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

Financial Statements

December 31, 2004 and 2003

(With Statutory and Independent Auditors' Reports Thereon)

(Free Translation from Spanish Language Original)

Statutory Auditors' Report
(Free translation from Spanish language original)

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

In our capacity as Statutory Auditors, and in compliance with the provisions of Article 166 of the General Corporations Law and the bylaws of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat ("the Brokerage Firm"), we hereby submit our report on the accuracy, sufficiency and fairness of the information contained in the accompanying financial statements furnished to the General Stockholder's Meeting by the Board of Directors, for the year ended December 31, 2004.

We have attended the stockholders' and board of directors' meetings to which we have been called, and we have obtained from the directors and management such information on the operations, documentation and accounting records, as we considered necessary in the circumstances. In addition, we have examined the balance sheet of the Brokerage Firm as of December 31, 2004, and the related statements of income, changes in stockholders' equity and changes in financial position for the year then ended, which are the responsibility of the Brokerage Firm's management. Our examination was carried out in accordance with auditing standards generally accepted in Mexico.

The Brokerage Firm is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Commission") for brokerage firms in Mexico, which in general conform to accounting principles generally accepted in Mexico, issued by the Mexican Institute of Public Accountants. These accounting criteria include particular rules, which in certain respects depart from such principles.

In our opinion, the accounting and reporting criteria and policies followed by the Brokerage Firm and considered by management in preparing the financial statements presented at this meeting, are adequate and sufficient in the circumstances, and have been applied on a consistent basis with that of the preceding year. Accordingly, such information is a fair, reasonable and sufficient presentation of the financial position of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat as of December 31, 2004, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the year then ended, in conformity with the accounting criteria established by the Commission for brokerage firms in Mexico.

(Continued)

As part of our examination of the financial statements, we reviewed the memorandum accounts included in the Brokerage Firm's balance sheet, using selective tests and the auditing procedures applicable under the circumstances, to the extent considered appropriate. In our opinion, these memorandum accounts present fairly the balances of transactions carried out for the Brokerage Firm's own account as well as those carried out on behalf of its customers as of December 31, 2004.

Very truly yours,

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

Mauricio Villanueva Cruz
Statutory Auditor for Series "B" shares

Mexico City, February 11, 2005.

KPMG®

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

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

We have examined the accompanying balance sheets of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat ("the Brokerage Firm") as of December 31, 2004 and 2003 and the related statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Brokerage Firm's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As explained in note 2 to the financial statements, the Brokerage Firm is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Commission") for brokerage firms in Mexico, which in general conform to accounting principles generally accepted in Mexico, issued by the Mexican Institute of Public Accountants. These accounting criteria include particular rules, which in certain respects depart from such principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat as of December 31, 2004 and 2003, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the years then ended, in conformity with the accounting criteria established by the Commission for brokerage firms in Mexico, as described in note 2 to the financial statements.

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As part of our audits of the financial statements, we reviewed the memorandum accounts included in the Brokerage Firm's balance sheet, using selective tests and the auditing procedures applicable under the circumstances, to the extent considered appropriate. In our opinion, these memorandum accounts present fairly the balances of transactions carried out for the Brokerage Firm's own account as well as those carried out on behalf of its customers as of December 31, 2004 and 2003.

KPMG CARDENAS DOSAL, S. C.

Alejandro De Alba Mora

February 11, 2005.

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

Balance Sheets

December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

Memorandum accounts

	2004	2003
Transactions on behalf of third parties		
Customer current accounts:		
Customer banks	$ 8	18
Settlement of customer transactions	12	8
	20	26
Customer securities:		
Customer securities in custody (note 15)	109,939	98,335
Securities and documents received in guarantee (note 15)	1,287	1,203
	111,226	99,538
Transactions on behalf of customers:		
Securities repurchase/resell agreements (note 15)	43,579	28,245
Securities lending transactions	13	-
Managed trusts	46	44
	43,638	28,289
Total transactions on behalf of third parties	$ 154,884	127,853

	2004	2003
Transactions for the Brokerage Firm's own account		
Memorandum accounts:		
Securities in custody	$ 662	697
Government securities in custody	121	4
Pledged securities	523	181
Securities held overseas	11	15
	1,317	897
Repurchase/resell agreements (note 6):		
Bought:		
Securities receivable	49,467	38,582
Creditors under repurchase agreements	(49,456)	(38,590)
	11	(8)
Sold:		
Debtors under resell agreements	28,221	18,702
Securities deliverable	(28,225)	(18,691)
	(4)	11
Total for own account	$ 1,324	900

(Continued)

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

Balance Sheets, continued

December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

Assets	2004	2003
Cash and equivalents (note 4)	$ 69	88
Investment securities:		
Trading securities (note 5)	697	685
Securities and derivatives transactions:		
Debit balances on repurchase/resell agreements (note 6)	22	33
Secured lending (note 6)	8	-
Derivative financial instruments (note 8)	1	21
	31	54
Other accounts receivable, net	294	208
Premises and equipment, net (note 9)	168	173
Permanent investments in shares (note 10)	66	62
Deferred taxes, net (note 14)	-	8
Other assets	41	34
Total assets	$ 1,366	1,312

Liabilities and Stockholders' Equity	2004	2003
Assigned securities pending settlement (note 5)	$ -	157
Securities and derivatives transactions:		
Unassigned securities pending settlement (note 7)	-	1
Credit balances on repurchase/resell agreements (note 6)	15	30
Secured borrowing (note 6)	1	-
Derivative financial instruments (note 8)	1	-
	17	31
Other accounts payable:		
Income tax and employee statutory profit sharing	57	113
Sundry creditors and other accounts payable	275	168
	332	281
Deferred taxes, net (note 14)	34	-
Total liabilities	383	469
Stockholders' equity (note 13):		
Paid-in capital:		
Capital stock	690	690
Earned capital:		
Statutory reserves	11	7
Prior years' retained earnings	142	69
Net income	140	77
	293	153
Total stockholders' equity	983	843
Commitments and contingencies (note 16)		
Total liabilities and stockholders' equity	$ 1,366	1,312

The accompanying notes are an integral part of these financial statements.

"These balance sheets have been prepared in accordance with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 26-B, 26-B 2, 26-B 4 and 26-B 7 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Brokerage Firm through the dates indicated above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

"The historical capital stock amounts to $559,215,982".

Gonzalo Rojas Ramos
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy General Director
Group Audit

Jesús Eduardo Velázquez Reyes
Director of Group Accounting

Adrián Beltrán Alcocer
Assistant Director of Accounting
for the Brokerage Firm

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

Statements of Income

Years ended December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

		2004	2003
Commissions and fees (note 12)	$	348	293
Financial intermediation income (note 12)		56	63
Service income		404	356
Gain on purchase and sale of securities (note 5)		307	308
Loss on purchase and sale of securities (note 5)		(173)	(151)
Interest income (notes 6 and 12)		3,142	2,780
Interest expense (notes 6 and 12)		(3,030)	(2,678)
Valuation (loss) gain on securities (notes 5, 6, 7 and 8)		(6)	1
Monetary position loss		(37)	(21)
Financial margin		203	239
Total operating income, net		607	595
Administrative expenses		(366)	(460)
Operating income		241	135
Other income		45	80
Other expense		(1)	(27)
		44	53
Income before income tax (IT), employee statutory profit sharing (ESPS) and equity in the results of subsidiaries and associated companies		285	188
Current IT and ESPS (note 14)		(114)	(112)
Deferred IT and ESPS (note 14)		(42)	7
		(156)	(105)
Income before equity in the results of subsidiaries and associated companies		129	83
Equity in the results of subsidiaries and associated companies (note 10)		11	(6)
Net income	$	140	77

The accompanying notes are an integral part of these financial statements.

"These statements of income were prepared in accordance with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 26-B, 26-B 2, 26-B 4 and 26-B 7 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the revenues and disbursements relating to the transactions carried out by the Brokerage Firm for the years indicated above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

Gonzalo Rojas Ramos
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy General Director Group Audit

Jesús Eduardo Velázquez Reyes
Director of Group Accounting

Adrián Beltrán Alcocer
Assistant Director of Accounting
for the Brokerage Firm

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

Statements of Changes in Stockholders' Equity

Years ended December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

	Capital stock	Statutory reserves	Prior years' retained earnings	Net income	Total stockholders' equity
Balances as of December 31, 2002	$ 690	5	23	48	766
Item related to stockholder decisions:					
Appropriation of prior year's income	–	2	46	(48)	–
Item related to recognition of comprehensive income (note 13b):					
Net income	–	–	–	77	77
Balances as of December 31, 2003	690	7	69	77	843
Item related to stockholder decisions:					
Appropriation of prior year's income	–	4	73	(77)	–
Item related to recognition of comprehensive income (note 13b):					
Net income	–	–	–	140	140
Balances as of December 31, 2004	$ 690	11	142	140	983

The accompanying notes are an integral part of these financial statements.

"These statements of changes in stockholders' equity have been prepared in conformity with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 26-B, 26-B 2, 26-B 4 and 26-B 7 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Brokerage Firm for the years indicated above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

Gonzalo Rojas Ramos
General Director

Jean-Luc Rich
Deputy General Director
Group Finance

Ken Pflugfelder
Deputy General Director
Group Audit

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

Statements of Changes in Financial Position

Years ended December 31, 2004 and 2003

(Millions of constant Mexican pesos as of December 31, 2004)

		2004	2003
Operating activities:			
Net income	$	140	77
Items not requiring (providing) funds:			
Depreciation and amortization		7	11
Net unrealized loss (gain) from valuation of investment securities, securities under repurchase/resell agreements and derivative instruments		6	(1)
Deferred income tax and employee statutory profit sharing		42	(7)
Equity in the results of subsidiaries and associated companies, net		(11)	6
		184	86
Increase (decrease) in operating accounts:			
Investment securities and assigned securities pending settlement		(167)	(107)
Repurchase/resell agreements and securities lending, net		(6)	6
Derivative transactions		7	29
Other accounts receivable		(86)	(50)
Other accounts payable		51	83
Funds (used in) provided by operating activities		(17)	47
Investment activities:			
Premises and equipment		(1)	4
Permanent investments in shares		7	5
Other assets		(8)	(3)
Funds (used in) provided by investing activities		(2)	6
(Decrease) increase in cash and equivalents		(19)	53
Cash and equivalents:			
At beginning of year		88	35
At end of year	$	69	88

The accompanying notes are an integral part of these financial statements.

"These statements of changes in financial position have been prepared in accordance with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 26-B, 26-B 2, 26-B 4 and 26-B 7 of the Securities Market Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the sources and application of funds relating to the transactions carried out by the Brokerage Firm for the years indicated above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"These statements of changes in financial position were approved by the Board of Directors under the responsibility of the following officers".

Gonzalo Rojas Ramos
General Director

Jean-Luc Rich
Deputy General Director Group Finance

Ken Pflugfelder
Deputy General Director Group Audit

Jesús Eduardo Velázquez Reyes
Director of Group Accounting

Adrián Beltrán Alcocer
Assistant Director of Accounting for the Brokerage Firm

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

(1) Description of business-

Scotia Inverlat Casa de Bolsa, S. A. de C. V. ("the Brokerage Firm") is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group"), which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia (BNS), which holds 97.3% of its capital stock. The Brokerage Firm acts as an intermediary in securities and financial transactions authorized under the terms of the Securities Market Law and general provisions issued by the National Banking and Securities Commission ("the Commission").

Significant transactions-
Through Official Document no. 366-III-315 dated December 2, 2004, the Ministry of Finance (SHCP) authorized the Brokerage Firm to spin-off and incorporate as a result of said act an entity to be merged immediately with Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat. Management plans on carrying out the operation in April 2005; the assets to be spun-off are estimated at roughly Mx$350 million and include the stock of twelve mutual funds, of Scotia Inverlat Derivados, S. A. de C. V. and investments in securities.

(2) Summary of significant accounting policies-

(a) Financial statement presentation-

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

In general, the accounting criteria established by the Commission conform to accounting principles generally accepted in Mexico ("Mexican GAAP") issued by the Mexican Institute of Public Accountants (IMCP) and include particular rules regarding recording, valuation, presentation and disclosure, which in certain respects depart from such principles – see paragraphs (d), (e) and (i) of this note.

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

For cases not contemplated therein, the accounting criteria include a process which provides for the supplementary use of other accounting principles and standards, in the following order: Mexican GAAP; International Accounting Standards issued by the International Accounting Standards Committee; accounting principles generally accepted in the United States of America ("US GAAP"); or in cases not covered by these principles and standards, any other formal and recognized accounting standard that does not contravene the general criteria of the Commission.

The accompanying financial statements are expressed in constant Mexican pesos as of the latest balance sheet date using the Investment Unit (UDI). The UDI is a unit of measure whose value is determined by the Banco de México (Central Bank) based on inflation. The UDI values used are as follows:

December 31	UDI	Annual inflation
2004	$ 3.534716	5.45%
2003	3.352003	3.91%
2002	3.225778	5.58%

For purposes of disclosure, when reference is made to pesos or "$", it means Mexican pesos, and when reference is made to dollars, it means US dollars.

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

(b) Cash and equivalents-

Cash and equivalents consist of cash, local and foreign bank account balances and restricted funds in connection with derivative transactions.

(Continued)

(c) Investment securities-

Investment securities consist of listed equities, government securities and fixed-income securities, classified as trading securities according to management's investment intentions. Trading securities are initially recorded at cost and subsequently marked to market based on information provided by an independent price vendor. Valuation adjustments are reflected in the statement of income under "Valuation gain (loss) on securities". The cost of sales is determined using the first-in, first-out (FIFO) method.

Where the amount of trading securities is insufficient to cover the amount of securities deliverable in the securities purchase and sale transaction, the credit balance is shown as a liability under the caption "Assigned securities pending settlement".

The rights and obligations derived from 24 and 48-hour purchase and sale of instruments, respectively (value date transactions) are recorded in "Other accounts receivable" and "Sundry creditors and other accounts payable", respectively. Securities receivable and deliverable from this type of transactions are recorded in "Investment securities" and marked to market.

(d) Securities under repurchase/resell agreements-

Securities under repurchase/resell agreements are stated at fair value using information provided by an independent price vendor, and the obligations or rights from the commitments to repurchase or resell the securities are stated at their net present value at maturity. The net assets and liabilities are presented in the balance sheet after individually offsetting the values of the securities receivable or deliverable and the repurchase/resell agreement commitment of each transaction. Repurchase/resell agreements where the Brokerage Firm is the repurchasing and reselling party with the same entity cannot be offset. Repurchase/resell agreement presentation differs from Mexican GAAP, which requires reporting balances separately and offsetting only similar transactions with the same counterparty. Interest, premiums, gains or losses on purchases and sales of securities, and the valuation effects are reported in the statements of income under "Interest income", "Interest expense", and "Valuation gain (loss) on securities", respectively.

Effective September 3, 2004 and pursuant to Circular 1/2003 issued by the Central Bank, it is mandatory that in repurchase/resell agreements with maturities over three days the parties contractually agree on to secure such transactions where the value of repurchase/resell securities experience fluctuations that cause an increase in the net exposure that exceeds the maximum amount agreed upon by the parties. Guarantees issued are recorded in the securities portfolio as restricted or pledged trading securities and in "Other restricted cash equivalents" if cash deposits. Guarantees received that do not imply the transfer of ownership are recorded in memorandum accounts as property in custody or under management. Such guarantees are valued in accordance with the provisions in force for investment securities, cash equivalents and property in custody or under management, respectively.

Repurchase/resell agreements that provide for the impossibility to trade repurchase/resell securities are recorded as secured lending or borrowing. Premiums are recognized in income on a straight-line accrual basis during the term of the transaction.

(e) Unassigned securities pending settlement-

Represent transactions with securities for which there are commitments to directly purchase or sell within 24 to 96 hours as well as under repurchase/resell agreements up until September 2, 2004 when the Central Bank's Circular 1/2003 come into effect, and for which not all the characteristics of the instruments are known at the time of executing the transaction. The Brokerage Firm considers an asset position securities receivable or the agreed-upon settlement right and a liability position for the settlement commitment or securities deliverable in the transaction. The asset or liability positions that represent securities receivable or deliverable are marked to market and reported in "Valuation (loss) gain on securities". The asset or liability positions that represent the agreed-upon settlement right or commitment are recorded at nominal value. The debit and credit balances of each transaction are individually offset, which departs from Mexican GAAP, which presents the balances separately and only requires the offsetting of similar transactions with the same counterparty.

The debit or credit balances resulting from the aforementioned offsetting are reported in the balance sheet asset or liability caption termed "Unassigned securities pending settlement".

(f) Transactions with derivative financial instruments-

Transactions with derivative financial instruments comprise those carried out for both trading and hedging purposes, the accounting treatment of which is described below:

Forward contracts– The net market value of the future price of the contracts is presented in the balance sheet with a corresponding charge or credit to results of operations.

Futures contracts– An asset and liability for the nominal contract amount are recorded and subsequently marked to market. Asset and liability positions are offset for financial statement presentation purposes.

Options – Put and call option obligations (premiums collected) and rights (premiums paid) are recorded at the contract value and marked to market, recording gains or losses in results of operations. Premiums collected or paid are recognized in the statement of income under "Gain or loss on purchase and sale of securities" when the option expires.

(g) Premises and equipment-

Premises and equipment are initially recorded at their acquisition cost, and restated for inflation by applying UDI factors. Depreciation is calculated on the restated asset values using the straight-line method over the estimated useful lives of the assets.

(h) Impairment of property-

The Brokerage Firm performs periodic studies of its property to determine whether the carrying value exceeds the recoverable amount. The recoverable amount is based on estimates of the potential future net income from the utilization of the assets. If such assets are considered to be impaired, the Brokerage Firm records the necessary provisions to write down the assets to the estimated recoverable amount. Assets to be disposed of are reported at the lower of the carrying amount or realizable value.

(Continued)

(i) Permanent investments in shares-

In order to operate, the Brokerage Firm must purchase and hold one share each in the Bolsa Mexicana de Valores, S. A. de C. V. (Mexican Stock Exchange), Cebur, S. A. de C. V., S. D. Indeval, S. A. de C. V. and Contraparte Central de Valores de México, S. A. de C. V. As required by the Commission, permanent investments in shares are valued using the equity method based on the most recent financial statements available; under Mexican GAAP such investments would be accounted for at the lower of cost restated for inflation or realizable value.

The investment in the shares of the fixed capital of mutual funds is valued based on the stockholders' equity of the mutual funds using the equity method, which is equal to the market price published by the price vendor. The difference between the nominal value and the price at the valuation date is recorded in the statement of income under "Equity in the results of subsidiaries and associated companies".

(j) Deferred income tax (IT) and employee statutory profit sharing (ESPS)-

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

(k) Pensions, seniority premiums and other post-retirement benefits-

The Brokerage Firm has established a non-contributory pension plan for which employees who are 65 years of age with 10 years of service are eligible. The plan also covers seniority premium benefits to which employees are entitled under the Federal Labor Law.

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Accrued pension and seniority premium benefits are recognized in results of operations each year based on independent actuaries' calculations of the present value of these obligations using the projected unit credit method and real interest rates, in accordance with Mexican GAAP Bulletin D-3 issued by the IMCP.

In addition, a liability, based on independent actuaries' calculations, is recorded and funded for post-retirement benefits in connection with medical services, life insurance and food coupons for retirees.

Other compensation to which employees may be entitled, in case of separation or incapacity, is charged to operations as incurred.

(l) Other assets-

Other assets include contributions to the reserve fund created through the self-regulating stock exchange community, for the purpose of supporting and strengthening the stock market.

(m) Restatement of capital stock, statutory reserves and retained earnings-

This restatement is determined by multiplying stockholder contributions, statutory reserves and retained earnings by UDI factors, which measure accumulated inflation from the dates contributions were made and earnings were generated, through the most recent year end. The resulting amounts represent the constant value of stockholders' equity.

(n) Gain or loss from holding non-monetary assets-

The gain or loss from holding non-monetary assets represents the difference between the specific valuation of these assets and their cost restated using UDI factors.

(Continued)

(o) Monetary position gain or loss-

The Brokerage Firm recognizes in income the effect (gain or loss) in the purchasing power of its monetary position, which is calculated by multiplying the difference between monetary assets and liabilities at the beginning of each month by the monthly change in the UDI value through year end. The aggregate of such monthly results, which is also restated using the UDI value at year end, represents the monetary gain or loss for the year arising from inflation, which is reported in results of operations for the year.

(p) Customer securities-

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

(q) Fees, premiums and interest-

Fees collected from customers on the purchase and sale of equities are recorded in results of operations when contracted. Premiums collected on securities purchased under agreements to resell or repurchase and interest from investments in fixed income instruments are recognized in income as earned. Premiums earned on securities purchased under agreements to resell are calculated based on the present value of the price at maturity.

(r) Foreign currency transactions-

Foreign currency transactions are recorded at the exchange rate in force on their execution and settlement dates. Foreign currency assets and liabilities are translated at the exchange rate established by the Commission. Foreign exchange gains and losses are recognized in results of operations.

(s) Contingencies-

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

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

(t) Use of estimates-

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(3) Foreign currency exposure-

In compliance with the Central Bank regulations, the Brokerage Firm maintains balanced positions in foreign currencies. At December 31, 2004 and 2003, the maximum long and short positions authorized by the Central Bank is $144 and $115, respectively, that is equivalent to 15% of the Brokerage Firm's global capital, which is $958 and $767 in each year.

At December 31, 2004 and 2003, the Brokerage Firm has a long foreign currency position of 1,999,811 and 5,021,570 dollars, respectively, which for financial statement presentation purposes were translated using the exchange rates of $11.1495 and $11.2372, respectively, and comply with the regulations.

(4) Cash and equivalents-

At December 31, 2004 and 2003, the cash and equivalents are analyzed as follows:

	2004	2003
Domestic banks	$ 2	1
Deposits with foreign banks with maturities not exceeding 30 days	8	59
Margin accounts	45	28
Other funds available	14	–
	$ 69	88

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

(5) Investment securities-

At December 31, 2004 and 2003, the Brokerage Firm's investments in trading securities were as follows:

Type of instrument		Fair value 2004	Fair value 2003
Securities:			
Debt	$	677	326
Equity		25	51
Mutual funds:			
Investing in debt securities		73	301
Investing in equity securities		1	1
Pledged as security		17	6
Value date transactions		(96)	–
Total	$	697	685

An analysis of investment securities follows:

Type of instrument	Series		Fair value 2004	Fair value 2003
Debt securities:				
Ingbank	05011	$	142	–
Nafin	05015		414	–
Cetes	050106		7	–
Cetes	050414		1	–
Cetes	050609		113	–
Banobra	03525		–	113
Banamex	04014		–	213
		$	677	326

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

Type of instrument	Series		Fair value 2004	Fair value 2003
Equity securities:				
Alfa	A	$	1	–
Alsea	*		–	22
Amx	*		–	4
Cie	B		–	2
Fmx	*		–	3
Ge	*		2	–
Gmodelo	C		5	6
Hylsamx	L		1	–
Ica	*		1	–
Intc	*		6	–
Maseca	B		–	1
Msft	*		1	–
Soriana	B		–	3
Tvazteca	CPO		1	–
Tmx	*		2	8
Telecom	A1		1	–
Walmex	V		4	2
		$	25	51
Mutual funds investing in debt securities:				
Finde 1	B	$	1	1
Scotia 1	B		1	1
Scotia 2	B		1	1
Scotia 3	B		1	1
Scotia 4	B		1	1
Scotia A	B		5	158
Scotia G	B		63	138
		$	73	301

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

Type of instrument	Series	Fair value 2004	2003
Mutual funds investing in equity securities:			
Scotin T	B	$ 1	1
Pledged as security:			
Secured borrowing:			
Scotia A		$ 1	–
Variable-income securities of liquidation trusts:			
Cetes	040902	–	6
Cetes	050609	16	–
		$ 17	6
Value date transactions:			
Cetes	050623	$ 144	–
Cetes	050623	(144)	–
Cetes	050804	(47)	–
Cetes	050331	(49)	–
		$ (96)	–

The gain and loss during 2004 from the purchase and sale of securities amounted to $307 and $173, respectively ($308 and $151 in 2003). The valuation of investment securities at December 31, 2004 and 2003 resulted in a gain of $2 in each year. These amounts are included in the statement of income under "Gain on purchase and sale of securities", "Loss on purchase and sale of securities" and "Valuation gain (loss) on securities", respectively.

At December 31, 2004 and 2003, the investments in debt securities of the same issuer in excess of 5% of the Brokerage Firm's capital, are shown on the next page.

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

Issue	Number of certificates	Interest rate	Term (days)	Fair value
December 31, 2004				
INGBANK 05011	142,415,657	8.75%	3	$ 142
INAFIN 05015	415,156,810	8.80%	22	414
December 31, 2003				
IBANAMEX 04014	201,745,712	6.15%	2	$ 213
IBANOBRA 03525	107,549,982	6.10%	2	113

Assigned securities pending settlement-

At December 31, 2003, the assigned securities pending settlement are as follows:

Issue	Series	Number of certificates	Average rate	Term (days)	Fair value
Sold:					
M0 Bonos	101223	200,000	8.49%	2	$ 20
M0 Bonos	110714	331,618	8.35%	2	41
M0 Bonos	121220	130,000	8.61%	2	14
BI Cetes	040513	7,725,135	6.25%	2	82
					$ 157

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

(6) Securities under repurchase/resell agreements-

At December 31, 2004 and 2003, the Brokerage Firm's repurchase/resell agreements are analyzed as follows:

	2004			
	Receivable under resell agreements	Securities deliverable	Asset	Liability
Bought:				
Net asset positions	$ 10,044	(10,037)	7	–
Net liability positions	18,177	(18,188)	–	(11)
	$ 28,221	(28,225)	7	(11)
	Securities receivable	Payable under repurchase agreements		
Sold:				
Net asset positions	$ 35,666	(35,651)	15	–
Net liability positions	13,801	(13,805)	–	(4)
	$ 49,467	(49,456)	15	(4)
			$ 22	(15)
			$ 7	

	2003			
	Receivable under resell agreements	Securities deliverable	Asset	Liability
Bought:				
Net asset positions	$ 8,283	(8,263)	20	–
Net liability positions	10,419	(10,428)	–	(9)
	$ 18,702	(18,691)	20	(9)
	Securities receivable	Payable under repurchase agreements		
Sold:				
Net asset positions	$ 28,207	(28,194)	13	–
Net liability positions	10,375	(10,396)	–	(21)
	$ 38,582	(38,590)	13	(21)
			$ 33	(30)
			$ 3	

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

At December 31, 2004 and 2003, the net positions of securities under repurchase/resell agreements by type of security are as follows:

	Debit balances		Credit balances	
Type of instrument	**Average term (days)**	**Net position**	**Average term (days)**	**Net position**
December 31, 2004				
Government:				
Mexican Treasury notes (Cetes)	36	$ 1	44	1
Bondes LS	38	1	30	1
Bonos M3, M5, MBON	9	1	17	1
Bonos de Regulación Monetaria (BREM'S)	5	5	3	4
Bonos de Protección al Ahorro (BPA'S)	23	6	16	6
Bonos de Protección al Ahorro (BPAT)	15	8	21	2
		$ 22		15
December 31, 2003				
Government:				
Cetes	17	$ 2	20	1
Bondes LT	13	1	4	1
Bondes LS	28	2	41	3
Bonos M3, M5	3	15	2	15
BREM'S	19	2	10	–
BPA'S	22	10	17	9
Bank:				
Promissory notes	9	1	18	1
		$ 33		30

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

Secured lending and borrowing:

At December 31, 2004, the Brokerage Firm had entered into the following secured lending and borrowing transactions:

	Quantity	Fair value
Secured lending:		
Naftrac 02	649,700	$ 8
Secured borrowing:		
Naftrac 02	50,000	$ (1)

Secured loan transactions mature on January 4 and 5, 2005.

For secured borrowing transactions securities of $1 have been pledged (see note 5).

For the years ended December 31, 2004 and 2003 the premiums paid on repurchase/resell agreements exceeded premiums collected by $993 and $1,097, respectively, which are reported in the statement of income under "Interest expense". At December 31, 2004 and 2003, the valuation of repurchase/resell agreements led to a gain and loss of $6 and $2, respectively.

(7) Unassigned securities pending settlement-

At December 31, 2003, the net position of unassigned securities pending settlement with credit balances is as shown follows:

Type of instrument	Term (days)	Average rate	Net position
Government			
Bonds	3	7.18%	$ 1

At December 31, 2003 the valuation of unassigned securities pending settlement resulted in a loss of $1.

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

(8) Derivative financial instruments-

Notional amounts:

The notional amounts of contracts 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. At December 31, 2004 and 2003, notional amounts of the derivative financial instruments are as follows:

		2004		2003	
Type of instrument		**Hedging purposes**	**Trading purposes**	**Hedging purposes**	**Trading purposes**
Interest rate futures:					
Bought	$	–	3	–	527
Sold		–	–	–	(949)
Stock exchange index (IPC) futures:					
Bought		188	36	91	17
Sold		(22)	(7)	–	–
Stock exchange index (IPC) options:					
Bought		–	1	–	–
Sold		–	(491)	–	(153)
	$	166	(458)	91	(558)

(Continued)

Derivative financial instruments at December 31, 2004 and 2003 are analyzed as follows:

(a) Interest rate futures-

At December 31, 2004 and 2003, futures were purchased on the Mexican 28-day Equilibrium Interbank Interest (TIIE) Rate, at an average rate of 10.29% and 6.51%, maturing from January to March 2005, December 2009 and January to April 2004, respectively, and on the 91-day Treasury Certificates (CETES) at a rate of 6.30%, maturing in January and February 2004.

(b) Stock exchange index (IPC) futures-

At December 31, 2004 and 2003, futures were purchased and sold on the Mexican Stock Exchange IPC Index for hedging and trading purposes at an average price of $13 and $9 (nominal), respectively, maturing in March and June 2005 and 2004, respectively. Futures were purchased at December 31, 2004 and 2003 to hedge the options issued by the Brokerage Firm (see paragraph c).

(c) Stock exchange index (IPC) options-

At December 31, 2004 and 2003, the Brokerage Firm has issued European options in recognized markets on the Mexican Stock Exchange IPC Index. Their characteristics are shown on the next page.

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

Series	Number of certificates	Exercise price (nominal pesos)	Maturity
December 31, 2004			
IPC501RDC140	2,370	$ 10,687	January 2005
IPC503RDC142	100	10,093	March 2005
IPC504RDC144	980	10,094	April 2005
IPC609RDC145	2,640	10,200	September 2006
IPC503RDC146	3,990	10,701	March 2005
IPC506RDC147	220	10,915	June 2005
IPC504RDC148	3,030	10,688	April 2005
IPC503RDC149	4,920	11,794	March 2005
IPC508RDC150	5,600	11,794	August 2005
IPC509RDC151	3,810	12,103	September 2005
IPC506RDC152	4,190	12,113	April 2005
IPC506RDC153	4,910	12,494	June 2005
December 31, 2003			
IPC409RDC134	17,420	$ 8,343	September 2004

At December 31, 2004 and 2003, the valuation of derivative financial instruments resulted a loss and gain of $14 and $2, respectively.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

(9) Premises and equipment, net-

At December 31, 2004 and 2003, premises and equipment are analyzed as follows:

		2004	2003	Annual depreciation and amortization rates
Office premises	$	157	157	5%
Office furniture and equipment		61	61	10%
Computer equipment		5	4	30%
Transportation equipment		–	1	10% and 25%
Lasehold improvements		10	10	5%
		233	233	
Accumulated depreciation and amortization		65	60	
	$	168	173	

Depreciation and amortization charged to income in 2004 and 2003 amounted to $7 and $11, respectively.

(10) Permanent investments in shares-

At December 31, 2004 and 2003, the Brokerage Firm's permanent investments in shares, which were valued using the equity method (see note 2i), are as shown on the next page.

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

	Percentage of equity *		Carrying amount	
	2004	**2003**	**2004**	**2003**
Mandatory investments:				
Bolsa Mexicana de Valores, S. A. de C. V.	4.00	4.00	$ 25	21
Cebur, S. A. de C. V.	2.97	2.97	13	14
S. D. Indeval, S. A. de C. V.	2.17	2.13	7	8
Contraparte Central, S. A. de C. V.	1.00	–	1	–
Investments in affiliates and mutual funds:				
Scotia Derivados Inverlat, S. A. de C. V.	48.84	48.84	2	2
Scotia Liquidez para Personas Físicas, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 1)	0.03	0.02	1	1
Scotia Rendimiento, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 2)	0.05	0.03	2	1
Scotia Cobertura, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 3)	0.07	0.16	1	1
Scotia Liquidez Periódica, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda para Personas Físicas (Scotia 4)	0.09	0.06	2	1
Scotia Inversiones, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 6)	34.94	19.37	1	1
Scotia Indizado, S. A. de C. V., Sociedad de Inversión de Renta Variable (Scotia 7)	0.85	0.81	2	2
Scotia Liquidez para Personas Morales, S. A. de C. V., Sociedad de Inversión de Instrumentos de Deuda para Personas Morales (Scotia A)	0.08	0.07	1	1
Carried forward			$ 58	53

* Percentages of capital stock (series "A") in the case of funds.

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

	Percentage of equity			Carrying amount	
	2004	**2003**		**2004**	**2003**
Brought forward			$	58	53
Scotia para no Contribuyentes, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda para Personas Morales (Scotia D)	0.19	0.28		1	1
Scotia Internacional, S. A. de C. V. Sociedad de Inversión de Renta Variable (Scotin T)	0.32	2.00		1	2
FINDE 1, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Finde 1)	0.15	0.16		2	2
Other investments:					
Impulsora de Fondo México Controladora, S. A. de C. V.	–	–		2	2
Investments in works of art and sporting club shares (at cost restated for inflation)	–	–		2	2
			$	66	62

The equity method is computed using the book value of shares as of December 31, 2004 and 2003 and considering the most recent financial statements available, some unaudited. For the years ended December 31, 2004 and 2003, the Brokerage Firm recognized a gain and a loss of $11 and $6, respectively, resulting from appling the equity method.

(11) Pensions, seniority premiums and post-retirement benefits-

The Brokerage Firm has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years.

The cost, obligations and contributions to the fund relating to the pension plan and seniority premiums, as well as the post-retirement medical benefits, life insurance and food coupons are determined based on computations prepared by independent actuaries at December 31, 2004 and 2003, and are analyzed on the next page.

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

The components of the net periodic cost for the years ended December 31, 2004 and 2003 are as follows (nominal):

	2004		2003	
	Pensions and seniority premiums	Medical benefits, life insurance and food coupons for retirees	Pensions and seniority premiums	Medical benefits, life insurance and food coupons for retirees
Service cost	$ 2	–	3	1
Interest cost	1	–	1	1
Return on plan assets	(1)	–	(2)	(1)
Amortization of transition liability	–	1	–	1
Net periodic cost	$ 2	1	2	2

Benefit obligations at December 31 2004 and 2003, are analyzed as follows:

	2004		2003	
	Pensions and seniority premiums	Medical benefits, life insurance and food coupons for retirees	Pensions and seniority premiums	Medical benefits, life insurance and food coupons for retirees
Projected benefit obligations (OBP)	$ (27)	(4)	(23)	(4)
Plan assets	32	2	27	2
OBP in excess (insufficiency) of the fund	5	(2)	4	(2)
Pending amortization of departures	(5)	2	(4)	2
Projected net (asset) liability	$ –	–	–	–

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

Rates used in the actuarial projections are:

	2004	2003
Yield on fund assets	5.0%	5.0%
Discount rate	5.0%	5.0%
Salary increase rate	0.5%	1.0%
Medical expense increase rate	3.0%	10.0%
Estimated inflation rate	4.0%	4.4%

Plan assets consist of fixed-rate instruments held in a trust and managed by a committee appointed by the Brokerage Firm.

(12) Related-party transactions and balances-

During the normal course of business, the Brokerage Firm carries out transactions with related parties. The most significant related-party transactions carried out during the years ended December 31, 2004 and 2003 (nominal amounts), are as follows:

		2004		2003	
		Revenues	Expenses	Revenues	Expenses
Premiums	$	860	232	320	260
Fees		183	3	184	2
Advisory services		21	-	40	-
Rent		3	4	2	4
Interest		217	865	1	-
Other		16	7	9	1
	$	1,300	1,111	556	267

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

Notes to Financial Statements

(Million of constant Mexican pesos as of December 31, 2004, except otherwise stated)

At December 31, 2004 and 2003, balances with related parties are as follows (nominal amounts):

		2004	2003
Cash and equivalents:			
Scotiabank Inverlat, S. A.	$	2	1
Scotiabank Grand Cayman		8	56
	$	10	57
Receivable:			
Scotiabank Inverlat, S. A.	$	1	–
Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat		14	15
	$	15	15
Payable:			
Scotiabank Inverlat, S. A.	$	1	–
Scotia Capital, Inc.		–	1
Scotia Fondos, S. A. de C. V.		2	–
	$	3	1

(Continued)

(13) Stockholders' equity-

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

(a) Structure of capital stock-

At December 31, 2004 and 2003, capital stock is represented by 319,015,487 common, registered, fully subscribed and paid shares without par value, divided into 162,294,245 and 156,721,242 shares corresponding to the minimum fixed and variable portions of capital stock, respectively. The variable portion of capital stock may at no time exceed the fixed paid-in capital not subject to withdrawal.

According to the Brokerage Firm's bylaws, the shares are divided into Series "F" and "B". Series "F" shares must at all times represent at least 51% of the capital stock and may only be purchased by the Group, while Series "B" shares may represent up to 49% of the Brokerage Firm's capital stock and may be subscribed freely, establishing that except for the Group, no individual or entity may acquire direct or indirect control of Series "B" shares in excess of 10% of the Brokerage Firm's paid-in capital, through one or more simultaneous or successive transactions. If deemed justifiable, the SHCP may authorize the acquisition of a higher percentage, provided that it does not exceed 20% of the capital stock.

At December 31, 2004 and 2003, the minimum fixed capital stock is fully subscribed and paid and amounts to $284.

(b) Comprehensive income-

The comprehensive income reported on the statement of changes in stockholders' equity represents the results of the Brokerage Firm's activities during the year and includes the net income and the gain or loss from holding non-monetary assets from the valuation of permanent investments in shares.

(Continued)

(c) Restrictions on stockholders' equity-

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

Five percent of the net income for the year must be appropriated to the statutory reserve, up to an amount equal to the paid-in capital.

Stockholder contributions and retained earnings are subject to income tax on the amounts refunded or distributed that exceed the amounts determined for tax purposes.

Retained earnings on permanent investments in shares may not be distributed to the Brokerage Firm's stockholders until dividends are collected, but may be capitalized if so agreed at a Stockholders' Meeting. Also, unrealized gains from marking to market investment securities and repurchase/resell agreements may not be distributed until realized.

(14) Income (IT) and asset (AT) taxes and employee statutory profit sharing (ESPS)-

Under current Mexican tax law, corporations must pay the greater of IT or AT. For determining taxable income there are specific rules relating to the deductibility of expenses and the recognition of the effects of inflation. The Brokerage Firm computes ESPS on the same basis as IT.

The AT Law provides for a 1.8% tax on the average of assets not subject to financial intermediation, less the average of certain liabilities. AT payable in excess of IT for the year may be recovered in the ten succeeding years, restated for inflation, provided that IT exceeds AT in any of such years. During the years ended December 31, 2004 and 2003, IT payable exceeded AT.

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

Following is a reconciliation between accounting income and taxable income for IT and ESPS purposes (nominal):

	2004	2003
Income before IT, ESPS and equity in the result of subsidiaries and associated companies	$ 285	178
Accounting effects of inflation	32	17
Tax effects of inflation, net	(39)	(22)
Valuation of financial instruments, repurchase /resell agreements and derivatives	9	(38)
Premiums on repurchase/resell agreements	(3)	26
Gain on sale of equity securities	(13)	(2)
Difference between book and tax depreciation	(8)	(7)
Nondeductible expenses	17	4
Expense accruals	(13)	69
Other, net	(11)	11
Taxable income for IT and ESPS	$ 256	236

At December 31, 2004 and 2003, the current IT and ESPS expense in the statements of income is analyzed as follows:

	2004	2003
IT payable	$ 84	80
ESPS payable	26	24
Restatement for inflation	4	8
	$ 114	112

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

Deferred IT and ESPS

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and assets at December 31, 2004 and 2003, comprise the following:

	2004	2003
Prepaid expenses	$ (1)	(2)
Valuation of financial instruments	(9)	(15)
Premises and equipment	(49)	(15)
Expense accruals	25	40
Deferred IT and ESPS	$ (34)	8

The (charge) credit to income for deferred IT and ESPS for the years ended December 31, 2004 and 2003, comprise the following:

	2004	2003
Prepaid expenses	$ 1	1
Valuation of financial instruments	6	(6)
Premises and equipment	(34)	(4)
Expense accruals	(15)	16
Deferred IT and ESPS in income	$ (42)	7

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

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

Other considerations

In accordance with the amendments to the Income Tax Law, the IT rate will change from 32% to 30% in 2005 and will continue to be reduced one percentage point each year to reach 28% in the year 2007.

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

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

(15) Memorandum accounts-

Transactions on behalf of third parties-

The funds managed by the Brokerage Firm for investing in various instruments of the Mexican financial system on behalf of its customers are recorded in memorandum accounts. Third party assets under management at December 31, 2004 and 2003 are analyzed as follows:

	2004	2003
Mutual funds	$ 13,374	13,643
Government securities	49,083	39,263
Equities and others	47,482	45,429
	$ 109,939	98,335

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

The securities and documents received in guarantee at December 31, 2004 and 2003 are analyzed as follows:

		2004	2003
Government securities	$	945	899
Debt securities		175	1
Equities		92	224
Mutual funds shares		75	79
	$	1,287	1,203

Repurchase/resell transactions of customers -

At December 31, 2004 and 2003, the repurchase/resell transactions of customers are analyzed as follows:

	2004			2003		
	Number of securities		Fair value	Number of securities		Fair value
Abs	–	$	–	40,425		7
Bban	4,804		1	4,804		1
Bpas	168,676,258		16,851	72,684,230		8,205
Bpat	38,560,827		3,848	11,163,303		1,657
Brem	114,589,803		11,425	57,007,951		6,548
Cete	323,986,087		3,192	671,960,477		5,819
Ipas	6,300,000		631	–		–
Ls	23,669,079		2,412	88,887		1,322
Lt	5,225,699		532	4,041,873		1,196
Mbon	27,017,233		2,959	2,906,062		1,911
Prlv	1,728,173,238		1,720	2,182,190,655		1,579
Udibono	18,135		8	–		–
		$	43,579		$	28,245

(Continued)

(16) Commitments and contingencies-

(a) Lawsuits and litigation-

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

Lawsuit for crediting VAT

During the year 2004, the Brokerage Firm obtained a definitive favorable ruling regarding the procedure for determining the value-added tax (VAT) credit factor, which confirmed the right to fully credit VAT paid for the period from January 1, 2003 to July 31, 2004 of approximately \$22 (\$15 net of income tax effect). The recoverable tax will be recognized as income upon collection.

(b) Labor obligations-

Those arising from the obligations mentioned in the last paragraph of note 2(k).

(c) Leases-

The Brokerage Firm leases and subleases office space from related and third parties. Total rental income and expense for 2004 amounted to \$5 and \$4, respectively (\$4 and \$8 in 2003 in nominal pesos).

(Continued)

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

Notes to Financial Statements

(Millions of constant Mexican pesos as of December 31, 2004, except otherwise stated)

(17) Segment information-

The Brokerage Firm operates in various segments such as capital markets, money markets, mutual funds and investment banking. Segment data for the years ended December 31, 2004 and 2003 (nominal pesos) is summarized as follows:

	2004	2003
Revenues:		
Capital markets	$ 123	62
Money market	149	186
Mutual funds	173	175
Investment banking	59	60
Securities portfolio	36	14
Other income	165	151
	705	648
Expenses:		
Personnel	238	282
Fixed	44	46
Operating	92	122
Depreciation and amortization	7	10
	381	460
Operating income	324	188
Portfolio valuation	8	8
Accrued premiums	(7)	(7)
Income before taxes	325	189
Current IT and ESPS	(110)	(104)
Deferred IT and ESPS	(42)	7
Income before the effects of inflation	173	92
Restatement for inflation	4	6
Monetary position loss	(37)	(21)
Net income	$ 140	77

(Continued)

(18) Comprehensive risk management-

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

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

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

The Brokerage Firm has implemented the provisions of Circular 10-247, issued by the Commission regarding comprehensive risk management. In accordance with the circular, the Board of Directors is responsible for establishing risk control procedures and the Brokerage Firm's overall risk exposure limits. Furthermore, the Board of Directors entrusts the implementation of the procedures designed to measure, manage and control risks to the Risk Committee. In turn, the Risk Committee delegates responsibility for implementing the procedures designed to measure, manage and control risks to the Asset-Liability and Risks Committee (CAPA) and the Internal Control Committee.

(a) Market risk-

Market risk refers to potential losses associated with the purchase/sale of financial instruments, which the Brokerage Firm maintains for its own account or for trading purposes.

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

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

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

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

For valuation and risk models, the Brokerage Firm uses the prices and rates furnished by Valuación Operativa y Referencias de Mercado, S. A. de C. V. (Valmer), which is the Group's price vendor.

VaR is calculated using the historical simulation method with a 300 working-day time span.

To conform to the measurement methodologies used by BNS, the Brokerage Firm calculates VaR considering a 99% confidence level and one and 10-day holding periods.

VaR calculations are performed by instrument, market and globally, considering the existing correlation between the various risk factors. VaR is calculated using the Risk Watch methodology developed by Algorithmics. The Brokerage Firm's unaudited average global VaR observed daily during 2004 was $23.3 million nominal pesos ($19.4 million nominal pesos in 2003).

(Continued)

(Millions of constant Mexican pesos as of December 31, 2004,
except otherwise stated)

The Brokerage Firm's risk positions and their value at risk (unaudited) in 2004 are analyzed as follows:

Market	Average position	Maximum position	Position limit	Average VaR	VaR limit
Total Brokerage Firm	$ 17,968	26,305	–	23.3	35.0
Money	16,783	26,232	35,000	18.5	30.0
Capital	57	116	140	3.7	20.0

During 2004, the Brokerage Firm conducted future contracts on IPC and on interest rates in the Mexican Derivatives Market ("MexDer"). The positions and the number of contracts that were negotiated and their value at risk are analyzed as follows:

Futures	Average number of contracts	Maximum number of contracts	Contract limit	Average VaR	VaR limit
On interest rates	11,300	37,000	$ 225,000	0.83	4.0
IPC	1,732	2,667	4,000	–	–

Options	Average number of contracts	Maximum number of contracts	Contract limit
IPC	864	1,704	$ 2,000

The IPC futures are to cover the market risk on option positions or warrants issued on behalf of customers. During 2004, the Brokerage Firm issued IPC warrants with an average notional amount of $1,020 million pesos; the largest single transaction was for $1,568 million pesos.

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

To measure effectiveness, backtesting is performed quarterly to compare actual losses and gains with the VaR calculations and thus calibrate models.

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

(b) Liquidity risk-

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

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

(c) Credit risk-

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

Progress was achieved in 2004 in implementing the *Creditmetrics* system used in measuring credit risks, with criteria similar to those used by the Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, related-party ("the Bank").

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(d) Operating risk-

According to the provisions concerning the comprehensive risk management applicable to Brokerage Firms and published in the Official Gazette in September 2004, operating risk is a non-discretional risk defined as the potential loss from internal control failures or deficiencies, errors in the processing and storage of transactions or data transfers and from adverse administrative and judicial resolutions, fraud or robbery. Among others, operating risk includes technology and legal risks, which definitions are as follows:

1. Technology Risk is defined as the potential loss from damage, interruption, modification or failures derived from the use or dependency on hardware, software, systems, applications, networks and any other channel for distributing information in rendering services to the institution's customers.

2. Legal risk is defined as the potential loss from noncompliance with the applicable legal and administrative provisions, the issuance of adverse administrative and judicial resolutions and the application of penalties in relation to the institution's operations.

Operating risk is inherent to each of the Brokerage Firm's lines of business and their key support activities and may result in potential financial losses, regulatory penalties and/or damage to the Brokerage Firm's reputation. The losses associated with operating risk can be classified as follows:

- Errors or interruptions in transactional processes that include the payment of customer settlements as well as incorrect payments which cannot be recovered;
- Legal liabilities derived from noncompliance with legislation and contractual requirements, labor and social security laws;
- Penalties incurred from noncompliance with regulations;
- Losses from fraud, robbery and unauthorized activities; and losses or damage to the assets due to natural disasters, invasion of the premises by subversive groups or other accidents.

(Continued)

To comply with the prudent comprehensive risk management provisions, the Brokerage Firm has adopted the following policies concerning the management of operating risk:

- Policies for Managing Operating Risk – intended primarily to promote the risk management culture and, in particular, the management of operating risks to enable the Brokerage Firm to identify, measure, monitor, limit, control and report operating risk inherent in its daily transactions.
- Policies for Obtaining Information for Operating Risk Purposes – that define the requirements for reporting the information that support measurement processes, including scope, duties and responsibilities of the units providing the information, its classification and particular characteristics.

The Brokerage Firm also has a structured methodology for identifying and assessing the operating risks to which it is exposed, which objectives are to:

- Prioritize significant operating risks;
- Establish explicit ground rules for promoting the awareness of operating risks;
- Establish risk mitigation plans;
- Comply with the requirements set forth in the Risk Management Provisions.

In addition, the regular audits performed by an independent and experienced internal audit department include full conceptual and operating reviews of the internal control systems implemented in all business and support areas, new products and systems and the reliability and completeness of data processing transactions.

Being aware of the need for a coordinated effort with respect to new methodologies and progress in the field of operating risks, the Brokerage Firm has created the Operating Risk Unit which has overall responsibility for managing operating risks.

This Unit, which works together with the groups of specialists and the business areas, has been proactive in preparing and applying new methods for identifying, measuring, assessing and managing operating risks. The initiatives include the definition of a framework for identifying the risks and preparing a central database of loss events due to operating risks for quantification purposes.