

**SCOTIA INVERLAT CASA DE BOLSA,
S. A. DE C. V.**

Grupo Financiero Scotiabank Inverlat

Financial Statements

December 31, 2010 and 2009

With Statutory and Independent
Auditors' Reports thereon

(Free Translation from Spanish
Language Original)

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

The Stockholders
Scotia Inverlat Casa de Bolsa, S. A. de C. V.,
Grupo Financiero Scotiabank Inverlat:

(Pesos in millions,
except the stock price)

In our capacity as Statutory Auditors, and in compliance with the provisions of Article 166 of the General Corporations Law and the bylaws of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat (“the Brokerage Firm”), we hereby submit our report on the accuracy, sufficiency and fairness of the information contained in the accompanying financial statements furnished to the General Stockholders' Meeting by the Board of Directors, for the year ended December 31, 2010.

We have attended the stockholders' and board of directors' meetings to which we have been called, and we have obtained from the directors and management such information on the operations, documentation and accounting records, as we considered necessary in the circumstances. In addition, we have examined the balance sheet, including the memorandum accounts relating to transactions on its own and on behalf of third parties, of the Brokerage Firm as of December 31, 2010, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended, which are the responsibility of the Brokerage Firm's management. Our examination was carried out in accordance with auditing standards generally accepted in Mexico.

The Brokerage Firm is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission (“the Commission”) for brokerage firms in Mexico, which in general conform to Financial Reporting Standards issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A. C. or CINIF). These accounting criteria include specific rules of valuation and presentation, which in certain respects depart from such standards, as explained in sub sections (d) and (t) of note 2 to the financial statements.

As mentioned in note 1 to financial statements, the Brokerage Firm is mainly engaged to financial intermediation in transactions with securities and derivative financial instruments. For the years ended December 31, 2010, obtained from related companies 26% of its income.

(Continued)

As mentioned in note 1 to financial statements, as of December 31, 2009, the Brokerage Firm recorded under the caption "Investment securities" 1,722,563 available-for-sale securities at a market value of \$10 pesos each, which had been subject to impairment in the amount of \$121 that year. On May 5, 2010, those securities were exchanged for the same number of securities issued by another issuer at a market value of \$77.03 pesos each. The effect of such exchange brought the reversal of the aforementioned impairment thus generating an income of \$115, which was recognized under the caption "Gain on purchase and sale of securities" on the statement of income, in accordance with accounting regulations. Mark-to-market gains or losses on the received available-for-sale securities are recognized under the caption "Unrealized gain from valuation of available-for-sale securities" in stockholders' equity.

In our opinion, the accounting and reporting criteria and policies followed by the Brokerage Firm and considered by management in preparing the financial statements presented at this meeting, are adequate and sufficient under circumstances and have been applied on a basis consistent with that of the preceding year. Therefore, such information is a fair, reasonable and sufficient representation of the financial position, including the memorandum accounts relating to transactions on its own and on behalf of third parties, of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat as of December 31, 2010, and the results of its operations, the changes in its stockholders' equity and the cash flows for the year then ended, in conformity with the accounting criteria established by the Commission for brokerage firms in Mexico.

Very truly yours,

Guillermo García-Naranjo A.
Statutory Auditor for Series "F" shares

Jorge Evaristo Peña Tapia
Statutory Auditor for Series "B" shares

Mexico City, February 14, 2011.

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

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

(Pesos in millions,
except the stock price)

We have examined the accompanying balance sheets, including the memorandum accounts relating to transactions on its own and on behalf of third parties, of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat ("the Brokerage Firm") as of December 31, 2010 and 2009 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Brokerage Firm's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with the accounting criteria for brokerage firms in Mexico. An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting criteria used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2 to the financial statements, the Brokerage Firm is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Commission") for brokerage firms in Mexico, which in general conform to Financial Reporting Standards issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A. C. or CINIF). These accounting criteria include specific rules of valuation and presentation, which in certain respects depart from such standards, as explained in sub sections (d) and (t) of note 2 to the financial statements.

As mentioned in note 1 to financial statements, the Brokerage Firm is mainly engaged to financial intermediation in transactions with securities and derivative financial instruments. For the years ended December 31, 2010 and 2009, obtained of related companies 26% and 21% of their income, respectively.

(Continued)

As mentioned in note 1 to financial statements, as of December 31, 2009, the Brokerage Firm recorded under the caption "Investment securities" 1,722,563 available-for-sale securities at a market value of \$10 pesos each, which had been subject to impairment in the amount of \$121 that year. On May 5, 2010, those securities were exchanged for the same number of securities issued by another issuer at a market value of \$77.03 pesos each. The effect of such exchange brought the reversal of the aforementioned impairment thus generating an income of \$115, which was recognized under the caption "Gain on purchase and sale of securities" on the statement of income, in accordance with accounting regulations. Mark-to-market gains or losses on the received available-for-sale securities are recognized under the caption "Unrealized gain from valuation of available-for-sale securities" in stockholders' equity.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, including the memorandum accounts relating to transactions on its own and on behalf of third parties, of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat as of December 31, 2010 and 2009, the results of its operations, the changes in its stockholders' equity and cash flows for the years then ended in conformity with the accounting criteria established by the Commission for brokerage firms in Mexico.

KPMG CARDENAS DOSAL, S. C.

Jorge Orendain Villacampa

February 14, 2011.

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
Grupo Financiero Scotiabank Inverlat

Balance Sheets, continued

December 31, 2010 and 2009

(Pesos in millions)

Assets	2010	2009	Liabilities and Stockholders' Equity	2010	2009
Cash and equivalents (notes 5 and 12)	\$ 20	96	Bank and other agencies short-term borrowings (note 12)	\$ 10	-
Margin accounts (derivatives)	108	39	Creditors under repurchase/resell agreements (note 7)	9,675	9,612
Investment securities (note 6):			Collateral sold or pledged:		
Trading securities	12,702	11,073	Securities lending (note 7)	126	132
Available-for-sale securities	506	236	Derivatives (note 8):		
	13,208	11,309	Trading purposes	1,739	293
Debtors under repurchase/resell agreements (note 7)	71	7	Other accounts payable:		
Derivatives (note 8):			Income taxes payable	42	24
Trading purposes	25	21	Employee statutory profit sharing payable	26	35
Other accounts receivable, net (note 12)	329	328	Creditors for pending settlements	189	172
Premises, furniture and equipment, net (note 9)	155	156	Creditors and other accounts payable (notes 11 and 12)	234	255
Permanent investments (note 10)	3	3	Deferred taxes and deferred employee statutory profit sharing, net (note 14)	83	-
Deferred taxes and deferred employee statutory profit sharing, net (note 14)	-	37	Total liabilities	12,124	10,523
Other assets:			Stockholders' equity (note 13):		
Deferred charges, prepaid expenses and intangibles	88	71	Paid-in capital:		
Other assets and long-term assets (note 11)	25	24	Capital stock	551	551
	113	95	Earned capital:		
			Statutory reserves	46	37
			Retained earnings	872	703
			Unrealized gain from valuation of available-for-sale securities	191	99
			Net income	248	178
			Total stockholders' equity	1,357	1,017
			Commitments and contingencies (note 16)	-	-
Total assets	\$ 14,032	12,091	Total liabilities and stockholders' equity	\$ 14,032	12,091

The historical capital stock amounts to \$386 at December 31, 2010 and 2009.

See accompanying notes to financial statements.

"These balance sheets have been prepared in accordance with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 205, last paragraph, 210 second paragraph and 211 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Brokerage Firm through the dates indicated above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

Gonzalo Rojas Ramos
General Director

Diego M. Pisinger Alter
General Director Deputy Finance
and Business Intelligence

Ken Pflugfelder
Divisional Director Group
Audit

Gordon Macrae
Director of Group
Accounting

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
Grupo Financiero Scotiabank Inverlat

Balance Sheets

December 31, 2010 and 2009

(Pesos in millions)

Memorandum accounts

	<u>2010</u>	<u>2009</u>		<u>2010</u>	<u>2009</u>
Transactions on behalf of third parties			Transactions for the Brokerage Firm's own account		
Customer current accounts:					
Customer banks	\$ 9	67	Contingent assets and liabilities	\$ 3,453	1,590
Settlement of customer transactions	(29)	89			
Other current accounts	<u>92</u>	<u>1</u>	Collaterals received by the entity (note 15):		
	<u>72</u>	<u>157</u>	Government debt	24,993	26,271
			Net worth instruments	<u>246</u>	<u>240</u>
				<u>25,239</u>	<u>26,511</u>
Custody operations:					
Customer securities in custody (note 15)	<u>191,682</u>	<u>164,315</u>	Collaterals received and sold or pledged by the entity (note 15):		
			Government debt	24,993	26,271
Transactions on behalf of customers:			Net worth instruments	<u>126</u>	<u>133</u>
Securities repurchase/resell agreements (note 15)	<u>30,141</u>	<u>34,058</u>		<u>25,119</u>	<u>26,404</u>
Collaterals received in guarantee by customers	<u>107</u>	<u>87</u>			
Collaterals delivered in guarantee by customers (note 15)	<u>2,193</u>	<u>1,724</u>			
Purchase derivative transactions:					
Futures and forwards on behalf of customers (notional amount)	69	75			
Options	<u>437</u>	<u>-</u>			
	506	75			
Sales transactions of derivatives:					
Options	369	-			
Managed trusts	<u>153</u>	<u>117</u>			
	<u>33,469</u>	<u>36,061</u>			
Total transactions on behalf of third parties	\$ <u>225,223</u>	<u>200,533</u>	Total for the Brokerage Firm	\$ <u>53,811</u>	<u>54,505</u>

(Continued)

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
Grupo Financiero Scotiabank Inverlat

Statements of Income

Years ended December 31, 2010 and 2009

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
Commission and fee income (note 12)	\$ 609	501
Commission and fee expense (note 12)	(43)	(33)
Financial advisory income (note 12)	<u>85</u>	<u>74</u>
Income from services	<u>651</u>	<u>542</u>
Gain on purchase and sale of securities (note 6)	460	518
Loss on purchase and sale of securities (note 6)	(284)	(468)
Interest income (notes 7 and 12)	1,814	2,871
Interest expense (notes 7 and 12)	(1,647)	(2,673)
Valuation (loss) gain on securities at fair value (notes 6 and 8)	<u>(1)</u>	<u>(99)</u>
Income from brokerage activities	<u>342</u>	<u>149</u>
Other operating income	<u>1</u>	<u>-</u>
Total operating income	994	691
Administrative and promotion expenses (note 12)	<u>(653)</u>	<u>(632)</u>
Operating income	<u>341</u>	<u>59</u>
Other income (note 12)	46	167
Other expense	<u>(3)</u>	<u>-</u>
	<u>43</u>	<u>167</u>
Income before income taxes	<u>384</u>	<u>226</u>
Current income taxes (note 14)	(91)	(106)
Deferred income taxes, net (note 14)	<u>(45)</u>	<u>58</u>
	<u>(136)</u>	<u>(48)</u>
Net income	\$ <u>248</u>	<u>178</u>

See accompanying notes to financial statements.

"These statements of income have been prepared in accordance with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 205, last paragraph, 210 second paragraph and 211 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the revenues and disbursements relating to the transactions carried out by the Brokerage Firm for the years indicated above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

Gonzalo Rojas Ramos
General Director

Diego M. Pisinger Alter
General Director Deputy Finance
and Business Intelligence

Ken Pflugfelder
Divisional Director Group
Audit

Gordon Macrae
Director of Group
Accounting

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
Grupo Financiero Scotiabank Inverlat

Statements of Changes in Stockholders' Equity

Years ended December 31, 2010 and 2009

(Pesos in millions)

	<u>Capital stock</u>	<u>Statutory reserves</u>	<u>Retained earnings</u>	<u>Unrealized gain from valuation of available-for- sale securities</u>	<u>Net income</u>	<u>Total stockholders' equity</u>
Balances as of December 31, 2008	\$ <u>551</u>	<u>35</u>	<u>670</u>	<u>55</u>	<u>35</u>	<u>1,346</u>
Item related to stockholders' decisions:						
Appropriation of prior year's income	-	2	33	-	(35)	-
Items related to recognition of comprehensive income (note 13b):						
Valuation effects of available-for-sale securities, net of deferred taxes of \$32	-	-	-	44	-	44
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178</u>	<u>178</u>
Balances as of December 31, 2009	<u>551</u>	<u>37</u>	<u>703</u>	<u>99</u>	<u>178</u>	<u>1,568</u>
Item related to stockholders' decisions:						
Appropriation of prior year's income	-	9	169	-	(178)	-
Items related to recognition of comprehensive income (note 13b):						
Valuation effects of available-for-sale securities, net of deferred taxes of \$61	-	-	-	92	-	92
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>248</u>	<u>248</u>
Balances as of December 31, 2010	<u>\$ 551</u>	<u>46</u>	<u>872</u>	<u>191</u>	<u>248</u>	<u>1,908</u>

See accompanying notes to financial statements.

"These statements of changes in stockholders' equity have been prepared in conformity with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 205, last paragraph, 210 second paragraph and 211 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Brokerage Firm for the years indicated above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

Gonzalo Rojas Ramos
General Director

Diego M. Pisinger Alter
General Director Deputy Finance
and Business Intelligence

Ken Pflugfelder
Divisional Director Group
Audit

Gordon Macrae
Director of Group
Accounting

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
Grupo Financiero Scotiabank Inverlat

Statements of Cash Flows

Years ended December 31, 2010 and 2009

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
Net income	\$ 248	178
Items not requiring (providing) cash flow:		
Provision for doubtful accounts	1	-
Impairment losses or impairment reversal in investing and financing activities	(115)	121
Depreciation and amortization	9	17
Provisions	11	(45)
Current and deferred income taxes	176	(44)
Valuation on securities at fair value	1	(23)
	<u>83</u>	<u>26</u>
Operating activities:		
Change in margin accounts	(70)	1
Change in investment securities	(1,538)	2,512
Change in debtors under repurchase / resell agreements	(63)	2
Change in derivatives (asset)	180	(13)
Change in other operative assets	(15)	(174)
Change in bank and other agencies borrowings	10	-
Change in creditor under repurchase / resell agreements }	63	(2,370)
Change in securities lending (liabilities)	1	-
Change in collaterals sold or pledged	(6)	36
Change in derivatives (liabilities)	1,168	(1,488)
Change in other operative liabilities	(124)	63
Net cash flows from operating activities	<u>(394)</u>	<u>(1,431)</u>
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(8)	(3)
Payments for acquisition of intangible assets	(5)	(6)
Net cash flows from investing activities	<u>(13)</u>	<u>(9)</u>
Net decrease in cash and cash equivalents	(76)	(1,236)
Cash and equivalents at beginning of year	<u>96</u>	<u>1,332</u>
Cash and equivalents at end of year	<u>\$ 20</u>	<u>96</u>

See accompanying notes to financial statements.

"These statements of cash flows have been prepared in accordance with the accounting criteria for brokerage firms issued by the National Banking and Securities Commission based on Articles 205, 210 second paragraph and 211 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the cash inflows and cash outflows relating to the transactions carried out by the Brokerage Firm for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound exchange practices and the applicable legal and administrative provisions."

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

Gonzalo Rojas Ramos
General Director

Diego M. Pisinger Alter
General Director Deputy Finance
and Business Intelligence

Ken Pflugfelder
Divisional Director Group
Audit

Gordon Macrae
Director of Group
Accounting

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.

Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

December 31, 2010 and 2009

(Pesos in millions, except the stock price)

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

(1) Description of business and significant transactions-

Description of business-

Scotia Inverlat Casa de Bolsa, S. A. de C. V. (“the Brokerage Firm”) is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. (“the Group”), which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia (BNS), which holds 97.3% of its capital stock. The Brokerage Firm acts as an intermediary in securities and financial transactions authorized under terms of the Securities Market Law (SML) and general provisions issued by the National Banking and Securities Commission (“the Commission”). For the years ended December 31, 2010 and 2009, the Brokerage firm obtained from related companies 26% and 21% of its income, respectively.

Significant transactions-

2010

(a) *Securities transactions-*

As of December 31, 2009, the Brokerage Firm recorded under the caption “Investment securities” 1,722,563 available-for-sale securities at a market value of \$10 pesos each, which had been subject to impairment in the amount of \$121 that year. On May 5, 2010, those securities were exchanged for the same number of securities issued by another issuer at a market value of \$77.03 pesos each. The effect of such exchange brought the reversal of the aforementioned impairment generating an income of \$115, which was recognized under the caption “Gain purchase and sale of securities” on the statement of income, in accordance with accounting regulations. Mark-to-market gains or losses on the received available-for-sale securities are recognized under the caption “Unrealized gain from valuation of available-for-sale securities” in stockholders’ equity.

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SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.

Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

(Pesos in millions)

2009**(a) *Securities transactions-***

At December 31, 2008, the Brokerage Firm recognized an accrual of \$79, which was charged to results of operations of such year. The accrual relates to securities transactions with third parties. Such accrual was cancelled during 2009 and, concurrently, a loss was recognized in connection with the recognition of the fair value of the securities received.

(2) *Summary of significant accounting policies-***(a) *Financial statement authorization, presentation and disclosure-***

On February 14, 2011, Gonzalo Rojas Ramos (General Director of Scotia Inverlat Casa de Bolsa, S. A. de C. V.), Diego M. Pisinger Alter (General Director Deputy – Finance and Business Intelligence), Ken Pflugfelder (Divisional Director – Group Audit) and Gordon Macrae (Director - Group Accounting); authorized the issuance of the accompanying financial statements and notes thereon.

The stockholders and the Commission are empowered to modify the financial statements after issuance. The accompanying financial statements for 2010 will be submitted to the next Stockholders' Meeting for approval.

The financial statements of the Brokerage Firm have been prepared based on the SML and in accordance with the accounting criteria for brokerage firms in Mexico, established by the Commission, which is responsible for the inspection and supervision of brokerage firms and for reviewing their financial information.

In general, the accounting criteria established by the Commission conform to Mexican Financial Reporting Standards (FRS) issued by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF, see note 19), and include particular rules regarding recording, valuation, presentation and disclosure, which in certain respects depart from such standards – see outline (d) and (t) of this note.

(Continued)

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

(Pesos in millions)

According to the accounting criteria, the Commission shall issue particular rules for specialized transactions, and that in the absence of an express accounting criterion for brokerage companies first and then for credit institutions, and in a wider context the FRS, the suppletory process as established by FRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by FRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the FRS are met by that standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and any other formal and recognized accounting standard, provided complies with the requirements of criterion A-4 of the Commission.

The preparation of the financial statements requires management of the Brokerage Firm to make estimates and assumptions that affect to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuations of financial instruments and deferred taxes. The volatility of debt and equity markets, as well as the economic situation both in Mexico and abroad, may cause the carrying amounts of assets and liabilities to differ from their future realization and liquidation amounts. Actual results could differ from those estimates and assumptions.

For purposes of disclosure, when reference is made to pesos or “\$”, it means millions of Mexican pesos, and when reference is made to dollars, it means dollars in the United States of America.

The Brokerage Firm recognizes the assets and liabilities arising from investments in securities, securities repurchase and resell agreements from transactions carried out for the Brokerage Firm’s own account as well as those carried out on behalf of its customers as of the trade date, rather than settlement date.

(b) Recognition of the effects of inflation-

The accompanying financial statements include the recognition of inflation up to December 31, 2007.

(Continued)

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

(Pesos in millions, except the stock price)

The year ended December 31, 2010 is considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in NIF B-10 "Effects of Inflation", consequently the effects of inflation on the Bank's financial information are not recognized. The accumulated inflation rate of the three preceding years and the indexes used to recognize inflation, are as follows:

<u>December 31,</u>	<u>UDI</u>	<u>Inflation</u>	
		<u>Annual</u>	<u>Accumulated</u>
2010	\$ 4.526308	4.29%	15.09%
2009	4.340166	3.72%	14.55%
2008	<u>4.184316</u>	<u>6.39%</u>	<u>15.03%</u>

(c) Cash and equivalents-

Cash and equivalents consist of cash, local and foreign bank account balances and 24 and 48 hour foreign currency sales/purchases. The cash and cash equivalents are recognized at nominal value.

The foreign exchange acquired in 24 and 48 hours purchase transactions, are recognized as restricted cash, while the currency sold is recorded as a cash outflow. The rights and obligations for the sales and purchases of 24 and 48 hours foreign exchange are recorded in "Accounts receivable, net" and "Sundry creditors and other payables", respectively.

(d) Margin accounts-

The margin accounts relate to transactions with derivative financial instruments executed in recognized markets and stock exchanges, in which cash is deposited to ensure performance of corresponding obligations. The amount of the deposits relates to the initial margin and the subsequent contributions or withdrawals made over the term of the derivative financial instruments contract. Cash accounts are recognized at nominal value and are reported under the caption "Margin Accounts (derivatives)". Returns affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in results of operations for the year under the caption "Interest income", whereas the commissions paid are recognized under the caption "Commissions and fees expenses".

(Continued)

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

(Pesos in millions)

In conformity with Bulletin C-10 of FRS, the aforesaid margin accounts should be presented within the caption "Operations with derivative financial instruments".

(e) *Investment securities-*

Investment securities consist of listed equities, government securities, bank commercial paper and other debt securities quoted in markets recognized, which are classified using the categories shown below, based on the intention and ability of management on their holdings.

Trading securities-

Those for trading in the market. Securities are recognized at fair value, transaction costs for the acquisition of securities are recognized in income on the acquisition date, as well as subsequent fair value valuation provided by an independent price vendor. When the securities are sold, the difference between purchase price and the sale price determines the result for sale, shall cancel the result of valuation that has been previously recognized in the income statement.

Interest earned from debt securities derived from investment securities denominated in foreign currency are recognized in the year's income under the caption "Interest income" or "Interest expense", as applicable. Dividends from net equity instruments are recognized in the year's income when the right to receive payment thereof arises. Valuation effects are recognized in the year's income within the caption of "Financial intermediation income".

Available-for-sale securities-

Those not classified as trading securities and where the entity does not have the intention or capacity to hold to maturity. These securities are initially recognized at fair value; and then are valued in the same manner as trading securities, recognizing the effect of valuation in stockholders' equity under the caption "Unrealized gain from valuation of available-for-sale securities", net of deferred taxes, which is cancelled for its recognition in income at the time of sale. Accrued interest is recognized under the effective interest method under the caption "Interest income" or "Interest expense".

(Continued)

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
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Notes to Financial Statements

(Pesos in millions)

Impairment of securities -

Where sufficient objective evidence exists that a security available for sale or held to maturity has been impaired, the carrying amount of the security is modified and the loss is recognized in income.

If in a subsequent period, the fair value of the securities increases, the loss for impairment shall be reversed in the income statement.

Value date transactions-

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

Category transfers-

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

(f) *Repurchase/resell agreements-*

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

(Continued)

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Notes to Financial Statements

(Pesos in millions)

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

The Brokerage Firm acting as repurchasee recognizes the received collateral in memorandum accounts in accordance with accounting criterion B-9 “Assets in custody and under management”, whereas when acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet, reporting it as a restricted asset.

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

(g) *Transactions with derivative financial instruments-*

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

The valuation effect of trading financial instruments is shown in the balance sheet and income statement under the captions “Derivatives” and “Valuation (loss) gain on securities at fair value”, respectively.

(Continued)

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(Pesos in millions)

(h) *Securities lending-*

At the date of contracting the securities lending transactions, the Brokerage Firm acting as lender, transfers the security to the borrower and recognizes it as restricted, and acting as borrower the security borrowed is recognized in memorandum accounts under the caption "Collateral received by the entity". The accrued premium is recognized in the income statement under the caption "Interest income" or "Interest expense", as appropriate, through the effective interest method over the term of the operation, against an account receivable or payable, respectively, which is presented under the caption "Securities lending".

Financial assets received as collateral are recognized in memorandum accounts under the caption "Collaterals received by the entity", whereas financial assets pledged as security are recognized as restricted assets, and in both cases such financial assets are recorded at fair value.

In the case that the Brokerage Firm prior to the maturity of the securities lending transaction sells the collateral received as lender or the transaction value as borrower, recognizes the inflow of funds coming from the sale and an account payable for the obligation to return such collateral to the lender, which is initially measured at the agreed-upon price and subsequently marked to market. The sale of collateral received are presented within "Collateral sold or pledged", except in cases where the collateral received or the transaction value is pledged in a sale and repurchase transaction, is recorded in accordance with section (f) of this note. The difference between the price received and the fair value of the security subject to the transaction or of the collateral received, if any and existing at the time of the sale, is presented in the caption of "Gain or loss on purchase and sale of securities", as applicable.

(i) *Other accounts receivable-*

Loans to officers and employees, collection rights and accounts receivable relating to identified debtors over 90 calendar days past due are assessed by Brokerage Firm's management to determine the estimated recovery value and, as required, to create the corresponding reserves. Irrespective of the likelihood of recovery, the balances of debtors less than 90 calendar days past due are reserved and charged to income 90 days after their initial recording (60 days if the balances are unidentified), except for tax-related (VAT included) balances.

(Continued)

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Notes to Financial Statements

(Pesos in millions)

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

(j) *Clearing accounts-*

Amounts receivable or payable for investment securities, repurchase/resale agreements, securities lending and/or derivative financial instruments which have expired but have not been settled, as well as the amounts receivable or payable for purchase or sale of foreign currencies which are not for immediate settlement or those with same day value date, are recorded in clearing accounts.

The balances of clearing accounts, credit and debit are offset as long as it has the contractual right to offset amounts recognized, there is an intention to settle on a net, come from the same kind of operation, are executed with the same counterparty and are settled on the same date. The clearing accounts are shown under the caption "Other accounts receivable, net" or "Other accounts payable", as appropriate.

(k) *Premises, furniture and equipment-*

Property, plant and equipment and installation expenses are recorded at acquisition cost. Those assets acquired through December 31, 2007 were adjusted by using factors based on the UDI value as of that date, which recognition of the effects of inflation on the financial information was suspended. Property acquired in foreign currency is recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation and amortization are computed using the straight-line method, based on the estimated useful lives for the Brokerage Firm management of the corresponding assets.

(Continued)

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(Pesos in millions)

The Brokerage Firm assesses periodically its property and installation expenses to determine whether the carrying value exceeds the recoverable amount. The recoverable amount is the greater of the net selling price and value in use. If the book values are deemed to be in excess, the Brokerage Firm recognizes impairment as a charge to operations of the year in order to reduce them to their recoverable amount.

(l) *Permanent investments in shares-*

The investments in associated companies are accounted for by the equity method. An entity is deemed an associate when significant influence is exercised, which is assumed to exist when holding 10% of potential voting power for listed issuers, or 25% for unlisted issuers.

The investments where no significant influence exists are classified as other investments, which are recognized at acquisition cost. Dividends, if any, coming from such investments are recognized in statement of income caption "Other income (expenses) of operation".

(m) *Other assets-*

This item includes primarily the contributions made to the self-regulatory reserve fund set up through the stock exchange members, the purpose of this is to support and contribute to the strengthening of the stock exchange market. The balance includes the contributions plus interest earned, which are recognized under the caption "Other income" on the statement of income.

Intangible assets in this caption relate primarily to internally developed software which cost incurred during the development stage is capitalized and amortized against the results of operations for the year beginning at the time the asset is ready to operate. Amortization is calculated on the straight-line method over the estimated useful life of the assets as determined by the Brokerage Firm's management.

(Continued)

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(Pesos in millions)

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

Furthermore, “Other assets” includes the projected net assets of the defined benefit plan that are recognized in accordance with the provisions of FRS D-3 “Employee benefits”.

(n) *Income taxes (Income Tax (IT) and flat rate business tax (IETU)) and employee statutory profit sharing (ESPS)-*

IT or IETU and ESPS payable for the year are determined in conformity with the tax provisions in effect.

Deferred IT or IETU and ESPS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income for the period enacted.

To determine whether deferred IT or deferred IETU should be recorded, the tax base on which the differences that give rise to deferred taxes will be amortized in the future must be identified, and the likelihood of payment or recoverability of each tax is evaluated.

(ñ) *Employee benefits-*

The Brokerage Firm has a defined contribution pension plan, under which the amounts contributed by the Brokerage Firm are recognized in the statement of income caption “Administrative expenses” (see note 11).

(Continued)

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(Pesos in millions)

Additionally, there is a defined benefits plan in place that covers the pensions, the seniority premiums to which employees are entitled in accordance with the Federal Labor Law, and obligations related to the post-retirement medical benefits, food coupons and life insurance for retirees.

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

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

For the unamortized items for past service are amortized over a maximum of five years (or within the average remaining working life, whichever is lower). Unamortized termination benefit items are recorded directly in income.

The determination of deferred ESPP is made using the asset and liability method of accounting as explained in note 2(n).

(o) ***Memorandum accounts-***

Customer securities-

Customer securities in custody, guarantee or under the Brokerage Firm's administration are recorded in the respective memorandum accounts at market value, representing the amount for which the Brokerage Firm is obligated to its customers against any future eventuality.

(Continued)

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Notes to Financial Statements

(Pesos in millions)

(p) *Revenue recognition-*

Fees on brokerage (debt or equity securities) and transactions with mutual funds are recognized in income on the trade date.

Income on the purchase and sale of trading securities are recognized in income when the securities are sold.

Interest income on repurchase/resale agreements and investment securities are recorded in operations as earned, under the effective interest method.

Revenue from custody services are recorded in operations for the year as provided the service in caption "Commission and fee income".

(q) *Expense recognition-*

The expenses incurred by the Brokerage Firm relate primarily to personnel compensation and benefits, and administrative expenses, which are charged to operations on accrual basis.

(r) *Foreign currency transactions-*

Foreign currency transactions are recorded at the exchange rate on the date of execution and settlement, for financial statement presentation purposes, currencies other than dollars are translated into dollars at the exchange rates as established by the Commission, dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank. Foreign exchange gains and losses are reflected in results of operations for the year.

(s) *Contingencies-*

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the financial statements. Contingent revenues, earnings and assets are not recognized until their realization is virtually assured.

(Continued)

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Notes to Financial Statements

(Pesos in millions)

(t) Statement of income-

The Brokerage Firm presents the statement of income in accordance with accounting criteria for brokerage firms in Mexico. FRS requires presentation of the statement of income, and costs and expenses as ordinary and non-ordinary.

(3) 2010 Improvements to FRS -

On December 2009, the CINIF (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera) issued the document referred to as “2010 Improvements to FRS”, which includes the following changes that had no effect on the financial statements of the Brokerage Firm:

- **FRS B-1 “Accounting changes and error corrections”-** Disclosures are added to financial statements in case of an accounting change or an error correction.
- **FRS B-2 “Statement of Cash Flows”-** Unrealized accrued foreign exchange fluctuations and the effects of fair value recognition are excluded from the cash balance on the statement of cash flows.
- **FRS C-7 “Investments in associates and other permanent investments”-** Capital contributions by the holding company to the associate that increase its equity percentage are to be recognized based on the net fair value of identifiable assets and liabilities. For that purpose, the valuation must be in proportion to the increase. The increase in the percentage of participation that do not result from contributions of capital for holding should not be recognized by it.

(Continued)

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Notes to Financial Statements

(Pesos in millions)

(4) Foreign currency exposure-

In compliance with the Central Bank regulations, the Brokerage Firm maintains balanced positions in foreign currencies. At December 31, 2010 and 2009, the maximum short and long positions authorized by the Central Bank were \$273 and \$221, respectively, that is equivalent to 15% of the Brokerage Firm's global capital, which is \$1,820 and \$1,475 in each year (see note 13d).

At December 31, 2010 and 2009, the Brokerage Firm has a short position of 475,713 and 1,937,915 dollars, respectively, which for financial statement presentation purposes was translated using the exchange rates of \$12.3496 and \$13.0659, respectively, and complies with the regulations.

(5) Cash and equivalents-

At December 31, 2010 and 2009, cash and equivalents are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Domestic banks	\$ 13	70
Deposits with foreign banks with maturities not exceeding 30 days	6	25
24 and 48-hour foreign currency sales	(3)	(3)
Restricted cash:		
24 and 48-hour foreign currency purchases	<u>4</u>	<u>4</u>
	\$ 20	96
	====	=====

Foreign currency receivable and deliverable as of December 31, 2010 and 2009, arising from purchases and sales to be settled within 24 and 48 hours are relate to dollar transactions.

(Continued)

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Notes to Financial Statements

(Pesos in millions)

(6) Investment securities-

(a) Integration-

At December 31, 2010 and 2009, investments in securities were as follows:

<u>Trading securities:</u>	<u>2010</u>	<u>2009</u>
Debt securities:		
Government securities	\$ 8,559	8,326
Bank promissory notes	3,066	2,094
Shares	<u>1,077</u>	<u>653</u>
	<u>12,702</u>	<u>11,073</u>
 <u>Available for sale:</u>		
Debt securities	138	17
Shares	<u>368</u>	<u>219</u>
	<u>506</u>	<u>236</u>
Total de investment securities	\$ <u>13,208</u>	<u>11,309</u>

(b) At December 31, 2010 and 2009, trading and available for sale securities are as follows:

<u>Trading securities:</u>	<u>2010</u>	<u>2009</u>
Trading securities unrestricted:		
Debt securities:		
Government securities:		
Cetes	\$ 871	407
UMS	<u>77</u>	<u>89</u>
	948	496
Value date sales:		
Cetes	-	(3)
M Bonos	(57)	(27)
BPA	(105)	-
D2 Eurobonos	<u>(1)</u>	<u>-</u>
	(163)	(30)
Government securities unrestricted carried forward	\$ <u>785</u>	<u>466</u>

(Continued)

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Notes to Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
Government securities unrestricted brought forward	\$ <u>785</u>	<u>466</u>
Restricted securities:		
Government securities:		
Cetes (pledged in guarantee)	37	14
⁽¹⁾ Repurchase/resell agreements:		
BPAS	95	468
BPAT	780	511
CTIM	1,190	2,296
IPAS	638	235
LBON	4,415	4,278
LS	–	28
UDIB	<u>500</u>	<u>–</u>
Restricted securities	<u>7,655</u>	<u>7,830</u>
Pending settlement purchases:		
Cetes	–	3
M Bonos	13	27
D2 Eurobonos	1	–
BPA	<u>105</u>	<u>–</u>
	119	30
Restricted government securities	<u>7,774</u>	<u>7,860</u>
Total government securities,	<u>8,559</u>	<u>8,326</u>
Banking securities:		
Unrestricted securities		
BANOBRA	860	292
NAFIN	<u>142</u>	<u>–</u>
	<u>1,002</u>	<u>292</u>
Repurchase/resell agreements:		
CBPC	58	–
CBUR	369	320
PRLV	<u>1,637</u>	<u>1,482</u>
Restricted banking securities in own account	<u>2,064</u>	<u>1,802</u>
Total, carried forward	\$ <u>3,066</u>	<u>2,094</u>

(1) See terms and conditions in note 7.

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 Notes to Financial Statements
 (Pesos in millions)

	<u>2010</u>	<u>2009</u>
Total, brought forward	\$ 3,066	2,094
Share securities:		
Securities unrestricted:		
NAFTRAC 02	6	189
GMEXICO B	59	5
AMX L	423	-
SCOTIAG	280	350
FEMSA UBD	11	-
TLEVISA CPO	12	-
WALMEX V	9	-
OTERS SHARE SECURITIES	20	13
Pending settlement sales:		
NAFTRAC 02	(53)	(122)
AMX L	(12)	(2)
CEMEX CPO	-	(1)
GMEXICO B	(8)	(1)
KIMBER A	-	(5)
TELMEX L	-	(4)
BULLTICK	(9)	(23)
OTHERS SHARE SECURITIES	(42)	(55)
ALFA A	(3)	-
COMPARC *	(1)	-
FEMSA UBD	(1)	-
GEO B	(7)	-
HOMEX *	(1)	-
IFXI *	(1)	-
PEÑOLES *	(6)	-
TLEVISA CPO	(1)	-
WALMEX V	<u>(20)</u>	<u>-</u>
Total share securities unrestricted, carried forward	\$ <u>655</u>	<u>344</u>

(Continued)

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Notes to Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
Total share securities unrestricted, brought forward	\$ <u>655</u>	<u>344</u>
Restricted securities in lending transactions	<u>120</u>	<u>—</u>
Restricted securities:		
SCOTIA G (Securities lending transactions)	128	141
NAFTRAC 02	—	24
GCARSO A1	1	—
Value date purchases:		
NAFTRAC 02	67	58
AMX L	20	2
CEMEXCP O	—	1
GMEXICO B	1	1
TELMEX L	—	4
BULLTICK	27	33
Other share securities	23	45
ALFA A	5	—
COMPARC *	1	—
GEO *	2	—
HOMEX *	5	—
IFXI *	1	—
SIMEC B	1	—
WALMEX V	<u>20</u>	<u>—</u>
Total restricted securities	<u>302</u>	<u>309</u>
Total share securities	<u>1,077</u>	<u>653</u>
Total trading securities	\$ <u>12,702</u>	<u>11,073</u>
<u>Available for sale</u>		
Available for sale (unrestricted):		
Debt securities – CBUR	\$ 138	17
Shares – BOLSA	<u>368</u>	<u>219</u>
Total available for sale	\$ <u>506</u>	<u>236</u>

(Continued)

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Notes to Financial Statements

(Pesos in millions, except the stock price)

The gain and loss during 2010 from the purchase and sale of securities amounted to \$187 and \$70, respectively (\$231 and \$97 in 2009, respectively). The valuation of investment securities at December 31, 2010 and 2009 resulted in a valuation loss and gain of \$71 and \$105, respectively. During 2010 and 2009, the interest resulted in a gain of \$636 and \$710 respectively. The gain and loss from the purchase and sale of securities, valuation effect and interest gain are reported in the statement income under the caption "Gain on purchase and sale of securities", "Loss on purchase and sale of securities", "Valuation (loss) gain on securities at fair value" and "Interest income", respectively.

At year-end 2009, a charge on impairment of a part of an available-for-sale position held was recognized in operations as a result of the following events:

- a) The issuer had significant financial problems.
- b) Issuer will very likely undertake a financial reorganization.
- c) Occurrence of non-performance of contractual covenants, such as non-payment of interest and principal.

As of December 31, 2009, the Brokerage Firm recorded under the caption "Investment securities" 1,722,563 available-for-sale securities at a market value of \$10 pesos each, which had been subject to impairment in the amount of \$121 that year. On May 5, 2010, those securities were exchanged for the same number of securities issued by another issuer at a market value of \$77.03 pesos each. The effect of such exchange brought the reversal of the aforementioned impairment thus generating an income of \$115, which was recognized under the caption "Gain on sale/purchase" on the statement of income, in accordance with accounting regulations. Mark-to-market gains or losses on the received available-for-sale securities are recognized under the caption "Unrealized gain from valuation of available-for-sale securities' equity.

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(Pesos in millions)

At December 31, 2010 and 2009, investments in debt securities other than government securities of the same issuer exceeding 5% of the Brokerage Firm's global capital are as follows:

<u>Issuer</u>	<u>Number of securities</u>	<u>Rate</u>	<u>Term (days)</u>	<u>Amount</u>
December 31, 2010				
BANOBRA	883,269,130	4.63%	231	\$ 860
NAFIN	144,433,092	4.54%	138	<u>142</u>
				\$ <u>1,002</u>
December 31, 2009				
BANOBRA 10011	292,185,553	4.50%	4	\$ <u>292</u>

(7) Securities under repurchase/resell agreements-

At December 31, 2010 and 2009, the "Debtors under repurchase/resell agreements" and "Creditors under repurchase/resell agreements" balances in which the Brokerage Firm acting as repurchasee and repurchaser are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Debtors under repurchase/resell agreements:		
BPAS	\$ 682	3,106
BPAT	2,544	4,514
CTIM	4,436	3,816
IPAS	5,091	5,812
LBON	7,639	6,388
MBON	4,360	2,716
UDIB	<u>322</u>	<u>—</u>
Debtor under repurchase/resell agreement, carried forward	\$ <u>25,074</u>	<u>26,352</u>

(Continued)

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(Pesos in millions)

	<u>2010</u>	<u>2009</u>
Debtor under repurchase/resell agreement, brought forward	\$ <u>25,074</u>	<u>26,352</u>
Collateral sold or pledged:		
BPAS	(682)	(3,106)
BPAT	(2,544)	(4,513)
CTIM	(4,436)	(3,816)
IPAS	(5,091)	(5,806)
LBON	(7,638)	(6,388)
MBON	(4,290)	(2,716)
UDIB	<u>(322)</u>	<u>—</u>
	<u>(25,003)</u>	<u>(26,345)</u>
Debtors under repurchase/resell agreements	\$ <u><u>71</u></u>	<u><u>7</u></u>
Creditors under repurchase/resell agreements:		
BPAS	\$ 95	467
BPAT	780	512
CBPC	58	—
CBUR	369	319
CTIM	1,189	2,295
IPAS	637	235
LBON	4,409	4,274
PRLV	1,637	1,482
LS	—	28
UDIB	<u>501</u>	<u>—</u>
	\$ <u><u>9,675</u></u>	<u><u>9,612</u></u>

At December 31, 2010, the terms of the repurchase/resale agreements range from 3 to 91 days (4 to 91 days in 2009) with weighted rates of 4.47%, when acting as reselling party, and 4.34% when acting as repurchasing party (4.47% and 4.58% in 2009, respectively).

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During the years ended December 31, 2010 and 2009, interest and premiums collected amounted to \$1,167 and \$2,755 respectively; interest and premiums paid amounted to \$1,639 and \$2,668, respectively, and were reported on the income statement under the captions "Interest income" and "Interest expense".

Securities lending:

At December 31, 2010 and 2009, the Brokerage Firm had entered into the following securities lending transactions:

	<u>Number of securities</u>		<u>Fair value</u>
<u>December 31, 2010:</u>			
ALFA A	72,800	\$	9
AMX L	50,000		2
CEMEX CPO	4,999,980		66
ELEKTRA *	3,630		2
GCARSO A1	78,400		6
BIMBO A	30,000		3
BNAFTRAC 02	821,100		32
FEMSA UBD	40,000		3
GFINBUR O	20,000		1
PEÑOLES	5,000		<u>2</u>
		\$	<u>126</u>
<u>December 31, 2009:</u>			
BNAFTRAC 02	1,428,000	\$	47
ELEKTRA *	2,632,000		6
SIMEC B	35,000		1
GMODELO C	9,005		7
CEMEX CPO	90,000		41
SORIANA B	500,000		16
COMERCI UBC	150,000		2
ICH B	60,000		3
TELINT L	900,000		<u>9</u>
		\$	<u>132</u>

(Continued)

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(Pesos in millions)

Securities lending transactions at December 31, 2010 and 2009 mature from January 3rd to 10th, 2011 and from January 3rd to 7th, 2010, respectively.

At December 31, 2010 and 2009, securities lending transaction where the Brokerage Firm acts as borrower amounted to \$128 and \$141, respectively, (see note 6).

For the year ended December 31, 2010, premiums collected and paid in securities loan transactions totaled \$8 and \$4, respectively (\$6 and \$4 in 2009, respectively), and are included in the statement of income in the captions of "Interest income" and "Interest expense", respectively.

(8) Derivatives-

At December 31, 2010 and 2009, derivative financial instruments are analyzed as follows:

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Index futures	\$ 1	-	-	-
Stock options *	22	1,519	-	286
OTC options *	<u>2</u>	<u>220</u>	<u>21</u>	<u>7</u>
	\$ 25	1,793	21	293
	==	=====	==	=====

The valuation of derivative financial instruments at December 31, 2010 and 2009, generated a loss and gain for \$72 and \$6 respectively.

* Represents the market value of premiums.

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Notional amounts:

A notional amount is a number of specific units in the contract (securities, currencies, etc). The settlement of a derivative instrument with a notional amount is determined by interaction of the notional amount and the underlying and does not represent the loss or gain resulting from the market risk or the credit risk of such instruments. At December 31, 2010 and 2009, notional amounts of the derivative financial instruments with trading purposes, are analyzed as follows:

<u>Type of instrument</u>	<u>2010</u>	<u>2009</u>
Bought:		
Forward contracts	\$ 69	75
Options:		
Indexes	2	-
On shares	<u>435</u>	<u>-</u>
	\$ 506	75
	====	====
Sold:		
Options:		
Indexes	\$ 2	-
On shares	<u>367</u>	<u>-</u>
	\$ 369	-
	=====	=====

(a) Index futures-

At December 31, 2010, futures were purchased and sold related to the Mexican Stock Exchange IPC Index for trading purposes, maturing in March and June 2011.

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(b) Stock exchange index (IPC) and shares options-

At December 31, 2010 and 2009, the Brokerage Firm had issued European options (exercisable at maturity date) in recognized markets on the Mexican Stock Exchange IPC Index. Their characteristics are as follows:

<u>Series</u>	<u>Number of certificates</u>	<u>Strike price (nominal pesos)</u>	<u>Premium at fair value</u>	<u>Maturity</u>
<u>2010</u>				
Asset:				
BFK OPTIONS	1,772,797	139	\$ 22	June 2011
BFK OPTIONS F	2	70,000	<u>2</u>	January 2011
			\$ <u>24</u>	
Liability:				
CAN101RDC013	18,635	27	\$ 212	January 2011
CAN101RDC018	18,685	31	220	January 2011
CAN102RDC016	18,026	41	194	Febrero 2011
CAN105RDC020	7,659	29	80	May 2011
CAN106RDC024	30,837	14	301	June 2011
CAN107RDC021	10,514	34	134	July 2011
CAN110RDC022	22,847	50	230	October 2011
CAN110RDC023	13,000	35,263	130	October 2011
BFK OPTIONS	4,272,808	193	11	June 2011
BULLTICK OPTIONS	2,784	27	<u>7</u>	January 2011
			\$ <u>1,519</u>	
IPC112DC242	22,105	38,173	\$ 218	December 2011
BFK OPTIONS	11	400,565	<u>2</u>	February 2011
			\$ <u>220</u>	
<u>2009</u>				
Asset:				
BKF OPTIONS	2,128,737	646	\$ <u>21</u>	October 2010
Liability:				
CAN008RBC001	212,640	45	\$ 57	August 2028
CAN010RDC011	11,617	101	114	August 2028
CAN912RDC012	11,770	30,307	<u>115</u>	December 2010
			\$ <u>286</u>	
BKF OPTIONS	2,128,737	547	\$ <u>7</u>	October 2010

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(Pesos in millions, except the stock price)

(9) Premises, furniture and equipment-

At December 31, 2010 and 2009, premises, furniture and equipment are analyzed as follows:

	<u>2010</u>	<u>2009</u>	Annual depreciation and amortization rates
Office premises	\$ 175	175	2.5%
Transportation equipment	3	3	25%
Office furniture and equipment	58	54	Various
Computer equipment	12	11	10 and 30%
Installation expenses	<u>5</u>	<u>5</u>	5%
	253	248	
Less accumulated depreciation and amortization	<u>(98)</u>	<u>(92)</u>	
	\$ 155	156	
	===	===	

Depreciation and amortization charged to income in 2010 and 2009 amounted to \$9 and \$10, respectively.

(10) Permanent investments-

At December 31, 2010 and 2009, the Brokerage Firm's permanent investments in shares, are analyzed as follows:

	Percentage of ownership in capital stock			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Other investments:				
Impulsora del Fondo México, S.A. de C.V.	3.65	3.65	\$ 2	2
Cebur, S.A. de C.V., (in liquidation)	2.97	2.97	<u>1</u>	<u>1</u>
			\$ 3	3
			==	==

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(Pesos in millions)

(11) Employee benefits -

The Brokerage Firm established a defined contribution pension and post-retirement benefits plan. This plan calls for pre-established contributions by the Brokerage Firm, which may be fully withdrawn by employee upon retirement if aged at least 55 years or partially on employment termination in accordance with specific rules for vesting rights. Additionally, contributions are made of the employees, who will be entitled to withdraw those contributions upon employment termination.

As of December 31, 2010 and 2009, the charge to income corresponding to the Brokerage Firm's contributions to the defined contribution plan amounted to \$7 for both years.

The Brokerage Firm also has a defined benefit pension plan and post-retirement benefits covering those employees who elected not to change to the defined contribution plan. The benefits are based on years of service and the employee's compensation during the last two years.

The cost, obligations and the defined benefit pension plan and seniority premiums, as well as the post-retirement medical benefits, life insurance and food coupons are determined based on computations prepared by independent actuaries as of December 31, 2010 and 2009.

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(Pesos in millions)

The components of the net periodic cost and of the defined benefit obligations for the years ended December 31, 2010 and 2009 are shown below:

<u>2010</u>	<u>Pensions</u>	<u>Medical benefits, food coupons & life insurance for retirees</u>
Present service cost	\$ 3	1
Interest cost	6	1
Expected return on plan assets	(5)	(1)
Amortizations past service:		
Plan improvements	5	-
Net actuarial loss (gain)	<u>5</u>	<u>-</u>
 Total cost	 \$ <u>14</u>	 <u>1</u>
 <u>2009</u>		
Present service cost	\$ 1	1
Interest cost	3	1
Expected return on plan assets	(4)	(1)
Amortizations past service:		
Plan improvements	<u>3</u>	<u>-</u>
 Total cost	 \$ <u>3</u>	 <u>1</u>

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A reconciliation between initial and final balances, as well as the detail of the present value of benefit obligations of pension, seniority premium, post-retirement medical benefits, food vouchers and life insurance for retired people, as of December 31, 2010, is as follows:

		<u>Seniority premium</u>			<u>Medical expenses, food coupons, life insurance, for retirees</u>
	<u>Pensions</u>	<u>Retirement</u>	<u>Severance</u>	<u>Total</u>	
Defined Benefit Obligations					
(DBO) as of December 31, 2009	\$ (35)	(2)	(1)	(3)	(12)
Present service cost	(3)	-	-	-	(1)
Interest cost	(6)	-	-	-	(1)
Plan improvements	(30)	-	-	-	-
Immediate recognition of improvements to the plan	(5)	-	-	-	-
Actuarial (loss) gain	<u>16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4)</u>
DBO as of December 31, 2010	(63)	(2)	(1)	(3)	(18)
Plan assets at fair value	<u>62</u>	<u>2</u>	<u>3</u>	<u>5</u>	<u>15</u>
Financial situation of the fund	(1)	-	2	2	(3)
Past services:					
Transition liability	-	-	-	-	1
Plan modifications	41	-	-	-	-
Cumulative actuarial gains	<u>(18)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>
Projected net asset as of December 31, 2010 in "Other assets" in balance sheet	\$ <u>22</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>1</u>

A reconciliation of the net projected asset as of December 31, 2010 is analyzed as follows:

		<u>Seniority premium</u>			<u>Medical expenses, food coupons, life insurance, for retirees</u>
	<u>Pensions</u>	<u>Retirement</u>	<u>Severance</u>	<u>Total</u>	
Projected net asset as of December 31, 2009	\$ 22	-	1	1	-
Net periodic cost	(14)	-	-	-	-
Contributions to the fund during 2010	<u>14</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>1</u>
Net projected asset as of December 31, 2010 in "Other assets" in balance sheet	\$ <u>22</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>1</u>

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(Pesos in millions)

The present value of benefit obligations of pensions, seniority premiums, medical benefits for retirees, food coupons and life insurance for retirees, at December 31, 2009 are as follows:

		<u>Seniority premiums</u>			<u>Medical benefits, food coupons & life insurance for retirees</u>
	<u>Pensions</u>	<u>Retirement</u>	<u>Severance</u>	<u>Total</u>	
Defined Benefit Obligations					
(DBO) as of December 31, 2008	\$ (29)	(1)	(1)	(2)	(11)
Present service cost	(1)	-	-	-	(1)
Interest cost	(3)	-	-	-	(1)
Actuarial (losses) gains	<u>(2)</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>(2)</u>
DBO as of December 31, 2009	(35)	(2)	(1)	(3)	(11)
Plan assets at fair value	<u>43</u>	<u>2</u>	<u>2</u>	<u>4</u>	<u>13</u>
Financial situation of the fund	8	-	1	1	2
Past services:					
Transition liability	-	-	-	-	1
Plan modifications	16	-	-	-	-
Cumulative actuarial gains	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3)</u>
Projected net asset as of					
December 31, 2009 in "Other assets"					
in balance sheet	\$ <u>22</u>	<u>=</u>	<u>1</u>	<u>1</u>	<u>=</u>

The acquired benefit obligations (ABO), at December 31, 2010 and 2009 are as follows:

		<u>Pensions</u>			<u>Seniority premiums</u>		
		<u>Retirement</u>	<u>Invalidity</u>	<u>Total</u>	<u>Retirement</u>	<u>Severance</u>	<u>Total</u>
<u>2010</u>							
ABO	\$	<u>(10)</u>	<u>=</u>	<u>(10)</u>	<u>=</u>	<u>(1)</u>	<u>(1)</u>
<u>2009</u>							
ABO	\$	<u>(1)</u>	<u>=</u>	<u>(1)</u>	<u>=</u>	<u>=</u>	<u>=</u>

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(Pesos in millions)

An analysis of the movement of the plan assets held to meet the labor obligations for the years ended December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 60	54
Contributions to the fund during the year	15	5
Return on plan assets	<u>7</u>	<u>1</u>
Balance at year end	<u>82</u>	<u>60</u>
Assets loss	\$ 3	3
	===	===

The expected yield of the plan assets for the years 2010 and 2009 is \$5 in both years.

During 2011, the expected contributions to the fund and return on plan assets covering the labor obligations are \$8.

The present value of benefit obligations of severance payments liabilities at December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
ABO	\$ <u>(21)</u>	<u>-</u>
DBO at the beginning of the year	(19)	(23)
Present service cost	(1)	1
Interest cost	(2)	2
Paid benefits	1	1
Actuarial gain	<u>6</u>	<u>-</u>
DBO	(15)	(19)
Unrecognized past service for the acquired benefits:		
Transition liability	<u>3</u>	<u>5</u>
Net projected liability	\$ (12)	(14)
	===	===

(Continued)

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The (income) expenses for severance liability cost for the years ended December 31, 2010 and 2009 amounted to \$(1) and \$14, respectively. At December 31, 2010 and 2009 the provision for severance liability amounted to \$12 and \$14, respectively, recorded in caption “Sundry creditors and other accounts payable” in the balance sheet

The nominal rates for the years ended 2010 and 2009 used in the actuarial projections are:

	<u>2010</u>	<u>2009</u>
Yield on plan assets	9.00%	9.90%
Discount rate	8.75%	9.00%
Rate of increase in compensation	5.00%	5.00%
Medical expense increase rate	6.50%	6.50%
Estimated inflation rate	4.00%	4.00%

The expected return on plan assets was determined using the expectation of long-term performance of asset classes that make up the portfolio of funds the Brokerage Firm.

The fund assets covering the obligations for pension, seniority premium, medical expenses, food coupons and post-retirement life insurance benefits are 100% invested in debt instruments, under a trust and managed by a committee designated by the Brokerage Firm.

The increase or decrease in the increase rate in medical expenses used in actuarial projections as of December 31, 2010, is as shown below:

	<u>Annual rate</u>	<u>DBO medical benefits for retirees</u>
Without modification	6.50%	9
1% increase on the medical inflation rate	7.50%	11
1% decrease on the medical inflation rate	<u>5.50%</u>	7

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A summary of the amounts of labor benefits relating to DBO, plan assets, and the projected benefit obligation over plan assets and experience adjustments, for the years ended December 31, 2008, 2007 and 2006 is shown below:

		Pensions		
		<u>2008</u>	<u>2007</u>	<u>2006</u>
DBO	\$	(29)	(19)	(15)
Plan assets		<u>37</u>	<u>40</u>	<u>38</u>
Financial situation of the fund	\$	<u>8</u>	<u>21</u>	<u>23</u>
DBO gain (loss)	\$	<u>6</u>	<u>—</u>	<u>5</u>
		Seniority premiums		
		<u>2008</u>	<u>2007</u>	<u>2006</u>
DBO	\$	(2)	(2)	2
Plan assets		<u>5</u>	<u>4</u>	<u>4</u>
Financial situation of the fund	\$	<u>3</u>	<u>2</u>	<u>6</u>
Loss (gain) on assets	\$	<u>(1)</u>	<u>—</u>	<u>—</u>
		Medical benefits, food coupons & life insurance		
		<u>2008</u>	<u>2007</u>	<u>2006</u>
DBO	\$	(11)	(10)	8
Plan assets		<u>12</u>	<u>11</u>	<u>9</u>
Financial situation of the fund	\$	<u>1</u>	<u>1</u>	<u>17</u>
Loss (gain) on assets	\$	<u>(3)</u>	<u>—</u>	<u>—</u>
		Severance payments		
		<u>2008</u>	<u>2007</u>	<u>2006</u>
DBO	\$	<u>(23)</u>	<u>(23)</u>	<u>20</u>
DBO loss	\$	<u>3</u>	<u>1</u>	<u>1</u>

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As of December 31, 2010, the amortization period of unrecognized items for pensions, medical expenses, food coupons, life insurance of retirees, seniority premiums and legal severance are as follows:

	<u>Pensions</u>	<u>Seniority premium</u>		<u>Medical benefits, food coupons & life insurance for retirees</u>	<u>Severance payments</u>
		<u>Retirement</u>	<u>Severance</u>		
Transition liability	N/A	N/A	N/A	2.0	2.0
Plan contributions	8.2	N/A	N/A	N/A	N/A
Net actuarial loss	10.8	11.8	Immediately	10.9	Immediately

(12) Related-party transactions-

During the normal course of business, the Brokerage Firm carries out transactions with related parties. The most significant related-party transactions carried out during the years ended December 31, 2010 and 2009, are as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Revenues</u>	<u>Expenses</u>	<u>Revenues</u>	<u>Expenses</u>
Interest	\$ 307	159	530	141
Commission and fee income	317	-	208	-
Income from brokerage activities	1	-	-	2
Other income	32	-	31	-
Commission and fee expense	-	4	-	5
Administrative and promotion expenses	<u>-</u>	<u>32</u>	<u>-</u>	<u>30</u>
	<u>\$ 657</u>	<u>195</u>	<u>769</u>	<u>178</u>

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(Pesos in millions)

At December 31, 2010 and 2009, balances with related parties are as follows:

	<u>2010</u>	<u>2009</u>
<u>Receivable:</u>		
Cash and equivalents *	\$ 5	83
Accounts receivable	31	3
Derivatives	<u>2</u>	<u>-</u>
	\$ <u>38</u>	<u>86</u>
<u>Payable:</u>		
Bank loans	\$ 10	-
Derivatives	6	-
Creditors and other accounts payable	<u>4</u>	<u>5</u>
	\$ <u>20</u>	<u>5</u>

*As of December 31, 2010 and 2009, the Brokerage Firm has a time deposit with a term of 180 and 30 days, respectively, bearing interest of 4% in both years.

For years ended December 31, 2010 and 2009, there were not changes in the existing conditions of balances receivable from or payable to related parties, there were not items that are deemed irrecoverable or difficult collection and not reserve was required for non-collectability.

Benefits granted to management personnel for years ended 2010 and 2009 amounted to \$10 for both years.

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Notes to Financial Statements

(Pesos in millions)

(13) Stockholders' equity-

The main characteristics of the stockholders' equity accounts are as follows:

(a) Structure of capital stock-

The Brokerage Firm capital stock at December 31, 2010 and 2009 is represented by 22,022 common, registered shares, divided into two series: 22,019 serie "F" shares and 3 serie "B" shares, fully subscribed and paid. The capital stock's minimum fixed portion is represented by 11,205 shares whereas the variable portion is represented by 10,817 shares. The variable portion of capital stock may at no time exceed the fixed paid-in capital and may not be subject to withdrawal.

At December 31, 2010 and 2009, the minimum fixed capital stock is fully subscribed and paid and amounts to \$196.

(b) Comprehensive income-

The comprehensive income reported in the statement of changes in stockholders' equity represents the results of the Brokerage Firm's activities during the year and includes the net income as well as any the valuation of the available for sale securities.

(c) Restrictions on stockholders' equity-

The Commission requires that brokerage firms maintain a minimum capitalization percentage of risk-based assets, which is calculated according to the level of risk assigned. The Brokerage Firm has complied with the capitalization percentage.

Five percent of net income for the year must be appropriated to the statutory reserve, until it reaches 20% of the paid-in capital.

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Stockholder contributions and retained earnings are subject to income tax on the amounts refunded or distributed that exceed the amounts determined for tax purposes. As of December 31, 2010, the restated capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) amount to \$248 and \$2,524, respectively.

Retained earnings on permanent investments in shares may not be distributed to the Brokerage Firm's stockholders until dividends are collected, but may be capitalized if so agreed at a Stockholders' Meeting.

(d) Capitalization-

The Commission requires brokerage firms to maintain a minimum capital as a percentage of assets at risk. The percentage is calculated by applying certain specific percentages according to the level of risk assigned, in conformity with the rules established by the Central Bank. Information relating to the Brokerage Firm's capitalization are as follows.

Capital as of December, 31:

	<u>2010</u>	<u>2009</u>
Global capital	\$ <u>1,820.93</u>	<u>1,475.41</u>
Market risk requirements	353.96	170.96
Credit risk requirements	109.69	71.93
Operational risk requirements	<u>38.00</u>	<u>19.22</u>
Total capitalization requirements	<u>501.65</u>	<u>262.11</u>
Global capital excess	\$ <u>1,319.28</u>	<u>1,213.29</u>
Capitalization ratio	<u>27.55%</u>	<u>17.77%</u>
Global capital / capitalization requirements	<u>3.63</u>	<u>5.63</u>

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Assets at risk as of December 31, 2010:

	Risk weighted assets	Capital requirement
<u>Market risk:</u>		
Transactions in Mexican pesos at nominal interest rates	\$ 1,044.93	83.59
Transactions in Mexican pesos at premium nominal interest rates	572.11	45.77
Transactions in Mexican pesos at real interest rates or denominated in UDIS	82.51	6.60
Foreign currency transactions at nominal interest rates	0.60	0.05
Positions in UDIS or with returns updated with National Consumer Price Index (INPC)	3.37	0.27
Foreign currency positions or with exchange rate updated returns	234.35	18.75
Equity positions or with returns updated to the price of a single share or group of shares	<u>2,486.66</u>	<u>198.93</u>
Total market risk	<u>4,424.53</u>	<u>353.96</u>
<u>Credit risk:</u>		
Derivatives	44.38	3.55
Debt instrument position	1,092.56	87.40
Loans and deposits	<u>234.22</u>	<u>18.74</u>
Total credit risk	<u>1,371.16</u>	<u>109.69</u>
<u>Operative risk:</u>		
Total operational risk	<u>474.96</u>	<u>38.00</u>
Total market, credit risk and operational risk	\$ <u>6,270.65</u> =====	<u>501.65</u> =====

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(Pesos in millions)

Assets at risk as of December 31, 2009:

	<u>Risk weighted assets</u>	<u>Capital requirement</u>
<u>Market risk:</u>		
Transactions in Mexican pesos at nominal interest rates	\$ 800.18	64.01
Transactions in Mexican pesos at premium nominal interest rates	431.19	34.50
Foreign currency transactions at nominal interest rates	25.43	2.03
Foreign currency positions or indexed to a exchange rate	167.14	13.37
Equity positions or indexed to the price of a single share or group of shares	<u>713.12</u>	<u>57.05</u>
Total market risk	<u>2,137.06</u>	<u>170.96</u>
<u>Credit risk:</u>		
Derivatives	24.29	1.94
Debt instrument position	676.88	54.15
Loans and deposits	<u>197.99</u>	<u>15.84</u>
Total credit risk	<u>899.16</u>	<u>71.93</u>
<u>Operative risk:</u>		
Total operational risk	<u>237.50</u>	<u>19.22</u>
Total market, credit risk and operational risk	\$ <u>3,273.72</u> =====	<u>262.11</u> =====

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Capital adequacy is monitored by the Market Risk Area which considers the various established operating limits vis-à-vis the global capital, with a view to avoiding any possible capital shortfalls and taking any measures if necessary.

(14) Income taxes (Income Tax (IT) and flat rate business tax (IETU) and employee statutory profit sharing (ESPS))-

Under the current tax legislation, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final i.e. not subject to recovery in subsequent years. The IT Law in effect as of December 31, 2010 and 2009 provides for an IT rate of 30% and 28% respectively, while in accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, for 2013 the rate shall be 29% and for 2014 and thereafter, the rate is 28%. The IETU rate is 17.5% for 2010 and 17% for 2009.

Because management estimates that the tax payable in future years will be IT, deferred tax effects as of December 31, 2010 and 2009 have been recorded on the same basis.

On May 19, 2004, the Brokerage Firm obtained a favorable resolution of an injunction proceeding (proceeding for relief) and obtained protection from the Federal Law against articles 16 and 17, last paragraph of the IT Law in force in 2002. Accordingly, the Brokerage Firm computes ESPS considering the same bases used to determine IT, except for the deductibility of loss in warrants.

IT and ESPS (expense) income incurred for the years ended December 31, 2010 and 2009 is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
Current taxes	\$ (91)	(26)	(106)	(34)
Deferred taxes	<u>(45)</u>	<u>(13)</u>	<u>58</u>	<u>15</u>
	\$ (136)	(39)	(48)	(19)
	=====	====	====	====

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Income tax expense attributable to income for the years ended December 31, 2010 and 2009, differed from the amount computed by applying the Mexican statutory rate of 30% IT, as a result of the item as shown as follows:

<u>December 31, 2010</u>	<u>Base</u>	<u>IT Tax at 30%</u>	<u>Effective rate</u>	<u>ESPS at 10%</u>
Income before IT	\$ 384	(115)	(30%)	(38)
<i>Allocation to current tax:</i>				
Inflationary adjustment	(23)	7	2%	2
Financial instruments, repurchase resell agreements & derivatives net result	29	(9)	(2%)	(3)
Premiums on repurchase/resell agreements and interests	(1)	-	-	-
Difference between book and tax depreciation	4	(1)	-	-
Nondeductible expenses	19	(6)	(2%)	(2)
Expense accruals	(30)	9	2%	2
Warrants net effect	60	(18)	(5%)	(1)
Deduction of ESPS paid in the year	(36)	11	3%	4
Current and deferred ESPS provision	39	(11)	(3%)	(4)
Dividends on investment securities	(24)	7	2%	2
Non cumulative income	<u>(116)</u>	<u>35</u>	<u>9%</u>	<u>12</u>
Current tax	<u>305</u>	<u>(91)</u>	<u>(24%)</u>	<u>(26)</u>
<i>Allocation to deferred tax (tax at 30%):</i>				
Valuation of trading securities	100	(30)	(8%)	(10)
Premises and equipment	(4)	1	-	-
Deductible ESPS	8	(2)	-	-
Warrants net effect	13	(4)	(1%)	-
Expense accruals and others	<u>31</u>	<u>(10)</u>	<u>(3%)</u>	<u>(3)</u>
Deferred tax	<u>148</u>	<u>(45)</u>	<u>(12%)</u>	<u>(13)</u>
Income tax	\$ <u>453</u>	<u>(136)</u>	<u>(36%)</u>	<u>(39)</u>

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<u>December 31, 2009</u>	<u>Base</u>	<u>IT Tax at 28%</u>	<u>Effective rate</u>	<u>ESPS at 10%</u>
Income before IT	\$ 226	(63)	(28%)	(23)
<i>Allocation to current tax:</i>				
Inflationary adjustment	(42)	12	5%	4
Financial instruments, repurchase resell agreements & derivatives net result	150	(42)	(19%)	(11)
Premiums on repurchase/resell agreements and interests	5	(2)	(1%)	-
Difference between book and tax depreciation	5	(2)	(1%)	(1)
Nondeductible expenses	25	(7)	(3%)	(3)
Expense accruals	16	(4)	(2%)	(1)
Warrants net effect	93	(26)	(11%)	(9)
Deduction of ESPS paid in the year	(35)	10	4%	4
Current and deferred ESPS provision	19	(5)	(2%)	(2)
Non cumulative income	(85)	24	11%	8
Others, net	<u>2</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Current tax	\$ <u>379</u>	<u>(106)</u>	<u>(47%)</u>	<u>(34)</u>
<i>Allocation to deferred tax (tax at 30%):</i>				
Valuation of trading securities	(123)	37	16%	12
Premises and equipment	(6)	2	1%	1
Deductible ESPS	1	-	-	-
Warrants net effect	(40)	12	5%	-
Expense accruals and others	(18)	5	2%	2
Change of rate effect	<u>-</u>	<u>2</u>	<u>1%</u>	<u>-</u>
Deferred tax	<u>(186)</u>	<u>58</u>	<u>25%</u>	<u>15</u>
Income tax	\$ <u>193</u>	<u>(48)</u>	<u>(22%)</u>	<u>(19)</u>

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Deferred IT and ESPS

The temporary differences that give rise to a deferred tax asset and liability as of December 31, 2010 and 2009 are presented below:

	2010		2009	
	IT	ESPS	IT	ESPS
Prepaid expenses	\$ (10)	(3)	(9)	(3)
Valuation of financial instruments and derivatives	6	2	36	12
Valuation of available for sale securities	(95)	(32)	(49)	(16)
Premises, furniture and equipment	(38)	(13)	(39)	(13)
Deductible ESPS	8	3	10	3
Losses on warrants	46	–	50	–
Expense accruals and others	<u>32</u>	<u>11</u>	<u>41</u>	<u>14</u>
	\$ <u>(51)</u>	<u>(32)</u>	<u>40</u>	<u>(3)</u>
Deferred IT and ESPS in the balance sheet	\$ <u>(83)</u>		<u>37</u>	

The credit to income for deferred IT and ESPS for the years ended December 31, 2010 and 2009, comprise the following:

	2010		2009	
	IT	ESPS	IT	ESPS
In results of operations:				
Prepaid expenses	\$ (1)	–	1	–
Valuation of financial instruments and related interest	(30)	(10)	38	13
Premises and equipment	1	–	(1)	1
Deductible ESPS	(2)	–	–	–
Losses on warrants	(4)	–	14	–
Accrued expenses and others	<u>(9)</u>	<u>(3)</u>	<u>6</u>	<u>1</u>
	\$ <u>(45)</u>	<u>(13)</u>	<u>58</u>	<u>15</u>
Deferred IT and ESPS in the statement of income	\$ <u>58</u>		<u>73</u>	
In stockholders' equity:				
Valuation of available for sale securities	\$ <u>(46)</u>	<u>(16)</u>	<u>(24)</u>	<u>(8)</u>
Deferred IT and ESPS in the stockholders' equity	\$ <u>(62)</u>		<u>(32)</u>	

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The Brokerage Firm evaluates the recoverability of the deferred tax assets, based on a review of deductible temporary differences. The amount of deferred tax assets actually realized could be reduced if future taxable income were less than expected.

Other considerations:

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

Corporations carrying out transactions with related parties, whether domestic or foreign, are subject to certain limitations and requirements as to the determination of prices, since such prices must be equivalent to those that would be used in arm's-length transactions.

(15) Memorandum accounts-

Transactions on behalf of third parties-

The funds managed by the Brokerage Firm for investing in various instruments on behalf of its customers are recorded in memorandum accounts. The resources from these operations at December 31, 2010 and 2009 are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Mutual funds	\$ 32,215	28,280
Government securities	51,653	43,557
Shares and others	<u>107,814</u>	<u>92,478</u>
	\$ <u>191,682</u>	<u>164,315</u>

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Securities and documents delivered as guarantee on behalf of clients to fair value at December 31, 2010 and 2009, are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Government securities	\$ 674	641
Fixed income debt securities	167	82
Equities and holding companies certificates	1,072	803
Mutual funds	69	55
Cash	191	143
Margen credits	<u>20</u>	<u>—</u>
	\$ <u>2,193</u>	<u>1,724</u>

Income earned on assets under custody during the years ended December 31, 2010 and 2009 amounted to \$52 and \$43, respectively.

Repurchase/resell transactions of customers-

At December 31, 2010 and 2009, the repurchase/resell transactions of customers are analyzed as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Number of certificates</u>	<u>Fair value</u>	<u>Number of certificates</u>	<u>Fair value</u>
Bpas	7,792,874	\$ 777	35,797,128	\$ 3,573
Bpat	18,783,784	1,881	50,268,812	5,000
Cbpc	575,039	58	—	—
Cbur	3,695,527	369	3,448,716	319
Ctim	350,362,340	3,428	624,659,211	6,112
Ipas	57,110,000	5,730	58,798,773	5,805
Ls	—	—	281,993	28
Mbon	39,993,871	4,265	25,223,403	2,575
Prlv	1,647,569,196	1,637	1,494,946,446	1,483
LBon	112,182,757	11,175	91,962,712	9,163
Udib	1,745,962	<u>821</u>	—	<u>—</u>
		\$ <u>30,141</u>		\$ <u>34,058</u>

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Collateral received by the entity and collateral received and sold or delivered as guarantee by the entity-

Collateral represented by government debt securities received by the Brokerage Firm and collateral sold or delivered by the Brokerage Firm at December 31, 2010 and 2009, are analyzed as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Number of certificates</u>	<u>Fair value</u>	<u>Number of certificates</u>	<u>Fair value</u>
Bpas	6,844,093	\$ 682	31,111,557	\$ 3,105
Bpat	25,429,176	2,547	45,118,276	4,489
Ctim	452,256,079	4,436	390,893,229	3,816
Ipas	50,775,226	5,092	58,386,510	5,763
Lbon	76,820,270	7,650	64,079,040	6,386
Mbon	39,993,871	4,265	26,443,694	2,712
Udib	682,681	<u>321</u>	-	<u>-</u>
		\$ <u>24,993</u>		\$ <u>26,271</u>

(16) Commitments and contingencies-

(a) Lawsuits and litigation-

The Brokerage Firm is involved in a number of lawsuits and claims arising in the normal course of its business. Management does not expect that the final outcome of these matters will have a significant adverse effect on the Brokerage Firm's financial position and results of operations.

Contingencies for securities transactions

As of December 31, 2008, the Brokerage Firm recognized a provision charged to operations in the amount of \$79, for the risk arising from securities transactions with third parties. The provision was cancelled during 2009 and recognized the loss of the valuation of these securities.

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(b) Leases-

The Brokerage Firm leases and subleases office space from related and third parties. Total rental income and expense for 2010 amounted to \$15 and \$8, respectively (same amounts for 2009).

(17) Additional information on operations and segments-

(a) Segment information-

The Brokerage Firm operates in various segments such as capital markets, money markets, mutual funds and investment banking. Segment data for the years ended December 31, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Revenues:		
Capital markets	\$ 182	171
Money market	48	175
Mutual funds	286	192
Investment banking	104	107
Securities portfolio	126	40
Other income	<u>337</u>	<u>326</u>
	<u>1,083</u>	<u>1,011</u>
Expenses:		
Personnel	450	434
Fixed expenses	63	66
Operating	170	274
Depreciation and amortization	9	10
Interest paid	4	-
Write offs	<u>3</u>	<u>1</u>
	<u>699</u>	<u>785</u>
Income before taxes	384	226
Current income taxes	(91)	(106)
Deferred income taxes	<u>(45)</u>	<u>58</u>
Net income	\$ <u>248</u>	<u>178</u>

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(b) Financial ratios-

Following are the fourth quarter financial ratios of the Brokerage Firm for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Creditworthiness (<i>total assets / total liabilities</i>)	1.78%	2.72%
Liquidity (<i>liquid assets/liquid liabilities</i>)	1.72%	2.49%
Leverage (<i>total liabilities-liquidation of the entity (creditor) / stockholders' equity</i>)	112.92%	46.75%
ROE (<i>annualized net income for the quarter/ average stockholders' equity</i>)	8.92%	16.68%
ROA (<i>annualized net income for the quarter/ average total assets</i>)	5.46%	8.57%
Capital requirement/ Global capital	27.55%	17.77%
Financial margin / Total operating income	19.19%	(14.04%)
Operating income (loss) / Total operating income	23.44%	(21.37%)
Total operating income/ Administrative expenses	130.61%	82.39%
Administrative expenses / Total operating income	76.56%	121.37%
Net income / Administrative expenses	22.83%	36.46%
Personnel expenses / Total operating income	46.45%	80.61%

Notes

- *The indicators related to results correspond to annualized quarterly nominal cash flows.*
- *The Solvency, Liquidity and Leverage indicators are stated in number of times.*
- *The amounts include the compensation of restricted repurchase/resell agreements.*

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(18) Comprehensive risk management- (unaudited)

The ultimate purpose of the Brokerage Firm is to generate shareholder value by maintaining the organization's stability and creditworthiness. Sound financial management increases the profitability of performing assets, helps maintain appropriate liquidity levels and provides control over exposure to losses.

The major risks inherent in the Brokerage Firm's operations are market, credit, liquidity, operating and legal. In compliance with the provisions issued by the Commission and the guidelines established by The Bank of Nova Scotia (BNS), the Brokerage Firm continues to implement initiatives designed to strengthen the comprehensive risk management function.

To identify, measure, and monitor risks, a Comprehensive Risk Management Unit has been established with overall responsibility for the Brokerage Firm.

In accordance with the regulations issued by the Commission, the Board of Directors is responsible for establishing risk control procedures and the Brokerage Firm's overall risk exposure limits. Furthermore, the Board of Directors entrusts the implementation of the procedures designed to measure, manage and control risks to the Risk Committee. In turn, the Risk Committee delegates responsibility for implementing the procedures designed to measure, manage, and control risks to the Asset-Liability and Risks Committee (CAPA) and the Internal Control Committee.

(a) Market risk-

Market risk management consists of identifying, measuring, monitoring and controlling risks derived from fluctuations in: interest rates, market prices, indices and other risk factors in the money, capital and derivatives markets to which the Brokerage Firm's own positions are exposed.

The CAPA conducts weekly reviews of the strategies and actions related to the Brokerage Firm's exposure to market risk.

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Trading positions are marked to market on a daily basis, are taken in liquid markets which avoids high costs at the time such positions are liquidated and are measured daily using the Value at Risk (VaR) method.

The Risk Committee authorizes individual limit structures for each of the financial instruments traded in the markets and by business unit. The limit structure considers mainly volumetric or notional amounts for value-at-risk, stop loss, diversification, stress, marketability, and other limits.

At least once a year, the Board of Directors authorizes risk measurement policies and the structure of risk tolerance limits for VaR as well as volumetric and notional amounts. These limits are established in relation to the Brokerage Firm's stockholders' equity.

For valuation and risk models references are used on updated prices, interest rate curves and other risk factors provided by the price supplier "Valuación Operativa y Referencias de Mercado, S. A. de C. V." (Valmer). The criteria adopted by such price supplier are determined based on technical and statistical aspects and valuation models authorized by the Commission.

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

VaR calculations are performed by instrument, market and globally, considering the correlation existing between the various risk factors. VaR is calculated using the Risk Watch methodology developed by Algorithmics. The Brokerage Firm's average global VaR (unaudited) of ten days observed daily during the fourth semester in 2010 was \$4.20 nominal.

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The Brokerage Firm's risk positions and their value at risk (unaudited) from October 1, to December 31, 2010 (millions of nominal pesos) are analyzed as follows:

	<u>Position</u>			<u>VaR</u>	
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>	<u>Average</u>	<u>Limit</u>
Brokerage Firm	16,142.8	27,255.7	–	\$ 4.2	25.0
Money market	16,041.8	27,112.0	–	1.6	25.0
Capital market	45.1	79.2	200.0	0.7	10.0
Derivate IPC/1	55.9	173.6	2,880.0	–	–
Total Capitals					
Derivate IPC	<u>101.0</u>	<u>229.9</u>	<u>–</u>	<u>3.3</u>	<u>10</u>

- (1) Includes IPC futures and options of the capitals derivative table, its VaR is included in the Warrants portfolio. The 1 d average Warrant VaR is MXN 3.1 MM that is computed with the Capitals VaR.

The average global VaR of 1 day for the Brokerage Firm during 2010 was \$3.76 million and the global value at December 31, 2010 was \$2.8 million (unaudited information).

As an example, the Brokerage Firm's average value at risk of the quarter on money market and interest rate derivatives was \$4.2. This means that under normal conditions and a 1-day holding period, the possibility of losing more than that amount is 1%, assuming that the behavior over the past 300 days of operations is representative for estimating the loss.

During the last quarter of 2010, the Brokerage Firm participated in the Mexican Derivatives Market called "MexDer" through future and option contracts on the IPC (Mexican Stock Exchange Price and Quotation Index). The positions and the number of contracts that were negotiated and their value at risk are analyzed on the next page (unaudited information).

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	<u>Number of contracts</u>		
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>
Interest rate futures TIIIE/1	-	-	945,000
CE/91 futures/1	-	-	90,000
BonoM futures/1	-	-	35,300
IPC futures/2	151	449	750

2/ Includes trading desk contracts. Average VaR for 1-day holding period CPI futures contracts is MXN 0.36 MM and is included in the Global VaR.

The average total position of CPI futures listed on Mexican Derivatives Exchange (MexDer) for Equity and Equity Derivatives for the quarter is \$157.1. Only the Equity Derivates area may trade in CPI Futures Options on MEXDER; no transactions were carried out in the quarter.

It's important to know that stock exchange index (IPC) futures and options priority are to covered primary market risk about the positions of optional stocks or warrants that are issued for clients. The Brokerage Firm issued an average of warrants exchange index (IPC) and stock exchanges for \$7,380.6 with a maximum of \$9,598.7.

Since VaR is used to estimate potential losses under normal market conditions, stress testing is performed monthly assuming extreme conditions, with the purpose of determining risk exposure under unusually large market fluctuations. The Risk Committee has approved stress limits.

As of December 31, 2010, the stress testing was \$12.1, which with respect to the \$800 limit, is favorable. The stress limit is based on the Brokerage Company's stockholders' equity and is adjusted on a monthly basis. The scenarios used for this test are the 1994 and 1998 crisis as hypothetical scenarios.

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To measure effectiveness, backtesting is performed monthly to compare actual losses and gains with one-day VaR calculations and thus calibrate models. The models' efficiency level is based on the approach established by the Bank for International Settlements (BIS).

With regard to Back-Testing tests, during 2010 were recorded two exceptions in the test, but not necessary to calibrate the model. Back-testing test for the January-December, 2010 period showed a green efficiency level under the approach established by BIS.

There are policies and procedures in place to inform and immediately correct positions that exceed the established limits. Also, the CAPA is informed weekly and the Risk Committee and the Board of Directors are informed monthly of these exceptions.

(a) Sensitivities-***Qualitative information on sensitivities***

The Brokerage Firm has a specialized Trading Risk Analysis area which maintains continuous and methodic supervision of valuation, risk measurement and sensitivity analysis processes. Such area is in constant contact with operators responsible at the various markets.

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

On the next page is a description of the methods, parameters and assumptions used for the portfolio of stock, currencies, interest rates and derivative products.

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Interest rate portfolio

Sensitivity measures for fixed-income instruments (bonds) are based on estimating the behavior of the portfolio's value when faced by a change in the market interest rates. In referring to market interest rates, reference is made to the yield curve (not zero-coupon curves) because it is the yield curves which are listed on the market and better explain the behavior of losses and gains.

The sensitivities of the fixed-income instrument portfolio are based on the durations and convexities depending on the type of instrument. In any event, 2 types of measurements are produced; i) the expected change in the value of the portfolio when faced by a 1 base point (0.01%) change in the yield curve; and ii) the expected change in the value of the portfolio when faced by a 100 base point (1%) change in the yield curve. For purposes of this disclosure, only 1 base point changes are informed.

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

For floating rate bonds two types of sensitivities are calculated: the free risk rate and the spread sensitivity.

In the case of zero coupon bonds, the calculation of the sensitivity of non-coupon instruments as duration the maturity (expressed in years) is used.

Interest rate derivatives

Following is a brief explanation on sensitivity modeling for the Brokerage Firm's interest rate derivatives.

THIE and CETE futures: This type of derivative instruments is modeled for purposes of calculating sensitivities as the zero coupon rate future and, therefore, its duration is considered for estimating its sensitivity.

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

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Interest rate swaps: For purposes of determining the sensitivity of changes in the yield curve of THIE swaps, a 1 base point change is made in each of the relevant yield curve points, in addition to a 1 base point and one hundred base points change (in parallel), valuing the portfolio using the various curves and computing the change in the value of the portfolio with each of these changes. In this case the change in 1 base point is informed.

Stock and IPC index derivatives portfolio

Stocks: For purposes of the stock position, the sensitivity is obtained by calculating the issue delta within the portfolio. Delta is defined as the change in the portfolio's value when the underlier changes 1%.

Capitals derivatives

Currently, the Brokerage has opted for carrying out stock derivatives transactions through the IPC index futures listed on the MexDer. Their sensitivity is calculated using the Delta. This portfolio has limits, expressed in terms of notionals.

Delta is defined as the change in value of a derivative with respect to changes in the underlier. Delta risk is defined as the change in the value of the option when faced by a change of predetermined magnitude in the value of the underlier (for example 1%). It is calculated by valuing the option with different underlier levels (one original and one with a +1% shock), holding all other parameters constant.

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

(Continued)

SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.
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Notes to Financial Statements

(Pesos in millions)

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

Delta risk is defined as the change in value of an option before a change of a predetermined magnitude in the value of the underlier (for example 1%). It is calculated by valuing the option with different underlier levels (one original and one with a +1% shock), holding all other parameters constant.

Gamma is supplementary to the delta risk and is another sensitivity measure of the value of an option with respect to the value of an underlier. Gamma measures the rate of change of the delta before a change in the level of the underlier, is analogous to the calculation of the delta, and may be interpreted analytically as the second partial derivative of the Black & Scholes function with respect to the underlier.

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

Theta is the sensitivity measure of an options portfolio that indicates the change in the value of a portfolio with the passage of time. Theta is defined as the change in the value of a derivative product with the passage of time. Theta is calculated solely for informative purposes and for gain/loss analyses being that it does not actually represents a market risk but a concrete, predictable and quantifiable event.

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

(Continued)

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(Pesos in millions)

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

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

Quantitative information on sensitivities.

Quantitative information of interest rate sensitivities

Below are the sensitivities of 1 base point (bp) as of September 30 and December 31, 2010 (unaudited information):

<u>Sensibilidad 1pb</u>	September <u>2010</u>	December <u>2010</u>
Fix rate	(0.034)	(0.147)
Revisable rate	<u>(0.028)</u>	<u>(0.029)</u>
Subtotal interest rates	(0.062)	(0.176)
Subtotal interest rates derivates	<u>-</u>	<u>-</u>
Total	<u>(0.062)</u>	<u>(0.176)</u>

At December 31, 2010, the Brokerage Firm presents a sensitivity in its interest rate portfolios of \$0.176, which indicates that for each base point the interest rate decreases, the Brokerage Firm would earn a profit of \$0.176. Compared with the preceding quarter, the position hasn't change

Should the sensitivity scenario of the above table materialize, the losses would directly impact the Brokerage Firm results of operations.

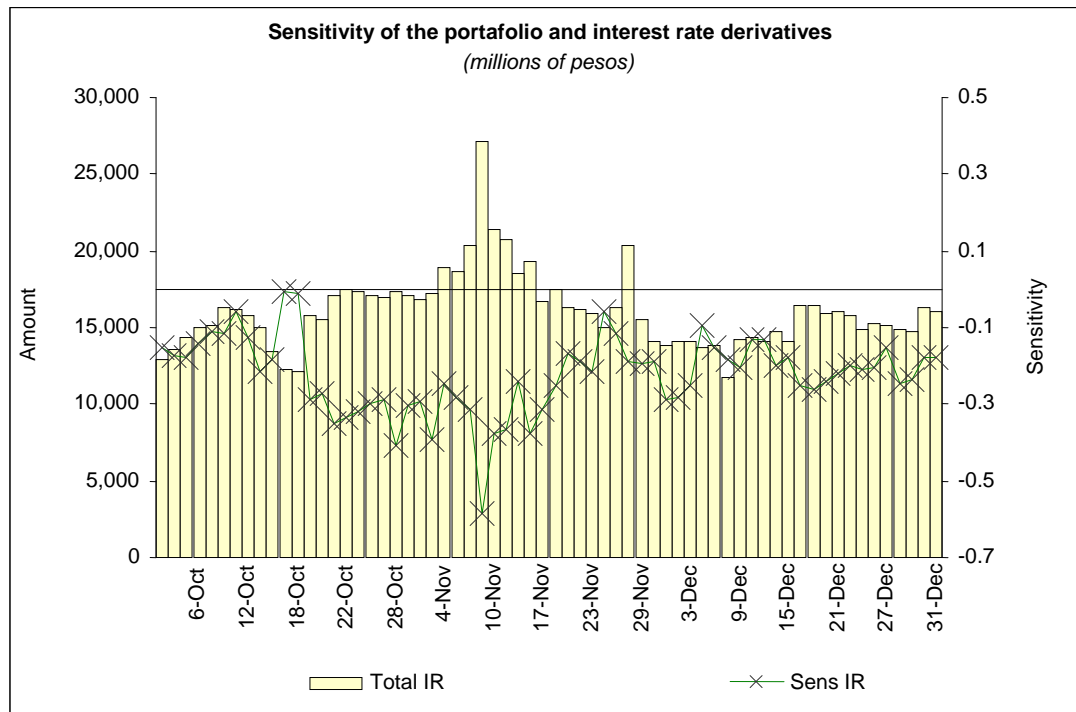
(Continued)

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(Pesos in millions)

As follows is a chart showing the evolution of the sensitivity for interest rates and interest rate derivatives as the net portfolio effect, (unaudited information).



As noted in the chart, there was no significant change in the sensitivity during the quarter.

The Brokerage Firm considers only long positions in the money market; therefore, sensitivity is always negative, which means that in case of a one basis point increase, the position in the money market would loss an amount equal to the sensitivity. If the sensibility scenario of the table above occurred, losses would impact directly on the Brokerage Firm results.

In case that the scenario described in the chart won't be the losses were to the results of the Brokerage Firm.

(Continued)

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(Pesos in millions)

The chart below shows statistical data for the fourth quarter 2010 considering the one basis point change: maximum, minimum and average. On average, sensitivity was \$0.224 (unaudited information).

	<u>Average</u>	<u>Máximo</u>	<u>Limit</u>
Interest rates	\$ (0.224)	(0.005)	(0.584)

Sensitivities for the shares portfolio and IPC derivatives

Below are the sensitivities as of September 30 and December 31, 2009 (unaudited information):

	<u>September 2010</u>	<u>December 2010</u>
Shares	\$ <u>0.148</u>	<u>0.592</u>
Forwards IPC	(0.0008)	0.0005
Options Fut IPC	0.0000	0.0000
Warrants	<u>(0.006)</u>	<u>0.0009</u>
Subtotal	(0.0068)	0.0014
Total	\$ <u>0.141</u>	<u>0.593</u>

The trading desk continues to be focused on intraday trading. At quarter end, there was an increase in the position and, consequently, in sensitivity. Principal shares are SIMEC (steel), Naftrac and HOMEX (hosing).

As for the position on CPI, the strategy continues for hedging new warrants issues and brokerage between CPI futures and capital markets.

If the sensitivity scenario shown in the table above occurred, it would impact directly on the results of the portfolio. At December 31, 2010, the Brokerage Firm present a sensibility to CPI for \$0.593, which indicates that given a 1% increase in the CPI, the Brokerage Firm would generate a profit of \$0.593.

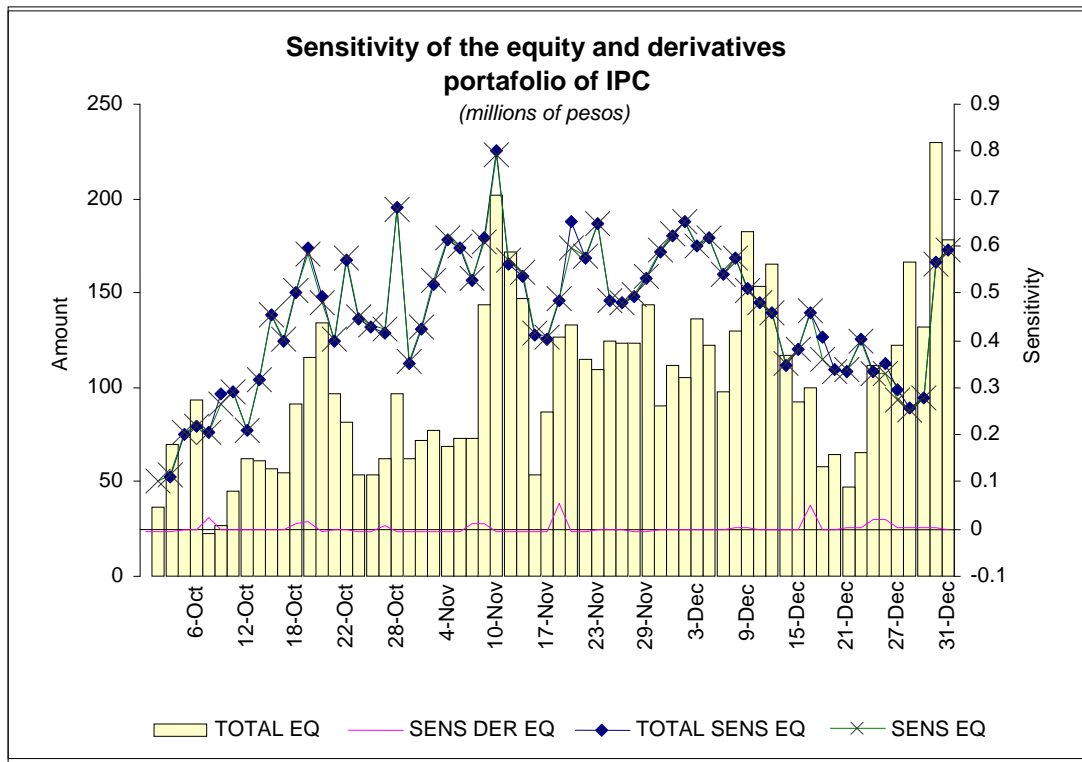
(Continued)

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(Pesos in millions)

The chart below shows the daily sensitivity evolution of the equity portfolio. The daily position of the equity portfolio is also shown (unaudited information).



The securities portfolio of the Brokerage Firm consists of equity securities and CPI derivatives. The average for the quarter was \$0.453 as shown below (unaudited information):

<i>Sensitivities 1% delta</i>	Average	Maximum	Limit
Shares	\$ 0.451	0.792	0.101
Derivate IPC	<u>0.002</u>	<u>0.054</u>	<u>(0.006)</u>
Total	\$ <u>0.453</u>		

(Continued)

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(Pesos in millions)

Sensitivity measurements for nonlinear financial instruments as of December 31, 2010 are shown in the table below (unaudited information).

Sensitivities of CPI warrants and options, "Greeks"

<u>Greeks</u>	<u>Delta</u>	<u>Gamma</u>	<u>Vega</u>	<u>Theta</u>	<u>Rho</u>	<u>Dividend risk</u>
Warrants	\$ (676.302)	17.911	0.966	(1.800)	0.145	(0.016)
Options Fut IPC/ options OTC						
Futures IPC	69.458	–	–	(0.010)	0.228	–
Naftracs / shares	<u>626.037</u>	<u>1.906</u>	<u>0.074</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	\$ <u>19.193</u>	<u>19.817</u>	<u>1.040</u>	<u>(1.810)</u>	<u>0.373</u>	<u>(0.016)</u>

Based on the definitions described earlier, the interpretation of the Delta of a portfolio is shown by way of example in the Equity Derivatives section. As of December 31, 2010, the Brokerage Firm has a Delta value of 419.193, denoting that in case of a 1% increase in the underlying price, the Brokerage Firm would generate a profit of \$19.193.

The following table shows the average, maximum and minimum sensitivities of CPI warrants and options (unaudited information):

	<u>Delta</u>	<u>Gamma</u>	<u>Rho</u>	<u>Vega</u>
Limit	0.27	5.06	0.01	0.99
Maximun	<u>135.12</u>	<u>21.37</u>	<u>0.80</u>	<u>1.79</u>
Average	<u>13.74</u>	<u>15.17</u>	<u>0.23</u>	<u>1.48</u>

Treatment for market risk on available-for-sale securities – At year-end, December 2010, the Brokerage Firm's position of available-for-sale securities amounted to \$506.

Available-for-sale securities are considered in the structural position of Brokerage Firm.

(Continued)

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Notes to Financial Statements

(Pesos in millions)

Sensitivities for available-for-sale and held-to-maturity securities – At December 31, 2010, the sensitivity of investment securities classified as available-for-sale and held-to-maturity represent 1.0% of the book value.

Available for sales values	506
Sensitivities (\$)	4
Sensitivities (%)	0.7%

For comparative purposes it shows the sensibility at September 2010, as follows:

Available for sales values	435
Sensitivities (\$)	3
Sensitivities (%)	0.68%

(b) Liquidity risk-

The Brokerage Firm's liquidity risk results from its intermediation activities in the money, capital, and derivatives markets.

The liquidity risk is monitored and controlled in the aggregate by currency through cumulative liquidity gaps and minimum requirements of liquid assets.

The Capital Management Department oversees liquidity risks and currently issues a weekly report for the CAPA on liquidity gaps, which identifies the cash flows of the Brokerage Firm's own asset position and funding sources.

Management estimates the liability renewal amounts and based on such estimate it foresees that the Brokerage Firm's cash flow would be zero under normal conditions. However, the Brokerage Firm maintains liquid assets. During the last quarter of 2010 and 2009 the average of liquid assets (unaudited) was \$2 and \$1.5, respectively.

The cumulative gap indicates the Brokerage Firm's cash commitments in this period and the Liquid Assets will serve as funds for complying with its commitments in case there is no availability of other funding sources.

(Continued)

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(Millions of pesos, except the stock price)

Liquidity gaps for investment securities -The liquidity risk of investment securities arises from the difficulty or impossibility of carrying out securities transactions resulting in unusual sale discounts.

The investment securities to Brokerage Firm had the maturity line as follows: (unaudited information):

<u>Maturity (years)</u>	<u>Held to Maturity</u>	<u>Available for sale</u>	<u>Trading</u>	<u>Total for maturity period</u>	<u>Concentration</u>
<u>December</u>					
0.5	\$ —	—	3,749	3,749	28.4%
1	—	—	1,585	1,585	12.0%
2	—	—	1,732	1,732	13.1%
3	—	—	966	966	7.3%
4	—	—	1,751	1,751	13.3%
+5	—	—	1,842	1,842	13.9%
Without maturity	<u>—</u>	<u>506</u>	<u>1,077</u>	<u>1,583</u>	<u>12.0%</u>
	\$ <u>—</u>	<u>506</u>	<u>12,702</u>	<u>13,208</u>	<u>100.0%</u>

At year-end December 2010, the Brokerage Firm position of available-for-sale securities amounted to \$506. Available-for-sale securities are considered in the structural position of the Brokerage Firm.

(c) ***Credit risk-***

Credit risk results from potential non-compliance by the issuer of a financial instrument or counterparty to a transaction, of any of the terms of the purchase/sale agreement or prospectus of any financial instrument.

The Brokerage Firm has implemented and adapted to Mexico's conditions, the CreditMetrics® methodology for measuring and controlling the credit risk of its various portfolio segments.

The portfolios and segments to which the Credit Risk measurement methodology applies at the Brokerage Firm are: a) Non-traditional Portfolio: Money and Derivatives Market.

(Continued)

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(Pesos in millions)

- This methodology allows estimating expected and unexpected losses from measures of the likelihood of occurrence of credit events (transition matrix), including the likelihood of default.
- The expected loss represents an average estimate of the impact of defaults over a 12-month period.
- The unexpected loss is a measure of dispersion from the expected loss.
- In determining the non-expected loss (“*Credit VaR*”) a 99.75 % confidence level and a one-year horizon are used.
- Additionally, stress testing assuming extreme conditions is performed both for the expected and the unexpected loss.

The *Creditmetrics* system is used in measuring credit risks, with criteria similar to those used by the Brokerage Firm.

Average losses expected and unexpected in millions of nominal pesos for the fourth quarter of 2010 and 2009 are as follows (unaudited information):

	<u>2010</u>	<u>2009</u>
Exposure	\$ 22,378	67,161
Unexpected loss	32	72
Expected loss	<u>-</u>	<u>-</u>

Credit risk in investment securities – On the next page is a summary of exposures, credit rating and concentration by risk level of investment securities at the close of September and December 2010 (unaudited information):

(Continued)

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Notes to Financial Statements

(Pesos in millions)

<u>S&P</u>	<u>Held to Maturity</u>	<u>Available for sale</u>	<u>Trading Securities</u>	<u>Total for risk</u>	<u>Concentration</u>
<u>December</u>					
mxAAA	\$ —	—	8,492	8,492	64.3%
mxAA	—	—	99	99	0.7%
mxA	—	—	2,957	2,957	22.4%
mxBBB	—	—	77	77	0.6%
mxB	—	—	1,077	1,077	8.2%
Without rating	<u>—</u>	<u>506</u>	<u>0</u>	<u>506</u>	<u>3.8%</u>
	\$ <u>—</u>	<u>506</u>	<u>12,702</u>	<u>13,208</u>	<u>100%</u>

Credit risk on derivatives transactions – At September 30 and December 31, 2010, counterparty risk on transactions with derivative financial instruments is 100% with financial institutions.

(d) Operational risk-

In accordance with the general regulations applicable to Brokerage Companies as regards comprehensive risk management, which were set forth in the Fifth Section of the Third Chapter and published in the Official Gazette in September 2004, Operational Risk is a non-discretionary risk, which is defined as the potential loss arising from failures or deficiencies in internal controls, errors in transaction processing or storage or in data transmission as well as loss resulting from adverse judicial and administrative resolutions, frauds or theft. Operational Risk comprises technological risk and legal risk, among others.

For compliance with the rules on operational risk established by the aforementioned provisions, the Brokerage Firm has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are described on the next page.

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(Pesos in millions)

- Policies for Operational Risk Management.- These policies primarily promote the risk management culture, particularly as to operational risk, so that the Brokerage Firm can measure, identify, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities.
- Manual for Operational Risk Data Gathering and Classification.- These policies define the requirements for reporting the information that supports the measuring processes, including the scope, functions and responsibilities of the units providing the information, as well as its classification and specific characteristics.
- Levels of Operational Risk Tolerance – aimed at having an operational loss management tool that allows each of the Brokerage House’s areas to know the tolerance levels of losses applicable to each assumed loss event and encouraging improvements in the management process of Operational Risks within each area and that the latter implement, insofar as possible, the necessary actions to minimize the risk of future losses.
- Key Risk Indicators (KRI) - this process allows the Brokerage Firm to establish indicators from variables drawn from processes, which performance is related to the degree of risk assumed. By monitoring each indicator, trends are identified that enable managing the indicator's values over time, assuming that by controlling these values the associated risk factor is maintained within the desired levels. To this end maximum and minimum admissible values are established for each of the indicators selected, so that mitigating/corrective action is automatically initiated once these values are exceeded.
- Estimated Legal Risk Loss Model - the Brokerage Firm has a methodology for estimating expected and unexpected legal risk losses whereby it assesses potential loss as a result of adverse judgments in lawsuits in process. Such methodology is based on past experience of prior year losses, which data undergoes a severity and frequency of occurrence analysis to determine the likelihood of loss in relation to legal matters in process.

(Continued)

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(Pesos in millions)

The Brokerage Firm also has a structured methodology for self-assessment of operational risks, which is applied throughout the organization and through which it identifies operational risks inherent to its processes. Its objectives are as follows:

- Evaluating the potential impact of significant operational risks identified on the Brokerage Firm's objectives, competitiveness, profitability, productivity and reputation;
- Prioritizing, based on impact and significance, action for mitigating operational risks;
- Guiding each of the Brokerage Firm's units in their operating risk management processes;
- Rely on a systematic procedure so that Brokerage Firm is aware of the operational risks to which it is exposed.
- Comply with the requirements set forth in sections I, II and III of article 142 of the General Regulations applicable to Brokerage Companies.

As a result of the management process of the Operational Risk, the Brokerage Company has identified operating risks derived from legal contingencies in the amount of \$47. Should this situation occur, there would be a negative impact on the results of operations of the Brokerage Firm, which have already been fully provided for. Also, the expected loss from such contingencies is estimated in \$2 and the unexpected loss in \$36.

At the close of 2010, the Brokerage Firm had built a historic database of operational risk losses, which includes losses incurred for the period from January 2006 to December 2010, summarized into 2,833 loss events with a total value of \$15, classified into ten risk categories, detailed in the next page (unaudited information).

(Continued)

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(Pesos in millions, except database of operational risk losses)

Database of Operational Risk Losses (thousands of pesos).

<u>Risk Factors</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>	<u>Number</u>	<u>Average amount</u>
Trading	\$ 7,568	897	–	–	–	8,465	24	353
Regulatory (fines)	167	108	844	254	104	1,477	20	74
Accounting differences	194	–	–	–	–	194	474	–
Frauds (internal and external)	76	–	–	–	–	76	3	25
Errors in executing transactions	140	63	216	256	671	1,346	176	8
Unrecoverable	–	505	899	484	611	2,499	2,111	1
Phishing	–	4	–	–	–	4	1	4
Changes	–	–	3	–	–	3	1	3
Legal	–	–	–	–	1,312	1,312	2	656
Policies and procedures	–	–	–	–	4	4	21	–
Total	\$ <u>8,145</u>	<u>1,577</u>	<u>1,962</u>	<u>994</u>	<u>2,702</u>	<u>15,380</u>	<u>2,833</u>	<u>5</u>

Counterpart credit rating :

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

(19) Recently issued accounting standards-

The Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) has issued the FRS and improvements listed below:

FRS B-5 “Segment financial information” - Is effective beginning January 1, 2011, with retrospective effects. The principal changes as compared to superseded Bulletin B-5 “Segment financial information” include the following:

- The information to be disclosed by operating segment is that regularly used by top management and does not require segmentation into primary and secondary information or into segments identified based on products or services (economic segments), geographical areas, and homogeneous customer groups. Additionally, disclosure by the entity as a whole of information on its products or services, geographical areas and principal customers and suppliers is required.

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(Pesos in millions)

- Does not require that the entity's business areas be subject to different risks to qualify as operating segments.
- Business areas in pre-operating stage may be classified as operating segments.
- Requires disclosing by segment and separately, interest income and expenses, as well as all other components of comprehensive financial results (CFR). In specific situations, net interest income may be disclosed.
- Disclosure of the liability amounts included in the usual operating segment information normally used by top management for the entity's operational decision-making is required.

Management estimates that the adoption of this new FRS will have no effect as the Commission has established the criterion C-4 "Segment information" through general regulations applicable to the accounting criteria for Brokerage firms in Mexico.

FRS B-9 "Interim financial reporting" - Is effective beginning January 1, 2011, with retrospective effects. The principal changes as compared to superseded Bulletin B-9 "Interim financial reporting" include the following:

- Requires that the interim financial information, in addition to the balance sheet and income statement, include a comparative and condensed statement of stockholders' equity and statement of cash flows, and, for non-profit entities, the presentation of the statement of activities is expressly required.
- Provides that the financial information reported at the end of the interim period should be presented comparatively with the equivalent interim period of the immediately preceding year and, in the case of the balance sheet, compared also to such financial statement as of the date of the immediately preceding fiscal year-end.
- Features and define new terminology

Management estimates that the effects of the adoption of this new FRS will be immaterial.

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(Pesos in millions)

FRS C-5 “Prepayments”- Is effective beginning January 1, 2011, with retrospective effects. Supersedes Bulletin C-5, and includes primarily the following changes:

- Advances for purchase of property and equipment and intangibles (non-current), among others, must be reported under prepayments provided the benefits and risks inherent in the assets to be acquired or the services to be received have not yet been transferred to the entity. Furthermore, prepayments must be reported based on the destination item, either under current assets or non-current assets.
- When an impairment loss on the value of prepayments occurs, the unrecoverable amount must be carried to the income statement. Additionally, if the necessary conditions exist, the impairment effect may be reversed and recorded on the income statement for the related period.
- Among other things, the following must be disclosed in notes to financial statements: breakdown of prepayments, policies for accounting recognition and impairment losses, as well as relevant reversal.

Management estimates that the effects of the adoption of this new FRS will be immaterial.

FRS C-6 “Property, plant and equipment” - Is effective beginning January 1, 2011, except for changes arising from segregation into the components of property, plant and equipment items having a clearly different useful life, which will be in force for fiscal years beginning on or after January 1, 2012. The accounting changes resulting from the initial application of this FRS must be prospectively recognized. The principal changes with respect to the superseded Bulletin C-6 “Property, Machinery and Equipment” include the following:

- The accounting treatment for exchange of assets based on the economic substance is included.

(Continued)

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(Pesos in millions)

- The bases for determination of residual value of a component are set forth.
- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated, recognizing a donated surplus.
- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.
- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

Management will adopt this new FRS retrospectively beginning on January 1, 2011.

2011 FRS Improvements

In December 2010, the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) issued the document referred to as “2011 FRS Improvements”, which contains precise amendments to some FRS. The amendments that bring about accounting changes are listed below:

- **Bulletin C-3 “Accounts receivable”** – Recognition of accrued interest income on accounts receivable is required, provided the relevant amount is reliably valued and likely to recover. Furthermore, it is provided that interest income on accounts receivable unlikely to recover must not be recognized. These revisions are effective beginning January 1, 2011 and are retrospectively applicable.
- **FRS C-10 “Derivative financial instruments and hedging activities”** – The revisions to this new FRS are effective beginning January 1, 2011, with retrospective application. The principal revisions include the following:
 - Certain effects of the hedge effectiveness may be excluded.

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- A forecast intragroup transaction may be recognized as hedging only when the functional currencies of the related parties are different from each other.
- Reporting of the effect of the hedged interest rate risk is required, when a portfolio portion is the hedged position.
- Margin accounts must be reported separately.
- In a hedge relationship, a proportion of the total amount of the hedging instrument may be designated as the hedging instrument. The impossibility of designating a hedge relationship for a portion of the term of the hedging instrument is specified.
- **Bulletin D-5 “Leases”** – The discount rate to be used on capital leases is established, disclosures related to such leases are added, and the timing for recognition of the gain or loss on a sale and leaseback deal is revised. Application is on a prospective basis, except for the changes in disclosures, which must be retrospectively recognized and are effective beginning January 1, 2011.

Management estimates that the 2011 FRS revisions will generate no material effects.