

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

Consolidated Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013, 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.

(Continued)

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, 2014 and 2013, 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.

Mauricio Villanueva Cruz

February 20, 2015



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

Consolidated Balance Sheets

December 31, 2014 and 2013

(Millions of Mexican pesos)

Assets	2014	2013	Liabilities and Stockholders' Equity	2014	2013
Cash and cash equivalents (note 5)	\$ 28,307	25,049	Deposit funding (note 14):		
Margin accounts	107	90	Demand deposits	\$ 97,836	84,046
Investment securities (note 6):			Time deposits:		
Trading	25,880	19,722	General public	59,669	53,932
Available-for-sale	32,760	27,926	Money market	6,610	4,853
Held-to-maturity	3,354	2,143	Debt securities issued	12,442	11,850
	<u>61,994</u>	<u>49,791</u>		<u>176,557</u>	<u>154,681</u>
Derivatives (note 8):			Banking and other borrowings (note 15):		
Trading purposes	5,344	2,268	Due on demand	236	1,475
Hedging purposes	53	259	Short-term	6,893	8,776
	<u>5,397</u>	<u>2,527</u>	Long-term	1,321	1,878
Valuation adjustment from hedging of financial assets (note 9e)	19	47		<u>8,450</u>	<u>12,129</u>
Current loan portfolio (note 9):			Creditors on repurchase/resell agreements (note 7)	37,498	31,092
Commercial loans:			Assigned securities to be settled (note 6b)	11,356	1,782
Business or commercial activity	59,423	49,937	Collateral sold or pledged (note 7)		
Financial entities	15,351	16,302	Securities lending	203	229
Government entities	5,015	3,213	Derivatives (note 8):		
	<u>79,789</u>	<u>69,452</u>	Trading purposes	6,777	3,158
Consumer loans	28,562	28,539	Hedging purposes	406	292
Residential mortgages	64,770	54,616		<u>7,183</u>	<u>3,450</u>
Total current loan portfolio	<u>173,121</u>	<u>152,607</u>	Other accounts payable:		
Past due loan portfolio (note 9):			Income tax payable	544	19
Commercial loans:			Employee statutory profit sharing payable (note 18)	326	276
Business or commercial activity	1,498	830	Creditors on settlement of transactions (notes 5 and 6)	11,768	2,359
Financial entities	77	-	Creditors on collateral received in cash	612	33
Consumer loans	1,530	936	Sundry creditors and other accounts payable	5,140	4,732
Residential mortgages	2,810	2,588		<u>18,390</u>	<u>7,419</u>
Total past due loan portfolio	<u>5,915</u>	<u>4,354</u>	Subordinated debt issued (note 1d)	2,099	-
Total loan portfolio	<u>179,036</u>	<u>156,961</u>	Deferred credits and prepayments	1,082	1,168
Less:				<u>262,818</u>	<u>211,950</u>
Allowance for loan losses (note 9f)	6,754	5,415	Total liabilities		
Loan portfolio, net	<u>172,282</u>	<u>151,546</u>	Stockholders' equity (note 19):		
Benefits receivable from securitization transactions (note 10)	108	142	Paid-in capital:		
Other accounts receivable, net	19,082	6,807	Capital stock	4,507	4,507
Foreclosed assets, net (note 11)	91	51	Earned capital:		
Premises, furniture and equipment, net (note 12)	3,814	4,027	Statutory reserves	901	901
Permanent investments (note 13)	90	90	Retained earnings	25,035	24,675
Deferred taxes and deferred employee statutory profit sharing, net (note 18)	3,386	2,058	Unrealized result from valuation of available-for-sale securities	195	238
Other assets:			Unrealized result from valuation of cash flow hedge instruments (note 8)	(173)	47
Deferred charges, prepaid expenses and intangibles	1,979	2,358	Net income	3,976	3,315
Other short and long term assets	603	1,050		<u>29,934</u>	<u>29,176</u>
	<u>2,582</u>	<u>3,408</u>	Total stockholders' equity	34,441	33,683
Total assets	\$ <u>297,259</u>	<u>245,633</u>	Total liabilities and stockholders' equity	\$ <u>297,259</u>	<u>245,633</u>

(Continued)

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

Consolidated Balance Sheets, continued

December 31, 2014 and 2013

(Millions of Mexican Pesos)

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

	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>
Transactions on behalf of third parties			Transactions by own account		
Customer current accounts:			Contingent assets and liabilities	\$ 3	3
Customer banks	\$ 230	131	Assets in trust or under mandate:		
Settlement of customer transactions	30	3	Trusts	147,012	134,302
Other current accounts	<u>117</u>	<u>244</u>	Mandate	<u>28,984</u>	<u>28,897</u>
	<u>377</u>	<u>378</u>		<u>175,996</u>	<u>163,199</u>
Custody operations:			Assets in custody or under management	<u>328,697</u>	<u>380,453</u>
Customer securities in custody	<u>278,798</u>	<u>278,825</u>	Loan commitments	<u>355,695</u>	<u>356,358</u>
Transactions on behalf of customers:			Collaterals received by the entity:		
Securities on repurchase/resell agreements by customers	60,367	87,483	Government debt	13,084	47,084
Securities lending by customers	173	104	Net worth instruments	423	512
Collaterals received in guarantee by customers	33,145	46,605	Other securities	<u>26,658</u>	<u>24,547</u>
Collaterals delivered in guarantee by customers	29,478	42,805		<u>40,165</u>	<u>72,143</u>
Managed trusts	<u>—</u>	<u>162</u>	Collaterals received and sold or pledged by the entity:		
	<u>123,163</u>	<u>177,159</u>	Government debt	11,577	58,926
Investment banking transactions on behalf of third parties	73,688	76,953	Bank debt	—	610
			Net equity instruments	<u>203</u>	<u>229</u>
				<u>11,780</u>	<u>59,765</u>
			Interest earned but not collected arising from past due loan portfolio	<u>350</u>	<u>278</u>
			Other accounts	<u>620,196</u>	<u>472,411</u>
Total transactions on behalf of third parties	\$ <u>476,026</u>	<u>533,315</u>	Total by own account	\$ <u>1,532,882</u>	<u>1,504,610</u>

"As of December 31, 2014 and 2013, the historical capital stock amounts to \$3,111, respectively"

See accompanying notes to consolidated financial statements.

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

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

Years ended December 31, 2014 and 2013

(Millions of Mexican pesos)

	<u>2014</u>	<u>2013</u>
Interest income (note 21b)	\$ 21,543	19,822
Interest expense (note 21b)	<u>(6,475)</u>	<u>(6,716)</u>
Financial margin	15,068	13,106
Allowance for loan losses (note 9f)	<u>(4,372)</u>	<u>(3,714)</u>
Financial margin adjusted for allowance for loan losses	<u>10,696</u>	<u>9,392</u>
Commissions and fee income (note 21c)	4,385	3,907
Commissions and fee expense	(576)	(474)
Financial intermediation income (note 21d)	566	1,086
Other operating income (note 21e)	2,560	2,690
Administrative and promotional expenses	<u>(13,513)</u>	<u>(13,113)</u>
	<u>(6,578)</u>	<u>(5,904)</u>
Net operating income	<u>4,118</u>	<u>3,488</u>
Equity method in the results of associated companies, net	<u>1</u>	<u>1</u>
Income before income taxes	<u>4,119</u>	<u>3,489</u>
Current income taxes (note 18)	(1,031)	(967)
Deferred income taxes, net (note 18)	<u>888</u>	<u>793</u>
	<u>(143)</u>	<u>(174)</u>
Net income	\$ <u><u>3,976</u></u>	<u><u>3,315</u></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 transactions 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."

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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, 2014 and 2013

(Millions of Mexican pesos)

	Earned capital						Total stockholders' equity
	Capital stock	Statutory reserves	Retained earnings	Unrealized result from valuation of available-for-sale securities	Unrealized result from valuation of cash flow hedge instruments	Net income	
Balances as of December 31, 2012	\$ 4,507	901	22,940	451	(193)	4,520	33,126
Changes resulting from stockholders' resolutions:							
Resolution passed at the Ordinary General Stockholders' Meeting of April 12, 2013 – Appropriation of 2012 net income	–	–	4,520	–	–	(4,520)	–
Dividends declared (note 19b):							
Ordinary Annual General Stockholders' Meeting:							
April 12, 2013	–	–	(535)	–	–	–	(535)
May 24, 2013	–	–	(396)	–	–	–	(396)
August 23, 2013	–	–	(160)	–	–	–	(160)
November 13, 2013	–	–	(1,416)	–	–	–	(1,416)
	–	–	2,013	–	–	(4,520)	(2,507)
Changes related to the recognition of comprehensive income (note 19c):							
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for (\$17) and (\$7), respectively (notes 6b, 8 and 18)	–	–	–	(213)	240	–	27
Net income	–	–	–	–	–	3,315	3,315
Result from application of new accounting criteria (notes 3 and 9)	–	–	(278)	–	–	–	(278)
Total comprehensive income	–	–	(278)	(213)	240	3,315	3,064
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

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 transactions 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 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

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General Director

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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, 2014 and 2013

(Millions of Mexican pesos)

	<u>2014</u>	<u>2013</u>
Net income	\$ 3,976	3,315
Items not requiring (providing) cash flow:		
Impairment allowance (impairment reversal)		
in investing and financing activities	(12)	95
Depreciation of premises, furniture and equipment	479	423
Amortization of intangible assets	139	89
Provisions	4,583	4,100
Current and deferred income taxes	143	174
Equity method in associated companies	(1)	(1)
Other, mainly valuation at fair value	<u>1,422</u>	<u>(85)</u>
Subtotal	<u>6,753</u>	<u>4,795</u>
Operating activities:		
Change in margin accounts	(17)	(53)
Change in investment securities	(2,713)	6,251
Change in derivatives (asset)	(4,582)	312
Change in loan portfolio (net)	(25,062)	(31,307)
Change in benefits receivable from securitization transactions	57	55
Change in foreclosed assets (net)	(50)	(28)
Change in other operating assets (net)	(10,818)	5,317
Change in deposit funding	21,876	10,993
Change in bank and other borrowings	(3,679)	6,541
Change in creditors on repurchase / resale agreements	6,406	(3,546)
Change in securities lending	-	1
Change in collaterals sold or pledged	(26)	7,605
Change in derivatives (liabilities)	3,644	(2,350)
Change in subordinated debt issued	2,099	-
Change in other operating liabilities	9,271	(2,534)
Payments of income taxes	<u>(416)</u>	<u>(560)</u>
Net cash flows from operating activities	<u>(4,010)</u>	<u>(3,303)</u>
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(266)	(365)
Payments for acquisition of subsidiary	(1)	(3)
Collections of cash dividends	2	1
Payments for acquisition of intangible assets	<u>(241)</u>	<u>(255)</u>
Net cash flows from investing activities	<u>(506)</u>	<u>(622)</u>
Net cash flows from financing activities for		
dividends payments in cash (note 19b)	<u>(2,955)</u>	<u>(2,507)</u>
Net increase in cash and cash equivalents	3,258	1,678
Cash and cash equivalents at beginning of year	<u>25,049</u>	<u>23,371</u>
Cash and cash equivalents at end of year	\$ <u>28,307</u>	<u>25,049</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 transactions 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."

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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

December 31, 2014 and 2013

(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, 2014 and 2013, the Financial Group and its subsidiaries (the Group), which have been consolidated, is 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), 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 Sociedades 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)

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 impact in the net income for the associated cost of this sale was \$35 and the income received was \$242.

(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 to \$73.

(d) Sale of consumer loan portfolio-

On December 18, 2014, Crédito Familiar sold a written off consumer loan portfolio to Gestionadora 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 Gestionadora 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.

(Continued)

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)

(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.

(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 Financial Group-*

On September 8, 2014, BNS acquired, from third parties, 109,493 shares, "B" Series 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.

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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)

2013 Significant transactions-

(a) Sale of Ordinary Participation Certificates (CPO's for its acronym in Spanish)-

The Government of the State of Nuevo Leon, Mexico, through a financial institution, implemented a scheme in order to acquire CPO's that various banking and financial creditors held from the toll road concessionaire Viaductos, S. A. de C. V., consequently, in January 2013, the Bank signed a buy and sell agreement in which they ceded the ownership of 1,937,778 CPO's, which generated a gain of \$349, recognized under the caption "Financial intermediation income".

(b) Dividends decree-

As mentioned in note 19b to the consolidated financial statements, in 2013 through resolutions of the Ordinary General Stockholders' Meeting were decreed dividends for \$2,507, which were paid during 2013.

(c) Sale of consumer loan portfolio-

On December 23, 2013, the Bank sold a consumer loan portfolio to a non- consolidated related party at the market value of \$132, the carrying amount at that date was \$518, likewise, the Bank canceled the loan loss provision of \$290; due to the above, the net loss amounted to \$96. The Bank provides portfolio servicing to the related party beginning on the date of sale.

(d) Incorporation of mutual funds-

On August 19, 2013, the Fund Management Company incorporated two debt securities mutual funds named "Scotia Solución 4", Sociedad Anónima de Capital Variable and "Scotia Real", Sociedad Anónima de Capital Variable. The Fund Management Company contributed \$1 to each of the mutual funds. Such contributions are represented by Class "A" representative shares (minimum fixed portion without right for withdrawal). Such mutual funds were introduced to the general public on October 15, 2013, with ticker symbol SCOT-S4 and SCOT-TR, respectively.

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On October 3, 2013, the Fund Management Company incorporated a floating investment named mutual fund “Scotia Solución 2”, Sociedad Anónima de Capital Variable. The Fund Management Company contributed \$1, such contribution is represented by Class “A” shares (minimum fixed portion without right for withdrawal). Such mutual fund was introduced to the general public on November 20, 2013, with ticket symbol SCOT-FR.

(e) BNS’s controlling interest in the Financial Group-

On September 27 and October 3, 2013, BNS acquired, from third parties, 119,288 and 148,692 shares, B Series of the Group with a value of \$21.54 pesos per share and BNS still remains being the main 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, except for the disclosed in note 3 of the consolidated financial statements.

(a) Financial statement authorization, presentation and disclosure-

On February 20, 2015, 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, 2014 and 2013.

The Stockholders and the Banking Commission are empowered to modify the consolidated financial statements after issuance. The accompanying 2014 consolidated financial statements will be submitted to the next Stockholders’ Meeting for approval.

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.

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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 comply with the requirements of 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, 2014 and 2013 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>
2014	\$ 5.270368	4.18%	12.34%
2013	5.058731	3.78%	11.76%
<u>2012</u>	<u>4.874624</u>	<u>3.91%</u>	<u>12.31%</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 net 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". 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 settlement account, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type in position (government, bank, equity and other debt securities), this is reflected as a liability under "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 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 out over-the counter

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

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

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 suspense accounts, under “Loan commitments”. The withdrawn amount is recorded into the loan portfolio in the caption of the portfolio as appropriate.

At the time of contracting, transactions with letters of credit are recorded in suspense 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 the income statement under the caption “Interest expense” during the average term of the loans, except for origination of revolving loans, which are amortized over a period of 12 months against the expense caption that corresponds according to its nature.

(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 by Federal Government or express warranty or the Federation Unit registered with the Public Credit of the Ministry of Finance and Public Credit (SHCP acronym in Spanish), IPAB or Central Bank.

On June 24, 2013, the Banking Commission published a resolution in the Official Gazette amending the Provisions to adopt an expected loss methodology for credit risk, considering the probability of default, loss given default and exposure at default.

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

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 Group 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.

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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, 2014 and 2013, 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 – 0.90%
A2	0.901 – 1.50%
B1	1.501 – 2.0%
B2	2.001 – 2.50%
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, 2014 and 2013, 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, 2014 and 2013, 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 – Loans considered unrecoverable are written off against the allowance when their collection is determined to be practically impossible. 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 carrying value; collections received on account of the asset are recorded as a liability. On the date of sale the resulting gain or loss is recognized in the consolidated income statement caption "Other operating income".

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the consolidated income statement caption "Other operating income". The 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-

Premises, 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 information was suspended according to the Mexican financial reporting standards. 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 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) Bank and other borrowings-

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

(x) Employees' benefits-

The 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.

Actuarial gains or losses of termination benefits are immediately recognized in the consolidated income statement.

(y) ***Subordinated debts issued-***

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

(z) ***Revenue recognition-***

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

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

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

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

Fees 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 and services like commissions (Derivatives) are recognized in results as the services are provided.

(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 close 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 correspond mainly to operations in custody, under management.

Custody transactions-

Customer's securities in custody are valued at fair value, representing the amount for which the Group is obligated to its customers against any future eventuality and are presented in the caption "Customer securities in custody".

Agreements by 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 caption "Securities on repurchase/resell agreements by customers".

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

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 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.

(3) Accounting changes-

I. 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.

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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.

II. 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”

III. Reclassifications -

The 2013 consolidated financial statements have been reclassified according with the presentation of the caption “Creditors on repurchase/resell agreements” and “Collateral sold or pledged” as of December 31, 2014.

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Accounting changes in 2013-

I. Change in allowance for loan losses methodology for commercial loan portfolio:

On June 24, 2013, a resolution that amended the Provision was published in the Official Gazette, in order to change the current credit rating model and creation of reserves from the incurred loss model to an expected loss model taking into consideration the factors of probability of default, loss given default and exposure at default, which is applicable not later than December 31, 2013, however, for purposes of commercial loan portfolio granted to corporations and individuals with business activity with annual net revenues or sales equivalent or higher than 14 million UDIS, the Group applied the prescribed in transitory article seven applicable to credit institutions that had prior authorization by the Banking Commission to use an internal model based on expected loss, therefore the Group is in the process of recertification of its internal methodology for such loan portfolio.

In response to the resolution mentioned in the previous paragraph, at December, 31, 2013, the Bank recognized the financial effect resulting from the application of the methodology included in the resolution dated June 24, 2013 for an amount of \$278, which includes commercial loan portfolio granted to corporations and individuals with business activity with annual net revenues or sales equivalent or lower than 14 million UDIS, as well as collection rights from financial asset-backed trusts that were reclassified to "Loan portfolio".

The Bank made all reasonable efforts to determine the effect of the retrospective application of the new methodology for allowance for loan losses for commercial loan portfolio, however, the determination was impractical because: i) the historical information does not have the same performance, ii) significant estimates are required from previous periods and, iii) it is not possible to objectively determine if the required information is available or was available in prior years, therefore the financial effect was recorded in the consolidated balance sheet as a credit to the allowance for loan losses and debit to stockholders' equity within the caption "Retained earnings" as established by the Provisions.

The financial effect corresponds to the application of new methodology for allowance for loan losses for commercial loan portfolio granted to corporations and individuals with annual net revenues or sales equivalent or lower than 14 million UDIS and collections rights from financial asset-backed trusts, not including financial institutions, which new methodology is applicable beginning January 2014, nor commercial loan portfolio granted to corporations and individuals with annual net revenues or sales higher than 14 million UDIS, given that the Bank is authorized by the Banking Commission to apply its own internal methodology, which is based on an expected loss model. On February 5, 2014, the Banking Commission confirmed the authorization mentioned above, while the information provided by the Bank for recertification of the internal methodology is analyzed by the Banking Commission.

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Following is the effect from change in methodology:

<u>New Methodology</u>			<u>Prior Methodology</u>			Increase (decrease) in allowance for loan losses
<u>Risk grade</u>	<u>% of provision</u>	<u>Amount of provision</u>	<u>Risk grade</u>	<u>% of provision</u>	<u>Amount of provision</u>	
A-1	0 a 0.9	\$ 7	A-1	0 a 0.50	\$ 11	\$ (4)
A-2	0.901 a 1.5	14	A-2	0.51 a 0.99	10	4
B-1	1.501 a 2.0	152	B-1	1 a 4.99	10	142
B-2	2.001 a 2.5	3	B-2	5 a 9.99	36	(33)
B-3	2.501 a 5.0	38	B-3	10 a 19.99	-	38
C-1	5.001 a 10.0	18	C-1	20 a 39.99	-	18
C-2	10.001 a 15.5	2	C-2	40 a 59.99	-	2
D	15.501 a 45.0	108	D	60 a 89.99	-	108
E	Higher than 45.0	<u>3</u>	E	90 a 100	<u>-</u>	<u>3</u>
		\$ <u>345</u>			\$ <u>67</u>	\$ <u>278</u>

II. 2013 MFRS and MFRS Improvements-

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

MFRS -

- MFRS B-8 “*Consolidated or combined financial statements*”
- MFRS B-12 “*Offsetting financial assets and financial liabilities*”
- MFRS C-7 “*Associates, joint ventures and other permanent investments*”
- MFRS C-14 “*Transfer and retirement of financial assets*”
- MFRS C-21 “*Joint arrangements*”-

2013 MFRS Improvements-

- MFRS C-5 “*Prepayments*”
- MFRS C-9 “*Liabilities, provisions, contingent assets and liabilities, and commitments*”

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- MFRS C-12 “Financial instruments with characteristics of liabilities, equity, or both”
- MFRS D-4 “Income Taxes”
- MFRS D-5 “Leases”
- MFRS B-8 “Consolidated or combined financial statements”
- MFRS C-7 “Associates, joint ventures and other permanent investments”
- MFRS C-21 “Joint arrangements”

(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 global capital of the Brokerage Firm. Accordingly, at December 31, 2014 and 2013, the Bank and the Brokerage Firm maintain a position within the authorized limits.

At December 31, 2014 and 2013 the foreign currency position is analyzed as follows:

	<u>Millions of dollars</u>		<u>Equivalent in pesos</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets	5,267	3,008	\$ 77,643	39,358
Liabilities	(5,278)	(3,010)	(77,805)	(39,384)
Short position	<u>(11)</u>	<u>(2)</u>	\$ <u>(162)</u>	<u>(26)</u>

At December 31, 2014, the short position in foreign currency consists of 91% in U.S. dollars (79% in 2013) and 9% in other foreign currencies (21% in 2013).

The exchange rate relative to the U.S. dollar at December 31, 2014 and 2013, was \$14.7414 pesos per dollar and \$13.0843 pesos per dollar, respectively, and on February 20, 2015, the authorization issuance date of the consolidated financial statements was \$15.0757 pesos per dollar.

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(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Cash in hand	\$ 5,161	4,101
Banks:		
Domestic	104	9
Foreign	3,870	1,096
Call money	2,074	6,393
24 and 48hour foreign currency sales	(3,043)	(1,794)
Other funds available	16	59
Restricted funds:		
Deposits with the Central Bank	13,512	12,823
24 48, 72 and 96-hour foreign currency purchase	6,234	1,804
Compensation fund to operate derivatives	379	516
Investments	<u>-</u>	<u>42</u>
	\$ <u>28,307</u>	<u>25,049</u>

At December 31, 2014 and 2013, the deposits with the Central Bank relate to deposits for monetary regulation amounting to \$13,511 and \$12,787, respectively, bearing interest at the average bank funding rate, with no maturity. Interest earned on the deposit in the Central Bank at December 31, 2014 and 2013 were \$1 and \$36, respectively.

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). To this end, the Bank acquired BREMS-L issued by the Central Bank, which were settled with resources from the deposit of monetary regulation that the Bank held. At December 31, 2014, the amount of BREMS-L amounts to \$1,145 and are classified as held to maturity securities (see note 6). The amount of these securities is part of monetary regulation deposit, therefore these securities may only decrease as the deposit increases in cash.

As of December 31, 2014, the Group had an asset (liability) balance for foreign currency purchase and sale transactions payable at a date later than the date agreed for \$1,825 and (\$4,716), respectively, (\$1,533 y (\$1,543), respectively, As of December 31, 2013), which were recognized in settlement accounts within “Other accounts receivable, net” and “Creditors on settlement of transactions” captions, as appropriate.

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At December 31, 2014 and 2013, the Group had the following three-day interbank loans:

<u>Institution</u>	<u>2014</u>			<u>2013</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. \$	-	-	-	\$ 2,443	3.40%	2 days
Banco Mercantil del Norte, S. A.	-	-	-	1,500	3.45%	2 days
Banco Inbursa, S. A.	1,000	2.93%	2 days	2,000	3.44%	2 days
Nacional Financiera, S. N. C.	-	-	-	450	3.50%	2 days
HSBC México S.A	<u>1,074</u>	<u>3.00%</u>	<u>2 days</u>	-	-	-
	\$ <u>2,074</u>			\$ <u>6,393</u>		

At December 31, 2013, the Group had 19,612 gold and silver coins (3,594 gold and 16,018 silver), the quoted market prices used for translation purposes are those issued by the Central Bank, purchase and sale transactions are 24 and 48 hour. The value of such metals is shown under “Other Funds available” and is analyzed as follows:

	<u>2014</u>	<u>2013</u>
Immediate notes receivable	\$ <u>16</u>	<u>10</u>
Precious metal coins:		
Gold	-	44
Silver	<u>-</u>	<u>5</u>
	-	<u>49</u>
	\$ <u>16</u>	<u>59</u>

At December 31, 2014 and 2013, foreign currency receivable and deliverable 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Dollar	\$ 5,858	1,714	2,190	1,685
Other currencies	<u>376</u>	<u>90</u>	<u>853</u>	<u>109</u>
	\$ <u>6,234</u>	<u>1,804</u>	<u>3,043</u>	<u>1,794</u>

At December 31, 2014 and 2013, earnings from operations of buy/sell metals and currencies amounted to \$901 and (\$469), respectively, the valuation result amounts to (\$34) in 2014 and \$513 in 2013, which are recorded under “Financial intermediation income”.

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(6) Investment securities -

(a) Breakdown-

At December 31, 2014 and 2013, the investment securities at fair value, except held-to-maturity securities, are as follows:

	<u>2014</u>	<u>2013</u>
<u>Trading:</u>		
Debt securities:		
Government securities	\$ 22,720	16,954
Bank promissory notes	1,633	1,115
Others	335	639
Equity shares	<u>1,192</u>	<u>1,014</u>
	<u>25,880</u>	<u>19,722</u>
<u>Available-for-sale:</u>		
Debt securities:		
Government securities	29,343	25,545
Bank promissory notes	2,366	1,129
Others	670	826
Equity shares	<u>381</u>	<u>426</u>
	<u>32,760</u>	<u>27,926</u>
<u>Held-to-maturity:</u>		
Special CETES of the UDI Trust:		
Residential mortgages	2,209	2,143
Bonds	<u>1,145</u>	<u>-</u>
	<u>3,354</u>	<u>2,143</u>
Total investment securities	\$ <u>61,994</u>	<u>49,791</u>

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- (b) At December 31, 2014 and 2013, debt securities relating to government securities, bank notes and shares classified as trading and available-for-sale securities, are analyzed as follows:

<u>Trading:</u>	<u>2014</u>	<u>2013</u>
Debt securities:		
Government securities (unrestricted):		
BI CETES	\$ 604	58
M BONOS	<u>373</u>	<u>—</u>
	<u>977</u>	<u>58</u>
Value date sales:		
M BONOS	(8,210)	(1,658)
BI CETES	(2,711)	(107)
S UDIBONO	(1,120)	(25)
BPAT	—	(50)
LD BONDESD	<u>(100)</u>	<u>—</u>
	<u>(12,141)</u>	<u>(1,840)</u>
(Assigned securities to be settled) ⁽¹⁾		
Unrestricted securities	\$ <u>(11,164)</u>	<u>(1,782)</u>

Trading:

<u>Unrestricted securities:</u>		
Own position:		
BI CETES	\$ —	697
M BONOS	<u>—</u>	<u>17</u>
	<u>—</u>	<u>714</u>
Book value date sales:		
M BONOS	—	(90)
BI CETES	—	(14)
S UDIBONO	<u>—</u>	<u>(13)</u>
	<u>—</u>	<u>(117)</u>
Total unrestricted government securities carried forward	\$ <u>—</u>	<u>597</u>

(1) Presented in liabilities as “Assigned securities to be settled” by its nature of credit balance.

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Trading (continued):

	<u>2014</u>	<u>2013</u>
Total unrestricted government securities brought forward	\$ <u>—</u>	<u>597</u>
Restricted trading securities:		
Government securities:		
CETES delivered in guarantee	<u>280</u>	<u>343</u>
Under repurchase/resell agreements:		
LD BONDES	6,550	8,030
M BONOS	5,346	2,359
BI CETES	1,660	4,131
IQ BPAG91	1,263	219
CBUR	630	141
S UDIBONO	422	21
BPAS	25	6
IS BPA 182	66	313
IT BPAT	33	52
IM BPAG28	13	—
95 CFE 14-2	<u>33</u>	<u>—</u>
	<u>16,041</u>	<u>15,272</u>
Book value date purchases:		
BI CETES	3,267	15
M BONOS	2,013	654
S UDIBONO	1,019	23
LD BONESD	100	—
BPAT	<u>—</u>	<u>50</u>
	<u>6,399</u>	<u>742</u>
Total government securities	\$ <u>22,720</u>	<u>16,954</u>

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Trading (continued):

	<u>2014</u>	<u>2013</u>
Banking notes:		
Unrestricted securities:		
BANOBRA	\$ 123	398
BANCOMEXT	<u>—</u>	<u>3</u>
Unrestricted banking notes	<u>123</u>	<u>401</u>
Restricted securities:		
Under repurchase/resell agreements:		
PRLV	1,250	699
CBBB	250	—
CBBN	—	15
CEBUR	<u>10</u>	<u>—</u>
	<u>1,510</u>	<u>714</u>
Total banking notes	\$ <u>1,633</u>	<u>1,115</u>
Others debt securities:		
Under repurchase/resell agreements:		
CBUR	\$ 286	424
CBPC	<u>49</u>	<u>215</u>
Total other debt securities	\$ <u>335</u>	<u>639</u>
Equity shares:		
Unrestricted shares:		
NAFTRAC	\$ 142	31
SCOTIA G	248	459
CEMEX	112	—
Other equity shares	<u>92</u>	<u>262</u>
Equity shares, carried forward	\$ <u>594</u>	<u>752</u>

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Trading (continued):

	<u>2014</u>	<u>2013</u>
Equity shares, brought forward	\$ <u>594</u>	<u>752</u>
Value date sales:		
VTI	(146)	–
VEU	(124)	–
NAFTRAC	(78)	(2)
DHS	(65)	–
VTV	(62)	–
DBEU	(39)	–
DBEF	(33)	–
BTU	(30)	–
WALMEX	(27)	(1)
AAPL	(17)	–
GMEXICO	(2)	–
ALFAA	–	(7)
Other equity shares	<u>(163)</u>	<u>(132)</u>
	<u>(786)</u>	<u>(142)</u>
Assigned securities to be settled ⁽¹⁾	\$ <u>(192)</u>	
Securities lending:		
GRUMA	\$ 117	31
NAFTRAC	26	27
TLEVISA	20	2
ALFA A	17	28
PE&OLES	5	18
CEMEX CPO	3	2
ICA *	3	1
ICHB	2	4
ALSEA *	2	3
PRBN	–	1
VALE N	1	1
GMEXICO B	1	1
Other equity shares	<u>7</u>	<u>106</u>
	<u>204</u>	<u>225</u>
Restricted equity shares:		
SCOTIAG	<u>295</u>	<u>36</u>
Equity shares, carried forward	\$ <u>499</u>	<u>871</u>

(1) Presented in liabilities as “Assigned securities to be settled” caption by its nature of credit balance.

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Trading (continued):

		<u>2014</u>	<u>2013</u>
Equity shares, brought forward	\$	<u>499</u>	<u>871</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	1
MTUM		13	—
SHV		13	—
XLK		13	—
NAFTRAC		11	10
GMEXICO B		1	4
ALFA A		—	7
Other equity shares		<u>49</u>	<u>121</u>
Equity shares value date		<u>693</u>	<u>143</u>
Total equity shares		<u>1,192</u>	<u>1,014</u>
Total trading securities	\$	<u>25,880</u>	<u>19,722</u>

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	<u>2014</u>	<u>2013</u>
<u>Available-for-sale:</u>		
Debt securities:		
Domestic government securities:		
BI CETES	\$ 684	1,642
LD BONDES	1,115	1,445
BPAS	–	120
M BONOS	<u>–</u>	<u>416</u>
	<u>1,799</u>	<u>3,623</u>
Foreign government securities:		
BRAZM14	408	–
BRAZQ28	337	–
BRAZG46	726	599
UMS14F	–	222
UMS14F2	–	149
UMS15F	<u>457</u>	<u>475</u>
	<u>1,928</u>	<u>1,445</u>
Book value date purchases		
(Restricted securities):		
BRAZG46	611	218
BRAZD15	<u>–</u>	<u>359</u>
	<u>611</u>	<u>577</u>
Restricted securities:		
Under repurchase/resell agreements:		
LD BONDES	25,005	19,488
M BONOS	<u>–</u>	<u>412</u>
	<u>25,005</u>	<u>19,900</u>
Total government debt, carried forward	\$ <u>29,343</u>	<u>25,545</u>

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	<u>2014</u>	<u>2013</u>
<u>Available for sale:</u>		
Total government debt, brought forward	\$ 29,793	25,996
Banking notes:		
Own position:		
BANORTE	1,003	—
BANSAN	1,000	—
BANOBRA	363	69
BACMEXT	<u>—</u>	<u>451</u>
	<u>2,366</u>	<u>520</u>
Restricted securities:		
Under repurchase/resell agreements:		
BANOBRA	<u>—</u>	<u>609</u>
Total banking notes	<u>2,366</u>	<u>1,129</u>
Other debt securities:		
CEBUR	68	—
CABEI	451	451
MOLYMET	151	151
MONTP10	—	82
TCM10	<u>—</u>	<u>142</u>
Total other debt securities	<u>670</u>	<u>826</u>
Equity shares:		
BOLSA	379	424
Other equity shares	<u>2</u>	<u>2</u>
Total equity shares	<u>381</u>	<u>426</u>
Total available-for-sale	\$ <u>32,760</u>	<u>27,926</u>

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<u>Held-to-maturity:</u>	<u>2014</u>	<u>2013</u>
Government securities:		
CETES B4 170713	\$ 810	786
CETES B4 270701	1,023	993
CETES B4 220804	2	2
CETES B4 220707	362	351
CETES BC 170713	<u>12</u>	<u>11</u>
Total special CETES (note 9d)	2,209	2,143
BONOS XL BREMSL (restricted, note 5)	<u>1,145</u>	<u>—</u>
Total governmental securities	\$ <u>3,354</u>	<u>2,143</u>

As of December 31, 2014, the Group held an asset (liability) balance for transactions with securities settled on a date subsequent to the trade date of \$12,793 and (\$6,958), respectively, (\$1,947 and (\$733), respectively, as of December 31, 2013), 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, 2014, recognized in other items of comprehensive income within stockholders’ equity amounted to \$70 (\$43 net of deferred taxes and deferred ESPS) (\$356 (\$213 net of deferred taxes and deferred ESPS, as of December 31, 2013). The valuation result from available-for-sale securities in hedge transactions at fair value recognized in the consolidated income statement as of December 31, 2014 and 2013 amounted to \$17 and (\$14), respectively.

For the years ended December 31, 2014 and 2013, the interest income from investment securities amounted to \$1,891 and \$1,765, respectively.

For the years ended December 31, 2014 and 2013, 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>2014</u>	<u>2013</u>
Trading	\$ 757	1,054
Available-for-sale	1,117	1,270
Held-to-maturity	<u>85</u>	<u>80</u>
	\$ <u>1,959</u>	<u>2,404</u>

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

At December 31, 2014 and 2013, there is no investment in non-governmental debt securities of a single issuer exceeding 5% of the Bank's net capital.

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

At December 31, 2014 and 2013, 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 (days)</u>	<u>Amount</u>
December 31, 2014				
BANOBRA	123,311,085	2.85%	2	\$ 123
TCM	2,188,225	<u>3.29%</u>	<u>715</u>	<u>68</u>
December 31, 2013				
BANOBRA	398,628,955	3.61%	87	\$ 398
TCM	2,188,225	<u>3.79%</u>	<u>1,513</u>	<u>142</u>

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

Repurchase/resell agreements -

At December 31, 2014 and 2013, the "Debtors on repurchase/resell agreements" and "Creditors on repurchase/resell agreements" balances in which the Group acts as repurchaser, 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>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
BG91	\$ 1,000	–	(968)	–
BPAS	–	–	(1)	(6)
BPAT	–	–	(33)	(52)
BPA 182	–	–	–	5,433
BPAG	–	–	(13)	12,693
M BONOS	2,500	–	(4,102)	5,919
CTIM	–	–	(1,200)	(107)
LD BONDES	6,101	–	(6,433)	5,605
CBIC	500	–	–	500
CBB	–	–	(250)	–
CBBN	–	–	(10)	(15)
CBPC	–	–	(82)	(215)
CBUR	–	–	(916)	(565)
IPAS	2,005	–	(90)	–
PRLV	–	–	(1,250)	(699)
UDIB	–	–	(422)	(21)
	<u>12,106</u>	<u>–</u>	<u>(15,770)</u>	<u>28,470</u>
Collateral sold or pledged (on repurchase / resell agreements)				
BG91	(295)	–	–	–
LD BONDES	(7,069)	–	(21,383)	(30,733)
M BONOS	(2,237)	–	–	(8,278)
BPA 182	–	–	–	(2,757)
CTIM	–	–	(345)	(3,816)
BPAG	–	–	–	(12,869)
IPAS	(2,005)	–	–	–
CBIC	(500)	–	–	(500)
CBBN	–	–	–	(609)
	<u>(12,106)</u>	<u>–</u>	<u>(21,728)</u>	<u>(59,562)</u>
Collaterals sold or pledged (Creditor)	\$ <u>–</u>	<u>–</u>	<u>(37,498)</u>	<u>(31,092)</u>

At December 31, 2014 and 2013, the terms of resell/repurchase agreements vary between 2 and 77 days (2 and 32 days in 2013), with annual weighted rates of 3.13% acting as repurchasee, and 2.85% acting as repurchaser (3.59% and 3.37% in 2013). At December 31, 2014 and 2013 for the Brokerage Firm, the terms of the repurchase/resale agreements are the same as of the Bank with weighted rates of 3.13% when acting as repurchasee and 2.88% when acting as repurchaser (3.61% and 3.40% in 2013, respectively).

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During the years ended December 31, 2014 and 2013, interest or premiums collected by the Group amounted to \$1,270 y \$1,572, respectively; interest or premiums paid amounted to \$2,446 and \$2,745, 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, 2014 and 2013, 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>2014:</u>			
Guarantees received:			
BI CETES	150528	791,086	\$ -
IS BPA 182	160331	68,392	7
IS BPA 182	180705	230,356	24
IS BPA 182	200730	145,290	15
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	33,331	<u>-</u>
Total guarantees delivered			\$ <u>20</u>
<u>2013:</u>			
Guarantees received:			
BI CETES	140403	6,029,675	\$ 60
IS BPA 182	150917	537,376	54
IS BPA 182	171005	55,034	5
IQ BPAG 91	181018	60,860	<u>6</u>
Total guarantees received			\$ <u>125</u>

Securities lending-

At December 31, 2014 and 2013, 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 were as shown in the following page.

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<u>2014:</u>	<u>Number of securities</u>		<u>Fair value</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>
<u>2013:</u>	<u>Number of securities</u>		<u>Fair value</u>
ALFA A	1,017,384	\$	37
ICA *	50,000		1
ICH B	42,000		4
PE&OLES *	55,000		18
ALSEA *	79,200		3
PBR N	3,800		1
FCX *	2,880		1
VALE N	7,800		2
CHDRAUI B	250,438		11
GRUMA B	360,000		35
ALPEK A	19,000		1
BIMBO A	540,114		22
GFNORTE O	312,000		28
KIMBER A	294,800		11
LAB A	1,108,000		41
SIMEC B	40,000		2
TLEVISA CPO	139,180		<u>11</u>
		\$	<u>229</u>

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At December 31, 2014 and 2013 the right to require the borrower values derived from the sale of such securities, are analyzed as follows:

<u>2014:</u>	<u>Number of securities</u>		<u>Fair value</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>
<u>2013:</u>			
ALFA A	768,884	\$	28
CEMEX CPO	168,160		2
ICA *	50,000		1
ICH B	42,000		4
PE&OLES *	54,941		18
ALSEA *	67,200		3
NAFTRAC	635,400		27
PBR N	3,800		1
FCX *	2,880		1
VALE N	7,800		2
GMEXICOB	14,600		1
ALPEK A	19,000		1
AMX L	2,000,000		30
BIMBO A	540,114		22
CHDRAUI B	124,846		6
GFNORTE O	58,300		5
GRUMA B	310,000		31
KIMBER A	70,300		3
LAB B	908,000		33
MEXCHE M	30,000		2
TLEVISA CPO	31,200		2
SIMEC B	40,000		<u>2</u>
		\$	<u>225</u>

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The average maturity of the securities lending transactions as of December 31, 2014 and 2013 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, 2014 and 2013, premiums collected and (paid) in securities lending transactions amounted to \$9 and (\$3) as well as \$8 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, 2014 and 2013, the Group received equity shares securities as collateral in the securities lending transactions for \$203 y \$229, respectively (see note 6). These securities are managed in memorandum accounts.

(8) Derivatives -

At December 31, 2014 and 2013, the valuation of derivative financial instruments for trading and hedging purposes recognized under the caption "Derivatives ", is analyzed as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Trading purposes:				
Foreign exchange currency forward contracts	\$ 2,771	3,135	160	185
Futures	5	-	1	1
Options	694	1,368	737	1,298
Swaps	1,873	2,268	1,370	1,669
Package of derivative instruments	<u>1</u>	<u>6</u>	<u>-</u>	<u>5</u>
	<u>5,344</u>	<u>6,777</u>	<u>2,268</u>	<u>3,158</u>
Hedging purposes:				
Fair value hedges	8	41	13	66
Cash flow hedges	<u>45</u>	<u>365</u>	<u>246</u>	<u>226</u>
	<u>53</u>	<u>406</u>	<u>259</u>	<u>292</u>
	\$ <u>5,397</u>	<u>7,183</u>	<u>2,527</u>	<u>3,450</u>

For the years ended December 31, 2014 and 2013, the amount of losses recognized in results from the impairment of derivatives for trading purposes amounted to (\$8) and (\$6) and for hedging purposes for \$19 and (\$19), respectively.

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The net income (loss) for the years ended December 31, 2014 and 2013, derived from the ineffectiveness of instruments used for cash flow hedging purposes amounted to (\$8) and \$2, respectively, which is included in the results of operations under the caption "Financial intermediation income". The effect of loss from valuation relating to the effective hedge portion at December 31, 2014 and 2013, amounts to \$361 (\$220 net of the deferred tax effect). At December 31, 2013, the gain from valuation relating to the effective hedge portion was \$407 (\$240 net of the deferred tax), which are presented in stockholders' equity.

At December 31, 2014, the gain (loss) of cash flow hedge instruments that was reclassified from stockholders' equity to the year's results of operations within "Interest income" and "Interest expense" was \$85 and (\$357) (\$53 and (\$220) at December 31, 2013).

The net estimated effect, based on the results of January 2015 and projected to 12 months, of the accumulated ineffectiveness of hedging derivative transactions which are expected to be reclassified to consolidated statement of income during the following twelve months is minimum.

At December 31, 2014 and 2013, the gain and (losses) from valuation of fair value hedging derivatives were \$25 and (\$21) respectively; while the loss from valuation of the hedged item related to the hedged risk was (\$21) and (\$68), respectively.

At December 31, 2014 and 2013, the net losses on financial assets and liabilities related to trading derivatives are \$366 and \$456, respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains from buy/sell transactions and valuation results at December 31, 2014 amounted to (\$897) and \$37, respectively ((\$462) and \$515, in 2013, respectively) and are presented in "Financial intermediation income".

For the years ended December 31, 2014 and 2013, the Group foresees that all transactions to hedge forecasted cash flows are highly likely to occur.

At December 31, 2014 and 2013, 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, 2014, out of all hedging derivative transactions, there are 225 agreements (229 agreements in 2013) totaling \$24,370 (\$24,220 in 2013) and are converting liabilities, assets in securities and 28 and 30 days loans classified as hedges under the cash flow methodology, the remainder relates to hedges of credit and bonds for \$6,407 (\$26,251 in 2013) 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 Group 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, 2014 and 2013, the classification of loans into current and past due by currency, which includes the restructured loan portfolio in UDI Trusts (valued in domestic currency), is as follows:

	<u>2014</u>		<u>2013</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	\$ 47,502	1,474	39,933	809
Financial institutions	12,841	56	13,851	-
Government entities	5,015	-	3,213	-
Consumer loans	28,562	1,530	28,539	936
Residential mortgages	<u>64,643</u>	<u>2,745</u>	<u>54,498</u>	<u>2,522</u>
	<u>158,563</u>	<u>5,805</u>	<u>140,034</u>	<u>4,267</u>
<u>Foreign currency translated into pesos:</u>				
Business or commercial activity	11,921	24	10,004	21
Financial institutions	2,510	21	2,451	-
Residential mortgages	<u>127</u>	<u>65</u>	<u>118</u>	<u>66</u>
	<u>14,558</u>	<u>110</u>	<u>12,573</u>	<u>87</u>
	<u>173,121</u>	<u>5,915</u>	<u>152,607</u>	<u>4,354</u>
		179,036		156,961
<u>In memorandum accounts:</u>				
Loan commitments (see note 20g)		<u>8,194</u>		<u>6,087</u>
	\$ <u>187,230</u>		<u>163,048</u>	

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As of December 31, 2014 and 2013, the Group does not have restricted loan portfolio.

(b) Classification of loan portfolio by economic sector-

At December 31, 2014 and 2013, 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>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Agriculture, forestry and fishing	\$ 4,711	3	3,812	2
Commerce and tourism	16,655	9	13,929	9
Construction and housing*	70,595	38	60,211	37
Manufacturing	26,803	14	19,035	12
Consumer loans and credit cards	30,092	16	29,475	18
Community, social and personal services, mainly government entities	9,424	5	9,918	6
Financial, insurance and real estate services	28,128	15	25,969	16
Transportation, warehousing and communication	<u>822</u>	<u>—</u>	<u>699</u>	<u>—</u>
	<u>\$ 187,230</u>	<u>100</u>	<u>163,048</u>	<u>100</u>

* Includes portfolio of mortgage loans in 2014 for \$67,580 and \$57,204 in 2013.

(c) Loans to government entities-

At December 31, 2014 and 2013, loans granted to government entities are analyzed as follows:

	<u>2014</u>	<u>2013</u>
Receivables under financial support programs	\$ 67	135
Governments, municipalities and state secretariats	<u>4,948</u>	<u>3,078</u>
Total loans to government entities	<u>\$ 5,015</u>	<u>3,213</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 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>

At December 31, 2014 and 2013, the Group did not apply any amount to the remaining balance of the trust liability payable by the Group and that should be charged to the allowance for credit risks.

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

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	<u>Securities</u>	<u>Amount</u>	<u>Maturity date</u>
Cetes especiales B4 170713	8,867,241	\$ 810	July 13, 2017
Cetes especiales B4 220707	3,961,831	362	July 7, 2022
Cetes especiales B4 220804	21,792	2	August 4, 2022
Cetes especiales B4 270701	11,209,686	1,023	July 1, 2027
Cetes especiales BC 170713	<u>404,851</u>	<u>12</u>	July 13, 2017
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 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Commercial loans *	5.30%	5.97%
Personal loans	23.50%	23.41%
Credit cards	27.13%	25.91%
Residential mortgages	<u>10.59%</u>	<u>11.23%</u>

* Includes commercial, financial and government entities loans.

Loans rediscounted with funding:

The Mexican Government has established certain funds for the promotion and development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with funding. At December 31, 2014 and 2013, the amount of loans granted under these programs totaled \$4,763 and \$4,685, respectively, and the related liability is included in "Bank and other borrowings" (see note 15).

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Restructured loans:

At December 31, 2014 and 2013, restructured and renewed loans are analyzed as follows:

	<u>Current loans</u>	<u>Past due loans</u>	<u>Total</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>
	<u>Current loans</u>	<u>Past due loans</u>	<u>Total</u>
<u>2013</u>			
Commercial loans	\$ 1,253	330	1,583 ⁽¹⁾
Residential mortgages	4,236	525	4,761
Consumer loans	<u>32</u>	<u>9</u>	<u>41</u>
	\$ <u>5,521</u>	<u>864</u>	<u>6,385</u>

⁽¹⁾ As of December 31, 2013, there was one commercial loan which required additional guaranties for \$46.

During 2014 and 2013, the Group carried out some modifications to the original terms of loans classified as commercial loans for \$1,461 and \$1,007, respectively, which were not considered restructured loans.

Current commercial loans restructured by the Group during 2014 and 2013, which continue being current, amount to \$1,191 and \$125, respectively; for mortgage loan portfolio were \$1,990 and \$405, respectively.

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During the years 2014 and 2013, the Group recorded restructuring from past due commercial loans which remained as past due for \$319 and \$144, respectively. Also in 2014 and 2013, the Group made restructuring from past due for mortgage loan portfolio for \$50 and \$56, respectively.

The restructuring consumer loans current and past due made by the Group during 2014 amount to \$271 and \$96, respectively. During 2013 the Group did not restructure consumer loans.

During the years 2014 and 2013, capitalization of interest was for \$5 and \$9, respectively.

Risk concentration:

At December 31, 2014, the Bank has three economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is \$18,458 and represents 75% of the basic capital as of September, 2014. At December 31, 2013, the Bank has two economic group debtors that exceeded such limit totaling \$14,256 and represent, 51% of its basic capital. The balance of the loans granted to the three largest debtors as of December 2014 and 2013, amount to \$18,458 and \$16,872, respectively.

Past due loan portfolio:

An analysis of past due loans at December 31, 2014 and 2013, from the date the loans were considered past due, is summarized below:

	<u>1 to 180</u> <u>days</u>	<u>181 to 365</u> <u>days</u>	<u>1 to 2</u> <u>years</u>	<u>More than</u> <u>2 years</u>	<u>Total</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>
<u>2013</u>					
Commercial*	\$ 178	132	348	172	830
Consumer	887	46	-	3	936
Residential mortgages	<u>1,425</u>	<u>521</u>	<u>426</u>	<u>216</u>	<u>2,588</u>
	\$ <u>2,490</u>	<u>699</u>	<u>774</u>	<u>391</u>	<u>4,354</u>

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

The movement in the past due loan portfolio for the years ended December 31, 2014 and 2013, is summarized below:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 4,354	2,948
Settlements	(208)	(118)
Write-offs and debt forgiveness	(2,860)	(2,281)
Net increase	4,624	3,803
Foreign exchange fluctuation	<u>5</u>	<u>2</u>
	\$ <u>5,915</u>	<u>4,354</u>

The interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2014 amounted to \$350 (\$278 in 2013), which are recorded in memorandum accounts.

For the years ended December 31, 2014 and 2013, the Group recorded write-offs from those past due loans that had been fully reserved for \$2,417 and \$1,963, respectively. In both years there was no application of reserves to loans granted to related parties.

For the years ended December 31, 2014 and 2013, the Group obtained recoveries from written off loans for \$718 and \$566, respectively.

Impaired loans:

At December 31, 2014, the balance of impaired commercial loans is \$3,680 (\$2,343 in 2013), from which \$2,105 are recorded in current loans (\$1,513 in 2013), and \$1,575 are recorded in past due loans (\$830 in 2013).

Adjustment from valuation of financial asset hedging:

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 for hedging financial assets.

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At December 31, 2014 and 2013, 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 \$19 and \$47, respectively.

(f) Allowance for loan losses-

As of December 31, 2014, as a result from the application of the allowance for loan losses methodology, the probability of default, loss given default and exposure at default by type of loan portfolio, obtained as weighted average 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>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>Credito Familiar</u>			
Personal loans	23.59%	65.00%	\$ 3,956
Credit cards	<u>16.63%</u>	<u>75.00%</u>	<u>114</u>

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

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

Grade of risk	Commercial	Financial institutions	Government entities	Consumer	Residential mortgages	Total
<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>
<u>Allowance for loan losses</u>						
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>

At December 31, 2013, the credit rated loan portfolio and the allowance for loan losses, are analyzed as shown in the following 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	\$ 39,801	9,454	1,065	12,500	44,829	107,649
A-2	5,603	1,626	1,790	1,947	5,566	16,532
B-1	1,063	8,730	–	2,326	1,151	13,270
B-2	261	318	6	2,020	1,171	3,776
B-3	2,772	1	300	2,637	688	6,398
C-1	883	–	–	2,995	1,337	5,215
C-2	498	–	52	1,556	637	2,743
D	1,082	–	–	1,980	1,557	4,619
E	<u>1,064</u>	<u>–</u>	<u>–</u>	<u>1,514</u>	<u>268</u>	<u>2,846</u>
Total	\$ <u>53,027</u>	<u>20,129</u>	<u>3,213</u>	<u>29,475</u>	<u>57,204</u>	<u>163,048</u>

Allowance for loan losses

A-1	\$ 174	45	5	157	77	458
A-2	76	16	23	94	33	242
B-1	20	150	–	298	10	478
B-2	6	32	–	119	14	171
B-3	87	–	11	170	12	280
C-1	53	–	–	220	40	313
C-2	66	–	6	246	51	369
D	281	–	–	711	279	1,271
E	<u>700</u>	<u>–</u>	<u>–</u>	<u>814</u>	<u>102</u>	<u>1,616</u>
Total	\$ <u>1,463</u>	<u>243</u>	<u>45</u>	<u>2,829</u>	<u>618</u>	5,198

Additional allowance for residential mortgages past due loans

93

Operational risk allowance

14

Additional allowance for past due accrued interest

70

Specific reserves authorized by the Banking Commission

40

Total allowance for loan losses

\$ 5,415

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, 2014, is in process of recertification. The model enables a reliable estimate of the need for allowances. The internal methodology only applies to customers whose loans have higher net sales or revenues of 14 millions of UDIS.

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Derived from the reclassification of collection rights into the caption “Commercial loans” on December 31, 2013, the allowance for loan losses related to this portfolio was recognized against the prior years’ results, which was determined and recorded in accordance with the mentioned Provisions.

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, 2014 and 2013, the amount of \$32 was recorded in the consolidated income statement in each year.

At December 31, 2013, the Group has no additional guarantees recognized and authorized by the Banking Commission.

The movement in the allowance for loan losses for the years ended December 31, 2014 and 2013 is summarized below:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 5,415	3,708
Provisions charged to results of operations	4,372	3,714
Provisions charged to prior years’ results for the application of new accounting criteria	-	278
Applications, waivers and others	(3,006)	(2,225)
Foreclosures	(78)	(64)
Exchange currency fluctuations	<u>51</u>	<u>4</u>
Balance at end of year	\$ <u>6,754</u>	<u>5,415</u>

At December 31, 2014 and 2013, the total credit rated portfolio and total credit risk, including that recognized in memorandum accounts amount \$187,330 and \$163,048 (includes \$67 in 2014 portfolio not including creditors under support programs), respectively.

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(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.

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):

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

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

(10) Benefits 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, 2014 and 2013, the amount of the portfolio assigned receivable amounted to \$789 and \$1,027 respectively, and the amount payable on the debt securities amounted to \$626 and \$835, 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, 2014 and 2013 were \$108 and \$142 respectively, the valuation effect was recognized in "Other operating income" in the consolidated statement of income.

For the years ended December 31, 2014 and 2013, the assigned portfolio received prepayments of \$89 and \$133, 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, 2014 and 2013, the income from this item was \$8 and \$10, respectively.

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(11) Foreclosed assets-

At December 31, 2014 and 2013, foreclosed assets are comprised as follows:

	<u>2014</u>	<u>2013</u>
Premises	\$ 103	59
Furniture, values and foreclosed rights	<u>11</u>	<u>10</u>
	114	69
Allowance for impairment	<u>(23)</u>	<u>(18)</u>
	\$ <u>91</u>	<u>51</u>

The movement of the allowance for impairment for the years ended December 31, 2014 and 2013 is analyzed as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ (18)	(15)
Additional provisions due to aging, charged to operations for the year	(10)	(5)
Credit to income on sale of assets	<u>5</u>	<u>2</u>
Balance at end of year	\$ <u>(23)</u>	<u>(18)</u>

(12) Premises, furniture and equipment-

Premises, furniture and equipment at December 31, 2014 and 2013 are analyzed in the next page.

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	<u>2014</u>	<u>2013</u>	<u>Annual depreciation rate</u>
Land	\$ 571	573	-
Office premises	1,473	1,818	Various
Transportation equipment	28	41	25% and 33%
Transportation equipment in capital lease	31	18	33%
Computer equipment	1,121	1,085	Various
Computer equipment in capital lease	82	96	20%
Furniture and equipment	1,505	1,473	10%
Telecommunications equipment	477	432	10%
Artworks	2	2	N/A
Leasehold improvements	<u>2,365</u>	<u>2,049</u>	Various
	7,655	7,587	
Accumulated depreciation	<u>(3,841)</u>	<u>(3,560)</u>	
	\$ <u>3,814</u>	<u>4,027</u>	

Depreciation charged to results of operations for the years ended December 31, 2014 and 2013 amounted to \$478 and \$423, respectively.

For the years ended December 31, 2014 and 2013, the amount charged to results from impairment of leasehold improvements amounted to \$14 and \$36, respectively, mainly due to close of 8 and 14 branches, respectively. The effect of reverse of the impairment in a premise recorded in the consolidated income statement for the year ended December 31, 2014, amounted to \$15.

According to assessment carried out by the Group's management, the residual value (except land) of office premises at December 31, 2014 and 2013, is minimum.

(13) Permanent investments-

At December 31, 2014 and 2013, the Group's permanent investments in equity and associate classified by activity, are analyzed as follows:

	<u>2014</u>	<u>2013</u>
Banking related services	\$ 48	48
Mutual funds	35	35
Security and protection	<u>1</u>	<u>1</u>
Other permanent investments	84	84
Derivatives market operators (associate)	<u>6</u>	<u>6</u>
	\$ <u>90</u>	<u>90</u>

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(14) Deposit funding -

At December 31, 2014 and 2013, the deposit funding caption, is analyzed as follows:

		2014			2013		
		Currency			Currency		
		Domestic	Foreign	Total	Domestic	Foreign	Total
Demand deposits:							
Non-bearing interest	\$	42,783	137	42,920	38,510	148	38,658
Bearing interest		<u>41,623</u>	<u>13,293</u>	<u>54,916</u>	<u>37,054</u>	<u>8,334</u>	<u>45,388</u>
		<u>84,406</u>	<u>13,430</u>	<u>97,836</u>	<u>75,564</u>	<u>8,482</u>	<u>84,046</u>
Time deposits:							
General public		<u>54,304</u>	<u>5,365</u>	<u>59,669</u>	<u>49,436</u>	<u>4,496</u>	<u>53,932</u>
Money market:							
Certificates of deposit (CD's)		1,551	-	1,551	1,784	-	1,784
Promissory notes		<u>5,059</u>	<u>-</u>	<u>5,059</u>	<u>3,069</u>	<u>-</u>	<u>3,069</u>
		<u>6,610</u>	<u>-</u>	<u>6,610</u>	<u>4,853</u>	<u>-</u>	<u>4,853</u>
Debt securities issued:							
Bank bonds		1,556	-	1,556	976	-	976
Banking stock certificates (Cebures)		<u>10,886</u>	<u>-</u>	<u>10,886</u>	<u>10,874</u>	<u>-</u>	<u>10,874</u>
		<u>12,442</u>	<u>-</u>	<u>12,442</u>	<u>11,850</u>	<u>-</u>	<u>11,850</u>
Total deposit funding	\$	<u>157,762</u>	<u>18,795</u>	<u>176,557</u>	<u>141,703</u>	<u>12,978</u>	<u>154,681</u>

The average weighted interest rates, non-audited, on deposit balances during the years ended December 31, 2014 and 2013, are as follows:

	2014		2013	
	Domestic currency	Dollars	Domestic currency	Dollars
Demand deposits	1.05%	0.03%	1.06%	0.04%
Time deposits:				
General public	2.96%	0.11%	3.56%	0.16%
Money market	<u>2.55%</u>	<u>-</u>	<u>4.03%</u>	<u>-</u>

At December 31, 2014 and 2013, 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, 2014 and 2013, the Group issued CD's with face value of one hundred pesos for an amount of \$1,551 and \$1,784, respectively, as shown bellows:

2014 CD's-

<u>Payment of interest</u>	<u>Annual rate</u>	<u>Term in days</u>	<u>Amount</u>
28 days	TIEE 28 - 0.08%	<u>196</u>	\$ 750
Accrued interest			<u>1</u>
			<u>751</u>

2014 Structured CD's-

Underlying

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

2013 CD's-

<u>Payment of interest</u>	<u>Annual rate</u>	<u>Term in days</u>	<u>Amount</u>
28 days	4.71%	337	\$ 750
28 days	TIEE 28 + 0.02%	<u>336</u>	<u>700</u>
			1,450
Accrued interest			<u>3</u>
			<u>1,453</u>

2013 Structured CD's-

Underlying

TIEE 28		272	200
TIEE 28		<u>363</u>	<u>131</u>
			<u>331</u>
			\$ <u>1,784</u>

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Promissory notes-

At December 31, 2014 and 2013, the Group issued promissory notes with par value of one hundred pesos, as follows:

<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	755,906,205	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>
<u>2013</u>				
October 2013	20,191,605	91	3.79%	\$ 20
June 2013	261,136,527	362	4.44%	250
June 2013	522,373,611	362	4.45%	500
May 2013	781,875,000	360	4.25%	750
May 2013	62,668,050	363	4.41%	60
March 2013	1,462,505,327	362	4.47%	<u>1,400</u>
				2,980
Accrued interest				<u>89</u>
				\$ <u>3,069</u>

(b) Debt securities issued-

At December 31, 2014 and 2013, the Group issued banking stock certificates with par value of one hundred pesos, under the program authorized by the Banking Commission for up to \$15,000, as shown in the following page.

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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 dys + 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>86</u>
						<u>10,886</u>

2014 – Banking bonds

<u>Issuance date</u>	<u>Number of securities</u>	<u>Term in days</u>	<u>Underlying</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>12,442</u>

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2013 – 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%	TIE 28 days + 0.40%	3,450
November 2012	20,000,000	3	28	13%	TIE 28 days + 0.25%	2,000
November 2010	8,300,000	5	28	21%	TIE 28 days + 0.40%	830
October 2010	3,580,000	7	28	2%	TIE 28 days + 0.49%	358
October 2010	23,120,000	5	28	21%	TIE 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>74</u>
						<u>10,874</u>

2013 – Bank bonds

<u>Issuance date</u>	<u>Number of securities</u>	<u>Term in days</u>	<u>Underlying</u>	
July 2013	853,000	272	TIE 28 days	85
July 2013	732,800	272	TIE 28 days	73
August 2013	2,419,200	1,097	SX5E	242
October 2013	1,749,600	1,079	SX5E	175
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
December 2013	457,700	1,079	SPTSX60	<u>46</u>
				<u>976</u>
			Total	\$ <u>11,850</u>

The interest rate of bank bonds is variable and notes are unsecured.

On September 2013, through a press release of the Fondo Unido initiative, the Group took part in the fundraising due to the tropical storms called Ingrid and Manuel. The fundraisings received for this contingency amounted \$1 during the period from September 19, 2013 to November 1, 2013. The recipient of the fundraising was the Natural Disasters Attention Program, United by a million and two hundred victim people, which is called Fondo Unido I. A. P.

During 2014, the Group supported limited liability partnerships for an amount of \$1 (\$4 in 2013).

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(15) Bank and other borrowings-

At December 31, 2014 and 2013, bank and other borrowings are comprised as follows:

	<u>2014</u>	<u>2013</u>
Due on demand	\$ <u>236</u>	<u>1,475</u>
Short-term:		
Domestic currency:		
Development banks ⁽¹⁾	1,898	1,597
Development agencies ⁽¹⁾	1,384	1,841
Others organizations ⁽¹⁾	2,000	-
Accrued interest	<u>21</u>	<u>12</u>
	<u>5,303</u>	<u>3,450</u>
Granted in dollars, translated into pesos:		
Commercial banking	-	5,291
Multiple banking	1,328	-
Development agencies ⁽¹⁾	247	21
Others organizations ⁽¹⁾	1	-
Development banks ⁽¹⁾	<u>14</u>	<u>14</u>
	<u>1,590</u>	<u>5,326</u>
Total short term	<u>6,893</u>	<u>8,776</u>
Long-term:		
Domestic currency:		
Development agencies ⁽¹⁾	<u>1,304</u>	<u>1,328</u>
Granted in dollars, translated into pesos:		
Development agencies ⁽¹⁾	17	26
Multiple banking	<u>-</u>	<u>524</u>
	<u>17</u>	<u>550</u>
Total long-term	<u>1,321</u>	<u>1,878</u>
Total bank and other borrowings	\$ <u>8,450</u>	<u>12,129</u>

(1) Development funds (see note 9e).

At December 31, 2014 and 2013, long-term bank and other borrowings maturity dates are as shown in the following page.

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<u>Maturity</u>	<u>2014</u>	<u>2013</u>
2015	\$ –	604
2016	142	199
2017	284	417
2018	466	545
2019	271	85
More than 5 years	<u>158</u>	<u>28</u>
	\$ <u>1,321</u>	<u>1,878</u>

At December 31, 2014 and 2013, the Group does not have guarantees granted for bank and other borrowings.

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, 2014 and 2013, the Group has no significant interbank lines of credit with authorized amounts that have not been drawn down.

For the years 2014 and 2013, bank and other loans weighted average annual interest rates are as shown:

	<u>2014 annual rates</u>		<u>2013 annual rates</u>	
	<u>Domestic currency</u>	<u>Foreign currency</u>	<u>Domestic currency</u>	<u>Foreign currency</u>
Domestic banks	2.89%	0.78%	3.27%	0.67%
Development banks	4.48%	1.67%	4.43%	1.86%
Development agencies	<u>3.59%</u>	<u>1.24%</u>	<u>3.52%</u>	<u>1.28%</u>

(16) Employees' benefits -

The Bank, the Brokerage Firm, the Fund Management Company, SECOSA and Crédito Familiar (the subsidiaries) have a defined benefits plan that provides seniority premium and legal compensation which the employees are entitled, according to the Federal Labor Law, and the obligations relating to the post-retirement benefits.

The Bank, the Brokerage Firm and the Fund Management Company have also a defined contribution plan for pension and post-retirement benefits. 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, 2014 and 2013, the charge to results for the Group's contributions to the defined contribution pension plan amounted to \$59 and \$60, 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, 2014 and 2013.

The components of the net periodic cost (income) of employees' benefit for the years ended December 31, 2014 and 2013 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>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	<u>(16)</u>	<u>—</u>	<u>(16)</u>	<u>(1)</u>	<u>—</u>	<u>(1)</u>	<u>—</u>
Total cost (income)	\$ <u>105</u>	<u>(6)</u>	<u>99</u>	<u>6</u>	<u>7</u>	<u>13</u>	<u>189</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>2013</u>							
Service cost	\$ 41	2	43	5	6	11	90
Financial cost	184	4	188	6	4	10	238
Expected return on plan assets	(151)	(4)	(155)	(5)	(6)	(11)	(224)
Amortization of prior service:							
Plan modifications	9	—	9	—	—	—	(14)
Net actuarial loss	<u>20</u>	<u>—</u>	<u>20</u>	<u>1</u>	<u>—</u>	<u>1</u>	<u>51</u>
Net periodic cost	103	2	105	7	4	11	141
(Income) cost from recognition of actuarial (gains) losses generated in the year	—	(5)	(5)	—	3	3	—
Total cost (income)	\$ <u>103</u>	<u>(3)</u>	<u>100</u>	<u>7</u>	<u>7</u>	<u>14</u>	<u>141</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 (cost) for recognition of actuarial gains and (losses)	-	7	7	-	(2)	(2)	1
Effect of early reduction obligations	16	-	16	1	-	1	-
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>

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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, 2013:

	<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, 2012	\$ (2,399)	(46)	(2,445)	(79)	(56)	(135)	(3,060)
Plan improvements	177	-	177	-	-	-	-
Current service cost	(41)	(2)	(43)	(5)	(6)	(11)	(90)
Financial cost	(184)	(4)	(188)	(6)	(4)	(10)	(238)
Paid benefits	191	1	192	5	8	13	106
Actuarial (loss) gain	(243)	8	(235)	1	1	2	(45)
DBO as of December 31, 2013	(2,499)	(43)	(2,542)	(84)	(57)	(141)	(3,327)
Plan assets at fair value	<u>1,935</u>	<u>59</u>	<u>1,994</u>	<u>70</u>	<u>80</u>	<u>150</u>	<u>2,988</u>
Financial situation of the fund	(564)	16	(548)	(14)	23	9	(339)
Past service for:							
Plan improvements	(120)	-	(120)	-	-	-	(178)
Cumulative actuarial losses	<u>836</u>	<u>-</u>	<u>836</u>	<u>19</u>	<u>-</u>	<u>19</u>	<u>1,208</u>
Net projected asset as of December 31, 2013	\$ <u>152</u>	<u>16</u>	<u>168</u>	<u>5</u>	<u>23</u>	<u>28</u>	<u>691</u>

A reconciliation of the net projected (liability) asset as of December 31, 2013 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, 2012	\$ 114	9	123	4	24	28	613
Net periodic cost	(103)	(2)	(105)	(7)	(4)	(11)	(141)
Contributions to fund during 2013	143	4	147	6	4	10	219
Benefits paid	2	-	2	1	(2)	(1)	-
Income (cost) for recognition of actuarial gains (losses)	(4)	5	1	1	1	2	-
Net projected asset, as of December 31, 2013	\$ <u>152</u>	<u>16</u>	<u>168</u>	<u>5</u>	<u>23</u>	<u>28</u>	<u>691</u>

The acquired benefit obligations (ABO) as of December 31, 2014 and 2013 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>2014</u>							
ABO	\$ (2,020)	–	(2,020)	(16)	(52)	(68)	(1,693)
<u>2013</u>							
ABO	\$ (1,925)	–	(1,925)	(9)	(49)	(58)	(1,248)

Below is an analysis of the movements of the plan assets required for covering the employees' benefit obligations for the years ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Fair value of the assets at the beginning of year	\$ 5,135	4,964
Plan contributions during the year	-	376
Fund withdrawals*	(44)	-
Return on plan assets	537	104
Payments from the fund during the year	<u>(301)</u>	<u>(309)</u>
Fair value of the assets at the end of year	\$ <u>5,327</u>	<u>5,135</u>

* During the year 2014, the Group transferred funds from the defined benefits plan to the defined contribution plan to cover contributions of the year.

During the years ended 2014 and 2013, the expected return on the plan assets is \$398 and \$391, respectively.

During the year 2015, it is not expected to have contributions to the fund. Also, during 2015, the amount of \$60 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Acquired benefit obligations (ABO)	\$ <u>(312)</u>	<u>(306)</u>
DBO at beginning of year	(306)	(302)
Current service cost	(21)	(21)
Financial cost	(24)	(22)
Benefits paid	103	106
Actuarial loss	<u>(64)</u>	<u>(67)</u>
DBO at December 31, financial situation of the fund and projected liability, net	\$ <u>(312)</u>	<u>(306)</u>

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The net cost of statutory severance compensation for the years ended December 31, 2014 and 2013, amounted to \$109 and \$104, respectively.

The nominal rates as of December 31, 2014 and 2013 used in actuarial projections are as follows:

	<u>2014</u>	<u>2013</u>
Return on plan assets	8.00%	7.75%
Discount rate	8.25%	8.75%
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, 2014, is shown below:

	<u>Annual rate</u>	<u>DBO medical expenses for retirees</u>
Without modification	6.5%	\$ 3,225
1% increase in medical inflation rate	7.5%	3,971
1% decrease in medical inflation rate	<u>5.5%</u>	<u>2,647</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, 2012, 2011 and 2010 is shown in the following page.

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	<u>Pensions</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
DBO	\$ (2,445)	(2,097)	(2,112)
Plan assets	<u>2,001</u>	<u>1,849</u>	<u>1,889</u>
Financial situation of the fund	\$ <u>(444)</u>	<u>(248)</u>	<u>(223)</u>
Variances in assumptions and experience adjustments	\$ <u>501</u>	<u>297</u>	<u>(58)</u>
	<u>Seniority premiums</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
DBO	\$ (135)	(114)	(104)
Plan assets	<u>146</u>	<u>128</u>	<u>130</u>
Financial situation of the fund	\$ <u>11</u>	<u>14</u>	<u>26</u>
Variances in assumptions and experience adjustments	\$ <u>17</u>	<u>11</u>	<u>7</u>
	<u>Medical expenses, food coupons and life insurance</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
DBO	\$ (3,060)	(2,632)	(2,534)
Plan assets	<u>2,814</u>	<u>2,497</u>	<u>2,361</u>
Financial situation of the fund	\$ <u>(246)</u>	<u>(135)</u>	<u>(173)</u>
Variances in assumptions and experience adjustments	\$ <u>1,051</u>	<u>733</u>	<u>(361)</u>

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	<u>Statutory severance compensation</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
DBO	\$ (306)	(268)	(250)
DBO (losses) gains	\$ (67)	(52)	43

As of December 31, 2014, 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	N/A	8.22	N/A	12.73	N/A
Actuarial loss (gain), net	12.62	1	13.96	1	15.00	1
<u>Brokerage Firm:</u>						
Plan improvements	9.13	N/A	N/A	N/A	N/A	N/A
Actuarial loss (gain), net	11.08	N/A	10.70	1	14.58	1
<u>The Fund Management Company:</u>						
Actuarial loss (gain), net	N/A	N/A	8.75	1	11.90	1
<u>SECOSA:</u>						
Actuarial loss (gain), net	N/A	N/A	22.90	1	1	22.90
<u>Crédito Familiar:</u>						
Actuarial loss (gain), net	19.06	N/A	19.06	1	N/A	N/A

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(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, 2014 and 2013 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 50% the basic portion of the net capital. The balances of transactions with related parties as of December 31, 2014 and 2013 amount to \$7,458 and \$6,692, respectively. The deposits made by related parties as of December 31, 2014 and 2013 amount to \$240 and \$233, respectively.

For the years ended December 31, 2014 and 2013, the benefits granted to senior management amounted to \$180 and \$120, respectively.

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

On December 11, 2013, a decree was published in the Official Gazette whereby several tax provisions were amended, supplemented and repealed, this decree became effective as of January 1st, 2014. In such decree the business flat tax law (Ley del Impuesto Empresarial a Tasa Única or IETU) and the income tax law (Ley de Impuesto Sobre la Renta or IT law) in effect as of December 31, 2013 were repealed, and a new IT law was enacted.

In accordance with the current tax legislation until December 31, 2013, companies must pay the tax greater between IT and IETU. If IETU was determined payable, the payment is considered final and not subject to recovery in subsequent years.

The new IT law, establish a 30% rate for 2014 and subsequent years. According to the IT and IETU laws, in effect as of to December 31, 2013, the IT and IETU rates in 2013 were of 30% and 17.5%, respectively.

The current ESPS rate is 10%, for the years 2014 and 2013.

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The IT law applicable in 2013 established in its transitory sections that the current IT rate would be 29% in 2014 and 28% starting 2015, therefore the deferred taxes were calculated using a rate of 28% until December 31, 2012, were modified using a rate of 30% at the end of year 2013, derived from the change in the IT rate according with the tax reform. The principal item in the deferred tax is related to the surplus of the provision for the global loss reserve to be applied, which is partially reserved in both years.

On May 19, 2004, the Bank and the Brokerage Firm obtained a favorable resolution from the Federal Judiciary relating to articles 16 and 17, last paragraph of the Income Tax Law in force in 2002. Accordingly, the Bank and the Brokerage Firm is thus authorized to equally apply the amount of the tax base used for ESPS determination and that used for IT purposes in the year 2013 and prior. Derived from the Tax Reform applicable since the year 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.

Although the Group does not exercise the option under the tax consolidation with its subsidiaries, following is presented for illustrative purposes the IT expense and current ESPS, as well as the deferred tax assets, which as of December 31, 2014 and 2013 is comprised as follows:

	<u>2014</u>		<u>2013</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT and IETU</u>	<u>ESPS</u>
Current IT:				
Bank and subsidiaries	\$ 805	256	711	227
Reversed provisions from 2013 and 2012, respectively	(8)	(3)	(27)	(3)
Brokerage firm	102	35	47	12
The Fund Management Company	85	-	66	-
SECOSA	13	2	15	-
Crédito Familiar	<u>34</u>	<u>-</u>	<u>155</u>	<u>-</u>
	1,031	290	967	236
Deferred	<u>(888)</u>	<u>(271)</u>	<u>(793)</u>	<u>(142)</u>
	\$ <u>143</u>	<u>19</u>	<u>174</u>	<u>94</u>

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Deferred IT and ESPS:

The deferred tax asset, as well as the favorable effect (unfavorable) to results of operations and stockholders' equity for IT and ESPS deferred tax at December 31, 2014 and 2013 is comprised as shown below:

	<u>2014</u>		<u>2013</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
<i>Deferred tax assets</i>				
Valuation of financial instruments:				
Trading	\$ 67	21	26	9
Available-for-sale	(98)	(34)	(119)	(40)
Cash flow hedge swaps	89	30	(17)	(6)
Expense accruals and others	429	106	480	125
Premises, furniture and equipment	(42)	54	(66)	52
Unearned fees collected	417	139	380	127
Pension plan	(172)	(57)	(275)	(92)
Foreclosed assets	311	104	306	102
Surplus from allowance for loan losses ⁽¹⁾	<u>1,576</u>	<u>446</u>	<u>847</u>	<u>219</u>
	<u>2,577</u>	<u>809</u>	<u>1,562</u>	<u>496</u>
	<u>\$ 3,386</u>		<u>2,058</u>	
<i>Favorable effect (unfavorable)</i>				
Valuation of financial instruments:				
Trading	\$ 41	12	(57)	(18)
Available-for-sale	21	6	107	35
Cash flow hedge swaps	106	36	(124)	(42)
Expense accruals and others	(51)	(19)	91	(13)
Premises, furniture and equipment	24	2	53	8
Unearned fees collected	37	12	78	26
Pension plan	103	35	(42)	(14)
Foreclosed assets	5	2	82	27
Surplus from allowance for loan losses	<u>729</u>	<u>227</u>	<u>588</u>	<u>126</u>
	<u>1,015</u>	<u>313</u>	<u>776</u>	<u>135</u>
	<u>\$ 1,328</u>		<u>911</u>	

⁽¹⁾ Net of valuation allowance (Includes effect of tax rate change from 28% to 30% for \$19 in 2013)

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	<u>2014</u>		<u>2013</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
<i>Deferred tax:</i>				
In statement of income	\$ 888	271	793	142
In stockholders' equity:				
Valuation in available-for-sale securities	21	6	107	35
Valuation of cash flow hedge swaps	<u>106</u>	<u>36</u>	<u>(124)</u>	<u>(42)</u>
	<u>1,015</u>	<u>313</u>	<u>776</u>	<u>135</u>
	<u>\$1,328</u>		<u>911</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, 2014 and 2013:

	<u>IT</u>			<u>ESPS</u>
	<u>Tax Base</u>	<u>Tax at 30%</u>	<u>Effective rate</u>	<u>at 10%</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 financial instruments	439	(132)	(4%)	(44)
Depreciation and amortization	39	(12)	-	(4)
Non-deductibles expenses ⁽¹⁾	499	(150)	(5%)	(29)
Loss for sale of loan	340	(102)	(3%)	(34)
Surplus of provision 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 ESPS paid	(175)	53	2%	-
Others, net	<u>(214)</u>	<u>65</u>	<u>2%</u>	<u>21</u>
Current tax to the following page	\$ <u>2,591</u>	<u>(777)</u>	<u>(24%)</u>	<u>(256)</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 from previous page	\$ <u>2,591</u>	<u>(777)</u>	<u>(24%)</u>	<u>(256)</u>
<i><u>Allocation to deferred tax:</u></i>				
<i><u>(30% tax and 10% ESPS)</u></i>				
Mark to market of financial instruments	(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
Surplus from allowance for loan losses	<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>
	IT			ESPS at 10%
	Tax Base	Tax at 30%	Effective rate	
<u>December 31, 2013</u>				
Operating income	\$ 2,910	(873)	(30%)	(291)
<i><u>Allocation to current tax:</u></i>				
Adjustment for effects of inflation	(798)	239	8%	80
Mark to market of financial instruments	76	(23)	(1%)	(8)
Depreciation and amortization	(30)	9	-	3
Non-deductibles expenses	298	(89)	(3%)	(30)
Deduction for provision for loan losses	(467)	140	5%	47
Current and deferred ESPS	69	(21)	-	(7)
Deduction of ESPS paid	(216)	65	2%	22
Tax recoveries and others, net	<u>408</u>	<u>(122)</u>	<u>(4%)</u>	<u>(41)</u>
Current tax, to the following page	\$ <u>2,250</u>	<u>(675)</u>	<u>(23%)</u>	<u>(225)</u>

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	<u>IT</u>			<u>ESPS</u> at <u>10%</u>
	<u>Tax</u> <u>Base</u>	<u>Tax</u> <u>at 30%</u>	<u>Effective</u> <u>rate</u>	
Current tax from previous page	\$ <u>2,250</u>	<u>(675)</u>	<u>(23%)</u>	<u>(225)</u>
<i><u>Allocation to deferred tax</u></i> <i><u>(30% tax and 10% ESPS):</u></i>				
Mark to market of financial instruments	(66)	20	-	7
Provisions and others	34	(10)	-	(3)
Premises, furniture and equipment	(78)	23	1%	8
Pension plan	138	(41)	(1%)	(14)
Foreclosed assets	(270)	81	3%	27
Unearned fees collected	(260)	78	2%	26
Surplus from allowance for loan losses ⁽¹⁾	<u>(1,262)</u>	<u>397</u>	<u>14%</u>	<u>126</u>
Deferred tax	<u>(1,764)</u>	<u>548</u>	<u>19%</u>	<u>177</u>
Income tax	\$ <u>486</u>	<u>(127)</u>	<u>(4%)</u>	<u>(48)</u>

⁽¹⁾ Includes effect of exchange rate from 28% to 30% for \$19

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 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, 2014 and 2013, 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-

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

At December 31, 2014 and 2013, 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>	<u>Payment date in 2013</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	193	–	–
13-Nov-13	808	–	–	13-Nov-13	808
13-Nov-13	550	–	–	13-Nov-13	550
13-Nov-13	58	–	–	13-Nov-13	58
23-Aug-13	59	–	–	30-Aug-13	59
23-Aug-13	82	–	–	30-Aug-13	82
23-Aug-13	19	–	–	30-Aug-13	19
24-May-13	300	–	–	31-May-13	300
24-May-13	77	–	–	31-May-13	77
24-May-13	19	–	–	31-May-13	19
12-Apr-13	165	–	–	23-Apr-13	165
12-Apr-13	370	–	–	23-Apr-13	<u>370</u>
			\$ <u>2,955</u>		\$ <u>2,507</u>

At December 31, 2014 and 2013, 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.

(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.

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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, 2014 and 2013 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, 2014 the capital contribution account (Cuenta de Capital de Aportación or CUCA) and the net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN) of the Group amount to \$21,245 and \$11,654, respectively.

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

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

The Banking 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 total capital at December 31, 2014 and 2013 was \$1,175 and \$1,291, respectively.

At December 31, 2014 and 2013, the Bank maintained a capitalization index in excess of 10%; 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.

Capital as of December 31 of the Bank:

	<u>2014</u>	<u>2013</u>
Basic capital		
Common shares	\$ 8,374	7,924
Result from previous years	15,002	12,390
Other elements of the comprehensive income (and other provisions)	<u>6,872</u>	<u>6,300</u>
Basic capital before regulatory adjustments	<u>30,248</u>	<u>26,614</u>
National regulatory adjustments:		
Investments in mutual funds	24	24
Deferred debits and prepayments	2,852	2,608
Investments in clearings	558	913
Deferred taxes, favorable items from temporaly differences	<u>726</u>	<u>-</u>
Total regulatory adjustments to capital	<u>4,160</u>	<u>3,545</u>
Total Basic Capital, to the following page	\$ <u>26,088</u>	<u>23,069</u>

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	<u>2014</u>	<u>2013</u>
Total Basic Capital, from previous page	\$ 26,088	23,069
Supplementary capital		
Equity instruments	2,099	-
Provisions	<u>213</u>	<u>421</u>
Net capital	<u>\$ 28,400</u>	<u>23,490</u>
Total risk weighted assets	<u>\$ 213,272</u>	<u>191,008</u>
Equity and supplementary ratios		
Basic Capital Ratio 1	12.2%	12.1%
Basic Capital Ratio	12.2%	12.1%
Supplementary Capital Ratio	1.1%	0.2%
Net Capital Ratio	13.3%	12.3%
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>5.1%</u>
Limits applicable 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 applying the limit)	\$ 213	421
Limits applicable to the inclusion of reserves in supplementary capital under standardized methodology	\$ 965	864
<u>Assets at risk as of December 31, 2014:</u>		
	<u>Risk weighted assets</u>	<u>Capital requirement</u>
Exposed positions to market risk by risk factor:		
Transactions in Mexican pesos at nominal interest rates	\$ 18,511	1,481
Transactions with debt securities in pesos with premium and adjustable rates	2,350	188
Transactions in Mexican pesos at real interest rates or denominated in UDIS	467	37
Positions in UDIS or with returns linked to the INPC	1	-
Foreign currency transactions at nominal interest rates	563	45
Foreign currency positions or with exchange rate indexed returns	287	23
Equity positions or with returns indexed to the price of a single share or group of shares	<u>374</u>	<u>30</u>
Total market risk, to the following page	<u>\$ 22,553</u>	<u>1,804</u>

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	Risk weighted assets	Capital requirement
Total market risk, from previous page	\$ <u>22,553</u>	<u>1,804</u>
Assets with credit risk weighted 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	167,283	13,382
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>
Average annual positive net income for the past 36 months		\$ <u>14,339</u>

As of December 31, 2014, the Bank's net capital structure of \$28,400 had an increase of 20.9% compared to \$23,490 of the year 2013, due to a capital increase of \$450, subordinated debt issued for \$2,099 and net income for \$3,397.

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.

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At December 31, 2014, the Bank raised the ratings of the following rating agencies:

<u>National scale (Caval)</u>	<u>Lang 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, also assesses to the Bank under key metrics and indicators such as: Capital, Liquidity, Profitability and Credit Losses.

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

At the same time, to ensure the compliance and the continuous monitoring of the capital sufficiency, the Bank 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: capital composition and integration, 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.

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(20) Memorandum accounts-

(a) Securities on repurchase / resell agreements by customers-

At December 31, 2014 and 2013, the repurchase/resell transactions of customers are comprised as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
BG91	14,225,677	\$ 1,417	140,890,533	\$ 14,067
BPAG	3,606	-	18,149,176	1,809
BPAS	10,040	1	10,040	1
BPAT	-	-	190,000	19
CBBN	100,000	10	16,140,626	1,617
CBPC	330,391	33	1,001,610	100
CBUR	2,704,503	271	4,095,037	410
CTIM	191,304,282	1,887	922,399,007	9,035
IPAS	10,581,546	1,069	27,733,947	2,800
LBON	506,636,098	50,519	471,474,621	46,945
MBON	33,045,146	3,826	93,884,222	9,980
PRLV	927,381,141	912	701,355,290	699
UDIB	<u>748,427</u>	<u>422</u>	1,765	<u>1</u>
		\$ <u>60,367</u>		\$ <u>87,483</u>

(b) Securities lending transaction by customers-

At December 31, 2014 and 2013, the securities lending transaction on behalf of clients, are as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
GRUMA	561,500	\$ 88	310,000	\$ 31
AMX	-	-	2,000,000	30
NAFTRAC	593,200	25	593,200	25
CEMEX CPO	174,887	3	168,160	3
ICH B	23,400	2	26,000	2
Other equity shares	<u>610,484</u>	<u>55</u>	<u>231,080</u>	<u>13</u>
		\$ <u>173</u>		\$ <u>104</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 Brokerage Firm, at December 31, 2014 and 2013, are analyzed as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
Government:				
BG91	11,260,701	\$ 1,121	-	\$ -
BPAS	10,040	1	10,040	1
BPAT	-	-	190,000	19
CBUR	-	-	1,414,802	141
CTIM	157,182,996	1,549	540,871,654	5,306
BPA 182	-	-	14,148,089	1,428
LBON	257,395,596	25,663	242,475,431	24,134
MBON	21,970,323	2,596	53,023,470	5,691
UDIB	748,427	422	1,765	1
BPAG	3,606	1	80,226,687	8,007
IPAS	5,620,222	<u>566</u>	-	<u>-</u>
		<u>31,919</u>		<u>44,728</u>
Banking:				
CBBN	100,000	10	8,070,313	808
CBPC	330,391	33	1,001,610	100
PRLV	927,381,141	<u>912</u>	601,355,290	<u>600</u>
		<u>955</u>		<u>1,508</u>
Private:				
CBUR	2,704,503	271	2,680,235	269
PRLV	-	<u>-</u>	<u>100,000,000</u>	<u>100</u>
		<u>271</u>		<u>369</u>
		\$ <u>33,145</u>		\$ <u>46,605</u>

(d) Customer's securities received in custody-

The funds managed by the Brokerage Firm for investing in various instruments on behalf of its customers at December 31, 2014 and 2013 are analyzed in the following page.

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<u>Custody transactions</u>	<u>2014</u>	<u>2013</u>
Mutual funds	\$ 50,281	48,044
Government securities	64,462	66,332
Equity shares and other	<u>164,055</u>	<u>164,449</u>
	\$ <u>278,798</u>	<u>278,825</u>

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

Collaterals at fair value delivered as guarantee on behalf of clients at December 31, 2014 and 2013, are comprised as follows:

	<u>2014</u>	<u>2013</u>
Government securities	\$ 27,482	40,155
Banking securities	2	809
Fixed income debt securities	138	-
Equity shares and holding companies certificates	26	1,302
Mutual funds shares	1,789	416
Cash	28	109
Margin credits	<u>13</u>	<u>14</u>
	\$ <u>29,478</u>	<u>42,805</u>

Income earned on assets under custody during the years ended December 31, 2014 and 2013 amounted to \$59 and \$58, respectively.

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

As of December 31, 2014 and 2013 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>2014</u>	<u>2013</u>
Private equity	\$ 690	1,380
Government securities	30,254	39,756
Mutual funds	37,209	34,506
Bank securities not issued by the Bank	<u>5,535</u>	<u>1,311</u>
	\$ <u>73,688</u>	<u>76,953</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, 2014 and 2013, the balance of authorized credit facilities non-withdraw amounted to \$347,501 and \$350,271, respectively; within that amount are included committed credit facilities non-withdraw amounting to \$15,313 and \$11,749, respectively.

Letters of credit:

At December 31, 2014 and 2013, the Bank issued letters of credit for \$8,194 and \$6,087, respectively.

At December 31, 2014 and 2013, the provisions created for credit letters amount to \$50 and \$43, 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, 2014 and 2013, is analyzed as follows:

	<u>2014</u>	<u>2013</u>
Trust:		
Administrative	\$ 139,111	128,009
Guarantee	7,901	5,143
Investment	<u>-</u>	<u>1,150</u>
	147,012	134,302
Mandates	<u>28,984</u>	<u>28,897</u>
	\$ <u>175,996</u>	<u>163,199</u>

Trust revenue accrued for the years ended December 31, 2014 and 2013 amounted \$211 and \$216, 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, 2014 and 2013 are analyzed below:

	<u>2014</u>	<u>2013</u>
<u>Collaterals received by the entity:</u>		
Repurchase / resell agreements:		
BPA 182	\$ —	5,808
BG91	999	—
M BONOS	2,502	7,441
BPAG	—	12,872
CTIM	118	1,360
IPAS	2,045	—
LD BONDES	6,498	19,047
CBIC	<u>500</u>	<u>498</u>
	12,662	47,026
Guarantees received for derivate operations	422	58
Guarantees received for credit operations	26,658	24,547
Equity instruments	<u>423</u>	<u>512</u>
Total collateral received by the entity	\$ <u>40,165</u>	<u>72,143</u>
<u>Collaterals received and sold or pledged by the entity:</u>		
LD BONDES	\$ 6,660	30,734
M BONOS	2,240	8,279
BPA 182	—	2,757
BG91	295	—
CTIM	—	3,818
CBIC	382	498
CBBN	—	609
IPAS	2,000	—
BPAG	<u>—</u>	<u>12,841</u>
	11,577	59,536
Net equity instruments	<u>203</u>	<u>229</u>
	\$ <u>11,780</u>	<u>59,765</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, 2014 and 2013, the securities are analyzed as follows:

	<u>2014</u>	<u>2013</u>
Securities in custody:		
Securities vault	\$ 102	137
General vault	104	102
Investment transaction	940	877
Management of securities	9,524	9,525
Shares pledged as warranty	11,146	9,771
Other	<u>50</u>	<u>107</u>
	<u>21,866</u>	<u>20,519</u>
Securities under management:		
Securities	218,202	197,913
Other	<u>—</u>	<u>3</u>
	<u>218,202</u>	<u>197,916</u>
Transactions with derivative financial instruments on behalf of third parties:		
Futures	82,903	138,243
Swaps	5,707	23,750
Options	<u>19</u>	<u>25</u>
	<u>88,629</u>	<u>162,018</u>
	\$ <u>328,697</u>	<u>380,453</u>

Income arising from securities in custody or management, for the years ended December 31, 2014 and 2013 amounts to \$4 and \$5, respectively.

(21) Additional information on operations and segments-

(a) Segment information-

The Group's operations are classified in the following segments: credit and services (acceptance of deposits, granting of loans, trusts and other income in subsidiaries), treasury and trading (securities, derivatives and currency transactions). For the year ended December 31, 2014 and 2013, income by segment is analyzed in the following page.

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<u>December 31, 2014</u>	<u>Credit and services</u>	<u>Trading and treasury</u>	<u>Others</u>	<u>Total</u>
Interest income, net	\$ 14,480	744	(156)	15,068
Commissions and fees, net, result from trading and other operating income (expenses)	<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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<u>December 31, 2013</u>	<u>Credit and services</u>	<u>Trading and treasury</u>	<u>Others</u>	<u>Total</u>
Interest income, net	\$ 12,634	700	(228)	13,106
Commissions and fees, net, result from trading and other operating income (expenses)	<u>4,828</u>	<u>1,105</u>	<u>1,276</u>	<u>7,209</u>
Net operating revenues	17,462	1,805	1,048	20,315
Allowance for loan losses	(3,714)	–	–	(3,714)
Administrative and promotional expenses	<u>(11,943)</u>	<u>(558)</u>	<u>(612)</u>	<u>(13,113)</u>
Income before current and deferred income taxes	\$ <u>1,805</u>	<u>1,247</u>	<u>436</u>	3,488
Equity method in the results of associated companies, net				1
Current and deferred income taxes, net				<u>(174)</u>
Net income			\$	<u>3,315</u>

(b) Financial margin-

For the years ended December 31, 2014 and 2013, the financial margin in the consolidated statements of income consists of the elements shown in the following page.

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Interest income:

Interest income for the years ended December 31, 2014 and 2013 is analyzed as follows:

	<u>Credit and services</u>	<u>Trading and Treasury</u>	<u>Others</u>	<u>Total</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>
<u>December 31, 2013</u>				
Cash and cash equivalents	\$ —	735	—	735
Margin accounts	—	3	—	3
Investment securities	—	1,274	491	1,765
Securities on repurchase / resell agreements	—	1,019	553	1,572
Current loan portfolio	15,273	—	—	15,273
Past due loan portfolio	29	—	—	29
Loan origination fees	421	—	—	421
Premiums from securities lending transactions	—	—	8	8
Gain on currency translation	<u>—</u>	<u>16</u>	<u>—</u>	<u>16</u>
	<u>\$ 15,723</u>	<u>3,047</u>	<u>1,052</u>	<u>19,822</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, 2014 and 2013:

	2014		2013	
	Current	Past due	Current	Past due
Commercial	\$ 3,013	47	2,923	19
Financial institutions	719	–	233	–
Government entities	168	–	210	–
Consumer	6,817	76	6,251	10
Residential mortgages	<u>6,303</u>	<u>–</u>	<u>5,656</u>	<u>–</u>
	<u>\$ 17,020</u>	<u>123</u>	<u>15,273</u>	<u>29</u>
	<u>\$ 17,143</u>		<u>15,302</u>	

For the years ended December 31, 2014 and 2013, commissions that represent a yield adjustment of 0.18%, 0.58% and 0.71% for 2014, as well as 0.20%, 0.49% and 0.17% for 2013, respectively, are recorded within the total interest income from commercial, consumer and residential loans.

For the years ended December 31, 2014 and 2013, total interest income includes interest denominated in foreign currency amounting to 27 and 29 million dollars, respectively.

Loan origination fees for the years ended December 31, 2014 and 2013 are comprised as follows:

	2014	2013
Commercial	\$ 150	127
Consumer	224	200
Residential mortgages	<u>109</u>	<u>94</u>
	<u>\$ 483</u>	<u>421</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, 2014 and 2013 is comprised of the following:

	<u>Credit and services</u>	<u>Trading and treasury</u>	<u>Others</u>	<u>Total</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	(285)	–	6	(279)
	\$ <u>(3,147)</u>	<u>(2,366)</u>	<u>(962)</u>	<u>(6,475)</u>
<u>December 31, 2013</u>				
Demand deposits	\$ (649)	–	–	(649)
Time deposits	(2,194)	–	–	(2,194)
Debt securities issued	–	(536)	–	(536)
Bank and other borrowings	–	(211)	(2)	(213)
Securities under repurchase/resell agreements	–	(1,427)	(1,319)	(2,746)
Premiums paid on securities lending transactions	–	–	(3)	(3)
Loss on currency translation	–	(173)	–	(173)
Residential mortgage loans origination fees and expenses	(246)	–	44	(202)
	\$ <u>(3,089)</u>	<u>(2,347)</u>	<u>(1,280)</u>	<u>(6,716)</u>

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(c) *Commission and fee income-*

For the years ended December 31, 2014 and 2013, commission and fee income are analyzed as follows:

	<u>2014</u>	<u>2013</u>
Letters of credit with no refinancing	\$ 54	46
Accounts management	369	356
Trust activities	211	216
Fund transfers	76	68
Electronic banking services	257	242
Credit transactions	1,217	1,331
Management services	1,032	918
Other fees and commissions collected	<u>1,169</u>	<u>730</u>
	\$ <u>4,385</u>	<u>3,907</u>

(d) *Financial intermediation income -*

For the years ended December 31, 2014 and 2013, financial intermediation income is analyzed as follows:

	<u>2014</u>	<u>2013</u>
<i>Valuation result:</i>		
Investment securities	\$ (28)	117
Derivatives:		
Trading	(397)	(25)
Hedging	11	(17)
Securities available for sale in hedge	17	(14)
Foreign currencies and precious metals	<u>(34)</u>	<u>513</u>
Subtotal to the following page	\$ <u>(431)</u>	<u>574</u>

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	<u>2014</u>	<u>2013</u>
Subtotal from previous page	\$ (431)	<u>574</u>
<i>Brokerage result:</i>		
Investment securities	79	559
Financial instruments:		
Trading	43	422
Hedge	-	-
Foreign currencies and precious metals	<u>875</u>	<u>(469)</u>
	<u>997</u>	<u>512</u>
	\$ <u>566</u>	<u>1,086</u>
(e) Other operating income-		

For the years ended December 31, 2014 and 2013, other operating income is analyzed as follows:

	<u>2014</u>	<u>2013</u>
Recoveries of loan portfolio	\$ 754	571
Dividends	42	39
Donations	(16)	(9)
Income on sale of foreclosed assets	247	224
Income from securitization	23	37
Taxation	32	40
Income from the purchase of securities in trust	-	430
Other recoveries	5	4
Income from credit insurance	-	-
Armored transportation fees	-	-
Loans to employees	69	78
Food stamps	-	-
Write-offs and losses	(247)	(226)
Others	<u>1,651</u>	<u>1,502</u>
	\$ <u>2,560</u>	<u>2,690</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, 2014 and 2013:

	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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	2013			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
Delinquency index	2.8%	3.2%	2.7%	2.5%
Coverage of past due loan portfolio index	124.4%	111.3%	132.0%	122.9%
Operating efficiency (<i>administrative and promotional expenses / average total assets</i>)	5.4%	5.5%	5.7%	5.7%
ROE (<i>annualized net income for the quarter / average stockholders' equity</i>)	7.9%	13.3%	4.4%	13.5%
ROA (<i>annualized net income for the quarter / average total assets</i>)	1.1%	1.9%	0.7%	2.1%
Net capital / Assets at credit risk	15.71%	20.23%	20.92%	21.86%
Net capital / Assets at credit, market and operational	12.30%	15.57%	16.05%	16.64%
Liquidity (<i>liquid assets / liquid liabilities</i>)	77.1%	101.9%	93.9%	79.9%
Financial margin after allowance for loan losses / Average earning assets	4.3%	5.2%	3.6%	4.8%

(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, 2014 and 2013, amounted to \$1,024 and \$913, respectively.

(b) Litigation-

In the normal course of the operations, the Group has been into some trials, that 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, the allowances considered as necessary, have been created.

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(c) Responsibility agreement-

The Group has entered into an agreement with 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 Financial Group agrees to unlimited and several responsibility for the losses of each and every one of these financial entities.

(23) Risk management (unaudited)-

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 provisions 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 as well as the assumed global risk level. At least once a year, the Board of Directors should approve the policies and procedures as well as the limit structure for the various types of risk.

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

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

(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 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.

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 policy used by the Group for calculating the VaR, considers a 99% confidence level and a 1 day (holding period).

During the fourth quarter of 2014, the Financial Group's observed average daily VaR was \$12.9 and the global VaR at December 31, 2014, was \$11.4.

The average values of notionals and VaR of exposure to market risk of the securities trading portfolio in the period of October to December 2014 and 2013 were as shown in the following page.

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December 2014	Position			VaR⁽¹⁾	
	Average	Maximum	Limit	Average	Limit
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	-
Future rate ⁽²⁾	-	-	-	9.4	-
Forwards of CETES ⁽³⁾	6,190	11,652	20,000	0.001	-
Caps & Floors	8,768	10,832	30,000	0.3	-
Interest rate market and rate derivatives ⁽⁴⁾	266,754	326,949	460,500	12.1	52.5
Equity shares position	22	47	206	-	-
Capital derivatives ⁽⁵⁾	9,051	9,506	28,000	-	-
Equity shares derivatives ⁽⁶⁾	123	133	3,000	-	-
OTC TIIE Options	47	72	5,000	-	-
Total equity shares 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	-
Foreign exchange ⁽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 derivatives and precious metals ⁽⁴⁾	\$ 8,059.4	9,366	20,435	1.2	16.5

(1) VaR expressed in millions of pesos.

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

(3) Special position of the treasury.

(4) Observed period (holding period) of the Foreign Exchange VaR, Capital and Interest rates and limits of 1 day.

(5) Includes IPC underlying warrants capitals IPC derivative table and internationals.

(6) Includes equity shares derivatives of MexDer.

(7) The Forwards position is a gross position (long + short) and Foreign Exchange position is net (long - short)

(8) Figures expressed in millions of dollars.

(9) Include the net position of foreign exchange forwards from the Treasury.

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

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<u>December 2013</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 ^(*)	\$ 278,634	330,440	-	13.6	52.5
Domestic currency:					
Money market	38,519	56,363	105,000	-	-
Interest rate swaps					
Future rate ⁽²⁾	166,036	193,272	207,000	-	-
Forwards of CETES ⁽³⁾	4,190	15,000	20,000	-	-
Caps & Floors	<u>3,767</u>	<u>4,377</u>	<u>7,000</u>	<u>0.2</u>	-
Interest rate market and rate derivatives ⁽⁴⁾	<u>212,512</u>	<u>269,012</u>	<u>339,000</u>	<u>10.4</u>	<u>50</u>
Equity shares position	33	66	206	-	-
Capital derivatives ⁽⁵⁾	8,232	10,924	25,000	-	-
OTC TIIE Options	<u>141</u>	<u>184</u>	<u>5,000</u>	-	-
Total equity shares and IPC derivatives	8,406	11,174	30,206	5.7	13
Forwards and exchange currency futures ^{(6) (7) (8)}	2,834	4,694	5,020	1.9	-
Foreign exchange ^{(6) (7)}	(1)	9	55	0.4	-
Foreign currency options ⁽⁷⁾	50	55	800	0.8	-
Foreign currency swaps ⁽⁷⁾	285	475	1,000	-	-
Forwards of precious metals ⁽⁷⁾	5	11	50	1.4	-
Options of precious metals ⁽⁷⁾	-	-	200	-	-
Spot of precious metals ⁽⁷⁾	<u>4</u>	<u>6</u>	<u>10</u>	<u>1.3</u>	-
Foreign exchange and foreign currency derivatives and precious metals ⁽⁴⁾	\$ <u>3,177</u>	<u>5,250</u>	<u>7,135</u>	<u>1.0</u>	<u>16.5</u>

(1) VaR expressed in millions of pesos.

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

(3) Special position of the treasury.

(4) Observed period (holding period) of the Foreign Exchange VaR, Capital and Interest rates and limits of 1 day.

(5) Includes futures and IPC options of equity shares derivatives portfolio, its VaR is comprised of warrants portfolio. The average VaR of 1 day of warrants is MXN 2.44 Mm which computes with the equity shares VaR.

(6) The Forwards position is a gross position (long + short) and Foreign Exchange position is net (long - short).

(7) Figures expressed in millions of dollars.

(8) Include the net position of foreign exchange forwards from the Treasury.

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

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For interpretation purposes and as by way of example, the average one day VaR for the Group in the Money market is \$12.1. This means that under normal conditions, in 99 days out of 100 days, the maximum potential loss would be \$12.1.

At December 31, 2014 and 2013, the Fund Management Company has its investments in the mutual fund "SCOTIAG", the VAR's risk level market with respect of net assets are 0.003% and 0.006%, respectively. For example, at December 2014, if the VaR value for 1 day is used with 95% confidence level in accordance with the net assets of 0.003% and consider that the mutual fund SCOTIAG has net assets of \$19,481 at the same date. The maximum expected loss in 1 of 20 days of market operation (1/20=5%), could be higher or equal to \$580 pesos under normal conditions market.

Positions for the fourth quarter of 2014 by number of contracts are shown below:

Mexican Derivatives Exchanges (MexDer)

Underlying	Average	Maximum	Limit
US Dollar futures	-	-	30,000
Interest rate futures	458,351	497,900	910,500
IPC futures	-	-	750
Total futures ⁽¹⁾	458,351	497,900	941,250

(1) The position and the limit are in number of contracts operated in the MexDer.

Positions for the fourth quarter of 2013 by number of contracts are shown below:

Mexican Derivatives Exchanges (MexDer)

Underlying	Average	Maximum	Limit
US Dollar futures	-	-	5,000
Interest rate futures	286,574	449,895	702,300
IPC futures	-	-	750
Total futures ⁽¹⁾	286,574	449,895	708,050

Futures and hedge options:

Underlying	Average	Maximum	Limit
IPC ⁽²⁾	-	-	3,500
Shares\IPC ⁽³⁾	-	-	2,500
NAFTRACS ⁽⁴⁾	-	-	1,000
Total futures and options ⁽¹⁾	-	-	7,000

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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, 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 Management Committee has approved stress limits.

At December 31, 2014, the “*stress testing*” figure was \$468, which compared with the \$2,000 limit, is within the acceptable parameters. Scenarios used for stress testing are the 1994 and 1998 crisis 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.

Likewise, back-testing is performed monthly for comparing the losses and gains to the observed Value at Risk 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 last quarter of 2014 there were certain efficiency levels that were in the green 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 an area that specializes on trading risk analysis, which maintains systematic and continuous oversight of the valuation and risk measurement processes as well as of the sensitivity analysis. Such area has permanent contact with responsible traders in the different markets.

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Daily, the risk area calculates the market risk sensitivities for each portfolio to which the Group is exposed. During 2014, no changes were made to the assumptions, methods or parameters used for this analysis.

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

Interest rate portfolio

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

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 two types of measures: (i) the expected change in the portfolio value in response to a change of 1 bp (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 bp (1%) in the yield curve. For purposes of this disclosure, we only report the changes in 1 bp. The values estimated based on the duration and convexity methodology are a good approximation to the values obtained using the complete or full-valuation methodology.

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

Interest rate derivatives

Below is a brief explanation of sensitivity modeling for the 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 report, the change in 1 bp is shown.

Quantitative information on interest rate sensitivities

The following table shows the sensitivity as of December 31, 2014 and 2013:

<i>Sensitivity of 1 bp</i>	<u>December 2014</u>	<u>December 2013</u>
Fixed rate	0.810	0.852
Reviewable rate	<u>0.065</u>	<u>0.044</u>
Subtotal – interest rates	<u>0.875</u>	<u>0.896</u>
Futures	(0.384)	(0.317)
Swaps	0.194	(0.140)
Caps & Floors	(0.057)	(0.008)
Subtotal – interest rate derivatives	<u>(0.247)</u>	<u>(0.465)</u>
Total	<u>0.628</u>	<u>0.431</u>

At December 31, 2014, the Group presents sensitivity in the interest rate portfolio of \$0.628, which means that for each basis point the interest rate decreases, a profit of \$0.628 would result.

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

The following table shows statistics for the fourth quarter of 2014, maximum, minimum and average. In average, the sensitivity was \$ 1.142. In this period the interest rate portfolio and derivatives hedge long positions.

<u>Sensitivity of 1 basis point</u>	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Interest rate	1.432	2.126	0.698
Rate derivatives	<u>(0.290)</u>	<u>0.409</u>	<u>(1.079)</u>
Total	<u>1.142</u>	<u>2.535</u>	<u>(0.381)</u>

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Stock portfolio and IPC derivatives

Stock

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 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 of value of a derivative with respect to changes in the underlying. Furthermore, Rho is defined as the sensitivity before changes in the interest rate. In the case of futures contracts, this sensitivity may be estimated based on the available market information. The Bank defines Rho as the change in the portfolio's value before a change of 100 basis points (parallel) in the reference interest rates.

In the case of non-linear products such as warrants and options, delta and the so called "Greeks" are deemed a sensitivity measures. The calculation of sensitivities is based on the valuation model of options over futures, known as Black's 1976 option pricing formula.

Delta risk is defined as the change in value of an option before a change of a predetermined magnitude in the value of the underlying (for example 1%). It is calculated by valuing the option with different underlying levels (one original and one with a +1% shock), holding 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. Gamma measures the rate of change of the delta before a change in the level of the underlying, is analogous to the calculation of the delta, and may be interpreted analytically as the second partial derivative of the Black Scholes function with respect to the underlying.

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 value of a portfolio with the passage of time. Theta is calculated solely for informative purposes and for gain/loss analyses being that it does not actually represents a market risk but a concrete, predictable and quantifiable event.

Vega: is the name of the sensitivity measure of the value of an options portfolio when faced by changes in the market volatilities of the underlying. In general, a long position in options benefits from an increase in the volatility of an underlying and a short position has the opposite trend, except for certain exceptions as is the case of binary options.

Dividend Risk. The valuation of options on indices or stock implies a known continuous compound rate, however, dividends are an estimate and, therefore, an unknown variable, representing a risk factor for valuation purposes and the resulting P&L analysis of transactions with options.

There is no Greek letter assigned to the sensitivity of dividend risk and, in the case of options on indices and stock at the Group, the measure 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, 2014 and 2013:

<i>Sensitivities Ibp</i>	December 2014	December 2013
Equity shares	<u>0.027</u>	<u>0.117</u>
Subtotal	<u>0.027</u>	<u>0.117</u>
Warrants	<u>(0.022)</u>	<u>(0.009)</u>
Subtotal	<u>(0.022)</u>	<u>(0.009)</u>
Total	<u>0.005</u>	<u>0.108</u>

At December 31, 2014, the equity shares front-office continued its strategy of conducting intraday transactions, the most relevant position are Simec B y TS *. As to the IPC index position the Group has a hedge strategy new issues of Warrants and arbitrating between the capitals market and the IPC index futures.

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

The 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 2014 it average \$0.163. During the quarter the sensitivity and stock position decreased.

<u>Sensitivity</u>	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Equity shares	0.185	0.396	0.022
IPC derivatives	(0.022)	<u>0.015</u>	(0.034)
Total	<u>0.163</u>	<u>0.411</u>	(0.012)

Sensitivities for warrants and IPC options, "Greek"

<u>Greek</u>	<u>Delta</u>	<u>Gamma</u>	<u>Vega</u>	<u>Theta</u>	<u>Rho</u>
Warrants	\$ (16.814)	0.624	0.021	(0.001)	0.012
IPC Options/OTC Options	(86.053)	1.155	0.127	(0.001)	0.452
IPC Futues	-	-	-	-	-
Naftracs/Equity shares	<u>99.864</u>	-	-	-	-
Total	\$ <u>(3.003)</u>	<u>1.779</u>	<u>0.148</u>	(0.002)	<u>0.464</u>

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

	<u>Delta</u>	<u>Gamma</u>	<u>Rho</u>	<u>Vega</u>
Minimum	0.140	2.461	(0.002)	0.068
Maximum	<u>145.052</u>	<u>38.144</u>	<u>0.007</u>	<u>1.040</u>
Average	<u>23.960</u>	<u>15.049</u>	<u>0.005</u>	<u>0.626</u>

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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Foreign 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 basis point 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 basis point 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 basis points is made. In addition, a one basis point change is made not parallel to the yield curves by time gaps, maintaining all other factors constant. For purposes hereof, we only present the sensitivity for 1 basis point.

Sensitivities for currency and currency derivative

The following table shows the sensitivity at December 31, 2014 and 2013:

<u>Exchange rate</u>	<u>2014</u>	<u>2013</u>
USD	0.297	(0.191)
CAD	0.011	0.013
EUR	0.065	(0.001)
Other	<u>0.131</u>	<u>0.106</u>
Subtotal	<u>0.504</u>	<u>(0.073)</u>
DEUA forwards and futures	(0.061)	(0.024)
OTC MXN/USD options	(0.001)	(0.000)
Swaps	<u>(0.004)</u>	<u>(0.001)</u>
Subtotal	<u>(0.066)</u>	<u>(0.025)</u>
Total	<u>0.438</u>	<u>(0.098)</u>

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At December 31, 2014, a change in the sensitivity to the Exchange rate was recorded at \$0.438, mainly due to the increase of positions of currency forward and swaps. Currently, the 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.

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

In average, the quarterly sensitivity of the portfolio of currencies and currency derivatives was \$0.034.

<u>Sensitivity</u>	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Foreign currencies	0.003	0.112	(0.115)
Currency derivatives	<u>0.031</u>	<u>0.182</u>	<u>(0.108)</u>
Total	\$ <u>0.034</u>	<u>0.294</u>	<u>(0.223)</u>

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

Below is presented the position and sensitivities of the currency options portfolio at December 31, 2014:

Greek	Delta	Gamma	Vega	Theta	Rho
Currency exchange rate (MXN/USD)	1.758	0.498	0.008	(0.003)	(0.003)

(b) *Liquidity risk-*

The Group's 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 Group manages its exposure to liquidity risk in accordance with the applicable regulatory provisions and the best market practices. In addition, there are contingency plans in place.

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The liquidity risk is monitored and controlled through cumulative liquidity gaps. The *Cash Flow Gap* includes the Group's flows at contractual maturity (interest income and expense incoming and outgoing payments).

For measuring liquidity risk, the cumulative liquidity gaps at December 31 2014 as follow:

December 2014	
10-day cumulative gap (MXN+UDI's) ⁽¹⁾	(8,186)
30-day cumulative gap (MXN+UDI's) ⁽¹⁾	(21,085)
⁽¹⁾ Includes Bank, Brokerage firm and mutual fund.	

For measuring liquidity risk, the cumulative liquidity gaps at December 31 2014 for Crédito Familiar, as follows:

December 2014	
10-day cumulative gap (MXN+UDI's)	126
30-day cumulative gap (MXN+UDI's)	(207)

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

As for the structural market risk for interest rates, the balance sheet valuation takes place under current conditions and its sensitivity to rate increases or decreases is determined.

The Economic Value incorporates the impact of changes in interest rate on the total expected flows, provides a measure of the long-term impact of these variances.

Margin sensitivity measures the impact of reinvesting/funding at 100 basis points (bp) above the contractual rate from the date of repricing through a one-year horizon; in addition, it assumes that the current balances remain constant during 12 months and that the balances are repriced at the end of each band.

For measuring the interest rate risk, the variance in the estimated Economic Value and the estimated variance in financial income for the Group at the end of December and, in average, for the fourth quarter of 2014 was as shown in the following page.

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	2014	
	<u>December</u>	<u>Average</u>
Economic value ⁽¹⁾	\$478	\$494
Margin sensitivity ⁽¹⁾	300	365

(1) Includes Bank, Brokerage firm and mutual fund.

For measuring the interest rate risk, the variance in the estimated Economic Value and the estimated variance in financial income for Crédito Familiar at the end of December and, in average, for the fourth quarter of 2014 was as follows:

	2014	
	<u>December</u>	<u>Average</u>
Economic value	\$14.2	\$14.8
Margin sensitivity	2.8	2.7

Treatment for available for sale investments- Below is the valued position for the Group's available for sale investments at December 2014 and 2013:

<u>Type</u>	<u>December</u> 2014	<u>December</u> 2013
Banking	2,818	1,582
Corporate	219	375
Government	29,343	25,545
Others	<u>380</u>	<u>424</u>
Total	32,760	27,926

Being an integral part of the Group's balance handling, available for sale investments are monitored under the sensitivity measures described above (Economic Value and Margin Sensitivity). At December 31, 2014, the Group has liquid assets amounting to \$15,188 ⁽¹⁾.

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

In the following page is a summary of hedge derivatives at the end of December, used by the Group for hedging interest rate and exchange rate risks.

(1) Includes liquid assets position of the Bank and Brokerage firm, in Mexican pesos.

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Strategy	December 2014 Notional MXN	December 2013 Notional MXN
Interest rate swaps paid at fixed rate (cash flows)	16,570	14,570
0y - 3y	3,050	1,000
3y - 5y	8,260	6,850
5y - 10y	5,260	6,720
Interest rate swaps paid at floating rate (cash flows)	7,800	9,650
0y - 3y	7,800	9,650
Interest rate swaps paid at fixed rate (fair value)	5,122	2,976
0y - 3y	3,758	1,461
3y - 5y	1,364	1,515
Interest rate swaps paid at fixed rate (fair value in USD)	799	810
0y - 3y	642	612
3y - 5y	157	198
CCIRS paid at fixed rate (fair value in EUR)	438	445
0y - 3y	438	445
CCIRS paid at fixed rate (fair value in USD)	–	330
0y - 3y	–	330
CCIRS paid at fixed rate (fair value in UF)	3,050	2,393
0y - 3y	3,050	2,393
Interest rate swaps paid at fixed rate (fair value – Credito Familiar)	539	1,379
0y - 3y	539	1,379

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

The 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 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.

The business areas also continually evaluate the financial situation of each customer, conducting an in-depth review and analysis of the inherent risk in each loan at least once a year. Should any impairment in a customer's financial situation be detected, the customer's rate is immediately revised. In this way, the Group identifies the changes that occur in the risk profile of each customer. Such reviews consider the overall credit risk, including derivative transactions and foreign exchange exposure. In the case of risks above the acceptable level, additional reviews are carried out more frequently, at least once each quarter.

In the case of Crédito Familiar, the business model propose that decisions is given on a decentralized basis, supplemented by central support, this is, the placement and the collection is 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.

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Credit risk concentrations- The Group has implemented policies and procedures to maintain a sound and diversified portfolio with a prudent and controlled risk. Among such policies are the settings 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 used to determine allowances for loan losses - The 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 has strategies to grant loans and monitor the loan portfolio performance, also has processes and systems that allow portfolio grading and estimating allowances and losses.

This model considers the following risk factors: country risk, financial behavior, financial hedging, debtor management, overall strength (the customer's relation to the economic environment, competitiveness, strengths and weaknesses), account management, industry conditions and payment experience. Such factors constitute an evaluation of the customer's risk profile and the result is obtained by applying an algorithm that considers such elements. This algorithm is the result of BNS experience, its statistical analysis and adaptation to the Mexican market.

The internal grading model of debtor classified by "IG Code" has 8 ratings considered as acceptable (IG 98 to IG 77), 4 ratings to reflect a higher than normal risk (IG 75 to IG 65) and 5 ratings considered unacceptable (IG 60 al 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

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Estimates for commercial loans are 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, the 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 and their 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, are used the specific rating methodologies in the Provisions aforementioned.

Since March 2012, for the commercial loan portfolio granted to corporations and individuals the internal rating methodology authorized by the Banking Commission is used, which is based on the estimate of an expected loss through the calculation of the probability of default and loss given default associated with the value and nature of the loan’s collateral. The foregoing is in accordance with the provisions of Section Four, Chapter V, Title Two of the Provisions. However, the following segments are exempted from such methodology: the special loan program called Scotia Empresarial, which is rated by applying an internal model based on the debtor’s creditworthiness, certified by the Banking Commission and the segment corresponding to debtors with net sales or revenues lesser than 14 million UDIS, which is rated using the methodology referred to in paragraph a) number V of article 110, exhibit 21 of the Provisions, which superseded the one applied to debtors which total loans do not exceed 2 million UDIS, which was applied through November 30, 2013.

The internal rating methodology considers a two-dimensional approach by including the as key risk elements for calculating reserves, creditworthiness of the debtor translated into the Probability of Default (LD) as well as the Loss Given Default (LGD) of transactions, on the basis of individual characteristics; both elements are estimated with own historical data.

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With the purpose of estimating the reserve of borrowers in the consumer portfolios, including Credito Familiar, the Group uses the regulatory methodologies published in the Provisions. 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 (LD), Loss Given Default (LGD) and Exposure at Default (ED) and are based on specific information and characteristics of the assessed loans.

- The measurement 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 and in average for the fourth quarter of 2014 and 2013, the expected and unexpected loss over the Group's total portfolio was as follows:

	<u>2014</u>		<u>2013</u>	
	<u>December</u>	<u>Average</u>	<u>December</u>	<u>Average</u>
Expected loss				
Bank	3,879	3,743	3,243	3,493
Brokerage firm	6	8	6	8
Crédito Familiar	704	696	488	497
Unexpected loss				
Bank	20,160	19,454	15,940	15,850
Brokerage firm	9	10	7	10
Crédito Familiar	459	427	328	339

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For interpreting the expected and unexpected loss and by way of example, the average expected loss during the fourth quarter of 2014 for the Group was \$3,743, 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 loss was \$19,454 and represents the necessary economic capital to maintain the Group's solvency in the event of a large magnitude adverse event that has an impact on the credit portfolios.

At the end of December 2014 and 2013, and in average for the fourth quarter of 2014 the exposure of the loan portfolio of the Group is as follows:

Loan portfolio exposure by portfolio	2014		2013
	<u>December</u>	<u>Average</u>	<u>December</u>
Mortgage loans	67,580	66,379	57,204
Auto loans	12,874	12,737	12,484
Non-revolving personal loans	5,354	5,488	6,490
Revolving personal loans	7,792	7,832	7,458
Commercial loans *	<u>93,147</u>	<u>91,114</u>	<u>79,128</u>
Total	186,747	183,550	162,764
Crédito Familiar	4,071	4,016	3,043

*Includes letters of credit

Credit risk in investment securities - Below is a summary of exposures, credit quality and concentration by risk level of investment securities at the end of December 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
<u>Held-to maturity</u>		%		%
Bank	3,354		2,143	
Subtotal	3,354	5	2,143	4
 <u>Available for sale</u>				
Bank	32,313		27,360	
Brokerage firm	447		566	
Subtotal	32,760	53	27,926	56
 <u>Trading securities</u>				
Bank	18,198		11,802	
Brokerage firm	7,464		7,540	
Other business line and subsidiaries ⁽¹⁾	218		380	
Subtotal	25,880	42	19,722	40
Total risk	61,994	100	49,791	100

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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 Group) and the replacement value (or potential exposure) without considering "netting".

Below we present the exposure and concentration by type of counterparty at the end of December 2014 and 2013:

Type of counterparty	Exposure (\$)	Concentration (%)
<u>December 2014</u>		
Financial institutions	7,079	95
Corporate headquarters	<u>392</u>	<u>5</u>
Total maximum exposure	7,471	100
<u>December 2013</u>		
Financial institutions	34,783	98
Corporate headquarters	<u>683</u>	<u>2</u>
Total maximum exposure	35,466	100

The breakdown by type of derivative is included in table 2 under the heading of market risk and the last table under the liquidity risk heading.

(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 policies and procedures enabling it to implement an appropriate operational risk management process, which are mentioned as follows.

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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 the inherent operational risk, assessing the effectiveness of controls in such risks, in 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. At the 2014 year-end, the Group recorded operational risk losses for \$195, which were \$87 less than those recorded in 2013 (\$282).

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. Maximum thresholds are established for each of the selected indicators.

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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 Information Systems Department 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) Recently issued accounting standards -

I. On May 19, 2014, the SHCP published in the Official Gazette the resolution amending the provisions of general application that include the accounting criteria applicable to the credit institutions. These provisions shall entered into force on June 1, 2015, based on the extended period published on February 5, 2015, among the major changes that have these criteria are shown in the next page.

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A-2 “Application of particular provisions”-

Regarding the classification of costumers’ overdraft checking account who do not have a credit facility, shall be considered as overdue debts. In addition, the simultaneous creation of an allowance for doubtful for the full amount of the overfraft is required.

B-1 “Cash and cash equivalents”-

Items of restricted cash equivalents or items with negative balance will be presented in the caption “Other accounts payable”.

B-6 “Loan portfolio”-

- The following deletions are considered:
 - Some rules of valuation, presentation and disclosure of financial factoring.
- Various specifications of the elements are modified to evaluate whether restructured or renewed loans portfolio should remain in force or are classified as past-due were modified.

C-3 “Related parties”-

Various definitions are amended to converge with the provisions of MFRS issued by the CINIF.

- II.** On December 31, 2014, the Commission issued the resolution amending the provisions of general application for the credit institutions (the Resolution), which came into effect beginning October 2015.

Establishes minimum capitalization index required for credit institutions of 8% and foresee coefficient of compliance for the components of net capital, specifically, for the basic capital of 6% and for the fundamental capital of at least 4.5%, likewise, a complimentary capital of 2.5% of total weighted assets subject to risk, which must be created for fundamental capital.

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Additionally, the Resolution establishes that the institutions must perform at least once a year, Evaluation of Capital Adequacy to determine if the net capital they have result sufficient to cover any losses they may face in different scenarios, including those in which adverse economic conditions prevail, to the end that so that credit institution have, at all times, an adequate level of capital relative to its desired risk profile and, with strategies to maintain capital levels within it.

Finally, the coefficients are updated by market risk considering the market risk factors that occur whenever these have not been changed in a long time and should reflect current conditions accuracy, while aligning treatment share holding in the context of market risk, in line with international practices.

- III.** On January 8, 2015, the Banking Commission issued a Resolution amending the General provisions applicable to for brokerage firms (the Resolution), which came into effect in October 2015.

The Resolution replaces the current concept of capital consumption index by the capitalization index, considering the current regime applicable to the commercial banks.

Likewise, the resolution establishes as capitalization index minimal of 8% for brokerage firms and coefficients of performance are expected, for the components of net capital, specifically, for the basic capital and fundamental capital, also, supplement capital conservation is incorporated of 2.5% of the weighted assets subject to total risk, which shall be constituted by fundamental capital.

A new scheme composed of five categories is integrated, in which the brokerage firms will be classified according to their compliance level, whereas no corrective measures will apply when brokerage firms maintain a capitalization index equal o greater than 10.5%, basic capital coefficient equal o greater than 8.5% and fundamental capital coefficient equal o greater than 7%. In addition is incorporated a corrective measure a capital conservation plan is presented, apply to brokerage firms that do not have the conservation capital supplement of 2.5%.

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MFRS and MFRS improvements-

- IV.** The CINIF has issued new MFRS and improvements to MFRS 2015, containing specific amendments to some existing MFRS. Management estimates that the new MFRS and improved MFRS will not generate significant effects; in relation to MFRS D-3 “Employee benefits” (note 16), the effect of adopting the new standard will mainly involve recognize as part of other comprehensive income in stockholders’ equity, the cumulative effect, at the date the entry into force of the MFRS, actuarial gains and losses; and subsequently during the average remaining life of employees, this effect is recognized as part of the results of each of the exercises.

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 C-20 “Financing Instruments Receivable”

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 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 provided that it takes place concurrently with the adoption of MFRS C-9 “Provisions, contingencies and commitments”, MFRS C-3 “Accounts receivable” and MFRS C-20 “Financing instruments receivable”- Some of the main points covered by this FRS include the following:

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.
- Long-term liabilities are initially recognized at present value.

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- 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 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.

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- **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 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 DBO is based on investment grade corporate bond rates (deep market) and, in their absence, on government bond rates.
- **Termination benefits** – Requires an analysis as to whether separation payments qualify as termination benefits or are actually post-employment benefits and notes that if the benefit is non-cumulative with no preexisting granting conditions, it is a termination benefit and, therefore, it should be recognized when the event occurs. However, if preexisting conditions are present, either contractually, by law or payment practices, it is deemed a cumulative benefit and should be recognized as a post-employment benefit.

2015 MFRS Improvements

In December 2014, CINIF issued the document referred to as “2015 MFRS Improvements”, which contains precise modifications to some MFRS. The modifications that bring about accounting changes are listed below:

MFRS B-8 “Consolidated or combined financial statements”- defines investment entities and stipulates that, in view of the characteristics of such entities’ primary activities, they generally do not exert control over an investee. This improvement is effective for periods beginning on or after January 1, 2015 and the accounting changes that arise should be recognized retrospectively.

Bulletin C-9 “Liabilities, provisions, contingent assets and liabilities and commitments”- provides that foreign currency advances should be recognized at the exchange rate prevailing on the date of the transaction; that is, at the historical exchange rate. Such amounts should not be modified by subsequent exchange fluctuations between the functional currency and the foreign currency in which the price of goods and services related to such advance payments are denominated. This improvement is effective for periods beginning on or after January 1, 2015 and the accounting changes that arise should be recognized retrospectively.