

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

Financial statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)
(Free Translation from Spanish Language Original)





Independent Auditors' Report

(Translation from Spanish language original)

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

(Millions of Mexican pesos)

Opinion

We have audited the financial statements of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), which comprise the balance sheets as of December 31, 2020 and 2019, the statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat, have been prepared, in all material respects, in accordance with the Accounting Criteria for Brokerage Firms in Mexico (the Accounting Criteria), issued by the National Banking and Securities Commission (the Commission).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report. We are independent of the Brokerage Firm, in accordance with the ethical requirements that are relevant to our audit of the financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(Continued)





| Investment securities \$13,134. | |
|--|--|
| See notes 3 (d) and 7 to the financial statements. | |
| Key audit matter | How the key audit matter was addressed in our audit |
| <p>Investment securities represent 56% of the Brokerage Firm's total assets as of December 31, 2020. As required by the Commission, investment securities are valued at fair value based on prices provided by price vendors authorized by the Commission. The valuation of investment securities has a significant impact on the result of the year.</p> <p>Considering that investment securities represent the most significant caption in relation to the Brokerage Firm's financial statements as a whole, and therefore the largest number of audit hours are spent reviewing them, we evaluated the existence, completeness and valuation of investment securities as a key audit matter.</p> | <p>Our audit procedures included, among others, the following:</p> <ul style="list-style-type: none">- Confirming the total position of the Brokerage Firm's securities with the securities custodian S.D. Indeval, Institución para el Depósito de Valores, S. A. de C. V.- Recalculate the valuation of the investment portfolio, using the prices provided by the authorized price vendor, as well as its corresponding valuation effect in the statement of income. |

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Update to the Prospectus of options for purchase or sell for the year ended December 31, 2020, to be filed with the Commission and the Mexican Stock Exchange (the Prospectus Update), but does not include the financial statements and our auditors' report. The Prospectus Update is expected to be available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion about it.

In connection with our audit of the financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or with our knowledge obtained during the audit, or appears to be materially misstated.

When we read the Prospectus Update, if we conclude that there is a material misstatement of that other information, we are required to report that fact to those charged with governance.

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Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation of the accompanying financial statements in accordance with the Accounting Criteria issued by the Commission, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Brokerage Firm's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Brokerage Firm or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Brokerage Firm's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

(Continued)





- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Brokerage Firm's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Brokerage Firm's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Brokerage Firm to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the corresponding actions taken to eliminate threats or the safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Cárdenas Dosal, S. C.



Ricardo Lara Uribe

Mexico City, February 26, 2021.



Scotia Inverlat Casa de Bolsa, S. A. de C. V.,
 Grupo Financiero Scotiabank Inverlat
 Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Balance sheets

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

December 31, 2020 and 2019

(Millions of Mexican pesos)

Memorandum accounts

| | <u>2020</u> | <u>2019</u> | | <u>2020</u> | <u>2019</u> |
|--|--------------------|--------------------|---|--------------------|--------------------|
| Transactions on behalf of third parties | | | Transactions for the brokerage firm's own account | | |
| Customer current accounts: | | | Collaterals received by the entity: | | |
| Customers' banks | \$ 6 | 46 | Government debt (note 16) | \$ 21,282 | 18,846 |
| Settlement of customers' transactions | 158 | (143) | Net equity instruments | <u>581</u> | <u>419</u> |
| Other current accounts | <u>-</u> | <u>137</u> | | <u>21,863</u> | <u>19,265</u> |
| | <u>164</u> | <u>40</u> | | | |
| Custody operations: | | | Collaterals received and sold or pledged in guarantee by the entity: | | |
| Customer securities in custody (note 16) | <u>487,924</u> | <u>407,993</u> | Government debt (note 16) | 21,282 | 18,846 |
| Management transactions: | | | Net equity instruments (notes 8 and 16) | <u>113</u> | <u>47</u> |
| Securities on repurchase/resell agreements on behalf of customers (note 16) | 52,604 | 38,507 | | <u>21,395</u> | <u>18,893</u> |
| Securities lending transactions on behalf of customers (note 16) | 96 | 65 | | | |
| Collaterals received in guarantee on behalf of customers (note 16) | 31,314 | 19,649 | Other accounts | 2,938 | 1,457 |
| Collaterals delivered in guarantee on behalf of customers (note 16) | 27,991 | 23,020 | | | |
| Managed trusts | <u>264</u> | <u>255</u> | | | |
| | <u>112,269</u> | <u>81,496</u> | | | |
| Total on behalf of third parties | \$ <u>600,357</u> | <u>489,529</u> | Total for the Brokerage Firm | \$ <u>46,196</u> | <u>39,615</u> |

(Continued)



Scotia Inverlat Casa de Bolsa, S. A. de C. V.,
Grupo Financiero Scotiabank Inverlat
Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Balance sheets, continued

December 31, 2020 and 2019

(Millions of Mexican pesos)

| Assets | 2020 | 2019 | Liabilities and stockholders' equity | 2020 | 2019 |
|--|------------------|---------------|---|------------------|---------------|
| Cash and cash equivalents (note 6) | \$ 192 | 167 | Assigned securities to be settled (note 7c) | \$ 9,308 | 6,925 |
| Margin accounts (derivatives) | 22 | 13 | Creditors under repurchase/resell agreements (note 8) | 10,034 | 803 |
| Investment securities (note 7): | | | Collaterals sold or pledged (note 8): | | |
| Trading securities | 13,134 | 9,410 | Securities lending | 113 | 47 |
| Securities lending (note 8) | 1 | - | Derivatives (note 9): | | |
| Derivatives (note 9): | | | Trading purposes | 590 | 303 |
| Trading purposes | 34 | 21 | Other accounts payable: | | |
| Accounts receivable, net (note 7) | 9,509 | 6,547 | Income tax payable | 80 | 49 |
| Premises, furniture and equipment, net (note 10) | 206 | 189 | Employees' statutory profit sharing payable | 97 | 78 |
| Permanent investments (note 11) | 3 | 3 | Creditors on settlement of transactions (notes 6 and 7) | 283 | 6,055 |
| Deferred income taxes and ESPS, net (note 15) | 60 | 40 | Sundry creditors and other accounts payable | 524 | 461 |
| Other assets: | | | | <u>984</u> | <u>6,643</u> |
| Deferred charges, prepaid expenses and intangibles | 226 | 169 | Total liabilities | <u>21,029</u> | <u>14,721</u> |
| | | | Stockholders' equity (note 14): | | |
| | | | Paid-in capital: | | |
| | | | Capital stock | <u>554</u> | <u>554</u> |
| | | | Earned capital: | | |
| | | | Statutory reserves | 111 | 111 |
| | | | Retained earnings | 1,177 | 728 |
| | | | Defined to employees (note 12) | (14) | (4) |
| | | | Net income | <u>530</u> | <u>449</u> |
| | | | | <u>1,804</u> | <u>1,284</u> |
| | | | Total stockholders' equity | <u>2,358</u> | <u>1,838</u> |
| | | | Commitments and contingent liabilities (note 17) | | |
| Total assets | <u>\$ 23,387</u> | <u>16,559</u> | Total liabilities and stockholders' equity | <u>\$ 23,387</u> | <u>16,559</u> |

See accompanying notes to financial statements.

At December 31, 2020 and 2019, the historical capital stock amounts to \$389, in both years.

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

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

| <u>SIGNATURE</u> | <u>SIGNATURE</u> | <u>SIGNATURE</u> | <u>SIGNATURE</u> |
|--|--|--|--|
| Juan Antonio Carracedo Miranda General Director | Carlos Marcelo Brina Deputy General Director of Finance | Jorge Córdova Estrada Deputy General Director of Group Audit | H. Valerio Bustos Quiroz Director of Group Accounting |

These balance sheets faithfully match with the balance sheets originals, which are properly signed and held by the Brokerage Firm.

<http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx>
<http://www.cnbv.gob.mx/paginas/default.aspx>



Scotia Inverlat Casa de Bolsa, S. A. de C. V.,
 Grupo Financiero Scotiabank Inverlat
 Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Statements of income

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

Years ended December 31, 2020 and 2019

(Millions of Mexican pesos)

| | 2020 | 2019 |
|--|----------------|----------------|
| Commission and fee income (note 18b) | \$ 1,371 | 1,098 |
| Commission and fee expense (note 18b) | (101) | (95) |
| Financial advisory income (note 18b) | <u>330</u> | <u>314</u> |
| Income from services | <u>1,600</u> | <u>1,317</u> |
| Gain on purchase and sale of securities (note 18c) | 1,176 | 802 |
| Loss on purchase and sale of securities (note 18c) | (1,111) | (855) |
| Interest income (note 18c) | 1,731 | 1,904 |
| Interest expense (note 18c) | (1,412) | (1,519) |
| Valuation on securities at fair value (note 18c) | <u>23</u> | <u>-</u> |
| Intermediation financial margin | <u>407</u> | <u>332</u> |
| Other operating income (note 18d) | 48 | 39 |
| Administrative and promotional expenses | <u>(1,319)</u> | <u>(1,054)</u> |
| | <u>(1,271)</u> | <u>(1,015)</u> |
| Income before income taxes | <u>736</u> | <u>634</u> |
| Current income taxes (note 15) | (220) | (162) |
| Deferred income taxes, net (note 15) | <u>14</u> | <u>(23)</u> |
| | <u>(206)</u> | <u>(185)</u> |
| Net income | <u>\$ 530</u> | <u>449</u> |

See accompanying notes to financial statements.

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

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

SIGNATURE

 Juan Antonio Carracedo Miranda
 General Director

SIGNATURE

 Carlos Marcelo Brina
 Deputy General Director of Finance

SIGNATURE

 Jorge Córdova Estrada
 Deputy General Director of
 Group Audit

SIGNATURE

 H. Valerio Bustos Quiroz
 Director of Group Accounting

"These statements of income faithfully match with the statements of income originals, which are properly signed and held by the Brokerage Firm".

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<http://www.cnbv.gob.mx/paginas/default.aspx>



Scotia Inverlat Casa de Bolsa, S. A. de C. V.,
Grupo Financiero Scotiabank Inverlat
Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Statements of changes in stockholders' equity

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Years ended December 31, 2020 and 2019

(Millions of Mexican pesos)

| | Capital stock | Statutory reserves | Retained earnings | Remeasure- ments of defined employees' benefits | Net income | Total stockholders' equity |
|---|--------------------------|-------------------------------|------------------------------|--|-----------------------|---|
| Balances as of December 31, 2018 | \$ 554 | 111 | 445 | - | 333 | 1,443 |
| Changes resulting from stockholders' resolutions: | | | | | | |
| Appropriation net income | - | - | 333 | - | (333) | - |
| Dividends payment (note 14c) | - | - | (50) | - | - | (50) |
| | - | - | 283 | - | (333) | (50) |
| Changes related to recognition of comprehensive income (note 14b): | | | | | | |
| Remeasurements for defined benefits to employees (note 12) | - | - | - | (4) | - | (4) |
| Net income | - | - | - | - | 449 | 449 |
| Total comprehensive income | - | - | - | (4) | 449 | 445 |
| Balances as of December 31, 2019 | 554 | 111 | 728 | (4) | 449 | 1,838 |
| Changes resulting from stockholders' resolutions: | | | | | | |
| Appropriation net income | - | - | 449 | - | (449) | - |
| Changes related to recognition of comprehensive income (note 14b): | | | | | | |
| Remeasurements for defined benefits to employees (note 12) | - | - | - | (10) | - | (10) |
| Net income | - | - | - | - | 530 | 530 |
| Total comprehensive income | - | - | - | (10) | 530 | 520 |
| Balances as of December 31, 2020 | \$ 554 | 111 | 1,177 | (14) | 530 | 2,358 |

See accompanying notes to financial statements.

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

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

SIGNATURE

Juan Antonio Carrancedo Miranda
General Director

SIGNATURE

Carlos Marcelo Brina
Deputy General Director of Finance

SIGNATURE

Jorge Córdova Estrada
Deputy General Director of
Group Audit

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

"These statements of changes in stockholders equity faithfully match with the statements of changes in stockholders equity originals, which are properly signed and held by the Brokerage Firm."

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<http://www.cnbv.gob.mx/paginas/default.aspx>



Scotia Inverlat Casa de Bolsa, S. A. de C. V.,
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 Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700, Mexico City

Statements of cash flows

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

Years ended December 31, 2020 and 2019

(Millions of Mexican pesos)

| | <u>2020</u> | <u>2019</u> |
|--|---------------|--------------|
| Net income | \$ 530 | 449 |
| Items not requiring cash flows: | | |
| Depreciation of premises, furniture and equipment | 27 | 23 |
| Amortization of intangible assets | 27 | 24 |
| Provisions | 41 | (106) |
| Current and deferred income taxes | 206 | 185 |
| Valuation on securities at fair value | (23) | |
| Subtotal | <u>278</u> | <u>126</u> |
| Operating activities: | | |
| Change in margin accounts | (9) | (2) |
| Change in investment securities | (1,336) | (899) |
| Change in derivatives asset | 4 | - |
| Change in other operating assets (net) | (2,714) | (4,866) |
| Change in creditors on repurchase/resell agreements | 9,231 | (347) |
| Change in collaterals sold or pledged | 64 | 2 |
| Change in derivatives liabilities | 284 | (97) |
| Change in other operating liabilities | (6,037) | 5,855 |
| Payment of income taxes | (189) | (187) |
| | <u>(702)</u> | <u>(541)</u> |
| Net cash flows from operating activities | <u>106</u> | <u>34</u> |
| Investing activities: | | |
| Payments for acquisition of premises, furniture and equipment | (10) | (30) |
| Payments for acquisition of intangible assets | (71) | (36) |
| Net cash flows from investing activities | <u>(81)</u> | <u>(66)</u> |
| Net cash flows from financing activities due to cash dividends payment | - | (50) |
| Net increase (decrease) in cash and cash equivalents | 25 | (82) |
| Cash and cash equivalents at the beginning of year | <u>167</u> | <u>249</u> |
| Cash and cash equivalents at the end of year | \$ <u>192</u> | <u>167</u> |

See accompanying notes to financial statements.

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

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

SIGNATURE

 Juan Antonio Carracedo Miranda
 General Director

SIGNATURE

 Carlos Marcelo Brina
 Deputy General Director of Finance

SIGNATURE

 Jorge Córdova Estrada
 Deputy General Director of
 Group Audit

SIGNATURE

 H. Valerio Bustos Quiroz
 Director of Group Accounting

"These statements of cash flows faithfully match with the statements of cash flows originals, which are properly signed and held by the Brokerage Firm."



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

Notes to financial statements

For the years ended December 31, 2020 and 2019

(Millions of Mexican pesos)

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

(1) Description of business-

Scotia Inverlat Casa de Bolsa, S. A. de C. V., Grupo Financiero Scotiabank Inverlat ("the Brokerage Firm") is an entity incorporated under the Mexican legislation and is located at Bosque de Ciruelos No. 120, Col. Bosques de las Lomas, C.P. 11700 in Mexico City. The Brokerage Firm is a subsidiary of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("the Group"), which owns 99.99% of its capital stock. The Group, in turn, is a subsidiary of The Bank of Nova Scotia ("BNS"), which owns 97.4% of its capital stock. The Brokerage Firm acts as an intermediary in securities and financial transactions authorized under terms of the Securities Market Law (SML) and general provisions issued by the National Banking and Securities Commission ("the Commission").

(2) Authorization and basis of presentation-

Authorization-

On February 26, 2021, Juan Antonio Carracedo Miranda (Brokerage Firm's General Director), Carlos Marcelo Brina (Deputy General Director of Finance), Jorge Córdova Estrada (Deputy General Director of Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting); authorized the issuance of the accompanying financial statements and related notes.

The stockholders and the Commission are empowered to modify the financial statements after issuance. The attached 2020 financial statements will be submitted to the next shareholders' meeting for approval.

Basis of presentation and disclosure

a) Statement of compliance

The accompanying financial statements have been prepared, based on the SML and in conformity with the current accounting criteria established by the Commission for Brokerage Firms in Mexico at the date of the balance sheet. The Commission is responsible for the inspection and supervision of Brokerage Firms, as well as reviewing their financial information.

The accounting criteria provide that in the absence of an specific accounting criterion of the Commission for Brokerage Firms in Mexico first and then for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), issued by Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF), the suppletory process as established by MFRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by MFRS 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 MFRS are met by that standard, with the requirements of criterion A-4 of the Commission. The suppletory application shall be in the following order: U.S. Generally Accepted Accounting Principles (US GAAP), and later any other formal and recognized accounting standard, provided they do not contravene the accounting criteria of the Commission.

(Continued)



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

Notes to financial statements

(Millions of Mexican pesos)

b) Use of judgment and estimates

The preparation of the financial statements requires the Administration to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the recorded amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

Judgments

Information about judgments made in applying of accounting policies that have the most significant effect on the amounts recognized in the financial statements is described in the notes to the financial statements mentioned below.

Assumptions and uncertainties in the estimates

Information on assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the following notes to the financial statements:

- Valuation of derivative financial instruments: key assumptions to determine market value, especially those complex derivatives or without an active market (see note 9);
- Impairment of premises, furniture and equipment: evidence of impairment of the value of fixed assets, including the key assumptions for determining the recoverable amount of such assets (see note 10);
- Measurement of defined benefit obligations: key actuarial assumptions (see note 12);
- Recognition of deferred tax assets: availability of taxable future profits and the materialization of deferred taxes (see note 15).

(Continued)



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

Notes to financial statements

(Millions of Mexican pesos)

c) Functional and reporting currency

The aforementioned financial statements are presented in Mexican pesos, which is the same as the recording currency and to the functional currency.

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

d) Recognition of assets and liabilities related to financial instruments

The accompanying financial statements recognize the assets and liabilities arising from investment securities repurchase and resell agreements from transactions carried out for the Brokerage Firm's own account as well as those carried out on behalf of its customers at the trade date, rather than settlement date.

(3) Summary of significant accounting policies-

The accounting policies shown in this note have been applied in the preparation of the financial statements that are presented, and have been applied on a consistent basis by the Brokerage Firm:

(a) Recognition of the effects of inflation-

The accompanying financial statements include the recognition of inflation based on Investment Units (Unidades de Inversión or UDI) until December 31, 2007, according to the applicable accounting criteria.

Years ended December 31, 2020 and 2019 are considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the Brokerage Firm's financial information are not recognized. Should the Brokerage Firm be back in an inflationary environment, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as inflationary. The accumulated inflation rate of the three preceding years, is shown in the next page.

(Continued)



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

Notes to financial statements

(Millions of Mexican pesos, except the value of the UDI)

| December 31, | | UDI | Inflation | |
|--------------|----|----------|-----------|-------------|
| | | | Annual | Accumulated |
| 2020 | \$ | 6.605597 | 3.23% | 11.31% |
| 2019 | | 6.399018 | 2.77% | 15.03% |
| 2018 | | 6.226631 | 4.92% | 15.71% |

(b) Cash and cash equivalents-

Cash and cash equivalents consist of cash in hand, local and foreign bank account balances and 24, 48, 72 and 96 hours foreign currency sales/purchases, and surpluses of plan assets derived from maximum obligation of employee's benefits according to MFRS D-3 "Employees' benefits"

Cash and cash equivalents are recognized at nominal value. For dollars, the exchange rate used for the translation is the one published by Banco de México (the "Central Bank"). The translation effect is recognized in the results, as "Interest income" or "Interest expense", as applicable.

The foreign exchange currencies acquired in 24, 48, 72 and 96 hours sales/purchase transactions are recognized as restricted cash (foreign currency received), while the currency sold is recorded as cash outflow (foreign currency deliverable). The rights and obligations for the sales and purchases of foreign exchange at 24, 48, 72 and 96 hours are recorded in clearing accounts under the caption "Accounts receivable, net" and "Creditors on settlement of transactions", respectively.

Checking account overdrafts, as reported in the statement of account issued by the corresponding Brokerage Firm, are shown in the caption "Sundry creditors and other accounts payable".

(c) Margin accounts-

The margin accounts in cash required to the Brokerage Firm to operate derivatives in recognized markets are recorded at face value and presented in the caption "Margin accounts." The value of the margin accounts granted in cash is modified by margin calls or withdrawals made by the clearing house and for additional contributions or withdrawals made by the Brokerage Firm.

Bank yields and commissions affecting the margin accounts, other than fluctuations in derivatives prices, are recognized in result of operations for the year as accrued under "Interest income" and "Commissions and fee expenses", respectively. The partial or total amounts deposited or withdrawn in the clearinghouse owing to price fluctuations of derivatives are recognized in "Margin accounts".

(Continued)



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(d) Investment securities-

Investment securities consist of equities, government securities, bank promissory notes and other debt securities listed in recognized markets, which are classified using the categories shown below, based on the intention and capability of the Brokerage Firm's management on their ownerships at the time purchase a certain instrument.

Trading securities-

Trading securities are those acquired with the intention of selling them to get short-term gains arising from differences in prices resulting from its trading in the market. Securities at the time of acquisition are accounted at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in income on the same date.

Subsequently, and at each reporting date, securities are valued at fair value provided by an independent price vendor, valuation effects and the gain or loss on sale are recognized in income of the year under the caption "Intermediation financial result". When the securities are sold, the result of purchase / sale is determined by the difference between purchase price and the sale price, this shall reclassify the result of valuation that has been previously recognized in the income statement to the result of purchase / sale within this caption.

Interest earned from debt securities are determined according to the effective interest method and are recognized in the year's income under the caption "Interest income".

Dividends from equity securities are recognized in the year's income when the right to receive payment arises under the caption "Interest 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, decreasing investment securities. The counter entry is a credit or debit in a settlement, as applicable. Where the amount of securities to be delivered exceeds the balance of own securities of the same type position (government, bank, equity and other debt securities), this is reflected as a liability under the caption "Assigned securities to be settled".

(Continued)



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(e) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction (repo), the Brokerage Firm acting as seller recognizes either the cash inflow or a debit clearing account, as well as an account payable, whereas when acting as buyer recognizes either the cash outflow or a credit clearing account, as well as an account receivable. Both the account payable and the account receivable 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.

The Brokerage Firm acting as repurchasee recognizes the received collateral in memorandum accounts within the caption "Collaterals received by the entity", in accordance with accounting criterion B-6 "Assets in custody and under management". Financial assets granted as collateral, when the Brokerage Firm acting as repurchaser, the financial asset is reclassified on the balance sheet within the caption "Investments securities", reporting it as restricted asset.

Should the Brokerage Firm, acting as repurchase sell or pledge the collateral, recognize the transaction proceeds and an account payable 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 repurchaser agreement, at amortized cost. The account payable is offset with the account receivable, which is recognized when Brokerage Firm acting as repurchasee turns into repurchaser and the debit or credit balance is presented in the financial statement caption "Debtors on repurchase/resell agreements" or in "Collaterals sold or pledged", as applicable.

Additionally, the collateral received or sold is recognized in memorandum accounts under "Collaterals received and sold or pledged in guarantee by the entity", in accordance with the valuation guidelines criterion B-6 "Assets in custody and under management".

(f) Securities lending-

At the trade date of securities lending transactions, the Brokerage Firm acting as lender reclassifies securities subject to lending as restricted in the balance sheet under the caption "Investment securities", while acting as borrower, securities are recognized in memorandum accounts under the caption "Collaterals received by the entity", according to the guidelines for valuation of criterion B-6 "Assets in custody and under management".

(Continued)



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The accrued premium amount, acting the Brokerage Firm as a lender or borrower, is recognized in the income statement, through the effective interest method over the term of the transaction, under the caption "Interest income" or "Interest expense", respectively, against the caption "Securities lending" within asset or liability, as applicable.

In the case that the Brokerage Firm, as lender, prior to the maturity of the securities lending transaction sells the collateral received or the transaction value as borrower, recognizes the inflow of funds from the sale for the obligation to return such collateral to the lender under the caption "Collateral sold or pledged", such obligation is initially measured at the agreed price and subsequently at fair value. The valuation effect is presented in the income statement under the caption "Valuation on securities at fair value".

The difference between the price received and the fair value of the security subject to the transaction or the collateral received, if any at the time of the sale, is presented under the captions of "Gain on purchase and sale of securities" or "Loss on purchase and sale of securities", as applicable.

(g) Derivatives-

The Brokerage Firm enters into transactions with derivative financial instruments for trading purposes, which are recognized initially at fair value, which is presumed to be equal to the price agreed in the transaction.

The valuation effect of the derivatives for trading purposes is shown in the balance sheet and in statement of income under the captions of "Derivatives", in the assets or liabilities, accordingly, and "Valuation on securities at fair value", respectively.

The effect of the derivatives credit risk (counterpart), is determined in accordance with the risk area methodology, and is recognized in the year's income in the period which it occurs against the supplementary account.

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(h) Accounts receivable-

Accounts receivable related to identified debtors whose maturity is agreed from the origin to more than 90 calendar days term, are assessed by Brokerage Firm's management to determine the estimated recoverable amount and, as required, to create the corresponding allowance.

The balances of other debit items are reserved into in the year's income 90 days after their initial recording, if they correspond identified items and 60 days if the balances are unidentified, regardless of their chance of recovery, except for tax-related (value-added tax 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.

(i) Settlement of clearing accounts-

Amounts receivable or payable from investment securities, securities repurchase/resell agreements, securities lending and/or derivatives, 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, realize the asset and settle the liability simultaneously. The clearing accounts are shown under the financial statement caption "Accounts receivable, net" or "Creditors on settlement of transactions", as appropriate.

(j) Premises, furniture and equipment-

Premises, furniture and equipment are recorded at acquisition cost; and as of December 31, 2007 were adjusted by using factors based on the UDI. The components acquired in foreign currency are recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation of premises, furniture and equipment is calculated under the straight-line method, based on the estimated useful lives determined by the Brokerage Firm's management of the corresponding assets. Depreciable amount of premises, furniture and equipment is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Brokerage Firm periodically evaluates premises, furniture and equipment residual values to determine amounts to be depreciated.

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The Brokerage Firm evaluates periodically the net book values of premises, furniture and equipment to determine whether there is an indication that these values exceed their recoverable amount. The recoverable amount is the greater of the net selling price and book value. If the net book value of an asset exceeds its recoverable amount, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Minor repairs and maintenance expenses are recorded in the statement of income when incurred.

(k) Permanent investments-

The permanent investments where no control, joint control or significant influence exists are classified as other investments, which are initially recognized and maintained valued at acquisition cost. Dividends, if any, received from these investments are recognized in the statement of income under the caption "Other operating income", except if such dividends relate to periods prior to the acquisition, in which case the dividends are decreased from the permanent investments.

(l) Other assets-

This caption includes mainly the contributions made to the reserve fund established through the stock exchange members, which purpose is to support and contribute to the strengthening of the stock exchange market. The balance includes the contributions, valuation and interest earned, which are recognized under the caption "Other operating income" on the statement of income.

The intangible assets related to internally developed software, are also included in this caption, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate through the straight-line method over the estimated useful life as determined by the Brokerage Firm's management.

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.

Additionally, this caption includes the projected net assets of the defined benefit plan (up to the amount of the ceiling of the plan assets, which is recognized in accordance with the provisions of MFRS D-3 "Employees' benefits"). Surpluses of non-refundable resources provided by the Brokerage Firm to cover employee benefits, are recognized as restricted cash in "Cash and cash equivalents" (see notes 6 and 12).

(m) Income taxes and employee statutory profit sharing (ESPS)-

The income taxes and ESPS payable for the year are determined in conformity with the applicable tax provisions.

Income taxes payable are presented as a liability in the balance sheet, when the tax prepayments exceed the income tax payable, the difference corresponds to an account receivable.

(Continued)



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

Current and deferred tax and ESPS are presented and classified in the year's results, except those that are originated from a transaction recorded directly in equity.

(n) Capital leases-

Capital leases transactions are recorded as an asset with its corresponding liability for the equivalent at the lower of the present value of minimum lease payments and the value of the asset leased. The asset is depreciated in the same way as other assets held in property when it is certain that at the end of lease contract, ownership of the leased asset is transferred otherwise is depreciated during the term of the contract (see note 10).

(ñ) Employees' benefits-

Short-term direct benefits

Short-term direct employees' benefits are recognized in income of the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Brokerage Firm has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

Long-term direct benefits

The Brokerage Firm's net obligation in relation to direct long-term benefits (except for deferred ESPS - see note Income taxes and employees' statutory profit sharing), and which the Brokerage Firm is expected to pay at least twelve months after the date of the most recent balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value. Remeasurements are recognized in the results of the year as accrued.

(Continued)



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Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Brokerage Firm has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when the conditions that require the recognition of restructuring costs are met, whichever occurs first. If benefits are not expected to be wholly settled within twelve months after the date of the most recent balance sheet presented, then they are discounted.

Post-employment benefits

Defined contribution plans

Obligations derived from contributions to defined contribution plans are recognized in the results as accrued, as the related services are rendered by the employees. Contributions paid in advance are recognized as an asset to the extent that such prepayment gives rise to a reduction in the future payments or to a cash reimbursement.

Defined benefit plans

The net obligation of the Brokerage Firm corresponding to the defined benefit plan for the pensions for retirement, the seniority premiums and legal compensation to which employees are entitled in accordance with the Federal Labor Law, as well as obligations related to corresponding to life insurance for retirees, it is calculated in a separate way for each plan, estimating future benefits amount that employees have earned in the current and in previous periods, discounting such amount and deducting the fair value of the plan assets.

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

The obligations for defined benefit plans are calculated annually by actuaries using the projected unit credit method. When the calculation results in a possible asset for the Brokerage Firm, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or reductions in future contributions thereto. To calculate the present value of economic benefits, any minimum financing requirement should be considered.

The labor cost of current service, which represents the periodic cost of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in administrative and promotional expenses. The Brokerage Firm determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments.

(Continued)



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Modifications to the plans that affect past service cost are recognized in income immediately in the year the modification occurs, with no possibility of deferral in subsequent years. Furthermore, the effects of events of liquidation or reduction of obligations in the period that significantly reduce future service cost and/or significantly reduce the population eligible for benefits, are recognized in income of the period.

Remeasurements (formerly actuarial gains and losses) resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of OCI within stockholder's equity and is subsequently recycled to the results of the period, based on the average remaining working life of the employees.

(o) Revenue recognition-

Interest and premiums on investments in debt securities and repurchase/resell agreements, are recorded in the statement of income on an accrual basis, using effective interest rate method.

The gain on sale of foreign currencies, trading securities and derivatives, is recorded in the statement of income when these are sold.

The favorable effects of valuation (gain) of trading securities and derivatives, are recorded in the statement of income when the fair value is recognized.

The fees for financial transactions (placement of debt or shares), for transaction with investment companies and revenue from custody services, are recorded in the statement of income when the service is rendered in "Commission and fee income".

Revenues from financial advisory services are recorded on income when the services are rendered in "Financial advisory income".

(p) Provisions-

Based on Management estimates, the Brokerage Firm recognizes accruals for present obligations where the transfer of assets or the rendering of services is probable, and arises as a consequence of past events.

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(q) Foreign currency transactions-

Foreign currency transactions are recognized at the exchange rate prevailing on the date of execution for financial statement presentation purposes. In the cases of currencies other than dollars are translated into dollars at the exchange rates as established in the Provisions applicable to the Brokerage Firm, 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. At the year-end close date of the financial statements, foreign currency monetary assets and liabilities are translated into pesos at the FIX exchange rate published by the Central Bank, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(r) Memorandum accounts-

Memorandum accounts correspond mainly to transactions in custody or under management.

Custody transactions

Customer's securities in custody are valued at fair value, representing the amount for which the Brokerage Firm is obligated to its customers against any future eventuality and are presented in the caption "Customer securities in custody".

Management transactions

The amount of the repurchase and resell agreements and securities lending on repurchase/resell agreements that the Brokerage Firm undertakes for its customers, is presented under the caption "Securities on repurchase/resell agreements on behalf of customers".

Securities lending conducted by the Brokerage Firm on behalf of customers, is presented under the caption "Securities lending transaction on behalf of customers".

In the case of collateral that the Brokerage Firm receives or delivers on behalf of customers, for repurchase/resell agreements operations, securities lending, derivatives or other collateral received or delivered, are presented under the caption "Collaterals received in guarantee on behalf of customers" and/or "Collaterals delivered in guarantee on behalf of customers", as appropriate.

The determination of the valuation of the estimated amount for the assets in management and operations on behalf of customers is made according to the operation carried out in accordance with the accounting criteria for Brokerage Firms.

The Brokerage Firm records transactions on behalf of customers, on the trade day and not on the settlement date.

(Continued)



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(s) Contingencies-

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

(4) New accounting criteria-

2020 MFRS Applicable

- **MFRS B-11 "Disposal of long-lived assets and discontinued operations"**- comes into effect for periods beginning January 1, 2020, and early application is not allowed, since it is necessary to apply together with the NIF C-15 that will be reissued during 2019 and will also be applicable from 2020. The first-time adoption of this FRS does not give rise to accounting changes in the financial statements.

(5) Foreign currency position-

Central Bank regulations require that the Brokerage Firm holds balanced positions in foreign currencies within certain limits. At December 31, 2020 and 2019, the maximum currency position (short or long) authorized by the Central Bank was \$320 and \$251, respectively, equivalent to 15% of the Brokerage Firm's basic capital (\$2,134 and \$1,671, respectively, see note 14e).

he foreign exchange position, expressed in millions of dollars is as follows:

| | 2020 | 2019 |
|---------------------|-------------|-------------|
| Assets | 6 | 16 |
| Liabilities | (6) | (16) |
| Net position | - | - |

(Continued)



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The Brokerage Firm has a (short) long position in foreign currency at December 31, 2020 and 2019, respectively, which consists of 100% dollars. The exchange rate relative to the U.S. dollar at December 31, 2020 and 2019, was \$19.9087 (pesos) and \$18.8642 (pesos), respectively, and as of February 26, 2021, date of authorization issuance of the financial statements, it was \$20.9390 (pesos).

(6) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2020 and 2019, are as follows:

| | 2020 | 2019 |
|---|---------------|-------------|
| Banks | \$ 2 | 6 |
| Other cash equivalents | 29 | 11 |
| Restricted cash: | | |
| Surpluses of maximum obligation for employee benefits (note 12) | - | 15 |
| Foreign currency receivable and payable, net | 71 | 52 |
| Other restricted cash | 90 | 83 |
| | \$ 192 | 167 |

Foreign currency receivable and deliverable at December 31, 2020 and 2019, from purchases and sales to be settled within 24, 48, 72 and 96 hours are related to dollar transactions.

At December 31, 2020, the foreign exchange purchase/sale gain and (loss) amounted to \$119 and \$(141) (\$57 and \$(48) in 2019) these are recorded in the statement of income in "Gain on purchase and sale" or "Loss on purchase and sale", as appropriate.

At December 31, 2020 and 2019, the Brokerage Firm maintained a liability balance, for transactions with foreign currencies payable on a date subsequent to the traded date of \$(71) and \$(52), respectively, which were recorded in clearing accounts within caption "Creditors on settlement of transactions".

Of the total cash and cash equivalents at December 31, 2020, \$120 and \$72 (\$115 and \$52 at December 31, 2019), are denominated in local currency and valued foreign currency (mainly USD), respectively.

(7) Investment securities-

(a) At December 31, 2020 and 2019, the fair values of investment in securities were in the next page.

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| Trading securities | 2020 | 2019 |
|------------------------------------|-------------|-------------|
| Debt securities: | | |
| Government securities: | | |
| - Unrestricted | \$ 1,698 | 863 |
| - Restricted | 10,321 | 7,371 |
| Total government securities | 12,019 | 8,234 |
| Bank promissory notes – Restricted | 14 | - |
| Other debt securities – Restricted | 37 | 8 |
| Total debt securities | \$ 12,070 | 8,242 |
| Equity share securities | | |
| Unrestricted | 559 | 544 |
| Restricted | 505 | 624 |
| Total equity share securities | \$ 1,064 | 1,168 |
| Total investment securities | \$ 13,134 | 9,410 |

(b) At December 31, 2020 and 2019, the detail of the aforementioned trading securities is as follows:

| Debt securities | 2020 | 2019 |
|---|-------------|-------------|
| Government securities, unrestricted: | | |
| BI CETES | \$ 1,446 | 863 |
| M BONOS | 252 | - |
| Government securities, unrestricted | \$ 1,698 | 863 |
| Government securities, restricted: | | |
| Pledged CETES in guarantee | \$ 260 | 176 |
| Repurchase/resell agreements ⁽¹⁾: | | |
| BI CETES | 9,982 | 710 |
| LD BONDESD | - | 93 |
| Value date purchases: | | |
| M BONOS | 12 | - |
| BI CETES | 67 | 5,536 |
| S UDIBONOS | - | 300 |
| Other government securities | - | 556 |
| Restricted government securities | \$ 10,321 | 7,371 |
| Total government securities, carried forward | \$ 12,019 | 8,234 |

⁽¹⁾ See terms and conditions in note 8.

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| | | 2020 | 2019 |
|---|----|---------------|--------------|
| Total government securities, continued | \$ | 12,019 | 8,234 |
| Restricted bank promissory notes: | | | |
| PRLV | | 14 | - |
| Other debt securities unrestricted | | | |
| 91FINBE 20 | | 37 | - |
| JEAMX | | - | 8 |
| Total debt securities | \$ | 12,070 | 8,242 |
| Equity share securities | | | |
| Unrestricted equity share securities: | | | |
| 51 SCOTIAG | \$ | 364 | 493 |
| 1B NAFTRAC | | 83 | 39 |
| Other equity share securities | | 112 | 37 |
| Value date sales: | | | |
| 1B NAFTRAC | | - | (25) |
| Total unrestricted equity share securities | \$ | 559 | 544 |
| Restricted equity share securities: | | | |
| Securities lending: | | | |
| 1B NAFTRAC | \$ | 283 | 251 |
| 1 CEMEX | | - | 6 |
| 1 ALFA | | - | 2 |
| 1 SIMEC | | 3 | 3 |
| 1 ALPEK | | - | 4 |
| Other equity share securities | | 92 | 31 |
| | | 378 | 297 |
| Collateral: | | | |
| 51 SCOTIAG | | - | 7 |
| Subtotal, carried forward | \$ | 378 | 304 |

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| Equity share securities | | 2020 | 2019 |
|---|-----------|--------------|--------------|
| Subtotal, brought forward | \$ | 378 | 304 |
| Value date sales: | | | |
| 1I CSPX | | - | 1 |
| 1I SHV | | 17 | 14 |
| 1A AAPL | | 1 | - |
| 1I ACWX | | - | 54 |
| Other equity share securities | | 109 | 251 |
| Restricted equity share securities | | 505 | 624 |
| Total equity share securities | \$ | 1,064 | 1,168 |

As of December 31, 2020 and 2019, the Brokerage Firm held asset (liability) balances for transactions with securities settled on a date subsequent to the traded date for \$9,311 \$(210) and \$6,234 \$(6,001), respectively, which were recorded in clearing accounts under the caption "Accounts receivable, net" and "Creditors on settlement of transactions", as appropriate.

For the years ended December 31, 2020 and 2019, interest on securities earned amounted to \$612 and \$461, respectively.

For the years ended December 31, 2020 and 2019, net gains from interest income, gain or losses from purchase and sale transactions, and valuation income from investments in securities amount to \$700 and \$413, respectively, and correspond to trading securities.

At December 31, 2020 and 2019, the Brokerage Firm does not hold investments in non-government debt securities from the same issuer exceeding 5% of the Brokerage Firm's net capital.

(c) At December 31, 2020 and 2019, fair value of securities classified as assigned securities to be settled, are analyzed as shown in the following page.

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| Assigned securities to be settled | 2020 | 2019 |
|---|-------------------|----------------|
| Other unrestricted debt securities – Value date sales | | |
| BI CETES | \$ (9,087) | (5,911) |
| M BONOS | - | (37) |
| S UDIBONOS | - | (300) |
| LD BONDES | - | (3) |
| Other debt securities | - | (335) |
| Unrestricted equity share securities – Value date sales | | |
| D2 FEMSA47 | - | (4) |
| D2 AMXD65 | - | (4) |
| Other equity share securities | (221) | (331) |
| Assigned securities to be settled, unrestricted Securities | \$ (9,308) | (6,925) |

(8) Securities on repurchase/resell agreements and securities lending-

Repurchase/resell agreements-

At December 31, 2020 and 2019, the “Debtors on repurchase/resell agreements” and “Creditors on repurchase/resell agreements” balances in which the Brokerage Firm acts as repurchase and repurchaser, are analyzed as follows:

| Debtors under repurchase/resell agreement | 2020 | 2019 |
|--|-------------|-------------|
| LD BONDESD | \$ 11,030 | 6,962 |
| IS BPA | 817 | 2,434 |
| M BONOS | 2,063 | 1,897 |
| IM BPAG | 1,256 | 231 |
| BI CETES | 4,426 | 1,478 |
| IQ BPAG | 532 | 2,485 |
| S UDIBONO | 1,161 | 3,365 |
| | 21,285 | 18,852 |
| <i>Collaterals sold or pledged in guarantee (creditors):</i> | | |
| LD BONDESD | (11,030) | (6,962) |
| IS BPA | (817) | (2,434) |
| M BONOS | (2,063) | (1,897) |
| IM BPAG | (1,256) | (231) |
| BI CETES | (4,426) | (1,478) |
| IQ BPAG | (532) | (2,485) |
| S UDIBONO | (1,161) | (3,365) |
| | (21,285) | (18,852) |
| Total debtors on repurchase/resell agreement | \$ - | - |

(Continued)



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| Creditors on repurchase/resell agreements: | 2020 | 2019 |
|--|------------------|-------------|
| BI CETES | \$ 9,983 | 710 |
| LD BONDESD | - | 93 |
| 91 FINBE 20 | 37 | - |
| PRLV | 14 | - |
| Total creditors on repurchase/resell agreements | \$ 10,034 | 803 |

At December 31, 2020 and 2019, the term of repurchase/resell agreements is for 2 days in both years, with annual weighted rates of 5.44% when acting as repurchaser, and 5.04% when acting as repurchaser (7.32% and 6.97% at December 31, 2019, respectively).

During the years ended December 31, 2020 and 2019, premiums collected amounted to \$1,099 and \$1,425, respectively; premiums paid amounted to \$1,404 and \$1,509, respectively, and are included in the statement of income under the captions "Interest income" and "Interest expense", respectively.

Securities lending-

At December 31, 2020 and 2019, the Brokerage Firm held securities lending transactions as lender and borrower, in which values object of these transactions were received and transferred.

As of December 31, 2020 and 2019, the obligation to repay the lender values derived from the purchase of these securities are analyzed as follows:

| 2020 | Number of securities | Fair Value |
|----------------|-----------------------------|-------------------|
| 1AAAPL* | 1,645 | \$ 4 |
| 1SIMECB | 40,000 | 3 |
| 1ANFLX* | 190 | 2 |
| 1AFB* | 390 | 2 |
| 1ABABAN | 900 | 4 |
| 1ATSLA* | 750 | 11 |
| 1IQQQ* | 1,500 | 9 |
| 1ISPY* | 2,800 | 21 |
| 1IVOO* | 5,700 | 39 |
| 1BNAFTRACISHRS | 6,400,000 | 283 |
| | | \$ 378 |

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| 2019 | Number of securities | | Fair Value |
|----------------|-----------------------------|-----------|-------------------|
| 1AINTC* | 1,200 | \$ | 1 |
| 1AAAPL* | 1,030 | | 6 |
| 1ACOST* | 400 | | 2 |
| 1AFCX* | 10,000 | | 2 |
| 1SIMECB | 40,000 | | 2 |
| 1ALSEA* | 40,000 | | 2 |
| 1AVALEN | 12,000 | | 3 |
| 1ANFLX* | 300 | | 2 |
| 1ALPEKA | 175,000 | | 4 |
| 1AFB* | 1,200 | | 5 |
| 1ABABAN | 900 | | 4 |
| 1FEMSAUBD | 13,200 | | 2 |
| 1ALFAA | 130,000 | | 2 |
| 1AMXL | 140,000 | | 2 |
| 1CEMEXCPO | 828,612 | | 6 |
| 1BNAFTRACISHRS | 5,771,841 | | 252 |
| | | \$ | 297 |

At December 31, 2020 and 2019, the right to demand the securities to the borrower, derived from the sale of such securities, are analyzed as follows:

| 2020 | Number of securities | | Fair Value |
|-------------|-----------------------------|-----------|-------------------|
| 1GLXYN | 49,977 | \$ | 8 |
| 1ATSLA | 750 | | 10 |
| 1SIMECB | 40,000 | | 3 |
| 1I-SPY | 2,800 | | 20 |
| 1I-QQQ | 1,500 | | 9 |
| 1I-VOO | 5,700 | | 39 |
| 1AINTC* | 1,645 | | 4 |
| 1AAAPL* | 4,120 | | 10 |
| 1ANFLX* | 300 | | 3 |
| 1AFB* | 210 | | 1 |
| 1AFB* | 390 | | 2 |
| 1ABABAN | 900 | | 4 |
| | | \$ | 113 |

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| 2019 | Number of securities | | Fair Value |
|-------------|-----------------------------|-----------|-------------------|
| 1ALFAA | 130,000 | \$ | 2 |
| 1CEMEXCPO | 828,612 | | 6 |
| 1SIMECB | 70,000 | | 5 |
| 1FEMSAUBD | 13,200 | | 2 |
| 1ALSEA* | 40,000 | | 2 |
| 1AMXL | 140,000 | | 2 |
| 1ALPEKA | 175,000 | | 4 |
| 1AINTC* | 1,200 | | 1 |
| 1AAAPL* | 1,030 | | 6 |
| 1ACOST* | 400 | | 2 |
| 1AFCX* | 10,000 | | 2 |
| 1AVALEN | 12,000 | | 3 |
| 1ANFLX* | 300 | | 2 |
| 1AFB* | 300 | | 1 |
| 1AFB* | 900 | | 3 |
| 1ABABAN | 900 | | 4 |
| | | \$ | 47 |

The range of term of the securities lending transactions at December 31, 2020 and 2019, where the Brokerage Firm acts as a lender is 15 and 28 days, in both years. Acting as a borrower in 2020 the range of term are 6 and 28 days, (6 and 30 days in 2019).

During the years ended December 31, 2020 and 2019, premiums collected and (paid) in securities lending transactions, amounted to \$16 and \$(3) as well as 15 and \$(2), respectively, and are included in the statement of income under the captions "Interest income" and "Interest expense", respectively.

As of December 31, 2020 and 2019, the Brokerage Firm received equity financial instruments as guarantees in securities lending transactions for \$113 and \$47, respectively, such guarantees are managed in memorandum accounts (see note 16).

As of December 31, 2020, the Brokerage Firm has premiums receivable on securities lending transactions for \$1. As of December 31, 2019, the Brokerage Firm did not have premiums receivable on securities lending transactions.

(9) Derivatives-

At December 31, 2020 and 2019, the fair value of derivative financial instruments for trading is analyzed as follows:

| | 2020 | | 2019 | |
|--------------------|---------------|--------------------|---------------|--------------------|
| | Assets | Liabilities | Assets | Liabilities |
| OTC options | \$ 34 | 590 | 21 | 303 |

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Net gain (loss) on financial assets and liabilities related to derivatives for trading purposes, included in income for the years ended December 31, 2020 and 2019 amounted to \$(4) and \$(2), respectively. The valuation (loss) gain effect of trading derivatives amounted to \$12 and \$(15) at December 31, 2020 and 2019, respectively, and are presented in the "Valuation on securities at fair value" caption in the income statement.

(10) Premises, furniture and equipment-

At December 31, 2020 and 2019, the premises, furniture and equipment are analyzed as follows:

| | 2020 | 2019 | Annual depreciation rates |
|---|---------------|-------------|--------------------------------------|
| Land | \$ 22 | 22 | - |
| Office premises | 154 | 154 | 2.5% |
| Transportation equipment in capital lease | 4 | 4 | 25 y 33% |
| Computer equipment | 51 | 48 | Various |
| Computer equipment in capital lease | 40 | 34 | 20% |
| Office furniture and equipment | 63 | 61 | 10% |
| Installation improvements | 64 | 65 | Various |
| Total | 398 | 388 | |
| Accumulated depreciation | (192) | (199) | |
| Total | \$ 206 | 189 | |

The amount recognized in the results of 2020 and 2019, from depreciation amounted to \$27 and \$23, respectively.

According to assessment carried out by the Brokerage Firm, the residual value (except land) of office premises is minimum.

As of December 31, 2020, the Brokerage Firm had write-offs of computer equipment in capital lease for \$34, cancelling a depreciation of \$30. As of December 31, 2019, the Brokerage Firm did not have asset write-offs.

As of December 31, 2020, the Brokerage Firm had additions of computer equipment in capital lease for \$40.

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(11) Permanent investments-

At December 31, 2020 and 2019, the Brokerage Firm has permanent investments in Impulsora del Fondo Mexicano, S. A. de C. V. and Cebur, S. A. de C. V. for the amount of \$2 and \$1, respectively, which represents 3.65% and 2.97%, respectively, for both years, of the share capital of the entities.

For the years ended December 31, 2020 and 2019, the Brokerage Firm did not receive dividends from its associated entities.

(12) Employees' benefits-

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

For the years ended December 31, 2020 and 2019, the charge to results for the Brokerage Firm's contributions to the defined contribution plan amounted to \$15 in both years, under the caption "Administrative and promotional expenses".

The Brokerage Firm has also a defined benefit pension plan, post-retirement benefits covering those employees who elected not to change to the defined contribution plan. The benefits are based on years of service and the employees' compensation during the last year.

The cost, obligations and the defined benefit pension plan, seniority premiums and life insurance were determined based on computations prepared by independent actuaries as of December 31, 2020 and 2019.

The benefit paid, are shown below:

| | Benefits paid from funds | |
|--------------------------------|-------------------------------------|-------------|
| | 2020 | 2019 |
| Seniority premium | \$ (1) | - |
| Other post-retirement benefits | (1) | (3) |
| Total | \$ (2) | (3) |

The components of the defined benefit cost, for the years ended December 31, 2020 and 2019, are shown in the following page.

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| | Pension plan | | Seniority premium | | Life insurance | | Termination benefits | |
|---|--------------|----------|-------------------|----------|----------------|----------|----------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Current service labor cost | \$ - | - | 1 | 1 | 1 | 1 | 1 | 2 |
| Net Interest on the DBNL | - | - | - | - | 1 | - | 2 | 2 |
| Past services labor cost of the year | - | - | - | - | - | - | - | 27 |
| Cost of early liquidation of obligations | - | - | - | - | - | - | 56 | - |
| Remeasurements of DBNL to be recognized in equity | - | - | - | - | - | (1) | - | - |
| Net cost of the year | - | - | 1 | 1 | 2 | - | 59 | 31 |
| Remeasurements generated during the year | - | - | - | - | - | - | - | 1 |
| Defined benefits cost | \$ - | - | 1 | 1 | 2 | - | 59 | 32 |

| | Pension plan | | Seniority premium | | Life insurance | | Termination benefits | |
|-------------------------------------|---------------|------------|-------------------|------------|----------------|------------|----------------------|-------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Beginning balance of DBNL | \$ (1) | (7) | (5) | (3) | (5) | - | (21) | (21) |
| Defined benefits cost | - | - | (1) | (1) | (2) | - | (59) | (32) |
| Payments deducted from DBNL | - | 6 | - | - | - | - | 58 | 33 |
| <i>Other adjustments:</i> | | | | | | | | |
| Gain and loss recognized in equity | (16) | - | (1) | (1) | - | (5) | 3 | (1) |
| Investments (restricted) / released | 15 | - | - | - | - | - | - | - |
| Other adjustments | - | - | - | - | - | - | (2) | - |
| Final balance of DBNL | \$ (2) | (1) | (7) | (5) | (7) | (5) | (21) | (21) |

Financing position of the defined benefits liability as of December 31, 2020 and 2019, is shown in the following page.

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| | Pension plan | | Seniority premium | | Life insurance | | Termination benefits | | |
|--|--------------|------|-------------------|------|----------------|------|----------------------|------|------|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | |
| Present value of the total obligation | \$ | (3) | (3) | (14) | (13) | (24) | (21) | (28) | (28) |
| Defined benefits liability | \$ | (2) | (2) | (10) | (9) | (14) | (12) | (21) | (21) |
| Plan assets | | - | 1 | 3 | 4 | 7 | 7 | - | - |
| Financial situation of the obligation | \$ | (2) | (1) | (7) | (5) | (7) | (5) | (21) | (21) |

During the year ended December 31, 2020, The Brokerage Firm did not transfer resources from the defined benefit plan to cover contributions from the defined contribution plan.

It is not expected to make contributions to the defined benefits fund during 2021. For 2021, it is expected to make payments from the reserve for \$4.

Nominal rates and inputs used in actuarial calculations for the years ended December 31, 2020 and 2019 are shown as follows:

| | 2020 | 2019 |
|-------------------------------|----------|---------|
| Discount rate | 8.30% | 8.90% |
| Salary increase rate | 4.50% | 4.50% |
| Minimum wage incremental rate | 3.50% | 3.50% |
| Long-term inflation rate | 3.50% | 3.50% |
| Average remaining labor life | 10 years | 8 years |

Fund assets covering liabilities from pension benefits, seniority premium, and insurance life of retired personnel are comprised of 55% debt securities and 45% equity securities, affected by a trust and managed by a Committee designated by the Brokerage Firm.

Following it is presented the effect on the Defined Benefits Liability by an increase or decrease on actuarial significant assumptions as of December 31, 2020:

| | (+) | (-) |
|----------------------------------|-----|-----|
| Discount rate (0.50%) | (2) | 3 |
| Long-term inflation rate (0.25%) | 1 | (1) |

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(13) Related-party balances and transactions-

During the normal course of business, the Brokerage Firm carries out transactions with related parties such as loans, investments, services, etc., most of which originates income and expenses to another. According to the Brokerage Firm's policies, the Board of Directors authorizes all operations with related parties, which are granted at market rates, guarantees and terms in accordance with sound practices.

The main transactions carried out with related parties for the years ended December 31, 2020 and 2019 are shown below:

| Subsidiaries | | | |
|---------------------------------|----|-------------|-------------|
| Income | | 2020 | 2019 |
| Premium and interests | \$ | 1,103 | 1,404 |
| Commissions | | 777 | 633 |
| Intermediation financial result | | 4 | 23 |
| Rents and maintenance | | 19 | 18 |
| Bonds placement fee | | - | 41 |
| Financial advisory | | 76 | 72 |

| Subsidiaries | | | |
|---------------------------------|----|-------------|-------------|
| Expenses | | 2020 | 2019 |
| Premium and interests on repos | \$ | 509 | 200 |
| Bank loans | | 6 | 7 |
| Intermediation financial result | | 2 | 18 |
| Financial advisory | | 40 | 39 |
| Commissions | | 1 | - |
| Rents and maintenance | | 13 | 15 |

For the years ended December 31, 2020 and 2019, the Brokerage Firm earned the 43% and 53%, of their related parties, respectively from the operating income.

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Balances receivable from and payable to related parties as of December 31, 2020 and 2019, are as follows:

| Subsidiaries | | | |
|---|----|-------------|-------------|
| Receivable | | | |
| | | 2020 | 2019 |
| Cash and cash equivalents | \$ | 73 | 58 |
| Margin accounts | | 48 | 25 |
| Debtors on repurchase/resell agreements | | 21,285 | 18,852 |
| Derivatives | | 9 | 19 |
| Debtors on settlement of operations | | 9,117 | - |
| Other accounts receivable | | 72 | 2,408 |
| Payable | | | |
| Collateral sold or pledged | \$ | 14,168 | 1,010 |
| Derivatives | | 4 | 7 |
| Creditors on repurchase | | 1,039 | 124 |
| Other accounts payable | | 88 | 1,244 |

For the years ended December 31, 2020 and 2019, 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 these transactions necessary any reserve for losses on such transactions.

For the years ended December 31, 2020 and 2019, the benefits granted to senior management amounted to \$33 and \$13, respectively.

(14) Stockholders' equity-

The main characteristics of the stockholders' equity accounts are detailed in the next page.

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(a) Structure of capital stock-

The Brokerage Firm' capital stock at December 31, 2020 and 2019, is represented by 22,193 common shares, divided into two series: 22,190 "F" series shares and 3 "B" series shares, fully subscribed and paid, 11,205 of these shares correspond to the capital stock's minimum fixed portion and 10,988 shares correspond to the variable portion. At any time, the variable portion of capital stock may exceed the fixed paid-in capital and may not be subject to withdrawal.

At December 31, 2020 and 2019, the minimum fixed capital stock is fully subscribed and paid and amounts to \$389 for both years.

According to article 10 of the general dispositions for Brokerage Firms, the capital stock shall amount to the equivalent in local currency to 12,500,000 UDI's, at least. At December 31, 2020, capital stock and global capital amounted \$2,134 and \$554, respectively (\$1,671 and \$554 in 2019).

(b) Comprehensive income-

The comprehensive income reported in the statement of changes in stockholders' equity represents the results of the total performance of the Brokerage Firm's during the year, and includes the net income and the remeasurement of defined employee benefits, net of deferred tax.

(c) Dividends declared-

For the year ended December 31, 2020, no dividends were decreed or paid. On March 25, 2019, the Brokerage Firm decreed and paid dividends for \$50.

(d) Restrictions on stockholders' equity-

The Commission requires that Brokerage Firms maintain a minimum capitalization percentage of risk-based assets, which is calculated according to the level of risk assigned.

Five percent of net income for the year must be appropriated to the 5% statutory reserve, until it reaches an amount of 20% of the paid-in capital.

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. As of December 31, 2020, the Stock contribution account (Cuenta de Capital de Aportación or CUCA unaudited) net taxable income account (Cuenta de Utilidad Fiscal Neta or CUFIN unaudited), amount to \$361 and \$3,498, respectively.

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The retained earnings of subsidiaries may not be distributed to the Brokerage Firm's stockholders until these are received by way of dividends from the subsidiaries, but may be capitalized through a Stockholders' Meeting.

The dividends paid to individuals and corporation's resident abroad shall be subject to an additional tax of 10%, which is considered final. The rule solely applies to dividends payment from earnings generated beginning on January 1, 2014.

(e) Capitalization (unaudited)-

The Commission requires Brokerage Firms to maintain a minimum capital as a percentage of risk-based assets. The percentage is calculated by applying certain percentages according to the level of risk assigned to the rules established by the Central Bank. The capitalization required by the Commission has been fulfilled by the Brokerage Firm. Below is the Brokerage Firm's capitalization information.

| Capital as of December 31 ⁽¹⁾ | 2020 | 2019 |
|---|-------------|-------------|
| Net capital | \$ 2,134 | 1,671 |
| Market risk requirements | 257 | 200 |
| Credit risk requirements | 55 | 56 |
| Operational risk requirements | 44 | 41 |
| Total capitalization requirements | \$ 356 | 297 |
| Total weighted assets | \$ 4,450 | 3,712 |
| Rate of capital consumption (ICAP) | 47.96% | 45.01% |

(1) Preliminary figures before Central Bank's approval

| Assets at risk as of December 31, 2020: | Equivalent assets at risk | Capital requirement |
|--|----------------------------------|----------------------------|
| Market risk: | | |
| Transactions in local currency at nominal rate | \$ 333 | 27 |
| Transactions in local currency at premium nominal interest rates | - | - |
| Transactions in local currency at real interest rates or denominated in UDIS | - | - |
| Foreign currency positions or with return indexed to exchange rate | - | - |
| Equity positions or with returns indexed to the price of a single share or group of shares | 2,877 | 230 |
| Total market risk, carried forward | \$ 3,210 | 257 |

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| Assets at risk as of December 31, 2020: | | Equivalent assets at risk | Capital requirement |
|--|-----------|--------------------------------------|--------------------------------|
| Total market risk, brought forward | \$ | 3,210 | 257 |
| Credit risk: | | | |
| Derivatives | | 8 | 1 |
| Debt securities position | | 36 | 3 |
| Borrowings and deposits | | 29 | 2 |
| Permanent shares, premises, furniture and pre-payments | | 617 | 49 |
| Total credit risk | | 690 | 55 |
| Operational risk: | | | |
| Total operational risk | | 550 | 44 |
| Total market, credit and operational risk | \$ | 4,450 | 356 |
| <hr/> | | | |
| Assets at risk as of December 31, 2019: | | Equivalent assets at risk | Capital requirement |
| Market risk: | | | |
| Transactions in local currency at nominal rate | \$ | 100 | 8 |
| Transactions in local currency at premium nominal interest rates | | - | - |
| Transactions in local currency at real interest rates or denominated in UDIS | | - | - |
| Foreign currency positions or with return indexed to exchange rate | | - | - |
| Equity positions or with returns indexed to the price of a single share or group of shares | | 2,400 | 192 |
| Total market risk | \$ | 2,500 | 200 |
| Credit risk: | | | |
| Derivatives | | - | - |
| Debt securities position | | 50 | 4 |
| Borrowings and deposits | | 23 | 2 |
| Permanent shares, premises, furniture and pre-payments | | 627 | 50 |
| Total credit risk | | 700 | 56 |
| Operational risk: | | | |
| Total operational risk | | 512 | 41 |
| Total market, credit and operational risk | \$ | 3,712 | 297 |

The capital sufficiency, under normal operating conditions, of the Brokerage Firm is assessed on a monthly basis through the Capitalization Index, which at the same time is presented to the Risk Committee and to the Board of Directors for following up and monitoring, on a quarterly basis.

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On a quarterly basis, the capitalization notes are incorporated in the financial reports. Such notes have, among others, the following information: composition and integration of capital, composition of total risk weighted assets and by type of risk and the Capitalization Index.

At the closing of 2020, the capitalization index is within the legal limits established ($\geq 10.5\%$).

The Capitalization index (ICAP) had a rise of 294 pbs, from 45.01% to 47.96%, due to the increase in the net capital. The Net capital increased from \$1,671 to \$2,134 from December 2019 to December 2020. Assets at risk increased from \$3,712 to \$4,450 from December 2019 to December 2020, due to higher capital requirements in deposits, borrowing and loans for credit risk, as well as in transactions with nominal interest rate in local currency for credit risk.

Based on the aforementioned, it is determined that the Brokerage Firm has the ability to face situations which might impair their situation, also to raise sufficient capital to absorb potential losses in order to continue with the brokerage operation.

General description of the results obtained in the sufficiency evaluation of its net capital regarding credit, market and operation risks requirements.

Starting 2016, stress testing is performed on an annual basis as established by the Commission under various scenarios, with the objective of making sure that the Brokerage Firm has enough capital levels to continue its operation under adverse macroeconomic scenarios.

The Brokerage Firm performed during 2020 its annual exercise of capital sufficiency evaluation, this exercise was carefully planned and executed to evaluate capital sufficiency under stressed conditions in regulated scenarios. The result of the exercise allowed to conclude that the Brokerage Firm's capital will be sufficient to face risks derived from the defined stress scenarios, keeping its capital levels above the minimum required levels. On that basis, a capitalization plan for the Brokerage Firm is not necessary since all minimum levels are met under all scenarios, including sensitivity scenarios that are part of the sufficiency assessment exercise.

(15) Income taxes and employees' statutory profit sharing (ESPS)-

Income Tax (IT) law effective as of January 1, 2014 imposes an IT rate of 30% for 2014 and thereafter. The current ESPS rate is 10%, for the years 2020 and 2019.

The basis for the ESPS and IT calculation are the same with some differences regarding the reduction of tax loss carry forwards, paid ESPS and expenses that correspond to non-taxable income for employees.

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The current and deferred IT and ESPS (expense) income are as follows:

| | 2020 | | 2019 | |
|-----------------------------------|-----------------|-------------|--------------|-------------|
| | IT | ESPS | IT | ESPS |
| Current | \$ (220) | (78) | (164) | (59) |
| Reverse of prior years' provision | - | - | 2 | 1 |
| Deferred IT | 14 | 3 | (23) | (8) |
| | \$ (206) | (75) | (185) | (66) |

The analysis of the effective rate of the years ended December 31, 2020 and 2019, is analyzed as follows:

| December 31, 2020 – IT | Basis | IT at 30% | Effective rate |
|---|---------------|------------------|-----------------------|
| Income before income taxes | \$ 736 | (221) | (30%) |
| <i>Current tax allocation:</i> | | | |
| Tax effects of inflation, net | (64) | 19 | 3% |
| Net result of financial instruments, repurchase/resell agreements and derivatives | (32) | 10 | 1% |
| Difference between book and tax depreciation | 8 | (2) | - |
| Nondeductible expenses | 33 | (10) | (1%) |
| Provisions | 31 | (9) | (1%) |
| Net warrants valuation effect | 12 | (4) | (1%) |
| ESPS paid in the year | (59) | 18 | 2% |
| Current and deferred ESPS provision | 75 | (23) | (3%) |
| Dividends on investment securities | (5) | 2 | - |
| Current tax | 735 | (220) | (30%) |
| <i>Allocation to deferred tax:</i> | | | |
| Valuation of trading securities | 33 | (10) | (1%) |
| Deductible ESPS | (19) | 6 | 1% |
| Net warrants valuation effect | 1 | - | - |
| Expense accruals and others | (62) | 18 | 2% |
| Deferred tax | (47) | 14 | 2% |
| Income taxes | \$ 688 | (206) | (28%) |

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| December 31, 2020 – ESPS | Basis | ESPS at 10% | Effective rate |
|---|---------------|------------------------|---------------------------|
| Income before income taxes | \$ 736 | (74) | (10%) |
| <i>Allocation to current ESPS:</i> | | | |
| Tax effects of inflation, net | (64) | 6 | 1% |
| Net result of financial instruments, repurchase/resell agreements and derivatives | (32) | 3 | - |
| Difference between book and tax depreciation | 8 | (1) | - |
| Nondeductible expenses | 18 | (2) | - |
| Provisions | 30 | (3) | - |
| Net warrants valuation effect | 12 | (1) | - |
| Current and deferred ESPS provision | 75 | (7) | (1%) |
| Dividends on investment securities | (5) | 1 | - |
| Current tax | \$ 778 | (78) | (10%) |
| December 31, 2019 – IT | | | |
| | Basis | IT at 30% | Effective rate |
| Income before income taxes | \$ 634 | (190) | (30%) |
| <i>Current tax allocation:</i> | | | |
| Tax effects of inflation, net | (42) | 13 | 2% |
| Net result of financial instruments, repurchase/resell agreements and derivatives | 12 | (4) | (1%) |
| Difference between book and tax depreciation | 16 | (5) | (1%) |
| Nondeductible expenses | 20 | (6) | (1%) |
| Provisions | (111) | 33 | 5% |
| Net warrants valuation effect | 10 | (3) | - |
| ESPS paid in the year | (52) | 16 | 3% |
| Current and deferred ESPS provision | 67 | (20) | (3%) |
| Dividends on investment securities | (8) | 2 | - |
| Current tax | 546 | (164) | (26%) |
| <i>Allocation to deferred tax:</i> | | | |
| Valuation of trading securities | (11) | 3 | 1% |
| Deductible ESPS | (7) | 2 | - |
| Net warrants valuation effect | (1) | - | - |
| Expense accruals and others | 90 | (28) | (5%) |
| Deferred tax | 71 | (23) | (4%) |
| Income taxes | \$ 617 | (187) | (30%) |

(Continued)



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| December 31, 2019 – ESPS | Basis | ESPS at 10% | Effective rate |
|---|---------------|------------------------|---------------------------|
| Income before income taxes | \$ 634 | (63) | (10%) |
| <i>Allocation to current ESPS:</i> | | | |
| Tax effects of inflation, net | (42) | 4 | 1% |
| Net result of financial instruments, repurchase/resell agreements and derivatives | 12 | (1) | - |
| Difference between book and tax depreciation | 16 | (2) | - |
| Nondeductible expenses | 12 | (1) | - |
| Provisions | (111) | 11 | 1% |
| Net warrants valuation effect | 10 | (1) | - |
| Current and deferred ESPS provision | 67 | (7) | (1%) |
| Dividends on investment securities | (8) | 1 | - |
| Current tax | \$ 590 | (59) | (9%) |

Deferred income tax and ESPS:

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at December 31, 2020 and 2019, respectively, are detailed as follows:

| | 2020 | | 2019 | |
|--|--------------|-------------|-------------|-------------|
| | IT | ESPS | IT | ESPS |
| Pre-payments | \$ (2) | (1) | (7) | (2) |
| Valuation of trading securities and transactions with securities and derivatives | (8) | (3) | 1 | - |
| Remeasurements of employee benefits | 2 | 1 | (1) | (1) |
| Remaining balance to be taxed of premises, furniture and equipment | (4) | (1) | (9) | (3) |
| Deductible ESPS | 29 | - | 23 | - |
| Provisions and others | 35 | 12 | 28 | 11 |
| Deferred income tax and ESPS in balance sheet | \$ 52 | 8 | 35 | 5 |
| | \$ 60 | | 40 | |

The deferred income tax and ESPS in the statement of income for the years ended December 31, 2020 and 2019, is as shown in the following page.

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| | 2020 | | 2019 | |
|--|--------|-----------|------|-------------|
| | IT | ESPS | IT | ESPS |
| Deferred tax in income statement: | | | | |
| Valuation of trading securities and transactions with securities and derivatives | \$ (9) | (3) | 3 | 1 |
| Pre-Payments | 5 | 1 | - | - |
| Remaining balance to be taxed of premises, furniture and equipment | 5 | 2 | 6 | 2 |
| Deductible ESPS | 6 | - | 2 | - |
| Provisions and others | 7 | 1 | (34) | (11) |
| Deferred income tax and ESPS in the income statement | 14 | 1 | (23) | (8) |
| Remeasurements employee benefits in capital | 3 | 2 | 2 | - |
| | \$ 17 | 3 | (21) | (8) |
| Deferred income tax and ESPS in the income statement and equity | \$ | 20 | | (29) |

Other considerations:

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.

According to the IT law, corporations carrying out transactions with related parties, whether domestic or foreign, are subject to limits and tax obligations, 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.

(16) Memorandum accounts-

Transactions on behalf of third parties-

The funds managed by the Brokerage Firm for investing in various financial instruments on behalf of its customers, are recorded in memorandum accounts. At December 31, 2020 and 2019, the resources from these operations are analyzed as follows:

| Customer securities in custody | | 2020 | 2019 |
|---------------------------------------|----|----------------|----------------|
| Mutual funds | \$ | 116,947 | 106,595 |
| Government and bank securities | | 114,902 | 127,515 |
| Equity shares and others | | 256,075 | 173,883 |
| | \$ | 487,924 | 407,993 |

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Management transactions

Securities on repurchase/resell agreements on behalf of customers-

At December 31, 2020 and 2019, the securities on repurchase/resell agreements on behalf of customers, are shown below:

| | 2020 | | 2019 | |
|-----------|----------------------|------------------|----------------------|------------------|
| | Number of securities | Fair value | Number of securities | Fair value |
| LD BONDES | 220,954,630 | \$ 22,061 | 139,875,656 | \$ 14,017 |
| BI CETES | 1,930,948,602 | 18,834 | 376,004,052 | 3,666 |
| M BONOS | 39,316,934 | 4,126 | 35,995,338 | 3,794 |
| IS BPA | 16,126,068 | 1,633 | 47,904,912 | 4,869 |
| PRLV | 14,022,338 | 14 | - | - |
| S UDIBONO | 3,305,838 | 2,322 | 10,474,288 | 6,730 |
| 91 FINBE | 364,113 | 37 | - | - |
| IQ BPAG | 10,582,148 | 1,064 | 49,046,880 | 4,970 |
| IM BPAG | 25,115,756 | 2,513 | 4,604,786 | 461 |
| | | \$ 52,604 | | \$ 38,507 |

Securities lending transactions on behalf of costumers-

At December 31, 2020 and 2019, the securities lending transactions on behalf of customers, are as follows:

| | 2020 | | 2019 | |
|----------------------------------|----------------------|-------------|----------------------|------------|
| | Number of securities | Fair value | Number of securities | Fair value |
| 1B NAFTRAC | - | \$ - | 510,000 | 22 |
| 1 CEMEX | - | - | 828,612 | 6 |
| 1 ALFA | - | - | 130,000 | 2 |
| 1 SIMEC | 40,000 | 3 | 40,000 | 3 |
| Subtotal, carried forward | | \$ 3 | | 33 |

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| | 2020 | | 2019 | |
|----------------------------------|-----------|-----------|-----------|-----------|
| Subtotal, brought forward | \$ | 3 | \$ | 33 |
| 1A FCX | - | - | 10,000 | 2 |
| 1ATSLA | 750 | 11 | - | - |
| 1IQQQ | 1,500 | 9 | - | - |
| 1ISPY | 2,800 | 22 | - | - |
| 1IVOO | 5,700 | 39 | - | - |
| 1 ALPEK | - | - | 175,000 | 3 |
| 1A INTC | - | - | 1,200 | 1 |
| 1A AAPL | 1,645 | 4 | 1,030 | 6 |
| 1 ALSEA | - | - | 40,000 | 2 |
| 1A VALE | - | - | 12,000 | 3 |
| 1A NFLX | 190 | 2 | 300 | 2 |
| 1A FB | 390 | 2 | 1,200 | 5 |
| 1A BABA | 900 | 4 | 900 | 4 |
| 1 COST | - | - | 400 | 2 |
| 1 AMX | - | - | 140,000 | 2 |
| | \$ | 96 | \$ | 65 |

Collaterals received in guarantee on behalf of customers-

Collaterals represented by government debt, banking and private securities on behalf of its customer in guarantee by the Brokerage Firm at December 31, 2020 and 2019, at fair value are analyzed as follows:

| | 2020 | | 2019 | |
|--------------------|-----------------------------|-------------------|-----------------------------|-------------------|
| | Number of securities | Fair value | Number of securities | Fair Value |
| Government: | | | | |
| LD BONDES | 110,477,315 | \$ 11,028 | 70,400,128 | \$ 7,053 |
| IS BPA | 8,063,034 | 816 | 23,952,456 | 2,434 |
| BI CETES | 1,473,388,282 | 14,407 | 223,974,779 | 2,188 |
| M BONOS | 19,658,467 | 2,062 | 17,997,669 | 1,895 |
| IM BPAG | 12,557,878 | 1,256 | 2,302,393 | 231 |
| S UDIBONO | 1,652,919 | 1,162 | 5,237,144 | 3,363 |
| IQ BPAG | 5,291,074 | 532 | 24,523,440 | 2,485 |
| | | 31,263 | | 19,649 |
| Banking: | | | | |
| PRLV | 14,022,338 | 14 | - | - |
| Other | 364,113 | 37 | - | - |
| | | \$ 31,314 | | \$ 19,649 |

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Collaterals delivered in guarantee on behalf of customers-

Collaterals delivered in guarantee on behalf of customers at fair value at December 31, 2020 and 2019, are as follows:

| | | 2020 | 2019 |
|---|-----------|---------------|---------------|
| Government securities | \$ | 21,282 | 18,846 |
| Equity shares and holding companies' certificates | | 109 | 59 |
| Margin loans | | 6,600 | 4,115 |
| | \$ | 27,991 | 23,020 |

Income earned on assets under custody during the years ended December 31, 2020 and 2019 amounted to \$90 and \$75, respectively.

Collaterals received in guarantee on behalf of customers-

Collaterals represented by government debt, banking and private securities on behalf of its customer in guarantee by the Brokerage Firm at December 31, 2020 and 2019, at fair value are analyzed as follows:

| | 2020 | | 2019 | |
|--|-----------------------------|-------------------|-----------------------------|-------------------|
| | Number of securities | Fair value | Number of securities | Fair value |
| Government: | | | | |
| LD BONDESD | 110,477,315 | \$ 11,028 | 69,475,528 | \$ 6,961 |
| IS BPA | 8,063,034 | 816 | 23,952,456 | 2,434 |
| M BONOS | 19,658,467 | 2,062 | 17,997,669 | 1,895 |
| IM BPAG | 12,557,878 | 1,256 | 2,302,393 | 231 |
| BI CETES | 457,560,320 | 4,426 | 152,029,273 | 1,478 |
| IQ BPAG | 5,291,074 | 532 | 24,523,440 | 2,484 |
| S UDIBONO | 1,652,919 | 1,162 | 5,237,144 | 3,363 |
| Subtotal debt government, carried forward | | \$ 21,282 | | \$ 18,846 |

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| | 2020 | | 2019 | |
|--|----------------------|------------------|----------------------|------------------|
| | Number of securities | Fair value | Number of securities | Fair value |
| Subtotal debt government, brought forward | | \$ 21,282 | | \$ 18,846 |
| Equity shares: ⁽¹⁾ | | | | |
| 1B NAFTRAC | - | - | 5,777,841 | \$ 1 |
| 1 CEMEX | - | - | 828,612 | 6 |
| 1A VALE | - | - | 12,000 | 3 |
| 1 ALFA | - | - | 130,000 | 2 |
| 1 SIMEC | 40,000 | 3 | 40,000 | 3 |
| 1A FCX | - | - | 10,000 | 3 |
| 1 ALPEK | - | - | 175,000 | 4 |
| 1A INTC | 1,645 | 4 | 1,200 | 1 |
| 1A AAPL | 4,120 | 10 | 1,030 | 4 |
| 1A COST | - | - | 400 | 2 |
| 1 ALSEA | - | - | 40,000 | 2 |
| 1A VALE | - | - | 12,000 | 3 |
| 1A NFLX | 300 | 3 | 300 | 2 |
| 1A FB | 600 | 3 | 1,200 | 4 |
| 1A BABA | 900 | 4 | 900 | 3 |
| 1 FEMSA | - | - | 13,200 | 2 |
| 1 AMX | - | - | 140,000 | 2 |
| 1GLXYN | 49,977 | 8 | - | - |
| 1ATSLA | 750 | 10 | - | - |
| 1I-SPY | 2,800 | 20 | - | - |
| 1I-QQQ | 1,500 | 9 | - | - |
| 1I-VOO | 5,700 | 39 | - | - |
| Total equity shares | | 113 | | \$ 47 |
| Total | | \$ 21,395 | | \$ 18,893 |

⁽¹⁾ Corresponds to securities lending transactions (note 8)

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(17) Commitments and contingencies-

(a) Trials, contingencies and litigation-

In the normal course of operations, the Brokerage Firm is involved in some trials, contingencies and litigations, which are not expected to have an important negative effect in the future and in the results of its operation financial situation. In such cases that represent a probable loss or make a cash outflow, the Brokerage Firm has booked necessary provisions.

(b) Leases-

Leases provide for periodic rental adjustments based on changes in various economic Factors. Total rental expenses to leases for the years ended December 31, 2020 and 2019 amounted to \$26 and \$28, respectively.

(18) Additional information on operations and segments-

(a) Segment information-

The Brokerage Firm has identified operating segments in which its activities are divided, considering each one as an identifiable component of its internal structure. Following is presented the statement of income classified by income segment, for the years ended December 31, 2020 and 2019.

| 2020 | On own behalf | Mutual funds | On behalf of customers | Financial advisory | Total |
|--|------------------------------|-------------------------|---------------------------------------|-------------------------------|--------------|
| Commission and fee income | \$ - | 777 | 594 | - | 1,371 |
| Commission and fee expense | (9) | (16) | (76) | - | (101) |
| Financial advisory income | - | - | - | 330 | 330 |
| Income from services | (9) | 761 | 518 | 330 | 1,600 |
| Profit on purchase and sale of securities, net | 65 | - | - | - | 65 |
| Interest income, net | 319 | - | - | - | 319 |
| Valuation on securities at fair value | 23 | - | - | - | 23 |
| Intermediation financial margin | 407 | - | - | - | 407 |
| Other operating income | - | - | - | - | 48 |
| Administrative and promotional expenses | | | | | (1,319) |
| Operating income | | | | | 736 |
| Current and deferred income tax net | | | | | (206) |
| Net income | | | | \$ | 530 |

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| 2019 | On own behalf | Mutual funds | On behalf of customers | Financial advisory | Total |
|---|------------------------------|-------------------------|---------------------------------------|-------------------------------|---------------|
| Commission and fee income | \$ - | 633 | 465 | - | 1,098 |
| Commission and fee expense | (9) | (21) | (65) | - | (95) |
| Financial advisory income | - | - | - | 314 | 314 |
| Income from services | (9) | 612 | 400 | 314 | 1,317 |
| loss on purchase and sale of securities, net | (53) | - | - | - | (53) |
| Interest income, net | 385 | - | - | - | 385 |
| Intermediation financial margin | 332 | - | - | - | 332 |
| Other operating income | | | | | 39 |
| Administrative and promotional expenses | | | | | (1,054) |
| Operating income | | | | | 634 |
| Current and deferred income tax net | | | | | (185) |
| Net income | | | | | \$ 449 |

(b) Income from services

Commission and fee income-

For the years ended as of December 31, 2020 and 2019, the commissions and fee income, are comprised as follows:

| | 2020 | 2019 |
|----------------------------------|-----------------|--------------|
| Purchase and sale of securities | \$ 405 | 313 |
| Custody or wealth management | 90 | 75 |
| Issuance of commercial bonds | 99 | 77 |
| Distribution and co-distribution | 777 | 633 |
| | \$ 1,371 | 1,098 |

Commission and fee expense-

For the years ended December 31, 2020 and 2019, the commissions and fee expense, are comprised as shown in the following page.

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| | | 2020 | 2019 |
|-------------------------------|----|-------------|-------------|
| Placement of bonds | \$ | 6 | 3 |
| Fees to Indeval | | 69 | 62 |
| Referencer (investment funds) | | 1 | 21 |
| Others fees | | 25 | 9 |
| | \$ | 101 | 95 |

Financial advisory income-

For the years ended December 31, 2020 and 2019, the financial advisory income, is comprised as follows:

| | | 2020 | 2019 |
|---------------------------------|----|-------------|-------------|
| Scotiabank Inverlat | \$ | 54 | 41 |
| Scotia Fondos | | 17 | 17 |
| Scotia Mcleod | | 52 | 44 |
| Other financial advisory income | | 207 | 212 |
| | \$ | 330 | 314 |

(c) Intermediation financial margin-

Gain (loss) on purchase and sale of securities, net-

For the years ended as of December 31, 2020 and 2019, the gain (loss) on purchase and sale of securities, net, is comprised as follows:

| | | 2020 | 2019 |
|---|----|-------------|-------------|
| Investment securities | \$ | 83 | (62) |
| Trading derivatives transactions | | 4 | 1 |
| Brokerage result of foreign currencies and precious metals, net | | (22) | 8 |
| | \$ | 65 | (53) |

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Interest income (expense), net-

For the years ended as of December 31, 2020 and 2019, the interest income net are comprised as follows:

| | | 2020 | 2019 |
|---|-----------|-------------|-------------|
| Investment securities | \$ | 612 | 461 |
| Repurchase/resell agreements and securities lending Transactions | | (291) | (72) |
| Management account fee | | (2) | (4) |
| | \$ | 319 | 385 |

Valuation on securities at fair value-

For the years ended December 31, 2020 and 2019, the valuation result at fair value is comprised as follows:

| | | 2020 | 2019 |
|--|-----------|-------------|-------------|
| Investment securities | \$ | 5 | 14 |
| Transactions with trading derivatives | | 12 | (15) |
| Foreign currencies and precious metals | | 6 | 1 |
| | \$ | 23 | - |

(d) Other operating income (expense)-

For the years ended December 31, 2020 and 2019, other operating income (expense) is comprised as follows:

| | | 2020 | 2019 |
|-------------------------------|-----------|-------------|-------------|
| Lease income | \$ | 19 | 18 |
| Deposits not identified | | 26 | 14 |
| Others, mainly tax recoveries | | 8 | 8 |
| Write-offs | | (5) | (1) |
| | \$ | 48 | 39 |

(e) Financial ratios (unaudited)-

In the following page are the main quarterly financial ratios of the Brokerage Firm for the years ended December 31, 2020 and 2019.

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| 2020 | Fourth | Third | Second | First |
|---|---------------|--------------|---------------|--------------|
| Solvency (<i>total assets / total liabilities</i>) | 1.11 | 1.06 | 1.15 | 1.14 |
| Liquidity (<i>current assets/current liabilities</i>) | 1.09 | 1.05 | 1.12 | 1.11 |
| Leverage (total liabilities-liquidation of the entity (creditor / stockholders' equity)) | 8.8 | 12.8 | 5.4 | 5.5 |
| ROE (annualized net income for the quarter/ average stockholders' equity) | 14.5% | 23.8% | 24.3% | 38.7% |
| ROA (annualized net income for the quarter / average total assets) | 1.9% | 3.0% | 4.9% | 8.5% |
| ICAP (Capitalization Index) | 47.96% | 48.87% | 52.10% | 32.14% |
| Financial margin / Total operating income | 18.4% | 16.7% | 19.3% | 24.2% |
| Income before income taxes / Total operating income | 21.4% | 36.8% | 38.9% | 45.9% |
| Net income / Administrative expenses | 127.2% | 158.2% | 163.8% | 184.9% |
| Administrative expenses / Total operating income | 78.6% | 63.0% | 61.2% | 54.0% |
| Net Income / Administrative expense | 20.0% | 44.0% | 42.3% | 62.1% |
| Personnel expenses / Total operating income | 62.7% | 46.0% | 45.5% | 41.5% |
| 2019 | Fourth | Third | Second | First |
| Solvency (<i>total assets / total liabilities</i>) | 1.12 | 1.33 | 1.26 | 1.39 |
| Liquidity (<i>current assets/current liabilities</i>) | 1.10 | 1.24 | 1.19 | 1.28 |
| Leverage (total liabilities-liquidation of the entity (creditor / stockholders' equity)) | 4.3 | 1.8 | 2.5 | 1.8 |
| ROE (annualized net income for the quarter/ average stockholders' equity) | 34.9% | 21.7% | 27.4% | 27.3% |
| ROA (annualized net income for the quarter / average total assets) | 8.8% | 7.6% | 10.2% | 11.4% |
| ICAP (Capitalization Index) | 45.01% | 32.20% | 40.72% | 32.55% |
| Financial margin / Total operating income | 21% | 20.4% | 18.5% | 18.9% |
| Income before income taxes / Total operating income | 47.6% | 30.5% | 35.9% | 35.4% |
| Net income / Administrative expenses | 191% | 144% | 156% | 154.7% |
| Administrative expenses / Total operating income | 52.4% | 69.5% | 64.1% | 64.6% |
| Net Income / Administrative expense | 65.8% | 30.9% | 39.2% | 38.5% |
| Personnel expenses / Total operating income | 34.7% | 47.6% | 47.2% | 46.8% |

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Notes

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

(19) Comprehensive risk management (unaudited)-

Certain figures and/or percentages calculated and presented in this note can be slightly different compared to the same figures or percentages reported in any other note to the financial statements due to the rounding of figures.

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

According to the General Provisions applicable to Brokerage Firms in terms of risk management issued by the Commission, the Board of Directors assumes responsibility over the Brokerage Firm risk management objectives, guidelines and policies and approves at least once a year the objectives, guidelines and policies for Comprehensive Risk Management, as well as the limit structure for the various types of risk.

Pursuant to the policies in force, the Board of Directors entrusts the implementation of the risk policies and the setting of specific limits by risk factor as well as the implementation of the procedures designed to measure, manage and control risks to the Risk Management Committee and the Comprehensive Risk Management Unit (UAIR, for its abbreviation in Spanish).

Furthermore, the Risk Management Committee delegates responsibility to the Asset-Liability Committee for monitoring compliance of policies and procedures concerning market and liquidity risks. Likewise, the UAIR has policies for reporting deviations from the specified limits, which it should report to the Risk Committee and the Board of Directors.

The UAIR of the Brokerage Firm is represented by the Risk General Deputy Direction (DGA Risks) and is helped mainly by the Risks Corporate Management to manage risks (credit, liquidity, interest rate, market and operational, among others); this Risks Corporate Management is organized in eight directions focused on monitoring and mitigating the Brokerage Firm's risks; with the purpose of guarantying an adequate risk management to be able to comply with the risks profile required and defined by the Board of Directors, as well as to improve the quality, diversification and composition of the different portfolios, optimizing in this way, the risk-return relation.

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The UAIR is also responsible of reviewing and presenting for approval before the Risk Committee and/or the Board of Directors, the various methodologies used for risk management of the institution so as the risk framework, management risk policies for the different types of risks, specific global limits of the exposure and corresponding risk tolerance levels. Additionally, it provides the General Direction with timely and trustable information for the business decision making, monitoring and management.

Finally, the risk management is in line with the international best practices, since the Brokerage Firm has a framework that complies with the local regulation and with standards and corporate rules established by the parent company (BNS).

(a) Credit risk-

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

Credit risk on financial instruments

The Brokerage Firm has developed and implemented an institutional internal and robust tool for measuring and controlling the credit risk of its various portfolio segments of money market. This methodology allows estimating expected and unexpected losses through measurements of the probability of occurrence of credit events.

Particularly, credit risk associated to money market positions derived from the holding of securities and corresponds to the expected loss that represents an estimate of the impact on the portfolio value due to non-compliance or downgrading in instruments or portfolio ratings, and additionally loss severity scenarios are performed. Likewise, the unexpected loss is a measure of dispersion around the expected loss and represents the necessary economic capital in the event of a large adverse event that impacts the portfolio.

At the closing of December 2020 and 2019, the expected and unexpected loss of the financial instrument of the Brokerage Firm is as follows:

| | 2020 | | 2019 | |
|-----------------|-----------------------|----------------------|-----------------------|----------------------|
| | December ¹ | Average ¹ | December ² | Average ¹ |
| Expected loss | 0.03% | 0.02% | 0.02% | 0.02% |
| Unexpected loss | 0.00% | 0.01% | 0.00% | 0.01% |

1/ Calculation includes trading securities, excludes direct sales and value date sales.

2/ Excludes positions of direct sale and sale date value, since the Brokerage Firm cedes the possession of said title.

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As of December 31, 2020 and 2019, the total exposure of the investments instruments portfolio, is as follows:

| Exposure of the financial Instrument portfolio¹ | December 2020 | Average 2020 | December 2019 |
|---|----------------------|---------------------|----------------------|
| Corporate | \$ 37 | 136 | - |
| Banking | 14 | 37 | 220 |
| Government | 2,932 | 3,094 | 1,428 |
| Other ² | 844 | 785 | 837 |
| | \$ 3,827 | 4,052 | 2,485 |

1/ Includes direct sale transactions.

2/ Includes equity shares and investment funds.

Following is a summary of the exposures as of December 31, 2020 and 2019, the credit quality and the concentration by credit risk of the investment securities:

| December 2020 | Trading securities² | Total risk | Concentration % |
|--------------------------------|---------------------------------------|-------------------|------------------------|
| A ⁻² | \$ 14 | 14 | - |
| mxAAA ³ | 2,932 | 2,932 | 77 |
| mxAA ⁺ ³ | 37 | 37 | 1 |
| Not rated ⁴ | 844 | 844 | 22 |
| Total | \$ 3,827 | 3,827 | 100% |
| Concentration | 100% | 100% | |

| December 2019 | Trading securities² | Total risk | Concentration % |
|------------------------|---------------------------------------|-------------------|------------------------|
| A ² | \$ 220 | 220 | 9 |
| mxAAA ³ | 1,428 | 1,428 | 57 |
| Not rated ⁴ | 837 | 837 | 34 |
| Total | \$ 2,485 | 2,485 | 100% |
| Concentration | 100% | 100% | |

1/ Includes direct sale transactions and Securities on repurchase/resell agreements.

2/ Global S&P ratings.

3/Local S&P ratings.

4/ Includes stocks and investment funds.

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Credit risk in the derivatives operations

The brokerage firm quantifies its credit exposures in order to control the use of lines granted to its counterparts for the operation of derivative instruments. This control is carried out by calculating the potential future exposure (PFE) at the counterpart level through specialized tools, incorporating risk mitigating elements such as compensation agreements, guarantee contracts and collateral. There are counterparty risk policies and monitoring of established limits that include the process to be followed in the event of excesses.

At December 31, 2020 and 2019 the counterparty credit risk exposure in operations with derivative financial instruments is solely with financial institutions.

| | December 2020 | December 2019 |
|----------|----------------------|----------------------|
| Exposure | \$ 83 | 42 |

(b) Market risk-

The purpose of the market risk management function is to identify, measure, monitor and control risks arising from interest rates, exchange rate, stock market prices and index fluctuations and other risk factors that are present in the money, foreign exchange currencies, capitals and derivative instruments markets, in which the Brokerage Firm maintains business positions for its own account.

The Brokerage Firm's risk positions include fixed and floating rate money market instruments, stocks, foreign exchange positions and derivatives such as interest rates futures, futures, foreign exchange forwards and options, interest rates swaps, interest rates options and foreign currency swaps. For each portfolio, limits have been established and approved.

The market risk limits framework contemplates notional or volumetric amounts for value at risk, sensitivity, concentration, stress limits and due dates, among others.

Market risk management includes monitoring that the risks mitigants are up to date and accurate. In this regard the established and approved limits for each one of the portfolios are daily monitoring and annually reviewed. Models used to manage market risk are reviewed at least biannually and, additionally, the Risk Committee and Board of Directors are periodically informed of the performance of the limits and the Market Risk indicators. Limits approved by the Risk Committee and Board of Directors are aligned with the institution's Risk Appetite.

Market risk management is managed through specialized systems to make estimated with, such as risk value, sensitivity and stress tests.

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The Brokerage Firm's securities trading activities are directed primarily to providing services to its customers, accordingly, to meet its customers' demand, the Group maintains positions in financial instruments and holds an inventory of equity and interest rate financial instruments for trading purposes. Access to market liquidity is available through offers to buy from and sell to other intermediaries. In addition, the Brokerage Firm has treasury positions invested in the money market so that surplus cash generates the maximum yields. The trading securities portfolio (fixed and variable income and derivative instruments) is marked to market on a daily basis. Such information is included daily in the corresponding reports.

Value at Risk (VaR)

It is an estimate of the potential loss, in accordance to a determined statistical confidence level during a specific period of time (the holding period) under normal market conditions. The VaR is calculated daily on all of the Brokerage Firm risk-exposed financial instruments and portfolios, using the Risk-watch risk management software.

The VaR is calculated using the historical simulation method, with a 300-working day time span. To conform to the measurement methodologies used by the Brokerage Firm, the VaR is calculated considering a 99% confidence level and a 1 day holding period.

The day average global VaR during the fourth quarter of 2020 and 2019 was \$9.35 and \$2.93, respectively, as a percentage of the net capital (\$2,367 at November 30, 2020, latest available figure) at the period's end is equal to 0.39%. The global VaR at the end of December 31, 2020 was \$13.77.

The disaggregated average VaR by risk factor during the fourth quarter of 2020 and 2019, is as follows:

| Risk factor | December 2020 | December 2019 |
|--------------------|--------------------------|--------------------------|
| | Average VaR 1 day | Average VaR 1 day |
| Interest rate | \$ 9.49 | 2.44 |
| Equity shares | 1.35 | 1.68 |
| VaR | 9.35 | 2.93 |

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Interest rates

The distribution of market risk exposure (Position vs. Value at Risk) for the Brokerage House portfolios as of December 31, 2020, are as follows:

| | | Position | | VaR | |
|--|----|----------|---------|---------|---------|
| | | Closing | Average | Closing | Average |
| Money market | \$ | 2,104 | 11,359 | | |
| Market portfolio of interest rates and interest rate derivatives | | 2,104 | 11,359 | 15.51 | 9.49 |

Equity shares

During December 2020, the Brokerage Firm did not hold trading IPC futures position with MexDer for the equity shares, however it did hold equity structured hedges over IPC underlying, in position levels of \$(263) and of contracts of \$(0.000594), for short and long positions, referenced to the agreed levels of the positions. Likewise, during 2020 did not hold transactions with listed options over IPC futures of MexDer.

It is important to mention that listed options of equity (i.e. shares and indexes) are primarily used to hedge the market risk of the options and warrants positions that are issued to the clients. However, the Front-Office strategy in 2020 was focused in highly liquid foreign underlying instruments, with the purpose of diversifying the internal portfolio to make it more competitive and therefore to offer better returns to its clients, among some of the new underlying instruments, indexes and shares, are SPX, AMD, AMZN, FXI, IXM, MSF, MSI, SX5E, SX60, MSFT, NKY, SHAK. The Brokerage Firm issued referred IPC warrants and a basket of shares at the close of the fourth quarter of 2020 was \$3,793.

Given that the VaR measure is used to estimate potential losses under normal market conditions, stress testing is performed daily, with the purpose of determining exposure to risk considering large abnormal fluctuations in market prices (changes in volatility and correlations between risk factors). The Risk Committee has approved stress limits. The stress testing during last quarter of 2020 was \$193.32, the limit is \$130 million of Canadian dollars (CAD). The scenario used for these tests is Emerging Markets 2008, this scenario represents the worldwide sub-prime crises of 2007-2008 and its impact in Mexico.

The back testing from October to December 2020, shows efficiency levels in green under the approach established by the International Payment Bank.

The limits structure mainly considers volumetric and notional amounts, VaR, concentration, sensitivity and stress limits, among others.

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

Sensitivities

Qualitative information on sensitivities

The Brokerage Firm has an area that specializes on trading risk analysis, which maintains systematic and continuous oversight of the valuation and risk measurement processes as well as of the sensitivity analysis. Such area has permanent contact with responsible traders in the different markets.

The risk area calculates on a daily basis the market risk sensitivities for each portfolio to which the Brokerage Firm is exposed. During the quarter, no changes were made to the assumptions, methods or parameters used for this analysis.

A description of the methods, parameters and assumptions used for the portfolio of stock, currency, interest rates and derivative products is presented below.

Interest rate portfolio

Sensitivity measures produced for fixed-income instruments (bonds) are based on estimating the behavior of the portfolio's value in response to a change in the market interest rates.

The sensitivities of the fixed-income instruments portfolio are based on durations and convexities, depending on the particular type of instrument. In all cases, there are 2 types of measures: (i) the expected change in the portfolio value in response to a change of 1 basis point (bp) (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 basis points (1%) in the yield curve. For purposes of this disclosure, we only report the changes in 1 basis point.

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

Two sensitivities are calculated for floating rate bonds: the one relating to the free-risk rate and the other for the spread.

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In zero-coupon bonds, the computation of the sensitivity of zero coupon instruments, the term to maturity, expressed in years, is used as duration.

Interest rate derivatives

TIE and CETE futures: This type of derivative instruments is modeled for purposes of calculating sensitivities such as the future of a zero-coupon rate and, therefore, its duration is taken into account in estimating its sensitivity.

M bond futures: The sensitivity considers the duration and convexity over the bonds deliverable under these contracts.

Interest rate swaps: For determining the sensitivity to changes in the yield curve of TIE swaps a 1 basis point change is made in each of the relevant points in the yield curve and 1 and 100 bp is made parallel, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of these changes. Change on one basis point is presented in this report.

Stock portfolio and IPC derivatives

Stock equity

For stock position purposes, the sensitivity is obtained calculating the Delta by issue within the portfolio. Delta is defined as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Equity derivatives

Currently, the Brokerage Firm opted for carrying out equities derivatives transactions through the IPC futures traded at the MexDer. Their sensitivity is calculated through the Delta. This portfolio has limits expressed in notional terms.

Delta is defined as the change of value of a derivative with respect to changes in the underlying. The Delta risk is defined as the change in the value of the option in response to a change of a predetermined magnitude in the price of the underlying asset (for example 1%). Its calculation is made by valuing the option with different underlying asset levels (one original and one with a +1% shock) and maintaining all other parameters constant. In the case of futures, the sensitivity calculation is Delta, defined as the change of value of a derivative with respect to changes in the underlying.

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In the case of non-linear products such as warrants and options, the Delta and the "Greek" measures are deemed as sensitivity measures (i.e. gamma, rho, theta and vega). The calculation of sensitivities is based on the formula for modeling options on futures known as the Black 1976 Option Pricing Formula.

Dividend Risk. The valuation of options on indices or stock implies a known continuous compound dividend rate. Dividends, however, are an estimate and, therefore, an unknown variable, which represents a risk factor for valuation and the resulting analysis of gains and losses from transactions with options.

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

Quantitative information of sensitivities

Interest rate

The following table shows the sensitivity of 1 bp at the end of December 2020 and 2019:

| Sensitivity 1bp | December 2020 | December 2019 |
|--|----------------------|----------------------|
| Money Market | \$ 0.137 | 0.014 |
| Market portfolio of interest rates and interest rate derivatives | 0.137 | 0.014 |

As of December 31, 2020, the Brokerage Firm presents an interest rate sensitivity of \$0.13 million of Canadian dollars (CAD). At December 31, 2020, the Brokerage Firm did not celebrate transactions with interest rate derivatives.

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Sensitivities of the shares and derivatives portfolio.

Following is a table that shows sensitivity (Delta) at the end of December 2020 and 2019:

| Delta | | December 2020 | December 2019 |
|--------------|----|----------------------|----------------------|
| Naftac | \$ | 277.342 | 296.847 |
| IPC Futures | | (263.479) | (306.868) |
| Warrants | | (9.576) | 14.078 |
| Total | | 4.287 | 4.057 |

With regard to the position over IPC, the Brokerage Firm continues with a dynamic hedge strategy over the ETF Naftac that replicates in a large portion the IPC and IPC futures.

The Brokerage Firm's capital portfolio is composed by shares and derivatives over the IPC.

As of December 31, 2020, the Brokerage Firm presented an Open Delta sensitivity of \$(5.732) for all underlying, due to market changes.

The following table presents are the figures corresponding to the fourth quarter of 2020:

| Delta | | Average 2020 | Maximum 2020 | Minimum 2020 |
|--------------|----|-------------------------|-------------------------|-------------------------|
| Shares | \$ | 116.377 | 182.891 | 90.084 |
| Warrants | | (117.999) | (179.347) | (98.915) |
| Total | \$ | (1.622) | 3.544 | (8.831) |

The following table presents are the figures corresponding to the fourth quarter of 2019:

| Delta | | Average 2019 | Maximum 2019 | Minimum 2019 |
|--------------|----|-------------------------|-------------------------|-------------------------|
| Shares | \$ | 0.198 | 0.332 | 0.015 |
| Warrants | | 10.522 | 19.385 | 3.858 |
| Total | \$ | 10.720 | 19.717 | 3.873 |

The table on the next page presents the sensitivity measures for the non-linear instruments as of December 31, 2020, it is important to mention that the informative report includes Bonds and Warrants.

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| Underlying | Delta EQ | Vega EQ | Gamma EQ |
|-------------------|-----------------|----------------|-----------------|
| AMZN.USM | (3.57) | 0.00 | 0.13 |
| AMD.USM | (3.01) | 0.01 | 0.32 |
| MEXBOL.INDX | 4.28 | 0.02 | 0.26 |
| MEXFXI.USM | 0.04 | 0.00 | 0.00 |
| MEXIXM.INDX | 0.01 | 0.00 | 0.00 |
| MEXSX5E.INDX | (0.01) | 0.00 | 0.00 |
| MSFT.USM | (3.47) | 0.00 | 0.22 |
| Total | (5.73) | 0.03 | 0.93 |

Sensitivities for warrants and IPC options, "Greeks"

| Greeks | Delta | Gamma | Vega | Dividend risk | Rho |
|---------------|--------------|--------------|-------------|----------------------|------------|
| Total | (5.731804) | 0.027465 | 0.92785 | - | - |

(c) Liquidity and interest rate risk-

The Brokerage Firm manages exposure to liquidity risk and interest rate risk according with the applicable regulatory provisions and the best market practices, considering those positions for the structural management of the balance.

For liquidity risk and interest rate management, limits have been established which are reviewed at least annually and periodically monitored at the financial group level; so that risk mitigators are up to date and accurate. Among the applicable limits are those related to liquidity buffer, liquidity gaps, margin sensitivity and economic value sensitivity, which are aligned with the Institution's risk. The structure of liquidity and interest rate risk limits contemplates notional amounts as well as term and concentration limits; the Assets and Liabilities Committee, the Risk Committee and the Board of Directors are periodically informed of the performance of such limits, as well as the liquidity and interest rate risk indicators.

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For liquidity and interest rate risk management, information is extracted from the various applications and systems available to the institution, and estimates of liquidity and interest rate risk are made through specialized systems.

In addition, it is important to point out that for liquidity and interest rate risk management, tests are performed under extreme scenarios. It should be noted that the models used for liquidity and interest rate risk management are reviewed at least every two years.

The Brokerage Firm assumes liquidity risks as an intrinsic part of its function as financial intermediary. The liquidity risk is the result of cash flow gaps. The objective of the liquidity risk management process is to guarantee that the firm will be able to meet the totality of its obligations as they become due and payable, to such end, the Brokerage Firm estimates contractual cash flows to be delivered to have a liquidity gap calculation, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets.

The liquidity risk is monitored and controlled through accumulated liquidity gaps. These gaps are built through maturities and cash flows from payments of the different instruments of the balance sheet, both assets and liabilities, creating thus a daily gap corresponding to the differences between payment obligations and receivables generated day to day. Cash flows include contractual maturity cash flows of the Brokerage Firm (incoming and outgoing cash).

Liquidity gaps to measure liquidity risk at the closing of December 2020 and the annual average are shown below:

| Sensitivity 1bp | December 2020 | Average position |
|---|----------------------|-------------------------|
| Liquid assets (Under regulatory metric) | \$ 1,773 | 1,700 |

For the Brokerage Firm, the gap at the month-end of December 2020 was zero, considering that the available-for-sale securities position of the Brokerage Firm was zero, therefore, at the month-end of December 2020 the Brokerage Firm does not present any position in available-for-sale securities.

Interest rate risk arises as a result of funding activities, placement and investment of the Brokerage Firm and is derived from the uncertainty in earnings and/or value of the portfolio as a result of changes in interest rates, and occurs when there are mismatches (gaps) in the review of assets and liabilities with contractual maturity or subject to rate revision within a specified period, or else, when there are different reference rates for assets and liabilities.

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Indicators such as sensitivity of economic value and margin sensitivity are used to measure interest rate risk. To calculate such indicators, repricing gaps are used, built based on reference rates of assets and liabilities. In the case of fixed rate positions the indicators are modeled according to contractual amortizations and maturities, while positions referenced to a floating rate are modeled according to their next repricing date.

Both the sensitivity of Economic Value and the margin sensitivity contemplate an impact of ± 100 base points (bp) on interest rates and considers the maximum loss expected by currency

The sensitivity of the Economic Value incorporates the impact of change in interest rates on total expected cash flows and provides a measure of long-term impact of these variations, while the time window to estimate margin sensitivity is 12 months.

The sensitivity of the Brokerage Firm in the estimated Economic Value and the estimated variation in the financial income of the Financial Group at the month-end of December and in average for 2020, is shown below:

| Economic Value (+100bp) | December 2020 | Average |
|------------------------------------|----------------------|----------------|
| Group ⁽¹⁾ | (989) | (993) |
| Bank | (979) | (976) |
| Brokerage Firm input | (3) | (3) |
| Margin sensitivity (+100bp) | December 2020 | Average |
| Group ⁽¹⁾ | 664 | 585 |
| Bank | 651 | 574 |
| Brokerage Firm input | 13 | 11 |

(1) It includes Bank, Brokerage Firm, Scotia Fondos and Credito Familiar.

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Available-for-sale securities treatment

At the month-end of December 2020, the Brokerage Firm did not hold available-for-sale securities position.

The available-for-sale securities, to be an integral part of the balance sheet's manage, are monitored under the aforementioned sensitivity measures (economic value and margin sensitivity).

The liquidity risk limits structure considers volumetric and notional amounts, sensitivity, liquid assets, concentration of deposits and liquidity gaps.

(d) Operational risk-

The operational risk is a non-discretionary risk, which is defined as the potential loss resulting from internal controls 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.

The Brokerage Firm has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which are described as follows.

The Brokerage Firm determines its capital requirements using the basic indicator method.

Policies for operational risk management

These policies are intended to establish the principles and management framework to identify, measure, monitor, limit, control and disseminate the operational risks inherent in the day-to-day activities and to promote a risk management culture throughout the Brokerage Firm.

Operational Risk Assessment

The Brokerage Firm has a structured methodology for assessing operational risk, which allows the Brokerage Firm to identify, assess and mitigate, the inherent risks in its processes and business activity, which is applied to the entire structure, the assessment is based on the identification of the inherent operational risk, assessing of the effectiveness of controls in such risks, on which is determined a level of residual risk from which actions are set to mitigate the identified risks.

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Manual for Operational Risk Data Gathering and Classification

These policies define the requirements for reporting the information that supports the measuring processes, as well as the scope of the data gathering process, the functions and responsibilities of the business units for gathering and reporting loss data, as its specific characteristics.

At the closing of 2020, the Brokerage Firm recorded operational risk losses for \$4.7, \$3.0 greater compared to 2019 for (\$1.7). Likewise, at the year-end of 2020, the material operational risks that, in case of materialization, would cause an impact on the results of the entity amount \$1.8, corresponding to legal risks and fully reserved.

Operational risk tolerance levels

This is an operational loss management tool that enables each of the Brokerage Firm's area to know the tolerance levels of losses applicable to each assumed loss event, and serves as an incentive for the improvement of the operational risk management process and the adoption of the necessary action to minimize the risk of future losses.

Key risk indicators

This process allows the Brokerage Firm to establish indicators from process variables, which behavior is related to the level of risk assumed. By tracking each indicator, trends are identified that allow for managing the indicator's values over time. Admissible thresholds are established for each of the selected indicators.

Legal risk

Legal risk is defined as the potential loss due to non-compliance with applicable legal and administrative provisions, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions.

In order to have policies and procedures that ensure the adequate implementation of the agreements and contracts in which the Brokerage Firm participates, the policies established in the legal area manual are followed, which provides security to the operations of the Brokerage Firm, safeguarding its interests, preventing and reducing legal risks and contingencies.

Technological risk

The technological risk is defined as the potential loss associated with damage, interruption, modification or failure resulting from the use of hardware, software, systems, applications, networks and any other channel for transmitting of information in rendering services to the Brokerage Firm's customers.

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To manage technology risk, the Brokerage Firm has a Technology Risk Management and Cybersecurity Policy that describes the policies and general principles for managing and monitoring risks associated with Information Technology and Cybersecurity.

The regular audits performed by an independent and skilled internal audit department include comprehensive reviews of the design, implementation and exploitation of the internal control systems in every business and support area, new products and systems and of the reliability and completeness of data processing operations.

Generic description of valuation techniques

Derivative financial instruments are valued at fair value, in accordance with the provisions of Accounting Criteria B-5, Derivatives and hedging transactions issued by the Commission.

The evaluation methodology for trading positions is performed in (a) organized markets where the valuation is made at the market price in question, the prices are provided by the price provider contracted by the Brokerage Firm and (b) OTC markets where the present value of the estimated future flows is obtained.

In all cases, the Brokerage Firm performs the valuations of its positions and records the value obtained.

(20) Recently issued financial reporting standards-

On November 9, 2020, the Ministry of Finance and Public Credit announced through the Official Gazette various resolutions amending the resolutions that modify the general provisions applicable to brokerage firms", published in the Official Gazette on January 4, 2018. These amendments consider entry into force on January 1, 2022, issued by the (CINIF) and referred to in paragraph 3 of Criterion A-2 "Application of particular rules" of Annex 5 that is modified by this instrument.

The CINIF issued the NIF mentioned below:

MFRS B-17 "Determination of fair value"- This establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific MFRS.

MFRS C-3 "Accounts receivable"- Some of the main changes presented are the following:

- Provides that accounts receivable based on a contract are deemed financial instruments, while some other accounts receivable, resulting of legal or tax provisions, may have certain characteristics of a financial instrument, such as bearing interest, but are not financial instruments themselves.

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- Provides that the allowance for doubtful trade receivables shall be recognized as revenue is earned, based on the expected credit losses, and the allowance shall be recorded as an expense, separately when significant, in the statement of comprehensive income.
- Provides that, upon initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of the term, an adjustment must be made taking into consideration such present value
- Requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

MFRS C-9 “Provisions, Contingencies and Commitments”- Some of the main aspects covered by this MFRS include the following:

- The scope is narrowed by relocating the topic concerning accounting for financial liabilities to MFRS C-19 “Financial instruments payable”.
- The definition of “liability” is modified by eliminating the qualifier “virtually unavoidable” and including the term “probable”.

MFRS C-16 “Impairment of financial instruments receivable”- It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

The main changes arising from this MFRS consist of determining when and how expected impairment losses on financial instruments receivable should be recognized, including:

- It establishes that impairment losses on financial instruments receivable should be recognized if the credit risk increases and thus it is concluded that a portion of future cash flows of the financial instruments receivable will not be recovered.
- It proposes recognizing the expected loss based on the entity's historical experience of credit losses, current conditions and reasonable and supportable forecasts of the various quantifiable future events that could affect the amount of future cash flows of the financial instruments receivable.
- For those interest bearing IFC, it establishes the need to determine how much and when the IFC amount will be recoverable, as the recoverable amount must be valued at present value.

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NIF C-19 “Financial instruments payable”- Some of the main points covered by this MFRS include the following:

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.
- Long-term liabilities are initially recognized at present value.
- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting net income or loss.
- It includes the provisions of IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, which was not provided for by the existing standard.
- The effect of extinguishing a financial liability should be presented as financial income (loss) in the comprehensive statement of income.
- It introduces the concepts of amortized cost in valuing financial liabilities and of the effective interest method based on the effective interest rate.

MFRS C-20 “SPPI Financing instruments receivable” - Some of the main aspects resulting from the adoption of this MFRS are as follows:

- Classification of financial instruments within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.
- The valuation effect of investments in financial instruments is also focused on the business model.

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- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable instruments, unless the entity changes its business model.
- An embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

MFRS D-1 “Revenue from contracts with customers”- Some of the primary changes are the following:

- The transfer of control as the basis for the opportunity of revenue recognition is established.
- The identification of the obligations to be fulfilled in a contract is required.
- It indicates that the transaction amount between obligations to fulfill must be assigned based on independent sales prices.
- The concept “conditional account receivable” is introduced.
- The recognition of collection rights is required.
- Requirements and guidance on how to value the variable consideration and other aspects, upon the income are established.

MFRS D-2 “Costs from contracts with customers”- Establishes rules for the accounting recognition of costs of sales of goods or provision of services.

The main change is the separation of the standard related to the recognition of revenues from contracts with customers, from the standard corresponding to the recognition of costs for contracts with customers. Additionally, it extends the scope of Bulletin D-7, referring exclusively to costs related to construction and manufacturing contracts for certain capital goods, to include costs related to all types of contracts with customers.

(Continued)



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

Notes to financial statements

(Millions of Mexican pesos)

MFRS D-5 "Leases"- Main changes included the following:

The accounting standard introduces a single model of recognition of leases by the lessee and requires that it recognize the assets and liabilities of all leases with a duration of more than 12 months, unless the underlying asset is of low value. You are required to recognize a right-of-use asset that represents your right to use the leased underlying asset and a lease liability that represents your obligation to make lease payments.

The following aspects of the new model are considered to be the most significant and important changes for the tenants:

- modification of the lease definition;
- removal of classification of operating or financial leases for a lessee, and the latter recognizes a lease liability at the present value of the lease payments an asset for use rights for that same amount;
- increase in the leased assets and financial liabilities of a lessee, which implies changes in the financial indicators related to the assets and liabilities of the entity;
- changes for lessees the nature of the expenses related to said leases: lease expense now divided into depreciation / amortization expense and interest expense;
- modification in the presentation of cash flows related to operating leases;
- modifies the recognition of the gain or loss on leases of assets in return.

It is worth mentioning that these changes will take effect on January 1, 2022. The Brokerage Firm is in the process of evaluating their impact.

