

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

Consolidated Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

(Free Translation from Spanish Language Original)



KPMG Cárdenas Dosal
Manuel Avila Camacho 176
Col. Reforma Social
11650 México, D.F.

Teléfono: + 01 (55) 52 46 83 00
Fax: + 01 (55) 55 20 27 51
www.kpmg.com.mx

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 accompanying consolidated balance sheets of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries ("the Group") as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in stockholders' equity and changes in financial position 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. An audit also includes assessing the accounting criteria used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2 to the 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). These accounting criteria include particular rules, which in certain respects differ from such standards.

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, 2007 and 2006, and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for the years then ended, in conformity with the accounting criteria established by the Banking Commission for financial group holding companies in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C.

Alejandro De Alba Mora

February 15, 2008

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

Consolidated Balance Sheets

December 31, 2007 and 2006

(Millions of constant Mexican pesos as of December 31, 2007)

| Assets | 2007 | 2006 | Liabilities and Stockholders' Equity | 2007 | 2006 |
|---|-------------------|----------------|--|-------------------|----------------|
| Cash and cash equivalents (note 5) | \$ 16,892 | 20,514 | Deposit funding (note 14): | | |
| Investment securities (note 6): | | | Demand deposits | \$ 50,084 | 45,192 |
| Trading | 17,055 | 11,563 | Time deposits: | | |
| Available-for-sale | 4,841 | 4,744 | General public | 45,477 | 44,256 |
| Held-to-maturity | 1,666 | 1,973 | Money market | 148 | 5,723 |
| | <u>23,562</u> | <u>18,280</u> | Bank bonds | 6,236 | 4,385 |
| | | | | <u>101,945</u> | <u>99,556</u> |
| Securities and derivatives transactions: | | | Bank and other loans (note 15): | | |
| Debit balances of repurchase/resell agreements (note 7) | 168 | 83 | Due on demand | - | 2,125 |
| Securities lending (note 7) | - | 2 | Short-term | 1,606 | 1,095 |
| Derivative financial instruments (note 8) | 26 | 9 | Long-term | 2,987 | 3,117 |
| | <u>194</u> | <u>94</u> | | <u>4,593</u> | <u>6,337</u> |
| Current loan portfolio (note 9): | | | Securities and derivatives transactions: | | |
| Commercial loans: | | | Credit balances of repurchase/resell agreements (note 7) | 104 | 24 |
| Business or commercial activity | 24,458 | 23,282 | Securities borrowing (note 7) | 1 | - |
| Financial institutions | 3,120 | 3,749 | Derivative financial instruments (note 8) | 3,473 | 1,945 |
| Government entities | 11,224 | 18,673 | | <u>3,578</u> | <u>1,969</u> |
| | <u>38,802</u> | <u>45,704</u> | Other accounts payable: | | |
| Consumer loans | 19,373 | 18,386 | Income tax and employee statutory profit sharing payable (note 18) | 753 | 370 |
| Residential mortgages | 30,825 | 24,177 | Sundry creditors and other accounts payable | 6,165 | 4,675 |
| Total current loan portfolio | <u>89,000</u> | <u>88,267</u> | | <u>6,918</u> | <u>5,045</u> |
| Past due loan portfolio (note 9): | | | Deferred credits and prepayments | 589 | 380 |
| Past due commercial loans: | | | | <u>117,623</u> | <u>113,287</u> |
| Business or commercial activity | 555 | 583 | Total liabilities | | |
| Consumer loans | 1,073 | 633 | Stockholders' equity (note 19): | | |
| Residential mortgages | 1,116 | 768 | Paid-in capital: | | |
| Total past due loan portfolio | <u>2,744</u> | <u>1,984</u> | Capital stock | 4,507 | 4,507 |
| Total loan portfolio | 91,744 | 90,251 | Earned capital: | | |
| Less: | | | Statutory reserves | 787 | 580 |
| Allowance for loan losses (note 9h) | 3,176 | 2,876 | Unappropriated retained earnings | 13,248 | 11,030 |
| Loan portfolio, net | 88,568 | 87,375 | Unrealized gain from valuation of available-for-sale securities | 62 | 159 |
| Other accounts receivable, net (notes 1a and 10) | 6,916 | 3,980 | Gain from valuation of cash flow hedge instruments | 12 | - |
| Foreclosed assets (note 11) | 67 | 100 | Gain from holding nonmonetary assets: | | |
| Premises, furniture and equipment, net (note 12) | 2,594 | 2,502 | From valuation of premises, furniture and equipment | 3 | 3 |
| Permanent investments in shares (note 13) | 213 | 547 | From valuation of permanent investments in shares | 822 | 819 |
| Deferred taxes (note 18) | 806 | 147 | Adjustment for labor obligations upon retirement | (8) | (24) |
| Other assets, deferred charges and intangibles | 1,297 | 965 | Net income | 4,053 | 4,143 |
| | | | | <u>18,979</u> | <u>16,710</u> |
| | | | Total stockholders' equity | 23,486 | 21,217 |
| | | | Commitments and contingencies (note 22) | | |
| Total assets | \$ <u>141,109</u> | <u>134,504</u> | Total liabilities and stockholders' equity | \$ <u>141,109</u> | <u>134,504</u> |

(Continued)

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

Consolidated Balance Sheets, continued

December 31, 2007 and 2006

(Millions of constant Mexican pesos as of December 31, 2007, except historical capital stock)

Memorandum accounts

| <u>Transactions on behalf of third parties</u> | <u>2007</u> | <u>2006</u> | <u>Transactions for own account</u> | <u>2007</u> | <u>2006</u> |
|---|-------------|-------------|--|--------------|-------------|
| Customer current accounts- | | | Memorandum accounts- | | |
| Customer banks | \$ 11 | 22 | Guarantees issued (note 20) | \$ 1,621 | 1,171 |
| Settlement of customer transactions | (7) | 43 | Contingent assets and liabilities | 4,838 | - |
| | 4 | 65 | Loan commitments (note 20) | 1,163 | 1,260 |
| Customer securities (note 20)- | | | Assets in trust or under mandate (note 20) | 81,722 | 75,180 |
| Customer securities in custody | 171,792 | 172,071 | Assets in custody or under management (note 20) | 416,502 | 660,177 |
| Guarantee securities and documents | 1,498 | 2,050 | Interest earned but not collected arising from past due loan portfolio | 213 | 192 |
| | 173,290 | 174,121 | | \$ 506,059 | 737,980 |
| Transactions on behalf of customers- | | | Repurchase/resell agreements (note 7): | | |
| Customer repurchase/resell agreements (note 20) | 34,670 | 39,125 | Securities receivable | \$ 78,696 | 76,461 |
| Customer securities loan transactions | 118 | 231 | Less - Creditors under repurchase agreements | 78,736 | 76,449 |
| Managed trusts | 83 | 71 | | (40) | 12 |
| Investments on behalf of customers, net (note 20) | 55,888 | 49,479 | Securities deliverable | 37,825 | 34,114 |
| | 90,759 | 88,906 | Less - Debtors under resell agreements | 37,929 | 34,161 |
| | | | | 104 | 47 |
| | | | Net repurchase/resell agreements | \$ 64 | 59 |
| | | | Other accounts | \$ 1,981,562 | 549,002 |
| Total for third parties | \$ 264,053 | 263,092 | Total for own account | \$ 2,487,685 | 1,287,041 |

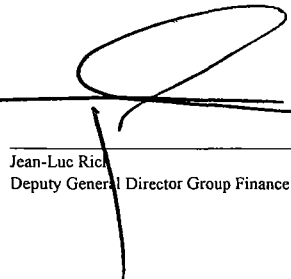
"The historical capital stock amounts to \$3,110,694,442.00 at December 31, 2007 and 2006."

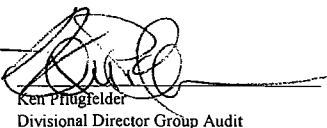
See accompanying notes to consolidated financial statements.

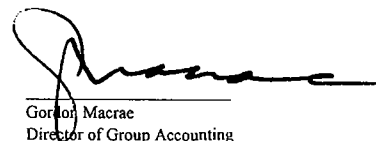
"These balance sheets, consolidated with those of the financial and other entities comprising the Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 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 Reid de Polignac
General Director


Jean-Luc Ricard
Deputy General Director Group Finance


Ken Pfugfelder
Divisional Director Group Audit


Gordon Macrae
Director of Group Accounting

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

Consolidated Statements of Income

Years ended December 31, 2007 and 2006


(Millions of constant Mexican pesos as of December 31, 2007)

| | <u>2007</u> | <u>2006</u> |
|--|-----------------|----------------|
| Interest income (note 21) | \$ 22,045 | 21,774 |
| Interest expense (note 21) | (13,310) | (13,856) |
| Monetary position loss, net | <u>(658)</u> | <u>(579)</u> |
| Financial margin | 8,077 | 7,339 |
| Provision for loan losses (note 9h) | <u>(1,849)</u> | <u>(486)</u> |
| Financial margin after provision for loan losses | 6,228 | 6,853 |
| Commission and fee income (note 21) | 3,367 | 2,831 |
| Commission and fee expense | (513) | (572) |
| Financial intermediation income, net (note 21) | <u>652</u> | <u>628</u> |
| Total operating income | 9,734 | 9,740 |
| Administrative and promotional expenses | <u>(7,637)</u> | <u>(7,103)</u> |
| Net operating income | 2,097 | 2,637 |
| Other income (notes 6, 18, 21 and 22) | 2,333 | 2,265 |
| Other expense (note 21) | <u>(236)</u> | <u>(371)</u> |
| Income before taxes, employee statutory profit sharing (ESPS), equity in the results of subsidiary and associated companies and extraordinary item | 4,194 | 4,531 |
| Current income tax (IT), asset tax and ESPS (note 18) | (798) | (417) |
| Deferred IT and ESPS (note 18) | <u>621</u> | <u>(42)</u> |
| Income before equity in the results of subsidiary and associated companies and extraordinary item | 4,017 | 4,072 |
| Equity in the results of operations of subsidiary and associated companies, net | <u>36</u> | <u>74</u> |
| Income from continued operations | 4,053 | 4,146 |
| Extraordinary loss on the early reduction of labor obligations (note 16) | <u>-</u> | <u>(3)</u> |
| Net income | <u>\$ 4,053</u> | <u>4,143</u> |

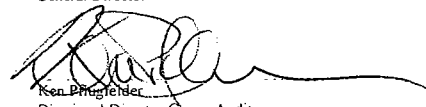
See accompanying notes to consolidated financial statements.

"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"



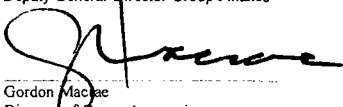
Nicole Reigh de Polignac
General Director



Ken Pfeiffer
Divisional Director Group Audit



Jean-Luc Rich
Deputy General Director Group Finance



Gordon Macrae
Director of Group Accounting

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2007 and 2006

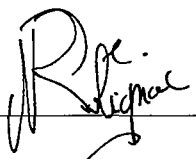
(Millions of constant Mexican pesos as of December 31, 2007)


| | Earned capital | | | | | | | | Total stockholders' equity | |
|---|----------------|--------------------|----------------------------------|--|--|---|---|--|----------------------------|------------|
| | Capital stock | Statutory reserves | Unappropriated retained earnings | Unrealized gain (loss) from valuation of available-for-sale securities | Gain from valuation of cash flow hedge instruments | Gain from holding non-monetary assets From valuation of premises, furniture and equipment | From valuation of permanent investments in shares | Adjustment for labor obligations upon retirement | | Net income |
| Balances at December 31, 2005 | \$ 4,507 | 382 | 7,270 | 113 | - | 3 | 813 | - | 3,958 | 17,046 |
| Change resulting from stockholders' resolutions: | | | | | | | | | | |
| Resolution passed at the Ordinary and Special General Stockholders' Meeting of April 28, 2006 - Appropriation of 2005 net income | - | 198 | 3,760 | - | - | - | - | - | (3,958) | - |
| Changes related to the recognition of comprehensive income (note 19c): | | | | | | | | | | |
| Valuation effects of available-for-sale securities, net of deferred tax of \$27 | - | - | - | 46 | - | - | 6 | - | - | 52 |
| Recognition of additional pension liability in stockholders' equity net of deferred tax of \$13 (note 16) | - | - | - | - | - | - | - | (24) | - | (24) |
| Net income | - | - | - | - | - | - | - | - | 4,143 | 4,143 |
| Total comprehensive income | - | - | - | 46 | - | - | 6 | (24) | 4,143 | 4,171 |
| Balances at December 31, 2006 | 4,507 | 580 | 11,030 | 159 | - | 3 | 819 | (24) | 4,143 | 21,217 |
| Changes resulting from stockholders' resolutions: | | | | | | | | | | |
| Resolution passed at the Ordinary and Special General Stockholders' Meeting of April 27, 2007 - Appropriation of 2006 net income | - | 207 | 3,936 | - | - | - | - | - | (4,143) | - |
| Dividends declared (note 19b) | - | - | (1,718) | - | - | - | - | - | - | (1,718) |
| | - | 207 | 2,218 | - | - | - | - | - | (4,143) | (1,718) |
| Changes related to the recognition of comprehensive income (note 19c): | | | | | | | | | | |
| Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred tax of \$58 and \$6, respectively | - | - | - | (97) | 12 | - | 3 | - | - | (82) |
| Decrease of additional pension liability in stockholders' equity net of deferred tax of \$14 (note 16) | - | - | - | - | - | - | - | 16 | - | 16 |
| Net income | - | - | - | - | - | - | - | - | 4,053 | 4,053 |
| Total comprehensive income | - | - | - | (97) | 12 | - | 3 | 16 | 4,053 | 3,987 |
| Balances at December 31, 2007 | \$ 4,507 | 787 | 13,248 | 62 | 12 | 3 | 822 | (8) | 4,053 | 23,486 |


See accompanying notes to consolidated financial statements.

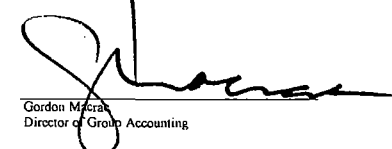
"These statements of changes in stockholders' equity, consolidated with those of the financial and other entities comprising the Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities 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 stockholders' 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, 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 changes in stockholders' equity were approved by the Board of Directors under the responsibility of the following officers".


Nicole Reich de Polignac
General Director


Ken Pfingfelder
Divisional Director Group Audit


Jean-Luc Rich
Deputy General Director Group Finance


Gordon Micra
Director of Group Accounting

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

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2007 and 2006

(Millions of constant Mexican pesos as of December 31, 2007)

| | <u>2007</u> | <u>2006</u> |
|---|------------------|----------------|
| Operating activities: | | |
| Net income | \$ 4,053 | 4,143 |
| Income statement items not requiring (providing) funds: | | |
| Provision for loan losses | 1,849 | 486 |
| Equity in results of operations of subsidiary and associated companies | (36) | (74) |
| Provision for foreclosed asset impairment | 22 | 1 |
| Valuation of securities under repurchase/resell agreements, derivative transactions and investment securities | (24) | (29) |
| Deferred income tax and employee statutory profit sharing | (621) | 42 |
| Depreciation and amortization | 190 | 162 |
| Cancellation of provision | (139) | |
| Extraordinary loss on the early reduction of labor obligations (note 16) | - | 3 |
| Funds provided by operations | <u>5,294</u> | <u>4,734</u> |
| Changes in items related to operations: | | |
| Increase (decrease) in operating liabilities: | | |
| Deposit funding | 2,389 | 3,383 |
| Bank and other loans | (1,744) | (5,261) |
| (Increase) decrease in operating assets: | | |
| Loan portfolio | (3,042) | (2,843) |
| Investment securities | (5,358) | (3,103) |
| Securities, derivatives transactions and securities lending and borrowing | <u>1,472</u> | <u>1,152</u> |
| Funds used in operating activities | <u>(989)</u> | <u>(1,938)</u> |
| Financing activities: | | |
| Payment of dividends (note 19b) | (906) | - |
| Increase in other accounts payable | <u>1,216</u> | <u>706</u> |
| Funds provided by financing activities | <u>310</u> | <u>706</u> |
| Investing activities: | | |
| Acquisition of premises, furniture and equipment, net | (273) | (352) |
| Decrease in foreclosed assets | 11 | 72 |
| Decrease in permanent investments in shares | 373 | 17 |
| Increase in other assets and deferred credits, net | (118) | (46) |
| Other accounts receivable | <u>(2,936)</u> | <u>(2,152)</u> |
| Funds used in investing activities | <u>(2,943)</u> | <u>(2,461)</u> |
| Decrease in cash and cash equivalents | (3,622) | (3,693) |
| Cash and cash equivalents: | | |
| At beginning of year | <u>20,514</u> | <u>24,207</u> |
| At end of year | <u>\$ 16,892</u> | <u>20,514</u> |

See accompanying notes to consolidated financial statements.

"These statements of changes in financial position, 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 sources and applications of funds 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."

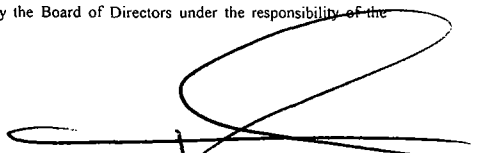
"These consolidated statements of changes in financial position were approved by the Board of Directors under the responsibility of the following officers"



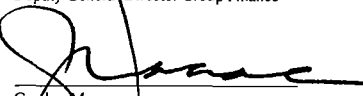
Nicole Reich de Polignac
General Director



Ron Phegler
Divisional Director Group Audit



Jean-Luc Rich
Deputy General Director Group Finance



Gordon Macrae
Director of Group Accounting

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

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(Millions of constant Mexican pesos as of December 31, 2007)

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.

At December 31, 2007 and 2006, 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, among 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 management company in conformity with applicable laws; and, from June 2006 Scotia Afore, S. A. de C. V. (“the Afore”, which commenced operations in November 2006) which was incorporated for the purpose of managing and operating retirement funds in terms of the applicable laws and general provisions issued by the National Commission for the Retirement Savings System (Comisión Nacional del Sistema de Ahorro para el Retiro or CONSAR).

2007 Significant transactions-

(a) Acquisition of collection rights over automobile loan portfolio

On September 27, 2007, the Bank entered into an agreement with a non-bank bank (SOFOL) whereby it undertakes to acquire through a single issue instrument (replaceable promissory note), the collection rights corresponding to a private securitization of an automobile loan portfolio placed in trust by the SOFOL. The transaction has a duration of seven years, and the Bank may, during the first two years and through the respective exchange of the replaceable promissory note, partially acquire, at the request of the SOFOL, the collection rights up to a maximum of \$4,000 (see note 10).

(b) Institutional program to replace mortgage loans denominated in Udis to pesos and for promoting the prepayment of mortgage loan portfolio denominated in Udis

In September 2007, the Bank implemented a program for replacing loans and granting facilities for prepaying such loans, aimed at debtors of the Udi-denominated mortgage loan portfolio, which offers the alternatives described on the following page.

(Continued)

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

Notes to Consolidated Financial Statements

(Millions of constant Mexican pesos as of December 31, 2007)

- Granting of loans in pesos under the current financing terms, intended for settling the mortgage loan in Udis owed by the debtor. At December 31, 2007, 82 loan agreements totaling \$23 have been signed, which are maintained in the residential mortgage portfolio as renewed loans.
- Early settlement of the unpaid balance of the Udi-denominated loan with the borrower's own funds. At December 31, 2007, this option has been used for settling 19 loans aggregating \$8.

For the two options noted above the Bank grants discounts that are additional to those which according to support programs correspond to loans of debtors who opt for any of such alternatives.

Loan issue related expenses are born by the Bank and charged to results of operations. For the year ended December 31, 2007 such expenses amounted to \$1.

Discounts, in addition to those applicable pursuant to support programs are applied against the allowance for loan losses. At December 31, 2007 the amount applied is \$4.

2006 Significant transactions-

On April 11, 2006, the Bank acquired consumer (automobile) loans from a non-bank bank (SOFOL) for an agreed-upon price made up of two portions: the first fixed portion of \$3,076 (nominal) paid on the acquisition date and a second portion consisting of a determinable amount that may not exceed \$360 (nominal) (see note 9c).

On June 30, 2005 the Bank announced a program for issuing revolving banking debt certificates for a total authorized amount of \$5,000, which was increased to \$10,000 on May 23, 2006. The program will be effective for 48 months following the authorization date. As of December 31, 2007 and 2006, certificates amounting to \$6,200 and \$4,200, respectively, had been placed (see note 14).

On December 7, 2006 and as a result of the sale of securities previously placed in trust, the Brokerage Firm recognized in its statement of income: revenues for \$32 (\$31 nominal), which is shown under "Other income", and a security deposit and accrual for \$8 and \$1, respectively. Both the security deposit and the accrual were subject to being returned to the purchaser pursuant to certain specific purchase/sale agreement clauses, which expired on December 7, 2007. As of December 31, 2007 the Brokerage Firm recognized income of \$8 under "Other Income", derived from the reversal of guaranty deposits as the terms of the purchase agreement expired during the year and the clauses previously stated did not come into force. In addition, the transaction was subject to income tax of \$7 to be withheld in 2006 on credit revenues, which the Brokerage Firm absorbed and recognized in results of operations under "Other expense".

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(2) Summary of significant accounting policies-

(a) Financial statement presentation and disclosure-

On February 15, 2008, Nicole Reich de Polignac (General Director), Jean Luc Rich (Deputy General Director Group Finance), 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 footnotes.

The Stockholders and the National Banking and Securities Commission ("the Banking Commission") are empowered to modify the consolidated financial statements after issuance. The accompanying 2007 consolidated financial statements will be submitted to the next Stockholders' Meeting for approval.

The accompanying 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 accompanying consolidated financial statements include the financial statements of the Holding Company, the Bank, the Brokerage Firm, the Mutual Fund Management Company and, beginning in 2006, the Afore. All significant intercompany transactions and balances have been eliminated in consolidation. The financial statements of the Afore, prepared in accordance with the CONSAR's criteria, have been standardized with reporting and disclosure criteria issued by the Banking Commission.

The consolidated financial statements also include the financial statements of the Bank's UDI Trusts (restructured loan portfolio), created for the purpose of managing restructured loans through Federal Government support programs (see note 9f), where the Bank acts as grantor and trustee and the Mexican Government is the trust beneficiary. The trusts have been valued and presented in conformity with the accounting rules prescribed by the Banking Commission.

In general, the accounting criteria 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 Normas de Información Financiera or CINIF), and include particular rules relating to accounting, valuation, presentation and disclosure, which depart from such standards — see paragraphs *b*, *e* and *m* of this note.

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: FRS; International Financial Reporting Standards issued by the International Accounting Standards Board; 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 Banking Commission.

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except value of the UDI)

The accompanying consolidated financial statements are expressed in millions of Mexican pesos of constant purchasing power, using the Investment Unit (UDI) value. The UDI is a unit of measurement whose value is determined by the Banco de México (the Central Bank) based on inflation. UDI values used at December 31, were as follows:

| <u>December 31,</u> | <u>UDI</u> | <u>Annual inflation</u> |
|---------------------|-------------|-------------------------|
| 2007 | \$ 3.932983 | 3.80% |
| 2006 | 3.788954 | 4.16% |
| 2005 | 3.637532 | 2.91% |

For purposes of disclosure in the notes to the consolidated financial statements, pesos or “\$” refers to Mexican pesos, 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.

The preparation of the consolidated financial statements requires management to make a number of estimates and assumptions relating to 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. Actual results could differ from those estimates and assumptions.

The 2006 consolidated balance sheet, the consolidated statement of income and the consolidated statement of changes in financial position include certain reclassifications to conform to the classifications used in 2007.

(b) Cash and cash equivalents-

Cash and cash equivalents consist of cash on hand, precious metals (coins), deposits with banks, 24 and 48-hour foreign currency purchase and sale transactions, margin accounts related to standardized futures contract transactions made on the Mexican Derivatives Exchange, bank loans with original maturities of up to three days (“Call Money”) and deposits with the Central Bank, which include the statutory monetary deposits that, in conformity with the Law, are maintained in order to regulate the liquidity in the financial markets; such deposits have no maturity and bear interest at the average bank funding rate. In conformity with Bulletin C-10 of FRS, the aforementioned margin accounts would be reported under “Transactions with derivative financial instruments”.

The receivables associated with 24 and 48-hour foreign currency sales are recorded in “Other accounts receivable”, while the obligations arising from such foreign currency purchases are recorded in “Sundry creditors and other accounts payable”.

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(c) *Investment securities-*

Investment securities consist of equities, government securities and bank promissory notes, listed and unlisted, classified into three categories according to management's investment intentions, as follows:

Trading securities-

Trading securities are bought and held principally to be sold in the near term. Debt securities are initially recorded at cost and subsequently marked to market using a price provided by an independent price vendor, and when the respective securities are sold, the gains and losses arising from the difference between the net amount realized and the carrying amount of the securities is recognized in income. The valuation effect is recognized in income under "Financial intermediation income, net".

Equity securities are initially recorded at cost and subsequently marked to market using a price provided by an independent price vendor. When a fair and representative market value cannot be reliably determined or is not representative, these are valued using the equity method. The valuation effect is recognized in the year's income under "Financial intermediation income, net". Cash dividends from equity securities are recognized in income.

Available-for-sale securities-

Securities not classified as trading, but which are not intended to be held to maturity. Available-for-sale securities are initially recorded at cost and valued in the same manner as trading securities, except that the mark-to-market adjustments, net of the deferred tax effect, are reported in stockholders' equity under "Unrealized gain (loss) from valuation of available-for-sale securities", which upon sale, are cancelled in order to recognize in income the difference between the net amount realized and the acquisition cost.

Held-to-maturity securities-

Held-to-maturity securities are debt securities that the Group has the intent to hold until maturity, and which have defined payments and maturity of more than 90 days. Securities are initially recorded at cost, interest is recognized in income as earned and when the securities are sold, the gains and losses arising from the difference between the net amount realized and the carrying amount of the securities is recognized in income under "Financial intermediation income, net".

Where sufficient evidence exists that a security is subject to a high credit risk and/or the estimated value undergoes a decrease, the carrying amount of the security changes and the amount by which it is reduced is recognized in income.

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Value date transactions-

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

Transfers between categories-

According to the changes to the Banking Commission's accounting criteria, in effect as of 2007, 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.

(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 commitment to repurchase or to resell are stated at their net present value at maturity. The net assets and liabilities are reported in the consolidated balance sheet after individually offsetting the restated values of the securities receivable or deliverable and the repurchase/resell agreement commitment of each transaction. The repurchase/resell agreements where the Group is the repurchasing and reselling party with the same entity cannot be offset.

Interest and premiums are reported in the results of operations under "Interest income" and "Interest expense", while both realized and unrealized gains or losses from these transactions are reported under "Financial intermediation income, net".

In accordance with the accounting criteria established by the Banking Commission, the parties to repurchase/resell agreements maturing in more than three days are required to contractually secure such transactions in the event of fluctuations in value resulting in an increase in the net exposure that exceeds the maximum amount agreed upon by the parties. The guarantees granted (without transfer of title) are recorded in the securities portfolio as restricted or pledged trading securities, or in other restricted cash equivalents if granted in cash deposits. Guarantees received not representing a transfer of title are recorded in memorandum accounts as assets in custody or under management. Such guarantees are valued in conformity with the current rules for investment securities, cash equivalents and assets in custody or under management, respectively.

Premiums are recognized in income based on their fair value over the term of the transaction.

(Continued)

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(e) *Transactions with derivative financial instruments-*

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

The valuation effect of financial instruments for trading purposes is shown in the consolidated balance sheet and statement of income under "Transactions with derivative financial instruments" 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, net". Such valuation effect is presented in the consolidated balance sheet under "Transactions with derivative financial instruments".

The gain or loss that results from valuing a fair value hedge instrument is recognized in the consolidated balance sheet and statement of income under "Transactions with derivative financial instruments" and "Financial intermediation income, net", respectively, while the valuation of the primary position is recognized in income under "Financial intermediation income, net". This presentation departs from the one set forth in Bulletin C-10 of FRS, which requires that the hedge valuation gain or loss be shown jointly with the valuation of the hedged primary position, in the same income statement caption where the primary position is shown.

(f) *Clearing accounts-*

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, securities loans and/or derivative financial instruments which have expired but have not been settled at the balance sheet date, as well as 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 settlement, credit and debit accounts are offset provided they arise from like transactions, are executed with the same counterparty and settled on the same maturity date.

(g) *Securities borrowing-*

Includes equity securities in which the Group acts as borrower and lender. Equity securities are recorded at cost and subsequently marked to market. Valuation effects are recognized in the consolidated statement of income under "Valuation on securities".

Premiums received and paid are recorded as a deferred credit and a deferred charge, respectively, and are recorded in results of operations using the straight-line method over the term of the borrowing.

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The net debit balance or credit balance is reported in the consolidated balance sheet after individually offsetting the asset or liability positions for each of the transactions carried out by the Group.

(h) 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.

Transactions with foreign entities: 15 business days after the transaction took place.

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

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 when three timely consecutive payments have been made (sustained payment).

(i) Allowance for loan losses-

An allowance for loan losses is maintained which, in management's opinion, is sufficient to cover credit risks associated with the loan portfolio, guarantees issued and irrevocable loan commitments. The allowance is established as described on the next page.

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Graded commercial loans— Studies are made for classifying the portfolio using internal credit grading 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 Ministry of Finance and Public Credit (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 such "Provisions" (see note 23).

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 past due installments, probability of default, and expected loss given default.

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 conformity with the Provisions, those allowances resulting from risk level "A".

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

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Impaired loan portfolio – For 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.

Additional identified reserves – are established for those loans, which in management’s opinion, may give rise to 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, mainly those arising from profits in the restructured UDI trusts.

Loans considered unrecoverable are written off against the allowance when their collection is determined to be impractical. As of January 1, 2007, any amount recovered from previously written-off loans is recognized in income (through December 31, 2006 the recovered amounts were credited to the allowance for loan losses).

(j) *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 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 recoverable and of settlement accounts.

Collection rights arising from the acquisition of a single issue instrument on portfolios placed in trust are valued through the interest method whereby the initial investment is systematically amortized and the related return is recognized in income under "Other income" using an estimated yield rate.

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

Foreclosed assets are recorded at the lower of foreclosure or net realizable value or cost. Assets received in lieu of payment are recorded at the lower of the appraised value or the price agreed upon by the parties; at the date of foreclosure the loan that led to such foreclosure and the allowance for loan losses created to such date are eliminated.

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Assets promised for sale are recognized at 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 income under "Other income" or "Other expense", respectively.

Where the value of the asset that led to the foreclosure, net of estimates, exceeds the value of the foreclosed asset, the difference is charged to income under "Other expense"; otherwise the value of the latter is adjusted to the net value of the asset.

Beginning January 1, 2007, for purposes of recognizing the effects of inflation on the financial information, the foreclosed assets are classified based on their nature either as monetary and non-monetary assets (through December 31, 2006 all foreclosed assets were considered monetary assets).

Reductions in the value of foreclosed assets are deducted from the value of the assets and recognized as expense of the year under "Other expense". The Bank creates additional provisions to recognize the potential impairment of foreclosed assets due to the passage of time, according to the following table:

| <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% |

(1) Premises, furniture and equipment and leasehold improvements-

Premises, furniture and equipment and leasehold improvements are initially recorded at their acquisition cost, and restated for inflation based on factors derived from the value of the UDI.

Depreciation and amortization are computed using the straight-line method on restated values, based on the estimated useful lives of the corresponding assets, determined based on appraisals.

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The Group evaluates periodically the values of premises and leasehold improvements, to determine whether there is an indication of potential impairment. Recoverability of assets 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 exceeds its estimated net revenues, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(m) *Permanent investments in shares-*

Investments in associated companies are accounted for by the equity method. Equity in the results of operations of associated entities is recognized in results of operations for the year, whereas equity in the increase or decrease in other stockholders' equity accounts is recognized in the Group's stockholders' equity under "Gain from holding non-monetary assets from valuation of permanent investment in shares".

Also, this caption includes permanent investments in shares of issuing companies where the Group has no significant influence, which are valued at cost and adjusted for inflation by applying the National Consumer Price Index (INPC) issued by the Banco de México. Valuation adjustments are recognized in stockholders' equity under "Gain from holding non-monetary assets from valuation of permanent investments in shares". When the valuation of the investment is consistently below the adjusted cost, the investment is written down to its realizable value through a charge to results of operations.

The Brokerage firm, in accordance with the Banking Commission's rules, records the permanent investments in shares held in Bolsa Mexicana de Valores, S. A. de C. V., Cebur, S. A. de C. V., SD Ineval S.A. de C.V., and Contraparte Central de Valores de México, S. A. de C. V., by using the equity method based on the latest financial statements available, which departs from FRS. In accordance with FRS, such investments should be recorded at the lower of adjusted cost or net realizable value, when the investing entity does not exercise control or significant influence.

The investment in the shares corresponding to the fixed capital of mutual funds is accounted for 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 results of operations under "Equity in the results of operations of subsidiary and associated companies, net".

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(n) *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, and operating loss and asset tax 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 results of operations for the period enacted.

(o) *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 the accrual basis. For instruments sold at a price other than face value, the difference is recognized as a deferred charge or credit and amortized on the straight-line basis over the term of the respective instrument.

(p) *Bank and other loans-*

Bank and other loans 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 loans rediscounted with agencies specializing in financing economic, productive or development activities. Interest is recognized on the accrual basis.

(q) *Pensions, seniority premiums, post-retirement benefits and obligations for payments upon termination of labor relationship-*

The Bank, the Brokerage Firm, the Management Company and the Afore (the subsidiaries) have a defined contribution pension and post-retirement benefit plan in place, under which the plan contributions made by these entities are recognized directly in the consolidated statement of income under "Administrative expenses" (see note 16).

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The Bank and the Brokerage Firm also have a non-contributory defined benefit pension plan, the eligibility requirements of which are: reaching the age of 60 with five years of service, or age 55 with 35 years of service. In addition, the subsidiaries have a plan that covers seniority premiums and severance payments to which employees are entitled in accordance with the Federal Labor Law as well as obligations relating to post-retirement medical benefits, food coupons and life insurance of retirees.

For all the plans, the subsidiaries have created irrevocable trusts which manage the fund assets.

The net periodic cost and the accrued benefits for pensions, seniority premiums, severance payments and post-retirement benefits of the defined benefit plans are recognized in results of operations each year based on computations prepared by independent actuaries of the present value of these obligations, using the projected unit credit method and real interest rates. Amortization of the net cost of unrecognized prior services is based on the average remaining service life of the employees eligible to plan benefits.

(r) *Restatement of capital stock, statutory reserves and unappropriated retained earnings-*

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

(s) *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 based on the value of the UDI.

(t) *Monetary position gain or loss-*

The effect (gain or loss) in the purchasing power of the monetary position is recognized in the results of operations, which is determined by multiplying the difference between monetary assets and liabilities at the beginning of each month by inflation through year end. The aggregate of these results represents the monetary gain or loss for the year arising from inflation, which is reported in results of operations for the year.

The gain or loss arising from interest-bearing monetary assets and liabilities is included in the consolidated statement of income as part of the "Financial margin", while the gain or loss from all other monetary items is presented in "Other income" or "Other expense", respectively.

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(u) Revenue recognition-

Interest on loans granted is recorded in income as earned. Interest on past due loans is not recognized in income until collected.

Beginning January 1, 2007, loan origination fees are recorded as deferred credits, which are amortized to income over the term of the loan (through December 31, 2006, fees were deferred and amortized over a maximum of three years).

Fees earned on trust activities are recognized in income as earned. Fees not collected within 90 days are fully reserved.

Premiums earned on repurchase/resell agreements are calculated based on the present value of the price at maturity.

Fees collected from customers on the purchase and sale transactions are recorded in income when contracted.

(v) Customer securities-

Customer securities in custody, guarantee or under the Group's administration are recorded in the respective memorandum accounts at market value, representing the maximum expected amount for which the Group is obligated to its customers in the event of a future loss contingency.

(w) Foreign currency transactions-

The accounting records are maintained in both Mexican pesos and foreign currencies. 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, is 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.

(x) UDI Trusts-

Asset and liability accounts of the loan portfolio restructured in UDI Trusts are expressed in Mexican pesos by applying the UDI value determined by the Central Bank at the end of each month. Income and expense accounts are expressed in Mexican pesos by applying the average UDI value.

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(y) Contributions to the Institute for the Protection of Bank Savings (IPAB) and to the Reserve Fund-

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

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS.

The "Other assets" caption includes contributions to the self-regulatory reserve fund, created by the stock market community, intended for supporting and contributing to the strengthening of the stock market.

(z) 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 and in the case of the Bank are recorded in memorandum accounts. Contingent revenues, earnings or assets are not recognized until their realization is virtually assured.

(3) Accounting changes-

On June 26, and September 15, 2006, through the SCHP, the Banking Commission issued amendments to the sole circular in the section that relates to accounting criteria for Brokerage Firms and Credit Institutions, respectively, which came into effect as of January 1, 2007, as follows:

(a) Loan portfolio:

Recognition of revenues and expenses relating to loan origination

Criterion B-6 Loan Portfolio requires that beginning in January 2007 revenues from loan origination fees be recognized in income on a deferred basis over the term of the loan. Therefore, considering the basic precept of matching related revenues and expenditures in the same period, the expenses incurred in connection with the initial granting of loans are deferred on the same basis.

At December 31, 2007, balances from loan origination fees collected and expenses paid pending recognition in income, are analyzed as follows:

| <u>Description</u> | <u>Amount</u> |
|------------------------------------|---------------|
| Fees collected pending recognition | \$ 514 |
| Expenditures pending amortization | 233 |
| | === |

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
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(Millions of constant Mexican pesos as of December 31, 2007)

(b) Foreclosed assets:

From January 1, 2007, the treatment of non-monetary assets is applied to foreclosed assets that due to their nature comply with this characteristic (mainly property, plant and equipment). At December 31, 2007 the amount of such inflation restatement totaled \$3.

(c) Derivative financial instruments:

From January 1, 2007 the Bank adopted the amendments to criterion B-5 "Derivative financial instruments and hedging transactions", which are based on Bulletin C-10 of FRS and require the recognition of all derivatives at fair value and establish particular rules for the recognition of hedging transactions.

At the time of adopting the new provision, the Bank recognized a charge of \$42 (net of deferred tax) in stockholders' equity for cash flow hedging derivatives, charges to income of \$1 and \$7 relating to the ineffective portion of the hedges and the impairment of credit risk, respectively, and a credit to income of \$2 from the valuation of fair value derivatives.

Through December 31, 2006, the Brokerage Firm classified as hedging certain derivative financial instruments that were purchased and used to hedge own issues of warrants. However, beginning January 1, 2007, with the entry into force of the amendments referred before, those derivatives were classified as derivative instruments for trading.

(d) Consolidation of financial statements:

As of January 1, 2007 the Bank adopted amendments to criterion A-2 "Application of particular standards". The amendment to the clarifications of Bulletin B-8 "Consolidated and combined financial statements and valuation of permanent investments" requires credit institutions to consolidate all subsidiaries.

Through December 31, 2006, only subsidiaries of the financial sector needed to be included for purposes of consolidation of financial statements.

(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.

The Bank has been authorized by the Central Bank to maintain a larger long position, which includes a capital hedge of up to 50 million dollars in 2007 and 2006. Accordingly, as of December 31, 2007 and 2006, the Bank's long position is within the authorized limits. At December 31, 2007 and 2006, the maximum short and long positions authorized by the Central Bank for the Brokerage Firm is \$189 and \$158 (nominal), respectively, that is equivalent to 15% of the Brokerage Firm's global capital which is \$1,258 and \$1,050 (nominal) in each year.

(Continued)

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except otherwise stated)

The foreign currency position at December 31, 2007 and 2006, stated in millions of dollars is analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|---------------|----------------|--------------|
| Assets | 1,529 | 1,030 |
| Liabilities | <u>(1,464)</u> | <u>(970)</u> |
| Long position | <u>65</u> | <u>60</u> |

At December 31, 2007, the long foreign currency position consists of 98% in US dollars (94% in 2006), 1% in euros (2% in 2006) and 1% in other foreign currencies (4% in 2006).

At December 31, 2007 y 2006, the exchange rate of the peso to the dollar was \$10.92 and \$10.81, respectively.

(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2007 and 2006, are analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|---|------------------|---------------|
| Cash on hand | \$ 2,309 | 1,981 |
| Deposits with domestic and foreign banks | 1,965 | 5,416 |
| Deposits with the Central Bank | 12,453 | 12,940 |
| Clearing house margin account | 200 | 266 |
| Three-day interbank call money | 422 | 250 |
| 24 and 48-hour foreign currency sales | (1,048) | (1,147) |
| Other funds available | 94 | 253 |
| Restricted funds: | | |
| 24 and 48 hour foreign currency purchases | <u>497</u> | <u>555</u> |
| | <u>\$ 16,892</u> | <u>20,514</u> |

(Continued)

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According to Central Bank regulations, the Bank is required to maintain statutory monetary deposits with the Central Bank to regulate the liquidity in the financial system. Such deposits have no maturity and bear interest at the average bank funding rate. At December 31, 2007 and 2006 the statutory monetary deposits with the Central Bank amount to \$12,403 and \$12,920, respectively.

At December 31, 2007 and 2006, the Group had the following three-day interbank loans ("Call money"):

| <u>Institution</u> | <u>2007</u> | | | <u>2006</u> | | |
|------------------------------------|---------------|-------------|-------------|---------------|-------------|-------------|
| | <u>Amount</u> | <u>Rate</u> | <u>Term</u> | <u>Amount</u> | <u>Rate</u> | <u>Term</u> |
| Banco J.P. Morgan, S. A. | \$ — | — | — | 168 | 7.00% | 4 days |
| Banco Nacional de México, S. A. | — | — | — | 82 | 6.90% | 4 days |
| BBVA Bancomer, S. A. | <u>422</u> | 7.15% | 2 days | <u>—</u> | | |
| | \$ <u>422</u> | | | <u>250</u> | | |

At December 31, 2007 and 2006, foreign currency receivable and deliverable in connection with the purchases and sales to be settled within 24 and 48 hours (expressed in millions of pesos) are analyzed as follows:

| | <u>Receivable</u> | | <u>Deliverable</u> | |
|------------------|-------------------|-------------|--------------------|--------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Dollar | \$ 479 | 538 | 994 | 1,130 |
| Other currencies | <u>18</u> | <u>17</u> | <u>54</u> | <u>17</u> |
| | \$ <u>497</u> | <u>555</u> | <u>1,048</u> | <u>1,147</u> |

(Continued)

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(Millions of constant Mexican pesos as of December 31, 2007)

(6) Investment securities-

(a) Composition-

At December 31, 2007 and 2006, the Group's investment securities are as follows:

| | <u>2007</u> | <u>2006</u> |
|--|------------------|---------------|
| <u>Trading (short term):</u> | | |
| Debt securities: | | |
| Government securities | \$ 6,778 | 10,686 |
| Bank promissory notes | 9,691 | 487 |
| Other | 586 | 401 |
| Foreign currency forward contracts (see note 8) | — | (11) |
| | <u>17,055</u> | <u>11,563</u> |
| <u>Available-for-sale (long term):</u> | | |
| Shares ⁽¹⁾ | 95 | 82 |
| Debt securities: | | |
| Government securities | <u>4,746</u> | <u>4,662</u> |
| | <u>4,841</u> | <u>4,744</u> |
| <u>Held-to-maturity (long term):</u> | | |
| Special CETES of the UDI Trusts: | | |
| Domestic productive plant | 56 | 426 |
| States and municipalities ⁽²⁾ | — | (28) |
| Residential mortgages | <u>1,605</u> | <u>1,562</u> |
| | 1,661 | 1,960 |
| Other | <u>5</u> | <u>13</u> |
| | <u>1,666</u> | <u>1,973</u> |
| Total investment securities | \$ <u>23,562</u> | <u>18,280</u> |

⁽¹⁾ and ⁽²⁾ see explanation on the next page.

(Continued)

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(Millions of constant Mexican pesos as of December 31, 2007,
except value per share)

- (1) At December 31, 2007 includes 32,668 (55,433 in 2006) class B shares of an international entity engaged in the processing of credit card transactions, which market value at such date amounts to \$77 (\$61 in 2006). The Bank received the shares in June 2006 as a result of an initial public offering made by the aforesaid entity and for which an additional payment was received for \$28 nominal (2.4 million dollars) corresponding to 79,770 redeemed shares, which was recognized in the statement of income caption of "Other income". During 2007 the Bank sold 22,765 shares, thus obtaining a gain of \$40, which was recognized in income under "Financial intermediation income, net".

Also at December 31, 2006, included 18,513,657 shares of an entity engaged in air transportation with a net book value of 82 cents per share, which was below the market value determined by the price vendor as of December 31, 2006 of \$2.65 per share. As a result of the sale of these shares during 2007, the Bank recognized a gain of \$42, which is presented in the consolidated statement of income under "Financial intermediation income, net".

- (2) The negative balance of Special CETES of states and municipalities is a result of the swap liability exceeding the assets.

- (b) At December 31, 2007 and 2006, debt securities relating to government securities and bank notes classified as trading and available-for-sale securities, are analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|-------------------------------|-----------------|--------------|
| <u>Trading:</u> | | |
| Debt securities: | | |
| Government securities: | | |
| Own position: | | |
| CETES | \$ 286 | 155 |
| LD BONDES | 458 | 1,038 |
| IPBPAS | 502 | - |
| IS BPAS 182 | 992 | - |
| IT BPAT | 2,116 | - |
| LS BOND 182 | 28 | - |
| IPAT | - | 2,758 |
| BONOS M5 | - | 708 |
| LS BONDES | - | 1,968 |
| BREMS | - | 667 |
| I PABONOS | - | 2,027 |
| BONOS M | - | 500 |
| Own position, carried forward | \$ <u>4,382</u> | <u>9,821</u> |

(Continued)

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(Millions of constant Mexican pesos as of December 31, 2007)

| | <u>2007</u> | <u>2006</u> |
|---|-----------------|---------------|
| Own position, brought forward | \$ 4,382 | 9,821 |
| Value date sales: | | |
| CETES | (29) | (255) |
| IT BPAT | (24) | - |
| BONOS M | (384) | (657) |
| IP BPAS | - | (414) |
| BONOS M0 | <u>-</u> | <u>(231)</u> |
| Unrestricted securities | <u>3,945</u> | <u>8,264</u> |
| Own position (restricted securities for guarantees granted): | | |
| CETES | 2,257 | 1,943 |
| BONOS M | <u>198</u> | <u>-</u> |
| | <u>2,455</u> | <u>1,943</u> |
| Value date purchases (restricted securities for guarantees granted): | | |
| CETES | 188 | 207 |
| LS BONDES | - | 106 |
| IP BPAS | - | 166 |
| BONOS M | <u>190</u> | <u>-</u> |
| Restricted securities | <u>378</u> | <u>479</u> |
| Total government securities | \$ <u>6,778</u> | <u>10,686</u> |
| Bank promissory notes: | | |
| Own position: | | |
| AMEX | \$ 290 | - |
| BACOMER | 1,207 | - |
| BAMMSA | 906 | - |
| BANAMEX | 990 | - |
| BANORTE | 1,450 | - |
| BANSAN | 2,167 | - |
| BANOBRA | 648 | 161 |
| NAFIN | 959 | 260 |
| BACMEXT | <u>-</u> | <u>1</u> |
| | 8,617 | 422 |
| Value date sales: | | |
| D1 MEXH11 (UMS) | <u>(5)</u> | <u>(6)</u> |
| Unrestricted bank promissory notes to the next page | \$ <u>8,612</u> | <u>416</u> |

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(Millions of constant Mexican pesos as of December 31, 2007)

| | <u>2007</u> | <u>2006</u> |
|--|-----------------|--------------|
| Unrestricted bank promissory notes from the previous page | \$ <u>8,612</u> | <u>416</u> |
| Own position (restricted securities for guarantees granted): | | |
| BANOBRA | 162 | 65 |
| BACMEXT | 125 | |
| NAFIN | <u>787</u> | <u>—</u> |
| | 1,074 | 65 |
| Value date purchases (restricted securities): | | |
| DI MEXH11 (UMS) | <u>5</u> | <u>6</u> |
| | <u>1,079</u> | <u>71</u> |
| Total bank promissory notes | \$ <u>9,691</u> | <u>487</u> |
| <u>Available-for-sale:</u> | | |
| Debt securities: | | |
| Government securities: | | |
| Own position: | | |
| BONOS M0 | \$ 1,001 | 740 |
| BONOS M | 3,717 | 3,213 |
| CETES | — | 78 |
| BONOS M7 | <u>—</u> | <u>631</u> |
| | 4,718 | 4,662 |
| Value date purchases (restricted securities): | | |
| BONOS M | <u>28</u> | <u>—</u> |
| Total government securities | \$ <u>4,746</u> | <u>4,662</u> |

(Continued)

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(Millions of constant Mexican pesos as of December 31, 2007)

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

At December 31, 2007, the investments in the same non-government issuer of debt securities over 5% of the Bank's net capital are analyzed as follows:

| | |
|---------|---------------|
| BACOMER | \$ 1,207 |
| BANORTE | 1,450 |
| BANSAN | 2,167 |
| | <u> </u> |

At December 31, 2006, investments in non-government debt securities of the same issuer did not exceed 5% of the Bank's net capital.

(d) Issuers in excess of 5% of the Brokerage Firm's global capital-

At December 31, 2007 and 2006, investments in debt securities other than government securities, of the same issuer that exceeded 5% of the Brokerage Firm's global capital are as follows:

| <u>Issue</u> | <u>Certificates</u> | <u>Rate</u> | <u>Term (days)</u> | <u>Amount</u> |
|--------------------|---------------------|-------------|------------------------|-----------------|
| <u>2007</u> | | | | |
| BANOBRA 07533 | 293,264,209 | 7.51% | 2 | \$ 293 |
| BANCMEXT 08232 | 129,256,500 | 7.80% | 356 | 120 |
| NAFIN 08385 | 538,927,777 | 7.70% | 358 | 501 |
| NAFIN 08421 | 296,285,001 | 7.74% | 360 | <u>275</u> |
| | | | | <u>\$ 1,189</u> |
| <u>2006</u> | | | | |
| BANOBRA 07012 | 155,031,820 | 7.02% | 4 | <u>\$ 161</u> |

(Continued)

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Notas a los Estados Financieros Consolidados

(Millones de pesos de poder adquisitivo constante al 31 de diciembre de 2007)

(7) Securities under repurchase/resell agreements-

At December 31, 2007 and 2006, the Group's repurchase/resell agreements are analyzed as follows:

| 2007 | | | | |
|-------------------------|--|---|---------------|------------------|
| | <u>Receivables under resell agreements</u> | <u>Securities deliverable</u> | <u>Asset</u> | <u>Liability</u> |
| Purchases: | | | | |
| Net asset positions | \$ 13,844 | (13,731) | 113 | - |
| Net liability positions | <u>24,085</u> | <u>(24,094)</u> | <u>-</u> | <u>(9)</u> |
| | <u>\$ 37,929</u> | <u>(37,825)</u> | <u>113</u> | <u>(9)</u> |
| Sales: | | | | |
| | <u>Securities receivable</u> | <u>Payables under repurchase agreements</u> | | |
| Net asset positions | \$ 64,224 | (64,195) | 29 | - |
| Net liability positions | <u>14,472</u> | <u>(14,541)</u> | <u>-</u> | <u>(69)</u> |
| | <u>\$ 78,696</u> | <u>(78,736)</u> | <u>29</u> | <u>(69)</u> |
| | | | <u>\$ 142</u> | <u>(78)</u> |
| | | | \$ | <u>64</u> |
| 2006 | | | | |
| | <u>Receivables under resell agreements</u> | <u>Securities deliverable</u> | <u>Asset</u> | <u>Liability</u> |
| Purchases: | | | | |
| Net asset positions | \$ 11,967 | (11,909) | 58 | - |
| Net liability positions | <u>22,194</u> | <u>(22,205)</u> | <u>-</u> | <u>(11)</u> |
| | <u>\$ 34,161</u> | <u>(34,114)</u> | <u>58</u> | <u>(11)</u> |
| Sales: | | | | |
| | <u>Securities receivable</u> | <u>Payables under repurchase agreements</u> | | |
| Net asset positions | \$ 63,967 | (63,942) | 25 | - |
| Net liability positions | <u>12,494</u> | <u>(12,507)</u> | <u>-</u> | <u>(13)</u> |
| | <u>\$ 76,461</u> | <u>(76,449)</u> | <u>25</u> | <u>(13)</u> |
| | | | <u>\$ 83</u> | <u>(24)</u> |
| | | | \$ | <u>59</u> |

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(Millions of constant Mexican pesos as of December 31, 2007)

At December 31, 2007 and 2006, the net positions by type of security are as follows:

| <u>Securities</u> | <u>Debit balances</u> | | <u>Credit balances</u> | |
|-------------------------|---|-------------------------|---|-------------------------|
| | <u>Weighted average term (days)</u> | <u>Net position</u> | <u>Weighted average term (days)</u> | <u>Net position</u> |
| <u>2007</u> | | | | |
| <u>Government:</u> | | | | |
| BPA 182 | 2 | \$ 8 | — | — |
| Bpas | 32 | 21 | 29 | 12 |
| Bpat | 16 | 100 | 13 | 66 |
| CBUR | 23 | 1 | 19 | 3 |
| LS | 158 | 1 | — | — |
| Ipas | 15 | 10 | 3 | 9 |
| Bonos | 12 | 10 | 12 | 9 |
| CTIM | 22 | 2 | — | — |
| L Bond | 3 | <u>15</u> | 2 | <u>5</u> |
| | | \$ 168 | | 104 |
| | | == | | == |
| <u>2006</u> | | | | |
| <u>Government:</u> | | | | |
| Bond 182 | 33 | \$ 1 | — | \$ — |
| Bpas | 51 | 9 | 29 | 3 |
| Bpat | 30 | 6 | 23 | 5 |
| Brem | 24 | 3 | — | — |
| LS | 34 | 2 | 27 | 3 |
| Ipas | 21 | 1 | — | — |
| Bonos | 30 | 54 | 40 | 9 |
| CTIM | 29 | 2 | 1 | 1 |
| Ip Bpas | 38 | 1 | — | — |
| IT Bpat | — | — | 18 | 3 |
| L Bond | 17 | <u>1</u> | — | <u>—</u> |
| | | 80 | | 24 |
| <u>Bank Securities:</u> | | | | |
| Prlv | 31 | 1 | — | — |
| Debt certificates | 24 | <u>2</u> | — | <u>—</u> |
| | | \$ 83 | | \$ 24 |
| | | == | | == |

(Continued)

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At December 31, 2007 and 2006, the Group has received government securities as guarantee for over 3-day repurchase agreements, which is included and recorded under "Assets under custody and management", and are analyzed as follows:

| <u>Issuer</u> | <u>Issue</u> | <u>Number of certificates</u> | <u>Market value</u> |
|---------------------------|--------------|-----------------------------------|-------------------------|
| <u>2007</u> | | | |
| Guarantees received: | | | |
| BI Cetes | 080131 | 759,563 | \$ 8 |
| BI Cetes | 080117 | 26,525,671 | 26 |
| BI Cetes | 080131 | 31,348,023 | 31 |
| LS Bond | 100805 | 38,852,737 | 39 |
| Ls Bond182 | 080313 | 55,001 | 6 |
| Bonos M | 081224 | 43,886 | <u>4</u> |
| Total guarantees received | | | \$ 114 <u>==</u> |
| <u>2006</u> | | | |
| Guarantees received: | | | |
| BI Cetes | 071122 | 2,621,012 | \$ 25 |
| BI Cetes | 070104 | 832,569 | 9 |
| BI Cetes | 070412 | 151,733 | 2 |
| BI Cetes | 070215 | 26,229 | - |
| Ls Bond182 | 090813 | 174,984 | 19 |
| Ls Bond182 | 100114 | 98,381 | 10 |
| Ls Bond182 | 070607 | 62,543 | 6 |
| Ls Bond182 | 070118 | 145,954 | 16 |
| IP Bpas | 070524 | 27,090 | <u>3</u> |
| Total guarantees received | | | \$ 90 <u>==</u> |

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
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Notes to Consolidated Financial Statements

(Millions of constant Mexican pesos as of December 31, 2007)

Securities lending and borrowing:

At December 31, 2007 and 2006, the Group had entered into securities lending and borrowing transactions as follows:

| | <u>Number of certificates</u> | <u>Market value</u> |
|-------------------------|-----------------------------------|-------------------------|
| <u>2007</u> | | |
| Securities receivable: | | |
| Nafrac 02 | 3,542,000 | \$ 104 |
| G Mexico B | 75,700 | 2 |
| Peñoles | 50,000 | <u>12</u> |
| | | <u>118</u> |
| Securities deliverable: | | |
| Femsa UBD | 25,000 | (1) |
| Nafrac 02 | 3,542,000 | (104) |
| Peñoles | 50,000 | (12) |
| G Mexico B | 75,700 | <u>(2)</u> |
| | | <u>(119)</u> |
| | | <u>\$ (1)</u> |
| <u>2006</u> | | |
| Securities receivable: | | |
| Homes * | 100,000 | \$ 11 |
| Nafrac 02 | 7,857,100 | 213 |
| Bimbo A | 100,000 | 5 |
| G Mexico B | 62,000 | <u>2</u> |
| | | <u>231</u> |
| Securities deliverable: | | |
| Homes * | 100,000 | (11) |
| Nafrac 02 | 7,738,500 | (210) |
| Bimbo A | 100,000 | (5) |
| G Mexico B | 62,000 | (2) |
| Telecom AI | 20,000 | <u>(1)</u> |
| | | <u>(229)</u> |
| | | <u>\$ 2</u> |

At December 31, 2007 and 2006, the lending transactions mature on January 2 and 3, 2008, and on January 3 and 4, 2007, respectively.

At December 31, 2007 and 2006, securities in the amount of \$126 and \$248, respectively, have been pledged under securities borrowing transactions (see note 6).

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(Millions of constant Mexican pesos as of December 31, 2007)

(8) Derivative instruments-

At December 31, 2007 and 2006, the valuation of derivative financial instruments for trading and hedging purposes (only for trading purposes in 2006 in the case of the Bank) recognized under "Transactions with derivative financial instruments", is analyzed as follows:

| | <u>2007</u> | | <u>2006</u> | |
|--|---------------|--------------------|---------------|--------------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Assets</u> | <u>Liabilities</u> |
| Futures and foreign currency and interest rate forward contracts | \$ 17 | - | 8 | - |
| Interest rate swaps | - | 156 | - | 41 |
| Foreign currency options | - | - | 1 | 1 |
| Mexican stock exchange index (IPC) futures and options and interest rate futures | <u>9</u> | <u>3,317</u> | <u>-</u> | <u>1,903</u> |
| | <u>\$ 26</u> | <u>3,473</u> | <u>9</u> | <u>1,945</u> |

At December 31, 2007 and 2006, options are balanced since for each buy option there is a sell option; accordingly, the Group's operation is limited to negotiating the contract premiums, which are included in the consolidated statement of income under "Financial intermediation income, net".

At December 31, 2006, the Bank derivative transactions for hedging purposes are presented in the consolidated balance sheet together with the primary position they cover and are analyzed as follows:

| <u>Derivative</u> | <u>Primary Position</u> | <u>2006</u> |
|--|----------------------------|-------------|
| Interest rate forward contracts (see note 6) | Investment securities | \$ (11) |
| Variable interest rate swaps | Fixed-rate loan portfolio* | (9) |
| Variable interest rate swaps | Fixed-rate deposit funding | (1) |

* \$6 corresponds to the hedging of the loan granted to the Federal District Government (see note 9) and \$3 for commercial loans.

For the year ended December 31, 2007, the amount of losses recognized in income arising from the impairment of financial instruments for hedging purposes amounted to \$15.

As for instruments used for cash-flow hedging purposes, the net loss derived from their inefficiency aggregated \$2 and is included in the results of operations for the year ended December 31, 2007 under "Financial intermediation income, net", while the effect from the valuation relating to the effective hedge position at December 31, 2007, which amounts to \$18 (\$12 net of the deferred tax effect) is presented in stockholders' equity.

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The net estimated effect of gains and losses arising from derivative transactions presented under stockholders' equity at December 31, 2007, which are expected to be reclassified to income within the following twelve months amounts to \$5.

At December 31, 2007, the caption of "Financial intermediation income, net" includes \$52 relating to the valuation of derivatives for hedging purposes at fair value.

Notional amounts

The following 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. Notional amounts of the derivative financial instruments at December 31, 2007 and 2006 are as follows:

| <u>Type of instrument</u> | <u>2007</u> | | <u>Total</u> |
|--------------------------------|-------------------------|-------------------------|---------------|
| | <u>Hedging purposes</u> | <u>Trading purposes</u> | |
| <u>Interest rate:</u> | | | |
| Bought: | | | |
| Futures: | | | |
| TIE | \$ — | 7,973 | 7,973 |
| M-10 | — | 130 | 130 |
| Swaps | <u>310</u> | <u>33,250</u> | <u>33,560</u> |
| | <u>\$ 310</u> | <u>41,353</u> | <u>41,663</u> |
| Sold: | | | |
| Futures: | | | |
| TIE | \$ — | 683 | 683 |
| Swaps | <u>7,897</u> | <u>34,287</u> | <u>42,184</u> |
| | <u>\$ 7,897</u> | <u>34,970</u> | <u>42,867</u> |
| Sold: | | | |
| Swaps (in millions of dollars) | <u>151</u> | <u>—</u> | <u>151</u> |
| <u>IPC:</u> | | | |
| Bought: | | | |
| Futures | \$ — | 858 | 858 |
| Sold: | | | |
| Futures | \$ — | 2 | 2 |
| Options (*) | <u>—</u> | <u>3,318</u> | <u>3,318</u> |
| | <u>\$ —</u> | <u>3,320</u> | <u>3,320</u> |

(*) Fair value of collected premiums.

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| <u>Type of instrument</u> | <u>2007</u> | | <u>Total</u> |
|---|-------------------------|-------------------------|---------------|
| | <u>Hedging purposes</u> | <u>Trading purposes</u> | |
| <u>Foreign exchange (in millions of dollars):</u> | | | |
| <u>Bought:</u> | | | |
| Forwards | — | 718 | 718 |
| Options | — | <u>2</u> | <u>2</u> |
| | — | <u>720</u> | <u>720</u> |
| <u>Sold:</u> | | | |
| Forwards | — | 321 | 321 |
| Options | — | <u>2</u> | <u>2</u> |
| | — | <u>323</u> | <u>323</u> |
| <u>2006</u> | | | |
| <u>Interest rate:</u> | | | |
| <u>Bought:</u> | | | |
| <u>Futures:</u> | | | |
| TIE | \$ — | 59,930 | 59,930 |
| CETES | — | 300 | 300 |
| M-10 | — | 190 | 190 |
| Swaps | <u>310</u> | <u>21,332</u> | <u>21,642</u> |
| | <u>\$ 310</u> | <u>81,752</u> | <u>82,062</u> |
| <u>Sold:</u> | | | |
| <u>Futures:</u> | | | |
| TIE | \$ — | 1,200 | 1,200 |
| CETES | — | 400 | 400 |
| Swaps | <u>9,527</u> | <u>28,621</u> | <u>38,148</u> |
| | <u>\$ 9,527</u> | <u>30,221</u> | <u>39,748</u> |
| <u>Sold:</u> | | | |
| Swaps (in millions of dollars) | <u>64</u> | <u>—</u> | <u>64</u> |

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| <u>Type of instrument</u> | <u>2006</u> | | |
|---|-------------------------|-------------------------|--------------|
| | <u>Hedging purposes</u> | <u>Trading purposes</u> | <u>Total</u> |
| <u>IPC:</u> | | | |
| Bought: | | | |
| Futures | \$ 413 | 17 | 430 |
| Sold: | | | |
| Futures | \$ 6 | 19 | 25 |
| Options (*) | — | 1,828 | 1,828 |
| | \$ 6 | 1,847 | 1,853 |
| <u>Foreign exchange (in millions of dollars):</u> | | | |
| Bought: | | | |
| Forwards | 230 | 715 | 945 |
| Options | — | 4 | 4 |
| | 230 | 719 | 949 |
| Sold: | | | |
| Forwards | — | 698 | 698 |
| Options | — | 4 | 4 |
| | — | 702 | 702 |

(*) Market value of premiums collected.

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

At December 31, 2007, of the total transactions there are 30 (9 in 2006) designated as cash flow hedges that total \$4,180 (\$1,600 nominal in 2006) and are converting 28-day liabilities; the remaining \$5,029 (\$8,930 nominal in 2006) are designated as fair value hedges.

In general, reducing the market risk impacts the financial margin as the revenue gaps are closed (funding long-term fixed-rate loans with short-term liabilities) and, as a result, the benefits from the increase in the margin are reduced when short-term rates fall. At December 31, 2007, with an average TIIE rate of 7.66% (7.57% in 2006), it is estimated that had these derivatives not existed, the financial impact would have been an additional positive margin of \$112 (\$133 nominal in 2006) (unaudited figure).

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(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2007 and 2006, the classification of loans into current and past due by currency, which includes the restructured portfolio in UDI Trusts, is analyzed as follows:

| | <u>2007</u> | | <u>2006</u> | |
|---------------------------------|------------------|-----------------|----------------|-----------------|
| | <u>Current</u> | <u>Past due</u> | <u>Current</u> | <u>Past due</u> |
| <u>In assets</u> | | | | |
| <u>Pesos:</u> | | | | |
| Business or commercial activity | \$ 18,981 | 431 | 19,772 | 485 |
| Financial institutions | 3,002 | - | 3,627 | - |
| Consumer loans | 19,373 | 1,073 | 18,386 | 633 |
| Residential mortgages | 29,560 | 964 | 22,698 | 649 |
| Government entitites | <u>11,224</u> | <u>-</u> | <u>18,472</u> | <u>-</u> |
| | <u>82,140</u> | <u>2,468</u> | <u>82,955</u> | <u>1,767</u> |
| <u>Foreign currency:</u> | | | | |
| Business or commercial activity | 5,477 | 124 | 3,510 | 98 |
| Financial institutions | <u>118</u> | <u>-</u> | <u>122</u> | <u>-</u> |
| | <u>5,595</u> | <u>124</u> | <u>3,632</u> | <u>98</u> |
| <u>Denominated in UDIS:</u> | | | | |
| Residential mortgages | 1,265 | 152 | 1,479 | 119 |
| Government entities | <u>-</u> | <u>-</u> | <u>201</u> | <u>-</u> |
| | <u>1,265</u> | <u>152</u> | <u>1,680</u> | <u>119</u> |
| | <u>\$ 89,000</u> | <u>2,744</u> | <u>88,267</u> | <u>1,984</u> |
| | <u>\$ 91,744</u> | | <u>90,251</u> | |
| <u>In memorandum accounts:</u> | | | | |
| Guarantees issued | \$ 1,621 | | 1,171 | |
| Loan commitments | <u>1,163</u> | | <u>1,260</u> | |
| | <u>2,784</u> | | <u>2,431</u> | |
| | <u>\$ 94,528</u> | | <u>92,682</u> | |

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(b) Classification of loan portfolio by economic sector-

At December 31, 2007 and 2006, credit risk (including loans, guarantees and loan commitments, see note 20) classified by economic sector and the percentage of concentration are analyzed as follows:

| | <u>2007</u> | | <u>2006</u> | |
|---|------------------|------------|---------------|------------|
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| Community, social and personal services, mainly government entities | \$ 13,384 | 14 | 20,616 | 22 |
| Construction and housing | 35,543 | 38 | 25,688 | 28 |
| Financial, insurance and real estate services | 5,825 | 6 | 6,464 | 7 |
| Manufacturing | 7,998 | 8 | 11,229 | 12 |
| Commerce and tourism | 8,335 | 9 | 5,940 | 6 |
| Consumer loans and credit cards | 20,437 | 22 | 19,819 | 22 |
| Agriculture, forestry and fishing | 1,871 | 2 | 1,250 | 1 |
| Transportation, warehousing and communication | 1,068 | 1 | 1,567 | 2 |
| Other | <u>67</u> | <u>—</u> | <u>109</u> | <u>—</u> |
| | <u>\$ 94,528</u> | <u>100</u> | <u>92,682</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 (nominal) 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 (nominal). The difference between the contractual value and the first portion of the agreed price was recognized as a deferred premium of \$143 (nominal), which is being amortized over a period equal to the remaining term of the loans and the determinable liability shall be payable at the end of such term. At December 31, 2007, the amortized amount, corresponding to the deferred premium amounts to \$95 while the balance of the liability computed based on monthly collection trends amounts to \$90.

The SOFOL is charged with managing the loan portfolio and sends the necessary information to the Bank on a daily basis for accounting purposes. For this service the Bank pays an annual fee of 1%, computed on the outstanding average balance of the loan portfolio.

At December 31, 2007 the outstanding balance of this portfolio amounts to \$1,096 (\$2,207 nominal in 2006).

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(d) Loan to the IPAB-

On May 5, 2005, a \$2,000 loan (nominal) was granted to the IPAB, maturing in 2012, with the right of prepayment. The loan bears interest at the 28-day TIE (Interbank Equilibrium Interest Rate) plus 0.25%; principal and interest are payable at maturity and monthly, respectively. During 2007 and 2006 the IPAB paid interest amounting to \$160 and \$161 (nominal), respectively. The loan is for debt refinancing in conformity with Article 2 of the Federal Revenue Law for fiscal 2005 and, since it does not arise from capitalization or cash flow schemes or participation in the program referred to in the fifth transitory article of the Bank Savings Protection Law, it is reported under "Loans to Government Entities" (see e. in this note).

(e) Loans to government entities-

At December 31, 2007 and 2006, loans granted to government entities are analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|---|------------------|---------------|
| Highway construction loan | \$ 5,078 | 5,546 |
| Loans to the Federal District government | — | 7,418 |
| Autonomous entity loan | 59 | 105 |
| Receivables under financial support programs | 259 | 289 |
| IPAB (see paragraph d. of this note) | 2,012 | 2,087 |
| UDI restructured loans for supporting Mexican states and municipalities | — | 201 |
| Governments, municipalities and state secretariats | <u>3,816</u> | <u>3,027</u> |
| Total loans to government entities | <u>\$ 11,224</u> | <u>18,673</u> |

Highway construction loan:

Granted for construction of highways, was assumed by the Mexican government in 1997 and restructured in bonds. Bonds are amortized on a quarterly basis, have a grace period of 10 years, mature on August 31, 2012 and began payment in November 2007 (the payment made in November 2007 amounted to \$266). At present, they earn interest at the simple arithmetic average of the rates prevailing at the latest 91-day CETE primary offers, published within the 28 calendar days prior to the beginning of the interest period.

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Loans to the Federal District government:

At December 31, 2006 the balance of loans to the Federal District government was comprised of five lines of credit, two of which, from March and August 2005 and through an amendment, paid fixed rates between 10% and 11% (variable rates between TIEE+ 0.20% and 0.40% prior to the amendment). The remaining three lines of credit bear variable interest rates between TIEE + 0.20% and TIEE + 0.40%. The aforementioned balances are as follows:

| <u>Starting date</u> | <u>Maturity date</u> | <u>Prepaid date</u> | |
|--|----------------------|---------------------|-----------------|
| September 18, 2001 | August 31, 2015 | August 31, 2007 | \$ 2,828 |
| November 30, 2002 | November 30, 2015 | August 31, 2007 | 2,348 |
| September 30, 2002 | September 30, 2016 | August 31, 2007 | 67 |
| November 28, 2002 | November 29, 2016 | August 31, 2007 | 1,140 |
| December 13, 2004 | December 31, 2011 | August 31, 2007 | 1,041 |
| Valuation effect of hedging swap (see note 8) | | | (6) |
| | | | <u>\$ 7,418</u> |

Mexican government 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").

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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, 2007 and 2006 amount to \$259 and \$289, respectively.

The Bank's cost associated with the various debtor support programs and agreements for the years ended December 31, 2007 and 2006 is as follows:

| | <u>2007</u> | <u>2006</u> |
|-----------------------|-------------|-------------|
| FOVI | \$ 18 | 32 |
| Residential mortgages | <u>15</u> | <u>16</u> |
| | \$ 33 | 48 |
| | == | == |

(f) 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. At December 31, 2007 and 2006, the outstanding balances of restructured loans under UDI Trusts are analyzed as follows:

| | <u>2007</u> | | <u>Average annual interest rate</u> |
|-----------------------|-----------------------|-----------------|---|
| | <u>Loan portfolio</u> | | |
| | <u>Current</u> | <u>Past due</u> | |
| Residential mortgages | \$ 1,207 | 144 | 8.49% |
| Loans to individuals | <u>58</u> | <u>8</u> | 9.23% |
| | \$ 1,265 | 152 | |
| | ==== | ==== | |

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| | <u>2006</u> | | <u>Average annual interest rate</u> |
|---------------------------|-----------------------|-----------------|---|
| | <u>Loan portfolio</u> | | |
| | <u>Current</u> | <u>Past due</u> | |
| States and municipalities | \$ 201 | - | 6.34% |
| Residential mortgages | 1,406 | 110 | 8.93% |
| Loans to individuals | <u>73</u> | <u>9</u> | 9.74% |
| | <u>\$ 1,680</u> | <u>119</u> | |

(g) Additional loan portfolio information-

Annual weighted lending rates:

Annual weighted loan interest rates during 2007 and 2006 were as follows:

| | <u>2007</u> | <u>2006</u> |
|-----------------------|-------------|-------------|
| Commercial loans* | 8.68% | 8.79% |
| Personal loans | 15.20% | 15.21% |
| Credit cards | 25.66% | 25.90% |
| Residential mortgages | 11.35% | 11.50% |

* Includes commercial, financial and government entities loans.

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., Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with recourse. At December 31, 2007 and 2006, the amount of loans granted under these programs aggregated \$4,411 and \$3,559, respectively, and the related liability is included in "Bank and other loans" (see note 15).

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Restructured loans:

At December 31, 2007 and 2006, restructured and renewed loans are analyzed as follows:

| | <u>Current loans</u> | <u>Past due loans</u> | <u>Total</u> |
|-----------------------|--------------------------|---------------------------|----------------------|
| <u>2007</u> | | | |
| Commercial loans | \$ 438 | 105 | 543 |
| Residential mortgages | 2,286 | 103 | 2,389 ⁽¹⁾ |
| Personal loans | <u>15</u> | <u>-</u> | <u>15</u> |
| | <u>\$ 2,739</u> | <u>208</u> | <u>2,947</u> |
| <u>2006</u> | | | |
| Commercial loans | \$ 160 | 106 | 266 |
| Residential mortgages | 1,386 | 10 | 1,396 ⁽¹⁾ |
| Personal loans | <u>15</u> | <u>-</u> | <u>15</u> |
| | <u>\$ 1,561</u> | <u>116</u> | <u>1,677</u> |

⁽¹⁾ From the total balance of restructured and renewed residential mortgage loans as of December 31, 2007 and 2006, \$1,465 and \$1,103, respectively, correspond to loans transferred from UDI trusts that expired in 2005. In performing the restructures, the Bank obtained additional guarantees that at December 31, 2005 amount to \$7,950.

During the years ended December 31, 2007 and 2006, no past due interest was capitalized.

Risk concentration:

At December 31, 2007, balances due from one individual debtor do not exceed 10% of the Bank's basic capital (one debtor in 2006). The balance of those loans as of December 31, 2006, is \$1,934, or 10% of the basic capital. The balance of the loans granted to the three largest debtors as of December 31, 2007 and 2006, amount to \$3,385 and \$3,948, respectively.

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Past due loan portfolio:

An analysis of past due loans at December 31, 2007 and 2006, from the date the loans went past due, is summarized below:

December 31, 2007

| | <u>90 to 180</u> <u>days</u> | <u>181 to 365</u> <u>days</u> | <u>1 to 2</u> <u>years</u> | <u>Over</u> <u>2 years</u> | <u>Total</u> |
|--------------------------|---------------------------------|----------------------------------|-------------------------------|-------------------------------|--------------|
| Commercial* | \$ 46 | 5 | 102 | 402 | 555 |
| Consumer | 931 | 142 | — | — | 1,073 |
| Residential mortgages | <u>552</u> | <u>317</u> | <u>123</u> | <u>124</u> | <u>1,116</u> |
| | <u>\$ 1,529</u> | <u>464</u> | <u>225</u> | <u>526</u> | <u>2,744</u> |

December 31, 2006

| | | | | | |
|--------------------------|---------------|------------|------------|------------|--------------|
| Commercial* | \$ 6 | 114 | 26 | 437 | 583 |
| Consumer | 555 | 74 | 3 | 1 | 633 |
| Residential mortgages | <u>353</u> | <u>184</u> | <u>155</u> | <u>76</u> | <u>768</u> |
| | <u>\$ 914</u> | <u>372</u> | <u>184</u> | <u>514</u> | <u>1,984</u> |

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

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The movement in the past due loan portfolio for the years ended December 31, 2007 and 2006 is summarized below:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------|-----------------|--------------|
| Balance at beginning of year | \$ 1,984 | 1,669 |
| Settlements | (55) | (109) |
| Write-offs and debt forgiveness | (1,384) | (918) |
| Net increase | 2,239 | 1,353 |
| Foreign exchange loss | (40) | (11) |
| Balance at end of year | \$ <u>2,744</u> | <u>1,984</u> |

Nominal interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2007 amounted to \$213 (\$192 in 2006).

Impaired loans:

The balance of impaired commercial loans as of December 31, 2007 and 2006 is \$796 and \$842, of which \$241 and \$260 are recorded in current loans, and \$555 and \$582 are past due loans, respectively.

(h) Allowance for loan losses-

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

At December 31, 2007 and 2006, the allowance for loan losses classified between general reserves and specific reserves according to the criteria mentioned in note 2(i), is as follows:

| <u>Loan portfolio</u> | <u>2007</u> | | <u>2006</u> | |
|-----------------------|-----------------|-----------------|----------------|-----------------|
| | <u>General</u> | <u>Specific</u> | <u>General</u> | <u>Specific</u> |
| Commercial* | \$ 184 | 891 | 186 | 1,032 |
| Consumer | 89 | 1,049 | 86 | 830 |
| Residential mortgages | <u>96</u> | <u>568</u> | <u>72</u> | <u>424</u> |
| | \$ <u>369</u> | <u>2,508</u> | <u>344</u> | <u>2,286</u> |
| | <u>\$ 2,877</u> | | <u>2,630</u> | |

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

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At December 31, 2007, 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 | \$ 12,791 | 17,762 | 27,535 | 58,088 |
| A-2 | 12,525 | - | - | 12,525 |
| B and B-1 | 8,104 | 1,287 | 3,215 | 12,606 |
| B-2 | 485 | - | - | 485 |
| B-3 | 145 | - | - | 145 |
| C and C-1 | 145 | 456 | 637 | 1,238 |
| C-2 | 67 | - | - | 67 |
| D | 2 | 790 | 548 | 1,340 |
| E | <u>414</u> | <u>142</u> | <u>17</u> | <u>573</u> |
| Total portfolio graded | <u>\$ 34,678</u> | <u>20,437</u> | <u>31,952</u> | <u>87,067</u> |
| <u>Allowance for loan losses</u> | | | | |
| A and A-1 | \$ 61 | 89 | 96 | 246 |
| A-2 | 123 | - | - | 123 |
| B and B-1 | 349 | 129 | 62 | 540 |
| B-2 | 38 | - | - | 38 |
| B-3 | 16 | - | - | 16 |
| C and C-1 | 53 | 205 | 121 | 379 |
| C-2 | 27 | - | - | 27 |
| D | 1 | 582 | 371 | 954 |
| E | <u>407</u> | <u>133</u> | <u>14</u> | <u>554</u> |
| Allowance for graded loans | <u>\$ 1,075</u> | <u>1,138</u> | <u>664</u> | <u>2,877</u> |
| Additional reserves for past due interest | | | | 47 |
| Operational risk reserve | | | | 29 |
| Additional identified reserves | | | | <u>223</u> |
| Total allowance for loan losses | | | | <u>\$ 3,176</u> |

* Includes commercial, financial institutions and government entities loans.

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At December 31, 2006, 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 | \$ 12,989 | 17,227 | 20,529 | 50,745 |
| A-2 | 13,142 | — | — | 13,142 |
| B and B-1 | 4,560 | 1,527 | 2,807 | 8,894 |
| B-2 | 1,172 | — | — | 1,172 |
| B-3 | 431 | — | — | 431 |
| C and C-1 | 577 | 435 | 428 | 1,440 |
| C-2 | 101 | — | — | 101 |
| D | 6 | 513 | 384 | 903 |
| E | <u>403</u> | <u>116</u> | <u>—</u> | <u>519</u> |
| Total portfolio graded | <u>\$ 33,381</u> | <u>19,818</u> | <u>24,148</u> | <u>77,347</u> |
| <u>Allowance for loan losses</u> | | | | |
| A and A-1 | \$ 64 | 86 | 72 | 222 |
| A-2 | 122 | — | — | 122 |
| B and B-1 | 203 | 153 | 57 | 413 |
| B-2 | 95 | — | — | 95 |
| B-3 | 122 | — | — | 122 |
| C and C-1 | 163 | 196 | 98 | 457 |
| C-2 | 40 | — | — | 40 |
| D | 6 | 371 | 269 | 646 |
| E | <u>403</u> | <u>110</u> | <u>—</u> | <u>513</u> |
| Allowance for graded loans | <u>\$ 1,218</u> | <u>916</u> | <u>496</u> | <u>2,630</u> |
| Past due interest additional reserves | | | | 30 |
| Global reserves | | | | <u>216</u> |
| Total allowance for loan losses | | | | <u>\$ 2,876</u> |

* Includes commercial, financial institutions and government entities loans.

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The movement in the allowance for loan losses for the years ended December 31, 2007 and 2006 (nominal) is summarized below:

| | <u>2007</u> | <u>2006</u> |
|---|-----------------|--------------|
| Balance at beginning of year | \$ 2,771 | 3,018 |
| Provisions charged to results of operations | 1,849 | 468 |
| Recoveries | — | 361 |
| Write-offs and debt forgiveness | (1,422) | (1,097) |
| Other | <u>(22)</u> | <u>21</u> |
| Subtotal | 3,176 | 2,771 |
| Adjustment for inflation | — | <u>105</u> |
| Balance at end of year | \$ <u>3,176</u> | <u>2,876</u> |

(i) Support programs for Tabasco and Chiapas-

Due to the October 2007 flooding in the Mexican States of Tabasco and Chiapas, the Bank provided support to its consumer and residential mortgage customers, as explained below:

- The monthly payments for November and December 2007 and January 2008 were deferred for consumer loans and upper and middle class residential mortgages that were in good standing or one month overdue.
- As for low-income residential mortgages, the Bank absorbed up to three monthly payments from November 2007 to January 2008, which were charged to the allowance for loan losses, based on the special accounting criteria set forth by the Banking Commission through an official letter issued on November 12, 2007. The amount absorbed by the Bank has not been material.

(10) Collection rights-

As a consequence of the purchase of the single issue instrument relating to the collection rights of the automobile loan portfolio placed in trust by a SOFOL, as explained in note 1a, at December 31, 2007 the Bank has acquired collection rights for \$3,227, of which it has collected \$132; therefore, the replaceable promissory note outstanding from December 14, 2007 to date amounts to \$3,095, which is presented under "Other receivables". Such promissory note matures on September 25, 2014 and earns interest at the Interbank Equilibrium Interest Rate (TIIE) plus 0.54 base points.

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The promissory note is valued through the interest method and the Bank determines monthly, based on the expected cash flow trends, if an allowance should be created for collection rights. According to the Bank's management estimates at December 31, 2007, no allowance is required.

As a result of this transaction, in the last quarter of 2007 the Bank recognized in income revenues for \$3 corresponding to the fee for the unused line of credit and restructuring as well as revenues for \$47 of interest earned, which are included in the consolidated statement of income under "Other income".

(11) Foreclosed assets-

At December 31, 2007 and 2006, foreclosed assets are analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|--|--------------|-------------|
| Premises | \$ 108 | 144 |
| Assets under enforceable promise to sell | 9 | 20 |
| Rent from foreclosed assets | — | (22) |
| Restatement for inflation | <u>3</u> | <u>—</u> |
| | 120 | 142 |
| Allowance for impairment | <u>(53)</u> | <u>(42)</u> |
| | <u>\$ 67</u> | <u>100</u> |

The movement of the allowance for impairment for the years ended December 31 2007 and 2006 (nominal) is analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|--|--------------|-------------|
| Balance at beginning of year | \$ 42 | 131 |
| Additional provisions due to passage of time, charged to operations for the year | 22 | 1 |
| Credit to income on sale of assets | (11) | — |
| Write-offs | <u>—</u> | <u>(91)</u> |
| Subtotal | 53 | 41 |
| Restatement for inflation | <u>—</u> | <u>1</u> |
| Balance at end of year | <u>\$ 53</u> | <u>42</u> |

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

Premises, furniture and equipment and leasehold improvements at December 31, 2007 and 2006 are analyzed as follows:

| | <u>2007</u> | <u>2006</u> | <u>Annual depreciation and amortization rate</u> |
|---|-----------------|----------------|--|
| Office premises | \$ 2,154 | 2,152 | Various |
| Office furniture and equipment | 791 | 715 | Various |
| Computer equipment | 817 | 792 | 30% |
| Transportation equipment | 44 | 41 | 25% |
| Telecommunication equipment | 148 | 141 | 5% |
| Leasehold improvements | 675 | 574 | Various |
| Construction in progress | <u>17</u> | <u>—</u> | |
| | 4,646 | 4,415 | |
| Accumulated depreciation and amortization | <u>(2,052)</u> | <u>(1,913)</u> | |
| | \$ <u>2,594</u> | <u>2,502</u> | |

Depreciation and amortization charged to results of operations in 2007 and 2006 amounted to \$190 and \$162, respectively.

(13) Permanent investments in shares-

At December 31, 2007 and 2006, permanent investments in shares, classified by activity, are analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|------------------------------|---------------|-------------|
| Derivatives market operators | \$ 33 | 362 |
| Security and protection* | 2 | 1 |
| Banking related services | 76 | 90 |
| Brokerage related services | 60 | 50 |
| Mutual funds | 31 | 30 |
| Other | <u>11</u> | <u>14</u> |
| | \$ <u>213</u> | <u>547</u> |

* As of December 31, 2007 and 2006, the Bank maintains a reserve for the totality of the shares of a company engaged in the transportation of securities.

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(14) Deposit funding-

The average weighted interest rates on deposit balances during the years ended December 31, 2007 and 2006 are as follows:

| | <u>2007 Rates</u> | | <u>2006 Rates</u> | |
|------------------|-------------------|----------------|-------------------|----------------|
| | <u>Pesos</u> | <u>Dollars</u> | <u>Pesos</u> | <u>Dollars</u> |
| Demand deposits | 1.90% | 1.26% | 1.86% | 1.31% |
| Savings deposits | 0.55% | - | 0.55% | - |
| Time deposits | 6.13% | 2.63% | 6.16% | 2.59% |
| Money market | 7.13% | - | 7.34% | - |

As a result of the bank debt certificates program authorized by the Banking Commission up to \$10,000, at December 31, 2007 the Bank has placed \$2,000 of 5-year certificates that pay interest every 28 days at a variable 28-day TIE rate less 0.09%, \$2,000 of 3-year certificates that pay interest every 28 days at a variable 28-day TIE rate plus 0.04%, \$1,500 of 5-year certificates that pay interest every 28 days at a variable 28-day TIE rate plus 0.11%; \$400 of 10-year certificates that pay interest every six months at the fixed rate of 9.89% and \$300 of 13-year certificates that pay interest at a fixed rate of 9.75%. At December 31, 2007, the accrued interest payable amounts to \$36, (\$25 in 2006).

At December 31, 2007 and 2006, the money market funding consists primarily of Mexican peso promissory notes with interest payable at maturity and terms ranging from 1 to 360 days and CEDES time deposits with maturities of 56 days.

(15) Bank and other loans-

At December 31, 2007 and 2006, bank and other loans are analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|---|-----------------|--------------|
| <u>Due on demand and short-term:</u> | | |
| Pesos: | | |
| Banco de México ⁽¹⁾ | \$ 180 | 779 |
| Private domestic banks | - | 841 |
| Development banks ⁽²⁾ | 477 | 495 |
| Development agencies ⁽²⁾ | 867 | 1,025 |
| Accrued interest | <u>6</u> | <u>6</u> |
| Total pesos, due on demand and short-term, carried forward | \$ <u>1,530</u> | <u>3,146</u> |

⁽¹⁾ At December 31, 2007 and 2006, loans from Banco de México had average maturities of 22 and 25 days, respectively.

⁽²⁾ Development funds (see note 9g.)

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| | <u>2007</u> | <u>2006</u> |
|---|------------------------|---------------------|
| Total pesos, due on demand and short-term, brought forward | \$ <u>1,530</u> | <u>3,146</u> |
| Denominated in dollars: | | |
| Foreign banks | — | 5 |
| Development agencies ⁽²⁾ | 75 | 63 |
| Accrued interest | <u>1</u> | <u>6</u> |
| | <u>76</u> | <u>74</u> |
| Total due on demand and short-term | <u>1,606</u> | <u>3,220</u> |
| <u>Long-term:</u> | | |
| Pesos: | | |
| Development banks ⁽²⁾ | 340 | 475 |
| Development agencies ⁽²⁾ | <u>2,642</u> | <u>2,412</u> |
| | <u>2,982</u> | <u>2,887</u> |
| Denominated in dollars: | | |
| Foreign banks | 5 | 6 |
| Development banks – interbank ⁽³⁾ | <u>—</u> | <u>224</u> |
| | <u>5</u> | <u>230</u> |
| Total long-term | <u>2,987</u> | <u>3,117</u> |
| Total bank and other loans | \$ <u><u>4,593</u></u> | <u><u>6,337</u></u> |

⁽²⁾ Development funds (see note 9g.).

⁽³⁾ At December 31, 2006, the balance relates to a 20 million dollar loan from Bancomext, maturing in August 2007, bearing interest at the 6-month LIBOR rate plus 1.5%, plus points equivalent to the income tax rate, payable semi-annually in February and August.

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Due to the operating characteristics of the interbank loans made to the Bank, 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 daily agreed upon by the lender, at December 31, 2007 and 2006, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

At December 31, 2007 and 2006, bank and other loans average annual interest rates are as follows:

| | 2007 Rates | | 2006 Rates | |
|----------------------|------------|---------------------|------------|---------------------|
| | Pesos | Foreign currency | Pesos | Foreign currency |
| Banco de México | 7.51% | - | 7.17% | - |
| Development banks | 10.99% | - | 10.21% | 7.32% |
| Development agencies | 7.06% | 5.72% | 5.77% | 5.66% |
| Foreign banks | - | - | - | 5.98% |
| Others | - | 5.92% | - | 5.98% |

(16) Pensions, seniority premiums and post-retirement benefits and obligations for payments upon termination of labor relationship-

Effective April 1, 2006, the Bank, the Brokerage Firm, the Mutual Fund Management Company and the Afore (the subsidiaries) established a defined contribution pension and post-retirement plan, comprising all employees who join the entities after that date. The plan is optional for employees who joined the entities on a date prior to the plan's coming into effect. Such plan provides for pre-established contributions by the entities and the employees, which the employee may fully withdraw upon reaching the age of 55.

The present benefit obligation amount transferred from the defined benefits plan to the defined contribution plan by the employees who chose to do so in 2006 was \$295 and the result from the extinction and reduction of the defined benefits obligation of \$3 was recognized as an extraordinary loss in the consolidated statement of income.

For the years ended as of December 31, 2007 and 2006, the charge to income corresponding to the entities' contributions in connection with the defined contribution plan amounted to \$46 and \$42, respectively.

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The Bank and the Brokerage Firm continue with the defined benefit pension plan for the employees who opted not to change to the new defined contribution plan, which is based on years of service and the employee's compensation during the two years before retirement.

The cost, obligations and assets of the defined benefit plans: pension, seniority premiums, post-retirement medical benefits, life insurance and food coupons of retirees were determined based on calculations prepared by independent actuaries as of December 31, 2007 and 2006 and are presented in nominal values as follows:

The components of the net period cost, at nominal value, for the years ended December 31, 2007 and 2006 are as follows:

| | <u>Pensions</u> | <u>Seniority premiums</u> | <u>Post retirement, medical benefits, food vouchers & life insurance</u> |
|---|-----------------|-------------------------------|--|
| <u>2007</u> | | | |
| Service cost | \$ 27 | 6 | 56 |
| Interest cost | 58 | 3 | 68 |
| Return on plan assets | (62) | (3) | (52) |
| Amortization of transition obligations | - | - | (7) |
| Prior service cost and plan modifications | - | - | (3) |
| Variances in assumptions and experience | <u>-</u> | <u>-</u> | <u>36</u> |
| Net periodic cost | <u>\$ 23</u> | <u>6</u> | <u>98</u> |
| <u>2006</u> | | | |
| Service cost | \$ 38 | 5 | 41 |
| Interest cost | 67 | 3 | 57 |
| Return on plan assets | (78) | (3) | (55) |
| Amortization of transition obligations | - | - | (6) |
| Prior service cost and plan modifications | - | - | (2) |
| Variances in assumptions and experience | <u>-</u> | <u>-</u> | <u>20</u> |
| Net periodic cost | <u>\$ 27</u> | <u>5</u> | <u>55</u> |

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At December 31, 2007, benefit obligations are analyzed as follows (nominal):

| | <u>Pensions</u> | <u>Seniority premiums</u> | <u>Post retirement, medical benefits, food vouchers & life insurance</u> |
|--|-----------------|-------------------------------|--|
| Projected benefit obligations (PBO) | \$ 1,701 | 92 | 1,956 |
| Plan assets at market value | <u>(1,659)</u> | <u>(110)</u> | <u>(1,489)</u> |
| PBO in excess of (less than) plan assets | 42 | (18) | 467 |
| Unamortized items: | | | |
| Prior service cost and plan modifications | (3) | (2) | 53 |
| Variances in assumptions and experience | (56) | 9 | (811) |
| Unamortized transition asset | <u>—</u> | <u>—</u> | <u>109</u> |
| Net projected asset | <u>\$ (17)</u> | <u>(11)</u> | <u>(182)</u> |
| Present benefit obligations: | | | |
| Vested | \$ 1,062 | 82 | |
| Unvested | <u>584</u> | <u>11</u> | |
| | 1,646 | 93 | |
| Plan assets | <u>(1,659)</u> | <u>(110)</u> | |
| Net assets | <u>\$ (13)</u> | <u>(17)</u> | |

As of December 31, 2007, the additional liability for additional post-retirement benefits relates to the Bank's pension plan, and is analyzed as follows (nominal):

| | |
|-----------------------------------|-------------|
| Additional liability | \$ 11 |
| Intangible asset | <u>(3)</u> |
| Reduction in stockholders' equity | <u>\$ 8</u> |

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At December 31, 2006, benefit obligations are analyzed as follows (nominal):

| | <u>Pensions</u> | <u>Seniority premiums</u> | <u>Post retirement, medical benefits, food vouchers & life insurance</u> |
|---|-----------------|-------------------------------|--|
| Projected benefit obligations (PBO) | \$ 1,571 | 75 | 1,398 |
| Plan assets at market value | <u>(1,550)</u> | <u>(74)</u> | <u>(1,202)</u> |
| PBO in excess of plan assets | 21 | 1 | 196 |
| Unamortized items: | | | |
| Prior service cost and plan modifications | (4) | (1) | 48 |
| Variances in assumptions and experience | (57) | (2) | (451) |
| Unamortized transition asset | <u>—</u> | <u>—</u> | <u>124</u> |
| Net projected asset | \$ <u>(40)</u> | <u>(2)</u> | <u>(83)</u> |
| Present benefit obligations : | | | |
| Vested | \$ 998 | 61 | |
| Unvested | <u>542</u> | <u>14</u> | |
| | 1,540 | 75 | |
| Plan assets | <u>(1,550)</u> | <u>(74)</u> | |
| Net (asset) liability | \$ <u>(10)</u> | <u>1</u> | |

At December 31, 2006, the additional liability from the Bank's additional benefits upon retirement is analyzed below (nominal):

| | <u>Pensions</u> | <u>Seniority premiums</u> |
|-----------------------------------|-----------------|-------------------------------|
| Additional liability | \$ 36 | 5 |
| Intangible asset | <u>(3)</u> | <u>(2)</u> |
| Reduction in stockholders' equity | \$ 33 | 3 |
| | == | == |

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Below is an analysis of the funds maintained to meet the labor obligations for the years ended December 31, 2007 and 2006 (nominal):

| | <u>2007</u> | <u>2006</u> |
|---|-----------------|--------------|
| Balance at beginning of year | \$ 2,981 | 3,029 |
| Contributions to the fund | 221 | 88 |
| Return on plan assets | 220 | 308 |
| Transfer to the defined contribution plan | — | (284) |
| Payments made | <u>(164)</u> | <u>(160)</u> |
| Balance at year end | <u>\$ 3,258</u> | <u>2,981</u> |

At December 31, 2007 and 2006, statutory severance liabilities are analyzed as follows (nominal):

| | <u>2007</u> | <u>2006</u> |
|--|---------------|--------------|
| PBO | \$ 286 | 294 |
| Unamortized items: | | |
| Variances in assumptions and experience | 22 | 1 |
| Prior service cost and plan modifications | — | (13) |
| Transition liability | <u>(207)</u> | <u>(232)</u> |
| Net projected liability | <u>\$ 101</u> | <u>50</u> |
| Statutory severance obligations and net liability | <u>\$ 272</u> | <u>251</u> |
| Intangible asset and additional liability | <u>\$ 171</u> | <u>201</u> |

The net severance period cost for the years December 31, 2007 and 2006 amounted to \$65 and \$64 (nominal), respectively.

Rates used in the actuarial projections for the years ended December 31, 2007 and 2006 are:

| | <u>2007</u> | <u>2006</u> |
|----------------------------------|-------------|-------------|
| Yield on plan assets | 4.75% | 5.00% |
| Discount rate | 4.00% | 4.50% |
| Rate of increase in compensation | 1.25% | 1.00% |
| Medical expenses increase rate | 3.00% | 3.00% |
| Estimated inflation rate | 4.00% | 3.50% |

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The amortization periods (years) for unamortized items are as follows:

| | <u>Pensions</u> | <u>Seniority premiums</u> | <u>Post retirement, medical benefits, food vouchers & life insurance</u> | <u>Severance liability</u> |
|--------------------------------------|-------------------|-------------------------------|--|--------------------------------|
| Bank | 10.87 | 7.70 | 15.78 | 7.69 |
| Brokerage firm | 16.98 | 11.84 | 12.42 | 10.84 |
| Mutual Fund Management Company | — | 12.02 | 20.85 | 10.97 |
| Afore | — | 9.55 | 18.13 | 9.74 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

(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 Bank's 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.

At December 31, 2007 and 2006, principal balances with related parties are for bank loans granted of \$219 and \$603, respectively, and bank loans received of \$3 in 2006. Principal income and expense items arising from related-party transactions for the years ended December 31, 2007 and 2006 were the interest earned and payable on these loans.

(18) Income tax (IT), asset tax (AT), and employee statutory profit sharing (ESPS)-

Under current Mexican tax law, corporations must pay the greater of IT or AT. For determining taxable income for IT purposes, there are specific rules relating to the deductibility of expenses and the recognition of the effects of inflation.

On May 19, 2004, the Bank, the Brokerage firm and the Mutual Fund Management Company were awarded a favorable court ruling on a proceeding with respect to articles 16 and 17, last paragraph of the IT Law passed in 2002. Accordingly, they may use the same taxable income for employee statutory profit sharing as that used for IT determination purposes.

The AT Law provides for a 1.25% (1.80% in 2006) tax rate on assets (less certain liabilities in 2006). 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. For the year ended December 31, 2006 and given its uncertain recovery, the Bank's AT, amounting to \$23 (nominal) was charged to income of such year. For the year ended December 31, 2007, the Bank's IT payable exceeded the AT; therefore, the Bank was entitled to recover \$184 of AT paid in excess of IT in prior years, which was recognized under "Other income".

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Current IT, AT and ESPS expense:

The current IT, AT and ESPS expense in the consolidated statement of income for the years ended December 31, 2007 and 2006, is analyzed as follows:

| | <u>2007</u> | | <u>2006</u> | |
|---|---------------|-------------|--------------|-------------|
| | <u>Taxes</u> | <u>ESPS</u> | <u>Taxes</u> | <u>ESPS</u> |
| Bank and subsidiaries (IT for \$239 in 2007, and AT and IT for \$23 and \$18 in 2006, respectively) | \$ 239 | 382 | 41 | 252 |
| Brokerage firm (IT) | 116 | 35 | 66 | 24 |
| Mutual Fund Management Company (IT) | 11 | 4 | 4 | 1 |
| Restatement for inflation | <u>4</u> | <u>7</u> | <u>8</u> | <u>21</u> |
| | <u>\$ 370</u> | <u>428</u> | <u>119</u> | <u>298</u> |
| | <u>\$ 798</u> | | <u>417</u> | |

Deferred IT and ESPS:

The deferred tax asset at December 31, 2007 and 2006 comprises the following:

| | <u>2007</u> | | <u>2006</u> | |
|---|---------------|-------------|-------------|-------------|
| | <u>IT</u> | <u>ESPS</u> | <u>IT</u> | <u>ESPS</u> |
| Valuation of financial instruments: | | | | |
| Trading | \$ 5 | 2 | 15 | 6 |
| Available-for-sale | (31) | (11) | (74) | (26) |
| Cash flow hedge swaps | (5) | (1) | — | — |
| Expense accruals and others | 248 | 88 | 156 | 27 |
| Premises, furniture and equipment | (138) | 50 | (165) | 39 |
| Unearned fees collected | 135 | 49 | 99 | 36 |
| Pension plan | (32) | (11) | (2) | (1) |
| Foreclosed assets | 147 | 52 | 17 | 6 |
| Allowance for loan losses | 148 | 53 | — | — |
| Warrants loss | 39 | — | — | — |
| Tax loss carryforwards | 19 | — | 2 | — |
| Recognition of additional liability for labor obligations | <u>—</u> | <u>—</u> | <u>10</u> | <u>4</u> |
| | 535 | 271 | 58 | 91 |
| Valuation allowance | <u>—</u> | <u>—</u> | <u>(2)</u> | <u>—</u> |
| | <u>\$ 535</u> | <u>271</u> | <u>56</u> | <u>91</u> |
| | <u>\$ 806</u> | | <u>147</u> | |

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Deferred IT and ESPS credits (charges) to results of operations and stockholders' equity, for the years ended December 31, 2007 and 2006 are presented below:

| | <u>2007</u> | | <u>2006</u> | |
|---|---------------|-------------|-------------|-------------|
| | <u>IT</u> | <u>ESPS</u> | <u>IT</u> | <u>ESPS</u> |
| Valuation of financial instruments | \$ 28 | 10 | - | - |
| Expense accruals and others | 92 | 61 | (54) | (18) |
| Premises, furniture and equipment | 27 | 11 | 25 | 10 |
| Unearned fees collected | 36 | 13 | 19 | 8 |
| Pension plan | (30) | (10) | - | - |
| Foreclosed assets | 130 | 46 | (43) | (15) |
| Allowance for loan losses | 148 | 53 | - | - |
| Warrants loss | 39 | - | - | - |
| Tax loss carryforwards | 17 | - | - | - |
| Recognition of additional liability for labor obligations | <u>(10)</u> | <u>(4)</u> | <u>9</u> | <u>4</u> |
| | 477 | 180 | (44) | (11) |
| Decrease in valuation allowance | <u>2</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 479</u> | <u>180</u> | <u>(44)</u> | <u>(11)</u> |
| | <u>\$ 659</u> | | <u>(55)</u> | |

| | <u>2007</u> | | | <u>2006</u> | | |
|---|---------------|-------------|--------------|-------------|-------------|--------------|
| | <u>IT</u> | <u>ESPS</u> | <u>Total</u> | <u>IT</u> | <u>ESPS</u> | <u>Total</u> |
| Deferred tax: | | | | | | |
| In results of operations | \$ 451 | 170 | 621 | (34) | (8) | (42) |
| In stockholders' equity: | | | | | | |
| Result from valuation of available-for-sale securities | 43 | 15 | 58 | (19) | (7) | (26) |
| Recognition of additional liability for labor obligations | (5) | (1) | (6) | 9 | 4 | 13 |
| Valuation of cash flow hedge swaps | <u>(10)</u> | <u>(4)</u> | <u>(14)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 479</u> | <u>180</u> | <u>659</u> | <u>(44)</u> | <u>(11)</u> | <u>(55)</u> |

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Other considerations:

According to the IT Law, tax losses, restated for inflation, may be carried forward to offset the taxable income of the ten succeeding years. At December 31, 2007, there are tax loss carryforwards which originated from 1996 through 1999. However, as a result of the agreement between the Bank of Nova Scotia ("BNS") and IPAB, the Bank shall not benefit from tax losses sustained in 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 carryforwards of such tax losses, the IPAB will be paid an amount similar to the economic benefit received.

For the years ended December 31, 2007 and 2006, tax loss carryforwards of \$3,095 and \$2,335 (nominal), respectively, were utilized which resulted in tax benefits of \$867 and \$677 (nominal) respectively, reported in the statement of income as a reduction of current income tax expense. During fiscal 2007, the Bank finished carrying forward the net operating losses to which it was entitled.

As of December 31, 2007 and 2006, deferred tax assets for tax loss carryforwards of the Group as an individual taxpayer were not recognized due to uncertainty as to their realizability, nor was a deferred tax liability recognized related to undistributed earnings of subsidiary companies, as such undistributed earnings are not currently expected to be taxable in the near future.

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 prices, since such prices must be equivalent to those that would be used in arm's-length transactions.

On October 1, 2007 new laws were published, a number of tax laws were revised, and additionally a presidential decree was issued on November 5, 2007, which will come into effect on January 1, 2008. The most important changes are: (i) derogation of the Asset Tax Law and (ii) the introduction of a new tax (Flat Rate Business Tax or IETU) which is based on cash flows and limits certain deductions; additionally, certain tax credits are granted mainly with respect to inventories, salaries taxed for IT purposes and social security contributions, tax losses arising from accelerated deductions, recoverable asset tax, and deductions related to investments in fixed assets, deferred charges and expenses. The IETU rate will be 16.5% in 2008, 17% in 2009 and 17.5% in 2010 and thereafter.

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Accordingly, the Group and its subsidiaries will continue determining and paying the IT payable in the year and should the IETU payable for the same year exceed the IT, the IT actually paid may be offset against the IETU and the excess should be paid. In the cases where IETU is payable, its payment will be considered final i.e. not subject to recovery in subsequent years (with certain exceptions). However, based on financial projections prepared by the management of the Group and its subsidiaries, it is not likely that IETU will be payable in 2008; therefore, deferred taxes at December 31, 2007 were determined based on IT.

(19) Stockholders' equity-

(a) Structure of capital stock-

As of December 31, 2007 and 2006, 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.

(b) Dividends-

At the Annual Ordinary General Stockholders' Meeting held on April 27, 2007, the stockholders agreed the following:

- A maximum payment of cash dividends of \$1,700 nominal, to be charged to retained earnings, at the rate of \$0.56 pesos per share.
- 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% and 45% of net income for the quarter.

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Cash payments (nominal) made in the period from April to December 2007 are detailed below:

| <u>Payment date</u> | | |
|---------------------|----|------------|
| May 9, 2007 | \$ | 287 |
| June 11, 2007 | | 173 |
| August 31, 2007 | | 199 |
| November 30, 2007 | | <u>229</u> |
| | \$ | <u>888</u> |

At December 31, 2007, the balance of dividends declared but not yet paid of \$812 (nominal) is presented in the consolidated balance sheet under "Sundry creditors and other accounts payable".

(c) Comprehensive income-

The comprehensive income reported in the consolidated statement of changes in stockholders' equity represents the results of the total performance of the Group and subsidiaries during the year, and includes the net income, plus the result of the valuation of available-for-sale securities, cash flow hedge transactions (in 2007) and of non-monetary assets (premises, furniture and equipment and permanent investments in shares), and the adjustment for labor obligations upon retirement.

(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 Corporation Law, five percent 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.

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At December 31, 2007, stockholder contributions restated as provided for by the tax law aggregate \$5,989, and may be reimbursed to the stockholders tax-free, to the extent that the tax basis of such contributions equals or exceeds stockholders' equity.

Distributions in excess of the tax basis retained earnings (CUFIN) account, which at December 31, 2007 amounts to \$3,654, are subject to income tax, payable by the Holding Company on behalf of the stockholders.

The retained earnings of subsidiaries may not be distributed to the Holding Company's stockholders until these are received by way of dividends from the subsidiaries. Also, unrealized gains from the valuation of investments in securities and derivative financial instruments may not be distributed until realized.

(e) Capitalization-

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. Information relating to the Bank's capitalization follows:

Capital as of December 31:

| | <u>2007</u> | <u>2006</u> |
|--|--------------------|------------------|
| Stockholders' equity | \$ 22,095.5 | 20,125.7 |
| Investments in financial service entities and their holding companies | (323.2) | (392.1) |
| Investments in other companies | - | (15.7) |
| Intangible assets and deferred taxes | <u>(1,375.6)</u> | <u>(1,011.3)</u> |
| Basic capital (Tier 1) | 20,396.7 | 18,706.6 |
| General loan loss allowance – Supplementary capital (Tier 2) | <u>369.4</u> | <u>344.7</u> |
| Net capital (Tier 1 + Tier 2) | <u>\$ 20,766.1</u> | <u>19,051.3</u> |

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Assets at risk as of December 31, 2007:

| | Risk weighted assets | Capital requirement |
|--|-------------------------------------|--------------------------------|
| <u>Market risk:</u> | | |
| Transactions in Mexican pesos at nominal interest rates | \$ 18,954.2 | 1,516.3 |
| Transactions with debt securities in pesos with premium and adjustable rates | 1,237.8 | 99.0 |
| Transactions in Mexican pesos at real interest rates or denominated in UDIS | 1,169.7 | 93.6 |
| Positions in UDIS or with returns linked to the INPC | 5.7 | 0.5 |
| Foreign currency transactions at nominal interest rates | 344.2 | 27.5 |
| Foreign currency positions or with exchange rate indexed returns | 1,092.9 | 87.4 |
| Equity positions or with returns indexed to the price of a single share or group of shares | <u>481.2</u> | <u>38.5</u> |
| Total market risk | <u>23,285.7</u> | <u>1,862.8</u> |
| <u>Credit risk:</u> | | |
| Group II (weighted at 20%) | 4,250.9 | 340.1 |
| Group II Other (weighted at 10%) | 28.1 | 2.2 |
| Group III (weighted at 100%) | 91,605.3 | 7,328.4 |
| Group III Other (weighted at 112%) | <u>1,379.1</u> | <u>110.3</u> |
| Total credit risk | <u>97,263.4</u> | <u>7,781.0</u> |
| Total market and credit risk | <u>\$ 120,549.1</u> | <u>9,643.8</u> |

Capitalization indices as of December 31:

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|--------------------|--------------------|
| <u>Capital to credit risk assets:</u> | | |
| Basic capital (Tier 1) | 20.97% | 23.62% |
| Supplementary capital (Tier 2) | <u>0.38%</u> | <u>0.44%</u> |
| Net capital (Tier 1 + Tier 2) | <u>21.35%</u> | <u>24.06%</u> |

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| | <u>2007</u> | <u>2006</u> |
|---|---------------|---------------|
| Capital to market and credit risk assets: | | |
| Basic capital (Tier 1) | 16.92% | 16.72% |
| Supplementary capital (Tier 2) | <u>0.31%</u> | <u>0.31%</u> |
| Net capital (Tier 1 + Tier 2) | <u>17.23%</u> | <u>17.03%</u> |

Capital adequacy is monitored by the Risk Area through capitalization index projection which considers 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.

At December 31, 2007, the net capital structure of \$20,766 increased 13% from \$18,353 (nominal) in 2006, mainly due to the year's results of operations in the Bank.

(20) Memorandum accounts-

Transactions on behalf of third parties-

(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.

Funds under management at December 31, 2007 and 2006 are as follows:

| | <u>2007</u> | <u>2006</u> |
|-----------------------|-------------------|----------------|
| Mutual funds | \$ 22,316 | 18,651 |
| Government securities | 45,426 | 49,790 |
| Equities and other | <u>104,050</u> | <u>103,630</u> |
| | <u>\$ 171,792</u> | <u>172,071</u> |

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Securities received as collateral at December 31, 2007 and 2006 are analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|--|-----------------|--------------|
| Government securities | \$ 670 | 1,114 |
| Fixed-income debt securities | 74 | 277 |
| Shares and certificates of holding companies | 575 | 620 |
| Mutual fund shares | 125 | 16 |
| Cash | <u>54</u> | <u>23</u> |
| | <u>\$ 1,498</u> | <u>2,050</u> |

(b) Customer securities under repurchase/resell agreements-

At December 31, 2007 and 2006, customer securities under repurchase/resell agreements are as follows:

| | <u>2007</u> | | <u>2006</u> | |
|---------|-------------------------------|-------------------|-------------------------------|-------------------|
| | <u>Number of certificates</u> | <u>Fair value</u> | <u>Number of certificates</u> | <u>Fair value</u> |
| Bpas | 63,251,788 | \$ 6,336 | 90,252,683 | \$ 9,366 |
| Bpat | 49,428,141 | 4,954 | 52,177,612 | 5,426 |
| Brem | - | - | 39,654,375 | 4,123 |
| Cbpc | 3,723,918 | 371 | - | - |
| Cbur | 13,097,549 | 1,445 | 10,963,912 | 1,124 |
| Cete | 315,258,697 | 3,065 | 543,924,772 | 5,460 |
| Ipas | 16,016,503 | 1,615 | 12,201,083 | 1,267 |
| LS | 14,772,269 | 1,512 | 35,475,545 | 3,747 |
| Mbon | 19,988,803 | 2,101 | 11,907,824 | 1,419 |
| Prlv | 2,904,496,933 | 2,865 | 2,658,235,385 | 2,732 |
| Udibono | 131,281 | 60 | 1,752,659 | 780 |
| LBon | 103,340,317 | <u>10,346</u> | 35,561,124 | <u>3,681</u> |
| | | <u>\$ 34,670</u> | | <u>\$ 39,125</u> |

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(c) Investments on behalf of customers-

As of December 31, 2007 and 2006, 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>2007</u> | <u>2006</u> |
|--|------------------|---------------|
| Equities | \$ 2,026 | 1,038 |
| Government securities | 29,981 | 37,675 |
| Mutual funds | 15,294 | 10,324 |
| Bank securities not issued by the Bank | <u>8,587</u> | <u>442</u> |
| | <u>\$ 55,888</u> | <u>49,479</u> |

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

Transactions for own account-

(d) Irrevocable lines of credit and guarantees issued-

At December 31, 2007, the Bank had irrevocable commitments to grant loans for \$1,163, and had issued guarantees for \$1,621 (\$1,260 and \$1,171, respectively, in 2006).

Allowances created at December 31, 2007 and 2006 for letters of credit and guarantees amount to \$21 and \$26, respectively, and are included in the allowance for loan losses.

(e) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2007 and 2006, is analyzed on the next page.

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| | <u>2007</u> | <u>2006</u> |
|----------------|------------------|---------------|
| Trusts: | | |
| Administrative | \$ 77,521 | 66,128 |
| Guarantee | 3,201 | 5,047 |
| Investment | <u>446</u> | <u>3,414</u> |
| | 81,168 | 74,589 |
| Mandates | <u>554</u> | <u>591</u> |
| | <u>\$ 81,722</u> | <u>75,180</u> |

Trust revenue for the years ended December 31, 2007 and 2006 amounted to \$140 and \$142, respectively.

(f) Assets in custody-

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, 2007 and 2006, the assets in custody are analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|----------------|
| Securities in custody: | | |
| Securities | \$ 21 | 16 |
| General | 337 | 652 |
| Investment | 590 | 458 |
| Securities management | 936 | 796 |
| Other | <u>2,237</u> | <u>983</u> |
| | <u>4,121</u> | <u>2,905</u> |
| Securities in guarantee | <u>45,056</u> | <u>44,403</u> |
| Securities under management: | | |
| Securities | 116,399 | 102,653 |
| Other | <u>3,031</u> | <u>2,945</u> |
| | <u>119,430</u> | <u>105,598</u> |
| Transactions with derivative financial instruments on behalf of third parties: | | |
| Futures | 238,288 | 500,495 |
| Options | <u>(3)</u> | <u>2</u> |
| | 238,285 | 500,497 |
| Securities delivered in custody | <u>9,610</u> | <u>6,774</u> |
| | <u>\$ 416,502</u> | <u>660,177</u> |

Income arising from securities in custody for the years ended December 31, 2007 and 2006 amounts to \$44 and \$37, respectively.

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(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), treasury (securities, derivatives and currency transactions) and investment services. For the years ended December 31, 2007 and 2006, income by segment is analyzed as follows:

| | <u>Credit and services</u> | <u>Treasury</u> | <u>Investment services</u> | <u>Total</u> |
|--|--------------------------------|-----------------|--------------------------------|-----------------|
| <u>2007</u> | | | | |
| Interest income, net | \$ 6,770 | 1,670 | 295 | 8,735 |
| Commissions and fee income, net, financial intermediation income and other income, net | <u>4,260</u> | <u>737</u> | <u>606</u> | <u>5,603</u> |
| Operating revenues | <u>11,030</u> | <u>2,407</u> | <u>901</u> | 14,338 |
| Monetary position loss | | | | (658) |
| Provision for loan losses | | | | (1,849) |
| Administrative and promotional expenses | | | | <u>(7,637)</u> |
| Income before taxes, ESPS, and equity in results of operations of subsidiary and associated companies | | | | 4,194 |
| Current and deferred taxes and ESPS, net | | | | (177) |
| Equity in the results of operations of subsidiary and associated companies, net | | | | <u>36</u> |
| Net income | | | | \$ <u>4,053</u> |

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| | <u>Credit and services</u> | <u>Treasury</u> | <u>Investment services</u> | <u>Total</u> |
|--|--------------------------------|-----------------|--------------------------------|---------------------|
| <u>2006</u> | | | | |
| Interest income, net | \$ 6,211 | 1,502 | 205 | 7,918 |
| Commissions and fee income, net, financial intermediation income and other income, net | <u>3,503</u> | <u>633</u> | <u>645</u> | <u>4,781</u> |
| Operating revenues | <u>9,714</u> | <u>2,135</u> | <u>850</u> | 12,699 |
| Monetary position loss | | | | (579) |
| Provision for loan losses | | | | (486) |
| Administrative and promotional expenses | | | | <u>(7,103)</u> |
| Income before taxes, ESPS, and equity in results of operations of subsidiary and associated companies, and extraordinary item | | | | 4,531 |
| Current and deferred taxes and ESPS, net | | | | (459) |
| Equity in the results of operations of subsidiary and associated companies, net | | | | 74 |
| Extraordinary loss on the early reduction of labor obligations | | | | <u>(3)</u> |
| Net income | | | \$ 4,143 | <u><u>4,143</u></u> |

(b) Financial margin-

For the years ended December 31, 2007 and 2006, the financial margin consists of the following elements:

Interest income:

Interest income (nominal) for the years ended December 31, 2007 and 2006 is analyzed as follows:

| | <u>2007</u> | <u>2006</u> |
|--|-------------------------|----------------------|
| Cash and cash equivalents | \$ 1,357 | 1,314 |
| Investment securities | 1,398 | 448 |
| Interest and premiums collected on securities purchased under agreements to resell | 8,552 | 9,332 |
| Loan portfolio | 10,264 | 9,364 |
| Other, including restatement for inflation | <u>474</u> | <u>1,316</u> |
| | \$ <u><u>22,045</u></u> | <u><u>21,774</u></u> |

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An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2007 and 2006 (nominal):

| | <u>2007</u> | | <u>2006</u> | |
|------------------------|------------------|------------------|----------------|-----------------|
| | <u>Current</u> | <u>Past due</u> | <u>Current</u> | <u>Past due</u> |
| Commercial | \$ 2,174 | 29 | 2,351 | 24 |
| Financial institutions | 259 | - | 350 | - |
| Consumer | 3,432 | 43 | 3,004 | 28 |
| Residential mortgages | 3,063 | 12 | 2,043 | 108 |
| Government entities | 1,252 | - | 1,455 | - |
| Other past due debt | - | - | - | 1 |
| | <u>\$ 10,180</u> | <u>84</u> | <u>9,203</u> | <u>161</u> |
| | | <u>\$ 10,264</u> | | <u>9,364</u> |

For the years ended December 31, 2007 and 2006, consumer loan interest income includes fees that represent a yield adjustment of \$0.3 and \$0.7, respectively.

For the years ended December 31, 2007 and 2006, total interest income includes interest denominated in foreign currency amounting to 66 and 123 million dollars, respectively.

Interest expense:

Interest expense (nominal) for the years ended December 31, 2007 and 2006 is comprised of the following:

| | <u>2007</u> | <u>2006</u> |
|---|------------------|---------------|
| Demand deposits | \$ 785 | 714 |
| Time deposits | 2,907 | 3,111 |
| Bank bonds | 366 | 309 |
| Bank and other loans | 435 | 549 |
| Interest and premiums paid on securities sold under agreements to repurchase | 8,521 | 8,298 |
| Other, including restatement for inflation | <u>296</u> | <u>875</u> |
| | <u>\$ 13,310</u> | <u>13,856</u> |

For the years ended December 31, 2007 and 2006, total interest expense includes interest denominated in foreign currency amounting to 36 and 44 million dollars, respectively.

(b) Financial intermediation income-

For the years ended December 31, 2007 and 2006, financial intermediation income is shown on the next page (nominal).

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| | <u>2007</u> | <u>2006</u> |
|---|---------------|-------------|
| <i>Unrealized:</i> | | |
| Investment securities | \$ 79 | (37) |
| Securities repurchase/resell agreements and securities lending | 19 | 74 |
| Trading derivatives | (74) | (9) |
| Foreign currencies and precious metals | <u>17</u> | <u>47</u> |
| | <u>41</u> | <u>75</u> |
| <i>Realized:</i> | | |
| Investment securities | 288 | 348 |
| Trading derivatives | (97) | (156) |
| Foreign currencies and precious metals | <u>406</u> | <u>323</u> |
| | 597 | 515 |
| Restatement for inflation | <u>14</u> | <u>38</u> |
| | \$ <u>652</u> | <u>628</u> |

(c) *Commission and fee income-*

For the years ended December 31, 2007 and 2006, commission and fee income are analyzed down as follows (nominal):

| | <u>2007</u> | <u>2006</u> |
|---------------------------------------|-----------------|--------------|
| Letters of credit with no refinancing | \$ 23 | 23 |
| Account handling | 225 | 233 |
| Trust activities | 140 | 137 |
| Fund transfers | 46 | 32 |
| Electronic banking services | 203 | 199 |
| Credit transactions | 432 | 359 |
| Other fees and commissions collected | 2,251 | 1,722 |
| Restatement for inflation | <u>47</u> | <u>126</u> |
| | \$ <u>3,367</u> | <u>2,831</u> |

(d) *Other income-*

For the years ended December 31, 2007 and 2006, other income is analyzed as follows (nominal):

| | <u>2007</u> | <u>2006</u> |
|--|---------------|-------------|
| <i>Recoveries:</i> | | |
| Taxes | \$ 227 | 754 |
| Recovery of administrative expenses (note 22 b) | <u>39</u> | <u>29</u> |
| Subtotal carried forward | \$ <u>266</u> | <u>783</u> |

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| | <u>2007</u> | <u>2006</u> |
|---|-----------------|--------------|
| Subtotal brought forward | \$ 266 | 783 |
| Loan portfolio | 316 | - |
| Other | 263 | 96 |
| Income from sales of assets foreclosed or received in lieu of payment | 108 | 119 |
| Monetary position result arising from items not related to the financial margin | 69 | 154 |
| Income from loan insurance | 382 | 323 |
| FDMS transactions | 9 | 19 |
| Transfer of securities | 95 | 88 |
| Distribution of mutual fund shares | 154 | 109 |
| Loans to employees | 68 | 48 |
| Food vouchers | 90 | 72 |
| Other, including restatement for inflation | <u>513</u> | <u>454</u> |
| | \$ <u>2,333</u> | <u>2,265</u> |

(e) **Other expense-**

For the years ended December 31, 2007 and 2006, other expense is composed of the following (nominal):

| | <u>2007</u> | <u>2006</u> |
|--|---------------|-------------|
| Write-offs and miscellaneous losses | \$ 90 | 87 |
| Negative monetary position result arising from items not related to the financial margin | 127 | 219 |
| Other, including restatement for inflation | <u>19</u> | <u>65</u> |
| | \$ <u>236</u> | <u>371</u> |

(f) **Financial ratios-**

Following are some principal quarterly financial ratios as of and for the years ended December 31, 2007 and 2006:

| | <u>2007</u> | | | |
|--|---------------|--------------|---------------|--------------|
| | <u>Fourth</u> | <u>Third</u> | <u>Second</u> | <u>First</u> |
| Past due loan portfolio/ Total loan portfolio | 3.0% | 2.8% | 2.5% | 2.4% |
| Allowance for loan losses/ Past due loan portfolio | 115.7% | 123.7% | 138.2% | 141.4% |
| Operating efficiency (administrative and promotional expenses/ average total assets) | 6.2% | 5.8% | 5.1% | 5.4% |
| ROE (annualized net income for the quarter/ average stockholders' equity) | 17.6% | 20.7% | 18.2% | 16.5% |
| ROA (annualized net income for the quarter/ average total assets) | 3.0% | 3.4% | 2.9% | 2.6% |
| Net capital/ Assets at credit risk | 21.4% | 23.8% | 23.2% | 24.3% |
| Net capital/ Assets at credit and market risks | 17.2% | 18.8% | 18.3% | 17.0% |
| Liquidity (liquid assets/ liquid liabilities) | 75.0% | 81.3% | 91.9% | 81.6% |
| Financial margin after allowance for loan losses/ Average earning assets | 4.7% | 5.1% | 5.3% | 4.4% |

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| | 2006 | | | |
|--|---------------|--------------|---------------|--------------|
| | <u>Fourth</u> | <u>Third</u> | <u>Second</u> | <u>First</u> |
| Past due loan portfolio/ Total loan portfolio | 2.2% | 2.2% | 2.0% | 1.9% |
| Allowance for loan losses/ Past due loan portfolio | 145.0% | 147.6% | 174.4% | 194.2% |
| Operating efficiency (administrative and promotional expenses/ average total assets) | 6.2% | 5.3% | 5.4% | 4.8% |
| ROE (annualized net income for the quarter/ average stockholders' equity) | 14.1% | 19.5% | 34.3% | 21.5% |
| ROA (annualized net income for the quarter/ average total assets) | 2.1% | 2.8% | 4.9% | 2.9% |
| Net capital/ Assets at credit risk | 24.0% | 22.7% | 21.5% | 20.7% |
| Net capital/ Assets at credit and market risks | 17.0% | 16.6% | 16.4% | 15.5% |
| Liquidity (liquid assets/ liquid liabilities) | 72.7% | 93.1% | 80.3% | 71.8% |
| Financial margin after allowance for loan losses/ Average earning assets | 5.0% | 5.5% | 6.2% | 5.6% |

(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, 2007 and 2006, amounted to \$452 and \$390, 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.

Contingent asset arising from Value-added Tax (VAT) litigation

In 2004, the Bank and the Brokerage Firm received a favorable final decision regarding the procedure used for determining the creditable VAT factor. The favorable ruling confirms entitlement of the aforementioned entities to full tax credit for the VAT paid in the period from January 1, 2003 through July 31, 2004. In 2006 the Bank recovered \$494 (nominal), while the Brokerage Firm filed amended tax returns claiming \$30 (nominal) including inflation restatement and interest, of which \$22 (nominal) was recovered in 2007. The remaining amount to recover of \$8 equates to interest not covered by the SAT.

Tax amnesty program

In 2007 and through the Federal Revenue Law, a tax amnesty program program was introduced for the tax liabilities arising from federal taxes, updating for inflation and surcharges, as well as penalties for failure to meet federal tax obligations other than payment obligations, due prior to January 1, 2003.

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The Bank had an outstanding tax assessment for approximately \$303 associated with VAT and IT differences payable for fiscal 1995. Such assessment had been contested in due course by the filing of an "amparo" proceeding. The Bank applied for and obtained a favorable resolution under the amnesty program for the 1995 VAT and IT differences payable, whereby the Authorities authorized a final payment of \$21, which was made on December 18, 2007 and recognized in the statement of income under "Administrative expenses".

(b) 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.

Contingency on the joint liability concerning the tax credit lawsuit

During 2005, the Holding Company received an official letter from the SAT whereby it was notified that its joint liability assumed in favor of the Brokerage Firm by way of a tax credit (unpaid tax liability) of fiscal 1991 for a total of \$139 (nominal) was binding and so the proceeding for the enforcement of the judgment would commence.

On November 22, 2005, the Holding Company filed a proceeding for annulment before the Federal Fiscal and Administrative Court to leave without effect the aforesaid administrative proceeding. However, the Holding Company fully reserved the judgment amount in the results of operations of 2005. Through decision pronounced on June 27, 2007, the Tax Division resolved to dismiss the aforementioned action. Therefore, since the case was concluded favorably to the Group's interests, the provision of \$139 (nominal) was reversed in 2007.

(23) Risk management-

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.

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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.

(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 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.

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Market risk management in securities trading activities- The Group's securities trading activities are directed primarily to providing service to its customers. Accordingly, to meet its customers' demand, the Group maintains positions in financial instruments and holds an inventory of financial instruments for trading purposes. Access to market liquidity is available through offers to buy from and sell to other intermediaries. 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.

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 Risk 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 Group calculates VaR considering a 99% confidence level and a 10-day holding period.

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 price fluctuations (volatility changes and the correlation among risk factors). The Risk Committee has approved the stress limits.

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For purposes of marking the Group's positions to market, a price vendor has been contracted to determine prices using technical and statistical methods as well as valuation models authorized by the Banking Commission. During the fourth quarter of 2007, the authorized limits and the average and maximum positions of VaR, in millions of nominal pesos, except for foreign currency forwards and futures, which are presented in millions of dollars, are shown below (unaudited information):

| <u>Market</u> | <u>Position</u> | | | <u>VaR</u> | |
|---|----------------------|-------------------|-------------------|----------------|--------------|
| | <u>Average</u> | <u>Maximum</u> | <u>Limit</u> | <u>Average</u> | <u>Limit</u> |
| <u>Pesos:</u> | | | | | |
| Money market | \$ 56,061.57 | 69,055.89 | 105,000.00 | 26.6 | — |
| Interest rate derivatives (futures and swaps) | <u>78,346.41</u> | <u>83,418.60</u> | <u>122,400.00</u> | <u>13.9</u> | <u>—</u> |
| Total interest rate positions | <u>\$ 134,407.98</u> | <u>152,474.49</u> | <u>227,400.00</u> | <u>40.5</u> | <u>150.0</u> |
| Total investment equity securities ⁽¹⁾ | \$ <u>95.58</u> | <u>171.18</u> | <u>200.00</u> | <u>8.3</u> | <u>23.0</u> |
| <u>Dollars:</u> | | | | | |
| Forward and futures foreign exchange contracts ⁽²⁾ | 933.36 | 1,715.34 | 4,650.00 | 3.0 | — |
| Foreign exchange market ⁽²⁾ | 2.34 | 11.07 | 60.00 | 0.9 | — |
| Foreign currency options ⁽²⁾ | 3.87 | 4.00 | 60.00 | — | — |
| Foreign currency swaps ⁽²⁾ | <u>60.00</u> | <u>60.00</u> | <u>1,500.00</u> | <u>—</u> | <u>20.0</u> |
| Total foreign exchange and foreign currency derivatives | <u>999.57</u> | <u>1,790.41</u> | <u>6,270.00</u> | <u>3.9</u> | <u>19.5</u> |

(1) The Brokerage Firm issued on average IPC warrants for \$4,682.8 pesos in terms of notional amount, the maximum being \$5,649.24 pesos.

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

The Group's average value at risk on interest rates is \$40.5. This means that under normal conditions and a 10-day holding period, the possibility of losing more than that amount is 1%, under the assumption that the behavior over the past 300 days of operations is representative for estimating the loss.

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(Millones de pesos de poder adquisitivo constante al 31 de diciembre de 2007)

During 2007, the Group's average global VaR (unaudited) was \$22.24 and the global VaR at December 31, 2007 (unaudited) was \$46.71 (\$29.92 and \$23.13 nominal in 2006, respectively).

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.

Market risk management in available-for-sale securities - Available-for-sale securities are considered within the Group's structural position and to measure their risk, repricing gaps, economic value sensitivity to interest rates are considered.

(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.

(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.

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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 revised. In this way, the Group identifies the changes that occur in the risk profile of each customer. Such reviews consider the overall credit risk, including derivative transactions and foreign exchange exposure. In the case of risks above the acceptable level, additional reviews are carried out more frequently, at least once a quarter.

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.

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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 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 Provisions").

Through official letter 142-1/872357/2007 dated September 25, 2007, 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 Rules. Since December 2004, other types of loans and related provisions have been graded in accordance with Articles 126, 130 and 131 of said Rules.

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The chart below shows the correlation between the internal grades and those established in the aforementioned Provisions:

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

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.

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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.

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.

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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.

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.

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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® 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.

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*").

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- 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 2007 and 2006 (unaudited):

| | <u>2007</u> | | <u>2006</u> | |
|-----------------|----------------|----------------|----------------|----------------|
| | <u>Closing</u> | <u>Average</u> | <u>Closing</u> | <u>Average</u> |
| Exposure | \$ 221,103 | 229,208 | 201,966 | 205,475 |
| Unexpected loss | 9,300 | 9,633 | 7,380 | 7,518 |
| Expected loss | 1,114 | 1,334 | 1,978 | 1,965 |

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.

Implementation of prudent credit criteria- In accordance with the *Prudent Credit Provisions*, the Group has established control measures to timely identify, measure and limit the taking of risks 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.

(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.

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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.
- **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 Bank'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 Bank to establish indicators from variables drawn from processes, which performance is related to the degree of risk assumed. By monitoring each indicator, trends are identified that enable managing the indicator's values over time, assuming that by controlling these values the associated risk factor is maintained within the desired levels. To this end maximum and minimum admissible values are established for each of the indicators selected, so that mitigating/corrective action is automatically initiated once these values are exceeded.
- **Estimated Legal Risk Loss Model** - the Bank has a methodology for estimating expected and unexpected legal risk losses whereby it assesses potential loss as a result of adverse judgments in lawsuits in process. Such methodology is based on past experience of prior year losses, which data undergoes a severity and frequency of occurrence analysis to determine the likelihood of loss in relation to legal matters in process.

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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 Bank's objectives, competitiveness, profitability, productivity and reputation;
- Prioritizing, based on impact and significance, action for mitigating operational risks;
- Guiding each of the Bank's units in their operating risk management processes;
- Establishing plans to mitigate risk
- Compliance with the requirements established in sections I and 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.

As a result of the Operational Risk management, the Bank has identified operational risks for legal contingencies, which if they materialize, would cause a negative impact on the Bank's financial position at December 31, 2007 and 2006 of \$277 and \$382 (\$368 nominal), respectively, which account for 1% and 2% of the Bank's stockholders' equity, respectively, and which were fully reserved. Furthermore, the expected and unexpected losses associated with such contingencies are estimated at \$32 and \$152, respectively.

At the close of 2007, the Bank had built a historic database of operational risk losses which includes losses incurred during the period between January 2004 and December 2007, which aggregate 32,301 loss events with a total value of \$415 (nominal), classified under 21 risk categories, itemized on the next page (unaudited information):

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

| <u>Risk Category</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>Grand total carried forward</u> |
|--|------------------|----------------|---------------|---------------|------------------------------------|
| Regulatory (fines and penalties) | \$ 239 | 104,767 | 705 | 1,688 | 107,399 |
| Lost lawsuits | 14,582 | 77,722 | 31,638 | 6,764 | 130,706 |
| Frauds (internal and external) | 4,761 | 3,051 | 1,424 | 4,504 | 13,740 |
| Bank card frauds | 8,337 | 8,622 | 15,790 | 26,873 | 59,622 |
| Phishing | 562 | 14,456 | 1,352 | 4,701 | 21,071 |
| Assaults | 5,889 | 2,296 | 949 | 3,186 | 12,320 |
| Labor lawsuits | 1,285 | - | - | 35 | 1,320 |
| Miscellaneous checks | 1,946 | 427 | 1,739 | 2,946 | 7,058 |
| Shortages and forgeries (cash supply) | 396 | 519 | 489 | 977 | 2,381 |
| Accounting differences | 344 | 533 | 386 | 378 | 1,641 |
| Documentary (lost documentation) | 160 | 58 | - | - | 218 |
| Former employee indebtedness | 89 | - | 12 | 10 | 111 |
| Shortages and forgeries (foreign currency) | 199 | 278 | 552 | 291 | 1,320 |
| Irrecoverable amounts | 194 | 29 | 12 | 753 | 988 |
| Overdrafts | 55 | 3 | 29 | 20 | 107 |
| Trading | - | 12,452 | 7,956 | 652 | 21,060 |
| Errors in executing transactions | - | - | 146 | 3,309 | 3,455 |
| Fixed asset damages | - | - | - | 975 | 975 |
| System failures | - | - | - | 8,014 | 8,014 |
| Fiscal | - | - | - | 20,837 | 20,837 |
| Other | - | - | 21 | 263 | 284 |
| Total | \$ 39,038 | 225,213 | 63,200 | 87,176 | 414,627 |

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| <u>Risk Category</u> | | Grand total brought forward | <u>Events</u> | |
|--|-----------|--|---------------|---------------------------|
| | | | Number | Average Amount |
| Regulatory (fines and penalties) | \$ | 107,399 | 253 | 425 |
| Lost lawsuits | | 130,706 | 116 | 1,127 |
| Frauds (internal and external) | | 13,740 | 207 | 66 |
| Bank card frauds | | 59,622 | 26,609 | 2 |
| Phishing | | 21,071 | 103 | 205 |
| Assaults | | 12,320 | 94 | 131 |
| Labor lawsuits | | 1,320 | 7 | 189 |
| Miscellaneous checks | | 7,058 | 465 | 15 |
| Shortages and forgeries (cash supply) | | 2,381 | 938 | 3 |
| Accounting differences | | 1,641 | 1,424 | 1 |
| Documentary (lost documentation) | | 218 | 48 | 5 |
| Former employee indebtedness | | 111 | 8 | 14 |
| Shortages and forgeries (foreign currency) | | 1,320 | 332 | 4 |
| Irrecoverable amounts | | 988 | 1,521 | 1 |
| Overdrafts | | 107 | 48 | 2 |
| Trading | | 21,060 | 57 | 369 |
| Errors in executing transactions | | 3,455 | 49 | 71 |
| Fixed asset damages | | 975 | 2 | 488 |
| System failures | | 8,014 | 1 | 8,014 |
| Fiscal | | 20,837 | 1 | 20,837 |
| Other | | 284 | 18 | 16 |
| Total | \$ | 414,627 | 32,301 | 13 |

(24) Recently issued accounting standards-

The CINIF has issued the following FRS, effective for years beginning after December 31, 2007, and which do not provide for earlier application.

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- (a) **FRS B-10 “Effects of inflation”**- FRS B-10 supersedes Bulletin B-10 and its five documents of amendments, as well as the related circulars and INIF (Interpretation of Financial Reporting Standards) 2. The principal considerations established by this FRS are: (i) the change in the value of the Investment Unit (UDI) may be used for determining the inflation for a given period; (ii) an entity is only required to recognize the effects of inflation when operating in an inflationary economic environment (accumulated inflation equal to or higher than 26% in the most recent three-year period); and (iii) the accounts of Gain or Loss from Holding Non-monetary Assets (RETANM - Spanish abbreviation), Monetary Position Gains or Losses (REPOMO - Spanish abbreviation), and Deficit/Excess in Equity Restatement, will be reclassified to retained earnings, when the unrealized portion is not identified.

Since accumulated inflation over the past three years is less than 26%, the Group will cease recognizing the effects of inflation on the financial information beginning in 2008 and until such time as an inflationary scenario, as defined above, returns. The Group's average monetary position over the past two years resulted in a charge to income of \$619.

- (b) **FRS D-3 “Employee benefits”**- FRS D-3 supersedes Bulletin D-3, the portion applicable to Employee Statutory Profit Sharing (ESPS) of Bulletin D-4 and INIF (Interpretation of Financial Reporting Standards) 4. The principal considerations established by this FRS are: (i) a maximum of five years is established for amortizing unrecognized/unamortized items, and the option is provided for immediate recognition of actuarial gains or losses in results of operations; (ii) recognition is eliminated of an additional liability and related intangible asset and any related item as a separate component of stockholders' equity; (iii) severance benefits are to be recognized directly in results of operations; and (iv) ESPS, including deferred ESPS, is to be presented in the statement of income as ordinary operations. Furthermore, FRS D-3 requires the use of the asset and liability method required by FRS D-4 for determining deferred ESPS, stating that any effects arising from the change should be recognized in retained earnings, without restating prior years' financial statements.

Management estimates that the initial effects of this new FRS for the Group in the year 2008 will be an expense of \$43 for the defined benefit pension plan, seniority premiums, post-retirement medical benefits, life insurance and food coupons of retirees as well as an income of \$4 for severance payments. In addition, the intangible asset and additional liability recorded at December 31, 2007 will be cancelled.

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- (c) **FRS D-4 “Taxes on income”**- FRS D-4 supersedes Bulletin D-4 and Circulars 53 and 54. The principal considerations established by this FRS are: (i) the balance of the cumulative IT effects resulting from the initial adoption of Bulletin D-4 in 2000 is reclassified to retained earnings; (ii) AT is recognized as a tax credit (benefit), rather than as a tax prepayment; and (iii) the accounting treatment of ESPS incurred and deferred is transferred to FRS D-3, as mentioned in paragraph (b) above.

Management estimates that the initial effects of this new FRS will not be material.

- (d) **FRS B-2 “Statement of cash flows”**- FRS B-2 supersedes Bulletin B-12 and paragraph 33 of Bulletin B-16. The principal considerations established by this FRS are: (i) the statement of cash flows replaces the statement of changes in financial position; (ii) cash inflows and cash outflows are reported in nominal currency units i.e. the effects of inflation are disregarded; (iii) two alternative preparation methods (direct and indirect) are established, without stating preference for either method. Furthermore, cash flows from operating activities are to be reported first, followed by cash flows from investing activities and lastly cash flows from financing activities; (iv) captions of principal items are to be reported gross; and (v) disclosure is required of the composition of items deemed cash equivalents.

The promulgation of this FRS will have no effect on the Group until the Banking Commission adopts FRS B-2 since there is currently a specific criterion that governs the presentation of the statement of changes in financial position.