

**GRUPO FINANCIERO
SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditor's Report thereon)

(Free Translation from Spanish Language Original)



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

The Board of Directors and Stockholders
Grupo Financiero Scotiabank Inverlat, S. A. de C. V.:

We have audited the accompanying consolidated financial statements of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries (“the Group”) 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 financial group holding companies 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 Group’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 Group’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.

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

Opinion

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

KPMG CARDENAS DOSAL, S. C.

SIGNATURE

Mauricio Villanueva Cruz

February 22, 2016.



GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Balance Sheets

December 31, 2015 and 2014

(Millions of Mexican pesos)

Assets	2015	2014	Liabilities and Stockholders' Equity	2015	2014
Cash and cash equivalents (note 5)	\$ 27,748	28,307	Deposit funding (note 14):		
Margin accounts	334	107	Demand deposits	\$ 118,583	97,836
Investment securities (note 6):			Time deposits:		
Trading	30,264	25,880	General public	62,572	59,669
Available-for-sale	35,273	32,760	Money market	17,954	6,610
Held-to-maturity	3,420	3,354	Debt securities issued	14,584	12,398
	<u>68,957</u>	<u>61,994</u>		<u>213,693</u>	<u>176,513</u>
Derivatives (note 8):			Banking and other borrowings (note 15):		
Trading purposes	4,439	5,344	Due on demand	54	236
Hedging purposes	28	53	Short-term	10,538	6,893
	<u>4,467</u>	<u>5,397</u>	Long-term	4,183	1,321
Valuation adjustment from hedging of financial assets (note 9e)	11	19		<u>14,775</u>	<u>8,450</u>
Current loan portfolio (note 9):			Creditors on repurchase/resell agreements (note 7)	38,244	37,498
Commercial loans:			Assigned securities to be settled (note 6b)	4,642	11,356
Business or commercial activity	76,393	59,423	Collateral sold or pledged (note 7)		
Financial entities	20,449	15,351	Securities lending	65	203
Government entities	8,301	5,015	Derivatives (note 8):		
	<u>105,143</u>	<u>79,789</u>	Trading purposes	6,603	6,777
Consumer loans	26,622	28,562	Hedging purposes	319	406
Residential mortgages	77,839	64,770		<u>6,922</u>	<u>7,183</u>
Total current loan portfolio	<u>209,604</u>	<u>173,121</u>	Valuation adjustments from hedging financial liabilities (note 14)	39	44
Past due loan portfolio (note 9):			Other accounts payable:		
Commercial loans:			Income tax payable	615	544
Business or commercial activity	2,420	1,498	Employee statutory profit sharing payable (note 18)	328	326
Financial entities	106	77	Creditors on settlement of transactions (notes 5 and 6)	8,360	11,768
Consumer loans	1,285	1,530	Creditors on collateral received in cash	597	612
Residential mortgages	2,463	2,810	Sundry creditors and other accounts payable	6,508	5,140
Total past due loan portfolio	<u>6,274</u>	<u>5,915</u>		<u>6,508</u>	<u>5,140</u>
Loan portfolio	<u>215,878</u>	<u>179,036</u>	Subordinated debt issued (note 1d)	2,099	2,099
Less:			Deferred credits and prepayments	1,082	1,082
Allowance for loan losses (note 9f)	7,123	6,754	Total liabilities	<u>297,969</u>	<u>262,818</u>
Total loan portfolio, net	<u>208,755</u>	<u>172,282</u>	Stockholders' equity (note 19):		
Benefits receivable from securitization transactions (note 10)	85	108	Paid-in capital:		
Other accounts receivable, net	14,449	19,082	Capital stock	4,507	4,507
Foreclosed assets, net (note 11)	68	91	Earned capital:		
Premises, furniture and equipment, net (note 12)	3,823	3,814	Statutory reserves	901	901
Permanent investments (note 13)	103	90	Retained earnings	29,011	25,035
Deferred taxes and deferred employee statutory profit sharing, net (note 18)	5,974	3,386	Unrealized result from valuation of available-for-sale securities	86	195
Other assets:			Unrealized result from valuation of cash flow hedge instruments	(159)	(173)
Deferred charges, prepaid expenses and intangibles	2,339	1,979	Net income	5,153	3,976
Other short and long term assets	355	603		<u>34,992</u>	<u>29,934</u>
	<u>2,694</u>	<u>2,582</u>	Total stockholders' equity	<u>39,499</u>	<u>34,441</u>
Total assets	\$ <u>337,468</u>	<u>297,259</u>	Commitments and contingent liabilities (note 22)		
			Subsequent events (note 24)		
			Total liabilities and stockholders' equity	\$ <u>337,468</u>	<u>297,259</u>

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GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Balance Sheets, continued

December 31, 2015 and 2014

(Millions of Mexican Pesos)

Memorandum accounts (notes 7, 9a, 9e and 20)

	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
Transactions on behalf of third parties			Transactions by own account		
Customer current accounts:			Contingent assets and liabilities	\$ 3	3
Customer banks	\$ 108	230	Assets in trust or under mandate:		
Settlement of customer transactions	(236)	30	Trusts	160,079	147,012
Other current accounts	<u>137</u>	<u>117</u>	Mandate	<u>29,082</u>	<u>28,984</u>
	<u>9</u>	<u>377</u>		<u>189,161</u>	<u>175,996</u>
Custody operations:			Assets in custody or under management	355,343	328,697
Customer securities in custody	<u>298,900</u>	<u>278,798</u>	Loan commitments	<u>346,351</u>	<u>355,695</u>
Transactions on behalf of customers:			Collaterals received by the entity:		
Securities on repurchase/resell agreements by customers	58,729	60,367	Government debt	15,495	13,084
Securities lending by customers	44	173	Net equity instruments	137	423
Collaterals received in guarantee by customers	30,634	33,145	Other securities	<u>27,223</u>	<u>26,658</u>
Collaterals delivered in guarantee by customers	<u>31,445</u>	<u>29,478</u>		<u>42,855</u>	<u>40,165</u>
	<u>120,852</u>	<u>123,163</u>	Collaterals received and sold or pledged by the entity:		
Investment banking transactions on behalf of third parties	84,515	73,688	Government debt	13,991	11,577
			Net equity instruments	<u>65</u>	<u>203</u>
				<u>14,056</u>	<u>11,780</u>
			Interest earned but not collected arising from past-due loan portfolio	<u>305</u>	<u>350</u>
			Other accounts	<u>851,409</u>	<u>620,196</u>
Total transactions on behalf of third parties	\$ <u>504,276</u>	<u>476,026</u>	Total by own account	\$ <u>1,799,483</u>	<u>1,532,882</u>

"As of December 31, 2015 and 2014, the historical capital stock amounts to \$3,111, in both dates"

See accompanying notes to consolidated financial statements.

SIGNATURE

Enrique Zorrilla Fullaondo
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance
and Business Intelligence

SIGNATURE

Agustín Corona Gabbler
Deputy General Director of
Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Statements of Income

Years ended December 31, 2015 and 2014

(Millions of Mexican pesos)

	<u>2015</u>	<u>2014</u>
Interest income (note 21b)	\$ 22,422	21,543
Interest expense (note 21b)	<u>(6,470)</u>	<u>(6,475)</u>
Financial margin	15,952	15,068
Allowance for loan losses (note 9f)	<u>(3,690)</u>	<u>(4,372)</u>
Financial margin adjusted for allowance for loan losses	<u>12,262</u>	<u>10,696</u>
Commissions and fee income (note 21c)	4,713	4,385
Commissions and fee expense	(711)	(576)
Financial intermediation income (note 21d)	322	566
Other operating income (note 21e)	2,300	2,560
Administrative and promotional expenses	<u>(13,948)</u>	<u>(13,513)</u>
	<u>(7,324)</u>	<u>(6,578)</u>
Net operating income	<u>4,938</u>	<u>4,118</u>
Equity method in the results of associated companies, net	<u>—</u>	<u>1</u>
Income before income taxes	<u>4,938</u>	<u>4,119</u>
Current income taxes (note 18)	(1,749)	(1,031)
Deferred income taxes, net (note 18)	<u>1,964</u>	<u>888</u>
	<u>215</u>	<u>(143)</u>
Net income	\$ <u>5,153</u>	<u>3,976</u>

See accompanying notes to consolidated financial statements.

"These consolidated statement of income, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the income and expenses carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"These consolidated statement 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 Financial Group."

SIGNATURE

Enrique Zorrilla
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

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2015 and 2014

(Millions of Mexican pesos)

	Capital stock	Statutory reserves	Retained earnings	Earned capital		Net income	Total stockholders' equity
				Unrealized result from valuation of available-for- sale securities	Unrealized result from valuation of cash flow hedge instruments		
Balances as of December 31, 2013	\$ 4,507	901	24,675	238	47	3,315	33,683
Changes resulting from stockholders' resolutions:							
Resolution passed at the Ordinary General Stockholders' Meeting of April 25, 2014: Appropriation of 2013 net income	-	-	3,315	-	-	(3,315)	-
Dividends declared (note 19b):							
Ordinary Annual General Stockholders' Meeting:							
March 21, 2014	-	-	(193)	-	-	-	(193)
May 23, 2014	-	-	(257)	-	-	-	(257)
August 22, 2014	-	-	(355)	-	-	-	(355)
December 8, 2014	-	-	(2,150)	-	-	-	(2,150)
	-	-	360	-	-	(3,315)	(2,955)
Changes related to the recognition of comprehensive income (note 19c):							
Net income	-	-	-	-	-	3,976	3,976
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for \$127 and \$42, respectively (notes 6b, 8 and 18)	-	-	-	(43)	(220)	-	(263)
Total comprehensive income	-	-	-	(43)	(220)	3,976	3,713
Balances as of December 31, 2014	4,507	901	25,035	195	(173)	3,976	34,441
Changes resulting from stockholders' resolutions:							
Resolution passed at the Ordinary Annual General Stockholders' Meeting of April 30, 2015: Appropriation of 2014 net income	-	-	3,976	-	-	(3,976)	-
Changes related to the recognition of comprehensive income (note 19c):							
Net income	-	-	-	-	-	5,153	5,153
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for \$41 and \$15, respectively (notes 6b, 8 and 18)	-	-	-	(109)	14	-	(95)
Total comprehensive income	-	-	-	(109)	14	5,153	5,058
Balances as of December 31, 2015	\$ 4,507	901	29,011	86	(159)	5,153	39,499

See accompanying notes to consolidated financial statements.

"These consolidated statements changes in stockholders' equity, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the movements in stockholders' equity accounts carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound 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 Financial Group."

SIGNATURE	SIGNATURE	SIGNATURE	SIGNATURE
Enrique Zorrilla Fullaondo General Director	Michael Coate Deputy General Director of Finance and Business Intelligence	Agustín Corona Gahbler Deputy General Director of Group Audit	H. Valerio Bustos Quiroz Director of Group Accounting

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

(Millions of Mexican pesos)

	<u>2015</u>	<u>2014</u>
Net income	\$ 5,153	<u>3,976</u>
Items not requiring (providing) cash flow:		
Impairment allowance (impairment reversal)		
in investing and financing activities	(27)	(12)
Depreciation of premises, furniture and equipment	403	479
Amortization of intangible assets	142	139
Provisions	3,505	4,583
Current and deferred income taxes	(215)	143
Equity method in associated companies	-	(1)
Other, mainly valuation at fair value	<u>484</u>	<u>1,422</u>
Subtotal	<u>4,292</u>	<u>6,753</u>
Operating activities:		
Change in margin accounts	(227)	(17)
Change in investment securities	(13,858)	(2,713)
Change in derivatives (asset)	(541)	(4,582)
Change in loan portfolio (net)	(40,161)	(25,062)
Change in benefits receivable from securitization transactions	59	57
Change in foreclosed assets (net)	15	(50)
Change in other operating assets (net)	6,083	(10,818)
Change in deposit funding	37,180	21,876
Change in bank and other borrowings	6,325	(3,679)
Change in creditors on repurchase / resell agreements	746	6,406
Change in collaterals sold or pledged	(135)	(26)
Change in derivatives (liabilities)	803	3,644
Change in subordinated debt issued	-	2,099
Change in other operating liabilities	(2,663)	9,271
Payments of income taxes	<u>(1,692)</u>	<u>(416)</u>
Net cash flows from operating activities	<u>(8,066)</u>	<u>(4,010)</u>
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(412)	(266)
Proceeds from sale of permanent investments	24	-
Payments for acquisition of subsidiary	(37)	(1)
Collections of cash dividends	-	2
Payments for acquisition of intangible assets	<u>(1,513)</u>	<u>(241)</u>
Net cash flows from investing activities	<u>(1,938)</u>	<u>(506)</u>
Net cash flows from financing activities for		
dividends payments in cash	<u>-</u>	<u>(2,955)</u>
Net (decrease) increase in cash and cash equivalents	(559)	3,258
Cash and cash equivalents at beginning of year	<u>28,307</u>	<u>25,049</u>
Cash and cash equivalents at end of year	\$ <u>27,748</u>	<u>28,307</u>

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the cash inflows and outflows carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound 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 Financial Group."

SIGNATURE

Enrique Zorrilla Fullaondo
General Director

SIGNATURE

Agustín Corona Gahbler
Deputy General Director
of Group Audit

SIGNATURE

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Deputy General Director of Finance and
Business Intelligence

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Director of Group
Accounting

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2015 and 2014

(Millions of Mexican pesos)

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-

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. (the Financial Group) is a subsidiary of The Bank of Nova Scotia (BNS), which owns 97.4% of its capital stock and is authorized to acquire and manage voting right stocks issued by financial and brokerage entities, auxiliary credit organizations, and other entities primarily engaged in providing complementary or auxiliary services to one or more of such financial entities.

As at December 31, 2015 and 2014, the Financial Group and its subsidiaries (the Group), which have been consolidated, are as follows:

- Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (the Bank), which in accordance with the Credit Institutions Law, is authorized to carry out multiple-service banking transactions comprising, amongst other, accept deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services. The Bank has five subsidiaries consolidable (a real estate banking company, a company of complementary banking services, an operating company listed on the Mercado Mexicano de Derivados, S. A. de C. V. (MexDer) and two trusts clearing members subscribers of stock equity shares of MexDer).
- Scotia Inverlat Casa de Bolsa, S. A. de C. V. Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), is a company authorized to act as intermediary in securities and financial transactions in accordance with the applicable laws and general dispositions issued by the National Banking and Securities Commission (the Banking Commission).
- Scotia Fondos, S. A. de C. V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Scotiabank Inverlat (the Fund Management Company), is a company authorized to act as the operator of an investment company in accordance with the applicable laws.
- Servicios Corporativos Scotia, S. A. de C. V., (SECOSA) is engaged in providing personnel and technical advisory services in areas such as: human resources, finance and legal, among others.
- Crédito Familiar, S. A. de C. V., Sociedad Financiera de Objeto Múltiple Entidad Regulada, Grupo Financiero Scotiabank Inverlat (Crédito Familiar), engaged in granting consumer loans. Crédito Familiar has two consolidating subsidiaries (a service company and an asset management company).

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GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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.

(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.

On March 25, 2015, Crédito Familiar sold a totally written-off consumer loan portfolio to Gestoradora de Carteras del Norte, S. A. de C. V., the agreed sale price at fair value was \$3, and the face value of such loan portfolio at the date was \$149. Thus, the gain of such loan portfolio sale amounted to \$3.

Likewise, on July 8, 2015, Crédito Familiar sold a totally written-off consumer loan portfolio to Gestoradora de Carteras del Norte, S. A. de C. V., the agreed sale price at fair value was \$5, and the face value of such loan portfolio at the date was \$228. Thus, the gain of such loan portfolio sale amounted to \$5.

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GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos, except otherwise indicated)

(c) *BNS's controlling interest in the Group -*

On February 23, 2015, BNS acquired, from third parties, 749,685 "B" Series shares, of the Group with a value of \$19.34 pesos per share and BNS still remains being the main Group's stockholder with a controlling interest of 97.4% of the capital stock.

(d) *Capital stock increase in the Bank-*

On June 10, 2015, the Bank's Extraordinary General Stockholders' Meeting approved to increase the variable portion of capital stock in \$480, through the issuance of 480,000,000 "F" series common shares, with a face value of one peso each one, in accordance with resolutions agreed by the Board of Directors. The Financial Group remains being the main stockholder with a controlling interest of 99.99%.

(e) *Capital stock increase in Crédito Familiar-*

On March 25, 2014, by unanimous resolution, the Group approved the subscription of 345,000,000 "B" Series common shares without nominal expression, to increase capital stock of Crédito Familiar, thus, on August 28, 2015, the Group made a contribution of capital of \$70. At December 31, 2015, \$42 are pending of payment, which will be paid as required by Crédito Familiar.

(f) *Sale of property-*

On June 12, 2015, Inmobiliaria Scotia Inverlat, S. A. de C. V. (the real estate company or Inmobiliaria), subsidiary of the Bank, 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, which was recorded in the 2015 consolidated statement of income in "Other operating income" caption.

(g) *Certificate of property tax return-*

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 amount of \$53, which was recorded in the 2015 consolidated statement of income in "Other operating income" caption.

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GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
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AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(h) Incorporation of mutual funds-

On May 6, 2015, the Fund Management Company incorporated the mutual fund called “Scotia Solución 5”, Sociedad Anónima de Capital Variable. The Fund Management Company contributed in the capital stock for \$1, such contribution is represented by minimum fixed portion of Class “A” representative shares without right for withdrawal. Such mutual fund was presented to the general public with ticker symbol SBANKDL.

On June 5, 2015, the Fund Management Company incorporated the mutual fund called “Scotia Solución 6”, Sociedad Anónima de Capital Variable. The Fund Management Company contributed in the capital stock for \$1, such contribution is represented by minimum fixed portion of Class “A” representative shares without right for withdrawal. Such mutual fund was presented to the general public with ticker symbol DYNUSA+.

(i) Acquisition of mutual funds-

On October 15, 2014, the Fund Management Company and the Bank, held an agreement to acquire all of the minimum fixed capital stock of Class “A” shares that the Bank owned from the following mutual funds, such transaction was authorized by the Commission through Official Letter 154/7541/2015 dated February 20, 2015.

Mutual funds investing in debt instruments:

- Finde 1, S. A. de C. V., (FINDE1)
- Scotia Inversiones , S. A. de C. V., (SBANKCP)
- Scotia Solución 8, S. A. de C. V., (SCOTGMP) (in 2014, Scotia para no Contribuyentes, S. A. de C. V.)
- Scotia Productivo, S. A. de C. V., (SCOTI10)
- Scotia Disponibilidad, S. A. de C. V., (SCOTIA1)
- Scotia Rendimiento, S. A. de C. V., (SCOTIA2)
- Scotia Previsional de Liquidez Restringida, S. A. de C. V., (SCOTILP)
- Scotia Plus, S. A. de C. V., (SCOTIMB)

Mutual funds investing in equity:

- Scotia Patrimonial Plus, S. A. de C. V. (SBANK50)
- Scotia Patrimonial, S. A. de C. V., (SCOT-RV)
- Scotia Inversiones Plus, S. A. de C. V., (SCOTDOL)
- Scotia Estratégico, S. A. de C. V., (SCOTI12)
- Scotia Crecimiento, S. A. de C. V., (SCOTI14)
- Scotia Indizado, S. A. de C. V., (SCOTIPC)
- Scotia Internacional, S. A. de C. V., (SCOTUSA)

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2014 Significant transactions-

(a) Sale of consumer loan portfolio-

On October 31, 2014, the Bank sold a portfolio of consumer loans 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 allowance for loan losses of \$263, thus the loss on sale of the aforementioned 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.

(b) Sale of written-off mortgage loan portfolio-

On June 30, 2014, the Bank sold a portfolio of written-off mortgage loan portfolio with face value of \$1,713; the expense 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.

(c) 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.

(d) Sale of consumer loan portfolio-

On December 18, 2014, Crédito Familiar sold a written-off consumer loan portfolio to Gestonadora de Carteras del Norte, S. A. de C. V., at market value of \$7, with face value at that date of \$379. Therefore, Crédito Familiar recognized an income and net income under the caption "Other operating income" of \$7.

Likewise, on July 18, 2014, Crédito Familiar sold written off a consumer loan portfolio to Gestonadora de Carteras del Norte, S. A. de C. V., at market value of \$4, with face value at that date of \$232. Therefore, Crédito Familiar recognized an income and net income under the caption "Other operating income" of \$4.

(e) Purchase of credit card portfolio-

On May 2, 2014, Crédito Familiar purchased a credit card portfolio from Globalcard, S. A. de C. V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada (Globalcard) (related party) with face value at that date of \$144, and an allowance for loan losses of \$38; the sale price at market value was \$109, therefore Crédito Familiar recognized a loss in the results of \$3. Globalcard provides portfolio servicing to Crédito Familiar since the date of the purchase.

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(f) Private issuance of subordinated debt-

On December 18, 2014, the Bank carried out the private issuance of 20,930,000 preferred capital subordinated debt which 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, 2014, the amount of accrued interest amounts to \$6, which was recognized under the caption "Interest expense".

(g) Incorporation of mutual fund-

On February 26, 2014, the Fund Management Company incorporated debt security a mutual fund named "Scotia Solución 3", Sociedad Anónima de Capital Variable; The Fund Management Company contributed \$1 to the mutual fund. Such contribution is represented by Class "A" representative shares (minimum fixed portion without right for withdrawal). Such mutual fund was introduced to the general public on August 8, 2014 with ticker symbol SCOTEUR.

(h) BNS's controlling interest in the Group-

On September 8, 2014, BNS acquired, from third parties, 109,493 shares, "B" Series of the Financial Group with a value of \$19.34 pesos per share and BNS still remains being the main Financial Group's stockholder with a controlling interest of 97.4% of the capital stock.

(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 (Deputy General Director of Finance and Business Intelligence), Agustín Corona Gahbler (Deputy General Director of Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying consolidated financial statements and related notes.

The Group's consolidated financial statements include those of its subsidiaries for whom exercises control: the Bank, the Brokerage Firm, the Fund Management Company, SECOSA and Crédito Familiar. Significant balances and transactions with the Group'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 Banking Commission are empowered to modify the consolidated financial statements after issuance.

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The consolidated financial statements have been prepared, based on the applicable legislation, in conformity with the accounting criteria established by the Banking Commission, for financial group holding companies in Mexico. The Banking Commission is responsible for the inspection and supervision of financial group holding companies 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 FRS 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 A-4 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.

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 in Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

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The years ended December 31, 2015 and 2014 are considered non-inflationary economic environments (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 Group'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 and the indices used to recognized inflation, is as follows:

<u>December 31,</u>	<u>UDI</u>	<u>Inflation</u>	
		<u>Annual</u>	<u>Accumulated</u>
2015	\$ 5.381175	2.10%	10.39%
2014	5.270368	4.18%	12.34%
2013	<u>5.058731</u>	<u>3.78%</u>	<u>11.76%</u>

(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 the 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 below:

- Transactions with Mexican entities: two business days after the transaction took place.
- Transactions with foreign entities: five business days after the transaction took place.

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When the notes mentioned in the last paragraph of the prior page 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 Group 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 Group.

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".

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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 Group 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 concept 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 thereof arises under the caption "Interest income".

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

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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 thereof arises under the 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 to 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".

Impairment of value of a security-

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 income under "Financial intermediation income" caption. For available-for-sale securities, the amount of loss recognized in equity is canceled.

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.

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Book 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 clearing 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 "Assigned securities to be settled".

Reclassifications between categories-

The accounting criteria allows reclassifications from held-to-maturity to available-for-sale securities, 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 Group 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.

The Group 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 Group 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.

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Should the Group, acting as repurchaser 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 repurchase agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Group acting as repurchase 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 under the caption "Collaterals received and sold or pledged by the entity", in accordance with accounting criterion B-9 "Assets in custody or under management".

(g) *Securities lending-*

At the trade date of securities lending transactions, the Group acting as lender reclassifies securities subject to lending as restricted in the consolidated balance sheet under the caption "Investments securities", while acting as borrower, securities are recognized in memorandum accounts under the caption "Collaterals received by the entity", according to the guidelines for valuation of criteria B-6 "Assets in custody and under management" of the General provisions applicable to for Brokerage Firms. The accrued premium amount, acting the Group as a lender or borrower, is recognized in the consolidated income statement, through the effective interest method over the term of the transaction under the caption "Interest income" or "Interest expense", respectively, against the caption "Securities lending" within the asset or liability, accordingly.

The financial assets received as collateral, whereby the Group acts as a lender, are recognized in memorandum accounts following the guidelines for valuation of criterion B-6 "Assets in custody and under management" of the Provisions previously mentioned; while acting as borrower, the financial assets delivered as collateral are presented as restricted under the caption "Investment securities".

In the case that the Group, as lender, prior to the maturity of the securities lending transaction sells the collateral received or the transaction value as borrower, recognizes the inflow of funds from the sale as well as the obligation to return such collateral to the lender or the transaction value to the borrower under the caption "Collateral sold or pledged", such obligation is initially measured at the agreed price and subsequently marked to market, the valuation effect is recorded in the consolidated income statement under the caption "Financial intermediation income".

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The difference between the price received and the fair value of the security subject to the transaction or the collateral received, if any at the time of the sale, is recorded under the caption “Financial intermediation income”, as applicable.

Regarding securities lending transactions wherein the financial assets granted as collateral or the value matter of the transaction acting the Group as the borrower or lender, respectively, come from collateral received in other transactions, the control of such collaterals are recorded in memorandum accounts under “Collaterals received and sold or pledged in guarantee by the entity”, following the valuation guidelines of criterion B-6 “Assets in custody or under management” of the Provisions previously mentioned.

(h) Derivatives-

Transactions with derivative financial instruments comprise those that are 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 the captions of “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.

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.

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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 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".

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.

(i) *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 consolidated financial statement caption “Other accounts receivable, net” or “Creditors on settlement of transactions”, as appropriate.

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(j) *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 memorandum 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.

An exemption exists from the rule mentioned in the last paragraph, 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 are 30 or more calendar days past-due;
 - b) If the debts refer to loans with a single payment of principal at maturity and periodic payments of interest when the respective interest payment is 90 or more calendar days past-due, or principal is 30 or more calendar days past-due;
 - c) If debts consist of loans with principal and interest periodic partial payments, including mortgage loans, when 90 or more calendar days are past-due;

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- d) If debts consist of revolving loans, when unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when 60 or more calendar days are past-due; 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 written-off when there is evidence of sustained payment.

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 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.

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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 have 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.

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 restructuring or renewals are made in compliance with the General provisions applicable to credit institutions and the viability of them is analyzed particularly.

The Group 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.

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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 income 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.

(k) Allowance for loan losses-

Allowance for loan losses represents the Group management's 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 analyzed by the Banking Commission.

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Likewise, on June 24, 2013, the Provisions established that the application of the aforementioned methodology for the creation of allowance for loan losses related to loans granted to financial institutions was since January 2014, the financial effect was the creation of additional reserves for \$15-during the application year.

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:

<u>Grade of risk</u>	<u>Range of allowance percentages</u>
A1	0.000 – 0.9%
A2	0.901 – 1.5%
B1	1.501 – 2.0%
B2	2.001 – 2.5%
B3	2.501 – 5.0%
C1	5.001 – 10.0%
C2	10.001 – 15.5%
D	15.501 – 45.0%
<u>E</u>	<u>Higher than 45.0%</u>

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.

In determining the loss given default the loan recovery rate component 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.

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

<u>Grade of risk</u>	<u>Ranges of allowance percentages</u>
A1	0.000 – 0.50%
A2	0.501 – 0.75%
B1	0.701 – 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%
<u>E</u>	<u>40.001 – 100.00%</u>

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 allowance for loan losses on December 31, 2015 and 2014, are as shown below:

<u>Grade of risk</u>	<u>Ranges of allowance percentages</u>	
	<u>Non- revolving</u>	<u>Credit cards and other revolving loans</u>
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%
<u>E</u>	<u>35.01 – 100.0%</u>	<u>Higher than 75.01%</u>

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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 Group, as well as reserves maintained as prescribed by regulations.

Write-offs – The Group 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.

(l) Credit card loyalty program-

Based on paragraph 3 of criterion A-4 “Supplementary Application of Accounting Criteria”, issued by the Banking Commission, The Group has adopted the International Financial Reporting Interpretations Committee IFRIC 13 “Customer loyalty program” of IFRS for recording credit card transactions related to the loyalty program. According 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.

(m) Other accounts receivable-

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 Group’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 to identified items and 60 days if the balances are unidentified, regardless of their chance to recovery, except for tax-related (VAT included) balances.

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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.

(n) *Securitization transactions-*

The residual benefits on the securitization transactions are recognized in “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.

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.

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Foreclosed assets and promised for sale are restricted to their book 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 Group 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 follows:

<u>Months elapsed from the date of foreclosure or received in lieu of payment</u>	<u>Reserve percentage</u>	
	<u>Real estate</u>	<u>Receivables, furniture and equipment and investment securities</u>
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%
<u>60</u>	<u>100%</u>	<u>100%</u>

(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 Group'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 Group periodically evaluates premises, furniture and equipment residual values to determine amounts to be depreciated.

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The Group 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 by the Group in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(q) *Permanent investments-*

The permanent investments where there is no control, joint 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 Group.

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.

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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.

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 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.

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(v) ***Provisions-***

Based on management's estimates, the Group 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) ***Banking 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 Group has a defined contribution pension plan, where the amounts contributed by the Group are recognized directly as expenses in the consolidated statement of income under the caption "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.

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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 consolidated income statement.

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 consolidated income statement.

(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 as well as commissions from services related to derivative transactions are recognized in income when the service is rendered in "Commission and fee income" caption.

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 collected 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.

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Income from leasing is recognized in results when the use of the premise is 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 case of currencies other than dollars are translated into dollars at the exchange rates as established in 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 date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated into pesos at the FIX exchange rate published by the Central Bank and foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(ab) Memorandum accounts-

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

Securities or transactions in custody or under management and trust operations-

Customer's securities in custody, warranty or under management are valued at fair value or in accordance with applicable accounting principles, representing the amount for which the Group is obligated to its customers against any future eventuality and are presented in the captions "Customer securities in custody" or "Assets in custody or under management", as appropriate.

Trust operations are presented in the caption "Assets in trust or under mandate".

Transactions on behalf of customers-

The amounts of securities repurchase/resell agreements and securities lending in repurchase/resell agreements that the Group undertakes for its customers is presented under the "Securities on repurchase/resell agreements by customers" caption.

Securities lending conducted by the Group on behalf of its customers are presented under the "Securities lending by customers" caption.

In the case of collaterals that the Group receives or delivers on behalf of its customers from repurchase/resell agreements, securities lending, derivatives or other, collateral received or delivered are presented under the caption "Collaterals received in guarantee by customers" and/or "Collaterals delivered in guarantee by customers" as appropriate.

The determination of the valuation of the estimated amount for the assets in management and transactions on behalf of its customers is made according to the operation carried out in accordance with the accounting criteria for brokerage firms and accounting criteria for credit institutions.

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The Group records transactions on behalf of its customers, on the trade date, regardless of its settlement.

(ac) 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.

(ad) 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.

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 the consolidated income statement within the caption "Administrative and promotional expenses".

(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 from hedging financial liabilities".

(3) Accounting changes-

I. 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 Group.

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II. 2015 MFRS and MFRS improvements-

The CINIF issued the followings MRFS and MFRS improvements, which adoption did not generate important effects in the consolidated financial statements of the Group.

MFRS

- MFRS B-8 “Consolidated or combined financial statements”
- Bulletin C-9 “Liabilities, provisions, contingent assets and liabilities and commitments”

MFRS improvements

- MFRS B-13, “Subsequent events after audit report” and Bulletin C-9, “Liabilities, provisions, contingent assets and liabilities and commitments”

III. Accounting changes in 2014

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.

Credit rating of loan portfolio granted to financial institutions

On June 24, 2013, the Banking Commission 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 allowance for loan losses 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.

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I. New MFRS and MFRS improvements 2014-

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

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 and brokerage firms 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 of the Bank computed as of the third immediately preceding month, and 15% of the net capital of the Brokerage Firm. Accordingly, at December 31, 2015 and 2014, the Bank and the Brokerage Firm maintain a position within the authorized limits.

At December 31, 2015 and 2014 the foreign currency position is analyzed as follows:

	<u>Millions of dollars</u>		<u>Equivalent in pesos</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Assets	4,114	5,267	\$ 70,961	77,643
Liabilities	<u>(4,159)</u>	<u>(5,278)</u>	<u>(71,737)</u>	<u>(77,805)</u>
Short position	<u>___(45)</u>	<u>___(11)</u>	\$ <u>___(776)</u>	<u>___(162)</u>

At December 31, 2015, the short position in foreign currency consists of 99% in U.S. dollars (91% in 2014) and 1% 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.

(Continued)

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(5) Cash and cash equivalents-

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

	<u>2015</u>	<u>2014</u>
Cash in hand	\$ 5,838	5,161
Banks:		
Domestic	730	104
Foreign	4,859	3,870
Call money	1,606	2,074
24 and 48hour foreign currency sales	(9,293)	(3,043)
Other funds available (due on demand)	15	16
Restricted funds:		
Deposits with the Central Bank	13,512	13,512
24, 48, 72 and 96-hour foreign currency purchase	10,309	6,234
Compensation fund to operate derivative instruments	<u>172</u>	<u>379</u>
	\$ <u>27,748</u>	<u>28,307</u>

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).

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As of December 31, 2015, the Group had an asset (liability) balance for foreign currency purchase and sale transactions payable at a date later than the date agreed for \$5,492 and \$(6,522), respectively, (\$1,825 and \$(4,716), respectively, As of December 31, 2014), which were recognized in settlement accounts within “Other accounts receivable, net” and “Creditors on settlement of transactions” captions, as appropriate.

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

<u>Institution</u>	<u>2015</u>			<u>2014</u>		
	<u>Amount</u>	<u>Rate</u>	<u>Term</u>	<u>Amount</u>	<u>Rate</u>	<u>Term</u>
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	<u>106</u>	<u>3.25%</u>	<u>4 days</u>	<u>1,074</u>	<u>3.00%</u>	<u>2 days</u>
	\$ <u>1,606</u>			\$ <u>2,074</u>		

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:

	<u>Receivable in pesos</u>		<u>Deliverable in pesos</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Dollar	\$ 9,874	5,858	8,521	2,190
Other currencies	<u>435</u>	<u>376</u>	<u>772</u>	<u>853</u>
	\$ <u>10,309</u>	<u>6,234</u>	<u>9,293</u>	<u>3,043</u>

At December 31, 2015 and 2014, earnings from operations of buy/sell currencies amounted to \$(167) and \$901, respectively, the valuation result amounts to \$641 in 2015 and \$(34) in 2014, which are recorded under the caption “Financial intermediation income”.

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(6) Investment securities -

(a) At December 31, 2015 and 2014, the investment securities at fair value are as follows:

	<u>2015</u>	<u>2014</u>
<u>Trading:</u>		
Debt securities:		
Government securities	\$ 28,292	22,720
Bank promissory notes	570	1,633
Others	495	335
Equity shares	<u>907</u>	<u>1,192</u>
	<u>30,264</u>	<u>25,880</u>
 <u>Available-for-sale:</u>		
Debt securities:		
Government securities	31,532	29,343
Bank promissory notes	2,950	2,366
Others	465	670
Equity shares	<u>326</u>	<u>381</u>
	<u>35,273</u>	<u>32,760</u>
 <u>Held-to-maturity:</u>		
Special CETES of the UDI Trust:		
Residential mortgages	2,275	2,209
Bonds	<u>1,145</u>	<u>1,145</u>
	<u>3,420</u>	<u>3,354</u>
Total investment securities	\$ <u>68,957</u>	<u>61,994</u>

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

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	<u>2015</u>	<u>2014</u>
<u>Trading:</u>		
<u>Unrestricted securities:</u>		
Own position:		
BI CETES	\$ 1,286	–
M BONOS	<u>34</u>	<u>–</u>
	<u>1,320</u>	<u>–</u>
Book value date sales:		
M BONOS	(13)	–
BI CETES	(24)	–
S UDIBONO	(3)	–
LD BONDES	<u>(5)</u>	<u>–</u>
	<u>(45)</u>	<u>–</u>
	<u>1,275</u>	<u>–</u>
Restricted trading securities:		
CETES delivered in guarantee	<u>1,045</u>	<u>280</u>
Under repurchase/resell agreements:		
LD BONDES	7,467	6,550
M BONOS	3,376	5,346
BI CETES	10,702	1,660
IQ BPAG91	1,062	1,263
CBUR	46	630
S UDIBONO	118	422
BPAS	–	25
IS BPA 182	55	66
IT BPAT	–	33
IM BPAG28	973	13
95 CFE 14-2	–	33
CBPC	<u>475</u>	<u>–</u>
	<u>24,274</u>	<u>16,041</u>
Book value date purchases:		
BI CETES	359	3,267
M BONOS	1,314	2,013
S UDIBONO	20	1,019
LD BONESD	<u>5</u>	<u>100</u>
	<u>1,698</u>	<u>6,399</u>
Total government securities	\$ <u>28,292</u>	<u>22,720</u>

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	<u>2015</u>	<u>2014</u>
<u>Trading (continued):</u>		
Banking notes:		
Unrestricted securities:		
BANOBRA	\$ 354	123
BANCOMEXT	<u>16</u>	<u>-</u>
Unrestricted banking notes	<u>370</u>	<u>123</u>
Restricted securities:		
Under repurchase/resell agreements:		
PRLV	142	1,250
CBBB	-	250
CEBUR	<u>58</u>	<u>10</u>
	<u>200</u>	<u>1,510</u>
Total banking notes	\$ <u>570</u>	<u>1,633</u>
Others debt securities:		
Under repurchase/resell agreements:		
91FINAECB	\$ 7	-
CBUR	439	286
CBPC	45	49
EUROBONO	<u>4</u>	<u>-</u>
Total other debt securities	\$ <u>495</u>	<u>335</u>
Equity shares:		
Unrestricted shares:		
NAFTRAC	\$ 183	142
1 ICH B	2	-
1A FCX*	2	-
1A TX*	2	-
11 EWZ*	2	-
SCOTIA G	463	248
CEMEX	5	112
Other equity shares	<u>-</u>	<u>92</u>
Carried forward	\$ <u>659</u>	<u>594</u>

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	<u>2015</u>	<u>2014</u>
<u>Trading (continued):</u>		
Brought forward	\$ 659	594
II GXG*	1	-
GMEXICO B	79	-
AMXL	7	-
APPL*	2	-
SIMEC B	3	-
VOW3 N	1	-
MGGT- N	15	-
ASUR B	<u>1</u>	<u>-</u>
	<u>768</u>	<u>594</u>
Value date sales:		
VTI	-	(146)
VEU	-	(124)
NAFTRAC	(21)	(78)
DHS	-	(65)
VTV	-	(62)
DBEU	-	(39)
DBEF	-	(33)
BTU	-	(30)
WALMEX	-	(27)
AAPL	-	(17)
GMEXICO	(2)	(2)
MO*	(3)	-
GM*	(3)	-
DB N	(42)	-
BCS N	(1)	-
NOK N	(1)	-
LIVEPOL C-1	(1)	-
SANMEX B	(1)	-
TLEVISA CPO	(1)	-
LVS*	(1)	-
XOP	(1)	-
SHV*	(6)	-
LALA B	(1)	-
BABA N	(3)	-
MGGT N	(15)	-
ALFAA	(3)	-
1 ICH B	(2)	-
Other equity shares	<u>(4)</u>	<u>(163)</u>
	<u>(112)</u>	<u>(786)</u>
Equity securities, net of value date sales **	\$	<u>(192)</u>
Subtotal, carried forward	\$ <u>656</u>	<u>-</u>

** "Assigned to securities to be settled" by its credit balance (note 6b)

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<u>Trading (continued):</u>	<u>2015</u>	<u>2014</u>
Brought forward	\$ <u>656</u>	<u>—</u>
Securities lending:		
GRUMA	16	117
NAFTRAC	21	26
TLEVISA	1	20
ALFA A	13	17
PE&OLES	—	5
CEMEX CPO	4	3
ICA *	—	3
ICHB	1	2
ALSEA *	—	2
VALE N	—	1
GMEXICO B	1	1
MEXCHEM B	5	—
SANMEX B	1	—
SIMEC B	2	—
ALPEK A	3	—
NEMAK A	2	—
ASUR B	5	—
Other equity shares	<u>—</u>	<u>7</u>
	<u>75</u>	<u>204</u>
Restricted equity shares:		
AMXL	1	—
SCOTIAG	<u>72</u>	<u>295</u>
	<u>73</u>	<u>295</u>
Carried forward	\$ <u>804</u>	<u>499</u>

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	<u>2015</u>	<u>2014</u>
<u>Trading (continued):</u>		
Brought forward	\$ <u>804</u>	<u>499</u>
Value date purchases:		
VTI	–	146
VEU	–	124
DHS	–	65
VTV	–	62
DBEU	–	39
DBEF	–	33
BTU	–	30
DIS	–	20
AXJL	–	16
DXJ	–	16
VGK	–	15
GOOG	–	14
WALMEX V	–	13
MTUM	–	13
SHV	6	13
XLK	–	13
NAFTRAC	21	11
GMEXICO B	11	1
Other equity shares	<u>65</u>	<u>49</u>
	<u>103</u>	<u>693</u>
Total equity shares	\$ <u>907</u>	<u>1,192</u>

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	<u>2015</u>	<u>2014</u>
<u>Available-for-sale:</u>		
Debt securities:		
Domestic government securities:		
LD BONDESD	\$ 2,422	1,115
BI CETES	–	684
S UDIBONO	<u>70</u>	<u>–</u>
	<u>2,492</u>	<u>1,799</u>
Foreign government securities:		
BRAZM14	1,111	408
BRAZQ28	1,767	337
BRAZG46	–	726
UMS15F	–	457
BRAZE97	<u>200</u>	<u>–</u>
	<u>3,078</u>	<u>1,928</u>
Book value date purchases (restricted securities):		
BRAZG46	<u>–</u>	<u>611</u>
Restricted securities:		
Under repurchase/resell agreements:		
LD BONDESD	23,874	25,005
M BONOS	<u>2,088</u>	<u>–</u>
	<u>25,962</u>	<u>25,005</u>
Total government debt	\$ <u>31,532</u>	<u>29,343</u>

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	<u>2015</u>	<u>2014</u>
<u>Available for sale (continued):</u>		
Banking notes:		
Own position:		
BANORTE	\$ —	1,003
BANSAN	2,950	1,000
BANOBRA	<u>—</u>	<u>363</u>
Total banking notes	\$ <u>2,950</u>	<u>2,366</u>
Other debt securities:		
CEBUR	\$ —	68
CABEI	114	451
MOLYMET	—	151
MONTP10	150	—
UFINCB	<u>201</u>	<u>—</u>
Total other debt securities	\$ <u>465</u>	<u>670</u>
Equity shares:		
BOLSA	\$ 324	379
Other equity shares	<u>2</u>	<u>2</u>
Total equity shares	\$ <u>326</u>	<u>381</u>

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	<u>2015</u>	<u>2014</u>
<u>Held-to-maturity:</u>		
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	<u>12</u>	<u>12</u>
Total special CETES (note 9d)	<u>2,275</u>	<u>2,209</u>
BONOS XL BREMSL (restricted, note 5)	-	1,145
BONOS XL BREMSR (restricted, note 5)	<u>1,145</u>	<u>-</u>
	<u>1,145</u>	<u>1,145</u>
	<u>\$ 3,420</u>	<u>3,354</u>

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 Group held an asset (liability) balance for transactions with securities settled on a date subsequent to the trade date of \$5,130 and \$(1,797), respectively, (\$12,793 and \$(7,052), respectively, as of December 31, 2014), which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions" captions, as appropriate.

The gain or loss from valuation of available-for-sale securities as of December 31, 2015, recognized in other comprehensive income within stockholders' equity amounted to (\$109) net of deferred income and deferred ESPS tax (\$43) 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 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 investment securities were as shown in the following page.

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	<u>2015</u>	<u>2014</u>
Trading	\$ 789	757
Available-for-sale	1,056	1,117
Held-to-maturity	<u>101</u>	<u>85</u>
	\$ <u>1,946</u>	<u>1,959</u>

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

	<u>2015</u>	<u>2014</u>
<u>Assigned securities to be settled:</u>		
Debt securities:		
Government securities (unrestricted):		
BI CETES	\$ 191	604
M BONOS	110	373
S UDIBONO	<u>50</u>	<u>—</u>
	<u>351</u>	<u>977</u>
Value date sales:		
Government securities:		
M BONOS	(4,729)	(8,210)
BI CETES	(112)	(2,711)
S UDIBONO	(148)	(1,120)
LD BONDESD	<u>(4)</u>	<u>(100)</u>
	<u>(4,993)</u>	<u>(12,141)</u>
(Assigned securities to be settled)		
Unrestricted securities	\$ <u>(4,642)</u>	<u>(11,164)</u>

- (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).

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

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(d) Issuers over 5% of the Brokerage Firm's global capital -

At December 31, 2015 and 2014, investments in debt securities other than governmental securities of the same issuer exceeding 5% of the Brokerage Firm's global capital are as follows:

<u>Issuer</u>	<u>Number of securities</u>	<u>Annual average rate</u>	<u>Average term in days</u>	<u>Amount</u>
<u>2015</u>				
BANOBRA	104,696,422	<u>2.85%</u>	<u>4</u>	\$ <u>105</u>
<u>2014</u>				
BANOBRA	123,311,085	2.85%	2	\$ 123
TCM	2,188,225	<u>3.29%</u>	<u>715</u>	<u>68</u>

(7) Securities on repurchase/resell agreements and securities lending-

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 Group acts as repurchasee, are analyzed in the next page.

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	<u>Debtors on</u>		<u>Creditors on</u>	
	<u>repurchase/resell agreements</u>		<u>repurchase/resell agreements</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
IQ BPAG91	\$ —	1,000	—	(968)
IP BPAS	—	—	—	(1)
BPAT	—	—	—	(33)
BPAG	—	—	(1,020)	(13)
M BONOS	—	2,500	(4,954)	(4,102)
BI CETES	—	—	(975)	(1,200)
LD BONDESD	—	6,101	(18,247)	(6,433)
CBIC	—	500	—	—
CBBBD	—	—	(250)	(250)
CBBN	—	—	(57)	(10)
CBPC	—	—	(520)	(82)
CBUR	—	—	(485)	(916)
IPAS	—	2,005	(55)	(90)
PRLV	—	—	(155)	(1,250)
S UDIBONO	—	—	(119)	(422)
	<u>—</u>	<u>12,106</u>	<u>(26,837)</u>	<u>(15,770)</u>
Collateral sold or pledged (repurchase/resell agreement)				
IQ BPAG91	—	(295)	910	—
LD BONDESD	—	(7,069)	(7,416)	(21,383)
M BONOS	—	(2,237)	2,653	—
BI CETES	—	—	(9,555)	(345)
BPAG	—	—	1,647	—
IPAS	—	(2,005)	354	—
CBIC	—	(500)	—	—
	<u>—</u>	<u>(12,106)</u>	<u>(11,407)</u>	<u>(21,728)</u>
Collateral sold or pledged (Creditors on				
repurchase/resell agreements)	\$ <u>—</u>	<u>—</u>	<u>(38,244)</u>	<u>(37,498)</u>

At December 31, 2015 and 2014, for the Bank, 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 repurchaser, and 2.94% acting as repurchasee (3.13% and 2.85% in 2014). At December 31, 2015 and 2014 for the Brokerage Firm, the terms of the repurchase/resale agreements vary between 4 and 91 days with annual weighted rates of 3.11% when acting as repurchaser and 3.00% when acting as repurchasee (3.13% and 2.88% in 2014, respectively).

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During the years ended December 31, 2015 and 2014, premiums collected by the Group amounted to \$753 and \$1,270, respectively; premiums paid amounted to \$2,024 and \$2,446, 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 Group received government securities as guarantee for over three-day repurchase agreements, which were included and recorded in memorandum accounts, as follows:

<u>Issuer</u>	<u>Series</u>	<u>Number of securities</u>	<u>Market value</u>
<u>2015:</u>			
Guarantees received:			
BI CETES	160428	3,392,804	\$ <u>34</u>
Total guarantees received			\$ <u>34</u>
<u>2014:</u>			
Guarantees received:			
IS BPA 182	180705	230,356	\$ 24
IS BPA 182	200730	145,290	15
IS BPA 182	160331	68,392	7
BI CETES	150528	791,086	-
LD BONDESD	161229	17,134	<u>2</u>
Total guarantees received			\$ <u>48</u>
Guarantees delivered:			
BI CETES	150723	2,015,962	\$ 20
BI CETES	150528	33,301	<u>-</u>
Total guarantees delivered			\$ <u>20</u>

Securities lending-

At December 31, 2015 and 2014, the Group held securities lending transactions as lender and borrower in which the values object of the transactions were sold and acquired.

The obligation to repay the lender values derived from the purchase of these securities are as shown in the following page.

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<u>2015:</u>	<u>Number of securities</u>		<u>Fair value</u>
ALFA A	375,000	\$	13
CEMEX CPO	432,622		4
GRUMA B	65,000		16
ICH B	23,400		1
SANMEX B	40,000		1
SIMEC B	40,000		1
TLEVISA CPO	38,600		4
ASUR B	24,500		6
MEXCHEM*	120,000		5
ALPEK A	130,000		3
NEMAK A	100,000		2
NAFRAC ISHRS	180,000		8
FEMSA UBD	9,186		<u>1</u>
		\$	<u>65</u>
<u>2014:</u>			
NAFTRAC	593,200	\$	25
ALFA A	520,384		17
ALPEK A	38,000		1
ALSEA *	55,000		2
FCX *	2,880		1
GMEXICO B	14,600		1
GRUMA B	747,500		117
ICA	149,210		3
ICH B	23,400		2
MEXCHEM *	60,000		3
PE&OLES *	18,041		5
SIMEC B	40,000		2
TLEVISA CPO	195,000		20
VAL N	7,800		1
CEMEX CPO	174,887		<u>3</u>
		\$	<u>203</u>

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At December 31, 2015 and 2014 the right to require the borrower securities derived from the sale of such securities, are analyzed as follows:

<u>2015:</u>	<u>Number of securities</u>	<u>Fair value</u>
ALFA A	375,000	\$ 13
CEMEXCPO	432,622	4
GRUMA B	65,000	16
ICH B	23,400	1
SANMEX B	40,000	1
SIMEC B	40,000	2
TLEVISA CPO	12,600	1
ASUR B	20,000	5
MEXCHEM*	120,000	5
ALPEK A	130,000	3
NEMAK A	100,000	2
GMEXICO B	14,600	1
NAFTRAC	482,200	<u>21</u>
		\$ <u>75</u>
<u>2014:</u>		
ALFA A	520,384	\$ 17
ALPEK A	38,000	1
ALSEA *	55,000	2
CEMEX CPO	174,887	3
FCX *	2,880	1
GMEXICO B	14,600	1
GRUMA B	745,500	117
ICA *	149,210	3
ICH B	23,400	2
MEXCHEM *	60,000	3
NAFTRAC ISHRS	593,200	26
PE&OLES *	18,041	5
SIMEC B	40,000	2
TLEVISA CPO	195,000	20
VALE N	7,800	<u>1</u>
		\$ <u>204</u>

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The range of term of the securities lending transactions as of December 31, 2015 and 2014 whereby the Group acts as a lender is 28 in each year, and acting as a borrower is 28 and 29 days, respectively.

For the years ended December 31, 2015 and 2014, premiums collected and (paid) in securities lending transactions amounted to \$5 and (\$2) as well as \$9 and (\$3), respectively, and are included in the consolidated statement of income under the captions of "Interest income" and "Interest expense", respectively.

At December 31, 2015 and 2014, the Group received equity shares securities as collateral in the securities lending transactions for \$65 and \$203, respectively. These securities are managed in memorandum accounts.

(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:

	<u>2015</u>		<u>2014</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Trading purposes:				
Foreign exchange currency forward contracts	\$ 2,019	2,045	2,771	3,135
Futures	-	-	5	-
Options	784	1,662	694	1,368
Swaps	1,581	2,875	1,873	2,268
Package of derivative instruments	<u>55</u>	<u>21</u>	<u>1</u>	<u>6</u>
	<u>4,439</u>	<u>6,603</u>	<u>5,344</u>	<u>6,777</u>
Hedging purposes:				
Fair value hedges	8	24	8	41
Cash flow hedges	<u>20</u>	<u>295</u>	<u>45</u>	<u>365</u>
	<u>28</u>	<u>319</u>	<u>53</u>	<u>406</u>
	\$ <u>4,467</u>	<u>6,922</u>	<u>5,397</u>	<u>7,183</u>

As of December 31, 2015 and 2014, the amount of losses recognized in results from the impairment of derivatives for trading purposes amounted to \$19 and \$(8) and for hedging purposes for \$8 and \$19, respectively.

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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 for the year ended on December 31, 2015, amounted to \$14 net of the deferred tax. For the year ended on December 31, 2014, the loss from valuation relating to the effective hedge portion was \$(220) net of the deferred tax, which is 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 the consolidated statement of income during the following twelve months is \$16.

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.

For the years ended December 31, 2015 and 2014, the net gain (losses) on financial assets and liabilities related to trading derivatives are \$160 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 for the year ended on December 31, 2015 amounted to \$(165) and \$641, respectively, (\$(897) and \$37 in 2014, respectively), and are presented in "Financial intermediation income".

As of December, 31 2015 and 2014, the Group foresees that all transactions to hedge forecasted cash flows are highly likely to occur.

At December 31, 2015 and 2014, the Group did not have transactions settled on a date subsequent to the trade date.

The Group 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.

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The Group 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's assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

(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:

	<u>2015</u>		<u>2014</u>	
	<u>Current</u>	<u>Past-due</u>	<u>Current</u>	<u>Past-due</u>
<u>In assets:</u>				
<u>Pesos:</u>				
Business or commercial activity	\$ 59,310	2,221	47,502	1,474
Financial institutions	20,449	81	12,841	56
Government entities	8,301	-	5,015	-
Consumer loans	26,622	1,285	28,562	1,530
Residential mortgages ⁽¹⁾	<u>77,718</u>	<u>2,404</u>	<u>64,643</u>	<u>2,745</u>
	<u>192,400</u>	<u>5,991</u>	<u>158,563</u>	<u>5,805</u>
<u>Foreign currency translated into pesos:</u>				
Business or commercial activity	17,083	199	11,921	24
Financial institutions	-	25	2,510	21
Residential mortgages	<u>121</u>	<u>59</u>	<u>127</u>	<u>65</u>
	<u>17,204</u>	<u>283</u>	<u>14,558</u>	<u>110</u>
	\$ <u>209,604</u>	<u>6,274</u>	<u>173,121</u>	<u>5,915</u>
		215,878		179,036
<u>In memorandum accounts:</u>				
Loan commitments (see note 20g)		<u>9,872</u>		<u>8,194</u>
		\$ <u>225,750</u>		<u>187,230</u>

(1) Includes loans in UDIS.

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

(b) Classification of loan portfolio by economic sector-

At December 31, 2015 and 2014, credit risk including loans, guarantees and loan commitments, (see note 20g) classified by economic sector and the percentage of concentration are analyzed as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Agriculture, forestry and fishing	\$ 6,915	3	4,711	3
Commerce and tourism	22,100	10	16,655	9
Construction and housing *	83,849	37	70,595	38
Manufacturing	38,985	17	26,803	14
Consumer loans and credit cards	27,907	13	30,092	16
Community, social and personal services mainly government entities	9,711	4	9,424	5
Financial, insurance and real estate services	35,299	16	28,128	15
Transportation, warehousing and communication	<u>984</u>	<u>—</u>	<u>822</u>	<u>—</u>
	<u>\$ 225,750</u>	<u>100</u>	<u>187,230</u>	<u>100</u>

*Includes portfolio of mortgage loans for \$80,302 in 2015 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:

	<u>2015</u>	<u>2014</u>
Receivables under financial support programs State governments, municipalities and government ministries	\$ —	67
	<u>8,301</u>	<u>4,948</u>
Total loans granted to government entities	<u>\$ 8,301</u>	<u>5,015</u>

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(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 listed below:

- (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 Groups'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 records 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.

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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:

<u>Annuity</u>	<u>Payment date</u>
First	December 1, 2011
Second	June 1, 2012
Third	June 3, 2013
Fourth	June 2, 2014
Fifth	June 1, 2015

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 Group has received three annual payments on the discounts due by the Federal Government under the Agreement; the payments dates are shown below:

<u>Payment date</u>	<u>Annuity</u>	<u>Capital</u>	<u>Interests</u>
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	<u>66</u>	<u>14</u>

Likewise, the Special Cetes currently recorded by the Group at December 31, 2015 and 2014 under “Investment securities – Held-to-maturity securities” (see note 6a), are as shown in the following page.

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<u>2015</u>	<u>Securities</u>	<u>Amount</u>	<u>Maturity date</u>
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	<u>6</u>	<u>-</u>	July 1, 2027
Total special Cetes		\$ <u>2,275</u>	
<u>2014</u>			
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	<u>6</u>	<u>-</u>	July 1, 2027
Total special Cetes		\$ <u>2,209</u>	

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

(e) *Additional loan portfolio information-*

Annual weighted lending rates:

Annual weighted loan interest rates of the Bank, non-audited, during 2015 and 2014 were as follows:

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

* Includes commercial, financial and government entities loans.

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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:

	<u>Current loans</u>	<u>Past-due loans</u>	<u>Total</u>
<u>2015</u>			
Commercial loans	\$ 2,484	538	3,022
Residential mortgages	5,906	402	6,308
Consumer loans	<u>77</u>	<u>110</u>	<u>187</u>
	\$ <u>8,467</u>	<u>1,050</u>	<u>9,517</u>
<u>2014</u>			
Commercial loans	\$ 2,404	490	2,894
Residential mortgages	5,517	563	6,080
Consumer loans	<u>271</u>	<u>96</u>	<u>367</u>
	\$ <u>8,192</u>	<u>1,149</u>	<u>9,341</u>

During 2015 and 2014, the Group carried out some modifications (change to 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 Group 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.

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During the years 2015 and 2014, the Group 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 Group during 2015 and 2014 amount to \$47 and \$271, respectively.

During the years 2015 and 2014, capitalization of interest was made 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 represents 94% of the basic capital as of September, 2015. At December 31, 2014, the Bank had three economic group debtor that exceeded such limit totaling \$18,458 and represented 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, amounts to \$18,606 and \$18,458, respectively.

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:

	<u>1 to 180</u> <u>days</u>	<u>181 to 365</u> <u>days</u>	<u>1 to 2 years</u>	<u>Over</u> <u>2 years</u>	<u>Total</u>
<u>2015</u>					
Commercial *	\$ 538	1,011	543	434	2,526
Consumer	1,207	66	8	4	1,285
Residential mortgages	<u>1,128</u>	<u>518</u>	<u>601</u>	<u>216</u>	<u>2,463</u>
	\$ <u>2,873</u>	<u>1,595</u>	<u>1,152</u>	<u>654</u>	<u>6,274</u>
<u>2014</u>					
Commercial*	\$ 620	360	403	192	1,575
Consumer	1,452	68	5	5	1,530
Residential mortgages	<u>1,406</u>	<u>519</u>	<u>590</u>	<u>295</u>	<u>2,810</u>
	\$ <u>3,478</u>	<u>947</u>	<u>998</u>	<u>492</u>	<u>5,915</u>

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

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

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 5,915	4,354
Settlements	(184)	(208)
Write-offs and debt forgiveness	(2,982)	(2,860)
Net increase, for transfers from and to current loans	3,517	4,624
Foreign exchange fluctuation	<u>8</u>	<u>5</u>
	\$ <u>6,274</u>	<u>5,915</u>

The interest on the past-due loan portfolio not recognized in results of operations for the year ended December 31, 2015 amounted to \$305 (\$350 in 2014), which are recorded in memorandum accounts.

For the years ended December 31, 2015 and 2014, the Group recorded write-offs from those past-due loans that had been fully reserved for \$2,768 and \$2,417, 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 Group obtained recoveries from written off loans for \$386 and \$718, respectively.

Additional guarantees

At December 31, 2015 and 2014, the Group 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).

Valuation adjustment from hedging of financial assets:

The fair value hedges of interest rate risk of a portion of a portfolio 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 from hedging of financial assets.

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At December 31, 2015 and 2014, the gain 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 allowance for loan losses methodologies, 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 of the Bank and Crédito Familiar, are as follows:

<u>Type of loan portfolio</u>	<u>Probability of default</u>	<u>Loss given default</u>	<u>Exposure at default</u>
<u>2015</u>			
<u>The Bank</u>			
Commercial	4.48%	54.00%	\$ 119,006
Residential mortgages	3.98%	24.40%	80,302
Personal loans	5.73%	64.79%	15,856
Revolving	<u>12.45%</u>	<u>75.27%</u>	<u>11,048</u>
<u>Crédito Familiar</u>			
Personal loans	30.31%	65%	4,080,245
Credit cards	<u>17.09%</u>	<u>75%</u>	<u>74,226</u>
<u>2014</u>			
<u>The Bank</u>			
Commercial	4.62%	52.19%	\$ 90,749
Residential mortgages	4.68%	22.41%	67,579
Personal loans	10.60%	64.80%	18,228
Revolving	<u>13.80%</u>	<u>75.18%</u>	<u>10,492</u>
<u>Crédito Familiar</u>			
Personal loans	23.59%	65%	3,956
Credit cards	<u>16.63%</u>	<u>75%</u>	<u>114</u>

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

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

<u>Grade of risk</u>	<u>Commercial</u>	<u>Financial institutions</u>	<u>Government entities</u>	<u>Consumer</u>	<u>Residential mortgages</u>	<u>Total</u>
<u>Credit rated portfolio</u>						
A-1	\$ 72,744	9,817	5,624	14,081	60,592	163,119
A-2	3,025	4,425	7	2,283	10,988	20,396
B-1	442	7,379	22	2,146	1,787	11,778
B-2	321	520	-	1,489	1,596	3,926
B-3	1,851	3,419	2,648	1,141	998	10,286
C-1	1,091	305	-	1,997	1,703	4,760
C-2	628	-	-	2,234	521	3,498
D	1,241	-	-	1,314	1,240	3,518
E	<u>1,926</u>	<u>106</u>	<u>-</u>	<u>1,222</u>	<u>877</u>	<u>4,469</u>
Total	\$ <u>83,269</u>	<u>25,971</u>	<u>8,301</u>	<u>27,907</u>	<u>80,302</u>	<u>225,750</u>
<u>Allowance for loan losses</u>						
A-1	\$ 264	72	28	170	115	650
A-2	33	59	-	106	66	265
B-1	7	121	-	290	15	432
B-2	8	11	-	96	19	133
B-3	62	117	72	84	17	352
C-1	75	22	-	180	50	327
C-2	91	-	-	306	39	436
D	414	-	-	580	261	1,255
E	<u>1,421</u>	<u>105</u>	<u>-</u>	<u>747</u>	<u>307</u>	<u>2,580</u>
Total	\$ <u>2,375</u>	<u>507</u>	<u>100</u>	<u>2,559</u>	<u>889</u>	6,430
Additional reserves for residential mortgages past-due loans						447
Operational risk allowance						33
Additional allowance for past-due accrued interest						116
Specific reserves authorized by the Banking Commission						<u>97</u>
Total allowance for loan losses						\$ <u>7,123</u>

At December 31, 2014, the credit rated loan portfolio and the allowance for loan losses are analyzed in the next page.

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<u>Grade of risk</u>	<u>Commercial</u>	<u>Financial institutions</u>	<u>Government entities</u>	<u>Consumer</u>	<u>Residential mortgages</u>	<u>Total</u>
<u>Credit rated portfolio</u>						
A-1	\$ 53,457	8,722	4,787	12,499	53,841	133,306
A-2	1,308	8,620	7	2,272	6,421	18,628
B-1	1,028	1,421	-	2,272	1,343	6,064
B-2	412	1,757	-	2,022	1,204	5,395
B-3	1,614	418	201	1,947	780	4,960
C-1	1,422	196	26	2,319	1,367	5,330
C-2	546	-	-	2,959	606	4,111
D	2,090	-	-	1,989	1,396	5,475
E	<u>1,423</u>	<u>103</u>	<u>-</u>	<u>1,813</u>	<u>622</u>	<u>3,961</u>
Total	\$ <u>63,300</u>	<u>21,237</u>	<u>5,021</u>	<u>30,092</u>	<u>67,580</u>	<u>187,230</u>

Allowance for loan losses

A-1	\$ 182	33	13	166	95	489
A-2	16	95	-	101	38	250
B-1	17	23	-	282	11	333
B-2	9	38	-	122	15	184
B-3	61	15	7	130	13	226
C-1	89	12	2	190	39	332
C-2	64	-	-	392	50	506
D	487	-	-	786	255	1,528
E	<u>1,023</u>	<u>102</u>	<u>-</u>	<u>1,036</u>	<u>180</u>	<u>2,341</u>
Total	\$ <u>1,948</u>	<u>318</u>	<u>22</u>	<u>3,205</u>	<u>696</u>	6,189

Additional allowance for residential mortgages past-due loans	367
Operational risk allowance	38
Additional allowance for past-due accrued interest	87
Specific reserves authorized by the Banking Commission	<u>73</u>
Total allowance for loan losses	\$ <u>6,754</u>

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 applied for the first 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.

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Specific allowance recognized by the Banking Commission

Through official letter number 142-2/6584/2012 dated October 15, 2012, the Banking Commission authorized the Group to create additional allowance 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 Group 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:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 6,754	5,415
Provisions charged to results of operations	3,690	4,372
Applications, waivers and others	(2,980)	(3,006)
Allowance cancellation	(332)	-
Foreclosure	(63)	(78)
Exchange rate fluctuations	<u>54</u>	<u>51</u>
Balance at end of year	\$ <u>7,123</u>	<u>6,754</u>

(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 which 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 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.

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

- Deferral 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.

The Group supported the clients who asked for the support, the supports provided by the Group, are summarized below (Deferred amount and balance forgiven 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

Therefore, the impact of non-recognition in the past-due loans derived from those customers who requested three months deferral 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 receivable on securitization transactions-

On March 13, 2008, the Group 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 Group 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.

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

The Group 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, the income from this item was \$6 and \$8, respectively.

(11) Foreclosed assets-

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

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

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

	<u>2015</u>	<u>2014</u>
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	<u>3</u>	<u>5</u>
Balance at end of year	\$ <u>(28)</u>	<u>(23)</u>

(12) Premises, furniture and equipment-

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

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	<u>2015</u>	<u>2014</u>	<u>Annual depreciation rate</u>
Land	\$ 550	571	-
Office premises	1,847	1,473	Various
Transportation equipment	21	28	25% and 33%
Transportation equipment in capital lease	44	31	33%
Computer equipment	1,720	1,121	Various
Computer equipment in capital lease	51	82	20%
Furniture and equipment	1,607	1,984	10%
Leasehold improvements	<u>2,080</u>	<u>2,365</u>	Various
	7,920	7,655	
Accumulated depreciation	<u>(4,097)</u>	<u>(3,841)</u>	
	\$ <u>3,823</u>	<u>3,814</u>	

Depreciation charged to results of operations for the years ended December 31, 2015 and 2014 amounted to \$403 and \$479, respectively.

For the year ended December 31, 2015 there was no 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 eight branches of the Bank. 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. Likewise, during the years 2015 and 2014, Crédito Familiar closed 15 and 22 branches, respectively, as a result, canceled installation expenses net of amortization which amounted to \$1 and \$5, respectively, recognizing the effect on results.

According to assessment carried out by the Group's management, 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 Group's permanent investments in equity and associate classified by activity, are analyzed as follows:

	<u>2015</u>	<u>2014</u>
Banking related services	\$ 47	48
Mutual funds	49	35
Security and protection	<u>1</u>	<u>1</u>
Other permanent investments	97	84
Derivatives market operators (associate)	<u>6</u>	<u>6</u>
	\$ <u>103</u>	<u>90</u>

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(14) Deposit funding -

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

	<u>2015</u>			<u>2014</u>		
	<u>Currency</u>			<u>Currency</u>		
	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Demand deposits:						
Bearing interest	\$ 47,760	232	47,992	42,783	137	42,920
Non-bearing interest	<u>50,948</u>	<u>19,643</u>	<u>70,591</u>	<u>41,623</u>	<u>13,293</u>	<u>54,916</u>
	<u>98,708</u>	<u>19,875</u>	<u>118,583</u>	<u>84,406</u>	<u>13,430</u>	<u>97,836</u>
Time deposits:						
General public	<u>61,977</u>	<u>595</u>	<u>62,572</u>	<u>54,304</u>	<u>5,365</u>	<u>59,669</u>
Money market:						
Certificates of deposit (CD's)	13,605	-	13,605	1,551	-	1,551
Promissory notes	<u>4,349</u>	<u>-</u>	<u>4,349</u>	<u>5,059</u>	<u>-</u>	<u>5,059</u>
	<u>17,954</u>	<u>-</u>	<u>17,954</u>	<u>6,610</u>	<u>-</u>	<u>6,610</u>
Debt securities issued:						
Bank bonds	4,981	-	4,981	1,556	-	1,556
Banking stock certificates	<u>9,603</u>	<u>-</u>	<u>9,603</u>	<u>10,842</u>	<u>-</u>	<u>10,842</u>
	<u>14,584</u>	<u>-</u>	<u>14,584</u>	<u>12,398</u>	<u>-</u>	<u>12,398</u>
Total deposit funding	\$ <u>193,223</u>	<u>20,470</u>	<u>213,693</u>	<u>157,718</u>	<u>18,795</u>	<u>176,513</u>

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

	<u>2015</u>		<u>2014</u>	
	<u>Domestic currency</u>	<u>Dollars</u>	<u>Domestic currency</u>	<u>Dollars</u>
Demand deposits	0.90%	0.05%	1.05%	0.03%
Time deposits:				
General public	2.79%	0.10%	2.96%	0.11%
Money market	<u>2.95%</u>	<u>-</u>	<u>2.55%</u>	<u>-</u>

At December 31, 2015 and 2014, money market and debt securities issued among the public investors, are as shown in the following page.

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(a) **Money market time deposits-**

At December 31, 2015 and 2014, the Group 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-

<u>Payment of interests</u>	<u>Annual rate</u>	<u>Term in days</u>	<u>Amount</u>
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	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	<u>750</u>
			11,850
Accrued interest			<u>13</u>
			<u>11,863</u>
 <u>Underlying</u>	 <u>Periods</u>		
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	<u>32</u>
			1,742
			\$ <u>13,605</u>

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2014 CD's-

<u>Payment of interests</u>	<u>Rate</u>	<u>Term in days</u>	<u>Amount</u>
28 days	TIE 28 - 0.08%	<u>196</u>	\$ 750
Accrued interest			<u>1</u>
			<u>751</u>

2014 Structured CD's-

Underlying

TIE 28	<u>364</u>	<u>800</u>
		\$ <u>1,551</u>

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

Promissory notes

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

<u>Issuance date</u>	<u>Number of securities</u>	<u>Term in days</u>	<u>Annual rate</u>	<u>Amount</u>
<u>2015</u>				
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 2015	30,228,750	90	3.07%	<u>30</u>
				4,343
Accrued interest				<u>6</u>
				\$ <u>4,349</u>

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<u>Issuance date</u>	<u>Number of securities</u>	<u>Term in days</u>	<u>Annual rate</u>	<u>Amount</u>
<u>2014</u>				
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%	<u>500</u>
				5,020
Accrued interest				<u>39</u>
				\$ <u>5,059</u>

(b) *Debt securities issued-*

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

2015 – Banking stock certificates

<u>Issuance date</u>	<u>Number of securities</u>	<u>Term in years</u>	<u>Payment of interest in days</u>	<u>Issuance proportion</u>	<u>Interest rate</u>	<u>Amount</u>
November 2015	23,000,000	5	28	9%	TIE 28 + 0.40%	\$ 2,300
October 2015	20,000,000	3	28	8%	TIE 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%	TIE 28 + 0.40%	3,450
October 2010*	3,580,000	7	28	2%	TIE 28 + 0.49%	358
December 2005*	3,000,000	13	183	3%	9.75%	<u>300</u>
						9,558
Accrued interest						<u>45</u>
						Total Banking stock certificates, to the next page \$ <u>9,603</u>

*Issued under the prior years program authorized by the Banking Commission

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2015 – Banking bonds

<u>Issuance date</u>	<u>Number of securities</u>	<u>Term in days</u>	<u>Underlying</u>	<u>Amount</u>
2015 - Total Banking stock certificates, from the previous page				\$ <u>9,603</u>
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	466,700	1,094	SXEE	46
January 2015	2,097,890	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	<u>242</u>
				<u>4,981</u>
Total debt securities issued				\$ <u>14,584</u>

Valuation adjustments from hedging financial liabilities:

The fair value hedges of interest rate risk of a portion of a portfolio 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 from hedging financial liabilities.

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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

<u>Issuance date</u>	<u>Number of securities</u>	<u>Term in years</u>	<u>Payment of interest in days</u>	<u>Issuance proportion</u>	<u>Interest rate</u>	<u>Amount</u>
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%	<u>300</u>
						10,800
Accrued interest						<u>42</u>
						\$ <u>10,842</u>

<u>Issuance date</u>	<u>Number of securities</u>	<u>Term in days</u>	<u>Underlying</u>	<u>Amount</u>
<u>2014 – Banking bonds</u>				
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	<u>242</u>
				<u>1,556</u>
				Total
				\$ <u>12,398</u>

The interest rate of structured notes is variable and without guarantee.

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(15) Banking and other borrowings-

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

	<u>2015</u>	<u>2014</u>
Due on demand	\$ <u>54</u>	<u>236</u>
Short-term:		
Domestic currency:		
Central Bank	1,100	-
Development banks ⁽¹⁾	2,049	1,898
Development agencies ⁽¹⁾	1,183	1,384
Other organizations ⁽¹⁾	3,450	2,000
Accrued interest	<u>30</u>	<u>21</u>
	<u>7,812</u>	<u>5,303</u>
Denominated in dollars, translated into pesos:		
Multiple banking	2,594	1,328
Development agencies ⁽¹⁾	111	247
Other organizations ⁽¹⁾	-	1
Development banks ⁽¹⁾	<u>21</u>	<u>14</u>
	<u>2,726</u>	<u>1,590</u>
Total short-term	<u>10,538</u>	<u>6,893</u>
Long-term:		
Domestic currency:		
Development agencies ⁽¹⁾	2,261	1,304
Multiple banking	<u>1,675</u>	<u>-</u>
	<u>3,936</u>	<u>1,304</u>
Denominated in dollars, translated into pesos:		
Development agencies ⁽¹⁾	<u>247</u>	<u>17</u>
Total long-term	<u>4,183</u>	<u>1,321</u>
Total bank and other borrowings	\$ <u>14,775</u>	<u>8,450</u>

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

At December 31, 2015 and 2014, long-term bank and other borrowings maturity dates are analyzed in the next page.

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

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

Due to the operating characteristics of the interbank loans that the Group 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 Group, loans whose limit is agreed to daily by the lender. At December 31, 2015 and 2014, the Group 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:

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

(16) Employees' benefits -

The Bank, the Brokerage Firm, the Fund Management Company, SECOSA and Crédito Familiar (the subsidiaries) have a defined benefits pension plan, applicable to all the employees whom are entitled to and meet the criteria of 60 years-old with 5 years of service or 55 years-old with 35 years of service, as established in the collective-work contract, to which they do not contribute.

The Bank, the Brokerage Firm and the Fund Management Company have also a defined contribution pension plan and post-retirement benefits, to which all employees that started working from April 1, 2006, are incorporated, being optional for employees who joined prior to such date. The plan provides for established contributions by this subsidiaries and employees, which may be fully withdrawn by employees when aged 55 years.

For the years ended December 31, 2015 and 2014, the charge to results for the Group's contributions to the defined contribution pension plan amounted to \$57 and \$59, respectively, under the caption "Administrative and promotional expenses" in the consolidated statement of income.

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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.

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

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<u>2015</u>							
Service cost	\$ 29	2	31	5	6	11	100
Financial cost	211	3	214	7	5	12	315
Expected return on plan assets	(145)	(5)	(150)	(4)	(6)	(10)	(250)
Amortization of prior service:							
Plan modifications	(14)	–	(14)	–	–	–	(14)
Net actuarial loss	<u>45</u>	<u>–</u>	<u>45</u>	<u>1</u>	<u>–</u>	<u>1</u>	<u>69</u>
Net periodic cost	126	–	126	9	5	14	220
(Income) from recognition of actuarial (gains) generated in the year	–	(6)	(6)	–	–	–	–
Effect of early reduction obligations	(4)	–	(4)	–	–	–	–
Total cost (income)	\$ <u>122</u>	<u>(6)</u>	<u>116</u>	<u>9</u>	<u>5</u>	<u>14</u>	<u>220</u>

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<u>2014</u>							
Service cost	\$ 28	2	30	5	6	11	91
Financial cost	210	4	214	6	5	11	287
Expected return on plan assets	(147)	(5)	(152)	(5)	(6)	(11)	(235)
Amortization of prior service:							
Plan modifications	(14)	–	(14)	–	–	–	(14)
Net actuarial loss	<u>44</u>	<u>–</u>	<u>44</u>	<u>1</u>	<u>–</u>	<u>1</u>	<u>60</u>
Net periodic cost	121	1	122	7	5	12	189
(Income) cost from recognition of actuarial (gains) losses generated in the year	–	(7)	(7)	–	2	2	–
Effect of early reduction obligations	(16)	–	(16)	(1)	–	(1)	–
Total cost (income)	\$ <u>105</u>	<u>(6)</u>	<u>99</u>	<u>6</u>	<u>7</u>	<u>13</u>	<u>189</u>

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

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Defined Benefit Obligations							
(DBO) as of December 31, 2014	\$ (2,654)	(43)	(2,697)	(94)	(61)	(155)	(3,871)
Current service cost	(30)	(2)	(32)	(5)	(6)	(11)	(100)
Financial cost	(211)	(4)	(215)	(7)	(5)	(12)	(315)
Paid benefits	246	1	247	11	8	19	215
Early deduction of obligations	4	—	4	—	—	—	—
Actuarial loss	—	8	8	(4)	1	(3)	90
DBO as of December 31, 2015	(2,645)	(40)	(2,685)	(99)	(63)	(162)	(3,981)
Plan assets at fair value	<u>1,725</u>	<u>49</u>	<u>1,774</u>	<u>58</u>	<u>74</u>	<u>132</u>	<u>3,128</u>
Financial situation of the fund	(920)	9	(911)	(41)	11	(30)	(853)
Past service for:							
Plan improvements	(91)	—	(91)	—	—	—	(150)
Cumulative actuarial losses	<u>855</u>	<u>—</u>	<u>855</u>	<u>31</u>	<u>—</u>	<u>31</u>	<u>1,285</u>
Net projected asset (liability) as of December 31, 2015	\$ <u>(156)</u>	<u>9</u>	<u>(147)</u>	<u>(10)</u>	<u>11</u>	<u>1</u>	<u>282</u>

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

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Projected asset, net as of							
December 31, 2014	\$ 3	22	25	(1)	16	15	503
Net periodic cost	(126)	—	(126)	(9)	(5)	(14)	(220)
Benefits paid	(37)	(19)	(56)	—	—	—	—
Income for recognition of actuarial gains (losses) generated in the year	—	6	6	—	—	—	(1)
Effect of early reduction of obligations	<u>4</u>	<u>—</u>	<u>4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net projected asset (liability), as of December 31, 2015	\$ <u>(156)</u>	<u>9</u>	<u>(147)</u>	<u>(10)</u>	<u>11</u>	<u>1</u>	<u>282</u>

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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:

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Defined Benefit Obligations							
(DBO) as of December 31, 2013	\$ (2,499)	(43)	(2,542)	(84)	(57)	(141)	(3,327)
Current service cost	(28)	(2)	(30)	(5)	(6)	(11)	(91)
Financial cost	(210)	(4)	(214)	(7)	(5)	(12)	(287)
Paid benefits	175	1	176	7	6	13	114
Early reduction obligations	16	-	16	1	-	1	-
Actuarial loss	(108)	5	(103)	(6)	1	(5)	(280)
DBO as of December 31, 2014	(2,654)	(43)	(2,697)	(94)	(61)	(155)	(3,871)
Plan assets at fair value	<u>1,936</u>	<u>65</u>	<u>2,001</u>	<u>66</u>	<u>77</u>	<u>143</u>	<u>3,182</u>
Financial situation of the fund	(718)	22	(696)	(28)	16	(12)	(689)
Past service for:							
Plan improvements	(106)	-	(106)	-	-	-	(164)
Cumulative actuarial losses	<u>827</u>	<u>-</u>	<u>827</u>	<u>27</u>	<u>-</u>	<u>27</u>	<u>1,356</u>
Net projected asset (liability), as of December 31, 2014	\$ <u>3</u>	<u>22</u>	<u>25</u>	<u>(1)</u>	<u>16</u>	<u>15</u>	<u>503</u>

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

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Net projected asset as of							
December 31, 2013	\$ 152	16	168	5	23	28	691
Net periodic cost	(121)	(1)	(122)	(7)	(5)	(12)	(189)
Withdrawals of the fund contributions	(44)	-	(44)	-	-	-	-
Income for recognition of actuarial gains and (losses)	-	7	7	-	(2)	(2)	1
Effect of early reduction obligations	<u>16</u>	<u>-</u>	<u>16</u>	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>
Net projected asset (liability), as of December 31, 2014	\$ <u>3</u>	<u>22</u>	<u>25</u>	<u>(1)</u>	<u>16</u>	<u>15</u>	<u>503</u>

The acquired benefit obligations (ABO) as of December 31, 2015 and 2014 is detailed in the following page.

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	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<u>2015</u>							
ABO	\$ (2,107)	–	(2,107)	(17)	(54)	(71)	(1,826)
<u>2014</u>							
ABO	\$ (2,020)	–	(2,020)	(16)	(52)	(68)	(1,693)

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

	<u>2015</u>	<u>2014</u>
Fair value of the assets at the beginning of year	\$ 5,327	5,135
Fund withdrawals*	(56)	(44)
Return on plan assets	243	537
Payments from the fund during the year	<u>(480)</u>	<u>(301)</u>
Fair value of the assets at the end of year	\$ <u>5,034</u>	<u>5,327</u>

* During the year 2015, the Group transferred funds from the defined benefits plan to the defined contribution plan to cover contributions of the year.

During the years ended 2015 and 2014, the expected return on the plan assets is \$410 and \$398, respectively.

During the year 2016, it is not expected to have contributions to the fund. Also, during 2016, the amount of \$58 will be withdrawn from the fund.

Below is a reconciliation of opening and final balances, and details of the present value of statutory severance compensation obligations as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Acquired benefit obligations (ABO)	\$ <u>(317)</u>	<u>(312)</u>
DBO at beginning of year	(312)	(306)
Current service cost	(22)	(21)
Financial cost	(23)	(24)
Benefits paid	69	103
Actuarial loss	<u>(29)</u>	<u>(64)</u>
DBO at December 31, financial situation of the fund and projected liability, net	\$ <u>(317)</u>	<u>(312)</u>

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The net cost of statutory severance compensation for the years ended December 31, 2015 and 2014, amounted to \$74 and \$109, respectively.

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

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

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

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

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

	<u>Annual rate</u>	<u>DBO medical expenses for retirees</u>
Without modification	6.5%	\$ 3,335
1% increase in medical inflation rate	7.5%	3,968
1% decrease in medical inflation rate	<u>5.5%</u>	<u>2,726</u>

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 is shown in the following page.

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	<u>Pensions</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
DBO	\$ (2,542)	(2,445)	(2,097)
Plan assets	<u>1,994</u>	<u>2,001</u>	<u>1,849</u>
Financial situation of the fund	\$ <u>(548)</u>	<u>(444)</u>	<u>(248)</u>
Variances in assumptions and experience adjustments	\$ <u>827</u>	<u>501</u>	<u>297</u>
	<u>Seniority premiums</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
DBO	\$ (141)	(135)	(114)
Plan assets	<u>150</u>	<u>146</u>	<u>128</u>
Financial situation of the fund	\$ <u>9</u>	<u>11</u>	<u>14</u>
Variances in assumptions and experience adjustments	\$ <u>27</u>	<u>17</u>	<u>11</u>
	<u>Medical expenses, food coupons and life insurance</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
OBD	\$ (3,327)	(3,060)	(2,632)
Plan assets	<u>2,988</u>	<u>2,814</u>	<u>2,497</u>
Financial situation of the fund	\$ <u>(339)</u>	<u>(246)</u>	<u>(135)</u>
Variances in assumptions and experience adjustments	\$ <u>1,356</u>	<u>1,051</u>	<u>733</u>
	<u>Statutory severance compensation</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
DBO	\$ <u>(306)</u>	<u>(293)</u>	<u>(268)</u>
DBO losses	\$ <u>(67)</u>	<u>(91)</u>	<u>(52)</u>

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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 follows:

	<u>Pensions</u>		<u>Seniority premium</u>		<u>Medical expenses, food coupons, life insurance, for retirees</u>	<u>Statutory severance compensation</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Retirement</u>	<u>Termination</u>		
<u>Bank:</u>						
Prior service –plan improvements	7.28	–	8.22	–	12.73	–
Actuarial loss (gain), net	12.56	1	10.22	–	14.95	7.87
<u>Brokerage Firm:</u>						
Plan improvements	NA	–	N/A	N/A	N/A	N/A
Actuarial loss (gain), net	10.45	–	8.94	8.94	14.23	7.63
<u>The Fund Management Company:</u>						
Actuarial loss (gain), net	N/A	N/A	9.75	1	15.11	1
<u>SECOSA:</u>						
Actuarial loss (gain), net	N/A	N/A	16.04	1	1	24.15
<u>Crédito Familiar:</u>						
Actuarial loss (gain), net	18.19	N/A	18.06	1	N/A	N/A

(17) Related-party transactions-

During the normal course of business, the Group 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 Group'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.

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 credit operations 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 must not to exceed 35% the basic portion of the net capital. The loans granted to related parties 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.

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For the years ended December 31, 2015 and 2014, the benefits granted to senior management amounted to \$197 and \$180, respectively.

(18) Income taxes and employee's 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 as follows:

	<u>2015</u>		<u>2014</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
Current IT:				
Bank and subsidiaries	\$ 774	254	805	256
Reversed provisions from 2014 and 2013, (the Bank and Brokerage firm)	(57)	(5)	(8)	(3)
IT additional provision	759	-	-	-
Brokerage firm	60	28	102	35
The Fund Management Company	87	-	85	-
SECOSA	23	(7)	13	2
Crédito Familiar	<u>103</u>	<u>2</u>	<u>34</u>	<u>-</u>
	1,749	272	1,031	290
Deferred	<u>(1,964)</u>	<u>(568)</u>	<u>(888)</u>	<u>(271)</u>
	\$ <u>(215)</u>	<u>(296)</u>	<u>143</u>	<u>19</u>

The Group does not consolidate the tax results with its subsidiaries, therefore the information presented below is for informational purposes only.

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

Deferred IT and ESPS:

The deferred asset and the favorable effect (unfavorable) in results and Stockholders' equity of deferred IT and ESPS at December 31, 2015 and 2014 are comprised of the items shown in the next page.

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	<u>2015</u>		<u>2014</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
<i>Deferred tax assets</i>				
Valuation of financial instruments:				
Trading	\$ 331	110	67	21
Available-for-sale	(43)	(14)	(98)	(34)
Cash flow hedge swaps	75	25	89	30
Expense accruals and others	438	80	429	106
Premises, furniture and equipment	(41)	49	(42)	54
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	3,118	960
Future loan write-offs	<u>2,321</u>	<u>642</u>	<u>-</u>	<u>-</u>
	5,558	1,717	4,119	1,323
Valuation allowance ⁽¹⁾	<u>(976)</u>	<u>(325)</u>	<u>(1,542)</u>	<u>(514)</u>
	\$ <u>4,582</u>	<u>1,392</u>	<u>2,577</u>	<u>809</u>
	\$ <u>5,974</u>		<u>3,386</u>	

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

	<u>2015</u>		<u>2014</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
<i>Favorable (unfavorable) effect</i>				
Valuation of financial instruments:				
Trading	\$ 264	89	41	12
Available-for-sale	55	20	21	6
Cash flow hedge swaps	(14)	(5)	106	36
Expense accruals and others	9	(26)	(51)	(19)
Premises, furniture and equipment	1	(5)	24	2
Unearned fees collected	32	11	37	12
Pension plan	101	33	103	35
Foreclosed assets	(46)	(16)	5	2
Allowance in excess ⁽²⁾	-	-	729	227
Future loan write-offs ⁽²⁾	<u>1,603</u>	<u>482</u>	<u>-</u>	<u>-</u>
	\$ <u>2,005</u>	<u>583</u>	<u>1,015</u>	<u>313</u>
	\$ <u>2,588</u>		<u>1,328</u>	

(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).

(2) Net of valuation allowance

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	2015		2014	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
<i>Deferred tax:</i>				
In statement of income	\$1,964	568	888	271
In stockholders' equity:				
Valuation in available-for-sale securities	55	20	21	6
Valuation of cash flow hedge swaps	<u>(14)</u>	<u>(5)</u>	<u>106</u>	<u>36</u>
	<u>\$2,005</u>	<u>583</u>	<u>1,015</u>	<u>313</u>
	<u>\$ 2,588</u>		<u>1,328</u>	

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

	IT			ESPS at 10%
	Tax Base	Tax at 30%	Effective rate	
<u>December 31, 2015</u>				
Operating income	\$ 4,202	(1,261)	(30%)	(420)
<i>Allocation to current tax:</i>				
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	<u>190</u>	<u>(57)</u>	<u>(2%)</u>	<u>(19)</u>
Current tax, carried forward	<u>\$ 2,421</u>	<u>(726)</u>	<u>(17%)</u>	<u>(254)</u>

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

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	IT			ESPS at 10%
	Tax Base	Tax at 30%	Effective rate	
Current tax, brought forward	\$ <u>2,421</u>	<u>(726)</u>	<u>(17%)</u>	<u>(254)</u>
<i>Allocation to deferred tax:</i>				
<i>(30% tax and 10% ESPS)</i>				
Mark to market of investment securities	(458)	137	3%	46
Provisions and others	(421)	127	3%	11
Premises, furniture and equipment	49	(15)	-	(5)
Pension plan	(337)	101	2%	34
Foreclosed assets	153	(46)	(1%)	(15)
Unearned fees collected	(106)	32	1%	10
Future loan write-offs	<u>(4,815)</u>	<u>1,445</u>	<u>34%</u>	<u>482</u>
Deferred tax	<u>(5,935)</u>	<u>1,781</u>	<u>42%</u>	<u>563</u>
Income tax	\$ <u>(3,514)</u>	<u>1,055</u>	<u>25%</u>	<u>309</u>
 <u>December 31, 2014</u>				
Operating income	\$ 3,202	(961)	(30%)	(320)
<i>Allocation to current tax:</i>				
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 ⁽¹⁾	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	<u>(214)</u>	<u>65</u>	<u>2%</u>	<u>21</u>
Current tax, carried forward	\$ <u>2,591</u>	<u>(777)</u>	<u>(24%)</u>	<u>(256)</u>

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

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	<u>IT</u>			ESPS at 10%
	<u>Tax Base</u>	<u>Tax at 30%</u>	<u>Effective rate</u>	
Current tax, brought forward	\$ <u>2,591</u>	<u>(777)</u>	<u>(24%)</u>	<u>(256)</u>
<i>Allocation to deferred tax:</i>				
<i>(30% tax and 10% ESPS)</i>				
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⁾	<u>(2,275)</u>	<u>682</u>	<u>21%</u>	<u>227</u>
Deferred tax	<u>(2,764)</u>	<u>829</u>	<u>26%</u>	<u>272</u>
Income tax	\$ <u>(173)</u>	<u>52</u>	<u>2%</u>	<u>16</u>

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.

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.

(19) Stockholders' equity-

(a) Structure of capital stock -

As of December 31, 2015 and 2014, the common shares without par value that integrated the social capital were as follow:

	<u>Series "F"</u>	<u>Series "B"</u>	<u>Total</u>
Subscribed and paid-in shares*	1,660,376,400	1,358,489,782	3,018,866,182
Treasury shares not paid	<u>158,215,942</u>	<u>129,449,407</u>	<u>287,665,349</u>
	<u>1,818,592,342</u>	<u>1,487,939,189</u>	<u>3,306,531,531</u>

*Representing the minimum fixed and variable portion of capital stock.

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(b) Dividends declared-

For the year ended December 31, 2015 the Group did not declare nor paid dividends to BNS. At December 31, 2014, the Group declared and paid dividends to BNS as shown below:

<u>Date of decree</u>	<u>Amount decree</u>	<u>Payment date in 2014</u>	<u>Amount</u>
08-Dec-14	\$ 2,150	08-Dec-14	\$ 2,150
22-Aug-14	70	22-Aug-14	70
22-Aug-14	285	22-Aug-14	285
23-May-14	257	23-May-14	257
21-Mar-14	193	21-Mar-14	<u>193</u>
			\$ <u>2,955</u>

At December 31, 2015 and 2014, there are not unpaid dividends.

(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 Group 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 of its subsidiaries, the Bank and the Brokerage Firm.

(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 Group'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.

In conformity with the General Corporations Law, 5% of the Financial Group's net income for the year must be appropriated to the statutory reserves until such reserves reach 20% of the paid-in capital. At December 31, 2015 the statutory reserve was \$901, which had reached the required percentage of 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, non-audited), and the net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN, non-audited), of the Group amount to \$23,220 and \$13,055, respectively.

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The retained earnings of subsidiaries may not be distributed to the Financial Group's stockholders until these are received as dividends. Dividends paid from profits generated from January 1, 2014 to individuals and to person's resident abroad are subject to an additional tax of 10% definitively.

(e) **Capitalization (non-audited)-**

The Commission requires brokerage firms to maintain a minimum capital as a percentage of assets at risk. The percentage is calculated by applying certain specific percentages according to the level of risk assigned, in conformity with the rules established by the Central Bank. The Brokerage Firm's global capital at December 31, 2015 and 2014 was \$1,278 and \$1,175, respectively.

At December 31, 2015 and 2014, the Bank maintained a capitalization index in excess of 10.5%; accordingly, therefore it is classified as Category I in both years in accordance with article 220 of the Provisions, which 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 (non-audited amounts and capitalization index rated by the Central Bank):

Capital as of December 31 of the Bank:

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

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Equity and supplementary ratios

	<u>2015</u>	<u>2014</u>
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%
Specific institutional supplement	7.0%	7.0 %
Supplement capital conservation	2.5%	2.5%
Tier 1 common equity available to cover supplements	<u>5.2%</u>	<u>5.2%</u>

Limits applicables to the inclusion of reserves in supplementary capital:

Provisions eligible for inclusion in supplementary capital in respect of exposures subject to the standardized methodology (prior to apply the limit)	\$ 34	213
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Limits applicables to the inclusion of reserves in supplementary capital under standardized methodology	\$ 1,141	965
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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	19
Capital requirement for Vega impact	<u>242</u>	<u>626</u>
Total market risk, to the next page	\$ <u>29,211</u>	<u>2,337</u>

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	<u>Risk weighted assets</u>	<u>Capital requirement</u>
Total market risk, from the previous page	\$ <u>29,211</u>	<u>2,337</u>
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%)	<u>5,753</u>	<u>460</u>
Total credit risk	<u>196,298</u>	<u>15,704</u>
Weighted assets subject to risk and capital requirement from operational risk	<u>29,031</u>	<u>2,322</u>
Total market, credit and operational risk	\$ <u>254,540</u>	<u>20,363</u>
Annual average of positive net income for the past 36 months		\$ <u>15,483</u>

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Weighted 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 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	<u>374</u>	<u>30</u>
Total market risk	<u>22,553</u>	<u>1,804</u>
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%)	<u>7,777</u>	<u>622</u>
Total credit risk, carried forward	<u>\$ 167,283</u>	<u>13,382</u>

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	<u>Risk weighted assets</u>	<u>Capital requirement</u>
Total credit risk, brought forward	\$ <u>167,283</u>	<u>13,382</u>
Weighted assets subject to operational risk	<u>23,551</u>	<u>1,884</u>
Total market, credit and operational risk	\$ <u>213,387</u>	<u>17,070</u>
Average requirement for market risk and credit of the past 36 months		\$ <u>12,560</u>
Annual average of positive net income for the past 36 months		\$ <u>14,339</u>

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 an income increase in 2015 of \$1,258 compared to year 2014.

Capital adequacy is monitored through capitalization index projections which consider monthly follow up on the main Bank's operating limits determined based on the net capital, in order to avoid 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:

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

(f) Capital management-

To evaluate the capital adequacy, the Bank has an Exposition Plan which 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.

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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 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.

Likewise annual stress tests as established by the Banking Commission 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 macroeconomic 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.

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(20) Memorandum accounts-

(a) Securities on repurchase / resell agreements on behalf of customers-

At December 31, 2015 and 2014, the repurchase/resell transactions of customers are comprised as follows:

	2015		2014	
	Number of Securities	Fair value	Number of securities	Fair value
BG91	53,869,898	\$ 5,395	14,225,677	\$ 1,417
BPAG	17,121,622	1,707	3,606	–
BPAS	-	-	10,040	1
CBBN	576,671	58	100,000	10
CBPC	-	-	330,391	33
CBUR	9,149,102	912	2,704,503	271
CTIM	2,403,899,451	23,795	191,304,282	1,887
IPAS	-	-	10,581,546	1,069
LBON	257,750,990	25,720	506,636,098	50,519
MBON	9,111,148	1,000	33,045,146	3,826
PRLV	142,251,637	142	927,381,141	912
UDIB	-	-	748,427	422
		\$ <u>58,729</u>		\$ <u>60,367</u>

(b) Securities lending transaction on behalf of customers-

At December 31, 2015 and 2014, the securities lending transaction on behalf of customers, are as follows:

	2015		2014	
	Number of securities	Fair value	Number of securities	Fair value
GRUMA	-	\$ -	561,500	\$ 88
NAFTRAC	482,200	21	593,200	25
CEMEX CPO	432,622	4	174,887	3
ALFA	130,000	4	-	-
ICH B	23,400	1	23,400	2
ALPEK	130,000	3	-	-
Other equity shares	<u>315,698</u>	<u>11</u>	<u>610,484</u>	<u>55</u>
		\$ <u>44</u>		\$ <u>173</u>

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(c) Collateral received in guarantee by customers-

The collateral represented by government, private and banking debt securities and on behalf of customers in guarantee for the Group, at December 31, 2015 and 2014, are analyzed as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
Government:				
BG91	28,148,270	\$ 2,818	11,260,701	\$ 1,121
BPAS	-	-	10,040	1
CBUR	4,759,869	475	-	-
CTIM	1,233,284,259	12,207	157,182,996	1,549
LBON	129,430,204	12,915	257,395,596	25,663
MBON	4,555,574	500	21,970,323	2,596
UDIB	-	-	748,427	422
BPAG	10,840,411	1,081	3,606	1
IPAS	<u>-</u>	<u>-</u>	<u>5,620,222</u>	<u>566</u>
		<u>29,996</u>		<u>31,919</u>
Banking:				
CBBN	576,671	58	100,000	10
CBPC	-	-	330,391	33
PRLV	<u>142,251,637</u>	<u>142</u>	<u>927,381,141</u>	<u>912</u>
		<u>200</u>		<u>955</u>
Private:				
CBUR	<u>4,389,233</u>	<u>438</u>	<u>2,704,503</u>	<u>271</u>
		\$ <u>30,634</u>		\$ <u>33,145</u>

(d) Customer's securities received in custody-

The funds managed by the Group for investing in various instruments on behalf of its customers at December 31, 2015 and 2014 are recorded in memorandum accounts. The funds provided by these transactions are analyzed in the following page.

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<u>Custody transactions</u>	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 53,214	50,281
Government securities	71,390	64,462
Equity shares and other	<u>174,296</u>	<u>164,055</u>
	\$ <u>298,900</u>	<u>278,798</u>

(e) *Collaterals delivered in guarantee by customers-*

Collaterals at fair value delivered as guarantee on behalf of clients at December 31, 2015 and 2014, are comprised as follows:

	<u>2015</u>	<u>2014</u>
Government securities	\$ 28,113	27,482
Banking securities	-	2
Fixed income debt securities	-	138
Equity shares and holding companies certificates	48	26
Mutual funds shares	-	1,789
Cash	-	28
Margin credits	<u>3,284</u>	<u>13</u>
	\$ <u>31,445</u>	<u>29,478</u>

Income earned from assets under custody during the years ended December 31, 2015 and 2014 amounted to \$57 and \$59, respectively.

(f) *Investment banking transactions on behalf of third parties-*

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

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

The amount of funds invested in the Group's own funding instruments, if any, is included in the consolidated balance sheet.

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Transactions for own behalf-

(g) *Credit commitments-*

Credit facilities:

At December 31, 2015 and 2014, the balance of authorized credit facilities non-withdraw amounted to \$336,479 and \$347,501, respectively; within that amount are included committed credit facilities non-withdraw amounting to \$15,924 and \$15,313, respectively.

Letters of credit:

At December 31, 2015 and 2014, the Group issued letters of credit for \$9,872 and \$8,194, respectively.

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

(h) *Assets in trust or under mandate-*

The Group's trust activity as of December 31, 2015 and 2014, is analyzed as follows:

	<u>2015</u>	<u>2014</u>
Trust:		
Administrative	\$ 155,455	139,111
Guarantee	<u>4,624</u>	<u>7,901</u>
	160,079	147,012
Mandates	<u>29,082</u>	<u>28,984</u>
	\$ <u>189,161</u>	<u>175,996</u>

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

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

Collaterals received and collaterals sold or delivered by the Group at December 31, 2015 and 2014 are analyzed below:

	<u>2015</u>	<u>2014</u>
<u>Collaterals received by the entity:</u>		
Repurchase / resell agreements:		
BG91	\$ 3,552	999
M BONOS	3,150	2,502
BPAG	2,276	-
CTIM	173	118
IPAS	354	2,045
LD BONDES	4,692	6,498
CBIC	<u>989</u>	<u>500</u>
	<u>15,186</u>	<u>12,662</u>
Guarantees received for derivate operations	<u>309</u>	<u>422</u>
Equity instruments	<u>137</u>	<u>423</u>
Guarantees received for credit operations	<u>27,223</u>	<u>26,658</u>
Total collateral received by the entity	\$ <u>42,855</u>	<u>40,165</u>
<u>Collaterals received and sold or pledged by the entity:</u>		
LD BONDES	\$ 3,843	6,660
M BONOS	3,153	2,240
BG91	3,551	295
CTIM	(173)	-
CBIC	989	382
IPAS	354	2,000
BPAG	<u>2,274</u>	<u>-</u>
	13,991	11,577
Net equity instruments	<u>65</u>	<u>203</u>
	\$ <u>14,056</u>	<u>11,780</u>

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(j) Assets in custody or under management-

In this account, the Group and the Fund Management Company records securities received in custody, guarantee or under management. At December 31, 2015 and 2014, the securities are analyzed as follows:

	<u>2015</u>	<u>2014</u>
Securities in custody:		
Securities vault	\$ 92	102
General vault	104	104
Investment transaction	4,333	940
Management of securities	8,802	9,524
Shares pledged as warranty	—	11,146
Other	<u>5</u>	<u>50</u>
	<u>13,336</u>	<u>21,866</u>
Securities under management:		
Securities	<u>253,313</u>	<u>218,202</u>
Transactions with derivative financial instruments on behalf of third parties:		
Futures	55,572	82,903
Swaps	33,115	5,707
Options	<u>7</u>	<u>19</u>
	<u>88,694</u>	<u>88,629</u>
	\$ <u>355,343</u>	<u>328,697</u>

Income arising from securities in custody or management, for the years ended December 31, 2015 and 2014 amounts to \$1 and \$5, respectively.

(21) Additional information on operations and segments-

(a) Segment information-

The Group's operations are classified in the segments "Credit and services" (acceptance of deposits, granting of loans, trusts and other income in subsidiaries), "Treasury and trading" (securities, derivatives and currency transactions) and "Others". For the year ended December 31, 2015 and 2014, income by segment is analyzed in the following page.

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	<u>Credit and services</u>	<u>Trading and treasury</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2015</u>				
Interest income, net	\$ 15,261	1,045	(354)	15,952
Commissions and fees, net; result from trading and other operating income (expenses)	<u>4,732</u>	<u>273</u>	<u>1,619</u>	<u>6,624</u>
Net operating revenues	19,993	1,318	1,265	22,576
Allowance for loan losses	(3,690)	–	–	(3,690)
Administrative and promotional expenses	<u>(12,513)</u>	<u>(557)</u>	<u>(878)</u>	<u>(13,948)</u>
Income before current and deferred income taxes	\$ <u>3,790</u>	<u>761</u>	<u>387</u>	4,938
Current and deferred income taxes, net				<u>215</u>
Net income			\$	<u>5,153</u>
<u>December 31, 2014</u>				
Interest income, net	\$ 14,480	744	(156)	15,068
Commissions and fees, net; result from trading and other operating income	<u>4,900</u>	<u>513</u>	<u>1,522</u>	<u>6,935</u>
Net operating revenues	19,380	1,257	1,366	22,003
Allowance for loan losses	(4,372)	–	–	(4,372)
Administrative and promotional expenses	<u>(12,215)</u>	<u>(552)</u>	<u>(746)</u>	<u>(13,513)</u>
Income before current and deferred income taxes	\$ <u>2,793</u>	<u>705</u>	<u>620</u>	4,118
Equity method in the results of associated companies, net				1
Current and deferred income taxes, net				<u>(143)</u>
Net income			\$	<u>3,976</u>

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(b) Financial margin-

For the years ended December 31, 2015 and 2014, the financial margin in the consolidated statements of income consists of the elements shown as follows:

Interest income:

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

	<u>Credit and services</u>	<u>Trading and Treasury</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2015</u>				
Cash and cash equivalents	\$ —	600	—	600
Margin accounts	—	3	—	3
Investment securities	—	1,963	289	2,252
Securities on repurchase / resell agreements	—	663	90	753
Current loan portfolio	18,025	—	—	18,025
Past-due loan portfolio	140	—	—	140
Loan origination fees	517	—	—	517
Premiums from securities lending transactions	—	—	5	5
Gain on currency translation	<u>—</u>	<u>127</u>	<u>—</u>	<u>127</u>
	<u>\$ 18,682</u>	<u>3,356</u>	<u>384</u>	<u>22,422</u>
<u>December 31, 2014</u>				
Cash and cash equivalents	\$ —	649	—	649
Margin accounts	—	3	—	3
Investment securities	—	1,484	407	1,891
Securities on repurchase / resell agreements	—	881	389	1,270
Current loan portfolio	17,020	—	—	17,020
Past-due loan portfolio	123	—	—	123
Loan origination fees	483	—	—	483
Premiums from securities lending transactions	—	—	9	9
Gain on currency translation	<u>—</u>	<u>94</u>	<u>1</u>	<u>95</u>
	<u>\$ 17,626</u>	<u>3,111</u>	<u>806</u>	<u>21,543</u>

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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	\$ 3,339	67	3,013	47
Financial institutions	790	—	719	—
Government entities	252	—	168	—
Consumer	6,355	73	6,817	76
Residential mortgages	<u>7,289</u>	<u>—</u>	<u>6,303</u>	<u>—</u>
	\$ 18,025	140	17,020	123
		\$ <u>18,165</u>		<u>17,143</u>

For the years ended December 31, 2015 and 2014, 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, respectively.

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

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

	2015	2014
Commercial	\$ 146	150
Consumer	242	224
Residential mortgages	<u>129</u>	<u>109</u>
	\$ <u>517</u>	<u>483</u>

Amortization periods for the loans' fees are from 12 to 360 months.

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Interest expense:

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

	<u>Credit and services</u>	<u>Trading and treasury</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2015</u>				
Demand deposits	\$ (708)	–	–	(708)
Time deposits	(2,373)	–	–	(2,373)
Debt securities issued	–	(504)	–	(504)
Bank and other borrowings	–	(327)	–	(327)
Subordinated debt issued	–	(157)	–	(157)
Securities under repurchase/resell agreements	–	(1,289)	(735)	(2,024)
Premiums paid on securities lending transactions	–	–	(2)	(2)
Discount on debt issuance	–	(4)	–	(4)
Loss on currency translation	–	(31)	–	(31)
Residential mortgages loan origination fees and expenses	<u>(340)</u>	<u>–</u>	<u>–</u>	<u>(340)</u>
	<u>\$ (3,421)</u>	<u>(2,312)</u>	<u>(737)</u>	<u>(6,470)</u>
<u>December 31, 2014</u>				
Demand deposits	\$ (705)	–	–	(705)
Time deposits	(2,157)	–	–	(2,157)
Debt securities issued	–	(551)	–	(551)
Bank and other borrowings	–	(258)	(11)	(269)
Subordinated debt issued	–	(6)	–	(6)
Securities under repurchase/resell agreements	–	(1,493)	(954)	(2,447)
Premiums paid on securities lending transactions	–	–	(3)	(3)
Discount on debt issuance	–	(1)	–	(1)
Loss on currency translation	–	(57)	–	(57)
Residential mortgages loan origination fees and expenses	<u>(285)</u>	<u>–</u>	<u>6</u>	<u>(279)</u>
	<u>\$ (3,147)</u>	<u>(2,366)</u>	<u>(962)</u>	<u>(6,475)</u>

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(c) Commission and fee income-

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

	<u>2015</u>	<u>2014</u>
Letters of credit with no refinancing	\$ 66	54
Account management	306	369
Trust activities	234	211
Fund transfers	109	76
Electronic banking services	287	257
Credit transactions	1,631	1,217
Management services	1,097	1,032
Other fees and commissions collected	<u>983</u>	<u>1,169</u>
	\$ <u>4,713</u>	<u>4,385</u>

(d) Financial intermediation income -

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

	<u>2015</u>	<u>2014</u>
<i>Valuation result:</i>		
Investment securities	\$ (16)	(28)
Derivatives:		
Trading	(489)	(397)
Hedging	5	11
Securities available for sale in hedge	(5)	17
Foreign currencies and precious metals	<u>642</u>	<u>(34)</u>
Subtotal to the following page	\$ <u>137</u>	<u>(431)</u>

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	<u>2015</u>	<u>2014</u>
Subtotal from previous page	\$ <u>137</u>	<u>(431)</u>
<i>Brokerage result:</i>		
Investment securities	(285)	79
Financial instruments:		
Trading	668	69
Hedge	(31)	(26)
Foreign currencies and precious metals	<u>(167)</u>	<u>875</u>
	<u>185</u>	<u>997</u>
	\$ <u>322</u>	<u>566</u>
(e) Other operating income-		

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

	<u>2015</u>	<u>2014</u>
Recoveries of loan portfolio	\$ 395	754
Dividends	27	42
Donations	(15)	(16)
Income on sale of foreclosed assets	232	247
Income from securitization	36	23
Taxation	5	32
Other recoveries	387	5
Income from credit insurance	848	881
Armored transportation fees	15	36
Loans to employees	69	69
Food stamps	269	238
Loan write-offs and losses	(187)	(247)
Others	<u>219</u>	<u>496</u>
	\$ <u>2,300</u>	<u>2,560</u>

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(f) *Financial ratios (unaudited)-*

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

	2015			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
Delinquency index	2.9%	2.8%	2.9%	3.0%
Coverage of past-due loan portfolio index	113.5%	119.5%	120.0%	129.6%
Operating efficiency (<i>administrative and promotional expenses / average total assets</i>)	3.8%	4.5%	4.4%	4.6%
ROE (<i>annualized net income for the quarter / average stockholders' equity</i>)	26.7%	8.1%	13.4%	7.7%
ROA (<i>annualized net income for the quarter / average total assets</i>)	3.0%	0.9%	1.5%	0.9%
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 (<i>liquid assets / liquid liabilities</i>)	72.2%	80.6%	96.2%	89.9%
Financial margin after allowance for loan losses / Average earning assets	4.4%	4.0%	4.5%	4.0%
	2014			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
Delinquency index	3.3%	3.3%	3.3%	3.1%
Coverage of past-due loan portfolio index	114.2%	114.4%	110.8%	117.1%
Operating efficiency (<i>administrative and promotional expenses / average total assets</i>)	4.7%	5.0%	5.3%	5.1%
ROE (<i>annualized net income for the quarter / average stockholders' equity</i>)	14.7%	6.1%	13.8%	11.2%
ROA (<i>annualized net income for the quarter / average total assets</i>)	1.8%	0.8%	1.8%	1.5%
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 (<i>liquid assets / liquid liabilities</i>)	82.8%	84.0%	88.6%	87.3%
Financial margin after allowance for loan losses / Average earning assets	5.0%	3.6%	4.4%	4.3%

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(22) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense for the years ended December 31, 2015 and 2014, amounted to \$1,029 and \$1,024, 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.

(c) Responsibility agreement-

The Group has entered into an agreement with each of its subsidiaries, whereby it undertakes to be jointly and severally responsible for compliance with the obligations that according to the applicable provisions are inherent to the activities of each financial entity that conforms the Financial Group. In addition, the Group agrees to unlimited and several responsibility for the losses of each and every one of these financial entities.

(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 Group'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.

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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. Likewise, the UAIR has policies whereby guidelines are established for reporting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

The Group'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 constitutes the UAIR of Crédito Familiar, and 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 highlighted 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 Group maintains business positions for its own account.

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The Group'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.

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 Group'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 Group carries out for its own account, they are essential to allow customers access to markets and financial instruments at competitive prices. In addition, the Group 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.

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 Group'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. The Group's policy to calculate the VaR considers a 99% confidence level and a 1 day holding period.

The Group's observed average global VaR during the fourth quarter of 2015 was \$12.74 MM. At December 31, 2015, the global VaR was \$7.07 MM.

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

December 2015 (\$, Millions)	<u>Position</u>			<u>VaR⁽¹⁾</u>		
Product	Average	Closing	Limit	Average	Closing	Limit
Group⁽⁸⁾	584,596	566,070	-	12.74	7.07	52.5
Mexican pesos:						
Money market	31,997	27,883	85,000	16.41	10.23	50
Interest rate swaps	432,640	431,057	500,000	10.72	3.49	50
CETES Forwards ⁽³⁾	-	-	20,000	-	-	-
Rate Forwards ⁽²⁾	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⁾	487,413	474,845	635,000	11.73	6.76	50
Equity shares	33	61	200	0.43	5.31	13
Capital derivatives (national underlying) ⁽⁵⁾	4,145	3,790	18,000			13
Capital derivatives (international underlying) ⁽⁵⁾	10,888	10,117	24,000	4.71	1.92	13
Equity shares derivatives ⁽⁶⁾	-	-	3,000	-	-	13
IPC Futures	-	-	750	-	-	13
Equity shares portafolio	15,065	13,968	45,950	4.74	1.92	13
FX Forwards ^{(7) (8) (9)}	4,147	3,690	18,000	1.12	2.18	13
FX trading ^{(7) (8)}	0	0	65	0.42	0.24	13
Currency Options ⁽⁸⁾	169	253	800	1.03	2.96	13
Dollar forwards	-	-	30	-	-	13
Currency Swaps ⁽⁸⁾	445	536	1,500	0.59	0.16	-
Metal Forwards ⁽⁸⁾	-	-	50	-	-	-
FX trading, currency and Metals derivatives ⁽⁴⁾	4,761	4,479	20,415	1.18	0.28	16.5

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1/ The VaR is expressed in millions of pesos.

2/ Position and limit on the number of contracts traded in MexDer.

3/ Special treasury position.

4/ Observed holding period of FX, capital, interest rate and limit of the VaR is 1 day.

5/ Includes IPC warrants, IPC equity shares and international.

6/ Includes MexDer equity shares derivatives.

7/ The forwards position is gross (long + short) while the exchange position is net (long – short)

8/ The position and the limit position are expressed in millions of US dollars.

9/ Includes the net position of Treasury foreign exchange forwards.

(*)Subsidiaries that do not manage market risk position do not require a VaR measure

<u>December 2014/(\$, millions)</u>	<u>Position</u>			<u>VaR⁽¹⁾</u>	
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>	<u>Average</u>	<u>Limit</u>
Product					
Group ^(*)	\$ 417,594	456,317	-	12.9	52.5
Domestic currency:					
Money market	39,817	56,741	105,500		52.5
Interest rate swaps	211,979	247,724	305,000	9.2	-
IR futures ⁽²⁾	-	-	-	9.4	-
CETES Forwards ⁽³⁾	6,190	11,652	20,000	0.001	-
Caps & Floors	8,768	10,832	30,000	0.3	-
Interest rate markets and rate derivatives ⁽⁴⁾	266,754	326,949	460,500	12.1	52.5
Equity shares	22	47	206	-	-
Capital derivatives ⁽⁵⁾	9,051	9,506	28,000	-	-
Equity shares derivatives ⁽⁶⁾	123	133	3,000	-	-
OTC TIE Options	47	72	5,000	-	-
Total capital and IPC derivatives	9,243	9,758	36,206	3.1	13
Forwards and exchange currency futures ^{(7) (8) (9)}	7,356	8,538	18,020	1.0	-
FX trading ^{(7) (8)}	0.4	11	65	0.7	-
Foreign currency options ⁽⁸⁾	79	82	800	0.3	-
Foreign currency swaps ⁽⁸⁾	624	735	1,500	0.1	-
Forwards of precious metals ⁽⁸⁾	-	-	50	-	-
Foreign exchange and foreign currency and precious metals derivatives ⁽⁴⁾	8,059.4	9,366	20,435	1.2	16.5

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- 1/ The VaR is expressed in millions of pesos.
 2/ Position and limit on the number of contracts traded in MexDer.
 3/ Special treasury position.
 4/ The holding period for currency, capitals and interest rates and for limits of the VaR is 1 day.
 5/ Includes IPC underlying warrants, capitals IPC and internationals.
 6/ Includes MexDer' equity shares derivatives.
 7/ The forwards position is gross (long + short) while the exchange position is net (long – short)
 8/ The position is expressed in millions of US dollars.
 9/ Includes the net position of Treasury foreign exchange forwards.
 (*)Subsidiaries that do not manage market risk position do not require a VaR measure

For interpretation purposes and as by way of example, the average one day VaR for the Group in the Money market is \$7.07 MM. This means that under normal conditions, in 99 days out of 100 days, the maximum potential loss would be \$7.07 MM.

Positions for the fourth quarter of 2015 by number of contracts are shown below:

Contracts operated in MexDer			
<u>Underlying asset</u>	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>
Dollar futures	-	-	30,000
Rate futures	82,243	1,490	806,500
IPC futures	-	-	750
Total futures ⁽¹⁾	<u>82,243</u>	<u>1,490</u>	<u>837,250</u>

⁽¹⁾ 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:

Contracts operated in MexDer			
<u>Underlying asset</u>	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>
Dollar futures	-	-	30,000
Rate futures	458,351	497,900	910,500
IPC futures	-	-	750
Total futures ⁽¹⁾	<u>458,351</u>	<u>497,900</u>	<u>941,250</u>

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- (1) The position and the limit are in number of contracts operated in the MexDer.
- (2) Includes IPC futures and options of the capitals derivative portfolio, its VaR is included in the equity share derivatives portfolio and is for the hedge of Warrants portfolio.
- (3) Includes IPC's stocks of futures and options of the capitals derivative portfolio, its VaR is included in the equity share derivatives portfolio and is for the hedge of Warrants portfolio.
- (4) Includes NAFTRACS futures and options of the capitals derivative portfolio, its VaR is included in the equity share derivatives portfolio and is for the hedge of warrants portfolio.

Given that the VaR measure is used to estimate potential losses under normal market conditions, stress testing is performed daily ("*stress testing*"), 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 testing*" limits.

The "*stress testing*" during the last quarter of 2015 shows a maximum loss of \$374.64, 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.

The market risk limits structure foresees volumetric or notional VaR, sensitivity and concentration amounts, "*stress testing*" limits and term, among other.

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 Group has a specialized area 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.

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

Below is 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.

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, only the changes in 1 bp is reported. 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 Financial Group'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.

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Interest rate swaps: For determining the sensitivity to changes in the yield curve of TIEE 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.

Quantitative information on interest rate sensitivities

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

Sensitivity of 1 bp	<u>December 2015</u>	<u>December 2014</u>
Fixed rate	0.334	0.810
Reviewable rate	0.064	<u>0.065</u>
Subtotal – interest rates	<u>0.398</u>	<u>0.875</u>
Futures	(0.119)	(0.384)
Swaps	(0.362)	0.194
Caps & Floors	0.197	(0.057)
Subtotal – interest rate derivatives	<u>(0.285)</u>	<u>(0.247)</u>
Total	<u>0.113</u>	<u>0.628</u>

(1) Figures in million pesos.

At December 31, 2015, the Financial Group presents sensitivity in the interest rate portfolio of \$0.113, which means that for each bp the interest rate decreases, a profit of \$0.113 would result.

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

The following table shows statistics for the fourth quarter of 2015, maximum, minimum and average. In average, the sensitivity was \$0.075 MM. During this period the portfolio of interest rate derivatives and covered long positions

<u>Sensitivity of 1 bp</u> ⁽¹⁾	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Interest rate	0.862	3.405	(0.576)
Rate derivatives	<u>(0.787)</u>	<u>0.934</u>	<u>(1.879)</u>
Total	<u>0.075</u>	<u>4.339</u>	<u>(2.455)</u>

(1) Figures in million pesos.

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Stock portfolio and IPC derivatives

Stock equity

Operations are performed through the Brokerage Firm and the Bank. For stock position purposes, the sensitivity is obtained by calculating the issued delta within the portfolio. Delta is defined as the change in the portfolio's value in response to a 1% change in the underlying value.

Equities derivatives

Through its Brokerage Firm, the Financial Group participates in stock derivative transactions using IPC futures, IPC index futures and options listed on the MexDer. Sensitivity is calculated using the Delta. This portfolio has limits expressed in notional terms. In the Over the Counter or OTC market the Brokerage Firm participates with IPC index Warrants and IPC index Options.

For futures, the calculation of the sensitivity is the Delta, defined as the change in the portfolio's value in response to a change in the value of the underlying asset. Furthermore, 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 Group defines Rho as the change in the portfolio's value in response to a 100 bp change (parallel) in the reference interest rates.

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.

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.

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 the sensitivity measure of an option portfolio to changes in interest rates. Mathematically, Rho is the first partial derivative of the Black & Scholes function with respect to interest rates. Rho is defined as the change in value of an options portfolio before an increase of 100 base points (+1%) in interest rates. Overall, the sensitivity of an options portfolio to the interest rate is less compared to the sensitivity of the price of the underlying (delta) or of the implied volatilities (vega).

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Theta is the sensitivity measure of an options portfolio that indicates the change in the portfolio's value with the passage of time. Theta is calculated for information purpose only and for the loss and gains analysis, given that it represents a real fact, predictable and quantifiable and not a credit risk.

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.

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 Financial Group, measurement is made by increasing the dividend rate 1% (i.e. from 1% to 1.01%).

Sensitivities for the portfolio of stock and IPC derivatives

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

<u>Sensitivity of 1 bp</u> ⁽¹⁾	<u>December</u> <u>2015</u>	<u>December</u> <u>2014</u>
Equity shares	-	<u>0.027</u>
Subtotal	-	<u>0.027</u>
Warrants	(0.023)	<u>(0.022)</u>
Subtotal	(0.023)	<u>(0.022)</u>
Total	(0.023)	<u>0.005</u>

(1) Figures in million pesos.

At December 31, 2015, the equity shares front-office continued its strategy of conducting intraday transactions. As to the IPC index position the Financial Group has a hedge strategy new issues of Warrants and arbitrating between the capitals market and the IPC index futures.

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

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The Financial Group's portfolio of capitals only comprises equity shares and position the IPC index portfolio. The sensitivity is positive and for the fourth quarter of 2015 it average -\$0.037 MM. During the quarter the sensitivity and stock position decreased.

<u>Sensitivity</u> ⁽¹⁾	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Equity shares	-	-	-
IPC derivatives	<u>(0.037)</u>	<u>0.004</u>	<u>(0.350)</u>
Total	<u>(0.037)</u>	<u>0.004</u>	<u>(0.350)</u>

(2) Figures in million pesos.

Sensitivities for warrants and IPC options, "Greek"

<u>Greek (1)</u>	<u>Delta</u>	<u>Gamma</u>	<u>Vega</u>	<u>Theta</u>	<u>Rho</u>
Warrants	\$ (88.187)	(3.668)	(0.070)	0.038	0.009
IPC Options/OTC Options	(101.442)	(2.328)	(0.282)	0.017	0.230
Naftracs/Equity shares	<u>197.055</u>	<u>1.971</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>7.426</u>	<u>(4.025)</u>	<u>(0.352)</u>	<u>(0.055)</u>	<u>0.239</u>

(1) Figures in million pesos.

The following table shows the maximum, minimum and average of sensitivities for warrants and IPC options.

	<u>Delta</u>	<u>Gamma</u>	<u>Rho</u>	<u>Vega</u>
Minimum	(11.964)	(4.921)	0.222	(0.414)
Maximum	<u>20.899</u>	<u>3.895</u>	<u>0.372</u>	<u>0.022</u>
Average	<u>2.206</u>	<u>0.853</u>	<u>0.311</u>	<u>(0.172)</u>

(1) Figures in million pesos.

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.

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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, it is only reported the sensitivity for 1 bp.

Sensitivities for the portfolio of Fx and swaps⁽¹⁾

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

Spot Currency	0.000	0.504
Spot Metals	0.000	0.000
Subtotal	<u>0.000</u>	<u>0.504</u>

FX Derivatives

	<u>December</u> <u>2015</u>	<u>December</u> <u>2014</u>
DEUA forwards and futures	(0.021)	(0.061)
OTC MXN/USD options	(0.001)	(0.001)
Swaps	0.018	(0.004)
Subtotal	<u>(0.003)</u>	<u>(0.066)</u>
<u>Total</u>	<u>(0.003)</u>	<u>0.438</u>

(1) Figures in million pesos.

At December 31, 2015, a change in the sensitivity to the Exchange rate was recorded at -\$0.003 MM mainly due to the increase of positions of currency Forwards and Swaps. Currently, the Financial Group 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.

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

In average, the quarterly sensitivity of the portfolio of currencies and currency derivatives was - \$0.120 MM.

<u>Sensitivity</u>	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Currencies	0.000	0.000	0.000
Currency derivatives	<u>0.120</u>	<u>0.049</u>	<u>(0.367)</u>
Total	\$ <u>0.120</u>	<u>0.049</u>	<u>(0.367)</u>

(1) Figures in million pesos.

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

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

<u>Greek</u>	<u>Delta</u>	<u>Gamma</u>	<u>Vega</u>	<u>Theta</u>	<u>Rho</u>
Currency exchange rate (MXN/USD) options	<u>14.406</u>	<u>1.338</u>	<u>(0.148)</u>	<u>(0.012)</u>	<u>(0.012)</u>

(1) Figures in million pesos.

(b) *Liquidity and interest rate risk-*

The Financial Group 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 Group will be able to meet the totality of its obligations as they become due and payable. To such end, the Group applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets.

The Financial Group manages its liquidity and interest rate risk exposure in accordance with the applicable regulatory provisions and the best sounding practices. In addition, the Financial Group has established contingency plans.

The Financial Group manages its liquidity and interest rate risk exposure according to the applicable regulatory provisions and the best sounding practices, considering the Banking Book position, i.e. those positions for structural handling of the balance sheet.

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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 Financial Group (incoming and outgoing cash).

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

	December 2015 ⁽²⁾
10-day cumulative gap (MXN+UDIs) ⁽¹⁾	1,120
30-day cumulative gap (MXN+UDIs) ⁽¹⁾	(15,812)

(1) It includes the Bank, the Brokerage Firm and the Fund Management Company.

(2) Figures in million pesos.

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Accumulated liquidity gaps for Crédito Familiar at December 31, 2015:

Diciembre 2015 ⁽¹⁾

10-day cumulative gap (MXN+UDIs)	202
30-day cumulative gap (MXN+UDIs)	(455)

(1) Figures in million pesos.

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

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 Financial Group 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.

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.

The measuring of interest rate risk, economic value and margin sensitivity, of the Financial Group, at the end of December and on average for the fourth quarter of 2015, is shown the next page.

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	2015 ⁽²⁾	
	<u>December</u>	<u>Average</u>
Economic value ⁽¹⁾	\$789	\$801
Margin sensitivity ⁽¹⁾	397	369

(1) It includes the Bank, the Brokerage Firm and the Fund Management Company.

(2) Figures in million pesos.

The variation in the estimated economic value and in the estimated financial revenues for Crédito Familiar, at the end of December and on average for the fourth quarter of 2015 variation is as follows:

	2015	
	<u>December</u>	<u>Average</u>
Economic value	\$19.8	\$19.6
Margin sensitivity	4.2	4.2

(1) Figures in million pesos

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

<u>Type</u>	<u>December</u> <u>2015</u>	<u>December</u> <u>2014</u>
Bank	3,064	2,818
Corporate	421	219
Government	31,462	29,343
Other	<u>326</u>	<u>380</u>
Total	35,273	32,760

(1) Figures in million pesos

Being an integral part of the Financial Group's balance sheet handling, available for sale investments are monitored under the sensitivity measures described above (Economic Value and Margin Sensitivity). At December 31, 2015, the Financial Group has liquid assets for \$15,216 MM⁽¹⁾.

The liquidity risk limits framework contemplates volumetric or notional amounts, sensitivity, liquid assets, concentration of deposits and liquidity gaps.

The following page shows a summary of hedging derivatives at closing of December and average of the fourth quarter used by the Financial Group 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 Group and the risk factor sensitivity is measured within the Economic Value of the Group and Margin Sensitivity.

(1) It includes liquid assets positions of the Bank and the Brokerage Firm, in pesos.

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Strategy	December 2015	December 2014
	Notional MXN	Notional MXN
Interest rate swaps paid at fixed rate (cash flows)	14,850	16,570
0y - 3y	6,130	3,050
3y - 5y	3,460	8,260
5y - 10y	5,260	5,260
Interest rate swaps paid at floating rate (cash flows)	1,750	7,800
0y - 3y	1,750	7,800
Interest rate swaps paid at fixed rate (fair value)	7,006	5,122
0y - 3y	4,655	3,758
3y - 5y	2,002	1,364
5y - 10y	349	
Interest rate swaps paid at fixed rate (fair value in USD)	26	799
0y - 3y	24	642
3y - 5y	2	157
CCIRS paid at fixed rate (fair value in EUR)	-	438
0y - 3y	-	438
CCIRS paid at fixed rate (fair value in USD)	-	-
0y - 3y	-	-
CCIRS paid at fixed rate (fair value in UF)	-	3,050
0y - 3y	-	3,050
Interest rate swaps paid at fixed rate (fair value – Crédito Familiar)	-	539
0y - 3y	-	539

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 in the next page.

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

(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 Financial Group. This risk affects not only the loan portfolio but the securities portfolio, transactions in derivatives and foreign exchange transactions.

The Financial Group'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 Financial Group 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 that the Financial Group owns, 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.

This section focuses on managing commercial loan portfolios and consumer and mortgages loan portfolio belonging to the Financial Group through subsidiaries the Bank and Crédito Familiar.

In the case of Bank's 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 Financial Group 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.

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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 loans.

In the case of Crédito Familiar, the business model propose that decisions are given on a centralized basis as the decision engine applies equally to 100% of branches and no discretion on the part of the same, that is, both the placement (grant) as collection (recovery) supplemented by central support, this is, the placement and the collection are based on its branches and is supported by central area under specific conditions. All branches operate base of knowledge of the policy and procedures of business credit. The policies cover from credit granting, administration and control to collect of it. There is also a central area dedicated to recover credit, which is based on own efforts and external collection agencies. There is also an area totally dedicated to fraud management, which has established processes for prevention, detection and recovery operation with suspected fraud. Furthermore, the methodology used for measuring and controlling credit risk is based on score models (binary logistic regressions) that calculate the probability that a customer falls into default in a certain time horizon; this probability of default is associated with a level of expected loss.

Credit risk concentrations- The Financial Group 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.

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, consumer and Crédito Familiar), 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 Financial Group 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.

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The Group, to qualify the commercial loans corresponding to the Bank uses both standard methodologies (regulatory) and internal methodologies.

El modelo interno considera los siguientes factores de riesgo: country risk, financial performance, financial hedging, debtor's management, overall strength (customer's relation with the environment, competitiveness, strengths and weaknesses), account management, industry conditions and payment history. Those factors represent the assessment of credit risk profile of the customer and the result obtained by applying an algorithm that weighs those factors.

The internal rating model of risk is classified by "IG Codes", has 8 ratings considered acceptable (IG 98 to IG 77), 4 ratings to reflect a higher than normal risk (IG 75 to IG 65) and 5 ratings considered not acceptable (IG 60 to IG 20). The ratings are as follows:

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, Central Bank 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.

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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.

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.

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.

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

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The process used to assign the rating agencies is based on Appendix 1-B of the Banking Commission is as follows.

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**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 mxCCC 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+	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%

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The grade of rating agencies is used by the Group for Standard Method:

- 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.

For internal methodology, agency ratings are used to 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”.

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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 AA+	A-1+	AAA AA+	F1+	Aaa Aa1	Prime-1	AAA AAH	R-1H
Very good risk	95	AA AA- A+	A-1	AA AA- A+	F1	Aa2 Aa3 A1	Prime-1	AA AAL AH	R-1M
Good risk	90	A A-	A-2	A A-	F2	A2 A3	Prime-2	A AL	R-1L
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	B B-	C	B2 B3	Not Prime	B BL	R-3L
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 D	NR	DD	D	C C	Not Prime	D D	-
Irrecoverable credit	20	D	NR	D	D	C	Not Prime	D	-

Local scale (Mexico):

of 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	B B-	C	B2 B3	Not Prime
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

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

The Bank uses internal estimates to calculate allowances.

internal

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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.

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 to 14 million UDIs using the standard rating methodologies determined by the Banking Commission.

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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, including Crédito Familiar, the Financial Group 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 Probability of Default (PI), Loss Given Default (SP) and Exposure at Default (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.

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

	<u>2015</u>		<u>2014</u>	
	<u>December</u>	<u>Average</u>	<u>December</u>	<u>Average</u>
Expected loss				
The Bank	4,444	4,356	3,879	3,743
The Brokerage Firm	2	2	6	8
Crédito Familiar	798	813	704	696
Unexpected loss				
The Bank	25,796	24,521	20,160	19,454
The Brokerage Firm	2	3	9	10
Crédito Familiar	431	452	459	427

For interpreting the expected and unexpected loss and by way of example, the average expected loss during the fourth quarter of 2015 was \$5,171, which represents the amount the Group 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 \$24,976 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.

(Continued)

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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		2014
	<u>December</u>	<u>Average</u>	<u>December</u>
Mortgage loans	80,302	78,784	67,580
Auto loans	13,984	13,580	12,874
Non-revolving personal loans	1,872	1,860	5,354
Revolving personal loans	7,897	7,969	7,792
Commercial loans *	<u>120,700</u>	<u>118,114</u>	<u>93,147</u>
Total	224,755	220,307	186,747
Crédito Familiar	4,154	4,212	4,071

*It includes loan commitments

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 Commission	5,556	43,313	7.0%	43.4%
Investment Projects, with own payment sources ⁶	102	2,689	6.9%	45%
Revolving Crédito Familiar	161	103	23.7%	75.3%
Non-revolving Crédito Familiar	-	4,080	27.7%	65%

^{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%).

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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 and Crédito Familiar, 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.

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.

Exposures by portfolio type and geographical distribution for the Group, broken down by subsidiary, the Bank (commercial loans, consumer loans and residential mortgages), Crédito Familiar (revolving and non-revolving consumer loans) are shown as follows:

Credit risk management information for the portfolio (figures in thousands pesos except otherwise indicated).

- a. Total amount of gross exposures to credit risk at the end of December 2015 broken down by major types of portfolio, is shown in the next page.**

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Commercial portfolio

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

* It includes exhibition by MXN 3,159MM corresponding to a loan authorized to Crédito Familiar.

Consumer and mortgages Loan Portfolio

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

Crédito Familiar

Crédito Familiar Loan portfolio (Figures in million pesos at December 31, 2015)	Total
Non-revolving	4,080
Revolving	74
Consumer loans	4,154

b. 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.

Commercial portfolio

(Continued)

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Scotiabank Distribution of exposures by economic sector, including, nonperforming loans, past-due loans and allowances <i>(Figures in million pesos at December 31, 2015)</i>								
Economic sector	Loan Portfolio		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	115	500	2,411	120,700	3,076	163	

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

Consumer loans and Crédito Familiar

Whereas loans are granted to individuals, a classification by economic sector is not made.

c. 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:

Commercial portfolio

Scotiabank Geographical distribution by region of commercial loans <i>(Figures in million pesos at December 31, 2015)</i>						
Region	Loan Portfolio		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	117,674	115	500	2,411	120,700	3,076

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Consumer loans

Geographical distribution

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

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

Geographical distribution of non-performing loans

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

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Crédito Familiar (figures in thousands pesos)

	<u>2015</u>	
	<u>Current loans</u>	<u>Nonperforming*</u>
Centre	\$ 594,815	83,221
Metropolitan	1,320,096	191,168
Northeast	511,796	74,415
South	542,604	94,498
West	<u>586,469</u>	<u>81,163</u>
Subtotal	3,555,780	524,465
Credit Card	<u>63,224</u>	<u>11,002</u>
Subtotal	\$ <u>3,619,004</u>	<u>535,467</u>
	\$ 4,154,471	

* Nonperforming loans

Geographical distribution

West	Northeast	Centre	Gulf	South	Metropolitan
Baja California	Chihuahua	Torreón	Veracruz	Oaxaca	Ciudad de México
Sonora	Monterrey - Saltillo	Toluca	Veracruz - Hidalgo	Puebla	Estado de México
Sinaloa	Monterrey - Frontera	Michoacán	Tabasco - Campeche	Morelos	
Guadalajara	Tamaulipas	Querétaro	Mérida - Cancún	Guerrero	
Colima - Tepic	Monterrey - Reynosa	Aguascalientes	Tampico - SLP		

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

Commercial loan portafolio

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

Consumer loan portafolio

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

Scotiabank		
Financial information for the remaining term of the loan portfolio - Past-due	Months	Years
<i>(Average term)</i>		
Residential mortgages	148	12
Non-revolving*	34	2
Revolving	-	-

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Scotiabank Financial information 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" Monthly, "Credi Disponible" fortnightly, "Credi Disponible" weekly, "Credisponible" Restructures, Automotive loans, "De Volada Mercado Abierto" Bank, "De Volada Mercado Abierto" Restructures, "Fairmont", Personal loans, Overdrafts.

Scotiabank Financial information 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

Crédito Familiar (figures in thousands pesos)

Current and past-due loan portfolio

at December 31, 2015	Loan portfolio		Allowance for loan losses
	Current	Past-due	
Consumer loans:			
Personal loans	\$ 3,389,489	362,909	667,350
Credit card	63,224	11,002	20,160
Restructured loans	<u>7,509</u>	<u>95,143</u>	<u>25,524</u>
	3,460,222	469,054	713,034
Accrued interest	<u>158,782</u>	<u>66,413</u>	66,808
Additional reserve			<u>17,921</u>
	\$ 3,619,004	535,467	797,763

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Portfolio by Term

<u>2015</u>	<u>1 to 30</u>	<u>31 to 60</u>	<u>61 to 90</u>	<u>91 to 120</u>	<u>Over</u>	<u>Total</u>
	<u>days</u>	<u>days</u>	<u>days</u>	<u>days</u>	<u>121 days</u>	
Personal loans	\$ 77,054	6,373	31,117	105,768	209,010	429,322
Credit card	-	2,286	2,109	1,989	4,618	11,002
Restructured loans	<u>76,586</u>	<u>6,924</u>	<u>4,855</u>	<u>4,536</u>	<u>2,242</u>	<u>95,143</u>
	\$ <u>153,640</u>	<u>15,583</u>	<u>38,081</u>	<u>112,293</u>	<u>215,870</u>	<u>535,467</u>

The breakdown in the past-due loan portfolio for the year ended December 31, 2015:

	<u>2015</u>
Balance at beginning of year	329,192
Transfers from current loans	1,355,958
Transfers to current loans	(41,025)
Payments received	(50,935)
Debt forgiveness	(52,975)
Write-offs	<u>(1,004,748)</u>
Balance at end of year	\$ 535,467

e. List of credit risk allowances

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

Commercial loan portfolio

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

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Consumer and mortgages Loan Portfolio

Scotiabank Allowance for loan losses (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

Crédito Familiar (figures in thousands pesos)

Personal loans

4Q 2015

Figures in thousands pesos

Grade of risk	Probability of default	Loss given default	Exposure at default	Allowance	% Allowance
A-1	0.79%	65.00%	75,808	783	0.6%
A-2	3.89%	65.00%	18,748	607	2.5%
B-1	5.56%	65.00%	32,673	1,376	3.6%
B-2	6.97%	65.00%	85,563	4,189	4.6%
B-3	8.50%	65.00%	197,972	11,441	5.5%
C-1	10.86%	65.00%	1,325,747	104,964	7.0%
C-2	15.73%	65.00%	1,268,746	133,489	10.0%
D	37.02%	65.00%	350,445	83,942	23.7%
E	87.90%	65.00%	724,541	436,418	55.6%
Total	30.31%	65.00%	4,080,245	777,208	19.0%

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Credit Card

4Q 2015

Figures in thousands pesos

Grade of risk	Probability of default	Loss given default	Portfolio exposure	Exposure at default	Allowance	% Allowance
A-1	2.02%	75.00%	11,499	22,552	379	3.3%
A-2	5.37%	75.00%	13,703	18,405	772	5.6%
B-1	4.52%	75.00%	10,320	12,299	2,326	22.5%
B-2	9.57%	75.00%	4,382	5,163	402	9.2%
B-3	11.93%	75.00%	3,364	4,214	393	11.7%
C-1	16.34%	75.00%	4,824	6,318	787	16.3%
C-2	30.70%	75.00%	8,445	10,914	2,529	29.9%
D	83.57%	75.00%	16,513	16,039	11,764	71.2%
E	100.00%	100.00%	1,176	1,223	1,204	102.3%
Total	17.10%	75.00%	74,226	97,127	20,555	27.7%

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

Commercial loan portfolio

Scotiabank	Amount
Allowance for loan losses - nonperforming loans	
<i>(Figures in million pesos at December 31, 2015)</i>	
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	-

*It includes additional reserves (for past-due accrued interest and other)

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Consumer and mortgages Loan Portfolio

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
Cancellation**	(92)	(102)	(176)
Transfer from current to past-due	125	38	62
Transfer from past-due to current	(50)	(16)	(35)
Decreases in the balance of reserves (includes 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	1,007	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.*

Crédito Familiar (figures in thousands pesos)

	<u>2015</u>
Allowance for loan losses at December 31, 2015	\$ 705,872
Increases in the results of reserves	1,157,870
Write-off by death	14,482
Decreases in the balance of reserves (includes write-offs and debt forgiveness)	<u>(1,080,461)</u>
	\$ 797,763
	=====

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<u>Grade of risk</u>	<u>Cartera evaluada</u>	<u>Allowance for loan losses</u>
<u>2015</u>		
A-1	\$ 87,307	829
A-2	32,451	1,250
B-1	42,993	3,502
B-2	89,945	4,282
B-3	201,336	11,356
C-1	1,330,571	93,860
C-2	1,277,192	132,094
D	366,959	94,731
E	<u>725,717</u>	<u>371,130</u>
	\$ 4,154,471	713,034
	=====	
Reserve for past-due accrued interest		66,808
past-due accrued interest:		
Credit information companies		<u>17,921</u>
Total allowance for loan losses		\$ 797,763
		=====

Credit risk mitigation techniques (applicable to Commercial Loan Portfolio)

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.

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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 loan Portfolio:

Scotiabank		
Variations in allowance for loan losses		
<i>(Figures in million pesos)</i>		
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.

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

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 Group'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 Group 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 Group, 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.

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Credit risk in investment securities - a summary of exposures, credit quality and concentration by risk level of investment securities at the end of December 2015 are as follows:

	<u>2015</u>		<u>2014</u>	
Held-to maturity		%		%
the Bank	3,420		3,354	
Subtotal	3,420	5	3,354	5
Available- for-sale				
the Bank	34,949		32,313	
the Brokerage Firm	324		447	
Subtotal	35,273	55	32,760	53
Trading				
the Bank	20,323		18,198	
the Brokerage Firm	5,119		7,464	
Other business lines and subsidiaries ⁽¹⁾	480		218	
Total	25,922	40	25,880	42
Total by risk	64,615		61,994	<u>100</u>

(1) It includes the Fund Management Company, SECOSA and Crédito Familiar.

(2) Crédito Familiar has certificates of deposit issued by the Bank with fixed rate periods between 1 and 3 days. These instruments do not require any valuation, because are considered as availabilities therefore, do not involve a calculation of VaR. Thus, Crédito Familiar does not incur in market risk.

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 Financial Group) and the replacement value (or potential exposure) without considering acuerdos de compensación compensation agreements "netting".

In the next page the potential future exposure by counterparty credit risk and concentration by type of counterparty is presented for the Group at the end of December 2015 and 2014.

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Type of counterparty	Future Potential (MM)	Concentration (%)
<u>December 2015</u>		
Financial institutions	3,280	87
Corporate headquarters	<u>485</u>	<u>13</u>
Total maximum exposure	3,765	100
<u>December 2014</u>		
Financial institutions	7,079	95
Corporate headquarters	<u>392</u>	<u>5</u>
Total maximum exposure	7,471	100

Methodology for setting credit limits for counterparties and capital allocation - The Group, 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 Group'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 table in next page shows the gross fair value, the compensation benefit and the offset exposure at closing of December 2015 and 2014. It is important to indicate that the Financial Group does not maintain credit derivative positions for hedging.

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Type counterpart	Gross fair value (MM)	Offset exposure (MM)
<u>December 2015</u>		
Financial institutions	6,065	2,921
Corporate headquarters	<u>322</u>	<u>228</u>
Total	<u>6,387</u>	<u>3,149</u>
<u>December 2014</u>		
Financial institutions	5,098	1,010
Corporate headquarters	<u>246</u>	<u>168</u>
Total	<u>5,344</u>	<u>1,178</u>

** 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 Financial Group at year-end of December 2015 and 2014 amount to 904 MM and 1,021 MM, respectively.

The Financial Group 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.

(d) 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 Group has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are mentioned in the next page.

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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 Group.

Operational Risk Assessment

The Group has a structured methodology for assessing operational risk, which allows the Group 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 which 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 2015 the Group recognized operational risk losses of \$160, they were lower by \$35 to those recorded in 2014, (\$195).

Operational risk tolerance levels

This is an operational loss management tool that enables each of the Group'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.

Key risk indicators.

This process allows the Group 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.

For purposes of the Bank, the Brokerage Firm and Crédito Familiar the basic indicator method is used to determine the capital requirements for Operational Risk.

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Estimate of legal risk losses

The Group 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 channel for transmitting information in rendering services to the Group's customers.

In order to attend to requirements of regulations in terms of technological risk, the Group 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.

(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.

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(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.

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:

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- 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.
- 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.

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- 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.

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.

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- **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.

Progressive implementation of the adoption of MFRS D-3 “Employee benefits” issued by the Banking Commission

The Group as a holding company of the Bank, the Brokerage Firm, the Fund Management Company, Secosa and Crédito Familiar, will recognize the effects of the adoption of MFRS D-3 through the consolidation of its financial statements. The amount of the total initial effect unfavorable for the adoption of MFRS D-3 amounts to \$1,929. This estimate was determined using a corporate bond rate to discount the cash flows to present value. The Group is in the process of analyzing of the appropriate discount rate.

The adoption effect will not be totally recognized in the year 2016, given that in the case of the Bank, 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 referred 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.

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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 follows:

Year	Stockholders' equity effect Debit (credit)	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		<u>(46.4)</u>	<u>434</u>
Total	\$	<u>(232.0)</u>	<u>2,170</u>

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 in the next page.

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.

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.

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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.

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.

Group’s Management estimates that the effects of the new MFRS and its improvements, except for the effect of MFRS D-3 \$1,929, disclosed in the page before, will be immaterial in the consolidated financial statements of the Group, because the aspects concerning the new MFRS, specific accounting criteria of the Banking Commission exist or otherwise there is no material effect on the consolidated financial statements of the Group.