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

Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditor's Report thereon)

(Free Translation from Spanish Language Original)

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Independent Auditors' Report

(Free translation from Spanish language original)

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

We have examined the consolidated balance sheets of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries ("the Bank") as of December 31, 2010 and 2009 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

As described in note 2(a) to the consolidated financial statements, the Bank is required to prepare and present its consolidated financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Banking Commission") for credit institutions in Mexico, which in general conform to Mexican Financial Reporting Standards issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF). These accounting criteria include particular rules, which in certain respects differ from such standards. The accounting criteria include particular rules, the application of which, in certain cases, differs from the aforementioned standards as explained in the paragraphs (d), last paragraph, (g) and (aa) of note 2 to the consolidated financial statements.

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

(Continued)

KPMG Cárdenas Dosal, S.C. la firma Mexicana afiliada a KPMG International Cooperative ("KPMG Internacional"), una entidad Suiza.

Aguascalientes, Ags.
Cancún, Q. Roo.
Ciudad Juárez, Chih.
Culiacán, Sin.
Chihuahua, Chih.
Guadalajara, Jal.
Hermosillo, Son.
Mérida, Yuc.
Mexicali, B.C.
México, D.F.
Monterrey, N.L.
Puebla, Pue.
Querétaro, Qro.
Reynosa, Tamps.
Saltillo, Coah.
San Luis Potosí, S.L.P.
Tijuana, B.C.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat and Subsidiaries , in conformity with the accounting criteria established by the Banking Commission for credit institutions in Mexico.

KPMG CARDENAS DOSAL, S. C.

Jorge Orendain Villacampa

February 14, 2011

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

Consolidated Balance Sheets

December 31, 2010 and 2009

(Pesos in millions)

Assets	2010	2009
Cash and cash equivalents (note 5)	$ 20,684	24,791
Margin accounts	149	164
Investment securities (note 6):		
Trading	18,129	14,200
Available-for-sale	4,516	8,525
Held-to-maturity	1,895	1,804
	24,540	24,529
Debtors under repurchase/resell agreements (debtor balance) (note 7)	14,555	998
Derivatives (note 8):		
Trading purposes	2,037	1,789
Hedging purposes	81	189
	2,118	1,978
Valuation adjustment from hedging of financial assets (note 9f)	245	241
Current loan portfolio (note 9):		
Commercial loans:		
Business or commercial activity	34,799	30,732
Financial entities	2,258	2,775
Government entities	8,982	6,735
	46,039	40,242
Consumer loans	15,704	17,319
Residential mortgages	40,492	38,317
Total current loan portfolio	102,235	95,878
Past due loan portfolio (note 9):		
Past due commercial loans:		
Business or commercial activity	331	452
Financial entities	-	4
	331	456
Past due consumer loans	894	1,231
Past due residential mortgages	2,563	2,251
Total past due loan portfolio	3,788	3,938
Total loan portfolio	106,023	99,816
Less:		
Allowance for loan losses (note 9g)	3,913	4,079
Loan portfolio, net	102,110	95,737
Benefits receivable from securitization transactions (note 10b)	205	219
Other accounts receivable, net (note 10)	9,092	10,669
Foreclosed assets, net (note 11)	22	27
Premises, furniture and equipment, net (note 12)	3,579	3,285
Permanent investments (note 13)	78	74
Deferred taxes and deferred employee statutory profit sharing, net (note 17)	908	539
Other assets:		
Deferred charges, prepaid expenses and intangibles	967	902
Other short and long term assets	596	453
	1,563	1,355
Total assets	$ 179,848	164,606

Liabilities and Stockholders' Equity	2010	2009
Deposit funding (note 14):		
Demand deposits	$ 61,919	60,873
Time deposits:		
General public	48,402	49,332
Money market	9,312	-
Credit securities issued	6,220	4,208
	125,853	114,413
Bank and other borrowings (note 15):		
Due on demand	-	3
Short-term	2,758	1,963
Long-term	1,846	2,036
	4,604	4,002
Creditors under repurchase/resell agreements (note 7)	13,545	9,726
Assigned securities to be settled (note 6)	39	1,490
Derivatives (note 8):		
Trading purposes	2,243	1,792
Hedging purposes	406	275
	2,649	2,067
Other accounts payable:		
Income tax payable (note 17)	137	219
Employee statutory profit sharing payable (note 17)	225	222
Creditors pending settlement	342	1,038
Sundry creditors and other accounts payable (note 18b)	3,943	5,451
	4,647	6,930
Deferred credits and prepayments	951	920
Total liabilities	152,288	139,548
Stockholders' equity (note 18):		
Paid-in capital:		
Capital stock	7,451	7,451
Additional paid-in capital	472	472
	7,923	7,923
Earned capital:		
Statutory reserves	2,425	2,221
Retained earnings	14,401	12,567
Unrealized gain from valuation of available-for-sale securities	142	162
Gain from valuation of cash flow hedge instruments	50	147
Net income	2,619	2,038
	19,637	17,135
Total stockholders' equity	27,560	25,058
Commitments and contingencies (note 22)		
Total liabilities and stockholders' equity	$ 179,848	164,606

(Continued)

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

Consolidated Balance Sheets, Continued

December 31, 2010 and 2009

(Pesos in millions)

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

	2010		2009	
Contingent assets and liabilities		$ 71		71
Loan commitments		2,665		2,244
Assets in trust or under mandate:				
Trusts	$ 114,507		108,070	
Mandate	26,823	141,330	26,832	134,902
Assets in custody or under management		$ 444,845		224,515
Collateral received by the entity		85,090		78,878
Collateral received and sold or pledged by the entity		19,947		15,657
Investments on behalf of customers, net		68,375		49,423
Interest earned but not collected arising from past due loan portfolio		214		152
Other accounts		767,312		990,620

"The historical capital stock amounts to $6,200 at December 31, 2010 and 2009."

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions ssued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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

Nicole Reich de Polignac
General Director

Diego M. Pisinger Alter
General Director Deputy Finance and Business Intelligence

Ken Pflugfelder
Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

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

Consolidated Statements of Income

Years ended December 31, 2010 and 2009

(Pesos in millions)

	2010	2009
Interest income (note 21)	$ 13,963	14,323
Interest expense (note 21)	(3,561)	(5,018)
Financial margin	10,402	9,305
Allowance for loan losses (note 9g)	(2,536)	(2,954)
Financial margin after allowance for loan losses	7,866	6,351
Commission and fee income (note 21)	2,176	2,379
Commission and fee expense	(333)	(301)
Financial intermediation income (note 21)	(67)	790
Other operating income (note 21)	779	84
	2,555	2,952
Total operating income	10,421	9,303
Administrative and promotional expenses	(9,031)	(8,578)
Net operating income	1,390	725
Other income (note 21)	2,151	2,231
Other expense (note 21)	(219)	(150)
	1,932	2,081
Income before income taxes	3,322	2,806
Current income taxes (note 17)	(899)	(763)
Deferred income taxes, net (note 17)	194	(8)
	(705)	(771)
Income before equity in the results of associated companies	2,617	2,035
Equity in the results of operations of associated companies (note 13)	2	3
Net majority interest income	$ 2,619	2,038

See accompanying notes to consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the revenues and disbursements relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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

Nicole Reich de Polignac
General Director

Diego M. Pisinger Alter
General Director Deputy Finance and Business Intelligence

Ken Pflugfelder
Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

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

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2010 and 2009

(Pesos in millions)

	Paid-in capital		Earned capital					
	Capital stock	Additional paid-in capital	Statutory reserves	Retained earnings	Unrealized gain from valuation of available-for-sale securities	Gain from valuation of cash flow hedge instruments	Net income	Total stockholders' equity
Balances as of December 31, 2008	$ 7,451	472	1,911	12,112	276	62	3,099	25,383
Changes resulting from stockholder resolutions:								
Resolution passed at the Ordinary General Stockholders' Meeting of March 27, 2009 – Appropriation of 2008 net income	-	-	310	2,789	-	-	(3,099)	-
Dividends declared (nota 18b)								
In Stockholders' Meeting of March 27, 2009	-	-	-	(2,050)	-	-	-	(2,050)
In Stockholders' Meeting of June 30, 2009	-	-	-	(20)	-	-	-	(20)
	-	-	310	719	-	-	(3,099)	(2,070)
Changes related to the recognition of comprehensive income (note 18c):								
Net income for the year	-	-	-	-	-	-	2,038	2,038
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $60 and $(30), respectively	-	-	-	-	(114)	85	-	(29)
Effect of change in accounting policy - Initial recognition resulting from the application of new accounting criteria for allowance for the consumer loan portfolio (note 3)	-	-	-	(264)	-	-	-	(264)
Total comprehensive income	-	-	-	(264)	(114)	85	2,038	1,745
Balances as of December 31, 2009	$ 7,451	472	2,221	12,567	162	147	2,038	25,058
Changes resulting from stockholder resolutions:								
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2010 – Appropriation of 2009 net income	-	-	-	2,038	-	-	(2,038)	-
Creation of reserves	-	-	204	(204)	-	-	-	-
	-	-	204	1,834	-	-	(2,038)	-
Changes related to the recognition of comprehensive income (note 18c):								
Net income for the year	-	-	-	-	-	-	2,619	2,619
Valuation effects, of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for $52 and $17, respectively	-	-	-	-	(20)	(97)	-	(117)
Total comprehensive income	-	-	-	-	(20)	(97)	2,619	2,502
Balances as of December 31, 2010	$ 7,451	472	2,425	14,401	142	50	2,619	27,560

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with accounting criteria for credit institutions ssued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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

Nicole Reich de Polignac
General Director

Diego M. Pisinger Alter
General Director Deputy Finance and Business Intelligence

Ken Pflugfelder
Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

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

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

(Pesos in millions)

	2010	2009
Net income	$ 2,619	2,038
Items not requiring (providing) cash flow:		
Allowance for loan losses	2,536	2,954
Provision for doubtful accounts	6	8
Impairment losses or impairment reversal in investing and financing activities	141	26
Depreciation and amortization	282	246
Provisions	247	390
Current and deferred income taxes	673	227
Equity in the income of unconsolidated subsidiaries and associated companies	(2)	-
Other	66	124
	3,949	3,975
Operating activities:		
Change in margin accounts	15	(21)
Change in investment securities	(1,654)	(1,070)
Change in receivables under repurchase / resell agreements	(13,557)	(990)
Change in derivatives (asset)	(238)	26
Change in loan portfolio	(8,907)	(3,845)
Change in foreclosed assets	1	(8)
Change in other operating assets	1,455	493
Change in deposit funding	11,440	(514)
Change in bank and other borrowings	602	(2,153)
Change in creditor by repurchase / resell agreements	3,820	4,548
Change in derivatives (liabilities)	447	28
Change in other operating liabilities	(2,423)	662
Net cash flows from operating activities	(8,999)	(2,844)
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(574)	(733)
Cash (used) received from disposal (acquisition) of subsidiary and associated companies	(1)	44
Net cash flows from investing activities	(575)	(689)
Net cash flows from financing activities for payment of dividends	(1,101)	(567)
Net (decrease) increase in cash and cash equivalents	(4,107)	1,913
Cash and cash equivalents at beginning of year	24,791	22,878
Cash and cash equivalents at end of year	$ 20,684	24,791

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Articles 99, 101 and 102 of the Law for Credit Institutions, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the cash in flows and cash out flows relating to the transactions carried out by the Institution for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

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

Nicole Reich de Polignac
General Director

Diego M. Pisinger Alter
General Director Deputy Finance and Business Intelligence

Ken Pflugfelder
Divisional Director Group Audit

Gordon Macrae
Director of Group Accounting

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http://www.cnbv.gob.mx/estadistica

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

(1) Description of business and significant transactions-

Description of business-

Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat ("the Bank") is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group") which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.3% of its capital stock. In accordance with the Credit Institutions Law, the Bank is authorized to carry out multiple-service banking transactions such as accepting deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services, among others. The consolidated financial statements of the Bank and subsidiaries include those of the wholly-owned subsidiaries, Inmobiliaria Scotia Inverlat, S. A. de C. V. (Inmobiliaria) operation of bank premises, Servicios Complementarios y Resguardo, S. A. de C. V. (SECORESA) which provides maintenance and security services, Scotia Servicios de Apoyo, S. A. de C. V. (Scotia Servicios) which supports the management of the credit card acquisition business, Scotia Inverlat Derivados, S. A. de C. V. (Scotia Derivados) which acts as trading member for futures and options contracts listed on the MexDer Mercado Mexicano de Derivados, S. A. de C. V. (MexDer) and two trusts named, Fideicomiso Socio Liquidador Posición Propia Número 101667 and Fideicomiso Socio Liquidador Posición de Terceros Número 101776 (MexDer Trusts), created for the purpose of entering into futures and options contracts for the Bank's own account and on behalf of third parties, respectively.

2010 Significant transactions-

(a) Placement of stock certificates-

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

(b) Acquisition of collection rights-

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

(Continued)

(c) Restructuring of collection rights-

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

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

(d) Support programs for natural disasters-

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

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

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

(Continued)

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

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

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

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

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

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

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

(Continued)

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

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

(f) Loyalty program termination-

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

2009 Significant transactions-

(a) Sale of credit card portfolio-

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

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

(b) Sanitary Contingency Support Plan for the flu virus-

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

(Continued)

(2) Summary of significant accounting policies-

(a) Financial statement presentation and disclosure-

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

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

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

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

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

In general, the accounting criteria established by the Banking Commission conform to Mexican Financial Reporting Standards (FRS), issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de las Normas de Información Financiera, A. C. or CINIF), and include particular rules relating to accounting, valuation, presentation and disclosure, which depart from these standards (see paragraphs (d), (g) and (aa) of this note).

(Continued)

The accounting criteria provide that the Banking Commission will issue particular rules for specialized operations and that in the absence of an express accounting criterion of the Banking Commission for credit institutions, and in a wider context the FRS, the suppletory processes as established by FRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by FRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, providing all the requirements set out by the FRS are met by the standard. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and any other formal and recognized accounting standard, provided it complies with the requirements of criterion A-4 of the Banking Commission.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The major items subject to such estimates and assumptions include the valuation of financial instruments, allowance for loan losses and deferred taxes. The actual results may differ from those estimates and assumptions.

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

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

(b) Recognition of the effects of inflation-

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

(Continued)

The year ended December 31, 2010 is considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in NIF B-10 "Effects of Inflation", consequently the effects of inflation on the Bank's financial information are not recognized. The accumulated inflation rate of the three preceding years and the indexes used to recognize inflation, are as follows:

		Inflation	
December 31,	**UDI**	**Annual**	**Accumulated**
2010	$ 4.526308	4.29%	15.09%
2009	4.340166	3.72%	14.55%
2008	4.184316	6.39%	15.03%

(c) Cash and cash equivalents-

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

The foreign exchange acquired in purchase transactions to 24 and 48 hours, are recognized as restricted cash, while the currency sold is recorded as cash outflow. The rights and obligations for the sales and purchases of foreign exchange at 24 and 48 hours are recorded in "Other accounts receivable, net" and "Sundry creditors and other payables", respectively.

(d) Margin accounts-

The margin accounts relate to transactions with derivative financial instruments executed in recognized markets and stock exchanges, in which cash is deposited to ensure performance of corresponding obligations. The amount of the deposits relates to the initial margin and the subsequent contributions or withdrawals made over the term of the derivative financial instruments contract. Cash accounts are recognized at nominal value and are reported under "Margin Accounts". Returns affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year under "Interest income", whereas the commissions paid are recognized under "Commissions and fees expenses".

(Continued)

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

(e) Investment securities-

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities, which are classified using the categories shown below, based on the intention and ability of management on their holdings.

Trading securities-

Those for trading in the market. Securities are accounted for at fair value, transaction costs for the acquisition of securities are recognized in income on the acquisition date, subsequently valued at fair value provided by an independent price vendor. When the securities are sold, the difference between purchase price and the sale price determines the result for sale, shall cancel the result of valuation that has been previously recognized in the income statement.

Interest earned from debt securities derived from securities investments denominated in foreign currency are recognized in the year's income under "Interest income" or "Interest expense", as applicable. Dividends from net equity instruments are recognized in the year's income when the right to receive payment thereof arises. Valuation effects are recognized in the year's income within the caption of "Financial intermediation income".

Available-for-sale securities-

Those not classified as trading securities and where the entity does not have the intention or capacity to hold to maturity. These securities are initially recognized at fair value; and then are valued in the same manner as trading securities, recognizing the effect of valuation in stockholders' equity under "Unrealized gain or loss from valuation of available-for-sale securities", net of deferred taxes, which is cancelled for its recognition in income at the time of sale. Accrued interest is recognized under the effective interest method under "Interest income" or "Interest expense".

Held-to-maturity securities-

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

(Continued)

Impairment in value of a security-

Where sufficient objective evidence exists that a security available for sale or held to maturity has been impaired, the carrying amount of the security is modified and the loss is recognized in income.

Value date transactions-

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

Transfers between categories-

Only transfers from held-to-maturity to available-for-sale securities are possible, provided it is not intended to hold them until maturity. Valuation adjustments at the date of the transfer are recognized in stockholders' equity. In the case of reclassifications of securities to the category held to maturity, or of securities from trading to available for sale, this is only permissible with the express authorization of the Banking Commission.

(f) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction, the Bank acting as repurchase recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as repurchase recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account receivable and the account payable are initially stated at the agreed-upon price, representing the obligation to repay or the right to recover the cash, respectively.

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

(Continued)

The Bank acting as repurchasee recognizes the received collateral in memorandum accounts in accordance with accounting criterion B-9 “Assets in custody and under management”, whereas when acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet, reporting it as a restricted asset.

Should the Bank, acting as repurchasee sell or pledge the collateral, the transaction proceeds and an account payable are recorded for the obligation to return the collateral to the repurchaser, which is valued, in the case of sale at fair value, or if pledged in another sale and repurchase agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when the Bank acts as repurchaser and the debit or credit balance is presented in the financial statement caption "Debtors under repurchase/resell agreements" or in "Collateral sold or pledged", as applicable.

(g) Transactions with derivative financial instruments-

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

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

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

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

(Continued)

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

(h) Settlement clearing accounts-

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

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

(i) Past due loans and interest-

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

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

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

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

(Continued)

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

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

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

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

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

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

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

(j) Allowance for loan losses-

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

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

(Continued)

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

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

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

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

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

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

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

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

(Continued)

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

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

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

(k) Collection rights-

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

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

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

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

(l) Credit card loyalty program-

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

(m) Other accounts receivable-

Loans to officers and employees, collection rights and accounts receivable relating to identified debtors over 90 calendar days past due are assessed by Bank´s management to determine the estimated recovery value and, as required, to create the corresponding reserves. Irrespective of the likelihood of recovery, the balances of debtors less than 90 calendar days past due are reserved and charged to income 90 days after their initial recording (60 days if the balances are unidentified), except for tax-related (VAT included) balances.

In cases where the amount receivable is not realized within 90 calendar days following the date at which they were booked in clearing accounts, they are recorded as past due and a provision is booked for the total amount.

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

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

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

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

(Continued)

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

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

(o) Premises, furniture and equipment-

Property, plant and equipment and installation expenses are recorded at acquisition cost. Those assets acquired through December 31, 2007 were adjusted by using factors based on the UDI value as of that date, which recognition of the effects of inflation on the financial information was suspended. Property acquired in foreign currency is recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

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

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

(Continued)

(p) Permanent investments-

Investments in subsidiaries and associated companies are valued by the equity method. A company is regarded as a subsidiary of the Bank when having the power to define the entity's operating and financial policies, and it is deemed to be an associated company when significant influence is exercised, which is assumed to exist when holding 10% of potential voting power for listed issuers, or 25% for unlisted issuers.

The investments where no significant influence exists are classified as other investments, which are recorded at acquisition cost. Dividends, if any, received from these investments are recognized in consolidated statement of income caption "Other income (expenses) of operation".

(q) Other assets-

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

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

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

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

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

IT or IETU and ESPS payable for the year are determined in conformity with the applicable tax provisions.

(Continued)

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

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

(s) Deposit funding-

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

(t) Bank and other loans-

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

(u) Employee benefits-

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

(Continued)

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

Irrevocable trusts have been established for both plans to manage the respective plan funds and assets, except for severance compensation.

The net periodic cost related to the defined benefit plans and the termination benefits for reasons other than restructuring are charged to operations for each year, based on independent actuarial computations in accordance with generally accepted actuarial procedures and principles, and the provisions of FRS D-3 "Employee benefits". The methodology used for calculating the obligations is the projected unit credit, based on actuarial hypotheses reflecting the present value, salary increase and benefit payment probability.

The unamortized items for past service are amortized over a maximum of five years (or within the average remaining working life, whichever is lower). Unamortized termination benefit items are recorded directly in results of operations for the year.

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

(v) Revenue recognition-

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

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

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

(Continued)

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

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

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

(w) Foreign currency transactions-

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

(x) UDI Trusts-

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

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

(y) Contributions to IPAB-

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

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

(Continued)

(z) Contingencies-

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

(aa) Consolidated statement of income-

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

(3) 2010 FRS Revisions and 2009 accounting change-

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

- **FRS B-1 "Accounting changes and error corrections"-** Disclosures are added to financial statements in case of an accounting change or an error correction.

- **FRS B-2 "Statement of cash flows"-** Unrealized accrued foreign exchange fluctuations and the effects of fair value recognition are excluded from the cash balance on the statement of cash flows.

- **FRS C-7 "Investments in associates and other permanent investments"-** Capital contributions by the holding company to the associate that increase its equity percentage are to be recognized based on the net fair value of identifiable assets and liabilities. For that purpose, the valuation must be in proportion to the increase. The increase in the percentage of participation that do not result from contributions of capital for holding should not be recognized by it.

2009 accounting change

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

(Continued)

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

(4) Foreign currency position-

Central Bank regulations require that banks maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital computed as of the third immediately preceding month. The Bank has been authorized by the Central Bank to maintain a larger long or short position, which includes a hedge of capital, of up to 50 million dollars in 2010 and 2009. Therefore, as of December 31, 2010 and 2009, the Bank's position is within the authorized limits.

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

		2010	2009
Assets	$	2,250	2,006
Liabilities		(2,246)	(2,017)
Long (short) position	$	4	(11)

At December 31, 2010, the long (short in 2009) in foreign currency position consists of 72% in US dollars (82% in 2009), and 28% in other foreign currencies (18% in 2009).

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

(Continued)

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Notes to the Consolidated Financial Statements

(Pesos in millions)

(5) Cash and cash equivalents-

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

		2010	2009
Cash in hand	$	2,484	2,182
Banks:			
Domestic		24	4,938
Foreign		1,725	1,615
Three-day interbank call money		3,510	2,618
24 and 48-hour foreign currency sales		(426)	(1,012)
Other funds available		71	50
Restricted funds:			
Deposits with the Central Bank		12,837	13,381
24 and 48-hour foreign currency purchase		221	926
Compensation fund to operate derivatives		238	93
	$	20,684	24,791

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

At December 31, 2010 and 2009, the Bank had the following three-day interbank loans ("Call money"):

Institution	2010 Amount	2010 Rate	2010 Term	2009 Amount	2009 Rate	2009 Term
Banco Nacional de Obras y Servicios Públicos, S. N. C.	$ 1,500	4.55%	3 días	$ 1,500	4.65%	3 días
Banco Santander Serfín, S. A.	–	–	–	1,118	4.50%	3 días
Banco Nacional de México, S. A.	2,000	4.40%	3 días	–	–	–
Nacional Financiera, S. N. C.	10	4.50%	3 días	–	–	–
	$ 3,510			$ 2,618		

(Continued)

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

	Receivable		Deliverable	
	2010	**2009**	**2010**	**2009**
Dollar	$ 193	853	391	898
Other currencies	28	73	35	114
	$ 221	926	426	1,012

(6) Investment securities-

(a) Composition-

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

	2010	**2009**
Trading:		
Debt securities:		
Government securities	$ 12,187	8,966
Bank promissory notes	5,830	5,182
Others	92	–
Shares	20	52
	18,129	14,200
Available-for-sale:		
Debt securities:		
Government securities	3,026	6,359
Bank promissory notes	610	1,050
Others	829	987
Shares	51	129
	4,516	8,525
Held-to-maturity:		
Special CETES of the UDI Trust:		
Residential mortgages	1,895	1,804
Total investment securities	$ 24,540	24,529

(Continued)

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

		2010	2009
Trading:			
Debt securities:			
Government securities (unrestricted):			
CETES	$	519	50
IP BPAS		606	10
IT BPAT		-	6
		1,125	66
Value date sales:			
BONOS M		(1,033)	(1,248)
BI CETES		–	(293)
S UDIBONO		(100)	(15)
IS BPA		(30)	–
CEMEA77		(1)	–
		(1,164)	(1,556)
(Assigned securities to be settled unrestricted securities)	$	(39)	(1,490)
Own position in subsidiaries:			
BONOS M	$	21	19
IT BPAT		–	81
IP BPAS		166	–
BONDES D		22	–
LD BONDES		6	–
Total unrestricted securities	$	215	100

(Continued)

SCOTIABANK INVERLAT, S. A.,
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Notes to the Consolidated Financial Statements

(Pesos in millions)

		2010	**2009**
Restricted securities:			
Under repurchase/resell agreements:			
CETES	$	2,457	2,046
CFECB		–	105
BPAS		69	1,785
BPA		479	182
BPAT		1,135	1,050
BONDESD		4,489	2,475
BONOS M		1,821	803
BONOS M0		924	4
UDIBONO		321	240
		11,695	8,690
Value date purchases:			
BONOS M	$	201	176
UDIBONO		60	–
BI CETES		15	–
CEMEA 77		1	–
		277	176
Total government securities	$	12,187	8,966
Under repurchase/resell agreements:			
Others:			
CBUR	$	92	–
Bank promissory notes:			
INBURSA	$	2,461	2,496
BANOBRA		–	1,650
NAFIN		1,604	–
		4,065	4,146
Restricted securities:			
Under repurchase/resell agreements:			
BACMEXT		–	43
NAFIN		3	993
BANOBRA:			
CEDES		1,736	–
PRLV		26	–
		1,765	1,036
Total bank promissory notes	$	5,830	5,182
Shares	$	20	52

(Continued)

(Pesos in millions)

		2010	2009
Available-for-sale:			
Debt securities:			
Domestic government securities:			
MMVCB	$	1,860	2,921
MEXF54		721	2,017
MEXH11		–	364
MEXK40		–	369
MEXQ10		–	73
MEXX60		–	75
PEMEJ73		–	235
BONOS M		–	96
BONOS M0		75	–
		2,656	6,150
Foreign government securities:			
BRAZT75		356	–
BRAZY60		14	–
		370	–
Value date purchases (restricted securities):			
MEXMH11		–	105
PEMEJ73		–	104
		–	209
Total government securities	$	3,026	6,359
Bank promissory notes:			
Own position:			
BANOB	$	610	–
BACOMER		–	1,003
CA51		–	47
Total bank promissory notes	$	610	1,050
Others:			
Own position:			
VIPESA	$	397	370
MOLYMET		192	192
CINMOBI		7	2
BNPPPF		–	200
CASITA		–	98
MONTP10		50	–
PATRIMO		122	64
CITIGROUP		61	61
Total others	$	829	987
Shares	$	51	129

(Continued)

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

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

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

		2010	2009
INBURSA	$	2,461	2,496
BANOBRA		1,762	1,650
NAFIN		1,604	–

(7) Securities under repurchase/resell agreements-

At December 31, 2010 and 2009, the "Debtors under repurchase/resell agreements" and "Creditors under repurchase/resell agreements" balances in which the Bank acts as repurchasee and repurchaser, respectively, are analyzed as follows:

		Debtors under repurchase/resell agreements		Creditors under repurchase/resell agreements	
		2010	2009	2010	2009
BPAS	$	954	2,190	(69)	(1,785)
BPAT		6,220	842	(1,134)	(1,050)
IS BPA 182		4,771	1,202	–	–
BONOS M		10,773	138	(1,818)	(808)
BONOS M0		1,700	3,300	(924)	–
BI CETES		3,943	–	–	–
LD BONDESD		6,105	9,006	–	–
CEDE		–	–	(1,736)	–
CEBUR		–	–	(92)	(106)
CETIM		–	–	(2,456)	(2,046)
IPAS		–	–	(478)	(182)
LBON		–	–	(4,488)	(2,474)
PRLV		–	–	(28)	(1,036)
UDIB		–	–	(322)	(239)
Totals in the next page		34,466	16,678	(13,545)	(9,726)

		Debtors under repurchase/resell agreements		Creditors under repurchase/resell agreements	
		2010	**2009**	**2010**	**2009**
Totals from previous page		34,466	16,678	(13,545)	(9,726)
Collateral sold or pledged:					
LD BONDESD		(6,105)	(9,006)		
BONOS M		(3,168)	(1,600)		
BONOS M0		(1,700)	(1,838)		
BPA 182		(2,466)	(1,202)		
BI CETES		(3,386)	–		
IT BPAT		(2,582)	(842)		
BPAS		(504)	(1,192)		
		(19,911)	(15,680)		
Debtors (creditors) repurchase/resell agreements	$	14,555	998	(13,545)	(9,726)

At December 31, 2010, maturities of sale and repurchase agreements vary between 3 and 91 days (4 and 91 days in 2009) with weighted rates of 4.22% acting as repurchasee, and 4.58% acting as repurchaser (4.54% and 4.51% in 2009, respectively).

During the years ended December 31, 2010 and 2009, interest or premiums collected amounted to $1,075 and $1,429, respectively; interest or premiums paid amounted to $675 and $1,370, respectively, and are included in the consolidated statements of income caption under "Interest income" and "Interest expense", respectively (see note 21 (b)).

At December 31, 2009, the Bank received government securities as guarantee for over 3-day repurchase agreements, which was included and recorded in memorandum accounts and are analyzed as follows:

Issuer	Series	Number of certificates		Market value
Guarantees received:				
IP Bpas	110714	27,525		2
IP Bpas	131003	113,777		11
IS Bpa 182	171005	300,591		30
BI Cetes	111117	576,338		6
LD Bondes D	140320	2,771,506		276
LD Bondes D	140123	47,795		5
Total guarantees received			$	330
Guareantees delivered:				
BI Cetes	110728	1,496,241	$	15

(Continued)

(8) Derivatives-

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

	2010		2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trading purposes:				
Foreign exchange currency forward contracts	$ 84	145	75	63
Futures	3	1	3	1
Options	8	8	10	17
Interest rate swaps	1,942	2,089	1,701	1,711
	2,037	2,243	1,789	1,792
Hedging purposes:				
Fair value hedges	-	279	1	257
Cash flow hedges	81	127	188	18
	81	406	189	275
	$ 2,118	2,649	1,978	2,067

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

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

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

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

(Continued)

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

Notional amounts:

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

			2010	
Type of instrument		**Hedging purposes**	**Trading purposes**	**Total**
Interest rate:				
Bought:				
Futures:				
TIIE	$	–	12,810	12,810
Cetes		–	3,950	3,950
Bonds		–	155	155
Options (shares $86 and indexes $4)		–	90	90
Swaps		7,620	57,704	65,324
	$	7,620	74,709	82,329
Sold:				
Futures:				
TIIE	$	–	14,023	14,023
Cetes		–	2,850	2,850
Bonds		–	39	39
Options (shares $86 and indexes $4)		–	90	90
Swaps		9,127	59,527	68,654
	$	9,127	76,529	85,656
Bought:				
Swaps (in millions of dollars)		–	267	267
Sold:				
Swaps (in millions of dollars)		197	266	463
Foreign exchange (in millions of dollars):				
Bought:				
Forward contracts		–	1,088	1,088

(Continued)

	2010		
Type of instrument	**Hedging purposes**	**Trading purposes**	**Total**
Sold:			
Forward contracts	–	208	208
Options	–	2	2
	–	210	210
Foreign exchange (in millions of euros):			
Bougth:			
Forward contracts	–	1	1
Sold:			
Forward contracts	–	1	1

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

(Continued)

	2009		
Type of instrument	**Hedging purposes**	**Trading purposes**	**Total**
Foreign exchange (in millions of dollars):			
Sold:			
Forward contracts	–	351	351
Options	–	63	63
	–	414	414
(In millions of euros)			
Bought:			
Forward contracts	–	7	7
Sold:			
Forward contracts	–	7	7

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

At December 31, 2010, of the total transactions there are 48 (57 in 2009) designated as cash flow hedges that total $11,740 ($7,490 in 2009) and are converting 28-day liabilities classified as cash flows hedges; the remaining $7,443 ($7,255 in 2009) are designated as fair value hedges.

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

(Continued)

(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

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

	2010		2009	
	Current	**Past due**	**Current**	**Past due**
In assets:				
Pesos:				
Business or commercial activity	$ 27,896	308	23,992	429
Financial institutions	2,017	–	2,725	4
Government entities	7,745	–	6,735	–
Consumer loans	15,704	894	17,319	1,231
Residential mortgages	40,294	2,552	37,692	2,106
	93,656	3,754	88,463	3,770
Foreign currency:				
Business or commercial activity	6,903	23	6,740	23
Financial institutions	241	–	50	–
Government entities	1,237	–	–	–
Residential mortgages	198	11	189	5
	8,579	34	6,979	28
Denominated in UDIS:				
Residential mortgages	–	–	436	140
	102,235	3,788	95,878	3,938
	106,023		99,816	
In memorandum accounts:				
Loan commitments	2,665		2,244	
	$ 108,688		102,060	

(Continued)

(b) Classification of loan portfolio by economic sector-

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

	2010		2009	
	Amount	**%**	**Amount**	**%**
Community, social and personal services, mainly government entities	$ 12,974	12	10,367	10
Construction and housing	48,596	45	45,939	45
Financial, insurance and real estate services	5,323	5	4,505	5
Manufacturing	7,804	7	7,232	7
Commerce and tourism	11,813	11	11,668	12
Consumer loans and credit cards	16,598	15	18,550	18
Agriculture, forestry and fishing	3,227	3	2,459	2
Transportation, warehousing and communication	1,092	1	1,084	1
Other	1,261	1	256	–
	$ 108,688	100	102,060	100

(c) Acquisition of consumer loans-

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

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

(Continued)

(d) Loans to government entities-

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

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

Debtor support programs:

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

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

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

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

(Continued)

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

(e) UDI Trusts restructured loans-

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

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

Early termination of mortgage programs-

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

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

(ii) domestic currency-denominated loans entitled to the discount program benefits,

(iii) loans that as of December 31, 2010 (cut-off date) are current and,

(iv) past-due loans that were restructured or to which a debt relief, discount or allowance was applied no later than December 31, 2010, and for which evidence substantiating payment for at least three consecutive amortizations no later than March 31, 2010 exists.

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

- The amount of the conditional discount portion payable by the Federal Government in connection with the mortgage programs related to the UDI trusts and own UDI-denominated loans, for the current loan portfolio is $81 and $74, respectively.

- The amount of the conditional discount program payable by the Federal Government, for which under the Agreement evidence is to be provided substantiating "Fulfillment of Payment" no later than March 31, 2011 is $4.

- The amount of the discounts applied prior to the signing of the Discount Program is $178.

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

Annuity	Payment date
First	December 1, 2011
Second	June 1, 2012
Third	June 3, 2013
Fourth	June 2, 2014
Fifth	June 1, 2015

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

(Continued)

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

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

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

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

The amount related to the Special Cetes repurchase made on December 31, 2010, as a result of the early liquidation of UDIS trusts is shown are as follow:

	Titles		Amount	Maturity date
Special Cetes B4 270701	3,879,748	$	304	1-jul-2027
Special Cetes BC 270701	2,310,399		60	1-jul-2027
Special Cetes BV 270701	1,939,472		37	1-jul-2027
Total special Cetes	8,129,619	$	401	

(Continued)

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

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

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

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

(f) Additional loan portfolio information-

Annual weighted lending rates:

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

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

* Includes commercial, financial and government entities loans.

(Continued)

Loans rediscounted with recourse:

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

Restructured loans:

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

		Current loans	Past due loans	Total
2010				
Commercial loans	$	1,943	246	2,189[1]
Residential mortgages		4,551	624	5,175[2]
Personal loans		150	130	280
	$	6,644	1,000	7,644
2009				
Commercial loans	$	1,730	102	1,832[1]
Residential mortgages		4,227	395	4,622[2]
Personal loans		160	268	428
	$	6,117	765	6,882

[1] In 2010, a commercial loans was restructured, with estate and fiduciary guarantees amounting to $131, in 2009 were not hired additional guarantees.

[2] From the total balance of restructured and renewed residential mortgage loans as of December 31, 2010 and 2009, there were no additional guaranties obtained.

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

(Continued)

Risk concentration:

At December 31, 2010 and 2009, there were no balances due from one individual debtor that exceeded 10% of the Bank's basic capital. The balance of the loans granted to the three largest debtors as of December 31, 2010 and 2009, amount to $4,275 and $3,502, respectively.

Past due loan portfolio:

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

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

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

(Continued)

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

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

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

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

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

Impaired loans:

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

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

Credit Lines:

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

Adjustment for valuation of financial asset hedging:

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

(Continued)

(g) Allowance for loan losses-

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

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

	2010		2009	
	General	**Specific**	**General**	**Specific**
Commercial *	$ 261	1,003	195	1,099
Personal loans	63	1,032	67	1,410
Residential mortgages	133	1,234	123	1,010
	$ 457	3,269	385	3,519
	$ 3,726		3,904	

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

Degree of risk	**Commercial***	**Consumer**	**Residential mortgages**	**Total**
Graded loan portfolio				
A and A-1	$ 23,896	11,960	37,938	73,794
A-2	14,988	–	–	14,988
B and B-1	8,221	1,285	3,279	12,785
B-2	468	2,240	–	2,708
B-3	149	–	–	149
C and C-1	440	361	452	1,253
D	22	539	1,300	1,861
E	412	213	86	711
Total graded loan	$ 48,596	16,598	43,055	108,249

* Includes commercial, financial institutions and government entities loans.

(Continued)

Allowance for loan losses

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

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

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

* Includes commercial, financial institutions and government entities loans.

(Continued)

Allowance for loan losses

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

* Includes commercial, financial institutions and government entities loans.

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

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

(Continued)

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

	2010	2009
Total graded portfolio	$ 108,249	101,829
Portfolio not including creditors under support programs	439	231
Total of credit risks	$ 108,688	102,060

(10) Collection rights and mortgage portfolio securitization-

(a) Collection rights-

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

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

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

(Continued)

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

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

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

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

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

(b) Mortgage portfolio securitization-

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

As part of the agreed-upon consideration for the securitization, the Bank received a trust certificate, the value of which as of December 31, 2010 and 2009 is $205 and $219, respectively. The certificate is reported under the caption “Benefits receivable on securitization transactions” on the consolidated balance sheet, and is recorded at fair value, which was determined based on the expectations for recovery of the trust estate and the remaining cash flows once all obligations to bondholders are met. The difference between the fair value and the carrying amount of the certificate is recognized as impairment, which for fiscal year ended December 3, 2010 amounted to $13, and was reported under the caption “Other expenses” on the consolidated statement of income. To date, no remainder amount has been received.

(Continued)

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

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

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

(11) Foreclosed assets-

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

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

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

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

(Continued)

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

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

	2010	2009	Annual depreciation and amortization rate
Office premises	$ 2,022	2,013	Various
Office furniture and equipment	1,105	951	10%
Works of art	2	2	N/A
Computer equipment	961	924	30%
Transportation equipment	56	48	25%
Telecommunications equipment	242	215	10%
Leasehold improvements	1,658	1,391	5%
Construction in progress	69	19	–
	6,115	5,563	
Accumulated depreciation and amortization	(2,536)	(2,278)	
	$ 3,579	3,285	

Depreciation and amortization charged to results of operations for the years ended December 31, 2010 and 2009 amounted to $280 and $246, respectively.

(13) Permanent investments-

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

	2010	2009
Others banking related services	$ 45	44
Mutual funds	24	24
Derivatives market operators	8	5
Security and protection *	1	1
	$ 78	74

* At December 31, 2010 and 2009, the Bank maintains a reserve for the totality of the shares of a company engaged in the armored car services.

(Continued)

For the years ended December 31, 2010 and 2009, the participation percentage which the Bank has in the equity of its subsidiaries is between 99.99% and 100%.

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

(14) Deposit funding-

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

	2010 Rates		2009 Rates	
	Pesos	Dollars	Pesos	Dollars
Demand deposits	1.02%	0.07%	1.51%	0.19%
Savings deposits	0.55%	–	0.56%	–
Time deposits of the public	3.88%	0.30%	4.94%	0.46%
Money market	–	0.51%	7.39%	–

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

Additionally, in October 2010, the Banking Commission approved another certificate program stock bank for an amount of $15,000; at 31 December 2010, the Bank has placed $3,142 for a term of 5 years you pay interest every 28 days and variable-rate 28-day TIIE plus 0.40% and $358 for a term of 7 years and pay interest every 28 days at a variable rate of TIIE 28 days plus 0.49%.

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

(Continued)

(15) Bank and other borrowings-

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

		2010	2009
Due on demand private domestic banks:	$	-	3
Short-term:			
Pesos:			
Development banks [1]		1,929	1,414
Development agencies [1]		814	545
Accrued interest		15	-
		2,758	1,959
Denominated in dollars, translated in to pesos:			
Development agencies [1]		-	4
		2,758	1,963
Total due on demand and short term		2,758	1,966
Long-term:			
Pesos:			
Development banks [1]		17	256
Development agencies [1]		1,459	1,765
FOVI		370	-
Accrued interest		-	15
Total long-term		1,846	2,036
Total bank and other loans	$	4,604	4,002

[1] Development funds (see note 9(f)).

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

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

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

(16) Employee benefits-

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

For the years ended December 31, 2010 and 2009, the charge to operations for the Bank's contributions to the defined contribution pension plan amounted to $60 and $40, respectively.

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

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

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

	Pensions			Seniority premium			Medical expenses, food coupons. life insurance
	Retirement	Disability	Total	Retirement	Termination	Total	for retirees
2010							
Service cost	$ 30	1	31	2	5	7	62
Interest cost	164	3	167	4	5	9	174
Return on plan assets	(155)	(4)	(159)	(5)	(6)	(11)	(196)
Amortization of prior service:							
Transition asset	–	–	–	–	–	–	(8)
Plan modifications	4	–	4	–	–	–	(3)
Actuarial loss (gain), net	3	–	3	–	–	–	20
Net periodic cost	46	–	46	1	4	5	49
Income entitlements	(3)	–	(3)	–	–	–	–
Cost (income) recognition of actuarial gains generated in the year	–	1	1	–	(17)	(17)	–
Total cost (income)	$ 43	1	44	1	(13)	(12)	49
2009							
Service cost	$ 28	1	29	2	5	7	59
Interest cost	157	3	160	3	5	8	169
Return on plan assets	(137)	(3)	(140)	(4)	(6)	(10)	(155)
Amortization of prior service:							
Transition asset	–	–	–	–	–	–	(8)
Plan modifications	–	–	–	–	–	–	(3)
Actuarial loss, net	16	–	16	–	–	–	37
Net periodic cost	64	1	65	1	4	5	99
Income recognition of actuarial gains generated in the year	–	(4)	(4)	–	(11)	(11)	–
Total cost (income)	$ 64	(3)	61	1	(7)	(6)	99

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

		Pensions			Seniority premium			Medical expenses, food coupons, life insurance for retirees
		Retirement	Disability	Total	Retirement	Termination	Total	
Defined benefit obligations (DBO) as of December 31, 2009	$	(1,857)	(38)	(1,895)	(41)	(57)	(98)	(1,982)
Current service cost		(30)	(1)	(31)	(2)	(5)	(7)	(62)
Interest cost		(164)	(3)	(167)	(4)	(5)	(9)	(174)
Improvement Plan (IP)		(43)	–	(43)	–	–	–	–
Immediate recognition of IP		3	–	3	–	–	–	–
Paid benefits		159	1	160	–	6	6	66
Actuarial gain (loss)		(73)	(3)	(76)	(8)	15	7	(364)
DBO as of December 31, 2010		(2,005)	(44)	(2,049)	(55)	(46)	(101)	(2,516)
Plan assets at fair value		1,783	44	1,827	55	70	125	2,346
Financial situation of the fund		(222)	–	(222)	–	24	24	(170)
Past service for:								
Transition asset		–	–	–	–	–	–	(16)
Plan improvements		42	–	42	–	–	–	(39)
Cumulative actuarial gains		229	–	229	4	–	4	732
Projected asset, net as of December 31, 2010	$	49	–	49	4	24	28	507

A reconciliation of the net projected (liability) asset as of December 31, 2010 is analyzed as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance, for retirees
		Retirement	Disability	Total	Retirement	Termination	Total	
Projected (liability) asset, net as of December 31, 2009	$	(2)	1	(1)	4	7	11	428
Net cost for fiscal year		(43)	(1)	(44)	(1)	(4)	(5)	(49)
Contributions to fund during 2010		94	1	95	1	4	5	128
Immediate recognition of gains and losses		–	(1)	(1)	–	17	17	–
Projected (liability) asset, net as of December 31, 2010	$	49	–	49	4	24	28	507

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

		Pensions			Seniority premium			Medical expenses, food coupons, life insurance
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Defined benefit obligations (DBO) as of December 31 , 2008	$	(1,702)	(35)	(1,737)	(33)	(57)	(90)	(1,820)
Current service cost		(28)	(1)	(29)	(2)	(5)	(7)	(59)
Interest cost		(157)	(3)	(160)	(3)	(5)	(8)	(169)
Paid benefits		121	1	122	4	6	10	59
Actuarial (gain) loss		(91)	–	(91)	(7)	4	(3)	7
DBO as of December 31, 2009		(1,857)	(38)	(1,895)	(41)	(57)	(98)	(1,982)
Plan assets at fair value		1,621	39	1,660	47	63	110	1,997
Financial situation of the fund		(236)	1	(235)	6	6	12	15
Past service:								
Transition asset		–	–	–	–	–	–	(24)
Plan improvements		2	–	2	1	1	2	(43)
Actuarial gains (losses)		232	–	232	(3)	–	(3)	480
Projected (liability) asset, net as of December 31, 2009	$	(2)	1	(1)	4	7	11	428

A reconciliation of the net projected (liability) asset as of December 31, 2009 is analyzed as follows:

		Pensions			Seniority premium			Medical, expenses food coupons, life insurance,
		Retirement	Disability	Total	Retirement	Termination	Total	for retirees
Projected (liability) asset, net as of December 31, 2008	$	(2)	(3)	(5)	4	(4)	–	335
Net cost for fiscal year		(64)	(1)	(65)	(1)	(4)	(5)	(99)
Contributions to fund during 2009		64	1	65	1	4	5	192
Immediate recognition of losses		–	4	4	–	11	11	–
Projected (liability) asset, net as of December 31, 2009	$	(2)	1	(1)	4	7	11	428

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

		Pensions			Seniority premium			Medical expenses food coupons life insurance, for retirees
		Retirement	Disability	Total	Retirement	Termination	Total	
2010								
ABO	$	(1,445)	-	(1,445)	(4)	(41)	(45)	(946)
2009								
ABO	$	(1,329)	-	(1,329)	(4)	-	(4)	(1,025)

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

		2010	**2009**
Fair value of the assets at beginning of year	$	3,767	2,999
Plan contributions during the year		228	262
Return on plan assets		537	697
Payments from the fund during the year		(234)	(191)
Fair value of the assets at end of year	$	4,298	3,767

During years ended 2010 and 2009, the expected return on the plan assets are $366 and $305, respectively.

During year 2011, contributions to the fund in the amount of $176 are expected to cover the employee benefit obligations.

(Continued)

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

		2010	2009
Acquired benefit obligations (ABO)	$	(235)	–
DBO at beginning of year	$	(281)	(270)
Current service cost		(17)	(16)
Interest cost		(23)	(23)
Benefits paid		49	80
Actuarial gain (loss)		37	(52)
DBO at December 31		(235)	(281)
Plan assets		–	–
Fund financial situation		(235)	(281)
Prior service:			
Transition liability		60	90
Projected liability, net	$	(175)	(191)

The net cost of statutory compensation benefits for the years ended December 31, 2010 and 2009, amounted to $33 y $155, respectively.

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

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

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

The plan assets covering the pension, seniority premium, medical expense, food coupons, and life insurance for retirees benefit plans consist of 60% equity instruments and 40% debt instruments subject to a trust and managed by a Bank-designated committee.

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

	Rate	**DBO medical expenses for retirees**
Without modification	6.50%	$ 1,932
1% increase in medical inflation rate	7.50%	2,312
1% decrease in medical inflation rate	5.50%	1,607

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

	Pensions		
	2008	**2007**	**2006**
DBO	$ (1,737)	(1,683)	(1,540)
Plan assets	1,394	1,619	1,636
Financial situation of the fund	$ (343)	(64)	96
Variances in assumptions and experience adjustments	$ (335)	(59)	(55)

	Seniority premiums		
	2008	**2007**	**2006**
DBO	$ (90)	(90)	(81)
Plan assets	94	105	76
Financial situation of the fund	$ 4	15	(5)
Variances in assumptions and experience adjustments	$ 8	(7)	(2)

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		Medical expenses, food coupons and life insurance		
		2008	**2007**	**2006**
DBO	$	(1,820)	(1,946)	(1,724)
Plan assets		1,511	1,479	1,218
Financial situation of the fund	$	(309)	(467)	(506)
Variances in assumptions and experience adjustments	$	(195)	813	(63)

		Statutory severance compensation		
		2008	**2007**	**2006**
DBO	$	(270)	(263)	(239)
DBO losses	$	3	21	(65)

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

	Pensions		**Seniority premium**		**Medical expenses, food coupons, life insurance, for retirees**	**Statutory severance compensation**
	Retirement	**Disability**	**Retirement**	**Termination**		
Prior service – transition (asset) liability	N/A	N/A	N/A	N/A	2.2	3.0
Prior service –plan improvements	11.5	2.0	12.2	2.0	11.5	N/A
Actuarial loss (gain), net	13.8	Immediate	13.3	Immediate	15.8	Immediate

(Continued)

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

Under the current tax legislation, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final i.e. not subject to recovery in subsequent years. The IT Law in effect as of December 31, 2010 and 2009 provides for an IT rate of 30% and 28% respectively, while in accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, for 2013 the rate shall be 29% and for 2014 and thereafter, the rate is 28%. The IETU rate is l7.5% for 2010 and 17% for 2009.

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

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

The IT and ESPS expense in the consolidated statement of income is analyzed as follows:

	2010		2009	
	IT	**ESPS**	**IT**	**ESPS**
Current:				
Bank	$ 869	225	721	217
Real Estate	17	–	24	–
Service entities	1	–	2	–
MexDer Trusts	12	–	16	–
Deferred	(194)	(62)	8	18
	$ 705	163	771	235
	===	===	===	===

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Deferred IT and ESPS:

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

	2010		2009	
	IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:				
Trading	$ 92	31	15	4
Available-for-sale	(73)	(24)	(83)	(27)
Cash flow hedge swaps	21	7	(53)	(19)
Expense accruals and others	278	91	121	40
Premises, furniture and equipment	(102)	54	(101)	57
Unearned fees collected	285	95	281	94
Pension plan	(175)	(58)	(131)	(44)
Foreclosed assets	139	46	138	46
Allowance for loan losses[1]	148	53	148	53
	613	295	335	204
	$ 908		539	

[1] Net of valuation allowance

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

	2010		2009	
	IT	**ESPS**	**IT**	**ESPS**
Valuation of financial instruments:				
Trading	$ 77	27	46	15
Available-for-sale	10	3	42	18
Cash flow hedge swaps	74	26	(23)	(8)
Expense accruals and others	157	51	(45)	(18)
Premises, furniture and equipment	(1)	(3)	(10)	(9)
Unearned fees collected	4	1	63	16
Pension plan	(44)	(14)	(40)	(11)
Foreclosed assets	1	–	(22)	(11)
	278	91	11	(8)
	$ 369		3	
Deferred tax:				
In results of operations	$ 194	62	(8)	(18)
In stockholders' equity:				
Valuation in available-for-sale securities	10	3	42	18
Valuation of cash flow hedge swaps	74	26	(23)	(8)
	278	91	11	(8)
	$ 369		3	

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The following is an analysis of the effective tax rate of the Bank as an individual contributor of the fiscal years ended at December 31, 2010 and 2009:

	IT			ESPS
	Tax Base	**Tax at 30%**	**Effective rate**	**at 10%**
December 31, 2010				
Income before IT and equity in the results of associated companies	$ 3,188	(956)	(30%)	(319)
Allocation to current tax:				
Adjustment for effects of inflation	(817)	245	8%	82
Mark to market of investment securities	216	(65)	(2%)	(22)
Depreciation and amortization	(135)	41	1%	14
Non-deductibles expenses	239	(72)	(2%)	(24)
Deduction for provision for loan losses	(4)	1	–	-
Current and deferred ESPS	163	(49)	(2%)	(17)
Deduction ESPS paid in the year	(215)	64	2%	21
Tax recoveries and others	261	(78)	(2%)	40
Current tax	2,896	(869)	(27%)	(225)
Allocation to deferred tax: (30% tax)				
Mark to market of investment securities	(257)	77	2%	26
Provisions and others	(520)	156	5%	52
Premises, furniture and equipment	27	(8)	–	(3)
Pension plan	147	(44)	(1%)	(15)
Foreclosed assets	(3)	2	–	–
Unearned fees collected	(13)	4	–	2
Deferred tax	(619)	187	6%	62
Income tax	$ 2,277	(682)	(21%)	(163)
	====	===	===	===

(Continued)

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		IT		ESPS
	Tax Base	**Tax at 28%**	**Effective rate**	**at 10%**
December 31, 2009				
Income before IT and equity in the results of associated companies	$ 2,647	(741)	(28%)	(265)
Allocation to current tax:				
Adjustment for effects of inflation	(573)	160	6%	57
Mark to market of investment securities	122	(34)	(1%)	(12)
Depreciation and amortization	(144)	40	1%	14
Non-deductibles expenses	161	(45)	(2%)	(16)
Deduction for provision for loan losses	510	(143)	(5%)	(10)
Current and deferred ESPS	234	(66)	(2%)	(24)
Deduction ESPS paid in the year	(259)	73	3%	27
Tax recoveries and others	(123)	35	1%	12
Current tax	2,575	(721)	(27%)	(217)
Allocation to deferred tax: (30% tax)				
Mark to market of investment securities	(163)	49	1%	16
Provisions and others	185	(56)	(2%)	(19)
Premises, furniture and equipment	89	(27)	–	(9)
Pension plan	112	(34)	(1%)	(11)
Foreclosed assets	114	(34)	(1%)	(11)
Unearned fees collected	(159)	48	2%	16
Effect of tax rate change	–	44	1%	–
Deferred tax	178	(10)	(0%)	(18)
Income tax	$ 2,753	(731)	(27%)	(235)

(Continued)

<u>Other considerations</u>:

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

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

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

(18) Stockholders' equity-

(a) Structure of capital stock-

At December 31, 2010 and 2009, the nominal subscribed and paid capital stock totals $6,200 represented by 6,200,000,000 registered shares with a par value of one peso per share, divided into 6,199,999,916 Series "F" shares and 84 Series "B" shares.

(b) Dividends declared-

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

- The declaration of a dividend in cash amounting to $50 at a rate of $0.00806 pesos per share for the 6,200,000,000 registered series "F" and "B" shares. The payment of a dividend on March 30, 2009 is approved, being charged to retained earnings.

- A maximum payment of dividends in cash amounting to $2,000, charged to Retained Earnings at a rate of $0.32258 pesos per share for the 6,200,000,000 registered series "F" and "B" shares as of that date. Periodic dividend payments to be approved by the Board of Directors, taking into account the quarterly results of the Bank's operations ranging between 0% y 100% of net income for the quarter.

(Continued)

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

Payment date		Amount
August 28, 2009	$	111
November 30, 2009		178
Dividends paid during 2009		289
March 5, 2010		260
May 28, 2010		299
August 31, 2010		243
November 26, 2010		299
Dividends paid during 2010		1,101
Dividends paid at December 31, 2010	$	1,390

At the Ordinary Annual General Stockholders' Meeting held on June 30, 2009, a resolution was passed to declare the dividend payment as follows:

- Declaration of dividend in cash amounting to $20 a rate of $0.00322 pesos per share for the 6,200,000,000 registered series "F" y "B" shares. Payment of dividend on June 30, 2009 is approved, charged to Unappropriated Retained Earnings.

During 2009, were paid $208, for the remaining payment on the dividends declared in the Ordinary Annual General Stockholders' Meeting, in the year ended at December 31, 2008, for $1,700.

At 31 December 2010 and 2009, the balance of dividends declared but not yet paid of $610 and $1,711, respectively, are presented in the consolidated balance sheet under "Sundry creditors and other accounts payable" (see note 19).

(c) Comprehensive income-

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

(d) Restrictions on stockholders' equity-

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

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

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2010 the capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) of the Bank amount to $7,092 and $4,686, respectively.

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

(e) Capitalization-

The SHCP requires credit institutions to maintain a minimum capital of 8% of assets at risk. The percentage is calculated based on the assigned risk in conformity with the rules established by the Central Bank. Information relating to the Bank's capitalization is shown on the next page (unaudited information).

(Continued)

Capital as of December 31:

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

Assets at risk as of December 31, 2010:

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

(Continued)

	Risk weighted assets	Capital requirement
Total market risk, brought forward	$ 16,918.1	1,353.4
Credit risk:		
Group III (weighted at 20%)	1,185.5	94.8
Group III (weighted at 23%)	353.3	28.3
Group III (weighted at 50%)	1,024.9	82.0
Group III (weighted at 57.5%)	165.5	13.2
Group III (weighted at 100%)	3.2	0.3
Group IV (weighted at 20%)	1,606.6	128.5
Group V (weighted at 20%)	1044.7	83.6
Group V (weighted at 50%)	1,704.6	136.4
Group VI (weighted at 50%)	11,182.1	894.6
Group VI (weighted at 75%)	11,221.3	897.7
Group VI (weighted at 100%)	18,203.8	1,456.3
Group VII (weighted at 20%)	1.3	0.1
Group VII (weighted at 100%)	34,110.5	2,728.8
Group VII (weighted at 150%)	1.4	0.1
Group VIII (weighted at 125%)	2,380.9	190.5
Group IX (weighted at 100%)	22,872.5	1,829.8
Total credit risk	107,062.1	8,565.0
Operational risk	18,237.6	1,459.0
Total market, credit and operational risk	$ 142,217.8	11,377.4

Capitalization indices as of December 31:

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

(Continued)

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

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

At December 31, 2010, the Bank raised the ratings of the following rating agencies:

National scale (Caval)	Long term	Short term	Perspective
Fitch Ratings	AAA(mex)	F1+(mex)	Stable
Moody's	Aaa.mx	MX-1	Stable
Standard & Poor´s	mxAAA	mxA-1+	Stable

(19) Related-party transactions-

During the normal course of business, the Bank carries out transactions with related parties such as loans, investments, deposit funding, services, etc., causing income and expenses between companies. Transactions and balances incurred consolidated companies were eliminated and persistence of those who do not consolidate. According to the Bank's policies, the Board of Directors authorizes all credit transactions with related parties, which are granted at market rates with guarantees and terms in accordance with sound banking practices.

The principal transactions carried out with related parties greater than 1% of net capital for the years ended December 31, 2010 and 2009, are analyzed as follows:

		2010	2009
Income:			
Premiums and interest collected on securities purchased under agreements to resell:	$	154	672
Others:			
Commissions, rentals and other		263	251
Financial advisory		29	24
		292	275
	$	446	947

(Continued)

		2010	2009
Expenses:			
Interest paid:	$	2	37
Premiums on repurchase / resell agreements:		313	650
Others:			
Financial advisory		25	23
Commissions, rentals and others		50	12
		75	35
	$	390	722

Balances receivable from and payable to related parties as of December 31, 2010 and 2009 are as follows:

		2010	2009
Receivable:			
Derivatives	$	6	5
Commercial loans		10	–
Co-distribution		22	–
Other accounts receivable		5	–
	$	43	5
Payable:			
Demand deposit	$	28	109
Derivatives		2	3
Other accounts payables		640	1,711
	$	670	1,823

(Continued)

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

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

For the years ended December 31, 2010 and 2009, the Benefits granted to senior management amounted to $113.

(20) Memorandum accounts-

(a) Irrevocable lines of credit and guarantees issued-

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

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

(b) Assets in trust or under mandate-

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

	2010	2009
Trust:		
Administrative	$ 109,421	103,620
Guarantee	4,298	3,819
Investment	788	631
	114,507	108,070
Mandates	26,823	26,832
	$ 141,330	134,902

Trust revenue for the years ended December 31, 2010 and 2009 amounted $187 and $190, respectively and were recorded in the caption "Commission and fee income".

(Continued)

(c) Assets in custody or under management-

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

		2010	**2009**
Securities in custody:			
Securities	$	454	276
General		826	828
Investment		1,081	543
Securities management		9,525	969
Other		893	2,558
		12,779	5,174
Securities under management:			
Securities		42,854	41,979
Other		1,773	1,773
		44,627	43,752
Transactions with derivative financial instruments on behalf of third parties:			
Futures		386,248	175,585
Options		1,191	4
		387,439	175,589
	$	444,845	224,515
		======	======

Income arising from securities in custody for the years ended December 31, 2010 and 2009 amounts to $1 in both years.

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

Collateral received by the Bank and collateral sold or delivered by the Bank at December 31, 2010 and 2009 are analyzed on the next page.

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		2010	2009
Collateral received by the entity:			
Repurchase / resell agreements:			
BPAS	$	969	2,187
IT BPAT		6,227	848
IS BPA 182		4,821	1,203
BONOS M		10,605	1,598
BONOS MO		1,700	1,830
BI CETES		3,948	4
LD BONDESD		6,406	9,004
		34,676	16,674
Guarantees received for credit operations		50,414	62,204
Total collateral received by the entity	$	85,090	78,878

		2010	2009
Collateral received and sold or pledged by the entity:			
LD BONDESD	$	6,126	9,004
BONOS M		3,175	1,598
BONOS MO		1,700	1,830
BPA 182		2,470	1,193
BI CETES		3,386	-
IT BPAT		2,585	840
BPAS		505	1,192
	$	19,947	15,657

(e) Investments on behalf of customers-

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

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

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

(Continued)

(21) Additional information on operations and segments-

(a) Segment information-

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

		Credit and services	Trading and Treasury		Total
December 31, 2010					
Interest income, net	$	9,067	1,335		10,402
Commissions and fee income, net, financial intermediation income, other operating income and other income, net		4,554	(67)		4,487
Net operating revenues		13,621	1,268		14,889
Allowance for loan losses		(2,536)	–		(2,536)
Administrative and promotional expenses		(8,510)	(521)		(9,031)
Income before current and deferred income taxes	$	2,575	747		3,322
Current and deferred income taxes, net					(705)
Equity in the results of operations of associated companies, net					2
Net income				$	2,619

(Continued)

		Credit and services	Trading and Treasury	Total
December 31, 2009				
Interest income, net	$	8,087	1,218	9,305
Commissions and fee income, net, financial intermediation income, other operating income and other income, net		4,242	791	5,033
Net operating revenues		12,329	2,009	14,338
Allowance for loan losses		(2,954)	–	(2,954)
Administrative and promotional expenses		(8,001)	(577)	(8,578)
Income before current and deferred taxes	$	1,374	1,432	2,806
Current and deferred income taxes, net				(771)
Equity in the results of operations of associated companies, net				3
Net income			$	2,038

(b) Financial margin-

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

Interest income:

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

		Credit and services	Trading and treasury	Total
December 31, 2010				
Cash and cash equivalents	$	–	824	824
Margin accounts		–	6	6
Investment securities		–	672	672
Securities under repurchase/resell agreements		–	1,086	1,086
Current loan portfolio		10,912	–	10,912
Past due loan portfolio		70	–	70
Loan origination fees		393	–	393
	$	11,375	2,588	13,963

(Continued)

December 31, 2009		Credit and services	Trading and treasury	Total
Cash and cash equivalents	$	–	861	861
Margin accounts		–	9	9
Investment securities		–	917	917
Securities under repurchase/resell agreements		–	1,432	1,432
Current loan portfolio		10,785	–	10,785
Past due loan portfolio		97	–	97
Loan origination fees		213	–	213
Valuation gain		–	9	9
	$	11,095	3,228	14,323
		=====	====	=====

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

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

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

(Continued)

Loan origination fees for the years ended December 31, 2010 and 2009 are comprised of the following:

		2010	2009
Commercial	$	184	1
Consumer		126	132
Residential mortgages		83	81
	$	393	214
		===	===

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

Interest expense:

Interest expense for the years ended December 31, 2010 and 2009 is comprised of the following:

		Credit and Services	Trading and Treasury	Total
December 31, 2010				
Demand deposits	$	494	–	494
Time deposits		1,751	–	1,751
Credit securities issued		–	270	270
Bank and other loans		–	284	284
Securities under repurchase/resell agreements		–	669	669
Valuation loss		–	30	30
Residential mortgages loan origination fees and expenses		63	–	63
	$	2,308	1,253	3,561
		====	====	====
December 31, 2009				
Demand deposits	$	720	–	720
Time deposits		2,216	–	2,216
Credit securities issued		–	314	314
Bank and other loans		–	317	317
Securities under repurchase/resell agreements		–	1,363	1,363
Valuation loss		–	16	16
Residential mortgages loan origination fees and expenses		72	–	72
	$	3,008	2,010	5,018
		====	====	====

(Continued)

For the years ended December 31, 2010 and 2009, total interest expense includes interest denominated in foreign currency amounting to .04 and 1 million dollars, respectively.

(c) Commission and fee income-

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

		2010	**2009**
Letters of credit with no refinancing	$	30	29
Account handling		215	208
Trust activities		187	190
Fund transfers		57	69
Electronic banking services		202	264
Credit transactions		486	449
Other fees and commissions collected		999	1,170
	$	2,176	2,379

(d) Financial intermediation income-

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

		2010	**2009**
Unrealized:			
Investment securities	$	(158)	(56)
Derivatives:			
Trading		(17)	(99)
Hedging		(8)	(70)
Foreign currencies and precious metals		(65)	(11)
		(248)	(236)
Realized:			
Investment securities		(75)	108
Derivatives:			
Trading		(152)	192
Hedging		(188)	(66)
Foreign currencies and precious metals		596	792
		181	1,026
	$	(67)	790

(e) Other operating income-

	2010	2009
Recoveries of loan portfolio	$ 642	413
Acquisition of loan portfolio	-	(10)
Loss on sale of loan portfolio	-	(371)
Dividends	26	-
Donations	(18)	(63)
Loss on foreclosed assets	(1)	-
Income on sale of foreclosed assets	133	124
Other	(3)	(9)
	$ 779	84

(f) Other income-

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

	2010	2009
Recoveries:		
Taxes	$ 6	52
Revenue from purchase of trust securities	413	544
Other	68	128
Income from loan insurance	613	542
Transfer of securities	92	95
Distribution of mutual fund shares	249	237
Loans to employees	73	83
Food vouchers	119	127
Other	518	423
	$ 2,151	2,231

(g) Other expense-

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

	2010	2009
Write-offs and miscellaneous losses	$ 200	143
Other	19	7
	$ 219	150

(Continued)

(h) Financial ratios-

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

	2010			
	Fourth	**Third**	**Second**	**First**
Past due loan portfolio / Total loan portfolio	3.6%	3.9%	4.0%	4.0%
Allowance for loan losses / Past due loan portfolio	103.3%	102.0%	99.7%	101.6%
Operating efficiency (*administrative and promotional expenses / average total assets*)	5.8%	5.7%	5.7%	5.4%
ROE (*annualized net income for the quarter / average stockholders' equity*)	11.9%	7.7%	8.3%	12.0%
ROA (*annualized net income for the quarter / average total assets*)	1.9%	1.3%	1.4%	2.0%
Net capital / Assets at credit risk	23.7%	22.9%	22.5%	22.7%
Net capital / Assets at credit and market risks	17.8%	17.4%	17.2%	17.4%
Liquidity (*liquid assets / liquid liabilities*)	46.0%	60.4%	50.6%	57.2%
Financial margin after allowance for loan losses / Average earning assets	5.4%	5.8%	5.6%	5.5%

	2009			
	Fourth	**Third**	**Second**	**First**
Past due loan portfolio / Total loan portfolio	3.9%	3.8%	4.3%	4.2%
Allowance for loan losses / Past due loan portfolio	103.6%	108.7%	96.8%	104.6%
Operating efficiency (*administrative and promotional expenses / average total assets*)	5.9%	6.0%	5.7%	5.3%
ROE (*annualized net income for the quarter / average stockholders' equity*)	10.9%	9.2%	6.0%	7.3%
ROA (*annualized net income for the quarter / average total assets*)	1.8%	1.5%	1.0%	1.2%
Net capital / Assets at credit risk	21.6%	21.0%	20.3%	19.8%
Net capital / Assets at credit and market risks	16.7%	16.4%	15.9%	15.0%
Liquidity (*liquid assets / liquid liabilities*)	60.1%	60.8%	52.5%	58.8%
Financial margin after allowance for loan losses / Average earning assets	5.2%	5.1%	4.9%	3.9%

(Continued)

(22) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense for the years ended December 31, 2010 and 2009, was $741 and $710 respectively. Certain premises and equipment are taken on lease from a subsidiary company and caused costs to December 31, 2010 and 2009 for $109 and $103, respectively, and were eliminated during consolidation.

(b) Litigation-

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

(23) Risk management-

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

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

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

(Continued)

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

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

(a) Market risk-

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

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

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

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

(Continued)

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

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

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

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

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

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

(Continued)

The notional average values and VaR of the market risk exposure of portfolio trading for the period October to December 2010, are as follows (unaudited):

		Position			VaR	
Product		**Average**	**Maximum**	**Limit**	**Average**	**Limit**
Bank	$	207,655.1	231,618.6	–	5.8	52.5
Pesos:						
Money market	$	22,898.9	30,464.5	105,000.0	4.2	
Interest rate swaps		131,816.0	138,077.2	207,000.0	1.6	
Interest rate futures[3]		319,206.9	423,526.0	1,070,300.0	3.6	
Interest rate market and rate derivates	$	154,714.9	168,541.7	312,000.0	4.5	50.0
Shares		22.3	42.9	206.0	0.6	10.0
IPC futures		–	–	2,880.0	–	–
Share portfolio		–	–	–	0.6	10.0

	Position			VaR	
Product	**Average**	**Maximum**	**Limit**	**Average**	**Limit**
Dollars:					
Forwards and futures foreign Exchange contracts [1] [2]	2,564.5	3,735.7	4,000.0	1.2	–
Foreign exchange market [1] [2]	0.7	2.1	55.0	0.1	–
Foreign currency options [2]	30.3	60.4	800.0	0.3	–
Foreign currency futures [3]	–	–	10,000.0	–	–
Foreign currency swaps [2]	240.2	242.3	1,500.0	–	–
Foreign exchange and foreign currency derivatives	2,835.7	4,040.5	6,355.0	0.9	10.0

(1) The Forwards position is a gross position (long + short) and Foreign Exchange position is net (long - short).
(2) Figures expressed in millions of US dollars.
(3) Position and limit on the number of contracts traded in MexDer.

As an example, the average value at risk for the Bank in the money and interest-rate derivatives markets is $4.5, which means that under normal conditions and during a holding period of 1 day there is a 1% probability of losing more than such amount, under the assumption that the behavior over the past 300 trading days is representative for estimating the loss (unaudited information).

The Bank's average 1 day global VaR during the fourth quarter of 2010 was $5.8 and the global VaR at December 31, 2010 was $7.69.

During the fourth quarter of 2010, the Bank traded interest rate futures contracts on the Mexican Derivatives Exchange known as MexDer. During the quarter, the Bank opted not to trade not participating in dollar futures contracts. At the quarter's close, the Bank had no positions in the IPC index futures contracts (unaudited information).

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

Underlying asset	Average	Maximum	Limit
28-day TIIE futures	261,381.6	322,336.0	945,000.0
91-day Cetes futures	49,843.8	87,000.0	90,000.0
M bond futures	7,980.6	14,190.0	35,300.0
Total interest rate futures[1]	319,206.0	423,526.0	1,070,300.0
Total US dollar futures[1]	-	-	10,000.0

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

"Stress testing" as of December 31, 2010 was $512.3, which compared to the $1,500 limit is inside acceptable parameters. The hypothetical scenarios used for stress testing are the crises of 94 and 98.

For achieving effective risk management, backtesting is performed monthly for comparing actual losses and gains noted in the 1-day VaR calculation and, accordingly, to calibrate models. The model's efficiency level is based on the BIS approach.

With respect to Backtesting, during the year were 5 exceptions to the test and did not require calibration of the model. Backtesting test of period January to December 2010 shows a "green" efficiency level under the BIS approach.

(Continued)

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

Sensitivities

<u>*Qualitative information on sensitivities*</u>

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

Daily, the risk area calculates the market risk sensitivities for each portfolio to which the entity is exposed. During the quarter no changes were made to the assumptions, methods or parameters used for this analysis.

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

Interest rate portfolio

Sensitivity measures for fixed-income instruments (bonds) are based on estimating the behavior of the portfolio's value when faced by a change in the market interest rates. In referring to market interest rates, reference is made to the yield curve (not zero-coupon curves) because it is the yield curves which are listed on the market and better explain the behavior of gains and losses.

The sensitivities of the fixed-income instrument portfolio are based on the durations and convexities depending on the type of instrument. In any event, 2 types of measurements are calculated; i) the expected change in the value of the portfolio when faced with a 1 basis point (0.01%) change in the yield curve; and ii) the expected change in the value of the portfolio when faced with a 100 basis points (1%) change in the yield curve. For the purposes of this disclosure, only a 1 basis point change is reported.

The values estimated based on the duration and convexity methodology are a good approximation of the values obtained using the complete or "full-valuation" methodology.

For floating rate bonds two types of sensitivities are calculated: the free risk rate and the spread sensitivity.

In the case of zero coupon bonds, the calculation of the sensitivity of non-coupon instruments, uses their term to maturity as the duration, expressed in years.

Interest rate derivatives

The following is a brief explanation on sensitivity modeling for the Bank's interest rate derivatives.

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

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

Interest rate swaps: For the purposes of determining the sensitivity of changes in the yield curve of TIIE swaps, a 1 basis point change is made in each of the relevant point on the yield curve, in addition to a 1 basis point and 100 basis points change (in parallel), valuing the portfolio using the various curves and computing the change in the value of the portfolio with each of these changes. In this case, the 1 basis point sensitivity is reported.

Stock and IPC index derivatives portfolio

Stock

For the purposes of the stock position, the sensitivity is obtained by calculating the issued delta within the portfolio. Delta is defined as the change in the portfolio's value when the underling changes by 1%.

Capital derivatives

Currently, the Bank has opted to conduct out stock derivative transactions through IPC index futures listed on MexDer. Their sensitivity is calculated using the Delta. This portfolio is limited using notionals.

Delta is defined as the change in value of a derivative with respect to changes in the underling. Delta risk is defined as the change in the value of the option when there is a change of predetermined magnitude in the value of the underling (for example 1%). It is calculated by valuing the option with different underling levels (one original and one with a +1% shock), and holding all other parameters constant.

(Continued)

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

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

Gamma is complementary to delta risk and is another sensitivity measure of the value of an option with respect to the value of the underling. Gamma measures the rate of change of the delta against a change in the level of the underling, similar to the calculation of delta, it can be interpreted analytically, as the second derivative of the Black & Scholes function with respect to the underling.

Rho is the sensitivity measure of an options portfolio to changes in interest rates. Mathematically, Rho is the first derivative of the Black and Scholes function with respect to interest rates. Rho is defined as the change in value of an options portfolio against an increase of 100 basis points (+1%) in interest rates. Overall, the sensitivity of an options portfolio to the interest rate is less compared with the sensitivity of the price of the underling (delta) or of implied volatilities (Vega).

Theta is the sensitivity measure of an options portfolio that indicates the change in the value of a portfolio with the passage of time. Theta is defined as the change in the value of a derivative product with the passage of time. Theta is calculated solely for informative purposes and for gain/loss analyses as it does not actually represents a market risk but a concrete, predictable and quantifiable event.

Vega is the name of the sensitivity measure of the value of an options portfolio against changes in the market volatility of the underling. In general, a long position in options benefits from an increase in the volatility of an underling and a short position has the opposite effect, except for certain exceptions as in the case of binary options.

(Continued)

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

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

Portfolio of currency and currency derivatives

Currency

The portfolio comprises various currencies the Exchange Desk operates for trading purposes. Sensitivity is calculated using delta by currency, as the change in value of the portfolio in the event of a 1% change in the value of the underling.

Currency derivatives

Currency Forwards and Futures: For this portfolio, sensitivity to interest rate movements is calculated for each currency as well as the present value in the event of a parallel change of 1 basis point along the respective yield curves, with all other factors remaining constant. Also, a non-parallel change is applied to the yield curves for time gaps, all other factors remaining constant.

Currency options: For currency options, the Bank calculates sensitivities of the Greek letters delta, gamma, theta and rho.

CCIRS: For purposes of determining the sensitivity to changes in the yield curve a 1 basis point change is made along the respective yield curves, valuing the portfolio with the various curves and calculating the change in the portfolio's value as a result of these changes. Also, an analysis is conducted of a parallel movement of one hundred basis points. Furthermore, a non-parallel change of one base point is made to the yield curves for time gaps, maintaining all other factors constant. For the purposes of reporting¸ only the sensitivity of 1 basis point is presented.

(Continued)

Quantitative information on sensitivities.

Quantitative information of interest rate sensitivities

Below are the sensitivities to 1 basis point as of September 30, 2010 and December 31, 2010 (unaudited information):

Sensitivity 1pb	**September 2010**	**December 2010**
Fixed rate	(0.955)	(0.639)
Revisable rate	(0.041)	(0.046)
Subtotal interest rates	(0.996)	(0.685)
Futures	0.053	(0.183)
Swaps	(0.148)	0.026
Subtotal interest rate derivatives	(0.095)	(0.157)
Total	(1.091)	(0.842)

At December 31, 2010, the Bank presents sensitivity in its interest rate portfolios of $0.842, which indicates that for each basis point the interest rate decreases, the Group would earn a profit of $0.842.

Compared with the preceding quarter, there was a decrease in long positions CETES portfolio, Udibonos and Swaps, and sensitivity was reduced to $0.842.

Should the sensitivity scenario of the above table occur, the losses would be directly recorded in the Bank's results of operations.

On the next page is a chart showing the trend of the sensitivity to interest rates and interest rate derivatives as it effects the net portfolio, the total daily position for the period of October to December 2010 (unaudited information).

(Continued)

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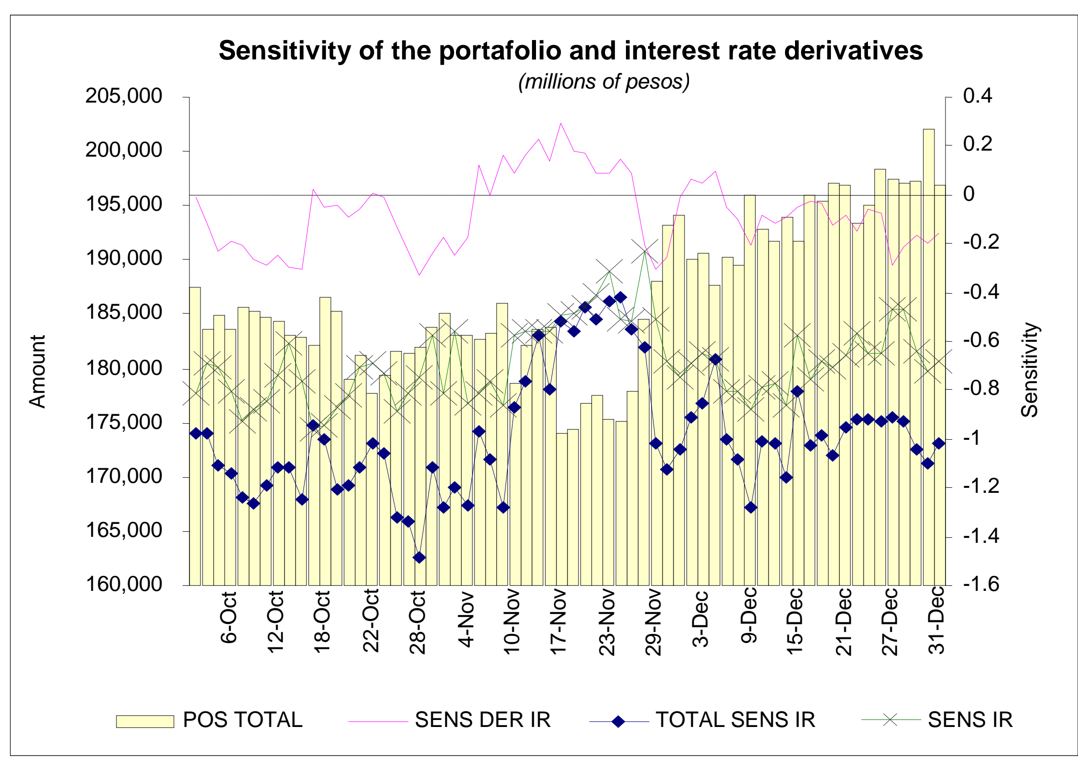


The graph shows that at the quarter's close, the daily sensitivity for interest rates is negative and decreases compared to the preceding quarter, equivalent to $0.842.

The following table shows statistics for the fourth quarter of 2010, maximum, minimum and average. On average, the sensitivity was $0.762.

Sensitivities 1 bp		Average	Maximum	Minimum
Interest rate	$	(0.687)	(0.228)	(0.964)
Rates derivatives		(0.075)	0.294	(0.332)
Total	$	(0.762)		

(Continued)

Sensitivities for the shares portfolio and IPC derivatives.

Below are presented the sensitivities at September 30 and December 31, 2010 (unaudited information):

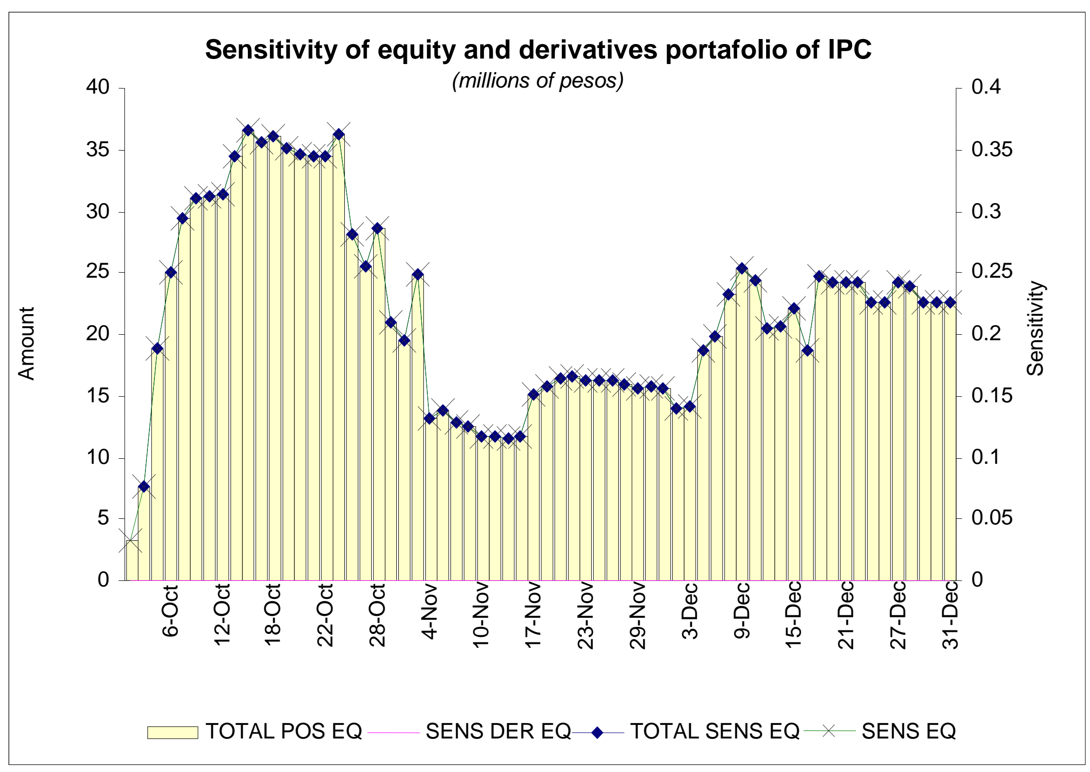
	September 2010	**December 2010**
Shares	0.033	0.227
Subtotal	0.033	0.227
IPC futures	–	–
Subtotal	–	–
Total	0.033	0.227

During the quarter, the Capital desk continued with its strategy of conducting intraday transactions. Compared with the preceding quarter, it registered an increase in the position, the most important of which was SIMEC (steel).

Should the sensitivity scenario of the above table occur, the losses would be directly recorded in the Bank's results of operations.

(Continued)

The following graph shows the daily trend of the sensitivity to the stock portfolio. It also shows the daily position of the stock portfolio (unaudited information).



The Bank's capital portfolio is only comprised of stock; it does not have a position in IPC index derivatives. The sensitivity is positive and for the fourth quarter of 2010 was $0.218 (unaudited information).

Sensitivities		Average	Maximum	Minimum
Shares	$	0.218	0.366	0.033

(Continued)

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Sensitivities for exchange rates and exchange rates derivatives portfolios

Below are the sensitivities as of September 30 and December 31, 2010 (unaudited information):

Exchange rate	**September 2010**	**December 2010**
USD	0.061	(0.014)
CAD	(0.045)	0.053
EUR	(0.094)	0.051
Other	0.084	0.040
Subtotal	0.006	0.129
Forwards and DEUA Futures	0.0044	0.0001
OTC options of MXN/USD	0.000007	0.000004
Swaps	(0.0001)	(0.0005)
Subtotal	0.0044	(0.0004)
Total	0.010	0.129

During the fourth quarter of 2010 the exchange rate sensitivity increased to $0.129. Dollar forwards and futures had a positive marginal sensitivity with a net long position. For CCIRS, the sensitivity was greatly reduced. At present, the Bank participates in the OTC market of peso-dollar exchange rate options for hedging purposes and for servicing its customers. The exchange (spot/forward) desk does not record material exposures (unaudited information).

Should the sensitivity scenario of the above table occur, the losses would be directly recorded in impact the Bank's results of operations.

(Continued)

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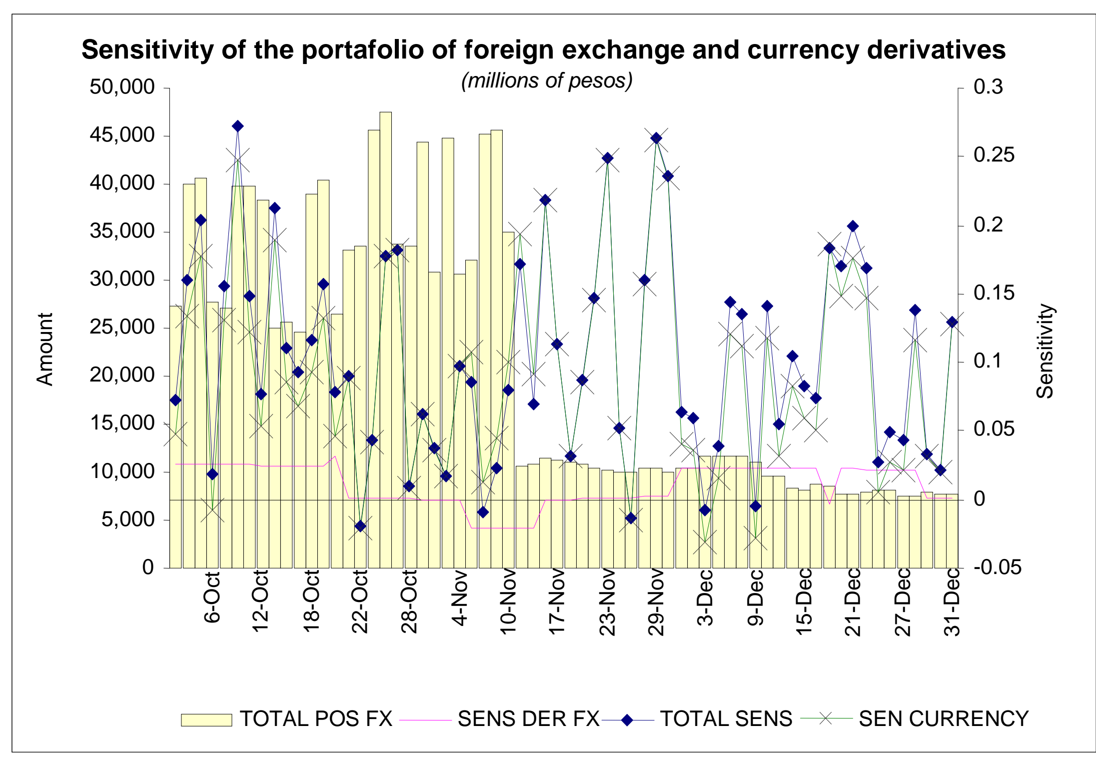
(Pesos in millions)

The following is the daily trend of the sensitivities for this portfolio (unaudited information):



The currency position is reduced, due to this being a directional portfolio in order to meet the needs of clients.

On average, the quarterly sensitivity of the currency and currency derivatives portfolio was $0.103 (unaudited information).

Sensitivities	Average	Maximum	Minimum
Currency	0.092	0.262	(0.031)
Derivatives of currency	0.011	0.032	(0.021)
Total	0.103		

(Continued)

Sensitivities for pesos-dollar currency options, "Greeks".

Below is shown the position and the sensitivities of the currency options portfolio at December 31, 2010 (unaudited information):

Greeks	Delta	Gamma	Vega	Theta	Rho
Currency options MXN/USD	(53.568)	(3.939)	(0.029)	0.010	0.0004

Below is a table for the period of October to December 2010 which includes the average, maximum and minimum sensitivities of exchange rate options. It highlights the fact that the average negative delta exposure was $(2.92) (unaudited information):

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

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

Sensitivities for available-for-sale and held-to-maturity securities –

At December 31, 2010, the sensitivity of investment securities classified as available-for-sale and held-to-maturity represent 0.03% and 0.05%, respectively, of the book value. The sensitivity was realized for all of the non-impaired securities (unaudited information).

	Available for sale	Held to maturity
Exposure	$ 4,516	1,895
Sensitivity ($)	$ 1	0.9
Sensitivity (%)	0.03%	0.05%

(Continued)

For comparative effects below are the sensitivities at the end of September 2010 (unaudited information).

	Available for sale	Held to maturity
Exposure	$ 6,571	2,302
Sensitivity ($)	$ 0.5	1.5
Sensitivity (%)	0.01%	0.07%

Market risk management in lending and borrowing activities- The interest rate risk originating from lending and borrowing activities is assessed weekly through analysis of the interest rate gaps derived from funding and investing activities. This weekly supervision function is supported by a risk assessment process, which includes simulation models and sensitivity analysis. The principal measurements for interest rate risk management are shown below (unaudited information):

Description	2010	2009
a) Variation in economic value (Impact on economic value of 100 bp. parallel changes in rates)	703	569
b) Variation in financial income - 12 months (Impact on margin of 100 bp. parallel changes in rates)	288	225
	===	===

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

Accumulated repricing gaps – Mexican pesos + UDIS	Exposure 2010-Q4	Exposure 2009-Q4
3 mouths	11,831	16,436
6 mouths	12,564	18,690
12 mouths	17,762	22,893
2 years	3,414	4,555
3 years	(4,206)	(1,892)
5 years	3,802	5,797
10 years	17,161	18,538
15 years	20,259	20,839
20 years	20,273	20,863
30 years	20,273	20,867

(Continued)

Accumulated repricing gaps – Dollars	Exposure 2010-Q4 (Millions of dollars)	Exposure 2009-Q4 (Millions of dollars)
3 mouths	466	668
6 mouths	548	685
12 mouths	540	695
2 years	128	264
3 years	(43)	26
5 years	(14)	44
10 years	(21)	28
30 years	(13)	36

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

(b) Liquidity risk-

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

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

The liquidity risk is monitored and controlled by the aggregate currency through accumulated liquidity gaps and minimum liquid asset requirements. Below is the Bank's average exposure for 2-week accumulated gaps and average liquid assets for the last quarters of 2010 and 2009, (unaudited information):

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

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

(Continued)

Liquidity gaps for investment securities

The liquidity risk of investment securities results from difficulty or the impossibility of conducting securities transactions, resulting in unusual sale discounts. Below is the information on maturities corresponding to the December and September 2010 close (unaudited information):

Maturity (years)		Held to maturity	Available for sale	Trading	Total for maturity period	Concentration
December 2010						
0.5	$	–	–	1,913	1,913	7.9%
1		–	3,825	15,943	19,768	81.3%
2		–	243	–	243	1.0%
3		–	–	–	–	0.0%
4		–	–	–	–	0.0%
+5		1,895	–	–	1,895	7.8%
No maturity		–	448	58	506	2.1%
	$	1,895	4,516	17,914	24,325	100.0%
Concentration			7.8%	18.6%	73.6%	100.0%

Maturity (years)		Held to maturity	Available for sale	Trading	Total for maturity period	Concentration
September 2010						
0.5	$	–	6,106	21,326	27,432	90.8%
5		2,302	–	–	2,302	7.7%
No maturity		–	465	–	465	1.5%
	$	2,302	6,571	21,326	30,199	100%
Concentration		7.6%	21.8%	70.6%	100.0%	

Trading includes value date sales.

Bank information not considering consolidation effects of subsidiaries.

(Continued)

Derivative cash flows

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

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

(c) Credit risk-

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

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

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

(Continued)

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

Description of each risk level:

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

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

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

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

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

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

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

(Continued)

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

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

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

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

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

(Continued)

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

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

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

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

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

Exempt portfolio and methodology:

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

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

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

(Continued)

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

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

	2010		**2009**	
	Closing	**Average**	**Closing**	**Average**
Exposure	$ 149,946	148,462	169,047	168,798
Unexpected losses[/1]	9,633	9,005	8,425	8,123
Expected losses[/1]	2,245	2,297	1,713	1,644

[/1] *Current loan portfolio.*

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

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

Credit risk in investment securities – Below is a summary of exposures, credit rating and concentration by risk level of investment securities at the close of September and December 2010 (unaudited information):

S&P	Held to maturity	Available for sale	Trading	Total for risk type	Concentration
December					
mxAAA	$ 1,895	75	11,934	13,904	57.2%
mxAA	–	192	–	192	0.8%
mxAA-	–	50	–	50	0.2%
mxA-1+	–	671	5,922	6,592	27.1%
mxBBB	–	2,545	–	2,545	10.5%
mxBBB-	–	404	–	404	1.7%
mxB	–	8	–	8	0.0%
CC	–	122	–	122	0.5%
Non rated	–	449	58	507	2.1%
	$ 1,895	4,516	17,914	24,325	100.0%
September					
mxAAA	$ 2,302	3,045	18,906	24,253	80.3%
mxAA	–	395	–	395	1.3%
mxAA-	–	50	–	50	0.2%
mxA-1+	–	108	2,420	2,528	8.4%
mxBBB	–	2,126	–	2,126	7.0%
mxB	–	3	–	3	0.0%
CC	–	378	–	378	1.3%
Non rated	–	465	–	465	1.5%
	$ 2,302	6,570	21,326	30,198	100.0%

The data refers to the Bank and does not consider the consolidation effects of subsidiaries.

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

Credit risk in derivatives operations

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

Counterparty type		Exposition	%
December			
Financial institutions	$	26,458	93.6%
Corporations		1,803	6.4%
Total maximum exposure	$	28,261	100%
September			
Financial institutions	$	26,409	93.0%
Corporations		1,979	7.0%
Total maximum exposure	$	28,388	100%

Below is the credit rating of financial assets relating to derivatives. There are fixed-income loans that have been covered by the fair value methodology, at the September and December 2010 close, according to the Banking Commission scale (unaudited information):

(MXP)		September 2010		December 2010	
Rating		Amount	Total %	Amount	Total %
A1	$	2,739	55.5%	2,514	50.2%
A2		1,065	21.5%	720	14.4%
B1		846	17.1%	1,471	29.4%
B2		150	3.0%	168	3.4%
B3		140	2.9%	134	2.6%
Total	$	4,940	100.0%	5,007	100.0%

(Continued)

(USD)		September 2010		December 2010	
Rating		**Amount**	**Total %**	**Amount**	**Total %**
A1	$	31	18.4%	-	0.0%
A2		10	5.6%	64	32.5%
B1		128	74.8%	131	66.5%
B2		2	1.2%	2	1.0%
Total	$	171	100.0%	197	100.0%

Another type of related assets is variable rate loans which were hedged through the cash flow methodology at December 2010, and had a position of $7,620. The hedged portfolio is a sub-set of the total commercial portfolio whose risk level, at December 31, 2010, is equal to an the level A2 in the Banking Commission scale, and has the following classification (unaudited information):

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

(d) Operational risk-

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

For compliance with the rules on operational risk established by the aforementioned Provisions, the Bank has put in place policies and procedures, enabling it to implement an appropriate operational risk management process, which is described in the next page.

(Continued)

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

- Manual for Operational Risk Data Gathering and Classification.- These policies define the requirements for reporting the information that supports the measuring processes, including the scope, functions and responsibilities of the units providing the information, as well as its classification and specific characteristics.

- Levels of Operational Risk Tolerance – aimed at having an operational loss management tool that allows each of the Bank's areas to know the tolerance levels of losses applicable to each assumed loss event and encouraging improvements in the management process of Operational Risks within each area and that the latter implement, insofar as possible, the necessary actions to minimize the risk of future losses.

- Key Risk Indicators (KRI) - this process allows the Bank to establish indicators from variables drawn from processes, which performance is related to the degree of risk assumed. By monitoring each indicator, trends are identified that enable managing the indicator's values over time, assuming that by controlling these values the associated risk factor is maintained within the desired levels. To this end maximum and minimum admissible values are established for each of the indicators selected, so that mitigating/corrective action is automatically initiated once these values are exceeded.

- Estimated Legal Risk Loss Model - the Bank has a methodology for estimating expected and unexpected legal risk losses whereby it assesses potential loss as a result of adverse judgments in lawsuits in process. This methodology is based on the past experience of prior year losses, using a statistical analysis of severity and frequency to determine the probability of loss in relation to legal matters in process.

(Continued)

- Technological Risk Management Policies Manual – This manual sets forth the Bank's general policies and criteria in order to manage this risk.

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

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

- Evaluating the potential impact of significant operational risks identified on the Bank's objectives, competitiveness, profitability, productivity and reputation;

- Prioritizing, based on impact and significance, action for mitigating operational risks;

- Guiding each of the Bank's units in their operating risk management processes;

- Establishing plans to mitigate risk; and

- Compliance with the requirements established in the section III of Article 86 of the *General Provisions for Comprehensive Risk Management*.

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

(Continued)

As a result of the Operational Risk management, the Bank has identified operational risks for $382, which if they materialize, would cause a negative impact on the Bank's financial position at December 31, 2010, of which $60 are operational risk and $322 legal contingencies, both risks have been provisioned, for 2009 the risk totaled $301. The risks for 2010 represent 1% of total Equity Bank's. The expected loss for such contingencies is estimated at $21 and the unexpected loss of $184.

At the close of 2010, the Bank had built a historic database of operational risk losses which includes losses incurred during the period between January 2006 and December 2010, which aggregate 68,515 loss events with a total value of $621, classified under 23 risk categories, itemized below (unaudited information):

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

Risk factors		2006	2007	2008	2009	2010	Grand total, carried forward
Regulatory (fines and penalties)	$	504	1,510	1,706	535	1,371	5,626
Lost lawsuits		31,638	6,764	2,718	4,554	10,145	55,819
Frauds (internal and external)		1,348	5,319	43,961	32,433	39,730	122,791
Bank credit card frauds		15,790	26,873	25,683	26,044	48,447	142,837
Phishing		1,352	4,697	151	302	960	7,462
Pharming		–	–	–	2,861	–	2,861
Assaults		949	3,186	3,794	4,685	1,663	14,277
Labor lawsuits		–	35	5,712	13,281	5,605	24,633
Miscellaneous checks		1,739	2,946	991	2,832	427	8,935
Shortages and forgeries (cash supply)		489	977	910	427	317	3,120
Accounting differences		192	378	214	4	–	788
Documentary (lost documentation)		–	–	–	23	160	183
Former employee indebtedness		12	10	3	–	–	25
Shortages and forgeries (foreign currency)		552	291	232	499	265	1,839
Irrecoverable amounts		12	246	8,320	67	3	8,648
Overdrafts		29	20	12	7	29	97
Trading		388	243	–	–	–	631
Errors in executing transactions		7	1,848	2,889	2,773	11,617	19,134
Fixed asset damages		–	975	–	–	–	975
System failures		–	8,014	408	659	12,360	21,441
Fiscal		–	20,837	–	737	83,937	105,511
Policies and procedures		–	–	–	71,336	–	71,336
Others		21	263	302	387	1,114	2,087
Total	$	55,022	85,432	98,006	164,446	218,150	621,056

(Continued)

Risk factors		Grand total, brought forward	Events: Number	Events: Average Amount
Regulatory (fines and penalties)	$	5,626	306	18
Lost lawsuit		55,819	193	289
Frauds (internal and external)		122,791	1,185	104
Bank card frauds		142,837	62,082	2
Phishing		7,462	63	118
Pharming		2,861	21	136
Assaults		14,277	166	86
Labor lawsuits		24,633	114	216
Miscellaneous checks		8,935	502	18
Shortages and forgeries (cash supply)		3,120	842	4
Accounting differences		788	82	10
Documentary (lost documentation)		183	3	61
Former exployee indebtedness		25	11	2
Shortages and forgeries (foreign currency)		1,839	907	2
Irrecoverable amounts		8,648	1,379	6
Overdrafts		97	84	1
Trading		631	2	315
Errors in executing transactions		19,134	290	66
Fixed asset damages		975	2	487
System failures		21,441	193	111
Fiscal		105,511	29	3,638
Policies and procedures		71,336	1	71,336
Other		2,087	58	36
Total	$	621,056	68,515	77,062

(24) Recently issued accounting standards-

On January 27, 2011, the resolution revising the regulations generally applicable to credit institutions was published in the Federal Official Gazette, which supersedes accounting criteria for credit institutions and became effective beginning on the next day after publication, specifying that credit institutions, for comparison purposes, as well as for preparing their quarterly and annual financial statements, are required to present the financial information for the first quarter 2011, based on the accounting criteria set forth by the referred to resolution.

The accounting changes so established, among others, are listed below:

(a) **Criterion A-2 *"Application of particular standards*" -** It provides that the following items are to be reported as part of other operating income (expenses):

- Interest on loans made to officers and employees
- Lease income for the lesser
- The effect of expiration of the original lease, resulting from a sublease. Item "other related costs" is added to comprehensive financial result subject to capitalization in convergence with FRS D-6.

(b) **Criterion A-3 *"Application of general standards"* –** It provides, among other things, for the following:

- Operating assets that are not liquidated on the same day are added to restricted assets. For cash margin accounts adherence to criterion B-5 is required.

- Accounting treatment is set forth for overdue outstanding transactions (liability) of clearing accounts up to settlement.

- Evaluation of whether the holding of trust certificates carries significant control or influence for consolidation or recognition by the equity method is required.

- The concept of relative importance is clarified focusing on that established in FRS for improved precision in application (professional judgment).

(c) **Criterion A-4 *"Suppletory application of accounting criteria"*-** It revises and clarifies the scope and elements constituting the US GAAP for suppletory application purposes.

(d) **Criterion B-2 *"Investment securities"*-** It provides that own assets derived from securitization transactions representing benefits on the assignors' remainder are not included in this criterion (criterion C-2). Additionally, the restriction preventing recognition of security impairment arising from expected losses on future events is eliminated.

(e) **Criterion B-5 *"Derivative financial instruments and hedging activities"* –** It provides for the following:

- Definition of collateral (security on OTC market derivatives) is included.

(Continued)

- Recognition in other items of comprehensive income of the component excluded from evaluation of the effectiveness associated with the hedged item according to the nature for cash flow hedging is eliminated, in convergence with IFRS.

- The accounting standard for cash margin accounts, non-cash margin accounts, cash collaterals and non-cash collaterals is expanded and thoroughly explained.

- In case of strippable hybrid securities, the host contract and the embedded derivative are to be reported separately. Formerly, both were required to be jointly reported.

- Standards for reporting collaterals received/posted for OTC transactions are specified.

- Disclosure of the terms and conditions for both collaterals and margin accounts is required.

- Equalization of paragraph AG23 subparagraphs d) ii and iii with IFRS to regard embedded derivatives under non-financial contracts as closely related and non-strippable financial instruments.

(f) **Criterion B-6 *"Credit portfolio"* –** Changes are added as follows:

- Payroll loans as regarded as consumer loans.

- Loan restructuring fees are regarded as loan origination fees, subject to deferral over the term of the restructured loan.

- Loans exceeding one (1) year with single payment of principal and interest at maturity, renewable at any time are to be regarded as past-due loans. .

- Fees charged on credit granted and annual credit card fees pending recognition must be reported net of costs and expenses, either as "other assets" or "deferred credits and "prepayments".

(g) **Criterion B-7 *"Foreclosed assets"* – I**mpairment losses on real property are to be estimated according to the rating methodology for the credit portfolio, as there is no difference with respect to the FRS, since consideration is given to impairment due to passage of time.

(Continued)

(h) **Criterion B-11 *"Collection rights"*-** It is specified that they are not within the scope of this criterion:

- The definition of collection rights includes the explanation that collection rights are those to which the provisions of criterion B-2 are not applicable and additionally have not been issued on a serial or mass basis.

- Revenue from collection rights and the allowance for doubtful accounts or bad debts are reported in "other operating income (expenses)".

(i) **Criterion C-2 *"Securitization transactions"*-** It provides that the following items must be reported as "Other operating income (expenses)":

a) Valuation of benefits receivable and the assets or liabilities from management of transferred assets.

b) Collections or recoveries in excess of the amount recorded as benefits receivable.

c) Losses arising from the difference between the collections or recoveries and the amount recorded as benefits receivable.

(j) **Criterion C-3 *"Related parties"* –** It provides for the following:

- The term "relationship" is replaced with the term "close relative" in convergence with FRS, specifying that the applicable legislation must also be abided by.

- "Close relatives of any individual" rather than the "spouses or the persons related to the individuals" are deemed to be related parties.

- Individuals "regarded as close relatives" rather than "those with a relationship occurring by blood, legal ties or law up to fourth degree, the spouse and common-law wife/husband" are deemed to be within the power of command.

(k) **Criterion D-1 *"Balance sheet"*-** It provides for the following:

- The loan portfolio must be reported based on the loan in question, net of interest collected in advance and deferred credits for unearned financial income on capital lease agreements.

(Continued)

- Debtors on cash collaterals posted are to be reported under "Other receivables, net".

- Creditors on cash collaterals received are to be reported as part of "Other payables".

- Interest prepayment, loan origination fees and annual credit card fees are eliminated from "Deferred credits and prepayments".

(l) **Criterion D-2 *"Statement of income*" –** The statement of income is entirely restructured for convergence with FRS and IFRS.

- Reporting of minimum items related to the following is eliminated from the statement of income:

  – Total operating income (expenses)

  – Income before equity in results of operations of non-consolidated subsidiaries and associated companies.

- Item "Administrative and promotion expenses" is grouped after financial margin adjusted for credit risks together with all other items (commissions and rates collected and paid, financial intermediation income and other operating income (expenses).

- Upon elimination of "other income (expenses), items making up this caption are regrouped under operating income (expenses).

- Equity in results of operations of non-consolidated subsidiaries and associated companies is reported after "results of operations" and prior to "income before tax on earnings".

- The term "non-controlling interest" was changed to "Consolidated Statement of Income". The segregated portion of the net income attributable to the non-controlling interest is reported in this caption when the consolidated statement of income is presented.

(m) **Criterion D-4 *"Statement of cash flows"* –** The term "Cash" was changed to "cash and cash equivalents" in convergence with FRS.

- The term "adjustment to cash flow for foreign exchange rate and inflation rate fluctuations" was changed to "effects of cash and cash equivalent value fluctuations".

(Continued)

- The effects of fair value valuation on cash balances are included in this caption.
- Changes in operating items are to be reported net of the estimate, in accordance with the indirect method (portfolio, collection rights and foreclosed assets).
- The accounting treatment for conversion of cash flows from foreign operation located in an inflationary economic environment is included.
- Cash flows between all the entities belonging to the consolidating economic entity must be eliminated for preparing the consolidated statement of cash flows. .
- Same disclosures are included as those required by FRS B-2.

Change in rating methodology for non-revolving and mortgage loans -

On October 25, 2010, the resolution revising the regulations generally applicable to credit institutions was published in the Federal Official Gazette, concerning the estimate of the loan loss reserves, which will become effective beginning on March 1, 2011, for the purpose of replacing the current model for setting up loan reserves based on losses incurred with a model based on expected losses, for consumer loan and housing mortgage loan portfolios as follows:

a. **Rating of consumer loan portfolio –** The consumer loan portfolio must be divided into two groups: a) non-revolving consumer loans and b) credit card and other revolving loans. In the specific case of the latter group, the methodology followed for computing the loan loss reserves for the credit card loan portfolio, which became effective in FY 2009, is also applicable to the other revolving loan portfolio. In the case of the non-revolving consumer loan portfolio, the loan loss reserve will be computed based on the figures as of the last day of each month, irrespective of whether payments are made on a weekly, semi-monthly or monthly basis. Additionally, consideration is given to factors such as: i) due amount, ii) payment made, iii) days of default, iv) total term, v) remaining term, vi) original loan amount, vii) original asset value, viii) outstanding loan balance and ix) type of loan. The total amount of the reserve to be set up for each loan is arrived at by multiplying the likelihood of default by the loss seriousness and the default exposure.

b. **Rating of housing loan portfolio –** The reserve is to be set up based on the figures as of the last day of each month. Additionally, factors such as the following are taken into consideration: i) due amount, ii) payment made, iii) house value, iv) outstanding loan balance, v) days of default, vi) loan denomination and vii) record. The total amount of the reserve to be set up for each loan is arrived at by multiplying the likelihood of default by the loss seriousness and the default exposure.

(Continued)

The seriousness of the loss will be determined based on the component of the loan recovery rate, which is affected when the loan is secured by a surety trust or judicial convention classifying by region the federal localities to which the relevant courts pertain.

Furthermore, internal methodologies authorized by the Banking Commission may be used for both consumer and housing mortgage loan portfolios. The initial effect from the change in the amount of the aforementioned reserves to be set up must be recognized for the figures as of March 31, 2011 at the latest, affecting prior years' results of operations, in accordance with the provisions of paragraph 11 of FRS B-1 "Accounting changes and error corrections".

As a result of the adoption of the new models for setting up loan loss reserves, the company's management is currently reviewing, implementing and evaluating the impact that the entry into force of such models will have on the Company's figures.

The Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) has issued the FRS and amendments listed below:

FRS B-5 *"Segment financial information" -* is effective beginning January 1, 2011, with retrospective effects. The principal changes as compared to superseded Bulletin B-5 "Segment financial information" include the following:

- The information to be disclosed by operating segment is that regularly used by top management and does not require segmentation into primary and secondary information or into segments identified based on products or services (economic segments), geographical areas, and homogeneous customer groups. Additionally, disclosure by the entity as a whole of information on its products or services, geographical areas and principal customers and suppliers is required.

- FRS B-5 does not require that the entity's business areas be subject to different risks to qualify as operating segments.

- Business areas in pre-operating stage may be classified as operating segments.

- FRS B-5 requires disclosing by segment and separately, interest income and expenses, as well as all other components of comprehensive financial results (CFR). In specific situations, net interest income may be disclosed.

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- Disclosure of the liability amounts included in the usual operating segment information normally used by top management for the entity's operational decision-making is required.

Management estimates that the adoption of this new FRS will have no effect as the Banking Commission has established the criterion C-4 "Segment information" through general regulations applicable to the accounting criteria for credit institutions in Mexico.

FRS B-9 *"Interim financial reporting"* - is effective beginning January 1, 2011, with retrospective effects. The principal changes as compared to superseded Bulletin B-9 "Interim financial reporting" include the following:

- FRS B-9 requires that the interim financial information, in addition to the balance sheet and income statement, include a comparative and condensed statement of stockholders' equity and statement of cash flows, and, for non-profit entities, the presentation of the statement of activities is expressly required.

- FRS B-9 provides that the financial information reported at the end of the interim period should be presented comparatively with the equivalent interim period of the immediately preceding year and, in the case of the balance sheet, compared also to such financial statement as of the date of the immediately preceding fiscal year-end.

- New technology is included and defined.

Management estimates that the effects of the adoption of this new FRS will be immaterial.

FRS C-5 "Prepayments"- is effective beginning January 1, 2011, with retrospective effects. Supersedes Bulletin C-5, and includes primarily the following changes:

- Advances for purchase of property and equipment and intangibles (non-current), among others, must be reported under prepayments provided the benefits and risks inherent in the assets to be acquired or the services to be received have not yet been transferred to the entity. Furthermore, prepayments must be reported based on the destination item, either under current assets or non-current assets.

- When an impairment loss on the value of prepayments occurs, the unrecoverable amount must be carried to the income statement. Additionally, if the necessary conditions exist, the impairment effect may be reversed and recorded on the income statement for the related period.

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- Among other things, the following must be disclosed in notes to financial statements: breakdown of prepayments, policies for accounting recognition and impairment losses, as well as relevant reversal.

Management estimates that the effects of the adoption of this new FRS will be immaterial.

FRS C-6 "Property, plant and equipment" - is effective beginning January 1, 2011, except for changes arising from segregation into the components of property, plant and equipment items having a clearly different useful life, which will be in force for fiscal years beginning on or after January 1, 2012. The accounting changes resulting from the initial application of this FRS must be prospectively recognized. The principal changes with respect to the superseded Bulletin C-6 "Property, Machinery and Equipment" include the following:

- The accounting treatment for exchange of assets based on the economic substance is included.

- The bases for determination of residual value of a component are set forth.

- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated, recognizing a donated surplus.

- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.

- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

Management will adopt this new FRS retrospectively beginning on January 1, 2011.

2011 FRS Revisions

In December 2010, the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) issued the document referred to as "2011 FRS Revisions", which contains precise amendments to some FRS. The amendments that bring about accounting changes are listed in the next page.

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- **Bulletin C-3 "Accounts receivable" –** Recognition of accrued interest income on accounts receivable is required, provided the relevant amount is reliably valued and likely to recover. Furthermore, it is provided that interest income on accounts receivable unlikely to recover must not be recognized. These revisions are effective beginning January 1, 2011 and are retrospectively applicable.

- **FRS C-10 "Derivative financial instruments and hedging activities" –** The revisions to this new FRS are effective beginning January 1, 2011, with retrospective application. The principal revisions include the following:

- Certain effects of the hedge effectiveness may be excluded.

- A forecast intragroup transaction may be recognized as hedging only when the functional currencies of the related parties are different from each other.

- Reporting of the effect of the hedged interest rate risk is required, when a portfolio portion is the hedged position.

- Margin accounts must be reported separately.

- In a hedge relationship, a proportion of the total amount of the hedging instrument may be designated as the hedging instrument. The impossibility of designating a hedge relationship for a portion of the term of the hedging instrument is specified.

- **Bulletin D-5 "Leases" –** The discount rate to be used on capital leases is established, disclosures related to such leases are added, and the timing for recognition of the gain or loss on a sale and leaseback deal is revised. Application is on a prospective basis, except for the changes in disclosures, which must be retrospectively recognized and are effective beginning January 1, 2011.

Management estimates that the 2011 FRS revisions will generate no material effects.