

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V., AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Balance Sheets

December 31, 2013 and 2012

(Millions of Mexican pesos)

Assets	2013	2012	Liabilities and Stockholders' Equity	2013	2012
Cash and cash equivalents (note 5)	\$ 25,049	23,371	Deposit funding (note 14):		
Margin accounts	90	37	Demand deposits	\$ 84,046	74,345
Investment securities (note 6):			Time deposits:		
Trading	19,722	29,354	General public	53,932	41,498
Available-for-sale	27,926	24,883	Money market	4,853	21,623
Held-to-maturity	2,143	2,063	Debt securities issued	11,850	6,222
	<u>49,791</u>	<u>56,300</u>		<u>154,681</u>	<u>143,688</u>
Derivatives (note 8):			Banking and other borrowings (note 15):		
Trading purposes	2,268	1,584	Due on demand	1,475	1,068
Hedging purposes	259	49	Short-term	8,776	2,556
	<u>2,527</u>	<u>1,633</u>	Long-term	1,878	1,964
Valuation adjustment from hedging of financial assets (note 9e)	47	63		<u>12,129</u>	<u>5,588</u>
Current loan portfolio (note 9):			Creditors on repurchase/resell agreements (note 7)	18,463	22,009
Commercial loans:			Assigned securities to be settled (note 6b)	1,782	613
Business or commercial activity	49,937	42,008	Collateral sold or pledged (note 7)		
Financial entities	16,302	6,634	Repurchase	12,629	5,068
Government entities	3,213	4,945	Securities lending	229	186
	<u>69,452</u>	<u>53,587</u>		<u>12,858</u>	<u>5,254</u>
Consumer loans	28,539	23,256	Derivatives (note 8):		
Residential mortgages	54,616	48,035	Trading purposes	3,158	4,498
	<u>152,607</u>	<u>124,878</u>	Hedging purposes	292	468
Past due loan portfolio (note 9):				<u>3,450</u>	<u>4,966</u>
Commercial loans:			Other accounts payable:		
Business or commercial activity	830	351	Income tax payable	19	113
Consumer loans	936	602	Employee statutory profit sharing payable (note 18)	276	349
Residential mortgages	2,588	1,995	Creditors on settlement of transactions (notes 5, 6 and 8)	2,359	5,478
	<u>4,354</u>	<u>2,948</u>	Creditors on collateral received in cash	33	-
Total past due loan portfolio	<u>4,354</u>	<u>2,948</u>	Sundry creditors and other accounts payable	4,732	5,200
Total loan portfolio	156,961	127,826		<u>7,419</u>	<u>11,140</u>
Less:			Deferred credits and prepayments	1,168	885
Allowance for loan losses (note 9f)	5,415	3,708		<u>211,950</u>	<u>194,143</u>
Loan portfolio, net	<u>151,546</u>	<u>124,118</u>	Total liabilities		
Benefits receivable from securitization transactions (note 10b)	142	160	Stockholders' equity (note 19):		
Other accounts receivable, net (notes 5, 6 and 10a)	6,807	13,966	Paid-in capital:		
Foreclosed assets, net (note 11)	51	29	Capital stock	4,507	4,507
Premises, furniture and equipment, net (note 12)	4,027	4,187	Earned capital:		
Permanent investments (note 13)	90	87	Statutory reserves	901	901
Deferred taxes and deferred employee statutory profit sharing, net (note 18)	2,058	1,147	Retained earnings	24,675	22,940
Other assets:			Unrealized result from valuation of available-for-sale securities	238	451
Deferred charges, prepaid expenses and intangibles	2,358	1,216	Unrealized result from valuation of cash flow hedge instruments (note 8)	47	(193)
Other short and long term assets	1,050	955	Net income	3,315	4,520
	<u>3,408</u>	<u>2,171</u>		<u>29,176</u>	<u>28,619</u>
Total assets	\$ <u>245,633</u>	<u>227,269</u>	Total stockholders' equity	33,683	33,126
			Total liabilities and stockholders' equity	\$ <u>245,633</u>	<u>227,269</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V. AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Balance Sheets, continued

December 31, 2013 and 2012

(Millions of Mexican Pesos)

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

	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>
Transactions on behalf of third parties			Transactions by own account		
Customer current accounts:			Contingent assets and liabilities	\$	3
Customer banks	\$ 131	31			3
Settlement of customer transactions	3	42	Assets in trust or under mandate:		
Other current accounts	<u>244</u>	<u>237</u>	Trusts	134,302	127,183
	<u>378</u>	<u>310</u>	Mandate	<u>28,897</u>	<u>28,906</u>
				<u>163,199</u>	<u>156,089</u>
Custody operations:			Assets in custody or under management	<u>380,453</u>	<u>560,956</u>
Customer securities in custody	<u>278,825</u>	<u>219,199</u>	Loan commitments	<u>356,358</u>	<u>356,255</u>
Transactions on behalf of customers:			Collaterals received by the entity:		
Securities on repurchase/resell agreements			Government debt	47,084	39,521
by customers	87,483	82,789	Net worth instruments	512	342
Securities lending by customers	104	65	Other securities	<u>24,547</u>	<u>23,352</u>
Collaterals received in guarantee				<u>72,143</u>	<u>63,215</u>
by customers	46,605	45,809	Collaterals received and sold or pledged		
Collaterals delivered in guarantee			by the entity:		
by customers	42,805	38,980	Government debt	58,926	43,703
Managed trusts	<u>162</u>	<u>145</u>	Bank debt	610	459
	<u>177,159</u>	<u>167,788</u>	Other debt securities	-	301
Investment banking transactions on behalf of third parties (net)	76,953	84,457	Net worth instruments	<u>229</u>	<u>186</u>
				<u>59,765</u>	<u>44,649</u>
			Interest earned but not collected arising from past		
			due loan portfolio	<u>278</u>	<u>156</u>
			Other accounts	<u>472,411</u>	<u>418,483</u>
Total transactions on behalf of third parties	\$ <u>533,315</u>	<u>471,754</u>	Total by own account	\$ <u>1,504,610</u>	<u>1,599,806</u>

"The historical capital stock amounts to \$3,111 at December 31, 2013 and 2012."

See accompanying notes to consolidated financial statements.

"These consolidated balance sheets, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the transactions carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

"These consolidated balance sheets faithfully match with the original consolidated balance sheets, which are properly signed and held by the Financial Group."

SIGNATURE

Troy Wright
General Director

SIGNATURE

Michael Coate
Deputy General Director of Finance
and Business Intelligence

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Agustín Corona Gahbler
Deputy General Director of
Group Audit

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H. Valerio Bustos Quiroz
Director of Group Accounting

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V., AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Statements of Income

Years ended December 31, 2013 and 2012

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Interest income (note 21b)	\$ 19,822	17,227
Interest expense (note 21b)	<u>(6,716)</u>	<u>(6,292)</u>
Financial margin	13,106	10,935
Allowance for loan losses (note 9f)	<u>(3,714)</u>	<u>(1,359)</u>
Financial margin adjusted for allowance for loan losses	<u>9,392</u>	<u>9,576</u>
Commissions and fee income (note 21c)	3,907	3,701
Commissions and fee expense	(474)	(447)
Financial intermediation income (notes 1 and 21d)	1,086	743
Other operating income (note 21e)	2,690	3,041
Administrative and promotional expenses	<u>(13,113)</u>	<u>(11,380)</u>
	<u>(5,904)</u>	<u>(4,342)</u>
Net operating income	<u>3,488</u>	<u>5,234</u>
Equity method in the results of operations of associated companies, net	<u>1</u>	<u>1</u>
Income before income taxes	<u>3,489</u>	<u>5,235</u>
Current income taxes (note 18)	(967)	(1,021)
Deferred income taxes, net (note 18)	<u>793</u>	<u>306</u>
	<u>(174)</u>	<u>(715)</u>
Net income	\$ <u>3,315</u>	<u>4,520</u>

See accompanying notes to consolidated financial statements.

"These consolidated statement of income, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the transactions carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V., AND SUBSIDIARIES
(A foreign-owned Mexican Holding Company)

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2013 and 2012

(Millions of Mexican pesos)

			Earned capital			Net income	Total stockholders' equity
	Capital stock	Statutory reserves	Retained earnings	Unrealized result from valuation of available-for-sale securities	Unrealized result from valuation of cash flow hedge instruments		
Balances as of December 31, 2011	\$ 4,507	901	20,798	372	(57)	3,142	29,663
Changes resulting from stockholders' resolutions:							
Resolution passed at the Ordinary General Stockholders' Meeting of April 30, 2012 – Appropriation of 2011 net income	–	–	3,142	–	–	(3,142)	–
Dividends declared (note 19b):							
Ordinary Annual General Stockholders' Meeting: April 28, 2012	–	–	(1,000)	–	–	–	(1,000)
	–	–	2,142	–	–	(3,142)	(1,000)
Changes related to the recognition of comprehensive income (note 19c):							
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for \$10 and \$4, respectively (notes 6b, 8 and 18)	–	–	–	79	(136)	–	(57)
Net income	–	–	–	–	–	4,520	4,520
Total comprehensive income	–	–	–	79	(136)	4,520	4,463
Balances as of December 31, 2012	4,507	901	22,940	451	(193)	4,520	33,126
Changes resulting from stockholders' resolutions:							
Resolution passed at the Ordinary General Stockholders' Meeting of April 12, 2013 – Appropriation of 2012 net income	–	–	4,520	–	–	(4,520)	–
Dividends declared (note 19b):							
Ordinary Annual General Stockholders' Meeting: April 12, 2013	–	–	(535)	–	–	–	(535)
May 24, 2013	–	–	(396)	–	–	–	(396)
August 23, 2013	–	–	(160)	–	–	–	(160)
November 13, 2013	–	–	(1,416)	–	–	–	(1,416)
	–	–	2,013	–	–	(4,520)	(2,507)
Changes related to the recognition of comprehensive income (note 19c):							
Valuation effects of available-for-sale securities and cash flow hedge instruments, net of deferred taxes and ESPS for (\$17) and (\$7), respectively (notes 6b, 8 and 18)	–	–	–	(213)	240	–	27
Net income	–	–	–	–	–	3,315	3,315
Result from application of new accounting criteria (notes 3 and 9)	–	–	(278)	–	–	–	(278)
Total comprehensive income	–	–	(278)	(213)	240	3,315	3,064
Balances as of December 31, 2013	\$ 4,507	901	24,675	238	47	3,315	33,683

See accompanying notes to consolidated financial statements.

"These consolidated statements changes in stockholders' equity, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the transactions carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V., AND SUBSIDIARIES
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Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Net income	\$ 3,315	4,520
Items not requiring (providing) cash flow:		
Impairment allowance or impairment reversal in investing and financing activities	95	43
Depreciation of premises, furniture and equipment	423	382
Amortization of intangible assets	89	41
Provisions	4,100	1,871
Current and deferred income taxes	174	715
Equity method in associated companies	(1)	(1)
Other, mainly valuation at fair value	<u>(85)</u>	<u>95</u>
Subtotal	<u>4,795</u>	<u>3,146</u>
Operating activities:		
Change in margin accounts	(53)	32
Change in investment securities	6,251	(19,554)
Change in debtors on repurchase / resell agreements	-	3,153
Change in derivatives (asset)	312	3,036
Change in loan portfolio (net)	(31,307)	(14,534)
Change in benefits receivable from securitization transactions	55	88
Change in foreclosed assets	(28)	(12)
Change in other operating assets (net)	5,317	(2,597)
Change in deposit funding	10,993	20,651
Change in bank and other borrowings	6,541	(17)
Change in creditors on repurchase / resell agreements	(3,546)	2,683
Change in securities lending (liabilities)	1	(1)
Change in collaterals sold or pledged	7,605	5,107
Change in derivatives (liabilities)	(2,350)	(2,231)
Change in other operating liabilities	(2,534)	3,745
Collection of income tax	-	324
Payments of income taxes	<u>(560)</u>	<u>(884)</u>
Net cash flows from operating activities	<u>(3,303)</u>	<u>(1,011)</u>
Investing activities:		
Payments for acquisition of premises, furniture and equipment	(365)	(492)
Payments for acquisition of subsidiary	(3)	-
Collections of cash dividends	1	1
Payments for acquisition of intangible assets	<u>(255)</u>	<u>(186)</u>
Net cash flows from investing activities	<u>(622)</u>	<u>(677)</u>
Net cash flows from financing activities for dividends payments in cash (note 19b)	<u>(2,507)</u>	<u>(2,000)</u>
Net increase in cash and cash equivalents	1,678	3,978
Cash and cash equivalents at beginning of year	<u>23,371</u>	<u>19,393</u>
Cash and cash equivalents at end of year	\$ <u>25,049</u>	\$ <u>23,371</u>

See accompanying notes to consolidated financial statements.

"These consolidated statements of cash flows, with those of the financial and other entities comprising the Financial Group that are subject to consolidation, were prepared in accordance with the accounting criteria for financial group holding companies issued by the National Banking and Securities Commission based on Article 30 of the Law that Regulates Financial Groups, which are of a general and mandatory nature and have been applied on a consistent basis, accordingly, they reflect the transactions carried out by the Holding Company and the financial and other entities comprising the Financial Group that are subject to consolidation, for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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**GRUPO FINANCIERO
SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditor's Report Thereon)

(Free Translation from Spanish Language Original)



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

The Board of Directors and Stockholders
Grupo Financiero Scotiabank Inverlat, S. A. de C. V.
(A foreign-owned Mexican Holding Company):

We have audited the accompanying consolidated financial statements of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries ("the Group") which comprise the consolidated balance sheets as of December 31, 2013 and 2012, the consolidated 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.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and presentation of these consolidated financial statements in accordance with the accounting criteria for financial group holding companies in Mexico established by the National Banking and Securities Commission ("the Banking Commission"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing (ISAs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and presentation of the consolidated financial statements 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 Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

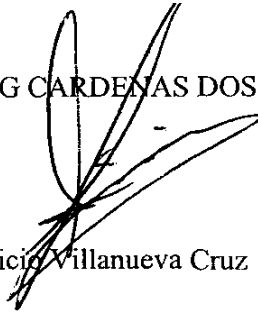
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Opinion

In our opinion, the consolidated financial statements of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. and Subsidiaries as of December 31, 2013 and 2012, have been prepared, in all material respects, in accordance with the accounting criteria for financial group holding companies in Mexico issued by the Banking Commission.

KPMG CARDENAS DOSAL, S. C.

Mauricio Villanueva Cruz



February 21, 2014



GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(Millions of Mexican pesos)

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

(1) Description of business and significant transactions-

Description of business-

Grupo Financiero Scotiabank Inverlat, S. A. de C. V. (the Financial Group) is a subsidiary of The Bank of Nova Scotia (BNS), which owns 97.4% of its capital stock and is authorized to acquire and manage voting right stocks issued by financial and brokerage entities, auxiliary credit organizations, and other entities primarily engaged in providing complementary or auxiliary services to one or more of such financial entities.

As at December 31, 2013 and 2012, the Financial Group and its subsidiaries (the Group) is as follows:

- Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (the Bank), which in accordance with the Credit Institutions Law, is authorized to carry out multiple-service banking transactions comprising, amongst other, accept deposits from the general public, granting and receiving loans, engaging in securities transactions and providing trust services. The Bank has five subsidiaries consolidable (a real estate banking company, a company of complementary banking services, an operating company listed on the Mercado Mexicano de Derivados, S. A. de C. V. (MexDer), two trusts clearing members subscribers of stock equity shares of MexDer, and until December 2, 2013, a maintenance and security services company, which at this date it was merged with the real estate banking company).
- Scotia Inverlat Casa de Bolsa, S. A. de C. V. Grupo Financiero Scotiabank Inverlat (the Brokerage Firm), is a company authorized to act as intermediary in securities and financial transactions in accordance with the applicable laws and general dispositions issued by the National Banking and Securities Commission (the Banking Commission).
- Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat (the Fund Management Company), is a company authorized to act as the operator of an investment company in accordance with the applicable laws.
- Servicios Corporativos Scotia, S. A. de C. V., (SECOSA) is engaged in providing personnel and technical advisory services in areas such as: human resources, finance and legal, among others.
- Since November 30, 2012, Crédito Familiar, S. A. de C. V., Sociedad Financiera de Objeto Múltiple Entidad Regulada, Grupo Financiero Scotiabank Inverlat (Crédito Familiar), engaged in granting personal consumer loans. Crédito Familiar has two consolidating subsidiaries (a service company and an asset management company).

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
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Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

2013 Significant transactions-

(a) Sale of Ordinary Participation Certificates (CPO's for its acronym in Spanish)-

The Government of the State of Nuevo Leon, Mexico, through a financial institution, implemented a scheme in order to acquire CPO's that various banking and financial creditors held from the toll road concessionaire Viaductos, S. A. de C. V., consequently, in January 2013, the Bank undersigned a buy and sell agreement in which they ceded the ownership of 1,937,778 CPO's, which generated a gain of \$349, recognized under the caption "Financial intermediation income".

(b) Dividends decree-

As mentioned in note 19b to the consolidated financial statements, in 2013 through resolutions of the Ordinary General Stockholders' Meeting were decreed dividends for \$2,507, which were paid during 2013.

(c) Sale of consumer loan portfolio-

On December 23, 2013, the Bank sold a consumer loan portfolio to a related party at the market value of \$132, the carrying amount at that date was \$518, likewise, the Bank canceled the loan loss provision of \$290; due to the above, the net loss amounted to \$96. The Bank provides portfolio management services to the related party beginning on the date of sale.

(d) Incorporation of mutual funds-

On August 19, 2013, the Fund Management Company incorporated two debt securities mutual funds named "Scotia Solución 4", Sociedad Anónima de Capital Variable and "Scotia Real", Sociedad Anónima de Capital Variable. The Fund Management Company contributed \$1 to each of the mutual funds. Such contributions are represented by Class "A" representative shares (minimum fixed portion without right for withdrawal). Such mutual funds were introduced to the general public on October 15, 2013, with ticker symbol SCOT-S4 and SCOT-TR, respectively.

On October 3, 2013, the Fund Management Company incorporated a floating investment named mutual fund "Scotia Solución 2", Sociedad Anónima de Capital Variable. The Fund Management Company contributed \$1, such contribution is represented by Class "A" shares (minimum fixed portion without right for withdrawal). Such mutual fund was introduced to the general public on November 20, 2013, with ticket symbol SCOT-FR.

(Continued)

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

(Millions of Mexican pesos)

(e) BNS's controlling interest in the Financial Group-

On September 27 and October 3, 2013, BNS acquired, from third parties, 119,288 and 148,692 shares, B Series of the Group with a value of \$21.54 pesos per share and BNS still remains being the main Group's stockholder with a controlling interest of 97.4% of the capital stock.

2012 Significant transactions-

(a) Acquisition of Crédito Familiar SOFOM, E.R.-

On August 13, 2012, a purchase agreement was entered into by the Financial Group as buyer, and Crédito Familiar, S.A. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada (SOFOM E. R.), member of Grupo Financiero Banamex, currently Operadora e Impulsora de Negocios, S.A. de C.V., SOFOM E.R., member of Grupo Financiero Banamex, as seller, whereby the Financial Group undertakes to acquire all except for one of the shares representing the capital stock of CF Promotora de Negocios S. A. de C. V., SOFOM E. R., currently, Crédito Familiar. The acquisition was completed on November 30 when the Financial Group became the holder of the total but one of the shares of Crédito Familiar. As a result of the preliminary fair values of the assets acquired and the liabilities assumed in virtue of the acquisition, the Financial Group recognized a goodwill of \$94. The line of business of Crédito Familiar focuses on granting personal consumer loans.

(b) Issuance of securitized bond certificates-

On November 29, 2012, the Bank issued bank bonds certificates for \$2,000 to investors, paying a variable interest rate and maturing in November 2015. The placement is part of a revolving certificate program amounting to \$15,000 (see note 14b).

(c) Increase of collection rights-

During fiscal year 2012, the Bank increased the collection rights from trusts backed by automotive portfolio, with maturity in June 2015, June 2017, February 2016, and November 2018, respectively. The acquisitions were made under the same conditions described in the original contract. (See note 10a).

(d) Loan to related parties-

On November 30, 2012, the Bank granted a credit facility to a related party established in Mexico for \$3,470. The credit facility matures on November 30, 2015 and bears monthly interest at THIE-interest rate plus 150-180 annual basis points (bp) over the unpaid principal amount.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

On December 4, 2012, the Bank granted a simple loan to its related party in Chile for 200 million dollars (4,181,767 Unidades de Fomento (UF) (Development Units)) with maturity on March 31, 2016, and bearing semi-annual interest at a fixed annual rate of 3.46% over the unpaid principal amount of UF.

(e) Refund of income taxes-

In August 2012, the Brokerage Firm was granted an income tax refund for \$203 as a result of the judgment in its favor handed down by the Third Regional Metropolitan Division of the Federal Fiscal and Administrative Justice Court, as established in official letter number 900-06-02-03-00-2012-50421. Such judgment enables deducting the total tax loss from selling traded shares for fiscal years 2000 and 2001; in such years, the Income Tax Law only allowed the deduction of this loss up to the maximum profits generated by the shares' sales. The refund amount was recorded in "Other income" in the statement of income.

(f) Incorporation of an investment company-

In May 2012, the Fund Management Company incorporated two floating investment funds named "Scotia Global", Sociedad Anónima de Capital Variable and "Scotia Cartera Modelo", Sociedad Anónima de Capital Variable, as well as an investment fund that invests in debt instruments "Fondo de Fondos Scotiabank de Mediano Plazo", Sociedad de Inversión en Instrumentos de Deuda. The Fund Management Company contributed \$1 to each of the mutual funds. Such contributions are represented by Class "A" shares (minimum fixed portion without right for withdrawal). Such mutual funds were introduced to the general public on June 15, 2012.

In October 2012, the Fund Management Company incorporated the floating investment mutual fund called "Scotia Dinámico" Sociedad Anónima de Capital Variable", making an initial capital contribution of \$1. Such contribution is represented by Class "A" shares (minimum fixed portion without right for withdrawal). Such mutual fund was introduced to the general public on November 27, 2012.

(2) Summary of significant accounting policies-

The accounting policies shown in this note have been applied on a consistent basis in the preparation of the consolidated financial statements, except for the changes in accounting criteria recognized during the year and disclosed in note 3 to the consolidated financial statements.

(a) Financial statement authorization, presentation and disclosure-

On February 21, 2014, Troy Wright (General Director), Michael Coate (Deputy General Director of Finance and Business Intelligence), Agustín Corona Gahbler (Deputy General Director of Group Audit) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying consolidated financial statements and related notes.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The Group's consolidated financial statements include those of its subsidiaries for whom exercises control: the Bank, the Brokerage Firm, the Fund Management Company, SECOSA and Crédito Familiar. Significant balances and transactions among the Financial Group's companies have been eliminated in preparing the consolidated financial statement. The consolidation was carried out using the audited financial statements of the subsidiaries at December 31, 2013 and 2012.

The Stockholders and the National Banking and Securities Commission (Banking Commission) are empowered to modify the consolidated financial statements after issuance. The accompanying 2013 consolidated financial statements will be submitted to the next Stockholders' Meeting for approval.

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

The accounting criteria provide that in the absence of an specific accounting criterion of the Banking Commission for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), issued by the 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 FRS are met by the standard. 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 Banking Commission.

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

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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

Assets and liabilities related to the purchase and sale of foreign currencies, investment in securities, securities repurchase/resell agreements and derivatives are recognized in the consolidated financial statements on the trade date, regardless of the settlement date.

(b) Recognition of the effects of inflation-

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

The year ended December 31, 2013 is 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 Group's financial information are not recognized. If the economic environment turns into 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 as follows:

<u>December 31,</u>	<u>UDI</u>	<u>Inflation</u>	
		<u>Annual</u>	<u>Accumulated</u>
2013	\$ 5.058731	3.78%	11.76%
2012	4.874624	3.91%	12.31%
2011	4.691316	<u>3.65%</u>	<u>12.12%</u>

(c) Cash and cash equivalents-

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The notes for immediate collection, when are not collected within the following deadlines will be considered as “Other accounts receivable”:

- Transactions with Mexican entities: two business days after the transaction took place.
- Transactions with foreign entities: five business days after the transaction took place.

When the documents detailed above are not collected within the established deadlines, the related amounts will be transferred to the originating item, as applicable, either Sundry Debtors or Loan Portfolio, and due consideration should be given to the provisions of criterion A-2, “Application of particular standards”, and B-6 “Loan portfolio”, respectively.

Transactions transferred to sundry debtors under the caption “Other accounts receivable”, not settled within fifteen days following the transfer date will be classified as past due debts and an allowance for their total amount recorded will be recorded concurrently.

Documents subject to final collection are recorded in memorandum accounts under the caption “Other accounts”.

Checking account overdrafts, as reported in the statement of account issued by the corresponding credit institution, are shown in the caption “Sundry creditors and other accounts payable”.

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

The compensation fund of MexDer Trusts is deposited in the Trust 30430 Asigna, Compensación y Liquidación (Asigna) in accordance with the established rules, provisions, internal regulation and operating manual of Asigna and is comprised of cash contributions made by the Trust based on open agreements recorded in their accounts and minimum initial contributions required by Asigna. The compensation fund is recognized as restricted under the caption "Cash and cash equivalents".

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(d) *Margin accounts-*

The margin accounts granted in cash required by the Group to operate derivatives in recognized markets are recorded at par value and presented in the caption "Margin accounts". The value of 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 Group.

Returns 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 "Commission and fee expense", respectively. The partial or total amounts deposited or withdrawn by the clearinghouse owing to price fluctuations of derivatives are recognized in "Margin accounts".

(e) *Investment securities-*

Investment securities consist of equities, government securities, bank promissory notes, and other debt securities quoted in recognized markets, which are classified using the categories shown below, based on the intention and capability of management of the Group on their ownership.

Trading securities-

Trading securities are those acquired with the intention of selling 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 for 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, securities are valued at fair value provided by an independent price vendor, when the securities are sold, the result of buy/sell is determined by the difference between purchase price and the sale price, this concept shall include the reclassification from the result of valuation that has been previously recognized in the income statement.

Interest earned from debt securities are recognized in the year's income under the caption "Interest income" or "Interest expense", as applicable.

Dividends from net equity instruments are recognized in the year's income when the right to receive payment thereof arises under the caption "Interest income".

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Valuation effects and purchase or sale results are recognized in the year's income within the caption of "Financial intermediation income".

Available-for-sale securities-

Available-for-sale securities are those whose intention are not oriented to profit from differences in prices in the short term or does not have the intention or capacity to hold to maturity. The initial recognition and subsequent valuation is performed in the same manner as trading securities, except that the effect of valuation is recognized in stockholders' equity under the caption "Unrealized result from valuation of available-for-sale securities", and which is adjusted by the effect of deferred taxes, which is cancelled for its recognition in income at the time of sale within the caption of "Financial intermediation income". Accrued interest is recognized under the effective interest method under "Interest income or expense".

Interest earned is determined according to the effective interest method and are recognized in the year's income under the caption "Interest income" or "Interest expense", as applicable.

Dividends from net equity instruments are recognized in the year's income when the right to receive payment thereof arises under the caption "Interest income".

Held-to-maturity securities-

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

Impairment of value of a security-

When sufficient objective evidence exists that a security available for sale or held to maturity has been impaired as a result of one or more events that occurred subsequent to initial recognition of security, the carrying amount of the security is modified and the impairment is recognized in income under "Financial intermediation income". For available-for-sale securities, the amount of loss recognized in equity is canceled.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

If, in a subsequent period, the fair value of the security increases, and this effect is related objectively to an event occurring after the impairment was recognized in the income statement, the impairment is reversed in the year's results, except if it is a net equity instrument.

Value date transactions-

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

Transfers between categories-

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

(f) Repurchase/resell agreements-

At the trade date of the repurchase/resell agreement transaction (repo), the Group 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.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The Group acting as repurchaser recognizes the received collateral in memorandum accounts within the caption of "Collateral received by the entity", in accordance with accounting criterion B-9 "Assets in custody and under management". Financial assets granted as collateral, when the Group acting as repurchaser, the financial asset is reclassified on the consolidated balance sheet within the caption of "Investment securities", reporting it as a restricted asset.

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

Additionally, the collateral received, delivered or sold is recognized in memorandum accounts under the caption "Collaterals received and sold or pledged by the entity", in accordance with accounting criterion B-9 "Assets in custody or under management".

(g) *Securities lending-*

At the trade date of securities lending transactions, the Group acting as lender reclassifies securities subject to lending as restricted in the consolidated balance sheet under the caption "Investments 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 criteria B-6 "Assets in custody and under management". The accrued premium amount, acting the Group as a lender or borrower, is recognized in the consolidated 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 the asset or liability, accordingly.

The financial assets received as collateral, whereby the Group acts as a lender, are recognized in memorandum accounts following the guidelines for valuation of criterion B-6 "Assets in custody and under management," while acting as borrower, the financial assets delivered as collateral are presented as restricted under the caption "Investment securities".

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

In the case that the Group, 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 as well as the obligation to return such collateral to the lender or the transaction value to the borrower under the caption "Collateral sold or pledged", such obligation is initially measured at the agreed price and subsequently marked to market, the valuation effect is recorded in the consolidated income statement under the caption "Valuation 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 recorded under the caption "Gain or loss on purchase and sale of securities", as applicable.

Regarding securities lending transactions wherein the financial assets granted as collateral or the value matter of the transaction acting the Brokerage Firm as the borrower or lender, respectively, come from collateral received in other transactions, the control of such collaterals are recorded in memorandum accounts under "Collaterals received and sold or pledged in guarantee by the entity", following the valuation guidelines of criterion B-6 "Assets in custody or under management."

(h) Derivatives-

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

The valuation effect of the derivatives for trading purposes is shown in the consolidated balance sheet and consolidated statement of income under "Derivatives" and "Financial intermediation income", respectively.

The effective portion of the valuation adjustments of hedges designated for cash flow purposes is recognized in stockholders' equity, while the ineffective portion of the change in fair value is recognized under "Financial intermediation income"; the counter-account with such effect are presented in the consolidated balance sheet under "Derivatives". The gain or loss associated with the coverage of the forecasted transaction that has been recognized in stockholders' equity, is reclassified to the consolidated statement of income within the same caption that presents the result of valuation of hedged party attributable to the hedged risk, in the same period during which the hedged forecasted cash flows affect the year's results of operations.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

If the cash flow hedge derivative reaches maturity, is exercised, terminated or the hedge does not meet the requirements to be deemed effective, the hedge designation is de-designated, while the valuation of the cash flow hedge derivative within stockholders' equity remains in this caption and is recognized in the year's results when the forecast transaction occurs, in the same caption which presents the gain or loss of the valuation attributable to the hedged risk.

The gain or loss arising from valuing the fair value hedge derivative is recognized in the consolidated balance sheet under "Derivatives" and in the consolidated statement of income in "Interest income" and "Financial intermediation income", since they correspond to interest rate hedges of loan portfolio and investments securities classified as available-for-sale, respectively. The result of valuation of the item attributable to the hedged risk is recognized on the consolidated balance sheet under "Valuation adjustments from hedging of financial assets" and recognized in the year's income in the case of loan portfolio, in "Interest income", while for investments securities classified as available-for-sale, in "Financial intermediation income".

(i) Settlement clearing accounts-

Amounts receivable or payable for investment securities, securities repurchase/resell agreements, and/or derivatives, which have expired but have not been settled at the consolidated 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 consolidated financial statement caption "Other accounts receivable, net" or "Creditors on settlement of transactions", as appropriate.

(j) Loan portfolio-

Represents the balance of the total or partial dispositions of the credit lines provided to clients plus uncollected accrued interest, less interest collected in advance. The allowance for loan losses is presented deducting the loan portfolio balances.

Undrawn credit facilities are recorded in suspense accounts, under "Loan commitments".

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At the time of contracting, transactions with letters of credit are recorded in suspense accounts under “Loan commitments” which, upon being used by the client or its counterparty are transferred to the loan portfolio.

Past due loans and interest-

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

- a) If the debts consist in loans with a single payment of principal and interest at maturity and are 30 or more calendar days past due;
- b) If the debts refer to loans with a single payment of principal at maturity and periodic payments of interest when the respective interest payment is 90 or more calendar days past due, or principal is 30 or more calendar days past due;
- c) If debts consist of loans with principal and interest periodic partial payments, including mortgage loans, when 90 or more calendar days are past due;
- d) If debts consist of revolving loans, when unpaid for two monthly normal billing periods or, where the billing period is other than monthly, when 60 or more calendar days are past due; and
- e) overdrafts from checking accounts, and immediate payment notes receivable, upon occurrence of such event.

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

Whenever a loan is transferred to the past-due portfolio, accrual of interest is discontinued and record thereof is kept in memorandum accounts; also suspending the amortization in financial income accrued in the year's results. Once collected, such interest is recognized directly in consolidated income statement under “Interest income”. Recognition in consolidated income statement of interest income resumes when the portfolio ceases to be past due.

An allowance is constituted for an amount equal to the total of uncollected accrued interest corresponding to loans deemed past due at the time the loan is transferred to the past due portfolio. For past-due loans, which restructuring agrees to the capitalization of earned, uncollected interest previously recorded in memorandum accounts, an allowance is created for the total of such interest amount. The allowance is written off when there is evidence of sustained payment.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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

Restructuring and renewals

Unless there is evidence of sustained payments, past due loans restructured or renewed shall remain within the past due portfolio.

Loans with a single payment of principal at maturity and periodic interest payments, as well as loans with a single payment of principal and interest at maturity being restructured during the term of the loan or renewed anytime shall be considered as past due, while there is no evidence of sustained payment.

Current loans that are restructured or renewed, without at least 80% of the original loan term having elapsed, shall be deemed to be current only when the borrower had:

- i) paid the total accrued interest, and
- ii) paid the original principal loan amount at the renewal or restructuring date.

Current loans that are restructured or renewed during the course of the final 20% of the original term of the loan will be considered as current only when the borrower had:

- i) fully paid the total interest accrued;
- ii) covered the total original loan amount which at the date of the renewal or restructuring should had been paid, and
- iii) paid 60% of the original loan amount.

Renewed or restructured loans where the borrower fails to meet the above conditions will be deemed past due from the renewal or restructuring date until there is evidence that sustained payments are being made.

Restructured or renewed revolving loans shall, at any time, be regarded as current only when the borrower has paid off the totality of accrued interest, there are no unpaid loan installments and there is evidence to prove the debtor's repayment capability.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Loan due and payable principal and interest amounts which, at the restructuring date, have been repaid in full and for which one or several loan conditions mentioned below have been changed, shall not be deemed restructured:

- i) Guarantees: only when involving the extension or replacement with better quality guarantees.
- ii) Interest rate: when the agreed-upon interest rate is improved.
- iii) Currency: provided the rate corresponding to the new currency is applied.
- iv) Payment date: only if the change does not represent exceeding or modifying the frequency of payments. In no case shall the change in the payment date enable omitting the payment in any given period.

The loan portfolio restructuring or renewals are made in compliance with the General provisions applicable to credit institutions and the viability of them is analyzed for each particular case.

The Group periodically evaluates if a past due loan should remain in the consolidated balance sheet or be written-off, provided a provision has been created for 100% of the loan amounts. Such write-off is made by cancelling the unpaid loan balance against the allowance for loan losses previously created for each loan. Any recovery derived from loans which were previously written-off or canceled is recognized in the year's results.

Write-downs, cancellations, refunds or discounts are recorded against the provision for loan losses. In case the amount of these items exceeds the provision for loan losses balance related to the loan, a charge to provision is done before and recorded up to the amount of the difference.

(k) Allowance for loan losses-

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

Commercial loans – The allowances for the commercial loans are based on the individual assessment of the credit risk of borrowers and their classification, in accordance with the general regulations applicable to the methodology for rating of the loan portfolio of credit institutions (the "Provisions"), established by the Banking Commission. Commercial loans shall be conditional subject to credit rating without including those by Federal Government or express warranty or the Federation Unit registered with the Public Credit of the Ministry of Finance and Public Credit (SHCP), IPAB or Bank of Mexico.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

On June 24, 2013, the Banking Commission published a resolution in the Official Gazette amending the Provisions to adopt an expected loss methodology for credit risk, considering the probability of default, loss given default and exposure at default. Additionally, the commercial loan portfolio is classified into different groups.

The financial effect resulting from the use of the new expected loss methodology for credit risk was a creation of reserves as shown in note 3 to the consolidated financial statements. For loan granted to financial institutions, the provision for loan losses using the new methodology will be effective beginning January, 2014, and the financial effect for creation of additional provision for loan losses, should be recorded no later than June 30, 2014.

For loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales equivalent or higher than 14 million UDIS (a Mexican price level adjusting unit of account called Unidad de Inversion or UDIS), the Group uses internal credit rating models authorized by the Banking Commission, which are considered for the evaluation of the following risk factors: (i) country risk; (ii) financial performance; (iii) financial hedging; (iv) debtor's management; (v) overall strength (customer's relation with the environment, competitiveness, strengths and weaknesses); (vi) account management; (vii) industry conditions; and (viii) payment history. Loan portfolio granted to corporations and individuals with business activity, with annual net revenues or sales lesser than 14 million UDIS, is credit rated beginning December 31, 2013, through the application of methodology prescribed on Appendix 21 of the Provisions. Prior to the resolution referred to in the last paragraph of the previous page and its effective date, loan portfolio granted to corporations and individuals with business activity corresponding to debtors with total loan granted that did not exceed 2 million UDIS, was credit rated as a pool, through the application of the " Parametric Methodology " described in Appendix 17 of the Provisions in force until that date.

On October 5, 2011, the Banking Commission published in the Official Gazette a Resolution amending the methodology for creating allowances for losses of commercial loans granted to Mexican states and municipalities, going from an incurred loss to an expected loss model. The Group adopted the new methodology beginning December 2011.

The allowance percentages are determined based on the risk levels, according to the table shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>Grade of risk</u>	Ranges of allowance percentages	
	2013	2012
A1	0.000 – 0.90%	0.00 – 0.50%
A2	0.901 – 1.5%	0.51 – 0.99%
B1	1.501 – 2.0%	1.00 – 4.99%
B2	2.001 – 2.50%	5.00 – 9.99%
B3	2.501 – 5.0%	10.00 – 19.99%
C1	5.001 – 10.0%	20.00 – 39.99%
C2	10.001 – 15.5%	40.00 – 59.99%
D	15.501 – 45.0%	60.00 – 89.99%
E	<u>Higher than 45.0%</u>	<u>90.00 – 100.00%</u>

Mortgage loans – Allowance for mortgage loans losses until February 28, 2011, were assessed for the impairment of the credits collectively calculating the losses based in the percentages set forth by the Provisions.

On October 25, 2010, the Banking Commission published in the Official Gazette a resolution that, as of March 1, 2011 modified the calculation of the reserve for mortgage loans in which the balances are used corresponding to the last day of each month. Furthermore, factors such as the following are taken into consideration: (i) amount payable; (ii) payment made; (iii) house value; (iv) outstanding loan balance; (v) days of delinquency; (vi) loan denomination; and (vii) file documentation the Bank uses. The total amount to reserve for each assessed loan is the result of multiplying the probability of default times the loss given default and exposure at default.

In determining the loss given default the loan recovery rate component, which is affected if the loan has a guarantee trust or stipulation, classifying by regions the states in which such courts reside.

On June 24, 2013, the Banking Commission published in the official Gazette a resolution that modified the risk grades and percentages of provision for loan losses as shown in the next page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>Grade of risk</u>	<u>Ranges of allowance percentages</u>		
A1	0.000	–	0.50%
A2	0.501	–	0.75%
B1	0.701	–	1.00%
B2	1.001	–	1.50%
B3	1.501	–	2.00%
C1	2.001	–	5.00%
C2	5.001	–	10.00%
D	10.001	–	40.00%
E	<u>40.001</u>	–	<u>100.00%</u>

Prior to the resolution mentioned above, the risk grades and percentages for provision for loan losses of mortgage loans were as shown below:

<u>Grade of risk</u>	<u>Ranges of allowance percentages</u>		
A	0	–	0.99%
B	1	–	19.99%
C	20	–	59.99%
D	60	–	89.99%
<u>E</u>	<u>90</u>	–	<u>100.00%</u>

Consumer loans – Allowances for non-revolving consumer loans and other revolving loans until February 28, 2011, were assessed for credit impairment by calculating the provisions based on percentages set forth by the Provisions. On October 25, 2010, the Banking Commission published in the Official Gazette a Resolution to amend the calculation of the reserve for such loans and other revolving loans as of March 1, 2011.

Consumer loans are segregated into two groups: a) non-revolving consumer loans; and b) consumer loans relating to credit card transactions and other revolving loans. The methodology followed for both groups is described in articles 91 and 92 of the Provisions, respectively. The total allowance amount for each loan is the result of multiplying the probability of default by the loss given default and exposure to default.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

On June 24, 2013, the Banking Commission published in the official Gazette a resolution that modified the risk grades and percentages of provision for loan losses, as shown below:

<u>Grade of risk</u>	<u>Ranges of allowance percentages</u>	
	<u>Non- revolving</u>	<u>Credit cards and other revolving loans</u>
A1	0.00 – 2.0%	0 – 3.00%
A2	2.01 – 3.0%	3.01 – 5.00%
B1	3.01 – 4.0%	5.01 – 6.50%
B2	4.01 – 5.0%	6.51 – 8.00%
B3	5.01 – 6.0%	8.01 – 10.00%
C1	6.01 – 8.0%	10.01 – 15.00%
C2	8.01 – 15.0%	15.01 – 35.00%
D	15.01 – 35.0%	35.01 – 75.00%
<u>E</u>	<u>35.01 – 100.0%</u>	<u>Higher than 75.01%</u>

Prior to the resolution mentioned above, not revolving consumer loans were determined in accordance to the risk grade and percentages for provision for loan losses were as shown below.

<u>Grade of risk</u>	<u>Ranges of allowance percentages</u>
A	0 – 0.99%
B	1 – 19.99%
C	20 – 59.99%
D	60 – 89.99%
<u>E</u>	<u>90 – 100.00%</u>

The allowances for revolving consumer loans were determined in accordance with the degree of risk and the allowance for loan loss percentages shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>Grade of risk</u>	<u>Ranges of allowance percentages</u>
A	0 – 0.99%
B1	1 – 2.50%
B2	2.51 – 19.99%
C	20 – 59.99%
D	60 – 89.99%
<u>E</u>	<u>90 – 100.00%</u>

Classification of the allowance for loan losses- Until June 24, 2013, when the resolution to the Provisions was published, the allowance for loan losses was classified in accordance with the following two paragraphs. Beginning June, 24, 2013, the allowance for loan losses does not have such classification, therefore allowance for loan losses correspond to the sum of provisions created for commercial, consumer and mortgage portfolio.

General reserves – According to the Provisions, general reserves were the allowances created for commercial loans with A-1 and A-2 risk ratings; allowances created for consumer loans that do not include credit card operations and for mortgage loans with A risk rating and, in dealing with allowances created for consumer loans that relate to credit card operations with A and B-1 risk rating.

Specific allowance – This classification included the allowances created for commercial loans with B-1 risk rating and over; the allowances created for consumer loans that do not include credit card operations for mortgage loans with B risk rating and over; and allowances created for the credit card portfolio with B-2 risk rating and over.

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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

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

(I) Collection rights-

As of December 31, 2012, collection rights were presented under the caption “Other accounts receivable” in the consolidated balance sheet and income derived from collection rights were presented under the caption “Other operating income” in the consolidated statement of income.

Collection rights arising from the acquisition of financial instruments issued on a non-serial basis are valued by the interest method whereby a return arrived at by multiplying the interest rate agreed upon with the counterparty by the outstanding balance is recorded monthly, the difference with regard to the collections was applied to decrease the balance of the account receivable.

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

The Group estimated monthly based on the behavior of expected cash flows, whether an allowance for losses on collection rights should be created.

As of December 31, 2013, derived from the effective date in force of the Provisions for creation of allowance for loan losses for commercial loan portfolio, the Group reclassified the “Collection rights” to the caption “Loan portfolio”, and Provisions for creation of allowance for loan losses were applied beginning December 31, 2013.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(m) Credit card loyalty program-

The Group has applied, based on paragraph 3 of criterion A-4 “Supplementary Application of Accounting Criteria”, issued by the Banking Commission, the International Financial Reporting Interpretations Committee (IFRIC) 13 “Customer loyalty program” of IFRS for recording credit card transactions related to the loyalty program. Based on this interpretation, a portion of revenue from exchange fees are deferred until the obligation to deliver the rewards to which customers are entitled is incurred and amortized to income once that obligation is extinguished.

(n) Other accounts receivable-

Loans to officers and employees, collection rights and accounts receivable related to debts whose maturity is agreed from the outset to a period over 90 calendar days, are assessed by Group’s management to determine the estimated recovery value and, as required, to create the corresponding reserves. Irrespective of the likelihood of recovery, other debit items are reserved and charged to income 90 days after their initial recording if they correspond to identified items and 60 days if the balances are unidentified, except for tax-related (VAT included) balances.

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

(o) Securitization transactions-

The remnant benefits on the securitization transactions are recognized in “Benefits receivable on securitization transactions” and are marked to market. Valuation adjustments are recognized in income under “Other operating income”. Subsequent recoveries related to benefits to be received, are directly applied against the balance of such benefits.

The trust where the securitization is recorded is not consolidated in accordance with the established in paragraph 21 of transitory dispositions of accounting criteria C-5 issued by the Banking Commission on September 19, 2008.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(p) Foreclosed assets or assets received in lieu of payment

Assets foreclosed shall be recorded on the date the admission order of the judicial sale by which the foreclosure was decreed, became final and conclusive and is immediately available for execution.

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

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

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

Reductions in the value of foreclosed assets are valued according to the type of asset concerned, recording such valuation in the consolidated income statement caption "Other operating income". The Group creates additional provisions that acknowledge signs of impairment from potential value losses over time in foreclosed assets in the year's results of operations under "Other operating income", which are determined by multiplying the reserve percentage applicable by the value of the foreclosed assets, based on the loan portfolio rating methodology, as follows.

		<u>Reserve percentage</u>	
		<u>Real estate</u>	<u>Receivables, furniture and equipment and investment securities</u>
<u>Months elapsed from the date of foreclosure or received in lieu of payment</u>			
Over:	6	0%	10%
	12	10%	20%
	18	10%	45%
	24	15%	60%
	30	25%	100%
	36	30%	100%
	42	35%	100%
	48	40%	100%
	54	50%	100%
	60	100%	100%

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(q) Premises, furniture and equipment-

Premises, furniture and equipment are recorded at acquisition cost. Those assets acquired before December 31, 2007 were adjusted by using factors based on the UDI value from the date of acquisition through that date, which recognition of the effects of inflation on the information was suspended according to the accounting standards. The components acquired in foreign currency is recorded at the historical exchange rate, that is, the exchange rates in force on the date the asset was acquired.

Depreciation is calculated using the straight-line method, based on the estimated useful lives for the Group's management of the corresponding assets. Depreciable amount of property is determined by subtracting the residual value and, as applicable, the cumulative impairment losses from the acquisition cost. The Group periodically evaluates property residual values to determine depreciable amounts.

The Group 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. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net revenues expected to be generated by the asset. If the net book value of an asset exceeds its estimated net revenues, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(r) Permanent investments-

Investments in associated companies are valued through the equity method. It is considered an associated company when it has significant influence.

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

(s) Other assets-

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Likewise, is included in this caption the intangible assets that relate to internally developed software, which costs are capitalized and amortized against the results of operations for the year in which the software is ready to operate, by the straight-line method over the estimated useful life as determined by the Group.

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

Furthermore, the projected net assets of the defined benefit plan are recognized and are recorded in accordance with the provisions of MFRS D-3 “Employee benefits” (see note 16).

(t) *Income taxes and employee statutory profit sharing (ESPS)-*

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

Income tax payable is presented as liability in the consolidated balance sheet; when the tax prepayments exceed the income tax payable, the difference corresponds to an account receivable.

Deferred income tax 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 IT for operating loss carryforwards. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred ESPS and taxes assets and liabilities of a change in tax rates is recognized in results of operations for the period enacted.

The deferred income tax asset or liability determined from the temporary deductible or taxable differences of the year, are presented in the in the consolidated balance sheet.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Current and deferred ESPS is incorporated under the caption “Administrative and promotional expenses”, in the consolidated statement of income.

(u) 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 market value of the leased asset. The difference between the face value of minimum lease payments and the obligation mentioned above, is recorded during the lease period in the consolidated income statement under the caption "Other operating income (expense)" The asset is depreciated in the same way as other assets held in property when it is certain that at the end of the lease contract ownership of the leased asset is transferred, otherwise is depreciated over the term of the contract.

(v) Deposit funding-

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

(w) Provisions -

Based on management’s estimates, the Group 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.

(x) Bank and other borrowings-

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(y) *Employee benefits-*

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

In addition to defined contribution plan, there is a plan of defined benefits in place that covers 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 plans medical benefits, food coupons and life insurance for retirees.

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

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

At the date of adoption of MFRS D-3, items pending amortization and relating to past services are amortized over the lower of a maximum of five years or the remaining average working life. Past services arising on a date subsequent to the coming into force of MFRS D-3 are amortized over the remaining average working life. Items pending amortization and relating to past services of termination benefits are immediately recognized in the consolidated income statement.

The balance of actuarial gains or losses at the beginning of each period that exceed 10% of the greater amount between the defined benefit obligation and the plan assets should be amortized considering the remaining average working life of the employees expected to be eligible for the plan benefits. Actuarial gains or losses of termination benefits are immediately recognized in the consolidated income statement.

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(z) *Revenue recognition-*

Interest on loans granted including the interbank loans fixed to a term less than or equal to three business days, is recorded in income as earned. Interest on past due loans is recognized in income upon collection.

The collected in advance for interest and commissions, as well as credit card annual fees are recorded within “Deferred credits and prepayments”, and applied to the year’s results of operations in “Interest income” and “Commission and fee income”, respectively, as accrued.

The commissions from assets in custody or under management are recognized in income as accrued in “Commission and fee income”.

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

Fees collected for restructured or renewed loans are recorded as deferred credits and amortized against the results of operations for the year in “Interest income” using the straight-line method during the new term of the loan.

Income from leasing and services rendered are recognized in results when accrued, in function of the lease and service agreements with the lessee and clients.

(aa) *Foreign currency transactions-*

Foreign currency transactions are initially recognized at the exchange rate prevailing on the date of execution and settlement, for consolidated financial statement presentation purposes, currencies other than dollars are translated into dollars at the exchange rates as established by the Banking Commission, and the dollar equivalent, together with dollar balances, are then translated into Mexican pesos using the exchange rate determined by the Central Bank. Foreign exchange gains and losses are reflected in results of operations for the year. At the year-end close date of the consolidated financial statements, foreign currency monetary assets and liabilities are translated at the year-end exchange rate, while foreign exchange gains or losses arising from foreign currency translation are recorded in the results of operations for the originating period.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(ab) Memorandum accounts-

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

The amounts of assets under custody and guarantee are presented under the caption "Customer securities in custody," according to the characteristics of the asset or transaction, assets in custody or under management on own behalf are presented under the caption "Assets in custody or under management", and the trust transactions are presented under the caption "Assets in trust or under mandate".

Custody transactions-

Customer's securities in custody are valued in accordance with the accounting criteria established by the Banking Commission, representing the amount for which the Group is obligated to its customers against any future eventuality.

Management transactions-

The amount of the financing granted and/or received on repurchase/resale agreements that the Group undertakes for its customers is presented under the caption "Securities on repurchase/resell agreements by customers."

Securities lending conducted by the Group on behalf of its customers are presented under the caption "Securities lending by customers."

In the case of collaterals that the Group receives or delivers on behalf of its customers from repurchase/resell agreements, securities lending, derivatives or other, collateral received or delivered are presented under the caption "Collaterals received in guarantee by customers" and/or "Collaterals delivered in guarantee by customers" as appropriate.

The determination of the valuation of the estimated amount for the assets in management and transactions on behalf of its customers is made according to the operation carried out in accordance with the accounting criteria for brokerage firms.

The Group records transactions on behalf of its customers, on the trade date, irrespective of its settlement.

(ac) UDI Trusts-

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(ad) Contributions to IPAB-

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

According to the Law, IPAB guarantees depositors' accounts up to 400,000 UDIS by individual or corporation, and by credit institution.

Contributions to IPAB are recognized in income as earned under the caption "Administrative and promotional expenses".

(ae) 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 consolidated financial statements.

Contingent income, earnings or assets are not recognized until their realization is virtually certain.

(3) Accounting changes-

Accounting changes 2013-

I. Change in allowance for loan losses methodology for commercial loan portfolio:

On June 24, 2013, a resolution that amended the Provision was published in the Official Gazette, in order to change the current credit rating model and creation of allowances from the incurred loss model to an expected loss model taking into consideration the factors of probability of default, loss given default and exposure to default, which is applicable not later than December 31, 2013, however, for purposes of commercial loan portfolio granted to corporations and individuals with business activity with annual net revenues or sales equivalent or higher than 14 million UDIS, the Group applied the prescribed in transitory article seven applicable to credit institutions that had been authorized by the Banking Commission to use an internal model based on expected loss, therefore the Group is in the process of recertification of its internal methodology for such loan portfolio.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

In response to the resolution mentioned in the previous page, at December, 31, 2013, the Bank recognized the financial effect resulting from the application of the methodology included in the resolution dated June 24, 2013 for an amount of \$278, which includes commercial loan portfolio granted to corporations and individuals with business activity with annual net revenues or sales equivalent or lower than 14 million UDIS, as well as collection rights from financial asset-backed trusts that were reclassified to "Loan portfolio" in accordance with the mentioned in last paragraph of numbering a) of the note 10 to the consolidated financial statements.

The Group made all reasonable efforts to determine the effect of the retrospective application of the new methodology for allowance for loan losses for commercial loan portfolio, however, the determination was impractical because: i) the historical information does not have the same performance, ii) significant estimates are required from previous periods and, iii) it is not possible to objectively determine if the required information is available or was available in prior years, therefore the financial effect was recorded in the consolidated balance sheet as a credit to the allowance for loan losses and debit to stockholders' equity within the caption "Retained earnings" as established by the Provisions.

The financial effect corresponds to the application of new methodology for allowance for loan losses for commercial loan portfolio granted to corporations and individuals with annual net revenues or sales equivalent or lower than 14 million UDIS and collections rights from financial asset-backed trusts, not including financial institutions, which new methodology is applicable beginning January 2014, nor commercial loan portfolio granted to corporations and individuals with annual net revenues or sales higher than 14 million UDIS, given that the Bank is authorized by the Banking Commission to apply its own internal methodology, which is based on an expected loss model and is pending to be recertified.

Following is the effect from change in methodology:

Risk grade	New Methodology		Prior Methodology			Increase (decrease) in allowance for loan losses
	% of provision	Amount of provision	Risk grade	% of provision	Amount of provision	
A-1	0 a 0.9	\$ 7	A-1	0 a 0.50	\$ 11	\$ (4)
A-2	0.901 a 1.5	14	A-2	0.51 a 0.99	10	4
B-1	1.501 a 2.0	152	B-1	1 a 4.99	10	142
B-2	2.001 a 2.5	3	B-2	5 a 9.99	36	(33)
B-3	2.501 a 5.0	38	B-3	10 a 19.99	-	38
C-1	5.001 a 10.0	18	C-1	20 a 39.99	-	18
C-2	10.001 a 15.5	2	C-2	40 a 59.99	-	2
D	15.501 a 45.0	108	D	60 a 89.99	-	108
E	Mayor a 45.0	<u>3</u>	E	90 a 100	<u>-</u>	<u>3</u>
		\$ <u>345</u>			\$ <u>67</u>	\$ <u>278</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

II. New MFRS and MFRS Improvements-

The CINIF has issued the following MFRS and MFRS Improvements, which adoption did not generate important effects in the consolidated financial statements of the Group.

MFRS-

- MFRS B-8 “*Consolidated or combined financial statements*”-
- MFRS B-12 “*Offsetting financial assets and financial liabilities*”
- MFRS C-7 “*Associates, joint ventures and other permanent investments*”-
- MFRS C-14 “*Transfer and retirement of financial assets*”
- MFRS C-21 “*Joint arrangements*”-

2013 MFRS Improvements-

- MFRS C-5 “*Prepayments*”
- MFRS C-9 “*Liabilities, provisions, contingent assets and liabilities, and commitments*”
- MFRS C-12 “*Financial instruments with characteristics of liabilities, equity, or both*”
- MFRS D-4 “*Income Taxes*”
- MFRS D-5 “*Leases*”
- MFRS B-8 “*Consolidated or combined financial statements*”
- MFRS C-7 “*Associates, joint ventures and other permanent investments*”
- MFRS C-21 “*Joint arrangements*”

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

2012 accounting changes-

On July 5, 2012, the resolution modifying the regulations generally applicable to credit institutions was published in the Federal Official Gazette, which supersedes accounting criteria for credit institutions and became effective beginning on the next day after publication and the adoption did not generate a significant impact on the consolidated financial statements of the Group.

- Criterion B-10 “*Trusts*”
- Criterion C-5 “*Consolidation of Specific Purpose Entities (SPE)*”
- Criterion B-6 “*Loan portfolio*”

2012 MFRS Improvements-

In December 2011, CINIF issued the document referred to as “2012 MFRS Improvements”, which contains precise modifications to some MFRS. The modifications that had no effect on the consolidated financial statements of the Group are listed below:

- MFRS A-7 “*Presentation and disclosure*”
- Bulletin C-15 “*Impairment of long-lived assets and their disposal*”.

(4) Foreign currency position-

Central Bank regulations require that banks and brokerage firms maintain balanced positions in foreign currencies within certain limits. The short or long position permitted by the Central Bank is equal to a maximum of 15% of the basic capital of the Bank computed as of the third immediately preceding month, and 15% of the global capital of the Brokerage Firm. Accordingly, at December 31, 2013 and 2012, the Bank and the Brokerage Firm maintain a position within the authorized limits.

The foreign currency position is analyzed as follows:

	<u>Millions of dollars</u>			<u>Equivalent in pesos</u>	
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>
Assets	3,008	3,178	\$	39,358	41,205
Liabilities	(3,010)	(3,173)		(39,384)	(41,140)
(Short) long position	(2)	5	\$	(26)	65

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2013, the short (long in 2012) in foreign currency position consists of 79% in US dollars (96% en 2012) and 21% in other foreign currencies (4% in 2012).

The exchange rate relative to the U.S. dollar at December 31, 2013 and 2012, was \$13.0843 pesos per dollar and \$12.9658 pesos per dollar, respectively, on February 21, 2014, the date on which the issuance of the consolidated financial statements was authorized, it was \$13.2704 pesos per dollar.

(5) Cash and cash equivalents-

Cash and cash equivalents at December 31, 2013 and 2012 are comprised as follows:

	<u>2013</u>	<u>2012</u>
Cash in hand	\$ 4,101	3,580
Banks:		
Domestic	9	5
Foreign	1,096	973
Three-day interbank call money	6,393	3,462
24 and 48-hour foreign currency sales	(1,794)	(4,450)
Other funds available	59	98
Restricted funds:		
Deposits with the Central Bank	12,823	12,830
24 and 48-hour foreign currency purchase	1,804	6,444
Compensation fund to operate derivatives	516	389
Investments	<u>42</u>	<u>40</u>
	\$ <u>25,049</u>	<u>23,371</u>

At December 31, 2013 and 2012, the deposits with the Central Bank relate to deposits for monetary regulation amounting to \$12,787 in both years, bearing interest at the average bank funding rate, with no maturity. Interest earned on the deposit in the Central Bank at December 31, 2013 and 2012 were \$36 and \$43, respectively.

For the years ended on December 31, 2013 and 2012, the Group had an asset (liability) balance for foreign currency purchase and sale transactions payable at a date later than the traded date of \$1,533 (\$1,543) and \$1,559 (\$3,355), respectively, which were recognized in settlement accounts within "Other accounts receivable, net" and "Creditors on settlement of transactions", as appropriate.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2013 and 2012, the Group had the following three-day interbank loans (“Call money”):

<u>Institution</u>	<u>2013</u>			<u>2012</u>		
	<u>Amount</u>	<u>Rate</u>	<u>Term</u>	<u>Amount</u>	<u>Rate</u>	<u>Term</u>
Banco Nacional de México, S. A.	\$ 2,443	3.40%	2 days	\$ 2,462	4.37%	2 days
Banco Mercantil del Norte, S. A.	1,500	3.45%	2 days	—	—	—
Banco Inbursa, S. A.	2,000	3.44%	2 days	1,000	4.42%	2 days
Nacional Financiera, S. N. C.	<u>450</u>	0.50%	2 days	<u>—</u>	—	—
	\$ <u>6,393</u>			\$ <u>3,462</u>		

At December 31, 2013 and 2012, the Group has gold and silver precious metals (coins) for 19,612 (3,594 gold and 16,018 silver) and 14,506 (3,393 gold and 11,113 silver) units, respectively; the quoted market prices used for translation purposes are those issued by the Central Bank; purchase and sale transactions are 24 and 48 hour. The value of such metals is shown under “Other Funds available” and is analyzed as follows:

	<u>2013</u>	<u>2012</u>
Immediate payment notes receivable	\$ <u>10</u>	<u>32</u>
Precious metal coins:		
Gold	44	61
Silver	<u>5</u>	<u>5</u>
	<u>49</u>	<u>66</u>
	\$ <u>59</u>	<u>98</u>

At December 31, 2013 and 2012, foreign currency receivable and deliverable in connection with the purchases and sales to be settled within 24 and 48 hours are as follows:

	<u>Receivable</u>		<u>Deliverable</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Dollar	\$ 1,714	5,240	(1,685)	(3,223)
Other currencies	<u>90</u>	<u>1,204</u>	<u>(109)</u>	<u>(1,227)</u>
	\$ <u>1,804</u>	<u>6,444</u>	<u>(1,794)</u>	<u>(4,450)</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2013, earnings from operations of buy/sell and valuation result of metals and currencies amounted to (\$469) and \$513, respectively (\$549 and \$411 respectively in 2012), and are recorded under "Financial intermediation income". Such results are mostly part of a synthetic strategy with derivatives.

(6) Investment securities-

(a) Composition-

At December 31, 2013 and 2012, the investment securities are as follows:

	<u>2013</u>	<u>2012</u>
<u>Trading:</u>		
Debt securities:		
Government securities	\$ 16,954	24,772
Bank promissory notes	1,115	2,412
Others	639	443
Equity	<u>1,014</u>	<u>1,727</u>
	<u>19,722</u>	<u>29,354</u>
 <u>Available-for-sale</u>		
Debt securities:		
Government securities	25,996	21,016
Bank promissory notes	1,129	2,533
Others	375	870
Equity	<u>426</u>	<u>464</u>
	<u>27,926</u>	<u>24,883</u>
 <u>Held-to-maturity:</u>		
Special CETES of the UDI Trust:		
Residential mortgages	<u>2,143</u>	<u>2,063</u>
Total investment securities	\$ <u>49,791</u>	<u>56,300</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

- (b) At December 31, 2013 and 2012, debt securities relating to government securities, bank notes and shares classified as trading and available-for-sale securities, are analyzed as follows:

	<u>2013</u>	<u>2012</u>
<u>Trading:</u>		
Debt securities:		
Government securities (unrestricted):		
BI CETES	\$ 58	6
LD BONDES	<u>-</u>	<u>381</u>
	<u>58</u>	<u>387</u>
Value date sales:		
M BONOS	(1,658)	(492)
BI CETES	(107)	(488)
S UDIBONO	(25)	(20)
BPAT	<u>(50)</u>	<u>-</u>
	<u>(1,840)</u>	<u>(1,000)</u>
(Assigned securities to be settled) unrestricted securities	\$ <u>(1,782)</u>	<u>(613)</u>
<u>Trading:</u>		
<u>Unrestricted securities:</u>		
Own position:		
BI CETES	\$ 697	217
M BONOS	<u>17</u>	<u>2,222</u>
	<u>714</u>	<u>2,439</u>
Value date sales:		
M BONOS	(90)	(70)
BI CETES	(14)	(11)
S UDIBONO	<u>(13)</u>	<u>-</u>
	<u>(117)</u>	<u>(81)</u>
Total unrestricted government securities to the next page	\$ <u>597</u>	<u>2,358</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Total unrestricted government securities from the previous page	\$ <u>597</u>	<u>2,358</u>
<u>Restricted trading securities:</u>		
Government securities:		
Pledged CETES in guarantee	<u>343</u>	<u>276</u>
Under repurchase/resell agreements:		
BI CETES	4,131	7,931
BPAS	6	5
BPA 182	313	536
BPAT	52	80
CEBUR	141	268
BPAG	219	517
LD BONDES	8,030	8,647
M BONOS	2,359	2,074
S UDIBONO	<u>21</u>	<u>173</u>
	<u>15,272</u>	<u>20,231</u>
Value date purchases:		
M BONOS	654	251
S UDIBONO	23	10
BI CETES	15	1,646
BPAT	<u>50</u>	<u>—</u>
	<u>742</u>	<u>1,907</u>
Total government securities	\$ <u>16,954</u>	<u>24,772</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Banking notes:		
Unrestricted securities		
BANOBRA	\$ 398	792
BANCOMEXT	<u>3</u>	<u>3</u>
Unrestricted banking notes	\$ <u>401</u>	<u>795</u>
<u>Trading</u>		
Restricted securities:		
Under repurchase/resell agreements:		
CBBN	15	-
PRLV	<u>699</u>	<u>1,617</u>
	<u>714</u>	<u>1,617</u>
Total banking notes	\$ <u>1,115</u>	<u>2,412</u>
Others:		
Unrestricted securities:		
CBUR	\$ -	394
CBPC	<u>-</u>	<u>30</u>
	<u>-</u>	<u>424</u>
Under repurchase/resell agreements:		
CBUR	424	19
CBPC	<u>215</u>	<u>-</u>
	<u>639</u>	<u>19</u>
Total others debt securities	\$ <u>639</u>	<u>443</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Equity shares:		
Unrestricted shares:		
NAFTRAC	\$ 31	53
SCOTIA G	459	1,121
Others	<u>262</u>	<u>423</u>
	<u>752</u>	<u>1,597</u>
Value date sales:		
NAFTRAC	(2)	(7)
WALMEX	(1)	(7)
ALFAA	(7)	-
Others	<u>(132)</u>	<u>(115)</u>
	<u>(142)</u>	<u>(129)</u>
Securities lending:		
PEÑOLES	18	53
NAFTRAC	27	45
ALFAA	28	-
Others	<u>152</u>	<u>61</u>
	<u>225</u>	<u>159</u>
Restricted equity shares:		
SCOTIAG	<u>36</u>	<u>-</u>
Value date purchases:		
NAFTRAC	10	2
GMEXICO	4	7
ALFAA	7	-
WALMEX	1	7
Others	<u>121</u>	<u>84</u>
	<u>143</u>	<u>100</u>
Total equity shares	<u>1,014</u>	<u>1,727</u>
Total trading securities	\$ <u>19,722</u>	<u>29,354</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
<u>Available-for-sale:</u>		
Debt securities:		
Domestic government securities:		
BI CETES	\$ 1,642	–
BPAS	120	–
LD BONDES	1,445	108
M BONOS	416	–
BPAG	–	27
CABEI	451	337
FIFOMI	<u>–</u>	<u>14</u>
	<u>4,074</u>	<u>486</u>
Foreign government securities:		
BRAZD15	–	391
BRAZX87	–	521
BRAZG46	599	–
UMS13F	–	524
UMS14F	222	231
UMS14F2	149	154
UMS15F	<u>475</u>	<u>468</u>
	<u>1,445</u>	<u>2,289</u>
Value date purchases (Restricted or pledged as collateral):		
BRAZD15	359	–
BRAZG46	<u>218</u>	<u>–</u>
	<u>577</u>	<u>–</u>
Restricted securities:		
Under repurchase/resell agreements:		
LD BONDES	19,488	17,353
M BONOS	412	–
BPAS	–	119
BPAG	<u>–</u>	<u>769</u>
	<u>19,900</u>	<u>18,241</u>
Total government debt, to the following page	\$ <u>25,996</u>	<u>21,016</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
<u>Available for sale:</u>		
Total government debt, from the previous page	\$ <u>25,996</u>	<u>21,016</u>
Banking notes:		
Own position:		
BANORTE	–	1,908
BANOB	69	15
BACMEXT	<u>451</u>	<u>–</u>
	<u>520</u>	<u>1,923</u>
Restricted securities:		
Under repurchase/resell agreements:		
BANOB	<u>609</u>	<u>610</u>
Total banking notes	<u>1,129</u>	<u>2,533</u>
VIPESA	–	507
MOLYMET	151	–
MONTP10	82	49
TCM10	142	138
PRB	<u>–</u>	<u>25</u>
Total others debt securities	<u>375</u>	<u>719</u>
Restricted securities:		
MOLYMET	<u>–</u>	<u>151</u>
Total others restricted securities	<u>375</u>	<u>870</u>
Equity shares:		
BOLSA	424	462
Others	<u>2</u>	<u>2</u>
Total shares	<u>426</u>	<u>464</u>
Total available-for-sale	\$ <u>27,926</u>	<u>24,883</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos, except otherwise indicated)

<u>Held-to-maturity:</u>	<u>2013</u>	<u>2012</u>
Government securities:		
CETES B4 170713	\$ 786	756
CETES B4 220707	351	338
CETES B4 220804	2	2
CETES B4 270701	993	956
CETES BC 170713	<u>11</u>	<u>11</u>
Total government securities (note 9d)	\$ <u>2,143</u>	<u>2,063</u>

For the years ended December 31, 2013 and 2012, the Group maintains an asset (liability) balance for transactions with securities settled on a date subsequent to the trade date of \$1,947 (\$733) and \$1,196 (\$2,008), respectively, which were recognized in settlement accounts within “Other accounts receivable, net” and “Creditors on settlement of transactions” captions, as appropriate.

In 2011, the Group held 3,761,849 due debt instruments with a value of \$35 per instrument, for which impairment was recognized during 2010, thus reducing the value of the instruments by \$7.40 Mexican pesos each to a carrying amount of \$28. On June 28, 2011, the issuer undertook a restructure and exchanged of 1,316,647 instruments for a par value of \$43.9 Mexican pesos each. The Group’s management recognized the instruments at a value of \$21.14 Mexican pesos each, this being its best recoverability estimate, writing off due instruments and recognizing the latter in available-for-sale securities, with a fair value of \$28 at December 31, 2011, and the valuation result for securities for the year ended on that date, was recognized in “Unrealized gain from valuation of available for sale securities” in stockholders’ equity for \$14.

During 2012, the Group recognized impairment in 1,316,647 debt securities mentioned in the preceding paragraph of \$28, which was recognized in the year’s results of operations.

The gain or loss from valuation of available-for-sale securities for the years ended December 31, 2013 and 2012, recognized in other items of comprehensive income within stockholders’ equity amounted to \$356 (\$213 net of deferred taxes) and \$129 (\$79 net of deferred taxes), respectively. The above includes the net (loss) gains for hedged instruments of (\$14) and \$25, respectively.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

For the years ended December 31, 2013 and 2012, the interest income from investment securities amounted to \$1,765 and \$1,646, respectively.

For the years ended December 31, 2013 and 2012, the net gains from interest income, gains or losses from purchase and sale, and valuation income from investment securities are as follows:

	<u>2013</u>	<u>2012</u>
Trading	\$ 1,054	1,267
Available-for-sale	1,270	994
Held-to-maturity	<u>80</u>	<u>86</u>
	<u>\$ 2,404</u>	<u>2,347</u>

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

At December 31, 2013, there is no investment in non-government debt securities of a single issuer exceeding 5% of the Bank's net capital. At December 31, 2012, are analyzed as follows:

	<u>2012</u>		
	<u>Issuance</u>	<u>Amount</u>	<u>Term*</u> <u>Rate**</u>
BANORTE	Various	\$ 1,908	58 4.54%

* weighted average term (days)

** weighted average rate

(d) Issuers over 5% of the Brokerage firm's global capital-

At December 31, 2013 and 2012, investments in debt securities other than government securities of the same issuer exceeding 5% of the Brokerage Firm's global capital are as follows:

<u>Issuer</u>	<u>Number of securities</u>	<u>Rate</u>	<u>Term (days)</u>	<u>Amount</u>
December 31, 2013				
BANOBRA	398,628,955	3.61%	87	\$ 398
TCM	102,188,225	<u>3.79%</u>	1,513	<u>142</u>
December 31, 2012				
BANOBRA	792,633,401	<u>4.54%</u>	219	\$ <u>792</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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

Repurchase/resell agreements-

At December 31, 2013 and 2012, the “Debtors on repurchase/resell agreements” and “Creditors on repurchase/resell agreements” balances in which the Group acts as repurchasee, are analyzed as follows:

	<u>Debtors on</u>		<u>Creditors on</u>	
	<u>repurchase/resell agreements</u>		<u>repurchase/resell agreements</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
BPAS	\$ —	—	(6)	(5)
BPAT	—	—	(52)	(80)
BPA 182	5,765	10,794	(332)	(487)
BPAG	12,893	4,217	(200)	(1,187)
M BONOS	7,440	5,513	(1,521)	(2,010)
CTIM	1,300	—	(1,407)	(6,240)
LD BONDESD	19,035	18,965	(13,430)	(9,698)
CBIC	500	—	—	—
CBBN	—	—	(15)	—
CBPC	—	—	(215)	(30)
CBUR	—	—	(565)	(680)
PRLV	—	—	(699)	(1,417)
UDIB	—	—	(21)	(175)
	<u>—</u>	<u>—</u>	<u>(21)</u>	<u>(175)</u>
Collateral sold or pledged (on repo):	<u>46,933</u>	<u>39,489</u>	<u>(18,463)</u>	<u>(22,009)</u>
LD BONDESD	(30,733)	(32,461)		
M BONOS	(8,278)	(3,505)		
BPA 182	(2,757)	(3,857)		
CTIM	(3,816)	(1,336)		
BPAS	—	(119)		
BPAG	(12,869)	(2,519)		
CBIC	(500)	—		
CBBN	(609)	(609)		
CEBUR	—	(151)		
	<u>(59,562)</u>	<u>(44,557)</u>		
Collaterals sold or pledged (Creditor)	\$ <u>(12,629)</u>	<u>(5,068)</u>		

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2013 and 2012, the terms of resell/repurchase agreements vary between 2 and 32 days (2 and 84 days in 2012), with annual weighted rates of 3.59% acting as repurchasee, and 3.37% acting as repurchaser (4.53% and 4.18% in 2012). At December 31, 2013 and 2012 for the Brokerage Firm, the terms of the repurchase/resale agreements are the same that of the Bank with weighted rates of 3.61% when acting as repurchasee and 3.40% when acting as repurchaser (4.51% and 4.18% in 2012, respectively).

During the years ended December 31, 2013 and 2012, interest or premiums collected amounted to \$1,572 and \$2,377, respectively; interest or premiums paid amounted to \$2,745 and \$2,910, respectively, and are included in the consolidated statements of income under the caption "Interest income" and "Interest expense", respectively (see note 21 (b)).

At December 31, 2013 and 2012, the Group received government securities as guarantee for over 3-day repurchase agreements, which was included and recorded in memorandum accounts, as follows:

2013:

<u>Issuer</u>	<u>Series</u>	<u>Number of certificates</u>	<u>Market value</u>
Guarantees received:			
BI CETES	140403	6,029,675	\$ 60
IS BPA 182	150917	537,376	54
IS BPA 182	171005	55,034	5
IQ BPAG 91	181018	60,860	<u>6</u>
Total guarantees received			\$ <u>125</u>

2012:

<u>Issuer</u>	<u>Series</u>	<u>Number of certificates</u>	<u>Market value</u>
Guarantees received:			
BI Cetes	130725	1,101,918	\$ 11
IS Bpa 182	180412	903,859	90
LD Bondes D	140320	2,095,934	209
LD Bondes D	140719	43,416	4
LD Bondes D	171019	52,812	5
LD Bondes D	190328	81,452	<u>8</u>
Total guarantees received			\$ <u>327</u>

Securities lending:

At December 31, 2013 and 2012, the Group held securities lending transactions as lender and borrower in which the values object of the transactions were received and transferred.

The obligation to repay the lender values derived from the purchase of these securities were as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>2013:</u>	<u>Number of securities</u>	<u>Fair value</u>
ALFA A	1,017,384	\$ 37
ICA *	50,000	1
ICH B	42,000	4
PE&OLES *	55,000	18
ALSEA *	79,200	3
PBR N	3,800	1
FCX *	2,880	1
VALE N	7,800	2
CHDRAUI B	250,438	11
GRUMA B	360,000	35
ALPEK A	19,000	1
BIMBO A	540,114	22
GFNORTE O	312,000	28
KIMBER A	294,800	11
LAB A	1,108,000	41
SIMEC B	40,000	2
TLEVISA CPO	139,180	<u>11</u>
		\$ <u>229</u>
<u>2012:</u>	<u>Number of securities</u>	<u>Fair value</u>
AC*	27,477	\$ 3
ALFA A	675,000	18
CEMEX CPO	229,000	3
ICA *	90,000	3
ICH B	98,500	10
KOF L	9,000	2
PE&OLES *	82,331	54
ALSEA *	125,000	3
URBI *	224,000	2
HOMEX *	64,200	2
GAP B	205,000	15
NAFTRAC 02	1,132,300	49
PBR N	3,800	1
VALE N	5,400	1
WALMEX V	460,911	<u>20</u>
		\$ <u>186</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2013 and 2012 the right to require the borrower values derived from the sale of such securities, are analyzed as follows:

<u>2013:</u>	<u>Number of securities</u>	<u>Fair value</u>
ALFA A	768,884	\$ 28
CEMEX CPO	168,160	2
ICA *	50,000	1
ICH B	42,000	4
PE&OLES *	54,941	18
ALSEA *	67,200	3
NAFTRAC	635,400	27
PBR N	3,800	1
FCX *	2,880	1
VALE N	7,800	1
GMEXICOB	14,600	1
ALPEK A	19,000	1
AMX L	2,000,000	30
BIMBO A	540,114	22
CHDRAUI B	124,846	6
GFNORTE O	58,300	5
GRUMA B	310,000	31
KIMBER A	70,300	3
LAB B	908,000	33
MEXCHE M	30,000	2
TLEVISA CPO	31,200	2
SIMEC B	40,000	<u>2</u>
		\$ <u>224</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>2012:</u>	<u>Number of securities</u>		<u>Fair value</u>
ALFA A	675,000	\$	18
CEMEX CPO	229,000		3
ICA *	90,000		3
ICH B	98,500		10
PE&OLES *	82,331		54
ALSEA *	125,000		3
URBI *	224,000		2
HOMEX *	64,200		2
GAP B	205,000		15
NAFTRAC 02	972,800		43
PBR N	3,800		1
VALE N	5,400		1
GMEXICOB	14,600		<u>1</u>
		\$	<u>156</u>

The average maturity of the securities lending transactions as of December 31, 2013 and 2012 whereby the Group acts as a lender is 28 and 19 calendar days and acting as a borrower is 29 and 11 days, respectively.

For the year ended December 31, 2013, premiums collected and paid in securities lending transactions amounted to \$8 and \$3, respectively (\$5 and \$2 in 2012, respectively), and are included in the consolidated statement of income under the captions of "Interest income" and "Interest expense", respectively (note 21 (b)).

At December 31, 2013 and 2012, the securities lending transactions in which the Group acts as a lender, have restricted securities for \$229 and \$186, respectively (see note 6).

(8) Derivatives-

At December 31, 2013 and 2012, the valuation of derivative financial instruments for trading and hedging purposes recognized under the caption "Derivatives", is analyzed in the next page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>		<u>2012</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Trading purposes:				
Foreign exchange currency				
forward contracts	\$ 160	185	100	39
Futures	1	1	-	-
Options (equity and indices)	506	1,067	267	3,014
Options (structured notes)	231	236	-	-
Interest rate swaps	<u>1,370</u>	<u>1,669</u>	<u>1,217</u>	<u>1,445</u>
	<u>2,268</u>	<u>3,158</u>	<u>1,584</u>	<u>4,498</u>
Hedging purposes:				
Fair value hedges	13	66	18	213
Cash flow hedges	<u>246</u>	<u>226</u>	<u>31</u>	<u>255</u>
	<u>259</u>	<u>292</u>	<u>49</u>	<u>468</u>
	\$ <u>2,527</u>	<u>3,450</u>	<u>1,633</u>	<u>4,966</u>

For the years ended December 31, 2013 and 2012, the amount of losses recognized in results of operations arising from the impairment of derivatives for trading and hedging purposes amounted to (\$6) and (\$3) and hedging for (\$19) and (\$11), respectively.

The income (loss) net for the year ended December 31, 2013 and 2012, derived from the ineffectiveness of instruments used for cash flows hedging purposes amounted to \$2 and (\$11), respectively, which is included in the results of operations under the caption "Financial intermediation income". The effect of gain (loss) from valuation relating to the effective hedge portion for the years ended December 31, 2013 and 2012, amounts to \$407 (\$240 net of the deferred tax effect) and (\$200) ((\$136) net of the deferred tax effect), respectively, is presented in stockholders' equity.

At December 31, 2013 and 2012, the gain (loss) of cash flow hedge instruments that were reclassified from stockholders' equity to the year's results of operations within "Interest income" and "Interest expense" was \$53 and (\$220) and \$60 and (\$122), respectively.

The net estimated effect, based on the results of January 2014 and projected to 12 months, of the accumulated ineffectiveness of hedging derivative transactions which are expected to be reclassified to consolidated statement of income during the following twelve months amount to (\$41) and (\$126), respectively.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2013 and 2012, the gain and (losses) from valuation of fair value hedging derivatives were (\$21) and \$137, respectively, while the loss from valuation of the hedged item attributable to the hedged risk was (\$68) and (\$51), respectively.

At December 31, 2013 and 2012, the net losses on financial assets and liabilities related to trading derivatives are \$456 and \$774, respectively. Such results are part of a synthetic strategy, with non-derivative foreign exchange purchase and sale transactions, which gains (loss) from buy/sell transactions and valuation results at December 31, 2013 amounted to (\$462) and \$515, respectively, (\$533 and \$411 in 2012, respectively), are included in "Financial intermediation income".

For the years ended December 31, 2013 and 2012, the Group foresees that all transactions to hedge forecasted cash flows are highly likely to occur.

For the years ended December 31, 2013 and 2012, the Bank maintained an asset (liability) balance on derivatives transactions settled on a date subsequent to the trade date of \$0 and (\$6), respectively, which were recognized in settlement accounts within "Other accounts receivable" and "Creditors pending settlement", as appropriate.

For the years ended December 31, 2013 and 2012, the Brokerage Firm maintained an asset (liability) balance for transactions with derivatives settled on a date after the trade date of \$15 and \$9 which were recorded in clearing accounts within "Accounts receivable, net" and "Creditors on settlement of transactions."

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

At December 31, 2013, out of all hedging derivative transactions, there are 229 agreements (203 agreements in 2012) totaling \$24,220 (\$15,560 in 2012) and are converting liabilities, assets in securities and 28 days loans classified as hedges under the cash flow methodology, the remainder relates to hedges of credit and bonds for \$26,251 (\$35,258 in 2012) and for value hedges are classified as covered under the fair value methodology.

The Group uses derivative financial instruments with the purpose of properly dealing with interest rate and exchange rate risks inherent to loan, deposit and investment transactions, all of which are characteristic of commercial banking. The most widely used instruments are interest rate and currency swaps, whereby floating rate instruments are transformed into fixed rate instruments and vice versa or assets denominated in foreign currency are translated into domestic currency or vice versa. Derivatives may be used for hedging cash flows or the economic value of various Group assets and liabilities. There are defined control policies for the designation and continuous follow up of the effectiveness of such hedges.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(9) Loan portfolio-

(a) Classification of loan portfolio by currency-

At December 31, 2013 and 2012, the classification of loans into current and past due by currency, which includes the restructured loan portfolio in UDI Trusts (valued in local currency), is as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Current</u>	<u>Past due</u>	<u>Current</u>	<u>Past due</u>
<u>In assets:</u>				
<u>Pesos:</u>				
Business or commercial activity	\$ 39,933	809	33,540	334
Financial institutions	13,851	-	4,027	-
Governmental entities	3,213	-	3,729	-
Consumer loans	28,539	936	23,256	602
Residential mortgages	<u>54,498</u>	<u>2,522</u>	<u>47,869</u>	<u>1,945</u>
	<u>140,034</u>	<u>4,267</u>	<u>112,421</u>	<u>2,881</u>
<u>Foreign currency:</u>				
Business or commercial activity	10,004	21	8,468	17
Financial institutions	2,451	-	2,607	-
Governmental entities	-	-	1,216	-
Residential mortgages	<u>118</u>	<u>66</u>	<u>166</u>	<u>50</u>
	<u>12,573</u>	<u>87</u>	<u>12,457</u>	<u>67</u>
	\$ <u>152,607</u>	<u>4,354</u>	<u>124,878</u>	<u>2,948</u>
		156,961		127,826
<u>In memorandum accounts:</u>				
Loan commitments (see note 20g)		<u>6,087</u>		<u>6,812</u>
	\$	<u>163,048</u>		<u>134,638</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

For the years ended December 31, 2013 and 2012, the Group has no restricted loan portfolio.

(b) Classification of loan portfolio by economic sector-

At December 31, 2013 and 2012, credit risk including loans, guarantees and loan commitments, (see note 20g) classified by economic sector and the percentage of concentration are analyzed as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Community, social and personal services, mainly governmental entities	\$ 14,838	9	\$ 12,678	10
Construction and housing*	61,670	38	54,259	40
Financial, insurance and real estate services	18,592	11	12,393	9
Manufacturing	14,108	9	11,291	8
Commerce and tourism	18,941	12	13,906	10
Consumer loans and credit cards	29,475	18	23,859	18
Agriculture, forestry and fishing	4,217	3	3,848	3
Transportation, warehousing and communication	594	-	906	1
Other	<u>613</u>	<u>-</u>	<u>1,498</u>	<u>1</u>
	<u>\$ 163,048</u>	<u>100</u>	<u>\$ 134,638</u>	<u>100</u>

*Includes portfolio of mortgage loans in 2013 for \$57,204 and \$50,030 in 2012.

(c) Loans to governmental entities-

At December 31, 2013 and 2012, loans granted to governmental entities are analyzed as follows:

	<u>2013</u>	<u>2012</u>
Autonomous entity loan	\$ -	1,239
Receivables under financial support programs	135	204
Governments, municipalities and states	<u>3,078</u>	<u>3,502</u>
Total loans to governmental entities	<u>\$ 3,213</u>	<u>4,945</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(d) *Early termination of mortgage programs-*

On July 15 and 26, 2010, the relevant agreement was executed and the Official Gazette published the general provisions applicable to the early termination of the support programs for housing loan debtors, which included the requirements for the loans eligible to participate, as listed below:

- (i) Loans that have been restructured or granted in UDIS under the UDIS programs irrespective of whether or not they are entitled to the discount program benefits,
- (ii) domestic currency-denominated loans entitled to the discount program benefits,
- (iii) loans that as of December 31, 2010 (cut-off date) are current and,
- (iv) past-due loans that were restructured or to which a debt relief, discount or allowance was applied no later than December 31, 2010, and for which evidence substantiating payment for at least three consecutive amortizations no later than March 31, 2011 exists.

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

- The amount of the conditional discount portion payable by the Federal Government in connection with the mortgage programs related to the UDI trusts and own UDI-denominated loans, for the current loan portfolio amounted to \$81 and \$74, respectively.
- In May 2011, \$7 was recorded in accounting records reducing the loan due by the Federal Government, which was charged to the allowance for loan losses, due to the default of 29 borrowers, under the Agreement to prove "Fulfillment of payment" by March 31, 2011.
- The amount of the discounts applied prior to the signing of the Discount Program is \$178.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

For the discounts payable by the Federal Government, a five-year loan payable on an annual basis was recognized under “Commercial loans – Governmental Entities”, being part of the current loan portfolio. The general terms of the loan payable by the Federal Government is shown below:

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

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

The Group has received three annual payments on the discounts due by the Federal Government under the Agreement; the payments dates are shown below:

<u>Payment date</u>	<u>Annuity</u>	<u>Capital</u>	<u>Interests</u>
June 3, 2013	Third	\$ 66	\$ 9
June 1, 2012	Second	66	6
December 1, 2011	First	<u>66</u>	<u>14</u>

At December 31, 2012, the Group did not apply any amount to the remaining balance of the trust liability payable by the Group and that should be charged to the allowance for credit risks.

Likewise, the Special Cetes currently recorded by the Group at December 31, 2013 under “Investment securities – Held-to-maturity securities” (see note 6b), are as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Titles</u>	<u>Amount</u>	<u>Maturity date</u>
Cetes especiales B4 170713	8,867,241	\$ 786	July 13, 2017
Cetes especiales B4 220707	3,961,831	351	July 7, 2022
Cetes especiales B4 220804	21,792	2	August 4, 2022
Cetes especiales B4 270701	11,209,686	993	July 1, 2027
Cetes especiales BC 170713	404,851	11	July 13, 2017
Cetes especiales BC 220804	3,115	–	August 4, 2022
Cetes especiales BV 270701	<u>6</u>	<u>–</u>	July 1, 2027
Total special Cetes	<u>24,468,522</u>	\$ <u>2,143</u>	

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

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

Annual weighted lending rates:

Annual weighted loan interest rates during 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Commercial loans*	5.97%	6.48%
Personal loans	23.41%	17.46%
Credit cards	25.91%	27.96%
Residential mortgages	11.23%	11.54%

* Includes commercial, financial and governmental entities loans.

Loans rediscounted with recourse:

The Mexican Government has established certain funds for the promotion and development of specific areas of the agriculture, cattle-raising, industrial and tourism sectors, which are managed by the Central Bank, Nacional Financiera S. N. C. (NAFIN), Banco Nacional de Comercio Exterior (Bancomext) and Fideicomisos Instituidos en relación con la Agricultura (FIRA) by rediscounting loans with recourse. At December 31, 2013 and 2012, the amount of loans granted under these programs totaled \$4,675 and \$3,801, respectively, and the related liability is included in “Bank and other borrowings” (see note 15).

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Restructured loans:

At December 31, 2013 and 2012, restructured and renewed loans are analyzed as follows:

	<u>Current loans</u>	<u>Past due loans</u>	<u>Total</u>
<u>2013</u>			
Commercial loans	\$ 1,253	330	1,583 ⁽¹⁾
Residential mortgages	4,236	525	4,761
Personal loans	<u>32</u>	<u>9</u>	<u>41</u>
	\$ <u>5,521</u>	<u>864</u>	<u>6,385</u>

⁽¹⁾ In 2013, a commercial loan was restructured, with additional real estate guarantees amounting to \$46.

2012

Commercial loans	\$ 1,573	130	1,703
Residential mortgages	4,642	434	5,076 ⁽²⁾
Consumer loans	<u>78</u>	<u>23</u>	<u>101</u>
	\$ <u>6,293</u>	<u>587</u>	<u>6,880</u>

⁽²⁾ From the total balance of restructured and renewed residential mortgage loans as of December 31, 2012, there were no additional guaranties obtained.

During 2013 and 2012, the Group carried out some modifications to the original terms of loans classified as commercial loans for \$1,007 and \$1,130 respectively, which were not considered restructures.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Current commercial loans restructured by the Group during 2013 and 2012, which continue to be current, amount to \$125 and \$216, respectively; for mortgage loan portfolio were \$405 and \$595, respectively. During 2012, no past due commercial loans were restructured, and in 2013 the Group recorded restructuring to past due commercial and remained past due for \$144.

During 2013, the Group did not restructure past due mortgage loans; in 2012 the amount of restructures is \$632, from which \$602 relates to current mortgage portfolio and \$30 to past due portfolio.

During 2013 and 2012, the Group did not restructure consumer loans.

During the years 2013 and 2012, capitalization of interest was for \$9 and \$6, respectively.

Risk concentration:

At December 31, 2013, the Bank has two economic group debtors that exceeded 10% of its basic capital. The amount of funding to these groups is \$14,256 and represents 51% of the basic capital as of September, 2013. At December 31, 2012, the Bank has one economic group debtor that exceeded such limit totaling \$9,977 and represents, 38% of its basic capital. The balance of the loans granted to the three largest debtors as of December 31, 2013 and 2012, amount to \$16,872 and \$12,334, respectively.

Past due loan portfolio:

An analysis of past due loans at December 31, 2013 and 2012, from the date the loans went past due, are summarized below:

	<u>1 to 180</u> <u>days</u>	<u>181 to 365</u> <u>days</u>	<u>1 to 2</u> <u>years</u>	<u>Over</u> <u>2 years</u>	<u>Total</u>
<u>2013</u>					
Commercial*	\$ 178	132	348	172	830
Consumer	887	46	-	3	936
Residential mortgages	<u>1,425</u>	<u>521</u>	<u>426</u>	<u>216</u>	<u>2,588</u>
	\$ <u>2,490</u>	<u>699</u>	<u>774</u>	<u>391</u>	<u>4,354</u>
<u>2012</u>					
Commercial*	\$ 99	46	67	139	351
Consumer	565	34	3	-	602
Residential mortgages	<u>1,204</u>	<u>434</u>	<u>333</u>	<u>24</u>	<u>1,995</u>
	\$ <u>1,868</u>	<u>514</u>	<u>403</u>	<u>163</u>	<u>2,948</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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

The movement in the past due loan portfolio for the years ended December 31, 2013 and 2012 is summarized below:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 2,948	3,110
Settlements	(118)	(22)
Write-offs and debt forgiveness	(2,281)	(1,620)
Net increase	3,803	1,407
Foreign exchange fluctuation	2	(2)
Portfolio acquired (Crédito Familiar)	<u>-</u>	<u>75</u>
	\$ <u>4,354</u>	<u>2,948</u>

The interest on the past due loan portfolio not recognized in results of operations for the year ended December 31, 2013 amounted to \$278 (\$156 in 2012), which are recorded in memorandum accounts.

For the years ended December 31, 2013 and 2012, the Group recorded write-offs from those past due loans that had been fully reserved for \$2,141 and \$1,547, respectively. In both years there was no application of reserves to loans granted to related parties.

For the years ended December 31, 2013 and 2012, the Group obtained recoveries of loans for \$566 and \$590, respectively.

Impaired loans:

At December 31, 2013, the balance of impaired commercial loans is \$2,343 (\$2,473 in 2012), from which \$1,513 are recorded in current loans (\$2,122 in 2012), and \$830 are recorded in past due loans (\$351 in 2012).

Adjustment from valuation of financial asset hedging:

At December 31, 2013 and 2012, the adjustment to the carrying value of the loan portfolio from the gain or loss recognized in results of operations for the year is presented under the caption "Valuation adjustment from hedging of financial assets" in the consolidated balance sheet for \$47 and \$63, respectively.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(f) Allowance for loan losses-

As of December 31, 2013, as a result from the application of the new allowance for loan losses methodology, the probability of default, loss given default and exposure at default by type of loan portfolio, obtained as weighted average from the exposure at default, are as follows:

<u>Type of loan portfolio</u>	<u>Probability of default</u>	<u>Loss given default</u>	<u>Exposure to default</u>
Commercial*	4.41%	12.63%	\$ 62,686
Residential mortgages	5.04%	21.52%	57,204
Personal loans	12.01%	68.07%	18,974
Revolving	<u>12.75%</u>	<u>75.10%</u>	<u>10,184</u>

The parameters are weighted on the loans of each of the portfolios. Exposure at default shown for credit includes credit commitments.

* Commercial loan portfolio does not include financial institutions, which methodology is effective beginning January 2014 and investment projects which methodology is not based on expected losses, in both cases are according to the Provisions

At December 31, 2012, the allowance for loan losses classified between general reserves and specific reserves according to the criteria mentioned in note 2(j), is as follows;

	<u>General</u>	<u>Specific</u>
Commercial *	\$ 193	970
Personal loans	235	1,341
Residential mortgages	<u>96</u>	<u>420</u>
	<u>524</u>	<u>2,731</u>
	\$ <u>3,255</u>	

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

At December 31, 2013, the graded loan portfolio and the allowance for loan losses are classified as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Degree of risk		Commercial	Financial institutions	Governmental entities	Consumer	Residential mortgages	Total
<u>Graded loan portfolio</u>							
A-1	\$	39,801	9,454	1,065	12,500	44,829	107,649
A-2		5,603	1,626	1,790	1,947	5,566	16,532
B-1		1,063	8,730	–	2,326	1,151	13,270
B-2		261	318	6	2,020	1,171	3,776
B-3		2,772	1	300	2,637	688	6,398
C-1		883	–	–	2,995	1,337	5,215
C-2		498	–	52	1,556	637	2,743
D		1,082	–	–	1,980	1,557	4,619
E		<u>1,064</u>	<u>–</u>	<u>–</u>	<u>1,514</u>	<u>268</u>	<u>2,846</u>
Total	\$	<u>53,027</u>	<u>20,129</u>	<u>3,213</u>	<u>29,475</u>	<u>57,204</u>	<u>163,048</u>
<u>Allowance for loan losses</u>							
A-1	\$	174	45	5	157	77	458
A-2		76	16	23	94	33	242
B-1		20	150	–	298	10	478
B-2		6	32	–	119	14	171
B-3		87	–	11	170	12	280
C-1		53	–	–	220	40	313
C-2		66	–	6	246	51	369
D		281	–	–	711	279	1,271
E		<u>700</u>	<u>–</u>	<u>–</u>	<u>814</u>	<u>102</u>	<u>1,616</u>
Subtotal	\$	<u>1,463</u>	<u>243</u>	<u>45</u>	<u>2,829</u>	<u>618</u>	5,198
Additional reserves for residential mortgages past due loans							93
Operational risk reserve							14
Additional reserve for past due accrued interest							70
Specific reserves authorized by the Banking Commission							<u>40</u>
Total allowance for loan losses							\$ <u>5,415</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2012, the graded loan portfolio and the allowance for loan losses, are classified as follows:

Degree of risk	Commercial	Financial institutions	Governmental entities	Consumer	Residential mortgages	Total
<u>Graded loan portfolio</u>						
A and A-1 \$	19,443	9,403	1,762	3,061	45,000	78,669
A-2	13,688	1,678	803	-	-	16,169
B and B-1	8,911	276	2,109	15,191	4,255	30,742
B-2	710	32	67	3,920	-	4,729
B-3	688	-	-	-	-	688
C and C-1	563	-	-	1,133	640	2,336
D	312	-	-	452	1	765
E	<u>102</u>	<u>-</u>	<u>-</u>	<u>101</u>	<u>133</u>	<u>336</u>
Total \$	<u>44,417</u>	<u>11,389</u>	<u>4,741</u>	<u>23,858</u>	<u>50,029</u>	<u>134,434</u>
<u>Allowance for loan losses</u>						
A and A-1 \$	46	36	4	15	96	197
A-2	83	17	7	-	-	107
B and B-1	139	12	38	836	185	1,210
B-2	53	3	7	333	-	396
B-3	79	-	-	-	-	79
C and C-1	200	-	-	424	194	818
D	203	-	-	323	1	527
E	<u>97</u>	<u>-</u>	<u>-</u>	<u>73</u>	<u>40</u>	<u>210</u>
Subtotal \$	<u>900</u>	<u>68</u>	<u>56</u>	<u>2,004</u>	<u>516</u>	3,544
Additional reserves for residential mortgages past due loans						82
Operational risk reserve						31
Additional reserve for past due interest						43
Specific reserves authorized by the Banking Commission						<u>8</u>
Total allowance for loan losses					\$	<u>3,708</u>

Beginning in March 2012, the internal methodology for determining the allowances for commercial loans is based on the expected loss, which was authorized by the Banking Commission. The change in methodology was intended to implement an advanced rating model that enables a reliable estimate of the need for reserves. Changing the methodology resulted in a decrease of \$65 in the allowance. Beginning December 2013, this methodology only applies to customers whose loans have higher net sales or revenues of 14 millions of UDIS.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Derived from the reclassification mentioned to in note 10 (a), allowance for loan losses related to this portfolio was recognized against the prior years' results, which was determined and recorded in accordance with the mentioned Provisions.

Specific estimates recognized by the Banking Commission

Through official letter number 142-2/6584/2012 dated October 15, 2012, the Banking Commission authorized the Bank to create additional reserves for covering FOVI (Fund for the Operations and Bank Financing of Housing) type loans. The allowance was determined by analyzing such portfolio and the need of recording specific allowances for loans with guarantees with recovery deficiencies on the unpaid balance provided for by such Fund. The authorized additional allowance amounts to \$97, which will be accounted for on a monthly basis over 36 months, at a monthly rate of \$2.7, from the authorization date. For the years ended December 31, 2013 and 2012, the amount of \$32 and \$8, respectively was recorded in the income statement.

At December 31, 2013, the Group has no additional guarantees recognized and authorized by the Banking Commission.

The movement in the allowance for loan losses for the years ended December 31, 2013 and 2012 is summarized below:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 3,708	3,576
Provisions charged to results of operations	3,714	1,359
Provisions charged to prior year's results for the application of new accounting criteria	278	-
Applications, waivers and others	(2,225)	(1,550)
Foreclosures	(64)	(57)
Exchange currency fluctuations	4	(14)
Loans acquired (Crédito Familiar)	<u>-</u>	<u>394</u>
Balance at end of year	\$ <u>5,415</u>	<u>3,708</u>

At December 31, 2013 and 2012, the total graded portfolio and total credit risk, including that recognized in memorandum accounts amount \$163,048 and \$134,434 (includes \$204 in 2012 portfolio not including creditors under support programs), respectively.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(g) *Natural disasters support programs-*

Through the office P065/2013, which was issued on October 18, 2013, the Banking Commission authorized to the credit institutions which are part of the Asociación Mexicana de Bancos, A. C., the application of some special accounting criteria in order to support the customers who were affected by the floods and damages provoked by the hydrometeorological phenomenon called “Ingrid” and “Manuel”, which took place in some states of Mexico.

Such supports consisted in deferring until three monthly payments in the different products which are included in the program and their goal is the economic recovery of the affected places.

The Group supported the clients who asked for the support, including the consumer, mortgage and commercial loans products, as well as the corresponding small and medium-sized entities and agricultural credits.

Due to the fact that only eight personal loans requests were received, which total loan portfolio amount was \$1, the Group did not apply the special accounting criteria; the effect in the statement of income was under the concept of waiver of collection expenses.

(10) Collection rights and mortgage portfolio securitization-

(a) Collection rights-

As of December 31, 2012, the Group had recorded under the caption “Other accounts receivable” on the consolidated balance sheet, collection rights of private securitization of securities entered into with different of non financial entities. The acquisitions, collection and balances related to the collection rights are shown in the next page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Amount</u> <u>Dec 31, 2011</u>	<u>2012</u>		<u>Amount</u> <u>Dec 31, 2012</u>	<u>Maturity</u> <u>date</u>
		<u>Acquisition</u>	<u>Collection</u>		
Trust 242896	\$ 2,850	2,932	(1,680)	4,102	June 2017*
Trust 959	316	—	(316)	—	—
Trust 1364	695	—	(695)	—	—
Trust 1439	1,500	1,500	(1,000)	2,000	February 2016**
Trust 1178	1,500	850	(1,522)	828	June 2015***
Trust 1355	—	<u>103</u>	—	<u>103</u>	November 2018****
	<u>6,861</u>	<u>5,385</u>	<u>(5,213)</u>	<u>7,033</u>	
Accrued interest for commission to Credit line unused and restructuring	<u>27</u>	<u>28</u>	<u>(27)</u>	<u>28</u>	
	\$ <u>6,888</u>	<u>5,413</u>	<u>(5,240)</u>	<u>7,061</u>	

* During 2012, the Group acquired new collection rights for \$2,932 over a trust, supported by the automotive portfolio, which matures in June, 2017 (see note 1).

** During 2012, and through a promissory note the Group acquired new collection rights of \$1,500 over a trust, supported by the automotive portfolio, maturing in February 2016 (see note 1).

*** During 2012, and through a promissory note, the Group acquired new collection rights over a trust supported by operating lease assets in the amount of \$850. The promissory note matures in June 2015 (see note 1).

**** On November 30, 2012, the Group acquired new collection rights for \$1,000 over a trust backed by operating lease assets, maturing in November 2018. At December 31 2012, only \$103 has been withdrawn (see note 1)

For the year ended December 31, 2012, the Group recognized in the consolidated results of year \$357, by accrued interest concept, which are included in the consolidated income statement under the caption "Other operating income".

According to the interest method, used for recording the promissory notes, the expected cash flows are deemed highly effective when compared to actual cash flows; furthermore, it has not been necessary to create a preventive reserve for collection rights at December 31, 2012 being that there have been no events that modify the expected cash flow amounts. The totality of the collections made was in cash.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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

On June 24, 2013, it was published in the Official Gazette a resolution that modifies the Dispositions, in which the rating methodology for commercial loans was modified, and also including the credits granted to trusts. According to the aforementioned, starting on December 31, 2013, the collection rights over the trusts guaranteed by financial assets, which are mentioned in this note, were reclassified into the caption "Loan portfolio" for an amount of \$8,561.

(b) Mortgage portfolio securitization-

On March 13, 2008, the Group realized a securitization of a mortgage portfolio, through of a trust that issued debt securities for \$2,500 with maturity in 20 years and an annual interest rate of 9.15%. At December 31, 2013 and 2012, the amount of the portfolio assigned receivable amounted to \$1,027 and \$1,300 respectively, and the amount payable on the debt securities amounted to \$835 and \$1,092, respectively.

As part of the agreed-transaction of the securitization, the Group received a trust certificate, which as of December 31, 2013 and 2012 amounts to \$40 and \$95, respectively. The certificate is reported under the caption "Benefits receivable on securitization transactions" on the consolidated balance sheet, and is recorded at fair value, which was determined based on the expectations for recovery of the trust assets and the remaining cash flows once all obligations to bondholders are met. The fair value of benefits receivable on securitization transactions at December 31, 2013 and 2012 were \$102 and \$65 respectively, the valuation effect was recognized in "Other operating income" in the consolidated statement of income. During the year, no amount is received as a residual.

For the years ended December 31, 2013 and 2012, the assigned portfolio received prepayments of \$133 and \$216, respectively.

The Bank receives servicing fees from the trust, which are recognized in earnings when accrued, for the years ended December 31, 2013 and 2012, the income from this item was \$10 and \$13, respectively.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The trust is not consolidated in accordance with paragraph 21 of transition articles of criterion C-5 issued by the Banking Commission on September 19, 2008.

(11) Foreclosed assets-

At December 31, 2013 and 2012, foreclosed assets are comprised as follows:

	<u>2013</u>	<u>2012</u>
Premises	\$ 59	34
Furniture, values and foreclosed rights	<u>10</u>	<u>10</u>
	69	44
Allowance for impairment	<u>(18)</u>	<u>(15)</u>
	\$ <u>51</u>	<u>29</u>

The movement of the allowance for impairment for the years ended December 31, 2013 and 2012 is analyzed as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ (15)	(17)
Additional provisions due to aging, charged to operations for the year	(5)	(2)
Credit to income on sale of assets	<u>2</u>	<u>4</u>
Balance at end of year	\$ <u>(18)</u>	<u>(15)</u>

(12) Premises, furniture and equipment-

Premises, furniture, equipment and leasehold improvements at December 31, 2013 and 2012 are analyzed in the next page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>	<u>Annual depreciation and amortization rate</u>
Land	\$ 573	565	–
Office premises	1,818	1,742	Various
Transportation equipment	41	63	25 and 33%
Transportation equipment in capital lease	18	13	33%
Computer equipment	1,085	1,418	Various
Computer equipment in capital lease	96	96	20%
Furniture and equipment	1,473	1,488	Various
Telecommunications equipment	432	443	10%
Artworks	2	2	N/A
Leasehold improvements	<u>2,049</u>	<u>2,042</u>	Various
	7,587	7,872	
Accumulated depreciation	<u>(3,560)</u>	<u>(3,685)</u>	
	\$ <u>4,027</u>	<u>4,187</u>	

Depreciation charged to results of operations for the years ended December 31, 2013 and 2012 amounted to \$423 and \$382, respectively.

For the year ended December 31, 2013, the amount charged to results from impairment of leasehold improvements amounted to \$36, mainly due to close of 14 branches.

According to assessment carried out by the Group, the residual value (except land) of office premises at December 31, 2013 and 2012, is minimum.

(13) Permanent investments-

At December 31, 2013 and 2012, the Group's permanent investments in equity, except investments in derivative markets classified as associates, are analyzed by activity as follows:

	<u>2013</u>	<u>2012</u>
Others banking related services	\$ 48	49
Mutual funds	35	32
Security and protection *	<u>1</u>	<u>1</u>
	\$ <u>84</u>	<u>82</u>
Derivatives market operators	\$ <u>6</u>	<u>5</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(14) Deposit funding-

At December 31, 2013 and 2012, the deposit funding, are analyzed as follows:

	<u>2013</u>			<u>2012</u>		
	<u>Currency</u>			<u>Currency</u>		
	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Demand deposits:						
Bearing interest	\$ 38,510	148	38,658	39,756	40	39,796
Non-bearing interest	<u>37,054</u>	<u>8,334</u>	<u>45,388</u>	<u>26,655</u>	<u>7,894</u>	<u>34,549</u>
	<u>75,564</u>	<u>8,482</u>	<u>84,046</u>	<u>66,411</u>	<u>7,934</u>	<u>74,345</u>
Time deposits:						
General public	49,436	4,496	53,932	36,140	5,358	41,498
Money market:						
Certificates of deposit (CD's)	1,784	-	1,784	-	-	-
Notes yield						
Promissory notes	3,069	-	3,069	1,005	-	1,005
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,647</u>	<u>12,971</u>	<u>20,618</u>
	<u>4,853</u>	<u>-</u>	<u>4,853</u>	<u>8,652</u>	<u>12,971</u>	<u>21,623</u>
Debt securities issued:						
Bank bonds	976	-	976	-	-	-
Banking stock certificates (Cebures)	<u>10,874</u>	<u>-</u>	<u>10,874</u>	<u>6,222</u>	<u>-</u>	<u>6,222</u>
	<u>11,850</u>	<u>-</u>	<u>11,850</u>	<u>6,222</u>	<u>-</u>	<u>6,222</u>
Total deposit funding	\$ <u>141,703</u>	<u>12,978</u>	<u>154,681</u>	<u>117,425</u>	<u>26,263</u>	<u>143,688</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The unaudited average weighted interest rates on deposit balances during the years ended December 31, 2013 and 2012, are as follows:

	<u>2013 annual rates</u>		<u>2012 annual rates</u>	
	<u>Domestic currency</u>	<u>Dollars</u>	<u>Domestic currency</u>	<u>Dollars</u>
Demand deposits	1.06%	0.04%	1.12%	0.05%
Long-term:				
General public	3.56%	0.16%	3.78%	0.18%
Money market	<u>4.03%</u>	<u>—</u>	<u>4.59%</u>	<u>0.52%</u>

At December 31, 2013 and 2012, money market and debt securities issued among the public investors, are as follows:

(a) *Money market -*

At December 31, 2013, the Group issued CD's with par value of one hundred pesos for an amount of \$1,784, as shown bellows:

CD's-

<u>Payment of interest</u>	<u>Annual rate</u>	<u>Term in days</u>	<u>Amount</u>
28 days	4.71%	337	\$ 750
28 days	TIE 28 + 0.02%	<u>336</u>	<u>700</u>
			1,450
Accrued interest			<u>3</u>
			<u>1,453</u>
<i>Structured CD's-</i>			
<u>Underlying</u>			
TIE 28		272	200
TIE 28		<u>363</u>	<u>131</u>
			<u>331</u>
			\$ <u>1,784</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Promissory notes

At December 31, 2013 and 2012, the Group issued promissory notes with par value of one hundred pesos, as follows:

<u>Issuance date</u>	<u>Number of Securities</u>	<u>Term in days</u>	<u>Annual rate</u>	<u>Amount</u>
<u>2013</u>				
October 2013	20,191,605	91	3.79%	\$ 20
June 2013	261,136,527	362	4.44%	250
June 2013	522,373,611	362	4.45%	500
May 2013	781,875,000	360	4.25%	750
May 2013	62,668,050	363	4.41%	60
March 2013	1,462,505,327	362	4.47%	<u>1,400</u>
				2,980
Accrued interest				<u>89</u>
				\$ <u>3,069</u>
<u>2012</u>				
December 2012	1,003,566,889	28	4.59%	\$ 1,004
Accrued interest				<u>1</u>
				\$ <u>1,005</u>

On July 17, 2013, the Banking Commission by the document 113-1/15167/2013 clarified the next definitions related to the time deposits as follows.

General public: If it is related to client's deposits which are funded through banking branches, messaging or any other type that is designed for this purpose and solely are withdrawn in the agreed pre established days, contained in the respective contract; for which there is not a secondary market.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Money market: If it is related to deposits which are guaranteed by securities that comply with the established dispositions in the Securities Market Law, which are issued in series or mass and they are signed on whether or not in the National Securities Register, they generally count with a secondary market (highly negotiable) and they are deposited in a local or abroad agency for securities deposit purposes.

Derived from the above, the Group made some corresponding modifications and from such date the time deposits are presented in accordance with the aforementioned definitions.

(b) Debt securities issued

At December 31, 2013 and 2012, the Group issued banking stock certificates with par value of one hundred pesos, under the program authorized by the Banking Commission for up to \$15,000 (see note 1a), likewise during 2013, the Group issued structured notes, as shown bellows:

2013 – Banking stock certificates

<u>Issuance date</u>	<u>Number of Securities</u>	<u>Term in years</u>	<u>Payment of interest in days</u>	<u>Issuance proportion</u>	<u>Interest rate</u>	<u>Amount</u>
June 2013	11,500,000	10	182	8%	7.30%	\$ 1,150
March 2013	34,500,000	5	28	8%	THE 28 days + 0.40%	3,450
November 2012	20,000,000	3	28	13%	THE 28 days+ 0.25%	2,000
November 2010	8,300,000	5	28	21%	THE 28 days+ 0.40%	830
October 2010	3,580,000	7	28	2%	THE 28 days+ 0.49%	358
October 2010	23,120,000	5	28	21%	THE 28 days+ 0.40%	2,312
November 2005	4,000,000	10	28	4%	9.89%	400
December 2005	3,000,000	13	28	3%	9.75%	<u>300</u>
						10,800
Accrued interest						<u>74</u>
						\$ <u>10,874</u>

To following page

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

2013 – Structured notes

From the previous page \$ 10,874

<u>Issuance date</u>	<u>Number of Securities</u>	<u>Term in days</u>	<u>Underlying</u>	
July 2013	853,000	272	TIIE 28 days	85
July 2013	732,800	272	TIIE 28 days	73
August 2013	2,419,200	1,097	SX5E	242
October 2013	1,749,600	1,079	SX5E	175
November 2013	1,156,650	1,078	IBEX35	116
November 2013	205,000	1,078	SPTSX60	20
November 2013	1,586,650	1,078	SPTSX60	159
November 2013	603,250	1,078	SPX	60
December 2013	457,700	1,079	SPTSX60	<u>46</u>
				<u>976</u>
			Total	\$ <u>11,850</u>

2012 – Banking stock certificates

<u>Issuance date</u>	<u>Number of Securities</u>	<u>Term in years</u>	<u>Payment of interest in days</u>	<u>Issuance proportion</u>	<u>Interest rate</u>	<u>Amount</u>
November 2012	20,000,000	3	28	13%	TIIE 28 days + 0.25%	\$ 2,000
November 2010	8,300,000	5	28	21%	TIIE 28 days+ 0.40%	830
October 2010	3,580,000	7	28	2%	TIIE 28 days+ 0.49%	358
October 2010	23,120,000	5	28	21%	TIIE 28 days+ 0.40%	2,312
November 2005	4,000,000	10	28	4%	9.89%	400
December 2005	3,000,000	13	28	3%	9.75%	<u>300</u>
						6,200
Accrued Interest						<u>22</u>
					Total	\$ <u>6,222</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The interest rate of structured notes is variable and notes are unsecured.

On September 2013, through a press release of the Fondo Unido initiative, the Bank took part in the fundraising due to the tropical storms called Ingrid and Manuel. The fundraisings received for this contingency amounted \$1 during the period from September 19, 2013 to November 1, 2013. The recipient of the fundraising was the Natural Disasters Attention Program, United by a million and two hundred victim people, which is called Fondo Unido I. A. P.

During 2013, the Bank supported four limited liability partnerships (six in 2012) for an amount of \$4 (\$7 in 2012).

(15) Bank and other borrowings-

At December 31, 2013 and 2012, bank and other borrowings are comprised as follows:

	<u>2013</u>	<u>2012</u>
Due on demand	\$ <u>1,475</u>	<u>1,068</u>
Short-term:		
Domestic currency:		
Development banks ⁽¹⁾	1,597	1,540
Development agencies ⁽¹⁾	1,841	808
Accrued interest	<u>12</u>	<u>16</u>
	<u>3,450</u>	<u>2,364</u>
Denominated in dollars, translated into pesos:		
Commercial banking	5,291	-
Development agencies ⁽¹⁾	21	161
Development banks ⁽¹⁾	<u>14</u>	<u>31</u>
	<u>5,326</u>	<u>192</u>
Total short term	<u>8,776</u>	<u>2,556</u>
Long-term:		
Domestic currency:		
Development agencies ⁽¹⁾	1,328	1,215
FOVI	<u>-</u>	<u>195</u>
	<u>1,328</u>	<u>1,410</u>
Subtotal to the following page	\$ <u>11,579</u>	<u>5,034</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Subtotal from previous page	\$ <u>11,579</u>	<u>5,034</u>
Denominated in dollars, translated into pesos:		
Development agencies ⁽¹⁾	26	35
Private domestic banks	<u>524</u>	<u>519</u>
	<u>550</u>	<u>554</u>
Total long-term	<u>1,878</u>	<u>1,964</u>
Total bank and other borrowings	\$ <u>12,129</u>	<u>5,588</u>

⁽¹⁾ Development funds (see note 9e).

At December 31, 2013 and 2012, long-term bank and other borrowings dates of maturity are as follows:

<u>Maturity</u>	<u>2013</u>	<u>2012</u>
2013	\$ -	714
2014	-	125
2015	604	141
2016	199	167
2017	417	469
Over 5 years	<u>658</u>	<u>348</u>
	\$ <u>1,878</u>	<u>1,964</u>

Due to the operating characteristics of the interbank loans that the Group maintains, such as access to funds via auctions, loans regulated by the Central Bank with no pre-established limit, loans subject to availability of funds of the lenders' budget with no limit to the Group, loans whose limit is agreed to daily by the lender. At December 31, 2013 and 2012, the Group has no significant interbank lines of credit with authorized amounts that have not been drawn down.

For the years 2013 and 2012, bank and other loans weighted average annual interest rates are as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013 Rates</u>		<u>2012 Rates</u>	
	<u>Domestic currency</u>	<u>Foreign currency</u>	<u>Domestic currency</u>	<u>Foreign currency</u>
Domestic banks	3.27%	0.67%	4.30%	0.60%
Central Bank	3.56%	–	4.51%	–
Development banks	4.43%	1.86%	5.91%	2.27%
Development agencies	3.52%	1.28%	4.31%	1.25%

(16) Employees' benefits-

The Bank, the Brokerage Firm and the Mutual Fund Management Company (the subsidiaries) have in place a defined contribution plan for pension and post-retirement benefits. The plan provides for established contributions by the subsidiaries and employees, which may be fully withdrawn by employees when aged 55 years.

For the years ended December 31, 2013 and 2012, the charge to results for the Group's contributions to the defined contribution pension plan amounted to \$60 and \$67, respectively, under the caption "Administrative and promotional expenses" in the consolidated statement of income.

The Group has also a defined benefit pension plan to which employees are entitled.

The costs, obligations and assets of the defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees benefit plans were determined based on computations prepared by independent actuaries as of December 31, 2013 and 2012.

The components of the net periodic cost (income) of employees' benefit for the years ended December 31, 2013 and 2012 are as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<u>2013</u>							
Service cost	\$ 41	2	43	5	6	11	90
Interest cost	184	4	188	6	4	10	238
Expected return on plan assets	(151)	(4)	(155)	(5)	(6)	(11)	(224)
Amortization of prior service:							
Plan modifications	9	—	9	—	—	—	(14)
Actuarial loss, net	<u>20</u>	<u>—</u>	<u>20</u>	<u>1</u>	<u>—</u>	<u>1</u>	<u>51</u>
Net periodic cost	103	2	105	7	4	11	141
Cost (income) from recognition of actuarial losses (gains) generated in the year	<u>—</u>	<u>(5)</u>	<u>(5)</u>	<u>—</u>	<u>3</u>	<u>3</u>	<u>—</u>
Total cost (income)	\$ 103	(3)	100	7	7	14	141
	==	==	==	==	==	==	==

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<u>2012</u>							
Service cost	\$ 30	2	32	3	5	8	71
Interest cost	182	4	186	6	4	10	223
Expected return on plan assets	(170)	(5)	(175)	(5)	(6)	(11)	(242)
Amortization of prior service:							
Transition asset	—	—	—	—	—	—	(9)
Plan modifications	26	—	26	—	—	—	(14)
Actuarial loss, net	<u>8</u>	<u>—</u>	<u>8</u>	<u>1</u>	<u>—</u>	<u>1</u>	<u>33</u>
Net periodic cost	76	1	77	5	3	8	62
Income for acquired rights	—	—	—	—	—	—	—
Income from recognition of actuarial gains generated in the year	<u>—</u>	<u>(2)</u>	<u>(2)</u>	<u>—</u>	<u>(3)</u>	<u>(3)</u>	<u>—</u>
Total cost (income)	\$ 76	(1)	75	5	—	5	62
	==	==	==	==	==	==	==

In the following page is a reconciliation of the opening and final balances, and detail on the present value of the pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2013:

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Defined Benefit Obligations (DBO) as of December 31, 2012	\$ (2,399)	(46)	(2,445)	(79)	(56)	(135)	(3,060)
Plan improvements	177	-	177	-	-	-	-
Current service cost	(41)	(2)	(43)	(5)	(6)	(11)	(90)
Financial cost	(184)	(4)	(188)	(6)	(4)	(10)	(238)
Paid benefits	191	1	192	5	8	13	106
Actuarial (loss) gain	(243)	8	(235)	1	1	2	(45)
DBO as of December 31, 2013	(2,499)	(43)	(2,542)	(84)	(57)	(141)	(3,327)
Plan assets at fair value	<u>1,935</u>	<u>59</u>	<u>1,994</u>	<u>70</u>	<u>80</u>	<u>150</u>	<u>2,988</u>
Financial situation of the fund	(564)	16	(548)	(14)	23	9	(339)
Past service for:							
Plan improvements	(120)	-	(120)	-	-	-	(178)
Cumulative actuarial gains	<u>836</u>	<u>-</u>	<u>836</u>	<u>19</u>	<u>-</u>	<u>19</u>	<u>1,208</u>
Projected asset, net as of December 31, 2013	\$ <u>152</u>	<u>16</u>	<u>168</u>	<u>5</u>	<u>23</u>	<u>28</u>	<u>691</u>

A reconciliation of the net projected (liability) asset as of December 31, 2013 is analyzed as follows:

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Projected asset, net as of December 31, 2012	\$ 114	9	123	4	24	28	613
Net cost of period	(103)	(2)	(105)	(7)	(4)	(11)	(141)
Contributions to fund during 2013	143	4	147	6	4	10	219
Benefits paid	2	-	2	1	(2)	(1)	-
Immediate recognition of gains and losses	<u>(4)</u>	<u>5</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>-</u>
Projected asset, net as of December 31, 2013	\$ <u>152</u>	<u>16</u>	<u>168</u>	<u>5</u>	<u>23</u>	<u>28</u>	<u>691</u>

A reconciliation of opening and final balances, as well as the detailed of the present value of defined pension, seniority premium, medical expenses, food coupons and life insurance benefit obligations as of December 31, 2012 is analyzed in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Define benefit obligations (DBO) as of December 31, 2011	\$ (2,099)	(41)	(2,140)	(67)	(53)	(120)	(2,632)
Plan improvements	—	—	—	—	—	—	170
Current service cost	(30)	(2)	(32)	(4)	(5)	(9)	(71)
Financial cost	(182)	(4)	(186)	(6)	(4)	(10)	(223)
Paid benefits	203	1	204	5	6	11	111
Actuarial loss	(273)	—	(273)	(7)	—	(7)	(415)
Additional recognition	<u>(18)</u>	<u>—</u>	<u>(18)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
DBO as of December 31, 2012	(2,399)	(46)	(2,445)	(79)	(56)	(135)	(3,060)
Plan assets at fair value	<u>1,946</u>	<u>55</u>	<u>2,001</u>	<u>66</u>	<u>80</u>	<u>146</u>	<u>2,814</u>
Financial situation of the fund	(453)	9	(444)	(13)	24	11	(246)
Past service for:							
Transition asset	—	—	—	—	—	—	—
Plan improvements	66	—	66	—	—	—	(192)
Cumulative actuarial gains	<u>501</u>	<u>—</u>	<u>501</u>	<u>17</u>	<u>—</u>	<u>17</u>	<u>1,051</u>
Projected asset, net as of December 31, 2012	\$ 114	9	123	4	24	28	613
	=====	=====	=====	=====	=====	=====	=====

A reconciliation of the net projected asset as of December 31, 2012 is analyzed as follows:

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses, food coupons and life insurance for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Projected (liability) asset, net as of December 31, 2011	\$ 74	7	81	4	23	27	553
Net cost for fiscal year	(76)	(1)	(77)	(5)	(3)	(8)	(62)
Contributions to fund during 2012	116	1	117	5	3	8	122
Immediate recognition of gains and losses	<u>—</u>	<u>2</u>	<u>2</u>	<u>—</u>	<u>1</u>	<u>1</u>	<u>—</u>
Projected asset, net as of December 31, 2012	\$ 114	9	123	4	24	28	613
	=====	=====	=====	=====	=====	=====	=====

The acquired benefit obligations (ABO) as of December 31, 2013 and 2012 is detailed in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Pensions</u>			<u>Seniority premium</u>			<u>Medical expenses food coupons life insurance, for retirees</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Total</u>	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<u>2013</u>							
ABO	\$ (1,925)	–	(1,925)	(9)	(49)	(58)	(1,248)
<u>2012</u>							
ABO	\$ (1,595)	–	(1,595)	(9)	(43)	(52)	(1,246)

Below is an analysis of the movements of the plan assets required for covering the employees' benefit obligations for the years ended December 31, 2013 and 2012:

		<u>2013</u>	<u>2012</u>
Fair value of the assets at the beginning of year	\$	4,964	4,480
Plan contributions during the year		376	248
Return on plan assets		104	559
Increased personnel by transfer		-	1
Payments from the fund during the year		<u>(309)</u>	<u>(324)</u>
Fair value of the assets at the end of year	\$	<u>5,135</u>	<u>4,964</u>

During the years ended 2013 and 2012, the expected return on the plan assets are \$391 and \$429, respectively.

During the year 2014, expected contributions to the fund amounts to \$319 and it covers the employee benefit obligations.

Below is a reconciliation of opening and final balances, and details of the present value of statutory severance compensation obligations as of December 31, 2013 and 2012:

		<u>2013</u>	<u>2012</u>
Acquired benefit obligations (ABO)	\$	(306)	(293)
		====	====
DBO at beginning of year		(302)	(286)
Current service cost		(21)	(17)
Interest cost		(22)	(21)
Benefits paid		106	113
Actuarial gain (loss)		<u>(67)</u>	<u>(91)</u>
DBO at December 31		(306)	(302)
		====	====

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The net cost of statutory compensation benefits for the years ended December 31, 2013 and 2012, amounted to \$104 and \$169, respectively.

The nominal rates as of December 31, 2013 and 2012 used in actuarial projections are as follows:

	<u>2013</u>	<u>2012</u>
Return on plan assets	7.75%	8.00%
Discount rate	8.75%	8.00%
Compensation increase	5.00%	5.00%
Increase in medical expenses	6.50%	6.50%
Estimated inflation rate	4.00%	4.00%

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

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

The effect from an increase or decrease by one percentage point in the annual rate of increase in medical expenses used for the actuarial projections at December,31, 2013, is shown below:

	<u>Annual rate</u>	<u>DBO medical expenses for retirees</u>
Without modification	6.5%	\$ 2,753
1% increase in medical inflation rate	7.5%	3,356
1% decrease in medical inflation rate	5.5%	2,283

A summary of the amount of employee benefits related to DBO, plan assets and financial situation of the fund and experience adjustments, for the years ended December 31, 2011, 2010 and 2009 is shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	Pensions		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
DBO	\$ (2,097)	(2,112)	(1,930)
Plan assets	<u>1,849</u>	<u>1,889</u>	<u>1,703</u>
Financial situation of the fund	\$ <u>(248)</u>	<u>(223)</u>	<u>(227)</u>
Variances in assumptions and experience adjustments	\$ <u>297</u>	<u>(58)</u>	<u>230</u>
	Seniority premiums		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
DBO	\$ (114)	(104)	(101)
Plan assets	<u>128</u>	<u>130</u>	<u>114</u>
Financial situation of the fund	\$ <u>14</u>	<u>26</u>	<u>13</u>
Variances in assumptions and experience adjustments	\$ <u>11</u>	<u>7</u>	<u>(3)</u>
	Medical expenses, food coupons and life insurance		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
DBO	\$ (2,632)	(2,534)	(1,993)
Plan assets	<u>2,497</u>	<u>2,361</u>	<u>2,010</u>
Financial situation of the fund	\$ <u>(135)</u>	<u>(173)</u>	<u>17</u>
Variances in assumptions and experience adjustments	\$ <u>733</u>	<u>(361)</u>	<u>477</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Statutory severance compensation</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
DBO	\$ <u>(268)</u>	<u>(250)</u>	<u>(300)</u>
DBO (losses) gains	\$ <u>(52)</u>	<u>43</u>	<u>—</u>

As of December 31, 2013, the amortization periods in years for unrecognized items related to defined pension, seniority premium, post-retirement medical service, life insurance, food coupons for retirees and statutory severance compensation benefits are follows.

	<u>Pensions</u>		<u>Seniority premium</u>		<u>Medical expenses, food coupons, life insurance, for retirees</u>	<u>Statutory severance compensation</u>
	<u>Retirement</u>	<u>Disability</u>	<u>Retirement</u>	<u>Termination</u>		
<u>Bank:</u>						
Prior service –plan improvements	8.28	-	9.22	-	13.73	-
Actuarial loss (gain), net	13.40	1	13.02	-	15.18	1
<u>Brokerage Firm:</u>						
Plan improvements	10.13	-	N/A	N/A	N/A	N/A
Actuarial loss, net	11.90	-	10.97	1	14.68	1
<u>Management Company:</u>						
Actuarial loss, net	N/A	N/A	9.78	1.0	12.80	1
<u>SECOSA:</u>						
Actuarial loss, net	N/A	N/A	27.61	1.0	1.0	27.61
<u>Crédito Familiar:</u>						
Actuarial loss, net	19.33	N/A	19.33	1.0	N/A	N/A

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(17) Related-party transactions-

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

For the years ended December 31, 2013 and 2012 there were no changes in the existing conditions of balances receivable from and payable to related parties, there were no items that are deemed irrecoverable or difficult collection and no reserve was required for non-collectability, except credit operations where reserves are created according to the methodology of the Banking Commission.

In accordance with Article 73bis of the credit institutions Law, the total amount of transactions with related parties must not to exceed 50% the basic portion of the net capital. The loans granted by the Bank to related parties as of December 31, 2013 and 2012 amount to \$6,692 and \$9,977, respectively. The deposits made by related parties as of December 31, 2013 and 2012 amount to \$233 and \$2,423, respectively.

For the years ended December 31, 2013 and 2012, the benefits granted to senior management amounted to \$120 and \$250, respectively.

(18) Income taxes and employee's statutory profit sharing (ESPS)-

In accordance with the current tax legislation until December 31, 2013, companies must pay the tax greater between IT and flat rate business tax (IETU, Spanish abbreviation). If it pays IETU, the payment would be considered final and not subject to recovery in subsequent years. According to the current IT Law as of December 31, 2013, the IT rate for the fiscal years of 2013 and 2012 was 30% and established an IT rate of 29% for 2014 and 28% for 2015 onwards. The new IT Law, published of December 11, 2013, establishes an IT rate of 30% for 2014 onwards. The IETU rate for the fiscal years of 2013 and 2012 was 17.5%. The IETU law was repealed from January 1, 2014.

The IT law applicable in 2013 established in its transitory sections that the current IT rate would be 29% in 2014 and 28% starting 2015. The deferred taxes that were calculated using a rate of 28% until December 31, 2012, were modified using a rate of 30% at the end of year 2013, derived from the change in the IT rate according with the tax reform. The item that was calculated using a rate of 28% was related to the surplus of the provision for the global loss reserve to be applied, which is partially reserved in both years

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

On May 19, 2004, the Bank and the Brokerage Firm obtained a favorable resolution from the Federal Judiciary relating to articles 16 and 17, last paragraph of the Income Tax Law in force in 2002. Accordingly, the Bank and the Brokerage Firm is thus authorized to equally apply the amount of the tax base used for ESPS determination and that used for IT purposes. Derived from the 2014 Tax Reform, the basis for ESPS and IT calculation is homogeneous, with some differences regarding the reduction of tax loss carryforwards, paid ESPS and expenses that correspond to non-taxable income for employees.

Nevertheless the Group does not consolidate in tax terms to its subsidiaries, following is presented for illustrative purposes the IT expense and current ESPS, as well as the deferred tax assets, which as of December 31, 2013 and 2012 is comprised as follows:

	<u>2013</u>		<u>2012</u>	
	<u>IT and</u>		<u>IT and</u>	
	<u>IETU</u>	<u>ESPS</u>	<u>IETU</u>	<u>ESPS</u>
Current IT:				
Bank and subsidiaries	\$ 711	227	855	278
Reversed provisions from 2012 and 2011, respectively	(27)	(3)	(38)	(10)
Brokerage firm	47	12	93	31
Mutual Fund Management Company	15	–	49	–
SECOSA	155	–	21	8
Crédito Familiar	<u>66</u>	<u>–</u>	<u>41</u>	<u>–</u>
	967	236	1,021	307
Deferred	<u>(793)</u>	<u>(142)</u>	<u>(306)</u>	<u>(128)</u>
	\$ <u>174</u>	<u>94</u>	<u>715</u>	<u>179</u>

Deferred IT, IETU and ESPS:

Given that the IETU Law was repealed, as of December 31, 2013, some subsidiaries of the Group wrote off its deferred IETU liabilities, recording a credit to operations in 2013. Furthermore, those subsidiaries determined its deferred income taxes as of December 31, 2013 based on IT, recognizing deferred income tax assets, recording a credit to operations in fiscal year 2013.

The deferred tax asset, as well as the favorable effect (unfavorable) to results of operations and stockholders' equity for IT, IETU and ESPS deferred tax at December 31, 2013 and 2012 is comprised as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>		<u>2012</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT and</u> <u>IETU</u>	<u>ESPS</u>
<i>Deferred tax assets</i>				
Valuation of financial instruments:				
Trading	\$ 26	9	83	27
Available-for-sale	(119)	(40)	(226)	(75)
Cash flow hedge swaps	(17)	(6)	107	36
Expense accruals and others	480	125	389	138
Premises, furniture and equipment	(66)	52	(119)	44
Unearned fees collected	380	127	302	101
Pension plan	(275)	(92)	(233)	(78)
Foreclosed assets	306	102	224	75
Surplus from allowance for loan losses	<u>847</u>	<u>219</u>	<u>259</u>	<u>93</u>
	<u>1,562</u>	<u>496</u>	<u>786</u>	<u>361</u>
	\$ <u>2,058</u>		<u>1,147</u>	
<i>Favorable effect (unfavorable)</i>				
Valuation of financial instruments:				
Trading	\$ (57)	(18)	3	1
Available-for-sale	107	35	(39)	(13)
Cash flow hedge swaps	(124)	(42)	49	17
Expense accruals and others	91	(13)	111	38
Premises, furniture and equipment	53	8	22	6
Unearned fees collected	78	26	7	2
Pension plan	(42)	(14)	(32)	(10)
Foreclosed assets	82	27	110	37
Surplus from allowance for loan losses	<u>588</u>	<u>126</u>	<u>111</u>	<u>40</u>
	<u>776</u>	<u>135</u>	<u>342</u>	<u>118</u>
	\$ <u>911</u>		<u>460</u>	

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	2013		2012	
	<u>IT</u>	<u>ESPS</u>	<u>IT and IETU</u>	<u>ESPS</u>
<i>Deferred tax</i>				
In results of operations	\$ 793	142	306	128
In stockholders' equity:				
Valuation in available-for-sale securities	107	35	(39)	(13)
Valuation of cash flow hedge swaps	(124)	(42)	49	17
Deferred tax by the purchase of Crédito Familiar	-	-	<u>26</u>	<u>(14)</u>
	<u>776</u>	<u>135</u>	<u>342</u>	<u>118</u>
	\$ <u>911</u>		<u>460</u>	

The following is an analysis of the effective tax rate of the Bank without subsidiaries, which generates the main impact on the Group, for the fiscal years ended at December 31, 2013 and 2012:

	IT			<u>ESPS at 10%</u>
	<u>Tax Base</u>	<u>Tax at 30%</u>	<u>Effective rate</u>	
<u>December 31, 2013</u>				
Operating income	\$ 2,910	(873)	(30%)	(291)
<i>Allocation to current tax:</i>				
Adjustment for effects of inflation	(798)	239	8%	80
Mark to market of financial instruments	76	(23)	(1%)	(8)
Depreciation and amortization	(30)	9	-	3
Non-deductibles expenses	298	(89)	(3%)	(30)
Deduction for provision for loan losses	(467)	140	5%	47
Current and deferred ESPS	69	(21)	-	(7)
Deduction ESPS paid in the year	(216)	65	2%	22
Tax recoveries and others, net	<u>408</u>	<u>(122)</u>	<u>(4%)</u>	<u>(41)</u>
Current tax to the following page	\$ <u>2,250</u>	<u>(675)</u>	<u>(23%)</u>	<u>(225)</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	Tax Base	IT Tax at 30%	Effective rate	ESPS at 10%
Current tax from previous page	\$ <u>2,250</u>	<u>(675)</u>	<u>(23%)</u>	<u>(225)</u>
<i>Allocation to deferred tax: (30% tax and 10% ESPS)</i>				
Mark to market of financial instruments	(66)	20	-	7
Provisions and others	34	(10)	-	(3)
Premises, furniture and equipment	(78)	23	1%	8
Pension plan	138	(41)	(1%)	(14)
Foreclosed assets	(270)	81	3%	27
Unearned fees collected	(260)	78	2%	26
Surplus from allowance for loan losses ⁽¹⁾	<u>(1,262)</u>	<u>397</u>	<u>14%</u>	<u>126</u>
Deferred tax	<u>(1,764)</u>	<u>548</u>	<u>19%</u>	<u>177</u>
Income tax	\$ <u>486</u>	<u>(127)</u>	<u>(4%)</u>	<u>(48)</u>

⁽¹⁾ Includes effect of exchange rate from 28% to 30% for \$19

	Tax Base	IT Tax at 30%	Effective rate	ESPS at 10%
<u>December 31, 2012</u>				
Operating income	\$ 4,232	(1,269)	(30%)	(423)
<i>Allocation to current tax:</i>				
Adjustment for effects of inflation	(637)	191	5%	64
Mark to market of financial instruments	17	(5)	-	(2)
Depreciation and amortization	(27)	8	-	3
Non-deductibles expenses	225	(68)	(2%)	(22)
Deduction for provision for loan losses	(1,433)	430	10%	143
Current and deferred ESPS	167	(50)	(1%)	(17)
Deduction ESPS paid in the year	(150)	45	1%	15
Tax recoveries and others, net	<u>387</u>	<u>(116)</u>	<u>(3%)</u>	<u>(39)</u>
Current tax, to the following page	\$ <u>2,781</u>	<u>(834)</u>	<u>(20%)</u>	<u>(278)</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	IT			ESPS at 10%
	Tax Base	Tax at 30%	Effective rate	
Current tax from previous page	\$ <u>2,781</u>	<u>(834)</u>	<u>(20%)</u>	<u>(278)</u>
<i><u>Allocation to deferred tax: (30% tax and 10% ESPS):</u></i>				
Mark to market of financial instruments	50	(15)	–	(5)
Provisions and others	(326)	98	2%	33
Premises, furniture and equipment	(54)	17	–	6
Pension plan	107	(32)	(1%)	(11)
Foreclosed assets	(368)	110	3%	37
Unearned fees collected	(22)	6	–	2
Surplus from allowance for loan losses (28%)	<u>(396)</u>	<u>111</u>	<u>3%</u>	<u>40</u>
Deferred tax	<u>(1,009)</u>	<u>295</u>	<u>7%</u>	<u>102</u>
Income tax	\$ <u>1,772</u>	<u>(539)</u>	<u>(13%)</u>	<u>(176)</u>

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 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.

Tax Environment:

On December 11, 2013, a decree was published in the Official Gazette whereby several tax provisions were amended, supplemented and repealed. This decree became effective as of January 1, 2014.

In such decree, the Cash Deposits Tax Law (IDE Law-Spanish abbreviation), the IETU Law and the IT Law in effect as of December, 2013, were repealed and a new IT Law was enacted.

The most important aspects of the aforementioned tax reform of December 11, 2013, which are applicable to the Bank, are as follows:

- The dividends paid to individuals and corporations resident abroad, shall be subject to an additional tax of 10%, which is considered final and must be retained by entities that distributes such dividends. The new rule solely applies to dividends payment from earnings generated beginning to January 1, 2014.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

- A tax of 10% over the earnings obtained by individuals and residents abroad from the sale of shares listed on the stock exchange is established.
- The deductible amount from the allowance for loan loss reserve is replaced by the deduction of the write offs conducted in the fiscal year, in accordance with the rules established by the Banking Commission. For the deduction of the outstanding deductible reserve surpluses as of December 31, 2013, the Tax Administration Service (SAT-Spanish abbreviation) has established general transition rules in order to allow this deduction.
- The deductible amount of wage expenses that are non taxable income for the worker will be deductible for only 47% and in some cases until 53%.
- Relative to the Value Added Tax (VAT), the VAT rate is increased from 11% to 16% in the border region.

(19) Stockholders' equity-

(a) Structure of capital stock-

As of December 31, 2013 and 2012, the common shares without par value that integrated the social capital were as follow:

	<u>Series "F"</u>	<u>Series "B"</u>	<u>Total</u>
Subscribed and paid-in shares*	1,660,376,400	1,358,489,782	3,018,866,182
Treasury shares not paid	<u>158,215,942</u>	<u>129,449,407</u>	<u>287,665,349</u>
	<u>1,818,592,342</u>	<u>1,487,939,189</u>	<u>3,306,531,531</u>

* Representing the minimum fixed and variable portion of capital stock.

(b) Dividends declared-

At December 31, 2013 and 2012, the Group declared and paid dividends to BNS as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>Date of decree</u>	<u>Amount decree</u>	<u>Payment date in 2013</u>	<u>Amount</u>	<u>Payment date in 2012</u>	<u>Amount</u>
13-Nov-13	\$ 808	13-Nov-13	\$ 808	—	\$ —
13-Nov-13	550	13-Nov-13	550	—	—
13-Nov-13	58	13-Nov-13	58	—	—
23-Aug-13	59	30-Aug-13	59	—	—
23-Aug-13	82	30-Aug-13	82	—	—
23-Aug-13	19	30-Aug-13	19	—	—
24-May-13	300	31-May-13	300	—	—
24-May-13	77	31-May-13	77	—	—
24-May-13	19	31-May-13	19	—	—
12-Apr-13	165	23-Apr-13	165	—	—
12-Apr-13	370	23-Apr-13	370	—	—
30-Apr-12	1,000	—	—	Aug, 31 / Nov, 30	1,000
25-Nov-11	<u>2,000</u>	—	—	Mar, 30 / May, 31	<u>1,000</u>
			\$ <u>2,507</u>		\$ <u>2,000</u>

At December 31, 2013 and 2012, there are not unpaid dividends.

(c) Comprehensive income-

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

(d) Restrictions on stockholders' equity-

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

In conformity with the General Corporations Law, 5% of the Holding Company's net income for the year must be appropriated to the statutory reserves until such reserves reach 20% of the paid-in capital. At December 31, 2013 the statutory reserve was \$901, which had reached the required percentage of capital.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The tax basis of stockholder contributions and retained earnings may be distributed to the stockholders tax free. Distributions in excess of the tax bases are subject to income tax. At December 31, 2013 the capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) of the Group amount to \$10,156 and \$7,415, respectively.

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

(e) **Capitalization (non-audited)-**

The Banking Commission requires brokerage firms to maintain a minimum capital as a percentage of assets at risk. The percentage is calculated by applying certain specific percentages according to the level of risk assigned, in conformity with the rules established by the Central Bank. The Brokerage Firm's total Capital at December 31, 2013 and 2012 was \$1,291 and \$1,845, respectively.

At December 31, 2013 and 2012, the Bank maintained a capitalization index in excess of 10%; accordingly, it is classified as Category I in both years in accordance with article 220 of the Provisions, which is determined by applying certain percentages according to the risk assigned pursuant to the rules established by the Central Bank. Below is the Bank's capitalization information.

Capital as of December 31 of the Bank:

	<u>2013</u>	<u>2012</u>
Stockholders' equity	\$ 26,614	29,675
Investments in financial services entities and their holding companies	(937)	(665)
Deferred tax deduction	-	(352)
Deferred assets classed as basic	-	352
Intangible assets and deferred taxes	<u>(2,608)</u>	<u>(2,376)</u>
Basic capital (Tier 1)	23,069	26,634
General allowance for loan loss – Supplementary capital (Tier 2)	<u>421</u>	<u>435</u>
Net capital (Tier 1 + Tier 2)	\$ <u>23,490</u>	<u>27,069</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Assets at risk as of December 31, 2013:

	Risk weighted assets	Capital requirement
Market risk:		
Transactions in Mexican pesos at nominal interest rates	\$ 15,927	1,274
Transactions with debt securities in pesos with premium and adjustable rates	2,864	229
Transactions in Mexican pesos at real interest rates or denominated in UDIS	605	48
Positions in UDIS or with returns linked to the INPC	2	-
Foreign currency transactions at nominal interest rates	697	56
Foreign currency positions or with exchange rate indexed returns	94	8
Equity positions or with returns indexed to the price of a single share or group of shares	<u>255</u>	<u>20</u>
Total market risk	<u>20,444</u>	<u>1,635</u>
Credit risk		
Group II (weighted at 20%)	403	32
Group II (weighted at 100%)	1,196	96
Group III (weighted at 20%)	1,261	101
Group III (weighted at 50%)	131	10
Group III (weighted at 57.5%)	1,252	100
Group IV (weighted at 20%)	3	-
Group V (weighted at 20%)	252	20
Group V (weighted at 50%)	555	44
Group V (weighted at 150%)	529	42
Group VI (weighted at 50%)	14,109	1,129
Group VI (weighted at 75%)	13,098	1,048
Group VI (weighted at 100%)	33,923	2,714
Group VII-A (weighted at 20%)	305	24
Group VII-A (weighted at 23%)	81	6
Group VII-A (weighted at 50%)	120	10
Group VII-A (weighted at 100%)	17,363	1,389
Group VII-A (weighted at 115%)	3,012	241
Group VII-A (weighted at 150%)	442	35
Group VIII (weighted at 125%)	3,270	262
Group IX (weighted at 100%)	<u>58,173</u>	<u>4,654</u>
Total credit risk	149,478	11,957
Operational risk	<u>21,086</u>	<u>1,687</u>
Total market, credit and operational risk	\$ <u>191,008</u>	<u>15,279</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Capitalization indices as of December 31 of Bank:

	<u>2013</u>	<u>2012</u>
Capital to credit risk assets:		
Basic capital 1	15.43%	19.91%
Basic capital 2	<u>-</u>	<u>-</u>
Basic capital (Tier 1)	15.43%	19.91%
Supplementary capital (Tier 2)	<u>0.28%</u>	<u>0.33%</u>
Net capital (Tier 1 + Tier 2)	<u>15.71%</u>	<u>20.24%</u>
Capital to market credit and operational risk assets:		
Basic capital 1	12.08%	15.52%
Basic capital 2	<u>-</u>	<u>-</u>
Basic capital (Tier 1)	12.08%	15.52%
Supplementary capital (Tier 2)	<u>0.22%</u>	<u>0.25%</u>
Net capital (Tier 1 + Tier 2)	<u>12.30%</u>	<u>15.77%</u>

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

At December 31, 2013, the Bank's net capital structure of \$23,490 was down 13.22% compared to year 2012 for \$27,069, due to decrease in the net equity of the Bank by \$3,061, a result primarily of a declaration of dividends by \$5,732 and net income for \$2,902.

At December 31, 2012, the Bank raised the ratings of the following rating agencies:

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

On September 2013, the Exposition Plan was presented to the Risk Committee and the Board, such Exposition Plan is a prospective tool to identify risks and to make decisions, which assesses to the Bank under key metrics and indicators (Capital, Liquidity, Profitability and Credit Losses).

The Exposition Plan has been structured based on the plans of the diverse business lines for the next three years, with the goal to ensure that the risks which the Banks is subject are aligned with the risk framework that is approved by the management.

Some internal stress scenarios are used at the same time (European crisis, US crisis), which take into account adverse microeconomic conditions under each scenario and furthermore the corresponding allowance in the statement of income.

On the other hand, stress tests are conducted on an annual basis in conjunction with the Banking Commission which takes into consideration scenarios made by the same Commission.

Base – Forecast of the balance sheet and the statement of income under a stable macroeconomic scenario provided by the Banking Commission.

Adverse dynamic – Forecast of the balance sheet and the statement of income under an adverse macroeconomic scenario provided by the Banking Commission.

Adverse static – Forecast of the balance sheet and the statement of income under the base scenario, taking into account the expected loss and the macro variables in the adverse scenario (additionally a decrease of 150 bp over the financial margin).

The Bank's management concluded that has the capacity to face a stress scenario and in the event to get the sufficient capital to absorb the potential losses of such scenario.

To ensure the compliance and the continuous monitoring of the capital sufficiency, an action plan is conducted to preserve the capital and the liquidity, which its goal is to implement early warning indicators that are the base for the Liquidity and Capital Management Committee, described in the capital management policies and in the contingency liquidity plan, and in the same way the described corrective actions in the aforementioned documents in order to be applied in accordance with the size and features of the stress event, based on the decisions and agreements made by the Committee.

On a quarterly basis, the capitalization notes are incorporated in the financial reports. Such notes have, among others, the following information (making special emphasis that this information is included in the financial reports):

- Capital composition and integration.
- Weighted assets composition by the total risks and by type of risk.
- Capital allowance index.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(Millions of Mexican pesos)

(20) Memorandum accounts-

(a) Repurchase/resell transactions on behalf of customers-

At December 31, 2013 and 2012, the repurchase/resell transactions of customers are comprised as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
BG91	140,890,533	\$ 14,067	39,123,365	\$ 3,870
BPAG	18,149,176	1,809	7,518,790	752
BPAS	10,040	1	2,402,168	239
BPAT	190,000	19	587,151	59
CBBN	16,140,626	1,617	12,182,570	1,221
CBPC	1,001,610	100	300,000	30
CBUR	4,095,037	410	7,797,906	784
CTIM	922,399,007	9,035	653,476,670	6,441
IPAS	27,733,947	2,800	68,985,149	6,899
LBON	471,474,621	46,945	601,335,947	59,749
MBON	93,884,222	9,980	999,999,855	1,000
PRLV	701,355,290	699	1,606,547,222	1,603
UDIB	<u>1,765</u>	<u>1</u>	<u>260,362</u>	<u>142</u>
		\$ <u>87,483</u>		\$ <u>82,789</u>

(b) Securities lending transaction on a behalf of clients-

At December 31, 2013 and 2012, the securities lending transaction on behalf of clients, are as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
GRUMA	310,000	\$ 31	-	-
AMX	2,000,000	30	-	-
NAFTRAC	593,200	25	892,600	39
CEMEX CPO	168,160	3	229,000	3
GAP B	-	-	155,000	11
HOMEX *	-	-	64,200	2
ICH B	26,000	2	22,000	2
Other equity shares	<u>231,080</u>	<u>13</u>	<u>272,210</u>	<u>8</u>
		\$ <u>104</u>		\$ <u>65</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(c) Collateral received in guarantee on behalf of clients-

The collateral represented by governmental private and banking debt and on behalf of customers in guarantee for the Brokerage Firm, at December 31, 2013 and 2012, are analyzed as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Number of securities</u>	<u>Fair value</u>	<u>Number of securities</u>	<u>Fair value</u>
Governmental:				
BPAS	10,040	\$ 1	1,202,168	\$ 120
BPAT	190,000	19	587,151	59
CTIM	5,219,980,190	5,220	521,247,927	5,147
BPA 182	13,960,533	1,409	37,233,582	3,725
LBON	242,475,431	24,134	311,083,947	30,906
MBON	53,023,470	5,692	4,573,224	500
UDIB	1,765	1	260,362	142
BPAG	80,226,687	<u>8,111</u>	23,550,992	<u>2,334</u>
		<u>44,587</u>		<u>42,933</u>
Banking:				
CBBN	8,070,313	809	6,091,285	610
CBPC	1,001,610	<u>100</u>	300,000	<u>30</u>
		<u>909</u>		<u>640</u>
Private:				
CBUR	4,095,037	410	6,297,906	633
PRLV	<u>701,355,290</u>	<u>699</u>	<u>1,606,547,222</u>	<u>1,603</u>
		<u>1,109</u>		<u>2,236</u>
		\$ <u>46,605</u>		\$ <u>45,809</u>

(d) Customer's values received in custody-

The funds managed by the Brokerage Firm for investing in various instruments on behalf of its customers are recorded in memorandum accounts. The resources from these operations at December 31, 2013 and 2012 are analyzed in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>Custody transactions</u>	<u>2013</u>	<u>2012</u>
Mutual funds	\$ 48,044	33,876
Governmental securities	66,332	58,192
Shares and others	<u>164,449</u>	<u>127,131</u>
	\$ <u>278,825</u>	<u>219,199</u>

(e) *Collaterals delivered in guarantee on behalf of clients-*

Collaterals at fair value delivered as guarantee on behalf of clients at December 31, 2013 and 2012, are comprised as follows:

	<u>2013</u>	<u>2012</u>
Governmental securities	\$ 40,155	36,613
Banking securities	809	610
Fixed income debt securities	-	151
Shares and holding companies certificates	1,302	1,227
Mutual funds shares	416	194
Cash	109	168
Margin credits	<u>14</u>	<u>17</u>
	\$ <u>42,805</u>	<u>38,980</u>

Income earned on assets under custody during the years ended December 31, 2013 and 2012 amounted to \$58 and \$56, respectively.

(f) *Investments on behalf of customers-*

As of December 31, 2013 and 2012 funds managed by the Group following customer instructions for investment in different instruments of the Mexican financial system are recorded in memorandum accounts and are analyzed as follows:

	<u>2013</u>	<u>2012</u>
Private equity	\$ 1,380	1,067
Government securities	39,756	50,031
Mutual funds	34,506	30,463
Bank securities not issued by the Bank	<u>1,311</u>	<u>2,896</u>
	\$ <u>76,953</u>	<u>84,457</u>

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Transactions for own behalf-

(g) *Credit commitments -*

Credit facilities:

At December 31, 2013 and 2012, the balance of authorized credit facilities not disposed amounted to \$350,271 and \$349,443, respectively.

At December 31, 2013 and 2012, the balance of committed credit facilities not disposed amounted to \$11,749 and \$12,130, respectively.

Letters of credit:

At December 31, 2013 and 2012, the Group has letters of credit for \$6,087 and \$6,812, respectively.

At December 31, 2013 and 2012, the provisions created for credit letters amount to \$43 and \$49, respectively, and are included in the allowance for loan losses.

(h) *Assets in trust or under mandate-*

The Group's trust activity, recorded in memorandum accounts as of December 31, 2013 and 2012, is analyzed as follows:

	<u>2013</u>	<u>2012</u>
Trust:		
Administrative	\$ 128,009	121,131
Guarantee	5,143	4,991
Investment	<u>1,150</u>	<u>1,061</u>
	134,302	127,183
Mandates:	<u>28,897</u>	<u>28,906</u>
	<u>\$ 163,199</u>	<u>156,089</u>

Trust revenue accrued for the years ended December 31, 2013 and 2012 amounted \$216 and \$194, respectively and were recorded in the caption "Commission and fee income".

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(i) *Collaterals received by the entity and collaterals received and sold or pledged by the entity-*

Collaterals received by the Group and collaterals sold or delivered by the Group at December 31, 2013 and 2012 are analyzed below:

	<u>2013</u>	<u>2012</u>
<i><u>Collaterals received by the entity:</u></i>		
Repurchase / resell agreements:		
BPA 182	\$ 5,808	10,826
BONOS M	7,441	5,332
BPAG	12,872	4,219
CTIM	1,360	11
LD BONDES	19,047	19,125
CBIC	<u>498</u>	<u>—</u>
	47,026	39,513
Guarantees received for derivate operations	58	8
Guarantees received for credit operations	24,547	23,352
Equity instruments	<u>512</u>	<u>342</u>
Total collateral received by the entity	\$ <u>72,143</u>	<u>63,215</u>
<i><u>Collaterals received and sold or pledged by the entity:</u></i>		
LD BONDESD	\$ 30,734	32,476
BONOS M	8,279	3,401
BPA 182	2,757	3,851
CTIM	3,818	1,336
BPAS	—	119
CBIC	498	—
CBBN	609	609
CBUR	—	151
BPAG	<u>12,841</u>	<u>2,520</u>
	59,536	44,463
Net equity instruments	<u>229</u>	<u>186</u>
	\$ <u>59,765</u>	<u>44,649</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(j) Assets in custody or under management-

In this account, the Bank and the Mutual Fund Management records securities received in custody, guarantee or under management. At December 31, 2013 and 2012, the securities are analyzed as follows:

	<u>2013</u>	<u>2012</u>
Securities in custody:		
Securities vault	\$ 137	193
General vault	102	418
Investment transaction	877	1,206
Securities transaction	9,525	9,525
Other	<u>107</u>	<u>156</u>
	<u>10,748</u>	<u>11,498</u>
Securities under management:		
Securities	207,684	185,039
Other	<u>3</u>	<u>1,776</u>
	<u>207,687</u>	<u>186,815</u>
Transactions with derivative financial instruments on behalf of third parties:		
Futures	138,243	362,633
Swaps	23,750	-
Options	<u>25</u>	<u>10</u>
	<u>162,018</u>	<u>362,643</u>
	<u>\$ 380,453</u>	<u>560,956</u>

Income arising from securities in custody or management, for the years ended December 31, 2013 and 2012 amounts to \$58 and \$56, respectively.

(21) Additional information on operations and segments-

(a) Segment information-

The Group's operations are classified in the following segments: credit and services (acceptance of deposits, granting of loans, trusts and other income in subsidiaries), treasury and trading (securities, derivatives and currency transactions). For the year ended December 31, 2013 and 2012, income by segment is analyzed in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Credit and services</u>	<u>Trading and Treasury</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2013</u>				
Interest income, net	\$ 12,634	700	(228)	13,106
Commissions and fees, net result from trading and other operating income (expenses)	<u>4,828</u>	<u>1,105</u>	<u>1,276</u>	<u>7,209</u>
Net operating revenues	17,462	1,805	1,048	20,315
Allowance for loan losses	(3,714)	-	-	(3,714)
Administrative and promotional expenses	<u>(11,943)</u>	<u>(558)</u>	<u>(612)</u>	<u>(13,113)</u>
Income before current and deferred income taxes	\$ <u>1,805</u>	<u>1,247</u>	<u>436</u>	3,488
Equity in the results of operations of subsidiary and associated companies, net				1
Current and deferred income taxes, net				<u>(174)</u>
Net income			\$	<u>3,315</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>Credit and services</u>	<u>Trading and Treasury</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2012</u>				
Interest income, net	\$ 9,625	1,038	272	10,935
Commissions and fee income, net, financial intermediation income and other income, net	<u>4,844</u>	<u>686</u>	<u>1,508</u>	<u>7,038</u>
Net operating revenues	14,469	1,724	1,780	17,973
Allowance for loan losses	(1,359)	–	–	(1,359)
Administrative and promotional expenses	<u>(9,691)</u>	<u>(538)</u>	<u>(1,151)</u>	<u>(11,380)</u>
Income before current and deferred income taxes	\$ <u>3,419</u>	<u>1,186</u>	<u>629</u>	5,234
Equity in the results of operations of subsidiary and associated companies, net				1
Current and deferred income taxes, net				<u>(715)</u>
Net income			\$	<u>4,520</u>

(b) Financial margin-

For the years ended December 31, 2013 and 2012, the financial margin in the consolidated statements of income consists of the elements shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Interest income:

Interest income for the years ended December 31, 2013 and 2012 is analyzed as follows:

	<u>Credit and services</u>	<u>Trading and Treasury</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2013</u>				
Cash and cash equivalents	\$ —	735	—	735
Margin accounts	—	3	—	3
Investment securities	—	1,274	491	1,765
Securities on repurchase / resell agreements	—	1,019	553	1,572
Current loan portfolio	15,273	—	—	15,273
Past due loan portfolio	29	—	—	29
Loan origination fees	421	—	—	421
Premiums from securities lending transactions	—	—	8	8
Increase in interest income update	<u>—</u>	<u>16</u>	<u>—</u>	<u>16</u>
	\$ <u>15,723</u>	<u>3,047</u>	<u>1,052</u>	<u>19,822</u>
<u>December 31, 2012</u>				
Cash and cash equivalents	\$ —	787	—	787
Margin accounts	—	5	—	5
Investment securities	—	1,032	614	1,646
Securities on repurchase/resell agreements	—	1,327	1,050	2,377
Current loan portfolio	12,011	—	—	12,011
Past due loan portfolio	31	—	—	31
Loan origination fees	329	—	—	329
Premiums from securities lending transactions	—	—	5	5
Increase in interest income update	<u>—</u>	<u>34</u>	<u>2</u>	<u>36</u>
	\$ <u>12,371</u>	<u>3,185</u>	<u>1,671</u>	<u>17,227</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

An analysis of the loan portfolio interest and commission income by type of loan is shown below, for the years ended December 31, 2013 and 2012:

	2013		2012	
	<u>Current</u>	<u>Past due</u>	<u>Current</u>	<u>Past due</u>
Commercial	\$ 3,050	19	2,932	15
Financial institutions	233	–	185	2
Governmental entities	210	–	270	–
Consumer	6,451	10	3,596	14
Residential mortgages	<u>5,750</u>	<u>–</u>	<u>5,357</u>	<u>–</u>
	\$ <u>15,694</u>	<u>29</u>	<u>12,340</u>	<u>31</u>
	\$ <u>15,723</u>		<u>12,371</u>	

For the years ended December 31, 2013 and 2012, commissions that represent a yield adjustment of 0.20%, 0.49% and 0.17% for 2013, as well as 0.17%, 0.58% and 0.20% for 2012, respectively, are recorded within the total interest income from commercial, consumer and residential loans.

For the years ended December 31, 2013 and 2012, total interest income includes interest denominated in foreign currency amounting to 29 and 25 million dollars, respectively.

Loan origination fees for the years ended December 31, 2013 and 2012 are comprised as follows:

	<u>2013</u>	<u>2012</u>
Commercial	\$ 127	97
Consumer	200	135
Residential mortgages	<u>94</u>	<u>97</u>
	\$ <u>421</u>	<u>329</u>

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Interest expense:

Interest expense for the years ended December 31, 2013 and 2012 is comprised of the following:

	<u>Credit and services</u>	<u>Trading and Treasury</u>	<u>Others</u>	<u>Total</u>
<u>December 31, 2013</u>				
Demand deposits	\$ (649)	-	-	(649)
Time deposits	(2,194)	-	-	(2,194)
Debt securities issued	-	(536)	-	(536)
Bank and other borrowings	-	(211)	(2)	(213)
Securities under repurchase/resell agreements	-	(1,427)	(1,319)	(2,746)
Premium paid	-	-	(3)	(3)
Valuation loss	-	(173)	-	(173)
Residential mortgages loan origination fees and expenses	<u>(246)</u>	<u>-</u>	<u>44</u>	<u>(202)</u>
	\$ <u>(3,089)</u>	<u>(2,347)</u>	<u>(1,280)</u>	<u>(6,716)</u>
<u>December 31, 2012</u>				
Demand deposits	\$ (648)	-	-	(648)
Time deposits	(1,876)	-	-	(1,876)
Debt securities issued	-	(351)	-	(351)
Bank and other borrowings	-	(268)	-	(268)
Securities under repurchase/resell agreements	-	(1,516)	(1,394)	(2,910)
Premium paid	-	-	(2)	(2)
Valuation loss	-	(11)	(3)	(14)
Residential mortgages loan origination fees and expenses	<u>(223)</u>	<u>-</u>	<u>-</u>	<u>(223)</u>
	\$ <u>(2,747)</u>	<u>(2,146)</u>	<u>(1,399)</u>	<u>(6,292)</u>

_(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(c) Commission and fee income-

For the years ended December 31, 2013 and 2012, commission and fee income are analyzed as follows:

	<u>2013</u>	<u>2012</u>
Letters of credit with no refinancing	\$ 46	60
Account handling	356	456
Trust activities	216	194
Fund transfers	68	65
Electronic banking services	242	230
Credit transactions	1,331	921
Services administration	918	792
Other fees and commissions collected	<u>730</u>	<u>983</u>
	\$ <u>3,907</u>	<u>3,701</u>

(d) Financial intermediation income-

For the years ended December 31, 2013 and 2012, financial intermediation income is analyzed as follows:

	<u>2013</u>	<u>2012</u>
<i>Valuation result:</i>		
Investment securities	\$ 117	(127)
Derivatives:		
Trading	(25)	(19)
Hedging	(17)	(10)
Securities available for sale in hedge	(14)	25
Foreign currencies and precious metals	<u>513</u>	<u>411</u>
Subtotal to the following page	\$ <u>574</u>	<u>280</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Subtotal from previous page	\$ <u>574</u>	<u>280</u>
<i>Brokerage result:</i>		
Investment securities	559	797
Financial instruments:		
Trading	422	(883)
Foreign currencies and precious metals	<u>(469)</u>	<u>549</u>
	<u>512</u>	<u>463</u>
	\$ <u>1,086</u>	<u>743</u>

(e) *Other operating income-*

For the years ended December 31, 2013 and 2012, other operating income (expenses) is analyzed as follows:

	<u>2013</u>	<u>2012</u>
Recoveries of loan portfolio	\$ 571	576
Dividends	39	48
Donations	(9)	(12)
Income on sale of foreclosed assets	224	145
Income from securitization	37	42
Taxation	40	140
Income from the purchase of securities in trust (note 10)	430	358
Other recoveries	4	52
Income from credit insurance	-	750
Armored transportation fees	-	68
Loans to employees	78	80
Food stamps	-	170
Write-offs and losses	(226)	(227)
Others	<u>1,502</u>	<u>851</u>
	\$ <u>2,690</u>	<u>3,041</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(f) *Financial ratios(unaudited)-*

The following are the main quarterly financial ratios of the Bank as of and for the years ended December 31, 2013 and 2012:

	2013			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
Delinquency index	2.8%	3.2%	2.7%	2.5%
Coverage of past due loan portfolio index	124.4%	111.3%	132.0%	122.9%
Operating efficiency (<i>administrative and promotional expenses / average total assets</i>)	5.4%	5.5%	5.7%	5.7%
ROE (<i>annualized net income for the quarter / average stockholders' equity</i>)	7.9%	13.3%	4.4%	13.5%
ROA (<i>annualized net income for the quarter / average total assets</i>)	1.1%	1.9%	0.7%	2.1%
Net capital / Assets at credit risk	15.71%	20.23%	20.92%	21.86%
Net capital / Assets at credit, market and operational	12.30%	15.57%	16.05%	16.64%
Liquidity (<i>liquid assets / liquid liabilities</i>)	77.1%	101.9%	93.9%	79.9%
Financial margin after allowance for loan losses / Average earning assets	4.3%	5.2%	3.6%	4.8%

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

	2012			
	<u>Fourth</u>	<u>Third</u>	<u>Second</u>	<u>First</u>
Delinquency index	2.3%	2.6%	2.6%	2.5%
Coverage of past due loan portfolio index	125.8%	102.9%	109.3%	117.1%
Operating efficiency (<i>administrative and promotional expenses / average total assets</i>)	5.4%	5.6%	5.5%	5.4%
ROE (<i>annualized net income for the quarter / average stockholders' equity</i>)	10.0%	16.7%	16.0%	15.3%
ROA (<i>annualized net income for the quarter / average total assets</i>)	1.5%	2.5%	2.4%	2.4%
Net capital / Assets at credit risk	20.24%	22.21%	21.73%	22.02%
Net capital / Assets at credit, market and operational	15.77%	17.18%	16.74%	16.63%
Liquidity (<i>liquid assets / liquid liabilities</i>)	99.5%	102.9%	88.2%	79.9%
Financial margin after allowance for loan losses / Average earning assets	4.7%	5.5%	5.5%	4.8%

(22) Commitments and contingencies-

(a) Leases-

Leases provide for periodic rental adjustments based on changes in various economic factors. Total rental expense for the years ended December 31, 2013 and 2012, amounted to \$913 and \$838, respectively.

(b) Litigation-

In the normal course of the operations, the Group has been into some trials, that are not expected to have an important negative effect in the future financial situation and in the results of its operations. In such cases that represent a probable loss, the allowances considered as necessary, have been created.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(c) Responsibility agreement-

The Group has entered into an agreement with its subsidiaries, whereby it undertakes to be jointly and severally responsible for compliance with the obligations that according to the applicable provisions are inherent to the activities of each of the Group's financial entities. In addition, the Holding Company agrees to unlimited and several responsibility for the losses of each and every one of these financial entities.

(23) Risk management (unaudited information)-

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

According to the General Provisions applicable to Credit Institutions in terms of risk management issued by the Banking Commission, the Board of Directors assumes responsibility over the Group's risk management objectives, guidelines and policies. At least once a year, the Board of Directors should approve the policies and procedures as well as the limit structure for the various types of risk. Such limit structures includes a global value-at-risk that relates to the Group's stockholders' equity.

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).

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

(a) Market risk-

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The Group's risk positions include fixed and floating rate money market instruments, stock, foreign exchange positions and derivatives such as: interest rate futures, futures and options on stock and baskets of shares, futures, foreign exchange forwards and options interest rate swaps, interest rate options precious metal derivatives and foreign currency swaps.

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

Among market risk measuring and monitoring methodologies, the Value at Risk (VaR) is an estimate of the potential loss of value within a specific level of statistical confidence, that might arise from maintaining a specific position during a specific period of time (the holding period) under normal market conditions. The VaR is calculated daily on all of the Group's risk-exposed financial instruments and portfolios using the "Riskwatch" 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 Scotiabank, the Group calculates the VaR considering a 99% confidence level and a 1 day holding period.

During 2013, the Financial Group's observed average daily VaR was \$13.6 and the global VaR at December 31, 2013, was \$9.2.

The average values of exposure to market risk of the securities trading portfolio in the period of October to December 2013 and 2012 were as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>December 2013</u>	<u>Position</u>			<u>VaR⁽¹⁾</u>	
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>	<u>Average</u>	<u>Limit</u>
<u>Product</u>					
Group ^(*)	\$ 278,634	330,440	-	13.6	52.5
Domestic currency:					
Money market	38,519	56,363	105,000	-	-
Interest rate swaps					
Future rate ⁽²⁾	166,036	193,272	207,000	-	-
Forwards of CETES ⁽³⁾	4,190	15,000	20,000	-	-
Caps & Floors	<u>3,767</u>	<u>4,377</u>	<u>7,000</u>	<u>0.2</u>	<u>-</u>
Interest rate market and rate derivatives ⁽⁴⁾	<u>212,512</u>	<u>269,012</u>	<u>339,000</u>	<u>10.4</u>	<u>50</u>
Equity shares position	33	66	206	-	-
Capital derivatives ⁽⁵⁾	8,232	10,924	25,000	-	-
OTC TIIE Options	<u>141</u>	<u>184</u>	<u>5,000</u>	<u>-</u>	<u>-</u>
Total Equity shares and IPC derivatives	8,406	11,174	30,206	5.7	13
Forwards and exchange					
futures ⁽⁶⁾⁽⁷⁾⁽⁸⁾	2,834	4,694	5,020	1.9	-
Foreign exchange ⁽⁶⁾⁽⁷⁾	(1)	9	55	0.4	-
Foreign currency options ⁽⁷⁾	50	55	800	0.8	-
Foreign currency swaps ⁽⁷⁾	285	475	1,000	-	-
Forwards of precious metals ⁽⁷⁾	5	11	50	1.4	-
Options of precious metals ⁽⁷⁾	-	-	200	-	-
Spot of precious metals ⁽⁷⁾	<u>4</u>	<u>6</u>	<u>10</u>	<u>1.3</u>	<u>-</u>
Foreign exchange and foreign currency derivatives and precious metals ⁽⁴⁾	\$ <u>3,177</u>	<u>5,250</u>	<u>7,135</u>	<u>1.0</u>	<u>16.5</u>

(1) VaR expressed in millions of pesos.

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

(3) Special position of the treasury.

(4) Observed period (holding period) of the Foreign Exchange VaR, Capital and Interest rates and limits of 1 day.

(5) Includes IPC warrants' underlying, capitals IPC derivative table and internationals.

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

(7) Figures expressed in millions of dollars.

(8) Include the net position of foreign exchange forwards from the Treasury.

*/ Subsidiaries that do not manage market risk position do not require a VaR measure

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

<u>December 2012</u>	<u>Position</u>			<u>VaR</u>	
	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>	<u>Average</u>	<u>Limit</u>
<u>Product</u>					
Group ^(*)	\$ 166,653	203,920	-	9.1	52.5
Domestic currency:					
Money market	52,640	77,475	105,000	-	-
Interest rate swaps					
Future rate ⁽²⁾	93,845	110,284	207,000	-	-
Forwards of CETES ⁽³⁾	5,294	9,900	10,000	0.001	-
Caps & Floors	<u>1,667</u>	<u>2,648</u>	<u>2,500</u>	<u>0.1</u>	<u>-</u>
Interest rate market and rate derivatives ⁽⁴⁾	<u>153,446</u>	<u>200,307</u>	<u>324,500</u>	<u>9.0</u>	<u>50.0</u>
IPC Derivates ⁽⁵⁾	479	1,061	2,880	-	-
Equity share portfolio	57	107	206	2.4	13.0
Forwards and exchange futures ^{(6) (7) (8)}	968	1,614	4,020	2.6	-
Foreign exchange ^{(6) (7)}	1	12	55	0.5	-
Foreign currency options ⁽⁷⁾	47	75	800	1.4	-
Foreign currency swaps ⁽⁷⁾	65	66	600	0.1	-
Forwards of precious metals ⁽⁷⁾	4	10	50	1.8	-
Options of precious metals ⁽⁷⁾	-	-	200	-	-
Spot of precious metals ⁽⁷⁾	<u>4</u>	<u>5</u>	<u>10</u>	<u>1.5</u>	<u>-</u>
Foreign exchange and foreign currency derivatives and precious metals ⁽⁴⁾	\$ <u>1,089</u>	<u>1,782</u>	<u>5,735</u>	<u>7.8</u>	<u>16.5</u>

(1) VaR expressed in millions of pesos.

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

(3) Special position of the treasury.

(4) Observed period (holding period) of the Foreign Exchange VaR, Capital and Interest rates and limits of 1 day.

(5) Includes IPC futures and options of the capitals derivative table, its VaR is included in the Warrants portfolio. the 1 day average Warrant VaR is MXN 2.44 MM that is computed with the Capitals VaR.

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

(7) Figures expressed in millions of dollars.

(8) Include the net position of foreign exchange forwards from the Treasury.

*/ Subsidiaries that do not manage market risk position do not require a VaR measure

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

For interpretation purposes and as by way of example, the average one day VaR for the Group in the Money market is \$10.4. This means that under normal conditions, in 99 days out of 100 days, the maximum potential loss would be \$10.4.

At December 31, 2012 and 2013, the Management Company has the investment's in the mutual fund "SCOTIAG", the VAR's risk level market with respect of net assets are 0.006% and 0.005%, respectively. For example, at December 2013, if the VaR value for 1 day is used with 95% confidence level in accordance with the net assets of 0.006% and consider that the mutual fund "SCOTIAG" has net assets of \$17,913 at the same date, the maximum expected loss in 1 of 20 days of market operation (1/20=5%), could be higher or equal to \$1,152,931, under normal conditions market.

During 2013, the Group participated in the Mexican Derivatives Exchange (MexDer), operating interest rate futures contracts. Positions for the fourth quarter of 2013 (number of contracts) are shown below:

Mexican Derivatives Exchanges (MexDer)

<u>Underlying</u>	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>
US Dollar futures	-	-	5,000
Interest rate futures	286,574	449,895	702,300
IPC futures	<u>-</u>	<u>-</u>	<u>750</u>
Total futures ⁽¹⁾	<u>286,574</u>	<u>449,895</u>	<u>708,050</u>

Futures and hedge options:

<u>Underlying</u>	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>
IPC ⁽²⁾	-	-	3,500
Shares\IPC ⁽³⁾	-	-	2,500
NAFTRACS ⁽⁴⁾	<u>-</u>	<u>-</u>	<u>1,000</u>
Total futures and options ⁽¹⁾	<u>--</u>	<u>--</u>	<u>7,000</u>

- (1) The position and the limit are in number of contracts operated in the MexDer.
(2) Includes IPC futures and options of the capitals derivative table, its VaR is included in the Warrants portfolio and is to hedge the warrants portfolio.
(3) Includes IPC's stocks of futures and options of the capitals derivative table, its VaR is included in the Warrants stokes portfolio and is to hedge the warrants portfolio.
(4) Includes NAFTRACS futures and options of the capitals derivative table, its VaR is included in the derivatives stokes portfolio and is to hedge the warrants portfolio.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

For comparative purposes, below we show positions in number of contracts negotiated in the fourth quarter of 2012:

Mexican Derivatives Exchanges (MexDer)

<u>Underlying</u>	<u>Average</u>	<u>Maximum</u>	<u>Limit</u>
US Dollar futures	–	–	5,000
Interest rate futures	72,922	103,839	1,073,550
IPC futures	<u>–</u>	<u>–</u>	<u>750</u>
Total futures ⁽¹⁾	<u>72,922</u>	<u>103,839</u>	<u>1,079,300</u>

⁽¹⁾ The position and the limit are in number of contracts operated in the MexDer.

At December 31, 2013, there were no investments in non-government debt securities of the same issuer in excess of 5% of the Group's net capital. At December 31, 2012, the investments greater than the aforementioned percentage are comprised as follows:

	2012			
	<u>Issuance</u>	<u>Amount</u>	<u>Term</u>	<u>Annual rate</u>
BANORTE	<u>Various</u>	<u>\$ 1,908</u>	<u>58</u>	<u>4.54%</u>

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.

At December 31, 2013, the stress testing figure was \$240, which compared with the \$1,500 limit, is within the acceptable parameters. Scenarios used for stress testing are the 1994 and 1998 crisis as well as hypothetical scenarios.

The market risk limits structure foresees volumetric or notional VaR, sensitivity and concentration amounts, stress and term limits, etc.

Also, back-testing is performed monthly for comparing the losses and gains to the observed Value at Risk and thus calibrate the models being used. The model's efficiency level is based on the approach established by the Bank for International Settlements (BIS). As for back-testing performed during the last quarter of 2013, there were certain efficiency levels that were in the yellow under the BIS approach. Such is the case of the VaR for rate futures and swaps due to the high volatility in the interest rate markets during such quarter.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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."

Sensitivities

Qualitative information on sensitivities

The Group 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.

Daily, the risk area calculates the market risk sensitivities for each portfolio to which the Group is exposed. During 2013, no changes were made to the assumptions, methods or parameters used for this analysis.

Below we present a description of the methods, parameters and assumptions used for the portfolio of stock, currency, interest rates and derivative products.

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. In referring to market interest rates, we refer to the yield curve (not the zero-coupon curves) because it is the yield curve which is quoted in the market and best explains the behavior of losses and gains.

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 bp (0.01%) in the yield curve; and (ii) the expected change in the portfolio value in response to a change of 100 bp (1%) in the yield curve. For purposes of this disclosure, we only report the changes in 1 bp. 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. In zero-coupon bonds, the computation of the sensitivity of zero coupon instruments, the term to maturity, expressed in years, is used as duration.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Interest rate derivatives

Below is a brief explanation of sensitivity modeling for the Group's interest rate derivatives.

TIIE 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 TIIE swaps a 1 bp change is made in each of the relevant points in the yield curve and a 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. In this case, the change in 1 bp is reported.

Quantitative information on interest rate sensitivities

The following table shows the sensitivity as of December 31, 2013 and 2012:

<u><i>Sensitivity of 1 bp</i></u>	December <u>2012</u>	December <u>2013</u>
Fixed rate	1.041	0.852
Reviewable rate	<u>0.066</u>	<u>0.044</u>
Subtotal – interest rates	<u>1.107</u>	<u>0.896</u>
Futures	0.014	(0.317)
Swaps	(0.030)	(0.140)
Caps & Floors	<u>(0.004)</u>	<u>(0.008)</u>
Subtotal – interest rate derivatives	<u>(0.020)</u>	<u>(0.465)</u>
Total	<u>1.087</u>	<u>0.431</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

At December 31, 2013, the Group presents sensitivity in the interest rate portfolio of \$0.431, which means that for each basis point the interest rate decreases, a profit of \$0.431 would result. At December 31, 2013, there was an increase in the long positions of 3 to 5 years and 10 to 30 years rate bonds and an increase of short positions of 5 to 10 year bonds, which led to a decrease in sensitivity to \$0.431.

Should the sensitivity scenario depicted in the above table materialize, the profits would have a direct impact on the Group's results of operations.

The following table shows statistics for the fourth quarter of 2013, maximum, minimum and average. In average, the sensitivity was \$0.453. In this period the interest rate portfolio and derivatives hedge long positions.

<u>Sensitivity of 1 basis point</u>	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Interest rate	\$ 0.555	1.388	(0.125)
Rate derivatives	(0.103)	0.633	(0.834)
Total	\$ <u>0.452</u>	<u>2.021</u>	<u>(0.959)</u>

Stock portfolio and IPC derivatives

Stock

Operations are performed through the Brokerage Firm and the Bank. For purposes of the stock position, the sensitivity is obtained by calculating the issued delta within the portfolio. delta is defined as the change in the portfolio's value when the underlying changes 1%.

Equities derivatives

Through its Brokerage Firm, the Group participates in stock derivative transactions using IPC futures, IPC index futures and options listed on the Mexican Derivatives Exchange, MexDer. Sensitivity is calculated using the Delta. This portfolio has limits expressed in notional terms. In the Over the Counter or OTC market the Brokerage Firm participates with IPC index Warrants and IPC index Options.

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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

Delta risk is defined as the change in value of an option before a change of a predetermined magnitude in the value of the underlying (for example 1%). It is calculated by valuing the option with different underlying levels (one original and one with a +1% shock), holding all other parameters constant.

Gamma, is supplementary to the delta risk and is another sensitivity measure of the value of an option with respect to the value of an underlying. Gamma measures the rate of change of the delta before a change in the level of the underlying, is analogous to the calculation of the delta, and may be interpreted analytically as the second partial derivative of the Black Scholes function with respect to the underlying.

Rho: is the sensitivity measure of an options portfolio to changes in interest rates. Mathematically speaking, Rho is the first partial derivative of the Black Scholes function with respect to interest rates. Rho is defined as the change in value of an options portfolio before an increase of 100 base points (+1%) in interest rates. Overall, the sensitivity of an options portfolio to the interest rate is less compared to the sensitivity of the price of the underlying (delta) or of the implied volatilities (vega).

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

Vega: is the name of the sensitivity measure of the value of an options portfolio when faced by changes in the market volatilities of the underlying. In general, a long position in options benefits from an increase in the volatility of an underlying and a short position has the opposite trend, except for certain exceptions as is the case of binary options.

Dividend Risk. The valuation of options on indices or stock implies a known continuous compound rate, however, dividends are an estimate and, therefore, an unknown variable, representing a risk factor for valuation purposes and the resulting P&L analysis of transactions with options.

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Sensitivities for the portfolio of stock and IPC derivatives

The following table shows the sensitivity at December 31, 2013 and 2012:

	December <u>2012</u>	December <u>2013</u>
Sensitivities 1bp		
Shares	<u>0.676</u>	<u>0.117</u>
Subtotal	<u>0.676</u>	<u>0.117</u>
Warrants	<u>(0.022)</u>	<u>(0.009)</u>
Subtotal	<u>(0.022)</u>	<u>(0.009)</u>
Total	<u>0.654</u>	<u>0.108</u>

At December 31, 2013, the capitals desk continued its strategy of conducting intraday transactions, the most relevant position being Elektra, Gruma B and EWZ* (Brazilian index). As to the IPC index position the Group has a hedge strategy new issues of Warrants and arbitrating between the capitals market and the IPC index futures.

Should the sensitivity scenario shown in the above table materialize, the losses would have a direct impact on the Group's results of operations.

The Group's portfolio of capitals only comprises stocks and position the IPC index portfolio. The sensitivity is positive and for the fourth quarter of 2013 it average \$0.557. During the quarter the sensitivity and stock position decreased.

<u>Sensitivity</u>	<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Shares	0.332	0.613	0.077
IPC derivatives	<u>(0.015)</u>	<u>0.014</u>	<u>(0.027)</u>
Total	<u>0.317</u>	<u>0.627</u>	<u>0.050</u>

Sensitivities for warrants and IPC options, "Greek".

<u>Greek</u>	<u>Delta</u>	<u>Gamma</u>	<u>Vega</u>	<u>Theta</u>	<u>Rho</u>
Warrants	\$ (287.84)	(45.08)	0.44	(0.15)	0.67
IPC Options/OTC Options	238.59	25.12	(0.01)	0.12	0.07
IPC Futues	-	-	-	-	-
Naftracs/Shares	<u>64.82</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>15.57</u>	<u>(19.96)</u>	<u>0.43</u>	<u>0.03</u>	<u>0.74</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

The following table shows the average, maximum and minimum of the sensitivities for warrants and IPC options

	<u>Delta</u>	<u>Gamma</u>	<u>Rho</u>	<u>Vega</u>
Minimum	1.31	0.51	0.00	0.22
Maximum	<u>57.77</u>	<u>27.99</u>	<u>0.01</u>	<u>0.83</u>
Average	<u>21.42</u>	<u>14.25</u>	<u>0.01</u>	<u>0.56</u>

Currency portfolio and currency derivatives

Currency

The portfolio is comprised of various currencies operated by the currencies desk for trading purposes. The sensitivity is calculated as the Delta by currency as the change in the portfolio's value in response to a 1% change in the value of the underlying asset.

Currency derivatives

Currency forwards and futures: For this portfolio, the sensitivity is calculated for each currency in response to changes in the interest rate, as the present value result in response to a parallel 1 basis point change along the respective yield curves, with all other factors remaining constant. Also, a change, non-parallel to the yield curves is applied by time gaps, all other factors remaining constant.

Currency options: For exchange rate options, sensitivities known for the Greek letters (i.e. Delta, Gamma, Vega, Theta and Rho) are calculated.

Cross Currency Interest Rate Swap (CCIRS): For determining the sensitivity to changes in the yields curve, a one basis point change is made along the respective yields curves, valuing the portfolio with the different curves and calculating the change in the portfolio's value with each of such changes. Also, a parallel analysis with a change of 100 basis points is made. In addition, a one basis point change is made not parallel to the yield curves by time gaps, maintaining all other factors constant. For purposes hereof, we only present the sensitivity for 1 basis point.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements
(Millions of Mexican pesos)

Sensitivities for currency and currency derivative

The following table shows the sensitivity at December 31, 2013 and 2012:

<u>Exchange rate</u>	<u>2012</u>	<u>2013</u>
USD	(0.049)	(0.191)
CAD	0.065	0.013
EUR	0.111	(0.001)
Other	<u>0.037</u>	<u>0.106</u>
Subtotal	<u>0.164</u>	<u>(0.073)</u>
DEUA forwards and futures	(0.002)	(0.024)
OTC MXN/USD options	(0.001)	(0.000)
Swaps	<u>(0.001)</u>	<u>(0.001)</u>
Subtotal	<u>(0.004)</u>	<u>(0.025)</u>
Total	<u>0.160</u>	<u>(0.098)</u>

At December 31, 2013, a change in the sensitivity to the Exchange rate was recorded at (\$0.098) mainly due to the change of long or short positions. As for the CCIRS, the sensitivity is very reduced. Currently, the Group participates in the OTC market of peso-dollar exchange rate options for hedging purposes and to serve its customers. The foreign Exchange (spot/forward) desk does not register material exposures.

Should the sensitivity scenario depicted in the above table materialize, the profits would have a direct impact on the Group's results of operations.

Currency portfolio position decreased as a result of the reduction of forwards and currency options position.

In average, the quarterly sensitivity of the portfolio of currencies and currency derivatives was (\$0.085).

<u>Sensitivity</u>		<u>Average</u>	<u>Maximum</u>	<u>Minimum</u>
Currencies	\$	(0.076)	1.174	(1.117)
Currency derivatives		<u>(0.009)</u>	<u>0.082</u>	<u>(0.074)</u>
Total	\$	<u>(0.085)</u>	<u>1.256</u>	<u>(1.191)</u>

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Sensitivities for peso-dollar exchange rate options, “Greek”.

Below is presented the position and sensitivities of the currency options portfolio at December 31, 2013:

<u>Greek</u>	<u>Delta</u>	<u>Gamma</u>	<u>Vega</u>	<u>Theta</u>	<u>Rho</u>
Currency exchange rate (MXN/USD)	<u>(56.522)</u>	<u>(3.400)</u>	<u>(0.719)</u>	<u>0.003</u>	<u>0.011</u>

(b) *Liquidity risk-*

The Group’s 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 Group will be able to meet the totality of its obligations as they become due and payable. To such end, the Group applies controls to liquidity gaps, monitors key liquidity indicators, maintains diversified funding sources, establishes limits and maintains a minimum percentage of liquid assets. The Group manages its exposure to liquidity risk in accordance with the applicable regulatory provisions and the best market practices. In addition, there are contingency plans in place.

The liquidity risk is monitored and controlled through cumulative liquidity gaps. The Cash Flow Gap includes the Group’s flows at contractual maturity (interest income and expense incoming and outgoing payments).

For measuring liquidity risk, the cumulative liquidity gaps at December 31 2013 as follow:

	<u>December</u> <u>2013</u>
10-day cumulative gap (MXN+UDI’s) ⁽¹⁾	8,060
30-day cumulative gap (MXN+UDI’s) ⁽¹⁾	17,493

⁽¹⁾Includes Bank, Brokerage firm and mutual fund

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

For measuring liquidity risk, the cumulative liquidity gaps at December 31 2013 for Credito Familiar, as follows:

	<u>December</u> <u>2013</u>
10-day cumulative gap (MXN+UDI's)	50
30-day cumulative gap (MXN+UDI's)	84

Cumulative liquidity gaps have implicit contractual maturities, including hedge derivatives positions.

As for the structural market risk for interest rates, the balance sheet valuation takes place under current conditions and its sensitivity to rate increases or decreases is determined.

The Economic Value incorporates the impact of changes in interest rate on the total expected flows, provides a measure of the long-term impact of these variances.

Margin sensitivity measures the impact of reinvesting/funding at 100 basis points (bp) above the contractual rate from the date of repricing through a one-year horizon; in addition, it assumes that the current balances remain constant during 12 months and that the balances are repriced at the end of each band.

For measuring the interest rate risk, the variance in the estimated Economic Value and the estimated variance in financial income for the Group at the end of December and, in average, for the fourth quarter of 2013 was as follows:

	<u>December</u>	<u>Average</u>
Economic value ⁽¹⁾	\$ 488	533
Margin sensitivity ⁽¹⁾	296	299

⁽¹⁾Includes Bank, Brokerage firm and mutual fund

For measuring the interest rate risk, the variance in the estimated Economic Value and the estimated variance in financial income for Credito Familiar at the end of December and, in average, for the fourth quarter of 2013 was as follows:

	<u>December</u>	<u>Average</u>
Economic value	\$ 7.7	7.3
Margin sensitivity	0.7	0.5

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Below is the valued position for the Group's available for sale investments at December 2013 and 2012:

<u>Type</u>	<u>December 2013</u>	<u>December 2012</u>
Banking	1,582	947
Corporate	375	378
Government	25,545	23,096
Others	<u>424</u>	<u>462</u>
Total	27,926	24,883

Being an integral part of the Group's balance handling, available for sale investments are monitored under the sensitivity measures described above (Economic Value and Margin Sensitivity). At December 31, 2013, the Group has liquid assets for amount \$13,950.

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

In the following page is a summary of hedge derivatives at the end of December, used by the Group for hedging interest rate and exchange rate risks.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Strategy	December 2013 Notional	December 2012 Notional
Interest rate swaps paid at fixed rate (cash flows)	14,570	9,360
0y - 3y	1,000	1,350
3y - 5y	6,850	2,050
5y - 10y	6,720	5,960
Interest rate swaps paid at floating rate (cash flows)	9,650	6,200
0y - 3y	9,650	6200
Interest rate swaps paid at fixed rate (fair value)	2,976	4,095
0y - 3y	1,461	2,624
3y - 5y	1,515	1,471
Interest rate swaps paid at fixed rate (fair value in USD)	810	1,089
0y - 3y	612	817
3y - 5y	198	272
CCIRS paid at fixed rate (fair value in EUR)	445	752
0y - 3y	445	752
CCIRS paid at fixed rate (fair value in USD)	330	324
0y - 3y	330	324
CCIRS paid at fixed rate (fair value in UF)	2,393	-
0y - 3y	2,393	-
Interest rate swaps paid at fixed rate (fair value – Credito Familiar)	1,379	2,296
0y - 3y	1,379	2,296

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

(c) ***Credit risk-***

Credit risk is defined as the potential loss due to default by a borrower or counterparty in transactions carried out by the Group. This risk affects not only the loan portfolio but the securities portfolio, transactions in derivatives and foreign exchange transactions.

The Group's credit risk management is based on the application of well defined strategies for controlling this type of risk, which include the centralization of credit processes, the diversification of the portfolio, improved credit analysis, strict supervision and a credit risk rating model. The Group has three different levels of credit resolution: the Board of Directors, the Credit Committees and joint powers of the Credit department. Each level is defined depending on the amount of the transaction, the type of borrower and the purpose for which the funds will be used.

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

In the case of Crédito Familiar, the business model propose that decisions is given on a decentralized basis, supplemented by central support, this is, the placement and the collection is based on its branches and is supported by central area under specific conditions. All branches operate base of knowledge of the policy and procedures of business credit. The policies cover from credit granting, administration and control to collect of it. There is also a central area dedicated to recover credit, which is based on own efforts and external collection agencies. There is also an area totally dedicated to fraud management, which has established processes for prevention, detection and recovery operation with suspected fraud.

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

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

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

This model considers the following risk factors: country risk, financial behavior, financial hedging, debtor management, overall strength (the customer's relation to the economic environment, competitiveness, strengths and weaknesses), account management, industry conditions and payment experience. Such factors constitute an evaluation of the customer's risk profile and the result is obtained by applying an algorithm that considers such elements. This algorithm is the result of BNS experience, its statistical analysis and adaptation to the Mexican market.

The internal grading model of debtor classified by "IG Code" has 8 ratings considered as acceptable (IG 98 to IG 77), 4 ratings to reflect a higher than normal risk (IG 75 to IG 65) and 5 ratings considered unacceptable (IG 60 al IG 20). The ratings are as follows:

Rating	IG code
Excellent risk	98
Very good risk	95
Good risk	90
Satisfactory risk	87
High adequate risk	85
Medium adequate risk	83
Low adequate risk	80
Medium risk	77
High moderate risk	75
Medium moderate risk	73
Low moderate risk	70
Watch list	65
Special supervision	60
Sub-standard	40
Default under Basel	27
Doubtful recovery	21
Non-performing	20

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Estimates for commercial loans are based on the individual assessment of the credit risk of debtors and their rating, in compliance with the General Provisions applicable to the Loan Portfolio Rating Methodology of Credit Institutions established by the Banking Commission. To such effect, the portfolio secured by or owned by the Federal Government, Banco de México and the Mexican Bank Savings Protection Institute or IPAB, in accordance with the Rule for rating the Loan Portfolio of Multiple Banking Institutions.

Specific rating methodologies prescribed by the aforementioned Provisions are used in commercial loan portfolios with federal and municipal entities and their decentralized agencies, in those of investment projects with own source of payment, in those of trustees who act under trusts and “structured” loan schemes with modification of net worth that allow for the individual assessment of the related risk, as well as in the portfolio with financial entities, are used the specific rating methodologies in the Provisions aforementioned.

Since March 2012, for the commercial loan portfolio granted to corporations and individuals the internal rating methodology authorized by the Banking Commission is used, which is based on the estimate of an expected loss through the calculation of the probability of default and loss given default associated with the value and nature of the loan’s collateral. The foregoing is in accordance with the provisions of Section Four, Chapter V, Title Two of the Provisions. However, the following segments are exempted from such methodology: the special loan program called Scotia Empresarial, which is rated by applying an internal model based on the debtor’s creditworthiness, certified by the Banking Commission and the segment corresponding to debtors with net sales or revenues lesser than 14 million UDIS, which is rated using the methodology referred to in paragraph a) number V of article 110, exhibit 21 of the Provisions, which superseded the one applied to debtors which total loans do not exceed 2 million UDIS, which was applied through November 30, 2013.

The internal rating methodology considers a two-dimensional approach by including the as key risk elements for calculating reserves, creditworthiness of the debtor translated into the Probability of Default (LD) as well as the Loss Given Default (LGD) of transactions, on the basis of individual characteristics; both elements are estimated with own historical data.

With the purpose of estimating the reserve of borrowers in the consumer portfolios, including Credito Familiar, the Group uses the regulatory methodologies published in the Provisions. The aforementioned estimate methodologies are based on the calculation of the Expected Loss for each of the loans from the parameters of Probability of Default (LD), Loss Given Default (LGD) and Exposure at Default (ED) and are based on specific information and characteristics of the assessed loans.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

- The measurement and monitoring of the credit risk is also based on an expected and unexpected loss model.
- The expected loss represents an estimate of the probability of default, loss given default and exposure at default in a 12-month period.
- The unexpected loss is a measure of dispersion around the expected loss and is calculated on the basis of risk parameters adjusted for obtaining capital.

Additionally, stress tests are conducted for determining its impact on the portfolio's expected and unexpected loss, which are presented to and analyzed by the Risk Committee.

At the end of December and in average for the fourth quarter of 2013 and 2012, the expected and unexpected loss over the Group's total portfolio was as follows:

	<u>2013</u>		<u>2012</u>
	<u>December</u>	<u>Average</u>	<u>December</u>
Expected loss			
Bank	3,243	3,493	2,269
Brokerage firm	6	8	10
Credito Familiar	488	497	442
Unexpected loss			
Bank	15,940	15,850	10,557
Brokerage firm	7	10	12
Credito Familiar	328	339	352

For interpreting the expected and unexpected loss and by way of example, the average expected loss during the fourth quarter of 2013 for the Bank was \$3,493, which represents the amount the Bank expects to lose (in average) during the next twelve months by way of defaults given the characteristics of its portfolios; while the unexpected loss was \$15,850 and represents the necessary economic capital to maintain the Institution's solvency in the event of a large magnitude adverse event that has an impact on the credit portfolios.

At the end of December 2013, the total and average quarterly exposure of the loan portfolio of the Group is as shown in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Loan portfolio exposure by portfolio

	<u>2013</u>		<u>2012</u>
	<u>December</u>	<u>Average</u>	<u>December</u>
Mortgage loans	57,204	56,013	50,030
Auto loans	12,484	12,176	10,890
Non-revolving personal loans	6,490	6,818	3,334
Revolving personal loans	7,458	7,456	6,492
Commercial loans*	<u>79,128</u>	<u>69,427</u>	<u>63,539</u>
Total	<u>162,764</u>	<u>151,890</u>	<u>134,285</u>
Credito Familiar	3,043	3,136	3,142

Credit risk in investment securities - Below is a summary of exposures, credit quality and concentration by risk level of investment securities at the end of December 2013 and 2012:

	<u>2013</u>	%	<u>2012</u>	%
<u>Held-to maturity</u>				
Bank	<u>2,143</u>	-	<u>2,063</u>	-
Subtotal	<u>2,143</u>	<u>4</u>	<u>2,063</u>	<u>4</u>
<u>Available for sale</u>				
Bank	27,360	-	24,283	-
Brokerage firm	<u>566</u>	<u>-</u>	<u>600</u>	<u>-</u>
Subtotal	<u>27,926</u>	<u>56</u>	<u>24,883</u>	<u>44</u>
<u>Trading securities</u>				
Bank	11,802	-	14,157	-
Brokerage firm	7,540	-	14,286	-
Other business line and subsidiaries*	<u>380</u>	<u>-</u>	<u>911</u>	<u>-</u>
Subtotal	<u>19,722</u>	<u>40</u>	<u>29,354</u>	<u>52</u>
Total risk	<u>49,791</u>	<u>100</u>	<u>56,300</u>	<u>100</u>

*Include Mutual Funds, SECOSA and Credito Familiar.

Credito Familiar has CDs issued by the Bank, at fixed rate and terms between 1 and 3 days. These tools don't require any kind of valuation, so in your statements is considered availabilities, therefore not involve a calculation of VaR. Due to the above CF not incurs a market risk.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Credit risk in derivative transactions

In addition to the risk measures mentioned earlier for derivative transactions, potential exposure is measured, which measures the replacement value throughout the remaining life of the contract's transaction.

Potential exposure limits by counterparty consider the current market value (only the positive that involves counterparty risk for the Group) and the replacement value (or potential exposure) without considering "netting".

Below we present the exposure and concentration by type of counterparty at the end of December 2013 and 2012:

Type of counterparty	Exposure (\$)	Concentration (%)
<u>December 2013</u>		
Financial institutions	34,783	98
Corporate headquarters	<u>683</u>	<u>2</u>
Total maximum exposure	<u>35,466</u>	<u>100</u>
<u>December 2012*</u>		
Financial institutions	24,066	99
Corporate headquarters	<u>179</u>	<u>1</u>
Total maximum exposure	<u>24,245</u>	<u>100</u>

*This information corresponds only the Bank.

The breakdown by type of derivative is included in table 2 under the heading of market risk and the last table under the liquidity risk heading.

(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 Group has policies and procedures enabling it to implement an appropriate operational risk management process, which are described in the following page.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Policies for operational risk management

These policies are intended for establishing 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 Group.

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 2013 close, the Group recorded operational risk losses for \$282, which were \$82 less than those recorded in 2012 (\$364).

Operational risk tolerance levels

This is an operational loss management tool that enables each of the Group'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 Group 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.

Also, the Group has a structured methodology for the assessment of the operational risk and controls, which applies throughout its structure and is used for identifying the operational risks inherent in its daily activities, with the following objectives: (i) Assess inherent risk, the effectiveness of controls and the residual risk; and (ii) Establish actions for mitigating the risks identified.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

Estimate of legal risk losses

The Group has a methodology for estimating expected and unexpected legal risk losses through for estimating probable losses arising from an adverse outcome of trials in process. Such methodology is based on the loss experience of previous years that is used for determining the likelihood of loss associated with the ongoing legal issues through a statistical severity and occurrence analysis.

Technological risk

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 information in rendering services to the Group's customers.

In order to attend to requirements of regulations in terms of technological risk, the Group has technological risk management policies, which describe the guidelines and methodology for assessing technological risks. Furthermore, the Information Systems Department has policies, procedures and systems that contribute to compliance of the related requirements.

The technological risk methodology, which assesses vulnerabilities, considers the criticality of the information in terms of completeness, confidentiality, availability and continuity to identify the risks inherent in the technological applications and infrastructure, assess the controls in place and obtain the residual risk. As a result, the methodology sets forth a proposal of controls for mitigating the technological risk at an acceptable level.

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.

(24) Recently issued accounting standards-

The Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) has issued the FRS and Improvements listed below:

FRS C-3 "Accounts Receivable"- FRS C-3 is effective for years beginning January 1, 2016, and is applicable retrospectively; however, early adoption is permitted. Some of the primary changes resulting from the adoption of this FRS are as follows:

- FRS C-3 provides that accounts receivable based on a contract are deemed financial instruments. On the other hand, some other accounts receivable, resulting from legal or tax provisions, may include certain characteristics of a financial instrument, such as bearing interest, though these are not deemed financial instruments.

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
 (A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

- FRS C-3 sets out that the allowance for doubtful trade receivables shall be recognized as revenue is earned. Thus, the allowance shall be recorded as expenses in the statement of comprehensive income.
- FRS C-3 provides that, from the initial recognition, the money value in time shall be considered. Therefore, should the effect of the present value of the account receivable be significant in view of its term, an adjustment must be made taking into consideration such present value.
- A reconciliation between the initial and final balances of the allowance for doubtful accounts is required for each period presented.

It is not expected that the entry into force of the aforementioned FRS takes effect in the Group's financial statements, due to there are not standards to this respect.

FRS C-11 “Stockholders’ equity”- FRS C-11 is effective for years beginning January 1, 2014, and is applicable retrospectively. FRS C-11 supersedes Bulletin C-11 “Stockholders’ equity” and Circular 38 “Temporary acquisition of treasury stock” and Circular 40 “Accounting treatment of stock issuance and placement costs”. Some of the main aspects resulting from the adoption of this FRS are as follows:

- FRS C-11 requires that in order to capitalize the advances for future capital stock increases, at the stockholders’ or partners’ meeting it shall be agreed that such advances be applied for future capital stock increases and also, the price per share to be issued pursuant to such contributions shall be fixed. Furthermore, it shall be agreed that these contributions shall not be refunded before being capitalized.
- FRS C-11 broadly identifies financial instruments with characteristics of equity which would otherwise, be regarded as liabilities. However, the specific standard that classifies financial instruments as either equity or liabilities, within the same compound financial instrument, is FRS C-12 “Financial instruments with characteristics of liabilities and equity”.

The Banking Commission has not ruled on its adherence about this new standard.

FRS C-12 “Financial instruments with characteristics of liabilities and equity”- FRS C-12 is effective for years beginning January 1, 2014, and is applicable retrospectively. FRS C-12 supersedes Bulletin C-12 “Financial instruments with characteristics of liabilities, equity or both”, and the provisions regarding these instruments under Bulletin C-2 “Financial instruments”. Some of the main aspects resulting from the adoption of this FRS are as follows:

(Continued)

GRUPO FINANCIERO SCOTIABANK INVERLAT, S. A. DE C. V.
(A foreign-owned Mexican Holding Company)
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(Millions of Mexican pesos)

- This FRS sets forth that the primary characteristic to be met for a financial instrument to be classified as an equity instrument, is that its holder be exposed to the entity's risk and rewards rather than the right to charge the entity a fixed amount.
- By exception, if certain conditions apply and, provided there is no other obligation virtually assured to require payment to the holder, a redeemable instrument is classified as equity.
- The subordination concept is included.

The Banking Commission has not ruled on its adherence about this new standard.

2014 FRS Improvements

In December 2013, CINIF issued the document referred to as "2014 FRS Improvements", which contains precise modifications to some FRS. The modifications that bring about accounting changes are listed below:

FRS C-5 "Prepayments"- FRS C-5 provides that amounts paid in foreign currency be recognized at the exchange rate in force as of the transaction date, and shall not be modified as a result of foreign exchange fluctuations between the functional currency and the foreign currency in which the prices of goods and services regarding such prepayments are denominated. Additionally, it provides that impairment losses arising from prepayments, as well as the reversal of such losses, shall be reported as part of the net income or loss for the period. These improvements are effective for years beginning January 1, 2014, and the resulting accounting changes shall be recognized retrospectively.

The Banking Commission has not ruled on its adherence about this new standard.

(25) Subsequent event-

Financial reform-

On January 10, 2014 was published in the Official Gazette of the Federation, some modifications to various laws and decrees related to financial matters, known as "Financial Reform". Such modifications are intended, among other things: i) promote development banks, ii) improve legal certainty of the private credit institutions and promote the increased credit supply to more competitive costs, iii) promote the competence between financial institutions, and iv) strengthen the regulatory framework. Such Financial Reform takes into account more vigilance attributes to the National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF-Spanish abbreviation) in order to look after and regulate the financial products. The Group is in process to assess the impact that this Financial Reform may have in its operations and in its financial performance, considering that the modifications to additional laws and specific rules are in process, which will be issued by the Banking Commission, the Central Bank and other institutions in this subject.