SCOTIABANK INVERLAT, S. A.
Institución de Banca Múltiple
Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2008 y 2007

(With Independent Auditors' Report thereon)

(Free Translation from Spanish Languaje Original)

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Independent Auditors' Report

(Free translation from Spanish language original)

The Board of Directors and Stockholders
Scotiabank Inverlat, S. A.
Institución de Banca Múltiple,
Grupo Financiero Scotiabank Inverlat:

We have examined the accompanying consolidated balance sheets of Scotiabank Inverlat, S. A. Institución de Banca Multiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries ("the Bank") as of December 31, 2008 and 2007 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 Bank'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 credit institutions in Mexico. An audit includes 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 discussed in note 2 to the consolidated financial statements, the Bank 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 credit institutions 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. The accounting criteria include particular rules, the application of which, in certain cases, differs from the aforementioned standards as explained in the paragraphs (b), (e) last paragraph, (m) last paragraph, (y) and (z) of note 2 to the financial statements.

During 2008, accounting changes were made as disclosed in note 3 to the consolidated financial statements.

(Continued)

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries as of December 31, 2008 and 2007, 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 credit institutions in Mexico, as described in note 2 to the consolidated financial statements.

KPMG CARDENAS DOSAL, S. C.

Jorge Orendain Villacampa

February 16, 2009

SCOTIABANK INVERLAT, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2008 and 2007

(Millions of Mexican pesos - note 3)

Assets		2008	2007
Cash and equivalents (note 5)	$	23,023	16,827
Investment securities (note 6):			
Trading		4,658	12,480
Available-for-sale		10,457	4,841
Held-to-maturity		1,901	1,666
		17,016	18,987
Securities and derivative transactions:			
Debit balances of repurchase/resell agreements (note 7)		75	72
Derivative financial instruments (note 8)		109	17
		184	89
Current loan portfolio (note 9):			
Commercial loans:			
Business or commercial activity		34,201	24,458
Financial institutions		3,924	3,120
Government entities		4,866	11,224
		42,991	38,802
Consumer loans		19,499	19,373
Residential mortgages		33,153	30,825
Total current loan portfolio		95,643	89,000
Past due loan portfolio (note 9):			
Past due commercial loans:			
Business or commercial activity		251	555
Financial entities		1	-
		252	555
Past due consumer loans		1,509	1,073
Past due residential mortgages		1,835	1,116
Total past due loan portfolio		3,596	2,744
Total loan portfolio		99,239	91,744
Less:			
Allowance for loan losses (note 9h)		3,888	3,176
Loan portfolio, net		95,351	88,568
Other accounts receivable, net (notes 1e, 1f, 1g y 10)		10,874	6,652
Foreclosed assets, net (note 11)		28	67
Premises, furniture and equipment, net (note 12)		2,795	2,426
Permanent investments in shares (note 13)		118	142
Deferred taxes, net (note 17)		536	755
Other assets, deferred charges, prepaid expenses and intangibles		1,874	1,177
Total assets	$	151,799	135,690

Liabilities and Stockholders' Equity		2008	2007
Deposit funding (note 14):			
Demand deposits	$	57,360	50,096
Time deposits:			
General public		50,724	45,498
Money market		601	150
Bank bonds		6,242	6,236
		114,927	101,980
Bank and other loans (note 15):			
Due on demand		1,300	-
Short-term		2,403	1,606
Long-term		2,452	2,987
		6,155	4,593
Securities and derivatives transactions:			
Credit balances of repurchase/resell agreements (note 7)		63	27
Derivative financial instruments (note 8)		176	156
		239	183
Other accounts payable:			
Income tax and employee statutory profit sharing payable (note 17)		262	568
Sundry creditors and other accounts payable		4,070	5,682
		4,332	6,250
Deferred credits and prepayments		763	589
Total liabilities		126,416	113,595
Stockholders' equity (note 18):			
Paid-in capital:			
Capital stock		7,451	7,451
Additional paid-in capital		472	472
		7,923	7,923
Earned capital:			
Statutory reserves		1,911	1,536
Unappropriated retained earnings		12,112	8,263
Unrealized gain from valuation of available-for-sale securities		276	62
Gain from valuation of cash flow hedge instruments		62	12
Gain from holding non-monetary assets:			
From valuation of premises, furniture and equipment		-	3
From valuation of permanent investments in shares		-	550
Adjustment for labor obligations upon retirement		-	(8)
Net income		3,099	3,754
		17,460	14,172
Total stockholders' equity		25,383	22,095
Commitments and contingencies (note 22)			
Total liabilities and stockholders' equity	$	151,799	135,690

(Continued)

SCOTIABANK INVERLAT, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Balance Sheets, Continued

December 31, 2008 and 2007

(Millions of Mexican pesos - note 3)

Memorandum accounts (notes 7 and 20)

		2008		2007	
Contingent assets and liabilities	$		71		71
Loan commitments			3,164		2,784
Assets in trust or under mandate:					
Trusts		96,916		81,168	
Mandate		486	97,402	554	81,722
	$		100,637		84,577
Assets in custody or under management	$		102,974		330,278
Investments on behalf of customers, net			44,650		55,888
Interest earned but not collected arising from past due loan portfolio			114		213
Securities receivable under repurchase agreements	$		21,140		34,610
Less - Creditors under securities repurchase agreements			21,188		34,618
			(48)		(8)
Securities deliverable under resell agreements			15,958		17,664
Less - Debtors under securities resell agreements			16,018		17,717
	$		60		53
Securities repurchase/resell agreement, net	$		12		45
Other accounts	$		791,549		1,978,753

"The historical capital stock amounts to $6,200 at December 31, 2008 and 2007."

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, 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 Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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

Nicole Reich de Polignac General Director	Jean-Luc Rich General Director Finance and Management	Ken Pflugfelder Divisional Director Group Audit	Gordon Macrae Director of Group Accounting

http://www.scotiabank.com.mx/QuienesSomos/quien/Info_coporativa/estados_financieros/Pages/Estados_financieros.aspx
http://www.cnbv.gob.mx/estadistica

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Income

Years ended December 31, 2008 and 2007

(Millions of Mexican pesos - note 3)

	2008	2007
Interest income (note 21)	$ 17,806	17,228
Interest expense (note 21)	(8,703)	(8,579)
Monetary position loss, net (note 21)	-	(606)
Financial margin	9,103	8,043
Provision for loan losses (note 9h)	(3,023)	(1,849)
Financial margin after provision for loan losses	6,080	6,194
Commission and fee income (note 21)	2,293	2,361
Commission and fee expense	(407)	(412)
Financial intermediation income, net (note 21)	1,010	697
Total operating income	8,976	8,840
Administrative and promotional expenses	(7,805)	(7,024)
Net operating income	1,171	1,816
Other income (notes 1b, 1c, 6, 13, 17 and 21)	3,163	2,225
Other expense (note 21)	(194)	(222)
Income before income tax (IT), employee statutory profit sharing (ESPS) and equity in the results of associated companies	4,140	3,819
Current IT and ESPS (note 17)	(1,042)	(628)
Deferred IT and ESPS (note 17)	(56)	537
Income before equity in the results of associated companies	3,042	3,728
Equity in the results of operations of associated companies, net	57	26
Net majority interest income	$ 3,099	3,754

See accompanying notes to consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, 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 Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking 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".

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General Director

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http://www.scotiabank.com.mx/QuienesSomos/quien/Info_coporativa/estados_financieros/Pages/Estados_financieros.aspx
http://www.cnbv.gob.mx/estadistica

SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2008 and 2007

(Millions of Mexican pesos - note 3)

		Paid-in capital		Earned capital				Gain from holding non-monetary assets				
		Capital stock	Additional paid-in capital	Statutory reserves	Unappropriated retained earnings	Unrealized gain from valuation of available-for-sale securities	Gain from valuation of cash flow hedge instruments	From valuation of premises, furniture and equipment	From valuation of permanent investments in shares	Adjustment for labor obligations upon retirement	Net income	Total stockholders' equity
Balances at December 31, 2006	$	4,193	472	1,139	9,668	159	–	3	547	(24)	3,968	20,125
Changes resulting from stockholder resolutions:												
Resolution passed at the Ordinary General Stockholders' Meeting of April 27, 2007 – Appropriation of 2006 net income		–	–	397	3,571	–	–	–	–	–	(3,968)	–
Capitalization of retained earnings (nota 18a)		3,258	–	–	(3,258)	–	–	–	–	–	–	–
Dividends declared (nota 18b)		–	–	–	(1,718)	–	–	–	–	–	–	(1,718)
		3,258	–	397	(1,405)	–	–	–	–	–	(3,968)	(1,718)
Changes related to the recognition of comprehensive income (note 18c):												
Net income for the year		–	–	–	–	–	–	–	–	–	3,754	3,754
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes for $58 and $6, respectively		–	–	–	–	(97)	12	–	3	–	-	(82)
Recognition of additional pension liability in stockholders' equity net of deferred tax of $14 (note 16)		–	–	–	–	–	–	–	–	16	–	16
Total comprehensive income		–	–	–	–	(97)	12	–	3	16	3,754	3,688
Balances at December 31, 2007		7,451	472	1,536	8,263	62	12	3	550	(8)	3,754	22,095
Changes resulting from stockholder resolutions:												
Resolutions passed at the Ordinary General Stockholders' Meeting of April 24, 2008 – Appropriation of 2007 net income		–	–	375	3,379	–	–	–	–	–	(3,754)	–
Dividends declared (nota 18b)		–	–	–	(75)	–	–	–	–	–	–	(75)
		–	–	375	3,304	–	–	–	–	–	(3,754)	(75)
Changes related to the recognition of comprehensive income (note 18c):												
Reclassification of gain from holding non-monetary assets (note 3)		–	–	–	545	6	–	(3)	(550)	–	–	(2)
Net income for the year		–	–	–	–	–	–	–	–	–	3,099	3,099
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes for $128 and $35, respectively		–	–	–	–	208	50	–	–	–	–	258
Cancelation of additional pension liability in stockholders' equity (notes 3 y 16)		–	–	–	–	–	–	–	–	8	–	8
Total comprehensive income		–	–	–	545	214	50	(3)	(550)	8	3,099	3,363
Balances at December 31, 2008	$	7,451	472	1,911	12,112	276	62	–	–	–	3,099	25,383

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, 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 Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking 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

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SCOTIABANK INVERLAT, S. A.,
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

Years ended December 31, 2008 and 2007

(Millions of Mexican pesos - note 3)

		2008	2007
Operating activities:			
Net income	$	3,099	3,754
Income statement items not requiring (providing) funds:			
Provision for loan losses		3,023	1,849
Equity in the results of operations of associated companies		(57)	(26)
Provision for foreclosed asset impairment		34	22
Valuation of securities under repurchase/resell agreements, derivative transactions and investment securities		93	(80)
Deferred income tax and employee statutory profit sharing		56	(537)
Depreciation and amortization		195	175
Funds provided by operations		6,443	5,157
Changes in items related to operations:			
Increase (decrease) in operating liabilities:			
Deposit funding		12,947	2,307
Bank and other loans		1,562	(1,744)
Repurchase / resell agreements		1	-
(Increase) decrease in operating assets:			
Loan portfolio		(9,806)	(3,042)
Investment securities		2,301	(3,219)
Securities and derivative transactions		(44)	141
Funds used in operating activities		13,404	(400)
Financing activities:			
Payment of dividends (note 18b)		(679)	(906)
(Decrease) increase in other accounts payable		(1,304)	789
Funds used in financing activities		(1,983)	(117)
Investing activities:			
Acquisition of premises, furniture and equipment, net		(555)	(266)
Decrease in foreclosed assets		5	11
Decrease in permanent investments in shares		81	371
Other assets, prepaid expenses and deferred charges and credits, net		(534)	(120)
Other accounts receivable		(4,222)	(2,978)
Funds used in investing activities		(5,225)	(2,982)
Increase (decrease) in cash and cash equivalents		6,196	(3,499)
Cash and cash equivalents:			
At beginning of year		16,827	20,326
At end of year	$	23,023	16,827

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in financial position were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, 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 Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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SCOTIABANK INVERLAT, S. A.
Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2008 and 2007

(Millions of Mexican pesos – note 3)

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-

Scotiabank Inverlat, S. A. ("the Bank") is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group") which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.3% of its capital stock. In accordance with the Credit Institutions Law, the Bank is authorized to carry out multiple-service banking transactions such as accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services, among others. The consolidated financial statements of Scotiabank Inverlat, S. A. and subsidiaries include those of the wholly-owned subsidiaries, Inmobiliaria Scotia Inverlat, S. A. de C. V. (Inmobiliaria) operation of bank premises, Servicios Complementarios y Resguardo, S. A. de C. V. (SECORESA) which provides maintenance and security services, Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios) which supports the management of the credit card acquisition business, Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados) which acts as trading member for futures and options contracts listed on the MexDer Mercado Mexicano de Derivados, S. A. de C. V. (MexDer) and beginning in 2007 two trusts named Banco Inverlat, S. A., Fideicomiso Socio Liquidador and Banco Inverlat, S. A., Fideicomiso 101776 Socio Liquidador, 101776 (MexDer Trusts), created for the purpose of entering into futures and options contracts for the Bank's own account and on behalf of third parties, respectively.

2008 Significant transactions-

(a) Shares received from the entity engaged in credit card operations -

On March 31, 2008, based on the percentage of equity held in VISA, the Bank was granted 357,599 shares of that company, which were recorded in "Investment securities" classified as available-for-sale securities; relevant valuation and deferred taxes are recorded in stockholders' equity under "Valuation on available-for-sale securities". At the acquisition time, 56% of shares were sold, for a gain of $92; and the remaining 44% cannot be sold for at least three years.

(b) Restructuring by the Mexican Stock Exchange -

The Mexican Stock Exchange (BMV for its Spanish abbreviation) carried out a corporate restructuring that included primarily the Trust "Asigna, Compensación y Liquidación" F/30430 (Asigna), and the entities S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V., (Indeval), MexDer, Mercado Mexicano de Derivados, S. A. de C. V. and Contraparte Central de Valores de México, S. A. de C. V. (CCVM).

(Continued)

(Millions of Mexican pesos – note 3)

On June 13, 2008, the BMV effected its primary Public Offering, acquiring the equity of holders of the entities mentioned in the preceding paragraph; the following modes being applicable to the Bank:

a) Purchase of equity from current holders in cash, and

b) Acquisition of equity through exchange for shares of the new BMV.

On June 13, 2008, the Bank sold its equity in S. D. Indeval, S. A. to the BMV for $21 cash, the carrying value of which was $6, representing a gain of $15, recorded in "Other Income".

Furthermore, the Bank received an initial payment of $40 for the assignment of economic rights on the Indeval stock, with the possibility of an additional payment should the Stock Market Law be amended and holding of more than a share per person be permissible.

The Trusts MexDer sold 6.82% of the Asigna trust rights held by each of them to the BMV for $170, recognizing an income amounting to $147, which was included in the consolidated statement of income under "Other income".

Scotia Derivados sold its equity in MexDer to the BMV for $3, representing an income amounting of $3, recorded in "Other income".

(c) *Mortgage portfolio securitization -*

On March 13, 2008, the Bank securitized mortgage portfolio with transfer of property through a first issue of stock exchange certificates "certificados bursátiles" in the amount of $2,494, as part of an authorized 5-year up to $10,000 program. That portfolio was assigned to a trust created in INVEX, S. A., which issued securities for acquisition by the investing public. As a consideration, the Bank received the cash proceeds from that placement and a trust certificate entitling to receive the trust remainder.

The characteristics of the securities issued by the assignor are as follows:

Type	Ticker symbol	Interest rate	Issue term	Program term	Nominal value of certificates
Mortgage-backed bonds (securities)	SCOTICB 08	9.15%	7,377 days following issue date	5 years	$100

Each security represents the holder's right to collect the principal and interest thereon due by the trustee as issuer of the securities, in accordance with the trust terms.

(Continued)

(Millions of Mexican pesos – note 3)

The securities are payable only out of the existing funds of the trust estate. The trustee set up a reserve to ensure payment of interest on the securities for the issue term. As of December 31, 2008 the reserve amounts to $37.

As a result of the securitization, the Bank determined a gain on the portfolio sale of $14, which was recorded on the statement of income under "Other income".

The Bank wrote off $9 on the allowance for the securitized portfolio. In addition, revenues and expenses, related to the securitized portfolio and which had been deferred over the life of the loans, were reversed to income in the amount of revenue of $25 and expense of $3.

Should the outstanding balance of the securities be less than 10% of opening balance, the Bank may fully acquire the Trust estate.

The Bank contractually provides the trust with administrative services for the securitized mortgage portfolio, recognizing monthly revenue equal to 1% on the average monthly portfolio, under "Other commissions and fees income". As of December 31, 2008, the amount received from the Bank on administrative services amounted was $20.

The trust certificate was recorded as a receivable under "Other receivables" and valued by the cost recovery method (see note 10).

(d) *Highway bond securitization -*

On October 22, 2008 the Bank carried out a securitization with transfer of property of a credit classified in the government entity category (see note 9(e)), through the first and only issue of Stock Trust Certificates (the securities) in the amount of $4,248. Such a credit was assigned to a trust created by J. P. Morgan, S. A., which issued securities for acquisition by the investing public. As a consideration for the assignment, the Bank acquired those securities, which were recorded under "Available-for-sale securities".

The characteristic of the securities issued by the assignor are as follows:

Type	Ticker symbol	Securities	Maturity date	Issue term	Nominal value of certificates
Stock trust certificates	MMVCB 08	42,480,890	September 3, 2012	1,412 days	$100

The stock trust certificates pay an interest rate that is determined by the simple arithmetic average of return rates of the latest auctions of the primary 91-day Cetes, published within 28 calendar days before the beginning of each interest period. Interest is payable on a quarterly basis.

The Bank wrote off no allowance for losses related to the securitization, as the loan was guaranteed by the government.

The Bank in its capacity as trustor may re-acquire the Trust estate should the outstanding balance of the securities be equal to or less than 10% of the nominal value of all securities.

The Bank does not provide the trust with administrative services for the securitized commercial loan.

(e) ***Second acquisition of automotive receivables -***

In May 2008, the Bank purchased automotive accounts receivables through a trust, whereby the Bank received a promissory note at a 28-day TIIE rate plus 175 basis points. This transaction was settled in September 2008, with the relevant account receivable being written off (see note 10).

(f) ***Third acquisition of automotive receivables -***

In August 2008, the Bank purchased new automotive accounts receivable with a line of credit amounting to \$3,704, bearing interest at 28-day TIIE rate plus 212 basis points (see note 10).

2007 Significant transactions-

(g) ***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).

(h) 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 following alternatives:

- 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, 2008 and 2007, 1,505 and 82 loan agreements totaling $471 and $23, respectively have been signed, which are maintained in the residential mortgages portfolio as renewed loans.

- Early settlement of the unpaid balance of the Udi-denominated loan with the borrower's own funds. At December 31, 2008 and 2007, this option has been used for settling 230 and 19 loans aggregating $48 and $8, respectively.

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

Discounts, in addition to those applicable pursuant to support programs are applied against the allowance for loan losses. At December 31, 2008 and 2007 the amount applied is $58 and $4 respectively.

Loan issue related expenses are born by the Bank and charged to results of operations. For the year ended December 31, 2008 and 2007 such expenses amounted to $17 and $1, respectively.

(2) Summary of significant accounting policies-

(a) Financial statement presentation and disclosure-

On February 16, 2009, Nicole Reich de Polignac (General Director), Jean Luc Rich (General Director Finance and Management), 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 2008 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 established by the the Banking Commission for credit institutions in Mexico. The Banking Commission is responsible for the inspection and supervision of financial institutions and for reviewing their financial information.

The accompanying consolidated financial statements include the financial statements of the Bank and its wholly-owned subsidiaries and the financial statements of the Bank's UDI Trusts (restructured loan portfolio), created for the purpose of managing restructured loans through Mexican 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. All significant intercompany transactions and balances have been eliminated in consolidation.

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 las Normas de Información Financiera, A. C. or CINIF), and include particular rules relating to accounting, valuation, presentation and disclosure, which depart from such standards — see paragraphs (b), (e), (m), (y) and (z) of this note.

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

(Continued)

(Millions of Mexican pesos – note 3)

The Bank's consolidated financial statements have been prepared in accordance with the accounting criteria in force at the consolidated balance sheet date, and include the recognition of the effects of inflation on the financial information through December 31, 2007 based on the Investment Unit (UDI) value. The UDI is a unit of measurement whose value is determined by the Banco de México (Central Bank) based on inflation (see note 3). The accumulated inflation percentage for the last three fiscal years and the indexes used in recognizing inflation through this year are as follows:

		Inflation	
December 31,	UDI	Annual	Accumulated
2008	$ 4.184316	6.39%	15.03%
2007	3.932983	3.80%	11.27%
2006	3.788954	4.16%	13.04%

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.

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 2007 consolidated balance sheet and the consolidated statement of income include certain reclassifications to conform to the classifications used in 2008.

(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 and options 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 and obligations associated with 24 and 48-hour foreign currency sales and purchases are recorded in "Other accounts receivable", and "Sundry creditors and other accounts payable" respectively.

(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 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 in results of operations.

Held-to-maturity securities-

Held-to-maturity securities are debt securities that the Bank 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".

(Continued)

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.

Value date transactions-

Securities acquired where settlement takes place on a subsequent date, up to a maximum of four business days following the date of the purchase-sale transaction, are recognized as restricted securities, while securities sold are recognized as securities deliverable, 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 including premiums 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. Repurchase/resell agreements where the Bank is the repurchasing and reselling party with the same entity cannot be offset.

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

In accordance with the accounting criteria for credit institutions in Mexico, 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.

(Continued)

(e) Transactions with derivative financial instruments-

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

(Continued)

(g) 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).

(h) 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 described as follows:

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

(Continued)

(Millions of Mexican pesos – note 3)

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

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

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

General reserves – In accordance with the "Regulations" general reserves mean those allowances resulting from risk degree A, and beginning August 2008, risk degree B-1 for revolving consumer loan portfolio.

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

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 portfolio 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.

(i) Other accounts receivable-

Loans to officers and employees, collection rights and accounts receivable relating to identified debtors over 90 calendar days past due are assessed by 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.

The trust certificate arising from mortgage securitization is valued by the cost recovery method, any remaining amounts received will reduce the account receivable until the balance is extinguished; therefore, subsequent recoveries will be recognized in operations Under "Other income".

(j) 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.

(Continued)

(Millions of Mexican pesos – note 3)

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.

As of december 31, 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.

During 2008 the Bank adopted the dispositions of the NIF B-10 as explained in note 3, therefore the effects of inflation related to Foreclosed assets financial information were not recognized.

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:

		Reserve percentage	
Months elapsed from the date of foreclosure or received in lieu of payment		**Real property**	**Chattels, receivables and investment securities**
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%

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

Premises, furniture and equipment and leasehold improvements are initially recorded at their acquisition cost, and through of December 31, 2007 restated for inflation based on factors derived from the value of the UDI.

(Continued)

Depreciation and amortization are computed using the straight-line method on restated values, based on the estimated useful lives for the Bank's management of the corresponding assets.

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

During 2008 the Bank suspended the recognition of the effects of inflation in the financial information, as explained in note 3.

(l) Permanent investments in shares-

Investments in associated companies are accounted for by the equity method. The Bank's equity in results of operations of associated companies 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 Bank's stockholders' equity.

Also this caption includes permanent investments in shares of issuing companies where the Bank 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.

(m) Income taxes (income tax (IT) and flat rate Business tax (IETU)) and employee statutory profit sharing (ESPS)-

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

Deferred IT or IETU and ESPS are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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.

(Continued)

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

Beginning on January 1, 2008, FRS D-4, "Taxes on Income" became effective. FRS D-4 transfers the accounting for current and deferred ESPS to FRS D-3, "Employee Benefits".

The Bank reports the current and deferred ESPS after "Taxable income before taxes, ESPS and equity in results of operations of associated companies" as required by accounting criteria for credit institutions in Mexico, whereas the relevant FRS requires reporting in ordinary operations under "Other income" or "Other expenses", as appropriate.

(n) 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.

(o) 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.

(p) Employee benefits-

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

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

Irrevocable trusts have been created for all plans to manage the respective plan funds and assets, except for severance compensation. In the case of severance compensation, the obligation is merely provided for.

(Continued)

The net periodic cost and accumulated pension, seniority premium and severance compensation for reasons other than restructuring and post-retirement benefits associated with defined employee benefit plans are charged to operations for each year, based on independent actuarial computations of the present value of these obligations, using the projected unit credit method and nominal interest rates (real interest rates through 2007) and considering projected salaries.

Beginning January 1, 2008, shorter amortization periods are considered for unamortized items as a result of the entry in force of FRS D-3. As for termination benefits, the balances as of December 31, 2007 related to items: transition asset and liability and plan modifications are amortized over five (5) years or within the average remaining useful life, whichever is shorter. Net actuarial gains or losses as of December 31, 2007, are reported directly in operations.

Beginning in fiscal year 2008, unamortized termination benefit items (transition liability or asset, plan modifications, net actuarial gains or losses and compensation increases) are recorded directly in operations.

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

(q) 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 year-end 2007. The resulting amounts represent the constant value of stockholders' equity.

During 2008 the Bank suspended the recognition of the inflation in the financial information as explained in note 3.

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

Through December 31, 2007 the gain or loss from holding non-monetary assets represented the difference between the specific valuation of these assets and their cost restated using UDI factors.

During 2008, the Bank suspended the recognition of the effects of inflation on the financial information, as explained in note 3. Therefore, the Bank reclassified the account "Gain or loss from holding monetary assets" to "Retained earnings".

(Continued)

(s) ***Monetary position gain or loss-***

Through December 31, 2007 the Bank recognized in results of operations the effect (gain or loss) in the purchasing power of its monetary position, 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 was included in the consolidated statement of income as part of the "Financial margin", while the gain or loss from all other monetary items was presented in "Other income" or "Other expense" respectively.

During 2008 the Bank suspended the recognition of the inflation in the financial information, as explained in note 3.

(t) ***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.

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

Premiums earned on repurchase/resell agreements are recognized in income over the term of the transaction.

(u) ***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.

(Continued)

(v) ***UDI Trusts-***

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

(w) ***Contributions to the Institute for Protection of Bank Savings (IPAB)-***

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.

(x) ***Contingencies-***

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

(y) ***Statement of income -***

The Bank presents the consolidated statement of income in accordance with accounting criteria for credit institutions in Mexico. Beginning 2007, FRS adopted the new approach for presentation of the statement of income reclassifying income, costs and expenses as ordinary and non-ordinary.

(z) ***Statement of changes in financial position -***

The Bank presents the consolidated statement of changes in financial position in accordance with accounting criteria for credit institutions in Mexico. Beginning 2007, FRS adopted the presentation of the statement of cash flows in lieu of the statement of changes in financial position.

(3) Accounting changes-

<u>IFRS Changes -</u>

The CINIF promulgated the FRS that are described later, which have been adopted supplementary as the Bank Commission.

(Continued)

The CINIF has issued the following FRS effective for years beginning after December 31, 2008. Early application is not permitted.

(a) ***FRS B-10 "Effects of inflation"*** - FRS B-10 supersedes Bulletin B-10 "*Recognition of the effects of inflation on the financial information*" and its five amendment documents, as well as the related circulars and Interpretation of Financial Reporting Standards (IFRS) 2. The principal considerations established by this FRS are:

(i) Recognition of the effects of inflation – An entity operates in a) an inflationary economic environment when cumulative inflation over the immediately preceding 3-year period is equal to or greater than 26%; and b) non-inflationary economic environment, when inflation over the aforementioned period is less than 26%.

For case a), the comprehensive recognition of the effects of inflation is required, (similarly to Bulletin B-10 being superseded). For case b), the effects of inflation are not recognized; however, at the effective date of this FRS and when an entity ceases to operate in an inflationary economic environment, the restatement effects determined through the last period in which the entity operated in an inflationary economic environment (in this case 2008), must be kept and shall be reclassified on the same date and using the same procedure as that of the corresponding assets, liabilities and stockholders' equity. Should the entity once more operate in an inflationary economic environment, the cumulative effects of inflation not recognized in the periods where the environment was deemed as non-inflationary should be recognized retrospectively.

(ii) Price index – the use of the INPC or the change in the value of the Investment Unit (UDI) may be used for determining the inflation for a given period.

(iii) Valuation of inventories and of foreign machinery and equipment – The possibility of using replacement costs for inventories and specific indexation for foreign machinery and equipment is no longer allowed.

(iv) Equity adjustment for non-monetary Assets – On the effective date of this FRS, the unrealized portion of the equity adjustment for non monetary assets, which is maintained in stockholders' equity, should be identified to be reclassified to earnings of the year when the originating item is realized. The realized portion or when is not practical to identify the unrealized portion, the realized and unrealized portions should be reclassified to retained earnings.

(v) Monetary position gains or losses (included in deficit/excess in equity restatement) will be reclassified to retained earnings on the effective date of this FRS.

(Continued)

As a result of the adoption of this FRS as of January 1, 2008, the Bank suspended the recognition of the effects of inflation as it operates in a non-inflationary economic environment. Additionally, the Bank reclassified $553 of "Equity adjustment for non-monetary assets" to "Retained earnings," as a result of valuation of property, furniture and equipment, and valuation of permanent investments in shares, because it was not possible to identify the unrealized portion of the relevant equity adjustment for non-monetary assets, and in conformity with the criterion issued by the Banking Commission on February 15, 2008, as reported on the consolidated statement of changes in stockholders' equity.

The 2007 consolidated financial statements are presented expressed in constant pesos at December 31, 2007, date on which the comprehensive method for recognizing the effects of inflation was last used.

(b) ***FRS D-3 "Employee benefits"-*** FRS D-3 supersedes Bulletin D-3 "***Labor Obligations***", the sections applicable to Employee Statutory Profit Sharing (ESPS) of Bulletin D-4 and IFRS 4. The principal considerations established by this FRS are:

(i) Elimination of the recognition of an additional liability and the related intangible asset or any comprehensive item as a separate element of stockholders' equity.

(ii) Employee benefits are classified in four principal categories; direct short-term and long term, termination and post-employment benefits. FRS D-3 establishes a maximum five-year period for amortizing unrecognized/unamortized items while actuarial gains or losses may be recognized as earned or incurred. Unlike termination benefits, post-employment benefits actuarial gains or losses may be immediately recognized in results of operations or amortized over the expected service life of the employees.

(iii) The use of nominal rates and the incorporation of the term salary increases due to promotions.

(iv) ESPS, including deferred ESPS, shall be presented in the statement of income as ordinary operations, preferably within "other income and expenses". Furthermore, FRS D-3 establishes that the asset and liability method should be used for determining deferred ESPS; any effects arising from the change in method shall be recognized in retained earnings, without restatement of prior years' financial statements.

The change mentioned in the paragraph above has no effects on the Bank's financial statements as the deferred ESPS was already computed by the asset and liability method.

(Continued)

(c) ***FRS D-4 "Taxes on income"***- FRS D-4 supersedes Bulletin D-4 "***Accounting for income and asset taxes and employee statutory profit sharing***" 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 beginning January 2008, unless identified with any other comprehensive item pending reclassification.

(ii) The accounting treatment of ESPS current and deferred is transferred to FRS D-3.

Changes in accounting criteria issued by the Banking Commission for credit institutions

(a) ***Consumer loan portfolio rating -***

On August 22, 2008, the Ministry of Finance and Public Credit published in the Federal Official Gazette the Resolution amending the general Regulations applicable to credit institutions. Article 91, Section II of the aforementioned circular contains the table to which credit institutions must adhere to rate, create and record in accounting the allowances for loan losses related to the revolving consumer loan portfolio. In accordance with the Transitory Article Two of the aforementioned resolution, credit institutions must adhere to the table of Article 91, section II no later than the last day of October 2008. In this regard, the Bank opted for early recording of $46 in June 2008, and at the date of entry in force of the new regulation the remaining effects were recorded in the Bank's consolidated financial statements to cover the total amount arising from the change in the regulations mentioned above. As of December 31, 2008, total impact from such a change in regulations amounted to $179.

(4) Foreign currency position-

Central Bank regulations require that banks 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 computed as of the third immediately preceding month. 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 2008 and 2007. Accordingly, as of December 31, 2008 and 2007, the Bank's short and long position, respectively, is within the authorized limits.

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

	2008	2007
Assets	1,495	1,529
Liabilities	(1,500)	(1,462)
(Short) long position	(5)	67

(Continued)

(Millions of Mexican pesos – note 3)

At December 31, 2008, the short foreign currency position (long in 2007) consists of 90% in US dollars (98% in 2007), and 10% in other foreign currencies (2% in 2007).

At December 31, 2008 and 2007, the exchange rate of the peso to the dollar was $13.83 and $10.92, respectively, and at February 16, 2009 date on which the issuance of the consolidated financial statements was authorized, was $14.53 .

(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2008 and 2007 are analyzed as follows:

		2008	2007
Cash on hand	$	2,199	2,309
Deposits with domestic and foreign banks		4,832	1,963
Clearing house margin account		145	137
Three-day interbank call money		3,444	422
24 and 48-hour foreign currency sales		(1,062)	(1,048)
Other funds available		110	94
Restricted funds:			
Deposits with the Central Bank		12,849	12,453
24 and 48-hour foreign currency purchases		506	497
	$	23,023	16,827

On August 1, 2008, the Central Bank issued Circular 36/2008, which provides for the termination of the deposits for monetary regulation maintained by credit institutions with the Central Bank and the obligations of those institutions to create a new deposit for monetary regulation resulting from prorating the amount of $280,000 based on the liabilities arising from national currency and UDI denominated funding. On August 4, 2008, the Central Bank established, in relation to the Bank's liabilities computed as of July 8, 2008, the obligation to set up a deposit for monetary regulation in the amount of $12,787. Therefore, given that at the aforementioned date the Bank maintained a deposit for monetary regulation of $12,403, the net balance deposited in 2008 amounted to $384.

At December 31, 2008 and 2007, the deposits with the Central Bank relate to deposits for monetary regulation amounting to $12,787 and $12,403, bearing interest at the average bank funding rate, with no maturity.

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At December 31, 2008 and 2007, the Bank had the following three-day interbank loans ("Call money"):

	2008			2007		
Institution	**Amount**	**Rate**	**Term**	**Amount**	**Rate**	**Term**
Banco Santander Serfin, S. A.	$ 2,000	8.28%	2 days	$ –	–	–
BBVA Bancomer, S. A.	1,439	8.10%	2 days	422	7.15%	2 days
Accrued interest	5			–	–	–
	$ 3,444			$ 422		

At December 31, 2008 and 2007, foreign currency receivable and deliverable in connection with the purchases and sales to be settled within 24 and 48 hours are analyzed as follows:

	Receivable		Deliverable	
	2008	**2007**	**2008**	**2007**
Dollar	$ 338	479	902	994
Other currencies	168	18	160	54
	$ 506	497	1,062	1,048

(Continued)

(Millions of Mexican pesos – note 3)

(6) Investment securities-

(a) Composition-

At December 31, 2008 and 2007, the Bank's investment securities are as follows:

	2008	2007
Trading:		
Debt securities:		
Government securities	$ 409	3,942
Bank promissory notes	4,194	8,471
Shares	55	67
	4,658	12,480
Available-for-sale:		
Shares	134	95
Debt securities:		
Government securities	8,314	4,746
Bank promissory notes	1,110	–
Others[1]	899	–
	10,457	4,841
Held-to-maturity:		
Special CETES of the UDI Trusts:		
Domestic productive plant	60	56
Residential mortgages	1,713	1,605
	1,773	1,661
Other	128	5
	1,901	1,666
Total investment securities	$ 17,016	18,987

[1] see explanation on the next page.

(Continued)

(Millions of Mexican pesos – note 3)

[1] Include 1,937,778 amortizable certificates of investment acquired by the Bank in 1995. The certificates were originally recorded at $194 under "Held-to-maturity securities" and value was subsequently written down to $19 that year. In March 2008, the Bank removed the certificates from the "Held-to-maturity securities" category and transferred them to the "Available-for-sale securities" category due to the Bank's intention to sell those certificates. When effecting the transfer of category, the certificates were recorded at the original acquisition cost of $194, as a result of having reasonable recovery estimates higher than the acquisition cost, recording in results of operation for the year a $175 recovery under "Other income".

Beginning on the date of the category transfer, the certificates are recorded at fair value by applying an internal valuation model as there are no recognized market quotations available. The valuation on securities is recognized in stockholders' equity, and revenue from interest thereon is recorded on the statement of income under "Interest income".

(b) At December 31, 2008 and 2007, debt securities relating to government securities and bank notes classified as trading and available-for-sale securities, are analyzed as follows:

		2008	2007
Trading:			
Debt securitires:			
Government securities:			
Own position:			
CETES	$	59	98
LD BONDES		–	458
IPBPAS		240	502
IS BPAS 182		–	992
IT BPAT		51	2,116
BONOS M		10	–
LS BOND 182		–	28
LS BOND D		33	–
Own position, carried forward	$	393	4,194

(Continued)

(Millions of Mexican pesos – note 3)

		2008	2007
Own position, brought forward	$	393	4,194
Value date sales:			
BONOS M		(23)	(384)
CETES		–	(5)
IT BPAT		–	(3)
Unrestricted securities		370	3,802
Value date purchases (restricted securities):			
BI CETES		39	140
Total government securities	$	409	3,942

Trading:

		2008	2007
Bank promissory notes:			
Own position:			
BANSAN	$	2,301	2,167
BAMMSA		900	906
HSBCMX		993	–
AMEX		–	290
BACOMER		–	1,207
BANAMEX		–	990
BANORTE		–	1,450
BANOBRA		–	502
NAFIN		–	959
		4,194	8,471
Value date sales:			
D1 MEXH11 (UMS)		–	(5)
Unrestricted securities		4,194	8,466
Value date purchases (restricted securities):			
D1 MEXH11 (UMS)		–	5
Total bank promissory notes	$	4,194	8,471

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		2008	2007
Available-for-sale:			
Debt securities:			
Government securities:			
Own position:			
BONOS M0	$	1,050	1,001
BONOS M		2,739	3,717
MMVCB		3,996	–
MEXF54		529	–
		8,314	4,718
Value date purchases (restricted securities):			
BONOS M		–	28
Total government securities	$	8,314	4,746
Bank promissory notes:			
Own position:			
BACOMER	$	1,006	–
CITIGROUP		61	–
CA51		43	–
		1,110	–
Others:			
Own position:			
ALMACO	$	78	–
CASITA		49	–
FACTOR		209	–
NAVISTS		59	–
PATRIMO		4	–
VIPESA		500	–
	$	899	–

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

At December 31, 2008 and 2007, the investments in the same non-government issuer of debt securities over 5% of the Bank's net capital are analyzed as follows:

	2008	2007
BANSAN	$ 2,301	2,167
BACOMER	–	1,207
BANORTE	–	1,450

(7) Securities under repurchase/resell agreements-

At December 31, 2008 and 2007, the Bank's repurchase/resell agreements are analyzed as follows:

	2008			
	Receivables under resell agreements	Securities deliverable	Asset	Liability
Purchases:				
Net asset positions	$ 13,259	(13,196)	63	–
Net liability positions	2,759	(2,762)	–	(3)
	$ 16,018	(15,958)	63	(3)
	Securities receivable	Payables under repurchase agreements		
Sales:				
Net asset positions	$ 7,388	(7,376)	12	–
Net liability positions	13,752	(13,812)	–	(60)
	$ 21,140	(21,188)	12	(60)
			$ 75	(63)
				$ 12

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	2007			
	Receivables under resell agreements	Securities deliverable	Asset	Liability
Purchases:				
Net asset positions	$ 4,427	(4,370)	57	–
Net liability positions	13,290	(13,294)	–	(4)
	$ 17,717	(17,664)	57	(4)
	Securities receivable	Payables under repurchase agreements		
Sales:				
Net asset positions	$ 31,185	(31,170)	15	–
Net liability positions	3,425	(3,448)	–	(23)
	$ 34,610	(34,618)	15	(23)
			$ 72	(27)
				$ 45

At December 31, 2008 and 2007, the net positions by type of security are as follows:

	Debit balances		Credit balances	
Securities	Weighted average term (days)	Net position	Weighted average term (days)	Net position
2008				
Government:				
Bpas	2	$ 5	19	$ 6
Bpat	30	25	27	24
CBUR	2	–	2	1
IPAS	28	4	57	5
LBon	32	15	32	4
Bonos M	2	18	2	20
Bono M0	40	6	5	3
		73		63
Bank securities:				
Promissory notes	14	2	6	–
		$ 75		$ 63

(Continued)

(Millions of Mexican pesos – note 3)

	Debit balances		Credit balances	
Securities	**Weighted average term (days)**	**Net position**	**Weighted average term (days)**	**Net position**
2007				
Government:				
Bpas	30	$ 5	28	$ 4
Bpat	13	42	13	13
Bonos	26	7	28	8
LBon	3	8	2	2
UDIB	2	1	–	–
LS	163	1	–	–
IS BPA182	27	8	–	–
		$ 72		$ 27

At December 31, 2008 and 2007, the Bank has received government securities as guarantee for over 3-day repurchase agreements, which is included and recorded in "Assets under custody and management" and are analyzed as follows:

Issuer	**Issue**	**Number of certificates**	**Market value**
2008			
Guarantees received:			
IT Bpat	130502	212,930	$ 21
IT Bpat	090129	193,972	20
IT Bpat	090226	5,759	1
IP Bpas	091203	75,216	8
LD Bondes D	100805	355,444	33
Total guarantees received			$ 83
Guarantees delivered:			
BI Cetes	090408	4,007,868	$ 39

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Issuer	Issue	Number of certificates	Market value
2007			
Guarantees received:			
BI Cetes	080508	116,436	$ 1
BI Cetes	080703	4,057,347	39
BI Cetes	080131	759,563	7
Ls Bond182	100805	116,591	12
Total guarantees received			$ 59

(8) Derivative instruments-

At December 31, 2008, the valuation of derivative financial instruments for trading and hedging purposes recognized under "Transactions with derivative financial instruments", is analyzed as follows:

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Foreign currency forward contracts	$ 109	–	17	–
Interest rate swaps	–	176	–	156
	$ 109	176	17	156

For the year ended December 31, 2008 and 2007, the amount of losses recognized in income arising from the impairment of financial instruments for hedging purposes amounted to $5 and $15, respectively.

As for instruments used for cash-flow hedging purposes, the net gain (loss) derived from their inefficiency aggregated $9 and $(2) and is included in the results of operations for the year ended December 31, 2008 and 2007, respectively, under "Financial intermediation income, net", while the effect from the valuation relating to the effective hedge position at December 31, 2008 and 2007, which amounts to $102 ($62 net of the deferred tax effect) and $19 ($12 net of the deferred tax effect), respectively, is presented in stockholders' equity.

The net estimated effect of gains and losses arising from derivative transactions presented under stockholders' equity at December 31, 2008 and 2007, which are expected to be reclassified to income within the following twelve months amounts to $42 and $5, respectively.

At December 31, 2008 and 2007, the caption of "Financial intermediation income, net" includes $63 and $52, respectively, relating to the valuation of derivatives for hedging purposes at fair value.

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At December 31, 2008 and 2007, the Bank did not have hedge positions arising from forecasted future transactions.

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, 2008 and 2007 are analyzed as follows:

	2008		
Type of instrument	**Hedging purposes**	**Trading purposes**	**Total**
Interest rate:			
Bought:			
Futures:			
TIIE	$ –	18,057	18,057
Cetes	–	1,400	1,400
Swaps	4,090	50,215	54,305
	$ 4,090	69,672	73,762
Sold:			
Futures:			
TIIE	$ –	1,769	1,769
Swaps	4,685	50,581	55,266
	$ 4,685	52,350	57,035
Bought:			
Swaps (in millions of dollars)	–	253	253
Sold:			
Swaps (in millions of dollars)	217	254	471
Foreign exchange (in millions of dollars):			
Bought:			
Forward contracts	–	190	190
Sold:			
Forward contracts	–	276	276

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Type of instrument		Hedging purposes	Trading purposes	Total
		2007		
Interest rate:				
Bought:				
Futures:				
TIIE	$	–	7,973	7,973
M-10		–	130	130
Swaps		310	33,250	33,560
	$	310	41,353	41,663
Sold:				
Futures:				
TIIE	$	–	683	683
Swaps		7,897	34,287	42,184
	$	7,897	34,970	42,867
Sold:				
Swaps (in millions of dollars)		151	–	151
Foreign exchange (in millions of dollars):				
Bought:				
Forward contracts		–	718	718
Options		–	2	2
		–	720	720
Sold:				
Forward contracts		–	321	321
Options		–	2	2
		–	323	323

The Bank 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, 2008, of the total transactions there are 33 (30 in 2007) designated as cash flow hedges that total $4,090 ($4,180 in 2007) and are converting 28-day liabilities; the remaining $7,688 ($5,029 in 2007) are designated as fair value hedges.

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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, 2008, with an average TIIE rate of 7.66% (7.57% in 2007), it is estimated that had these derivatives not existed, the financial impact would have been an additional positive margin of $112 ($133 nominal in 2007) (unaudited figure).

(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2008 and 2007, the classification of loans into current and past due by currency, which includes the restructured portfolio in UDI Trusts, is analyzed as follows:

	2008		2007	
	Current	**Past due**	**Current**	**Past due**
In assets:				
Pesos:				
Business or commercial activity	$ 25,194	207	18,981	431
Financial institutions	3,923	1	3,002	–
Consumer loans	19,499	1,509	19,373	1,073
Residential mortgages	32,413	1,711	29,560	964
Government entities	4,866	–	11,224	–
	85,895	3,428	82,140	2,468
Foreign currency:				
Business or commercial activity	9,007	44	5,477	124
Financial institutions	1	–	118	–
Residential mortgages	97	–	–	–
	9,105	44	5,595	124
Denominated in UDIS:				
Residential mortgages	643	124	1,265	152
	$ 95,643	3,596	89,000	2,744
	$ 99,239		91,744	
In memorandum accounts:				
Loan commitments	$ 3,164		2,784	
	$ 102,403		94,528	

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

At December 31, 2008 and 2007, credit risk (including loans, guarantees and loan commitments, see note 20) classified by economic sector and the percentage of concentration are analyzed as follows:

	2008		2007	
	Amount	**%**	**Amount**	**%**
Community, social and personal services, mainly government entities	$ 8,191	8	13,384	14
Construction and housing	40,268	38	35,543	38
Financial, insurance and real estate services	6,845	7	5,825	6
Manufacturing	9,957	10	7,998	8
Commerce and tourism	11,803	12	8,335	9
Consumer loans and credit cards	20,995	21	20,437	22
Agriculture, forestry and fishing	2,315	2	1,871	2
Transportation, warehousing and communication	1,772	2	1,068	1
Other	257	–	67	–
	$ 102,403	100	94,528	100

(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, 2008, the amortized amount, corresponding to the deferred premium amounts to $125 while the balance of the liability computed based on monthly collection trends amounts to $89.

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.

(Continued)

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At December 31, 2008 the outstanding balance of this portfolio amounts to $419 ($1,096 nominal in 2007).

(d) Loan to the IPAB-

On May 5, 2005, a $2,000 loan (nominal) was granted to the IPAB, maturing in 2012, which, with dates March 5 and April 7, 2008, was prepaid by the amounts of $1,500 and $500, respectively. The loan bore interest at the 28-day TIIE (Interbank Equilibrium Interest Rate) plus 0.25%; principal and interest were payable at maturity and monthly, respectively. During 2008 and 2007 the IPAB paid interest amounting to $45 and $160, respectively. The loan was 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 was reported under "Loans to Government Entities" (see e. in this note).

(e) Loans to government entities-

At December 31, 2008 and 2007, loans granted to government entities are analyzed as follows:

		2008	2007
Highway construction loan	$	–	5,078
Autonomous entity loan		175	59
Receivables under financial support programs		465	259
IPAB (see paragraph d. of this note)		–	2,012
Governments, municipalities and state secretariats		4,226	3,816
Total loans to government entities	$	4,866	11,124

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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). In October 2008, the credit was securitized through a specific purpose trust (see note 1(d)).

Debtor support programs:

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

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

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

The financial support programs and agreements consist of discounts granted to debtors, which are generally absorbed proportionately by the Mexican government and the Bank, in accordance with the terms of each program. Certain discounts are conditional subject to the net cash flows contributed by the Bank to the specific economic sector. The amounts receivable from the Federal Government on discounts granted in connection with the BADCV and BADCVF programs, as of December 31, 2008 and 2007 amount to $465 and $259, respectively.

The Bank's cost associated with the various debtor support programs and agreements for the years ended December 31, 2008 and 2007 is as follows:

	2008	2007
FOVI	$ –	18
Residential mortgages	47	15
	$ 47	33

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(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, 2008 and 2007, the outstanding balances of restructured loans under UDI Trusts are analyzed as follows:

	2008		
	Loan portfolio		Average annual
	Current	Past due	interest rate
Residential mortgages	$ 633	116	8.90%
Loans to individuals	10	8	9.65%
	$ 643	124	

	2007		
	Loan portfolio		Average annual
	Current	Past due	interest rate
Residential mortgages	$ 1,207	144	8.49%
Loans to individuals	58	8	9.23%
	$ 1,265	152	

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

Annual weighted lending rates:

Annual weighted loan interest rates during 2008 and 2007 were as follows:

	2008	2007
Commercial loans*	8.79%	8.68%
Personal loans	16.00%	15.20%
Credit cards	29.07%	25.66%
Residential mortgages	11.45%	11.35%

* Includes commercial, financial and government entities loans.

(Continued)

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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, 2008 and 2007, the amount of loans granted under these programs totaled $4,244 and $4,411, respectively, and the related liability is included in "Bank and other loans" (see note 15).

Restructured loans:

At December 31, 2008 and 2007, restructured and renewed loans are analyzed as follows:

	Current loans	Past due loans	Total
2008			
Commercial loans	$ 412	123	535
Residential mortgages	1,975	49	2,024(1)
Personal loans	4	-	4
	$ 2,391	172	2,563
2007			
Commercial loans	$ 438	105	543
Residential mortgages	2,286	103	2,389(1)
Personal loans	15	-	15
	$ 2,739	208	2,947

During the years ended December 31, 2008 and 2007, no past due interest was capitalized.

(1) From the total balance of restructured and renewed residential mortgage loans as of December 31, 2008 and 2007, additional guaranties were not obtained.

Risk concentration:

At December 31, 2008 and 2007, balances due from one individual debtor do not exceed 10% of the Bank's basic capital. The balance of the loans granted to the three largest debtors as of December 31, 2008 and 2007, amount to $4,369 and $3,385, respectively.

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Past due loan portfolio:

An analysis of past due loans at December 31, 2008 and 2007, from the date the loans went past due, is summarized below:

	90 to 180 days	181 to 365 days	1 to 2 years	Over 2 years	Total
December 31, 2008					
Commercial*	$ 138	5	43	66	252
Consumer	1,301	151	36	21	1,509
Residential mortgages	966	558	166	145	1,835
	$ 2,405	714	245	232	3,596
December 31, 2007					
Commercial*	$ 46	5	102	402	555
Consumer	931	116	26	–	1,073
Residential mortgages	552	317	123	124	1,116
	$ 1,529	438	251	526	2,744

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

(Continued)

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The movement in the past due loan portfolio for the years ended December 31, 2008 and 2007 is summarized below:

	2008	2007
Balance at beginning of year	$ 2,744	1,984
Settlements	(305)	(55)
Write-offs and debt forgiveness	(2,209)	(1,384)
Net increase	3,316	2,239
Foreign exchange fluctuation	50	(40)
Balance at end of year	$ 3,596	2,744

Nominal interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2008 amounted to $114 ($213 in 2007).

Impaired loans:

The balance of impaired commercial loans as of December 31, 2008 and 2007 is $967 and $796, of which $715 and $241 are recorded in current loans, and $252 and $555 are past due loans, respectively.

As of December 31, 2008, the Bank's loan portfolio includes a $250 loan extended to a business concern, which was 100% provided for as a result of application of the rating methodology.

(h) Allowance for loan losses-

As explained in notes 2(h) 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, 2008 and 2007, the allowance for loan losses classified between general reserves and specific reserves according to the criteria mentioned in note 2(h), is as follows:

Loan portfolio	2008 General	2008 Specific	2007 General	2007 Specific
Commercial*	$ 225	966	184	891
Consumer	56	1,576	89	1,049
Residential mortgages	105	844	96	568
	$ 386	3,386	369	2,508
	$ 3,772		2,877	

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

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At December 31, 2008, the graded loan portfolio and the allowance for loan losses, are classified as follows:

Degree of risk	Commercial*	Consumer	Residential mortgages	Total
Graded loan portfolio				
A and A-1	$ 24,494	11,218	30,133	65,845
A-2	11,108	–	–	11,108
B and B-1	8,305	7,937	3,623	19,865
B-2	604	–	–	604
B-3	611	–	–	611
C and C-1	133	711	378	1,222
C-2	19	–	–	19
D	4	778	824	1,606
E	413	351	44	808
Total portfolio graded	$ 45,691	20,995	35,002	101,688
Allowance for loan losses				
A and A-1	$ 117	56	105	278
A-2	108	–	–	108
B and B-1	377	324	121	822
B-2	43	–	–	43
B-3	81	–	–	81
C and C-1	42	351	123	516
C-2	8	–	–	8
D	4	568	559	1,131
E	411	333	41	785
Allowance for graded loans	$ 1,191	1,632	949	3,772
Additional reserves for past due interest				65
Operational risk reserve				38
Additional identified reserves				13
Total allowance for loan losses				$ 3,888

* Includes commercial, financial institutions and government entities loans.

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At December 31, 2007, the graded loan portfolio and the allowance for loan losses, are classified as follows:

Degree of risk	Commercial*	Consumer	Residential mortgages	Total
Graded loan portfolio				
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	414	142	17	573
Total portfolio graded	$ 34,678	20,437	31,952	87,067
Allowance for loan losses				
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	407	133	14	554
Allowance for graded loans	$ 1,075	1,138	664	2,877
Additional reserves for past due interest				47
Operational risk reserve				29
Additional identified reserves				223
Total allowance for loan losses				$ 3,176

* Includes commercial, financial institutions and government entities loans.

(Continued)

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The movement in the allowance for loan losses for the years ended December 31, 2008 and 2007 is summarized below:

		2008	2007
Balance at beginning of year	$	3,176	2,771
Provisions charged to results of operations		3,023	1,849
Write-offs and debt forgiveness		(2,387)	(1,422)
Other		76	(22)
Balance at end of year		3,888	3,176

(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 mortgages 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 residental 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 1(e), (f), (g) at December 31, 2008 and 2007 the Bank acquired collection rights for $2,302 and $3,227 respectively, of which at December 31, 2008 and 2007 the Bank had collected $1,463 and $132 respectively; therefore, the replaceable promissory note outstanding from December 14, 2007 to December 31, 2008 amounted to $3,934, 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 basis points.

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, 2008, and 2007, no allowance is required.

(Continued)

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As a result of this transaction, for the year ended at December 31, 2008 and the last quarter of 2007 the Bank recognized in income revenues for $3 in both years, corresponding to the fee for the unused line of credit and restructuring as well as revenues for $461 and $47, respectively, of interest earned, which are included in the consolidated statement of income under "Other income".

As for the purchase of receivables in May 2008, as explained in note 1(e), a drawdown of $1,000 was taken, which was repaid in September 2008. Interest obtained by the Bank on this transaction amounted to $32, and was recorded in income under "Other Income".

Concerning the third purchase of receivables as explained in note 1(f), the Bank has taken four drawdowns amounting to $3,760, with an unused line of credit of $300 as of December 31, 2008. The interest charged as of December 31 2008 amounted to $45.

Mortgage portfolio

As part of the consideration for the mortgage portfolio securitization the Bank received a trust certificate, the value of which as of December 31, 2008 is $219.

(11) Foreclosed assets-

At December 31, 2008 and 2007, foreclosed assets are analyzed as follows:

		2008	2007
Premises	$	108	108
Assets under enforceable promise to sell		2	9
Rent from foreclosed assets		(1)	–
Restatement for inflation		–	3
		109	120
Allowance for impairment		(81)	(53)
	$	28	67

The movement of the allowance for impairment for the years ended December 31, 2008 and 2007 is analyzed as follows:

		2008	2007
Balance at beginning of year	$	53	42
Additional provisions due to aging, charged to operations for the year		34	22
Credit to income on sale of assets		(6)	(11)
Balance at end of year	$	81	53

(Continued)

(Millions of Mexican pesos – note 3)

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

Premises, furniture and equipment and leasehold improvements at December 31, 2008 and 2007 are analyzed as follows:

	2008	2007	Annual depreciation and amortization rate
Office premises	$ 1,977	1,977	Various
Office furniture and equipment	853	728	10%
Computer equipment	843	808	30%
Transportation equipment	43	42	25%
Telecommunications equipment	180	148	10%
Leasehold improvements	938	671	5%
Construction in progress	26	17	–
	4,860	4,391	
Accumulated depreciation and amortization	(2,065)	(1,965)	
	$ 2,795	2,426	

Depreciation and amortization charged to results of operations in 2008 and 2007 amounted to $195 and $175, respectively.

(13) Permanent investments in shares-

At December 31, 2008 and 2007, permanent investments in shares, classified by activity, are analyzed as follows:

	2008	2007
Banking related services	$ 82	76
Mutual Funds	30	31
Derivatives market operators	5	33
Security and protection *	1	2
	$ 118	142

* At December 31, 2008 and 2007, the Bank maintains a reserve for the totality of the shares of a company engaged in the armored car services.

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(14) Deposit funding-

The average weighted interest rates on deposit balances during the years ended December 31, 2008 and 2007 are as follows:

	2008 Rates		2007 Rates	
	Pesos	Dollars	Pesos	Dollars
Demand deposits	2.10%	0.53%	1.90%	1.26%
Savings deposits	0.55%	–	0.55%	–
Time deposits	6.68%	1.38%	6.13%	2.63%
Money market	7.86%	–	7.13%	–

As a result of the bank debt certificates program authorized by the Banking Commission up to $10,000, at December 31, 2008 the Bank has placed $2,000 of 5-year certificates that pay interest every 28 days at a variable 28-day TIIE rate less 0.09%, $2,000 of 3-year certificates that pay interest every 28 days at a variable 28-day TIIE rate plus 0.04%, $1,500 of 5-year certificates that pay interest every 28 days at a variable 28-day TIIE 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, 2008, the accrued interest payable amounts to $42, ($36 in 2007).

At December 31, 2008 and 2007, 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, 2008 and 2007, bank and other loans are analyzed as follows:

	2008	2007
Due on demand and short-term:		
Pesos:		
Banco de México [1]	$ –	180
Private domestic banks	1,300	–
Development banks [2]	1,080	477
Development agencies [2]	854	867
Accrued interest	12	6
Total pesos, due on demand and short-term, carried forward	$ 3,246	1,530

[1] At December 31, 2008 and 2007, loans from Banco de México had average maturities of 22 days.

[2] Development funds (see note 9g.)

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		2008	2007
Total pesos, due on demand and short-term, brought forward	$	3,246	1,530
Denominated in dollars:			
Foreign banks		3	–
Development agencies [2]		453	75
Accrued interest		1	1
		457	76
Total due on demand and short-term		3,703	1,606
Long-term:			
Pesos:			
Development banks [2]		307	340
Development agencies [2]		1,547	1,909
FOVI		595	733
		2,449	2,982
Denominated in dollars:			
Foreign banks		–	5
Development agencies [2]		3	–
		3	5
Total long-term		2,452	2,987
Total bank and other loans	$	6,155	4,593

[2] Development funds (see note 9g.).

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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 agreed to daily by the lender. At December 31, 2008 and 2007, the Bank has no significant interbank lines of credit with authorized amounts that have not been drawn down.

At December 31, 2008 and 2007, bank and other loans average annual interest rates are as follows:

	2008 Rates		2007 Rates	
	Pesos	Foreign currency	Pesos	Foreign currency
Private domestic banks	8.12%	–	7.67%	–
Banco de México	8.74%	–	7.53%	–
Development banks	10.64%	–	10.99%	–
Development agencies	8.58%	1.73%	7.06%	5.72%
Others	–	5.76%	–	5.90%

(16) Employee benefits-

The Bank has in place a contributory pension and post-retirement benefit plan that covers all employees joining the Bank beginning on April 1, 2006. The plan is optional for those employees who joined the Bank at an earlier date. The plan provides for established contributions by both the Bank and employees, which may be fully withdrawn by employees when aged 55.

For the years ended December 31, 2008 and 2007, the charge to operations for the Bank's contributions to the contributory pension plan amounted to $47 and $38, respectively.

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

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The cost, obligations and assets of the defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2008 and 2007. The components of the net periodic cost at nominal value for the years ended December 31, 2008 and 2007 are as follows:

	2008						
	Pensions			Seniority premium			Medical expenses, food coupons, life insurance
	Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Service cost	$ 32	1	33	2	5	7	75
Interest cost	145	3	148	3	4	7	173
Return on plan assets	(143)	(3)	(146)	(4)	(5)	(9)	(139)
Amortizations:							
Prior service – transition (asset)	–	–	–	–	–	–	(8)
Prior service - plan improvements	–	–	–	–	–	–	(3)
Actuarial loss or (gain), net	–	4	4	–	(4)	(4)	49
Net periodic cost	34	5	39	1	–	1	147
Transition cost on vested benefits	–	–	–	–	–	–	(76)
Cost on immediate recognition of losses	–	2	2	–	10	10	–
Total cost	$ 34	7	41	1	10	11	71

	2007		
	Pensions	Seniority premiums	Post-retirement medical-benefits, food-vouchers & life insurance
Service cost	$ 27	6	55
Interest cost	58	3	67
Return on plan assets	(62)	(3)	(51)
Amortization of transition obligation	–	–	37
Prior service cost and plan modifications	–	–	(8)
Variances in assumptions and experience	–	–	(3)
Net periodic cost	$ 23	6	97

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Below is a reconciliation of opening and final balances, and detail on the present value of the pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2008:

		Pensions			Seniority premium			Medical expenses, food coupons, life insurance
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Acquired benefit obligations (ABO)	$	(1,114)	-	(1,114)	(1)	–	(1)	(979)
Defined benefit obligations (DBO) as of January 1, 2008		(1,769)	(36)	(1,805)	(38)	(51)	(89)	(2,098)
Current service cost		(32)	(1)	(33)	(2)	(5)	(7)	(75)
Interest cost		(145)	(3)	(148)	(3)	(4)	(7)	(173)
Paid benefits		106	1	107	–	3	3	46
Actuarial loss		138	4	142	10	–	10	480
Defined benefit obligations (DBO) as of December 31, 2008		(1,702)	(35)	(1,737)	(33)	(57)	(90)	(1,820)
Plan assets at fair value		1,362	32	1,394	42	52	94	1,511
Financial situation of the fund		(340)	(3)	(343)	9	(5)	4	(309)
Past service:								
Transition asset		–	–	–	–	–	–	(32)
Plan improvements		3	–	3	–	1	1	(46)
Actuarial gains (losses)		335	–	335	(5)	–	(5)	722
Projected (liability) asset, net	$	(2)	(3)	(5)	4	(4)	–	335

A reconciliation of net projected asset as of December 31, 2008 is analyzed as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance,
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Projected (liability) asset, net as of January 1, 2008	$	(2)	–	(2)	4	6	10	182
Net cost for fiscal year 2008		(34)	(5)	(39)	(1)	–	(1)	(147)
Transition cost on vested benefits		–	–	–	–	–	–	76
Contributions to fund during 2008		34	4	38	1	–	1	224
Immediate recognition of losses		–	(2)	(2)	–	(10)	(10)	–
Projected (liability) asset, net as of December 31, 2008	$	(2)	(3)	(5)	4	(4)	–	335

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Detail on the present value of the defined pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2007 is analyzed as follows:

		Pensions	Seniority premiums	Post-retirement medical benefits, food vouchers & life insurance
Projected benefit obligation (PBO)	$	1,683	90	1,946
Plan assets at market value		(1,619)	(105)	(1,479)
PBO in excess of (less than) plan assets		64	(15)	467
Unamortized items:				
Prior service cost and plan modifications		(3)	(2)	50
Variances in assumptions and experience		(59)	7	(813)
Transition asset		–	–	114
Net projected liability (asset)	$	2	(10)	(182)
Present benefit obligations:				
Vested	$	1,062	79	
Unvested		570	11	
Total present benefit obligations		1,632	90	
Plan assets		(1,619)	(105)	
Net liability (asset)	$	13	(15)	
Additional liability	$	11		
Intangible asset		(3)		
Reduction in stockholders' equity	$	8		

(Continued)

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Below is an analysis of movements of the plan assets required for covering the employee benefit obligations for the years ended December 31, 2008 and 2007:

		2008	2007
Balance at beginning of year	$	3,203	2,930
Plan contributions		263	220
Return on plan assets		(311)	216
Benefits paid		(156)	(163)
Balance at end of year	$	2,999	3,203

During fiscal year 2009, the expected return and the expected loss on the plan assets covering the labor obligations are $295 and $605, respectively.

During fiscal year 2009, contributions to the fund in the amount of $170 are expected to cover the employee benefit obligations.

Below is a reconciliation of opening and final balances, and detail on the present value of statutory severance compensation obligations as of December 31, 2008:

ABO	$	–
DBO at January 1, 2008	$	(263)
Current service cost		(16)
Interest cost		(20)
Benefits paid		32
Actuarial loss		(3)
DBO at December 31, 2008		(270)
DBO over plan assets		(270)
Prior service:		
Transition liability		154
Projected liability, net	$	(116)

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Detail on the present value of statutory severance compensation obligations as of December 31, 2007 follows:

PBO	$	262
Unamortized items:		
Variances in assumptions and experience adjustments		23
Transition liability		(193)
Projected liability, net	$	92
Statutory severance compensation obligations and current liability, net	$	248
Additional liability and intangible asset	$	156

The net cost of statutory compensation benefits for the years ended December 31, 2008 and 2007, amounted to $53 y $48, respectively.

The nominal rates for 2008 and real rates for 2007 used in actuarial projections are as follows:

	2008	2007
Return on plan assets	10.20%	4.75%
Discount rate	9.50%	4.00%
Rate of compensation increase	5.50%	1.25%
Rate of increase in medical expenses	7.25%	3.00%
Estimated inflation rate	4.25%	4.00%

The expected return on the plan assets was determined based on historical information of the plan, Mexico's rate curves and the Bank's investment policy.

The plan assets covering the pension, seniority premium, medical expense, food coupons, and life insurance for retirees benefit plans consist of 65% equity instruments and 35% debt instruments subject to a trust and managed by a Bank-designated committee.

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

	Rate	DBO medical expenses for retirees
Without amortization	7.25%	$ 1,368
1% increase in medical inflation rate	8.25%	1,502
1% decrease in medical inflation rate	6.25%	1,251

A summary of the amount of employee benefits related to PBO, plan assets and projected benefit obligation over (under) plan assets and experience adjustments, for the years ended December 31, 2006, 2005 and 2004 follows:

	Pensions		
	2006	2005	2004
DBO	$ (1,540)	(1,945)	(1,751)
Plan assets	1,636	1,796	1,719
Financial situation of the fund	$ 96	(149)	(32)
Variances in assumptions and experience adjustments	$ (55)	78	24

	Seniority premiums		
	2006	2005	2004
DBO	$ (81)	(70)	(62)
Plan assets	76	66	57
Financial situation of the fund	$ (5)	(4)	(5)
Variances in assumptions and experience adjustments	$ (2)	(1)	4

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		Medical expenses, food coupons and life insurance		
		2006	**2005**	**2004**
DBO	$	(1,724)	(1,363)	(1,247)
Plan assets		1,218	1,114	807
Financial situation of the fund	$	(506)	(249)	(440)
Variances in assumptions and experience adjustments	$	63	(120)	(4)

		Statutory severance compensation		
		2006	**2005**	**2004**
DBO	$	(239)	(285)	(239)
DBO losses	$	(65)	12	–

As of December 31, 2008, the amortization periods in years for unrecognized items related to defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees and statutory severance compensation benefits are as follows:

	Pensions		Seniority premium		Medical expenses, food coupons, life insurance, for retirees	Statutory severance compensation
	Retirement	**Disability**	**Retirement**	**Termination**		
Prior service – transition (asset) liability	–	–	–	–	4.2	3.2
Prior service –plan improvements	10.8	4	14.2	4	13.5	–
Actuarial loss (gain), net	10.4	Immediate	15.3	Immediate	15.5	Immediate

(Continued)

(17) Income taxes (Income Tax) (IT), Flat Rate Business (IETU), asset tax (AT) and employee statutory profit sharing (ESPS)-

On October 1, 2007 new laws were published, certain tax laws were revised, and additionally a presidential decree was issued on November 5, 2007, which came into effect on January 1, 2008. The most important changes are: (i) derogation of the Asset Tax Law and (ii) 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 is 16.5% for 2008, 17% for 2009 and 17.5% from 2010 onwards.

Accordingly, the Bank will continue to determine and pay the IT incurred for the year. Should the IETU incurred be greater than IT for the same year, the IT actually paid may be credited against IETU, with any excess being payable. If IETU is incurred, the tax payment will be considered final, not subject to recovery in subsequent years.

Under the tax law in force through December 31, 2007, companies were required to pay the greater of their IT and AT. AT payable in excess of IT for the year may be recovered, restated for inflation, in the ten succeeding years, providing that IT exceeds AT in any such years. For the year ended December 31, 2007, the IT incurred exceeded AT; therefore, the Bank was entitled to recover $184 for AT paid in excess of IT for prior years, which were recognized in operations for the year under "Other income".

Because, according to Bank's estimates, the tax payable in future years will be IT, deferred tax effects as of December 31, 2008 and 2007 have been determined on an IT basis.

For IT determination, an IT rate of 28% is applied to the taxable income for the year. Specific rules relating to the deductibility of expenses and the recognition of the effect of inflation are established by the IT Law.

On May 19, 2004, the Bank obtained favorable resolution of the action for relief and Federal Justice Protection filed against articles16 and 17, last paragraph, of the Income Tax Law in force in 2002. Accordingly, the Bank is thus authorized to equalize the amount of the tax base for ESPS determination and that used for IT purposes.

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Current IT and ESPS:

At December 31, 2008 and 2007, the IT and ESPS expense in the consolidated statement of income is analyzed as follows:

	2008		2007	
	IT	**ESPS**	**IT**	**ESPS**
Bank (IT)	$ 734	262	204	382
Inmobiliaria (IT)	14	–	19	–
Service entities (IT)	1	–	1	–
MexDer Trust	31	–	15	–
Restatement for inflation and other	–	–	3	4
	$ 780	262	242	386
	$ 1,042		628	

Deferred IT and ESPS:

The deferred tax asset (liability) at December 31, 2008 and 2007 comprises the following:

	2008	**2007**
Valuation of financial instruments:		
Trading	$ (42)	(12)
Available-for-sale	(170)	(42)
Cash flow hedge swaps	(41)	(6)
Expense accruals and others	181	308
Premises, furniture and equipment	(26)	(34)
Pension plan	217	184
Unearned fees collected	(80)	(43)
Foreclosed assets	296	199
Allowance for loan losses	201	201
	$ 536	755

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Deferred IT and ESPS credits (charges) to results of operations and stockholders' equity, for the years ended December 31, 2008 and 2007 are presented below:

		2008	2007
Valuation of financial instruments	$	(158)	32
Cash flow hedge swaps		(35)	(6)
Expense accruals and others		(127)	140
Premises, furniture and equipment		8	36
Pension plan		(37)	(40)
Unearned fees collected		33	49
Foreclosed assets		97	176
Allowance for loan losses		–	201
Recognition of additional liability from labor obligations		–	(14)
	$	(219)	574

Deferred tax:			
In results of operations	$	(56)	537
In stockholders' equity:			
Valuation of available-for-sale securities		(128)	59
Valuation of cash flow hedge swaps		(35)	(7)
Recognition of additional liability for labor obligations		–	(15)
	$	(219)	574

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Following is an analysis of the effective tax rate of the Bank as individual contributor of the fiscal years ended at December 31, 2008 and 2007:

		IT		ESPS
	Tax Base	**Tax at 28%**	**Effective rate**	**at 10%**
December 31, 2008				
Income before IT, ESPS and equity in the results of associated companies	$ 3,857			
Current ESPS	(262)			
Deferred ESPS	(16)			
Income before IT and equity in the results of associated companies	3,579	(1,002)	(28%)	(358)
Allocation to current tax:				
Adjustment for effects of inflation	(1,108)	310	9%	111
Mark to market of investment securities	55	(15)	–	(5)
Depreciation and amortization	(135)	38	1%	14
Non-deductibles expenses	302	(85)	(2%)	(30)
Deduction for provision for loan losses	(118)	33	1%	11
Current and deferred ESPS	278	(78)	(2%)	(28)
Deduction ESPS paid in the year	(380)	106	3%	38
Tax recoveries and others	147	(41)	(1%)	(15)
Current tax	2,620	(734)	(19%)	(262)
Allocation to deferred tax:				
Mark to market of investment securities	86	(24)	(1%)	(9)
Provisions and others	232	(65)	(2%)	(23)
Premises, furniture and equipment	(18)	5	–	2
Pension plan	100	(28)	(1%)	(10)
Foreclosed assets	(50)	14	–	5
Unearned fees collected	(193)	54	2%	19
Deferred tax	157	(44)	(2%)	(16)
Income tax	$ 2,777	(778)	(21%)	(278)

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	IT			ESPS
	Tax Base	**Tax at 28%**	**Effective rate**	**ESPS at 10%**
December 31, 2007				
Income before IT, ESPS and equity in the results of associated companies	$ 3,703			
Current ESPS	(382)			
Deferred ESPS	143			
Income before IT and equity in the results of associated companies	3,464	(970)	(28%)	(346)
Allocation to current tax:				
Accounting effects of inflation	614	(172)	(5%)	(61)
Adjustment for effects of inflation	(501)	140	4%	50
Mark to market of investment securities	(59)	17	–	6
Depreciation and amortization	101	(28)	(1%)	(10)
Non-deductibles expenses	113	(32)	(1%)	(11)
Deduction for provision for loan losses	(131)	37	1%	13
Tax recoveries and others	205	(58)	(2%)	(21)
Current and deferred ESPS	239	(67)	(2%)	(24)
Deduction ESPS paid in the year	(221)	62	2%	22
Utilization of prior years' tax loss carryforwards	(3,095)	867	25%	–
Current tax	729	(204)	(7%)	(382)
Allocation to deferred tax:				
Mark to market of investment securities	68	(19)	–	(7)
Provisions and others	(379)	106	3%	38
Premises, furniture and equipment	(113)	32	1%	11
Pension plan	105	(29)	(1%)	(11)
Foreclosed assets	(463)	130	3%	46
Unearned fees collected	(129)	36	1%	13
Allowance for loan losses	(529)	148	4%	53
Deferred tax	(1,440)	404	11%	143
Income tax	$ (711)	200	4%	(239)

(Continued)

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, 2008, 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 year ended December 31, 2007, tax loss carryforwards of $3,095, were utilized which resulted in tax benefits of $867, reported in the consolidated 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.

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 similar to those that would be used in arm's-length transactions.

(18) Stockholders' equity-

(a) Structure of capital stock-

At the Extraordinary General Stockholders' Meeting held on April 27, 2007, it was agreed to increase the capital stock by capitalizing retained earnings of $3,258 ($3,175 nominal). Therefore, at December 31, 2008 and 2007, the nominal subscribed and paid capital stock totals $6,200 represented by 6,200,000,000 registered shares with a par value of one peso per share, divided into 6,199,999,916 Series "F" shares and 84 Series "B" shares.

(b) Dividends declared-

At the Ordinary Annual General Stockholders' Meeting held on April 24, 2008, a resolution was passed to declare the dividend payment as follows:

- Declaration of dividend in cash amounting to $75 at a rate of $0.01209 pesos per share for the 6,200,000,000 registered series "F" and "B" shares.

- Payment of dividend in a single exhibit on April 28, 2008 is approved, charged to Retained Earnings, and increase for inflation adjustment of retained earnings.

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

- A maximum payment of dividends in cash amounting to $1,718 ($1,700 nominal), charged to retained earnings at a rate of $0.56 pesos per share for the 3,025,000,000 registered series "F" and "B" shares as of that date.

- Periodic dividend payments to be approved by the Board of Directors, taking into account the quarterly results of the Bank's operations ranging between 20% and 45% of net income for the quarter.

Cash payments made in the period from April 2007 to December 2008 are detailed below:

Payment date		Amount
May 9, 2007	$	287
June 11, 2007		173
August 31, 2007		199
November 30, 2007		229
Dividends paid during 2007		888
March 28, 2008		195
May 30, 2008		210
August 29, 2008		199
Dividends paid during 2008		604
Dividends paid to December 31, 2008	$	1,492

At December 31, 2008, the balance of dividends declared but not yet paid of $208 is presented in the consolidated balance sheet under "Sundry creditors and other accounts payable".

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(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 Bank 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 and, as of 2007, 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 Bank'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.

The Credit Institutions Law requires an appropriation of 10% of net income for the year to statutory reserves, until such reserves reach an amount equal to paid-in capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2008 the capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) of the Bank amount to $6,559 and $2,801, respectively.

The retained earnings of subsidiaries may not be distributed to the Bank's stockholders until these are received by way of dividends from the subsidiaries. Also, unrealized gains from the valuation of investment 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 as an individual entity is shown on the next page (unaudited information).

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Capital as of December 31:

		2008	2007
Stockholders' equity	$	25,384.1	22,095.5
Investments in financial service entities and their holding companies		(468.7)	(323.2)
Investments in other companies		(113.7)	–
Intangible assets and deferred taxes		(1,734.5)	(1,375.6)
Basic capital (Tier 1)		23,067.2	20,396.7
General loan loss allowances – Supplementary capital (Tier 2)		387.2	369.4
Net capital (Tier 1 + Tier 2)	$	23,454.4	20,766.1

Assets at risk as of December 31, 2008:

		Risk weighted assets	Capital requirement
Market risk:			
Transactions in Mexican pesos at nominal interest rates	$	30,024.5	2,402.0
Transactions with debt securities in pesos with premium and adjustable rates		645.7	51.7
Transactions in Mexican pesos at real interest rates or denominated in UDIS		1,928.2	154.3
Positions in UDIS or with returns linked to the INPC		11.1	0.9
Foreign currency transactions at nominal interest rates		2,291.7	183.3
Foreign currency positions or with exchange rate indexed returns		132.1	10.5
Equity positions or with returns indexed to the price of a single share or group of shares		555.1	44.4
Total market risk, carried forward		35,588.4	2,847.1

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	Risk weighted assets	Capital requirement
Total market risk, brought forward	$ 35,588.4	2,847.1
Credit risk:		
Group III (weighted at 20%)	3,841.5	307.3
Group III (weighted at 23%)	23.6	1.9
Group III (weighted at 50%)	953.6	76.3
Group III (weighted at 57.5%)	2.6	0.2
Group III (weighted at 100%)	12.0	1.0
Group III (weighted at 120%)	60.3	4.8
Group III (weighted at 150%)	4.3	0.3
Group IV (weighted at 20%)	35.2	2.8
Group V (weighted at 50%)	2,097.9	167.8
Group VI (weighted at 50%)	7,895.3	631.6
Group VI (weighted at 75%)	8,867.3	709.4
Group VI (weighted at 100%)	27,828.7	2,226.3
Group VII (weighted at 20%)	910.8	72.9
Group VII (weighted at 100%)	32,614.8	2,609.2
Group VII (weighted at 150%)	757.2	60.6
Group VIII (weighted at 125%)	2,022.2	161.8
Group IX (weighted at 100%)	23,142.6	1,851.3
Total credit risk	111,069.9	8,885.5
Operational risk	4,650.8	372.1
Total market, credit and operational risk	$ 151,309.1	12,104.7

Capitalization indices as of December 31:

	2008	2007
Capital to credit risk assets:		
Basic capital (Tier 1)	20.77%	20.97%
Supplementary capital (Tier 2)	0.35%	0.38%
Net capital (Tier 1 + Tier 2)	21.12%	21.35%
Capital to market and credit risk assets:		
Basic capital (Tier 1)	15.25%	16.92%
Supplementary capital (Tier 2)	0.25%	0.31%
Net capital (Tier 1 + Tier 2)	15.50%	17.23%

(Continued)

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

At December 31, 2008, the net capital structure of $23,454.4 increased 11% from $20,766.1 in 2007, mainly due to the year's results of operations.

(19) Related-party transactions-

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

The principal transactions carried out with related parties for the years ended December 31, 2008 and 2007, are analyzed as follows (nominal):

	2008	2007
Income:		
Premiums and interest collected on securities purchased under agreements to resell:		
Scotia Inverlat Casa de Bolsa, S. A. de C. V. (Brokerage Firm)	$ 1,012	1,125
Other:		
Brokerage Firm	28	26
Scotia Fondos, S. A. de C. V. (Mutual Funds Management Company)	191	156
	219	182
	$ 1,231	1,307

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	2008	2007
Expenses for:		
Interest:		
Group	$ 2	2
Brokerage Firm	178	191
	180	193
Premiums on repurchase / resell agreements:		
Brokerage Firm	853	899
Other:		
Brokerage Firm	52	29
Scotia Afore S. A. de C. V. (retirement funds administrator)	2	–
	54	29
	$ 1,087	1,121

Balances receivable from and payable to related parties as of December 31, 2008 and 2007 are as follows:

	2008	2007
Receivable:		
Repurchase/resell agreements, net:		
Brokerage Firm	$ 4	2
Loans granted:		
Related-party	$ 4,899	230
Value date transactions:		
Brokerage Firm	$ –	5
Other:		
Brokerage Firm	$ 11	19
Mutual Funds Management Company	16	14
	$ 27	33

(Continued)

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	2008	2007
Payable:		
Demand deposits:		
Brokerage Firm	$ 1,336	12
Afore	1	2
Group	34	21
Related-party	738	758
	$ 2,109	793
Other:		
Group (Dividends)	$ 208	812
Afore	1	–
Brokerage Firm	20	54
	$ 229	866

(20) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees issued-

At December 31, 2008, the Bank had irrevocable commitments to grant loans for $3,164 ($2,784, respectively, in 2007).

Allowances created at December 31, 2008 and 2007 for letters of credit amount to $27 and $16, respectively, and are included in the allowance for loan losses.

(b) Assets in trust or under mandate-

The Bank's trust activity, recorded in memorandum accounts as of December 31, 2008 and 2007, is analyzed as follows:

	2008	2007
Trust:		
Administrative	$ 93,289	77,521
Guarantee	3,132	3,201
Investment	495	446
	96,916	81,168
Mandates	486	554
	$ 97,402	81,722

Trust revenue for the years ended December 31, 2008 and 2007 amounted $168 and $140, respectively.

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

In this account, the Bank records property and securities received in custody, guarantee or under management. As of December 31, 2008 and 2007, the assets in custody are analyzed as follows:

		2008	2007
Securities in custody:			
Securities	$	226	21
General		611	337
Investment		416	590
Securities management		932	936
Other		2,535	2,237
		4,720	4,121
Securities pledged in guarantee		42,799	45,056
Securities under management:			
Securities		44,511	40,024
Other		1,773	2,793
		46,284	42,817
Transactions with derivative financial instruments on behalf of third parties:			
Futures		9,171	238,287
Options		–	(3)
		9,171	238,284
	$	102,974	330,278

Income arising from securities in custody for the years ended December 31, 2008 and 2007 amounts to $5 and $7, respectively.

(d) ***Investments on behalf of customers-***

As of December 31, 2008 and 2007 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:

		2008	2007
Equities and others	$	7,194	2,026
Government securities		13,841	29,981
Mutual funds		18,125	15,294
Bank securities not issued by the Bank		5,490	8,587
	$	44,650	55,888

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

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(21) Additional information on operations and segments-

(a) Segment information-

The Bank's operations are classified in the following segments: credit and services (acceptance of deposits, granting of loans, trusts and other income in subsidiaries) and treasury and trading (securities, derivatives and currency transactions). For the year ended December 31, 2008 and 2007, income by segment is analyzed as follows:

	Credit and services	Trading and Treasury	Total
December 31, 2008			
Interest income, net	$ 7,424	1,679	9,103
Commissions and fee income, net, financial intermediation income and other income, net	4,855	1,010	5,865
Net operating revenues	12,279	2,689	14,968
Provision for loan losses	(3,023)	–	(3,023)
Administrative and promotional expenses	(7,230)	(575)	(7,805)
Income before IT, ESPS, equity in results of operations of associated companies	2,026	2,114	4,140
Current and deferred IT and ESPS, net			(1,098)
Equity in the results of operations of associated companies, net			57
Net income			$ 3,099

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	Credit and services	Trading and Treasury	Total
December 31, 2007			
Interest income, net	$ 6,344	1,699	8,043
Commissions and fee income, net, financial intermediation income and other income, net	3,952	697	4,649
Net operating revenues	10,296	2,396	12,692
Provision for loan losses	(1,849)	–	(1,849)
Administrative and promotional expenses	(6,522)	(502)	(7,024)
Income before IT, ESPS, equity in results of operations of associated companies	1,925	1,894	3,819
Current and deferred IT and ESPS, net			(91)
Equity in the results of operations of associated companies, net			26
Net income			$ 3,754

(b) ***Financial margin-***

For the years ended December 31, 2008 and 2007, the financial margin consists of the following elements:

Interest income:

Interest income for the years ended December 31, 2008 and 2007 is comprised as follows:

	Credit and Services	Trading and Treasury	Total
December 31, 2008			
Cash and cash equivalents	$ –	1,324	1,324
Investment securities	–	1,210	1,210
Securities under repurchase/resell agreements and transactions that represent secured borrowings	–	2,501	2,501
Current loan portfolio	11,201	–	11,201
Past due loan portfolio	88	–	88
Loan origination fees	210	–	210
Premiums collected	–	1,269	1,269
Valuation gain	–	3	3
	$ 11,499	6,307	17,806

(Continued)

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December 31, 2007		Credit and Services	Trading and Treasury	Total
Cash and cash equivalents	$	–	1,357	1,357
Investment securities		–	1,161	1,161
Securities under repurchase/resell agreements and transactions that represent secured borrowings		–	2,838	2,838
Current loan portfolio		10,213	–	10,213
Past due loan portfolio		84	–	84
Loan origination fees		177	–	177
Premiums collected		–	1,050	1,050
Valuation gain		–	5	5
Increase from adjustment for inflation		343	–	343
	$	10,817	6,411	17,228

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2008 and 2007:

		2008		2007	
		Current	Past due	Current	Past due
Commercial	$	2,731	25	2,190	29
Financial institutions		285	–	259	–
Consumer		4,064	49	3,563	43
Residential mortgages		3,639	14	3,126	12
Government entities		692	–	1,252	–
	$	11,411	88	10,390	84
		$ 11,499		10,474	

For the year ended December 31, 2007, consumer loan interest income includes fees that represent a yield adjustment of $0.3. For the year ended December 31, 2008 such fees are not significant.

For the years ended December 31, 2008 and 2007, total interest income includes interest denominated in foreign currency amounting to 2 and 6 million dollars, respectively.

(Continued)

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Interest expense:

Interest expense for the years ended December 31, 2008 and 2007 is comprised of the following:

		Credit and Services	Trading and Treasury	Total
December 31, 2008				
Demand deposits	$	929	–	929
Time deposits		3,141	–	3,141
Bank bonds		–	550	550
Bank and other loans		–	350	350
Securities under repurchase/resell agreements and transactions that represent secured borrowings		–	1,279	1,279
Premium paid		–	2,448	2,448
Valuation loss		–	1	1
Residential mortgages loan origination fees and expenses		5	–	5
	$	4,075	4,628	8,703
December 31, 2007				
Demand deposits	$	785	–	785
Time deposits		2,908	–	2,908
Bank bonds		–	366	366
Bank and other loans		–	435	435
Securities under repurchase/resell agreements and transactions that represent secured borrowings		–	1,091	1,091
Premium paid		–	2,820	2,820
Increase from adjustment for inflation		174	–	174
	$	3,867	4,712	8,579

For the years ended December 31, 2008 and 2007, total interest expense includes interest denominated in foreign currency amounting to 1 million and 3 million dollars, respectively.

(Continued)

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Monetary position loss:

For the year ended December 31, 2007, the net monetary position loss arising from the accounts related to the financial margin was $606 (which include $576, related to the Bank).

The nominal average balance of the principal monetary assets and liabilities used to determine the Bank's 2007 monetary position loss was as follows (nominal):

Assets:	
Cash and cash equivalents	$ 19,790
Investment securities and securities repurchase/resell agreements	15,651
Loan portfolio	85,477
Total assets	120,918
Liabilities:	
Deposit funding	97,550
Bank and other loans	6,211
Other	1,740
Total liabilities	105,501
	$ 15,417

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

For the years ended December 31, 2008 and 2007, the commission and fee income are analyzed as follows (nominal):

	2008	2007
Letters of credit with no refinancing	$ 31	23
Account handling	221	225
Trust activities	168	140
Fund transfers	53	46
Electronic banking services	232	203
Credit transactions	431	416
Other fees and commissions collected	1,157	1,258
Restatement	–	50
	$ 2,293	2,361

(d) ***Financial intermediation income-***

For the years ended December 31, 2008 and 2007, financial intermediation income is shown on the next page.

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		2008	2007
Unrealized:			
Investment securities	$	(4)	69
Securities repurchase/resell agreements		(32)	1
Trading and hedging derivatives		(57)	10
Foreign currencies and precious metals		112	17
		19	97
Realized:			
Investment securities		201	285
Trading and hedging derivatives		(36)	(96)
Foreign currencies and precious metals		826	397
		991	586
Restatement for inflation		–	14
	$	1,010	697

(e) ***Other income-***

For the years ended December 31, 2008 and 2007, other income is analyzed as follows:

		2008	2007
Recoveries:			
Taxes	$	13	227
Loan portfolio (allowance for loan losses)		759	316
Revenue from purchase of trust securities		461	47
Investment		194	–
Recovery of administrative expenses		35	20
Other		77	183
Income from sales of assets foreclosed or received in lieu of payment		88	108
Monetary position result arising from items not related to the financial margin		–	41
Income from loan insurance		456	382
Sales of shares BMV		205	–
Transfer of securities		99	95
Distribution of mutual fund shares		187	154
Loans to employees		90	68
Food vouchers		121	90
Other, (including restatement for inflation in 2007)		378	494
	$	3,163	2,225

(Continued)

(Millions of Mexican pesos – note 3)

The average 2007 balance of the principal monetary assets and liabilities used to determine the gain or loss in the purchasing power of the monetary position arising from items not related to the financial margin is as follows:

Assets:		
Cash and cash equivalents	$	1,606
Investment securities and derivatives		15
Other accounts receivable		6,652
Others		1,481
Total assets		9,754
Liabilities:		
Other accounts payable		7,020
Deferred credits		477
Total liabilities		7,497
	$	2,257

(f) ***Other expense-***

For the years ended December 31, 2008 and 2007, other expense is composed of the following:

		2008	2007
Write-offs and miscellaneous losses	$	182	90
Negative monetary position result arising from items not related to the financial margin		–	117
Other, (including restatement for inflation in 2007)		12	15
	$	194	222

(Continued)

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Notes to Consolidated Financial Statements

(Millions of Mexican pesos – note 3)

(g) ***Financial ratios-***

Following are some principal quarterly financial ratios as of and for the years ended December 31, 2008 and 2007:

	2008			
	Fourth	**Third**	**Second**	**First**
Past due loan portfolio / Total loan portfolio	3.6%	3.1%	2.8%	3.1%
Allowance for loan losses / Past due loan portfolio	108.1%	105.1%	117.7%	116.4%
Operating efficiency (*administrative and promotional expenses / average total assets*)	5.8%	5.5%	5.5%	5.2%
ROE (*annualized net income for the quarter / average stockholders' equity*)	9.9%	12.5%	12.8%	16.9%
ROA (*annualized net income for the quarter / average total assets*)	1.7%	2.1%	2.2%	2.8%
Net capital / Assets at credit risk	21.1%	21.8%	21.5%	23.7%
Net capital / Assets at credit and market risks	15.5%	16.6%	17.5%	19.3%
Liquidity (*liquid assets / liquid liabilities*)	62.5%	58.4%	65.8%	70.6%
Financial margin after allowance for loan losses / Average earning assets	4.1%	4.9%	5.3%	4.9%

	2007			
	Fourth	**Third**	**Second**	**First**
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*)	5.9%	5.5%	4.9%	5.1%
ROE (*annualized net income for the quarter / average stockholders' equity*)	16.2%	21.2%	18.5%	15.7%
ROA (*annualized net income for the quarter / total average assets*)	2.7%	3.4%	2.8%	2.4%
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*)	66.0%	72.2%	82.7%	72.6%
Financial margin after allowance for loan losses / Average earning assets	4.9%	5.3%	5.4%	4.5%

(Continued)

(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, 2008 and 2007, amounted to $522 and $451, respectively.

(b) Litigation-

The Bank 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 Bank's financial position and results of operations. Certain cases are covered by an indemnity clause in the agreement with the IPAB.

Tax amnesty program

In 2007 and through the Federal Revenue Law, a tax amnesty 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.

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".

(Continued)

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

In compliance with the provisions issued by the Banking Commission and the guidelines established by BNS, the Bank continues to implement a series of initiatives 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 Bank's risk management policies as well as the overall risk level to which the Bank 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 of risks; such limits may be based on value-at-risk, volumetric or notional amounts and are established in relation to the Bank'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 compliance with the policies and procedures on 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 Bank maintains positions for its own account.

(Continued)

The CAPA performs weekly reviews of the various activities that represent market risks for the Bank, 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 Bank and its customers. The Bank 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 Bank enters into interest rate swaps, forward and futures contracts. Forward foreign exchange contracts are also used to control exchange rate risks. The Bank trades derivative instruments on behalf of its customers and also maintains positions for its own account.

Market risk management in securities trading activities- The Bank's securities trading activities are directed primarily to providing service to its customers. Accordingly, to meet its customers' demands, the Bank 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 Bank carries out for its own account, they are essential to allow customers access to markets and financial instruments at competitive prices. In addition, the Bank has treasury positions invested in the money and capital markets so that surplus cash generates the maximum yields in the Bank'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 Bank 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 Bank 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 limit structure considers mainly volumetric or notional amounts for value at risk, stop loss, sensitivity, concentration, stress, intraday, marketability, precious metals, and other limits.

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 Bank's risk-exposed financial instruments and portfolios using the Risk Watch methodology developed by Algorithmics.

VaR is calculated using the historical simulation method with a 300-working day time span. In order to conform to the measurement methodologies used by BNS, the Bank calculates VaR considering a 99% confidence level and a 1 and 10-day holding period.

(Continued)

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 stress limits.

Also, backtesting is performed monthly for comparing the losses and gains to the observed Value at Risk and thus calibrate the models being used. The model's efficiency level is based on the approach established by the Bank for International Settlements (BIS).

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

For 2008, 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):

	Position			VaR[4]	
	Average	**Maximum**	**Limit**	**Average**	**Limit**
Product					
Bank	$ 173,995.3	190,476.6		54.4	120.0
Pesos:					
Money market	$ 15,240.0	24,632.9	105,000.0	33.1	
Interest rate swaps	128,156.9	135,346.5	157,000.0	11.4	
Interest rate futures	–	–	–	13.8	
Total interest rate positions	$ 143,396.9	159,979.4	262,000.0	53.8	100.0
Investment equity portfolio	$ 27.6	55.2	300.0	1.9	10.0
Dollars:					
Forwards and futures foreign exchange contracts[1] [2]	740.9	1,199.6	4,000.0	5.7	29.5
Foreign exchange market[1] [2]	1.2	3.9	70.0	0.7	19.5
Foreign currency options[2]	0.4	0.8	800.0	0.0	19.5
Foreign currency futures[3]	–	–	–	0.3	19.5
Foreign currency swaps[2]	274.2	284.4	1,500.0	0.0	19.5
Total foreign exchange and foreign currency derivatives	1,016.7	1,488.7	6,370.0	3.7	29.5

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

(2) Notional figures expressed in millions of US dollars.

(3) Position and limit on the number of contracts traded in MexDer.

(4) All limits and respective VaR are 10 days, except for capital, which is a 1-day holding period.

(Continued)

(Millions of Mexican pesos – note 3)

As an example, the average value at risk for the Bank in the money and interest-rate derivatives markets is $53.8, which means that under normal conditions and during a holding period of 10 days there is a 1% probability of losing more than such amount, under the assumption that the behavior over the past 300 trading days is representative for estimating the loss.

The Bank's average 10-day global VaR (unaudited) in 2008 was $27.97 and the global VaR at December 31, 2008 (unaudited) was $62.

During the fourth quarter of 2008, the Bank traded interest rate futures contracts on the Mexican Derivatives Exchange known as MexDer. For the same period, the Institution did not negotiate futures in dollars. Below are the positions in number of contracts traded (unaudited information).

Underlying asset	Average	Maximum	Limit
28-day TIIE futures	188,843.4	239,284.0	975,000.0
91-day Cetes futures	12,539.9	22,000.0	45,000.0
M bond futures	899.9	2,451.0	20,000.0
Total interest rate futures[1]	202,283.2	263,735.0	1,040,000.0
Total US dollar futures[1]	63.5	2,000.0	10,000.0

[1] The relevant position and limit are stated in number of contracts traded in MexDer.

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

"Stress testing" as of December 31, 2008 was 1.6%, which is favorable in relation to the 12% limit. The stress limit is based on the Bank's stockholders' equity and is updated on a monthly basis. The hypothetical scenarios used for stress testing are the 94 and 98 crises.

As for back-testing, the new high volatility scenarios which occurred in October 2008 caused the exceptions to the testing; however, after that month the overall situation was corrected. Since it was a temporary situation no adjustment to the model is required as the high volatility account for all excesses.

The Group's global VaR was yellow as a result of this specific period of unusual volatility. The Basel guidelines require looking for an explanation, and in this case the explanation is the global credit crisis that intensified in October 2008.

(Continued)

(Millions of Mexican pesos – note 3)

Market risk management in available-for-sale securities- At December 31, 2008, the position of the Bank's available-for-sale securities amounts to $10,457. Available-for-sale securities are considered within the Bank's structural position and to measure their risk, repricing gaps, economic value sensitivity and margin sensitivity to interest rate are considered. Of the total, only $529.6 worth of government securities available for sale is considered within the VaR measurement.

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. The principal measurements for interest rate risk management are shown below (unaudited information):.

Description	2008	2007
a) Variance in economic value (Impact on economic value of 100 bp. parallel changes in rates)	644	441
b) Variance in financial income - 12 months (Impact on margin of 100 bp. parallel changes in rates)	138	200

The following table shows the average risk exposure for the various accumulated repricing gaps by currency, which serve as a basis for measurement of the interest rate risk for lending and funding activities (unaudited information):

Accumulated repricing gaps – Mexican pesos + UDIS	Exposure 2008-Q4	Exposure 2007-Q4
3 months	650	12,250
6 months	9,960	15,125
12 months	13,885	18,583
2 years	(2,837)	3,092
3 years	(10,115)	(4,469)
5 years	(4,323)	1,701
10 years	14,646	14,306
15 years	18,187	17,932
20 years	18,318	18,068
30 years	18,340	18,128

(Continued)

Accumulated repricing gaps – Dollars	Exposure 2008-Q4 (Millions of dollars)	Exposure 2007-Q4 (Millions of dollars)
3 months	14	64
6 months	151	105
12 months	165	106
2 years	179	109
3 years	186	109
5 years	175	112
10 years	169	106
30 years	132	105

The simulation models enable the Bank to dynamically assess the interest rate risk. These models are applied primarily to the balance sheet position and consider hypotheses as to growth, mix of new activities, interest rate fluctuations, maturities and other factors.

(b) Liquidity risk-

The Bank'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 Bank is able to obtain funds from alternate 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.

The liquidity risk is monitored and controlled on the aggregate by currency through accumulated liquidity gaps and minimum liquid asset requirements. Below is the Bank's average exposure for 2-week accumulated gaps and average liquid assets for the last quarters of 2008 and 2007, (unaudited information):

Description	2008	2007
Two-week accumulated gap (Mexican pesos + UDIs)	(9,300)	(7,795)
Liquid assets	6,761	8,065

The two-week accumulated gap indicates the Bank's cash commitments in that period while liquid assets serve as funds for meeting such commitments in the event of inability to access other sources of funding.

(Continued)

(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.

The Bank 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 Bank'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 Bank has three different levels of credit authorizations: The Board of Directors, Credit Committee and the Credit Department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used. The business areas prepare and structure the different proposals, which are analyzed and authorized by the Credit Department, or, if applicable, recommended to the corresponding authorization level, thus ensuring an appropriate separation between loan origination and the authorization of transactions.

The business areas also continually evaluate the financial situation of each customer, conducting an in-depth review and analysis of the inherent risk in each loan at least once a year. Should any impairment in a customer's financial situation be detected, the customer's grade is immediately reviewed. In this way, the Bank 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 Bank 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 unit, 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.

(Continued)

Methodology used to determine allowances for loan losses- The Bank 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 Bank 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 articles 126 and 127 of *the General Provisions applicable to the Loan Portfolio Rating Methodology for Credit Institutions* published in the Federal Official Gazette on December 2, 2005 ("the 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 which affect patrimony 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 Provisions.

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

(Continued)

(Millions of Mexican pesos – note 3)

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.

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.

(Continued)

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 efficient and profitable 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 suggest 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.

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 limitations 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 require constant funding from non-routine sources, and repayment performance is weak. These borrowers meet the Bank's minimum acceptable requirements. Management performance is poor. Borrowers are vulnerable to any business and/or industry problems.

(Continued)

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 environments are frail. These customers definitely have unacceptable risks.

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

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

Doubtful recovery: Borrowers with permanent financial problems. Businesses in this category are likely to have ceased operating and so their repayment 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 payments 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.

(Continued)

(Millions of Mexican pesos – note 3)

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

Below are the expected and unexpected losses in nominal amounts as of December and the average of the last quarters of 2008 and 2007 (unaudited):

	2008		2007	
	Closing	Average	Closing	Average
Exposure	$ 253,163	261,504	221,103	229,208
Unexpected losses	7,425	7,356	9,300	9,633
Expected losses	1,229	1,249	1,114	1,334

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 Bank has established control measures to identify, measure and limit the taking of risks in a timely manner derived from the credit activity in its different phases, which are documented in the Credit Policies and Procedures Manual and are constantly reviewed and updated, as well as being submitted for approval by the Board of Directors annually.

(Continued)

(d) Operational risk-

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

For compliance with the rules on operational risk established by the aforementioned Provisions, the Bank 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 Bank can identify, measure, 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.

- Technological Risk Management Policies Manual – This manual sets forth the Bank's general policies and criteria for performing the process for management of this risk.

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

The Bank 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; and

- 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.

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Notes to Consolidated Financial Statements

(Millions of Mexican pesos – note 3)

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, 2008 and 2007 of $285 and $276, respectively, which account for 1% 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 $27 and $150, respectively.

At the close of 2008, the Bank had built a historic database of operational risk losses which includes losses incurred during the period between January 2004 and December 2008, which aggregate 41,586 loss events with a total value of $489, classified under 21 risk categories, itemized below (unaudited information):

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

Risk factors	2004	2005	2006	2007	2008	Grand total, carried forward
Regulatory (fines and penalties)	$ 120	102,956	504	1,510	1,706	106,796
Lost lawsuits	14,582	77,722	31,638	6,764	2,718	133,424
Frauds (internal and external)	4,761	2,951	1,348	5,319	43,961	58,340
Bank card frauds	8,337	8,622	15,790	26,873	25,683	85,305
Phishing	562	14,456	1,352	4,697	151	21,218
Assaults	5,889	2,296	949	3,186	3,794	16,114
Labor lawsuits	1,285	-	-	35	5,712	7,032
Miscellaneous checks	1,946	427	1,739	2,946	991	8,049
Shortages and forgeries (cash supply)	396	519	489	977	910	3,291
Accounting differences	344	112	192	378	214	1,240
Documentary (lost documentation)	160	58	-	-	-	218
Former employee indebtedness	89	-	12	10	3	114
Shortages and forgeries (foreign currency)	199	278	552	291	232	1,552
Irrecoverable amounts	194	29	12	246	8,320	8,801
Overdrafts	55	3	29	20	12	119
Trading	-	1,575	388	320	-	2,283
Errors in executing transactions	-	-	7	1,853	2,905	4,765
Fixed asset damages	-	-	-	975	-	975
System failures	-	-	-	8,014	408	8,422
Fiscal	-	-	-	20,837	-	20,837
Other	-	-	21	263	302	586
Total	$ 38,919	212,004	55,022	85,514	98,022	489,481

(Continued)

(Millions of Mexican pesos – note 3)

Risk factors		Grand total, brought forward	Events Number	Events Average Amount
Regulatory (fines and penalties)	$	106,796	260	411
Lost lawsuit		133,424	146	914
Frauds (internal and external)		58,340	499	117
Bank card frauds		85,305	36,787	2
Phishing		21,218	104	204
Assaults		16,114	129	125
Labor lawsuits		7,032	38	185
Miscellaneous checks		8,049	524	15
Shortages and forgeries (cash supply)		3,291	1,099	3
Accounting differences		1,240	298	4
Documentary (lost documentation)		218	48	5
Former employee indebtedness		114	16	7
Shortages and forgeries (foreign currency)		1,552	487	3
Irrecoverable amounts		8,801	917	10
Overdrafts		119	55	2
Trading		2,283	9	254
Errors in executing transactions		4,765	118	40
Fixed asset damages		975	2	488
System failures		8,422	18	468
Fiscal		20,837	1	20,837
Other		586	31	19
Total	$	489,481	41,586	12

(24) Recently issued accounting standards-

The CINIF has issued the following FRS, effective for years beginning January 1st, 2009. Early application is not permitted.

(a) ***FRS B-7 "Business acquisitions"***– Supersedes Bulletin B-7 and establishes, among other topics, the general standards for valuation and initial recognition as of the date of acquisition of net assets, emphasizing that business acquisitions must be recognized using the purchase method.

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

(Continued)

(b) ***FRS B-8 "Consolidated and combined financial statements"***- FRS B-8 supersedes Bulletin B-8 "Consolidated and combined financial statements and valuation of permanent investments in shares" and establishes the general rules for the preparation and presentation of consolidated and combined financial statements and the related disclosures. Amendments include:

(i) The obligation to consolidate special purpose entities (SPEs), where they are controlled.

(ii) The possibility, under certain rules, of presenting unconsolidated financial statements when the parent is, in turn, a subsidiary with no minority interest or when the minority stockholders do not object to the fact that consolidated financial statements are not issued.

(iii) Considers the existence of potential voting rights that might be exercised or converted in favor of the entity as parent and that this may change its involvement in decision making at the time of assessing the existence of control.

(iv) Additionally, regulations relating to the valuation of permanent investments have been transferred to a different bulletin.

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

(c) ***FRS C-7 "Investments in associates and other permanent investments"***- FRS C-7 sets forth the rules to account for investments in associates as well as other permanent investments where there is no control, joint control or significant influence. The principal changes with respect to the former standard include the following:

(i) Equity method of accounting is required for SPEs where there is significant influence.

(ii) Considers the existence of potential voting rights that might be exercised or converted in favor of the entity as parent, and that this may change its involvement in decision making at the time of assessing the existence of significant influence.

(iii) Establishes a specific procedure and limit for recognizing the associated entity's losses.

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

(Continued)

(d) ***FRS C-8 "Intangible assets"***- FRS C-8 supersedes Bulletin C-8 and establishes general rules for the initial and subsequent recognition of intangible assets acquired individually, either through the acquisition of a business or arising internally during the normal course of the entity's operations. Main changes include:

(i) Limits the definition of intangible assets to establish that separability is not the only condition for the identification of an intangible asset;

(ii) States that subsequent expenditure for research and development projects in progress should be expensed as earned if they are part of the research phase or as an intangible asset if they meet the criteria to be recognized as such;

(iv) Greater detail is provided to account for the exchange of an asset, in accordance with the provisions of international standards and other FRS;

(iv) Eliminates the presumption that an intangible asset may not have a useful life in excess of twenty years.

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

(e) ***FRS D-8 "Share-based payments"*** – This standard limits the suppletory application of the International Financial Reporting Standards (FRS) 2 and sets forth the general rules for share-based payment arrangements.

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

On October 13, 2008, the Banking Commission issued a resolution that modified the "General dispositions applicable to credit institutions" and this came into effect on the day it was published replacing the Banking Commission's criteria for credit institutions mentioned below, which allows for a six-month term for its adoption. In addition, it establishes that its application will be prospective and that the revaluation of previously recognized repurchase / resell agreements, securities borrowing and assets transfers is not required, and therefore transactions recognized in the financial statements before the resolution came into effect must be recorded according to the current criteria until such operations are matured. The Bank opted not to apply these new criteria in 2008, and so the financial statements as of December 31, 2008 do not present the effects of these criteria.

Commission criteria for credit institutions that are substituted by this resolution are as follows:

(a) ***Criterion B-3 "Repurchase and resell agreements"***- Supersedes previous criterion B-3 "Repurchase and resell agreements" and establishes the following modifications with respect to the previous standard

(i) Establishes that repurchase and resell transactions that do not meet the requirements established in Criterion C-1 regarding the transfer of assets, will be treated as collateral financing in view of the economic substance of these transactions, regardless of whether the operations are reported as "cash oriented" or "value oriented".

(Continued)

(ii) The repurchaser or reseller will recognize the collateral in memorandum accounts following valuation guidelines in criterion B-6 "Custody and management of goods", whilst reclassifying the financial asset on the balance sheet to present it as a restricted asset.

(iii) When selling the collateral, the repurchaser or reseller must recognize the revenue obtained from the sale, as well as accounts payable for the obligation to repay the collateral to the counterparty at fair value, recognizing any difference between the price at which it was received and the fair value in accounts payable in the results of the year.

(iv) Establishes that if the repurchasing or reselling party does not comply with the established conditions in the contract, and therefore the collateral can not be claimed, then this collateral must be eliminated from the balance sheet, as at that point in time the risks, rewards and control have been substantially transferred. For its part, the counterparty must recognize this collateral in its balance sheet and follow the accounting criteria for credit institutions according to the type of security.

(v) Requires the recognition of interest earned in an account receivable or account payable. Interest must be computed based on an effective interest rate of the repurchase agreement.

(b) ***B-4 "Securities borrowing"-*** Supersedes the last Criterion B-4 "Securities Borrowing" and establishes the following main modifications with respect to the previous standard:

(i) Establishes that securities borrowing operations that do not meet the requirements established in Criterion C-1 on transferring assets, will be accounted for as collateral given the economic substance of these transactions.

(ii) The lender must keep in its balance sheet the value of the transaction and the borrower must not record it in its financial statements, only in memorandum accounts with the exception of cases in which the risks, rewards and control have been transferred as a result of the noncompliance of the borrower.

(iii) Concerning the financial assets pledged by the borrower, such collateral must be reported on the borrower's the balance sheet as restricted assets, whereas the lender must not report them in the financial statements, but in memorandum accounts.

(iv) Establishes that the received premium due to the transaction must be recognized as a deferred credit and subsequently must be recognized in the results of the year using the effective interest rate method over the life of the operation.

(Continued)

(c) ***C-1 "Recognition and derecognition of financial assets"***- Supersedes last Criterion C-1 "Financial Assets transferences" and establishes the following main amendments with respect to the previous standard:

(i) Establishes that an entity must recognize a financial asset at fair value in its balance sheet only if it acquires the rights and obligations relating to that financial asset.

(ii) Outlines the considerations for derecogniting a financial asset only when the rights over the future cash flows expire or once the entity transfers the financial asset.

(iii) Expands the requirements needed for an entity to assume it has transferred a financial asset, stating that an asset can only be de-recognised if the entity transfers all the risks and rewards inherent in the ownership of the financial asset or in the case where the entity has not transfered nor retained substantially all the risks and rewards because of the nature of the transaction, it should determine if it has retained control over the financial asset, and if this is the case, it must retain it on its balance sheet.

(d) ***C-2 "Securitization transactions"***- This standard supersedes the provisions of criterion C-2 "Securitization". This criterion is amended as a result of changes to criterion C-1 "Recognition and write-off of financial assets" described in the preceding paragraph. Furthermore, this criterion establishes additional conditions in securitization transactions such as the granting of financial assets for covering defaults by debtors of financial assets subject matter of the securitization transactions and management services for transferred financial assets, requiring particular recording, presentation and disclosure rules.

(e) **C-5** ***"Consolidation of specific purpose entities"***- This criterion is additional to the accounting criteria in effect and defines particular rules regarding the consolidation of specific purpose entities (SPEs). It defines, among other things, specific terms such as: Control, Joint control, Significant influence, and Equity in SPE, and sets forth the methodology for identifying SPEs subject to consolidation or not.

(f) *Criteria* ***D-1 "Balance sheet"; D-2 "Income Statement" and D-4 "Statement of Changes in Financial Position"***, supersede the previous ones with the objective of making the financial statements presentation consistent with the new criteria described above in (a), (b), (c), (d) and (e).