

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

Financial Statements

December 31, 2008 and 2007

(With Statutory and Independent  
Auditors' Reports thereon)

(Free Translation from Spanish  
Language Original)

**Statutory Auditors' Report**  
(Free Translation from Spanish Language original)

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

(Amounts in millions of  
Mexican pesos)

In our capacity as Statutory Auditors, and in compliance with the provisions of Article 166 of the General Corporations Law and the bylaws of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat ("the Brokerage Firm"), we hereby submit our report on the accuracy, sufficiency and fairness of the information contained in the accompanying financial statements furnished to the General Stockholders' Meeting by the Board of Directors, for the year ended December 31, 2008.

We have attended the stockholders' and board of directors' meetings to which we have been called, and we have obtained from the directors and management such information on the operations, documentation and accounting records, as we considered necessary in the circumstances. In addition, we have examined the balance sheet, including the memorandum accounts relating to transactions on its own and on behalf of third parties, of the Brokerage Firm as of December 31, 2008, and the related statements of income, changes in stockholders' equity and changes in financial position for the year then ended, which are the responsibility of the Brokerage Firm's management. Our examination was carried out in accordance with auditing standards generally accepted in Mexico.

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

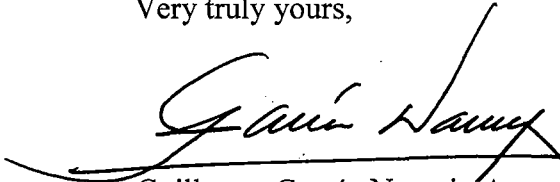
During 2008, accounting changes were made as disclosed in note 3 to the financial statements.

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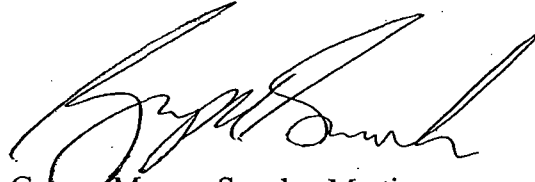
As discussed in notes 1 and 16 to the financial statements, as of December 31, 2008, the Brokerage Firm recognized a provision charged to operations of that year in the amount of \$79, for the risk arising from securities transactions with third parties. The provision recorded for those cases in which it is deemed necessary, represents the best estimate of the risk, determined by management based on the latest information available. The provision will be assessed on a periodical basis to properly reflect the best estimate on the financial statements.

In our opinion, the accounting and reporting criteria and policies followed by the Brokerage Firm and considered by management in preparing the financial statements presented at this meeting, are adequate and sufficient under the circumstances, and except for the accounting changes disclosed in note 3, have been applied on a basis consistent with that of the preceding year. Therefore, such information is a fair, reasonable and sufficient representation of the financial position, including the memorandum accounts relating to transactions on its own and on behalf of third parties, of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat as of December 31, 2008, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the year then ended, in conformity with the accounting criteria established by the Commission for brokerage firms in Mexico.

Very truly yours,



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



George Macrae Scanlan Martin  
Statutory Auditor for Series "B" shares

Mexico City, February 16, 2009.



**KPMG Cárdenas Dosal**  
Manuel Avila Camacho 176 P 1  
Col. Reforma Social  
11650 México, D.F.

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

**Independent Auditors' Report**  
(Free Translation from Spanish Language original)

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

(Amounts in millions of  
Mexican pesos)

We have examined the accompanying balance sheets, including the memorandum accounts relating to transactions on its own and on behalf of third parties, of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat ("the Brokerage Firm") as of December 31, 2008 and 2007 and the related statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Brokerage Firm's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

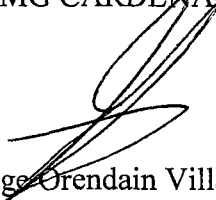
During 2008, accounting changes were made as disclosed in note 3 to the financial statements.

(Continued)

As discussed in notes 1 and 16 to the financial statements, as of December 31, 2008, the Brokerage Firm recognized a provision charged to operations of that year in the amount of \$79, for the risk arising from securities transactions with third parties. The provision recorded for those cases in which it is deemed necessary, represents the best estimate of the risk, determined by management based on the latest information available. The provision will be assessed on a periodical basis to properly reflect the best estimate on the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position, including the memorandum accounts relating to transactions on its own and on behalf of third parties, of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat as of December 31, 2008 and 2007, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the years then ended, in conformity with the accounting criteria established by the Commission for brokerage firms in Mexico, as described in note 2 to the financial statements.

KPMG CARDENAS DOSAL, S. C.



Jorge Orendain Villacampa

February 16, 2009.

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

Balance Sheets

December 31, 2008 and 2007

(Millions of Mexican pesos - note 3)

Memorandum accounts

	<u>2008</u>	<u>2007</u>		<u>2008</u>	<u>2007</u>
<b>Transactions on behalf of third parties</b>			<b>Transactions for the Brokerage Firm's own account</b>		
Customer current accounts:			Memorandum accounts:		
Customer banks	\$ 28	11	Contingent assets and liabilities	\$ 1,641	4,155
Settlement of customer transactions	<u>29</u>	<u>(7)</u>			
	<u>57</u>	<u>4</u>	Repurchase/resell agreements (note 7):		
Customer securities:			Repurchase:		
Customer securities in custody			Securities receivable	45,983	45,985
(note 15)	148,150	171,792	Creditors under repurchase agreements	<u>(46,046)</u>	<u>(46,045)</u>
Securities and documents received in guarantee				<u>(63)</u>	<u>(60)</u>
(notes 7 and 15)	<u>1,622</u>	<u>1,498</u>	Resell:		
	<u>149,772</u>	<u>173,290</u>	Securities deliverable	(33,995)	(22,061)
Transactions on behalf of customers:			Debtors under resell agreements	<u>34,073</u>	<u>22,140</u>
Securities repurchase/resell agreements				<u>78</u>	<u>79</u>
(note 15)	44,391	34,670			
Securities lending transactions	35	118			
Purchase transactions with futures and					
forwards on behalf of customers					
(notional amount)	23	-			
Managed trusts	<u>96</u>	<u>83</u>			
	<u>44,545</u>	<u>34,871</u>			
Total transactions on behalf of third parties	\$ <u>194,374</u>	<u>208,165</u>	Total for own account	\$ <u>1,656</u>	<u>4,174</u>

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

Balance Sheets, continued

December 31, 2008 and 2007

(Millions of Mexican pesos, except historical capital stock - note 3)

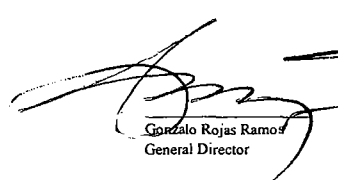
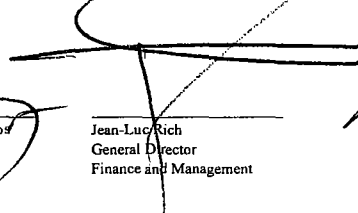
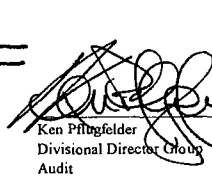
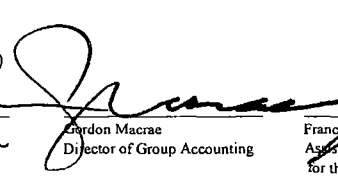
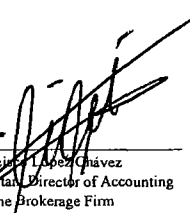
Assets	<u>2008</u>	<u>2007</u>	Liabilities and Stockholders' Equity	<u>2008</u>	<u>2007</u>
Cash and equivalents (notes 5 and 12)	\$ 1,363	70	Securities and derivatives transactions:		
Investment securities (note 6):			Credit balances on repurchase/resell agreements (note 7)	90	77
Trading securities	1,639	4,456	Credit balances on securities lending (note 7)	60	1
Available-for-sale securities	<u>144</u>	<u>-</u>	Derivative financial instruments (note 8)	<u>1,781</u>	<u>3,318</u>
	<u>1,783</u>	<u>4,456</u>	Other accounts payable:	<u>1,931</u>	<u>3,396</u>
Securities and derivatives transactions:			Income tax and employee statutory		
Debit balances on repurchase/resell agreements (notes 7 and 12)	105	96	profit sharing	130	153
Securities lending (note 7)	42	-	Sundry creditors and other accounts payable (note 11)	<u>313</u>	<u>506</u>
Derivative financial instruments (note 8)	<u>2</u>	<u>9</u>		443	659
	149	105	Deferred taxes, net (note 14)	<u>4</u>	<u>-</u>
Other accounts receivable, net (note 12)	171	327	Total liabilities	<u>2,378</u>	<u>4,055</u>
Premises and equipment, net (note 9)	163	166	Stockholders' equity (note 13):		
Permanent investments in shares (note 10)	3	65	Paid-in capital:		
Deferred taxes, net (note 14)	-	28	Capital stock	<u>551</u>	<u>551</u>
Other assets (note 11)	92	94	Earned capital:		
			Statutory reserves	35	27
			Prior years' retained earnings	670	511
			Unrealized gain from valuation of		
			available-for-sale securities	55	-
			Net income	<u>35</u>	<u>167</u>
				<u>795</u>	<u>705</u>
			Total stockholders' equity	1,346	1,256
			Commitments and contingencies (note 16)		
Total assets	\$ <u>3,724</u>	<u>5,311</u>	Total liabilities and stockholders' equity	\$ <u>3,724</u>	<u>5,311</u>

The historical capital stock amounts to \$386,033,107 at December 31, 2008 and 2007.

See accompanying notes to financial statements.

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

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

 Gonzalo Rojas Ramos General Director	 Jean-Luc Rich General Director Finance and Management	 Ken Pflugfelder Divisional Director, Group Audit	 Gordon Macrae Director of Group Accounting	 Francisco Lopez Chávez Assistant Director of Accounting for the Brokerage Firm
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SCOTIA INVERLAT CASA DE BOLSA, S. A. DE C. V.,  
Grupo Financiero Scotiabank Inverlat

Statements of Income

Years ended December 31, 2008 and 2007

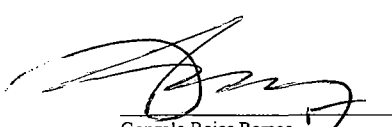
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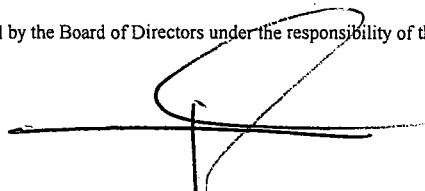
	<u>2008</u>	<u>2007</u>
Commission and fee income (note 12)	\$ 556	563
Commission and fee expense (note 12)	(55)	(62)
Financial intermediation income (note 12)	<u>82</u>	<u>69</u>
Income from services	<u>583</u>	<u>570</u>
Gain on purchase and sale of securities (note 6)	563	490
Loss on purchase and sale of securities (note 6)	(613)	(481)
Interest income (notes 7 and 12)	5,784	6,323
Interest expense (notes 7 and 12)	(5,518)	(6,029)
Valuation gain (loss) on securities at fair value (notes 6, 7 and 8)	4	(57)
Monetary position loss	<u>-</u>	<u>(53)</u>
Income from brokerage activities	<u>220</u>	<u>193</u>
Total operating income, net	803	763
Administrative expenses (note 12)	<u>(628)</u>	<u>(587)</u>
Operating income	<u>175</u>	<u>176</u>
Other income (notes 1 and 16)	70	80
Other expense (notes 1 and 16)	<u>(79)</u>	<u>(13)</u>
	<u>(9)</u>	<u>67</u>
Income before income tax (IT), employee statutory profit sharing (ESPS), and equity in the results of associated companies	<u>166</u>	<u>243</u>
Current IT and ESPS (note 14)	(140)	(155)
Deferred IT and ESPS (note 14)	<u>2</u>	<u>69</u>
	<u>(138)</u>	<u>(86)</u>
Income before equity in the results of associated companies	28	157
Equity in the results of associated companies (note 10)	<u>7</u>	<u>10</u>
Net income	<u>\$ 35</u>	<u>167</u>

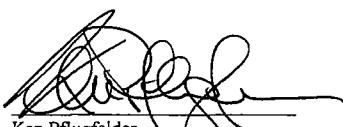
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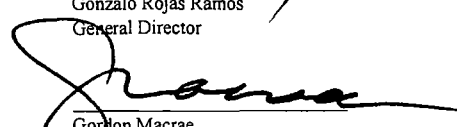
"These statements of income were prepared in accordance with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 205, last paragraph, 210 second paragraph and 211 of the Securities Market Law, which are of a general and mandatory nature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

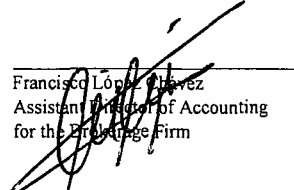
"These statements of income were approved by the Board of Directors under the responsibility of the following officers".

  
Gonzalo Rojas Ramos  
General Director

  
Jean-Luc Rich  
General Director Finance  
and Management

  
Ken Pflugfelder  
Divisional Director Group Audit

  
Gordon Macrae  
Director of Group Accounting

  
Francisco López Chávez  
Assistant Director of Accounting  
for the Brokerage Firm



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

Statements of Changes in Stockholders' Equity

Years ended December 31, 2008 and 2007

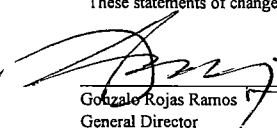
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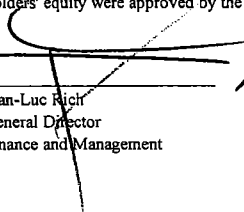
	Capital stock	Statutory reserves	Prior years' retained earnings	Unrealized gain from valuation of available-for- sale securities	Net income	Total stockholders' equity
Balances as of December 31, 2006	\$ 551	19	347	-	172	1,089
<b>Item related to stockholders' decisions:</b>						
Appropriation of prior year's income	-	8	164	-	(172)	-
<b>Item related to recognition of comprehensive income (note 13b):</b>						
Net income	-	-	-	-	167	167
Balances as of December 31, 2007	551	27	511	-	167	1,256
<b>Item related to stockholders' decisions:</b>						
Appropriation of prior year's income	-	8	159	-	(167)	-
<b>Item related to recognition of comprehensive income (note 13b):</b>						
Valuation effects of available-for-sale securities, net of deferred taxes of \$34	-	-	-	55	-	55
Net income	-	-	-	-	35	35
Balances as of December 31, 2008	\$ 551	35	670	55	35	1,346

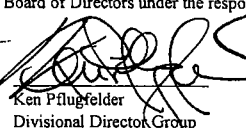
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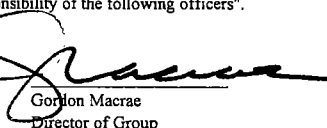
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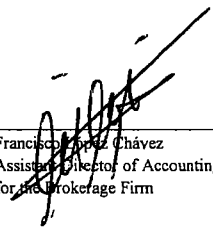
"These statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the following officers".

  
Gonzalo Rojas Ramos  
General Director

  
Jean-Luc Rich  
General Director  
Finance and Management

  
Ken Pflugfelder  
Divisional Director Group  
Audit

  
Gordon Macrae  
Director of Group  
Accounting

  
Francisco Javier Chávez  
Assistant Director of Accounting  
for the Brokerage Firm

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

Statements of Changes in Financial Position

Years ended December 31, 2008 and 2007

(Millions of Mexican pesos - note 3)

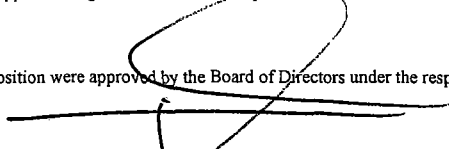
	<u>2008</u>	<u>2007</u>
Operating activities:		
Net income	\$ 35	167
Items not requiring (providing) funds:		
Depreciation and amortization	12	15
Valuation of securities at fair value	(4)	57
Deferred income tax and employee statutory profit sharing	(2)	(69)
Equity in the results of associated companies, net	(7)	(10)
Other items charged to operations not requiring funds	<u>79</u>	<u>-</u>
Funds provided by operations	113	160
Changes in items related to operations:		
Investment securities	2,845	(2,151)
Repurchase/resell agreements and securities lending	34	13
Derivative transactions	<u>(1,567)</u>	<u>1,321</u>
Funds provided by (used in) operating activities	<u>1,425</u>	<u>(657)</u>
Funds (used in) provided by financial activities, originated from the (decrease) increase in other accounts payable	<u>(295)</u>	<u>117</u>
Investment activities:		
Decrease in other accounts receivable	156	351
Increase in premises and equipment	(6)	(6)
Decrease in permanent investments in shares	12	-
Decrease in other assets	<u>1</u>	<u>15</u>
Funds provided by investing activities	<u>163</u>	<u>360</u>
Increase (decrease) in cash and equivalents	1,293	(180)
Cash and equivalents:		
At beginning of year	<u>70</u>	<u>250</u>
At end of year	\$ <u>1,363</u>	<u>70</u>

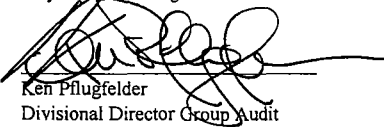
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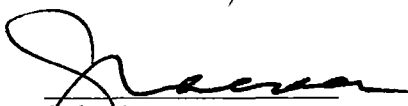
"These statements of changes in financial position have been prepared in accordance with the accounting criteria for brokerage firms, issued by the National Banking and Securities Commission based on Articles 205, last paragraph, 210 second paragraph and 211 of the Securities Market Law, which are of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

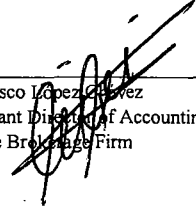
"These statements of changes in financial position were approved by the Board of Directors under the responsibility of the following officers".

  
Gonzalo Rojas Ramos,  
General Director

  
Jean-Luc Rich  
General Director Finance  
and Management

  
Ken Pflugfelder  
Divisional Director Group Audit

  
Gordon Macrae  
Director of Group Accounting

  
Francisco Lopez Alvarez  
Assistant Director of Accounting  
for the Brokerage Firm

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

Notes to Financial Statements

December 31, 2008 and 2007

(Millions of Mexican pesos – note 3)

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

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

***Description of business-***

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

***Significant transactions-***

**2008**

**(a) Mexican Stock Exchange’s (BMV) restructuring**

The BMV carried out a corporate restructuring which involved mainly the *Asigna, Compensación y Liquidación* Trust, F/30430 (“Asigna”) and the following 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”).

On June 13, 2008, the BMV conducted a public offering of primary shares, acquiring shares of the aforementioned entities, using the following methods applicable to the Brokerage Company:

- a) Acquisition of interest through an exchange of stock of the new BMV;
- b) Transfer of rights.

The Brokerage Firm transferred the shares it owned in BMV, CCVM and Indeval (with a carrying amount as of the transaction date of \$11, \$42 and \$2, respectively) and received as consideration 14,176,749 shares of Participaciones Grupo BMV, S. A. de C. V., (“Participaciones BMV”), a spun-off entity from the corporate restructuring of the BMV. The shares received were recorded as “available-for-sale” at their acquisition cost; the valuation gain or loss at fair value was recognized in the stockholders’ equity.

(Continued)

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(Millions of Mexican pesos – note 3)

Furthermore, the Brokerage Firm received an initial payment of \$40 for the assignment of economic rights on the Indeval stock, with the possibility of an additional payment if the Stock Market Law be amended to hold more than one share per person be permissible.

The shares received as consideration were booked as “Available-for-sale securities”, recognizing a valuation in the stockholders’ equity of \$179 at the moment of the transaction.

**(b) Contingencies for securities transactions-**

As of December 31, 2008, the Brokerage Firm recognized a provision charged to operations of that year in the amount of \$79, for the risk arising from securities transactions with third parties.

The provision recorded for those cases in which it was deemed necessary, represents the best estimate of the risk, determined by management based on the latest information available. The provision will be assessed on a periodical basis to properly reflect the best estimate on the financial statements.

**2007**

**(c) Sale of securities placed in trust-**

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

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(Millions of Mexican pesos – note 3)

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

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

On February 16, 2009, Gonzalo Rojas Ramos (General Director of Scotia Inverlat Casa de Bolsa, S. A. de C. V.), Jean-Luc Rich (General Director – Finance and Management), Ken Pflugfelder (Divisional Director – Group Audit), Gordon Macrae (Director - Group Accounting) and Francisco López Chávez (Assistant Director of Accounting – Brokerage Firm); authorized the issuance of the accompanying financial statements and notes thereon.

The stockholders and the Commission are empowered to modify the financial statements after issuance. The accompanying financial statements for 2008 will be submitted to the next Stockholders' Meeting for approval.

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

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

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

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(Millions of Mexican pesos, except value of UDI – note 3)

The accompanying financial statements have been prepared in accordance with the accounting criteria in effect as of the 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, which is a unit measurement whose value is determined by the Banco de México (Central Bank) based on inflation (see note 3). Cumulative inflation percentage of the three preceding years and the indices used in recognizing inflation through such year are as shown below:

<u>December 31</u>	<u>UDI</u>	<u>Inflation</u>	
		<u>Annual</u>	<u>Cumulative</u>
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 financial statements requires management of the Brokerage Firm 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 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, when reference is made to pesos or “\$”, it means millions of Mexican pesos, and when reference is made to dollars, it means dollars in the United States of America.

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

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

Cash and cash equivalents consist of cash, local and foreign bank account balances and margin accounts related to standardized futures and options contract transactions on the Mexican Derivatives Exchange, which departs from the provisions of Bulletin C.10 of the FRS, which require that the aforementioned margin accounts be reported under “Transactions with derivative financial instruments”.

(Continued)

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Notes to Financial Statements

(Millions of Mexican pesos – note 3)

**(c) *Investment securities-***

***Trading securities-***

Investment securities consist of listed equities, government securities and bank securities, which are classified under “Trading securities” and held for trading in the market.

Debt securities are initially recorded at acquisition cost and subsequently marked to market using information provided by an independent price vendor. Gains or losses on securities transactions are recognized for the difference between the net amount realized and the carrying value of the securities.

Equity securities are initially recorded at acquisition cost and subsequently marked to market using information provided by an independent price vendor. When a fair or representative market value cannot be determined, the equity method is applied. Valuation effects are reflected in the statement of income under “Valuation gains or losses”.

Cash dividends on equity securities are carried to results of operations for the year.

***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 subsequently 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.

***Value date transactions-***

Forward value date securities acquired to be settled no later than four business days following the execution are recorded as restricted securities, while securities sold are recorded as securities deliverable, reducing the investment securities. The counterparty is a credit or debit settlement account, as appropriate. When the amount of securities deliverable exceeds the balance of owned securities of a similar nature (government, bank, shares or other debt securities), it is reported in liabilities under “Assigned securities pending settlement”.

(Continued)

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

Securities under repurchase/resell agreements are stated at fair value by using information provided by an independent price vendor, and the obligations or rights from the commitment to repurchase or to resell, including premium, are stated at their net present value at maturity. The net assets and liabilities are recorded in the balance sheet after individually offsetting the restated value of the securities receivable or deliverable and the repurchase/resell agreement commitment of each transaction. Repurchase/resell agreement transactions where the Brokerage Firm is the repurchasing and reselling party with the same entity cannot be offset.

Interest, premiums, gains or losses on purchases and sales of securities, and the valuation effects are reported in the statements of income under “Interest income”, “Interest expense”, “Gain on purchase and sale of securities”, “Loss on purchase and sale of securities”, and “Valuation gain (loss) on securities”, respectively.

In accordance with the accounting criteria for brokerage firms in Mexico, established by the Commission, the parties to repurchase/resell agreements maturing in more than three days are required to contractually secure such transactions in the event of value fluctuations resulting in an increase in the net exposure exceeding 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 as 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.

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

Transactions with derivative financial instruments comprise those carried out for trading purposes, which are recognized at their fair value.

Fluctuations in fair value of derivative financial instruments classified as trading securities are reported in the statement of income under “Valuation gain (loss) on securities”.

(Continued)



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**(f) *Securities lending-***

These captions include equity securities in which the Brokerage Firm acts as borrower and lender. Equity securities are recorded initially at cost and subsequently marked to market. Valuation effects are recognized in the statement of income under “Valuation gain (loss) on securities”.

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

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

**(g) *Premises and equipment-***

Premises, equipment and leasehold improvements are initially recorded at their acquisition cost, and through December 31, 2007, adjusted for inflation by using factors derived from the UDI.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

The Brokerage Firm performs periodic studies of its property and leasehold improvements to determine whether the carrying value exceeds the recoverable amount. The recoverable amount is the greater of the net selling price and value in use. If the adjusted values are deemed to be in excess, the Brokerage Firm recognizes impairment as a charge to operations of the year in order to reduce them to their recoverable amount.

During the year end of 2008 the Brokerage Firm suspended the recognition of the inflation in the financial information, as explained in note 3.

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**(h) *Permanent investments in shares-***

As of December 31, 2007 and through June 2008, the Brokerage Firm owned a share of BMV, one of Indeval and one of CCVM. Such permanent investments, in conformity with the Commission, through that date, were valued using the equity method over the last financial statements available, and differed from Mexican FRS under which, the valuation is made at cost and adjusted for inflation at the value of the Investment Unit (UDI).

The rest of the investments in shares in which the Brokerage Company has interest are valued using the equity method.

**(i) *Income taxes (Income Tax (IT) and Flat Rate Business Tax (IETU)) and employee statutory profit sharing (ESPS)-***

IT 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, as well as for operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income for the period enacted.

To determine whether the Brokerage Firm must record deferred IT or deferred IETU, the base on which differences are expected to be recovered or settled, which may give rise to deferred taxes, is identified. Furthermore, the Company assesses whether each of such taxes is likely to be paid or recovered.

The Brokerage Firm presents current and deferred ESPS after the “Income (loss) before taxes and equity in the results of operations of associated companies” as required by the criteria for brokerage companies in Mexico. The respective FRS requires that this be presented in ordinary transactions under “other income” or “other expense”, as applicable.

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**(j) *Employee benefits -***

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

Additionally, a plan exists to cover the seniority premium to which employees are entitled in accordance with the Federal Labor Law, and the obligations related to post-retirement medical services, food coupons and life insurance benefits for retirees.

For both plans, irrevocable trusts have been created in which the plan assets are managed.

In the case of severance compensation, the obligation is only accrued.

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

Beginning January 1, 2008, when FRS D-3 became effective, the period for amortizing unrecognized/unamortized item is shorter. With regard to termination benefits, balances as of December 31, 2007 of the following items: transition asset or liability and plan modifications are amortized over the lesser of a five-year period or the remaining average service life. Net actuarial gains or losses as of December 31, 2007, are recognized directly in results of operations.

Beginning 2008, unrecognized/unamortized items for termination benefits (transition liability or asset, plan modifications, net actuarial gains or losses and term salary increases due to promotions) are recorded directly in results of operations.

Deferred ESPP is determined using the asset and liability method as explained in note 2i.

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**(k) Other assets-**

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

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

Through December 31, 2007, this restatement was determined by multiplying stockholder contributions, statutory reserves and retained earnings by UDI factors, which measure accumulated inflation from the dates contributions were made and earnings were generated, through the year-end 2007. The resulting amounts represent the constant value of stockholders' equity.

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

**(m) 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 Brokerage Firm suspended the recognition of the effects of inflation, as explained in note 3 and reclassified the "equity adjustment for monetary assets" under prior years' results of operations in the amount of \$254 thousand.

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

Through December 31, 2007, the Brokerage Firm recognized in income the effect (gain or loss) in the purchasing power of its monetary position, which is calculated by multiplying the difference between monetary assets and liabilities at the beginning of each month by the monthly change in the UDI value through year end. The aggregate of such monthly results, which is also restated using the UDI value at year end, represents the monetary gain or loss for the year arising from inflation, which is reported in results of operations for the year.

During the year end of 2008 the Brokerage Firm suspended the recognition of the inflation in the financial information, as explained in note 3.

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**(o) Memorandum accounts-**

**Customer securities-**

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

**(p) Revenue recognition-**

Fees on brokerage (debt or equity placements) or transactions with mutual funds are recognized in income when the transactions are traded.

Results on the purchase and sale of repurchase/resell agreements is recognized in income when the securities are sold.

**(q) Expense recognition-**

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

**(r) Foreign currency transactions-**

Foreign currency transactions are recorded at the exchange rate in force on their trade and settlement dates. Foreign currency assets and liabilities are translated into the exchange rate established by the Central Bank to pay obligations denominated in foreign currency that are payable in Mexico. Foreign exchange gains and losses are charged to results of operations for the year.

**(s) Contingencies-**

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

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**(t) Statement of income -**

The Brokerage Firm presents the statement of income in accordance with accounting criteria for brokerage firms 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.

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

The Brokerage Firm presents the statement of changes in financial position as required by the accounting criteria for brokerage firms in Mexico. As from 2008, the Mexican FRS adopted the presentation of the statement of cash flows, which substitutes the statement of changes in financial position.

**(3) Changes in accounting policies-**

The CINIF promulgated the FRS that are described below, which have been adopted supplementary use of other accounting principles and standards by the commission:

The CINIF has issued the following FRS effective for years beginning after December 31, 2007. 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%.

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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 National Consumer Price Index (NCPI) 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.

As a result of the adoption of this FRS, at January 1, 2008 the Brokerage Firm suspended the recognition of the effects of inflation as it is operating in a non-inflationary economic environment.

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

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- (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.
- (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, unless identified with any other comprehensive item pending reclassification.
  - (ii) The accounting treatment of ESPS (current and deferred) is transferred to FRS D-3.

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**(4) Foreign currency exposure-**

In compliance with the Central Bank regulations, the Brokerage Firm maintains balanced positions in foreign currencies. At December 31, 2008 and 2007, the maximum short and long positions authorized by the Central Bank were \$202 and \$189, respectively, that is equivalent to 15% of the Brokerage Firm's global capital, which is \$1,346 and \$1,258 in each year (see note 13d).

At December 31, 2008 and 2007, the Brokerage Firm has a long position of 1,960,510 and a short position of 1,864,382 dollars, respectively, which for financial statement presentation purposes were translated using the exchange rates of \$13.8325 and \$10.9157, respectively, and complies with the regulations.

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

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

	<u>2008</u>	<u>2007</u>
Domestic banks	\$ 1,305	4
Deposits with foreign banks with maturities not exceeding 30 days	27	3
Margin accounts	40	63
24 and 48-hour foreign currency sales	(20)	-
Restricted funds:		
24 and 48-hour foreign currency purchases	<u>11</u>	<u>-</u>
	<u>\$ 1,363</u>	<u>70</u>

Foreign currency receivable and deliverable as of December 31, 2008, arising from purchases and sales to be settled within 24 and 48 hours, relate to dollar transactions.

**(6) Investment securities-**

At December 31, 2008 and 2007, the fair value of the Brokerage Firm's investment securities is as shown on the next page.

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	<u>2008</u>	<u>2007</u>
<b><u>Securities:</u></b>		
Trading securities:		
Debt securities:		
Government securities:		
Own account:		
Cetes	\$ 317	188
Value date sales:		
Cetes	(2)	(24)
Bpat	<u>—</u>	<u>(21)</u>
Unrestricted government securities	<u>315</u>	<u>143</u>
Government securities:		
Own account:		
Cetes	332	2,190
Cetes (pledged in guarantee)	10	67
Bonos	<u>—</u>	<u>198</u>
Restricted government securities in own account	342	2,455
Value date purchases:		
Cetes	2	188
Udibono	<u>—</u>	<u>50</u>
Restricted government securities	<u>344</u>	<u>2,693</u>
Total government securities	<u>659</u>	<u>2,836</u>
Banking securities:		
Own account: (unrestricted securities)		
BANOBRA	<u>403</u>	<u>145</u>
Own account:		
BANOBRA	14	162
BACMEXT	103	125
NAFIN	<u>—</u>	<u>787</u>
Restricted banking securities in own account	<u>117</u>	<u>1,074</u>
Total banking securities, carried forward	\$ <u>520</u>	<u>1,219</u>

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<u>Securities:</u>	<u>2008</u>	<u>2007</u>
Total Banking securities, brought forward	\$ <u>520</u>	<u>1,219</u>
Shares:		
Unrestricted		
SIMEC	2	–
WALMEX	–	2
TELECOM	7	5
ELEKTRA	(1)	–
NAFTRAC	18	3
IVV	–	(2)
PBR	–	(6)
TMM	–	1
TMX	–	12
AMX	6	–
INTC	1	–
IAAPL	3	–
SCOTIA G	<u>272</u>	<u>208</u>
Total unrestricted	<u>308</u>	<u>223</u>
Restricted		
SCOTIA G	103	126
NAFTRAC	33	52
AMX	<u>16</u>	<u>–</u>
Total restricted	<u>152</u>	<u>178</u>
Total shares	<u>460</u>	<u>401</u>
Total trading securities	\$ <u>1,639</u>	<u>4,456</u>
Available for sale securities:		
Restricted securities BOLSA	<u>144</u>	<u>–</u>
Total available for sale securities	\$ <u>144</u>	<u>–</u>

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The gain and loss during 2008 from the purchase and sale of securities amounted to \$568 and \$614, respectively (\$490 and \$481 in 2007, respectively). The valuation of investment securities at December 31, 2008 and 2007 resulted in a valuation gain of \$28 and \$10 respectively. The gain and loss from the purchase and sale of securities and valuation effect are reported in the statement income under “Gain on purchase and sale of securities”, “Loss on purchase and sale of securities” and “Valuation gain (loss) on securities at fair value”, respectively.

At December 31, 2008 and 2007, investments in debt securities other than government securities of the same issuer exceeding 5% of the Brokerage Firm’s global capital are as follows:

<u>Issue</u>	<u>Number of Certificates</u>	<u>Rate</u>	<u>Term (days)</u>	<u>Amount</u>
<b><u>December 31, 2008</u></b>				
BANOBRA 08525	417,278,850	8.15%	2	\$ 417
BANCMEXT 09184	105,862,207	7.82%	358	<u>103</u>
				\$ 520
				<u><u>520</u></u>
<b><u>December 31, 2007</u></b>				
BANOBRA 07533	293,264,209	7.51%	2	\$ 293
BANCMEXT 08232	129,256,500	7.80%	356	120
NAFIN 08385	538,927,777	7.70%	358	501
NAFIN 08421	296,285,001	7.74%	360	<u>275</u>
				\$ 1,189
				<u><u>1,189</u></u>

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

At December 31, 2008 and 2007, the Brokerage Firm’s repurchase/resell agreements are analyzed on the next page.

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<u>2008</u>				
	<u>Debtors under</u>			
	<u>resell agreements</u>	<u>Securities deliverable</u>	<u>Asset</u>	<u>Liability</u>
Bought:				
Net asset positions	\$ 24,878	24,795	83	-
Net liability positions	<u>9,195</u>	<u>9,200</u>	<u>-</u>	<u>(5)</u>
	<u>\$ 34,073</u>	<u>33,995</u>	<u>83</u>	<u>(5)</u>
		<u>Creditors under</u>		
	<u>Securities receivable</u>	<u>repurchase agreements</u>		
Sold:				
Net asset positions	\$ 19,221	19,199	22	-
Net liability positions	<u>26,762</u>	<u>26,847</u>	<u>-</u>	<u>(85)</u>
	<u>\$ 45,983</u>	<u>46,046</u>	<u>22</u>	<u>(85)</u>
			\$ 105	(90)
			<u>      </u>	<u>      </u>
			\$ 15	<u>      </u>

<u>2007</u>				
	<u>Debtors under</u>			
	<u>resell agreements</u>	<u>Securities deliverable</u>	<u>Asset</u>	<u>Liability</u>
Bought:				
Net asset positions	\$ 9,909	9,826	83	-
Net liability positions	<u>12,231</u>	<u>12,235</u>	<u>-</u>	<u>(4)</u>
	<u>\$ 22,140</u>	<u>22,061</u>	<u>83</u>	<u>(4)</u>
		<u>Creditors under</u>		
	<u>Securities receivable</u>	<u>repurchase agreements</u>		
Sold:				
Net asset positions	\$ 34,474	34,461	13	-
Net liability positions	<u>11,511</u>	<u>11,584</u>	<u>-</u>	<u>(73)</u>
	<u>\$ 45,985</u>	<u>46,045</u>	<u>13</u>	<u>(73)</u>
			\$ 96	(77)
			<u>      </u>	<u>      </u>
			\$ 19	<u>      </u>

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At December 31, 2008 and 2007, the net positions of securities under repurchase/resell agreements by type of security are as follows:

<u>Type of security</u>	<u>Debit balances</u>		<u>Credit balances</u>	
	<u>Average term (days)</u>	<u>Net position</u>	<u>Average term (days)</u>	<u>Net position</u>
<b><u>December 31, 2008</u></b>				
Government securities:				
CTIM	10	\$ 3	2	-
LBON	32	34	33	18
MBON	28	15	34	15
BPAS	2	7	21	10
BPAT	27	41	28	41
IPAS	2	-	142	<u>1</u>
		100		85
Non governmental securities:				
Stock market certificates (CBUR)	2	4	2	3
Stock market certificates (CBPC)	2	-	2	2
Promissory notes	20	<u>1</u>	25	<u>-</u>
		\$ 105		<u>90</u>
		===		==
<b><u>December 31, 2007</u></b>				
Government securities:				
CTIM	16	\$ 2	2	-
LBON	2	7	2	2
MBON	19	2	20	2
BPAS	33	16	29	8
BPAT	18	59	13	53
IPAS	15	<u>9</u>	3	<u>9</u>
		95		74
Banking securities:				
CBUR	22	1	19	3
Promissory notes	6	<u>-</u>	2	<u>-</u>
		\$ 96		<u>77</u>
		==		==

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At December 31, 2008 and 2007, the Brokerage Firm has granted and received government paper under repurchase/resell agreements with maturities in excess of three days, recorded in "Trading securities" and the memorandum account "Securities and documents received in guarantee", respectively, as follows:

<u>Issuer</u>	<u>Series</u>	<u>Number of Certificates</u>	<u>Fair value</u>
<b><u>December 31, 2008</u></b>			
Guarantees received:			
IT Bpat	130502	286,898	\$ 29
IT Bpat	090129	169,692	17
IT Bpat	090226	43,959	4
BI Cetes	090408	4,007,868	39
BI Cetes	090604	640,845	6
BI Cetes	090212	352,233	4
LD Bondes	100805	366,636	<u>37</u>
Total guarantees received			\$ 136 <u>=====</u>
 <b><u>December 31, 2007</u></b>			
Guarantees granted:			
BI Cetes	080508	116,436	\$ 1
BI Cetes	080703	4,057,347	<u>39</u>
Total guarantees granted			\$ 40 <u>==</u>
Guarantees received:			
BI Cetes	080117	2,661,924	\$ 27
BI Cetes	080131	3,154,859	31
LS Bond182	080313	55,001	6
LD Bondes	100805	272,188	27
M Bonos	081224	43,886	<u>4</u>
Total guarantees received			\$ 95 <u>=====</u>

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**Securities lending and borrowing:**

At December 31, 2008 and 2007, the Brokerage Firm had entered into the following securities lending and borrowing transactions:

	<b><u>Number of</u></b>	<b><u>Fair</u></b>
	<b><u>Certificates</u></b>	<b><u>value</u></b>
<b><u>December 31, 2008</u></b>		
Securities lending:		
G Mexico B	335,000	\$ 5
Amx L	221,000	5
Cemex CPO	1,000,000	13
Elektra *	8,500	5
Gcarso A1	52,000	2
G Famsa A	800,000	7
G Modelo C	100,000	4
Telmex L	2,487,800	<u>36</u>
		<u>77</u>
Securities borrowing:		
G Mexico B	335,000	(5)
Amx L	221,000	(5)
Cemex CPO	1,000,000	(13)
Elektra *	24,100	(13)
Gcarso A1	52,000	(2)
G Famsa A	800,000	(7)
G Modelo C	100,000	(4)
Ich B	70,000	(3)
Telecom A1	127,000	(7)
Telmex L	2,487,800	<u>(36)</u>
		<u>(95)</u>
		\$ <u>(18)</u>
 <b><u>December 31, 2007</u></b>		
Securities lending:		
Naftrac 02	3,542,000	\$ 104
G Mexico B	75,700	2
Peñoles	50,000	<u>12</u>
		<u>118</u>
Securities borrowing:		
Femsa UBD	25,000	(1)
Naftrac 02	3,542,000	(104)
Peñoles	50,000	(12)
G Mexico B	75,700	<u>(2)</u>
		<u>(119)</u>
		\$ <u>(1)</u>

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At December 31, 2008 and 2007, the lending transactions mature on January 2, 5 and 6 2009, and January 2, and 3, 2008, respectively.

At December 31, 2008 and 2007 securities of \$103 and \$126 respectively, have been pledged under securities borrowing transactions (see note 6).

For the year ended December 31, 2008, income and expense premiums from repurchase/resell agreements amount to \$2,221 and \$3,246 (\$2,117 and \$3,771 for 2007), respectively, which are reported in the statement of income under “Commission and fee income” and “Interest expense”, respectively. At December 31, 2008 and 2007, the valuation of repurchase/resell agreements resulted in a valuation gain of \$13 and \$18, respectively.

**(8) Derivative financial instruments-**

At December 31, 2008 and 2007, derivative financial instruments are analyzed as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Stock exchange index (IPC) options	\$ -	1,643	-	3,315
Stock options	-	137	9	3
OTC options	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>
	2	1,781	9	3,318
	==	=====	==	=====

At December 31, 2008 and 2007, the valuation of derivative financial instruments resulted in a loss of \$37 and \$83, respectively.

Notional amounts:

A notional amount is a number of specific units in the contract (securities, currencies, etc). The settlement of a derivative instrument with a notional amount is determined by interaction of the notional amount and the underlying and does not represent the loss or gain resulting from the market risk or the credit risk of such instruments. At December 31, 2008 and 2007, notional amounts of the derivative financial instruments with trading purposes, are shown on the next page.

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<u>Type of instrument</u>	<u>2008</u>	<u>2007</u>
<u>Stock exchange index (IPC)</u>		
<u>futures:</u>		
Bought	\$ 5	858
Sold	<u>(80)</u>	<u>(2)</u>
	\$ <u>(75)</u>	<u>856</u>
 <u>Stock exchange index (IPC<sup>(*)</sup>) options:</u>		
Sold	\$ <u>(1,643)</u>	<u>(3,315)</u>
 <u>Stock options (*):</u>		
Bought	\$ -	9
Sold	<u>(137)</u>	<u>(3)</u>
	<u>(137)</u>	<u>6</u>
 <u>OTC options:</u>		
Bought	\$ 2	-
Sold	<u>(1)</u>	<u>-</u>
	<u>(1)</u>	<u>-</u>

(\*) Market value of collected premiums, whose notional at December 31, 2008 and 2007 is \$1,743 and \$3,278 respectively.

**(a) Stock exchange index (IPC) futures-**

At December 31, 2008 and 2007, futures were purchased and sold on the Mexican Stock Exchange IPC Index for trading purposes at an average price of \$0.23 and \$0.30 (nominal), respectively, maturing in March and June 2009 and 2008, respectively.

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**(b) Stock exchange index (IPC) options-**

At December 31, 2008 and 2007, the Brokerage Firm had issued European options (exercisable at maturity date) in recognized markets on the Mexican Stock Exchange IPC Index. Their characteristics are as follows:

<u>Series</u>	<u>Number of certificates</u>	<u>Exercise price (nominal pesos)</u>	<u>Premium</u>	<u>Maturity</u>
<b><u>2008:</u></b>				
IPC901RDC225	34,000	36,952	\$ 348	January 2009
IPC905RDC226	27,500	40,285	266	May 2009
IPC905RDC229	8,500	28,121	70	May 2009
IPC905RDC230	10,500	30,377	91	May 2009
IPC906RDC231	37,000	35,154	331	June 2008
IPC908RDC235	16,500	34,178	164	August 2009
IPC909RDC236	26,000	33,339	262	September 2009
IPC911RDC237	11,000	26,581	<u>111</u>	November 2009
			\$ <u>1,643</u>	
<b><u>2007:</u></b>				
IPC801RDC210	5,700	27,035	\$ 68	January 2008
IPC801RDC212	6,500	27,843	426	January 2008
IPC802RDC213	6,000	28,590	465	February 2008
IPC803RDC214	5,600	32,260	565	March 2008
IPC805RDC215	3,600	36,071	360	May 2008
IPC806RDC216	5,000	31,184	403	June 2008
IPC809RDC217	5,250	36,355	521	September 2008
IPC809RDC218	2,750	31,969	250	September 2008
IPC812RDC219	18,000	29,999	164	December 2008
IPC812RDC220	5,000	31,499	21	December 2008
IPC806RDC221	800	28,099	<u>72</u>	June 2008
			\$ <u>3,315</u>	

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**(9) Premises and equipment-**

At December 31, 2008 and 2007, premises and equipment are analyzed as follows:

	<u>2008</u>	<u>2007</u>	<b>Annual depreciation and amortization rates</b>
Office premises	\$ 175	175	2.5%
Transportation equipment	3	2	25%
Office furniture and equipment	61	63	Various
Computer equipment	10	9	10 and 30%
Leasehold improvements	<u>5</u>	<u>4</u>	5%
	254	253	
Less accumulated depreciation and amortization	<u>91</u>	<u>87</u>	
	<u>\$ 163</u>	<u>166</u>	

Depreciation and amortization charged to income in 2008 and 2007 amounted to \$12 and \$15, respectively.

**(10) Permanent investments in shares-**

At December 31, 2008 and 2007, the Brokerage Firm's permanent investments in shares, which were valued using the equity method (see notes 1a and 2h), are as shown below:

	<u>Percentage of ownership in capital stock *</u>		<u>Value using the equity method</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Mandatory investments:				
Bolsa Mexicana de Valores, S. A. de C. V.	-	4.00	\$ -	44
S. D. Indeval, S. A. de C. V.	-	2.44	-	13
Contraparte Central de valores, S. A. de C. V.	-	0.96	-	2
Cebur	2.97	2.97	1	-
Other investments:				
Impulsora de Fondo México Controladora, S. A. de C. V.	3.38	3.38	2	2
Other (at restated cost)	<u>-</u>	<u>-</u>	<u>-</u>	<u>4</u>
			<u>\$ 3</u>	<u>65</u>

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The equity method is computed using the book value of shares as of December 31, 2008 and 2007 and considering the most recent financial statements available, some unaudited. For the years ended December 31, 2008 and 2007, the Brokerage Firm recognized in the caption “Equity in the results of associated companies”, a gain of \$7 and \$10, respectively, resulting from applying the equity method.

**(11) Employee benefits -**

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

As of December 31, 2008 and 2007, the charge to income corresponding to the Brokerage Firm’s contributions to the defined contribution plan amounted to \$7 for both years.

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

The cost, obligations and contributions to the fund relating to the defined benefit pension plan and seniority premiums, as well as the post-retirement medical benefits, life insurance and food coupons are determined based on computations prepared by independent actuaries as of December 31, 2008 and 2007; the components of the net periodic cost and of the obligations for the years ended December 31, 2008 and 2007 are shown on the next page.

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	2008				
	<u>Pensions</u>	<u>Seniority Premiums</u>			<u>Medical benefits, food coupons &amp; life insurance for retirees</u>
		<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Present service cost	\$ 1	-	-	-	1
Interest cost	2	-	-	-	1
Expected return on plan assets	(4)	-	-	-	(1)
Amortizations:					
Past service-plan improvements	1	-	-	-	-
Net actuarial gain	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>-</u>
Net periodic (income) cost	-	-	(1)	(1)	1
Reductions income	(3)	-	-	-	-
Cost for immediate recognition in earnings	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>(1)</u>	<u>-</u>
Total (income) cost 2008	\$ <u>(3)</u>	<u>-</u>	<u>(2)</u>	<u>(2)</u>	<u>1</u>

	2007	
	<u>Pensions &amp; Seniority Premiums</u>	<u>Medical benefits, food coupons, &amp; life insurance for retirees</u>
Service cost	\$ 1	1
Interest cost	1	-
Return on plan assets	<u>(2)</u>	<u>-</u>
Net periodic cost	\$ <u>-</u>	<u>1</u>

On the next page is a reconciliation between initial and final balances, as well as the detail of the present value of benefit obligations of pension, seniority premium, post-retirement medical benefits, food vouchers and life insurance for retired people, as of December 31, 2008.

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	<u>Pensions</u>	<u>Seniority premiums</u>			<u>Medical benefits, food coupons &amp; life insurance for retirees</u>
		<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Acquired Benefit Obligations (ABO)	\$ <u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Defined Benefit Obligations					
(DBO) as of January 1st, 2008	(19)	(1)	(1)	(2)	(10)
Present service cost	(1)	-	-	-	(1)
Interest cost	(2)	-	-	-	(1)
Paid benefits	4	-	-	-	-
Reduction or settlement effects	5	-	-	-	-
Plan improvements	(20)	-	-	-	-
Actuarial loss	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Defined Benefit Obligations amount (DBO)	(29)	(1)	(1)	(2)	(11)
Plan assets at fair value	<u>37</u>	<u>2</u>	<u>3</u>	<u>5</u>	<u>12</u>
Financial situation of the fund	8	1	2	3	1
Past services:					
Transition liability	-	-	-	-	2
Plan modifications	20	-	-	-	-
Actuarial gains	<u>(6)</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>(3)</u>
Projected net asset	\$ <u>22</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>-</u>

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

	<u>Pensions</u>	<u>Seniority premiums</u>			<u>Medical benefits, food coupons &amp; life insurance for retirees</u>
		<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Projected net asset as of January 1st, 2008	\$ 20	-	-	-	-
Net (income) periodic cost 2008	-	-	1	1	(1)
Contributions to the fund during 2008	(1)	-	-	-	1
Cost for immediate recognition of gains	-	-	1	1	-
Reduction/ extinction income	<u>3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net projected asset	\$ <u>22</u>	<u>-</u>	<u>2</u>	<u>2</u>	<u>-</u>

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The present value of benefit obligations of pensions, seniority premiums, medical benefits for retirees, food coupons and life insurance for retirees, at December 31, 2007 is as follows:

	<u>Pensions &amp; seniority premiums</u>	<u>Medical benefits, food coupons &amp; life insurance for retirees</u>
Projected benefit obligation		
(PBO) amount	\$ 20	9
Plan assets at market value	(45)	(10)
Excess of plan assets over PBO	(25)	(1)
Unamortized items:		
Variances in assumptions and experience	5	(3)
Plan modifications	-	(2)
Transition asset	<u>-</u>	<u>6</u>
Net projected asset	<u>(20)</u>	<u>-</u>
Present benefit obligations:		
Vested	2	
Unvested	<u>15</u>	
	17	
Plan assets	(45)	
Net asset	\$ <u>(28)</u>	

Below is an analysis of the movement of the plan assets held to meet the labor obligations for the years ended December 31, 2008 and 2007 (nominal):

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 55	51
Contributions to the fund	2	1
Return on plan assets	1	4
Payments made	<u>(4)</u>	<u>(1)</u>
Balance at year end	\$ <u>54</u>	<u>55</u>
Assets loss	\$ <u>4</u>	<u>-</u>

During 2009, the expected contributions to the fund and return on plan assets covering the labor obligations are \$4 and \$5, respectively.

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The present value of benefit obligations of legal severance liabilities at December 31, 2008 is as follows:

	<u><b>2008</b></u>
ABO	\$ <u>-</u>
DBO as of January 1st, 2008	(23)
Present service cost	(2)
Interest cost	(2)
Paid benefits	1
Present loss	<u>3</u>
DBO	\$ (23)
Unrecognized past service for the acquired benefits:	
Transition liability	<u>11</u>
Net projected liability	\$ <u>(12)</u>

Severance liabilities at December 31, 2007, are analyzed as follows:

	<u><b>2007</b></u>
PBO	\$ 22
Unamortized items:	
Transition liability	<u>(14)</u>
PBO net of amortized transition liability for the year end	\$ <u>8</u>
Intangible asset	(13)
Additional liability	\$ <u>13</u>

The severance liability cost for the years ended December 31, 2008 and 2007 amounted to \$7 and \$17, respectively.

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

	<u>2008</u>	<u>2007</u>
Yield on plan assets	10.20%	4.75%
Discount rate	9.50%	4.00%
Rate of increase in compensation	5.50%	1.25%
Medical expense increase rate	7.25%	3.00%
Estimated inflation rate	4.25%	4.00%

The expected return on plan assets was determined using the historical information of the fund, the curve rates for Mexico, and the Brokerage Company's investment policy.

The one percent increase or decrease in the increase rate in medical expenses used in actuarial projections as of December 31, 2008 is as shown below:

	<u>Rate</u>	<u>DBO medical benefits for retirees</u>
Without modification	7.25%	5
1% increase on the medical inflation rate	8.25%	6
1% decrease on the medical inflation rate	6.25%	5

A summary of the amounts of labor benefits relating to DBO, plan assets, and the projected benefit obligation over plan assets and experience adjustments, for the years ended December 31, 2006, 2005 and 2004 is shown below:

	<u>Pensions</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
DBO	\$ (15)	(30)	(24)
Plan assets	<u>38</u>	<u>40</u>	<u>34</u>
Financial situation of the fund	\$ <u>23</u>	<u>10</u>	<u>10</u>
DBO gain (loss)	\$ <u>5</u>	<u>(1)</u>	<u>(5)</u>

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		<u>Seniority premiums</u>		
		<u>2006</u>	<u>2005</u>	<u>2004</u>
DBO	\$	2	2	2
Plan assets		<u>4</u>	<u>4</u>	<u>4</u>
Financial situation of the fund	\$	<u>6</u>	<u>6</u>	<u>6</u>
Loss (gain) assets	\$	<u>-</u>	<u>-</u>	<u>-</u>

		<u>Medical benefits, food coupons &amp; life insurance</u>		
		<u>2006</u>	<u>2005</u>	<u>2004</u>
DBO	\$	8	6	5
Plan assets		<u>9</u>	<u>8</u>	<u>6</u>
Financial situation of the fund	\$	<u>17</u>	<u>14</u>	<u>11</u>
Loss (gain) assets	\$	<u>-</u>	<u>-</u>	<u>(4)</u>

		<u>Severance payments</u>		
		<u>2006</u>	<u>2005</u>	<u>2004</u>
DBO	\$	<u>20</u>	<u>18</u>	<u>18</u>
DBO loss	\$	<u>1</u>	<u>1</u>	<u>-</u>

For fiscal 2008, the amortization period of unrecognized items for pensions, medical expenses, food coupons, life insurance of retirees, seniority premiums and legal severance are as follows:

	<u>Pensions</u>	<u>Seniority premium</u>		<u>Medical benefits, food coupons &amp; life insurance for retirees</u>	<u>Severance payments</u>
		<u>Retirement</u>	<u>Termination</u>		
Transition liability	-	-	-	4	4
Plan contributions	5.6	-	-	1	-
Net actuarial (gain) loss	7.7	16.5	Immediately	12.6	Immediate

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**(12) Related-party transactions-**

During the normal course of business, the Brokerage Firm carries out transactions with related parties. The most significant related-party transactions carried out during the years ended December 31, 2008 and 2007, are as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Revenues</u>	<u>Expenses</u>	<u>Revenues</u>	<u>Expenses</u>
Scotiabank Inverlat, S. A. (Bank) (Premiums)	\$ 836	164	889	196
<u>Fees</u>				
Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, (Scotia Fondos)	169	-	189	-
Bank	23	3	-	-
Bank (Advisory services)	22	23	22	24
<u>Rents</u>				
Bank	7	2	7	2
Inmobiliaria Scotia Inverlat S. A. de C. V. (Inmobiliaria)	-	2	-	2
Bank (Interests)	178	847	191	892
Bank (Others)	<u>(16)</u>	<u>1</u>	<u>9</u>	<u>38</u>
	<u>\$ 1,219</u>	<u>1,042</u>	<u>1,307</u>	<u>1,154</u>

At December 31, 2008 and 2007, balances with related parties are as follows:

	<u>2008</u>	<u>2007</u>
<b><u>Cash and equivalents:</u></b>		
Bank (Services)	\$ 9	4
Scotiabank Grand Cayman	26	3
Bank (Investment)*	<u>1,295</u>	<u>-</u>
	<u>\$ 1,330</u>	<u>7</u>
<b><u>Receivable:</u></b>		
Bank (value date transactions, purchase and sale of currencies and others)	\$ 14	36
Scotia Fondos	11	16
Bank repurchase/resell agreements	<u>4</u>	<u>2</u>
	<u>\$ 29</u>	<u>54</u>

\*As of December 31, 2008, with a term of 77 days, bearing interest at 7%.

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**(13) Stockholders' equity-**

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

**(a) Structure of capital stock-**

The Brokerage Firm capital stock at December 31, 2008 and 2007 is represented by 22,022 common, registered shares, divided into two series: 22,019 series "F" shares and 3 series "B" shares, fully subscribed and paid. The capital stock's minimum fixed portion is represented by 11,205 shares whereas the variable portion is represented by 10,817 shares. The variable portion of capital stock may at no time exceed the fixed paid-in capital not subject to withdrawal.

At December 31, 2008 and 2007, the minimum fixed capital stock is fully subscribed and paid and amounts to \$196.

**(b) Comprehensive income-**

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

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

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

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

Stockholder contributions and retained earnings are subject to income tax on the amounts refunded or distributed that exceed the amounts determined for tax purposes. As of December 31, 2008, the restated capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) amount to \$229 and \$1,918, respectively.

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

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**(d) Capitalization-**

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

Capital as of December, 31:

	<u>2008</u>	<u>2007</u>
Global capital	\$ 1,346.23	1,257.90
Market risk requirements	145.24	376.94
Credit risk requirements	129.79	212.14
Operational risk requirements	<u>1.57</u>	<u>-</u>
Total capitalization requirements	<u>276.60</u>	<u>589.08</u>
Global capital excess	\$ 1,069.63	668.82
Capitalization ratio	<u>20.55%</u>	<u>46.83%</u>
Global capital / capitalization requirements	<u>4.87</u>	<u>2.14</u>

Assets at risk as of December 31, 2008:

	<b>Risk weighted assets</b>	<b>Capital requirement</b>
<b><u>Market risk:</u></b>		
Transactions in Mexican pesos at nominal interest rates	\$ 82,992.60	53.33
Transactions in Mexican pesos at premium nominal interest rates	32,724.77	49.39
Transactions in Mexican pesos at real interest rates or denominated in UDIS	-	-
Foreign currency transactions at nominal interest rates	14.58	-
Positions in UDIS or with returns linked to INPC	-	-
Foreign currency positions or with exchange rate indexed returns	31.99	3.84
Equity positions or with returns indexed to the price of a single share or group of shares	<u>18.34</u>	<u>38.68</u>
Total market risk, carried forward	\$ <u>115,782.28</u>	<u>145.24</u>

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	<b>Risk weighted assets</b>	<b>Capital requirement</b>
Total market risk, brought forward	\$ <u>115,782.28</u>	<u>145.24</u>
<b><u>Credit risk:</u></b>		
Of derivatives	105.55	3.04
Of debt instrument position	13,188.68	96.65
Of loans and deposits	<u>436.19</u>	<u>30.11</u>
Total credit risk	<u>13,730.42</u>	<u>129.80</u>
Total market and credit risk	\$ <u>129,512.70</u>	<u>275.04</u>

*Assets at risk as of December 31, 2007:*

	<b>Risk weighted assets</b>	<b>Capital requirement</b>
<b><u>Market risk:</u></b>		
Transactions in Mexican pesos at nominal interest rates	\$ 1,561.31	124.90
Transactions in Mexican pesos at premium nominal interest rates	1,066.49	85.32
Transactions in Mexican pesos at real interest rates or denominated in UDIS	80.19	6.42
Foreign currency transactions at nominal interest rates	0.04	-
Positions in UDIS or with returns linked to INPC	1.20	0.10
Foreign currency positions or with exchange rate indexed returns	27.03	2.16
Equity positions or with returns indexed to the price of a single share or group of shares	<u>1,975.51</u>	<u>158.04</u>
Total market risk, carried forward	\$ <u>4,711.77</u>	<u>376.94</u>

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	<b>Risk weighted assets</b>	<b>Capital requirement</b>
Total market risk, brought forward	\$ <u>4,711.77</u>	<u>376.94</u>
<b><u>Credit risk:</u></b>		
Of derivatives	27.68	2.21
Of debt instrument position	2,232.55	178.60
Of loans and deposits	<u>391.57</u>	<u>31.33</u>
Total credit risk	<u>2,651.80</u>	<u>212.14</u>
Total market and credit risk	\$ <u>7,363.58</u>	<u>589.08</u>

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

**(14) Income taxes (Income Tax (IT) and Flat Rate Business Tax (IETU)) and employee statutory profit sharing (ESPS)-**

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

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In conformity with the aforementioned, the Brokerage Company will continue determining and paying IT incurred in the year and if the IETU incurred during that same year exceeds IT, it is possible to credit IT actually paid against the IETU, paying the respective excess. If IETU is payable, the payment will be considered final i.e. not subject to recovery in subsequent years.

Under the tax law in force through December 31, 2007, companies must pay the greater of their IT or AT. The IT incurred exceeded AT.

Because management estimates that the tax payable in future years will be IT, deferred tax effects as of December 31, 2008 and 2007 have been recorded on the same basis.

To determine IT, the 28% rate is applied to the year's taxable income. The respective law contains specific rules relating to the deductibility of expenses and the recognition of the effects of inflation.

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

IT and ESPS expense incurred for the years ended December 31, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
IT (28%)	\$ 105	116
ESPS (10%)	35	35
Restatement for inflation	-	4
	<u>\$ 140</u>	<u>155</u>

Income tax expense attributable to income for the years ended December 31, 2008 and 2007, differed from the amount computed by applying the Mexican statutory rate of 28% IT, as a result of the item as shown on the next page.

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<u>December 31, 2008</u>	<u>Base</u>	<u>IT Tax at 28%</u>	<u>Effective rate</u>	<u>ESPS at 10%</u>
Income before IT, ESPS, equity in the result of associated companies	\$ 166			
Current and deferred ESPS	<u>(34)</u>			
	132	(37)	(28%)	(13)
<i>Allocation to current tax:</i>				
Inflationary adjustment	(52)	15	10%	5
Financial instruments, repurchase resell agreements & derivatives net result	(45)	13	10%	6
Premiums on repurchase/resell agreements and interests	11	(3)	(2%)	(1)
Difference between book and tax depreciation	6	(2)	(2%)	(1)
Nondeductible expenses	90	(25)	(19%)	(9)
Expense accruals	67	(19)	(15%)	(7)
Warrants net effect	162	(46)	(35%)	(16)
Deduction of ESPS paid in the year	(35)	10	8%	4
Current and deferred ESPS provision	34	(10)	(8%)	(3)
Others, net	<u>4</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
Current tax	\$ <u>374</u>	<u>(105)</u>	<u>(80%)</u>	<u>(35)</u>
<i>Allocation to deferred tax:</i>				
Prepaid expenses	7	(2)	(2%)	-
Valuation of trading securities and charged interest	54	(15)	(11%)	(5)
Premises and equipment	(7)	2	2%	-
Deductible ESPS	-	-	-	(1)
Warrants net effect	11	(3)	(2%)	-
Expense accruals	<u>(68)</u>	<u>19</u>	<u>14%</u>	<u>8</u>
Deferred tax	<u>(3)</u>	<u>1</u>	<u>1%</u>	<u>1</u>
Income tax	\$ <u>371</u>	<u>(104)</u>	<u>(79%)</u>	<u>(34)</u>

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<u>December 31, 2007</u>	<u>IT</u>			<u>ESPS</u>
	<u>Base</u>	<u>Tax at 28%</u>	<u>Effective rate</u>	<u>at 10%</u>
Income before IT, ESPS and, equity in the result of associated companies	\$ 243			
Current and deferred ESPS	<u>(28)</u>			
	215	(60)	(28%)	(22)
<i>Allocation to current tax:</i>				
Accounting effects of inflation	34	(10)	(5%)	(3)
Inflationary adjustment	(21)	6	3%	2
Financial instruments, repurchase resell agreements & derivatives net result	54	(15)	(7%)	(5)
Premiums on repurchase/resell agreements and interests	34	(9)	(4%)	(4)
Gain on sale of equity securities	21	(6)	(3%)	(2)
Difference between book and tax depreciation	4	(1)	-	-
Nondeductible expenses	6	(2)	(1%)	-
Expense accruals	32	(9)	(4%)	(3)
Warrants net effect	-	-	-	6
Deduction of ESPS paid in the year	(20)	6	3%	2
Current and deferred ESPS provision	28	(8)	(4%)	(3)
Others, net	<u>28</u>	<u>(8)</u>	<u>(4%)</u>	<u>(3)</u>
Current tax	\$ <u>415</u>	<u>(116)</u>	<u>(54%)</u>	<u>(35)</u>
<i>Allocation to deferred tax:</i>				
Prepaid expenses	18	(5)	(2%)	(2)
Valuation of trading securities and charged interest	(32)	9	4%	3
Premises and equipment	(4)	1	1%	-
Deductible ESPS	(18)	5	2%	2
Warrants net effect	(139)	39	18%	-
Expense accruals	<u>(46)</u>	<u>13</u>	<u>6%</u>	<u>4</u>
Deferred tax	<u>(221)</u>	<u>62</u>	<u>29%</u>	<u>7</u>
Income tax	\$ <u>194</u>	<u>(54)</u>	<u>26%</u>	<u>(28)</u>

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Deferred IT and ESPS

The temporary differences that give rise to a deferred tax asset and liability as of December 31, 2008 and 2007 are presented below:

	2008		2007	
	IT	ESPS	IT	ESPS
Prepaid expenses	\$ (10)	(3)	(8)	(3)
Valuation of financial instruments and derivatives	(1)	(1)	14	5
Valuation of available for sale securities	(25)	(9)	–	–
Premises and equipment	(38)	(14)	(40)	(14)
Deductible ESPS	10	3	10	4
Losses on warrants	36	–	39	–
Expense accruals	<u>35</u>	<u>13</u>	<u>16</u>	<u>5</u>
	\$ <u>7</u>	<u>(11)</u>	<u>31</u>	<u>(3)</u>
 Deferred IT and ESPS in the balance sheet		\$ <u>(4)</u>		<u>28</u>

The credit to income for deferred IT and ESPS for the years ended December 31, 2008 and 2007, comprise the following:

	2008		2007	
	IT	ESPS	IT	ESPS
In results of operations:				
Prepaid expenses	\$ (2)	–	(5)	(2)
Valuation of financial instruments and imputed interest	(15)	(6)	9	3
Premises and equipment	2	–	1	–
Deductible ESPS	–	(1)	5	2
Losses on warrants	(3)	–	39	–
Accrued expenses decrease	<u>19</u>	<u>8</u>	<u>13</u>	<u>4</u>
	\$ <u>1</u>	<u>1</u>	<u>62</u>	<u>7</u>
 Deferred IT and ESPS in the statement of income		\$ <u>2</u>		<u>69</u>

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	<u>2008</u>		<u>2007</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
In stockholders' equity:				
Valuation of available for sale securities	\$ (25)	(9)	=	=
Deferred IT and ESPS in the stockholders' equity	\$ (34)		-	=

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

*Other considerations:*

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

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

**(15) Memorandum accounts-**

*Transactions on behalf of third parties-*

The funds managed by the Brokerage Firm for investing in various instruments on behalf of its customers are recorded in memorandum accounts. Third party assets under management at December 31, 2008 and 2007 are analyzed as follows:

	<u>2008</u>	<u>2007</u>
Mutual funds	\$ 19,295	22,316
Government securities	50,256	45,426
Equities and others	<u>78,599</u>	<u>104,050</u>
	<u>\$ 148,150</u>	<u>171,792</u>

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Securities and documents received in guarantee at December 31, 2008 and 2007, are analyzed as follows:

	<u>2008</u>	<u>2007</u>
Government securities	\$ 911	670
Fixed-income debt securities	60	74
Equities and holding companies' certificates	541	575
Mutual fund shares	7	125
Cash	<u>103</u>	<u>54</u>
	\$ 1,622	1,498
	=====	=====

Income earned on assets under custody during the years ended December 31, 2008 and 2007 amounted to \$38 and \$37, respectively.

***Repurchase/resell transactions of customers-***

At December 31, 2008 and 2007, the repurchase/resell transactions of customers are analyzed as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Number of certificates</u>	<u>Fair value</u>	<u>Number of certificates</u>	<u>Fair value</u>
Bpas	30,346,365	\$ 3,012	63,251,788	\$ 6,336
Bpat	77,796,667	7,796	49,428,141	4,954
Cbpc	3,873,611	386	3,723,918	371
Cbur	6,248,804	595	13,097,549	1,445
Cete	271,931,318	2,629	315,258,697	3,065
Ipas	1,586,269	158	16,016,503	1,615
Ls	1,215,606	123	14,772,269	1,512
Mbon	88,891,089	9,122	19,988,803	2,101
Prlv	756,750,691	741	2,904,496,933	2,865
Udibono	-	-	131,281	60
LBon	198,771,833	<u>19,829</u>	103,340,317	<u>10,346</u>
		\$ 44,391		\$ 34,670
		=====		=====

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**(16) Commitments and contingencies-**

**(a) *Lawsuits and litigation-***

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

*Contingencies for securities transactions*

As of December 31, the Brokerage Firm recognized a provision charged to operations of 2008 in the amount of \$79, for the risk arising from securities transactions with unrelated third parties.

The provision recorded for those cases in which it is deemed necessary, represents the best estimate of the risk, determined by management based on the latest information available. The provision will be assessed on a periodical basis to properly reflect the best estimate on the financial statements.

*Lawsuit for crediting VAT*

During fiscal 2004, the Brokerage Firm obtained a final favorable judgment on the procedure employed in determining the value-added tax (VAT) factor that confirmed the right to fully offset the VAT amount paid during the period from January 1, 2003 to December 31, 2004. In March 2006, amended VAT returns for fiscal 2003 and through July 31, 2004 were filed, reclaiming recoverable amounts, plus adjustment for inflation and interest, of \$30 (nominal), of which \$22 was recovered in 2007. The remainder pending recovery relates to interest not refunded by the Internal Revenue Service (SAT).

*Contingency on the joint liability concerning the tax credit lawsuit*

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

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

Remission – tax liability

For fiscal year 2007 and through Mexico's Federal Revenue Law, a program was established for the full or partial remission of tax liabilities that consist of federal contributions managed by the SAT (Tax Administration Service), countervailing duties, the related inflation adjustment and interest, as well as penalties for failing to meet federal tax obligations other than payment obligations, incurred before January 1, 2003.

The Brokerage Firm had an adjusted-for-inflation tax liability that dated back to 1991 in the amount of \$4 and \$26 for fiscal year 2000, arising from VAT and IT differences, respectively.

In March 2008, through official communication number 322 SAT-11-RF-42939, the Brokerage Firm obtained a favorable resolution to its request for remission filed on December 10, 2007. Thus, a payment of \$2 was authorized for both fiscal years, which was made in April 2008.

**(b) Leases-**

The Brokerage Firm leases and subleases office space from related and third parties. Total rental income and expense for 2008 amounted to \$9 and \$5, respectively (same amounts for 2007).

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

**(a) Segment information-**

The Brokerage Firm operates in various segments such as capital markets, money markets, mutual funds and investment banking. Segment data for the years ended December 31, 2008 and 2007 is summarized on the next page.

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	<u>2008</u>	<u>2007</u>
Revenues:		
Capital markets	\$ 174	229
Money market	53	62
Mutual funds	155	176
Investment banking	211	126
Securities portfolio	122	187
Other income	<u>227</u>	<u>186</u>
	<u>942</u>	<u>966</u>
Expenses:		
Personnel	439	410
Fixed	66	57
Operating	233	127
Depreciation and amortization	12	11
Losses	<u>-</u>	<u>4</u>
	<u>750</u>	<u>609</u>
Operating income	192	357
Portfolio valuation loss	(35)	(87)
Accrued premiums	<u>16</u>	<u>18</u>
Income before taxes	173	288
Current IT and ESPS	(140)	(155)
Deferred IT and ESPS	<u>2</u>	<u>69</u>
Income before the effects of inflation	35	202
Restatement for inflation	<u>-</u>	<u>(35)</u>
Net income	<u>\$ 35</u>	<u>167</u>

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**(b) Financial ratios-**

Following are the fourth quarter financial ratios of the Brokerage Firm for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2006</u>
Creditworthiness ( <i>total assets / total liabilities</i> )	1.57%	1.31%
Liquidity ( <i>liquid assets/liquid liabilities</i> )	1.46%	1.23%
Leverage ( <i>total liabilities-liquidation of the entity (creditor) / stockholders' equity</i> )	1.72%	2.94%
ROE ( <i>annualized net income for the quarter/ average stockholders' equity</i> )	-23.03%	-1.02%
ROA ( <i>annualized net income for the quarter/ average total assets</i> )	-8.10%	-0.30%
Global capital / capital requirement	20.55%	46.83%
Financial margin / Total operating income	31.61%	19.80%
Operating income (loss) / Total operating income	-17.84%	2.00%
Total operating income/ Administrative expenses	84.86%	102.04%
Administrative expenses / Total operating income	117.84%	98.00%
Net income / Administrative expenses	-44.25%	-1.92%
Personnel expenses / Total operating income	79.82%	67.05%

*Notes*

- *The indicators related to results correspond to annualized quarterly nominal cash flows.*
- *The Solvency, Liquidity and Leverage indicators are stated in number of times.*

**(18) Comprehensive risk management- (unaudited)**

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

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

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

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

**(a) Market risk-**

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

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

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

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

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

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

VaR is calculated using the historical simulation method with a 300 working-day time span. To conform to the measurement methodologies used by BNS, the Brokerage Firm calculates VaR considering a 99% confidence level and one and 10-day holding periods.

VaR calculations are performed by instrument, market and globally, considering the correlation existing between the various risk factors. VaR is calculated using the Risk Watch methodology developed by Algorithmics. The Brokerage Firm's average global VaR (unaudited) of ten days observed daily during 2008 was \$30.9 nominal (\$13.98 nominal in 2007) unaudited.

The Brokerage Firm's risk positions and their value at risk (unaudited) from October 1 to December 31, 2008 (millions of nominal pesos) are analyzed as follows:

	<u>Position</u>			<u>VaR</u>	
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>	<u>Average</u>	<u>Limit</u>
Brokerage Firm	16,898.3	21,227.7		\$ 30.9	45.0
Money market	16,849.6	21,189.1		29.6	45.0
Capital market	48.7	107.5	200.0	3.4	10.0
				====	====

(1) The average VaR of the Capital markets and its 10-million limit relate to one-day VaR. The average VaR of the Brokerage Company and the average VaR of the Money Market, as well as their respective limits, relate to 10-day VaR.

The average global VaR of 10 days for the Brokerage Firm during 2008 was \$18.86 million and the global value at December 31, 2008 was \$22.22 million (unaudited information).

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As an example, the Brokerage Firm's average value at risk of the quarter on money market and interest rate derivatives was \$29.6 millions. This means that under normal conditions and a 10-day holding period, the possibility of losing more than that amount is 1%, assuming that the behavior over the past 300 days of operations is representative for estimating the loss.

During the last quarter of 2008, the Brokerage Firm participated in the Mexican Derivatives Market called "MexDer" through future and option contracts on the IPC (Mexican Stock Exchange Price and Quotation Index). The positions and the number of contracts that were negotiated and their value at risk are analyzed as follows (unaudited information):

	<u>Number of contracts</u>		
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>
Interest rate futures TIII/1	-	-	775,000
CE/91 futures/1	-	-	45,000
BonoM futures/1	-	-	20,000
IPC futures/2	361	910	
IPC options/2	927	2,268	15,150

(1) The VaR of Interest Rate Futures is included in the Brokerage Firm's Global VaR.

(2) The 1d average VaR of IPC Futures is 0.7 million, the 1d average VaR of IPC Options on future is 0 million and the 1d average VaR of Warrants is 3.12 million. The three of them compute with the VaR of the Capital markets. The limit of 15,150 contracts is the limit added in the number of contracts for IPC futures and IPC options on future.

During the last quarter of 2007, the Brokerage Firm did not carry out transactions with interest rate futures listed on the MexDer.

The IPC futures are to cover the market risk on option positions or warrants issued on behalf of customers. During the last quarter of 2007, the Brokerage Company kept on average, warrants on the IPC and stocks in the notional amount of \$1,005.64. The maximum notional amount was \$1,093.7 during the same period (unaudited information).

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

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As of December 31, 2008, the stress testing was 14.3%, which with respect to the 60% limit, is favorable. The stress limit is based on the Brokerage Company's stockholders' equity and is adjusted on a monthly basis. The scenarios used for this test are the 1994 and 1998 crisis as hypothetical scenarios.

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

With regard to Back-Testing tests, the new scenarios of high volatility recorded during October 2008 gave rise to exceptions in the test. However, after October, this was corrected in a general manner. This period was temporary; thus, it is not necessary to calibrate the model as all the excesses are explained as a result of the high volatility.

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

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

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

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

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

Management estimates the liability renewal amounts and based on such estimate it foresees that the Brokerage Firm's cash flow would be zero under normal conditions. However, the Brokerage Firm maintains liquid assets. During the last quarter of 2008 and 2007 the average of liquid assets (unaudited) was \$1.6 and \$1.4, respectively.

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

**(c) Credit risk-**

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

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

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

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

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

Average losses expected and unexpected in millions of nominal pesos for the fourth quarter of 2008 and 2007 are as follows (unaudited information):

	<u>2008</u>	<u>2007</u>
Exposure	81,653	86,029
Unexpected loss	135	196
Expected loss	1	1
	====	====

**(d) Operational risk-**

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

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

- Policies for Operational Risk Management.- These policies primarily promote the risk management culture, particularly as to operational risk, so that the Brokerage Firm can measure, identify, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities.
- Manual for Operational Risk Data Gathering and Classification.- These policies define the requirements for reporting the information that supports the measuring processes, including the scope, functions and responsibilities of the units providing the information, as well as its classification and specific characteristics.

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- Levels of Operational Risk Tolerance – aimed at having an operational loss management tool that allows each of the Brokerage House's areas to know the tolerance levels of losses applicable to each assumed loss event and encouraging improvements in the management process of Operational Risks within each area and that the latter implement, insofar as possible, the necessary actions to minimize the risk of future losses.
- Key Risk Indicators (KRI) - this process allows the Brokerage House to establish indicators from variables drawn from processes, which performance is related to the degree of risk assumed. By monitoring each indicator, trends are identified that enable managing the indicator's values over time, assuming that by controlling these values the associated risk factor is maintained within the desired levels. To this end maximum and minimum admissible values are established for each of the indicators selected, so that mitigating/corrective action is automatically initiated once these values are exceeded.
- Estimated Legal Risk Loss Model - the Brokerage House 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.

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

- Evaluating the potential impact of significant operational risks identified on the Brokerage Firm's objectives, competitiveness, profitability, productivity and reputation;
- Prioritizing, based on impact and significance, action for mitigating operational risks;
- Guiding each of the Brokerage Firm's units in their operating risk management processes;
- Rely on a systematic procedure so that Brokerage Firm is aware of the operational risks to which it is exposed.

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- Comply with the requirements set forth in sections I, II and III of article 142 of the General Regulations applicable to Brokerage Companies.

As a result of the management process of the Operational Risk, the Brokerage Company has identified operating risks derived from legal contingencies in the amount of \$88. Should this situation occur, there would be a negative impact on the results of operations of the Brokerage Firm, which have already been fully provided for. Also, the expected loss from such contingencies is estimated in \$11 and the unexpected loss in \$72.

At the close of 2008, the Brokerage Firm had built a historic database of operational risk losses, which includes losses incurred for the period from January 2004 to November 2008, summarized into 1,962 loss events with a total value of \$25 million nominal pesos, classified into seven risk categories, detailed below (unaudited information):

Database of Operational Risk Losses (thousands of pesos).

<u>Risk Categories</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<b>Grand total Carried forward</b>
Trading	-	10,877	7,568	897	-	19,342
Regulatory (fines) \$	59	1,811	167	108	844	2,989
Accounting differences	-	421	194	-	-	615
Frauds (internal and external)	-	100	76	-	-	176
Errors in executing transactions	-	-	140	63	216	419
Unrecoverable	-	-	-	505	899	1,404
Phishing	-	-	-	4	-	4
Changes	-	-	-	-	3	3
<b>Total</b>	<b>\$ 59</b>	<b>13,209</b>	<b>8,145</b>	<b>1,577</b>	<b>1,962</b>	<b>24,952</b>

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<u>Risk Categories</u>		<u>Grand total brought forward</u>	<u>Number</u>	<u>Average amount</u>
Trading	\$	19,342	49	395
Regulatory (fines)		2,989	55	54
Accounting differences		615	1,141	1
Frauds (internal and external)		176	4	44
Errors in executing transactions		419	36	12
Unrecoverable		1,404	1,160	1
Phishing		4	1	4
Changes		<u>3</u>	<u>1</u>	<u>3</u>
Total	\$	<u>24,952</u>	<u>2,447</u>	<u>10</u>

**(19) 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 on the Brokerage Firm financial statements.

- (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.

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- (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 on the Brokerage Firm financial statements.

(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 on the Brokerage Firm financial statements.

(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;

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- (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;
  - (iii) 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.
- (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 the Brokerage Firm financial statements.

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 / 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”.

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- (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.

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- (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.
- (c) ***C-1 "Recognition and financial assets write off"***- 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 writing off 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 transferred 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) ***Criteria D-1 "Balance Sheet"; D-2 "Statement of Income" 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) and (c).