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

Financial Information Required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

December 31, 2014
(With corresponding figures for 2013)

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Grupo BNS de Costa Rica, S.A. and Subsidiaries (the Corporation), which comprise the consolidated balance sheet as of December 31, 2014, the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The consolidated financial statements have been prepared by management based on the financial reporting provisions of the accounting regulations issued by the National Financial System Oversight Board (CONASSIF) and the Superintendency General of Financial Entities (SUGEF).

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo BNS de Costa Rica, S.A. and Subsidiaries as of December 31, 2014, and of its financial performance and cash flows for the year then ended in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF and SUGEF.

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

KPMG

March 24, 2015
San José, Costa Rica
Erick Brenes Flores
Member No. 2520
Policy No. 0116 FIG 7
Expires 09/30/2015

¢1,000 tax stamp paid pursuant to Law No. 6663
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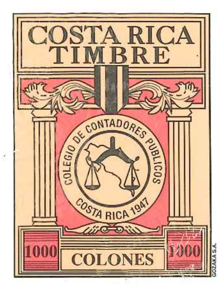

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As of December 31, 2014
(With corresponding figures for 2013)
(In colones)

	Note	2014	Restated 2013
ASSETS			
Cash and due from banks	4,31	**192,789,150,162**	**154,529,555,720**
Cash		20,979,436,948	17,833,831,968
Central Bank of Costa Rica		142,966,207,568	121,001,258,711
Local financial entities		824,122,856	943,272,064
Foreign financial entities		25,779,206,507	11,454,318,925
Other cash and due from banks		2,240,176,283	3,296,874,052
Investments in financial instruments	5, 31	**115,358,694,819**	**104,508,465,898**
Trading		12,132,129,546	5,879,467,564
Available for sale		102,667,138,383	97,730,819,082
Accrued interest receivable		559,426,890	898,179,252
Loan portfolio	6, 31	**1,101,539,038,173**	**960,341,903,278**
Current		1,045,227,760,514	905,023,978,780
Past due		50,405,210,869	46,263,966,002
In legal collections		9,894,719,455	11,302,430,080
Accrued interest receivable		10,611,051,048	9,000,149,808
(Allowance for loan losses)	6-b	(14,599,703,713)	(11,248,621,392)
Accounts and fees and commissions receivable	7	**8,599,113,586**	**4,079,861,315**
Fees and commissions		147,867,028	110,690,778
Accounts receivable for brokerage transactions		1,793,580	753,642
Accounts receivable for related party transactions	3	974,431,066	413,689,474
Deferred tax receivable	14	497,389,954	444,124,078
Other accounts receivable		8,450,887,793	4,414,886,702
(Allowance for doubtful accounts and fees and commissions receivable)	7	(1,473,255,835)	(1,304,283,359)
Foreclosed assets	8	**3,954,727,591**	**2,937,080,710**
Assets and securities acquired in lieu of payment		12,259,413,272	10,644,369,682
Other		865,644,518	319,062,752
(Allowance for impairment)		(9,170,330,199)	(8,026,351,724)
Investments in other companies, net		**23,964,729**	**23,964,729**
Property and equipment, net	9	**14,198,042,728**	**13,868,185,300**
Investment property	10	**2,369,096,198**	**2,369,096,198**
Other assets	11	**8,155,082,661**	**10,600,551,954**
Deferred charges		971,674,124	901,110,952
Intangible assets		646,968,887	1,352,871,154
Other assets		6,536,439,650	8,346,569,848
TOTAL ASSETS		**1,446,986,910,647**	**1,253,258,665,102**

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
As of December 31, 2014
(With corresponding figures for 2013)
(In colones)

	Note	2014	Restated 2013
LIABILITIES AND EQUITY			
LIABILITIES			
Obligations with the public	12, 31	**883,788,723,488**	**751,418,102,915**
Demand		292,430,259,190	236,998,193,424
Term		583,918,774,140	511,254,582,949
Other		3,464,553,569	-
Finance charges payable		3,975,136,589	3,165,326,542
Obligations with entities	13, 31	**349,127,332,355**	**316,016,405,542**
Demand		2,089,281,243	608,262,012
Term		336,737,852,392	313,504,830,930
Other		9,090,551,317	785,749,050
Finance charges payable		1,209,647,403	1,117,563,550
Accounts payable and provisions	15	**26,005,300,625**	**19,094,290,078**
Accounts payable for brokerage services		2,229,017,037	480,204,864
Deferred tax payable	14	3,777,723,228	2,712,647,213
Provisions	15-a	2,281,923,902	4,613,787,618
Other sundry accounts payable		17,716,636,458	11,287,650,383
Other liabilities	16	**3,594,348,897**	**1,913,794,889**
Deferred income		2,333,210,553	260,799,702
Allowance for stand-by credit losses	6-c	327,249,400	158,653,150
Other liabilities		933,888,944	1,494,342,037
TOTAL LIABILITIES		**1,262,515,705,365**	**1,088,442,593,424**
EQUITY			
Share capital		**99,551,201,391**	**99,551,201,391**
Paid-up capital	17-a	99,551,201,391	99,551,201,391
Non-capitalized capital contributions		**33,289,027,602**	**993,101,251**
Equity adjustments		**4,304,093,395**	**4,044,936,035**
Surplus from revaluation of property	17-c	4,046,716,566	4,046,716,566
Adjustment for valuation of available-for-sale investments		257,376,829	(1,780,531)
Equity reserves	17-d	**13,593,520,464**	**11,956,456,546**
Prior period retained earnings	17-e	**16,273,576,455**	**39,215,819,075**
Income for the year		**17,459,785,975**	**9,054,557,380**
TOTAL EQUITY		**184,471,205,282**	**164,816,071,678**
TOTAL LIABILITIES AND EQUITY		**1,446,986,910,647**	**1,253,258,665,102**
DEBIT MEMORANDA ACCOUNTS	19	**205,968,913,860**	**181,070,764,405**
TRUST ASSETS	20	**1,193,949,074,088**	**284,145,811,703**
TRUST LIABILITIES		**386,162,406,832**	**40,446,788,162**
TRUST EQUITY		**807,786,667,256**	**243,699,023,541**
OTHER DEBIT MEMORANDA ACCOUNTS	22	**5,883,861,068,568**	**5,504,793,548,266**
Own accounts		5,124,209,253,487	4,752,014,624,847
Third-party accounts		178,342,617,884	181,247,374,457
Own accounts for custodial activities		23,694,724,195	38,944,783,140
Third-party accounts for custodial activities		557,614,473,002	532,586,765,822

Carlos Brina	Marvin Fallas	Geovanny Solano
Assistant General Manager	General Accountant	Internal Auditor

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

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2014
(With corresponding figures for 2013)
(In colones)

	Note	2014	Restated 2013
Finance income			
Cash and due from banks		369,429	112,270
Investments in financial instruments		4,009,614,480	4,595,340,115
Loan portfolio	25	74,669,835,888	66,226,582,284
Finance leases		5,562,058,002	4,908,053,864
Foreign exchange gain	27	174,694,832,542	38,216,301,357
Gain on available-for-sale financial instruments	5	323,711,883	810,830,730
Other		2,088,952,099	1,750,144,893
Total finance income		**261,349,374,323**	**116,507,365,513**
Finance expense			
Obligations with the public	26-a	27,233,230,765	24,374,174,082
Obligations with financial entities	26-b	7,970,206,289	6,534,797,710
Loss on foreign exchange differences and "development units"	27	163,987,901,085	39,961,548,600
Loss on available-for-sale financial instruments	5	192,197,418	169,702,955
Other		142,185,134	159,566,763
Total finance expense		**199,525,720,691**	**71,199,790,110**
Allowance for impairment of assets	6-a-b, 7	6,955,806,268	2,457,156,261
Recovery of assets and decrease in allowances and provisions		1,907,510,012	777,891,126
GROSS FINANCE INCOME		**56,775,357,376**	**43,628,310,268**
Other operating income			
(Allowance for impairment)	28	19,470,123,916	17,289,656,390
Foreclosed assets		126,658,573	45,681,343
Gain on investments in other companies		3,802,876	-
Foreign currency exchange and arbitrage		4,927,026,715	5,263,200,342
Other income with related parties		1,658,254,616	1,327,519,856
Other		10,108,206,462	9,023,170,367
Total other operating income		**36,294,073,158**	**32,949,228,298**
Other operating expenses			
Service fees and commissions		3,961,367,303	3,613,627,420
Foreclosed assets		2,835,552,265	2,253,697,377
Loss on liquidation of nonconsolidable subsidiary		-	642,781,956
Sundry assets		54,313,595	59,000,060
Provisions		1,673,100,546	1,266,447,182
Foreign currency exchange and arbitrage		65,570,131	204,290,269
Other expenses with related parties		145,938,742	30,093,101
Other		7,079,197,552	6,887,117,327
Total other operating expenses		**15,815,040,134**	**14,957,054,692**
GROSS OPERATING INCOME		**77,254,390,400**	**61,620,483,874**
Administrative expenses			
Personnel expenses	29	27,593,608,410	26,753,472,670
Other	30	21,619,987,369	20,180,503,623
Total administrative expenses		**49,213,595,779**	**46,933,976,293**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**28,040,794,621**	**14,686,507,581**
Income tax	14	(6,979,144,598)	(4,297,550,038)
Deferred tax	14	(900,742,674)	90,027,418
Statutory allocations		(1,107,522,974)	(549,298,486)
Decrease in statutory allocations		43,465,518	-
INCOME FOR THE YEAR		**19,096,849,893**	**9,929,686,475**

(Continued)

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2014
(With corresponding figures for 2013)
(In colones)

	Note	2014	Restated 2013
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Adjustment for valuation of available-for-sale investments, net		259,157,360	195,549,668
Adjustment for translation of financial statements		-	545,626,246
OTHER COMPREHENSIVE INCOME, NET OF TAX		**259,157,360**	**741,175,914**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**19,356,007,253**	**10,670,862,389**

Carlos Brina
Assistant General Manager

Marvin Fallas
General Accountant

Geovanny Solano
Internal Auditor

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

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2014
(With corresponding figures for 2013)
(In colones)

	Note	Share capital	Non-capitalized capital contributions	Revaluation of property	Equity adjustments: Adjustment for translation of financial statements	Equity adjustments: Changes in fair value of available-for-sale investments	Total equity adjustments	Equity reserves	Prior period retained earnings	Total
Balance at January 1, 2013		69,477,602,250	30,999,501,251	4,046,716,566	(545,626,246)	(197,330,199)	3,303,760,121	11,081,327,451	39,215,819,075	154,078,010,148
Transactions with owners booked directly in equity										
Conversion of non-capitalized capital contributions to ordinary and registered shares	17-a	30,073,599,141	(30,006,400,000)	-	-	-	-	-	-	67,199,141
Appropriation to legal reserve	17-d	-	-	-	-	-	-	875,129,095	(875,129,095)	-
Total transactions with owners booked directly in equity		99,551,201,391	993,101,251	4,046,716,566	(545,626,246)	(197,330,199)	3,303,760,121	11,956,456,546	38,340,689,980	154,145,209,289
Other comprehensive income for the year:										
Income for the year		-	-	-	-	-	-		9,929,686,475	9,929,686,475
Adjustment for translation of financial statements		-	-	-	(82,501,010)	-	(82,501,010)	-	-	(82,501,010)
Liquidation of adjustment for translation of financial statements due to liquidation of nonconsolidable subsidiary		-	-	-	628,127,256		628,127,256	-	-	628,127,256
Adjustment for valuation of available-for-sale financial instruments, net of income tax		-	-	-	-	836,677,443	836,677,443	-	-	836,677,443
Net amount transferred to the consolidated statement of comprehensive income		-	-	-	-	(641,127,775)	(641,127,775)	-	-	(641,127,775)
Total comprehensive income for the year		-	-	-	545,626,246	195,549,668	741,175,914	-	9,929,686,475	10,670,862,389
Balance at December 31, 2013	36	99,551,201,391	993,101,251	4,046,716,566	-	(1,780,531)	4,044,936,035	11,956,456,546	48,270,376,455	164,816,071,678
Transactions with owners booked directly in equity										
Additional non-capitalized contributions received in cash		-	299,126,351	-	-		-	-	-	299,126,351
Additional non-capitalized contributions from retained earnings	17-b	-	31,996,800,000	-	-	-	-	-	(31,996,800,000)	-
Appropriation to legal reserve	17-d	-	-	-	-	-	-	1,637,063,918	(1,637,063,918)	-
Total transactions with owners booked directly in equity		99,551,201,391	33,289,027,602	4,046,716,566	-	(1,780,531)	4,044,936,035	13,593,520,464	14,636,512,537	165,115,198,029
Other comprehensive income for the year:										
Income for the year		-	-	-	-	-	-		19,096,849,893	19,096,849,893
Adjustment from valuation of available-for-sale financial instruments, net of income tax		-	-	-	-	390,671,825	390,671,825	-	-	390,671,825
Net amount transferred to the consolidated statement of comprehensive income		-	-	-	-	(131,514,465)	(131,514,465)	-	-	(131,514,465)
Total comprehensive income for the year		-	-	-	-	259,157,360	259,157,360	-	19,096,849,893	19,356,007,253
Balance at December 31, 2014		99,551,201,391	33,289,027,602	4,046,716,566	-	257,376,829	4,304,093,395	13,593,520,464	33,733,362,430	184,471,205,282

Carlos Brina
Assistant General Manager

Marvin Fallas
General Accountant

Geovanny Solano
Internal Auditor

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

GRUPO BNS DE COSTA RICA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2014
(With corresponding figures for 2013)
(In colones)

	Note	2014	2013
Cash flows from operating activities			
Income for the year		19,096,849,893	9,929,686,475
Items not requiring cash			
Net gain on foreign exchange differences and "development units"		17,647,768,127	(396,678,404)
Net effect on profit or loss of subsidiaries transferred through assignment of shares		-	(20,938,783)
Loss on financial statement translation due to liquidation of nonconsolidable foreign subsidiary		-	628,924,195
Effect of adjustment from valuation of share capital denominated in U.S. dollars		-	67,199,141
Loss on allowance for loan losses		5,206,151,719	2,051,580,634
Expense for provision for severance benefits		79,304,208	150,000,000
Loss on other allowances		6,019,401,010	1,507,883,935
Expense for provision for credit card miles		1,517,216,526	1,215,500,000
Expense for other provisions		1,512,167,595	2,316,258,166
Depreciation and amortization	9, 11	2,273,967,842	1,864,208,251
Income from deferred tax	14	900,742,674	(90,027,418)
Net gain on investments in other companies		-	(20,171,485)
Loss on disposal of assets	9	245,908,230	39,496,395
Finance income		(84,565,220,253)	(75,729,976,263)
Finance expense		35,203,437,054	30,908,971,792
Income tax	14	6,979,144,598	4,297,550,038
		12,116,839,223	**(21,280,533,331)**
Net (increase) decrease in assets			
Trading securities		7,536,569,853	(31,999,113,600)
Loans and cash advances		(84,452,075,926)	(48,764,238,461)
Accounts and fees and commissions receivable		(23,355,100,851)	(1,473,817,974)
Foreclosed assets		(678,684,246)	2,281,730,062
Net increase (decrease) in liabilities			
Demand and term obligations		86,703,843,417	49,574,426,098
(Allowance for impairment)		270,354,518	(6,591,011,495)
Other liabilities		1,680,554,008	324,331,933
		(177,700,004)	**(57,928,226,768)**
Interest collected		83,293,071,375	75,616,299,570
Interest paid		(34,301,543,154)	(31,042,284,969)
Taxes paid		(3,743,364,044)	(7,268,173,246)
Net cash from (used in) from operating activities		**45,070,464,173**	**(20,622,385,413)**
Cash flows from investing activities:			
Increase in financial instruments		(6,498,806,852,193)	(4,891,999,748,545)
Decrease in financial instruments		6,511,282,918,357	4,910,789,775,251
Acquisition of property, furniture and equipment	9	(1,827,885,404)	(1,767,123,519)
Other assets		1,423,621,197	(4,076,966,076)
Net cash from investing activities		**12,071,801,957**	**12,945,937,111**
Cash flows from financing activities:			
Other new financial obligations		226,574,430,514	238,455,084,564
Settlement of obligations		(219,223,101,065)	(219,952,981,196)
Investing activities of nonconsolidable subsidiary, net of taxes paid		-	318,310,313
Cash from liquidation of nonconsolidable subsidiary		-	1,190,042,819
Capital contributions received in cash		299,126,351	-
Net cash from financing activities		**7,650,455,800**	**20,010,456,500**
Net increase in cash		**64,792,721,930**	**12,334,008,198**
Cash at beginning of year		**175,727,007,753**	**163,392,999,555**
Cash at end of year	4	**240,519,729,683**	**175,727,007,753**

Carlos Brina
Assistant General Manager

Marvin Fallas
General Accountant

Geovanny Solano
Internal Auditor

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

ii. Basis of measurement

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

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

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

(c) Basis of consolidation

Subsidiaries

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

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

	Ownership interest	
Name	2014	2013
Scotiabank de Costa Rica, S.A.	100%	100%
Scotia Valores, S.A.	100%	100%
Scotia Leasing Costa Rica, S.A.	100%	100%
Scotia Sociedad de Fondos de Inversión, S.A.	100%	100%
Scotia Corredora de Seguros, S.A.	100%	100%

In preparing the consolidated financial statements, the individual financial statements of the controlling company and its subsidiaries were consolidated line by line. The carrying amounts of the controlling company's investments in its subsidiaries and the balances arising from intra-group transactions were eliminated.

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

(d) Functional and presentation currency

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

As of December 31, 2014 and 2013, the accounting records of the Costa Rican subsidiaries are kept in colones.

(e) Foreign currency

i. Foreign currency transactions

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

ii. Monetary unit and foreign exchange regulations

The parity of the Costa Rican colon with the U.S. dollar is determined in a free exchange market under the supervision of BCCR by using exchange rate bands. As of December 31, 2014, the exchange rate was established at ¢533.31 and ¢545.53 to US$1.00 for the purchase and sale of U.S. dollars, respectively (2013: ¢495.01 and ¢507.80, respectively).

(Continued)

iii. *Valuation method for assets and liabilities*

As of December 31, 2014, assets and liabilities denominated in U.S. dollars, Canadian dollars, and euros were valued at the buy rates of ¢533.31 to US$1.00 (2013: ¢495.01 to US$1.00), ¢458.88 to CAD$1.00 (2013: ¢462.93 to CAD$1.00), and ¢648.98 to €1.00 (2013: ¢682.62 to €1.00), respectively, in accordance with CONASSIF regulations.

iv. *Financial statements of foreign subsidiaries*

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

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

(f) Financial assets and financial liabilities

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

i. *Recognition*

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

ii. *Classification*

- Cash and cash equivalents

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

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

- Loan portfolio

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

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

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

(Continued)

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

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

- Investments in financial instruments

Investments in financial instruments are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either trading or available for sale.

Under current regulations, trading instruments are investments in open investment funds that the Corporation holds for the purpose of short-term profit taking.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Corporation, or held to maturity. Available-for-sale assets include certain debt securities.

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

- Securities purchased under reverse repurchase agreements

Reverse repurchase agreements are generally short-term financing transactions backed by securities in which the Corporation purchases securities at a discounted market price and agrees to sell them to the debtor on a specific date in the future and at a stated price. The difference between the purchase and resale price is recognized as income by the effective interest method.

Market prices of the underlying securities are monitored. In the event of a permanent and material reduction in the value of a specific security, the Corporation adjusts the amortized cost of the security against profit or loss.

- Derivative financial instruments

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value by the fair value method. The Corporation does not hold derivative financial instruments.

Any valuation gains or losses are recorded in the consolidated statement of comprehensive income.

- Deposits and debt instruments issued

Deposits and debt instruments issued are part of the Corporation's main sources of debt funding.

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

iii. *Derecognition*

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

iv. *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the consolidated financial statements when the Corporation has a legal right to set off the recognized amounts and intends to settle on a net basis, except the cases for which SUGEF regulations do not permit such treatment.

v. *Amortized cost measurement*

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

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

vi. Fair value measurement

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

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

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

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

vii. Gains and losses on subsequent measurement

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

(g) Foreclosed assets

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

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

If foreclosed assets are not sold within two years from the date of acquisition, completion of production, or retirement, as appropriate, an allowance should be recorded equivalent to the asset's carrying amount. The allowance is to be established gradually by booking one-twenty-fourth of the value of such assets each month until the allowance is equivalent to 100% of the asset's carrying amount.

(h) Property and equipment

i. Own assets

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

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

ii. Subsequent costs

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

iii. *Depreciation*

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

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

iv. *Leased assets*

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

(i) Investment property

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

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

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

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

(j) Other assets

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

(Continued)

Software is carried at cost and amortized straight line over three years (2013: five years).

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

(k) Goodwill acquired

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

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

(l) Impairment of non-financial assets

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

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

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

(Continued)

(m) Accounts payable and other accounts payable

Accounts payable and other accounts payable are recognized at cost.

(n) Provisions

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

(o) Legal reserve

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

(p) Revaluation surplus

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

Revaluation surplus included in equity may be transferred directly to prior period retained earnings when the surplus is realized. The whole surplus is realized on the retirement or disposal of the assets. The transfer of revaluation surplus to prior period retained earnings should not be made through the consolidated statement of comprehensive income.

(q) Use of estimates

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

(Continued)

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

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

(r) Allowance for loan losses

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

The loan portfolio of the subsidiary Scotiabank de Costa Rica, S.A. is valued in accordance with the provisions established in SUGEF Directive 1-05. The most relevant provisions of the directive are summarized in note 31.

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

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

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

(s) Finance income and expense

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

(t) Fee and commission income

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

(u) Operating lease payments

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

(v) Income tax

i. Current

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

ii. Deferred

Deferred tax is recognized using the balance sheet method. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. In accordance with IAS 12, temporary differences are identified as either taxable temporary differences (which result in future taxable amounts) or deductible temporary differences (which result in future deductible amounts). A deferred tax liability represents a taxable temporary difference, while a deferred tax asset represents a deductible temporary difference.

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

(Continued)

(w) Basic earnings per share

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

(x) Severance benefits

i. Severance benefits

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

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

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

ii. Short-term employee benefits

Statutory Christmas bonus

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

Vacation

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

iii. *Other benefits*

International Share Acquisition Program for Employees

The subsidiaries offer its employees the opportunity to participate in an International Share Acquisition Program for shares of The Bank of Nova Scotia. Employees who meet the requirements to receive this benefit and wish to participate must contribute up to 6% of their nominal wage, while each subsidiary contributes 50% of each employee's contribution. These amounts are transferred to Plan Management at the parent company and invested in the purchase of ordinary shares on the open market; consequently, the subsequent increase in the price of shares does not represent an expense for the Corporation.

Global Incentive Pay Program

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

(y) <u>Trusts</u>

Assets managed by the Corporation as trustee are not considered part of the Corporation's equity and, therefore, are not included in the consolidated financial statements. Fee and commission income derived from trust management is recognized on the accrual basis.

2. Collateralized or restricted assets

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

		2014	2013
Cash and due from banks:			
Minimum cash reserve	¢	141,114,977,307	120,854,225,095
Guarantee Fund - National Stock Exchange (Costa Rica)		1,946,381,408	1,688,184,732
Subtotal		143,061,358,715	122,542,409,827
Investments:			
Clearing house guarantee		1,691,320,208	1,249,541,368
Guarantee deposit for public utility payment collection services		90,153,000	339,583,000
Assigned investments - repurchase agreements		3,799,641,499	-
Investments - Liquidity Market (MIL) guarantee		5,188,667,919	5,962,190,920
Legal department guarantees		55,170,249	13,975,008
Subtotal		10,824,952,875	7,565,290,296
Loans:			
Requirement for deposit-taking in demand accounts per Art. 59 IRNBS 1644		43,873,938,842	36,998,283,232
Subtotal		43,873,938,842	36,998,283,232
Other:			
Committed investments		12,667,627	31,691,282
Subtotal		12,667,627	31,691,282
Other assets:			
Guarantee deposits		127,020,620	109,189,063
Subtotal		127,020,620	109,189,063
Total restricted assets	¢	197,899,938,679	167,246,863,700

(Continued)

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

3. Balances and transactions with related parties

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

		2014	2013
Assets:			
Cash and due from banks	¢	1,336,527,607	1,247,635,324
Loan portfolio		832,126,580	392,402,296
Accounts and accrued interest		974,431,066	413,689,474
Total assets	¢	3,143,085,253	2,053,727,094
Liabilities:			
Obligations with the public	¢	1,326,693,123	455,069,218
Other financial obligations		235,689,507,370	211,914,619,791
Other accounts payable and commissions		161,945,867	75,300,681
Other liabilities		31,381,011	10,265,735
Total liabilities	¢	237,209,527,371	212,455,255,425
Expenses:			
Finance	¢	3,721,901,784	4,184,207,551
Operating		145,938,742	30,093,101
Total expenses	¢	3,867,840,526	4,214,300,652
Income:			
Operating	¢	5,862,208	11,069,134
Other income		1,658,254,616	1,347,691,341
Total income	¢	1,664,116,824	1,358,760,475

(Continued)

As of December 31, 2014, compensation paid to key personnel of the Corporation's subsidiaries amounts to ¢1,782,589,658 (2013: ¢2,135,818,243).

4. Cash and due from banks

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

		2014	2013
Cash	¢	20,979,436,948	17,833,831,968
Demand deposits in BCCR		142,966,207,568	121,001,258,711
Demand deposits in local financial entities		824,122,856	943,272,064
Demand deposits in foreign financial entities		25,779,206,507	11,454,318,925
Notes payable on demand		1,935,498,051	3,072,933,033
Restricted cash and due from banks		304,678,232	223,941,019
Total cash and due from banks	¢	192,789,150,162	154,529,555,720

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

		2014	2013
Cash and due from banks	¢	192,789,150,162	154,529,555,720
Highly liquid investments		47,730,579,521	21,197,452,033
Total cash and due from banks and cash equivalents	¢	240,519,729,683	175,727,007,753

(Continued)

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

As of December 31, 2014, the required minimum cash reserve (corresponding to the average for the second half of December) amounts to ¢136,676,813,522 (2013: ¢120,390,824,886).

As of December 31, 2014, highly-liquid short-term investments include securities acquired under reverse repurchase agreements for a total of US$3,923,051 (2013: ¢3,525,975,863 and US$6,564,319). Those securities bear interest at rates ranging between 0.05% and 2.62% per annum (2013: between 4.03% and 5.47% per annum in colones and between 2.27% and 2.33% per annum in U.S. dollars), in U.S. dollars, and are included in cash equivalents.

5. Investments in financial instruments

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

		2014	2013
Trading	¢	12,132,129,546	5,879,467,564
Available for sale		102,667,138,383	97,730,819,082
Subtotal		114,799,267,929	103,610,286,646
Accrued interest receivable		559,426,890	898,179,252
Total	¢	115,358,694,819	104,508,465,898

As of December 31, trading investments are as follows:

		2014	2013
Open investment funds in colones managed by a local related party	¢	-	1,615,527,204
Open investment funds in U.S. dollars managed by a local related party		2,340,718,549	1,776,153,301
Open investment funds in colones managed by a local entity		3,164,992,515	244,927,865
Open investment funds in U.S. dollars managed by local entities		6,626,418,482	2,242,859,194
Total	¢	12,132,129,546	5,879,467,564

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

		2014	2013
Local issuers:			
Costa Rican Government	¢	49,778,822,665	44,924,991,987
BCCR		19,969,109,888	17,008,776,989
Financial entities		5,432,850,629	9,610,906,446
Private issuers		9,837,143	7,913,975,008
Repurchase agreements		3,424,229,058	9,372,571,960
Subtotal		78,614,849,383	88,831,222,390
Foreign issuers:			
Governments		53,339,000	2,959,476,692
Financial entities		23,998,950,000	5,940,120,000
Subtotal		24,052,289,000	8,899,596,692
Total	¢	102,667,138,383	97,730,819,082

As of December 31, 2014, investments in financial instruments in the amount of ¢1,836,643,457 (2013: ¢1,603,099,376) secure operations with several local institutions (see note 2).

As of December 31, 2014, the Corporation holds no investments that secure repurchase agreements (2013: ¢933,334,100). As of December 31, 2014, the Corporation holds investments in the amounts of ¢2,945,220,001 and US$4,516,200 (2013: between ¢3,153,450,000 and US$5,674,109) that secure integrated liquidity market operations (see note 12).

As of December 31, 2014, available-for-sale investments bear interest at rates ranging between 2.66% and 9.52% (2013: between 0.65% and 13.81%) in Costa Rican colones and between 0.04% and 6.35% (2013: between 0.79% and 6.65%) in U.S. dollars.

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

		2014	2013
Liquidation of realized on gain of avaible-for-sale securities	¢	323,711,883	810,830,730
Realized loss on avaible-for-sale finalcial instruments		(192,197,418)	(169,702,955)
Gain, net	¢	131,514,465	641,127,775

6. Loan portfolio

(a) Loan portfolio by origin

		2014	2013
Loans originated by the Corporation	¢	1,028,976,350,071	886,767,178,762
Loans purchased		76,551,340,767	75,823,196,100
Subtotal		1,105,527,690,838	962,590,374,862
Accrued interest receivable		10,611,051,048	9,000,149,808
Allowance for loan losses		(14,599,703,713)	(11,248,621,392)
Total	¢	1,101,539,038,173	960,341,903,278

As of December 31, 2014, annual interest rates on loans ranged between 7.20% and 25% (2013: between 6.65% and 25%) in colones and between 3.50% and 14.25% (2013: between 3.50% and 14.25%) in U.S. dollars.

The purchased portfolio includes the portfolio acquired in the purchase and merger process with Banco Interfin, S.A. (October 2007). As of December 31, 2014, that portfolio amounts to ¢28,209,252,092 and US$89,944,834 (2013: ¢24,344,345,034 and US$102,916,301). This account also includes a portfolio purchased from a related party (December 2008) as part of the disassociation of such related party from the financial group. As of December 31, 2014, that portfolio amounts to US$700,548 (2013: US$1,079,277).

(b) Allowance for loan losses

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

		2014	2013
Opening balance	¢	11,248,621,392	12,783,893,262
Allowance expense		6,581,151,719	2,062,772,325
Charged against allowance		(2,544,739,055)	(3,436,232,621)
Decrease in allowance		(1,375,000,000)	(11,191,691)
Translation effect for allowances in foreign currency		689,669,657	(150,619,883)
Closing balance	¢	14,599,703,713	11,248,621,392

(c) Allowance for stand-by credit losses

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

		2014	2013
Opening balance	¢	158,653,150	256,242,777
Allowance expense		161,712,386	33,000,001
Decrease in allowance		-	(126,999,559)
Translation effect for allowances in foreign currency		6,883,864	(3,590,069)
Closing balance	¢	327,249,400	158,653,150

7. Accounts and fees and commissions receivable

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

		2014	2013
Fees and commissions	¢	147,867,028	110,690,778
Brokerage operations		1,793,580	753,642
Related party transactions		974,431,066	413,689,474
Deferred tax		497,389,954	444,124,078
Sundry credit card receivables		191,871,888	859,104,759
Advance payments to suppliers		639,972	155,106,992
Other expenses		462,231,518	586,148,238
Insurance policies due from customers		181,964,403	313,728,308
Loan operations		541,109,731	2,557,969
Judgment liens		438,800,906	437,890,496
Vehicle taxes		354,762,175	440,427,720
Other sundry accounts receivable		6,279,507,200	1,619,922,220
Subtotal		10,072,369,421	5,384,144,674
(Allowance for doubtful accounts and fees and commissions receivable)		(1,473,255,835)	(1,304,283,359)
Total	¢	8,599,113,586	4,079,861,315

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

		2014	2013
Opening balance	¢	1,304,283,359	1,428,619,056
Allowance expense		212,942,163	361,383,935
Charged against allowance		(13,563,706)	(379,369,613)
Decrease in allowance		(50,000,002)	(100,000,000)
Translation effect for allowances in foreign currency		19,594,021	(6,350,019)
Closing balance	¢	1,473,255,835	1,304,283,359

8. Foreclosed assets, net

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

		2014	2013
Assets acquired in lieu of payment			
Real property	¢	11,671,808,358	10,121,369,861
Personal property		587,604,914	522,999,821
Other		865,644,518	319,062,752
Subtotal		13,125,057,790	10,963,432,434
(Allowance for impairment and per legal requirements)		(9,170,330,199)	(8,026,351,724)
Net total	¢	3,954,727,591	2,937,080,710

(Continued)

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

		2014	2013
Opening balance	¢	8,026,351,724	7,222,528,992
Loss on allowance		1,907,446,107	1,146,500,000
Charged against allowance		(678,684,246)	(342,677,268)
Decrease in the allowance		(84,783,386)	-
Closing balance	¢	9,170,330,199	8,026,351,724

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

9. Property and equipment, net

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

	2013	Additions	Retirements	2014
Cost				
Land	1,405,990,980	-	-	1,405,990,980
Buildings and facilities	4,715,528,912	2,275,000	-	4,717,803,912
Furniture and equipment	2,882,376,715	550,594,888	(15,534,144)	3,417,437,459
Computer hardware	5,063,939,791	1,275,015,516	(295,860,564)	6,043,094,743
Vehicles	387,258,540	-	(12,678,771)	374,579,769
Subtotal	14,455,094,938	1,827,885,404	(324,073,479)	15,958,906,863
Accumulated depreciation	(5,259,224,655)	(1,110,478,353)	78,165,249	(6,291,537,759)
Cost, net	9,195,870,283	717,407,051	(245,908,230)	9,667,369,104
Revaluation				
Cost	5,835,030,807	-	-	5,835,030,807
Accumulated depreciation	(1,162,715,790)	(141,641,393)	-	(1,304,357,183)
Revaluation, net	4,672,315,017	(141,641,393)	-	4,530,673,624
Net total	13,868,185,300	575,765,658	(245,908,230)	14,198,042,728

Depreciation expense for the year ended December 31, 2014 amounted to ¢1,252,119,746 and was charged against profit or loss.

In 2010, the Corporation revalued its assets through an appraisal made by an independent appraiser. Because of the valuation techniques used, such techniques are categorized as Level 3 in the fair value hierarchy.

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

	2012	Additions	Retirements	2013
Cost				
Land	1,405,990,980	-	-	1,405,990,980
Buildings and facilities	4,715,528,912	2,275,000	-	4,717,803,912
Furniture and equipment	2,882,376,715	474,092,179	(541,024)	3,355,927,870
Computer hardware	5,063,939,791	854,487,557	(281,306,569)	5,637,120,779
Vehicles	387,258,540	-	(12,678,771)	374,579,769
Subtotal	14,455,094,938	1,330,854,736	(294,526,364)	15,491,423,310
Accumulated depreciation	(5,259,224,655)	(808,985,203)	78,014,198	(5,990,195,660)
Cost, net	9,195,870,283	521,869,533	(216,512,166)	9,501,227,650
Revaluation				
Cost	5,835,030,808	-	-	5,835,030,808
Accumulated depreciation	(1,162,715,791)	(120,452,190)	-	(1,283,167,981)
Revaluation, net	4,672,315,017	(120,452,190)	-	4,551,862,827
Net total	13,868,185,300	401,417,343	(216,512,166)	14,053,090,477

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

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

(Continued)

10. Investment property

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

As of December 31, 2014 and 2013, the Corporation's consolidated financial statements present this building as an asset under "Investment property" since rental income derived from the lease constitutes economic benefits that flow directly to the Corporation and the agreement subscribed between the parties guarantees dependable short- and long-term income for the Corporation consistent with the capital appreciation of the location of the asset.

As of December 31, 2014 and 2013, appraisals were made by independent appraisers. The application of different valuation methods used by independent appraisers determined a fair value for investment property in the amount of US$4,500,000 (using the income capitalization approach).

Fair value hierarchy

The fair value of investment property was determined by independent appraisers with known professional skills and recent experience in location and categorization of investment properties subject to valuation. Independent appraisers establish the fair value of investment property of Scotia Leasing Costa Rica, S.A. on an annual basis.

The fair value of investment properties is categorized as Level 3 in the fair value hierarchy based on the inputs of the valuation technique used.

Valuation techniques and significant unobservable inputs

The table below sets out the valuation techniques and significant unobservable inputs used in measuring the fair value of investment property.

Valuation technique	**Significant unobservable inputs**	**Correlation between key unobservable inputs and fair value measurement**
Discounted cash flows: The valuation model considers the present value of the net cash flows that will be generated by the property, considering the expected growth rate of lease payments, the lease term, and other costs not paid by the lessee. Expected net cash flows are discounted using discount rates, adjusted for risk and other factors. The discount rate is estimated by considering building quality and location, lessee credit quality, and lease terms.	• Growth of market lease payment (2014: 2%-3%, 2.6% weighted average; 2013: 2%-3%, 2.5% weighted average). • Lease term (2014 and 2013: lease agreement maturing in 2023, in which a building is leased to a single tenant; accordingly, no vacancy periods are considered). • Discount rate adjusted for risk (2014 and 2013: 7.25% and 8.00%, respectively).	The estimated fair value would increase (decrease) if: • the expected growth of the market lease payment increased (decreased) • the lease term were shorter (longer) • the current tenant vacated the building (decrease) • the discount rate adjusted for risk were lower (higher).

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

		2014	2013
Opening balance	¢	2,369,096,198	2,345,790,249
Translation effect		-	23,305,949
Closing balance	¢	2,369,096,198	2,369,096,198

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

Notes to Consolidated Financial Statements

11. Other assets

As of December 31, other assets are as follows:

		2014	2013
Deferred charges			
Leasehold improvements - operating lease	¢	971,674,124	901,110,952
Subtotal		971,674,124	901,110,952
Intangible assets:			
Goodwill acquired, net of amortization		333,061,857	999,185,571
Software		237,204,577	212,077,182
Other		76,702,453	141,608,401
Subtotal		646,968,887	1,352,871,154
Other assets:			
Prepaid interest and fees and commissions		548,956,272	678,606,897
Estimated taxes		792,280,826	866,579,181
Prepaid insurance		1,957,049,451	1,191,385,844
Other prepaid expenses		81,342,747	211,972,247
Stationery, office supplies, and other		47,928,565	43,836,233
Library and artwork		18,310,818	17,720,958
Construction work in progress		107,947,548	4,204,335
Software development		609,216,454	109,554,552
Other sundry assets		-	2,174,916
Operations pending settlement		2,246,386,349	5,111,345,622
Guarantee deposits		127,020,620	109,189,063
Subtotal		6,536,439,650	8,346,569,848
Total	¢	8,155,082,661	10,600,551,954

(Continued)

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

		2014	2013
Amortization of leasehold improvements	¢	165,121,620	187,019,130
Amortization of software		190,602,763	89,518,805
Amortization of goodwill acquired		666,123,714	666,123,715
Total	¢	1,021,848,096	942,661,650

As of December 31, goodwill acquired is as follows:

		2014	2013
Entity dedicated to investment banking	¢	120,332,404	301,997,214
Entity dedicated to operating and financial leasing		200,264,453	659,793,357
Acquisition of Insurance Agency		12,465,000	37,395,000
Total	¢	333,061,857	999,185,571

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

		2014	2013
Opening balance	¢	999,185,571	1,665,309,286
Amortization for the year		(666,123,714)	(666,123,715)
Closing balance	¢	333,061,857	999,185,571

Impairment testing of goodwill acquired

a) *Financial intermediation business*

The total carrying amount of the assets comprising the cash-generating unit for the financial intermediation business is ¢1,353,729,747,882 (approximately US$2,538,354,329). That total includes an intangible asset with a definite useful life established by regulations with a carrying amount of ¢120,332,404 (approximately US$225,663).

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

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

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

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

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

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

<u>Discount rate:</u> An increase of 100 basis points in the discount rate would reduce the recoverable amount by ¢181,770,089,704 (approximately US$340,833,830).

<u>Loan portfolio growth</u>: A decrease of 100 basis points in the growth rate would increase the recoverable amount by ¢56,574,043,536 (approximately US$106,080,973).

b) *Leasing business*

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

The total carrying amount of the assets comprising the cash-generating unit for the leasing business is ¢90,547,430,639 (approximately US$169,783,860). That total includes an intangible asset with a definite useful life, per regulations, that has a carrying amount of ¢200,264,453 (approximately US$375,512).

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

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

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

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

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

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

<u>Discount rate:</u> An increase of 100 basis points in the discount rate would reduce the recoverable amount by ¢4,583,930,137 (approximately US$8,595,245).

<u>Loan portfolio growth</u>: A decrease of 1 percentage point in the growth rate would increase the recoverable amount by ¢662,471,728 (approximately US$1,242,189).

c) *Insurance business*

The total carrying amount of the assets comprising the cash-generating unit for the insurance business is ¢885,570,097 (approximately US$1,660,517). That total includes an intangible asset with a definite useful life, per regulations, that has a carrying amount of ¢12,465,000 (approximately US$23,373).

For the year ended December 31, 2014, there have been no significant changes -and no significant changes are expected in the immediate future- that have an adverse effect on Scotia Corredora de Seguros, S.A. in terms of the legal, economic, technological, or market environment in which Scotia Corredora de Seguros, S.A. operates, and that indicate that the future performance of the insurance business will differ with respect to the earnings obtained as of December 31, 2014.

As of December 31, 2014 and for the year then ended, the insurance business generated earnings in the amount of ¢598,360,403.

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

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

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

Amortization

As of December 31, 2014, the systematic amortization of goodwill acquired gave rise to an amortization expense in the amount of ¢666,123,714 (2013: ¢666,123,715).

12. Obligations with the public

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

		2014	2013
Demand			
Deposits			
Checking accounts	¢	247,937,112,292	155,790,059,305
Certified checks		30,008,417	49,548,803
Demand savings deposits		33,776,598,784	30,985,600,713
Matured term deposits		677,630,194	889,760,901
Overnight deposits		5,156,640,681	43,903,187,508
Subtotal deposits		287,577,990,368	231,618,157,230
Other obligations with the public			
Notes payable on demand - creditors		2,173,121,065	2,780,328,111
Drafts and transfers		1,946,381,408	1,464,243,713
Cashier's checks		694,842,167	1,119,883,181
Sundry demand obligations with the public		37,924,182	15,581,189
Subtotal other obligations with the public		4,852,268,822	5,380,036,194
Subtotal demand	¢	292,430,259,190	236,998,193,424

(continúa)

Term		
Deposits		
Term deposits from the public	¢ 539,482,161,792	472,407,986,083
Term deposits pledged as guarantee	44,436,612,348	38,846,596,866
Subtotal term	583,918,774,140	511,254,582,949
Tri-party repurchase agreements (securities) - term buyer	3,464,553,569	-
Total other obligations with the public	3,464,553,569	-
Charges payable on obligations with the public	3,975,136,589	3,165,326,542
Total	¢ 883,788,723,488	751,418,102,915

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

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

As of December 31, 2014 and 2013, balances corresponding to the issue of commercial paper and standardized bonds are included in current term deposit accounts.

As of December 31, 2014, term deposits include standardized bonds for ¢20,280,000,000 and US$30,000,000 (2013: ¢5,000,000,000 and US$24,150,000), bearing interest at rates ranging between 7.34% and 7.88% per annum (2013: at 7.88% per annum) in colones, and between 4.35% and 4.89% per annum (2013: between 2.99% and 4.89% per annum) in U.S. dollars.

Term deposits made through banks have terms ranging from a minimum of 31 days to a maximum of five years. As of December 31, 2014, certificates of deposit bear interest at rates ranging between 3.80% and 11.70% per annum (2013: between 4.35% and 11.50% per annum) in Costa Rican colones and between 0.85% and 5.45% per annum (2013: between 1.05% and 5.70% per annum) in U.S. dollars.

(Continued)

Additionally, the Corporation raises funds by selling financial instruments and from MIL under agreements whereby the Corporation commits to repurchase those financial instruments on a specific date in the future and at a predetermined price plus interest. As of December 31, 2014, those agreements amount to ¢2,945,220,001 (2013: ¢3,153,450,000).

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

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

	2014			2013	
	Number of customers		Cumulative amount	Number of customers	Cumulative amount
Demand:					
Obligations with the public					
Deposits from the public	91,558	¢	286,900,360,176	93,802	230,728,396,330
Deposits from other	-		-	-	-
Deposits from State-owned	-		-	-	-
Restricted and inactive	76		677,630,192	103	889,760,900
Other	-		4,852,268,822	-	5,380,036,194
Subtotal	91,634		292,430,259,190	93,905	236,998,193,424
Obligations with entities					
Deposits from other financial entities	10		1,927,335,376	11	532,961,331
Subtotal	10		1,927,335,376	11	532,961,331
Total demand obligations with customers	91,644	¢	294,357,594,566	93,916	237,531,154,755

(Continued)

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

Notes to Consolidated Financial Statements

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

	2014			2013	
	Number of customers		Cumulative amount	Number of customers	Cumulative amount
Term:					
Obligations with the public					
Deposits from the public	7,890	¢	534,715,681,792	7,738	467,077,532,499
Deposits from other financial entities	1		4,766,480,000	5	5,172,377,249
Deposits from State-owned entities	-		-	1	158,076,335
Restricted and inactive deposits	1,645		44,436,612,348	1,476	38,846,596,866
Other	-		3,464,553,569	-	-
Subtotal	9,536		587,383,327,709	9,220	511,254,582,949
Obligations with financial entities					
Deposits from other financial entities	8		9,292,985,721	3	7,541,211,700
Subtotal	8		9,292,985,721	3	7,541,211,700
Total term obligations with customers	9,544	¢	596,676,313,430	9,223	518,795,794,649

(Continued)

13. Obligations with entities

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

		2014	2013
Demand obligations			
Checking accounts of local financial entities	¢	1,927,335,376	532,961,331
Demand account overdrafts - Local financial entities		161,945,867	75,300,681
Subtotal demand obligations		2,089,281,243	608,262,012
Term obligations			
Term deposits from local financial entities		9,292,985,721	7,541,211,700
Other loans from foreign entities		88,218,894,073	89,374,892,366
Liquidity market resources		4,116,396,500	5,278,730,534
Obligations with related financial entities		235,109,576,098	211,309,996,330
Subtotal term obligations		336,737,852,392	313,504,830,930
Other obligations with entities			
Financing with international organizations		7,999,650,000	-
Issued letters of credit		1,090,901,317	785,749,050
Subtotal other obligations with entities		9,090,551,317	785,749,050
Subtotal		347,917,684,952	314,898,841,992
Charges payable on obligations with financial and non-financial entities		1,209,647,403	1,117,563,550
Total	¢	349,127,332,355	316,016,405,542

(Continued)

As of December 31, 2014, other financial obligations bear interest at 7.05% per annum (2013: at 7.05%) in colones, and between 0.35% and 3.76% per annum (2013: between 0.49% and 3.74% per annum) in U.S. dollars.

Maturities of obligations with entities

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

		2014	2013
Less than 1 year	¢	176,897,523,681	148,436,004,895
Between 1 and 2 years		123,516,701,201	51,556,467,069
Between 2 and 3 years		28,945,121,884	87,940,341,597
Between 3 and 4 years		14,825,168,186	18,946,249,375
Between 4 and 5 years		3,733,170,000	8,019,779,056
Subtotal		347,917,684,952	314,898,841,992
Charges payable on obligations with financial and non-financial entities		1,209,647,403	1,117,563,550
Total	¢	349,127,332,355	316,016,405,542

14. Income tax

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

		2014	2013
Income tax expense			
Local income tax	¢	7,233,599,210	4,297,550,038
Decrease in local income tax		(254,454,612)	-
Subtotal		6,979,144,598	4,297,550,038
Deferred tax			
Deferred tax		900,742,674	(90,027,418)
Total	¢	7,879,887,272	4,207,522,620

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

		2014	2013
Expected income tax	¢	8,412,238,386	4,405,952,274
Plus (less)			
Nondeductible expenses		1,178,760,782	1,400,696,821
Nontaxable income		(1,167,883,689)	(1,447,303,521)
Effect of tax treatment for leases		(1,138,865,681)	(118,037,273)
Deductible income for statutory allocations		(319,217,237)	(164,789,546)
Effect of negative tax base of certain subsidiaries		14,112,037	221,031,283
Deferred tax		(900,742,674)	90,027,418
	¢	6,078,401,924	4,387,577,456

As of December 31, 2014 and 2013, deferred tax is attributable to unrealized gain on investments in available-for-sale financial instruments, finance leases, allowances, and revaluation surplus. A deferred tax asset represents a deductible temporary difference. A deferred tax liability represents a taxable temporary difference.

(Continued)

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

Notes to Consolidated Financial Statements

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

		2014	2013
Deferred tax assets			
Unrealized gains on valuation of investments	¢	-	15,114,635
Allowances		497,389,954	429,009,443
Total	¢	497,389,954	444,124,078
Deferred tax liabilities:			
Revaluation of assets	¢	747,167,855	773,441,125
Unrealized gains on valuation of investments		85,121,980	14,351,553
Tax treatment of leases		2,945,433,393	1,924,854,535
Total	¢	3,777,723,228	2,712,647,213

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

Notes to Consolidated Financial Statements

As of December 31, 2014 and 2013, movement in the deferred tax asset, net is as follows:

		As of December 31, 2013	Included in the consolidated statement of comprehensive income	Included in equity	As of December 31, 2014
Unrealized gains on valuation of investments	¢	763,082	-	(111,067,465)	(110,304,383)
Allowances		429,009,443	68,380,511	-	497,389,954
Tax treatment of leases		(1,924,854,535)	(995,396,455)	-	(2,920,250,990)
Revaluation of assets		(773,441,125)	26,273,270	-	(747,167,855)
	¢	(2,268,523,135)	(900,742,674)	(111,067,465)	(3,280,333,274)

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

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

Notes to Consolidated Financial Statements

15. Accounts payable and provisions

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

		2014	2013
Brokerage services	¢	2,229,017,037	480,204,864
Deferred tax (note 14)		3,777,723,228	2,712,647,213
Provisions		2,281,923,902	4,613,787,618
Other sundry accounts payable:			
Professional fees		3,332,068	320,707
Creditors - goods and services		1,593,950,804	1,286,221,939
Tax liability		3,956,971,645	510,201,997
Employer withholdings		66,119,381	125,888,323
Court-ordered withholdings		35,335,872	14,095,293
Tax withholdings		516,911,282	470,275,011
Employee withholdings		963,347,815	961,968,588
Other third-party withholdings		345,470	-
Statutory allocations or surplus		1,053,163,928	540,298,487
Related parties		31,381,011	29,127,364
Clearing house operations		2,151,585,846	3,347,709,329
Accrued vacation		218,573,763	280,657,166
Accrued statutory Christmas		236,373,931	246,084,531
Fees and commissions for custodial services		358,170	465,909
Other accounts and fees and commissions payable:			
INS insurance policies		2,821,783,282	357,855,716
Term deposits with related parties		329,387,866	162,493,698
Credit balances of credit card customers		271,102,016	296,960,698
Outstanding stale checks		633,028,686	382,886,291
Public utility and tax payment collection services		506,002,144	558,418,016
Other sundry accounts payable		2,327,581,478	1,715,721,320
Total	¢	26,005,300,625	19,094,290,078

(Continued)

a) Provisions

		2014	2013
Provisions for employer obligations	¢	172,221,907	92,917,699
Provisions for pending litigation		-	2,939,720,468
Provisions for redemption of miles		1,381,358,780	1,163,367,686
Other provisions		728,343,215	417,781,765
Total	¢	2,281,923,902	4,613,787,618

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

Notes to Consolidated Financial Statements

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

		2014	2013
Provisions for employer obligations:			
Opening balance	¢	92,917,699	125,676,284
Provisioned		140,000,000	150,000,000
Used		(60,695,792)	(182,758,585)
Closing balance		172,221,907	92,917,699
Provisions for pending litigation:			
Opening balance		2,939,720,468	2,939,720,468
Used		(2,939,720,468)	-
Closing balance		-	2,939,720,468
Provisions for redemption of miles			
Opening balance		1,163,367,686	1,262,506,552
Provisioned		1,517,216,526	1,215,500,000
Used		(1,299,225,432)	(1,314,638,866)
Closing balance	¢	1,381,358,780	1,163,367,686
Other provisions:			
Opening balance		417,781,765	313,996,765
Provisioned		2,632,906,404	2,316,258,166
Used		(2,322,344,954)	(2,212,473,166)
Closing balance		728,343,215	417,781,765
Total			
Opening balance		4,613,787,618	4,641,900,069
Provisioned		4,290,122,930	3,681,758,166
Used		(6,621,986,646)	(3,709,870,617)
Total	¢	2,281,923,902	4,613,787,618

(Continued)

16. Other liabilities

As of December 31, other liabilities are as follows:

		2014	2013
Deferred finance income	¢	2,271,866,309	198,393,522
Other Deferred income		61,344,244	62,406,180
Allowance for stand-by credit losses		327,249,400	158,653,150
Operations pending settlement		881,929,164	984,472,141
Other operations pending application		51,959,780	509,869,896
Total	¢	3,594,348,897	1,913,794,889

17. Equity

a) Share capital

As of December 31, 2014 and 2013, the Corporation's share capital is represented by 201,153,696 ordinary registered shares of US$1.00 par value each, for a total of US$201,153,696, equivalent to ¢99,551,201,391.

On December 3, 2013, CONASSIF authorized to recognize and accept the following movements in share capital:

- conversion of 47,300,000 preferred registered shares of US$1.00 par value each (equivalent to ¢47,583,591,250) to ordinary registered shares in U.S. dollars.
- conversion of the issue currency of the 47,583,591,250 ordinary registered shares (equivalent to ¢21,894,011,000) in colones to U.S. dollars.

As a result, share capital is represented by 139,234,757 ordinary registered shares of US$1.00 par value each, for a total of US$139,234,757.

(Continued)

Additionally, on December 3, 2013, share capital was increased by US$40,000,000 (equivalent to ¢20,073,400,000) corresponding to cash contributions and capitalization of prior period retained earnings in the amount of ¢9,999,999,565 (equivalent to US$19,991,203). Those transactions gave rise to an effect of foreign exchange differences in the amount of ¢67,200,000 presented in profit or loss in 2013.

b) Increase in capital

At an Extraordinary General Shareholders Meeting held on December 31, 2014, shareholders agreed to increase share capital by US$60,561,518, as follows:

- Cash contributions from shareholders in the amount of US$561,518 (equivalent to ¢299,126,351 at the buy exchange rate established by BCCR).
- Capitalization of prior period retained earnings in the amount of ¢31,996,800,000 (equivalent to US$60,000,000 at the buy exchange rate established by BCCR).

c) Revaluation surplus

As of December 31, 2014 and 2013, revaluation surplus corresponds to the increase in the fair values of properties owned by the subsidiaries. Fair values of properties are adjusted based on appraisals made by independent appraisers.

d) Legal reserve

Under Article 154 of IRNBS, the Bank must allocate 10% of its net earnings for each period to a legal reserve. As of December 31, 2014, the consolidated financial statements include a legal reserve in the amount of ¢13,593,520,464 (2013: ¢11,956,456,546). No further appropriation is required once the legal reserve reaches 20% of share capital.

e) Prior year retained earnings

As of December 31, 2014, prior year retained earnings amount to ¢16,273,576,455 (2013: ¢39,215,819,075).

(Continued)

f) Adjustment for translation of financial statements

The translation of the financial statements of the foreign subsidiary gave rise to a net loss for the period ended December 31, 2013 in the amount of ¢82,501,010. As a result of the termination of operations of the Nicaraguan subsidiary in October 2013, an accumulated adjustment for translation was made as of that date in the amount of ¢628,127,256 and included in profit or loss for the year.

g) Unrealized gain or loss

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

18. Basic earnings per share

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

		2014	2013
Ordinary shares:			
Profit or loss	¢	19,096,849,893	9,929,686,475
Weighted average number of shares (denominator)		201,153,696	201,153,696
Profit or loss per ordinary share	¢	94.937	49.364

19. Memoranda accounts

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

(Continued)

As of December 31, memoranda accounts are as follows:

		2014	2013
Performance bonds	¢	38,299,669,407	28,489,071,749
Bid bonds		911,939,081	846,367,053
Other guarantees		11,979,055,924	10,185,511,814
Letters of credit issued but unused		12,063,436,885	6,147,772,631
Letters of credit confirmed but unused		1,845,252,600	24,750,500
Pre-approved lines of credit		135,340,814,968	130,157,102,387
Credits pending disbursement		5,528,744,995	5,220,188,271
Total	¢	205,968,913,860	181,070,764,405

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

20. Trust assets

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

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

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

		2014	2013
Cash and due from banks	¢	2,987,249,494	5,306,533,042
Investments in financial instruments		128,014,568,181	93,102,190,690
Loan portfolio		1,532,043,215	1,542,287,767
commissions receivable		1,126,767,020	4,061,956,730
Foreclosed assets		420,850,295,804	2,163,254,071
Investments in other companies		462,040,851,255	-
Property and equipment		141,483,169,433	137,473,718,374
Other assets		950,925,895	32,114,577,843
Investments in property		34,963,203,791	8,381,293,186
Total	¢	1,193,949,074,088	284,145,811,703

21. Sureties

As of December 31, 2014 and 2013, the Corporation has issued no sureties.

22. Other memoranda accounts

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

		2014	2013
Other own debit memoranda accounts			
Guarantees received in the Bank's custody	¢	39,803,540,440	31,266,367,892
Guarantees received in the custody of third parties		2,432,237,518,024	2,225,180,203,400
Lines of credit granted and pending		258,437,464,855	244,786,876,293
Write-downs		11,942,050,026	10,509,009,573
Interest income on non-accrual loans		1,514,874,334	1,466,969,478
Supporting documentation		1,005,003,829,278	944,840,171,114
Other memoranda accounts		1,375,269,976,530	1,293,965,027,097
Subtotal		5,124,209,253,487	4,752,014,624,847
Third-party debit memoranda accounts			
Third-party assets and securities in custody		90,687,001,312	84,295,689,114
Net assets of managed funds (note 24)		87,655,616,572	96,951,685,343
Subtotal		178,342,617,884	181,247,374,457
Own debit memoranda accounts for custodial activities			
Trading securities held in custody		7,418,264,759	27,953,795,146
Trading securities received as guaranty (guaranty trust)		8,669,776,000	5,705,229,650
Futures contracts pending settlement		7,606,683,436	5,285,758,344
Subtotal		23,694,724,195	38,944,783,140
Own debit memoranda accounts for custodial activities			
Cash and receivables		294,525,943	10,936,768,999
Trading securities held in custody		373,797,046,467	300,490,860,351
Trading securities received as guaranty (guaranty trust)		24,466,769,710	50,361,173,148
Pledged trading securities (guaranty trust)		78,216,605,590	75,824,867,790
Futures contracts pending settlement		80,839,525,292	94,973,095,534
Subtotal		557,614,473,002	532,586,765,822
Total	¢	5,883,861,068,568	5,504,793,548,266

(Continued)

Management of funds and securities on behalf of third parties includes banking mandates, such as assets received under simple custody and under agreements in which the entity acts as agent or custodian.

23. Tri-party repurchase agreements and term operations

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

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

Own

Tri-party repurchase agreements

		2014				
Detail		Maturities of 1 to 30 days	Maturities of 31 to 60 days	Maturities of 61 to 90 days	Maturities of 91 to 180 days	Total
Own						
Colones:						
Purchases	¢	5,051,826,370	1,007,876,712	-	-	6,059,703,082
Total colones	¢	5,051,826,370	1,007,876,712	-	-	6,059,703,082
U.S. dollars:						
Purchases	US$	2,900,715	-	-	-	2,900,715
Total U.S. dollars	US$	2,900,715	-	-	-	2,900,715
Third-party						
Colones:						
Purchases	¢	9,037,729,921	1,443,985,271	-	-	10,481,715,192
Sales		2,101,204,750	480,302,837	-	-	2,581,507,587
Total colones	¢	11,138,934,671	1,924,288,108	-	-	13,063,222,779
U.S. dollars:						
Purchases	US$	91,720,482	4,156,821	-	-	95,877,303
Sales		29,180,013	2,028,812	-	-	31,208,825
Total U.S. dollars	US$	120,900,495	6,185,633	-	-	127,086,128

(Continued)

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

Notes to Consolidated Financial Statements

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

		2013				
Detail		Maturities of 1 to 30 days	Maturities of 31 to 60 days	Maturities of 61 to 90 days	Maturities of 91 to 180 days	Total
Own:						
Colones:						
Purchases	¢	4,691,453,407	-	-	-	4,691,453,407
Total colones	¢	4,691,453,407	-	-	-	4,691,453,407
U.S. dollars:						
Purchases	US$	1,200,592	-	-	-	1,200,592
Total U.S. dollars	US$	1,200,592	-	-	-	1,200,592
Third:						
Colones:						
Purchases	¢	7,634,670,170	239,216,103	-	-	7,873,886,273
Sales		12,603,346,242	587,675,555	-	-	13,191,021,797
Total colones	¢	20,238,016,412	826,891,658	-	-	21,064,908,070
U.S. dollars:						
Purchases	US$	91,306,010	6,716,011	-	-	98,022,021
Sales		50,831,496	452,937	-	-	51,284,433
Total U.S. dollars	US$	142,137,506	7,168,948	-	-	149,306,454

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

(Continued)

24. Investment fund management agreements

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

		2014			2013
		Assets	Liabilities	Net assets	Net liabilities
In colones:					
Fondo de Inversión Diversificado Scotia (Scotia Diversified Investment Fund)	¢	4,071,856,491	1,817,091	4,070,039,400	27,232,795,944
Fondo de Inversión No Diversificado Público Scotia (Scotia Public Non-Diversified Investment Fund)		15,347,738,225	5,213,485	15,342,524,740	13,803,078,198
Fondo de Inversión No Diversificado Certifondo Scotia C (Scotia Certifondo C Investment Fund)		5,336,700,650	1,929,460	5,334,771,190	4,004,225,339
	¢	24,756,295,366	8,960,036	24,747,335,330	45,040,099,481
In U.S. dollars:					
Fondo de Inversión No Diversificado Público D Scotia (Scotia Public Non-Diversified D Investment Fund)	US$	47,808,465	1,108,910	46,699,555	60,170,676
Fondo de Inversión No Diversificado Exposición al Mercado de Dinero a nivel Mundial Scotia (Scotia Global Non-Diversified Money Market Exposure Investment Fund)		2,982,740	311	2,982,429	2,353,036
Fondo de Inversión No Diversificado Exposición al Mercado de Renta Fija Scotia		9,127,977	19,982	9,107,995	6,967,842
Diversificado Exposición al Mercado Accionario USA (Scotia Non-Diversified U.S.		12,217,995	55,350	12,162,645	8,679,392
Fondo de Inversión No Diversificado Exposición al Mercado Accionario Internacional Scotia (Scotia Non-Diversified International Stock Market Exposure Investment Fund)		4,760,826	5,233	4,755,593	3,822,239
Fondo de Inversión No Diversificado Certifondo Scotia D (Scotia Certifondo D Non-Diversified Investment Fund)		42,257,807	7,836	42,249,971	22,876,588
	US$	119,155,810	1,197,622	117,958,188	104,869,773
Total expressed in colones	¢	63,546,985,031	638,703,789	62,908,281,242	51,911,585,862
Total	¢	88,303,280,397	647,663,825	87,655,616,572	96,951,685,343

(Continued)

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

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

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

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

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

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

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

(Continued)

25. Loan portfolio income

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

		2014	2013
Current loans			
Accrued interest on checking account overdrafts	¢	28,255,716	24,177,549
Accrued interest on loans with other funds		59,360,149,623	52,526,984,680
Accrued interest on credit cards		8,269,537,402	7,405,454,251
Accrued interest on factoring		-	44,944,081
Accrued interest on issued letters of credit		-	538
Accrued interest on loans to State-owned banks		450,427,927	388,963,447
Subtotal		68,108,370,668	60,390,524,546
Past due loans and loans in legal collections			
Accrued interest on loans with other funds		6,561,465,220	5,800,567,974
Accrued interest on credit cards		-	35,489,764
Subtotal		6,561,465,220	5,836,057,738
Total	¢	74,669,835,888	66,226,582,284

26. Finance expense

(a) Obligations with the public

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

		2014	2013
Demand deposits	¢	2,567,306,199	1,967,450,763
Term deposits		24,637,710,368	22,358,053,602
Repurchase and tri-party repurchase agreement and securities lending		28,214,198	48,669,717
Total	¢	27,233,230,765	24,374,174,082

(Continued)

(b) Obligations with financial and non-financial entities

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

		2014	2013
Demand deposits	¢	50,056,254	12,223,431
Term deposits		7,709,305,422	6,522,574,279
Obligations with non-financial entities		210,844,613	-
Total	¢	7,970,206,289	6,534,797,710

27. Foreign exchange differences

Gains or losses arising on translation of balances and transactions denominated in foreign currency are presented in the consolidated statement of comprehensive income as “Foreign exchange differences”.

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

		2014	2013
Foreign exchange gain:			
Obligations with the public	¢	21,746,170,289	15,568,026,378
Other financial obligations		10,047,571,869	7,893,429,795
Other accounts payable and provisions		323,664,867	222,838,263
Cash and due from banks		34,078,612,597	1,652,053,121
Investments in financial instruments		6,415,825,620	634,664,619
Current loans		89,640,855,322	10,640,216,989
Past due loans and loans in legal collections		10,769,480,745	1,319,671,392
Accounts and fees and commissions receivable		1,672,651,233	285,400,800
Net foreign exchange gain	¢	174,694,832,542	38,216,301,357
Foreign exchange loss:			
Obligations with the public	¢	66,603,137,398	8,079,606,468
Other financial obligations		35,715,085,380	3,738,285,739
Other accounts payable and provisions		950,549,048	88,613,562
Cash and due from banks		5,723,913,013	3,770,672,819
Investments in financial instruments		2,006,493,168	1,105,678,907
Current loans		28,681,755,300	20,145,788,623
Past due loans and loans in legal collections		3,730,682,242	2,652,258,966
Accounts and fees and commissions receivable		20,576,285,536	380,643,516
Net foreign exchange loss	¢	163,987,901,085	39,961,548,600
Net foreign exchange gain (loss)	¢	10,706,931,457	(1,745,247,243)

(Continued)

28. Service fees and commissions

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

		2014	2013
Income			
Drafts and transfers	¢	1,320,755,285	1,155,138,600
Foreign trade		18,129	-
Trust management		831,755,151	455,869,557
Sundry custodial services		84,340	67,819
Collections		18,050,014	18,234,023
Consignments		66,362	149,497
Other banking mandates		443,289,373	392,262,945
Credit cards		7,753,622,743	7,344,055,977
Investment fund management		1,217,121,108	1,019,870,598
Insurance underwriting		2,299,285,394	1,961,356,232
Brokerage operations (local market - third parties)		1,976,276,218	2,539,102,223
Brokerage operations (foreign market - third parties)		833,573,807	280,412,693
Related party transactions		5,862,208	11,069,134
Other		2,770,363,784	2,112,067,092
Total	¢	19,470,123,916	17,289,656,390

29. Personnel expenses

As of December 31, personnel expenses are as follows:

		2014	2013
Salaries and bonuses, permanent staff	¢	18,331,036,799	17,981,922,730
Compensation for board members and statutory		27,200,494	18,785,838
Overtime		383,807,557	332,630,979
Travel expenses		439,910,335	468,375,245
Statutory Christmas bonus		1,556,010,039	1,515,457,434
Vacation		307,845	1,294,133
Incentives		40,990,064	17,973,794
Other compensation		118,068,709	118,185,798
Employer social security taxes		4,114,462,799	3,967,565,782
Refreshments		248,045,500	225,884,915
Uniforms		47,741,729	6,932,987
Training		246,434,338	254,402,918
Employee insurance		369,246,964	262,860,908
Compulsory retirement savings account		842,083,223	828,639,164
Other		828,262,015	752,560,045
Total	¢	27,593,608,410	26,753,472,670

30. Other administrative expenses

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

		2014	2013
Outsourcing	¢	7,234,767,159	6,069,027,063
Transportation and communications		990,136,775	1,157,511,319
Infrastructure		8,024,924,662	7,782,402,984
Overhead		5,370,158,773	5,171,562,257
Total	¢	21,619,987,369	20,180,503,623

(Continued)

31. Risk management

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

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

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

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

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

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

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

(Continued)

Management is responsible for the formulation of the Corporation's risk management strategy and ALCO is responsible for setting guidelines for managing interest rates, accrued interest receivable, the Corporation's foreign currency position, margins, and liquidity. The parent company has also established maximum risk exposure limit guidelines. The Corporate Risk Committee is responsible for reporting on risk management performed by the Comprehensive Risk Management Unit.

i. Credit risk

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

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

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

		2014	2013
Cash and due from banks	¢	192,789,150,162	154,529,555,720
Investments in financial instruments		115,358,694,819	104,508,465,898
Loan portfolio		1,101,539,038,173	960,341,903,278
Accounts and fees and commissions		8,599,113,586	4,079,861,315
Guarantees granted		51,190,664,412	39,520,950,616
Letters of credit issued but unused		12,063,436,885	6,147,772,631
Confirmed letters of credit		1,845,252,600	24,750,500
Total	¢	1,483,385,350,637	1,269,153,259,958

(Continued)

Cash and due from banks corresponds to cash on hand, cash in vaults, and bank deposits. Bank deposits are mainly placed in top-rated financial institutions, and accordingly, credit risk on those deposits is considered to be minimal.

The Corporation is exposed to a significant concentration of credit risk in Latin America, specifically in Costa Rica on loans granted to Costa Rican entities. The Corporation manages that risk through periodic analyses of the country's economic, political, and financial environment, and its potential impact on each sector. For such purposes, the Corporation obtains a thorough understanding of its customers and of their capacity to generate sufficient cash flows to honor their debt commitments.

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

(Continued)

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

Notes to Consolidated Financial Statements

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

		Customers		Banks		Standby	
Individually assessed loans with allowance		2014	2013	2014	2013	2014	2013
A1	¢	922,153,085,958	459,534,079,856	43,916,010,110	36,998,283,232	75,761,079,122	43,607,075,336
A2		6,871,566,007	3,972,530,883	-	-	-	40,546,517
B1		94,902,928,233	13,658,982,692	-	-	2,141,780,319	45,560,682
B2		2,076,982,678	664,735,083	-	-	-	-
C1		10,695,457,160	1,377,581,644	-	-	710,030,171	44,972,457
C2		503,803,358	144,630,328	-	-	35,521,779	-
D		2,057,389,587	1,652,684,930	-	-	543,783,868	-
E		32,961,518,795	26,123,760,866	-	-	89,757,977	20,242,607
Total		1,072,222,731,776	507,128,986,282	43,916,010,110	36,998,283,232	79,281,953,236	43,758,397,599
Allowance for loan losses		(12,914,418,977)	(10,848,349,467)	(35,132,808)	(184,991,416)	(123,847,714)	(80,780,084)
Carrying amount		1,059,308,312,799	496,280,636,815	43,880,877,302	36,813,291,816	79,158,105,522	43,677,617,515
Past due loans without allowance							
A1		-	10,227,145,331	-	-	-	1,248,480
A2		-	1,386,131,698	-	-	-	-
B1		-	1,695,410,056	-	-	-	-
B2		-	816,006,249	-	-	-	-
C1		-	755,951,141	-	-	-	-
C2		-	369,471,777	-	-	-	-
D		-	216,675,443	-	-	-	-
E		-	3,295,610,692	-	-	-	198,004
Carrying amount		-	18,762,402,387	-	-	-	1,446,484
Current loans without allowance							
A1		-	372,024,263,772	-	-	117,283,254,810	124,811,552,138
A2		-	2,083,517,273	-	-	639,957,225	732,732,702
B1		-	18,688,911,407	-	-	3,838,598,000	5,190,700,550
B2		-	7,353,329	-	-	65,334,947	44,153,865
C1		-	12,481,157,636	-	-	2,569,153,338	3,567,823,686
C2		-	-	-	-	22,013,013	42,712,144
D		-	1,199,775,229	-	-	136,097,982	626,272,689
E		-	2,215,874,123	-	-	2,132,551,307	2,294,972,549
Carrying amount		-	408,700,852,769	-	-	126,686,960,622	137,310,920,323
Excess allowance over minimum allowance		(1,650,151,928)	(215,280,509)	-	-	(203,401,686)	(77,873,066)
Carrying amount, net	¢	1,057,658,160,871	923,528,611,462	43,880,877,302	36,813,291,816	205,641,664,458	180,912,111,256

(Continued)

Individually assessed loans with allowance

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

Starting January 1, 2014, an additional allowance is established for the covered portion equivalent to 0.50% of the covered balance.

Past due loans without allowance

Until December 31, 2013, past due loans without allowance corresponded to loan operations for which contractual payments were one day or more past due but had a guarantee greater than or equal to the balance owed to the Corporation. Accordingly, no allowance was generated for such loans.

Restructured loans

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

a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest has been postponed to a future date beyond the date stipulated under current contractual conditions.

b. Modified loan: Loan operation in which at least one of the current contractual payment conditions has been modified, excluding extensions, additional payments not agreed in the payment schedule, additional payments with the purpose of reducing the amount of installments, or changes in the currency while respecting the agreed maturity date.

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

As of December 31, 2014, restructured loans amount to ¢4,957,882,437 (2013: ¢2,665,043,689).

Allowance for loan losses:

i. Scotiabank de Costa Rica, S.A.

Borrower classification

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

a. Group 1: Borrowers with total outstanding balances that exceed the SUGEF limit (2014 and 2013: ¢65,000,000).
b. Group 2: Borrowers with total outstanding balances that are less than or equal to the SUGEF limit (2014 and 2013: ¢65,000,000).

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

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

Risk ratings

The subsidiary Scotiabank de Costa Rica, S.A. must individually classify its borrowers in one of eight risk ratings, identified as A1, A2, B1, B2, C1, C2, D, and E, with rating A1 representing the lowest credit risk and rating E representing the highest credit risk.

Borrower classification

Analysis of creditworthiness

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

a. *Financial position and expected cash flows*: Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.

b. *Experience in the line of business and quality of management:* Analysis of management's ability to lead the business with appropriate controls and adequate support from the owners.

c. *Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.

d. *Vulnerability to changes in interest rates and foreign exchange rates:* Analysis of the borrower's ability to confront unexpected adverse changes in interest rates and foreign exchange rates.

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

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

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

Analysis of historical payment behavior

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

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

Borrower classification

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

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

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

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

Direct classification in risk rating E

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

Minimum allowance

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

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

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

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

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

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

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

In compliance with the provisions of SUGEF Directive 1-05, as of December 31, 2014, the subsidiary Scotiabank de Costa Rica, S.A. must maintain a minimum allowance of ¢12,131,589,571 (2013: ¢10,090,878,277). SUGEF External Circular Letter 021-2008 dated May 30, 2008 indicates that the expense for the allowance for loan losses corresponds to the amount necessary to achieve the minimum structural allowance. Furthermore, there must be a duly documented technical justification for any excess above the minimum structural allowance, which is to be sent to SUGEF with the authorization request. The excess may not surpass 15% of the minimum structural allowance for the loan portfolio. This notwithstanding, if any additional allowances are required above that 15%, they must be taken from net earnings for the period pursuant to article 10 of the IRNBS.

Credit equivalent

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

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

Allowances for other assets

Allowances should be established for the following assets:

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

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

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

ii. Leasing subsidiary

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

(Continued)

Loan charge-off policy

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

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

	2014			
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1 ¢	922,153,085,958	921,467,725,885	43,916,010,110	43,880,877,301
A2	6,871,566,007	6,866,068,754	-	-
B1	94,902,928,233	93,986,938,771	-	-
B2	2,076,982,678	2,046,787,705	-	-
C1	10,695,457,160	9,940,065,021	-	-
C2	503,803,358	460,953,876	-	-
D	2,057,389,587	1,516,611,568	-	-
E	32,961,518,795	21,373,009,292	-	-
¢	1,072,222,731,776	1,057,658,160,872	43,916,010,110	43,880,877,301

	2013			
	Loans to customers		Loans to banks	
	Gross	Net	Gross	Net
A1 ¢	457,755,140,677	456,288,703,669	36,998,283,232	36,813,291,816
A2	3,949,001,259	3,931,310,158	-	-
B1	13,631,659,734	13,142,836,285	-	-
B2	663,217,479	636,199,354	-	-
C1	1,370,813,894	1,189,227,195	-	-
C2	176,151,883	88,159,624	-	-
D	2,292,994,551	1,266,473,078	-	-
E	25,238,065,215	17,685,785,862	-	-
¢	505,077,044,692	494,228,695,225	36,998,283,232	36,813,291,816

(Continued)

Guarantees

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

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

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

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

	2014	2013
Individually assessed loans with allowance (including the balance for loans in legal collections):		
Real property	¢ 178,236,208,715	213,260,019,487
Personal property	123,124,465,647	260,598,925,129
Financial instruments	-	65,661,336
Other (trusts)	26,907,527,857	31,094,426,853
Subtotal	328,268,202,219	505,019,032,805
Past due loans without allowance:		
Real property	28,251,876,458	31,033,487,201
Personal property	5,604,797,953	3,319,932,367
Other (trusts)	176,218,000	4,307,466,649
Subtotal	34,032,892,411	38,660,886,217
Current loans without allowance:		
Real property	732,150,299,299	745,096,694,291
Personal property	282,192,947,981	119,214,148,617
Financial instruments	131,715,212	118,024,176
Other (trusts)	632,410,802,482	252,945,221,762
Subtotal	1,646,885,764,974	1,117,374,088,846
Total	¢ 2,009,186,859,604	1,661,054,007,868

(Continued)

Per recent changes in SUGEF Directive 1-05, rated A loans are subject to a general allowance provided that they are fully secured.

Loan portfolio by type of guarantee

As of December 31, the concentration of the loan portfolio by type of guarantee is as follows:

		2014	2013
Investment certificates	¢	35,162,907,279	29,744,671,654
Assignment of trust agreements		-	297,912,522
Fiduciary		205,117,710,936	161,834,111,622
Mortgage		623,122,166,243	542,184,144,282
Chattel mortgage		116,289,346,375	120,556,659,423
State banking		43,873,938,842	36,998,283,232
Other		81,961,621,163	70,974,592,127
Total direct loans		1,105,527,690,838	962,590,374,862
Accrued interest receivable		10,611,051,048	9,000,149,808
Allowance for loan losses		(14,599,703,713)	(11,248,621,392)
Total	¢	1,101,539,038,173	960,341,903,278

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

Loan portfolio by sector

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

		2014	2013
Agriculture, livestock, hunting, and related activities	¢	3,103,405,172	3,711,416,840
Fishing and aquaculture		-	7,425,150
Manufacturing industry		10,268,339,998	14,324,576,878
Electricity, telecommunications, gas, and water		4,754,235,916	5,894,813,061
Construction, purchase, and repair of property		364,597,534,038	333,689,901,236
Trade		223,986,970,181	165,999,829,049
Hospitality		2,189,214,084	2,806,632,848
Transportation		2,696,600,106	3,090,427,797
Stock market		31,809,928,990	41,839,128,686
Real estate, business, and leasing activities		1,696,801,943	8,115,027,013
Education		15,228,228	19,992,172
Services		244,520,773,933	195,368,961,211
Consumer		215,888,658,249	187,722,242,921
Total direct loans		1,105,527,690,838	962,590,374,862
Accrued interest receivable		10,611,051,048	9,000,149,808
Allowance for loan losses		(14,599,703,713)	(11,248,621,392)
Total	¢	1,101,539,038,173	960,341,903,278

(Continued)

Loan portfolio by geographic area

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

		2014	2013
Costa Rica	¢	1,089,912,042,697	940,393,819,002
Rest of Central America		8,792,621,109	15,019,132,349
Rest of North and South America		2,179,974,457	2,030,534,356
Caribbean		285,178,457	281,007,720
United States of America		3,420,008,213	3,712,808,755
Europe		790,981,585	913,804,498
Asia		146,884,320	239,268,182
Total	¢	1,105,527,690,838	962,590,374,862

Loan portfolio by arrears

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

		2014	2013
Current	¢	1,045,227,760,514	905,023,978,780
1 to 30 days		40,288,594,027	38,721,894,565
31 to 60 days		8,114,793,925	5,892,467,631
61 to 90 days		1,354,944,774	906,736,569
91 to 120 days		375,347,148	409,089,836
121 to 180 days		195,579,217	255,125,403
More than 180 days		75,951,778	78,651,998
In legal collections		9,894,719,455	11,302,430,080
Total direct loans		1,105,527,690,838	962,590,374,862
Accrued interest receivable		10,611,051,048	9,000,149,808
Allowance for loan losses		(14,599,703,713)	(11,248,621,392)
Total	¢	1,101,539,038,173	960,341,903,278

Concentration of the portfolio in individual borrowers or economic interest groups

	2014		2013	
	No. of customers	Amount	No. of customers	Amount
Less than 5% of capital and reserves	41,019	1,000,910,453,876	38,066	857,689,777,909
Between 5% and 10% of capital and reserves	2	15,463,566,510	8	55,859,375,861
Between 10% and 15% of capital and reserves	3	45,279,731,618	1	12,042,937,869
Between 15% and 20% of capital and reserves	2	43,873,938,834	2	36,998,283,223
Total	41,026	1,105,527,690,838	38,077	962,590,374,862

As of December 31, 2014 and 2013, exposures greater than 15% of capital and reserves correspond to a loan granted to State-owned banks in compliance with article 59 of IRNBS.

At the consolidated balance sheet date, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset. As of December 31, 2014, loans to the Bank's most important customers or economic interest groups, whose loans individually represent 5% or more of share capital and capital reserves, amount to ¢104,617,236,962 (2013: ¢104,900,596,953).

Amount and number of loans in non-accrual status

	2014	2013
Loans in non-accrual status	¢ 10,439,411,045	12,045,297,317
Number of loans in non-accrual status	786	723

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

		2014	2013
Loans in legal collections	¢	9,894,719,455	11,302,430,080
Number of loans in legal collections		496	398
Percentage of total portfolio		0.89%	1.16%

Investments by risk rating

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

		2014	2013
AAA	¢	765,362,912	2,857,924,080
AA		13,221,010,272	12,330,329,084
A		23,998,950,000	5,940,120,000
BBB		-	531,279,382
BB		51,519,802,028	81,950,634,100
B		25,018,024,174	-
Unrated		276,118,543	-
Total		114,799,267,929	103,610,286,646
Accrued interest receivable		559,426,890	898,179,252
Total	¢	115,358,694,819	104,508,465,898

Investments by geographic area

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

		2014	2013
Costa Rica	¢	90,746,978,928	101,136,449,420
Rest of North and South America		18,665,850,000	531,279,382
United States of America		5,386,439,001	1,942,557,844
Total		114,799,267,929	103,610,286,646
Accrued interest receivable		559,426,890	898,179,252
Total	¢	115,358,694,819	104,508,465,898

ii. Interest rate risk

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

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

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

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

Interest rate gap measurement

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

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

(Continued)

Sensitivity analysis

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

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

The annual income limit is designed to protect short-term income. As of December 31, 2014 and 2013, that limit was calculated based on the assumption that all interest rates on assets and liabilities that reprice within 12 months of the calculation date will increase or decrease by 1% for operations in both foreign and local currency. In the event that variable interest rates change as indicated above, the Bank's asset and liability portfolios would increase or decrease by ¢165,557,690 in 2014 (2013: increase or decrease by ¢2,904,087,278).

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

		Effect on fair value			
		2014		2013	
		Positive change	Negative change	Positive change	Negative change
Investments	¢	(2,143,001,628)	2,884,990,056	(4,459,117,851)	6,241,711,599
Loan portfolio	¢	(33,432,159,121)	36,351,315,109	(29,375,193,160)	31,950,648,309
Term deposits	¢	(4,722,560,413)	4,864,453,464	(3,811,088,896)	3,927,390,095
Obligations with entities	¢	(4,881,691,414)	5,057,687,633	(5,089,265,583)	5,290,705,163

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

Notes to Consolidated Financial Statements

As of December 31, 2014, the interest rate gap report for the Corporation's assets and liabilities (in thousands of Costa Rican colones), pursuant to SUGEF regulations, is as follows:

		Days						
		1-30	31-90	91-180	181-360	361-720	More than 720	Total
Local currency								
Assets								
Cash and due from banks	¢	41,365,445	-	-	-	-	-	41,365,445
Investments		13,165,917	768,523	2,663,097	3,298,373	11,541,970	3,288,759	34,726,639
Loan portfolio		71,790,111	70,203,533	3,578,832	17,816,101	30,958,437	12,489,382	206,836,396
Total recovery of assets		126,321,473	70,972,056	6,241,929	21,114,474	42,500,407	15,778,141	282,928,480
Liabilities								
Demand obligations with the public		66,178,412	-	-	-	-	-	66,178,412
Term obligations with the public		26,351,965	32,419,384	40,274,584	45,159,741	18,958,900	9,132,197	172,296,771
Obligations with financial entities		7,611,582	3,817,689	2,928,718	584,024	10,592	15,888	14,968,493
Total maturity of liabilities		100,141,959	36,237,073	43,203,302	45,743,765	18,969,492	9,148,085	253,443,676
Asset and liability gap	¢	26,179,514	34,734,983	(36,961,373)	(24,629,291)	23,530,915	6,630,056	29,484,804
Foreign currency								
Assets								
Cash and due from banks	¢	126,960,867	-	-	-	-	-	126,960,867
Investments		51,226,124	1,174,936	3,092,981	6,949,570	5,081,903	18,892,627	86,418,141
Loan portfolio		286,917,677	408,452,367	36,555,685	41,071,080	94,911,429	50,384,163	918,292,401
Total recovery of assets		465,104,668	409,627,303	39,648,666	48,020,650	99,993,332	69,276,790	1,131,671,409
Liabilities								
Demand obligations with the public		171,749,649	-	-	-	-	-	171,749,649
Term obligations with the public		70,996,615	97,792,095	90,685,976	97,913,084	45,947,395	36,471,495	439,806,660
Obligations with financial entities		43,621,851	178,937,732	22,817,826	17,787,695	63,812,173	27,097,946	354,075,223
Total maturity of liabilities	¢	286,368,115	276,729,827	113,503,802	115,700,779	109,759,568	63,569,441	965,631,532
Asset and liability gap	¢	178,736,553	132,897,476	(73,855,136)	(67,680,129)	(9,766,236)	5,707,349	166,039,877

(Continued)

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

Notes to Consolidated Financial Statements

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

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

(Continued)

iii. Liquidity and financing risk

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

The Corporation has designed liquidity indicators, term matching for additional time bands, and concentration and volatility analyses for each source of financing in order to determine and anticipate the volatility of funds.

(Continued)

As of December 31, 2014, the Corporation's asset and liability terms are matched as follows (in thousands of Costa Rican colones), pursuant to SUGEF regulations:

		Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	More than 30 days past due
Local currency									
Assets									
Cash and due from banks	¢	17,702,707	-	-	-	-	-	-	-
Minimum cash reserve in BCCR		14,135,547	4,140,096	2,320,220	2,556,609	5,945,897	6,516,545	3,764,303	-
Investments in financial instruments		3,437,650	9,842,886	22,353	5,999	2,271,537	2,977,273	13,857,227	-
Loan portfolio		14,812,281	21,032,918	23,936,119	13,798,297	13,218,355	9,477,091	96,945,508	2,566,506
Total recovery of assets	¢	50,088,185	35,015,900	26,278,692	16,360,905	21,435,789	18,970,909	114,567,038	2,566,506
Liabilities									
Obligations with the public	¢	93,011,691	27,502,565	13,637,677	16,687,878	38,473,664	43,184,090	24,735,034	-
Obligations with financial entities		915,623	6,228,025	1,764,330	188,595	1,425,995	495,104	-	-
Charges payable		-	1,842,902	-	-	-	-	-	-
Total maturity of liabilities	¢	93,927,314	35,573,492	15,402,007	16,876,473	39,899,659	43,679,194	24,735,034	-
Asset and liability matching of terms - local currency	¢	(43,839,129)	(557,592)	10,876,685	(515,568)	(18,463,870)	(24,708,285)	89,832,004	2,566,506

		Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	More than 30 days past due
Foreign currency, expressed in colones									
Assets									
Cash and due from banks	¢	33,971,466	-	-	-	-	-	-	-
Minimum cash reserve in BCCR		32,893,578	10,984,730	7,328,847	8,202,755	14,410,207	15,419,083	12,496,560	-
Investments in financial instruments		9,088,181	39,268,578	3,141,687	5,462	2,622,478	6,532,956	22,284,429	-
Loan portfolio		39,693,601	98,714,426	20,300,555	19,059,317	50,840,595	43,913,801	631,780,520	16,048,852
Total recovery of assets	¢	115,646,826	148,967,734	30,771,089	27,267,534	67,873,280	65,865,840	666,561,509	16,048,852
Liabilities									
Obligations with the public	¢	199,418,568	68,074,345	44,938,205	50,814,876	88,397,803	95,152,485	75,784,706	-
Obligations with financial entities		1,173,659	32,604,463	14,277,493	38,298,318	33,977,536	44,558,514	170,919,129	-
Charges payable		-	3,341,882	-	-	-	-	-	-
Total maturity of liabilities	¢	200,592,227	104,020,690	59,215,698	89,113,194	122,375,339	139,710,999	246,703,835	-
Asset and liability matching of terms - foreign currency	¢	(84,945,401)	44,947,044	(28,444,609)	(61,845,660)	(54,502,059)	(73,845,159)	419,857,674	16,048,852

(Continued)

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

Notes to Consolidated Financial Statements

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

		Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	More than 30 days past due
Local currency									
Assets									
Cash and due from banks	¢	17,861,898	-	-	-	-	-	-	-
Minimum cash reserve in BCCR		9,945,061	3,007,815	1,483,411	1,281,541	3,575,606	3,516,743	2,431,094	-
Investments in financial instruments		2,391,329	15,817,066	1,389,238	3,156,044	2,072,945	5,350,540	21,643,403	-
Loan portfolio		12,182,962	10,199,301	9,649,951	11,642,980	10,687,537	6,230,292	55,280,136	2,335,640
Total recovery of assets	¢	42,381,250	29,024,182	12,522,600	16,080,565	16,336,088	15,097,575	79,354,633	2,335,640
Liabilities									
Obligations with the public	¢	75,351,905	19,878,913	10,663,435	9,837,882	26,198,449	26,597,158	18,417,982	-
Obligations with financial entities		477,556	8,211,787	880,042	134,700	1,239,650	614,542	45,416	-
Charges payable		-	1,294,156	-	-	-	-	-	-
Total maturity of liabilities	¢	75,829,461	29,384,856	11,543,477	9,972,582	27,438,099	27,211,700	18,463,398	-
Asset and liability matching of terms - local currency	¢	(33,448,211)	(360,674)	979,123	6,107,983	(11,102,011)	(12,114,125)	60,891,235	2,335,640

		Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	More than 30 days past due
Foreign currency, expressed in colones									
Assets									
Cash and due from banks	¢	15,813,433	-	-	-	-	-	-	-
Minimum cash reserve in BCCR		27,914,542	10,423,908	9,788,886	8,833,610	16,451,422	12,641,587	9,558,998	-
Investments in financial instruments		4,237,917	11,313,107	1,281,024	2,942,924	2,413,322	10,010,562	20,489,046	-
Loan portfolio		34,289,488	23,413,097	30,274,005	22,662,367	51,911,093	43,980,177	630,295,213	16,556,286
Total recovery of assets	¢	82,255,380	45,150,112	41,343,915	34,438,901	70,775,837	66,632,326	660,343,257	16,556,286
Liabilities									
Obligations with the public	¢	161,646,288	61,411,349	57,931,285	52,175,677	97,256,990	74,551,123	56,334,339	-
Obligations with financial entities		130,706	27,894,627	16,898,088	33,249,776	31,364,006	26,554,775	166,417,421	-
Charges payable		-	2,988,734	-	-	-	-	-	-
Total maturity of liabilities	¢	161,776,994	92,294,710	74,829,373	85,425,453	128,620,996	101,105,898	222,751,760	-
Asset and liability matching of terms - foreign currency	¢	(79,521,614)	(47,144,598)	(33,485,458)	(50,986,552)	(57,845,159)	(34,473,572)	437,591,497	16,556,286

(Continued)

The Corporation monitors its liquidity position on a daily basis and maintains liquid assets in excess of its liquid liabilities. Additionally, the Corporation reviews its matching of terms on a weekly basis and formulates deposit-taking, financing, and investment strategies so as to minimize any existing gaps. The Corporation also has liquidity risk, investment risk, and corporate risk policies in place to assist ALCO in making decisions that affect liquidity.

ALCO is responsible for the strategic management of the investment portfolio.

Investment portfolios are managed locally with overall guidance and oversight provided by the regional Treasury Department of Grupo BNS.

The Corporation's limit structure is as follows:

- Limits are applied to each investment portfolio.
- Sensitivity limits and issuer limits may also be applied, depending on the type of instruments held and the size and complexity of the portfolio.
- Concentration limits and sublimits are applied to investment portfolios based on the type of instrument held, the type of issuer (governmental or corporate entity), investment quality, currency, and country. Concentration limits are specified in the authorization and management agreements.
- Quality criteria are specified in the authorizations based on ratings assigned to instruments and issuers as well as on type of issuer, approved markets, currency, and term of the instruments.

The Treasury Department maintains a portfolio of short-term liquid assets, largely made up of liquid investments, advances to banks, and other inter-bank facilities to ensure that the Corporation has sufficient liquidity to meet its short-term needs.

(Continued)

Residual contractual maturities of financial liabilities

As of December 31, 2014, nominal cash flows of financial liabilities are as follows (expressed in thousands of Costa Rican colones):

				Years					
Obligations:		Balance	Nominal cash flows	1	2	3	4	5	More than 5 years
Demand obligations with the public	¢	292,430,259	292,430,259	292,430,259	-	-	-	-	-
Term obligations with the public		583,918,774	604,591,433	501,002,384	61,119,411	17,322,128	-	24,039,163	1,108,347
Obligations with entities		345,828,404	356,771,818	174,556,335	121,381,208	30,345,198	-	30,489,077	-
	¢	1,222,177,437	1,253,793,510	967,988,978	182,500,619	47,667,326	-	54,528,240	1,108,347

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

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

(Continued)

iv. Currency risk

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

As of December 31, 2014 and 2013, the Corporation has monetary assets and liabilities that are denominated in currencies other than the Costa Rican colon.

Currency risk is controlled by limits established by management and a daily restriction imposed by BCCR, which allows a maximum variation of 4% over total equity expressed in U.S. dollars.

The Corporation is exposed to the effects of exchange rate fluctuations and, therefore, reviews its exposure limits on a daily basis. The Corporation also uses indicators to monitor the sensitivity of its net foreign currency position to expected changes in the exchange rate with respect to the capital base.

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

Notes to Consolidated Financial Statements

(a) Monetary position in foreign currency

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

	2014			
	U.S. dollars	Canadian dollars	Euros	Pounds sterling
Assets:				
Cash and due from banks	255,971,252	2,235,145	2,210,733	-
Investments in financial instruments	158,644,963	-	-	-
Loan portfolio	1,721,590,448	-	611,908	-
Accounts and fees and commissions receivable	5,693,227	-	-	-
Investments in other companies	1,043	-	-	-
Other assets	4,834,736	1,456	-	-
Investment property	4,442,250	-	-	-
Total assets	2,151,177,918	2,236,601	2,822,641	-
Liabilities:				
Obligations with the public	1,178,041,485	657,112	1,886,147	-
Obligations with BCCR	-	-	311,292	-
Obligations with entities	649,407,313	-	-	-
Other accounts payable and provisions	18,142,477	1,644,106	-	-
Other liabilities	5,678,399	-	880	-
Total liabilities	1,851,269,674	2,301,218	2,198,319	-
Excess (deficiency) of assets over liabilities	299,908,244	(64,617)	624,322	-

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

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

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

(b) Ordinary and preferred shares in foreign currency

As of December 31, 2014 and 2013, the Corporation's equity included ordinary shares for a total of US$201,153,696 (equivalent to ¢99,551,201,391).

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

As of December 31, 2014, the terms of assets and liabilities in foreign currency are matched as follows (in thousands of U.S. dollars), pursuant to SUGEF regulations:

	Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	More than 30 days past due
Assets								
Cash and due from banks - FC	68,836	-	-	-	-	-	-	-
Minimum cash reserve in BCCR - FC	66,652	22,258	14,850	16,621	29,199	31,244	25,322	-
Investments - FC	18,415	79,570	6,366	11	5,314	13,238	45,155	-
Loan portfolio - FC	80,431	200,025	41,135	38,620	103,018	88,983	1,280,178	32,520
Total recovery of assets	234,334	301,853	62,351	55,252	137,531	133,465	1,350,655	32,520
Liabilities								
Obligations with the public - FC	404,082	137,939	91,058	105,929	179,121	192,808	153,563	-
Obligations with financial entities - FC	2,378	66,066	28,931	58	68,849	90,289	346,334	-
Charges payable - FC	-	6,772	-	-	-	-	-	-
Total maturity of liabilities	406,460	210,777	119,989	105,987	247,970	283,097	499,897	-
Gap	(172,126)	91,076	(57,637)	(50,735)	(110,439)	(149,632)	850,757	32,520

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

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

(Continued)

Sensitivity analysis

As of December 31, 2014 and 2013, the sensitivity analysis for the net position in foreign currency (total assets in foreign currency less total liabilities in foreign currency) is based on the buy reference rate for the U.S. dollar because the position in U.S. dollars represents 99.5 % of the total net position in foreign currency. Also, the U.S. dollar is the vehicle currency through which other currencies are traded.

For December 31, 2014 and 2013, the maximum annual expected variation of the reference buy exchange rate of ¢73.23 and ¢69.85, respectively, has been determined through the calculation of a Value at Risk indicator, based on a historical analysis methodology, with a 99% confidence level and over a one-year holding period. Based on such holding period, the positive or negative effect of the increase or decrease in the exchange rate of the colon with respect to the U.S. dollar for the years ended December 31, 2014 and 2013 is as follows:

		2014	2013
Effect on consolidated income			
Increase in exchange rate:			
Assets	¢	157,615,561,188	143,547,133,733
Liabilities		(135,902,825,321)	(123,828,797,404)
Net	¢	21,712,735,867	19,718,336,329

v. Operational risk

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

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

- implementation of the Operational Risk Management Framework;
- appropriate segregation of duties;
- requirements for the effective reconciliation and monitoring of transactions;
- compliance with legal and regulatory requirements;
- documentation of controls and procedures;
- communication and application of guidelines for business conduct;
- risk mitigation, including insurance where this is effective;
- reporting of operational losses and proposed remedial actions;
- comprehensive planning for resuming activities and ensuring that services are not interrupted, including plans to restore key operations and the use of internal or external facilities;
- development of contingency plans;
- employee training; and
- personnel development through leadership and performance strategies.

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

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

vi. Capital risk

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

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

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

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

a) Primary capital (Tier I capital): ordinary and preferred paid-up capital plus reserves.

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

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

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

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

As of December 31, 2014 and 2013, the capital adequacy ratio has been kept above the statutory ratio of 10%, maintaining a normal risk rating.

(Continued)

vii. Asset laundering risk

The Corporation, through its subsidiaries, is exposed to the risk that products and services could be utilized to conceal funds derived from illegal activities. This situation could lead to sanctions for violation of Costa Rican legislation on asset laundering prevention (Law No. 8204 and related regulations) and could damage the Corporation's reputation.

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

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

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

viii. IT risk

IT risk is the risk of economic losses derived from an event related to access to or use of technology, affecting the development of the entity's business processes and risk management by jeopardizing the information's confidentiality, completeness, availability, efficiency, reliability, and timeliness.

ix. Legal risk

Legal risk is the risk of loss due to the incorrect application of, erroneous interpretations in the application of, or failure to apply Costa Rican laws and regulations. Noncompliance with laws and regulations could lead to warnings from local regulatory authorities, economic sanctions, and/or penalties that could damage the Corporation's reputation.

32. Fair value

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

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

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

	2014	
	Carrying amount	Fair value
Cash and due from banks	¢ 192,789,150,162	192,789,150,162
Investments		
Trading	¢ 12,132,129,546	12,132,129,546
Available for sale	¢ 102,667,138,383	102,667,138,383
Loan portfolio	¢ 1,101,539,038,173	960,341,903,278
Demand deposits	¢ 292,430,259,190	236,998,193,424
Term deposits	¢ 587,383,327,709	511,254,582,949
Financial obligations	¢ 349,127,332,355	316,016,405,542

	2013	
	Carrying amount	Fair value
Cash and due from banks	¢ 154,529,555,720	175,727,007,753
Investments		
Trading	¢ 5,879,467,564	5,879,467,564
Available for sale	¢ 97,730,819,082	76,533,367,049
Loan portfolio	¢ 960,341,903,278	886,592,664,570
Demand deposits	¢ 236,998,193,424	242,594,872,627
Term deposits	¢ 511,254,582,949	513,781,033,211
Financial obligations	¢ 316,016,405,542	313,380,642,061

(Continued)

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

(a) The carrying amounts of cash and due from banks, accrued interest receivable, accounts receivable, accrued interest payable, and other liabilities approximate fair value because of the short maturity of these instruments.

(b) Fair values of investments are determined based on the reference price for the share or bond published on securities exchanges and in electronic stock information systems.

(c) The fair value of loans is determined by accruing and classifying portfolios based on the currency in which the operation was agreed. The fair value of each class of loan is calculated by discounting cash flows expected until maturity. The discount rate is determined by comparing market benchmark rates and projections made by the Corporation's management, such that an average rate is determined that reflects the inherent credit and interest rate risks. Assumptions related to credit risk, cash flows, and discounted interest rates are defined with management judgments using available market information and the sovereign yield curve in Costa Rica over 5 years plus a private risk premium determined by management.

(d) The fair value of demand and term deposits was calculated by discounting committed cash flows. The discount interest rate used represents the market average determined by management based on the sovereign yield curve in Costa Rica over 9 months plus a private risk premium determined by management of the Corporation.

Fair value of financial instruments

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

		2014			
		Level 1	Level 2	Level 3	Total
Available for sale					
	¢	102,667,138,383	-	-	102,667,138,383
Trading	¢	-	12,132,129,546	-	12,132,129,546

		2013			
		Level 1	Level 2	Level 3	Total
Available for sale					
	¢	97,730,819,082	-	-	97,730,819,082
Trading	¢	-	5,879,467,564	-	5,879,467,564

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

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

33. Concentration of assets and liabilities by geographic region

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

		2014	2013
Assets:			
Costa Rica	¢	1,379,103,283,707	1,208,506,470,685
Rest of Central America		9,299,230,837	15,401,051,690
Rest of North and South America		3,114,097,974	3,624,888,405
Caribbean		18,962,797,617	294,976,672
United States of America		34,675,281,246	23,852,236,825
Europe		1,684,715,746	1,339,772,643
Asia		147,503,520	239,268,182
Total assets	¢	1,446,986,910,647	1,253,258,665,102
Liabilities:			
Costa Rica	¢	895,352,403,133	755,132,828,684
Rest of Central America		29,002,804,516	28,324,991,896
Rest of North and South America		45,827,190,006	47,053,945,857
Caribbean		206,837,358,382	173,714,369,383
United States of America		79,051,987,460	74,558,428,273
Europe		6,002,039,854	9,508,266,135
Africa		1,262,745	1,860,403
Asia		440,307,786	147,898,808
Rest of North America		351,483	3,985
Total liabilities	¢	1,262,515,705,365	1,088,442,593,424

34. Agreements

Agreements subscribed by the subsidiary Scotia Valores, S.A. with third parties and in effect as of December 31, 2014 and 2013 are summarized below.

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

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

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

Agreement with Lidersoft – for professional IT services.

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

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

Agreements subscribed by the subsidiary Scotia Corredora de Seguros, S.A. with third parties and in effect as of December 31, 2014 and 2013 are summarized below.

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

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

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

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

(Continued)

Leases:

a) Leases as lessee:

As of December 31, 2014 and 2013, the Corporation has leases through its subsidiaries, the most important of which are:

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

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

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

For leases in effect as of December 31, 2014, projected lease payments for the upcoming years are as follows:

Year		Amount
2015	¢	1,197,853,192
2016		1,114,348,045
2017		991,589,149
2018		760,231,272
2019		434,881,773
More than 5 years		704,592,106
	¢	5,203,495,537

b) Leases as lessor:

As of December 31, 2014 and 2013, the Corporation has one operating lease agreement for the building (see note 10 - "Investment property") located in Pasadena, Texas, USA owned by the subsidiary Scotia Leasing Costa Rica, S.A. The building is leased to the U.S. General Services Administration for a 15-year term expiring in September 2023. Monthly lease payments amount to US$55,733 (equivalent to ¢29,722,966).

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

		2014	2013
Lease receivables, gross	¢	86,138,875,072	74,380,445,967
Unearned finance income		(4,177,253,910)	(3,405,853,840)
	¢	81,961,621,162	70,974,592,127
Recoveries			
Less than 1 year	¢	23,398,222,148	21,617,911,810
Between 1 and 5 years		58,563,399,014	49,356,680,317
	¢	81,961,621,162	70,974,592,127
Loans receivables, gross			
(includes unearned finance income)			
Less than 1 year	¢	28,474,968,513	25,924,474,062
Between 1 and 5 years		57,663,906,559	48,455,971,905
	¢	86,138,875,072	74,380,445,967

35. Contingencies

(a) Tax

a.2 In the first half of 2008, the Large Taxpayer Administration audited the income tax returns filed and income tax payments made by the Bank for the tax years running from 2000 through 2005. Initially, the audit covered several aspects that were later dismissed. However, a difference in the proportion of deductible expenses resulted in a notice of deficiency because of unintentional arithmetic errors that gave rise to differences between the calculation and the proportionality established by the Tax Court.

The Tax Court handed down a decision on the administrative proceedings related to the income tax adjustment, thereby exhausting administrative recourse since 2010. Accordingly, the Bank paid a total of ¢729,207,358 for the income tax adjustments as follows:

Principal	¢	331,155,211
Interest		307,932,459
Penalty and interest		90,119,688
	¢	729,207,358

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

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

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

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

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

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

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

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

On June 28, 2012, the Tax Administration issued ruling No. SFGCN-AL-074-2012 issued at 14:00 hours on June 25, 2012 against which a motion for reconsideration with an appeal to a higher court was filed on July 18, 2012.

The aforementioned motion was partially upheld through ruling No. OT10R-117-12 issued at 15:00 hours on October 23, 2012. An appeal was filed with the Administrative Tax Court against the above ruling on November 15, 2012.

Through ruling No. TFA 131-2013 issued at 10:00 hours on April 9, 2013, the Administrative Tax Court partially upheld the aforementioned appeal and ordered the Tax Administration to perform a new tax assessment that included the interest previously cancelled for this case.

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

On September 4, 2013, a motion for reconsideration was filed with the Large Taxpayer Administration against ruling No. SFGCN-AL-107-13 issued at 15:00 hours on July 22, 2013, requesting to fully eliminate the collection of interest in connection with the determination procedures against the Bank for the tax periods running from 2000 through 2005, and dismiss the amendment established in detriment of the Bank, which modifies the assessment of the factors of proportionality used to determine the Bank's nondeductible expense for the tax years running from 1999 through 2005. Instead, the factors of proportionality provided in the determination procedures should be applied.

Through ruling No. DGH-030-2013 issued at 15:05 hours on August 23, 2013 and notified on September 16, 2013, the General Finance Administration accepted the recommendation of the Tax Administration issued in Official Letter No. DGT-650-2013 on cancellation of interest calculated from July 24, 2008 through July 23, 2013, arising from official income tax assessments performed for the periods running from 2000 through 2005. Interest cancelled amounts to a total of ¢1,623,700,750.

The proceedings concluded through ruling No. TFA-328-2014 issued at 11:00 hours on July 8, 2014. Additionally, through rulings No. SFGCN-AL-074-12 issued at 14:00 hours on June 25, 2012, No. OT10R-117-12 issued at 15:00 hours on October 23, 2012, and No. OT10R-099-13 issued at 10:00 hours on November 21, 2013, the Administrative Tax Court partially revoked the payment of taxes for the 2004 and 2005 tax years; accordingly, the amounts of ¢582,283,290.48 and ¢266,025,543.35, respectively, should be deducted from the tax base since such amounts correspond to nontaxable income arising from foreign exchange differences from investment securities pursuant to paragraph c) of article 23 of the Income Tax Law.

Furthermore, the Court confirmed the appealed ruling and ordered the Tax Administration to perform a new tax assessment for the 2004 and 2005 tax years.

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According to rulings No. SFGCN-AL-074-12 issued at 14:00 hours on June 25, 2012 by the Large Taxpayer Administration and No. OT10R-117-12 issued at 15:00 hours on October 23, 2012, the remaining tax liabilities for the periods running from 1999 through 2003 are as follows:

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

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

Notwithstanding the above, an official recalculation for the 2005 tax year was notified. Through ruling No. AU10R-162-14 issued at 9:00 hours on October 7, 2014, the Large Taxpayer Administration amended ruling No. SFGCBN-AL-189-14 as a result of a calculation error. The corresponding adjustment for the 2005 tax period amounted to ¢1,017,266,709.

Accordingly, the total income tax payment was established as follows:

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

(Continued)

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

As indicated above, in 2012, the Bank recognized a provision in its financial statements in the amount of ¢2,939,720,468. For that reason, the payment made under protest on November 18, 2014 was booked against such provision, and the remaining ¢2,738,611,642 was recognized as an account due from the Tax Administration. According to an analysis made by management of the Corporation and in the opinion of the tax advisors, the balance of the aforementioned account is recoverable given the likelihood (between 50% and 90%) of obtaining a favorable outcome from the legal action. As a result, no allowance was recognized for the fair value of the account due from the Tax Administration in the financial statements as of December 31, 2014.

a.3 Banco Interfin filed its final income tax return and paid the amount of ¢545,136,230 in September 2007 as a result of its merger by absorption with the Bank from October 1 of that year. At the 2007 year-end, the subsidiary Scotiabank de Costa Rica, S.A. declared the aforementioned sum as a tax credit, which was applied in the 2008 income tax return. In 2009, the Large Taxpayer Administration filed administrative proceedings since it considered that the final income tax return of BI was not provisional and, therefore, no tax credit was recognized in favor of the Bank. The Large Taxpayer Administration challenged the tax credit, and after hearing the corresponding arguments, the Tax Court still maintains the opinion that the tax return filed by BI is provisional. As a result of the above and given that prior Tax Court decisions uphold the opinion of management and dismiss the thesis of the Tax Administration, no provision has been booked therefor because there is a high probability of a favorable outcome.

In this respect, an ordinary trial was filed with the Administrative Litigation Court to review the resolution of the Administrative Tax Court in connection with the lack of evidence for the sum used as tax credit. This investigation analyzes the filing of the 2007 income tax return, rather than the use given thereto in 2008. Therefore, any resolution issued by the Courts of Justice will not be applicable, since the statute of limitations has lapsed in favor of the Bank.

(Continued)

a.4 The Large Taxpayer Administration issued a notice of deficiency in respect of the 2009 income tax return filed by the subsidiary Scotia Valores, S.A. for a total of ¢185,092,106 due to incorrect presentation of nontaxable income and nondeductible expenses in the calculation of taxable net income. On November 29, 2011, the subsidiary filed an administrative appeal against that notice of deficiency because the subsidiary considers it contradicts the provisions of article 1, article 7, and article 23 of the Income Tax Law and article 11 of the Regulations thereto. The Corporation's management and tax advisors consider that it is more likely than not (exceeding 50%) that a favorable final ruling will be handed down on the case. Accordingly, management does not consider it necessary to book a provision therefor.

a.5 Starting March 2012, as a result of a tax audit performed by the Sub-management of the Tax Administration of San José, a notice of deficiency was issued in respect of the 2010 income tax return filed by the subsidiary Scotia Leasing Costa Rica, S.A. for a total of ¢1,013,572,409, due to incorrect presentation of nontaxable income in the calculation of taxable net income, in the opinion of the Tax Authorities.

On September 7, 2012, the subsidiary filed an administrative claim against the aforementioned notice of deficiency. On December 13, 2012, Ruling SF-DT-01-R-5002-12 was issued, which rejected the motion for nullity and dismissed the claim filed by Scotia Leasing Costa Rica, S.A. On January 22, 2013, the subsidiary filed a motion for reconsideration with an appeal to a higher court against such ruling and the Tax Authorities rejected the motion through Ruling SF-AUD- 01-R-0448-13. Additionally, through Ruling No. SF-AUD-01-R-1246-13 issued by the Tax Administration of San José on July 27, 2013, the motion filed with the Tax Court was upheld. Through Ruling TFA-094-2014 issued at 14:00 hours on March 13, 2014 and notified on March 18, 2014, the Tax Court is acknowledged of the motion for reconsideration and such motion is dismissed, confirming in all respects the appealed ruling. In light of the above, all administrative recourse has been exhausted.

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On June 2, 2014, the subsidiary receives payment requirement No. ATSJO-GETE-RP-062-2014 from the Tax Authorities, which requests payment of principal and interests accumulated as of that date. Pursuant to the aforementioned ruling, in the opinion of the tax advisors of the Corporation, there is a high possibility that proceedings will continue in the Administrative Litigation Court (through judicial proceedings) to obtain a favorable outcome for the subsidiary. Accordingly, paying principal and interest "under protest" and continuing the process is recommendable. On June 4, 2014, the subsidiary paid principal and interest under protest (¢1,013,572,409 and ¢461,565,324.75, respectively) for a total of ¢1,475,137,733.75.

On September 5, 2014, the subsidiary filed a lawsuit against the administrative acts as follows:

i. SF-DT-01-R-5002-12 issued at 8:32 hours on November 8, 2012 by the Tax Administration of San José.

ii. SF-AUD-01-R-0448-13 issued at 8:10 hours on April 29, 2013 by the Tax Administration of San José.

iii. TFA-094-2014 issued at 14:00 hours on March 13, 2014 by the First Chamber of the Administrative Tax Court.

Through a ruling issued at 13:14 hours on October 1, 2014, proceedings have been filed in court, and the State was granted a 30-day term to answer the claim. The subsidiary's management and tax advisors consider that it is more likely than not (exceeding 50%) that a favorable final ruling will be handed down on the case. Accordingly, management has not considered necessary to book a provision for valuation of the account receivable recognized for the payment made under protest.

(b) Other

i. Repurchase agreements

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

ii. Secondary liability

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

36. Transition to International Financial Reporting Standards (IFRSs)

Through various resolutions, CONASSIF (the Board) agreed to partial adoption starting January 1, 2004 of IFRSs promulgated by the International Accounting Standards Board (IASB).

In order to regulate application of those Standards, the Board issued the *Terms of the Accounting Regulations Applicable to Entities Regulated by SUGEF, SUGEVAL, SUPEN, and SUGESE and to Non-financial Issuers* (the Regulations) and approved a comprehensive revision of those Regulations on December 17, 2007.

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

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

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

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

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

a) IAS 1: Presentation of Financial Statements

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

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

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

b) Revised IAS 1: Presentation of Financial Statements

The revised Standard introduces the term "Statement of total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Other comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the comprehensive statement of operations and all non-owner changes in equity in a single statement) or in a separate statement of income and statement of comprehensive income. Adoption of Revised IAS1 was mandatory for the 2009 financial statements. As of December 31, 2013, these changes had not been adopted by the Board; however, the approval of the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02 requires the aforementioned presentation for financial statements as of December 31, 2014.

c) IAS 7: Statement of Cash Flows

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

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

SUGEF authorized the booking of notices of deficiency received from Tax Authorities against prior period retained earnings under certain circumstances. The amendments to SUGEF Directive 34-02 eliminate the above treatment for notices of deficiency related to taxes and phase out the difference between IFRSs and the accounting regulations issued by the Board for financial statements as of December 31, 2014.

e) IAS 12: Income Taxes

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

f) IAS 16: Property. Plant and Equipment

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

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

(Continued)

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

g) IAS 18: Revenue

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

The Board has also allowed deferral of the net excess of loan fee and commission income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. This Standard does not allow deferral on a net basis of such income. Instead, it prescribes deferral of 100% of loan fee and commission income and permits the deferral of only certain incremental transaction costs, rather than all direct costs. Accordingly, when costs exceed income, loan fee and commission income may not be deferred in full, since the Board only allows the net excess of income over expenses to be deferred. This treatment does not conform to IAS 18 and IAS 39, which prescribe separate treatment for income and expenses (see comments on IAS 39). With the amendments to SUGEF Directive 31-04 and SUGEF Directive 34-02, the Board adopted the accounting treatment prescribed by IAS 18 and IAS 39 for fees and commissions and transaction costs. However, the following differences remain between the accounting standards issued by the Board and IAS 18 and IAS 39:

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

- The Board requires that fee and commission income be deferred in "Other income" and costs be amortized in "Other expenses". Under IAS 18 and IAS 39, income and costs must be booked as part of "Finance income on financial instruments".
- The Board requires that the effective interest rate be calculated over the financial instrument's contractual life. Under IAS 39, the effective interest rate for financial instruments is calculated over their expected life (or over a shorter period, if appropriate).
- Under SUGEF regulations, in the event of issuance of a credit-related guarantee, deferred income and incremental costs pending deferral or amortization as of the issue date are not included in the instrument's amortized cost or the calculation of the foreclosed asset's carrying amount. As a result, upon issuance, fees and commissions pending deferral and costs pending amortization are booked in profit or loss for the period.

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

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

i) IAS 27: Consolidated and Separate Financial Statements

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

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

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

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

j) IAS 28: Investments in Associates

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

k) Revised IAS 32: Financial Instruments - Presentation

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

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

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

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

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

n) IAS 38: Intangible Assets

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

o) IAS 39: Financial Instruments: Recognition and Measurement

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

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

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

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

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

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

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

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

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

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

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

p) IAS 40: Investment Property

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

q) Revised IFRS 3: Business Combinations

The revised Standard (2008) incorporates the following changes:

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

The revised Standard became mandatory for 2010 financial statements with prospective application required. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014. However, the Board established that a business combination between jointly controlled entities must consider assets and liabilities measured at fair value.

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

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

s) Amendments to IFRS 7: Financial Instruments: Disclosures

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

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

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

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

t) <u>IFRS 9: Financial Instruments</u>

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

The Standard is effective for annual periods beginning on or after January 1, 2018. Early application is permitted. This Standard has not been adopted by the Board.

u) IFRS 10: Consolidated Financial Statements

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

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

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

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

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

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

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

v) IFRS 11: Joint Arrangements

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

w) IFRS 12: Disclosure of Interests in Other Entities

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

x) IFRS 13: Fair Value Measurement

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

y) IFRIC 10: Interim Financial Reporting and Impairment

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

z) IFRIC 12: Service Concession Arrangements

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

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

This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

aa) IFRIC 13: Customer Loyalty Programs

This Interpretation gives guidance on the accounting by entities that grant loyalty award credits to customers as part of a sales transaction which, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services. This Interpretation became mandatory for annual periods beginning on or after January 1, 2011. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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

This Interpretation applies to all post-employment defined benefits and other long-term employee defined benefits. Also, it considers the minimum funding requirements to fund a post-employment or other long-term defined benefit plan. It also addresses when a minimum funding requirements might give rise to a liability. This Interpretation became mandatory for annual periods beginning on or after January 1, 2011 with retrospective application required. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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

This Interpretation allows entities that use the step-by-step consolidation method to choose an accounting policy that hedges currency risk to determine the amount of the cumulative foreign currency translation reserve that is reclassified to profit or loss on the disposal of a net investment in a foreign operation, which is equivalent to the amount that would have been reclassified had the entity used the direct method of consolidation. This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

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

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

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

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

This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

ee) IFRIC 18: Transfers of Assets from Customers

This Interpretation gives guidance on the accounting of transfers of items of property, plant and equipment by entities that receive such transfers from their customers. This Interpretation also applies to agreements in which an entity receives cash when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and that the entity must then use the item either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to both. This Interpretation became mandatory for annual periods beginning on or after July 1, 2009. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

ff) IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

This Interpretation gives guidance on the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This Interpretation became mandatory for annual periods beginning on or after July 1, 2010. The Board adopted this Standard through the amendments to the accounting regulations in effect as of January 1, 2014.

37. Restated 2013 figures

Pursuant to articles 8 and 5 of the minutes of meetings No. 1034-2013 and No. 1035-2013, respectively, held on April 2, 2013, CONASSIF informed through Notice C.N.S. 1034-08 dated April 4, 2013 of the final agreement reached in accordance with paragraph D to perform the following modifications to SUGEF Directive 31-04, "Regulations on the Financial Reporting of Financial Entities, Groups, and Conglomerates":

- Amend model 2, Income Statement, included in the aforementioned Regulations. Accordingly, the following modification to such statement is required:

  - ✓ For the year ended December 31, 2013, foreign exchange differences were presented on a net basis in the statement of comprehensive income as net foreign exchange gains or losses. For 2014, the 2014 and 2013 financial statements, foreign exchange gains and losses are presented as gross amounts under finance income and finance expenses, respectively (see note 27).