

**GRUPO FINANCIERO**  
**SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditor's Report Thereon)

(Free Translation from Spanish Language Original)

**Independent Auditors' Report**  
(Free translation from Spanish language original)

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

We have examined the consolidated balance sheets of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries (“the Group”) as of December 31, 2010 and 2009 and the related consolidated statements of income, changes in stockholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement and are prepared in accordance with the accounting criteria for financial group holding companies in Mexico. An audit consists of examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 described in note 2(a) to the consolidated financial statements, the Group is required to prepare and present its consolidated financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission (“the Banking Commission”) for financial group holding companies in Mexico, which in general conform to Mexican 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 or CINIF). The accounting criteria include particular rules, the application of which, in certain cases, differs from the aforementioned standards as explained in the paragraph (d), last paragraph (h) and paragraph (ad) of note 2 to the consolidated financial statements.

As mentioned in note 3 to the consolidated financial statement, during 2009, came into effect amendments to the accounting criteria applicable to credit institutions, which provide with a new methodology for determining allowance for the consumer loans losses relating to credit card transactions. The adoption of these amendments had an effect of \$264 million pesos that was accounted for by reducing prior year earnings, in accordance with the provisions in place.

(Continued)

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations, changes in their stockholders' equity and cash flows for the years then ended, in conformity with the accounting criteria established by the Banking Commission for financial group holding companies in Mexico.

KPMG CARDENAS DOSAL, S. C.

C.P.C. Jorge Orendain Villacampa

February 14, 2011

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES**  
(Sociedad Controladora Filial)

Consolidated Balance Sheet

December 31, 2010 and 2009

(Pesos in millions)

<b>Assets</b>		<b>2010</b>	<b>2009</b>	<b>Liabilities and Stockholders' Equity</b>		<b>2010</b>	<b>2009</b>
Cash and cash equivalents (note 5)	\$	<u>20,699</u>	<u>24,802</u>	Deposit funding (note 14):			
Margin accounts		<u>257</u>	<u>203</u>	Demand deposits	\$	61,913	60,801
Investment securities (note 6):				Time deposits:			
Trading		31,070	25,425	General public		48,380	49,290
Available-for-sale		5,022	8,762	Money market		9,312	-
Held-to-maturity		<u>1,895</u>	<u>1,804</u>	Credit securities issued		<u>6,220</u>	<u>4,208</u>
		<u>37,987</u>	<u>35,991</u>			<u>125,825</u>	<u>114,299</u>
Debtors under repurchase/resell agreements (debtor balance) (note 7)		<u>14,711</u>	<u>1,005</u>	Bank and other borrowings (note 15):			
Derivatives (note 8):				Due on demand		-	3
Trading purposes		2,054	1,810	Short-term		2,758	1,963
Hedging purposes		<u>81</u>	<u>189</u>	Long-term		<u>1,846</u>	<u>2,036</u>
		<u>2,135</u>	<u>1,999</u>			<u>4,604</u>	<u>4,002</u>
Valuation adjustment from hedging of financial assets (note 9f)		<u>245</u>	<u>241</u>	Assigned securities to be settled (note 6)		<u>39</u>	<u>1,490</u>
Current loan portfolio (note 9):				Creditors under repurchase/resell agreements (note 7)		<u>23,220</u>	<u>19,338</u>
Commercial loans:				Collateral sold or pledged			
Business or commercial activity		34,799	30,732	Securities lending (note 7)		<u>126</u>	<u>132</u>
Financial entities		2,248	2,775	Derivatives (note 8):			
Government entities		<u>8,982</u>	<u>6,735</u>	Trading purposes		3,975	2,084
		<u>46,029</u>	<u>40,242</u>	Hedging purposes		<u>406</u>	<u>275</u>
Consumer loans		15,704	17,319			<u>4,381</u>	<u>2,359</u>
Residential mortgages		<u>40,492</u>	<u>38,317</u>	Other accounts payable:			
Total current loan portfolio		<u>102,225</u>	<u>95,878</u>	Income tax payable (note 18)		196	254
Past due loan portfolio (note 9):				Employee statutory profit sharing payable (note 18)		268	259
Past due commercial loans:				Creditors pending settlement		531	1,210
Business or commercial activity		331	452	Sundry creditors and other accounts payable (note 19b)		<u>4,187</u>	<u>5,778</u>
Financial entities		<u>-</u>	<u>4</u>			<u>5,182</u>	<u>7,501</u>
		<u>331</u>	<u>456</u>	Deferred credits and prepayments		<u>951</u>	<u>920</u>
Past due consumer loans		894	1,231			<u>164,328</u>	<u>150,041</u>
Past due residential mortgages		<u>2,563</u>	<u>2,251</u>	Total liabilities			
Total past due loan portfolio		<u>3,788</u>	<u>3,938</u>	Stockholders' equity (note 19):			
Total loan portfolio		<u>106,013</u>	<u>99,816</u>	Paid-in capital:			
Less:				Capital stock		<u>4,507</u>	<u>4,507</u>
Allowance for loan losses (note 9g)		<u>3,913</u>	<u>4,079</u>	Earned capital:			
Loan portfolio, net		<u>102,100</u>	<u>95,737</u>	Statutory reserves		901	901
Benefits receivable from securitization transactions (note 10b)		<u>205</u>	<u>219</u>	Retained earnings		21,162	18,842
Other accounts receivable, net (note 10)		<u>9,470</u>	<u>11,207</u>	Unrealized gain from valuation of available-for-sale securities		332	260
Foreclosed assets, net (note 11)		<u>22</u>	<u>27</u>	Gain from valuation of cash flow hedge instruments		50	147
Premises, furniture and equipment, net (note 12)		<u>3,771</u>	<u>3,444</u>	Net income		<u>2,936</u>	<u>2,320</u>
Permanent investments (note 13)		<u>81</u>	<u>126</u>			<u>25,381</u>	<u>22,470</u>
Deferred taxes and deferred employee statutory profit sharing, net (note 18)		<u>810</u>	<u>561</u>	Total stockholders' equity		29,888	26,977
Other assets:				Commitments and contingencies (note 22)			
Deferred charges, prepaid expenses and intangibles		1,101	980				
Other short and long term assets		<u>622</u>	<u>476</u>				
		<u>1,723</u>	<u>1,456</u>				
Total assets	\$	<u>194,216</u>	<u>177,018</u>	Total Liabilities and Stockholders' Equity	\$	<u>194,216</u>	<u>177,018</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES**  
(Sociedad Controladora Filial)

Consolidated Balance Sheets, Continued

December 31, 2010 and 2009

(Pesos in millions)

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

	<u>2010</u>	<u>2009</u>
Contingent assets and liabilities	\$ 3,527	1,663
Loan commitments	2,665	2,244
Assets in trust or under mandate:		
Trusts	\$ 114,513	108,070
Mandate	<u>26,823</u>	<u>26,832</u>
	<u>141,336</u>	<u>134,902</u>
Assets in custody or under management	\$ 761,272	502,497
Collateral received by the entity	110,415	105,389
Collateral received and sold or pledged by the entity	45,066	42,060
Investments on behalf of customers, net	68,375	49,423
Interest earned but not collected arising from past due loan portfolio	214	152
Other accounts	<u>805,712</u>	<u>1,034,276</u>

"The historical capital stock amounts to \$3,111 at December 31, 2010 and 2009."

See accompanying notes to consolidated financial statements.

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

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

\_\_\_\_\_  
Nicole Reich de Polignac  
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

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES**  
(Sociedad Controladora Filial)

Consolidated Statements of Income

Years ended December 31, 2010 and 2009

(Pesos in millions)

	<b>2010</b>	<b>2009</b>
Interest income (note 21)	\$ 15,312	16,523
Interest expense (note 21)	<u>(4,734)</u>	<u>(7,019)</u>
Financial margin	10,578	9,504
Allowance for loan losses (note 9g)	<u>(2,536)</u>	<u>(2,954)</u>
Financial margin after allowance for loan losses	8,042	6,550
Commission and fee income (note 21)	3,185	3,277
Commission and fee expense	<u>(399)</u>	<u>(361)</u>
Financial intermediation income (note 21)	114	746
Other operating income (note 21)	<u>780</u>	<u>84</u>
	<u>3,680</u>	<u>3,746</u>
Total operating income	11,722	10,296
Administrative and promotional expenses	<u>(9,679)</u>	<u>(9,346)</u>
Net operating income	<u>2,043</u>	<u>950</u>
Other income (note 21)	1,990	2,371
Other expense (note 21)	<u>(224)</u>	<u>(152)</u>
	<u>1,766</u>	<u>2,219</u>
Income before income taxes	<u>3,809</u>	<u>3,169</u>
Current income taxes (note 18)	(1,028)	(886)
Deferred income taxes (note 18)	<u>152</u>	<u>29</u>
	<u>(876)</u>	<u>(857)</u>
Income before equity in the results of associated companies	2,933	2,312
Equity in the results of operations of associated companies, net	<u>3</u>	<u>8</u>
Net majority interest income	<u>\$ 2,936</u>	<u>2,320</u>

See accompanying notes to consolidated financial statements.

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

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

\_\_\_\_\_  
Nicole Reich de Polignac  
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

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES**  
(Sociedad Controladora Filial)

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2010 and 2009

(Pesos in millions)

	Earned capital						Total stockholders' equity
	Capital stock	Statutory reserves	Retained earnings	Unrealized gain from valuation of available- for-sale securities	Gain from valuation of cash flow hedge instruments	Net income	
<b>Balances at December 31, 2008</b>	\$ 4,507	901	18,005	331	62	3,101	26,907
<b>Changes resulting from stockholder resolutions:</b>							
Resolution passed at the Ordinary General Stockholders' Meeting of March 27, 2009 – Appropriation of 2008 net income	-	-	3,101	-	-	(3,101)	-
Dividends declared (note 19b)	-	-	(2,000)	-	-	-	(2,000)
	-	-	1,101	-	-	(3,101)	(2,000)
<b>Changes related to the recognition of comprehensive income (note 19c):</b>							
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for \$60 and \$(30), respectively	-	-	-	(71)	85	-	14
Effect of change in accounting policy - Initial recognition resulting from the application of new accounting criteria for allowance for the consumer loan portfolio (note 3)	-	-	(264)	-	-	-	(264)
Net income	-	-	-	-	-	2,320	2,320
Total comprehensive income	-	-	(264)	(71)	85	2,320	2,070
<b>Balances at December 31, 2009</b>	\$ 4,507	901	18,842	260	147	2,320	26,977
<b>Changes resulting from stockholder resolutions:</b>							
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2010 – Appropriation of 2009 net income	-	-	2,320	-	-	(2,320)	-
<b>Changes related to the recognition of comprehensive income (note 19c):</b>							
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for \$52 and \$17, respectively	-	-	-	72	(97)	-	(25)
Net income	-	-	-	-	-	2,936	2,936
Total comprehensive income	-	-	-	72	(97)	2,936	2,911
<b>Balances at December 31, 2010</b>	\$ 4,507	901	21,162	332	50	2,936	29,888

See accompanying notes to consolidated financial statements.

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

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

Nicole Reich de Polignac  
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

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES**  
(Sociedad Controladora Filial)

Consolidated Statement of Cash Flows  
Years ended December 31, 2010 and 2009  
(Pesos in millions)

	<u>2010</u>	<u>2009</u>
Net income	\$ 2,936	2,320
Items not requiring (providing) cash flow:		
Allowance for loan losses	2,536	2,954
Provision for doubtful accounts	6	8
Impairment losses or impairment reversal in investing and financing activities	26	148
Depreciation and amortization	294	267
Provisions	261	352
Current and deferred income taxes	882	213
Equity in the results of operations of associated companies	(3)	(8)
Other	67	101
	<u>4,069</u>	<u>4,035</u>
Operating activities:		
Change in margin accounts	(55)	(20)
Change in investment securities	(1,827)	1,377
Change in receivables under repurchase / resell agreements	(13,705)	(989)
Change in derivatives (assets)	(50)	13
Change in loan portfolio	(8,896)	(3,845)
Change in foreclosed assets	1	(8)
Change in other operating assets	1,561	112
Change in deposit funding	11,526	743
Change in bank and other borrowings	602	(2,153)
Change in values assigned to liquidate	(1,451)	-
Change in creditor by repurchase / resell agreements	3,882	2,178
Change in securities lending (liabilities)	1	-
Change in collateral received and sold or pledged	(6)	36
Change in derivatives (liabilities)	1,608	(1,461)
Change in other operating liabilities	(2,621)	787
	<u>(9,430)</u>	<u>(3,230)</u>
Net cash flows from operating activities		
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(619)	(738)
Payments for acquisition of intangibles assets	(5)	(6)
Cash received from disposal of subsidiary and associates	47	36
	<u>(577)</u>	<u>(708)</u>
Net cash flows from investing activities		
Net cash flows from financing activities for payment of dividends in cash (note 19b)	<u>(1,101)</u>	<u>(497)</u>
Net (decrease) increase in cash and cash equivalents	(4,103)	1,920
Cash and cash equivalents at beginning of year	<u>24,802</u>	<u>22,882</u>
Cash and cash equivalents at end of year	\$ <u>20,699</u>	<u>24,802</u>

See accompanying notes to consolidated financial statements.

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

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

\_\_\_\_\_  
Nicole Reich de Polignac  
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

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

December 31, 2010 and 2009

(Pesos in millions)

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

**(1) Description of business and significant transactions-**

***Description of business-***

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. (the Holding Company) is a subsidiary of The Bank of Nova Scotia (BNS), which owns 97.3% of its capital stock; it is authorized to buy and administer the voting stock issued by financial and brokerage entities, auxiliary credit organizations, and other entities primarily engaged in providing complementary or auxiliary services to one or more of such financial entities.

As at December 31, 2010 and 2009, the Holding Company and its subsidiaries (the Group) includes Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (the Bank), a multiple service banking institution which, amongst other activities, accepts deposits from the general public, grants and receives loans, engages in securities transactions and provides trust services; Scotia Inverlat Casa de Bolsa, S. A. de C. V. Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), which acts as intermediary in securities and financial transactions; and Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat (the Mutual Fund Management Company), which acts as a mutual fund manager in conformity with applicable laws; and Servicios Corporativos Scotia, S. A. de C. V. (the Company), which is a company dedicated to providing all kinds of services and technical advice, administrative and processing and control of data, among others. Until January 12, 2010, the Company's name was Scotia Afore, S. A. de C. V. (the Afore) which was a society with purpose of managing and operating retirement funds in the terms of the applicable laws and general provisions issued by the National Commission for the Retirement Savings System issued by Comisión Nacional del Sistema de Ahorro para el Retiro (CONSAR).

***2010 Significant transactions-***

***(a) Placement of stock certificates-***

On October 13 and 14, 2010, the Bank placed debt certificates totaling \$358 and \$2,312 with a 7 and 5-year maturity term, respectively. Additionally, on November 11, 2010, the Bank restarted placement of 5-year debt certificates in the amount of \$830. All such placements are part of a revolving certificate program amounting to \$15,000 (see note 14).

***(b) Acquisition of collection rights-***

On May 5, 2010, the bank entered into an agreement for acquiring, through a promissory note, collection rights of an automotive portfolio related to a private securitization through a trust whose principal asset is the automotive portfolio itself amounting to \$3,330, bearing interest at an annual fixed interest rate of 7.64% and 5 years maturity term (see note 10(a)).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(c) Restructuring of collection rights-**

On June 26, 2010, the Bank received a prepayment of \$3,569. This amount represented the total balance of two agreements entered into on September 2007 and August 2008, for acquisition of collection rights on a securitized automotive portfolio, which contractually were originally to mature in September 2014 and May 2016, respectively. The agreement originally maturing in 2014 was revised to mature in June 2017, bearing interest at the 28-day THIE (Inter-bank interest rate of equilibrium), plus 250 basis points, with option for new acquisition amounting to \$2,930. The other agreement was cancelled (see note 10(a)).

On the same date, new collection rights of \$3,070 were acquired on a non-revolving automotive loan portfolio, maturing on June 2015, bearing interest at the 28-day THIE, plus 250 points (see note 10(a)).

**(d) Support programs for natural disasters-**

Through official documents number 100/042/2010 and 100/047/2010 issued on July 14, 2010 and September 24, 2010, respectively, the National Banking and Securities Commission (the Banking Commission) authorized the credit institutions pertaining to the Asociación de Bancos de México, A. C., to apply a special accounting criteria in order to support debtors who were affected by natural disasters occurred in different of localities in the country.

In the specific case of hurricane “Alex” support programs were authorized for debtors in the states of Nuevo León, Coahuila, Tamaulipas, San Luis Potosí and Oaxaca. As for hurricane “Karl” and the tropical storm “Frank” support programs were authorized for the states of Veracruz, Tabasco, Oaxaca and Guerrero.

Such support consisted of the deferral of up to three (3) monthly payments on the various products included in the program, and is intended to foster the economic recovery of the affected zones.

Following are products and amounts subject to the deferral of up to 3 monthly payments (thousands of pesos):

<u>Product</u>	<u>Number of cases</u>	<u>Deferred amount</u>	<u>Total amount of credit</u>
Mortgage loans	72	\$ 1,770	\$ 104,061
Car loans	20	103	1,542
Personal and payroll loans	6	2	443
Credit cards	<u>18</u>	<u>9</u>	<u>59</u>
Total	<u>116</u>	\$ <u>1,884</u>	\$ <u>106,105</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Similarly, the products related to Pymes and agricultural loans were subject to the program. However there were no debtors eligible for the support.

Therefore, the decrease in the current portfolio for the transfer to past-due portfolio would have amounted to \$6 had the support not been applied.

As for the impact of loan impairment changes on the result of operations, the implementation of these measures prevented setting up allowances for loan losses amounting to approximately \$7.

***(e) Anticipated termination of mortgage program and Udis Trust-***

On July 15, 2010, the Bank entered into an agreement to early extinguish the support programs for housing loan debtors related to the “Agreement for Benefits to Housing Loan Debtors” executed between the Federal Government and various Full-Service Banking Institutions. Such programs consisted of discounts granted to debtors, with the discounts generally being borne proportionately by the Federal Government and the Bank in accordance with the terms of each program, which the Bank applied through December 31, 2010 (note 9(d)). Under the agreement, the loans eligible to participate as of December 31, 2010 (cut-off date), are to receive the discount benefits of both the portion borne by the Federal Government and the portion borne by the Bank, establishing a 5-year loan annually payable by the Federal Government for its corresponding discount portion borne by it, bearing interest at the 91-day Cete futures interest rate.

Furthermore, on July 26, 2010 the General Provisions applicable to the early termination of the aforementioned programs were published in the Federal Official Gazette, which among other things established the requirements for eligibility of the loans, as mentioned in the note 9(e).

The effects of the discount amounts so granted and the effects from the early termination of the support programs are reported in the note 9(d) and (e).

***(f) Loyalty program termination-***

For the year ended December 31, 2010, the Bank recognized in the result of operations a charge of \$171 related to the contractual termination of the loyalty program for granting rewards to the Bank’s cardholders, celebrated with a hospitality company whereby a minimum quantity of points would be acquired to be granted to such customers within a year. The payment for such points was fully amortized in 2010. Additionally, in October 2010 a new customer loyalty points program was launched under which the cost and delivery of rewards are borne by the Bank.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(g) *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, see note 6(a).

**(h) *Change of activity and change the name of Afore-***

Through January 11, 2010, the main activity of the Company was to open, manage and operate individual retirement savings system accounts, and to invest the workers' savings funds in the siefores (Specialized Retirement Fund Investment Entities) then administered by the Company. On the same date, the Company transferred its customer portfolio to Afore Profuturo, S. A. de C. V. (Afore Profuturo) for a consideration of a single \$200 payment.

As a result of the onerous transfer mentioned above and described in paragraph (n) of this note, at the Stockholders' Meeting held on January 12, 2010, a resolution was passed to change the legal name from Scotia Afore, S. A. de C. V., Grupo Financiero Scotiabank Inverlat to Servicios Corporativos Scotia, S. A. de C. V. Likewise, a total reform of the corporate bylaws of the entity was approved, thus changing its afore activity to an entity providing personnel services and technical advice primarily on human resources, finance and legal areas.

**(i) *Increase in personnel of the Company-***

In the year ended December 31, 2010, the Company's staff increased by 284 people, from whom 235 were incorporated under an employer substitution agreement entered into between a subsidiary of The Bank of Nova Scotia (a related company, outside the Group) and the Company in November 2010. The transferred employees retained their then accrued length of service. Additionally, 49 new employees were hired, whose labor terms were established on the employment date.

The effects from the increase in the Company's staff represented a net increase in the projected net liability of \$111, in connection with the seniority premium plan, and a \$280 increase in the projected net asset related to the life insurance plan.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

***(j) Acquisition of the fixes assets of the Company-***

On December 22, 2010, the Company acquired fixed assets (furniture and office equipment, computer, telecommunications and transportation equipment) from a subsidiary company of The Bank of Nova Scotia (a related company, outside the Group) for \$11,627. Additionally, new furniture and equipment was acquired from a third party for a total of \$24,611 during 2010.

***2009 Significant transactions-***

***(k) Sale of credit card portfolio-***

On April 23, 2009, the Bank sold a credit card portfolio to a non-bank institution (SOFOM as abbreviated in Spanish), for a market value of \$383. The outstanding balance and the allowance for this portfolio at the disposal date were \$806 and \$46, respectively. The Bank continues to provide administrative services for the sold portfolio.

As a result of this transaction, the Bank determined a loss of \$371, recorded in "Other operating income". This loss resulted from the difference between the net book value of \$760 and the disposal price of \$383, and taking into consideration the valuation of \$6 attributed to portfolio management, in conformity with the provisions of the applicable accounting standards.

***(l) Sanitary Contingency Support Plan for the flu virus-***

The Bank adopted the resolution issued by the Banking Commission on June 12, 2009 relating to the AHINI flu virus sanitary contingency. Loans portfolios that benefited from this program were: auto, consumer, mortgage and credit card.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(m) 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.

**(n) Transfer of trade portfolio rights-**

On November 6, 2009, the Afore entered into an onerous agreement to transfer customer portfolio rights with Profuturo GNP, S. A. de C. V., Afore (Afore Profuturo), whereby the Afore agrees to transfer the all rights and obligations inherent to the clients portfolio, the rights for managing individual accounts, as well as the assets under the management of the Siefores managed by the Afore on January 4, 2010. The agreed-upon consideration for the transfer amounted to \$200, which was recorded in the caption of "Other income" in the consolidated statement of income for the year ended December 31, 2009, and as an account receivable in "Other receivables".

The agreement considers the Afore's accountability for any contingency relating to events inherent to the portfolio subject to the assignment of rights over a limited one-year period.

**(2) Summary of significant accounting policies-**

**(a) Financial statement authorization, presentation and disclosure-**

On February 14, 2011, Nicole Reich de Polignac (General Director), Diego M. Pisinger Alter (General Director Deputy Finance and Business Intelligence), Ken Pflugfelder (Divisional Director Group Audit) and Gordon Macrae (Director of Group Accounting) authorized the issuance of the accompanying audited consolidated financial statements and related notes.

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

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

The consolidated financial statements at December 31, 2009 and for the year then ended were reclassified to conform them to the presentation used at December 31, 2010 and for the year then ended.

The consolidated financial statements include the Bank's UDI Trusts (restructured loan portfolio), created for the purpose of managing restructured loans through Mexican government support programs, where the Bank acts as grantor and trustee and the Mexican government is the trust beneficiary. On July 26, 2010 the Ministry of Finance and Public Credit (SHCP) published through the Federal Official Gazette, the General Provisions applicable to the anticipated termination of mortgage programs, establishing for this purpose as cut-off date December 31, 2010 (See note 1(e)).

In general, the accounting criteria for financial group holding companies in Mexico, established by the Banking Commission conform to Mexican Financial Reporting Standards (FRS), issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de las Normas de Información Financiera, A. C. or CINIF), and include particular criteria relating to accounting, valuation, presentation and disclosure, which depart from these standards (see paragraphs (d), (h) and (ad) of this note). In the case of financial statement of the Company were prepared according to FRS.

The important balances and transactions between the entities prior referred to have been eliminated in consolidation.

The accounting criteria provide that the Banking Commission will issue particular rules for specialized operations and that in the absence of an express accounting criterion of the Banking Commission for financial group holding companies, and in a wider context the FRS, the suppletory processes 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 the 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 it complies with the requirements of criterion A-4 of the Banking Commission.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

The major items subject to such estimates and assumptions include the valuation of financial instruments, allowance for loan losses and deferred taxes. The actual results may differ from those estimates and assumptions.

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

Assets and liabilities related to the purchase and sale of foreign currencies, investment in securities, securities repurchase/resell agreements and derivative financial instruments are recognized in the consolidated financial statements on the day the transactions are entered into, regardless of the settlement date.

**(b) Recognition of the effects of inflation-**

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

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 Group'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	4.184316	6.39%	15.03%

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(c) *Cash and cash equivalents-***

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

The foreign exchange acquired in purchase transactions to 24 and 48 hours, are recognized as restricted cash, while the currency sold is recorded as cash outflow. The rights and obligations for the sales and purchases of foreign exchange at 24 and 48 hours are recorded in "Other 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 “Margin Accounts”. Returns affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year under “Interest income”, whereas the commissions paid are recognized under “Commissions and fees expenses”.

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(e) *Investment securities-***

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities, 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 accounted for at fair value; transaction costs for the acquisition of securities are recognized in income on the acquisition date, subsequently valued at fair value 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 securities investments denominated in foreign currency are recognized in the year's income under "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 "Unrealized gain or loss 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 "Interest income" or "Interest expense".

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

***Held-to-maturity securities-***

Are those debt securities with fixed or determinable and with fixed maturity, regarding which the entity has the intention and capacity to hold to maturity. These securities are initially recognized at fair value; and later are valued at amortized cost, which implies that the amortization of the premium or discount as well as the transaction costs form part of interest earned recognized in income. Interest is recognized in income as earned and when the securities are sold, the sales gain or loss is recognized for the difference between the net realizable value and the book value of the securities within the caption of "Financial intermediation income".

***Impairment in value of a security-***

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.

***Value date transactions-***

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

***Transfers between categories-***

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 Banking Commission.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*(f) Repurchase/resell agreements-*

At the trade date of the repurchase/resell agreement transaction, the Bank acting as repurchase recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as repurchase 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.

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

The Bank 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 Bank, 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 Bank 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.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(g) *Securities lending-***

At the date of contracting the securities lending operations, the Brokerage Firm acting as lender, transfers the loan stock of the borrower and recognizes as restricted, and acting as borrower the loan stock are recognized in memorandum accounts under "Collateral received by the entity." The accrued premium is recognized in the income statement under "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 "Securities Lending."

Financial assets received as security are recognized in memorandum accounts under "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 of the Brokerage Firm if prior to the maturity of the securities loan 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", as applicable.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(h) *Transactions with derivative financial instruments-***

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

The valuation effect of financial instruments for trading purposes is shown in the consolidated balance sheet and statement of income under “Derivatives” and “Financial intermediation income, net”, respectively.

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity, while the ineffective portion of the change in fair value is recognized under "Financial intermediation income". These valuation effects are presented in the consolidated balance sheet under “Derivatives”.

If the cash flow hedge instrument reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is de-designated, while the valuation of the cash flow hedge instrument within stockholders' equity remains in this caption and is gradually amortized in the financial intermediation income until the maturity of the transaction.

The gain or loss from the valuation of fair value hedging instruments is recognized under “Derivatives” on the consolidated balance sheet and under “Interest income” on the consolidated statement of income, as it relates to interest rate hedging. The gain or loss from valuation of the hedged item is reported under “Adjustment for valuation of financial asset hedging” on the consolidated balance sheet and under “Interest income” on the consolidated statement of income. This balance sheet presentation departs from the provisions of Bulletin C-10 of FRS.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(i) Settlement clearing accounts-**

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

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

**(j) Past due loans and interest-**

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

*Commercial loans with one principal amortization and interest payment* – 30 or more days after due date.

*Commercial and residential mortgages where the repayment of principal and interest thereon was agreed in partial periodic payments* – When the payment of principal and interest thereon have not been collected and are 90 or more calendar days past due.

*Commercial loans with one principal amortization and periodic interest payments* – 30 or more days after due date in the case of the principal payment and 90 or more days after due date in the case of interest payments.

*Revolving credits and credit cards* – When unpaid for two normal billing cycles or when 60 or more days past due.

*Overdrafts of checking accounts with no lines of credit and outright notes receivable* – When these documents are not collected within the following time limits:

– Transactions with Mexican entities: 2 business days after the transaction took place.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

– Transactions with foreign entities: 5 business days after the transaction took place.

In addition, a loan is classified as past due when the debtor files for bankruptcy protection.

Whenever a loan is transferred to the past-due portfolio, accrual of interest is discontinued and control thereof is kept in memorandum accounts. Once collected, such interest is recognized directly in statement of income caption "Interest income".

Past due loans are reclassified as current when the past due principal and interest has been fully paid by the debtor, except for restructured loans or renewals, which are transferred to current portfolio when three timely consecutive payments have been made (sustained payment).

**(k) Allowance for loan losses-**

Allowance for loan losses represents management's best estimate of probable losses inherent in the loan portfolio as well as guarantees issued and irrevocable loan commitments. The allowance is described as follows:

*Graded commercial loans* – Studies are made for classifying the portfolio using internal grading rating models applicable to the Bank's commercial loans based on the borrower's likelihood of default and creditworthiness, which were authorized by the Banking Commission. Such internal grading models comply with the methodology prescribed by the SHCP and follow the credit grading guidelines set forth by the Banking Commission.

In compliance with the General Provisions applicable to the Loan Portfolio Grading Methodology for Credit Institutions ("the Provisions"), the Bank, based on the results from its internal grading model, references its grading to those of the Provisions so as to validate the adequacy of the allowance.

Loans granted to Trustees acting pursuant to Trusts and "structured" credit instruments that affect patrimony which permit the individual assessment of the related risks and those granted to financial entities, are graded individually according to methodologies prescribed in these "Provisions" (see note 23).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*Graded residential mortgage and consumer loans* – These loans are parametrically evaluated in conformity with the Provisions, which stipulate rules for establishing allowances to recognize potential loan losses based on the past due installments, probability of default, and the expected loss given default and in the case of consumer portfolio relating to credit card transactions, considering as of August 2009, the likelihood of default, severity of the loss and exposure to default, on an individual loan basis, on historical data of such portfolio.

The allowance percentages are determined based on the risk levels, according to the following table:

<u>Risk level</u>	<u>Range of allowance percentages</u>
A - Minimum	0.5 – 0.9
B - Low	1 – 19.9
C - Medium	20 – 59.9
D - High	60 – 89.9
E - Loss	90 – 100.0

*General reserves* – In accordance with the “Regulations” general reserves mean those allowances resulting from risk degree A, and beginning August 2009, risk degree B-1 for consumer loan portfolio, referent to credit card operations.

*Specific reserves* – Those allowances resulting from risk levels B, C, D and E.

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

*Exempt portfolio* – consists mainly of loans to government entities, including the IPAB, which are not graded.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

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

Loans considered unrecoverable are written off against the allowance when their collection is determined to be practically impossible. Any amount recovered from previously written-off loans is recognized in income.

**(l) *Collection rights-***

Collection rights arising from the acquisition of financial instruments issued on a non-serial basis are recognized by the interest method whereby a return arrived at by multiplying the interest rate agreed upon with the counterparty by the outstanding balance is recorded monthly.

Cash flows are evaluated semiannually to verify they are highly effective, if not, the interest method is discontinued and such rights are then recognized under the cost recovery method, in accordance with accounting criterion B-11 “Collection rights” issued by the Banking Commission.

The Bank estimates monthly based on the behavior of expected cash flows, whether an allowance for losses on collection rights is to be set up.

Collection rights are reported under the consolidated balance sheet caption “Other accounts receivables, net”, and the interest thereon is reported under “Other income” on the consolidated statement of income.

**(m) *Credit card loyalty program-***

The Bank has applied, based on paragraph 4 of criterion A-4 “Supplementary Application of Accounting Criteria”, the International Financial Reporting Interpretations Committee (IFRIC) 13 “Customer loyalty program” of International Financial Reporting Standards for recording credit card transactions related to the loyalty program. Revenue from exchange fees are deferred until the obligation to redeem the rewards to which customers are entitled is incurred.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(n) 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 Bank'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.

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.

**(o) Foreclosed assets or assets received in lieu of payment and leased foreclosed assets-**

Foreclosed assets are stated at the lower of cost or fair value less strictly necessary costs and expenses incurred for foreclosure. When the value of the asset originating the foreclosure, net of allowances, exceeds the value of the foreclosed asset, the difference is recognized in consolidated income statement caption "Other income (expense) on the operation". Otherwise, the value of the foreclosed asset is adjusted to the net value of the asset. The value of the asset originating the foreclosure and the relevant loan loss allowance set up as of that date are derecognized from the consolidated balance sheet.

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

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

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation consolidated income statement caption "Other income (expense) of operation". The Bank creates additional provisions to recognize the potential impairment of foreclosed assets due to the passage of time, according to the table in the next page.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

<u>Months elapsed from the date of foreclosure or received in lieu of payment</u>		<u>Reserve percentage</u>	
		<u>Real property</u>	<u>Chattels, receivables and investment securities</u>
Over:	6	0%	10%
	12	10%	20%
	18	10%	45%
	24	15%	60%
	30	25%	100%
	36	30%	100%
	42	35%	100%
	48	40%	100%
	54	50%	100%
	60	100%	100%

**(p) 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 Bank's management of the corresponding assets.

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

**(q) Permanent investments-**

Investments in subsidiary and associated companies are valued by the equity method. A company is regarded as a subsidiary of the Group when having the power to define the entity's operating and financial policies, and it is deemed to be an associated company 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 recorded at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statement of income caption "Other income (expenses) of operation".

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(r) Other assets-**

This caption includes initial loan origination costs and expenses, which are recognized as a deferred charge and are amortized against consolidated income statement caption "Interest expenses" over the average term of the loans, except for those incurred for revolving loans which are amortized over a 12-month term.

This item includes primarily the contributions made to the Brokerage Firm reserve fund set up through the stock exchange members, the purpose of which 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 "Other income" on the statement of income.

Likewise, costs incurred during the development stage in connection with internally developed software are also included. These costs are capitalized and amortized against the results of operations for the year, in which the software is ready to operate, by the straight-line method over the estimated useful life as determined by the Group.

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

Furthermore, the projected net assets of the defined benefit plan are recorded under "Other assets", and are recognized in accordance with the provisions of FRS D-3 "Employee benefits".

**(s) 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 applicable tax provisions.

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

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.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(t) *Deposit funding-***

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

**(u) *Bank and other borrowings-***

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

**(v) *Employee benefits-***

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

Additionally, there is a plan of defined benefits 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 corresponding to plans medical benefits, food coupons and life insurance for retirees.

Irrevocable trusts have been established 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.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

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 results of operations for the year.

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

**(x) Revenue recognition-**

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on loans past due loans is not recognized in income until collected.

Interest and commissions collected in advance are recorded as deferred income within "Deferred credits and prepayments", and apply to the income statement under "Interest income" as earned.

Commissions collected for the initial granting of a loan are recorded as a deferred credit, which is amortized in income during the life of the loan, except when arising from revolving loans, which are amortized over a 12-month period.

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

Interest income on repurchase/resell agreements are recognized in income as earned, using the effective interest method.

The commissions from assets in custody or under management are recognized in income as earned.

**(y) Foreign currency transactions-**

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(z) Memorandum accounts-**

**Customer's securities-**

Customer's securities in custody guarantee or under management are recorded in memorandum accounts at market value, representing the amount for which the Brokerage Firm is liable to its customers as a result any future eventuality.

**(aa) UDI Trusts-**

For presentation purposes the asset and liability accounts in the consolidated balance sheet at December 31, 2009, of the loan restructured portfolio in UDI Trusts are expressed in Mexican pesos by applying the UDI value at the end of each month. Income and expense accounts are expressed in Mexican pesos by applying the average UDI value.

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

**(ab) Contributions to IPAB-**

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

According to the Law, IPAB guarantees depositors' accounts up to 400 (thousand of pesos) UDIS.

**(ac) Contingencies-**

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

**(ad) Consolidated statement of income -**

The Group presents the consolidated statement of income in accordance with accounting criteria for credit institutions in Mexico. The FRS requires the presentation of the statement of income classifying income, costs and expenses as ordinary and non-ordinary.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(3) 2010 FRS Revisions and 2009 accounting change-**

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

- **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 does not result from contributions of capital for holding should not be recognized by it.

**2009 accounting change**

Pursuant to provisions of transitory article two of the resolution that amends the general provisions applicable to credit institutions, published in the Official Gazette on August 12, 2009, issued by the Banking Commission, a new methodology is established applicable to the grading of credit card consumer loans, which considers the probability of default and losses derived from default, based on the among other factors.

This new methodology resulted in an increase in the credit card reserves compared with those calculated under the former methodology. The Banking Commission established two options for recording the initial effect for this change in methodology. The first option allowed for recognizing the difference in results of prior years, within stockholders' equity, the reserve increase being directly attributable to the change in methodology. The second option allowed for the capitalization of the effect due to the change in methodology, and to be amortized in income over a 24 month period, through the monthly amortization of credit card loan losses reserve. The Bank opted for directly charging the difference of \$264 to "Retained earnings".

**(4) Foreign currency position-**

Central Bank regulations require that banks and brokerage firms maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital of the Bank computed as of the third immediately preceding month, and 15% of the global capital of the Brokerage Firm.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

The Bank has been authorized by the Central Bank to maintain a larger long position, which includes a hedge of capital of up to 50 million dollars in 2010 and 2009. Accordingly, as of December 31, 2010 and 2009, the Bank's and the Brokerage firm's long position is within the authorized limits.

The foreign currency position stated in millions of dollars is analyzed as follows:

	<u>2010</u>	<u>2009</u>
Assets	2,250	2,006
Liabilities	<u>(2,227)</u>	<u>(2,015)</u>
Long (short) position	23	(9)
	=====	=====

At December 31, 2010, the long position (short in 2009) foreign currency position consists of 95% in US dollars (82% in 2009), and 5% in other foreign currencies (18% in 2009).

At December 31, 2010 and 2009, the exchange rate of the peso to the dollar was \$12.3496 and \$13.0659, respectively, and on February 14, 2011, the date on which the issuance of the consolidated financial statements was authorized, it was \$12.0461.

**(5) Cash and cash equivalents-**

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

	<u>2010</u>	<u>2009</u>
Cash in hand	\$ 2,484	2,182
Banks:		
Nationals	32	4,924
Foreign	1,731	1,640
Three-day interbank call money	3,510	2,618
24 and 48-hour foreign currency sales	(429)	(1,016)
Other funds available	71	50
Restricted funds:		
Deposits with the Central Bank	12,837	13,381
24 and 48-hour foreign currency purchase	225	930
Compensation fund to operate derivatives	<u>238</u>	<u>93</u>
	\$ 20,699	24,802
	=====	=====

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

At December 31, 2010 and 2009, the deposits with the Central Bank relate to deposits for monetary regulation amounting to \$12,787 in both years, bearing interest at the average bank funding rate, with no maturity.

At December 31, 2010 and 2009, the Group had the following three-day interbank loans.

<u>Institution</u>	<u>2010</u>			<u>2009</u>		
	<u>Amount</u>	<u>Rate</u>	<u>Term</u>	<u>Amount</u>	<u>Rate</u>	<u>Term</u>
Banco Nacional de Obras y Servicios Públicos, S.N.C	\$ 1,500	4.55%	3 days	1,500	4.65%	3 days
Banco Santander Serfin, S. A.	—	—	—	1,118	4.50%	3 days
Banco Nacional de México, S. A.	2,000	4.40%	3 days	—	—	—
Nacional Financiera S.N.C.	<u>10</u>	4.50%	3 days	<u>—</u>	—	—
	\$ <u>3,510</u>			<u>2,618</u>		

At December 31, 2010 and 2009, foreign currency receivable and deliverable in connection with the purchases and sales to be settled within 24 and 48 hours are analyzed as follows:

	<u>Receivable</u>		<u>Deliverable</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Dollar	\$ 197	857	(394)	(902)
Other currencies	<u>28</u>	<u>73</u>	<u>(35)</u>	<u>(114)</u>
	\$ <u>225</u>	<u>930</u>	<u>(429)</u>	<u>(1,016)</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(6) Investment securities-**

**(a) Composition-**

At December 31, 2010 and 2009, the Group's investment securities are as follows:

	<b>Fair Value</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
<u>Trading:</u>		
Debt securities:		
Government securities	\$ 20,746	17,292
Bank promissory notes	8,896	7,276
Others	92	-
Shares	<u>1,336</u>	<u>857</u>
	<u>31,070</u>	<u>25,425</u>
 <u>Available-for-sale</u>		
Debt securities:		
Government securities	3,026	6,359
Bank promissory notes	610	1,050
Others <sup>(1)</sup>	967	1,004
Shares	<u>419</u>	<u>349</u>
	<u>5,022</u>	<u>8,762</u>
 <u>Held-to-maturity:</u>		
Special CETES of the UDI Trust:		
Residential mortgages	<u>1,895</u>	<u>1,804</u>
 Total investment securities	 \$ <u>37,987</u>	 <u>35,991</u>

During the year ended December 31, 2010, the Bank recognized in results of operation for the year an impairment loss of \$150, for debt securities classified as "Available for sale" in the consolidated balance sheet.

<sup>(1)</sup> At closing of fiscal year 2009, the Brokerage Firm recognized a charge to income for \$121, by way of impairment of a portion of the position held as available for sale, in view of the following events:

- a) The issuer shows signs of having undergone significant financial hardship.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- b) It is highly likely that the issuer will undergo financial restructuring.
- c) Contract clauses were breached such as defaulting on the payment of principal and interest thereon.

As of December 31, 2009, the impairment amount of \$121 was determined by the difference between the initial book value and its fair value as of December 31, 2009, which was recorded on the statement of income in the caption "Unrealized gain at fair value". On May 5, 2010, those securities were exchanged for the same number of securities issued by a different issuer at a market value of \$77.03 pesos each. The effect of the exchange generated an income of \$115, which was recognized under "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 "Valuation effects on available-for-sale securities" in stockholders' equity.

- (b) At December 31, 2010 and 2009, debt securities relating to government securities and bank notes classified as trading and available-for-sale securities, are analyzed as follows:

<b><u>Trading:</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Debt securities:		
Government securities (unrestricted):		
CETES	\$ 519	50
IP BPAS	606	10
IT BPAT	<u>-</u>	<u>6</u>
	<u>1,125</u>	<u>66</u>
Value date sales:		
BONOS M	(1,033)	(1,248)
BI CETES	-	(293)
IS BPA	(30)	-
SUDIBONO	(100)	(15)
CEMEA77	<u>(1)</u>	<u>-</u>
	<u>(1,164)</u>	<u>(1,556)</u>
(Assigned securities to be settled unrestricted securities)	\$ <u>(39)</u>	<u>(1,490)</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
<b><u>Trading securities (continued)</u></b>		
<b><u>Unrestricted securities:</u></b>		
Own position:		
BONOS M	\$ 21	19
IT BPAT	-	81
IP BPAS	166	-
UMS	77	89
CETES	871	407
BONDES D	22	-
LD BONDES	<u>6</u>	<u>-</u>
	<u>1,163</u>	<u>596</u>
Value date sales:		
CETES	-	(3)
M BONOS	(57)	(27)
BPA	(105)	-
D2 EUROBONOS	<u>(1)</u>	<u>-</u>
	<u>(163)</u>	<u>(30)</u>
Total unrestricted securities	<u>1,000</u>	<u>566</u>
Restricted securities:		
Under repurchase/resell agreements:		
CFECB	-	105
CETES	3,647	4,342
BPAS	164	2,253
BPA	1,117	417
BPAT	1,915	1,561
BONDES D	8,904	6,753
BONOS M	1,821	803
BONOS M0	924	4
UDIBONO	821	240
LS BOND 182	<u>-</u>	<u>28</u>
	<u>19,313</u>	<u>16,506</u>
Value date purchases:		
BONOS M	214	203
UDIBONO	60	-
BI CETES	15	3
D2 EUROBONO	1	-
BPA	105	-
CEMEA 77	<u>1</u>	<u>-</u>
	<u>396</u>	<u>206</u>
Carried forward	\$ <u>20,709</u>	<u>17,278</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
<b><u>Trading securities (continued):</u></b>		
Brought forward	\$ <u>20,709</u>	<u>17,278</u>
Others restricted securities:		
CETES	<u>37</u>	<u>14</u>
Total government securities	\$ <u>20,746</u>	<u>17,292</u>
Bank promissory notes:		
INBURSA	\$ 2,461	2,496
BANOBRA	860	1,942
NAFIN	<u>1,746</u>	<u>—</u>
	<u>5,067</u>	<u>4,438</u>
Restricted securities:		
Under repurchase/resell agreements:		
BACMEXT	—	43
NAFIN	3	993
CBPC	58	—
CBUR	369	320
BANOBRA:		
CEDES	1,736	—
PRLV	26	—
PRLV	<u>1,637</u>	<u>1,482</u>
	<u>3,829</u>	<u>2,838</u>
Total bank promissory notes	\$ <u>8,896</u>	<u>7,276</u>
Others restricted securities:		
CBUR	\$ <u>92</u>	<u>—</u>
Shares:		
NAFTRAC 02	\$ 6	189
SCOTIA G	280	350
Others	<u>534</u>	<u>18</u>
Carried forward	\$ <u>820</u>	<u>557</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
<b><u>Trading securities (continued):</u></b>		
Brought forward	\$ <u>820</u>	<u>557</u>
Value date sales:		
NAFTRAC 02	(53)	(122)
Others	<u>(112)</u>	<u>(91)</u>
	<u>(165)</u>	<u>(213)</u>
Restricted securities:		
Under repurchase/resell agreements:		
SCOTIA G	<u>239</u>	<u>152</u>
Securities lending:		
SCOTIA G	128	141
Others	<u>120</u>	<u>—</u>
	<u>248</u>	<u>141</u>
Others restricted securities:		
NAFTRAC 02	—	24
Other	<u>21</u>	<u>52</u>
	<u>21</u>	<u>76</u>
Value date purchases:		
NAFTRAC 02	67	58
BULLTICK	27	33
Others	<u>79</u>	<u>53</u>
	<u>173</u>	<u>144</u>
Total shares	\$ <u>1,336</u>	<u>857</u>
<b><u>Available-for-sale:</u></b>		
Debt securities:		
Domestic government securities:		
MMVCB	\$ 1,860	2,921
MEXF54	721	2,017
MEXH11	-	364
MEXK40	-	369
MEXQ10	-	73
MEXX60	-	75
PEMEJ73	-	235
BONOS M	-	96
BONOS M0	<u>75</u>	<u>—</u>
Carried forward	\$ <u>2,656</u>	<u>6,150</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
<b><u>Available-for-sale (continued):</u></b>		
Brought forward	\$ <u>2,656</u>	<u>6,150</u>
Foreign government securities:		
BRAZT75	\$ 356	<u>—</u>
BRAZY60	<u>14</u>	<u>—</u>
	<u>370</u>	<u>—</u>
Value date purchases (restricted securities):		
MEXMH11	-	105
PEMEJ73	<u>-</u>	<u>104</u>
	<u>-</u>	<u>209</u>
Total government securities	\$ <u>3,026</u>	<u>6,359</u>
Bank promissory notes:		
Own position:		
BANOBRA	\$ 610	-
BACOMER	-	1,003
CA51	<u>-</u>	<u>47</u>
Total bank promissory notes	\$ <u>610</u>	<u>1,050</u>
Others debt securities:		
Own position:		
VIPESA	\$ 397	370
MOLIMET	192	192
CINMOBI	7	2
BNPPPF	-	200
CASITA	-	98
CBUR	138	17
MONTEP10	50	-
PATRIMO	122	64
CITIGROUP	<u>61</u>	<u>61</u>
Total others debt securities	\$ <u>967</u>	<u>1,004</u>
Shares:		
BOLSA	\$ 368	219
Others	<u>51</u>	<u>130</u>
Total shares	\$ <u>419</u>	<u>349</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

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

At December 31, 2010 and 2009, the investments in the same non-government issuer of debt securities over 5% of the Bank's net capital are analyzed as follows:

	<u>2010</u>	<u>2009</u>
INBURSA	\$ 2,461	2,496
BANOBRA	1,762	1,650
NAFIN	1,604	-
	=====	=====

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

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>2010</u>	<u>2009</u>
BANOBRA	\$ 860	292
NAFIN	142	-
	=====	=====

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(7) Securities under repurchase/resell agreements-**

At December 31, 2010 and 2009, the “Debtors under repurchase/resell agreements” balances in which the Group acts as repurchaser, are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Debtors under repurchase/resell agreements:		
BPAS	\$ 1,636	5,296
BPAT	8,764	5,356
IS BPA 182	9,862	7,014
BONOS M	15,133	2,854
BONOS M0	1,700	3,300
BI CETES	3,943	-
LD BONDESD	13,829	15,394
UDIB	322	-
CTIM	<u>4,436</u>	<u>3,816</u>
	<u>59,625</u>	<u>43,030</u>
Collateral sold or pledged:		
LD BONDESD	(13,743)	(15,394)
BONOS M	(7,458)	(4,316)
BONOS M0	(1,700)	(1,838)
BPA 182	(7,557)	(7,008)
BI CETES	(3,386)	-
IT BPAT	(5,126)	(5,355)
BPAS	(1,186)	(4,298)
CTIM	(4,436)	(3,816)
UDIB	<u>(322)</u>	<u>-</u>
	<u>(44,914)</u>	<u>(42,025)</u>
Receivables under resell agreements (debtor balance)	\$ 14,711	1,005
	<u>=====</u>	<u>=====</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
 Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
Creditors repurchase/resell agreements:		
BPAS	\$ 164	2,252
BPAT	1,914	1,562
CBPC	58	-
CEDE	1,736	-
CBUR	461	425
CTIM	3,645	4,341
IPAS	1,115	417
LBON	8,897	6,748
PRLV	1,665	2,518
MBON	1,818	808
MBON0	924	-
LS	-	28
UDIB	<u>823</u>	<u>239</u>
	\$ <u>23,220</u>	<u>19,338</u>

At December 31, 2010 for the Bank, maturities of sale and repurchase agreements vary between 3 to 91 days (4 and 91 days in 2009), with weighted rates of 4.47% acting as repurchasee, and 4.34% acting as repurchase (4.54% and 4.51% in 2009, respectively). At December 31, 2010 for the Brokerage Firm, the terms of the repurchase/resale agreements range from 3 to 91 days (4 and 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).

During the years ended December 31, 2010 and 2009, interest or premiums collected amounted to \$1,793 and \$2,915, respectively, interest or premiums paid amounted to \$1,840 and \$3,397 respectively, and are included in the consolidated income statement in items of "Interest income" and "Interest expense", respectively (see note 21(b)).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**Securities lending:**

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

	<b><u>Number of securities</u></b>	<b><u>Fair value</u></b>
<b><u>December 31, 2010:</u></b>		
ALFA A	72,800	\$ 9
AMX L	50,000	2
CEMEX CPO	4,999,900	66
ELEKTRA *	3,630	2
GCARSO AI	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>
		\$ 126
		===
<b><u>December 31, 2009:</u></b>		
BNAFTRAC02	1,428,000	\$ 47
ELEKTRA *	2,632,000	6
SIMECB	35,000	1
GMODELOC	9,005	7
CEMEXCPO	90,000	41
SORIANAB	500,000	16
COMERCIUBC	150,000	2
ICHB	60,000	3
TELINTL	900,000	<u>9</u>
		\$ 132
		===

Securities lending transactions at December 31, 2010 and 2009 mature from January 3 to 10, 2011 and from January 3 to 10, 2010, respectively and their average weighted terms at December 31, 2010 and 2009 are 6 and 7 days, respectively.

At December 31, 2010 and 2009, securities for \$128 and \$141, respectively, were delivered as guarantee in connection with securities lending transactions where the Brokerage Firm acted as borrower.

For the year ended December 31, 2010, premiums collected and paid in respect of securities lending 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 (see note 21(b)).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
(Pesos in millions)

**(8) Derivatives-**

At December 31, 2010 and 2009, the valuation of derivative financial instruments for trading and hedging purposes recognized under "Derivatives ", is analyzed as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Trading purposes:				
Foreign currency forward contracts	\$ 84	145	75	63
Futures	4	1	3	1
Options (shares and indexes)	24	1,740	31	309
Interest rate swaps	<u>1,942</u>	<u>2,089</u>	<u>1,701</u>	<u>1,711</u>
	<u>2,054</u>	<u>3,975</u>	<u>1,810</u>	<u>2,084</u>
Hedging purposes:				
Fair value hedges	-	279	1	257
Cash flow hedges	<u>81</u>	<u>127</u>	<u>188</u>	<u>18</u>
	<u>81</u>	<u>406</u>	<u>189</u>	<u>275</u>
	\$ 2,135	4,381	1,999	2,359
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

For the years ended December 31, 2010 and 2009, the amount of losses recognized in result of operations arising from the impairment of financial instruments for hedging purposes amounted to \$3 and \$6, respectively.

As for instruments used for cash-flow hedging purposes, the net loss for the years ended December 31, 2010 and 2009, derived from their ineffectiveness of \$(1) and \$(6), respectively, that is included in the results of operations under "Financial intermediation income", while the effect from the valuation relating to the effective hedge portion at December 31, 2010 and 2009, which amounts to \$69 (\$41 net of the deferred tax effect) and \$218 (\$147 net of the deferred tax effect), respectively, is presented in stockholders' equity.

The net estimated effect of gains and losses arising from derivative transactions presented under stockholders' equity at December 31, 2010 and 2009, which are expected to be reclassified to income within the following twelve months amounts to \$20 and \$54, respectively.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

At December 31, 2010 and 2009, the caption of "Financial intermediation income", includes a gain for \$2 and a loss for \$21, respectively, relating to the valuation of derivatives for fair value hedging purposes.

At December 31, 2010 and 2009, did not have hedge positions arising from forecasted future transactions.

Notional amounts:

The following notional amounts of contracts (securities, currency, etc) represent the derivatives volume outstanding and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. The notional amounts represent the amount to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional amounts of the derivative financial instruments at December 31, 2010 and 2009 are analyzed as follows:

<u>Type of instrument</u>	<u>2010</u>		
	<u>Hedging purposes</u>	<u>Trading purposes</u>	<u>Total</u>
<u>Interest rate:</u>			
Bought:			
Futures:			
Forward contacts	\$ —	69	69
TIIE	—	12,810	12,810
CETES	—	3,950	3,950
Bonds	—	155	155
Options (shares \$521 / indexes \$6)	—	527	527
Swaps	<u>7,620</u>	<u>57,704</u>	<u>65,324</u>
	\$ 7,620	75,215	82,835
Sold:			
Futures:			
TIIE	\$ —	14,023	14,023
CETES	—	2,850	2,850
Bonds	—	39	39
Options (shares / indexes )	—	459	459
Swaps	<u>9,127</u>	<u>59,527</u>	<u>68,654</u>
	\$ 9,127	76,898	86,025
Bought:			
Swaps (in millions of dollars)	—	267	267
Sold:			
Swaps (in millions of dollars)	<u>197</u>	<u>266</u>	<u>463</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
**Sociedad Controladora Filial**  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

<u>Type of instrument</u>	<u>2010</u>		
	<u>Hedging purposes</u>	<u>Trading purposes</u>	<u>Total</u>
<u>Foreign exchange:</u>			
(In millions of dollars):			
Bought:			
Forward contracts	<u>—</u>	<u>1,088</u>	<u>1,088</u>
Sold:			
Forward contracts	—	208	208
Options	<u>—</u>	<u>2</u>	<u>2</u>
	—	210	210
	<u>—</u>	<u>—</u>	<u>—</u>
(In millions of Euros)			
Bought:			
Forward contracts	—	1	1
	<u>—</u>	<u>—</u>	<u>—</u>
Sold:			
Forward contracts	—	1	1
	<u>—</u>	<u>—</u>	<u>—</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

<u>Type of instrument</u>	<u>2009</u>		
	<u>Hedging purposes</u>	<u>Trading purposes</u>	<u>Total</u>
<u>Interest rate:</u>			
Bought:			
Futures:			
TIIE	\$ —	14,528	14,528
CETES	—	2,500	2,500
Bonds	—	20	20
Swaps	<u>3,650</u>	<u>61,330</u>	<u>64,980</u>
	\$ 3,650	78,378	82,028
Sold:			
Futures:			
TIIE	\$ —	7,900	7,900
Bonds	—	534	534
Swaps	<u>8,457</u>	<u>58,193</u>	<u>66,650</u>
	\$ 8,457	66,627	75,084
Bought:			
Swaps (in millions of dollars)	—	313	313
Sold:			
Swaps (in millions of dollars)	200	314	514
<u>Shares:</u>			
Options:			
Sold	—	(286)	(286)
OTC options:			
Bought	—	21	21
Sold	—	(7)	(7)
	—	14	14
<u>Foreign exchange:</u>			
(In millions of dollars):			
Bought:			
Forward contracts	—	367	367
Options	—	60	60
	—	427	427

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

<u>Type of instrument</u>	<u>2009</u>		<u>Total</u>
	<u>Hedging purposes</u>	<u>Trading purposes</u>	
Sold:			
Forward contracts	–	351	351
Options	<u>–</u>	<u>63</u>	<u>63</u>
	–	414	414
	===	===	===
(In millions of Euros)			
Bought:			
Forward contracts	–	7	7
	===	===	===
Sold:			
Forward contracts	–	7	7
	===	===	===

The Group may reduce or modify the market risk through two activities: converting fixed to variable rate assets and floating-rate to fixed rate liabilities. Both transformations are archived using interest rate swaps.

At December 31, 2010, of the total transactions there are 48 (57 in 2009) designated as cash flow hedges that total \$11,740 (\$7,470 in 2009) and are converting 28 days liabilities classified as cash flows hedges, the remaining by \$7,443 (\$7,255 in 2009) are designated as fair hedges.

In general, the reduction of market risk has an impact on the financial margin as the revenue gaps are closed (funding long term fixed-rate loans with short-term liabilities) and, as result, the benefits from the increase in the margin are reduced when short-term rates rise. At December 31, 2010, with an average TIIE of 4.90% (5.90% in 2009), it is estimated that, the financial impact of not having accounted for these derivatives would have been a reduction in margin of \$12.9 (\$101 in 2009) (unaudited figures).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(9) Loan portfolio-**

*(a) Classification of loan portfolio by currency-*

At December 31, 2010 and 2009, the classification of loans into current and past due by currency, which includes the restructured portfolio in UDI Trusts, is analyzed as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Current</u>	<u>Past due</u>	<u>Current</u>	<u>Past due</u>
<u>In assets:</u>				
<u>Domestic currency:</u>				
Business or commercial activity	\$ 27,896	308	23,992	429
Financial institutions	2,007	-	2,725	4
Government entities	7,745	-	6,735	-
Consumer loans	15,704	894	17,319	1,231
Residential mortgages	<u>40,294</u>	<u>2,552</u>	<u>37,692</u>	<u>2,106</u>
	<u>93,646</u>	<u>3,754</u>	<u>88,463</u>	<u>3,770</u>
<u>Foreign currency:</u>				
Business or commercial activity	6,903	23	6,740	23
Financial institutions	241	-	50	-
Government entities	1,237	-	-	-
Residential mortgages	<u>198</u>	<u>11</u>	<u>189</u>	<u>5</u>
	<u>8,579</u>	<u>34</u>	<u>6,979</u>	<u>28</u>
<u>Denominated in UDIS:</u>				
Residential mortgages	<u>-</u>	<u>-</u>	<u>436</u>	<u>140</u>
	<u>102,225</u>	<u>3,788</u>	<u>95,878</u>	<u>3,938</u>
		106,013		99,816
<u>In memorandum accounts:</u>				
Loan commitments		<u>2,665</u>		<u>2,244</u>
	\$ 108,678		102,060	
	<u><u>108,678</u></u>		<u><u>102,060</u></u>	

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(b) Classification of loan portfolio by economic sector-**

At December 31, 2010 and 2009, credit risk (including loans, guarantees and loan commitments, see note 20(d)) classified by economic sector and the percentage of concentration are analyzed as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Community, social and personal services, mainly government entities	\$ 12,974	12	10,367	10
Construction and housing	48,596	45	45,939	45
Financial, insurance and real estate services	5,313	5	4,505	5
Manufacturing	7,804	7	7,232	7
Commerce and tourism	11,813	11	11,668	12
Consumer loans and credit cards	16,598	15	18,550	18
Agriculture, forestry and fishing	3,227	3	2,459	2
Transportation, warehousing and communication	1,092	1	1,084	1
Other	<u>1,261</u>	<u>1</u>	<u>256</u>	<u>—</u>
	<u>\$ 108,678</u>	<u>100</u>	<u>102,060</u>	<u>100</u>

**(c) Acquisition of consumer loans-**

On April 11, 2006, the Bank acquired consumer (automobile) loans from a non-bank bank (SOFOL) with a contractual value of \$3,219 for an agreed-upon price consisting of two portions: the first fixed portion of \$3,076 paid on the acquisition date and a second portion consisting of an amount determinable based on a comparison between monthly and projected collections but which may not exceed \$360. The difference between the contractual value and the first portion of the agreed price was recognized as a deferred premium of \$143, which is being amortized over a period equal to the remaining term of the loans. The liabilities for the second portion of the payment were settled in February 2010, since the contract expired on January 31, 2010.

At December 31, 2010 the outstanding balance of this portfolio amounts to \$88 (\$129 in 2009).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(d) Loans to government entities-**

At December 31, 2010 and 2009, loans granted to government entities are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Autonomous entity loan	\$ 2,333	1,239
Receivables under financial support programs	439	231
Governments, municipalities and state secretariats	<u>6,210</u>	<u>5,265</u>
Total loans to government entities	\$ <u>8,982</u>	<u>6,735</u>

Debtor support programs:

As a result of the economic crisis in 1995, the Mexican government and the Mexican Bankers' Association (Asociación de Banqueros de México, A. C.) established loan support programs and agreements, to assist debtors of credit institutions in meeting their obligations. The programs and agreements established were as follows:

- Immediate Support Program for Bank Debtors (ADE).
- Credit Support Program for the Domestic Productive Plant (PACPPN).
- Financial Support and Promotion for Micro, Small and Medium-sized Companies (FOPYME).
- Financial Support to the Agricultural, Cattle-raising and Fishery Sector (FINAPE).
- Additional Benefits to Housing Loan Debtors (BADCV).
- Additional Benefits to Housing Loan Debtors FOVI type (BACVF).

Subsequently, other programs were established such as the Benefits for Bank Debtors of the Agricultural, Cattle-raising and Fishery Sector, the Benefits for Corporate Loan Debtors and the Agreement for Benefits to Housing Loan Debtors (Punto Final).

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Mexican government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. The amounts receivable from the Federal Government on discounts granted in connection with the BADCV and BADCVF, programs, as of December 31, 2010 and 2009 amount to \$439 and \$231, respectively. Derived from the agreement to terminate early support programs for borrowers of mortgage loans, the discount amount by the Federal Government is \$178, included in the discount of 2010.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
(Pesos in millions)

The Bank's cost associated with the various debtor support programs and agreements for the years ended December 31, 2010 and 2009 amount to \$32 and \$20, respectively and it is related to the housing program. Derived from the agreement referred to in the preceding paragraph, the amount of charge to the Bank for the early termination of mortgage programs is \$16, which is included in the discount of 2010.

*(e) UDI Trusts restructured loans-*

The Bank participated in several loan-restructuring programs established between the Mexican government and the Mexican banks. The Bank underwrote restructuring programs that consisted mainly of changing peso-denominated loans to UDIS through trusts created with funding provided by the Central Bank. The balance (before application of discounts) of the restructured debts which were transferred to the Bank resulting from early termination of mortgage programs and trusts UDI, which is described in the following paragraph, to December 31, 2010 and 2009, is analyzed as follows:

<u>2010</u>	<u>Loan portfolio</u>		<u>Average annual interest rate</u>
	<u>Current</u>	<u>Past due</u>	
Residential mortgages	\$ <u>394</u>	<u>113</u>	9.01%
<u>2009</u>			
Residential mortgages	\$ 435	137	8.90%
Loans to individuals	<u>1</u>	<u>3</u>	9.25%
	\$ <u>436</u>	<u>140</u>	

*Early termination of mortgage programs-*

As mentioned in note 1(e), on July 15, 2010 and July 26, 2010, the relevant agreement was executed and the Federal Official Gazette published the General Provisions applicable to the early termination of the support programs for housing loan debtors, which included the requirements for the loans eligible to participate, as listed below:

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
 Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- (ii) national currency-denominated loans entitled to the discount program benefits,
- (iii) loans that as of December 31, 2010 (cut-off date) are current and,
- (iv) past-due loans that were restructured or to which a debt relief, discount or allowance was applied no later than December 31, 2010, and for which evidence substantiating payment for at least three consecutive amortizations no later than March 31, 2010 exists.

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

- The amount of the conditional discount portion payable by the Federal Government in connection with the mortgage programs related to the UDI trusts and own UDI-denominated loans, for the current loan portfolio is \$81 and \$74, respectively.
- The amount of the conditional discount program payable by the Federal Government, for which under the Agreement evidence is to be provided substantiating "Fulfillment of Payment" no later than March 31, 2011 is \$4.
- The amount of the discounts applied prior to the signing of the Discount Program is \$178.

For the discounts payable by the Federal Government, a 5-year loan payable on an annual basis was recognized under "Commercial loans – Government Entities", being part of the current loan portfolio. The general terms of the loan payable by the Federal Government are as follows:

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
(Pesos in millions)

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

The balances and movements related to caption "Allowance for loan losses" are shown below:

<b><u>Concept</u></b>	<b><u>Amount</u></b>
Opening balance of housing loans unrestricted	\$ 171
Discount portion of credit terms recognized in the trust covered by the Bank	(7)
Take away discounts and / or bonuses granted	(1)
Amount for the reclassification of the discount recognized earlier in the balance sheet	(8)
Increased by the termination of trusts	1
Allowance additional	<u>16</u>
Ending balance of allowance for loan losses rating derived from credit grading	\$ <u>172</u>

No amount was applied to the remaining balance of the trust liability payable by the Bank and that should be charged to the allowance for credit risks.

The maximum amount that the Bank would have to bear for debtors of loans not included in the agreement, but which could be regarded as effective no later than March 31, 2011 and; therefore, eligible to the discount program benefits is \$26.

The amount related to the special Cetes repurchase made on December 31, 2010, as a result of the early liquidation of UDIS trusts is shown on the next page.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
(Pesos in millions)

	<u>Titles</u>	<u>Amount</u>	<u>Maturity date</u>
Special Cetes B4 270701	3,879,748	\$ 304	July 1, 2027
Special Cetes BC 270701	2,310,399	60	July 1, 2027
Special Cetes BV 270701	<u>1,939,472</u>	<u>37</u>	July 1, 2027
Total special Cetes	<u>8,129,619</u>	\$ <u>401</u>	

The special Cetes currently recorded by the Bank in caption "Investment securities – Held-to-Maturity securities" on the consolidated balance sheet are as follows:

	<u>Titles</u>	<u>Amount</u>	<u>Maturity date</u>
Special Cetes B4 170713	8,867,241	\$ 695	July 13, 2017
Special Cetes B4 220707	3,961,831	310	July 7, 2022
Special Cetes B4 220804	21,792	2	August 4, 2022
Special Cetes B4 270701	11,209,686	878	July 1, 2027
Special Cetes BC 170713	404,851	10	July 13, 2017
Special Cetes BC 220804	3,115	–	August 4, 2022
Special Cetes BV 270701	<u>6</u>	<u>–</u>	July 1, 2027
Total special Cetes	<u>24,468,522</u>	\$ <u>1,895</u>	

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

Through December 2010, the Bank applied the discounts related to the Discount Program for as long as the program continued to be carried out until that date.

**(f) Additional loan portfolio information-**

Annual weighted lending rates:

Annual weighted loan interest rates during 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Commercial loans*	7.23%	7.93%
Personal loans	15.82%	15.90%
Credit cards	28.05%	26.16%
Residential mortgages	11.82%	11.67%

\* Includes commercial, financial and government entities loans.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*Loans rediscounted with recourse:*

The Mexican Government has established certain funds to promote the development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with recourse. At December 31, 2010 and 2009, the amount of loans granted under these programs totaled \$4,361 and \$3,676, respectively, and the related liability is included in “Bank and other loans” (see note 15).

*Restructured loans:*

At December 31, 2010 and 2009, restructured and renewed loans are analyzed as follows:

	<b><u>Current</u></b> <b><u>loans</u></b>	<b><u>Past due</u></b> <b><u>loans</u></b>	<b><u>Total</u></b>
<b><u>2010</u></b>			
Commercial loans	\$ 1,943	246	2,189 <sup>(1)</sup>
Residential mortgages	4,551	624	5,175 <sup>(2)</sup>
Personal loans	<u>150</u>	<u>130</u>	<u>280</u>
	\$ <u>6,644</u>	<u>1,000</u>	<u>7,644</u>
<b><u>2009</u></b>			
Commercial loans	\$ 1,730	102	1,832 <sup>(1)</sup>
Residential mortgages	4,227	395	4,622 <sup>(2)</sup>
Personal loans	<u>160</u>	<u>268</u>	<u>428</u>
	\$ <u>6,117</u>	<u>765</u>	<u>6,882</u>

<sup>(1)</sup> In 2010, commercial loans were restructured, with estate and fiduciary guarantees amounting to \$131, in 2009 were not hired additional guarantees.

<sup>(2)</sup> From the total balance of restructured and renewed residential mortgage loans as of December 31, 2010 and 2009, there were no additional guaranties obtained.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
(Pesos in millions)

During 2010, capitalization of interest was held for \$7. In 2009 capitalization of interest was not held.

*Risk concentration:*

At December 31, 2010 and 2009, there were no balances due from one individual debtor that exceeded 10% of the Bank's basic capital. The balance of the loans granted to the three largest debtors as of December 31, 2010 and 2009, amount to \$4,295 and \$3,502, respectively.

*Past due loan portfolio:*

An analysis of past due loans at December 31, 2010 and 2009, from the date the loans went past due, is summarized below:

	<b>90 to 180 <u>days</u></b>	<b>181 to 365 <u>days</u></b>	<b>1 to 2 <u>years</u></b>	<b>Over <u>2 years</u></b>	<b><u>Total</u></b>
<b><u>December 31, 2010</u></b>					
Commercial *	\$ 150	90	12	79	331
Consumer	730	86	36	42	894
Residential mortgages	<u>1,177</u>	<u>810</u>	<u>313</u>	<u>263</u>	<u>2,563</u>
	\$ 2,057	986	361	384	3,788
	=====	====	====	====	=====
<b><u>December 31, 2009</u></b>					
Commercial *	\$ 71	263	47	75	456
Consumer	1,015	143	33	40	1,231
Residential mortgages	<u>1,207</u>	<u>547</u>	<u>314</u>	<u>183</u>	<u>2,251</u>
	\$ 2,293	953	394	298	3,938
	=====	====	====	====	=====

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
(Pesos in millions)

The movement in the past due loan portfolio for the years ended December 31, 2010 and 2009 is summarized below:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 3,938	3,596
Settlements	(35)	(17)
Write-offs and debt forgiveness	(2,670)	(3,006)
Net increase	2,544	3,358
Foreign exchange fluctuation	<u>11</u>	<u>7</u>
Balance at end of year	\$ 3,788	3,938
	=====	=====

Nominal interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2010 amounted to \$214 (\$152 in 2009).

For the years ended December 31, 2010 and 2009, the Bank opted for eliminating from assets those past due loans that had been reserved in full for \$2,382 and \$2,759, respectively. In both cases there was no application of reserves for related loans.

For the years ended December 31, 2010 and 2009, the Bank obtained recoveries of loans for \$399 and \$282, respectively.

Impaired loans:

The balance of impaired commercial loans as of December 31, 2010 and 2009 is \$1,228 and \$968, respectively, from which \$897 and \$512 are recorded in current loans, and \$331 and \$456 are recorded in past due loans, respectively.

As of December 31, 2010, the Bank's loan portfolio includes a restructured loan for \$149 same as in 2009 corresponded to a direct loan granted to a company's line of business for \$250, which was 100% provided for as a result of the application of the rating methodology.

Credit Lines:

At December 31, 2010 and 2009, the amount of credit lines registered under "Other accounts" in memorandum accounts in the consolidated balance sheet for \$286,529 and \$482,791, respectively.

Adjustment for valuation of financial asset hedging:

The adjustment to the carrying value of the loan portfolio by the gain or loss in results of operations for the year is presented under the caption "Adjustment for valuation of financial asset hedging" in the consolidated balance sheet.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

(g) *Allowance for loan losses-*

As explained in notes 2(k) and 23(c), the Bank categorizes its loan portfolio and an allowance is established to provide for the credit risks associated with the collection of the loan portfolio.

At December 31, 2010 and 2009, the allowance for loan losses classified between general reserves and specific reserves according to the criteria mentioned in note 2(k), is as follows;

<u>Loan portfolio</u>	<u>2010</u>		<u>2009</u>	
	<u>General</u>	<u>Specific</u>	<u>General</u>	<u>Specific</u>
Commercial*	\$ 261	1,003	195	1,099
Consumer	63	1,032	67	1,410
Residential mortgages	<u>133</u>	<u>1,234</u>	<u>123</u>	<u>1,010</u>
	\$ <u>457</u>	<u>3,269</u>	<u>385</u>	<u>3,519</u>
	\$ 3,726		3,904	

At December 31, 2010, the graded loan portfolio and the allowance for loan losses, are classified as follows:

<u>Degree of risk</u>	<u>Commercial*</u>	<u>Consumer</u>	<u>Residential mortgages</u>	<u>Total</u>
<u>Graded loan portfolio</u>				
A and A-1	\$ 23,896	11,960	37,938	73,794
A-2	14,988	—	—	14,988
B and B-1	8,211	1,285	3,279	12,775
B-2	468	2,240	—	2,708
B-3	149	—	—	149
C and C-1	440	361	452	1,253
D	22	539	1,300	1,861
E	<u>412</u>	<u>213</u>	<u>86</u>	<u>711</u>
Total graded portfolio	\$ <u>48,586</u>	<u>16,598</u>	<u>43,055</u>	<u>108,239</u>

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**Allowance for loan losses**

	<u>Commercial*</u>	<u>Consumer</u>	<u>Residential mortgages</u>	<u>Total</u>
A and A-1	\$ 121	64	133	318
A-2	140	-	-	140
B and B-1	375	109	119	603
B-2	39	177	-	216
B-3	23	-	-	23
C and C-1	142	151	146	439
D	16	401	886	1,303
E	<u>408</u>	<u>194</u>	<u>82</u>	<u>684</u>
Allowance for graded loans	\$ 1,264	1,096	1,366	3,726
	=====	=====	=====	
Additional reserves for past due interest				65
Operational risk reserve				104
Additional identified reserves				<u>18</u>
Total allowance for loan losses				\$ 3,913
				=====

At December 31, 2009, the graded loan portfolio and the allowance for loan losses, are classified as follows:

<u>Degree of risk</u>	<u>Commercial*</u>	<u>Consumer</u>	<u>Residential mortgages</u>	<u>Total</u>
<b><u>Graded loan portfolio</u></b>				
A and A-1	\$ 21,758	12,824	35,205	69,787
A-2	9,309	-	-	9,309
B and B-1	9,712	1,472	3,929	15,113
B-2	895	2,648	-	3,543
B-3	196	-	-	196
C and C-1	335	541	390	1,266
C-2	42	-	-	42
D	-	782	966	1,748
E	<u>464</u>	<u>283</u>	<u>78</u>	<u>825</u>
Total graded portfolio	\$ 42,711	18,550	40,568	101,829
	=====	=====	=====	=====

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**Allowance for loan losses**

	<u>Commercial*</u>	<u>Consumer</u>	<u>Residential mortgages</u>	<u>Total</u>
A and A-1	\$ 105	67	123	295
A-2	90	–	–	90
B and B-1	440	130	154	724
B-2	82	221	–	303
B-3	33	–	–	33
C and C-1	78	226	126	430
C-2	17	–	–	17
D	–	579	655	1,234
E	<u>449</u>	<u>254</u>	<u>75</u>	<u>778</u>
Allowance for graded loans	\$ 1,294	1,477	1,133	3,904
	=====	=====	=====	=====
Additional reserves for past due interest				79
Operational risk reserve				90
Additional identified reserves				<u>6</u>
Total allowance for loan losses				\$ 4,079
				=====

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

The movement in the allowance for loan losses for the years ended December 31, 2010 and 2009 is summarized below:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 4,079	3,888
Provisions charged to results of operations	2,536	2,954
Provisions charged to unappropriated retained earnings	–	264
Write-offs and forgiveness of debt	(2,702)	(3,026)
Other	<u>–</u>	<u>(1)</u>
Balance at end of year	\$ 3,913	4,079
	=====	=====

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

A reconciliation between the total graded portfolio and total credit risk, including recognized in memorandum accounts as of December 31, 2010 and 2009, is analyzed as follows:

	<u>2010</u>	<u>2009</u>
Total portfolio graded	\$ 108,239	101,829
Portfolio not including creditors under support programs	<u>439</u>	<u>231</u>
Total of credit risks	<u>\$ 108,678</u>	<u>102,060</u>

**(10) Collection rights and mortgage portfolio securitization-**

**(a) Collection rights-**

As of December 31, 2010 and 2009, the Bank has recorded under the caption “Accounts receivable” on the consolidated balance sheet, collection rights of private securitization to acquire a trust automotive portfolio through single issue securities entered into with a number of non-bank financial institutions (Sociedades Financieras de Objeto Limitado or Sofoles). The acquisitions, collection and balances related to the collection rights are as follows:

	Amount <u>Dec 31, 2009</u>	2010			Amount <u>Dec 31, 2010</u>	Maturity <u>date</u>
		<u>Acquisition</u>	<u>Collection</u>	<u>Prepavment</u>		
Trust 242896	\$ 3,337	—	(1,316)	(2,021)	—	September 2014 *
Trust 254118	<u>2,438</u>	—	(890)	(1,548)	—	— *
	<u>5,775</u>	—	<u>(2,206)</u>	<u>(3,569)</u>	—	
Trust 242896(Restructured)	—	1,225	(115)	—	1,110	June 2017 *
Trust 959	—	3,070	(1,101)	—	1,969	June 2015 **
Trust 1364	—	<u>3,330</u>	<u>(1,493)</u>	—	<u>1,837</u>	September 2015 ***
	—	<u>7,625</u>	<u>(2,709)</u>	—	<u>4,916</u>	
Accrued interest for commission to Credit line unused and restructuring	<u>39</u>	<u>25</u>	<u>(39)</u>	—	<u>25</u>	
	<u>\$ 5,814</u>	<u>7,650</u>	<u>(4,954)</u>	<u>(3,569)</u>	<u>4,941</u>	

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

\* The Bank received a prepayment of \$3,569, representing the entire amount of two contracts for the purchase of collection rights of securitization auto portfolio agreed upon until September 2014 and May 2016. The contract originally expired in 2014 was modified to end in June 2017. The other contract was canceled (see note 1 (c)).

\*\* On June 26, 2010, the Bank acquired new collection right by \$3,070 on auto loan portfolio maturing in June 2015 (see note 1 (c)).

\*\*\* The May 5, 2010, the Bank entered into a contract to purchase the collection right on auto securitized portfolio (see note 1 (b)).

For the years ended December 31, 2010 and 2009, the Bank recognized in the results of year \$413 and \$544, respectively by accrued interest concept, which are included in the consolidated income statement under the caption "Other income".

According to the interest method, used for recording the promissory notes, the expected cash flows are deemed highly effective when compared to actual cash flows; furthermore, it has not been necessary to create a preventive reserve for collection rights at December 31, 2010 and 2009 being that there have been no events that modify the expected cash flow amounts. The totality of the collections made was in cash.

The expected cash flows were calculated using the net present value of projections, using a market discount rate.

**(b) Mortgage portfolio securitization-**

On March 13, 2008, the Bank realized a securitization of a mortgage portfolio, through of a trust that issued certificates for \$2,500 with maturity in 20 years and a rate of 9.15%. At December 31, 2010 and 2009, the amount of the portfolio assigned receivable amounted to \$1,858 and \$2,116 respectively, and the amount payable on the certificates amounted to \$1,632 and \$1,931, respectively.

As part of the agreed-upon consideration for the securitization, the Bank received a trust certificate, the value of which as of December 31, 2010 and 2009 is \$205 and \$219, respectively. The certificate is reported under the caption "Benefits receivable on securitization transactions" on the consolidated balance sheet, and is recorded at fair value, which was determined based on the expectations for recovery of the trust estate and the remaining cash flows once all obligations to bondholders are met.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

The difference between the fair value and the carrying amount of the certificate is recognized as impairment, which for fiscal year ended December 31, 2010 amounted to \$13, and was reported under the caption "Other expenses" on the consolidated statement of income. To date, no remainder amount has been received.

The transferred portfolio as of December 31, 2010 and 2009 received prepayments of \$175 and \$197, respectively.

The Bank receives servicing fees from the trust, which are recognized in earnings when they accrue, which for the year ended December 31, 2010 and 2009 the income from this source were \$19 and \$22, respectively.

The trust is not consolidated in accordance with the provisions of paragraph 21 in the transitional section of the C-5 issued by the Banking Commission on 19 September 2008.

**(11) Foreclosed assets-**

At December 31, 2010 and 2009, foreclosed assets are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Premises	\$ 100	106
Movable property	-	1
Asset under enforceable promise to sell	1	4
Rent from foreclosed assets	<u>-</u>	<u>(1)</u>
	101	110
Allowance for impairment	<u>(79)</u>	<u>(83)</u>
	<u>\$ 22</u>	<u>27</u>

The movement of the allowance for impairment for the years ended December 31, 2010 and 2009 is analyzed as follows:

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ (83)	(81)
Additional provisions due to aging, charged to operations for the year	(3)	(8)
Credit to income on sale of assets	<u>7</u>	<u>6</u>
Balance at end of year	<u>\$ (79)</u>	<u>(83)</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(12) Premises, furniture and equipment and leasehold improvements-**

Premises, furniture, equipment and leasehold improvements at December 31, 2010 and 2009 are analyzed as follows:

	<u>2010</u>	<u>2009</u>	<u>Annual depreciation and amortization rate</u>
Office premises	\$ 2,197	2,188	Various
Office furniture and equipment	1,179	1,008	Various
Works of art	2	2	N/A
Computer equipment	982	936	30%
Transportation equipment	59	51	25%
Telecommunications equipment	252	215	10%
Leasehold improvements	1,663	1,396	Various
Construction in progress	69	19	-
Dining	<u>2</u>	<u>-</u>	-
	6,405	5,815	
Accumulated depreciation and amortization	<u>(2,634)</u>	<u>(2,371)</u>	
	<u>\$ 3,771</u>	<u>3,444</u>	

Depreciation and amortization charged to results of operations for the years ended December 31, 2010 and 2009 amounted to \$291 and \$267, respectively.

**(13) Permanent investments-**

At December 31, 2010 and 2009, permanent investments in shares, classified by activity, are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Others banking related services	\$ 45	44
Siefores	-	48
Mutual funds	24	24
Derivatives market operators	8	5
Security and protection *	1	1
Other activities *	<u>3</u>	<u>4</u>
	<u>\$ 81</u>	<u>126</u>

\* At December 31, 2010 and 2009, the Bank maintained a reserve against 100% of their holding of the shares of a company engaged in the armored car services.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

For the years ended December 31, 2010 and 2009, the Group's equity percentage in the capital stock of its subsidiaries was 99.99%.

In November 2010, the Group sold 4,198,500 securities representing the capital stock of an associated company, in which neither control nor significant influence was exercised, for an agreed-upon consideration of \$93, of which \$15 is contingent upon performance of certain contractual events; therefore, a provision for uncollectibility for 100% that amount was made, the net amount of \$78 was recognized under "Other income" on the consolidated statement of income.

**(14) Deposit funding-**

The average weighted interest rates on deposit balances during the years ended December 31, 2010 and 2009 were as follows:

	<u>2010 Rates</u>		<u>2009 Rates</u>	
	<u>Pesos</u>	<u>Dollars</u>	<u>Pesos</u>	<u>Dollars</u>
Demand deposits	1.02%	0.07%	1.51%	0.19%
Savings deposits	0.55%	-	0.56%	-
Time deposits	3.88%	0.30%	4.94%	0.46%
Money market	-	0.51%	7.39%	-

As a result of the bank debt issuance program authorized by the Banking Commission up to \$10,000, at December 31, 2010 the Bank had placed \$2,000 of 5-year certificates that pay interest every 28 days at a variable 28-day TIIE rate less 0.09%; \$400 of 10-year certificates that pay interest every six months at a fixed rate of 9.89% and \$300 of 13-year certificates that pay interest at a fixed rate of 9.75%.

| (Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Additionally, in October 2010, the Banking Commission approved another certificate program stock bank for an amount of \$15,000; at 31 December 2010, the Bank has placed \$3,142 for a term of five years you pay interest every 28 days and variable-rate 28-day TIIE plus 0.40% and \$358 for a term of 7 years and pay interest every 28 days at a variable rate of TIIE 28 days plus 0.49%.

Accrued interest payable at December 31, 2010 and 2009, is \$30 and \$8, respectively.

**(15) Bank and other borrowings-**

At December 31, 2010 and 2009, bank and other borrowings are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Due on demand:		
Private domestic banks	\$ —	3
Short-term:		
Pesos:		
Development banks <sup>(1)</sup>	1,929	1,414
Development agencies <sup>(1)</sup>	814	545
Accrued interest	<u>15</u>	<u>—</u>
	2,758	1,959
Denominated in dollars:		
Development agencies <sup>(1)</sup>	<u>—</u>	<u>4</u>
	<u>2,758</u>	<u>1,963</u>
Total due on demand and short-term, carried forward	\$ <u>2,758</u>	<u>1,966</u>

<sup>(1)</sup> Development funds (see note 9(f)).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<b><u>2010</u></b>	<b><u>2009</u></b>
Total due on demand and short-term, brought forward	\$ <u>2,758</u>	<u>1,966</u>
Long-term:		
Pesos:		
Development banks <sup>(1)</sup>	17	256
Development agencies <sup>(1)</sup>	1,459	1,765
FOVI	370	–
Accrued interest	<u>–</u>	<u>15</u>
Total long-term	<u>1,846</u>	<u>2,036</u>
Total bank and other loans	\$ <u>4,604</u>	<u>4,002</u>

<sup>(1)</sup> Development funds (see note 9(f)).

Due to the operating characteristics of the interbank loans that the Bank maintains, such as access to funds via auctions, loans regulated by Banco de México with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Bank, loans whose limit is agreed upon daily by the lender, at December 31, 2010 and 2009, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

At December 31, 2010 and 2009, bank and other borrowings average annual interest rates are as follows:

	<b><u>2010 Rates</u></b>		<b><u>2009 Rates</u></b>	
	<b><u>Pesos</u></b>	<b><u>Foreign currency</u></b>	<b><u>Pesos</u></b>	<b><u>Foreign currency</u></b>
Private domestic banks	4.45%	–	4.10%	–
Central Bank	–	–	4.56%	–
Development banks	7.46%	–	7.47%	–
Development agencies	5.57%	–	4.87%	0.35%
Others	–	–	–	1.03%

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(16) Employee benefits-**

The Bank, the Brokerage Firm, the Mutual Fund Management Company and the Company (the subsidiaries) have in place a contributory pension and post-retirement benefit plan that covers all employees who joined the Bank since April 1, 2006. The plan is optional for those employees who joined the Bank at an earlier date. The plan provides for established contributions by the subsidiaries and employees, which may be fully withdrawn by employees when aged 55 years.

For the years ended December 31, 2010 and 2009, the charge to operations for the Group's contributions to the contributory pension plan amounted to \$67 and \$48, respectively.

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

The costs, obligations and assets of the defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2010 and 2009.

The components of the net periodic cost (income) at nominal value for the years ended December 31, 2010 and 2009 were as follows:

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons, life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<b><u>2010</u></b>							
Service cost	\$ 33	1	34	2	5	7	63
Interest cost	170	3	173	4	5	9	175
Return on plan assets	(160)	(4)	(164)	(5)	(6)	(11)	(197)
Amortization of prior service:							
Transition asset	-	-	-	-	-	-	(8)
Plan modifications	9	-	9	-	-	-	(3)
Actuarial loss, net	<u>8</u>	<u>-</u>	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>
Net periodic cost	60	-	60	1	4	5	50
Income recognition of actuarial gains generated in the year	(3)	-	(3)	-	-	-	-
Cost (income) recognized losses (gains) generated in year actuarial	<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>(17)</u>	<u>(17)</u>	<u>-</u>
Total cost (income)	<u>\$ 57</u>	<u>1</u>	<u>58</u>	<u>1</u>	<u>(13)</u>	<u>(12)</u>	<u>50</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons, life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<b>2009</b>							
Service cost	\$ 29	1	30	2	5	7	60
Interest cost	160	3	163	3	5	8	170
Return on plan assets	(141)	(3)	(144)	(4)	(6)	(10)	(156)
Amortization of prior service:							
Transition asset	-	-	-	-	-	-	(8)
Plan modifications	-	-	-	-	-	-	(3)
Actuarial loss, net	<u>16</u>	<u>-</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37</u>
Net periodic cost	64	1	65	1	4	5	100
Income recognition of actuarial gains generated in the year	<u>3</u>	<u>(4)</u>	<u>(1)</u>	<u>-</u>	<u>(11)</u>	<u>(11)</u>	<u>-</u>
Total cost (income)	\$ <u>67</u>	<u>(3)</u>	<u>64</u>	<u>1</u>	<u>(7)</u>	<u>(6)</u>	<u>100</u>

Below is a reconciliation of opening and final balances, and detail on the present value of the pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2010:

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons, life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Defined benefit obligations (DBO) as of December 31, 2009	\$ (1,892)	(38)	(1,930)	(43)	(58)	(101)	(1,994)
Current service cost	(33)	(1)	(34)	(2)	(5)	(7)	(63)
Interest cost	(170)	(3)	(173)	(4)	(5)	(9)	(175)
Improvement Plan	(73)	-	(73)	-	-	-	-
Immediate recognition of improvements to the plan	(2)	-	(2)	-	-	-	-
Paid benefits	159	1	160	-	6	6	66
Actuarial (loss) gain	<u>(57)</u>	<u>(3)</u>	<u>(60)</u>	<u>(8)</u>	<u>15</u>	<u>7</u>	<u>(368)</u>
DBO as of December 31, 2010	(2,068)	(44)	(2,112)	(57)	(47)	(104)	(2,534)
Plan assets at fair value	<u>1,845</u>	<u>44</u>	<u>1,889</u>	<u>57</u>	<u>73</u>	<u>130</u>	<u>2,361</u>
Financial situation of the fund	(223)	-	(223)	-	26	26	(173)
Past service:							
Transition asset	-	-	-	-	-	-	(15)
Plan improvements	83	-	83	-	-	-	(39)
Cumulative actuarial gains	<u>211</u>	<u>-</u>	<u>211</u>	<u>4</u>	<u>-</u>	<u>4</u>	<u>734</u>
Projected asset, net as of December 31, 2010	\$ <u>71</u>	<u>-</u>	<u>71</u>	<u>4</u>	<u>26</u>	<u>30</u>	<u>507</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
(Pesos in millions)

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

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical, expenses, food coupons, life insurance, for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Projected (liability) asset, net as of December 31, 2009	\$ 20	1	21	4	8	12	428
Net cost of period	(57)	(1)	(58)	(1)	(4)	(5)	(48)
Contributions to fund during 2010	108	1	109	1	4	5	128
Immediate recognition of gains and losses	—	(1)	(1)	—	17	17	—
Projected (liability) asset, net as of December 31, 2010	\$ <u>71</u>	<u>—</u>	<u>71</u>	<u>4</u>	<u>25</u>	<u>29</u>	<u>508</u>

Details of the present value of the defined pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2009 is analyzed as follows:

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons, life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Defined benefit obligations (DBO) as of December 31, 2008	\$ (1,731)	(35)	(1,766)	(34)	(58)	(92)	(1,831)
Current service cost	(29)	(1)	(30)	(2)	(5)	(7)	(60)
Interest cost	(160)	(3)	(163)	(3)	(5)	(8)	(170)
Paid benefits	121	1	122	4	6	10	59
Actuarial (gain) loss	<u>(93)</u>	<u>—</u>	<u>(93)</u>	<u>(8)</u>	<u>4</u>	<u>(4)</u>	<u>9</u>
DBO as of December 31, 2009	(1,892)	(38)	(1,930)	(43)	(58)	(101)	(1,993)
Plan assets at fair value	<u>1,664</u>	<u>39</u>	<u>1,703</u>	<u>49</u>	<u>65</u>	<u>114</u>	<u>2,010</u>
Financial situation of the fund	(228)	1	(227)	6	7	13	17
Past service:							
Transition asset	—	—	—	—	—	—	(23)
Plan improvements	18	—	18	1	1	2	(43)
Actuarial gains (losses)	<u>230</u>	<u>—</u>	<u>230</u>	<u>(3)</u>	<u>—</u>	<u>(3)</u>	<u>477</u>
Projected asset, net as of December 31, 2009	\$ <u>20</u>	<u>1</u>	<u>21</u>	<u>4</u>	<u>8</u>	<u>12</u>	<u>428</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

A reconciliation of net projected asset as of December 31, 2009 is analyzed as follows:

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical, expenses food coupons, life insurance, for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Projected (liability) asset, net as of January 1, 2008	\$ 20	(3)	17	4	(2)	2	335
Net cost for fiscal year 2009	(64)	(1)	(65)	(1)	(4)	(5)	(98)
Transition cost on vested benefits	64	1	65	1	3	4	191
Immediate recognition of gains and losses	—	4	4	—	11	11	—
Projected asset, net as of December 31, 2009	\$ <u>20</u>	<u>1</u>	<u>21</u>	<u>4</u>	<u>8</u>	<u>12</u>	<u>428</u>

Details of the acquired benefit obligations (ABO) as of December 31, 2010 and 2009 are as follows:

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses food coupons life insurance, for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<b><u>2010</u></b>							
ABO	\$ <u>(1,435)</u>	-	<u>(1,435)</u>	<u>(5)</u>	<u>(41)</u>	<u>(46)</u>	<u>(946)</u>
<b><u>2009</u></b>							
ABO	\$ <u>(1,330)</u>	-	<u>(1,330)</u>	<u>(4)</u>	-	<u>(4)</u>	<u>(1,025)</u>

Below is an analysis of the movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Fair value of the assets at beginning of year	\$ 3,827	3,053
Plan contributions during the year	241	260
Return on plan assets	545	705
Payments from the fund during the year	<u>(233)</u>	<u>(191)</u>
Fair value of the assets at the end of year	\$ <u>4,380</u>	<u>3,827</u>

During years 2010 and 2009, the expected return and the expected loss on the plan assets covering the labor obligations are \$371 and \$310, respectively.

During year 2011, contributions to the fund in the amounting to \$184 are expected to cover the employee benefit obligations.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Below is a reconciliation of opening and final balances, and details of the present value of statutory severance compensation obligations as of December 31, 2010 and 2009:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Acquired benefit obligations (ABO)	\$ (235)	—
	===	===
DBO at beginning of year	\$ (300)	(294)
Current service cost	(18)	(15)
Interest cost	(25)	(21)
Benefits paid	50	81
Actuarial gain (loss)	<u>43</u>	<u>(52)</u>
DBO at December 31	(250)	(301)
Plan assets	<u>—</u>	<u>—</u>
Fund financial situation	(250)	(301)
Prior service:		
Transition liability	<u>63</u>	<u>95</u>
Projected liability, net	\$ (187)	(206)
	===	===

The net cost of statutory compensation benefits for the years ended December 31, 2010 and 2009, amounted to \$48 y \$169, respectively.

The nominal rates as of December 31, 2010 and 2009 used in actuarial projections are as follows:

	<u><b>2010</b></u>	<u><b>2009</b></u>
Return on plan assets	9.00%	9.90%
Discount rate	8.75%	9.00%
Rate of compensation increase	5.00%	5.00%
Rate of increase in medical expenses	6.50%	6.50%
Estimated inflation rate	4.00%	4.00%

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

At December 31, 2010, the plan assets covering the pension, seniority premium, medical expense, food coupons, and life insurance for retirees benefit plans consist of 40% equity instruments and 60% debt instruments subject to a trust and managed by a Group-designated committee (65% and 35% at December 31, 2009)

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

	<u>Rate</u>	<b>DBO medical expenses for retirees</b>
Without modification	6.50%	\$ 1,476
1% increase in medical inflation rate	7.50%	1,626
1% decrease in medical inflation rate	5.50%	1,349

A summary of the amount of employee benefits related to DBO, plan assets and projected benefit obligation over (under) plan assets and experience adjustments, for the years ended December 31, 2008, 2007 and 2006 follows:

	<u>Pensions</u>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
DBO	\$ (1,766)	(1,702)	(1,555)
Plan assets	<u>1,431</u>	<u>1,659</u>	<u>1,674</u>
Financial situation of the fund	\$ (335)	(43)	119
	=====	=====	=====
Variances in assumptions and experience adjustments	\$ 329	(59)	(50)
	=====	=====	=====

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<b>Seniority premiums</b>		
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
DBO	\$ (92)	(92)	(79)
Plan assets	<u>99</u>	<u>109</u>	<u>80</u>
Financial situation of the fund	\$ 7	17	1
	==	==	==
Variations in assumptions and experience adjustments	\$ (6)	(7)	(2)
	==	==	==
	<b>Medical expenses, food coupons and life insurance</b>		
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
DBO	\$ 1,831	(1,956)	(1,716)
Plan assets	<u>(1,523)</u>	<u>1,490</u>	<u>1,227</u>
Financial situation of the fund	\$ (308)	(466)	(489)
	====	====	====
Variations in assumptions and experience adjustments	\$ (719)	813	63
	====	====	==
	<b>Statutory severance compensation</b>		
	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
DBO	\$ (129)	(286)	(219)
	====	====	====
DBO losses	\$ 165	22	(64)
	====	====	====

As of December 31, 2010, the amortization periods in years for unrecognized items related to defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees and statutory severance compensation benefits are as follows:

	<b>Pensions</b>		<b>Seniority premium</b>		<b>Medical expenses, food coupons, life insurance, for retirees</b>	<b>Statutory severance compensation</b>
	<b><u>Retirement</u></b>	<b><u>Disability</u></b>	<b><u>Retirement</u></b>	<b><u>Termination</u></b>		
<b><u>Bank</u></b>						
Prior service – transition (asset) liability	N/A	N/A	N/A	N/A	2.2	3.0
Prior service – plan improvements	11.5	2.0	12.2	2.0	11.5	N/A
Actuarial loss (gain), net	13.8	Immediate	13.3	Immediate	15.8	Immediate
<b><u>Brokerage Firm</u></b>						
Transition liability	N/A	N/A		N/A	2.0	2.0
Plan improvements	8.2	N/A		N/A	N/A	N/A
Actuarial loss, net	10.8	11.8		Immediate	10.9	Immediate

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(17) Related-party transactions-**

During the normal course of business, the Group carries out transactions with related parties. According to the Group's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

For the years ended December 31, 2010 and 2009 there were no changes in the existing conditions of balances receivable from and payable to related parties, there were no items that are deemed irrecoverable or difficult collection and no reserve was required for non-collectability.

In accordance with Article 73bis of the Credit Institutions Law, the total amount of transactions with related parties is not to exceed 50% the basic portion of the net capital. The loans made by the Bank to related parties as of December 31, 2010 and 2009 amount to \$2,209 and \$1,800, respectively. The deposits made by related parties as of December 31, 2010 and 2009 amount to \$171 and \$267, respectively.

For the years ended December 31, 2010 and 2009, the Benefits granted to senior management amounted to \$129 and \$114, respectively.

**(18) Income taxes (Income Tax (IT), Flat Rate Business (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 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.

Owing to the fact that, according to Group's estimates, the tax payable in future years will be IT, deferred tax effects as of December 31, 2010 and 2009 have been determined on an IT basis, except in the Company where the deferred tax effects was determined on an IETU basis.

On May 19, 2004, the Group and the Brokerage Firm obtained a favorable resolution from the Federal Judiciary articles 16 and 17, last paragraph of the Income Tax Law in force in 2002. Accordingly, the Bank is thus authorized to equalize the amount of the tax base used for ESPS determination and that used for IT purposes.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

The current IT and ESPS expense (income) is analyzed as follows:

	<b>2010</b>		<b>2009</b>	
	<b><u>IT and</u></b>	<b><u>ESPS</u></b>	<b><u>IT and</u></b>	<b><u>ESPS</u></b>
	<b><u>IETU</u></b>	<b><u>ESPS</u></b>	<b><u>IETU</u></b>	<b><u>ESPS</u></b>
Current:				
Bank and subsidiaries	\$ 899	225	763	217
Brokerage firm	91	26	106	34
Mutual Fund Management Company	37	-	17	-
Scotia Afore Group	1	16	-	14
	-	-	-	-
Deferred	<u>(152)</u>	<u>(46)</u>	<u>(29)</u>	<u>3</u>
	\$ 876	221	857	268

*Deferred IT, IETU and ESPS:*

The deferred tax asset at December 31, 2010 and 2009 comprises the following:

	<b>2010</b>		<b>2009</b>	
	<b><u>IT and</u></b>	<b><u>ESPS</u></b>	<b><u>IT and</u></b>	<b><u>ESPS</u></b>
	<b><u>IETU</u></b>	<b><u>ESPS</u></b>	<b><u>IETU</u></b>	<b><u>ESPS</u></b>
Valuation of financial instruments:				
Trading	\$ 100	31	51	16
Available-for-sale	(168)	(56)	(132)	(43)
Cash flow hedge swaps	21	7	(53)	(19)
Expense accruals and others	300	103	146	56
Premises, furniture and equipment	(148)	41	(140)	44
Unearned fees collected	285	95	281	94
Pension plan	(175)	(58)	(131)	(44)
Foreclosed assets	139	46	138	46
Allowance for loan losses	148	53	148	53
Losses on warrants	<u>46</u>	<u>-</u>	<u>50</u>	<u>-</u>
	<u>548</u>	<u>262</u>	<u>358</u>	<u>203</u>
	\$ 810		561	

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Deferred IT, IETU and ESPS credits (charges) to results of operations and stockholders' equity, for the years ended December 31, 2010 and 2009 are presented below:

	<u>2010</u>		<u>2009</u>	
	<u>IT and</u>		<u>IT and</u>	
	<u>IETU</u>	<u>ESPS</u>	<u>IETU</u>	<u>ESPS</u>
Valuation of financial instruments:				
Trading	\$ 49	15	83	28
Available-for-sale	(36)	(13)	18	10
Cash flow hedge swaps	74	26	(23)	(8)
Expense accruals and others	154	47	(58)	(17)
Premises, furniture and equipment	(8)	(3)	(11)	(8)
Unearned fees collected	4	1	63	16
Pension plan	(44)	(14)	(40)	(11)
Foreclosed assets	1	-	(22)	(11)
Losses in warrants	<u>(4)</u>	<u>-</u>	<u>14</u>	<u>-</u>
	<u>190</u>	<u>59</u>	<u>24</u>	<u>(1)</u>
	\$ 249		23	
	===		===	

	<u>2010</u>		<u>2009</u>	
	<u>IT and</u>		<u>IT and</u>	
	<u>IETU</u>	<u>ESPS</u>	<u>IETU</u>	<u>ESPS</u>
Deferred tax:				
In results of operations	\$ 152	46	29	(3)
In stockholders' equity:				
Valuation in available-for-sale securities	(36)	(13)	18	10
Valuation of cash flow hedge swaps	<u>74</u>	<u>26</u>	<u>(23)</u>	<u>(8)</u>
	<u>190</u>	<u>59</u>	<u>24</u>	<u>(1)</u>
	\$ 249		23	
	===		===	

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Other considerations:

According to the IT Law, tax losses, restated for inflation, may be carried forward to offset the taxable income against the ten following years. At December 31, 2010, there are tax loss carry-forwards which originated from 1996 through 1999. However, as a result of the agreement between BNS and IPAB, the Bank shall not benefit from tax losses sustained in the fiscal years between June 30, 1996 and December 31, 1999 without the prior written consent of the IPAB. Should the Bank derive any economic benefit from the carry-forwards of such tax losses, the IPAB will be paid an amount similar to the economic benefit received.

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

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

**(19) Stockholders' equity-**

*(a) Structure of capital stock-*

As of December 31, 2010 and 2009, the non-par-value common registered shares making up the capital stock are analyzed as follows:

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

\* Representing the minimum fixed portion of capital stock.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(b) Dividends declared-**

At the Ordinary Annual General Stockholders' Meeting held on March 27, 2009, a resolution was passed to declare the dividend payment as follows:

- A maximum payment of dividends in cash amounting to \$2,000, charged to retained earnings at a rate of \$0.66255003824035 pesos per share for the registered series "F" and "B" shares as of that date.
- Periodic dividend payments to be approved by the Board of Directors, taking into account the quarterly results of the Group's operations ranging between 20% y 45% of net income for the quarter.

Derived from the declaration of dividends referred to in the preceding paragraph, for the years ended at December 31, 2010 and 2009, the cash payments made, are detailed below:

<u>Payment date</u>	<u>Amount</u>
August 28, 2009	\$ 111
November 30, 2009	<u>178</u>
Dividends paid during 2009	\$ <u>289</u>
March, 05 2010	260
May, 28 2010	299
August 31, 2010	243
November 26, 2010	<u>299</u>
Dividends paid during 2010	<u>1,101</u>
Dividends paid at December, 2010	\$ <u>1,390</u>

At 31 December 2010 and 2009, the balance of dividends declared but not yet paid of \$610 and \$1,711, respectively, are presented in the consolidated balance sheet under "Sundry creditors and other accounts payable".

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(c) Comprehensive income-**

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

**(d) Restrictions on stockholders' equity-**

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

In conformity with the General Corporations Law, 5% of the Holding Company's net income for the year must be appropriated to the statutory reserves until such reserves reach 20% of the paid-in capital. At December 31, 2010 the statutory reserve was \$901, which had reached the required percentage of capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax basis are subject to income tax. At December 31, 2010 the capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) of the Group amount to \$7,641 and \$7,219, respectively.

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

**(e) 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. The Brokerage Firm's total Capital at December 31, 2010 and 2009 was \$1,820.93 and \$1,475.41 respectively.

The SHCP requires credit institutions to maintain a minimum capital of 8% of assets at risk. The percentage is calculated based on the assigned risk in conformity with the rules established by the Central Bank.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Below is information relating to the Bank's capitalization as separate entity (unaudited information):

Capital as of December 31:

	<u>2010</u>	<u>2009</u>
Stockholders' equity	\$ 27,560.4	25,058.4
Investments in financial service entities and their holding companies	(472.4)	(218.8)
Investments in other companies	(68.6)	(125.3)
Deferred taxes reduction	(201.4)	(201.4)
Deferred assets classed as basic	201.4	201.4
Intangible assets and deferred taxes	<u>(2,153.4)</u>	<u>(1,967.1)</u>
Basic capital (Tier 1)	24,866.0	22,747.2
General loan loss allowances –		
Supplementary capital (Tier 2)	<u>457.3</u>	<u>385.7</u>
Net capital (Tier 1 + Tier 2)	\$ <u>25,323.3</u>	<u>23,132.9</u>

Assets at risk as of December 31, 2010:

	<b>Risk weighted assets</b>	<b>Capital requirement</b>
Market risk:		
Transactions in Mexican pesos at nominal interest rates	\$ 14,058.4	1,124.7
Transactions with debt securities in pesos with premium and adjustable rates	737.5	59.0
Transactions in Mexican pesos at real interest rates or denominated in UDIS	1,462.8	117.0
Positions in UDIS or with returns linked to the INPC	9.0	0.7
Foreign currency transactions at nominal interest rates	376.7	30.1
Foreign currency positions or with exchange rate indexed returns	76.1	6.1
Equity positions or with returns indexed to the price of a single share or group of shares	<u>197.6</u>	<u>15.8</u>
Total market risk, carried forward	\$ <u>16,918.1</u>	<u>1,353.4</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<b>Risk weighted assets</b>	<b>Capital requirement</b>
Total market risk, brought forward	\$ <u>16,918.1</u>	<u>1,353.4</u>
Credit risk:		
Group III (weighted at 20%)	1,185.5	94.8
Group III (weighted at 23%)	353.3	28.3
Group III (weighted at 50%)	1,024.9	82.0
Group III (weighted at 57.5%)	165.5	13.2
Group III (weighted at 100%)	3.2	0.3
Group IV (weighted at 20%)	1,606.6	128.5
Group V (weighted at 20%)	1,044.7	83.6
Group V (weighted at 50%)	1,704.6	136.4
Group VI (weighted at 50%)	11,182.1	894.6
Group VI (weighted at 75%)	11,221.3	897.7
Group VI (weighted at 100%)	18,203.8	1,456.3
Group VII A (weighted at 20%)	1.3	0.1
Group VII A (weighted at 100%)	34,110.5	2,728.8
Group VII A (weighted at 115%)	1.4	0.1
Group VIII (weighted at 125%)	2,380.9	190.5
Group IX (weighted at 100%)	<u>22,872.5</u>	<u>1,829.8</u>
Total credit risk	107,062.1	8,565.0
Operational risk	<u>18,237.6</u>	<u>1,459.0</u>
Total market, credit and operational risk	\$ <u>142,217.8</u>	<u>11,377.4</u>

Capitalization indexes as of December 31:

	<b><u>2010</u></b>	<b><u>2009</u></b>
Capital to credit risk assets:		
Basic capital (Tier 1)	23.23%	21.19%
Supplementary capital (Tier 2)	<u>0.42%</u>	<u>0.36%</u>
Net capital (Tier 1 + Tier 2)	<u>23.65%</u>	<u>21.55%</u>
Capital to market and credit risk assets:		
Basic capital (Tier 1)	17.49%	16.46%
Supplementary capital (Tier 2)	<u>0.32%</u>	<u>0.27%</u>
Net capital (Tier 1 + Tier 2)	<u>17.81%</u>	<u>16.73%</u>

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

At December 31, 2010, the structure of the net capital of \$25,323.2 increased by 9.47% compared to 2009 which was \$23,132.9, reflecting an increase of \$2,118.8 in the core capital and \$71.7 in supplementary capital in connection with the year 2009.

At December 31, 2010, the Group obtained the following ratings agencies:

**Bank:**

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

**Brokerage firm:**

<u>National scale</u>	<u>Large term</u>	<u>Short term</u>	<u>Perspective</u>
Moody's	Aaa.mx	MX-1	Stable
Standard & Poor's	mxAAA	mxA-1+	Stable

**(20) Memorandum accounts-**

***Transactions on behalf of third parties-***

The general provisions applicable to holding companies of financial groups in Mexico, published during 2009, only require the consolidated balance sheet presentation of transactions carried out for its own account, except for the caption of "Investment banking transactions on behalf of third parties, net". Accordingly, transactions on behalf of third parties relating to the Brokerage Firm are shown under "Other memorandum accounts", however, for disclosure effects the following are the balances of transactions on behalf of third parties at December 31, 2010 and 2009:

**(a) *Customer securities-***

The funds managed by the Brokerage Firm following customer instructions for investing in various financial instruments of the Mexican financial system are recorded in memorandum accounts in "Other accounts"

Funds under management at December 31, 2010 and 2009 are as follows:

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
(Pesos in millions)

Securities received as collateral 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
Shares and certificates of holding companies	1,072	803
Mutual fund shares	69	55
Cash	191	143
Margin loans	<u>20</u>	<u>-</u>
	\$ <u>2,193</u>	<u>1,724</u>

Income earned for the years ended December 31, 2010 and 2009 corresponding to the activity of assets in custody amounted to \$52 and \$43, respectively.

**(b) *Investment banking transactions on behalf of customers-***

As of December 31, 2010 and 2009 funds managed by the Bank following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Equities and others	\$ 4,339	3,009
Government securities	34,396	20,490
Mutual funds	23,780	20,718
Bank securities not issued by the Bank	<u>5,860</u>	<u>5,206</u>
	\$ <u>68,375</u>	<u>49,423</u>

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(c) Repurchase/resell agreements on behalf of customers-**

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

	2010		2009	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</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	821	-	-
		\$ 30,141		\$ 34,058
		=====		=====

**Transactions for own account-**

**(d) Irrevocable lines of credit and guarantees issued-**

At December 31, 2010 and 2009, the Bank had irrevocable commitments to grant loans for \$2,665 and \$2,244, respectively.

Allowances created at December 31, 2010 and 2009 for letters of credit amount to \$17 and \$16, respectively, and are included in the allowance for loan losses.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

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

The Group's trust activity, recorded in memorandum accounts as of December 31, 2010 and 2009, is analyzed as follows.

	<u>2010</u>	<u>2009</u>
Trust:		
Administration	\$ 109,427	103,620
Guarantee	4,298	3,819
Investment	<u>788</u>	<u>631</u>
	114,513	108,070
Mandates	<u>26,823</u>	<u>26,832</u>
	<u>\$ 141,336</u>	<u>134,902</u>

Revenue from trust fees for the years ended December 31, 2010 and 2009 amounted \$187 and \$190, corresponding to trustee activity, respectively and were recorded in "Commission and fee income".

(f) *Collateral received by the entity and collateral received and sold or pledged by the entity-*

Collateral received by the Group and collateral sold or delivered by the Group at December 31, 2010 and 2009 are analyzed as follows:

	<u>2010</u>	<u>2009</u>
<b><u>Collateral received by the entity:</u></b>		
Repurchase / resell agreements:		
BPAS	\$ 1,651	5,292
IT BPAT	8,774	5,337
IS BPA 182	9,913	6,966
BONOS M	13,732	4,310
BONOS M0	2,838	1,830
BI CETES	8,384	3,820
LD BONDES D	14,142	15,390
UDIB	<u>321</u>	<u>-</u>
	59,755	42,945
Guarantees received for credit operations	50,414	62,204
Net equity instruments	<u>246</u>	<u>240</u>
Total collateral received by the entity	<u>\$ 110,415</u>	<u>105,389</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
<b><u>Collateral received and sold or pledged by the entity:</u></b>		
LD BONDES	\$ 13,776	15,390
BONOS M	6,302	4,310
BONOS M0	2,838	1,830
BPA 182	7,562	6,956
BI CETES	7,822	3,816
IT BPAT	5,132	5,329
BPAS	1,187	4,297
UDIB	<u>321</u>	<u>—</u>
	44,940	41,928
Net equity instruments	<u>126</u>	<u>132</u>
	\$ <u>45,066</u>	<u>42,060</u>

**(g) Assets in custody or under management-**

In this account the Bank and the Mutual Fund Management Company record property and securities received in custody, guarantee or under management. As of December 31, 2010 and 2009, the assets in custody are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Securities in custody:		
Securities	\$ 454	276
General	826	828
Investment	1,081	543
Securities management	9,525	969
Other	<u>893</u>	<u>2,558</u>
	<u>12,779</u>	<u>5,174</u>
Securities under management:		
Securities	359,281	319,961
Other	<u>1,773</u>	<u>1,773</u>
	<u>361,054</u>	<u>321,734</u>
Securities under management, carried forward	\$ <u>373,833</u>	<u>326,908</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<u>2010</u>	<u>2009</u>
Securities under management, brought forward	\$ <u>373,833</u>	<u>326,908</u>
Transactions with derivative financial instruments on behalf of third parties:		
Futures	386,248	175,585
Options	<u>1,191</u>	<u>4</u>
	<u>387,439</u>	<u>175,589</u>
	\$ <u>761,272</u>	<u>502,497</u>

Income arising from securities in custody for the years ended December 31, 2010 and 2009 amounted to \$52 and \$43, respectively.

**(21) Additional information on operations and segments-**

**(a) Segment information-**

The Group's operations are classified in the following segments: credit and services (acceptance of deposits, granting of loans, trusts and other income in subsidiaries), treasury and trading (securities, derivatives and currency transactions). For the year ended December 31, 2010 and 2009, income by segment is analyzed as follows:

	<u>Credit and services</u>	<u>Trading and Treasury</u>	<u>Others</u>	<u>Total</u>
<b><u>December 31, 2010</u></b>				
Interest income, net	\$ 9,066	1,492	20	10,578
Commissions and fee income, net, financial intermediation income and other income, net	<u>4,263</u>	<u>(66)</u>	<u>1,249</u>	<u>5,446</u>
Net operating revenues, carried forward	\$ <u>13,329</u>	<u>1,426</u>	<u>1,269</u>	<u>16,024</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<b><u>Credit and services</u></b>	<b><u>Trading and Treasury</u></b>	<b><u>Others</u></b>	<b><u>Total</u></b>
<b><u>December 31, 2010</u></b>				
Net operating revenues, brought forward	13,329	1,426	1,269	16,024
Provision for loan losses	(2,536)	–	–	(2,536)
Administrative and promotional expenses	<u>(8,436)</u>	<u>(522)</u>	<u>(721)</u>	<u>(9,679)</u>
Income before income taxes, and equity in results of operations of associated companies	\$ 2,357 =====	904 =====	548 =====	3,809
Current and deferred income taxes, net				(876)
Equity in the results of operations of subsidiary and associated companies, net				<u>3</u>
Net income			\$	<u>2,936</u> =====
<b><u>December 31, 2009</u></b>				
Interest income, net	\$ 8,124	1,572	(192)	9,504
Commissions and fee income, net, financial intermediation income and other income, net	<u>3,969</u>	<u>789</u>	<u>1,207</u>	<u>5,965</u>
Net operating revenues	12,093	2,361	1,015	15,469
Provision for loan losses	(2,954)	–	–	(2,954)
Administrative and promotional expenses	<u>(7,970)</u>	<u>(577)</u>	<u>(799)</u>	<u>(9,346)</u>
Income before income taxes, and equity in results of operations of associated companies	\$ 1,169 =====	1,784 =====	216 =====	3,169
Current and deferred income taxes, net				(857)
Equity in the results of operations of subsidiary and associated companies, net				<u>8</u>
Net income			\$	<u>2,320</u> =====

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(b) Financial margin-**

For the years ended December 31, 2010 and 2009, the financial margin consists of the following elements:

Interest income:

Interest income for the years ended December 31, 2010 and 2009 is analyzed as follows:

	<u>Credit and services</u>	<u>Trading and Treasury</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2010</u>				
Cash and cash equivalents	\$ —	824	—	824
Margin accounts	—	5	2	7
Investment securities	—	672	636	1,308
Securities under repurchase/resell agreements and transactions that represent secured borrowings	—	931	862	1,793
Current loan portfolio	10,909	—	—	10,909
Past due loan portfolio	70	—	—	70
Loan origination fees	393	—	—	393
Premiums collected	—	—	8	8
	<u>\$ 11,372</u>	<u>2,432</u>	<u>1,508</u>	<u>15,312</u>
<u>December 31, 2009</u>				
Cash and cash equivalents	\$ —	860	—	860
Margin accounts	—	8	—	8
Investment securities	—	917	713	1,630
Securities under repurchase/resell agreements and transactions that represent secured borrowings	—	1,293	1,622	2,915
Current loan portfolio	10,785	—	—	10,785
Past due loan portfolio	97	—	—	97
Loan origination fees	213	—	—	213
Premiums collected	—	—	6	6
Valuation gain	—	9	—	9
	<u>\$ 11,095</u>	<u>3,087</u>	<u>2,341</u>	<u>16,523</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2010 and 2009:

	<u>2010</u>		<u>2009</u>	
	<u>Current</u>	<u>Past due</u>	<u>Current</u>	<u>Past due</u>
Commercial	\$ 2,650	7	2,550	34
Financial institutions	264	-	306	-
Consumer	3,242	52	3,557	49
Residential mortgages	4,798	11	4,231	14
Government entities	<u>351</u>	<u>-</u>	<u>354</u>	<u>-</u>
	\$ 11,305	70	10,998	97
	=====	==	=====	==
	\$ 11,375		11,095	
	=====		=====	

For the years ended December 31, 2010 and 2009, total interest income includes interest denominated in foreign currency amounting to 21 and 27 million dollars, respectively.

Loan origination fees for the years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Commercial	\$ 184	1
Consumer	126	132
Residential mortgages	<u>83</u>	<u>81</u>
	\$ 393	214
	=====	=====

Amortization periods for the fees are from 12 to 204 months.

Interest expense:

Interest expense for the years ended December 31, 2010 and 2009 is analyzed on the next page.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

	<b><u>Credit and services</u></b>	<b><u>Trading and Treasury</u></b>	<b><u>Others</u></b>	<b><u>Total</u></b>
<u>December 31, 2010</u>				
Demand deposits	\$ 493	–	–	493
Time deposits	1,750	–	–	1,750
Bank bonds	–	270	–	270
Bank and other loans	–	284	–	284
Securities under repurchase/resell agreements	–	356	1,484	1,840
Premium paid	–	–	4	4
Valuation loss	–	30	–	30
Residential mortgages loan origination fees and expenses	<u>63</u>	<u>–</u>	<u>–</u>	<u>63</u>
	<u>\$ 2,306</u>	<u>940</u>	<u>1,488</u>	<u>4,734</u>
 <u>December 31, 2009</u>				
Demand deposits	\$ 684	–	–	684
Time deposits	2,215	–	–	2,215
Bank bonds	–	314	–	314
Bank and other loans	–	317	–	317
Securities under repurchase/resell agreements	–	869	2,528	3,397
Premium paid	–	–	4	4
Valuation loss	–	16	–	16
Residential mortgages loan origination fees and expenses	<u>72</u>	<u>–</u>	<u>–</u>	<u>72</u>
	<u>\$ 2,971</u>	<u>1,516</u>	<u>2,532</u>	<u>7,019</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

For the years ended December 31, 2010 and 2009, total interest expense includes interest denominated in foreign currency amounting to million and 3 million dollars, respectively.

**(c) Financial intermediation income-**

For the years ended December 31, 2010 and 2009, financial intermediation income is analyzed as follows:

	<u>2010</u>	<u>2009</u>
<i>Unrealized:</i>		
Investment securities	\$ (80)	(162)
Derivatives:		
Trading	(89)	(93)
Hedging	(8)	(67)
Foreign currencies and precious metals	<u>(65)</u>	<u>(11)</u>
	<u>(242)</u>	<u>(333)</u>
<i>Realized:</i>		
Investment securities	41	239
Derivatives:		
Trading	(100)	106
Hedging	(188)	(66)
Foreign currencies and precious metals	<u>603</u>	<u>800</u>
	<u>356</u>	<u>1,079</u>
	\$ 114	746
	====	=====

**(d) Commission and fee income-**

For the years ended December 31, 2010 and 2009, commission and fee income are analyzed as follows:

	<u>2010</u>	<u>2009</u>
Letters of credit with no refinancing	\$ 30	29
Account handling	215	208
Trust activities	187	190
Fund transfers	57	69
Electronic banking services	202	264
Credit transactions	447	478
Other fees and commissions collected	<u>2,047</u>	<u>2,039</u>
	\$ 3,185	3,277
	====	=====

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(e) Other operating income-**

	<u>2010</u>	<u>2009</u>
Recoveries of loan portfolio	\$ 642	413
Acquisition of loan portfolio	-	(10)
Loss on sale of loan portfolio	-	(371)
Dividends	26	-
Donations	(18)	(63)
Loss on foreclosed assets	(1)	-
Income on sale of foreclosed assets	133	124
Other	<u>(2)</u>	<u>(9)</u>
	<u>\$ 780</u>	<u>84</u>

**(f) Other income-**

For the years ended December 31, 2010 and 2009, other income is analyzed as follows:

	<u>2010</u>	<u>2009</u>
Recoveries:		
Taxes	\$ 6	52
Revenue from purchase of trust securities	413	544
Other	69	128
Income from loan insurance	613	542
Transfer of securities	92	95
Loans to employees	73	83
Food vouchers	119	127
Assignment rights to Servicios Corporativos (before Afore)	-	200
Financial advice	85	74
Others	<u>520</u>	<u>526</u>
	<u>\$ 1,990</u>	<u>2,371</u>

**(g) Other expense-**

For the years ended December 31, 2010 and 2009, other expense is composed of the following:

	<u>2010</u>	<u>2009</u>
Write-offs and miscellaneous losses	\$ 200	143
Others	<u>24</u>	<u>9</u>
	<u>\$ 224</u>	<u>152</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(h) Financial ratios-**

The following are some key quarterly financial ratios as of and for the years ended December 31, 2010 and 2009:

	<b>2010</b>			
	<b><u>Fourth</u></b>	<b><u>Third</u></b>	<b><u>Second</u></b>	<b><u>First</u></b>
Past due loan portfolio / Total loan portfolio	3.6%	3.9%	4.0%	4.0%
Allowance for loan losses / Past due loan portfolio	103.3%	102.0%	99.7%	101.6%
Operating efficiency ( <i>administrative and promotional expenses / average total assets</i> )	6.0%	6.0%	6.0%	5.6%
ROE ( <i>annualized net income for the quarter / average stockholders' equity</i> )	11.9%	7.6%	9.4%	12.5%
ROA ( <i>annualized net income for the quarter / average total assets</i> )	2.0%	1.3%	1.6%	2.2%
Net capital / Assets at credit risk	23.7%	22.9%	22.5%	22.7%
Net capital / Assets at credit and market risks	17.8%	17.4%	17.2%	17.4%
Liquidity ( <i>liquid assets / liquid liabilities</i> )	51.9%	64.7%	57.7%	62.5%
Financial margin after allowance for loan losses / Average earning assets	5.3%	5.8%	5.6%	5.5%
	<b>2009</b>			
	<b><u>Fourth</u></b>	<b><u>Third</u></b>	<b><u>Second</u></b>	<b><u>First</u></b>
Past due loan portfolio / Total loan portfolio	3.9%	3.8%	4.3%	4.2%
Allowance for loan losses / Past due loan portfolio	103.6%	108.7%	96.8%	104.6%
Operating efficiency ( <i>administrative and promotional expenses / average total assets</i> )	6.4%	6.3%	5.9%	5.8%
ROE ( <i>annualized net income for the quarter / average stockholders' equity</i> )	13.1%	9.1%	5.8%	7.5%
ROA ( <i>annualized net income for the quarter / total average assets</i> )	2.2%	1.5%	1.0%	1.3%
Net capital / Assets at credit risk	21.6%	21.0%	20.3%	19.8%
Net capital / Assets at credit and market risks	16.7%	16.4%	15.9%	15.0%
Liquidity ( <i>liquid assets / liquid liabilities</i> )	63.2%	67.6%	57.9%	65.0%
Financial margin after allowance for loan losses / Average earning assets	5.1%	5.1%	4.8%	4.3%

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(22) Commitments and contingencies-**

**(a) Leases-**

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense for the years ended December 31, 2010 and 2009, amounted to \$762 and \$607, respectively.

**(b) Litigation-**

The Group is involved in a number of lawsuits and claims arising in the normal course of business. It is not expected that the final outcome of these matters will have a significant adverse effect on the Group's financial position and results of operations. Certain cases are covered by an indemnity clause in the agreement with the IPAB.

*Contingencies for securities transactions*

At December 31, 2008, the Brokerage Firm recognized a provision of \$79, which it charged to results of operations for that year. The provision related to securities transactions with third parties. This provision was cancelled during 2009 and, simultaneously, a loss was recognized in respect of the fair value of the securities received.

**(c) Responsibility agreement-**

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(23) Risk management (unaudited)-**

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

The ultimate purpose of the Group 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.

In compliance with the provisions issued by the Banking Commission and the guidelines established by BNS, the Group continues to implement a series of actions designed to strengthen the comprehensive risk management function and thus identify and measure, monitor, transfer and control the credit, liquidity and market risk exposures and other risks arising from day-to-day transactions, including compliance with regulatory requirements and other legal matters.

The Board of Directors is responsible for establishing the Group's risk management policies as well as the overall risk level to which the Group is exposed and for approving related policies and procedures, at least once a year. The Board of Directors is also responsible for establishing the structure of limits for the various types or risks; such limits may be based on value-at-risk, volumetric or notional amounts and are established in relation to the Group's stockholders' equity. Furthermore, pursuant to the policies in force, the Board of Directors entrusts the implementation of the procedures designed to measure, manage and control risks to the Risk Management Committee and the Comprehensive Risk Management Unit (UAIR) .

In turn, the Risk Management Committee assigns responsibility for monitoring the compliance with the policies and procedures for market and liquidity risks to the Asset-Liability and Risk Committee (CAPA). Furthermore, the UAIR has policies in place for reporting and correcting any deviations from the specified limits. Such deviations must be reported to the Risk Management Committee and the Board of Directors.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(a) Market risk-**

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

The CAPA performs weekly reviews of the various activities that represent market risks for the Group, focusing principally on the management of asset and liability positions reported in the consolidated balance sheet in connection with credit, funding and investing, as well as securities trading activities.

Derivative instruments are valuable risk management tools for the Group and its customers. The Group uses derivative instruments to control the market risk originating from its funding and investing activities, as well as to reduce funding-related costs. To control interest rate risks inherent in fixed-rate loans, the Group enters into interest rate (swaps), forward and futures contracts. Forward foreign exchange contracts are also used to control exchange rate risks. The Group trades derivative instruments on behalf of its customers and also maintains positions for its own account.

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

The Group applies a series of techniques designed to assess and control the market risks to which it is exposed in the normal course of its activities. The Management Committees both of the Group in Mexico and of BNS in Toronto and the Board of Directors authorize individual limit structures for each of the financial instruments traded in the markets and by business unit. The structure of limits considers primarily volumetric or notional amounts of value at risk, “stop loss”, sensitivity, concentration, “stress”, term, marketability, among others.

The value at risk (VaR) is an estimate of the potential loss of value within a specific level of statistical confidence that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. VaR is calculated daily on all of the Group’s risk-exposed financial instruments and portfolios using the Risk Watch methodology developed by Algorithmics.

VaR is calculated using the historical simulation method (with a 300-working day time span). In order to conform to the measurement methodologies used by BNS, the Bank calculates VaR considering a 99% confidence level and a 1 day (“holding period”).

Since VaR is used to estimate potential losses under normal market conditions, (“stress testing”) is performed quarterly assuming extreme conditions, with the purpose of determining risk exposure under unusually large market price fluctuations (volatility changes and the correlation among risk factors). The Risk Committee has approved the stress limits.

Furthermore, back testing is performed on a monthly basis to compare gains and losses in the value at risk observed and, consequently, calibrate the models used. The efficiency level of the model is based on the focus set by Bank for International Settlements (BIS).

For the valuation and risk models, updated prices, interest rate curves and other risk factors provided by the price vendor Valuación Operativa y Referencias de Mercado, S. A. de C. V., (Valmer) are referenced. The criteria adopted by said Price Vendor are determined based on technical and statistical aspects, and on valuation models authorized by the Banking Commission.

The average values of the notional and VaR of the market risk exposure of the trading portfolio during the period October to December 2010, are those of the next page (unaudited).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

<u>Product</u>	<u>Position</u>			<u>VaR</u>	
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>	<u>Average</u>	<u>Limit</u>
Group	\$ 223,797.9	258,874.3	–	7.0	52.5
Pesos:					
Money market	\$ 38,940.7	57,576.5	105,000.0		
Interest rate swaps	131,816.0	138,077.2	207,000.0		
Interest rate market and rate derivatives	\$ 170,756.7	195,653.7	312,000.0	6.7	50.0
IPC derivatives <sup>(1)</sup>	55.9	173.6	2,880.0		
Shares	67.4	122.1	206.0		
Share portfolio	67.4	122.1	206.0	3.3	10.0

<u>Product</u>	<u>Position</u>			<u>VaR</u>	
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>	<u>Average</u>	<u>Limit</u>
Dollars:					
Forwards and futures foreign					
Exchange contracts <sup>(2)(3)</sup>	2,564.5	3,735.7	4,000.0		
Foreign exchange market <sup>(3)</sup>	0.7	2.1	55.0		
Foreign currency options <sup>(3)</sup>	30.3	60.4	800.0		
Foreign currency swaps <sup>(3)</sup>	240.2	242.3	1,500.0		
Total foreign exchange and foreign currency derivatives	2,835.7	4,040.5	6,355.0	1.0	10.0

<sup>(1)</sup> Includes IPC futures and options of the capitals derivative table, its VaR is included in the Warrants portfolio. the 1 day average Warrant VaR is MXN 3.10 MM that is computed with the Capitals VaR.

<sup>(2)</sup> The Forwards position is a gross position (long + short) and Foreign Exchange position is net (long - short).

<sup>(3)</sup> Notional figures expressed in millions of US dollars.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Below are the positions in number of contracts traded (unaudited information).

MexDer derivatives market

<b><u>Underlying</u></b>	<b><u>Average</u></b>	<b><u>Maximum</u></b>	<b><u>Limit</u></b>
US Dollar futures	-	-	10,000
Interest rate futures	319,206	423,526	1,070,300
IPC futures	<u>151</u>	<u>449</u>	<u>750</u>
Total futures <sup>(4)</sup>	<u>324,357</u>	<u>428,975</u>	<u>1,080,750</u>

<sup>(4)</sup> The relevant position and limit are stated in number of contracts traded in MexDer.

The Brokerage Company kept in average, warrants on the IPC and stocks in the notional amount of 7,380.6. The maximum notional amount was 9,598.7 millions.

During 2010, the Group's average global VaR (unaudited) was \$7.0 and the global VaR at December 31, 2010 (unaudited) was \$7.8.

As an example, the annual average value at risk for the Group is \$7.0, which means that under normal conditions and during a holding period of 1 day there is a 1% probability of losing more than such amount, under the assumption that the behavior over the past 300 trading days is representative for estimating the loss.

Since VaR measure serve for estimating potential losses under normal market conditions, "stress-testing" is performed on a monthly basis to determine the risk exposure based on large unusual fluctuations in market prices. The Risk Management Committee has approved stress limits.

"Stress testing" as of December 31, 2010 was 524.4, which compared to the \$1,500 limit is inside acceptable parameters. The stress limit is based on the Bank's stockholders' equity and is updated on a monthly basis. The hypothetical scenarios used for stress testing are the crises of 94 and 98.

For achieving an effective management of risks, "Backtesting" takes place on a monthly basis where losses and gains actually incurred and obtained are compared with the 1 day VaR calculation and thus models are re-calibrated if required. The model's efficiency level is based on the approach provided by the Bank for International Settlements (BIS).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Back-testing test for the period October to December 2010 shows a level of efficiency of green, under the approach established for the Bank for International Settlements (BIS). However, the days 8 and 15 December 2010, there were two excesses to P & L with respect to VaR and VaR Global Interest Rate for a day, due to higher interest rates.

In cases where excesses to the established limits occur, there are policies and procedures in place for immediately reporting and correcting these excesses. Furthermore, these excesses are informed to CAPA every two months and monthly to the Risk Committee and the Board of Directors.

Market risk management in lending and borrowing activities- The interest rate risk originating from lending and borrowing activities is assessed weekly through analysis of the interest rate gaps derived from funding and investing activities. This weekly supervision function is supported by a risk assessment process, which includes simulation models and sensitivity analysis.

Simulation models help the Group assess interest rate risks dynamically. These models are applied mainly to the balance sheet position and consider hypotheses with respect to growth, mix of new activities, interest rate fluctuations, maturities and other related factors.

***Sensitivities***

Qualitative information on sensitivities

The Group has a specialized Trading Risk Analysis area which maintains continuous and methodical supervision of valuation, risk measurement and sensitivity analysis processes. This area is in constant contact with those responsible for 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.

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*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 gain and losses, P&L.

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 calculated; i) the expected change in the value of the portfolio when faced with a 1 basis point (0.01%) change in the yield curve; and ii) the expected change in the value of the portfolio when faced with a 100 basis points (1%) change in the yield curve. For the purposes of this disclosure, only a 1 basis point change is reported.

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, uses their term to maturity as the duration, expressed in years.

*Interest rate derivatives*

The following is a brief explanation of sensitivity modeling for the Group interest rate derivatives.

TIIE and CETE futures: These types of derivative instruments are modeled in order to calculate sensitivities for zero coupon rate futures and, therefore, their duration is considered as part of estimating the sensitivity.

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Interest Rate Swaps: For the purposes of determining the sensitivity of changes in the yield curve of TIE Swaps, a 1 base point change is made in each of the relevant point on the yield curve, in addition to a 1 basis point and one hundred basis 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 1 basis point sensitivity is reported.

**Quantitative information about interest rate sensitivities**

The following table shows the sensitivity to 30 September and 31 December 2010:

<i>Sensitivity Ipb</i>	<u>September 2010</u>	<u>December 2010</u>
Fixed rate	(0.989)	(0.786)
Adjustable rate	(0.069)	(0.075)
Subtotal interest rate	<u>(1.058)</u>	<u>(0.861)</u>
Futures	0.053	(0.183)
Swaps	<u>(0.148)</u>	<u>0.026</u>
Subtotal interest rate derivatives	<u>(0.095)</u>	<u>(0.157)</u>
Total	<u>(1.153)</u>	<u>(1.018)</u>

As of December 31, 2010, the Group's sensitivity of the interest rate portfolio is \$1.018, denoting that for every basis point decrease in the interest rate, the group would generate a profit of \$1.018. The drop in the sensitivity by \$0.134 as compared to the past quarter is due to the decrease in long positions of the portfolio of CETES, Udibonos and Swaps.

Should the sensitivity scenario in the table above materialize, the losses would impact directly on the results of operations of the Group.

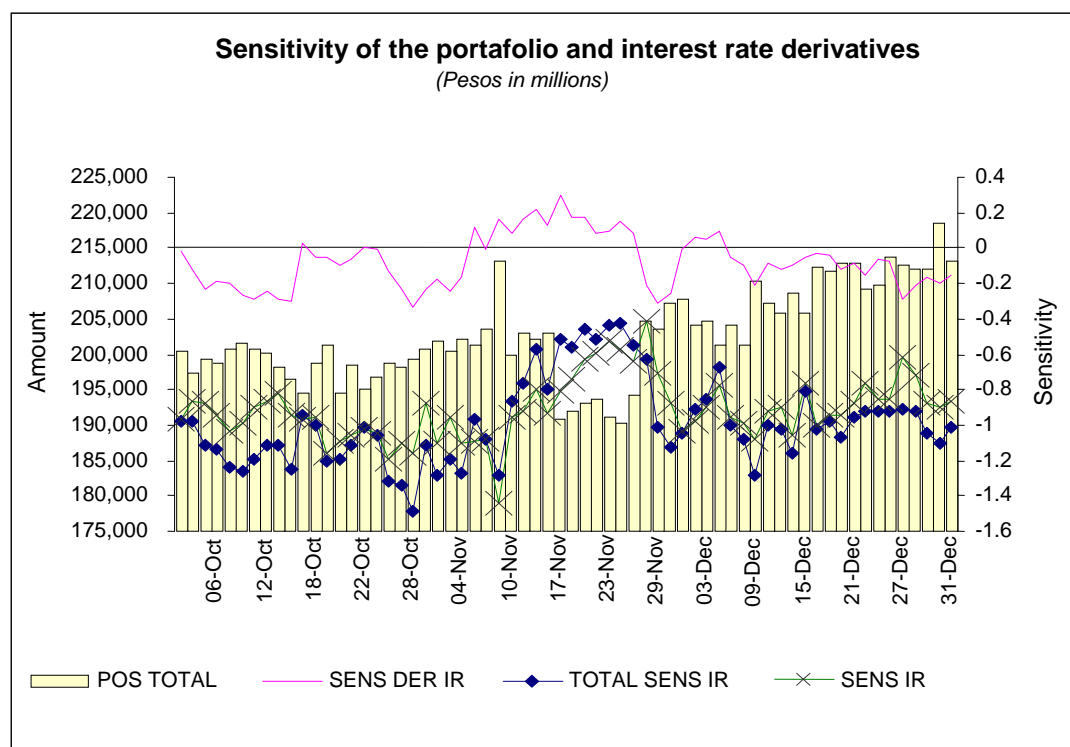
A table on the sensitivity evolution for interest rate and interest rate derivatives as the net effect of the portfolio, the daily total position for the October-December 2010 period is shown on the next page.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)



As shown in the chart, as of the quarter-end the Group's daily sensitivity of the Interest Rate and Interest Rate Derivatives portfolio is reduced.

The table below shows the statistics for the fourth quarter 2010, maximum, minimum and average. On average, the sensitivity was MXN (0.193) MM. The interest rate and derivatives portfolio hedged the long positions during this period.

<b>Sensitivities 1 bp</b>	<b>Average</b>	<b>Maximum</b>	<b>Minimum</b>
Interest rate	(0.862)	(0.744)	(0.682)
Rate of derivatives	<u>0.670</u>	<u>(0.011)</u>	<u>(0.253)</u>
Total	<u>(0.192)</u>	<u>(0.755)</u>	<u>(0.935)</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*Stock and IPC index derivatives portfolio*

*Stock*

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

*Capital derivatives*

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

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

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

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

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

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

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 underlying. In general, a long position in options benefits from an increase in the volatility of an underlying and a short position has the opposite trend, except for certain exceptions as is the case of binary options.

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

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*Sensitivities for shares portfolio and IPC derivatives.*

The following table shows the sensitivity to September 30 and December 31, 2010:

	<b>September <u>2010</u></b>	<b>December <u>2010</u></b>
Shares	<u>0.141</u>	<u>0.485</u>
Subtotal	<u>0.141</u>	<u>0.485</u>
IPC futures	(0.0008)	0.0005
IPC options	0.0000	0.0000
Warrants	<u>(0.0054)</u>	<u>0.0009</u>
Subtotal	<u>(0.006)</u>	<u>0.0014</u>
Total	<u>0.135</u>	<u>0.486</u>

During the quarter, the Capitals desk continued with its strategy of conducting intraday transactions. Compared with the preceding quarter, the position posted an increase, the most important SIMEC (steel), Naftac and HOMEX (housing)

As to the IPC index position, the Brokerage Firm has a hedge strategy for new issues of Warrants and arbitrating between the capitals market and the IPC index futures.

Should the sensitivity scenario of the above table materialize, the losses would directly impact the Group's results of operations.

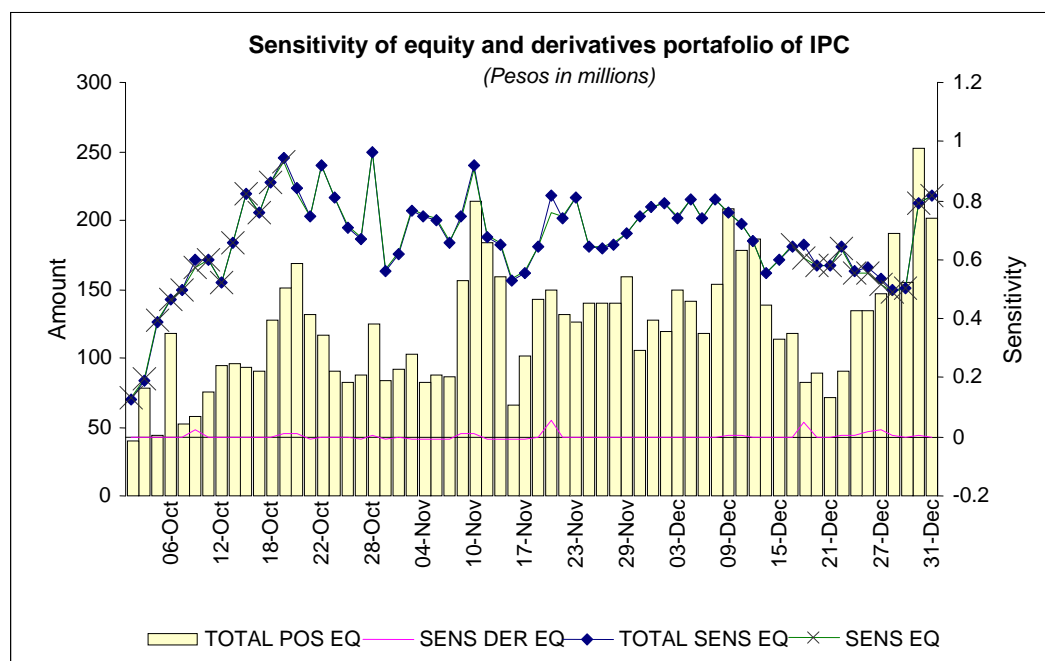
The graph of the next page shows the daily evolution of the sensitivity for the stock portfolio. Also, it shows the daily position of the stock portfolio.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)



The Group's Capitals portfolio comprises stocks and a position in the IPC index portfolio. The sensitivity is positive and for the fourth quarter of 2010 it averaged \$158. During the quarter, the sensitivity and stock position increased both at the Brokerage Firm and the Bank.

<u>Sensitivities</u>	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Shares	\$ 0.157	0.156	0.157
IPC Derivatives	<u>0.002</u>	<u>0.054</u>	<u>(0.006)</u>
Total	\$ <u>0.159</u>		

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

The following table shows sensitivity measures for non-linear instruments for December 31, 2010.

*Sensitivities for warrants and IPC 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)
IPC options /						
OTC options	0.000	0.000	0.000	0.000	0.000	0.000
IPC futures	69.458	0.000	0.000	(0.010)	0.228	0.000
Naftracs / shares	<u>626.037</u>	<u>1.906</u>	<u>0.074</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</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>

Below is the average, maximum, and minimum of the sensitivities for warrants and IPC options:

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

*Foreign currency portfolio and foreign currency derivatives*

*Foreign currency*

The portfolio consists of various currencies traded by the Bank through the foreign exchange desk for trading purposes. The sensitivity is calculated as the delta of currency as the change in the portfolio value as a result of a change by 1% in the value of the underlying.

*Foreign currency derivatives*

Currency Forwards and Futures. This portfolio is in the Bank and the sensitivity to changes in interest rate is calculated for each currency, as the result on the present value for a parallel change by one (1) basis point throughout the respective yield curves, with all other factors remaining unchanged. Additionally, a non-parallel change is also applied to the yield curves for time gaps, all other factors remaining unchanged.

Currency options: On exchange rate options, for the calculation of sensitivities those known by Greek letters, delta, gamma, vega, theta and rho are applied.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
 Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

CCIRS (Cross Currency Interest Rate Swaps): In order to determine the sensitivity to changes in the yield curve, a change by one (1) basis point is made throughout the respective yield curves, valuing the portfolio with the different curves and calculating the change in the portfolio value for each of such changes. An analysis is also performed in parallel with a one hundred basis point change. Additionally, a non-parallel one (1) basis point change is made to the yield curves for time gaps, with all other factors remaining unchanged. For purposes of this report, only the 1 basis point sensitivity is presented.

*Sensitivities for foreign currency portfolio and foreign currency derivatives*

Below are the sensitivities as of September 30 and December 31, 2010:

<i>Exchange rate</i>	<u>September 2010</u>	<u>December 2010</u>
USD	0.061	(0.014)
CAD	(0.045)	0.053
EUR	(0.094)	0.051
Others	<u>0.084</u>	<u>0.040</u>
Subtotal	<u>0.006</u>	<u>0.130</u>
Forwards y DEUA futures	0.0044	0.0001
OTC options of MXN/USD	0.000007	0.000004
Swaps	<u>(0.0001)</u>	<u>(0.0005)</u>
Subtotal	<u>0.004</u>	<u>(0.0004)</u>
Total	<u>0.010</u>	<u>0.130</u>

During the fourth quarter of 2010, sensitivity of the foreign exchange rate posted a decrease to \$0.130. U.S. dollar forwards and futures had a marginal positive sensitivity with a net long position. The sensitivity of CCIRS was much reduced. Currently, the Bank participates in the OTC market for peso-dollar exchange rate options for hedging purposes and to serve its customers. Exchange desks (spot/forward) do not record material exposures.

Should the sensitivity scenario of the above table materialize, the losses would directly impact the Group's results of operations.

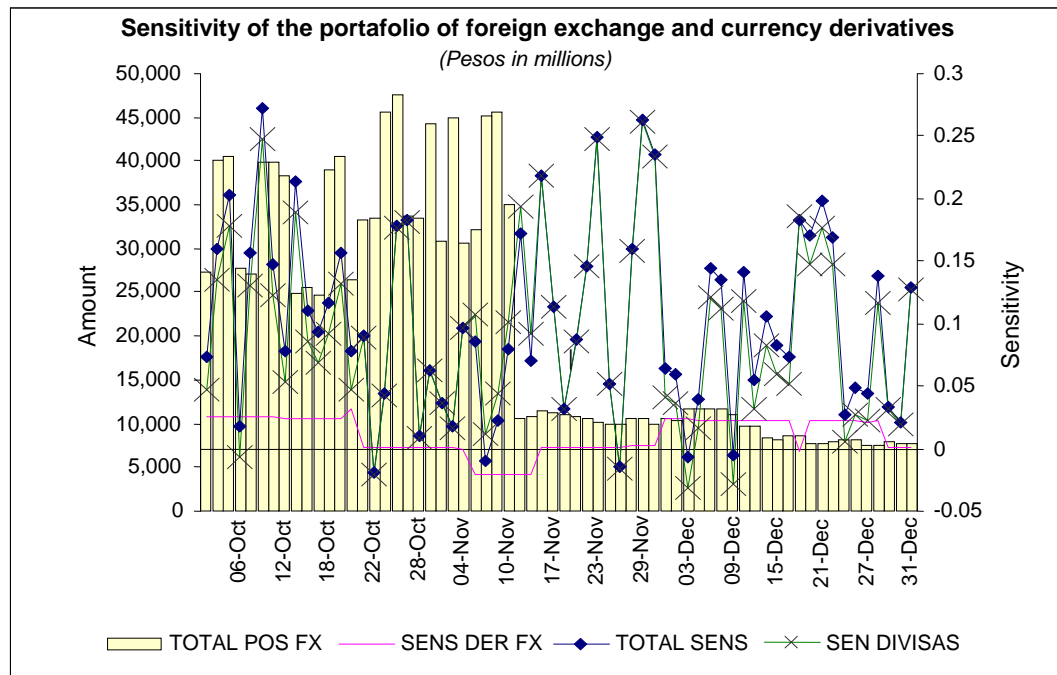
(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Next is the daily evolution of the sensitivities for this portfolio:



The position of the currency portfolio declined as a result of the entry of a new legislation about buy and sell for currency.

On average, the quarterly sensitivity of the currency and currency derivatives portfolio was MXN 0.103MM.

<u>Sensitivities</u>	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Currency	0.092	0.262	(0.031)
Currency derivatives	<u>0.011</u>	0.032	(0.021)
Total	<u>0.103</u>		

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*Sensitivities for pesos-dollar currency options, "greeks".*

Below are the position and the currency options portfolio sensitivities at December 31, 2010:

<u>Greeks</u>	<u>Delta</u>	<u>Gamma</u>	<u>Theta</u>	<u>Rho</u>	<u>Vega</u>
Total / Currency					
Options MXN/USD	(53.568)	(3.939)	(0.029)	0.010	0.0004

Below is a table for the period of October to December 2010 which includes the average, maximum and minimum sensitivities of exchange rate options. Worth highlighting is fact that the average negative delta exposure was \$-2.92MM:

	<u>Delta</u>	<u>Gamma</u>	<u>Theta</u>	<u>Rho</u>	<u>Vega</u>
Minimum	(6.18)	(0.74)	0.01	0.0001	(0.20)
Maximum	0.46	(0.14)	0.04	0.0018	(0.02)
Average	(2.92)	(0.40)	0.02	0.0006	(0.07)

*Market risk management in available-for-sale securities-*

At December 31, 2010, the position of the Bank's available-for-sale securities amounts to \$4,556. Available-for-sale securities are considered part of the Bank's structural position and reprising gaps, economic value sensitivity and margin sensitivity to interest rate are considered in order to measure their risk.

At the December 2010 close, the position of the Brokerage Firm's available-for-sale securities amounted to \$506. Available-for-sale securities are considered within the structural position of the Brokerage Firm.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated 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 account for 0.03% and 0.05%, respectively, of the book value for the Bank whereas in the case of the Brokerage Firm, the sensitivity corresponds to 0.7% of the book value for available-for-sale securities. Sensitivity analysis was performed for all non-impaired securities (unaudited information).

<b>Bank</b>	<b><u>Available-for-</u> <u>sales</u></b>	<b><u>To</u> <u>Maturity</u></b>
Exposition	\$ 4,556	1,895
Sensitivities (\$)	1	0.9
Sensitivities (%)	0.03%	0.05%
 <b>Brokerage Firm</b>		
Available-for-sale securities	\$ 506	
Sensitivities (\$)	4	
Sensitivities (%)	0.7%	

**(b) *Liquidity risk-***

The Group's liquidity risks result from funding, borrowing and securities trading transactions, such as demand deposits, maturities of time deposits, drawing against credit lines, settlement of transactions involving securities, derivative instruments, and operating expenses. The liquidity risk is reduced to the extent that the Group is able to obtain funds from alternative financing sources at an acceptable cost.

Among the factors that are implicit in the strategy applied to liquidity risk management are assessing and anticipating commitments payable in cash, controlling asset and liability maturity gaps, diversifying sources of funding, establishing prudent limits and assuring immediate access to liquid assets.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Liquidity risk is monitored and controlled aggregately by currency through cumulative liquidity gaps and minimum requirements of liquid assets. Below is the average exposure of cumulative 2 week gaps and the Bank's average liquid assets during the last quarter of 2010 and 2009 (unaudited information):

<u>Description</u>	<u>2010</u>	<u>2009</u>
Two-week accumulated gap (Mexican pesos + UDIs)	\$ (3,285)	(5,021)
Liquid assets	<u>5,115</u>	<u>5,348</u>

The cumulative two-week gap reflects the Bank's cash commitment during such a period and Liquid Assets shall serve as funds for fulfilling such commitment in case the Bank has no access to other sources of funding.

*Liquidity gaps for investment securities*

The Liquidity Risk in Investment Securities arises from the difficulty or impossibility of carrying out transactions with the securities giving rise to unusual discounts for their sale. Information is presented concerning the corresponding maturities at the December 2010 close for the Bank (unaudited):

<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>
<b><u>December 2010</u></b>					
0.5	\$ —	—	1,913	1,913	7.9%
1	—	3,825	15,943	19,768	81.3%
2	—	243	—	243	1.0%
3	—	—	—	—	0.0%
4	—	—	—	—	0.0%
+5	1,895	—	—	1,895	7.8%
Without maturity	<u>—</u>	<u>448</u>	<u>58</u>	<u>506</u>	<u>2.1%</u>
	\$ <u>1,895</u>	<u>4,516</u>	<u>17,914</u>	<u>24,325</u>	<u>100.0%</u>
Concentration	7.8%	18.6%	73.6%	100.0%	

Trading includes value date sales.

Bank information not considering consolidation effects with subsidiaries.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Investment securities for the Brokerage Firm have the following maturity periods (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>
<b>December 2010</b>					
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>

*Derivative cash flows*

Below are the periods where cash flows are expected to occur and affect results in cash flow hedge transactions at December 31, 2010 (unaudited information):

<u>Assets cash flows</u>		<u>Liabilities cash flows</u>	
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
03-01-11	\$ 500	03-01-11	\$ 230
07-01-11	200	07-01-11	50
10-01-11	200	10-01-11	100
11-01-11	400	11-01-11	100
14-01-11	350	18-01-11	100
17-01-11	20	20-01-11	530
18-01-11	50	21-01-11	650
19-01-11	400	24-01-11	260
21-01-11	150	26-01-11	1,320
24-01-11	3,800	28-01-11	50
28-01-11	<u>1,550</u>	31-01-11	<u>730</u>
Total	\$ <u>7,620</u>	Total	\$ <u>4,120</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(c) Credit risk-**

Transactions with customers originate credit risk exposure, such exposure is recorded in the balance sheet and memorandum accounts. Exposure to credit risk recorded in the balance sheet consists primarily of loans granted, while that recorded in memorandum accounts includes guarantees issued, as well as any other financial instrument whereby credit is extended to a third party to favor of Group.

The Group has developed policies and procedures to manage its loan portfolio risk level and composition, with the purpose of quantifying and managing the loan portfolio-related credit risks and reducing the risk of loss resulting from a customer's failure to comply with the agreed terms.

*Policies and procedures for granting, controlling and collecting loans, as well as evaluating and monitoring credit risk and the methods used to identify current or past due impaired commercial loans-* The Group's credit risk management is based on the application of well-defined strategies to control this type of risk. Among these are the centralization of credit processes, the diversification of the portfolio, improved credit analysis, strict supervision and a credit risk-scoring model.

The Group has three different levels of credit authorizations: The Board of Directors, Credit Committee and the Credit Department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used.

The business areas prepare and structure the different proposals, which are analyzed and authorized by the Credit Department, or, if applicable, recommended to the corresponding authorization level, thus ensuring an appropriate separation between loan origination and the authorization of transactions.

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

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

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

Methodology used to determine allowances for loan losses- The Group uses a credit risk classification system derived from the BNS methodology in order to identify the level of risk of loans as well as to ensure that the yields from each loan are proportionate to the risk assumed. This also includes systems and strategies to grant loans and monitor the loan portfolio. The Group also takes advantage of BNS experience in portfolio grading, estimating allowances and losses, adapted as appropriate to the laws and needs of the Mexican market.

This model considers the following risk factors: country risk, financial behavior, financial hedging, debtor management, overall strength (the customer's relation to the economic environment, competitiveness, strengths and weaknesses), account management, industry conditions and payment experience.

Such factors constitute an evaluation of the customer's risk profile and the result is obtained by applying an algorithm that considers such elements. This algorithm is the result of BNS experience, its statistical analysis and adaptation to the Mexican market.

The internal grading system (classified by "IG Codes"), uses eight grades considered to be acceptable (IG 98 to IG 77), five grades to reflect a higher than normal risk (IG 75 to IG 60) and four considered to be unacceptable (IG 40 to IG 20). A correlation has been established between the internal grading model and the levels of risk contained in article 126 and 127 of the General Provisions applicable to the Loan Portfolio Rating Methodology for Credit Institutions published in the Federal Official Gazette on December 2, 2005 (the Disposition).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
 Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Through official letter 141-4/31395/2008 dated November 11, 2008, the Banking Commission authorized the Bank to grade the commercial loan portfolio by using its internal grading methodology based on the Probability of Debtor Default, applicable to all of the Commercial Portfolio, except for the following segments: the special credit program referred to as Scotia Empresarial, which is graded by applying the internal model based on the debtor's creditworthiness, as well as loans made to Federal Entities and Municipalities, loans for Investment Projects with own repayment sources, loans extended to Trustees operating under Trusts and "structured" loan schemes with property security making it possible to assess the individual related risk and loans made to Financial Entities, which are individually graded in accordance with the methodologies specified in Articles 112, 114 and 115 of the Dispositions.

Other types of loans and related provisions have been graded in accordance with Articles 126, 127, 130 and 131 of said Provisions.

The chart below shows the risk levels of the internal model of loans credit rating applicable to Commercial loans:

<b>Grade</b>	<b>IG Code</b>
Excellent risk	98
Very good risk	95
Good risk	90
Satisfactory risk	87
High adequate risk	85
Medium adequate risk	83
Low adequate risk	80
Medium risk	77
High moderate risk	75
Medium moderate risk	73
Low moderate risk	70
Watch list	65
Special supervision	60
Sub-standard	40
High impairment	22
Doubtful recovery	21
Non-performing	20

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Description of each risk level:

*Excellent risk:* Borrowers with the highest credit rating, outstanding financial structure and solid/consistent profitability. Their capacity for the timely repayment of debt is outstanding, which provides them with unrestricted access to the money and capital markets as well as to alternative financing sources. Management has sufficient experience and optimum performance. These borrowers are not vulnerable to changes in the environment of the country or of their economic sector.

*Very good risk:* Borrowers with a solid financial structure that generate sufficient funds and liquidity to cover short and long-term debts; however, they depend on the Bank to a greater extent than excellent risk borrowers. The management team is competent, with the capacity to easily overcome moderate setbacks. They operate in a stable or growing economic sector.

*Good Risk:* Borrowers with a good financial structure, with consistent earnings and reliable cash flow. Their capacity to cover and service the debt is good. The management team has shown that it is good, with adequate capabilities in critical areas. The characteristics of the economic sector and the country's economy are sound, without indications that may adversely affect them.

*Satisfactory Risk:* Borrowers with an adequate financial structure that can easily repay their loans in an effective manner. Although their earnings are consistent with the industry average, they are more susceptible to adverse economic conditions than borrowers in higher ratings. Management is competent and has the support of stockholders. The industry where they operate may be subject to cyclical trends.

*High Adequate Risk:* Borrowers who still have satisfactory ability to repay their loans and an adequate financial structure. However, although consistent, their earnings are slightly below industry average. The management team's capabilities to obtain profitable and efficient results are satisfactory. The industry where they operate may be subject to cyclical trends.

*Medium Adequate Risk:* Borrowers whose timely repayment of principal and interest thereon is still guaranteed. However, their earnings are currently below industry average, which suggests that their continued strength may be at risk. Management may be family-owned or professional and performance is fairly satisfactory, with management initiatives being supported by stockholders. The industry where they operate may be subject to cyclical trends.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*Low Adequate Risk:* Borrowers whose financial structure, profitability and current funding are generally adequate. Operating cash flows are at the break-even point and show adequate levels to cover the debt. However, earnings are below the industry average. Management may have problems in overcoming setbacks, but it is still considered adequate. The industry where they operate may be subject to cyclical trends or be affected by applicable regulations.

*Medium Risk:* Borrowers that can easily meet their loan commitments in the short-term but whose payments in the long-term are potentially uncertain, with growing leverage and lower debt capacity. Management meets the minimum risk criteria. The industry where they operate may be subject to cyclical trends or be affected by macroeconomic changes.

*High Moderate Risk:* Borrowers face a slight decrease in earnings, although they have good potential for successfully overcoming these difficulties. Operating cash flows are at the break-even point and suffice to timely meet their debt payments, but with a certain descending trend. Management shows mixed operating results and long-term prospects. The industry where they operate shows growth problems.

*Medium Moderate Risk:* Borrowers face growth problems or weak capitalization, have reasonable potential for successfully overcoming these difficulties, and they are currently meeting their payment obligations in a timely manner; however, their funds rarely come from alternative sources and therefore their sustained repayment capacity is doubtful. Management evidences certain weaknesses that make stockholders skeptical, to a certain degree, of their performance.

*Low Moderate Risk:* Borrowers whose financial structure shows clear signs of weakness that may adversely affect their capacity or willingness to meet their long-term payment obligations. They regularly use alternative funding sources, and payments are generally late. Management shows certain noteworthy weaknesses and share ownership may be concentrated in one single individual. The industry sector in which they operate is highly susceptible to changes in macroeconomic conditions.

*Watch List:* Borrowers whose financial structure is weak, the debt position is unbalanced and debt is overextended. They regularly require funding from non-routine sources, and repayment performance is weak. These borrowers meet the Bank's minimum acceptable requirements. Management performance is poor. Borrowers are vulnerable to any business and/or industry problems.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*Special Supervision:* Borrowers who have cash flow and liquidity problems that may require funding from alternative sources to prevent defaulting on their loans. Urgent changes are required in how the business is managed and its direction in order to combat the deterioration, which probably can be corrected in the medium term. Both the country and industry environment are frail. These customers definitely have unacceptable risks.

*Sub-standard:* Borrowers whose future feasibility is uncertain unless there are changes in their business activities, market conditions and management. Customers in this category call for substantial reorganization. Repayment history is bad and their loans are currently past due. The industry in which they operate faces temporary problems.

*High Impairment:* Borrowers with clear financial problems that put at risk compliance with the service of their debt, are susceptible to bankruptcy proceedings, have defaulted on their payments and are highly dependent on alternative sources for meeting their loan repayment commitments. Management problems threaten the borrower's ability to continue as a going concern and so the impairment is deemed permanent. Viability of the industrial sector relies on structural changes.

*Doubtful Recovery:* Borrowers with permanent financial problems. Businesses in this category are likely to have ceased operating and so their payment performance is practically non-existent. Payments are up to one year past due and considered as doubtful recovery. Management is deficient and unreliable and the industry where they operate has been permanently affected.

*Non-performing:* Borrowers who have ceased making loan repayments and whose situation does not allow for restructuring. Management is ineffective or has shown clear signs of dishonesty. The industry where they operate faces permanent problems and so it is practically impossible to maintain the loan as a performing asset.

*Exempt portfolio and methodology:*

Part of the portfolio is exempt from grading. Examples are: Mexican government sovereign debt, highway loans guaranteed by the Mexican government, and IPAB loans not arising from portfolio sales. No allowances are required for this portfolio.

The Bank has implemented the CreditMetrics<sup>®</sup> methodology and adapted it to the conditions in Mexico. This methodology measures and controls the credit risk of the different segments of the loan portfolio.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

Portfolios and segments to which the Credit Risk methodology applies are: a) Non-retail portfolio: Corporate, Commercial, Scotia Empresarial; Federal Government, States and Municipalities; b) Retail portfolio: Mortgage, Credit Card, Personal Loans; and c) Non-traditional portfolio: Money Market and Derivatives.

- The methodology includes estimating expected and unexpected losses using measurements of the probability of the occurrence of credit events (transition matrices) including likelihood of non-compliance.
- Expected losses represent an average estimate of the impact of 12-month non-compliance.
- Unexpected loss is a dispersion measurement with respect to an expected loss.
- A level of confidence of 99.75% over a one-year period is used to determine unexpected losses (“*Credit VaR*”).
- The correlation between different economic sectors is used to measure the effect of the concentration in the commercial loan portfolio. Constant correlation assumptions consistent with international practices are made for the retail portfolio (credit card, personal and residential mortgage loans).
- Furthermore, stress testing is performed regularly as to both expected and unexpected losses.

Below are the expected and unexpected losses in nominal amounts as of December and the average of the last quarters of 2010 and 2009 (unaudited):

	<u>2010</u>		<u>2009</u>	
	<u>Closing</u>	<u>Average</u>	<u>Closing</u>	<u>Average</u>
Exposure	\$ 149,946	148,462	169,047	168,798
Unexpected loss <sup>1</sup>	9,633	9,005	8,425	8,123
Expected loss <sup>1</sup>	<u>2,245</u>	<u>2,297</u>	<u>1,713</u>	<u>1,644</u>

<sup>1</sup> *Current loan portfolio.*

Credit culture- To create and promote a credit culture, the Bank has permanent training programs for personnel involved in the loan origination and authorization processes. Among such programs is required advanced training in commercial banking practices that provides support tools for the analysis and evaluation of credit risks, as well as decision-making workshops.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

*Implementation of prudent credit criteria-* In accordance with the *Prudent Credit Provisions*, the Group has established control measures to identify, measure and limit the taking of risks in a timely manner derived from the credit activity in its different phases, which are documented in the Credit Policies and Procedures Manual and are constantly reviewed and updated, as well as submitted for approval by the Board of Directors annually.

*Credit risk in securities investments* – Below is a summary of exposure, credit rating and concentration by risk level of Investment Securities at the December 2010 close (unaudited information):

<u>S&amp;P</u>	<u>Held to maturity</u>	<u>Available for sale</u>	<u>Trading</u>	<u>Total for risk type</u>	<u>Concentration</u>
<b><u>December</u></b>					
mxAAA	\$ 1,895	75	11,934	13,904	57.2%
mxAA	–	192	–	192	0.8%
mxAA-	–	50	–	50	0.2%
mxA-1+	–	671	5,922	6,593	27.1%
mxBBB	–	2,545	–	2,545	10.5%
mxBBB-	–	404	–	404	1.7%
mxB	–	8	–	8	0.0%
CC	–	122	–	122	0.5%
Without maturity	<u>–</u>	<u>449</u>	<u>58</u>	<u>507</u>	<u>2.1%</u>
	<b>\$ <u>1,895</u></b>	<b><u>4,516</u></b>	<b><u>17,914</u></b>	<b><u>24,325</u></b>	<b><u>100.0%</u></b>

Bank's information not considering consolidation effects with subsidiaries.

As part of Sofoles Mortgage refinancing program was received payment by the Federal Mortgage Society (SHF) to guarantee 65% of the value of Su Casita bonds, currently is valued at 10.5% of their nominal value of \$376. Additionally, as part of the same program at the end of December 2010, exists an exposure Sofols different of Su Casita for a book value of \$129 (face value of \$175.9), this exposition features with the 65% guarantee of the SHF.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

<u>S&amp;P</u>	<u>Held to maturity</u>	<u>Available for sale</u>	<u>Trading</u>	<u>Total for risk type</u>	<u>Concentration</u>
<b><u>Brokerage Firm</u></b>					
mxAAA	\$ —	—	8,492	8,492	64.3%
mxAA	—	—	99	99	0.8%
mxA	—	—	2,957	2,957	22.4%
mxBBB	—	—	77	77	0.6%
mxB	—	—	1,077	1,077	8.2%
Without maturity	<u>—</u>	<u>506</u>	<u>—</u>	<u>506</u>	<u>3.8%</u>
	\$ <u>—</u>	<u>506</u>	<u>12,702</u>	<u>13,208</u>	<u>100.0%</u>

*Credit risk in derivatives operations*

Below is the maximum exposure and concentration for counterparty type at the end of December 2010:

<u>Counterparty type</u>	<u>Exposure</u>	<u>%</u>
Financial institutions	\$ 26,458	93.6%
Corporations	<u>1,803</u>	<u>6.4%</u>
Total maximum exposure	\$ <u>28,261</u>	<u>100%</u>

For the Brokerage Firm the maximum exposure and concentration by counterparty type at the end of December 2010 is as follows:

<u>Counterpart type</u>	<u>Exposure</u>	<u>%</u>
Financial institutions	\$ <u>87</u>	<u>100%</u>

In the next page we present the credit rating of financial assets relating to derivatives with fixed-rate loans hedged through the fair value methodology at closing December 2010 and which have the following credit rating according to the Banking Commission's scale (unaudited information).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

(MXP) <b>Rating</b>	<b>December 2010</b>	
	<b>Amount</b>	<b>% Total</b>
A1	\$ 2,514	48.3%
A2	784	15.0%
B1	1,602	30.8%
B2	170	3.3%
B3	<u>134</u>	<u>2.6%</u>
Total	\$ <u>5,204</u>	<u>100.0%</u>

Other types of assets related to variable-rate loans that have been hedged through the cash flow methodology at December 2010 have a position of \$7,620. The covered portfolio is a subset of the total commercial portfolio which risk level at December 31, 2010 is equivalent to an A2 level in the Banking Commission's scale.

The loan amount hedged through derivatives that was renegotiated amounts to \$434.4 and represents 8.35% of the book value of fair value hedges (unaudited information).

**(d) Operational risk-**

In conformity with the chapter IV of the *General Provisions regarding Comprehensive Risk Management*, published in the Federal Official Gazette on December 2, 2005, operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal control failures or deficiencies, errors in transaction processing or storage or in data transmission, as well as adverse administrative or legal resolutions, frauds or theft and includes, among other things, technological risk and legal risk.

For compliance with the rules on operational risk established by the aforementioned Provisions, the Group has put in place policies and procedures, enabling it to implement an appropriate operational risk management process, which are described below:

- Policies for Operational Risk Management.- These policies primarily promote the risk management culture, particularly as to operational risk, so that the Group can measure, identify, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- 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 Group'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 Group to establish indicators from variables drawn from processes, whose 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 Group 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, where data undergoes a severity and frequency of occurrence analysis to determine the likelihood of loss in relation to legal matters in process.
- Technological Risk Management Policies Manual – This manual sets forth the Bank's general policies and criteria for performing the process for management of this risk.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- Technological Risk Sub-committee – This sub-committee is in charge of coordinating the technological risk management process for compliance with the regulation issued by the CNBV for management of this risk, maintaining the technological risk management process independent of the Systems area, ensuring the hardware, software, systems, applications, security, data recovery and networks are subject to a vulnerability evaluation process, promoting the establishment of policies and procedures to ensure the service quality level and data security and integrity at all times, and that electronic evidence is left for every transaction and activity performed by users.

The Group 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 Group's objectives, competitiveness, profitability, productivity and reputation;
- Prioritizing, based on impact and significance, action for mitigating operational risks;
- Guiding each of the Group's units in their operating risk management processes;
- Establishing plans to mitigate risk;
- Compliance with the requirements established in sections III of Article 86 of the General Provisions for Comprehensive Risk Management.

Also, regular audits are performed by an experienced independent internal audit department, including comprehensive reviews of: the design and operation of internal control systems in all businesses and support groups, new products and systems; and the reliability and integrity of data processing operations.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

As a result of the Operational Risk management, the Group has identified operational risks for \$429, which if they materialize, would cause a negative impact on the Bank's financial position at December 31, 2010, of which \$60 are operational risk and \$369 legal contingencies, both risks have been provisioned, for 2009 the risk totaled \$357. The risks for 2010 represent 1% of total Equity Group's. The expected loss for such contingencies is estimated at \$22 and the unexpected loss of \$218.

At the close of 2010, the Group had built a historic database of operational risk losses which includes losses incurred during the period between January 2006 and December 2010, which aggregate 71,411 loss events with a total value of \$637, classified under 23 risk categories, itemized below (unaudited information):

Database of Operational Risk Losses (amounts in thousands of nominal pesos):

<u>Risk factors</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<b>Grand total, carried forward</b>
Regulatory (fines and penalties)	\$ 705	1,688	2,988	828	1,475	7,684
Lost lawsuits	31,638	6,764	2,718	4,554	11,457	57,131
Frauds (internal and external)	1,424	5,319	43,961	32,433	39,730	122,867
Credit card frauds	15,790	26,873	25,683	26,044	48,447	142,837
Phishing	1,352	4,701	151	302	960	7,466
Pharming	-	-	-	2,861	-	2,861
Assaults	949	3,186	3,794	4,685	1,663	14,277
Labor lawsuits	-	35	5,712	13,281	5,605	24,633
Miscellaneous checks	1,739	2,946	991	2,832	427	8,935
Shortages and forgeries (cash supply)	489	977	910	427	317	3,120
Accounting differences	386	378	214	4	0	982
Documentary (lost documentation)	-	-	-	23	160	183
Former employee indebtedness	12	10	3	-	-	25
Shortages and forgeries (foreign currency)	552	291	232	499	265	1,839
Irrecoverable amounts	12	753	9,219	551	614	11,149
Overdrafts	29	20	12	7	29	97
Trading	7,956	1,218	-	-	-	9,174
Errors in executing transactions	146	1,929	3,147	3,070	12,288	20,580
Fixed asset damages	-	975	-	-	-	975
System failures	-	8,014	521	659	12,360	21,554
Fiscal	-	20,837	-	737	83,937	105,511
Politics and procedures	-	-	-	71,336	4	71,340
Others	<u>21</u>	<u>263</u>	<u>305</u>	<u>387</u>	<u>1,114</u>	<u>2,090</u>
Total	\$ <u>63,200</u>	<u>87,177</u>	<u>100,561</u>	<u>165,520</u>	<u>220,852</u>	<u>637,310</u>

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

<u>Risk factors</u>	<b>Total brought forward</b>	<b>Events</b>	
		<b>Number</b>	<b>Average Amount</b>
Regulatory (fines and penalties)	\$ 7,684	368	21
Lost lawsuits	57,131	195	293
Frauds (internal and external)	122,867	1,188	103
Credit card frauds	142,837	62,082	2
Phishing	7,466	64	117
Pharming	2,861	21	136
Assaults	14,277	166	86
Labor lawsuits	24,633	114	216
Miscellaneous checks	8,935	502	18
Shortages and forgeries (cash supply)	3,120	842	4
Accounting differences	982	557	2
Documentary (lost documentation)	183	3	61
Former employee indebtedness	25	11	2
Shortages and forgeries (foreign currency)	1,839	907	2
Irrecoverable amounts	11,149	3,491	3
Overdrafts	97	84	1
Trading	9,174	32	287
Errors in executing transactions	20,580	476	43
Fixed asset damages	975	2	487
System failures	21,554	196	110
Fiscal	105,511	29	3,638
Politics and procedures	71,340	22	3,243
Others	<u>2,090</u>	<u>59</u>	35
Total	\$ <u>637,310</u>	<u>71,411</u>	9

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**(24) Recently issued accounting standards-**

On January 27, 2011, the resolution revising the regulations generally applicable to credit institutions was published in the Federal Official Gazette, which supersedes accounting criteria for credit institutions and became effective beginning on the next day after publication, specifying that credit institutions, for comparison purposes, as well as for preparing their quarterly and annual financial statements, are required to present the financial information for the first quarter 2011, based on the accounting criteria set forth by the referred to resolution.

The accounting changes so established, among others, are listed below:

(a) **Criterion A-2 “Application of particular standards”** - It provides that the following items are to be reported as part of other operating income (expenses):

- Interest on loans made to officers and employees
- Lease income for the lessor
- The effect of expiration of the original lease, resulting from a sublease. Item “other related costs” is added to comprehensive financial result subject to capitalization in convergence with FRS D-6.

(b) **Criterion A-3 “Application of general standards”** – It provides, among other things, for the following:

- Operating assets that are not liquidated on the same day are added to restricted assets. For cash margin accounts adherence to criterion B-5 is required.
- Accounting treatment is set forth for overdue outstanding transactions (liability) of clearing accounts up to settlement.
- Evaluation of whether the holding of trust certificates carries significant control or influence for consolidation or recognition by the equity method is required.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- The concept of relative importance is clarified focusing on that established in FRS for improved precision in application (professional judgment).
- (c) **Criterion A-4 “Supplementary application of accounting criteria”**- It revises and clarifies the scope and elements constituting the US GAAP for supplementary application purposes.
- (d) **Criterion B-2 “Investment securities”**- It provides that own assets derived from securitization transactions representing benefits on the assignors’ remainder are not included in this criterion (criterion C-2). Additionally, the restriction preventing recognition of security impairment arising from expected losses on future events is eliminated.
- (e) **Criterion B-5 “Derivative financial instruments and hedging activities”** – It provides for the following:
  - Definition of collateral (security on OTC market derivatives) is included.
  - Recognition in other items of comprehensive income of the component excluded from evaluation of the effectiveness associated with the hedged item according to the nature for cash flow hedging is eliminated, in convergence with IFRS.
  - The accounting standard for cash margin accounts, non-cash margin accounts, cash collaterals and non-cash collaterals is expanded and thoroughly explained.
  - In case of segregable hybrid securities, the host contract and the embedded derivative are to be reported separately. Formerly, both were required to be jointly reported.
  - Standards for reporting collaterals received/posted for OTC transactions are specified.
  - Disclosure of the terms and conditions for both collaterals and margin accounts is required.
  - Equalization of paragraph AG23 subparagraphs d) ii and iii with IFRS to regard embedded derivatives under non-financial contracts as closely related and non-segregable financial instruments.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- (f) **Criterion B-6 “Credit portfolio”** – Changes are added as follows:
- Payroll loans as regarded as consumer loans.
  - Loan restructuring fees are regarded as loan origination fees, subject to deferral over the term of the restructured loan.
  - Loans exceeding one (1) year with single payment of principal and interest at maturity, renewable at any time are to be regarded as past-due loans. .
  - Fees charged on credit granted and annual credit card fees pending recognition must be reported net of costs and expenses, either as “other assets” or “deferred credits and “prepayments”.
- (g) **Criterion B-7 “Foreclosed assets”** – Impairment losses on real property are to be estimated according to the rating methodology for the credit portfolio, as there is no difference with respect to the FRS, since consideration is given to impairment due to passage of time.
- (h) **Criterion B-11 “Collection rights”**- It is specified that they are not within the scope of this criterion:
- The definition of collection rights includes the explanation that collection rights are those to which the provisions of criterion B-2 are not applicable and additionally have not been issued on a serial or mass basis.
  - Revenue from collection rights and the allowance for doubtful accounts or bad debts are reported in “other operating income (expenses)”.
- (i) **Criterion C-2 “Securitization transactions”**- It provides that the following items must be reported as “Other operating income (expenses)”:
- a) Valuation of benefits receivable and the assets or liabilities from management of transferred assets.
  - b) Collections or recoveries in excess of the amount recorded as benefits receivable.
  - c) Losses arising from the difference between the collections or recoveries and the amount recorded as benefits receivable.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- (j) **Criterion C-3 “*Related parties*”** – It provides for the following:
- The term “relationship” is replaced with the term “close relative” in convergence with FRS, specifying that the applicable legislation must also be abided by.
  - “Close relatives of any individual” rather than the “spouses or the persons related to the individuals” are deemed to be related parties.
  - Individuals “regarded as close relatives” rather than “those with a relationship occurring by blood, legal ties or law up to fourth degree, the spouse and common-law wife/husband” are deemed to be within the power of command.
- (k) **Criterion D-1 “*Balance sheet*”**- It provides for the following:
- The loan portfolio must be reported based on the loan in question, net of interest collected in advance and deferred credits for unearned financial income on capital lease agreements.
  - Debtors on cash collaterals posted are to be reported under “Other receivables, net”.
  - Creditors on cash collaterals received are to be reported as part of “Other payables”.
  - Interest prepayment, loan origination fees and annual credit card fees are eliminated from “Deferred credits and prepayments”.
- (l) **Criterion D-2 “*Statement of income*”** – The statement of income is entirely restructured for convergence with FRS and IFRS.
- Reporting of minimum items related to the following is eliminated from the statement of income:
    - Total operating income (expenses).
    - Income before equity in results of operations of non-consolidated subsidiaries and associated companies.
  - Item “Administrative and promotion expenses” is grouped after financial margin adjusted for credit risks together with all other items (commissions and rates collected and paid, financial intermediation income and other operating income (expenses)).

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
 Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- Upon elimination of “other income (expenses), items making up this caption are regrouped under operating income (expenses).
  - Equity in results of operations of non-consolidated subsidiaries and associated companies is reported after “results of operations” and prior to “income before tax on earnings”.
  - The term “non-controlling interest” was changed to “Consolidated Statement of Income”. The segregated portion of the net income attributable to the non-controlling interest is reported in this caption when the consolidated statement of income is presented.
- (m) Criterion D-4 “Statement of cash flows”** – The term “Cash” was changed to “cash and cash equivalents” in convergence with FRS.
- The term “adjustment to cash flow for foreign exchange rate and inflation rate fluctuations” was changed to “effects of cash and cash equivalent value fluctuations”.
  - The effects of fair value valuation on cash balances are included in this caption.
  - Changes in operating items are to be reported net of the estimate, in accordance with the indirect method (portfolio, collection rights and foreclosed assets).
  - The accounting treatment for conversion of cash flows from foreign operation located in an inflationary economic environment is included.
  - Cash flows between all the entities belonging to the consolidating economic entity must be eliminated for preparing the consolidated statement of cash flows.
  - Same disclosures are included as those required by FRS B-2.

***Change in rating methodology for non-revolving and mortgage loans -***

On October 25, 2010, the resolution revising the regulations generally applicable to credit institutions was published in the Federal Official Gazette, concerning the estimate of the loan loss reserves, which will become effective beginning on March 1, 2011, for the purpose of replacing the current model for setting up loan reserves based on losses incurred with a model based on expected losses, for consumer loan and housing mortgage loan portfolios as mentioned in the next page.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- a. **Rating of consumer loan portfolio** – The consumer loan portfolio must be divided into two groups: a) non-revolving consumer loans and b) credit card and other revolving loans. In the specific case of the latter group, the methodology followed for computing the loan loss reserves for the credit card loan portfolio, which became effective in FY 2009, is also applicable to the other revolving loan portfolio. In the case of the non-revolving consumer loan portfolio, the loan loss reserve will be computed based on the figures as of the last day of each month, irrespective of whether payments are made on a weekly, semi-monthly or monthly basis. Additionally, consideration is given to factors such as: i) due amount, ii) payment made, iii) days of default, iv) total term, v) remaining term, vi) original loan amount, vii) original asset value, viii) outstanding loan balance and ix) type of loan. The total amount of the reserve to be set up for each loan is arrived at by multiplying the likelihood of default by the loss seriousness and the default exposure.
- b. **Rating of housing loan portfolio** – The reserve is to be set up based on the figures as of the last day of each month. Additionally, factors such as the following are taken into consideration: i) due amount, ii) payment made, iii) house value, iv) outstanding loan balance, v) days of default, vi) loan denomination and vii) record. The total amount of the reserve to be set up for each loan is arrived at by multiplying the likelihood of default by the loss seriousness and the default exposure.

The seriousness of the loss will be determined based on the component of the loan recovery rate, which is affected when the loan is secured by a surety trust or judicial convention classifying by region the federal localities to which the relevant courts pertain.

Furthermore, internal methodologies authorized by the Banking Commission may be used for both consumer and housing mortgage loan portfolios. The initial effect from the change in the amount of the aforementioned reserves to be set up must be recognized for the figures as of March 31, 2011 at the latest, affecting prior years' results of operations, in accordance with the provisions of paragraph 11 of FRS B-1 "Accounting changes and error corrections".

As a result of the adoption of the new models for setting up loan loss reserves, the company's management is currently reviewing, implementing and evaluating the impact that the entry into force of such models will have on the Company's figures.

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 amendments listed on the next page.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

**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.
- FRS B-5 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.
- FRS B-5 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 Banking Commission has established the criterion C-4 “*Segment information*” through general regulations applicable to the accounting criteria for credit institutions 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:

- FRS B-9 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.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- FRS B-9 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.
- New technology is included and defined.

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

**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)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(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 Revisions**

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 Revisions”, which contains precise amendments to some FRS. The amendments that bring about accounting changes are listed in the next page.

- **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.
  - 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.

(Continued)

**GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.**  
Sociedad Controladora Filial  
**AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements

(Pesos in millions)

- **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.

**Changes to the accounting of financial groups.**

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 denominated "2011 FRS Revisions", which contains precise amendments to some FRS. The amendments that bring about accounting changes are as follows:

- **Criterion A-2 "Application of special standards"** shall be amended to remove the exemption of insurance and bonds to consolidate (previously recognized by the equity method).
- **Criterion B-2 • "Investment securities"** includes the modifications in October 2009 and December 2010 at the criterion of banks.