501,004,442
Allowance for loan losses	<u>(11,248,621,392)</u>	<u>(12,783,893,262)</u>
Total	<u>¢ 960,341,903,278</u>	<u>928,180,557,822</u>

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loan portfolio by sector

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

	<u>2013</u>	<u>2012</u>
Agriculture, livestock, hunting, and related activities	¢ 3,711,416,840	3,885,654,318
Fishing and aquaculture	7,425,150	-
Manufacturing industry	14,324,576,878	21,547,286,399
Electricity, telecommunications, gas, and water	5,894,813,061	7,651,706,222
Construction, purchase, and repair of property	333,689,901,236	351,781,044,354
Trade	165,999,829,049	155,728,804,518
Hospitality	2,806,632,848	2,620,495,548
Transportation	3,090,427,797	4,445,337,150
Stock market	41,839,128,686	40,824,579,497
Real estate, business, and leasing activities	8,115,027,013	16,306,341,394
Education	19,992,172	25,343,706
Services	195,368,961,211	153,180,381,094
Consumer	187,722,242,921	174,466,472,442
Total direct loans	<u>962,590,374,862</u>	<u>932,463,446,642</u>
Accrued interest receivable	9,000,149,808	8,501,004,442
Allowance for loan losses	(11,248,621,392)	(12,783,893,262)
Total	<u>¢ 960,341,903,278</u>	<u>928,180,557,822</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Loan portfolio by geographic area

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

	2013	2012
Costa Rica	¢ 940,393,819,002	906,792,702,039
Rest of Central America	15,019,132,349	17,732,473,992
Rest of North and South America	2,030,534,356	2,190,032,546
Caribbean	281,007,720	304,054,522
United States of America	3,712,808,755	4,013,473,949
Europe	913,804,498	1,160,337,122
Africa	-	45,833,950
Asia	239,268,182	224,538,522
Total	¢ <u>962,590,374,862</u>	<u>932,463,446,642</u>

Loan portfolio by arrears

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

	2013	2012
Current	¢ 905,023,978,780	870,110,652,033
1 to 30 days	38,721,894,565	40,288,026,097
31 to 60 days	5,892,467,631	5,739,535,146
61 to 90 days	906,736,569	3,106,819,268
91 to 120 days	409,089,836	471,359,630
121 to 180 days	255,125,403	372,010,987
More than 180 days	78,651,998	1,420,107,079
In legal collections	11,302,430,080	10,954,936,402
Total direct loans	962,590,374,862	932,463,446,642
Accrued interest receivable	9,000,149,808	8,501,004,442
Allowance for loan losses	(11,248,621,392)	(12,783,893,262)
Total	¢ <u>960,341,903,278</u>	<u>928,180,557,822</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Concentration of the portfolio in individual borrowers or economic interest groups

	2013		2012	
	No. of customers	Amount	No. of customers	Amount
Less than 5% of capital and reserves	38,066	857,689,777,909	37,007	823,754,646,422
Between 5% and 10% of capital and reserves	8	55,859,375,861	6	38,681,326,492
Between 10% and 15% of capital and reserves	1	12,042,937,869	3	33,651,386,094
Between 15% and 20% of capital and reserves	2	36,998,283,223	-	-
Greater than 20% of capital and reserves	-	-	1	36,376,087,634
Total	38,077	962,590,374,862	37,017	932,463,446,642

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

At the balance sheet date, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Loans to the Corporation's most important customers or economic interest groups, whose loans individually represent 5% or more of share capital and capital reserves, amount to ¢104,900,596,953 (2012: ¢108,708,800,220).

Amount and number of loans in non-accrual status

	2013	2012
Loans in non-accrual status	¢ 12,045,297,317	13,123,894,435
Number of loans in non-accrual status	723	806

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2013	2012
Loans in legal collections	¢ 11,302,430,080	10,954,936,402
Number of loans in legal collections	398	570
Percentage of total portfolio	1.16%	1.16%

Investments by rating

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

	2013	2012
AAA	¢ 2,857,924,080	3,210,480,091
AA	12,330,329,084	7,602,550,214
A	5,940,120,000	1,257,080,666
BBB	531,279,382	1,097,374,396
BB	81,950,634,100	54,009,902,688
B	-	18,482,687,343
Unrated	-	1,503,070,000
Total	103,610,286,646	87,163,145,398
Accrued interest receivable	898,179,252	1,283,647,925
Highly liquid short-term investments	(21,197,452,033)	(17,683,933,059)
Total	¢ 83,311,013,865	70,762,860,264

Investments by geographic area

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

	2013	2012
Costa Rica	¢ 80,837,176,639	69,665,485,869
Rest of North and South America	531,279,382	1,097,374,395
United States of America	1,942,557,844	-
Total	¢ 83,311,013,865	70,762,860,264

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

ii. Interest rate risk

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

The Corporation manages this risk by maintaining reasonable interest rate margins between assets and liabilities. The Corporation 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 Corporation 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 Corporation 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 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 entity, unit, and currency levels.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Sensitivity analysis

The Corporation 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 and foreign currency, the Corporation 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, 2013 and 2012, that limit was calculated based on the assumption that all interest rates on assets and liabilities that reprice within 12 months of the calculation date will increase or decrease by 1% for operations in both foreign and local currency. In the event that variable interest rates change as indicated above, the Corporation's asset and liability portfolios would increase or decrease by ¢2,907,179,936 in 2013 (2012: increase or decrease by ¢4,022,092,260).

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			
		2013		2012	
		Positive change	Negative change	Positive change	Negative change
Investments	¢	(4,511,149,642)	6,295,580,560	(3,551,688,728)	4,396,181,624
Loan portfolio	¢	(10,986,397,572)	11,317,312,808	(13,518,440,985)	13,978,481,277
Term deposits	¢	(3,525,955,324)	3,606,406,409	(3,163,562,093)	3,233,975,592
Obligations					
with entities	¢	(33,094,252)	33,541,944	(58,489,625)	59,489,625

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

		Days						
		1-30	31-90	91-180	181-360	361-720	More than 720	Total
<u>Local currency</u>								
<u>Assets</u>								
	¢	42,053,475	-	-	-	-	-	42,053,475
		17,942,406	4,982,049	3,068,499	6,486,031	17,031,583	6,464,292	55,974,860
		52,583,479	41,365,361	3,312,035	14,653,425	2,975,154	5,975,422	120,864,876
	¢	112,579,360	46,347,410	6,380,534	21,139,456	20,006,737	12,439,714	218,893,211
<u>Liabilities</u>								
		66,178,412	-	-	-	-	-	66,178,412
		21,548,182	21,623,045	27,937,234	28,425,436	8,545,339	13,192,474	121,271,710
		8,460,518	1,073,956	1,250,959	748,061	118,240	177,360	11,829,094
	¢	96,187,112	22,697,001	29,188,193	29,173,497	8,663,579	13,369,834	199,279,216
	¢	16,392,248	23,650,409	(22,807,659)	(8,034,041)	11,343,158	(930,120)	19,613,995
<u>Foreign currency</u>								
<u>Assets</u>								
	¢	116,861,034	-	-	-	-	-	116,861,034
		17,395,006	4,337,907	3,410,556	10,768,442	11,279,598	8,685,584	55,877,093
		170,111,295	361,829,890	47,091,555	61,396,261	105,110,000	117,565,173	863,104,174
	¢	304,367,335	366,167,797	50,502,111	72,164,703	116,389,598	126,250,757	1,035,842,301
<u>Liabilities</u>								
		159,415,338	-	-	-	-	-	159,415,338
		64,444,451	112,025,382	99,645,472	76,895,756	31,076,642	29,681,102	413,768,805
		48,016,803	109,659,100	25,944,737	10,181,467	22,216,638	98,712,578	314,731,323
	¢	271,876,592	221,684,482	125,590,209	87,077,223	53,293,280	128,393,680	887,915,466
	¢	32,490,743	144,483,315	(75,088,098)	(14,912,520)	63,096,318	(2,142,923)	147,926,835

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Days						Total
	1-30	31-90	91-180	181-360	361-720	More than 720	
<u>Local currency</u>							
<u>Assets</u>							
Cash and due from banks	¢ 38,441,749	-	-	-	-	-	38,441,749
Investments in financial instruments	16,627,314	5,950,029	2,230,020	11,163,015	7,577,732	2,133,608	45,681,717
Loan portfolio	53,142,342	49,334,161	3,649,542	496,828	848,249	2,604,583	110,075,706
Total recovery of assets	¢ 108,211,405	55,284,190	5,879,562	11,659,843	8,425,981	4,738,191	194,199,172
<u>Liabilities</u>							
Demand obligations with the public	47,204,160	-	-	-	-	-	47,204,160
Term obligations with the public	27,191,225	18,883,433	26,728,250	20,853,754	6,225,357	8,582,752	108,464,771
Obligations with financial entities	50,000	100,000	463,728	197,450	-	-	811,177
Total maturity of liabilities	¢ 74,445,385	18,983,433	27,191,978	21,051,204	6,225,357	8,582,751	156,480,108
Asset and liability gap	¢ 33,766,020	36,300,757	(21,312,416)	(9,391,361)	2,200,623	(3,844,560)	37,719,064
<u>Foreign currency</u>							
<u>Assets</u>							
Cash and due from banks	¢ 88,086,593	-	-	-	-	-	88,086,593
Investments in financial instruments	13,737,205	510,186	6,314,630	6,384,702	4,688,011	4,148,580	35,783,314
Loan portfolio	151,644,220	282,393,274	57,885,843	44,401,368	100,401,387	136,556,970	773,283,062
Total recovery of assets	¢ 253,468,018	282,903,460	64,200,473	50,786,070	105,089,398	140,705,550	897,152,969
<u>Liabilities</u>							
Demand obligations with the public	¢ 158,587,794	-	-	-	-	-	158,587,794
Term obligations with the public	64,146,234	113,054,643	93,549,300	96,487,817	27,311,500	21,345,137	415,894,630
Obligations with financial entities	24,926,345	47,133,270	38,471,271	12,569,573	5,719,801	98,367,469	227,187,727
Total maturity of liabilities	¢ 247,660,373	160,187,912	132,020,571	109,057,390	33,031,300	119,712,606	801,670,151
Asset and liability gap	¢ 5,807,645	122,715,547	(67,820,098)	(58,271,320)	72,058,098	20,992,944	95,482,817

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iii. Liquidity and financing risk

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

The Corporation 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.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2013, the Corporation's asset and liability terms are matched as follows (in thousands of colones), pursuant to SUGEF regulations:

	Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 365 days	More than 30 days past due	Total
Local currency									
<u>Assets</u>									
Cash and due from banks	¢ 17,861,898	-	-	-	-	-	-	-	17,861,898
Minimum cash reserve in BCCR	9,945,061	3,007,815	1,483,411	1,281,541	3,575,606	3,516,743	2,431,094	-	25,241,271
Investments in financial instruments	2,391,329	15,817,066	1,389,238	3,156,044	2,072,945	5,350,540	21,643,403	-	51,820,565
Loan portfolio	12,182,962	10,199,301	9,649,951	11,642,980	10,687,537	6,230,292	55,280,136	2,335,640	118,208,799
Total recovery of assets	¢ 42,381,250	29,024,182	12,522,600	16,080,565	16,336,088	15,097,575	79,354,633	2,335,640	213,132,533
<u>Liabilities</u>									
Obligations with the public	¢ 75,351,905	19,878,913	10,663,435	9,837,882	26,198,449	26,597,158	18,417,982	-	186,945,724
Obligations with financial entities	477,556	8,211,787	880,042	134,700	1,239,650	614,542	45,416	-	11,603,693
Charges payable	-	1,294,156	-	-	-	-	-	-	1,294,156
Total maturity of liabilities	¢ 75,829,461	29,384,856	11,543,477	9,972,582	27,438,099	27,211,700	18,463,398	-	199,843,573
Asset and liability matching of terms - local currency	¢ (33,448,211)	(360,674)	979,123	6,107,983	(11,102,011)	(12,114,125)	60,891,235	2,335,640	13,288,960
Foreign currency, expressed in colones									
<u>Assets</u>									
Cash and due from banks	¢ 15,813,433	-	-	-	-	-	-	-	15,813,433
Minimum cash reserve in BCCR	27,914,542	10,423,908	9,788,886	8,833,610	16,451,422	12,641,587	9,558,998	-	95,612,953
Investments in financial instruments	4,237,917	11,313,107	1,281,024	2,942,924	2,413,322	10,010,562	20,489,046	-	52,687,902
Loan portfolio	34,289,488	23,413,097	30,274,005	22,662,367	51,911,093	43,980,177	630,295,213	16,556,286	853,381,726
Total recovery of assets	¢ 82,255,380	45,150,112	41,343,915	34,438,901	70,775,837	66,632,326	660,343,257	16,556,286	1,017,496,014
<u>Liabilities</u>									
Obligations with the public	¢ 161,646,288	61,411,349	57,931,285	52,175,677	97,256,990	74,551,123	56,334,339	-	561,307,051
Obligations with financial entities	130,706	27,894,627	16,898,088	33,249,776	31,364,006	26,554,775	166,417,421	-	302,509,399
Charges payable	-	2,988,734	-	-	-	-	-	-	2,988,734
Total maturity of liabilities	¢ 161,776,994	92,294,710	74,829,373	85,425,453	128,620,996	101,105,898	222,751,760	-	866,805,184
Asset and liability matching of terms - foreign currency	¢ (79,521,614)	(47,144,598)	(33,485,458)	(50,986,552)	(57,845,159)	(34,473,572)	437,591,497	16,556,286	150,690,830

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2012, the Corporation's asset and liability terms are matched as follows (in thousands of colones), pursuant to SUGEF regulations:

	Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	More than 30 days past due	Total
Local currency									
<u>Assets</u>									
Cash and due from banks	¢ 14,439,505	-	-	-	-	-	-	-	14,439,505
Minimum cash reserve in BCCR	10,624,326	3,708,383	1,321,039	1,276,658	3,729,321	2,875,332	1,831,919	-	25,366,978
Investments in financial instruments	3,259,080	13,027,221	74,429	3,524,578	1,311,960	11,322,306	15,995,735	-	48,515,309
Loan portfolio	13,807,333	9,835,752	10,776,312	16,785,995	6,993,798	5,603,407	44,665,158	2,809,981	111,277,736
	¢ 42,130,244	26,571,356	12,171,780	21,587,231	12,035,079	19,801,045	62,492,812	2,809,981	199,599,528
<u>Liabilities</u>									
Obligations with the public	¢ 70,833,238	28,233,657	8,960,833	8,757,666	25,478,582	19,524,075	12,564,891	-	174,352,942
Obligations with financial entities	1,530,062	50,000	100,000	-	174,397	275,097	203,815	-	2,333,371
Charges payable	-	1,413,449	-	-	-	-	-	-	1,413,449
	¢ 72,363,300	29,697,106	9,060,833	8,757,666	25,652,979	19,799,172	12,768,706	-	178,099,762
Asset and liability matching of terms - local currency	(30,233,056)	(3,125,750)	3,110,947	12,829,565	(13,617,900)	1,873	49,724,106	2,809,981	21,499,766
Foreign currency									
<u>Assets</u>									
Cash and due from banks	¢ 13,044,453	-	-	-	-	-	-	-	13,044,453
Minimum cash reserve in BCCR	26,551,848	10,990,587	8,023,770	11,444,245	13,222,959	13,939,547	8,685,175	-	92,858,131
Investments in financial instruments	3,310,429	10,603,428	281,463	65,128	6,025,062	6,974,614	12,671,362	-	39,931,486
Loan portfolio	31,528,596	15,206,250	20,815,340	24,109,258	52,343,287	45,016,712	622,810,202	17,857,070	829,686,715
	¢ 74,435,326	36,800,265	29,120,573	35,618,631	71,591,308	65,930,873	644,166,739	17,857,070	975,520,785
<u>Liabilities</u>									
Obligations with the public	¢ 150,840,154	62,143,094	46,247,872	65,961,769	76,215,256	80,345,568	50,060,114	-	531,813,827
Obligations with financial entities	159,757	41,317,296	33,769,102	35,220,019	40,153,067	24,340,230	122,449,424	-	297,408,895
Charges payable	-	3,002,755	-	-	-	-	-	-	3,002,755
	150,999,911	106,463,145	80,016,974	101,181,788	116,368,323	104,685,798	172,509,538	-	832,225,477
Asset and liability matching of terms - foreign currency	¢ (76,564,585)	(69,662,880)	(50,896,401)	(65,563,157)	(44,777,015)	(38,754,925)	471,657,201	17,857,070	143,295,308

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Corporation monitors its liquidity position on a daily basis and maintains liquid assets in excess of its liquid liabilities. Additionally, the Corporation 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 Corporation 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 Corporation'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 Corporation has sufficient liquidity to meet its short-term needs.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Residual contractual maturities of financial liabilities

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

	Balance	Year						
		Nominal cash flows	1	2	3	4	5	Thereafter
Obligations:								
Demand obligations with the public	¢ 242,594,873	242,594,873	242,594,873	-	-	-	-	-
Term obligations with the public	513,438,238	542,581,725	460,086,169	39,621,980	19,087,000	-	22,352,122	1,434,454
Obligations with entities	311,394,319	313,582,726	136,193,732	47,051,636	99,830,080	20,137,703	10,369,575	-
	¢ 1,067,427,430	1,098,759,324	838,874,774	86,673,616	118,917,080	20,137,703	32,721,697	1,434,454

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

	Balance	Year						
		Nominal cash flows	1	2	3	4	5	Thereafter
Obligations:								
Demand obligations with the public	¢ 221,673,392	221,673,392	221,673,392	-	-	-	-	-
Term obligations with the public	481,119,425	511,406,919	450,691,578	31,595,463	10,162,780	-	17,973,703	983,395
Obligations with entities	298,017,112	275,171,747	142,862,042	38,021,742	28,367,335	46,062,254	18,742,982	1,115,392
	¢ 1,000,809,929	1,008,252,058	815,227,012	69,617,205	38,530,115	46,062,254	36,716,685	2,098,787

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

iv. Currency risk

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

As of December 31, 2013 and 2012, the Corporation 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% over total equity expressed in U.S. dollars.

The Corporation is exposed to the effects of exchange rate fluctuations and, therefore, reviews its exposure limits on a daily basis. The Corporation 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)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(a) Monetary position in foreign currency

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

	2013			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
<u>Assets</u>				
Cash and due from banks	230,372,164	1,564,412	991,788	20
Investments in financial instruments	108,505,460	-	-	-
Loan portfolio	1,705,372,497	-	200,439	-
Accounts and fees and commissions receivable	3,467,523	241,073	-	-
Investments in other companies	1,125	-	-	-
Other assets	3,415,489	-	-	-
Investment property	4,800,503	-	-	-
Total assets	2,055,934,761	1,805,485	1,192,227	20
<u>Liabilities</u>				
Obligations with the public	1,145,924,224	738,974	1,075,067	-
Obligations with BCCR	494,990,363	-	-	-
Obligations with entities	118,907,481	-	-	-
Other accounts payable and provisions	6,251,027	1,321,468	-	-
Other liabilities	2,526,760	-	-	-
Total liabilities	1,768,599,855	2,060,442	1,075,067	-
Excess of assets over liabilities	287,334,906	(254,957)	117,160	20

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	2012			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
<u>Assets</u>				
Cash and due from banks	210,537,720	1,517,507	605,862	15
Investments in financial instruments	71,747,256	-	-	-
Loan portfolio	1,631,606,683	-	160,345	-
Accounts and fees and commissions receivable	2,033,964	482,966	-	-
Investments in other companies	3,129,561	-	-	-
Other assets	3,760,664	-	-	-
Investment property	4,672,237	-	-	-
Total assets	1,927,488,085	2,000,473	766,207	15
<u>Liabilities</u>				
Obligations with the public	1,067,708,381	936,402	680,884	-
Obligations with entities	596,213,455	-	-	-
Other accounts payable and provisions	12,161,114	1,010,450	25,622	-
Other liabilities	2,786,929	-	30,086	-
Total liabilities	1,678,869,879	1,946,852	736,592	-
Excess of assets over liabilities	248,618,206	53,621	29,615	15

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

(b) Ordinary and preferred shares in foreign currency

As of December 31, 2013, the Corporation's equity included ordinary shares for a total of US\$201,153,696 (equivalent to ¢99,551,201,391.01).

As of December 31, 2012, the Corporation's equity included preferred shares for a total of US\$47,300,000 (equivalent to ¢21,894,011,000).

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

As of December 31, 2013, the terms of assets and liabilities in foreign currency are matched as follows (in thousands of U.S. dollars), pursuant to SUGEF regulations:

	Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 365 days	More than 30 days past due	Total
Assets									
Cash and due from banks - FC	32,043	-	-	-	-	-	-	-	32,043
Minimum cash reserve in BCCR - FC	56,563	21,122	19,835	17,900	33,336	25,616	19,369	-	193,741
Investments - FC	8,587	22,924	2,596	5,963	4,890	20,284	41,517	-	106,762
Loan portfolio - FC	69,481	47,442	61,344	45,921	105,188	89,117	1,277,168	33,548	1,729,209
Total recovery of assets	166,674	91,488	83,775	69,784	143,413	135,017	1,338,054	33,548	2,061,754
Liabilities									
Obligations with the public - FC	327,544	124,438	117,386	105,929	197,072	151,063	114,150	-	1,137,582
Obligations with financial entities - FC	265	56,523	34,241	58	63,553	53,808	337,212	-	545,659
Charges payable - FC	-	6,056	-	-	-	-	-	-	6,056
Total maturity of liabilities	328,074	187,017	151,627	105,987	260,625	204,871	451,362	-	1,689,562
Gap	(161,400)	(95,529)	(67,852)	(36,203)	(117,212)	(69,854)	886,692	33,548	372,191

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2012, the terms of assets and liabilities in foreign currency are matched as follows (in thousands of U.S. dollars), pursuant to SUGEF regulations:

	Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 365 days	More than 30 days past due	Total
Assets									
Cash and due from banks - FC	26,491	-	-	-	-	-	-	-	26,491
Minimum cash reserve in BCCR - FC	53,921	22,320	16,295	23,241	26,853	28,308	17,638	-	188,575
Investments - FC	6,723	21,533	572	132	12,236	14,164	25,733	-	81,092
Loan portfolio - FC	64,028	30,881	42,272	48,961	106,298	91,419	1,264,795	36,264	1,684,917
Total recovery of assets	151,162	74,733	59,138	72,334	145,387	133,892	1,308,165	36,264	1,981,075
Liabilities									
Obligations with the public - FC	306,324	126,199	93,920	133,954	154,777	163,165	101,661	-	1,080,000
Obligations with financial entities - FC	324	83,907	68,578	71,524	81,542	49,430	248,669	-	603,974
Charges payable - FC	-	6,098	-	-	-	-	-	-	6,098
Total maturity of liabilities	306,649	216,204	162,497	205,479	236,319	212,595	350,330	-	1,690,072
Gap	(155,486)	(141,470)	(103,360)	(133,145)	(90,933)	(78,703)	957,835	36,264	291,002

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2012, the terms of assets and liabilities in foreign currency are matched as follows (in thousands of U.S. dollars), pursuant to SUGEF regulations:

	Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 365 days	More than 30 days past due	Total
Assets									
Cash and due from banks - FC	26,491	-	-	-	-	-	-	-	26,491
Minimum cash reserve in BCCR - FC	53,921	22,320	16,295	23,241	26,853	28,308	17,638	-	188,575
Investments - FC	6,723	21,533	572	132	12,236	14,164	25,733	-	81,092
Loan portfolio - FC	64,028	30,881	42,272	48,961	106,298	91,419	1,264,795	36,264	1,684,917
Total recovery of assets	151,162	74,733	59,138	72,334	145,387	133,892	1,308,165	36,264	1,981,075
Liabilities									
Obligations with the public - FC	306,324	126,199	93,920	133,954	154,777	163,165	101,661	-	1,080,000
Obligations with financial entities - FC	324	83,907	68,578	71,524	81,542	49,430	248,669	-	603,974
Charges payable - FC	-	6,098	-	-	-	-	-	-	6,098
Total maturity of liabilities	306,649	216,204	162,497	205,479	236,319	212,595	350,330	-	1,690,072
Gap	(155,486)	(141,470)	(103,360)	(133,145)	(90,933)	(78,703)	957,835	36,264	291,002

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Sensitivity analysis

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

For 2013 and 2012, the analysis determined a maximum expected variation of ¢4.73 to US\$1.00 and a maximum expected increase of ¢366.64 to US\$1.00 (2012: ¢259.98). The maximum variation is determined by analyzing daily variations with a 514-day observation window. The maximum increase is represented by the difference between the buy reference rate for the U.S. dollar and the exchange rate band ceiling in MONEX. Considering the Corporation's foreign currency position in U.S. dollars, as of December 31, 2013 an increase or decrease in the exchange rate of the colon with respect to the U.S. dollar would give rise to a maximum foreign exchange gain or loss of ¢103,500,856,610 and ¢1,436,063,658, respectively (2012: ¢64,635,761,196 and ¢1,175,964,115, respectively), as follows:

	2013	2012
	U.S. dollars	U.S. dollars
Effect on profit or loss		
Increase in exchange rate		
Assets	753,473,876,841	501,108,352,338
Liabilities	(649,973,020,231)	(436,472,591,142)
Net	<u>103,500,856,610</u>	<u>64,635,761,196</u>
Decrease in exchange rate		
Assets	10,401,695,145	9,117,018,642
Liabilities	(8,965,631,487)	(7,941,054,527)
Net	<u>1,436,063,658</u>	<u>1,175,964,115</u>

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

v. Operational risk

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

Responsibility for implementing the Operational Risk Management Framework is assigned to senior management in each business area and functional units to ensure ongoing operational risk management. This responsibility is supported by operational risk management standards such as:

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

The aforementioned Corporation policies are supported by 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.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

vi. Capital risk

Costa Rican banking legislation requires the financial group to maintain a capital surplus at all times (i.e. a ratio of one or more obtained by dividing the sum of transferable surpluses of the companies in the group and the individual surplus of the controlling company by the absolute value of the sum of individual deficits).

The capital surplus or capital deficit of a financial group or conglomerate is calculated as the individual surplus or deficit of the controlling company plus the transferable surpluses and minus the individual deficits of the companies in the financial group or conglomerate.

The individual surplus of each company in the financial group is calculated as the excess of the capital base over the respective minimum capital requirement for each type of company as stipulated in the CONASSIF prudential standards.

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

- a) Tier I capital: ordinary and preferred paid-in capital plus reserves.
- b) Tier II capital: calculated as the sum of equity adjustments for property revaluations up to a maximum of 75% of the balance of that account, adjustments to the fair value of available-for-sale financial instruments, non-capitalized contributions, prior period retained earnings, and profit or loss for the period, less statutory deductions.

Deductions: Investments in other companies and loans granted to the controlling entity of the same financial group or conglomerate are to be deducted from the sum of Tier I and Tier II capital.

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

The Corporation'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 Corporation has complied with capital requirements and no significant changes were made to its capital management strategy.

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

vii. Asset laundering risk

The Corporation, through its subsidiaries, 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 Corporation's reputation.

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

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

The Corporation periodically monitors customer accounts based on risk rating in order to identify potential suspicious transactions and report suspicious transactions to the financial intelligence unit when necessary.

viii. 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.

ix. Legal risk

Legal risk is the risk of loss 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 Corporation's reputation.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

32. Fair value

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

In conformity with IFRSs, underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention to liquidate, curtail materially the scale of its operations, or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an enterprise would receive or pay in a forced transaction, involuntary liquidation, or distress sale.

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

	2013	
	Carrying amount	Fair value
Cash and due from banks	¢ 175,727,007,753	175,727,007,753
Investments:		
Trading	¢ 5,879,467,564	5,879,467,564
Available for sale	¢ 76,533,367,049	76,533,367,049
Loan portfolio	¢ 951,341,753,470	886,592,664,570
Demand deposits	¢ 236,998,193,424	236,998,193,424
Term deposits	¢ 511,254,582,949	497,139,660,980
Financial obligations	¢ 315,230,656,492	306,522,884,260
	2012	
	Carrying amount	Fair value
Cash and due from banks	¢ 163,392,999,555	163,392,999,555
Investments:		
Trading	¢ 5,468,234,684	5,468,234,684
Available for sale	¢ 64,010,977,655	64,010,977,655
Loan portfolio	¢ 919,679,553,380	887,494,174,318
Demand deposits	¢ 221,673,391,923	221,673,391,923
Term deposits	¢ 481,119,425,486	479,082,072,044
Financial obligations	¢ 300,891,903,923	308,508,915,967

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

- (a) The carrying amounts of cash and due from banks, accrued interest receivable, accounts receivable, demand deposits and customer savings deposits, accrued interest payable, and other liabilities approximate fair value because of the short maturity of these instruments.
- (b) Fair values of investments are determined based on the reference price for the share or bond published on securities exchanges and in electronic stock information systems.
- (c) The fair value of loans is determined by accruing and classifying portfolios based on the currency in which the operation was agreed. 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 and projections made by the Corporation's management, such that an average rate is determined that reflects the inherent credit and interest rate risks. Assumptions related to credit risk, cash flows, and discounted interest rates are defined with management judgments using available market information and the sovereign yield curve in Costa Rica over 5 years plus a private risk premium determined by management.
- (d) The fair value of term deposits was calculated by discounting committed cash flows. The discount interest rate used represents the market average determined by management based on the sovereign yield curve in Costa Rica over 9 months plus a private risk premium determined by management of the Corporation.

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Notes to Consolidated Financial Statements

33. Concentration of assets and liabilities by geographic region

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

	<u>2013</u>	<u>2012</u>
<u>Assets:</u>		
Costa Rica	¢ 1,209,037,750,067	1,153,555,674,967
Rest of Central America	15,401,051,690	19,515,469,364
Rest of North and South America	3,093,609,023	3,846,903,718
Caribbean	294,976,672	326,479,246
United States of America	23,852,236,825	13,019,140,457
Europe	1,339,772,643	1,396,379,462
Africa	-	46,091,773
Asia	239,268,182	225,520,350
Total assets	<u>¢ 1,253,258,665,102</u>	<u>1,191,931,659,337</u>
<u>Liabilities:</u>		
Costa Rica	¢ 755,132,828,684	708,575,806,046
Rest of Central America	28,324,991,896	23,692,045,858
Rest of North and South America	47,053,945,857	47,332,136,448
Caribbean	173,714,369,383	211,754,197,126
United States of America	74,558,428,273	32,028,659,617
Europe	9,508,266,135	13,760,238,333
Africa	1,860,403	1,392,997
Asia	147,898,808	709,172,760
Australia	3,985	-
Total liabilities	<u>¢ 1,088,442,593,424</u>	<u>1,037,853,649,185</u>

34. Agreements

Agreements subscribed by the subsidiary Scotia Valores, S.A. with third parties and in effect as of December 31, 2013 are summarized below.

Agreement with the Costa Rican National Stock Exchange – for services for the Bloomberg system.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Agreement with BN Valores, Puesto de Bolsa, S.A. – commissions for the execution of brokerage transactions and the custody of securities.

Agreement with EFG Capital Market Ltd., Bulltick LLC, American Express Bank Ltd., Bear Stearns Companies Inc., and ITAU Bank Limited – for brokerage services and the custody of securities.

Agreement with Lidersoft – for professional IT services.

The subsidiary Scotia Valores, S.A. currently participates in the Market-Makers Program of the Costa Rican National Stock Exchange.

The subsidiary Scotia Valores, S.A. buys and sells securities internationally through foreign institutions from which it contracts brokerage and custodial services.

Agreements subscribed by Scotia Corredora de Seguros, S.A. (formerly Scotia Agencia de Seguros, S.A.) with third parties in effect as of December 31, 2013 are summarized as follows:

Agreement with the National Insurance Institute (INS) – for the business and operational relationships associated to the intermediation activities performed by Scotia Corredora de Seguros, S.A. with INS.

Agreement with ASSA Compañía de Seguros, S.A. – for the business and operational relationships associated to the intermediation activities performed by Scotia Corredora de Seguros, S.A. with ASSA Compañía de Seguros, S.A.

Agreement with Quálitas Compañía de Seguros (Costa Rica), S.A. – for the business and operational relationships associated to the intermediation activities performed by Scotia Corredora de Seguros, S.A. with Quálitas Compañía de Seguros (Costa Rica), S.A.

Agreement with Mapfre Seguros Costa Rica, S.A. – for the business and operational relationships associated to the intermediation activities performed by Scotia Corredora de Seguros, S.A. with *Mapfre Seguros Costa Rica, S.A.*

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Leases:

a) Leases as lessee:

As of December 31, 2013, the Corporation has leases through its subsidiaries, the most important of which are:

Operating leases for commercial buildings and spaces for branch and ATM locations, with the following characteristics:

- Most leases are denominated in U.S. dollars.
- Leases are operating leases with security deposits, and any improvements become the property of the lessor on expiration or termination of the agreement.
- Leases contain automatic renewal clauses.
- Leases may be terminated by either party provided that advance notice is given in accordance with the time period established in the respective agreement.

The Corporation also leases warehouses, mainly to hold assets received in lieu of payment or assets in foreclosure.

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

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Leases as lessor:

As of December 31, 2013, the Corporation has one operating lease agreement for the building (see note 10 - "Investment property") located in Pasadena, Texas, USA owned by the subsidiary Scotia Leasing Costa Rica, S.A. The building is leased to the U.S. General Services Administration for a 15-year term expiring in September 2023. Monthly lease payments amount to US\$55,733 (equivalent to ¢27,504,792).

As of December 31, the Corporation's loan portfolio includes finance lease agreements. Those leases are recovered as follows:

	<u>2013</u>	<u>2012</u>
Lease receivables, gross	¢ 81,610,913,060	80,974,277,664
Unearned finance income	<u>(10,303,288,719)</u>	<u>(10,234,513,806)</u>
	<u>¢ 71,307,624,341</u>	<u>70,739,763,858</u>
Recoveries		
Less than 1 year	¢ 21,376,810,713	22,868,695,553
Between 1 and 5 years	<u>49,930,813,628</u>	<u>47,871,068,305</u>
	<u>¢ 71,307,624,341</u>	<u>70,739,763,858</u>
Lease receivables, gross (includes		
unearned finance income)		
Less than 1 year	¢ 20,283,918,314	21,470,438,085
Between 1 and 5 years	<u>61,326,994,746</u>	<u>59,503,839,579</u>
	<u>¢ 81,610,913,060</u>	<u>80,974,277,664</u>

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

35. 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 Scotiabank de Costa Rica, S.A. 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 subsidiary paid a total of ¢642,502,531, which includes principal (¢331,155,211) and interest (¢311,347,320), for the income tax adjustments corresponding to the aforementioned periods. Notwithstanding, the interest payment was made under protest and the amount corresponding to the fine was not paid since both the fine and the interest were challenged with the Tax Administration. However, the fine was subsequently paid under protest as well. In October 2013, the Administrative Litigation Court ordered to discuss the case again in the administrative venue, and therefore, resolutions have not yet been handed down.

In respect of the payment of interest and fines, an administrative litigation claim was filed with the appropriate courts arguing that the treatment given to the subsidiary Scotiabank de Costa Rica, S.A. was discriminatory in respect of the other entities of the national banking system. Additionally, that subsidiary 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 was to initiate new penalty proceedings. In this regard, a ruling was handed down in the first instance, which was appealed before the First Chamber of the Supreme Court.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 interest of the Costa Rican State and annul it accordingly. Through Ruling No. 21-2013 of March 25, 2013, the Administrative Litigation Court upholds the claim against the subsidiary Scotiabank de Costa Rica, S.A. in every respect. An appeal for nullification was filed in due time and form since the subsidiary considers that the above decision disregards the existence of banking regulations, while other sections of the Administrative Litigation Court have indeed admitted in favor of other banks what was dismissed by the Eight Section. The appeal for nullification is pending resolution by the First Chamber of the Supreme Court.

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

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

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Additionally, the subsidiary Scotiabank de Costa Rica, S.A. filed for a full trial and hearing in the administrative litigation venue against Ruling TFA-070-2012 of February 20, 2012 of the First Chamber of the Tax Court.

- a.3 The tax advisors and management of the subsidiary Scotiabank de Costa Rica, S.A. 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.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- a.4 Banco Interfin filed its final income tax return and paid the amount of ¢545,136,230 in September 2007 as a result of its merger by absorption with Scotiabank de Costa Rica, S.A. from October 1 of that year. At the 2007 year-end, the subsidiary Scotiabank de Costa Rica, S.A. declared the aforementioned sum as a tax credit, which was applied in the 2008 income tax return. In 2009, the Large Taxpayer Administration filed administrative proceedings since it considers that the final income tax return of Banco Interfin was not provisional and, therefore, no tax credit should be recognized in favor of the aforementioned subsidiary. The Large Taxpayer Administration challenged the tax credit, and after hearing the corresponding arguments, the Tax Court still maintains the opinion that the tax return filed by Banco Interfin is provisional. As a result of the above and given that prior Tax Court decisions uphold the opinion of management and dismiss the thesis of the Tax Administration, no provision has been booked therefor because there is a high probability of a favorable outcome.
- a.5 The Large Taxpayer Administration issued a notice of deficiency in respect of the 2009 income tax return filed by the subsidiary Scotia Valores, S.A. for a total of ¢185,092,106 due to incorrect presentation of nontaxable income and nondeductible expenses in the calculation of taxable net income. On November 29, 2011, the subsidiary filed an administrative appeal against that notice of deficiency because the subsidiary considers it contradicts the provisions of article 1, article 7, and article 23 of the Income Tax Law and article 11 of the Regulations thereto. The Corporation's management and tax advisors consider that it is more likely than not (exceeding 50%) that a favorable final ruling will be handed down on the case. Accordingly, management does not consider it necessary to book a provision therefor.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

a.6 The Large Taxpayer Administration issued a notice of deficiency in respect of the 2010 income tax return filed by the subsidiary Scotia Leasing Costa Rica, S.A. for a total of ¢1,013,572,409 due to incorrect presentation of nontaxable income in the calculation of taxable net income. On December 13, 2012, Ruling SF-DT-01-R-5002-12 is notified, rejecting the motion for nullity and dismissing the claim filed by Scotia Leasing Costa Rica, S.A. On January 22, 2013, a motion for reconsideration with an appeal to a higher court was filed against the aforementioned ruling. The Tax Administration answered such claim through ruling No. SF-AUD-01-R-0448-13 against which a motion for reconsideration with an appeal to a higher court was filed. Through Ruling SF-AUD-01-R-1246-13 of July 27, 2013, the Tax Administration dismissed such motion and an appeal is filed with the Tax Court on August 19, 2013. Management of Scotia Leasing Costa Rica, S.A. and the tax advisors have adhered to the law in all proceedings. Based on the actions taken as of the date of this report, the defense arguments filed against the adjustments, and the evidence provided, obtaining a favorable outcome is likely.

(b) Other

i. Repurchase agreements

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

ii. Secondary liability

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

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

36. Significant events

On April 24, 2012, CONASSIF authorized the withdrawal from BNS de Costa Rica, S.A. financial group of Scotia Leasing Nicaragua, S.A., Scotia Leasing Honduras, S.A., Scotia Leasing Guatemala, S.A., Arrendadora Interfin El Salvador, S.A. de C.V., Corporación Privada de Inversiones de Centroamérica, S.A., Scotia Leasing Panamá, S.A., Corporación Privada de Inversiones, S.A., and Scotia Trust de Costa Rica, S.A. starting January 1, 2012.

Such withdrawal was performed through the return of capital using the shares of such subsidiaries in the amount of ¢2,038,680,099.

37. Profitability indicators

Profitability indicators required by CONASSIF are as follows:

	2013	2012
Return on assets (ROA)	0.82%	0.98%
Return on equity (ROE)	6.24%	7.70%
Debt to equity ratio	6.69%	6.73%
Financial margin / productive assets from intermediation	4.84%	5.45%
Ratio of average interest-earning assets to total average assets	76.90%	75.27%

38. 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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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) Revised IAS 1: Presentation of Financial Statements

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

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) IAS 7: Statement of Cash Flows

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

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

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

e) IAS 12: Income Taxes

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

f) IAS 16: Property, Plant and Equipment

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

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

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)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

g) IAS 18: Revenue

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

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

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

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

i) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent be presented separately, measuring its investments by the equity method. Under this Standard, a parent is required to present consolidated financial statements. A parent need not present consolidated financial statements when the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use, provided certain other requirements are also met. However, in this case, this Standard requires that investments be accounted for at cost.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

j) IAS 28: Investments in Associates

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

k) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

n) IAS 38: Intangible Assets

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

o) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

a) Pooled portfolios

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

b) Own investments of regulated entities

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

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

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

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

The above classifications do not necessarily adhere to IAS 39.

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

p) IAS 40: Investment Property

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

q) Revised IFRS 3: Business Combinations

The revised Standard (2008) incorporates the following changes:

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

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

s) Amendments to IFRS 7: Financial Instruments: Disclosures

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

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

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

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

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GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

t) IFRS 9: Financial Instruments

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

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

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

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

u) IFRS 10: Consolidated Financial Statements

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

Early application is permitted. Entities that apply this Standard early must disclose that fact and simultaneously apply IFRS 11, IFRS 12, IAS 27 (as amended in 2012), and IAS 28 (as amended in 2011).

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

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

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

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

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

v) IFRS 11: Joint Arrangements

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

w) IFRS 12: Disclosure of Interests in Other Entities

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

x) IFRS 13: Fair Value Measurement

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

y) IFRIC 10: Interim Financial Reporting and Impairment

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

z) IFRIC 12: Service Concession Arrangements

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

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

aa) IFRIC 13: Customer Loyalty Programs

This Interpretation gives guidance on the accounting by entities that grant loyalty award credits to customers which can be redeemed in the future for free or discounted goods or services. This Interpretation became mandatory for 2008 financial statements and has not been adopted by the Board.

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

This Interpretation clarifies when refunds or reductions in future contributions, in relation to defined benefit assets, should be regarded as available and provides guidance as to the effect of a minimum funding requirement on those assets. It also addresses when a minimum funding requirements might give rise to a liability. This Interpretation became mandatory for 2008 financial statements with retrospective application required and has not been adopted by the Board.

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

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

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

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

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

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

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

ee) IFRIC 18: Transfers of Assets from Customers

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

ff) IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

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