SCOTIABANK INVERLAT, S. A.
Institución de Banca Múltiple
Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditor's Report thereon)

(Free Translation from Spanish Language Original)

KPMG Cárdenas Dosal
Manuel Avila Camacho 176
Col. Reforma Social
11650 México, D.F.

Teléfono: + 01 (55) 52 46 83 00
www.kpmg.com.mx

Independent Auditors' Report
(Free Translation from Spanish Language Original)

The Board of Directors and Stockholders
Scotiabank Inverlat, S. A.,
Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat:

We have audited the accompanying consolidated financial statements of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries ("the Bank"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and presentation of these consolidated financial statements in accordance with the accounting criteria for credit institutions in Mexico established by the National Banking and Securities Commission ("the Banking Commission"), 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing (ISAs). 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 Bank's preparation and 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 Bank'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 presentation.

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

(Continued)

Opinion

In our opinion, the consolidated financial statements of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries as of December 31, 2015 and 2014, have been prepared, in all material respects, in accordance with the accounting criteria for credit institutions in Mexico issued by the Banking Commission.

KPMG CARDENAS DOSAL, S. C.

SIGNATURE

Mauricio Villanueva Cruz

February 22, 2016.

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(Millions of Mexican pesos)

Assets	2015	2014
Cash and cash equivalents (note 5)	$ 27,646	27,895
Margin accounts	334	107
Investment securities (note 6):		
Trading	24,963	18,198
Available-for-sale	34,949	32,313
Held-to-maturity	3,420	3,354
	63,332	53,865
Debtors on repurchase/resell agreements (debtor balance) (note 7)	12,342	4,916
Derivatives (note 8):		
Trading purposes	4,487	5,252
Hedging purposes	28	53
	4,515	5,305
Valuation adjustment from hedging of financial assets (note 9e)	11	19
Current loan portfolio (note 9):		
Commercial loans:		
Business or commercial activity	76,393	59,423
Financial entities	23,608	18,940
Government entities	8,301	5,015
	108,302	83,378
Consumer loans	23,003	24,820
Residential mortgages loans	77,839	64,770
Total current loan portfolio	209,144	172,968
Past-due loan portfolio (note 9):		
Commercial loans:		
Business or commercial activity	2,420	1,498
Financial institutions	106	77
Consumer loans	750	1,200
Residential mortgages loans	2,463	2,810
Total past-due loan portfolio	5,739	5,585
Loan portfolio	214,883	178,553
Less:		
Allowance for loan losses (note 9f)	6,420	6,148
Total loan portfolio, net	208,463	172,405
Benefits receivable from securitization transactions (note 10)	85	108
Other accounts receivable, net	14,049	16,054
Foreclosed assets, net (note 11)	68	91
Premises, furniture and equipment, net (note 12)	3,458	3,463
Permanent investments (note 13)	51	76
Deferred icome taxes and employee statutory profit sharing, net (note 17)	5,578	3,192
Other assets:		
Deferred income charges, prepaid expenses and intangibles	1,743	1,322
Other short and long term assets	289	577
	2,032	1,899
Total assets	$ 341,964	289,395

Liabilities and Stockholders' Equity	2015	2014
Deposit funding (note 14):		
Demand deposits	$ 119,531	99,076
Time deposits:		
General public	62,870	59,983
Money market	17,954	6,610
Debt securities issued	14,584	12,398
	214,939	178,067
Bank and other borrowings (note 15):		
Due on demand	54	236
Short-term	10,466	6,893
Long-term	4,183	1,321
	14,703	8,450
Traded securities to be settled (note 6b)	4,640	9,589
Creditors on repurchase/resell agreements (note 7)	48,082	36,515
Derivatives (note 8):		
Trading purposes	5,474	5,866
Hedging purposes	319	406
	5,793	6,272
Valuation adjustments of hedging financial liabilities (note 14)	39	44
Other accounts payable:		
Income tax payable	589	445
Employee statutory profit sharing payable (note 17)	254	256
Creditors on settlement of transactions (notes 5 and 6)	7,877	11,325
Creditors on collateral received in cash	597	612
Sundry creditors and other accounts payable	5,948	4,391
	15,265	17,029
Subordinated debt issued (note 1d)	2,099	2,099
Deferred credits and prepayments	1,082	1,082
Total liabilities	306,642	259,147
Stockholders' equity (note 18):		
Paid-in capital:		
Capital stock	8,381	7,901
Additional paid-in capital	473	473
	8,854	8,374
Earned capital:		
Statutory reserves	3,988	3,648
Retained earnings	18,059	15,002
Result from valuation of available-for-sale securities	(75)	–
Result from valuation of cash flow hedge instruments	(159)	(173)
Net income	4,655	3,397
	26,468	21,874
Total stockholders' equity	35,322	30,248
Commitments and contingent liabilities (note 22)		
Subsequent events (note 24)		
Total liabilities and stockholders' equity	$ 341,964	289,395

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Balance Sheets, continued

December 31, 2015 and 2014

(Millions of Mexican pesos)

Memorandum accounts (notes 7 and 20)

	2015		2014	
Contingent assets and liabilities		$ 3		$ 3
Loan commitments		346,221		355,695
Assets in trust or under mandate:				
Trusts	$ 159,861		$ 146,796	
Mandate	29,082	188,943	28,984	175,780
Assets in custody or under management		$ 163,743		$ 157,309
Collateral received by the entity		51,125		45,905
Collateral received and sold or pledged by the entity		10,067		12,823
Investments on behalf of customers		84,515		73,688
Interest earned but not collected arising from past-due loan portfolio		268		329
Other accounts		848,856		617,756

"At December 31, 2015 and 2014, the historical capital stock amounts to $7,130 and $6,650, respectively".

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory, nature and have been applied on a consistent basis. Accordingly they reflect the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated balance sheets were approved by the Board of Directors under the responsibility of the following officers."

"These consolidated balance sheets faithfully match with the consolidated balance sheets originals, which are properly signed and held by the Institution."

SIGNATURE

Enrique Zorilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx
www.cnbv.gob.mx/paginas/index.aspx

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2015 and 2014

(Millions of Mexican pesos)

	2015	2014
Interest income (note 21)	$ 20,151	19,351
Interest expense (note 21)	(6,598)	(6,462)
Financial margin	13,553	12,889
Allowance for loan losses (note 9f)	(2,528)	(3,491)
Financial margin adjusted for allowance for loan losses	11,025	9,398
Commission and fee income (note 21)	3,262	2,990
Commission and fee expense	(568)	(481)
Financial intermediation income (note 21)	273	513
Other operating income (note 21)	2,356	2,542
Administrative and promotional expenses	(11,987)	(11,613)
	(6,664)	(6,049)
Net operating income	4,361	3,349
Equity method in the results of associated companies	-	1
Income before income taxes	4,361	3,350
Current income taxes (note 17)	(1,497)	(796)
Deferred income taxes, net (note 17)	1,791	843
	294	47
Net income	$ 4,655	3,397

See accompanying notes to consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the revenues and disbursements relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of income were approved by the Board of Directors under the responsibility of the following officers."

"These consolidated statements of income faithfully match with the consolidated statements of income originals, which are properly signed and held by the Institution."

SIGNATURE

Enrique Zorilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance
and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director
of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx
www.cnbv.gob.mx/paginas/index.aspx

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2015 and 2014

(Millions of Mexican pesos)

		Paid-in capital		Earned capital					
		Capital stock	Additional paid-in capital	Statutory reserves	Retained earnings	Result from valuation of available-for-sale securities	Result from valuation of cash flow hedge instruments	Net income	Total stockholders' equity
Balances as of December 31, 2013	$	7,451	473	3,358	12,390	(7)	47	2,902	26,614
Changes resulting from stockholders' resolutions:									
Resolution passed at the Ordinary General Stockholders' Meeting of April 25, 2014 – Appropriation of 2013 net income		–	–	290	2,612	–	–	(2,902)	–
Increase in capital stock (note 18a)		450	–	–	–	–	–	–	450
		450	–	290	2,612	–	–	(2,902)	450
Changes related to the recognition of comprehensive income (note 18c):									
Net income		–	–	–	–	–	–	3,397	3,397
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $103 and $35, respectively (notes 6a, 8 and 17)		–	–	–	–	7	(220)	–	(213)
Total comprehensive income		–	–	–	–	7	(220)	3,397	3,184
Balances as of December 31, 2014		7,901	473	3,648	15,002	–	(173)	3,397	30,248
Changes resulting from stockholders' resolutions:									
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2015 – Appropriation of 2014 net income		–	–	340	3,057	–	–	(3,397)	–
Increase in capital stock (note 18a)		480	–	–	–	–	–	–	480
		480	–	340	3,057	–	–	(3,397)	480
Changes related to the recognition of comprehensive income (note 18c):									
Net income		–	–	–	–	–	–	4,655	4,655
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $24 and $8, respectively (notes 6a, 8 and 17)		–	–	–	–	(75)	14	–	(61)
Total comprehensive income		–	–	–	–	(75)	14	4,655	4,594
Balances as of December 31, 2015	$	8,381	473	3,988	18,059	(75)	(159)	4,655	35,322

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the following officers."

"These consolidated statements of changes faithfully match with the consolidated statements of changes originals, which are properly signed and held by the Institution."

SIGNATURE

Enrique Zorilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finances and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx
www.cnbv.gob.mx/paginas/index.aspx

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

(Millions of Mexican pesos)

	2015	2014
Net income	$ 4,655	3,397
Items not requiring (providing) cash flow:		
Impairment allowance or impairment reversal in investing and financing activities	(27)	(12)
Depreciation of premises, furniture and equipment	364	440
Amortization of deferred charges, prepaid expenses and intangible assets	91	83
Provisions, mainly allowance for loan losses	2,303	3,671
Current and deferred income taxes	(294)	(47)
Equity method in associated companies	–	(1)
Other, mainly valuation at fair value	450	1,471
Subtotal	2,887	5,605
Operating activities:		
Change in margin accounts	(227)	(17)
Change in investment securities	(14,551)	(4,743)
Change in debtors on repurchase / resell agreements	(7,426)	425
Change in derivatives (asset)	(526)	(4,060)
Change in loan portfolio	(38,586)	(24,173)
Change in benefits receivable from securitization transactions	59	57
Change in foreclosed assets	15	(50)
Change in other operating assets	3,146	(8,635)
Change in deposit funding	36,872	19,128
Change in bank and other borrowings	6,253	(3,679)
Change in creditors on repurchase / resell agreements	11,567	5,619
Change in derivatives (liabilities)	454	2,951
Change in subordinated debt issued	–	2,099
Change in other operating liabilities	(3,260)	9,090
Payments of income taxes	(1,324)	(140)
Net cash flows from operating activities	(7,534)	(6,128)
Investing activities:		
Proceeds from sale of property, plant and equipment	62	–
Payments for acquisition of premises, furniture and equipment	(383)	(251)
Proceeds from sale of permanent investments	24	–
Payments for acquisition of intangible assets	(441)	(158)
Collections of cash dividends	–	2
Other	1	–
Net cash flows from investing activities	(737)	(407)
Financing activities		
Increase in capital stock	480	450
Net cash flows from financing activities	480	450
Net (decrease) increase in cash and cash equivalents	(249)	2,917
Cash and cash equivalents at beginning of year	27,895	24,978
Cash and cash equivalents at end of year	$ 27,646	27,895

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission, based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the cash in flows and cash out flows relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the following officers."

"These consolidated statements of cash flows faithfully match with the consolidated statements of cash flows originals, which are properly signed and held by the Institution."

SIGNATURE

Enrique Zorilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finances and Business Intelligence

SIGNATURE

Agustín Corona Gahbler
Deputy General Director
of Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx
www.cnbv.gob.mx/paginas/index.aspx

These consolidated financial statements have been translated from the Spanish language original solely for the convenience of foreign/English-speaking readers.

(1) Description of business and significant transactions-

Description of business-

Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat ("the Bank") is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group") which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.4% of its capital stock. In accordance with the Credit Institutions Law, the Bank is authorized to carry out multiple-service banking transactions such as accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services, among others. The consolidated financial statements of the Bank include the operation of its subsidiaries for whom exercises control: Inmobiliaria Scotia Inverlat, S. A. de C. V. (Inmobiliaria) engaged in leasing of premises, Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios) which supports the management of the credit card business, Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados) which acts as trading member for futures and options contracts listed on the MexDer Mercado Mexicano de Derivados, S. A. de C. V. (MexDer) and two trusts named, Fideicomiso Socio Liquidador Posición Propia Número 101667 and Fideicomiso Socio Liquidador Posición de Terceros Número 101776 (MexDer Trusts), created for the purpose of entering into futures and options contracts for the Bank's own account and on behalf of third parties, respectively. The Bank and the Group operate in all over Mexican territory and its corporate headquarters are in Mexico City.

2015 significant transactions-

(a) Sale of mortgage portfolio

On March 6, 2015, the Bank sold a past-due and partially reserved mortgage loan portfolio to a non-related party; the agreed sale price was $113 and the face value of such loan portfolio at the aforementioned date was $282; as a result of this sale the Bank released the allowance for loan losses of $62, thus the loss on such loan portfolio sale amounted to $107, additionally the Bank paid for transaction costs originated by legal expenses related to the sale of $27. On March 6, 2015, the Bank also sold totally written-off mortgage loan portfolio with face value of $410 therefore the received income and net income for this loan portfolio was $118.

On September 25, 2015, the Bank sold a past-due mortgage loan portfolio to a non-related party, the face value at such date was $139 with a related allowance for loan losses of $111. The agreed sale price was $55, thus the income on sale of such loan portfolio amounted to $20, additionally the Bank paid for transaction costs originated by legal expenses related to the sale of $7. Likewise, the Bank sold written-off mortgage loan portfolio with face value of $40, therefore the received income and net income for this loan portfolio was $13. The results of these transactions were recorded in the 2015 consolidated statement of income in "Other operating income" caption.

(Continued)

(b) Sale of consumer loan portfolio

On March 17, 2015, the Bank sold a current and past-due consumer loan portfolio to a non-related party; the agreed sale price was $3,017 and the face value of such loan portfolio at the date was $3,320; as a result of this sale the Bank released the related allowance for loan losses of $451, thus the gain of such loan portfolio sale amounted to $148 recorded in the 2015 consolidated statement of income in "Other operating income" caption.

(c) Capital stock increase

On June 10, 2015, the Extraordinary General Stockholders' Meeting approved to increase the capital stock in $480, through the issuance of 480,000,000 "F" series common shares, with a face value of one peso each one.

(d) Sale of property

On June 12, 2015, Inmobiliaria sold a property through the transfer of property title to Mexican State of Chihuahua, the sale price amounted to $68, which includes $6 of value added tax. The net book value of the property at the date of sale amounted to $40, thus the income on sale amounted to $22, wich was recorded in the 2015 consolidated statement of income in "Other operating income" caption.

(e) Certificate of property tax

On September 8, 2015, the Secretaria de Finanzas del Distrito Federal (Mexico City Finance Ministry), as part of legal proceeding number 179/2005 of property tax, issued in favor of Inmobiliaria a certificate of property tax return for the amounted of $53, which was recorded in the 2015 consolidated statement of income in "Other operating income" caption.

2014 significant transactions-

(a) Sale of consumer loan portfolio

On October 31, 2014, the Bank sold a consumer loan portfolio to a non-related party; the agreed sale price was $15 and the face value at such date was $354; as a result of this sale the Bank released the related allowance for loan losses of $263, thus the loss on such loan portfolio sale amounted to $76. Likewise, the Bank sold written-off consumer loans with face value of $632, therefore the received income and net income for this portfolio was $14. The results of these transactions were recorded in the 2014 consolidated statement of income in "Other operating income" caption.

(Continued)

(b) Sale of written-off consumer loan portfolio

On May 30, 2014, the Bank sold a written-off consumer loan portfolio with face value of \$7,944; therefore the income received and the net income for the sale was \$73, which was recorded in the 2014 consolidated statement of income in “Other operating income” caption.

(c) Sale of written-off mortgage portfolio

On June 30, 2014, the Bank sold a portfolio of written-off mortgage portfolio with face value of \$1,713; the impact in the net income for the associated cost of this sale was \$35 and the income received was \$242, therefore the net income was \$207, which was recorded in the 2014 consolidated statement of income in “Other operating income” caption.

(d) Private issuance of subordinated debt

On December 18, 2014, the Bank carried out the issuance of 20,930,000 preferred capital subordinated debt securities wich are non-convertible into shares with a face value of \$100 pesos for each bond, amounting to \$2,093 for a 10 year-term maturing on December 5, 2024, and interest payment every 182 day-period at the annual rate of 7.40%. As of December 31, 2015 and 2014, the amount of accrued interest amounts to \$6, which were recognized under the caption "Interest expense".

(e) Capital stock increase

On September 29, 2014, the Extraordinary General Stockholders’ Meeting agreed to increase the capital stock in \$450, through the issuance of 450,000,000 “F” series common shares, with a face value of one peso each one.

(2) Summary of significant accounting policies-

The accounting policies shown in this note have been applied on a consistent basis in the preparation of the consolidated financial statements.

(a) Financial statement authorization, presentation and disclosure-

On February 22, 2016, Enrique Zorrilla Fullaondo (General Director), Michael Coate (General Director Deputy Finance and Business Intelligence), Agustín Corona Gahbler (General Director Deputy Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying consolidated financial statements and related notes.

The Bank's consolidated financial statements include the Bank's subsidiaries for whom exercises control: Inmobiliaria, Scotia Servicios, Scotia Derivados and two settlement MexDer Trusts of own and third party position. Significant balances and transactions with the Bank's companies have been eliminated in preparing the consolidated financial statements. The consolidation was carried out using the audited financial statements of the subsidiaries at December 31, 2015 and 2014.

The Stockholders and the National Banking and Securities Commission ("the Banking Commission") are empowered to modify the consolidated financial statements after issuance.

The accompanying consolidated financial statements have been prepared, based on the applicable legislation, in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico. The Banking Commission is responsible for the inspection and supervision of financial institutions, as well as reviewing their financial information.

The accounting criteria provide that in the absence of an specific accounting criterion of the Banking Commission for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF), the suppletory process as established by MFRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by MFRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the MFRS are met by the standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and later any other formal and recognized accounting standard, provided they do not contravene the accounting criteria of the Banking Commission.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The major items subject to such estimates and assumptions include the valuation of financial instruments, allowance for loan losses, employees' benefits and the future realization and deferred taxes. The actual results may differ from those estimates and assumptions.

The aforementioned consolidated financial statements are presented in Mexican pesos, which is the same as the recording currency and the functional currency.

For purposes of disclosure in the notes to the consolidated financial statements, "pesos" or "$" refers to millions of Mexican Pesos, and when reference is made to "dollars" or "USD", it means millions of dollars of the United States of America.

(Continued)

(Millions of Mexican pesos)

Assets and liabilities related to the purchase and sale of foreign currencies, investment in securities, securities repurchase/resell agreements and derivatives are recognized in the consolidated financial statements on the trade date, regardless of the settlement date.

(b) Recognition of the effects of inflation-

The accompanying consolidated financial statements include the recognition of inflation based on Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

The years ended December 31, 2015 and 2014 are considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Bank's financial information are not recognized. Should be back in an inflationary environment, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as inflationary. The accumulated inflation rate of the three preceding years, is as follows:

			Inflation	
December 31		**UDI**	**Annual**	**Accumulated**
2015	$	5.381175	2.10%	10.39%
2014		5.270368	4.18%	12.34%
2013		5.058731	3.78%	11.76%

(c) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, precious metals (coins), deposits with banks in pesos and dollars, as well as 24, 48, 72 and 96-hour foreign currency purchase and sale transactions. Also includes restricted cash and cash equivalents comprised of bank borrowings with original maturities of up to three days ("Call Money"), and deposits in Banco de México (Central Bank) which include the regulation monetary deposits that the Bank is required to maintain in conformity with the provisions issued by the Central Bank for the purpose of regulating liquidity in the financial market; the deposits lack term and bear interest at the average funding rate, which are recognized in income statement as accrued.

The cash and cash equivalents are recognized at nominal value. For the currencies in dollars, the exchange rate used for the translation is the one published by the Central Bank. The translation effect is recognized in the results, as interest income or interest expense, accordingly.

Immediate collection notes will be recorded as other cash equivalent according to what is mentioned in the next page.

(Continued)

– Transactions with Mexican entities: two business days after the transaction took place.

– Transactions with foreign entities: five business days after the transaction took place.

When the notes mentioned above are not collected within the established deadlines, the related amounts will be transferred to the originating item, as applicable, either “Other accounts receivable” or “Loan portfolio”, and due consideration should be given to the provisions of criterion A-2, “Application of particular standards”, and B-6 “Loan portfolio”, respectively.

Transactions transferred to sundry debtors under the caption “Other accounts receivable”, not settled within fifteen days following the transfer date will be classified as past-due debts and an allowance for their total amount recorded will be recorded concurrently.

Notes received subject to collection are recorded in memorandum accounts under the caption “Other accounts”.

Checking account overdrafts, as reported in the statement of account issued by the corresponding credit institution, are shown in the caption “Sundry creditors and other accounts payable”. Likewise, this caption presents the offset balance of receivable currencies against deliverable currencies, in case this offset results negative.

The foreign exchange currencies acquired in purchase transactions to 24, 48, 72 and 96 hours, are recognized as restricted cash (foreign currency for received), while the currency sold is recorded as cash outflow (foreign currency for delivery). The rights and obligations for the sales and purchases of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Other accounts receivable, net" and "Creditors on settlement of transactions”, respectively.

(d) Margin accounts-

The margin accounts granted in cash required to the Bank to operate derivatives in recognized markets are recorded at par value and presented in the caption “Margin accounts”. The value of margin accounts granted in cash is modified by margin calls or withdrawals made by the clearing house and for additional contributions or withdrawals made by the Bank.

(Continued)

Returns and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year as accrued under “Interest income” and “Commission and fee expense”, respectively. The partial or total amounts deposited or withdrawn in the clearinghouse owing to price fluctuations of derivatives are recognized in “Margin accounts”.

The compensation fund of MexDer Trusts is deposited in the Trust 30430 Asigna, Compensación y Liquidación (Asigna) in accordance with the established rules, provisions, internal regulation and operating manual of Asigna and is comprised of cash contributions made by the Trust based on open agreements recorded in their accounts and minimum initial contributions required by Asigna. The compensation fund is recognized as restricted under the caption "Cash and cash equivalents”.

(e) Investment securities-

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities listed in recognized markets, which are classified using the categories shown below, based on the intention and capability of management of the Bank on their ownership.

Trading securities-

Trading securities are those acquired with the intention of selling to get short-term gains arising from differences in prices resulting from its trading in the market. Securities at the time of acquisition are accounted for at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in income on the same date.

Subsequently, securities are valued at fair value provided by an independent price vendor; when the securities are sold, the result of buy/sell is determined by the difference between purchase price and the sale price, this shall cancel the result of valuation that has been previously recognized in the income statement.

Interest earned from debt securities are determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity securities are recognized in the year's income when the right to receive payment arises under the caption "Interest income".

(Continued)

Valuation effects and purchase or sale results are recognized in the year's income within the caption "Financial intermediation income".

Available-for-sale securities-

Available-for-sale securities are those whose intention are not oriented to profit from differences in prices in the short term or does not have the intention or capacity to hold to maturity. The initial recognition and subsequent valuation is performed in the same manner as trading securities, except that the effect of valuation is recognized in stockholders' equity under the caption "Unrealized result from valuation of available-for-sale securities", and which is adjusted by the effect of deferred taxes, which is cancelled for its recognition in income at the time of sale within the caption of "Financial intermediation income". Accrued interest is recognized under the effective interest method under "Interest income or expense".

Interest earned is determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity instruments are recognized in the year's income when the right to receive payment arises in the financial statements caption "Interest income".

Held-to-maturity securities-

Are those debt securities with fixed or determinable payments and with fixed maturity, regarding which the entity has the intention and capacity to hold until maturity. These securities are initially recognized at fair value which is presumably the price paid; and later are valued at amortized cost, which implies that the amortization of the premium or discount as well as the transaction costs form part of interest earned recognized in income under "Interest income".

Interest is recognized in income as earned and when the securities are sold, the sales gain or loss is recognized for the difference between the net realizable value and the book value of the securities within the caption of "Financial intermediation income".

Security value impairment-

Where sufficient objective evidence exists that a security available-for-sale or held-to-maturity has been impaired as a result of one or more events that occurred subsequent to initial recognition of security, the carrying amount of the security is modified and the impairment is recognized in the year-end results under the caption "Financial intermediation income". Regarding available-for-sale securities, the amount of loss recognized in equity is canceled.

(Continued)

If, in a subsequent period, the fair value of the security increases, and this effect is related objectively to an event occurring after the impairment was recognized in the income statement, the impairment is reversed in the year´s results, except if it is an equity instrument.

Value date transactions-

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities to be delivered, and are deducted from investments securities; the counter entry is a credit or debit to a settlement account, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type in position (government, bank, equity and other debt securities), this is reflected as a liability under "Traded securities to be settled".

Reclassifications between categories-

The accounting criteria allows reclassifications from held-to-maturity to available-for-sale securities are possible, provided it is not intended to hold them until maturity. Valuation adjustments at the date of the reclassifications are recognized in stockholders' equity. In the case of reclassifications of securities to the category held to maturity, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission.

(f) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction (repo), the Bank acting as seller recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as buyer recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account payable and the account receivable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

Over the term of the repo, the account receivable and the account payable are valued at the amortized cost, recognizing the interest on repos in the result of operations for the year as earned, in accordance with the effective interest method. The interest is recognized under the financial statement caption "Interest income" or "Interest expense", as appropriate. The account receivable and the account payable, as well as the interest earned are reported in the financial statement caption "Debtors under repurchase/resell agreements" and "Creditors under repurchase/resell agreements", respectively.

(Continued)

The Bank acting as repurchasee recognizes the received collateral in memorandum accounts within the caption of "Collateral received by the entity", in accordance with accounting criterion B-9 “Assets in custody and under management”. Financial assets granted as collateral, when the Bank acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet within the caption of “Investment securities”, reporting it as a restricted asset.

Should the Bank, acting as repurchasee sell or pledge the collateral, the transaction proceeds and an account payable is recorded for the obligation to return the collateral to the repurchaser, which is valued, in the case of sale at fair value, or if pledged in another sale and repurchaser agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Bank acting as repurchasee turn becomes as repurchaser and the debit or credit balance is presented in the consolidated financial statement caption "Debtors under repurchase/resell agreements" or in "Collateral sold or pledged", as applicable.

Additionally, the collateral received, delivered or sold is recognized in memorandum accounts within the caption of "Collateral received and sold or pledged by the entity", in accordance with accounting criterion B-9 “Assets in custody and under management”.

(g) Derivatives-

Transactions with derivative financial instruments comprise those carried out for trading and hedging purposes. Irrespective of their purpose, the derivatives are recognized at fair value.

The valuation effect of the derivatives for trading purposes is shown in the consolidated balance sheet and consolidated statement of income under “Derivatives”, in the assets or liabilities, accordingly, and “Financial intermediation income”, respectively. The effect of the derivatives credit risk (counterparty), must be determined according to the risk area methodology, and must be recognized in results in the period in which it occurs against the supplementary account.

(Continued)

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity, under the caption "Unrealized result from valuation of cash flow hedge instruments", while the ineffective portion of the change in fair value is recognized immediately in the consolidated income statement under "Financial intermediation income", and the counter-account with such effect are presented in the consolidated balance sheet under "Derivatives". The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders' equity, is reclassified to the consolidated statement of income within the same caption that presents the result of valuation of hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year's results of operations.

If the cash flow hedge derivative reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is de-designated, while the valuation of the cash flow hedge derivative within stockholders' equity remains in this caption and is recognized in the year's results when the forecast transaction occurs, in the same caption which presents the gain or loss of the valuation attributable to the hedged risk.

The gain or loss arising from valuing the fair value hedge derivative is recognized in the consolidated balance sheet under "Derivatives" and in the consolidated statement of income in "Interest income" and "Financial intermediation income", since they correspond to interest rate hedges of loan portfolio and investments securities classified as available-for-sale, respectively. The result of valuation of the item attributable to the hedged risk is recognized on the consolidated balance sheet under "Valuation adjustments from hedging of financial assets" and recognized in the year's income in the case of loan portfolio, in "Interest income", while for investments securities classified as available-for-sale, in "Financial intermediation income".

Collaterals pledged and received in derivate transactions carried out over-the-counter

The collateral is a security obtained to ensure payment of the price agreed in contracts with derivative financial instruments on over-the-counter transactions.

The granting of collateral pledged in cash in derivative over-the-counter transactions are recorded as account receivable under the caption "Other accounts receivables", while collateral received in cash are recorded as "Other accounts payable. "

(Continued)

The collaterals pledged in securities are recorded as restricted securities by guarantees, and the collaterals received in securities from derivatives transactions are recorded in memorandum accounts.

(h) Settlement clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, and/or derivatives, which have expired but have not been settled at the consolidated balance sheet date, including the amounts receivable or payable for purchase or sale of foreign currencies, which are not for immediate settlement or those with a same day value date, are recorded in clearing accounts.

The balances of clearing accounts, credit and debit are offset as long as it has the contractual right to offset amounts recognized, there is an intention to settle on a net basis, realize the asset and settle the liability simultaneously.

The clearing accounts are shown under the financial statement caption "Other accounts receivable, net" or "Creditors on settlement of transactions", as appropriate.

(i) Loan portfolio-

Represents the balance of the total or partial dispositions of the credit lines provided to clients plus uncollected accrued interest, less interest collected in advance. The allowance for loan losses is presented deducting the loan portfolio balances.

Undrawn credit facilities are recorded in suspense accounts, under "Loan commitments". The withdrawn amount is recorded into the loan portfolio in the caption of the portfolio as appropriate.

At the time of contracting, transactions with letters of credit are recorded in memorandum accounts under "Loan commitments" which, upon being used by the client or its counterparty are transferred to the loan portfolio.

Past-due loans and interest-

Outstanding loans and interest balances are classified as past-due according to the following criteria:

1. Knowledge that the borrower has filed for bankruptcy, under the Bankruptcy Law.

(Continued)

An exemption exist from the rule mentioned in the last paragraph of the previous page, for those loans that continues receiving payment in terms of the Bankruptcy Law under section VIII of article 43, as well as those loans granted under article 75, in relation to sections II and III of article 224 of the mentioned Law, however, if incurred in one of the cases provided below, they will be recorded as past-Due loan portfolio.

2. Its installments have not been fully settled on the terms originally agreed, considering the following:

   a) If the debts consist in loans with a single payment of principal and interest at maturity, and have 30 or more calendar past-due days;

   b) If the debts refer to loans with a single payment of principal at maturity and periodic payments of interest, and the related interest payment has 90 or more calendar
   past-due days, or principal has 30 or more calendar past-due days;

   c) If debts consist of loans with principal and interest periodic partial payments, including mortgage loans, have 90 or more calendar past-due days;

   d) If debts consist of revolving loans, and unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when have 60 or more calendar past-due days; and

   e) Overdrafts from checking accounts, and immediate payment notes receivable, upon occurrence of such event.

When a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts. Also suspending the amortization in financial income accrued in the year's results. Once collected, such interest is recognized directly in consolidated income statement under “Interest income”. Recognition in consolidated income statement of interest income resumes when the portfolio ceases to be considered as past-due.

An allowance is constituted for an amount equal to the total of uncollected accrued interest corresponding to loans deemed past-due at the time the loan is transferred to the past-due portfolio. For past-due loans, which restructuring agrees to the capitalization of earned, uncollected interest previously recorded in memorandum accounts, an allowance is created for the total of such interest amount. The allowance is released when there is evidence of sustained payment.

(Continued)

Past-due loans are reclassified as current when the unpaid balances have been fully paid by the debtor (principal and interest, etc.), except for restructured loans or renewed, which are transferred to current portfolio when sustained payment has been made.

Restructuring and renewals

Unless there is evidence of sustained payments, past-due loans restructured or renewed shall remain within the past-due loan portfolio.

Loans with a single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed anytime shall be considered as past-due, while there is no evidence of sustained payment.

Current loans that are restructured or renewed, without at least 80% of the original loan term having elapsed, shall be deemed to be current only when the borrower had:

i) paid the total accrued interest, and
ii) paid the original principal loan amount at the renewal or restructuring date.

Current loans that are restructured or renewed during the course of the final 20% of the original term of the loan will be considered as current only when the borrower had:

i) fully paid the total interest accrued;
ii) covered the total original loan amount which at the date of the renewal or restructuring should had been paid, and
iii) paid 60% of the original loan amount.

Renewed or restructured loans where the borrower fails to meet the above conditions will be deemed past-due from the renewal or restructuring date until there is evidence that sustained payments are being made.

Those loans considered revolving, which have been restructured or renewed, will be considered as current when the borrower had paid off the totality of accrued interest, there are no invoicing periods past-due and there is evidence to prove the debtor’s repayment capability.

(Continued)

Loan due and payable principal and interest amounts which, at the restructuring date, have been repaid in full and for which one or several of the following loan conditions have been changed, shall not be deemed restructured.

i) Guarantees: only when involving the extension or replacement with better quality guarantees.
ii) Interest rate: when the agreed-upon interest rate is improved.
iii) Currency: provided the rate corresponding to the new currency is applied.
iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

The loan portfolio restructurings or renewals are made in compliance with the General provisions applicable to credit institutions and the viability of them is analyzed particulary.

The Bank periodically evaluates if a past-due loan should remain in the consolidated balance sheet or be written-off, provided a provision has been created for 100% of the loan amounts. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan. Any recovery derived from loans which were previously written-off is recognized in the year's results.

Write-downs, cancellations, refunds or discounts are recorded against the provision for loan losses. In case the amount of these items exceeds the provision for loan losses balance related to the loan, a charge to provision is recorded up to the amount of the difference.

Costs and expenses related to loan origination

The costs and expenses related to loan origination are recorded as a deferred charge, which is amortized to the income statement under the caption "Interest expense" during the average term of the loans, except for origination of revolving loans, which are amortized over a period of 12 months against the expense caption that corresponds according to its nature.

(Continued)

(j) Allowance for loan losses-

Allowance for loan losses represents Bank's management best estimate of probable losses inherent in the loan portfolio as well as guarantees issued and irrevocable loan commitments.

Commercial loans – The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the general regulations applicable to the methodology for rating of the loan portfolio of credit institutions (the "Provisions"), established by the Banking Commission . Commercial loans shall be subject to credit rating without including those with express warranty of Entities of the Federal Public Administration under direct budgetary control, productive State enterprises or those indicated in Section VI of Article 112 of the Provisions, in which the allowance percentage shall be equal to 0.5%.

The Provisions use a methodology which classifies the loan portfolio into different groups: in states and municipalities, investment projects with own source of payment, trustees acting under trusts, financial institutions and corporations and individuals with business activity not included in the aforementioned groups; the last group must be divided into two subgroups: corporations and individuals with business activity with annual net sales or revenues greater than 14 million UDIS and less than 14 million UDIS. For purposes of rating projects with own source of payment, the Provisions establish that the rating is calculated using risk analysis of the investment project according to their stage of construction or operation, and through the extra cost of labor and cash flows of the project. For other groups, expected loss methodology is established for credit risk, considering the probability of default, loss given default and exposure at default.

The aforementioned methodology does not apply to the commercial loan portfolio with income or net annual sales greater than 14 million UDIS, given that for this commercial loan portfolio, the Bank is authorized by the Banking Commission to apply its own internal methodology, also based on expected loss model. On February 5, 2014 through Official Notice
142-3/111548/2014, the Banking Commission confirmed the aforementioned authorization while the information provided by the Bank for recertification of the internal methodology is analized by the Banking Commission.

The financial effect resulting from the use of the new expected loss methodology for credit risk was the creation of allowance for loan losses as shown in note 3 to the consolidated financial statements. Likewise, on June 24, 2013, the Provisions established that the application of the new methodology for loan losses related to loans granted to financial institutions starting January 2014, and the financial effect was the creation of additional reserves for $15.

(Continued)

(Millions of Mexican pesos)

For loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales equivalent or higher than 14 million UDIS, the Bank uses internal credit rating models authorized by the Banking Commission, which are considered for the evaluation of the following risk factors: (i) country risk; (ii) financial performance; (iii) financial hedging; (iv) debtor's management; (v) overall strength (customer's relation with the environment, competitiveness, strengths and weaknesses); (vi) account management; (vii) industry conditions; and (viii) payment history.

Loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales lesser than 14 million UDIS, is credit rated through the application of methodology set forth on Appendix 21 of the Provisions. For the financial institutions loans, the methodology set forth on Appendix 20 of the Provisions is used, which establishes the concept of probability of default, loss severity and exposure at default is used.

The estimates carried out at December 31, 2015 and 2014, were determined based on the risk levels and allowance percentage according to the following table:

Grade of risk	Range of allowance percentages
A1	0.000 – 0.90%
A2	0.901 – 1.50%
B1	1.501 – 2.00%
B2	2.001 – 2.50%
B3	2.501 – 5.00%
C1	5.001 – 10.00%
C2	10.001 – 15.50%
D	15.501 – 45.00%
E	Higher than 45.00%

Mortgage loans –

Allowance for loans losses of mortgage is determined using the corresponding balances the last day of each month. Furthermore, factors such as the following are taken into consideration: (i) amount payable; (ii) payment made; (iii) house value; (iv) outstanding loan balance; (v) days of delinquency; (vi) loan denomination; and (vii) file documentation. The total amount to reserve for each assessed loan is the result of multiplying the probability of default for the loss given default and exposure at default.

(Continued)

(Millions of Mexican pesos)

In determining the loss given default the loan recovery rate componentis is used, which is affected if the loan has a guarantee trust or judicial agreement, classifying by regions at the federal boroughs in which such courts reside.

The risk grades and percentages of allowance for loan losses on December 31, 2015 and 2014, are as shown below:

Grade of risk	Ranges of allowance percentages
A1	0.000 – 0.50%
A2	0.501 – 0.75%
B1	0.751 – 1.00%
B2	1.001 – 1.50%
B3	1.501 – 2.00%
C1	2.001 – 5.00%
C2	5.001 – 10.00%
D	10.001 – 40.00%
E	40.001 – 100.00%

Consumer loans –

In determining the allowance, consumer loans are segregated into two groups: a) non-revolving consumer loans; and b) consumer loans relating to credit card transactions and other revolving loans. The methodology followed for both groups is described in articles 91 and 92 of the Provisions, respectively. The total allowance amount for each loan is the result of multiplying the probability of default by the loss given default and exposure to default.

The risk grades and percentages of provision for loan losses at December 31, 2015 and 2014, are shown in the next page.

(Millions of Mexican pesos)

	Ranges of allowance percentages	
Grade of risk	**Non- revolving**	**Credit cards and other revolving loans**
A1	0.00 – 2.0%	0.00 – 3.00%
A2	2.01 – 3.0%	3.01 – 5.00%
B1	3.01 – 4.0%	5.01 – 6.50%
B2	4.01 – 5.0%	6.51 – 8.00%
B3	5.01 – 6.0%	8.01 – 10.00%
C1	6.01 – 8.0%	10.01 – 15.00%
C2	8.01 – 15.0%	15.01 – 35.00%
D	15.01 – 35.0%	35.01 – 75.00%
E	35.01 – 100.0%	Higher than 75.01%

Impaired loan portfolio – For consolidated financial statement disclosure purposes, commercial loans rated as having risk levels D and E are regarded as impaired loans, without giving consideration to improvements in risk levels resulting from the secured portion of the loan, as are loans that, although current, result from negotiations in which a forgiveness, reduction or settlement was authorized at the end of the agreed-upon term, and loans payable by individuals classified as undesirable customers.

Additional identified reserves – Are established for those loans, which in management's opinion, may give cause for concern in the future given the particular situation of the customer, the industry or the economy. Furthermore, it includes estimates for items such as normal interest earned but not collected and other items which realization is considered to result in a loss to the Bank, as well as reserves maintained as prescribed by regulations.

Write-offs – The Bank has policies of write-offs for consumer and residential mortgages loans, according to established terms that determine the practical impossibility of recovery; the write-offs cancel the loan balance against the allowance for loan losses previously recorded. When the loan to be written-off exceeds the balance of its related allowance, before making the write-off, the allowance should be increased up to the amount of the difference. Any amount recovered from previously written-off loans is recognized in income.

(Continued)

(k) Credit card loyalty program-

Based on paragraph 3 of criterion A-4 "Suppletory Application of Accounting Criteria", issued by the Banking Commission, the Bank has adopted the International Financial Reporting Interpretations Committee IFRIC13 "Customer loyalty program" of IFRS for recording credit card transactions related to the loyalty program. According with this interpretation, a portion of revenue from exchange fees are deferred until the obligation to deliver the rewards to which customers are entitled is incurred and amortized to income once that obligation is extinguished.

(l) Other accounts receivables-

Loans to officers and employees, collection rights and the accounts receivable related to debts whose maturity is agreed from origin to more than 90 calendar days term are evaluated by the Bank's management to determine the estimated recoverable amount and, as required, to create the corresponding allowance. The balances of other debit items are recorded into the income statement 90 days after their initial recording, if they correspond indentified items and 60 days if the balances are unidentified, regardless of their chance of recovery, except for tax-related (VAT included) balances.

In cases where the amount receivable is not realized within 90 calendar days following the date at which they were booked in clearing accounts, they are recorded as past-due and a provision is booked for the total amount.

Overdrafts on checking accounts of customers, which do not have a loan facility for such purposes, shall be classified as past-due debts and credit institutions must simultaneously create a reserve for such classification for the total amount of the overdraft at the time when such event occurs.

(m) Securitization transactions-

The residual benefits on the securitization transactions are recognized in caption "Benefits receivable on securitization transactions" and are marked to market. Valuation adjustments are recognized in income under "Other operating income". Subsequent recoveries related to benefits to be received, are directly applied against the balance of such benefits.

(Continued)

The Trust where the securitization is recorded is not consolidated in accordance with the established in paragraph 21 of transitory dispositions of accounting criteria C-5 issued by the Banking Commission on September 19, 2008.

(o) Foreclosed assets or assets received in lieu of payment -

Foreclosed assets are recorded on the date the admission order of the judicial sale by which the foreclosure was decreed, became final and conclusive and is immediately available for execution.

Assets received in lieu of payment are recorded on the date the deed of payment, or that on which the transfer of title to the asset is formally executed.

The accounting recognition of a foreclosed assets considers the value of the tangible asset (at the lower of cost or fair value less strictly necessary costs and expenses incurred for foreclosure), as well as the net value of the asset arising the foreclosure. When the net value of the asset arising the foreclosure exceeds the value of the foreclosed asset, the difference is recognized in consolidated income statement caption “Other operating income”. Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset.

The value of the asset originating the foreclosure and the relevant loan loss allowance set up as of that date are derecognized from the consolidated balance sheet.

Foreclosed assets and promised for sale are restricted to their carrying value; collections received on account of the asset are recorded as a liability. On the date of sale the resulting gain or loss is recognized in the consolidated income statement caption "Other operating income".

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the consolidated income statement caption “Other operating income” The Bank creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year’s results of operations under “Other operating income”, which are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, based on the loan portfolio rating methodology, as show in the next page.

(Continued)

(Millions of Mexican pesos)

Months elapsed from the date of Foreclosure or received in lieu of payment	Reserve percentage Real Estate	Receivables, furniture, and equipment and investment securities
Over : 6	0%	10%
12	10%	20%
18	10%	45%
24	15%	60%
30	25%	100%
36	30%	100%
42	35%	100%
48	40%	100%
54	50%	100%
60	100%	100%

(p) Premises, furniture and equipment-

Premise, furniture and equipment are recorded at acquisition cost. Those assets acquired before December 31, 2007 were adjusted by using factors based on the UDI value from the date of acquisition through that date, which recognition of the effects of inflation on the financial information was suspended according to the MFRS. The components acquired in foreign currency are recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation is calculated using the straight-line method, based on the estimated useful lives by the Bank's management of the corresponding assets. Depreciation amount of premises, furniture and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Bank periodically evaluates premises, furniture and equipment residual values to determine amounts to be depreciated.

The Bank evaluates periodically the net book values of premises, furniture and equipment, to determine whether there is an indication that these values exceed their recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the net book value of an asset exceeds its recoverable amount, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(Continued)

(q) Permanent investments-

The permanent investments where there is no control, join control or significant influence exists are classified as other investments, which are initially recognized and maintained valued at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statement of income caption "Other operating income", except if are from prior periods to the acquisition, in which case are decreased from the permanent investment.

(r) Other assets-

This caption includes mainly the intangible assets that relate to internally developed software, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate, by the straight-line method over the estimated useful life as determined by the Bank.

In case of any indication of impairment, the potential impairment loss is determined, and if the net carrying value exceeds the recoverable amount the asset value is written down and the impairment loss is recognized in the results of operations for the year.

Furthermore, the projected net assets of the defined benefit plan are recognized and are recorded in accordance with the provisions of MFRS D-3 "Employee benefits" (see note 16).

(s) Income taxes and employee statutory profit sharing (ESPS)-

The income taxes and ESPS payable for the year are determined in conformity with the applicable tax provisions.

Income taxes payable are presented as liability in the consolidated balance sheet; when the tax prepayments exceed the income tax payable, the difference corresponds to an account receivable.

Deferred income taxes and deferred ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of IT for operating loss carryforwards.

(Continued)

Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

The deferred income tax asset is periodically valuated creating, where appropriate, valuation allowance for those temporary differences which might exist an uncertain recovery.

The deferred income tax asset or liability determined from the temporary deductible or taxable differences of the year, are presented in the in the consolidated balance sheet.

Current and deferred ESPS is incorporated under the caption “Administrative and promotional expenses”, in the consolidated statement of income.

(t) Capital leases-

Capital leases transactions are recorded as an asset with its corresponding liability for the equivalent at the lower of the present value of minimum lease payments and the market value of the leased asset. The difference between the face value of minimum lease payments and the obligation mentioned above, is recorded during the lease period in the consolidated income statement under the caption "Other operating income (expense)" The asset is depreciated in the same way as other assets held in property when you it is certain that at the end of the lease contract ownership of the leased asset is transferred, otherwise is depreciated over the term of the contract.

(u) Deposit funding-

This caption comprises demand and time deposits of the general public, including money market funding and the placement of debt certificates and bank bonds. Interest is charged to expense on an accruals basis under “Interest expense”. For instruments sold at a value different to their face value, the difference is recognized as a deferred charge or credit and amortized on a straight-line basis over the term of the respective instrument.

(Continued)

(v) Provisions-

Based on management's estimates, the Bank recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable and arises as a consequence of past events.

(w) Bank and other borrowings-

Bank and other borrowings comprise short and long-term loans from domestic and foreign banks, loans obtained through credit auctions with the Central Bank and development fund financing. In addition, this caption includes discounted borrowings with agencies specializing in financing economic, production or development activities. Interest is recognized on accruals basis under the caption "Interest expense".

(x) Employees' benefits-

The Bank has a defined contribution pension plan, where the amounts contributed by the Bank are recognized directly as expenses in the consolidated statement of income under "Administrative and promotional expenses" (see note 16).

In addition, there is a plan of defined benefits in place that covers the pensions for retirement, the seniority premiums and legal compensation to which employees are entitled in accordance with the Federal Labor Law, as well as obligations related to corresponding to plans medical benefits, food coupons and life insurance for retirees.

Irrevocable trusts have been established for all plans to manage the respective plan funds and assets, except for severance compensation.

The net periodic cost related to the defined benefit plans, the termination benefits and termination of employment for reasons other than restructuring are charged to operations for each year, based on independent actuarial computations in accordance with generally accepted actuarial procedures and principles, and the provisions of MFRS D-3 "Employees' benefits". The methodology used for calculating the obligations is the projected unit credit, based on actuarial hypotheses reflecting the present value, salary increase and benefit payment probability.

(Continued)

At the date of adoption of MFRS D-3, items pending amortization and relating to past services are amortized over the lower of a maximum of five years or the remaining average working life. Past services arising on a date subsequent to the coming into force of MFRS D-3 are amortized over the remaining average working life. Items pending amortization and relating to past services of termination benefits are immediately recognized in the year-end results.

The balance of actuarial gains or losses at the beginning of each period that exceed 10% of the greater amount between the defined benefit obligation and the plan assets should be amortized considering the remaining average working life of the employees expected to be eligible for the plan benefits.

Actuarial gains or losses of termination benefits are immediately recognized in the year-end results.

(y) Subordinated debt issued-

The subordinated debt is recorded at contractual value and the interest are recognized on accrual basis in the consolidated income statement under the caption “Interest expense”.

(z) Revenue recognition-

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on past-due loans is recognized in income upon collection.

The interest collected in advance, origination loan fees and credit card annual fees are recorded within “Deferred credits and prepayments”, and applied to the year’s results of operations in “Interest income” and “Commission and fee income”, respectively, as accrued, in the term of the loan or during a year, as applicable.

The commissions from assets in custody or under management are recognized in income as accrued in “Commission and fee income”.

Fees on trust transactions are recognized in income as accrued in "Commission and fee income". Such revenues are not accrued when fees are 90 or more calendar days past-due, and are recorded in memorandum accounts. When accrued revenues are collected, they are reported directly in income for the year.

Fees for restructured or renewed loans are recorded as deferred credits and amortized against the results of operations for the year in "Interest income" using the straight-line method during the new term of the loan.

Income from leasing is recognized in results as accrued.

(aa) Foreign currency transactions-

Foreign currency transactions are recognized at the exchange rate prevailing on the date of execution, for consolidated financial statement presentation purposes. In the cases of currencies other than dollars are translated into dollars at the exchange rates as established the Provisions applicable to credit institutions, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank.

Foreign exchange gains and losses are reflected in results of operations for the year. At the year-end close date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated into pesos at the FIX exchange rate published by Central Bank, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(ab) UDI Trusts-

The provisions published in the Federal Official Gazette dated July 26, 2010 were followed to for purposes of early termination of the mortgage programs.

(ac) Contributions to IPAB-

Among other provisions, the Bank Savings Protection Law created the IPAB, whose purpose is to establish a system to protect the savings of the public and regulate the financial support granted to banking institutions in order to comply with this objective.

(Continued)

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS by individual, corporation or credit institution. The contributions to IPAB are recorded in income statement within the caption "Administrative and promotional expenses".

(ad) Memorandum accounts-

Memorandum accounts corresponds mainly to assets in custody or management and trust transactions.

Client's values held in custody, guarantee or under management, are recorded in the corresponding memorandum accounts in accordance with the accounting criteria established by the Banking Commission, and represent the maximum expected amount at which the Bank is obliged to respond to its clients.

The amounts of the assets in custody or under management are presented in the caption "Assets in custody or under management", while the trust transactions are presented in the caption "Assets in trust or under mandate".

(ae) Contingencies-

Liabilities or important losses related to contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements.

Contingent income, earnings or assets are not recognized until their realization is virtually certain.

(af) Reclassification-

The Consolidated Balance Sheet as of December 31, 2014 was reclassified to conform with the presentation used in the consolidated financial statements as of December 31, 2015 and for the year then ended in the caption "Deposit funding" and "Valuation adjustments of hedging financial liabilities".

(3) Accounting changes-

I. 2015 MFRS and MFRS improvements-

In December 2014, CINIF issued the document referred to as "2015 MFRS Improvements", which contains precise modifications to some MFRS. The modifications that bring about accounting changes are listed in the following page, which adoption did not generate important effects in the consolidated financial statements of the Bank.

(Continued)

- **MFRS B-8 "Consolidated or combined financial statements"-** MFRS B-8 defines investment entities and stipulates that, in view of the characteristics of such entities' primary activities, they generally do not exert control over an investee. Accounting changes resulting from the initial application of this improvement were recognized retrospectively, affecting the financial statements as of December 31, 2014 and the statement of financial position as of January 1, 2014.

- **MFRS B-16 "Financial statements of non-profit organizations"** – MFRS B-16 states that the statement of activities should present income, costs and expenses, including the Other Comprehensive Income (OCI) as well as the net change in the equity of a non-profit organization. Accounting changes resulting from the initial application of this improvement were recognized retrospectively, affecting the statement of activities as of December 31, 2014.

- **Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments"-** Bulletin C-9 provides that foreign currency advances should be recognized at the exchange rate prevailing on the date of the transaction; that is, at the historical exchange rate. Such amounts should not be modified by subsequent exchange fluctuations between the functional currency and the foreign currency in which the price of goods and services related to such advance payments are denominated. Accounting changes resulting from the initial application of this improvement were recognized retrospectively, affecting the financial statements as of December 31, 2014 and the statement of financial position as of January 1, 2014.

II. 2015 accounting criteria-

On May 19, 2014, SHCP issued a resolution through the Official Gazette that amends the accounting criteria for credit institutions in Mexico. These amendments, mainly in the criteria A-2 "Application of particular standards" "B-1 Cash and cash equivalents" and "B-6 Loan portfolio", did not generate important effects in the consolidated financial statements of the Bank.

I. 2014 accounting changes-

Loan portfolio

On September 24, 2014, SHCP announced a resolution through the Official Gazette, effective from the day after its publication, amending the general provisions applicable to credit institutions, specifically the accounting standard "B-6 Loan portfolio", the main change is as follows:

- Those borrowers declared in bankruptcy that satisfy certain guidelines established in the Bankruptcy Law, are not considered past-due loan portfolio.

(Continued)

Credit rating of loan portfolio granted to financial institutions

On June 24, 2013, the Banking Commision published a resolution in the Official Gazette, amending the Provisions to adopt a methodology of expected loss for credit risk, considering the probability of default, loss given default and exposure at default for financial institutions, this methodology entered into force beginning January 2014. The financial impact was the creation of additional reserves for $15.

Special accounting criteria

As a consequence of flooding and damage caused by hydro-meteorological phenomenon "Odile" on September 19 and October 8, 2014, the Banking Commission authorized, temporally, special accounting principles that the credit institutions may offer to consumer, mortgages and commercial loans of customers that (i) live or have their source of payment in the towns declared a disaster area in Baja California Sur, Sinaloa and Sonora, and (ii) that were classified as current at the day of the sinister established in the declarations issued by the Government Ministry in September 2014.

The accounting effects on the application of special accounting criteria are described in the note 9g.

II. ***2014 MFRS and MFRS improvements-***

The CINIF has issued the following MFRS and MFRS Improvements, which adoption did not generate important effects in the consolidated financial statements of the Bank.

MFRS-

- MFRS C-11 "Stockholders' equity"-
- MFRS C-12 "Financial instruments with characteristics of liabilities and equity"-
- MFRS C-14 "Transfer and disposal of the financial assets"-

2014 MFRS improvements-

- MFRS C-5 "Prepayments"-
- MFRS D-3 "Employees' benefits"-
- MFRS C-15 "Impairment of long-lived assets and their disposal"-

(4) Foreign currency position-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital computed as of the third immediately preceding month. Therefore, as of December 31, 2015 and 2014, the Bank's position is within the authorized limits. The consolidated foreign currency position is analyzed as follows:

	Millions of dollars		Equivalent in pesos	
	2015	**2014**	**2015**	**2014**
Assets	4,110	5,222	$ 70,892	76,980
Liabilities	(4,156)	(5,234)	(71,686)	(77,156)
Short position	(46)	(12)	$ (794)	(176)

At December 31, 2015, the short position in foreign currency consists of 98.57% in U.S. dollars (91% en 2014) and 1.43% in other foreign currencies (9% in 2014).

The exchange rate relative to the U.S. dollar at December 31, 2015 and 2014, was $17.2487 pesos per dollar and $14.7414 pesos per dollar, respectively, and on February 22, 2016, the authorization issuance date of the consolidated financial statements, was $18.2762 pesos per dollar.

(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2015 and 2014 are as follows:

	2015	2014
Cash in hand	$ 5,837	5,130
Banks:		
Domestic	690	96
Foreign	4,859	3,870
Call money	1,606	2,074
24 and 48 hour foreign currency sales.	(9,293)	(3,699)
Other funds available (due on demand)	15	3
Restricted funds:		
Deposits with the Central Bank	13,512	13,512
24, 48, 72 and 96-hour foreign currency purchase	10,247	6,530
Compensation fund to operate derivatives	173	379
	$ 27,646	27,895

(Continued)

(Millions of Mexican pesos)

At December 31, 2015 and 2014, deposits in the Central Bank correspond to monetary regulation deposits of $13,511, each year, which have no maturity. The interest generated by deposits in the Central Bank at December 31, 2015 and 2014, were $1, each year. Beginning June 17, 2014, the Central Bank, through "Circular 9/2014", established new rules for monetary regulation deposit, which may be comprised of cash, securities or both. Derived from the above, the Central Bank through "Circular 10/2014" published the rules for the auction of Limited Negotiation Monetary Regulatory Bonds (Bonos de Regulación Monetaria de Negociabilidad Limitada or BREMS-L).

Beginning November 24, 2015, the Central Bank, through Circular 18/2015, established new rules for the auction of BREMS-L for Reportable Monetary Regulation Bonds (BREMS R), to facilitate the repurchase/resell additional to the BREMS L, with this regard the Bank exchanged through auction on December 3, 2015, the BREMS-L, for BREMS-R (see note 6a).

The Bank had an asset (liability) balance for foreign currency purchase and sale transactions payable at a date later than the date agreed for $5,551 and ($6,521), respectively, ($2,482 and ($5,310), at December 31, 2014), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions", as appropriate.

At December 31, 2015 and 2014, the Bank had the following Call money:

	2015			2014		
Institution	**Amount**	**Annual Rate**	**Term**	**Amount**	**Annual Rate**	**Term**
Banco Nacional de México, S. A.	$ 1,500	3.15%	4 days	$ -	-	-
Banco Inbursa, S. A.	-	-	-	1,000	2.93%	2 days
HSBC México, S.A	106	3.25%	4 days	1,074	3.00%	2 days
	$ 1,606			$ 2,074		

(Millions of Mexican pesos)

At December 31, 2015 and 2014, foreign currency receivable and deliverable equivalent in pesos in connection with the purchases and sales to be settled within 24, 48, 72 and 96 hours are as follows:

		Receivable in pesos		Deliverable in pesos	
		2015	**2014**	**2015**	**2014**
Dollar	$	9,812	6,154	8,521	2,846
Other currencies		435	376	772	853
	$	10,247	6,530	9,293	3,699

At December 31, 2015 and 2014, earnings from operations of buy/sell currencies amounted to $(165) and $905, respectively, the valuation result amounts to $641 in 2015 and $(34) in 2014, which are recorded under "Financial intermediation income".

(6) Investment securities-

(a) At December 31, 2015 and 2014, the Bank's investment securities are as follows:

		2015	**2014**
Trading:			
Debt securities:			
Government securities	$	24,638	17,545
Bank promissory notes		263	589
Others		55	64
Equity shares		7	-
		24,963	18,198
Available-for-sale:			
Debt securities:			
Government securities		31,532	29,343
Bank promissory notes		2,950	2,366
Others		465	602
Equity shares		2	2
		34,949	32,313
Held-to-maturity:			
Special CETES of the UDI Trusts:			
Residential mortgages (note 9d)		2,275	2,209
Bonds		1,145	1,145
		3,420	3,354
Total investment securities	$	63,332	53,865

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2015 and 2014, the fair value of the securities classified as trading, available-for-sale and held-to-maturity are analyzed as follows:

		2015	2014
Trading:			
Restricted securities:			
CETES delivered as collateral	$	913	112
Under repurchase/resell agreements:			
BI CETES		10,117	466
IS BPA182		55	24
IT BPAT		-	33
LD BONDESD		7,357	5,780
M BONOS		3,376	3,990
S UDIBONO		118	-
CBUR		46	630
IQ BPAG91		820	437
IM BPAG28		519	13
		22,408	11,373
Value date purchases:			
BI CETES		355	2,968
LD BONDESD		-	100
M BONOS		942	1,973
S UDIBONO		20	1,019
		1,317	6,060
Total government securities		24,638	17,545
Restricted securities:			
Under repurchase/resell agreements:			
BANCOMEXT:			
PRLV		13	318
BANOBRA:			
PRLV		-	21
NAFINSA:			
CBBD		250	250
Total bank promissory notes		263	589
Carried forward	$	24,901	18,134

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

		2015	2014
Trading (continued):			
Brought forward	$	24,901	18,134
Others (unrestricted):			
91 FINAECB		7	-
Under repurchase/resell agreements:			
CBUR		1	14
CBPC		45	50
Others (restricted):			
EUROBONO		2	-
Total other debt securities		55	64
Equity shares (unrestricted):			
Equity shares			
1 ICH		2	-
1A FCX *		2	-
1A TX *		2	-
1I EWZ *		2	-
1I GXG *		1	-
		9	-
Value date sales:			
1 ICH B		(2)	-
Total equity shares		7	-
Total trading securities	$	24,963	18,198
Available-for-sale:			
Debt securities:			
Domestic government securities:			
BI CETES	$	-	684
LD BONDESD		2,422	1,115
S UDIBONO		70	-
		2,492	1,799
Foreign government securities:			
BRAZM14		1,111	408
BRAZQ28		1,767	337
BRAZG46		-	726
UMS15F		-	457
BRAZE97		200	-
		3,078	1,928
Carried forward	$	5,570	3,727

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

		2015	2014
Available-for-sale (continued):			
Brought forward	$	5,570	3,727
Restricted or pledged as collateral:			
BRAZG46		-	611
Restricted securities:			
Under repurchase/resell agreements:			
LD BONDESD		23,874	25,005
M BONOS		2,088	-
		25,962	25,005
Total government securities		31,532	29,343
Bank promissory notes:			
Own position:			
BANOBRA		-	363
BANORTE		-	1,003
BANSAN		2,950	1,000
Total bank promissory notes		2,950	2,366
Other:			
Own position:			
MOLYMET		150	151
UFINCB		201	-
CABEI		114	451
Total other		465	602
Equity shares		2	2
Total available-for-sale	$	34,949	32,313

(Continued)

(Millions of Mexican pesos)

		2015	2014
Held-to-maturity:			
Government securities:			
CETES B4 170713	$	834	810
CETES B4 270701		1,054	1,023
CETES B4 220804		2	2
CETES B4 220707		373	362
CETES BC 170713		12	12
Total special CETES (note 9d)		2,275	2,209
BONOS XL BREMSL (restricted, note 5)		-	1,145
BONOS XR BREMSR (restricted, note 5)		1,145	-
	$	3,420	3,354

At December 31, 2015, BREMS-R amounts to $1,145 (BREMS-L amounts to $1,145 at December 31, 2014) and are classified as securities held-to-maturity. The amount of these securities is part of monetary regulation deposit, thus these instruments may only be decreased as the monetary regulation deposit in cash increases.

As of December 31, 2015, the Bank held assets (liabilities) balance for transactions with securities settled on a date subsequent to the agreed-upon date for $4,975 and $(1,315), respectively, ($9,513 and ($5,922), respectively, as of December 31, 2014), which were recognized in settlement accounts within “Other accounts receivable, net” and “Creditors on settlement of transactions”, as appropriate.

The gain or loss from valuation of available-for-sale securities as of December 31, 2015 and 2014, recognized in other comprehensive income within stockholders’ equity amounted to ($75) net of deferred income and deferred ESPS tax ($7 net of deferred income tax and deferred ESPS as of December 31, 2014). The valuation result from securities available for sale in hedge transactions at fair value recognized in income statement for the years ended December 31, 2015 and 2014, amounts to $(5) and $17, respectively.

For the years ended December 31, 2015 and 2014, the net gains from interest income, gains or losses from purchase and sale transactions, and valuation income from investments in securities are as follows:

		2015	2014
Trading	$	517	399
Available-for-sale		1,039	1,033
Held-to-maturity		101	85

(Continued)

(Millions of Mexican pesos)

(b) At December 31, 2015 and 2014, the fair value of the securities classified as traded securities to be settled are analyzed as follows:

		2015	2014
Traded securities to be settled:			
Debt securities:			
Government securities (unrestricted):			
BI CETES	$	191	66
M BONOS		110	-
S UDIBONO		50	-
		351	66
Value date sales:			
Government securities:			
BI CETES		(112)	(236)
M BONOS		(4,729)	(8,199)
S UDIBONO		(148)	(1,120)
LD BONDESD		-	(100)
EUROBONO		(2)	-
		(4,991)	(9,655)
(Traded securities to be settled Unrestricted securities)	$	(4,640)	(9,589)

(c) ***Issuers over 5% of the Bank's net capital-***

At December 31, 2015 investment in non-governmental debt securities and exceeding 5% of the Bank´s net capital is as follow: (At December 31, 2014 there is no investment in non-governmental debt securities of a single issuer).

Issuer	Series	Number of securities	Annual average rate	Term	Amount
BANSAN	16011	2,951,065,275	3.25%	1	$ 2,950

(d) ***Additional payment for sale of Indeval´ share***

In 2008, the Bank sold the share they owned of S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V. (Indeval), with such sale, there was the posibility of receiving a payment in the case the Exchange Market Law (Ley de Mercado de Valores) was amended to allow any stockholder to own more than one share of Indeval. In January 2014, this amendment was made and as a result, in Agust 2014, the Bank received additional payment for the amount of $22, which were recognized in income statement under "Financial intermediation income".

(Continued)

(Millions of Mexican pesos)

(7) Securities on repurchase/resell agreements-

At December 31, 2015 and 2014, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Bank acts as repurchase or as repurchaser, are analyzed as follows:

	Debtors on repurchase/resell agreements		Creditors on repurchase/resell agreements	
	2015	2014	2015	2014
IQ BPAG91	$ 3,551	1,000	(820)	(437)
IP BPAS	–	2,005	–	(24)
IPAS	354	–	(55)	–
IS BPA 182	–	–	–	(33)
M BONOS	3,152	2,500	(5,453)	(3,987)
CBUR	–	–	(47)	(645)
BI CETES	2,210	–	(9,944)	(349)
LD BONDESD	10,473	12,263	(30,817)	(30,390)
PRLV	–	–	(13)	(338)
S UDIBONO	–	–	(119)	–
CBIC	990	500	–	–
CBPC	–	–	(45)	(49)
CBBD	–	–	(250)	(250)
BPAG	2,274	–	(519)	(13)
	23,004	18,268	(48,082)	(36,515)
Collateral sold or pledged (creditor):				
IP BPAS	–	(2,005)	–	–
LD BONDESD	(5,208)	(9,847)	–	–
M BONOS	–	(1,000)	–	–
IQ BPAG91	(2,003)	–	–	–
BI CETES	(2,212)	–	–	–
CBIC	(989)	(500)	–	–
BPAG	(250)	–	–	–
	(10,662)	(13,352)	–	–
Debtors (creditors) on repurchase/resell agreements	$ 12,342	4,916	(48,082)	(36,515)

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2015 and 2014, the terms of resell/repurchase agreements vary between 4 and 90 days (2 and 77 days in 2014), with annual weighted rates of 3.21% acting as repurchasee, and 2.94% acting as repurchaser (3.13% and 2.85% annual in 2014).

During the years ended December 31, 2015 and 2014, premiums collected amounted to $1,018 and $1,382, respectively; premiums paid amounted to $2,196 and $2,346, respectively, and are included in the consolidated statements of income under the caption "Interest income" and "Interest expense", respectively (see note 21b).

At December 31, 2015 and 2014, the Bank received government securities as guarantee for over three-day repurchase agreements, which include and recorded in memorandum accounts and are analyzed as follows:

Issuer	Series	Number of securities	Market value
2015:			
Guarantees received:			
BI CETES	160428	5,153,855	$ 51
Total guarantees received			$ 51
2014:			
Guarantees received:			
IS BPA 182	180705	230,356	$ 24
IS BPA 182	200730	145,290	15
IS BPA 182	160331	68,392	7
LD BONDESD	161229	17,134	2
Total guarantees received			$ 48
Guarantees delivered:			
BI CETES	150723	2,015,962	$ 20
BI CETES	150528	791,086	8
BI CETES	150528	33,331	-
Total guarantees delivered			$ 28

(Continued)

(Millions of Mexican pesos)

(8) Derivatives-

At December 31, 2015 and 2014, the valuation of derivative financial instruments for trading and hedging purposes, recognized under the caption "Derivatives", is analyzed as follows:

		2015		2014	
		Assets	**Liabilities**	**Assets**	**Liabilities**
Trading purposes:					
Forward contracts	$	2,019	2,045	2,771	3,135
Futures		–	–	5	–
Options		832	533	602	457
Swaps		1,581	2,875	1,873	2,268
Package of derivative instruments		55	21	1	6
		4,487	5,474	5,252	5,866
Hedging purposes:					
Fair value hedges		8	24	8	41
Cash flow hedges		20	295	45	365
		28	319	53	406
	$	4,515	5,793	5,305	6,272

For the years ended December 31, 2015 and 2014, the amount of gain (loss) recognized in results from the impairment of derivatives for trading purposes amounted to $19 and $8 and for hedging purposes $8 and $(19), respectively.

The net loss for the years ended December 31, 2015 and 2014, derived from the ineffectiveness of instruments used for cash-flow hedging purposes amounted to $3 and $8, respectively. The effect of gain from valuation relating to the effective hedge portion at December 31, 2015, amounts to $14 net of the deferred tax. At December 31, 2014, the loss from valuation realting to the effective hedge portion was $220 net of the deferred tax, which are presented in stockholders' equity.

At December 31, 2015, the gain (loss) of cash flow hedge instruments that were reclassified from stockholders' equity to the year's results of operations within "Interest income" and "Interest expense" was $39 and $(394) ($85 and $(357) at December 31, 2014).

The net estimated effect, based on the results of January 2016 and projected to 12 months, of the accumulated ineffectiveness of hedging derivative transactions which are expected to be reclassified to consolidated statement of income during the following twelve months is $16.

(Continued)

At December 31, 2015 and 2014, the gain from valuation of fair value hedging derivatives was $1 and $25, respectively, while the loss from valuation of the hedged item related to the hedged risk was $(7) and $(21), respectively.

At December 31, 2015 and 2014, the net gain (losses) on financial assets and liabilities related to trading derivatives are $110 and $366, respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains from buy/sell transactions and valuation results at December 31, 2015 amounted to $(165) and $641, respectively, ($(897) and $37 in 2014, respectively), and are presented in "Financial intermediation income".

Fort the years ended December, 31 2015 and 2014, the Bank foresees that all transactions to hedge forecasted cash flows are highly likely to occur.

At December 31, 2015 and 2014, the Bank had transactions settled on a date subsequent to the traded date.

The Bank may reduce or modify the market risk mainly through two activities: converting fixed to variable rate financial assets and floating-rate to fixed rate financial liabilities. Both transformations are achieved using interest rate swaps and foreign exchange swaps related to different rates of interest.

At December 31, 2015, out of all hedging derivative transactions, there are 124 agreements (225 agreements in 2014) totaling $16,600 ($24,370 in 2014) classified as hedges under the cash flow methodology, the remainder relates to hedges of credit and bonds for $7,420 ($6,407 in 2014) and for value hedges are classified as covered under the fair value methodology.

The Bank uses derivative financial instruments with the purpose of properly dealing with interest rate and exchange rate risks inherent to loan, deposit and investment on securities and on repurchase/resell agreements, all of which are characteristic of commercial banking. The most widely used instruments are interest rate and currency swaps, whereby floating rate instruments are transformed into fixed rate instruments and vice versa or assets denominated in foreign currency are translated into domestic currency or vice versa. Derivatives may be used for hedging cash flows or the economic value of various Bank assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

(Continued)

(Millions of Mexican pesos)

(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2015 and 2014, the classification of loans into current and past-due by currency (valued in domestic currency), is as follows:

	2015		2014	
	Current	**Past-due**	**Current**	**Past-due**
In assets:				
Pesos:				
Business or commercial activity	$ 59,310	2,221	47,502	1,474
Financial institutions	23,608	81	16,430	56
Government entities	8,301	–	5,015	–
Consumer loans	23,003	750	24,820	1,200
Residential mortgages[1]	77,718	2,404	64,643	2,745
	191,940	5,456	158,410	5,475
Foreign currency translated into pesos:				
Business or commercial activity	17,083	199	11,921	24
Financial institutions	–	25	2,510	21
Residential mortgages	121	59	127	65
	17,204	283	14,558	110
	$ 209,144	5,739	172,968	5,585
	214,883		178,553	
In memorandum accounts:				
Loan commitments (see note 20a)	9,872		8,194	
	$ 224,755		186,747	

As of December 31, 2015 and 2014, the Bank has no restricted portfolio.

(1) Includes loans in UDIS.

(Millions of Mexican pesos)

(b) Classification of loan portfolio by economic sector-

At December 31, 2015 and 2014, credit risk including loans, guarantees and loan commitments, classified by economic sector and the percentage of concentration are analyzed as follows:

		2015		2014	
		Amount	**%**	**Amount**	**%**
Agriculture, forestry and fishing	$	6,915	3	4,711	3
Commerce and tourism		22,100	10	16,655	9
Construction and housing *		83,849	38	70,595	38
Manufacturing		38,985	17	26,803	14
Consumer loans and credit cards		23,753	11	26,020	14
Community, social and personal services mainly government entities		9,711	4	9,424	5
Financial, insurance and real estate services		38,458	17	31,717	17
Transportation, warehousing and communication		984	–	822	–
	$	224,755	100	186,747	100

*Includes portfolio of mortgage loans in 2015 for $80,302 and $67,580 in 2014.

(c) Loans to government entities-

At December 31, 2015 and 2014, loans granted to government entities are analyzed as follows:

		2015	2014
Receivables under financial support programs	$	–	67
covaty and state governments		8,301	4,948
Total loans to government entities	$	8,301	5,015

(d) Early termination of mortgage programs-

On July 15 and 26, 2010, the relevant agreement was executed and the Official Gazette published the general provisions applicable to the early termination of the support programs for housing loan debtors, which included the requirements for the loans eligible to participate, as mentioned in the next page.

(Continued)

(Millions of Mexican pesos)

(i) Loans that have been restructured or granted in UDIS under the UDIS programs irrespective of whether or not they are entitled to the discount program benefits,

(ii) domestic currency-denominated loans entitled to the discount program benefits,

(iii) loans that as of December 31, 2010 (cut-off date) are current and,

(iv) past-due loans that were restructured or to which a debt relief, discount or allowance was applied no later than December 31, 2010, and for which evidence substantiating payment for at least three consecutive amortizations no later than March 31, 2011 exists.

As a result of the foregoing, the amounts of the discounts granted and the effects of the early termination on the Bank's financial information are as follows:

- At December 31, 2010, the amount of the conditional discount portion payable by the Federal Government in connection with the mortgage programs related to the UDI trusts and own UDI-denominated loans, for the current loan portfolio amounted to $81 and $74, respectively.

- In May 2011, $7 was recorded in accounting, thus reducing the loan due by the Federal Government, which was charged to the allowance for loan losses, due to the default of 29 borrowers, under the Agreement to prove "Fulfillment of payment" by March 31, 2011.

- The amount of the discounts applied prior to the signing of the Discount Program is $178.

For the discounts payable by the Federal Government, a five-year loan payable on an annual basis was recognized under "Commercial loans – Government Entities", being part of the current loan portfolio. The general terms of the loan payable by the Federal Government is shown below:

Annuity	**Payment date**
First	December 1, 2011
Second	June 1, 2012
Third	June 3, 2013
Fourth	June 2, 2014
Fifth	June 1, 2015

(Continued)

(Millions of Mexican pesos)

A financial cost charged monthly to the loan payable by the Federal Government by calculating for January 2011 the arithmetic average rates of annual return of 91-day CETES issued in December 2010, and for subsequent months, the interest rates of 91-day CETES futures for the immediately preceding month, as published by Proveedor Integral de Precios, S. A. (PIP) the business day immediately following the cut-off date, or the interest rate of the month closer to such publication, as appropriate, on 28-day yield curves, by dividing the resulting rate by 360 days and multiplying the result by the number of days actually elapsed during the interest-bearing period, with capitalization on a monthly basis. The Federal Government's payment obligations will be subject to the agreement provisions.

The Bank has received five annual payments on the discounts due by the Federal Government under the Agreement; the payments dates are shown below:

Payment date	Annuity	Capital	Interests
June 1, 2015	Fifth	$ 66	$ 2
June 18, 2014	Fourth	66	5
June 3, 2013	Third	66	9
June 1, 2012	Second	66	6
December 1, 2011	First	66	14

The Special Cetes currently recorded by the Bank at December 31, 2015 and 2014 under "Investment securities – Held-to-maturity securities" (see note 6a), are as follows:

2015	**Securities**	**Amount**	**Maturity date**
Special Cetes B4 170713	8,867,241	$ 834	July 13, 2017
Special Cetes B4 220707	3,961,831	373	July 7, 2022
Special Cetes B4 220804	21,792	2	August 4, 2022
Special Cetes B4 270701	11,209,686	1,054	July 1, 2027
Special Cetes BC 170713	404,851	12	July 13, 2017
Special Cetes BC 220804	3,115	–	August 4, 2022
Special Cetes BV 270701	6	–	July 1, 2027
Total special Cetes		$ 2,275	
2014			
Special Cetes B4 170713	8,867,241	$ 810	July 13, 2017
Special Cetes B4 220707	3,961,831	362	July 7, 2022
Special Cetes B4 220804	21,792	2	August 4, 2022
Special Cetes B4 270701	11,209,686	1,023	July 1, 2027
Special Cetes BC 170713	404,851	12	July 13, 2017
Special Cetes BC 220804	3,115	–	August 4, 2022
Special Cetes BV 270701	6	–	July 1, 2027
Total special Cetes		$ 2,209	

There are no significant amounts in the captions of other assets and liabilities arising from Trust termination.

(Continued)

(Millions of Mexican pesos)

(e) Additional loan portfolio information-

Annual weighted lending rates:

Annual weighted loan interest rates during 2015 and 2014 were as follows:

	2015	**2014**
Commercial loans*	4.91%	5.30%
Personal loans	13.79%	17.10%
Credit cards	25.29%	27.13%
Residential mortgages	10.19%	10.59%

* Includes commercial, financial and government entities loans.

Loans rediscounted with funding:

The Mexican Government has established certain funds for the promotion and development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with funding. At December 31, 2015 and 2014, the amount of loans granted under these programs totaled $5,807 and $4,763, respectively, and the related liability is included in "Bank and other borrowings" (see note 15).

Restructured loans:

At December 31, 2015 and 2014, restructured and renewed loans are analyzed as follows:

	Current loans	**Past-due loans**	**Total**
2015			
Commercial loans	$ 2,484	538	3,022
Residential mortgages	5,906	402	6,308
Consumer loans	69	15	84
	$ 8,459	955	9,414

(Continued)

(Millions of Mexican pesos)

2014		**Current loans**	**Past-due loans**	**Total**
Commercial loans	$	2,404	490	2,894
Residential mortgages		5,517	563	6,080
Consumer loans		271	96	367
	$	8,192	1,149	9,341

During 2015 and 2014, the Bank carried out some modifications (exchange of better qualified guarantees, currency and partial payment dates) to the original terms of loans classified as commercial loans for $1,346 and $1,461, respectively, which were not considered restructures.

Current commercial loans restructured and renewed by the Bank during 2015 and 2014, which continue being current, amount to $927 and $1,191, respectively; for mortgage portfolio were $1,240 and $1,990, respectively.

During the years 2015 and 2014, the Bank recorded restructuring from past-due commercial loans which remained as past-due for $265 and $319, respectively. Also in 2015 the Bank made restructure from past-due mortgages loans for $2 ($50 in 2014).

The restructuring consumer loans current and past-due made by the Bank during 2015 amount to $39 and $8, respectively ($271 and $96, respectively in 2014).

During the years 2015 and 2014, capitalization of interest was for $2 and $5, respectively.

Risk concentration:

At December 31, 2015, the Bank has five economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is $26,864 and represent 94% of the basic capital as of September, 2015. At December 31, 2014, the Bank has three economic group debtor that exceeded such limit totaling $18,458 and represent 75% of its basic capital of September, 2014. The balance of the loans granted to the three largest debtors as of December 31, 2015 and 2014, amount to $18,606 and $18,458, respectively.

(Continued)

(Millions of Mexican pesos)

Past-due loan portfolio:

An analysis of past-due loans at December 31, 2015 and 2014, from the date the loans were considered past-due, are summarized below:

		1 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
2015						
Commercial *	$	538	1,011	543	434	2,526
Consumer		672	66	8	4	750
Residential mortgages		1,128	518	601	216	2,463
	$	2,338	1,595	1,152	654	5,739
2014						
Commercial*	$	620	360	403	192	1,575
Consumer		1,122	68	5	5	1,200
Residential mortgages		1,406	519	590	295	2,810
	$	3,148	947	998	492	5,585

* Includes commercial loans, loans to financial institutions and government entities.

The movement in the past-due loan portfolio for the years ended December 31, 2015 and 2014, is summarized below:

		2015	2014
Balance at beginning of year	$	5,585	4,250
Settlements		(131)	(125)
Write-offs and debt forgiveness		(1,977)	(2,348)
Net increase, for transfers from and to current loans		2,254	3,804
Foreign exchange fluctuation		8	4
	$	5,739	5,585

The interest on the past-due loan portfolio not recognized in results of operations for the year ended December 31, 2015 amounted to $268 ($329 in 2014), which are recorded in memorandum accounts.

For the years ended December 31, 2015 and 2014, the Bank recorded write-offs from those past-due loans that had been fully reserved for $1,764 and $1,905, respectively. In both years there was no application of reserves to loans granted to related parties.

For the years ended December 31, 2015 and 2014, the Bank obtained recoveries from written-off loans for $338 and $658, respectively.

(Continued)

(Millions of Mexican pesos)

Additional guarantees

At December 31, 2015 and 2014, the Bank has no additional guarantees for the originated loans required by the Banking Commission.

Impaired loans:

At December 31, 2015, the balance of impaired commercial loans is $3,939 ($3,680 in 2014), from which $1,413 are recorded in current loans ($2,105 in 2014), and $2,526 are recorded in past-due loans ($1,575 in 2014).

Adjustment from valuation of financial asset hedging:

The fair value hedges of interest rate risk of a portion of a portolio comprised of financial assets, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments for hedging financial assets.

At December 31, 2015 and 2014, the adjustment to the carrying value of the loan portfolio from the gain or loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial assets" in the consolidated balance sheet for $11 and $19, respectively.

(f) Allowance for loan losses-

As of December 31, 2015 and 2014, as a result from the application of the new allowance for loan losses methodology, the probability of default, loss given default and exposure at default by type of loan portfolio, obtained as weighted average (unaudited) from the exposure at default, are as follows:

Type of loan portfolio	**Probability of default**		**Loss given default**		**Exposure at default**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Commercial	4.48%	4.62%	54.00%	52.19%	$ 119,006	90,749
Residential mortgages	3.98%	4.68%	24.40%	22.41%	80,302	67,579
Personal loans	5.73%	10.60%	64.79%	64.80%	15,856	18,228
Revolving	12.45%	13.80%	75.27%	75.18%	11,048	10,492

The parameters are weighted on the loans of each of the portfolios. Exposure at default shown for credit includes credit commitments.

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2015, the credit rated loan portfolio and the allowance for loan losses are analyze as follows:

Credit rated portfolio

Grade of risk		Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$	72,744	9,817	5,624	13,995	60,592	162,772
A-2		3,025	4,425	7	2,251	10,988	20,696
B-1		442	7,379	22	2,103	1,787	11,733
B-2		321	520	-	1,399	1,596	3,836
B-3		1,851	6,578	2,648	940	998	13,015
C-1		1,091	305	-	665	1,703	3,764
C-2		628	-	-	957	521	2,106
D		1,241	-	-	947	1,240	3,428
E		1,926	106	-	496	877	3,405
Total	$	83,269	29,130	8,301	23,753	80,302	224,755

Allowance for loan losses

A-1	$	264	72	28	169	115	648
A-2		33	59	-	105	66	263
B-1		7	121	-	286	15	429
B-2		8	11	-	91	19	129
B-3		62	212	72	72	17	435
C-1		75	22	-	74	50	221
C-2		91	-	-	170	39	300
D		414	-	-	485	261	1,160
E		1,421	105	-	376	307	2,209
Partial	$	2,375	602	100	1,828	889	5,794

Additional reserves for residential mortgages past-due loans		447
Operational risk reserve		33
Additional reserve for past-due accrued interest		49
Specific reserves authorized by the Banking Commission		97
Total allowance for loan losses	$	6,420

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2014, the credit rated loan portfolio and the allowance for loan losses are analize as follows:

Credit rated portfolio

Grade of risk		Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$	53,457	8,722	4,787	12,421	53,841	133,228
A-2		1,308	8,877	7	2,237	6,421	18,850
B-1		1,028	1,421	-	2,232	1,343	6,024
B-2		412	1,757	-	1,940	1,204	5,313
B-3		1,614	3,750	201	1,769	780	8,114
C-1		1,422	196	26	1,100	1,367	4,111
C-2		546	-	-	1,517	606	2,669
D		2,090	-	-	1,628	1,396	5,114
E		1,423	103	-	1,176	622	3,324
Total	$	63,300	24,826	5,021	26,020	67,580	186,747

Allowance for loan losses

Grade of risk		Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
A-1	$	182	33	13	165	95	488
A-2		16	98	-	99	38	251
B-1		17	23	-	278	11	329
B-2		9	38	-	118	15	180
B-3		61	112	7	120	13	313
C-1		89	12	2	104	39	246
C-2		64	-	-	244	50	358
D		487	-	-	690	255	1,432
E		1,023	102	-	716	180	2,021
Partial	$	1,948	418	22	2,534	696	5,618
Additional reserves for residential mortgages past-due loans							367
Operational risk reserve							38
Additional reserve for past-due accrued interest							52
Specific reserves authorized by the Banking Commission							73
Total allowance for loan losses						$	6,148

(Continued)

(Millions of Mexican pesos)

The internal methodology for determining the allowance for loan losses for commercial loans is based on an internal model developed by the Bank on the expected loss, which was authorized by the Banking Commission and was applicated for the fisrt time in 2012 and at December 31, 2015, is in process of recertification. The internal methodology only applies to customers whose loans have higher net sales or revenues of 14 millions of UDIS.

Specific estimates recognized by the Banking Commission

Through official letter number 142-2/6584/2012 dated October 15, 2012, the Banking Commission authorized the Bank to create additional reserves for covering FOVI (Fund for the Operations and Bank Financing of Housing) type loans. The allowance was determined by analyzing such portfolio and the need of recording specific allowances for loans with guarantees with recovery deficiencies on the unpaid balance provided for by such Fund. The authorized additional allowance amounts to $97, which will be accounted for on a monthly basis over 36 months, at a monthly rate of $2.7, from the authorization date. For the years ended December 31, 2015 and 2014, the amount of $24.3 and $32.4, respectively, was recorded in the consolidated income statement. At December 31, 2015, the Bank has recognized the full amount authorized for the aforementioned allowance.

The movement in the allowance for loan losses for the years ended December 31, 2015 and 2014 is summarized below:

		2015	2014
Balance at beginning of year	$	6,148	4,954
Provisions charged to results of operations		2,528	3,491
Applications, waivers and others		(1,915)	(2,270)
Allowance cancellation		(332)	-
Foreclosure		(63)	(78)
Exchange rate fluctuations		54	51
Balance at end of year	$	6,420	6,148

(Continued)

(Millions of Mexican pesos, except otherwise indicated)

(g) Natural disasters support programs-

Through the Notification P-110/2014 and P-118/2014 issued on September 19 and October 8, 2014, respectively, the Banking Commission, in order to support the customers who were affected by the floods and damages caused by the hydrometeorological phenomenon called "Odile" that took place in the Federal states of Baja California Sur, Sonora and Sinaloa, authorized the special accounting criteria that the credit institutions may apply to credit customers wich have their address in the towns of Mexico declared emergency or natural disaster by the Government Ministry, through publication in the Official Gazette during the month of September, as well as those loans whose payment source is located in these zones and they were classified for as current on the date of loss established in the declarations and under the corresponding terms.

According of the aforementioned, the Bank implemented the following support for clients of mortgages, cars, credit cards and personal loans located in areas declared a disaster area:

- Defferral of up to three monthly payments of principal and interest.
- Canceling collection fees and taxes that could be generated by these concepts.
- The Credit Bureau will not be affected.

At December 31, 2014, the Bank supported the clients who asked for the support, the supports provided by the Bank, are summarized below (in Mexican pesos):

	Number of cases	Deferred amount	Balance forgiven
Car	98	$ 914,654	$ 22,901
Mortgages	61	1,815,743	13,093
Personal	104	996,395	17,165
Credit card	24	-	8,400
Total		$ 3,726,792	$ 61,559

(Continued)

Therefore, the impact of non-recognition in the nonperforming loans to customers who requested deferral three months was $21 and potentially up to $96, if the support had not been applied. Likewise, with regard to the impact on income from loan loss provision for the implementation of these measures mitigated the creation of allowance for loan losses for $4, approximately.

(10) Benefits to receive from securitizations-

On March 13, 2008, the Bank realized a securitization of a mortgage portfolio, through of a trust that issued debt securities for $2,500 with maturity in 20 years and an annual interest rate of 9.15%. At December 31, 2015 and 2014, the amount of the portfolio assigned receivable amounted to $563 and $789, respectively, and the amount payable on the debt securities amounted to $465 and $626, respectively.

As part of the agreed transaction of the securitization, the Bank received a trust certificate, which is reported under the caption “Benefits receivable on securitization transactions” on the consolidated balance sheet, and is recorded at fair value, which was determined based on the expectations for recovery of the trust assets and the remaining cash flows once all obligations to bondholders are met. The fair value of benefits receivable on securitization transactions at December 31, 2015 and 2014 were $85 and $108 respectively, the valuation effect was recognized in "Other operating income" in the consolidated statement of income.

For the years ended December 31, 2015 and 2014, the assigned portfolio received prepayments of $97 and $89, respectively.

The Bank receives servicing fees from the trust, which are recognized in earnings when the services are provided, for the years ended December 31, 2015 and 2014, were $6 and $8, respectively.

(Continued)

(Millions of Mexican pesos)

(11) Foreclosed assets-

At December 31, 2015 and 2014, foreclosed assets are comprised as follows:

		2015	2014
Premises	$	86	103
Furniture, values and foreclosed rights		10	11
		96	114
Allowance for impairment		(28)	(23)
	$	68	91

The movement of the allowance for impairment for the years ended December 31, 2015 and 2014 is analyzed as follows:

		2015	2014
Balance at beginning of year	$	(23)	(18)
Additional provisions due to aging, charged to operations for the year		(8)	(10)
Credit to income on sale of assets		3	5
Balance at end of year	$	(28)	(23)

(12) Premises, furniture and equipment-

Premises, furniture and equipment and leasehold improvements at December 31, 2015 and 2014 are analyzed in the next page.

(Continued)

(Millions of Mexican pesos)

	2015	2014	Annual depreciation and amortization rate
Land	$ 500	521	–
Office premises	1,204	1,249	Various
Transportation equipment	13	17	25% and 33%
Transportation equipment in capital lease	44	31	33%
Computer equipment	1,293	1,159	Various
Computer equipment in capital lease	21	82	20%
Office furniture and equipment	1,428	1,334	10%
Leasehold improvements	2,430	2,316	Various
	6,933	6,709	
Accumulated depreciation	(3,475)	(3,246)	
	$ 3,458	3,463	

Depreciation charged to results of operations for the years ended December 31, 2015 and 2014 amounted to $364 and $440, respectively.

For the year ended December 31, 2015 there not was an effect from impairment of leasehold improvements. For the year ended December 31, 2014 the amount charged to income from impairment of leasehold improvements amounted to $14 mainly due to close of 8 branches. The effect of reverse of the impairment in a premise recorded in the consolidated income statement for the year ended December 31, 2014, amounted to $15.

According to assessment carried out by the Bank, the residual value (except land) of office premises at December 31, 2015 and 2014, is minimum.

(13) Permanent investments-

At December 31, 2015 and 2014, the Bank´s permanent investments in equity, classified by activity, are analyzed as follows:

	2015	2014
Banking related services	$ 44	45
Mutual funds	-	24
Derivatives market operators	6	6
Security and protection	1	1
	$ 51	76

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

On October 15, 2014, the Bank and Scotia Fondos, S. A. de C. V., related party, entered into a buy/sell agreement in which the Bank sold all of the minimum fixed "A" series shares of the capital stock, that the Bank owned of fifteen mutual funds (eight of debt securities and seven of equities). The sale price amounted to $36, which was determined by the market price of the funds. The transaction took effect when the Banking Commission authorized such transaction on February 20, 2015.

(14) Deposit funding-

At December 31, 2015 and 2014, the deposit funding caption, is analyzed as follows:

		2015			**2014**		
		Currency			**Currency**		
		Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Demand deposits:							
Bearing interest	$	47,776	232	48,008	42,805	137	42,942
Non-bearing interest		51,880	19,643	71,523	42,841	13,293	56,134
		99,656	19,875	119,531	85,646	13,430	99,076
Time deposits:							
General public		62,275	595	62,870	54,618	5,365	59,983
Money market:							
Certificates of deposit (CD´s)		13,605	-	13,605	1,551	-	1,551
Promissory notes		4,349	-	4,349	5,059	-	5,059
		17,954	-	17,954	6,610	-	6,610
Debt securities issued:							
Bank bonds		4,981	-	4,981	1,556	-	1,556
Banking stock certificates		9,603	-	9,603	10,842	-	10,842
		14,584	-	14,584	12,398	-	12,398
Total deposit funding	$	194,469	20,470	214,939	159,272	18,795	178,067

(Continued)

(Millions of Mexican pesos)

The unaudited average weighted interest rates on deposit balances during the years ended December 31, 2015 and 2014, are as follows:

	2015		2014	
	Pesos	**Dollars**	**Pesos**	**Dollars**
Demand deposits	0.90%	0.05%	1.05%	0.03%
Time deposits:				
General public	2.79%	0.10%	2.96%	0.11%
Money market	2.95%	–	2.55%	–

At December 31, 2015 and 2014, money market time deposits and debt securities issued among the public investors, are as follows:

(a) Money market time deposits-

At December 31, 2015 and 2014, the Bank issued CD's with par value of one hundred pesos for an amount of $13,605 and $1,551, respectively, as shown bellows:

2015 CD's-

Payment of interests	Annual rate*	Term in days		Amount
28 days	TIIE 28	113	$	1,000
28 days	TIIE 28	141		1,000
28 days	TIIE 28 + 0.04%	197		1,000
28 days	TIIE 28 + 0.02%	365		1,000
28 days	TIIE 28	365		500
28 days	TIIE 28 + 0.05%	197		500
28 days	TIIE 28 + 0.01%	113		500
28 days	TIIE 28	113		500
28 days	TIIE 28	113		750
28 days	TIIE 28	113		1,000
28 days	TIIE 28 + 0.04%	113		1,000
28 days	TIIE 28 + 0-01%	113		350
28 days	TIIE 28 + 0.01%	141		500
28 days	TIIE 28	225		1,000
28 days	TIIE 28 + 0-01%	113		500
28 days	TIIE 28	85		750
				11,850
Accrued interest				13
Carried forward			$	11,863

* TIIE (Interbank Offering Rate in Mexico)

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Payment of interests	Annual rate	Term in days		Amount
Brought forward			$	11,863
2015 Structured CD´s -				
Underlying	**Periods**			
TIIE 28	9	252		500
TIIE 28	4	365		29
TIIE 28	4	365		302
TIIE 28	14	387		25
TIIE 28	7	197		700
TIIE 28	13	365		64
TIIE 28	4	363		17
TIIE 28	13	366		51
TIIE 28	4	365		22
TIIE 28	13	364		32
				1,742
			$	13,605

Structured CD´s pay interest on each payment date according to the periods established in the offering filing, if the underlying observation date is within the ranges established for each period.

2014 CD's-

Payment of interests	Annual rate*	Term in days		Amount
28 days	TIIE 28 - 0.08%	196	$	750
Accrued interest				1
				751
2014 Structured CD´s-				
Underlying	**Periods**			
TIIE 28	13	364		800
			$	1,551

* TIIE (Interbank Offering Rate in Mexico)

(Continued)

(Millions of Mexican pesos)

Promissory notes

At December 31, 2015 and 2014, the Bank issued promissory notes with par value of one peso approximately as follows:

Issuance date	Number of securities	Term in days	Annual rate		Amount
2015					
December 2015	1,773,933,532	61	3.66%	$	1,763
December 2015	1,005,916,667	60	3.57%		1,000
December 2015	804,653,333	60	3.52%		800
November 2015	754,337,500	60	3.50%		750
October 205	30,228,750	90	3.07%		30
					4,343
Accrued interest					6
				$	4,349
2014					
December 2014	756,000,001	89	3.20%	$	750
December 2014	755,906,250	89	3.15%		750
October 2014	507,874,997	180	3.15%		500
October 2014	1,007,724,998	90	3.09%		1,000
October 2014	1,007,937,222	91	3.15%		1,000
October 2014	20,162,028	95	3.08%		20
July 2014	511,925,001	270	3.18%		500
January 2014	518,050,001	360	3.61%		500
					5,020
Accrued interest					39
				$	5,059

(b) Debt securities issued

At December 31, 2015 and 2014, the Bank issued banking stock certificates with par value of one hundred pesos, under the program authorized by the Baking Commission for up to $25,000, as shown below:

2015 – Banking stock certificates

Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate	Amount
November 2015	23,000,000	5	28	9%	TIIE 28 + 0.40%	$ 2,300
October 2015	20,000,000	3	28	8%	TIIE 28 + 0.25%	2,000
June 2013*	11,500,000	10	182	8%	7.30%	1,150
March 2013*	34,500,000	5	28	8%	TIIE 28 + 0.40%	3,450
October 2010*	3,580,000	7	28	2%	TIIE 28 + 0.49%	358
December 2005*	3,000,000	13	183	3%	9.75%	300
						9,558
Accrued interest						45
Total Banking stock certificates, to the next page						$ 9,603

*Issued under the prior years program uthorized by the Banking Comission

(Continued)

(Millions of Mexican pesos)

2015 – Banking bonds

Issuance date	Nunmber of securities	Term in days	Underlying	Amount
2015 - Total Banking stock certificates, from the previous page				$ 9,603
December 2015	774,400	1,094	IBEX 35	77
December 2015	1,415,300	1,092	TIIE 28	141
December 2015	1,250,000	730	SX5E	125
December 2015	1,200,000	924	TIIE 28	120
November 2015	521,200	728	TIIE 28	52
November 2015	2,577,700	728	TIIE 28	258
November 2015	103,800	1,080	IXM SX7E	10
October 2015	2,438,950	1,098	SPX	244
September 2015	1,768,050	1,092	SXAE	177
August 2015	193,500	1,094	IXM SX7E	19
June 2015	300,000	730	SX5E	30
June 2015	300,000	1,093	SX7E	30
June 2015	285,000	1,278	SPX	28
June 2015	190,000	1,278	SX7E	19
May 2015	4,967,450	364	TIIE 28	496
May 2015	800,000	1,097	IXM SX5E	80
April 2015	4,635,700	1,091	IXM SX5E	463
April 2015	700,544	364	TIIE 28	70
February 2015	2,532,250	1,093	HSCEI	253
February 2015	6,500,000	364	TIIE 28	650
January 2015	459,200	1,094	SXEE	46
January 2015	2,902,730	364	TIIE 28	291
October 2014	100,000	728	TIIE 28	10
October 2014	256,000	1,095	IPC	25
October 2014	649,000	1,096	IPC	65
April 2014	983,500	1,096	IPC	98
April 2014	473,500	1,096	IPC	47
March 2014	1,928,300	1,085	SX5E	196
March 2014	429,200	1,092	SX5E	43
December 2013	457,700	1,079	SPTSX60	46
November 2013	1,156,650	1,078	IBEX35	116
November 2013	205,000	1,078	SPTSX60	20
November 2013	1,586,650	1,078	SPTSX60	159
November 2013	603,250	1,078	SPX	60
October 2013	1,749,600	1,079	SX5E	175
August 2013	2,419,200	1,097	SX5E	242
				4,981
		Total debt securities issued		$ 14,584

Valuation adjustments of hedging financial liabilities:

The fair value hedges of interest rate risk of a portion of a portolio comprised of financial liabilities, could generate an adjustment to the carrying amount of the hedged item, the gain or loss is recorded in the consolidated income statement and is presented under valuation adjustments for hedging financial liabilities.

(Continued)

(Millions of Mexican pesos)

At December 31, 2015 and 2014, the adjustment to the carrying value of the loan portfolio from the loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial liabilities" in the consolidated balance sheet for $39 and $44, respectively.

2014 – Banking stock certificates

Issuance date	Number of securities	Term in years	Payment of interest in days	Issuance proportion	Interest rate*	Amount
June 2013	11,500,000	10	182	8%	7.30%	$ 1,150
March 2013	34,500,000	5	28	8%	TIIE 28 days + 0.40%	3,450
November 2012	20,000,000	3	28	13%	TIIE 28 days + 0.25%	2,000
November 2010	8,300,000	5	28	21%	TIIE 28 days + 0.40%	830
October 2010	3,580,000	7	28	2%	TIIE 28 days + 0.49%	358
October 2010	23,120,000	5	28	21%	TIIE 28 days + 0.40%	2,312
November 2005	4,000,000	10	28	4%	9.89%	400
December 2005	3,000,000	13	28	3%	9.75%	300
						10,800
Accrued interest						42
						$ 10,842

2014 – Banking bonds

Issuance date	Nunmber of securities	Term in days	Underlying	Amount
October 2014	100,000	728	TIIE 28	10
October 2014	256,000	1,095	IPC	25
October 2014	649,000	1,096	IPC	65
June 2014	396,900	207	IPC	40
April 2014	983,500	1,096	IPC	98
April 2014	473,500	1,096	IPC	47
March 2014	2,136,100	549	USDMXN	214
March 2014	1,958,300	1,085	SX5E	196
March 2014	429,200	1,092	SX5E	43
December 2013	457,700	1,079	SPTSX60	46
November 2013	1,156,650	1,078	IBEX35	116
November 2013	205,000	1,078	SPTSX60	20
November 2013	1,586,650	1,078	SPTSX60	159
November 2013	603,250	1,078	SPX	60
October 2013	1,749,600	1,079	SX5E	175
August 2013	2,419,200	1,097	SX5E	242
				1,556
		Total debt securities issued		$ 12,398

* TIIE (Interbank Offering Rate in Mexico)

(Continued)

(Millions of Mexican pesos)

The interest rate of structured notes is variable and unsecured.

(15) Bank and other borrowings-

At December 31, 2015 and 2014, bank and other borrowings are compromised as follows:

		2015	2014
Due on demand	$	54	236
Short-term:			
Domestic currency:			
Central Bank		1,100	-
Development banks [1]		2,047	1,898
Development agencies [1]		1,183	1,384
Other organizations		3,378	2,000
Accrued interest		32	21
		7,740	5,303
Denominated in dollars, translated into pesos:			
Multiple banking		2,594	1,328
Development agencies [1]		111	247
Other organizations		-	1
Development banks [1]		21	14
		2,726	1,590
Total short term carried forward	$	10,520	7,129

[1] Resources from development funds (See note 9e)

(Continued)

(Millions of Mexican pesos)

		2015	2014
Total short term, brought forward	$	10,520	7,129
Long-term:			
Domestic currency:			
Development agencies [1]		2,261	1,304
Multiple banking		1,675	-
		3,936	1,304
Denominated in dollars, translated into pesos:			
Development agencies [1]		247	17
Total long-term		4,183	1,321
Total bank and other borrowings	$	14,703	8,450

(1) Resources from development funds (see note 9e).

At December 31, 2015 and 2014, long-term bank and other borrowings maturity dates are as follows:

Maturity		2015	2014
2016	$	-	142
2017		473	284
2018		1,986	466
2019		439	271
2020		1,117	81
Over 5 years		168	77
	$	4,183	1,321

At December 31, 2015 and 2014, the Bank has no guarantees for bank and other borrowings granted.

(Continued)

(Millions of Mexican pesos)

Due to the operating characteristics of the interbank loans that the Bank maintains, such as access to funds via auctions, loans regulated by the Central Bank with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Bank, loans whose limit is agreed to daily by the lender. At December 31, 2015 and 2014, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

For the years 2015 and 2014, bank and other loans weighted average annual interest rates are as follows:

	2015 annual rates		**2014 annual rates**	
	Pesos	**Foreign currency**	**Pesos**	**Foreign currency**
Domestic banks	3.31%	1.17%	2.89%	0.78%
Development banks	4.53%	1.81%	4.48%	1.67%
Development agencies	3.86%	1.57%	3.59%	1.24%

(16) Employees' benefits-

The Bank has in place a defined contribution plan for pensions and post-retirement benefits that covers all employees joining the Bank beginning on April 1, 2006. The plan is optional for those employees who joined the Bank at an earlier date. The plan provides for established contributions by both the Bank and employees, which may be fully withdrawn by employees when aged 55.

For the years ended December 31, 2015 and 2014, the charge to results for the Bank's contributions to the defined contribution pension plan amounted to $51 and $49, respectively. under the caption "Administrative and promotional expenses" in the consolidated statement income.

The Bank has also a defined benefit pension plan to which employees make no contributions. All employees are entitled to this plan when aged 60 years, with 5 years of service, or 55 years of age, with 35 years of service, as provided for by the collective bargaining agreement.

The costs, obligations and assets of the defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2015 and 2014.

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The components of the net periodic cost (income) for the years ended December 31, 2015 and 2014 are as follows:

		Pensions			Seniority premium			Medical expenses, food coupons. life insurance
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
2015								
Service cost	$	24	2	26	4	5	9	100
Financial cost		205	4	209	7	4	11	314
Expected return on plan assets		(142)	(6)	(148)	(4)	(5)	(9)	(249)
Amortization of prior service:								
Plan modifications		(13)	-	(13)	-	-	-	(14)
Net sctuarial loss		45	-	45	1	-	1	68
Net periodic cost		119	-	119	8	4	12	219
(Income) cost from recognition of actuarial (gains) losses generated in the year		-	(6)	(6)	-	-	-	-
Total cost (income)	$	119	(6)	113	8	4	12	219
2014								
Service cost	$	23	2	25	4	5	9	90
Financial cost		205	4	209	6	4	10	286
Expected return on plan assets		(144)	(5)	(149)	(5)	(5)	(10)	(234)
Amortization of prior service:								
Plan modifications		(13)	-	(13)	-	-	-	(14)
Net sctuarial loss		45	-	45	1	-	1	60
Net periodic cost		116	1	117	6	4	10	188
(Income) cost from recognition of actuarial (gains) losses generated in the year		-	(7)	(7)	-	2	2	-
Total cost (income)	$	116	(6)	110	6	6	12	188

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Below is a reconciliation of the opening and final balances, and detail on the present value of the pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2015:

		Pensions			Seniority premium			Medical expenses, food coupons life insurance
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Defined benefit obligations (DBO) as of December 31, 2014	$	(2,591)	(43)	(2,634)	(87)	(55)	(142)	(3,861)
Current service cost		(24)	(2)	(26)	(4)	(5)	(9)	(100)
Financial cost		(205)	(4)	(209)	(7)	(4)	(11)	(314)
Paid benefits		244	1	245	11	6	17	215
Actuarial (loss) gain		(5)	8	3	(4)	1	(3)	90
DBO as of December 31, 2015		(2,581)	(40)	(2,621)	(91)	(57)	(148)	(3,970)
Plan assets at fair value		1,689	49	1,738	52	68	120	3,113
Financial situation of the fund		(892)	9	(883)	(39)	11	(28)	(857)
Past service for:								
Plan improvements		(82)	-	(82)	-	-	-	(150)
Cumulative actuarial losses		858	-	858	29	-	29	1,284
Net projected asset (liability) as of December 31, 2015	$	(116)	9	(107)	(10)	11	1	277

A reconciliation of the net projected asset (liability) as of December 31, 2015 and 2014 is analyzed as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance,
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Net projected asset (liability), as of December 31, 2014	$	35	22	57	(2)	15	13	496
Net periodic cost		(119)	-	(119)	(8)	(4)	(12)	(219)
Fund withdrawals during		(32)	(19)	(51)	-	-	-	-
Income (cost) for recognition of actuarial gains and (losses)		-	6	6	-	-	-	-
Net projected asset (liability) as of December 31, 2015	$	(116)	9	(107)	(10)	11	1	277

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Below is a reconciliation of the opening and final balances, and detail on the present value of the pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2014:

		Pensions			Seniority premium			Medical expenses, food coupons life insurance for retirees
		Retirement	Disability	Total	Retirement	Termination	Total	
Defined benefit obligations (DBO) as of December 31, 2013	$	(2,438)	(43)	(2,481)	(78)	(53)	(131)	(3,319)
Current service cost		(23)	(2)	(25)	(4)	(5)	(9)	(90)
Financial cost		(205)	(4)	(209)	(6)	(4)	(10)	(286)
Paid benefits		174	1	175	7	6	13	114
Actuarial (loss) gain		(99)	5	(94)	(6)	1	(5)	(280)
DBO as of December 31, 2014		(2,591)	(43)	(2,634)	(87)	(55)	(142)	(3,861)
Plan assets at fair value		1,895	65	1,960	59	70	129	3,167
Financial situation of the fund		(696)	22	(674)	(28)	15	(13)	(694)
Past service for:								
Plan improvements		(95)	–	(95)	–	–	–	(164)
Cumulative actuarial losses		826	–	826	26	–	26	1,354
Net projected asset (liability) as of December 31, 2014	$	35	22	57	(2)	15	13	496

A reconciliation of the net projected asset (liability) as of December 31, 2014 and 2013 is analyzed as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance, for retirees
		Retirement	Disability	Total	Retirement	Termination	Total	
Net projected asset, as of December 31, 2013	$	187	16	203	4	21	25	684
Net periodic cost		(116)	(1)	(117)	(6)	(4)	(10)	(188)
Fund withdrawals during 2014		(36)	–	(36)	–	–	–	–
Income (cost) for recognition of actuarial gains and (losses)		–	7	7	–	(2)	(2)	–
Net projected asset (liability) as of December 31, 2014	$	35	22	57	(2)	15	13	496

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Detail of acquired benefit obligations (ABO) as of December 31, 2015 and 2014 is as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance,
		Retirement	**Disability**	**Total**	**Retirement**	**Termination**	**Total**	**for retirees**
2015								
OBA	$	(2,092)	–	(2,092)	(15)	(49)	(64)	(1,826)
2014								
ABO	$	(2,007)	–	(2,007)	(14)	(48)	(62)	(1,693)

Below is an analysis of movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2015 and 2014:

		2015	**2014**
Fair value of the assets at beginning of year	$	5,256	5,059
Fund withdrawals		(51)	(36)
Return on plan assets		243	535
Payments from the fund during the year		(477)	(302)
Fair value of the assets at end of year	$	4,971	5,256

During the year 2014, the Bank transferred funds from the defined benefit plan to the defined contribution plan to cover contributions of the year.

During the year 2016, it is not expected to have contributions to the fund. Also during 2016, the amount of $62 wil be withdraw from the fund.

In the next page is shown a reconciliation of opening and final balances, and detail on the present value of statutory severance compensation obligations as of December 31, 2015 and 2014.

(Continued)

(Millions of Mexican pesos)

		2015	2014
Acquired benefit obligations (ABO)	$	(272)	(267)
DBO at beginning of year	$	(267)	(262)
Current service cost		(18)	(18)
Financial cost		(20)	(21)
Benefits paid		56	89
Actuarial loss		(23)	55
DBO at December 31	$	(272)	(267)

The net cost of statutory severance compensation for the years ended December 31, 2015 and 2014, amounted to $61 and $93, respectively.

The annual nominal rates as of December 31, 2015 and 2014 used in actuarial projections are as follows:

	2015	2014
Return on plan assets	8.25%	8.00%
Discount	8.25%	8.25%
Compensation increase	5.00%	5.00%
Increase in medical expenses	6.50%	6.50%
Estimated inflation	4.00%	4.00%

The expected return rate on the plan assets was determined using the expected long-term performance on assets of the portfolio of Banks' funds.

The plan assets covering the pension, seniority premium, medical expense, food coupons, and life insurance for retirees benefit plans consist of 60% debt instruments and 40% equity instruments subject to a trust and managed by a Bank-designated Committee.

(Continued)

(Millions of Mexican pesos)

The effect from an increase or decrease by a percentage point in the rate of increase in medical expenses used for the actuarial projections at December,31, 2015, is shown below:

	Annual rate	DBO medical expenses for retirees
Without modification	6.50%	$ 3,335
1% increase in medical inflation rate	7.50%	$ 3,968
1% decrease in medical inflation rate	5.50%	$ 2,726

A summary of the amount of employee benefits related to DBO, plan assets and financial situation of the fund and experience adjustments, for the years ended December 31, 2013, 2012 and 2011 follows:

	Pensions		
	2013	2012	2011
DBO	$ (2,481)	(2,357)	(2,036)
Plan assets	1,948	1,962	1,781
Financial situation of the fund	$ (533)	(395)	(255)
Variances in assumptions and experience adjustments	$ 736	506	318

	Seniority premium		
	2013	2012	2011
DBO	$ (131)	(126)	(111)
Plan assets	137	136	123
Financial situation of the fund	$ 6	10	12
Variances in assumptions and experience adjustments	$ 19	16	11

(Continued)

(Millions of Mexican pesos)

		Medical expenses, food coupons and life insurance		
		2013	**2012**	**2011**
DBO	$	(3,319)	(3,050)	(2,621)
Plan assets		2,974	2,803	2,480
Financial situation of the fund	$	(345)	(247)	(141)
Variances in assumptions and experience adjustments	$	1,029	1,045	732

		Statutory severance compensation		
		2013	**2012**	**2011**
DBO	$	(262)	(259)	(243)
DBO losses	$	(55)	(86)	(48)

As of December 31, 2015, the amortization periods in years for unrecognized items related to defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees and statutory severance compensation benefits are as follows:

	Pensions		Seniority premium		Medical expenses, food coupons, life insurance, for retirees	Statutory severance compensation
	Retirement	**Disability**	**Retirement**	**Termination**		
Prior service –plan improvements	7.28	-	8.22	-	12.73	-
Net actuarial loss	12.56	1	10.22	-	14.95	7.87

(17) Income taxes and employee statutory profit sharing (ESPS)-

IT Law effective as of January 1, 2014 establishes an IT rate of 30%. The current ESPS rate is 10%, for the years 2015 and 2014.

Since 2014, the basis for ESPS and IT calculation is homogeneous, with some differences regarding the reduction of tax loss carryforwards, paid ESPS and expenses that correspond to non-taxable income for employees.

At December 31, 2015 and 2014, current IT and ESPS expense, is shown in the next page.

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	2015		2014	
	IT	**ESPS**	**IT**	**ESPS**
Current IT:				
Bank	$ 726	254	777	256
Reversed provisions from 2014 and 2013, respectively (Bank)	(36)	(2)	(9)	(3)
IT additional provision	759	–	–	–
Inmobiliaria	47	–	26	–
Derivative market entities	1	–	2	–
Current IT and ESPS	1,497	252	796	253
Deferred	(1,791)	(563)	(843)	(272)
	$ (294)	(311)	(47)	(19)

The Bank does not consolidate the financial results with its subsidiaries, thus the information presented below is for informational purposes only.

The Bank has not recognized a deferred tax liability on the undistributed earnings of its subsidiaries and associated companies, the Bank currently does not expect that these undistributed earnings be reinvested and be taxable in the near future.

Deferred IT and ESPS:

The deferred tax asset at December 31, 2015 and 2014 comprises the following:

	2015		2014	
	IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:				
Trading	$ 337	112	83	27
Available-for-sale	38	13	-	-
Cash flow hedge swaps	75	25	89	30
Expense accruals and others	331	54	322	81
Premises, furniture and equipment	(33)	57	(29)	62
Unearned fees collected	449	150	417	139
Pension plan	(71)	(24)	(172)	(57)
Foreclosed assets	265	88	311	104
Allowance in excess	1,834	611	2,881	960
Future loan write-offs	1,926	642	-	-
	5,151	1,728	3,902	1,346
Valuation allowance [(1)]	(976)	(325)	(1,542)	(514)
	4,175	1,403	2,360	832
	$ 5,578		3,192	

(1) At December 31, 2015 the valuation allowance for deferred IT and ESPS corresponds to the items of allowance in excess for $495 and $165, respectively; and future loan write-offs for $481 and $160, respectively (in 2014 the valuation allowance for deferred IT and ESPS amounted to $1,542 and $514 and corresponds to the item allowance in excess).

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Deferred IT and ESPS credits to income statement and stockholders' equity, for the years ended December 31, 2015 and 2014 are presented below:

	2015		2014	
	IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:				
Trading	$ 254	85	42	13
Available-for-sale	38	13	(3)	(1)
Cash flow hedge swaps	(14)	(5)	106	36
Expense accruals and others	9	(27)	(36)	(16)
Premises, furniture and equipment	(4)	(5)	10	(1)
Unearned fees collected	32	11	37	12
Pension plan	101	33	103	35
Foreclosed assets	(46)	(16)	5	2
Allowance in excess [(2)]	-	-	682	227
Future loan write-offs [(2)]	1,445	482	-	-
	$ 1,815	571	946	307
	$ 2,386		1,253	

(2) Net of valuation allowance

	2015		2014	
	IT	**ESPS**	**IT**	**ESPS**
Deferred tax:				
In statement of income	$ 1,791	563	843	272
In stockholders' equity:				
Valuation in available-for-sale securities	38	13	(3)	(1)
Valuation of cash flow hedge swaps	(14)	(5)	106	36
	$ 1,815	571	946	307
	$ 2,386		1,253	

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The following is an analysis of the effective tax rate of the Bank without subsidiaries for the fiscal years ended at December 31, 2015 and 2014:

	IT			ESPS
	Tax Base	**Tax at 30%**	**Effective rate**	**ESPS at 10%**
December 31, 2015				
Operating income	$ 4,202	(1,261)	(30%)	(420)
Allocation to current tax:				
Adjustment for effects of inflation	(540)	162	4%	54
Mark to market of investment securities	473	(142)	(3%)	(47)
Depreciation and amortization	(52)	16	-	5
Non-deductibles expenses [1]	419	(126)	(3%)	(30)
Loss on sale of loans	564	(169)	(4%)	(56)
Excess of allowance for loan losses	(4,712)	1,414	34%	471
Allowance for loan losses	2,528	(758)	(18%)	(253)
Deductible loan write-offs	(100)	30	1%	10
Current and deferred ESPS	(311)	93	2%	31
Deduction of paid ESPS	(240)	72	2%	-
Others, net	190	(57)	(2%)	(19)
Current tax	2,421	(726)	(17%)	(254)
Allocation to deferred tax: (30% tax and 10% ESPS)				
Mark to market of investment securities	(458)	137	3%	46
Provisions and others	(421)	127	3%	11
Premises, furniture and equipment	49	(15)	0%	(5)
Pension plan	(337)	101	2%	34
Foreclosed assets	153	(46)	(1%)	(15)
Unearned fees collected	(106)	32	1%	10
Future loan write-offs	(4,815)	1,445	34%	482
Deferred tax	(5,935)	1,781	42%	563
Income tax	$ (3,514)	1,055	25%	309

[1] For ESPS purposes the 47% deductible expense related to non taxable income of the employees is not induded, while for IT purposes, it is included.

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	IT			ESPS
	Tax Base	**Tax at 30%**	**Effective rate**	**at 10%**
December 31, 2014				
Operating income	$ 3,202	(961)	(30%)	(320)
Allocation to current tax:				
Adjustment for effects of inflation	(854)	256	8%	85
Mark to market of investment securities	439	(132)	(4%)	(44)
Depreciation and amortization	39	(12)	-	(4)
Non-deductibles expenses	499	(150)	(5%)	(29)
Loss on sale of loans	340	(102)	(3%)	(34)
Excess of allowance for loan losses	(4,156)	1,247	39%	416
Allowance for loan losses	3,491	(1,047)	(33%)	(349)
Current and deferred ESPS	(20)	6	-	2
Deduction of paid ESPS	(175)	53	2%	–
Others, net	(214)	65	2%	21
Current tax	2,591	(777)	(24%)	(256)
Allocation to deferred tax: (30% tax and 10% ESPS)				
Mark to market of investment securities	(432)	130	4%	43
Provisions and others	416	(124)	(4%)	(45)
Premises, furniture and equipment	12	(4)	–	(1)
Pension plan	(344)	103	3%	34
Foreclosed assets	(17)	5	–	2
Unearned fees collected	(124)	37	2%	12
Allowance in excess[2]	(2,275)	682	21%	227
Deferred tax	(2,764)	829	26%	272
Income tax	$ (173)	52	2%	16

[2] For ESPS purposes the 47% deductible expense related to non taxable income of the employees is not induded, while for IT purposes, it is included.

Other considerations:

In accordance with Mexican tax law, the tax authorities may examine transactions carried out during the five years prior to the most recent income tax return filed.

(Continued)

According to the IT Law, corporations carrying out transactions with related parties, whether domestic or foreign, are subject to a limits and tax obligations, to certain requirements as to the determination of the transaction prices, since these prices must be similar to those that would be used in arm's-length transactions.

(18) Stockholders' equity-

(a) Structure of capital stock-

On June 10, 2015 and September 29, 2014, the Extraordinary General Stockholders´ Meeting agreed to increase the stockholders' equity for $480 and $450, respectively, through the issuance of 480,000,000 and 450,000,000, respectively, "F" series of common shares with a nominal value of one peso each, respectively.

After the stockholder´s equity increases mentioned above, at December 31, 2015 and 2014, the Stockholders' equity is comprised of 7,130'000,000 and 6,650'000,000, respectively, common shares, with a par value of one peso per share, divided into two series: 7,129,999,916 shares (6,649,999,916 shares in 2014) "F" Series shares, and 84 "B" Series shares at each year.

(b) Dividends declared-

The dividends paid to individuals and corporations resident abroad shall be subject to an additional tax of 10%, which is considered final and must be withheld by entities that distribute such dividends. The new rule solely applies to dividends payment from earnings generated beginning January 1, 2014.

For the years ended at December 31, 2015 and 2014, there was no dividends decree.

(Continued)

(c) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the total performance of the Bank and subsidiaries during the year, and includes the net income, plus the result of the valuation of available-for-sale securities and cash flow hedge transactions.

(d) Restrictions on stockholders' equity-

No individual or entity may acquire direct or indirect control of Series "B" shares in excess of 5% of the Bank's paid-in capital, through one or more simultaneous or successive transactions of any kind. If deemed appropriate, the SHCP may authorize the acquisition of a higher percentage, provided that it does not exceed 20% of the capital stock.

The Credit Institutions Law requires an appropriation of 10% of net income for the year to statutory reserves, until such reserves reach an amount equal to paid-in capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2015 the capital contribution account (Cuenta de capital de aportación or CUCA) and the net taxable income account (Cuenta de utilidad fiscal neta or CUFIN), amount to $13,544 and $2,382, respectively.

The retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends from the subsidiaries.

(Continued)

(Millions of Mexican pesos)

(e) Capitalization (unaudited)-

At December 31, 2015 and 2014, the Bank maintained a capitalization index in excess of 10.5%; accordingly, it is classified as Category I in both years in accordance with article 220 of the Provisions in both years, the capitalization index is determined by applying certain percentages according to the risk assigned pursuant to the rules established by the Central Bank. Below is the Bank's capitalization information (capitalization index rated by Central Bank).

Capital as of December 31:

	2015	2014
Basic capital		
Common shares	$ 8,854	8,374
Prior years results	18,059	15,002
Other elements of the comprehensive income (and other reserves)	8,409	6,872
Basic capital 1 before regulatory adjustments	35,322	30,248
National regulatory adjustments:		
Investments in mutual funds	–	(24)
Defferred debits and prepayments	(3,343)	(2,852)
Investments in clearings	(133)	(558)
Deferred taxes, favorable items from temporary differences	(2,598)	(726)
Total regulatory adjustments to capital	(6,074)	(4,160)
Total Basic Capital	29,248	26,088
Supplementary Capital		
Equity instruments	2,099	2,099
Reserves	34	213
Net Capital	$ 31,381	28,400
Total risk weighted assets	$ 254,540	213,387

(Continued)

(Millions of Mexican pesos)

Equity and supplementary ratios

	2015	**2014**
Basic Capital Ratio 1	11.5%	12.2%
Basic Capital Ratio	11.5%	12.2%
Supplementary Capital Ratio	0.8%	1.1%
Net Capital Ratio	12.3%	13.3%
Especific institutional supplement	7.0%	7.0 %
Supplement capital conservation	2.5%	2.5%
Tier 1 common equity available to cover supplements	5.2%	5.2%

Limits applicables to the inclusion of reserves in supplementary capital:

	2015	2014
Provisions elegible for inclusion in supplementary capital in respect of exposures subject to the standardized methodology (prior to apply the limit)	$ 34	213
Limits applicables to the inclusion of reserves in supplementary capital under standardized methodology	$ 1,141	965

Assets at risk as of December 31, 2015:

	Risk weighted assets	**Capital requirement**
Exposed positions to market risk by risk factor:		
Transactions in Mexican pesos at nominal interest rates	$ 21,965	1,757
Transactions with debt securities in pesos with premium and adjustable rates	976	78
Transactions in Mexican pesos at real interest rates or denominated in UDIS	182	15
Positions in UDIS or with returns linked to the INPC	1	–
Foreign currency transactions at nominal interest rates	874	70
Foreign currency positions or with exchange rate indexed returns	1,233	99
Equity positions or with returns indexed to the price of a single share or group of shares	3,571	286
Capital requirement for Gamma impact	167	13
Capital requirement for Vega impact	242	19
Total market risk, to the next page	$ 29,211	2,337

(Continued)

(Millions of Mexican pesos)

	Risk weighted assets	Capital requirement
Total market risk, from the previous page	$ 29,211	2,337
Weighted assets subject to credit risk by risk group:		
Group I-B (weighted at 2%)	257	21
Group II (weighted at 20%)	22	2
Group II (weighted at 50%)	1,539	123
Group III (weighted at 20%)	1,549	124
Group III (weighted at 50%)	957	77
Group III (weighted at 100%)	3,069	246
Group IV (weighted at 20%)	1,693	135
Group V (weighted at 20%)	298	24
Group V (weighted at 150%)	597	48
Group VI (weighted at 50%)	19,904	1,592
Group VI (weighted at 75%)	13,897	1,112
Group VI (weighted at 100%)	42,055	3,364
Group VII-A (weighted at 20%)	1,479	118
Group VII-A (weighted at 23%)	30	2
Group VII-A (weighted at 50%)	5,820	466
Group VII-A (weighted at 100%)	58,202	4,656
Group VII-A (weighted at 120%)	27	2
Group VIII (weighted at 115%)	1,826	146
Group VIII (weighted at 150%)	1,374	110
Group IX (weighted at 100%)	35,950	2,876
Group IX (weighted at 115%)	5,753	460
Total credit risk	196,298	15,704
Weighted assets subject to risk and capital requirement from operational risk	29,031	2,322
Total market, credit and operational risk	$ 254,540	20,363
Annual average of positive net income for the past 36 months		$ 15,483

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Assets at risk as of December 31, 2014:

	Risk weighted assets	Capital requirement
Exposed positions to market risk by risk factor:		
Transactions in Mexican pesos at nominal interest rates	$ 18,511	1,481
Transactions with debt securities in pesos with premium and adjustable rates	2,350	188
Transactions in Mexican pesos at real interest rates or denominated in UDIS	467	37
Positions in UDIS or with returns linked to the INPC	1	–
Foreign currency transactions at nominal interest rates	563	45
Foreign currency positions or with exchange rate indexed returns	287	23
Equity positions or with returns indexed to the price of a single share or group of shares	374	30
Total market risk	22,553	1,804
Weighted assets subject to credit risk by risk group:		
Group II (weighted at 20%)	126	10
Group II (weighted at 50%)	1,041	83
Group III (weighted at 20%)	1,640	131
Group III (weighted at 50%)	1,669	134
Group III (weighted at 100%)	10	1
Group IV (weighted at 20%)	790	63
Group V (weighted at 20%)	330	26
Group V (weighted at 50%)	42	3
Group V (weighted at 150%)	380	30
Group VI (weighted at 50%)	15,531	1,243
Group VI (weighted at 75%)	14,295	1,144
Group VI (weighted at 100%)	38,562	3,085
Group VII-A (weighted at 20%)	1,011	81
Group VII-A (weighted at 23%)	21	2
Group VII-A (weighted at 50%)	1,526	122
Group VII-A (weighted at 100%)	44,704	3,576
Group VIII (weighted at 125%)	3,805	304
Group IX (weighted at 100%)	34,023	2,722
Group IX (weighted at 125%)	7,777	622
Total credit risk	167,283	13,382
Weighted assets subject to operational risk	23,551	1,884
Total market, credit and operational risk	$ 213,387	17,070
Average requirement for market risk and credit of the past 36 months		$ 12,560
Annual average of positive net income for the past 36 months		$ 14,339

(Continued)

(Millions of Mexican pesos)

As of December 31, 2015, the net capital structure of the Bank of $31,381 had an increase of 10.5% compared to $28,400 of the year 2014, due to a income increase in 2015 of $1,258 compared to year 2014.

Capital adequacy is monitored through capitalization index projections which consider the various established operating limits vis-à-vis the net capital, with a view to avoiding any possible capital shortfalls and taking any necessary measures to ensure that the capital is maintained at an adequate and sound level.

At December 31, 2015, the Bank raised the ratings of the following rating agencies:

National scale (Caval)	Long term	Short term	Perspective
Fitch Ratings	AAA(mex)	F1+(mex)	Stable
Moody's	Aaa.mx	MX-1	Stable
Standard & Poor´s	mxAAA	mxA-1+	Stable

(c) Capital management-

To evaluate the capital adequacy, the Bank has a Exposition Plan wich is a prospective tool to identify risks and to make decisions, which assesses to the Bank under key metrics and indicators, such as: Capital, Liquidity, Profitability and Credit Losses.

The Exposition Plan has been structured based on the plans of the diverse business lines, with the goal to ensure that the risks which the Banks is subject are aligned with the risk framework that is approved by the management.

At the same time, to ensure the compliance and the continuous monitoring of the capital sufficiency, has launched an Action Plan for the Conservation of Capital and Liquidity, which which aims to implement early warning indicators, that are the base for the Liquidity and Capital Management Committee, carry out assessments and monitoring in accordance with the capital management policies and in the contingency liquidity plan, as the impact and magnitude of the stress event.

On a quarterly basis, the capitalization notes are incorporated in the financial reports. Such notes have, among others, the following information: composition and integration of capital, composition of total risk weighted assets and by type of risk and estimates of Capital Index.

(Millions of Mexican pesos)

Likewise annual stress tests as established by the Banking Commision under various scenarios are performed, in order to ensure that the Bank has the sufficient capital to continue receiving funding and granting loans with these stress scenarios and business strategies. Additionally, an analysis of internal stress scenarios that integrate various adverse macreoeconomic conditions is performed, in order to disclose exposure associated with business plans.

Based on the aforementioned, it is determined that the Bank has the capability to face stress scenarios which might impair its situation, as well as to raise sufficient capital to absorb potential losses in such scenarios.

Additionally, as part of the Bank's capital management, on April 23, 2015, the Bank requested to the Banking Commission authorization of a program of Autocorrect related to the calculation of weighted assets of market risk. The aforementioned in accordance with Article 4 of the General Provisions of the Banking Commission related to Autocorrect programs.

At December 31, 2014, the impact of autocorrect was estimated at a decrease of 46 basis points on ICAP (capitalization index) which was reflected in March 2015 figures. The aforementioned program was authorized by the Banking Commission on July 14, 2015.

(19) Related-party transactions-

During the normal course of business, the Bank carries out transactions with related parties such as loans, investments, deposit funding, services, etc. Transactions and balances incurred by consolidated companies were eliminated and persistence of those who do not consolidate. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

The main transactions carried out with related parties for the years ended December 31, 2015 and 2014, are analyzed as follows:

		2015	2014
Income:			
Interest received	$	852	964
Rents and maintenance		7	5
Commissions		146	84
Financial advisory		41	40
Co-distribution and administration services		380	382
Gain on purchase and sale of financial instruments		1,430	565
Others		4	-

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Expenses:	**2015**	**2014**
Result of valuation of financial instruments	$ -	65
Interest paid	39	144
Commissions	12	10
Interest and premiums on repurchase agreement	907	854
Financial advice	614	526
Rents	8	8
Fee	-	81
Others	127	-

Balances receivable from and payable to related parties as of December 31, 2015 and 2014 are as follows:

Holding company	**2015**	**2014**
Payable:		
Demand deposits	$ 932	1,220
Other related parties		
Receivable:		
Cash and cash equivalents	$ 2,339	1,214
Debtor on repurchase/resell agreements	8,387	6,133
Derivatives	65,751	24,510
Commercial loans	7,931	10,370
Co-distribution	31	29
Other accounts receivable	124	717
Payable:		
Demand deposits	$ 321	547
Creditors on repurchase/resell agreements	26,146	28,087
Collateral sold or pleged	4,363	631
Derivatives	65,313	21,961
Other accounts payables	18	45

(Continued)

(Millions of Mexican pesos)

For the years ended December 31, 2015 and 2014 there were no changes in the existing conditions of balances receivable from and payable to related parties, there were no items that are deemed irrecoverable or difficult collection and no reserve was required for non-collectability, except loans granted by the Bank where reserves are created according to the methodology of the Banking Commission.

In accordance with Article 73bis of the Credit Institutions Law, the total amount of transactions with related parties is not to exceed 35% of the basic portion of the net capital (see note 18). The loans granted with related parties by the Bank as of December 31, 2015 and 2014 amount to $5,741 and $7,458, respectively. The deposits made by related parties as of December 31, 2015 and 2014 amount to $18 and $240, respectively.

For the years ended December 31, 2015 and 2014, the benefits granted to senior management amounted to $197 and $166, respectively.

(20) Memorandum accounts-

(a) Credit commitments-

Credit facilities:

As of December 31, 2015 and 2014, the balance of authorized credit facilities not withdraw amounted to $336,349 and $347,501, respectively, within that amount of committed facilities non-withdraw credit facilities amounted for $15,924 y $15,313, in the same year.

Letters of credit:

As of December 31, 2015 and 2014, the Bank has issued letters of credit for $9,872 and $8,194, respectively.

As of December 31, 2015 and 2014, the allowance created for credit letters amount to $77 and $50, respectively, and are included in the allowance for loan losses.

(b) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2015 and 2014, is shown as follows:

		2015	**2014**
Trust:			
Administrative	$	155,237	138,895
Guarantee		4,624	7,901
Total trusts carried forward	$	159,861	146,796

(Continued)

(Millions of Mexican pesos)

		2015	2014
Total trusts brought forward	$	159,861	146,796
Mandates		29,082	28,984
	$	188,943	175,780

Trust revenue accrued for the years ended December 31, 2015 and 2014 amounted $234 and $211, respectively and were recorded in the caption "Commission and fee income".

(c) Assets in custody or under management-

At December 31, 2015 and 2014, this caption is compromised of property and securities received in custody, guarantee or under management, as follows:

		2015	2014
Securities in custody:			
Securities vault	$	92	102
General vault		104	101
Investment transaction		1,026	940
Securities transactions		8,802	9,524
Other		2	50
		10,026	10,717
Securities under management		65,024	57,963
Notional amounts of derivatives		88,693	88,629
	$	163,743	157,309

Income arising from securities in custody for the years ended December 31, 2015 and 2014 amounts to $1 and $4, respectively.

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(d) Collaterals received by the entity and collaterals received and sold or pledged by the entity-

Collaterals received and collaterals sold or delivered by the Bank at December 31, 2015 and 2014 are analyzed as following:

		2015	2014
Collaterals received by the entity:			
Repurchase / resell agreements:			
LD BONDES	$	10,890	12,662
IQ BPAG91		3,552	999
IS BPA182		-	2,045
BPAG		2,276	–
M BONOS		3,150	2,502
BI CETES		2,382	118
CBIC		989	500
CBBN		354	–
		23,593	18,826
Guarantees received for derivatives transactions		310	422
Guarantees received for credit operations		27,222	26,657
Total collateral received by the entity	$	51,125	45,905
Collaterals received and sold or pledged by the entity:			
LD BONDESD	$	4,788	9,441
M BONOS		-	1,000
IS BPA182		-	2,000
BI CETES		2,037	–
CBIC		989	382
IQ BPAG91		2,003	–
BPAG		250	–
	$	10,067	12,823

(Continued)

(Millions of Mexican pesos)

(e) Investments on behalf of customers-

As of December 31, 2015 and 2014 funds managed by the Bank following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

		2015	2014
Private equity	$	1,623	690
Government securities		36,081	30,254
Mutual funds		41,296	37,209
Bank securities not issued by the Bank		5,515	5,535
	$	84,515	73,688

The amount of any funds invested in the Bank's own instruments forms part of the liabilities included in the consolidated balance sheet.

(21) Additional information on operations and segments-

(a) Segment information-

The Bank's operations are classified in the following segments: "credit and services" (acceptance of deposits, granting of loans) and treasury and trading (securities, derivatives and currency transactions). For the years ended December 31, 2015 and 2014, income by segment is analyzed as follows:

December 31, 2015		**Credit and services**	**Trading and treasury**		**Total**
Interest income, net	$	13,069	484		13,553
Commissions and fees, net; result from trading and other operating income (expenses)		5,050	273		5,323
Net operating revenues		18,119	757		18,876
Allowance for loan losses		(2,528)	–		(2,528)
Administrative and promotional expenses		(11,430)	(557)		(11,987)
Income before taxes and result of operations of associated companies	$	4,161	200		4,361
Equity in the results of operations of associated companies					-
Income taxes and deferred income, net					294
Net income				$	4,655

(Millions of Mexican pesos)

December 31, 2014		**Credit and services**	**Trading and treasury**	**Total**
Interest income, net	$	12,528	361	12,889
Commissions and fees, net; result from trading and other operating income (expenses)		5,051	513	5,564
Net operating revenues		17,579	874	18,453
Allowance for loan losses		(3,491)	–	(3,491)
Administrative and promotional expenses		(11,061)	(552)	(11,613)
Income before taxes and result of operations of associated companies	$	3,027	322	3,349
Equity in the results of operations of associated companies				1
Income taxes and deferred income, net				47
Net income				$ 3,397

(b) Financial margin-

For the years ended December 31, 2015 and 2014, the financial margin in the consolidated statement of income consists of the following elements:

Interest income:

Interest income for the years ended December 31, 2015 and 2014 is comprised as follows:

December 31, 2015		**Credit and services**	**Trading and treasury**	**Total**
Cash and cash equivalents	$	–	601	601
Margin accounts		–	3	3
Investment securities		–	1,963	1,963
Securities on repurchase/ resell agreements		–	1,018	1,018
Current loan portfolio		15,933	–	15,933
Past-due loan portfolio		76	–	76
Loan origination fees		430	–	430
Gain on currency translation		–	127	127
	$	16,439	3,712	20,151

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos, except otherwise indicated)

	Credit and services	Trading and treasury	Total
December 31, 2014			
Cash and cash equivalents	$ –	646	646
Margin accounts	–	4	4
Investment securities	–	1,486	1,486
Securities on repurchase/ resell agreements	–	1,382	1,382
Current loan portfolio	15,271	–	15,271
Past-due loan portfolio	63	–	63
Loan origination fees	405	–	405
Gain on currency translation	–	94	94
	$ 15,739	3,612	$ 19,351

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2015 and 2014:

	2015		2014	
	Current	Past-due	Current	Past-due
Commercial	$ 3,485	67	3,163	47
Financial institutions	999	-	911	-
Consumer	4,209	9	5,021	16
Residential mortgages	7,418	-	6,413	-
Government entities	252	-	168	-
	$ 16,363	76	15,676	63
	$16,439		$15,739	

For the year ended December 31, 2015, commissions that represent a yield adjustment of 0.13%, 0.67% and 0.16%, for 2015, as well as 0.18%, 0.58% and 0.71% for 2014, respectively, are recorded within the total interest income from commercial, consumer and residential loans.

For the years ended December 31, 2015 and 2014, total interest income includes interest denominated in foreign currency amounting to 26 million dollars and 27 million dollars, respectively.

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Loan origination fees for the years ended December 31, 2015 and 2014 are comprised as follows:

		2015	2014
Commercial	$	146	150
Consumer		155	146
Residential mortgages		129	109
	$	430	405

Amortization term for the fees are from 12 to 360 months.

Interest expense:

Interest expense for the years ended December 31, 2015 and 2014 is comprised of the following:

		Credit and services	Trading and treasury	Total
2015				
Demand deposits	$	742	–	742
Time deposits		2,379	–	2,379
Debt securities issued		–	504	504
Bank and other borrowings		–	325	325
Subordinated debt issued		-	157	157
Securities on repurchase/resell agreements		–	2,196	2,196
Discounts debt issuance		-	4	4
Output expenses for debt issuance		–	11	11
Loan origination fees and expenses		250	–	250
Loss on currency translation		–	30	30
	$	3,371	3,227	6,598
2014				
Demand deposits	$	822	–	822
Time deposits		2,163	–	2,163
Debt securities issued		–	551	551
Bank and other borrowings		–	269	269
Subordinated debt issued		–	6	6
Securities on repurchase/resell agreements		–	2,346	2,346
Discounts debt issuance		–	1	1
Output expenses for debt issuance		–	21	21
Loan origination fees and expenses		226	–	226
Loss on currency translation		–	57	57
	$	3,211	3,251	6,462

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(c) Commission and fee income-

For the years ended December 31, 2015 and 2014, the commission and fee income are analyzed as follows:

		2015	2014
Letters of credit with no refinancing	$	66	54
Account handling		311	362
Trust activities		234	211
Fund transfers		109	76
Electronic banking services		287	257
Credit transactions		1,380	1,217
Other fees and commissions collected		875	813
	$	3,262	2,990

(d) Financial intermediation income-

For the years ended December 31, 2015 and 2014, financial intermediation income is analyzed as follows:

		2015	2014
Unrealized vaaluation:			
Investment securities	$	(4)	(19)
Derivatives:			
Trading		(464)	(410)
Hedging		5	11
Securities available for sale in hedge		(5)	16
Foreign currencies and precious metals		641	(33)
		173	(435)
Realized gain or (loss):			
Investment securities		(297)	32
Derivatives:			
Trading		593	37
Transaction costs		(31)	(26)
Foreign currencies and precious metals		(165)	905
		100	948
	$	273	513

(Continued)

(Millions of Mexican pesos)

(e) Other operating income (expenses)-

For the years ended December 31, 2015 and 2014, other operating income (expenses) is analyzed as follows:

	2015	2014
Recoveries of loan portfolio	$ 338	658
Dividends	27	42
Donations	(15)	(16)
Income on sale of foreclosed assets	232	257
Income from securitization	36	32
Taxation	1	32
Other recoveries	387	2
Income from credit insurance	848	881
Armored transportation fees	15	36
Distribution of shares of mutual funds	359	356
Loans to employees	68	69
Food stamps	269	238
Loan write-offs and losses	(167)	(230)
Others	(42)	185
	$ 2,356	2,542

(Continued)

(Millions of Mexican pesos)

(f) Financial ratios (unaudited)-

The following are the main quarterly financial ratios of the Bank as of and for the years ended December 31, 2015 and 2014:

	2015			
	Fourth	**Third**	**Second**	**First**
Delinquency index	2.7%	2.6%	2.7%	2.8%
Coverage of past-due loan portfolio index	111.9%	115.7%	115.6%	124.9%
Operating efficiency (administrative and promotional expenses / average total assets)	3.2%	3.9%	3.8%	4.1%
ROE (annualized net income for the quarter / average stockholders' equity)	27.9%	9.3%	13.8%	5.6%
ROA (annualized net income for the quarter / average total assets)	2.8%	0.9%	1.4%	0.6%
Net capital / Assets at credit risk	15.99%	16.24%	17.22%	16.91%
Net capital / Assets at credit, market and operational	12.33%	12.48%	12.49%	12.59%
Liquidity (liquid assets / liquid liabilities)	67.3%	74.9%	88.7%	78.7%
Financial margin after allowance for loan losses / Average earning assets	3.8%	3.7%	4.2%	3.5%

	2014			
	Fourth	**Third**	**Second**	**First**
Delinquency index	3.1%	3.2%	3.2%	3.0%
Coverage of past-due loan portfolio index	110.1%	110.3%	108%	111.7%
Operating efficiency (administrative and promotional expenses / average total assets)	4.2%	4.5%	4.7%	4.5%
ROE (annualized net income for the quarter / average stockholders' equity)	14.8%	6.8%	13.7%	12.7%
ROA (annualized net income for the quarter / average total assets)	1.6%	0.7%	1.5%	1.4%
Net capital / Assets at credit risk	16.98%	15.25%	15.21%	15.74%
Net capital / Assets at credit, market and operational	13.31%	11.83%	11.86%	12.15%
Liquidity (liquid assets / liquid liabilities)	73.8%	71.1%	73.1%	73.1%
Financial margin after allowance for loan losses / Average earning assets	4.6%	3.3%	3.8%	4.0%

(Continued)

(22) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense in office property, software and other for the years ended December 31, 2015 and 2014, amounted to $966 and $898 respectively.

(b) Claims and trials-

In the normal course of the operations, the Bank is involved in some claims and trials, which are not expected to have an important negative effect in the future financial situation and in the results of its operations. In such cases that represent a probable loss or make a cash outflow, the Bank has made necessary provisions. As part of such trials, to the main judgments of nullity and claims against Servicio de Administración Tributaria (SAT-Mexican Internal Revenue Service) for fiscal years: 2000, 2003, 2005, 2006 and 2007, whose claims are mainly from differences in criteria applied in deduction for loan portfolio sale, deductible allowance for loan losses, Value Added Tax and ESPS. At December 31, 2015, the estimated amount updated with inflation, surcharges and fines corresponding to these judgments aforementioned amounts to $3,300.

(23) Risk management (unaudited information)-

The purpose of the comprehensive risk management function is to identify and measure risks, follow up on the impact that these risks may have on the operations and control their effects on income and shareholder value by applying the best mitigating strategies available, and the incorporation of the risk culture in daily transactions.

According to the General Provisions applicable to credit institutions in terms of risk management issued by the Banking Commission, the Board of Directors assumes responsibility over the Bank’s risk management objectives, guidelines and policies. At least once a year, the Board of Directors should approve the objectives, guidelines and policies as well as the limit structure for the various types of risk.

Pursuant to the policies in force, the Board of Directors entrusts the implementation of the risk policies and the setting of specific limits by risk factor as well as the implementation of the procedures designed to measure, manage and control risks to the Risk Management Committee and the Comprehensive Risk Management Unit (UAIR).

Furthermore, the Risk Management Committee delegates responsibility to the Asset-Liability Committee for monitoring compliance of policies and procedures concerning market and liquidity risks. In like manner, the UAIR has policies for reporting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

(Continued)

The Institution's Comprehensive Risk Management Unit is represented by the Assistant General Risk Management (Risk DGA) and relies for the management and administration of the different types of risk (i.e. credit, liquidity, interest rate, market and operational, among others), on the Risk Vice-presidency, which in turn is organized into 6 managements designed to monitor and reduce the risks to which the institution is exposed.

The UAIR is responsible for reviewing and submitting for the approval of the Risk Committee and/or the Board of Directors the different methodologies used to manage the risks to which the institution is exposed as well as the risk appetite framework, management policies for the different types of risk, global and specific exposure limits and the corresponding risk tolerance levels.

It is stressed that proper management of the different types of risks seeks compliance with the risk profile desired and defined by the Board of Directors as well as improvement of quality, diversification and composition of the different portfolios, thus optimizing the risk-return relationship.

The UAIR is also responsible for providing Senior Management with reliable and timely information to support decision-making and provide tools and clear and sufficient information to other areas for monitoring, management and administration of the different lines of business.

Finally, risk management is based on the best international practices because it has a regulatory framework that allows not only to comply with local regulations but also with corporate standards and guidelines established by the Parent Company (The Bank of Nova Scotia).

(a) Market risk-

The purpose of the market risk management function is to identify, measure, monitor, and control risks arising from interest, exchange rate, stock market price and index fluctuations and other risk factors that are present in the money, foreign exchange, capital and derivative instruments markets, in which the Bank maintains business positions for its own account.

The Bank's risk positions include fixed and floating rate money market instruments, stock, foreign exchange positions and derivatives such as: interest rate futures, futures, foreign exchange forwards and options, interest rate swaps, interest rate options and foreign currency swaps. For each portfolio, there are established and approved limits.

(Continued)

The market risk limits framework contemplates volumetric or notional amounts for value at risk, sensitivity, concentration, "stress" limits and due dates, among others.

Market Risk Management includes monitoring that the risk mitigants are up to date and accurate, In this regard the established and approved limits for each one of the portfolios are daily monitoring and annually reviewed. Furthermore, the models used to manage market risk are reviewed at least biannually. Additionally, the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as of the Market Risk indicators. It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the institution's Risk Appetite.

For market risk management, the information is extracted from the different applications and systems the institution has, and also the related market risk estimates such as risk value and sensitivity are conducted through specialized systems.

Market risk management in securities trading activities - The Bank's securities trading activities are directed primarily to providing service to its customers. Accordingly, to meet its customers' demand, the Group maintains positions in financial instruments and holds an inventory of financial instruments for trading purposes. Access to market liquidity is available through offers to buy from and sell to other intermediaries. Although these two activities represent transactions the Bank carries out for its own account, they are essential to allow customers access to markets and financial instruments at competitive prices. In addition, the Bank has treasury positions invested in the money market so that surplus cash generates the maximum yields. In general, trading positions are taken in liquid markets which avoids high costs at the time such positions are liquidated. The trading securities portfolio (fixed and variable income and derivative instruments) is marked to market on a daily basis, such information is included daily in the corresponding reports.

Among market risk measuring and monitoring methodologies, the Value at Risk (VaR) is an estimate of the potential loss of value within a specific level of statistical confidence, that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. The VaR is calculated daily on all of the Bank's risk-exposed financial instruments and portfolios using the Riskwatch risk management software.

The VaR is calculated using the historical simulation method, with a 300-working day time span. To conform to the measurement methodologies used by Scotiabank, the Group calculates the VaR considering a 99% confidence level and a 1 day holding period.

The Bank's observed average daily VaR during the fourth quarter of 2015 was $9.60; as a percentage of net capital ($31,669 at December 2015) at the period's end is equal to 0.03%. At the December 31, 2015 close, the global VaR was $8.98. During the fourth quarter of 2015, the average one-day VaR, broken down by the Bank's risk factors is shown in the next page.

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Risk factor	2015 VaR 1 day (Average)	2015 VaR 1 day (period's end)	2014 VaR 1 day (Average)	2014 VaR 1 day (period's end)
Interest rates	8.22	8.88	8.29	8.22
Foreign exchange rates	1.16	0.28	1.23	1.23
Capitals	0.21	0.37	0.07	0.17
Total not diversified	10.19	9.53	9.59	9.62
Diversification effect	(0.59)	(0.56)	(1.18)	(1.28)
Total	9.60	8.97	8.41	8.34

The average values of exposure to market risk of the securities trading portfolio in the period of October to December 2015 and 2014 were as follows:

December 2015	Position			VaR(1)		
Product	**Average**	**Closing**	**Limit**	**Average**	**Closing**	**Limit**
Bank	**$ 561,762**	**544,204**	**-**	**9.60**	**8.98**	**52.5**
Mexican pesos:						
Money market	$ 24,224	19,977	85,000	10.69	3.77	50
Interest rate swaps	432,640	431,057	500,000	10.83	3.48	50
CETES Forwards (2)	-	-	20,000	-	-	-
Rate Forwards (3)	8,096	149	750,000	4.14	1.66	-
Caps & Floors	14,680	15,755	30,000	1.91	2.65	-
Market interest rates and rate derivatives(4)	**$ 479,640**	**466,938**	**635,000**	**8.82**	**8.88**	**50**
Shares	$ 4	7	200	0.21	0.37	13
IPC Forwards	-	-	750	-	-	13
Shares portafolio	**$ 4**	**7**	**200**	**0.21**	**0.37**	**13**
Forwards (6,7,8)	$ 4,147	3,690	18,000	1.12	2.18	13
Table changes (6, 7)	-	-	65	0.42	0.24	13
Currency Options (7)	169	253	800	1.03	2.96	13
Dollar forwards (5)	-	-	30	-	-	13
Currency Swaps(7)	445	536	1,500	0.59	0.16	-
Metal Forwards (7)	-	-	50	-	-	-
Table changes, currency derivatives and Metals (4)	**$ 4,761**	**4,479**	**20,415**	**1.18**	**0.28**	**16.5**

(1) to (8) see explanation in the following page.

(Continued)

1/ The VaR is expressed in millions of pesos.
2/ Special treasury position.
3/ Only the VaR is shown because the position and limit are in number of contracts operated in MexDer and presented in separate tables.
4/ The holding period for currency, capitals and interest rates and for limits is 1 day.
5/ The limit of IPC futures is expressed in number of contracts and are used for warrant hedges.
6/ The forwards position is gross (long + short) while the exchange position is net (long – short)
7/ The position and the limit position are expressed in millions of US dollars.
8/ Includes the net position of Treasury foreign exchange forwards.

	Position			VaR[1]	
December 2014 / **Product**	**Average**	**Maximum**	**Limit**	**Average**	**Limit**
Bank	$ 402,244	435,860		8.34	52.5
Domestic currency:					
Money market	24,481	36,311	105,500	6.69	
Interest rate swaps	211,979	247,724	305,000	9.19	
CETES Forwards [2]	6,190	11,652	20,000	0.01	
Rate futures [3]				9.36	
Caps & Floors	8,768	10,832	30,000	0.34	
Interest rate markets and rate derivatives [4]	251,418	306,519	460,500	8.22	52.5
Equity shares	8	15	206	0.17	13.0
IPC futures [5]	–	–	750		
Stock portfolio	$ 8	15	206	0.17	13.0

1/ The VaR is expressed in millions of pesos.
2/ Special treasury position.
3/ Only the VaR is shown because the position and limit are in number of contracts operated in MexDer and presented in separate tables.
4/ The holding period for currency, capitals and interest rates and for limits is 1 day.
5/ The limit of IPC futures is expressed in number of contracts and are used for warrant hedges.
6/ The forwards position is gross (long + short) while the exchange position is net (long – short)
7/ The position is expressed in millions of US dollars.
8/ Includes the net position of Treasury foreign exchange forwards.

For interpretation purposes and as by way of example, the average one day VaR for the Bank in the Money market is $9.60. This means that under normal conditions, in 99 days out of 100 days, the maximum potential loss would be $9.60.

In the period of October to December 2015, the Bank participated in the MexDer, operating interest rate futures contracts. Positions for the fourth quarter of 2015 (number of contracts) are shown in the next page.

(Continued)

(Millions of Mexican pesos)

Underlying asset	Average	Maximum	Limit
28-day TIIE futures	78,898	–	750,000
91-day Cetes futures	–	–	20,000
M bond futures [1]	2,073	1,492	35,500
Swap futures	–	–	1,000
Total rate futures [2]	80,971	1,492	806,500
Dollar futures [2]	–	–	30,000

[1] The limit of M bond futures includes 15,000 contracts of M20 bond futures, 20,000 contracts of M10 bond futures, 500 contracts of M30 bond futures.

[2] The position and the limit are in number of contracts operated in the MexDer.

For comparative purposes, below is shown the positions in number of contracts negotiated in the fourth quarter of 2014:

Underlying asset	Average	Maximum	Limit
28-day TIIE futures	456,188	493,500	850,000
91-day Cetes futures	–	–	20,000
M bond futures [1]	2,164	4,400	39,500
Swap futures	–	–	1,000
Total rate futures [2]	458,352	497,900	910,500
Dollar futures [2]	–	–	30,000

[1] The limit of M bond futures includes 15,000 contracts of M20 bond futures, 20,000 contracts of M10 bond futures, 300 contracts of M3 bond futures, 500 contracts of M5 bond futures and 1,500 contracts of M30 bond futures,.

[2] The position and the limit are in number of contracts operated in the MexDer.

Given that the VaR measure is used to estimate potential losses under normal market conditions, stress testing is performed daily, with the purpose of determining exposure to risk considering large abnormal fluctuations in market prices (changes in volatility and correlations between risk factors). The Risk Committee has approved stress limits.

(Continued)

The stress testing during the last quarter of 2015 shows a maximum loss of $149.15, which compared with the $2,000 limit, is within the acceptable parameters. Scenarios used for stress testing are the 1994 and 1998 crises as well as hypothetical scenarios.

Also, back-testing is performed monthly for comparing the losses and gains to the observed VaR and thus calibrate the models being used. The model's efficiency level is based on the approach established by the Bank for International Settlements (BIS). As for back-testing performed during the fourth quarter of 2015 show acceptable levels under the BIS approach.

For the valuation and risk models, references are used on updated prices, interest rate curves and other risk factors provided by the price supplier "Valuación Operativa y Referencias de Mercado, S. A. de C. V."

Sensitivities

Qualitative information on sensitivities

The Bank has an area that specializes on trading risk analysis, which maintains systematic and continuous oversight of the valuation and risk measurement processes as well as of the sensitivity analysis. Such area has permanent contact with responsible traders in the different markets.

Daily, the risk area calculates the market risk sensitivities for each portfolio to which the Bank is exposed. During 2015, no changes were made to the assumptions, methods or parameters used for this analysis.

Below we present a description of the methods, parameters and assumptions used for the portfolio of stock, currency, interest rates and derivative products.

Interest rate portfolio

Sensitivity measures produced for fixed-income instruments (bonds) are based on estimating the behavior of the portfolio’s value in response to a change in the market interest rates. In referring to market interest rates, we refer to the yield curve (not the zero-coupon curves) because it is the yield curve which is quoted in the market and best explains the behavior of losses and gains.

(Continued)

The sensitivities of the fixed-income instruments portfolio are based on durations and convexities, depending on the particular type of instrument. In all cases, there are 2 types of measures: (i) the expected change in the portfolio value in response to a change of 1 bp (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 bp (1%) in the yield curve. For purposes of this disclosure, we only report the changes in 1 bp.

The values estimated based on the duration and convexity methodology are a good approximation to the values obtained using the complete or full-valuation methodology.

Two sensitivities are calculated for floating rate bonds: the one relating to the free-risk rate and the other for the spread. In zero-coupon bonds, the computation of the sensitivity of zero coupon instruments, the term to maturity, expressed in years, is used as duration.

Interest rate derivatives

Below is a brief explanation of sensitivity modeling for the Bank’s interest rate derivatives.

TIIE and CETE futures: This type of derivative instruments is modeled for purposes of calculating sensitivities such as the future of a zero-coupon rate and, therefore, its duration is taken into account in estimating its sensitivity.

M bond futures: The sensitivity considers the duration and convexity over the bonds deliverable under these contracts.

Interest rate swaps: For determining the sensitivity to changes in the yield curve of TIIE swaps a 1 bp change is made in each of the relevant points in the yield curve and a 1 and 100 bp is made parallel, valuing the portfolio with the different curves and calculating the change in the portfolio’s value with each of these changes. In this case, the change in 1 bp is reported.

Stock portfolio and IPC derivatives

Stock equity

For stock position purposes, the sensitivity is obtained calculating the Delta by issue within the portfolio. Delta is defined as the change in the portfolio’s value in response to a 1% change in the value of the underlying asset.

(Continued)

Equities derivatives

The Bank might operate equities derivatives transactions through the IPC futures traded at the MexDer. Their sensitivity is calculated through the Delta. This portfolio has limits expressed in notional terms.

The Delta risk is defined as the change in the value of the option in response to a change of a predetermined magnitude in the price of the underlying asset (for example 1%). Its calculation is made by valuing the option with different underlying asset levels (one original and one with a +1% shock) and maintaining all other parameters constant.

In the case of non-linear products such as warrants and options, the Delta and the "Greek" measures are deemed as sensitivity measures. The calculation of sensitivities is based on the formula for modeling options on futures known as the Black (1976) Option Pricing Formula.

Gamma is supplementary to the Delta risk and is another sensitivity measure of the value of an option with respect to the value of an underlying asset. Gamma measures the change rate of Delta in response to a change in the underlying asset level, and similar to the change of Delta, it may be interpreted analytically, as the second partial derivative of the Black & Scholes model with respect to the underlying asset.

Rho is defined as the sensitivity in response to changes in interest rate. In the case of future contracts, this sensitivity may be estimated based on the available market information. The Bank defines Rho as the change in the portfolio's value in response to a 100 bp change (parallel) in the reference interest rates.

Theta is the sensitivity measure of an options portfolio that indicates the change in the portfolio's value with the passage of time.

Vega is the name given to the sensitivity measure of the value of an options portfolio in response to changes in the market volatilities of the underlying asset. In general, a long position in options benefits from an increase in the volatility of the underlying assets and a short position has the opposite effect, with a few exceptions such as with binary options.

(Continued)

Dividend Risk. The valuation of options on indices or stock implies a known continuous compound dividend rate. Dividends, however, are an estimate and, therefore, an unknown variable, which represents a risk factor for valuation and the resulting analysis of gains and losses from transactions with options.

There is no Greek letter associated to the sensitivity of dividend risk and in the case of options on indices and stock in the Bank, measurement is made by increasing the dividend rate 1% (i.e. from 1% to 1.01%).

Currency portfolio and currency derivatives

Currency

The portfolio is comprised of various currencies operated by the currencies desk for trading purposes. The sensitivity is calculated as the Delta by currency as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Currency derivatives

Currency forwards and futures: For this portfolio, the sensitivity is calculated for each currency in response to changes in the interest rate, as the present value result in response to a parallel 1 bp change along the respective yield curves, with all other factors remaining constant. Also, a change, non-parallel to the yield curves is applied by time gaps, all other factors remaining constant.

Currency options: For exchange rate options, sensitivities known for the Greek letters (i.e. Delta, Gamma, Vega, Theta and Rho) are calculated.

Cross Currency Interest Rate Swap (CCIRS): For determining the sensitivity to changes in the yields curve, a one bp change is made along the respective yields curves, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of such changes. Also, a parallel analysis with a change of 100 bp is made. In addition, a one bp change is made not parallel to the yield curves by time gaps, maintaining all other factors constant. For purposes hereof, we only present the sensitivity for 1 bp.

(Continued)

(Millions of Mexican pesos)

Qualitative information on sensitivities

Qualitative information on interest rate sensitivities

The following table shows the sensitivity of one bp at December 31, 2015 and 2014:

	December 2015		**December 2014**	
Sensitivity of 1 bp	End	Average	End	Average
Fixed rate	0.05	0.74	(0.28)	0.29
Reviewable rate	0.05	0.06	0.05	0.03
Subtotal – interest rates	0.10	0.80	(0.23)	0.32
Futures	(0.12)	(0.06)	(0.38)	(0.16)
Swaps	(0.36)	(0.85)	0.19	(0.12)
Caps & Floors	0.20	0.12	(0.06)	(0.02)
Subtotal – interest rate derivatives	(0.28)	(0.79)	(0.25)	(0.30)
Total	(0.18)	0.01	(0.48)	0.02

At December 31, 2015, the Bank presents sensitivity in the interest rate portfolio of ($0.18), which means that for each bp the interest rate decreases, a profit of $0.18 would result.

Should the sensitivity scenario depicted in the above table materialize, the profits would have a direct impact on the Bank’s results of operations.

The following table shows statistics for the fourth quarter of 2015, maximum, minimum and average. In average, the sensitivity was $0.013.

Sensitivity of 1 bp	**Average**	**Maximum**	**Minimum**
Interest rate	0.80	2.97	(0.56)
Rate derivatives	(0.79)	0.93	(1.88)
Total	0.01	1.48	(0.97)

Sensitivities for the portfolio of stock and IPC derivatives

The following table shows the sensitivity at December 31, 2015 and 2014:

	December 2015		**December 2014**	
Sensitivity of 1 bp	**End**	**Average**	**End**	**Average**
Total stock	-	-	0.02	0.03

At December 31, 2015, the Bank’s portfolio of capitals only comprises stock; that is, it has no IPC derivatives, therefore the sensitivity for the fourth quarter of 2015 was $0.

(Millions of Mexican pesos)

Sensitivities for the portfolio of Fx and swaps.

The following table presents the sensitivity at December 31 2015 and 2014:

	December 2015		December 2014	
1 bp sensibility	**End**	**Average**	**End**	**Average**
Spot Currency	-	-	(0.28)	0.29
Spot Metals	-	-	0.05	0.03
Subtotal	-	-	(0.23)	0.32
DEUA forwards and futures	(0.02)	-	(0.38)	(0.16)
OTC MXN/USD options	-	-	0.19	(0.12)
Swaps	0.02	(0.12)	(0.06)	(0.02)
Subtotal	-	(0.12)	(0.25)	(0.30)
Total	-	(0.12)	(0.48)	0.02

At December 31, 2015, a change in the sensitivity to the Exchange rate was recorded at $0.00 mainly due to the increase of positions of currency Forwards and Swaps. Currently, the Bank participates in the OTC market of peso-dollar exchange rate options for hedging purposes and to serve its customers. The foreign Exchange (spot/forward) desk does not register material exposures.

Should the sensitivity scenario depicted in the above table materialize, the profits would have a direct impact on the Bank's results of operations.

In average, the quarterly sensitivity of the portfolio of currencies and currency derivatives was $0.12.

1 bp sensitivity		**Average**	**Maximum**	**Minimum**
Currencies		-	-	-
Currency derivatives		(0.12)	0.05	(0.37)
Total	$	(0.12)	0.05	(0.37)

Sensitivities for peso-dollar exchange rate options, "Greek".

Below we present the position and sensitivities of the currency options portfolio at December 31, 2015:

Greek	**Delta**	**Gamma**	**Vega**	**Theta**	**Rho**
Currency exchange rate (MXN/USD) options	14.41	1.34	(0.15)	(0.01)	(0.01)

(Continued)

(b) Liquidity and interest rate risk-

The Bank assumes liquidity risks as an intrinsic part of its function as financial intermediary. The liquidity risk is the result of cash flow gaps. The objective of the liquidity risk management process is to guarantee that the Bank will be able to meet the totality of its obligations as they become due and payable. To such end, the Bank applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets.

The Bank manages exposure to liquidity risk and interest rate risk according to the applicable regulatory provisions and the better market practices, considering the Banking Book positions, i.e. those positions for structural handling of the balance sheet.

Liquidity and interest rate risk management includes monitoring that the risk mitigants are up to date and accurate, for which the limits set and approved for the management of these risks are reviewed annually and monitored periodically. Furthermore, the models used to manage liquidity and interest rate risks are reviewed at least biannually. Additionally, the Risk Committee and Board of Directors are periodically informed of the performance of the limits, as well as of the liquidity and interest rate risk indicators.

Limits related to liquid assets, liquidity gaps, margin sensitivity and economic value sensitivity are among the limits applicable to the management of liquidity and interest rate risk. These limits are reviewed at least annually in order to validate that they are aligned with the institution's risk appetite. The structure of liquidity and interest rate risk limits contemplates volumetric or notional amounts.

It is relevant to mention that the limits approved by the Risk Committee and Board of Directors are aligned with the institution's Risk Appetite.

For liquidity and interest rate risk management, the information is extracted from the different applications and systems the institution has, and also the related liquidity risk estimates are conducted through specialized systems.

Additionally, it is important to indicate that there are prospective metrics for liquidity and interest rate risk management, which are incorporated in the annual exercise of the Institution's Exposure Plan and Enterprise Wide Stress Testing.

The liquidity risk is monitored and controlled through accumulated liquidity gaps. These gaps are built through maturities and cash flows from payments of the different instruments of the balance sheet, both assets and liabilities, creating thus a daily gap corresponding to the differences between payment obligations and receivables generated day to day. Cash flows include contractual maturity cash flows of the Bank (incoming and outgoing cash).

(Continued)

(Millions of Mexican pesos)

For measuring liquidity risk, the cumulative liquidity gaps at December 31, 2015 and the average of the fourth quarter were as follows:

	Average (MXN MM)	**December 2015 (MXN MM)**	**Limit**
10-day cumulative gap (MXN+UDIs)	(2,722)	660	(18,000)
30-day cumulative gap (MXN+UDIs)	(16,736)	(16,316)	(25,000)

Cumulative liquidity gaps have implicit contractual maturities, including hedge derivatives positions.

At December 31, 2015 and average of the fourth quarter of 2015, the Bank has the following liquid assets[1]:

	Average 4Q 2015	**December 31, 2015**
Liquid assets	13,132	12,360

(Figures in MXN MM)
1/Liquid assets in MXN under internal metrics. Liquid assets in dollars are quantified through the Methodology established by Central Bank (Foreign currency investment regimen)

Interest rate risk arises from the uncertainty in earnings and/or value of the portfolio as a result of changes in interest rates, and occurs when there are mismatches (gaps) in the review of assets and liabilities with contractual maturity or subject to rate revision within a specified period, or else, when there are different reference rates for assets and liabilities. This risk arises as a result of funding activities, placement and investment of the Bank and materializes due to a change in interest rates such as a variance in financial margin.

Indicators such as sensitivity of economic value and margin sensitivity are used to measure interest rate risk. To calculate such indicators, repricing gaps are used, built based on reference rates of assets and liabilities. In the case of fixed rate positions the indicators are modeled according to contractual amortizations and maturities, while positions referenced to a floating rate are modeled according to their next repricing date.

The methodology for calculating the indicators considered assumptions of stability of demand deposits and prepaid mortgages. The first is an analysis of crops while the second considers credit recency segmentation to assign it a prepaid rate.

(Continued)

(Millions of Mexican pesos)

Both the sensitivity of Economic Value and the margin sensitivity contemplate an impact of ± 100 base points (bp) on interest rates and considers the maximum loss expected by currency. This measurement is taken weekly and reported to the members of the Assets and Liabilities Committee, the Risk Committee and the Board of Directors in their respective sessions.

The sensitivity of the Economic Value incorporates the impact of change in interest rates on total expected cash flows in a window of 20 years and provides a measure of long-term impact of these variations, while the time window to estimate margin sensitivity is 12 months.

	2015		2014	
	December	**Average**	**December**	**Average**
Economic value	791	785	472	477
Margin sensitivity	353	397	293	270

Treatment for securities available for sale- Below is the valued position for the Bank's available for sale investments at December 2015 and 2014:

	Available-for-sale securities		
Type	**December 2015**	**December 2014**	**Position's limit**
Bank	2,468	3,064	4,000
Corporate	369	421	1,000
Government	30,462	31,462	31,500
Other *	2	2	N/A
Total	**33,301**	**34,949**	**36,500**

* Includes assets without maturity such as shares and funds, there is no position limit for the titles in this line item.

Being an integral part of the Bank's balance sheet handling, available for sale investments are monitored under the sensitivity measures described above (Economic Value and Margin Sensitivity) and therefore there are excluded from calculation of VaR.

The following page shows a summary of hedging derivatives at closing of December and average of the fourth quarter used by the Bank for interest rate and foreign exchange risk hedge purposes. These positions are excluded from the VaR calculation because their purpose is to hedge the structural balance of the Bank and the risk factor sensitivity is measured within the Economic Value of the Bank and Margin Sensitivity.

(Continued)

(Millions of Mexican pesos)

Strategy	Average Q4 2015 Notional MXN	December 2015 Notional MXN
Interest rate swaps paid at fixed rate (cash flows)	**14,850**	**14,850**
0y - 3y	6,130	6,130
3y - 5y	3,460	3,460
5y - 10y	5,260	5,260
Interest rate swaps paid at floating rate (cash flows)	**3,850**	**1,750**
0y - 3y	3,850	1,750
Interest rate swaps paid at fixed rate (fair value)	**6,586**	**7,006**
0y - 3y	4,313	4,655
3y - 5y	1,916	2,002
5y - 10y	357	349
Interest rate swaps paid at fixed rate (fair value in USD)	**27**	**26**
0y - 3y	24	24
3y - 5y	3	2
CCIRS paid at fixed rate (fair value in EUR)	**-**	**-**
0y - 3y	-	-
CCIRS paid at fixed rate (fair value in USD)	**-**	**-**
0y - 3y	-	-
CCIRS paid at fixed rate (fair value in UF)	**1,886**	**-**
0y - 3y	1,866	-
Interest rate swaps paid at fixed rate (fair value – family loan)	**246**	-
0y - 3y	246	-

Bank's rating downgrade

As a conservative measure and in order to be prepared for a possible increase in liquidity requirements as a result of a possible downgrade of the Bank (because a downgrade of the Bank would trigger an increase in collateral required in derivative transactions), the Risk Management group periodically measures the impact and the consequences this scenario would have on liquidity measures and liquid assets. A summary of the requirements a downgrade of the institution would have on 3 levels at the end of December 2015 and the average of the fourth quarter of 2015 are shown below:

	2015	
	December MXN-MM	**Q4 Average MXN-MM**
Downgrade (3 levels)	1,965	2,255

(Continued)

(c) Credit risk-

Credit risk is defined as the potential loss due to default by a borrower or counterparty in transactions carried out by the Bank. This risk affects not only the loan portfolio but the securities portfolio, transactions in derivatives and foreign exchange transactions.

The Bank's credit risk management is based on the application of well defined strategies for controlling this type of risk, which include the centralization of credit processes, the diversification of the portfolio, improved credit analysis, strict supervision and a credit risk rating model. The Bank has three different levels of credit resolution: the Board of Directors, the Credit Committees and joint powers of the Credit department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used.

For credit risk management, the information is extracted from the different applications and systems the institution has, and also the related credit risk estimates such as the expected and unexpected loss, and future possible exposure for the credit risk of the counterparty are made through specialized systems.

In the case of commercial loans business areas continually evaluate the financial position of each client, by exhaustively reviewing and analyzing the risk of each loan at least once a year. If any impairment of the financial position of the client is detected, the rating is changed immediately. Thus, the Bank determines the changes in the risk profiles of each client.

These reviews consider the global credit risk, including operations with financial instruments, derivatives and changes, Complementary reviews are conducted more frequently on identified risks, at least quarterly.

There are origination models that evaluate the credit quality of the borrowers for the case of mortgage and consumer portfolio, and there are also policies and procedures established to manage the authorization processes of new credits.

Credit risk concentrations- The Bank has implemented policies and procedures to maintain a sound and diversified portfolio with a prudent and controlled risk. Among such policies are the setting of credit risk exposure limits, considering business unit, currency, term, sector, etc. The limits are submitted annually to the Board of Directors for approval and their behavior is monitored and reported to the Risk Committee on a monthly basis.

(Continued)

Methodology to identify, quantify, manage and control credit risk - The process to set exposure limits for each type of portfolio subject to credit risk contemplates the analysis of the information and identification of the risks inherent to each borrower, documented policies based on an authorization process and ongoing review. All exposures are monitored by the UAIR through the Associate Director of Credit Risk and Counterparty for each type of portfolio (commercial including derivative instruments, mortgage and consumer), the monitoring process considers informing the Risk Committee and the Board of Directors of the usage of limits, the excesses observed and the strategies implemented to restore parameters. Also, the Board delegates to the Risk Committee the power to authorize limits and updates to policies and methodologies for managing credit and counterparty risk.

Methodology used to determine allowances for loan losses - The Bank uses a credit risk classification system approved at the institutional level, in order to identify the creditworthiness of the debtor as well as to ensure that the yields from each loan are proportionate to the risk assumed. Such system incorporates strategies to grant loans and monitor the performance of the loan portfolios, it also has processes and systems that allow portfolio grading and estimating allowances and losses.

The Bank applies the Standard Models determined by the Banking Commission:

- States and Municipalities (Appendix 18), represents 7.49% of total portfolio.
- Investment Projects with own source of payment (Appendix 19), represent 2.40% of total portfolio.
- Financial Sector Entities (Appendix 20) represents 21.40% of total portfolio and for Corporations and Individuals with business activities with income or sales less than 14MM UDIS (Appendix 21) represent 16.57% of total portfolio.
- For portfolio with income or sales equal to or greater than 14MM UDIS, the Banks applies an internal methodology, which represents 52% of total portfolio".

The Bank uses the following Rating Agencies in the standard method: S&P, MOODY´S, FITCH, HR RATINGS and VERUM.

The process used to assign the rating agencies is based on Appendix 1-B of the Banking Commission shown in the next page.

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

CORRESPONDENCE OF RATINGS

DEGREES OF LONG-TERM RISK

Risk Degrees Standard Method	Scales of Recognized Ratings														
	Global Scale				Risk Weight			Local Scale Mexico					Risk Weight		
	S&P	MOODY'S	FITCH	HR RATINGS	Group II	Group III	Group VII	S&P	MOODY'S	FITCH	HR RATINGS	VERUM	Group II	Group III	Group VII
1	AAA AA+ AA AA-	Aaa Aa1 Aa2 Aa3	AAA AA+ AA AA-	HR AAA (G) HR AA+ (G) HR AA (G) HR AA- (G)	0%	20%	20%								
2	A+ A A-	A1 A2 A3	A+ A A-	HR A+ (G) HR A (G) HR A- (G)	20%	20%	50%	mxAAA	Aaa.mx	AAA (mex)	HR AAA	AAA/M	20%	20%	20%
3	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	HR BBB+ (G) HR BBB (G) HR BBB- (G)	50%	20%	100%	mxAA+ mxAA mxAA-	Aa1.mx Aa2.mx Aa3.mx	AA+ (mex) AA (mex) AA- (mex)	HR AA+ HR AA HR AA-	AA+/M AA/M AA-/M	50%	20%	50%
4	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	HR BB+ (G) HR BB (G) HR BB- (G)	100%	100%	100%	mxA+ mxA mxA- mxBBB+ mxBBB mxBBB-	A1.mx A2.mx A3.mx Baa1.mx Baa2.mx Baa3.mx	A+ (mex) A (mex) A- (mex) BBB+ (mex) BBB (mex) BBB- (mex)	HR A+ HR A HR A- HR BBB+ HR BBB HR BBB-	A+/M A/M A-/M BBB+/M BBB/M BBB-/M	100%	20%	100%
5	B+ B B-	B1 B2 B3	B+ B B-	HR B+ (G) HR B (G) HR B- (G)	100%	150%	150%	mxBB+ mxBB mxBB-	Ba1.mx Ba2.mx Ba3.mx	BB+ (mex) BB (mex) BB- (mex)	HR BB+ HR BB HR BB-	BB+/M BB/M BB-/M	100%	100%	100%
6	CCC CC C And lowers	Caa Ca C And lowers	CCC CC C And lowers	HR C+ (G) HR C (G) HR C- (G) And lowers	150%	150%	150%	mxB+ mxB mxB- mxCCC mxCC And lowers	B1.mx B2.mx B3.mx Caa1.mx Caa2.mx Caa3.mx Ca.mx C.mx And lowers	B+ (mex) B (mex) B- (mex) CCC (mex) CC (mex) C (mex) And lowers	HR B+ HR B HR B- HR C+ HR C HR C- And lowers	B+/M B/M B-/M C/M D/M And lowers	150%	150%	150%
Not rated					100%	100%	100%						100%	100%	100%

CORRESPONDENCE OF RATINGS

DEGREES OF SHORT-TERM RISK

RISK DEGREES SHORT TERM STANDARD METHOD	SCALES OF RECOGNIZED RATINGS									Risk Weight
	GLOBAL SCALE				LOCAL SCALE MEXICO					
	S&P	MOODY'S	FITCH	HR RATINGS	S&P	MOODY'S	FITCH	HR RATINGS	VERUM	
1	A-1+ A-1	P-1	F1+ F1	HR+1 (G) HR1 (G)	mxA-1+ mxA-1	MX-1	F1+(mex) F1 (mex)	HR+1 HR1	1+/M 1/M	20%
2	A-2	P-2	F2	HR2 (G)	mxA-2	MX-2	F2 (mex)	HR2	2/M	50%
3	A-3	P-3	F3	HR3 (G)	mxA-3	MX-3	F3 (mex)	HR3	3/M	100%
4	B		B	HR4 (G)	MxB		B (mex)	HR4	4/M	120%
5	C	NP	C	HR5 (G)	mxC and lowers	MX-4 and lowers	C (mex) and lowers	HR5 and lowers	D/M and lowers	150%
Not rated										100%

(Continued)

(Millions of Mexican pesos)

The grade of rating agencies is used by the Bank to:

- Calculation Probability of Default of clients States and Municipalities, Corporations and Individuals with Business Activity with net sales equal to or greater than 14 MM UDIs.

- Admissibility of guarantors with a risk level of 1 and/or 2.

- Calculation Probability of Default of clients located abroad, when they have a rating from a global scale agency, long term, risk level 1 and/or 2 and have no information of payment experience within the domestic Credit Information Companies.

The internal grading system uses the following ratings:

Rating	**IG code**
Excellent risk	98
Very good risk	95
Good risk	90
Satisfactory risk	87
High adequate risk	85
Medium adequate risk	83
Low adequate risk	80
Medium risk	77
High moderate risk	75
Medium moderate risk	73
Low moderate risk	70
Watch list	65
Special supervision	60
Sub-standard	40
Default under Basel	27
Doubtful recovery	21
Non-performing	20

Allowance for commercial loans is based on the individual assessment of the credit risk of debtors and their rating, in compliance with the general provisions applicable to the loan portfolio rating methodology of credit institutions established by the Banking Commission. To such effect, the portfolio secured by or owned by the Federal Government, Banco de México and the Mexican Bank Savings Protection Institute or IPAB, in accordance with the Rule for rating the Loan Portfolio of Multiple Banking Institutions.

Specific rating methodologies prescribed by the aforementioned Provisions are used in commercial loan portfolios with federal and municipal entities, as well as decentralized agencies, in those of investment projects with own source of payment, in those of trustees who act under trusts and “structured” loan schemes with modification of net worth that allow for the individual assessment of the related risk, as well as in the portfolio with financial entities.

(Continued)

Authorization of Internal Methodology by the Commission

The internal methodology of the preventive allowance for credit risks for commercial portfolio is conducted based on an internal model developed by the Bank on the severity of the loss, which was authorized by the Banking Commission and applied for the first time in 2012 and as of December 31, 2015 is in process of rectification. The model allows to calculate reliably the needs of the allowance.

The foregoing is in accordance with the provisions of Section Four, Chapter V, Title Two of the Provisions. However, the following segments are exempted from such methodology: the special loan program called Scotia Empresarial, which is rated by applying an internal model based on the debtor's creditworthiness, certified by the Banking Commission and the segment corresponding to debtors with net sales or revenues lesser than 14 million UDIS, which is rated using the methodology referred to in paragraph a) number V of article 110, exhibit 21 of the Provisions, which superseded the one applied to debtors which total loans do not exceed 2 million UDIS, which was applied through November 30, 2013.

The process used for the allocation of rating agencies is based on Appendix 1-B of the Banking Commission. Agency ratings differentiate the borrower's default risk; the process used to assign recognized agency ratings must apply the following criteria:

- The rating of the rating agency should be based on the credit rating the debtor has been assigned.
- Provided it is not related to a specific debt, or
- It is the rating of a specific debt whose terms and conditions (Short or Long Term, domestic or foreign currency and Guarantees of the same quality) of this debt are similar to all of the credits with SBI.
- When the Agency rating corresponds in mapping to two or more levels of IG, the lower level is chosen.

Global Scale:

- When the Agency rating is in a global scale, the IG will be determined by applying the "IG Code Equivalencies with Ratings from Rating Agencies, Global Scale".

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

GLOBAL SCALE

RATING	IG CODE	S & P		FITCH / D & P		MOODY'S		DBRS	
		L P	C P	L P	C P	L P	C P	L P	C P
Sovereign risk and OECD	99	Sovereign risk Moody's rating minimum A1 or better							
Excelent risk	98	AAA	A-1+	AAA	F1+	Aaa	Prime-1	AAA	R-1H
		AA+		AA+		Aa1		AAH	
Very good risk	95	AA	A-1	AA	F1	Aa2	Prime-1	AA	R-1M
		AA-		AA-		Aa3		AAL	
		A+		A+		A1		AH	
Good risk	90	A	A-2	A	F2	A2	Prime-2	A	R-1L
		A-		A-		A3		AL	
Satisfactory risk	87	BBB+	A-2	BBB+	F2	Baa1	Prime-2	BBBH	R-2H
Acceptable high risk	85	BBB	A-3	BBB	F3	Baa2	Prime-3	BBB	R-2M
Acceptable medium risk	83	BBB-	A-3	BBB-	F3	Baa3	Prime-3	BBBL	R-2M
Acceptable low risk	80	BB+	A-3	BB+	F3	Ba1	Prime-3	BBH	R-2M
Medium risk	77	BB	B	BB	B	Ba2	Prime-3	BB	R-2L
Moderate high risk	75	BB-	B	BB-	B	Ba3	Not Prime	BBL	R-3H
Moderate medium risk	73	B+	B	B+	B	B1	Not Prime	BH	R-3M
Moderate low risk	70	B	B	B	C	B2	Not Prime	B	R-3L
		B-		B-		B3		BL	
In watchlist	65	CCC	C	CCC	C	Caa1	Not Prime	CCC	R-3L
Special supervision	60	CCC	C	CC	C	Caa2	Not Prime	CC	–
Sub-Standar	40	R	NR	C	C	Caa3	Not Prime	C	–
Failure to Basel	27	D	NR	DDD	D	Ca1, 2, 3	Not Prime	D	–
Hesitant recovery	21	D	NR	DD	D	C	Not Prime	D	–
		D				C		D	
Irrecoverable credit	20	D	NR	D	D	C	Not Prime	D	–

Local scale (Mexico):

- If the Agency rating is in a local scale (Mexico), the IG will be determined by applying the rules of "IG Code Equivalencies with Ratings from Rating Agencies, Local Scale (Mexico)".

LOCAL SCALE (MEXICO)

Acceptable low risk	80	BBB	A-3	BBB	F3	Baa2	Prime-3
Medium risk	77	BBB-	A-3	BBB-	F3	Baa3	Prime-3
Moderate high risk	75	BB+	A-3	BB+	F3	Ba1	Prime-3
Moderate medium risk	73	BB	B	BB	F3	Ba2	Prime-3
Moderate low risk	70	BB-	B	BB-	B	Ba3	Not Prime
In watchlist	65	B+	B	B+	B	B1	Not Prime
Special supervision	60	B	B	B	C	B2	Not Prime
		B-		B-		B3	
Sub-Standar	40	CCC	C	CCC	C	Caa1,2,3	Not Prime
Failure to Basel	27	D	D	DDD	D	Ca1,2,3	Not Prime
Hesitant recovery	21	D	D	DD	D	C	Not Prime
Irrecoverable credit	20	D	D	D	D	C	Not Prime

(Continued)

Use of internal estimates for purposes other than the calculation of capital requirements for credit risk

The Bank uses internal estimates to calculate allowances.

Credit risk hedging management and recognition process

The Bank has policies implemented for the evaluation of guarantees, which implies the review of each one of the elements and risks related, depending on the type, considering both the Guarantee policies and those corresponding to the Analysis and Evaluation of Credit, General Rules, based on the premise that the reduction of credit risk should be sensible and prudent to cover all obligations as these become payable, for which the Bank applies controls on the assessment of the guarantor/liable party, identifying the detail of the corporate structure and any significant aspect of subordination affecting the support provided.

The credit rating of the guarantor or liable party must be determined continuously and consistently during the term of the loan.

Control mechanisms for rating systems, including an analysis of independence, accountability and evaluation

The Bank has an application, “ScotiaCred”, used to control rating systems in which credit application and authorization processes as well as the proper and complete record of the characteristics and requirements of each guarantee are described, based on the same classification defined in the institutional Guarantee catalog.

This record enables the Bank to identify the collateral in their custody and maintain a clear separation from its own assets.

All of the guarantee data is kept up to date in time, including subsequent amendments, if any.

Internal rating process

The portfolio rating process for the determination of preventive reserves is officially regulated by the Banking Commission through Circular "General Provisions Applicable to Credit Institutions", regulatory framework.

(Continued)

The Banking Commission grants Credit Institutions the option of adopting their own methodologies, prior certification from them. The Bank decided to take that option for the determination of preventive reserves of the portion of the credit portfolio with business and corporate entities not considered special with income or net sales equal to or greater than 14 million UDIs.

The ScotiaCred system classifies the portfolios and rates credits greater than or equal to the equivalent in domestic currency equivalent to 14 million UDIs, under the internal rating methodology authorized by the Banking Commission and commercial credit portfolios with States and Municipalities and Agencies Decentralized therefrom, those of Investment Projects with their own payment source, Financial and Minor Institutions at the equivalent in local currency to14 million UDIs using the standard rating methodologies determined by the Banking Commission.

Standard Methodology Portfolios

The Bank applies the Standard Models determined by the Banking Commission:

- States and Municipalities (Appendix 18), represent 7.49 % of total portfolio.

- Investment Projects with their own payment source (Appendix 19), represents 2.40 % of total portfolio.

- Financial Sector Entities (Appendix 20) represents 21.40% of total portfolio and for Corporations and Individuals with business activity with income or sales less than 14MM UDIs (Appendix 21) represents 16.57% of total portfolio.

For portfolio with income or sales equal to or greater than 14MM UDIs, the Bank applies the internal methodology, represents 52% of total portfolio.

For the commercial loan segment rated under internal methodology a two-dimensional approach is considered to include as key risk factors for the calculation of reserves, the credit quality of the borrower translated into Probability of Default (PI for its acronym in Spanish), as well as the Loss Given Default (SP for its acronym in Spanish) of the operations, based on individual characteristics; both elements are estimated with their own historical data.

The probability of default parameter is calibrated annually based on transition matrix methodologies from the evolution of credit ratings (permanence, rate improvement or impairment and default). Severity of the loss is considered the economic loss model according to the Basilea document paragraph 460.

(Continued)

There is also a Model Validation Management which reviews and issues an independent certification on the soundness of each of the models and risk parameters used.

In order to estimate the allowances for borrowers belonging to consumer and mortgage portfolios in addition to the commercial loan portfolio not rated under internal models, the Bank uses the regulatory methodologies published in the CUB. The aforementioned estimate methodologies are based on the calculation of the Expected Loss for each of the loans from the parameters of (PI), Loss Given Default (SP) and (EI) are based on specific information and characteristics of the assessed loans.

The measurement and monitoring of the credit risk is also based on an expected and unexpected loss model.

- The expected loss represents an estimate of the probability of default, loss given default and exposure at default in a 12-month period.

- The unexpected loss is a measure of dispersion around the expected loss and is calculated on the basis of risk parameters adjusted for obtaining capital.

- Additionally, stress tests are performed for determining its impact on the portfolio's expected and unexpected loss, which are presented to and analyzed by the Risk Committee.

(Continued)

(Millions of Mexican pesos)

At the end of December 2015 and in average for the fourth quarter of 2015, the expected and unexpected loss over the Bank's total portfolio was as follows:

	December 2015	**Q4 2015**
Expected loss	4,444	4,356
Unexpected loss	25,796	24,521

For interpreting the expected and unexpected loss and by way of example, the average expected loss during the fourth quarter of 2015 was $4,356, which represents the amount the Bank expects to lose (in average) during the next twelve months by way of defaults given the characteristics of its portfolios; while the unexpected average loss was $24,521 and represents the necessary economic capital to maintain the Institution's solvency in the event of a large magnitude adverse event that has an impact on the credit portfolios.

Exposure of the loan portfolio by type of portfolio - At the end of December 2015, the total and average quarterly exposure of the loan portfolio for 2015 corresponds to the following:

	2015	
Loan portfolio exposure by portfolio	**December**	**Q4 Average**
Mortgage loans	80,302	78,784
Auto loans	13,984	13,580
Non-revolving personal loans [1/]	1,872	1,860
Revolving personal loans [2/]	7,897	7,969
Commercial loans [3/]	120,700	118,114
Total [4/]	**224,755**	**220,307**

1/ Incorporates non-revolving personal loans (Payroll and open market)
2/ Incorporates Credit Card (CC) and Scotialine (SL)
3/ Includes Commercial Portfolio Credits, States and Municipalities, the Federal Government, Investment Projects, with own payment sources, Financial Institutions and Letters of Credit
4/ Mortgages + Car + Personal + CC + SL + Total Commercial Portfolio

(Continued)

Risk Parameters (PI, SP and EI) and amounts committed not used from the credit portfolio (December 2015)

Loan portfolio [1]	**Amount committed unwilling**	**Exposure to Default (EI)[2]**	**Probability of Default (PI)[3]**	**Loss Given Default (SP)[3]**
Mortgage loans	-	78,536	1.8%	23.5%
non-revolving consumer loans	-	15,563	4.3%	65.0%
revolving [4]	19,522	10,734	10.0%	75.2%
Commercial Portfolio with Internal methodology	18,623	83,028	3.2%	53.1%
regulatory methodology of Banking Comission [5]	5,556	43,313	7.0%	43.4%
Investment Projects, with own payment sources [6]	102	2,689	6.9%	45%

**Figures in million pesos.*
1/ Excludes defaulted portfolio
2/ Determined under regulatory methodology.
3/ Weighted risk parameter from exposure to default.
4/ The difference between authorized amount and amount used is considered.
5/ Includes borrowers of Commercial Portfolio with income or sales less than 14 million UDIs, States and Cities, Federal Government, Financial Institutions and ABS Credits.
6/ PI determined implicitly upon considering reserve determined under regulatory methodology between SP (45%).

The segment of borrowers with income or sales equal to or greater than 14 million UDIs of the commercial portfolio is the only rated under internal methodologies for calculating reserves. Revolving, non-revolving and mortgage consumer credit portfolios and the rest of commercial loan portfolios are subject to the standard rating method of the Banking Commission for calculating reserves.

In the case of internal models, a retrospective analysis is periodically performed by comparing the observed outcomes to the estimates. This analysis is presented to the Risk Committee and given that the estimated parameters (PI, SP) are calibrated and validated periodically, incorporate updated information generating results consistent with those effectively observed. Additionally, actual losses have been less than estimated losses Furthermore, no inconsistent variances have been observed in actual probability of default or loss given default or other factors that increased exposure to default. Therefore, the losses observed in this portfolio have not shown relevant differences with respect to previous periods.

(Continued)

The internal credit risk parameters for commercial portfolio are estimated with borrower information, processes and systems of the Bank. The definition of default used in the internal models is consistent with that set out in article 2 bis 68 of the General Provisions Applicable to Credit Institutions (CUB) issued by the Banking Commission.

Currently the internal models of the institution are used to manage credit portfolios and for managing, monitoring and measuring the associated credit risk. They are not used to calculate capital requirements for credit risk.

Credit risk management information for the commercial portfolio

The total amount of gross credit risk exposures at the end of December 2015 broken down by major types of credit portfolio include the following:

Scotiabank Commercial portfolio total exposures (Segment)	**Exposures December 2015**
Gobernment	10,402
Global Banking & Markets	49,220
Corporate Baking	61,079
Total	**120,700**

Distribution of exposures by economic sector

The distribution of exposures by economic sector broken down by major types of exposures, including the list of current, past-due and nonperforming loans, preventive reserves for credit risks is summarized in the next page.

(Continued)

Scotiabank
Distribution of exposures by economic sector, including, nonperforming loans, past-due loans and allowances
(Figures in million pesos at December 31, 2015)

Economic sector	Loan Prtfolio		Nonperforming (SAM)		Total exposure	Allowance	Variation of allowance vs. Previous quarter (Sept 15)	Average of days past-due
	Current loans	Past-due loans	Current loans	Past-due loans				
Financial institutions	18,035	-	-	-	18,035	194	53	-
Consumer	14,131	97	2	221	14,451	252	(37)	1,031
Food and Beverages	11,345	0	103	786	12,234	514	29	299
Financial Intermediaries and Investment	11,851	-	-	106	11,957	414	161	618
Residential mortgages	9,495	11	25	380	9,911	405	(154)	596
Other	52,817	8	370	918	54,113	1,298	110	561
Total	**117,674**	**116**	**500**	**2,411**	**120,701**	**3,077**	**162**	

Note: In this period there not was written-off loans.

Distribution of exposures by region

The geographical distribution by region, including the list of the current, past-due and nonperforming loans, preventive reserves for credit risks include the following:

Scotiabank
Geographical distribution by region of commercial loans
(Figures in million pesos at December 31, 2015)

Region	Loan Prtfolio		Nonperforming (SAM)		Total exposure	Allowance
	Current loans	Current loans	Current loans	Current loans		
Center	13,969	-	93	231	14,292	325
Metropolitan	75,049	11	209	1,087	76,356	1,659
Nort	20,797	97	91	489	21,474	551
South	7,860	7	107	604	8,578	542
Total	**117,675**	**115**	**500**	**2,411**	**120,700**	**3,077**

(Continued)

The breakdown of the current and past-due portfolio as of December 2015 by remaining term is listed below:

Scotiabank
Current and past-due portfolio by remaining term
(Figures in million pesos at December 31, 2015)

Term	Current	Past-due	Total exposure
Past-due loans	-	2,526	2,526
Up to 1 year	61,844	-	61,844
1 to 2 years	9,519	-	9,519
2 to 3 years	6,225	-	6,225
3 to 4 years	10,591	-	10,591
4 to 5 years	13,781	-	13,781
Greater than 5 years	16,214	-	16,214
Total	**118,174**	**2,526**	**120,700**

List of credit risk allowances

The list of credit risk allowances classified according to Article 129 is as follows as of December 2015:

Score	Allowances (MM)
A1	364
A2	93
B1	127
B2	18
B3	346
C1	97
C2	91
D	414
E	1,526
Total	**3,076**

The reconciliation of changes in allowance for nonperforming loans as of December 2015 is listed below:

Scotiabank **Allowance for loan losses - nonperforming loans** ***(Figures in million pesos at December 31, 2015)***	**Amount**
Balance at beginning of September 2015	2,929
Provisions charged to results of operations	156
Charges to results	9
Exchange rate fluctuations	9
Repossessions	-
Applications, waivers and others	-
Balance at end of year 2015	3,094
Recoveries from written-off loans	-

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Financial Information of Consumer and mortgages Loan Portfolio

Geographical distribution of exposures by major states

The geographical distribution of exposures in major states and major exposures as of December 31, are listed below:

Scotiabank Financial information by geographical distribution of the Loan Portfolio (Millions of pesos as 31 December 2015)	Mortgage Portfolio	No Revolving Portfolio *	Revolving Portfolio	Total
Aguascalientes	737	244	66	1,047
Baja California	1,814	405	193	2,412
Baja California Sur	329	89	29	447
Campeche	144	162	46	352
Chiapas	524	357	58	939
Chihuahua	3,091	767	439	4,297
Coahuila	3,234	981	328	4,543
Colima	342	100	24	466
Distrito Federal	21,219	2,285	1,794	25,298
Durango	375	165	84	624
Estado de México	9,183	1,538	926	11,647
Guanajuato	2,421	503	223	3,147
Guerrero	443	266	74	783
Hidalgo	535	205	87	827
Jalisco	7,754	566	506	8,826
Michoacán	1,077	348	142	1,567
Morelos	888	245	123	1,256
Nayarit	351	72	42	465
Nuevo León	6,790	1,070	424	8,284
Oaxaca	320	389	107	816
Puebla	2,042	597	243	2,882
Querétaro	4,761	356	272	5,389
Quintana Roo	1,350	373	96	1,819
San Luis Potosí	1,524	336	113	1,973
Sinaloa	1,170	461	176	1,807
Sonora	2,041	537	205	2,783
Tabasco	681	285	295	1,261
Tamaulipas	1,223	709	179	2,111
Tlaxcala	47	101	26	174
Veracruz	2,333	849	383	3,565
Yucatán	1,360	382	173	1,915
Zacatecas	199	113	21	333
Total	**80,302**	**15,856**	**7,897**	**104,055**

** It Includes "Credi Disponible" Monthtly, "Credi Disponible" fortnightly, "Credi Disponible" weekely, "Credisponible" Restructures, Automotive loans, "De Volada Mercado Abierto" Bank, "De Volada Mercado Abierto" Restructures, "Fairmont", Personal loans, Overdrafts.*

(Continued)

Distribution of exposures by Product

The Distribution of exposures by Product at December 31, 2015 is as follows:

Scotiabank **Loan portfolio** ***(Figures in million pesos at December 31, 2015)***	**Mexican Pesos**	**US Dollar**	**Total**
Residential mortgages	80,121	181	80,302
Non-revolving *	15,856	-	15,856
Revolving	7,897	-	7,897

Current and past-due loan portfolio by residual maturity by Product

Scotiabank **Financial infomation for the remaining term of the loan portfolio - Current** ***(Average term)***	**Months**	**Years**
Residential mortgages	177	14
Non-revolving *	38	3
Revolving	-	-

Scotiabank **Financial infomation for the remaining term of the loan portfolio – Past-due** ***(Average term)***	**Months**	**Years**
Residential mortgages	148	12
Non-revolving*	34	2
Revolving	-	-

Scotiabank **Financial infomation for the remaining term of the loan portfolio - Total** ***(Average term)***	**Months**	**Years**
Residential mortgages	176	14
Non-revolving *	38	3
Revolving	-	-

** It Includes "Credi Disponible" Monthtly, "Credi Disponible" fortnightly, "Credi Disponible" weekely, "Credisponible" Restructures, Automotive loans, "De Volada Mercado Abierto" Bank, "De Volada Mercado Abierto" Restructures, "Fairmont", Personal loans, Overdrafts.*

(Continued)

Distribution of Current and past-due loan portfolio exposures by Product

Scotiabank **Financial infomation status of the loan portfolio** ***(Figures in million pesos at December 31, 2015)***	**Current**	**Past-due**	**Total**
Residential mortgages	77,839	2,463	80,302
Non-revolving *	15,558	298	15,856
Revolving	7,445	452	7,897

Allowance for loan losses classified under Article 129

Scotiabank **Reservas Preventivas por grado de riesgo de la Cartera Crediticia** ***(Figures in million pesos at December 31, 2015)***	**Residential mortgages**	**Non-revolving ***	**Revolving**	**Total**
A-1	115	104	65	284
A-2	66	16	88	170
B-1	15	31	255	301
B-2	19	29	63	111
B-3	17	26	46	89
C-1	50	22	51	123
C-2	39	58	112	209
D	277	79	406	762
E	750	236	177	1,163
Total	**1,348**	**601**	**1,263**	**3,212**

Variations in allowance for loan losses and written off loans durin the period

Scotiabank **Variations in allowance for loan losses** ***(Figures in million pesos)***	**September 2015**	**December 2015**	**Variation**
Residential mortgages	1,313	1,348	35
Non-revolving *	601	601	-
Revolving	1,261	1,263	2

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Nonperforming Loans by significant federal entities including the amounts of Allowance for loan losses related to each geographical area

Scotiabank Financial information by geographical distribution of the Due Portfolio (Millions of pesos as 31 December 2015)	Mortgage Portfolio		No Revolving Portfolio *		Revolving Portfolio	
	Balance	Preventive Reserve	Balance	Preventive Reserve	Balance	Preventive Reserve
Aguascalientes	19	8	3	2	4	3
Baja California	79	28	6	4	10	7
Baja California Sur	38	24	1	1	2	1
Campeche	4	2	4	3	2	2
Chiapas	36	19	7	5	4	3
Chihuahua	86	42	12	8	18	13
Coahuila	124	47	15	10	14	10
Colima	13	3	1	1	2	1
Distrito Federal	338	80	48	32	115	66
Durango	15	5	3	2	5	3
Estado de México	244	92	33	23	54	38
Guanajuato	87	22	6	4	13	10
Guerrero	51	37	5	3	5	4
Hidalgo	21	9	2	1	5	3
Jalisco	258	118	11	7	31	22
Michoacán	49	25	4	2	8	6
Morelos	69	33	3	2	7	5
Nayarit	18	10	1	1	2	1
Nuevo León	148	47	16	11	19	14
Oaxaca	22	9	11	7	7	5
Puebla	93	39	11	7	13	10
Querétaro	78	33	8	5	13	10
Quintana Roo	116	72	9	6	8	5
San Luis Potosí	40	10	4	3	5	4
Sinaloa	67	31	9	6	9	6
Sonora	59	22	8	6	11	7
Tabasco	22	10	7	5	14	10
Tamaulipas	69	33	15	10	11	7
Tlaxcala	7	5	2	1	2	2
Veracruz	129	55	23	16	27	19
Yucatán	60	35	9	5	11	8
Zacatecas	4	2	1	1	1	1
Total	**2,463**	**1,007**	**298**	**200**	**452**	**306**

Note: Nonperforming Loans is similar as Past-due loans

(Continued)

Reconciliation of changes in allowance for loan losses to nonperforming loans

Scotiabank **Variations in allowance for loan losses** ***(Figures in million pesos)***	**Residential mortgages**	**Non-revolving ***	**Revolving**
Allowance for loan losses at September 30 2015	**1,004**	**199**	**314**
Deliberance**	(92)	(102)	(176)
Transfer of current to past-due	125	38	62
Transfer of past-due to current	(50)	(16)	(35)
Decreases in the balance of reserves (includs write-offs and debt forgiveness)	16	(7)	(3)
Increases in the balance of reserves	36	88	144
Allowance for loan losses at December 31 2015	**1,039**	**200**	**306**

Note: Nonperforming Loans is similar as Past-due loans
*** They are all credits in the quarter no longer appeared for some reason as change of status on the credit card, liquidated credit, etc.*

Credit risk mitigation techniques

The Bank has policies and processes that allow it to perform a valuation of guarantees. In general, it can be considered that there are no restrictions regarding the acceptance of guarantees. However, prior to acceptance, the impacts on profitability need to be assessed and determine whether it is feasible for the guarantee to be used as a mitigants in regulatory calculations of:

- Allowance for loan losses, and
- Capital requirement

Based on an identification of the guarantees that are part of the Bank's Guarantee Management System, or if the proposal differs from the standards established in this System. The value of guarantees is determined by accurately identifying the standard valuation methodology at the beginning and during the term of the loan, depending on their type, such as formal appraisals prepared by certified experts, in the case of real estate; in the case of securities, the market value defined by the corresponding Stock Exchange.

(Continued)

The types of real guarantees accepted by the institution are: Pledge on Chattel, (Stock Market Pledge), Pledge on Unlisted Shares, Pledge on Cash Deposits in SBI, Pledge on Receivables, Pledge on Inventories in Bonded Warehouse, Pledge on Machinery, Pledge on Vehicle, Pledge on Working Capital Loan (Treasury Guarantees), Pledge on Fixed Asset Loan (Treasury Guarantees), Civil Mortgage, Industrial Mortgage, Guarantee Trust.

The types of guarantors accepted by the institution are: Jointly Liable, Guarantor, Guarantee, Guarantee Letter.

Most of the concentration of guarantees the Bank has to reduce credit risk, is in the real non-financial guarantees.

As of December 2015 the coverage of the guarantees reported by the Bank in standard and internal methodology are the following, which are applicable to Commercial Portfolio:

Scotiabank
Variations in allowance for loan losses
(Figures in million pesos)

Coverage	**Metodology**	
	Intern	**Standar**
Eligible financial collateral	1,273	1,193
Eligible non-financial collateral	13,313	4,806
Personal guarantees	57	4

For purposes of the Bank there are no credit derivatives at closing of December 31, 2015.

Policies to ensure real guarantees and establish credit reserves

The guarantees covering loans play an important role in the process of rating portfolio, depending on their type and characteristics they can contribute to improve the level of credit risk and consequently the amount of required reserves. For these purposes two types of guarantees are considered:

Personal guarantees and real guarantees.

Credits that have some of these guarantees, including the two types may adjust their Initial Rating to a higher level of risk.

(Continued)

Guarantees used to improve the credit rating in addition to the specific requirements for the type (personal or real) in general must cover the following:

- The guarantee is granted and incorporated in the form and terms established in the applicable legal provisions and internal policies of the Bank.

- When a loan is covered by real and personal guarantees: If the real guarantee is granted simultaneously by the same personal guarantor, only one of them (personal or real) can be used to improve your score, never both guarantees.

- In syndicated loans with other Credit Institutions, the Bank may agree on the following rights in the corresponding credit agreement: First in order to collect on the guarantee; or the same degree of priority in the order to collect as the other participants, in cases where the guarantee is allocated proportionally among all Institutions involved in the credit.

Credit risk of financial instruments

The Bank's credit risk management is based on the application of well-defined strategies, among which the centralization of credit processes, diversification of the loan portfolio, improved credit analysis, close monitoring and a scoring model of credit risk are highlighted, the aforementioned applied for both commercial loan portfolio transactions as well as derivative financial instruments.

In addition, the business areas continually evaluate the financial situation of each client, performing at least once a year, exhausting review and risk analysis of each loan. Should any financial situation of the client be detected as impaired, its credit rating is immediately changed. Thus, the Bank determines the changes in the risk profiles of each client. These reviews consider the overall credit risk, including financial transactions, derivative instruments and currency transactions. In the case of identified risks, additional reviews are performed more frequently, at least quarterly.

In the context of credit risk management performed by the Bank, gathering information, the execution of due diligence procedures, analysis of capacity and financial prosperity of the debtor, the establishment of appropriate structures and interest rates is essential, as well as the foreclosure, rationale and supervision processes.

Credit risk in investment securities **-** In the next page is a summary of exposures, credit quality and concentration by risk level of investment securities at the end of December 2015.

(Continued)

(Millions of Mexican pesos)

		Held-to maturity*	Available-for-sale*	Trading*-	Total by risk*	% concentration
December 2015						
mxAAA	$	3,420	31,718	20,316	55,454	94.5%
mxAA		–	151	–	151	0.3%
mxA+		–	–	–	–	–
mxBBB+		–	3,078	–	3,078	5.2%
Not rated**		–	2	7	9	–
Total	**$**	**3,420**	**34,949**	**20,323**	**58,692**	**100%**
Concentration		5.8%	59.6%	34.6%	100%	

** Figures in MXN MM*
*** It Includes: shares and mutual funds.*

Credit risk in derivative transactions

In addition to the risk measures mentioned earlier for derivative transactions, potential exposure is measured, which measures the replacement value throughout the remaining life of the contract's transaction.

Potential exposure limits by counterparty consider the current market value (only the positive that involves counterparty risk for the Bank) and the replacement value (or potential exposure) without considering acuerdos de compensación compensation agreements "netting".

Below we present the potential future exposure by counterparty credit risk and concentration by type of counterparty at the end of December 2015:

Type of counterparty	Future Potential (MM)	Concentration (%)
December 2015		
Financial institutions	3,205	87%
Corporate headquarters	485	13%
Total maximum exposure	3,690	100%

(Continued)

Methodology for setting credit limits for counterparties and capital allocation - The Bank, by establishing operating policies, defines capital allocation based on business criteria and risk appetite, i.e., customer eligibility criteria and setting maximum exposure limits are defined through the Credit Committees, considering potential future exposure by counterparty as the main risk parameter, which is estimated according to the methodology approved by the Risk Committee. The Bank's business line is responsible for analyzing and proposing according to strategy, new counterparties and their respective limits and/or the update thereof. For that, the Credit area has defined well the structure of responsibilities and powers for authorization. All proposals are analyzed considering the level of potential future exposure related to the risk profile of each counterparty and the products required for operation. Once the limits are approved, they are monitored by the UAIR and reviewed annually by the Credit area or with more frequency in case any potential risk is detected or else the line of business requests it so. The capital requirement for operations with derivatives is calculated under regulatory methodology, such is the case of the adjusted value for credit valuation or CVA.

The following table shows the gross fair value, the compensation benefit and the offset exposure at closing of December 2015. It is important to indicate that the Bank does not maintain credit derivative positions for hedging.

Type counterpart	Gross fair value* (MM)	Offset exposure (MM)
Business or commercial activity	6,065	2,921
Corporativos	322	228
Total	**6,387**	**3,149**

* *Refers to the positive value of market valuation and also represents the current potential exposure*

The above table shows mainly the exposure benefit as a result of the establishment of compensation agreements with counterparties. Such benefit represents the decrease in exposure to counterparty credit risk. These agreements allow compensating buying and selling positions for each counterparty in transactions with the same characteristics (instrument and underlying).

Also, the deposit guarantees and/or values maintained by the Bank at closing of December amount to 904 MM.

The Bank has the guidelines of Bank of Nova Scotia (parent company) to identify the risk of adverse correlation during the credit authorization process for counterparty operations.

(Continued)

Operational risk-

The operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal controls failures or deficiencies, errors in transaction processing or storage or in data transmission as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk.

The Bank has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are mentioned as follows.

Policies for operational risk management

These policies are intended for establishing the principles and management framework to identify, measure, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities and to promote a risk management culture throughout the Bank.

Operational Risk Assessment

The Bank has a structured methodology for assessing operational risk, which allows the Bank to identify, assess and mitigate the risk inherent in its processes and business activity, which is applied to the entire structure, the assessment is based on the identification of inherent operational risk, assessing the effectiveness of controls in such risks, on wich is determined a level of residual risk from which actions are set to mitigate identified risks.

Manual for Operational Risk Data Gathering and Classification.

These policies define the requirements for reporting the information that supports the measuring processes, as well as the scope of the data gathering process, the functions and responsibilities of the business units for gathering and reporting loss data, as its specific characteristics.

During the October – December 2015 period, the Bank recognized operational risk losses of $33.9, and the operational risks at closing of December, which if materialized will have a negative impact, amount to $800, $11.6 correspond to operational risk and $788.4 to legal risk. There is a 100% provision for both amounts.

Operational risk tolerance levels

This is an operational loss management tool that enables each of the Bank’s area to know the tolerance levels of losses applicable to each assumed loss event, and serves as an incentive for the improvement of the operational risk management process and the adoption of the necessary action to minimize the risk of future losses.

(Continued)

Key risk indicators (KRI).

This process allows the Bank to establish indicators from process variables, which behavior is related to the level of risk assumed. By tracking each indicator, trends are identified that allow for managing the indicator's values over time. Admissible thresholds are established for each of the selected indicators.

Calculation of capital.

The Bak uses the basic indicator method to determine the capital requirements for Operational Risk.

Estimate of legal risk losses

The Bank has a methodology for estimating expected and unexpected legal risk losses through for estimating probable losses arising from an adverse outcome of trials in process. Such methodology is based on the loss experience of previous years that is used for determining the likelihood of loss associated with the ongoing legal issues through a statistical severity and occurrence analysis.

Technological risk

Technological risk is defined as the potential loss associated with damage, interruption, modification or failure resulting from the use of hardware, software, systems, applications, networks and any other cannel for transmitting information in rendering services to the Bank's customers.

In order to attend to requirements of regulations in terms of technological risk, the Bank has technological risk management policies, which describe the guidelines and methodology for assessing technological risks. Furthermore, the DGA of Information Technology has policies, procedures and systems that contribute to compliance of the related requirements.

The technological risk methodology, which assesses vulnerabilities, considers the criticality of the information in terms of completeness, confidentiality, availability and continuity to identify the risks inherent in the technological applications and infrastructure, assess the controls in place and obtain the residual risk. As a result, the methodology sets forth a proposal of controls for mitigating the technological risk at an acceptable level.

The regular audits performed by an independent and skilled internal audit department include comprehensive reviews of the design, implementation and exploitation of the internal control systems in every business and support area, new products and systems and of the reliability and completeness of data processing operations.

(Continued)

(Millions of Mexican pesos)

Securitizations for Financial Group Scotiabank Inverlat, S.A.

The securitization operation conducted by the Bank sought to reduce risk exposure in the mortgage portfolio as a new source of funding was acquired to generate new mortgage credits.

On March 12, 2008, the Bank entered into an irrevocable trust agreement to issue stock certificates Fl744, with issuing code SCOTICB08, whose underlying assets are mortgage loans originated and transferred donated by the Bank.

According to criteria C-1 *Recognition and retirement of financial assets*, these assets were retired from the institution's balance sheet, since the requirements of risk transference and benefits inherent to ownership of financial assets were fulfilled. The institution is not responsible for the risks assumed or retained with respect to the equity of the trusts, the only responsibility is related to compliance with the obligations that are expressly provided for in the trust contract and the administration contract.

In the securitization, the Bank is the trustor while Banco Invex, S.A. acts as fiduciary.

As of December 31, 2015, the Bank maintains management of the portfolio that includes the following titles and amounts of securitization conducted by the Bank:

Securitization	Scotiabank Inverlat, S.A. (Total)		
	Number of Titles	Adjusted Nominal Value MXP$	Adjusted Nominal Value Per Title
SCOTICB08 (Issuer Key)	24,944,202	$465,053,871.98	18.643766

The ratings assigned by each rating agency at quarter end for each stock certificate issued by the trusts mentioned are presented below:

Securitization	Standard & Poor's		Fitch Ratings		Moody's	
	National	Date / Confirmation	National	Date / Confirmation	National	Date / Confirmation
SCOTICB08 (Issuer Key)	mxAAA (sf)	07.09.2014 Confirmation	AAA (mex) vra	04.29.2015 Confirmation	mxA 3 (sf)	02.12.2014 (Increasing)

As of December 31, 2015, the Bank as administrator, has not recorded significant changes in the factors that can significantly affect the performance of the assets and the source of payment of the instruments; also it has not recorded significant changes in the risk factors described in the supplement of issue.

(Continued)

(Millions of Mexican pesos)

The administration of the securitized portfolio is maintained which ensures correct application of collection policies and the securitized portfolio performance is followed up on. The main risks to which these financial instruments are exposed are: Credit Risk, Market Risk, Liquidity Risk and Operational Risk, which have been listed in previous sections. The processes implemented to oversee the changes in risks apply with the same soundness as for the portfolio in the Balance Sheet of the Bank.

Accounting policy applied

The Bank as administrator of the securitized mortgage loans, adheres to the same control and monitoring process carried out on its own mortgage portfolio; the only difference lies in the accounting records because the securitized mortgage portfolio is no longer part of the Bank's balance sheet.

The benefits on the remainder in securitization transactions are recognized in “Benefits receivable from securitization transactions” and are valued at fair value. Valuation adjustments are recognized in the income statement under "Other operating income". Subsequent recoveries related to benefits receivable are applied directly to the balance of such benefits.

The trust that recognizes the securitization is not consolidated with the Bank in accordance with the provisions of paragraph 21 in the transients section of C-5 issued by the Banking Commission on September 19, 2008.

Positions in Shares

At closing of December 2015, the share position of titles to negotiate amounts to $7.04, with a capital gain of $0.4.

During the fourth quarter, accumulated losses from sales of $0.08 were reflected. The position is as follows:

Institution	Type of quotation	Issuer	Securities	Valued amount	Cost	Capital gain/ Handicap
Scotiabank	Public	1AFCX*	20,000	2.34	2.47	0.20
Scotiabank	Public	1ATX*	7,200	1.54	1.52	0.03
Scotiabank	Public	1GSANBORB1	5,000	0.13	0.13	0.00
Scotiabank	Public	1ICHB	354	0.02	(0.03)	0.05
Scotiabank	Public	1IEWZ*	4,716	1.68	1.72	0.05
Scotiabank	Public	1IGXG*	7,994	1.03	0.95	0.08
Scotiabank	Public	1MFRISCOA1	36,800	0.30	0.31	0.00
		Total	**82,064**	**7.04**	**7.07**	**0.41**

(Continued)

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Group Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

During 2015, accumulated losses in titles for trade were reflected from sales of $2.54 as shown below:

Institution	Type of quotation	Issuer	Gain/ Loss
Scotiabank	Public	1AFCX*	(1.87)
Scotiabank	Public	1AGGBN	(0.22)
Scotiabank	Public	1AMXL	(0.09)
Scotiabank	Public	1APBRN	(0.12)
Scotiabank	Public	1ASCCO*	0.00
Scotiabank	Public	1ASURB	(0.00)
Scotiabank	Public	1ATX*	0.10
Scotiabank	Public	1AVALEN	(0.74)
Scotiabank	Public	1ETS*	0.13
Scotiabank	Public	1GENTERA	(0.08)
Scotiabank	Public	1GFINTERO	(0.00)
Scotiabank	Public	1GMEXICOB	(0.08)
Scotiabank	Public	1ICHB	0.01
Scotiabank	Public	1IEWZ*	0.24
Scotiabank	Public	1IGXG*	0.24
Scotiabank	Public	1IQQQ*	(0.02)
Scotiabank	Public	1IVOO*	(0.06)
Scotiabank	Public	1LABB	(0.00)
Scotiabank	Public	1MFRISCOA-1	0.00
Scotiabank	Public	1PE&OLES*	0.00
Scotiabank	Public	1SIMECB	0.00
Scotiabank	Public	1SITESL	0.00
		Total	**(2.56)**

The share position of titles available for sale amounts to $1.91, with a capital gain of $0.11.

Type of quotation	Issuer	Securities	Valued amount	Cost	Capital gain/ Handicap
Public	51SCOTIAGM3	695,648	1.91	1.80	0.11
With out quotation	EMPRESAS FRISCO, S.A. DE C.V.	1,222	0.00	0.00	0.00
	Total	**696,870**	**1.91**	**1.80**	**0.11**

(Continued)

(Millions of Mexican pesos)

As of December 31, for purposes of the calculation of capital index, the shares generated a capital requirement of $3, the capital return from market risk amounts to $2 and the specific risk requirement amounts to $1.

Capitalization requirements					
By general market risk	**P O S I T I O N S**			**Market risk coefficient**	**Capital requerement**
	Total Long	Total Short	Absolute position value		
	11	2	9	22.23%	2
By specific risk					
Shares basket of shares, certificates that do not grant credit	11	2	13	8.00%	1
				Total capital requerement	**3**

(24) Subsequent events-

On January 15, 2016, the Bank carried out movements resulting from agreements of the Ordinary and Extraordinary General Stockholders Meeting's held on September 23, 2015, where the transfer of trust rights of Fideicomisos Socios Liquidadores MexDer (Trust Clearing Members) to its related party Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados), as follows:

Disposal of Trust rights of the Bank in Fideicomisos Socios Liquidadores MexDer and Asigna, Compensación y Liquidación, S. A. de C. V. for $268, subject to the Bank to continue participating in these Trusts and simultaneously an increase in investment in Scotia Derivados through subscription and payment of 267,695 representative shares of the Stockholders' equity for $268.

(25) Recently issued accounting standards-

The Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) has issued the MFRS and Improvements listed below:

MFRS C-2 *"Investment in financial instruments"*- MFRS C-2 is effective for years beginning on January 1, 2018. It specific rules for the accounting recognition of investments in financial instruments, principally those held for trading purposes, and the classification of financial instruments based on the business model of an entity, for all instruments as a whole.

(Continued)

MFRS C-3 *"Accounts Receivable"*- MFRS C-3 is effective for years beginning January 1, 2018, and is applicable retrospectively; however, early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the adoption of MFRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the primary changes resulting from the adoption of this MFRS are as follows:

- MFRS C-3 provides that accounts receivable based on a contract are deemed financial instruments. On the other hand, some other accounts receivable, resulting from legal or tax provisions, may include certain characteristics of a financial instrument, such as bearing interest, though these are not deemed financial instruments.

MFRS C-9 *"Provisions, Contingencies and Commitments"*- MFRS C-9 is effective for years beginning on or after January 1, 2018; early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the initial adoption of MFRS C-19 "Financial instruments payable". MFRS C-9 supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this MFRS does not produce accounting changes in the financial statements. Some of the main points covered by this MFRS include the following:

- Its scope is reduced by moving the subject concerning the accounting treatment of financial liabilities to MFRS C-19 "Financial instruments payable".

- The definition of "liability" is changed by eliminating the qualifier "virtually unavoidable" and including the word "probable".

- The terminology employed throughout the standard is updated to standardize its presentation to the rest of the MFRS.

MFRS C-19 "Financial instruments payable"- MFRS C-19 is effective for years beginning on or after January 1, 2018 with retrospective effects and early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the adoption of MFRS C-9 and the MFRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main points covered by this MFRS include the following:

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.

- Long-term liabilities are initially recognized at present value.

- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting the net income or loss.

(Continued)

- It includes the provisions of IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", which was not provided for by the existing standard.

- The effect of extinguishing a financial liability should be presented as a financial result in the comprehensive statement of income.

- It introduces the concepts of amortized cost in valuing financial liabilities and of the effective interest method based on the effective interest rate.

MFRS C-16 *"Impairment of financial instruments receivable"*- MFRS C-16 is effective for years beginning on January 1, 2018. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

MFRS C-20 *"Financing instruments receivable"*- MFRS C-20 shall be effective for years beginning January 1, 2018, and is applicable retrospectively. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the initial adoption of MFRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main aspects resulting from the adoption of this MFRS are as follows:

- Classification of financial instruments within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.

- The valuation effect of investments in financial instruments is also focused on the business model.

- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable instruments, unless the entity changes its business model.

- An embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

(Continued)

MFRS D-3 *"Employee benefits"*- MFRS D-3 is effective for years beginning on or after January 1, 2016 with retrospective effects and early adoption is allowed as of January 1, 2015. MFRS D-3 supersedes the provisions in MFRS D-3. Main changes include the following:

- **Direct benefits** – The classification of direct short-term benefits was modified and the recognition of deferred Employee Statutory Profit Sharing (ESPS) was ratified.

- **Termination benefits** – The bases were modified for identifying when payments for the termination of a work relationship actually meet post-employment benefits or when they are termination benefits.

- **Post-employment benefits** – Among others, the following were modified: the accounting recognition of multi-employer plans; government plans and plans of entities under common control; the recognition of the net defined benefit liability (asset); the bases for determining the actuarial hypothesis in the discount rate; the recognition of the Service Cost of Past Periods (SCPP) and of the Early Settlement of Obligations (ESO).

- **Remeasurements –** In recognizing post-employment benefits, the corridor approach is eliminated in the treatment of the plan's profits and losses (PPL); therefore, they are recognized as accrued and recognized directly in Other Comprehensive Income ("ORI"), requiring their recycling to the period's net profit or loss under certain conditions.

- **Plan Asset Ceiling (PA) –** Identifies a plan asset ceiling and specifies which entity contributed funds do not qualify as such.

- **Recognition in profit or loss of PM, SR and gains or losses from Early Settlement of Obligations (ESO) –** In post-employment benefits, the totality of the Service Cost of Past Periods (SCPP) of Plan Modifications (PM), Staff Reductions (SR) and the gains or losses from Early Settlement of Obligations (ESO) are immediately recognized in profit or loss.

- **Discount rate –** Establishes that the discount rate of Defined Benefit Obligations (DBO) is based on investment grade corporate bond rates (deep market) and, in their absence, on government bond rates.

- **Termination benefits –** Requires an analysis as to whether separation payments qualify as termination benefits or are actually post-employment benefits and notes that if the benefit is non-cumulative with no preexisting granting conditions, it is a termination benefit and, therefore, it should be recognized when the event occurs. However, if preexisting conditions are present, either contractually, by law or payment practices, it is deemed a cumulative benefit and should be recognized as a post-employment benefit.

(Continued)

(Millions of Mexican pesos)

Progressive implementation of the adoption of MFRS D-3 "Employee benefits" issued by the Banking Commission

On December 31, 2015, a resolution was issued in the Official Gazette that amends the Provisions in which through the third transitory article, the Banking Commission sets out the terms to recognize changes for reformulation resulting from the adoption of the new MFRS D-3, which enters into force on January 1, 2016, and defines the term that credit institutions have to recognize in its stockholders' equity the total amount of outstanding balances to be amortized from profits or losses of defined benefit plan, as well as modifications to the plan, not yet recognized.

The resolution states that the institutions referred to in Article 2, Section I of the Credit Institutions Law, opting for the progressive implementation of the transitory article refered to, should start the recognition of the balances listed in numbering a) and b) of paragraph 81.2 of MFRS D-3, in the year 2016, recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, up to 100% within a maximum period of 5 years".

Credit institutions can apply early recognition, provided that the corresponding year the Bank recognize at least 20%, or the total amount remaining in terms of the aforementioned transitory article.

Bank´s Management has decided to take the option referred to in the aforementioned article, thus the total estimated amount of the initial unfavorable effect of the adoption of MFRS D-3 amounts to $1,938 and will be recognized over the next five years, as it is shown below. This estimate was determined using a corporate bond rate to discount the cashflows to present value. The Bank is in the process of analyzing the appropriate discount rate.

		Stockholders' equity effect Debit (credit)	
Year		Retained earnings	Remediations of defined employee's benefits
2016	$	(46.4)	434
2017		(46.4)	434
2018		(46.4)	434
2019		(46.4)	434
2020		(46.4)	434
Total	$	(232)	2,170

(Continued)

The effect recognized in the caption " Remediations of defined employee benefits", will be recycled to results during the remaining working lives of the employees.

2016 MFRS Improvements

In December 2015, CINIF issued the document referred to as "2016 MFRS Improvements", which contains precise modifications to some MFRS. The modifications that bring about accounting changes are listed below:

MFRS C-1 "Cash and cash equivalents" and MFRS B -2 "Statement of cash flows"-These modify the definition of cash and cash equivalents to agree with the definitions established in the international financial reporting standards (IFRS) and changes the term "investments available on demand" to "highly-liquid financial instruments". It also stipulates that cash on the initial and subsequent recognition should be valued at fair value, which is face value, cash equivalents should be valued at fair value on initial recognition and highly-liquid financial instruments should be valued based in the provisions of the standard for financial instruments, in accordance with the purpose for which each type of instrument is maintained. These revisions are effective for years beginning on or after January 1, 2016 and the accounting changes that arise should be recognized retrospectively.

Bulletin C-2 "Financial instruments", Document of adjustments to Bulletin C-2 (DA). MFRS B-10 "Effects of inflation" and Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities"- These modify the definition of financial instruments available for sale contained in the DA to agree with the definition contained in Bulletin C-2. Additionally, in order to homologize with IFRS: it revises the criteria to be considered when classifying a financial instrument as held to maturity; it incorporates the term "transaction costs" in substitution of the term "purchasing expenses"; it specifies where in the statement of comprehensive income recognize fair value adjustments, exchange fluctuation and the monetary position adjustment (REPOMO) related to financial instruments and modifies the DA to allow the reversal of impairment losses related to financial instruments classified as held to maturity. These revisions are effective for years beginning on or after January 1, 2016 and the accounting changes that arise should be recognized retrospectively.

MFRS C-7 "Investments in associates, joint ventures and other permanent investments"- MFRS C-7 establishes that investments or contributions in kind should be recognized based on fair value. This revision is effective for years beginning on or after January 1, 2016 and the accounting changes that arise should be recognized retrospectively.

(Continued)

Bulletin C-10 "Derivative financial instruments and hedging activities"- In order to homologize with IFRS: it specifies that throughout the hedge period, the hedge must be evaluated in terms of effectiveness; it specifies how to determine the primary position and incorporates the concept "transaction costs" and makes adjustments for the accounting recognition of such costs. These revisions are effective for years beginning on or after January 1, 2016 and the accounting changes that arise should be recognized retrospectively.

Bank's Management estimates that the effects of the new MFRS and its improvements, except for the effect of MFRS D-3 disclosed in the page before, will be immaterial in the consolidated financial statements of the Bank, because the aspects concerning the new MFRS, specific accounting criteria of the Banking Commission exist or otherwise there is no materia effect on the consolidated financial statements of the Bank.