Scotia Fondos, S. A. de C. V.
Sociedad Operadora de Fondos de Inversión
Grupo Financiero Scotiabank Inverlat

Financial Statements

December 31, 2016 and 2015

(With Statutory and Independent Auditors'
Reports Thereon)

(Free Translation from Spanish Language Original)

Víctor Leonel Esquivel Romero
Contador Público

Statutory Auditor Report

(Free Translation from Spanish Language Original)

The Stockholders
Scotia Fondos, S. A. de C. V.,
Sociedad Operadora de Fondos de Inversión,
Grupo Financiero Scotiabank Inverlat:

In my capacity as Statutory Auditor of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Scotiabank Inverlat ("the Management Company"), I hereby submit my report on the reliability, fairness and sufficiency of the financial information furnished to you by the Board of Directors for the year ended December 31, 2016.

I have attended the Stockholders' and Board of Directors' meetings to which I have been summoned, and I have obtained from the directors and Management such information on the operations, documentation and accounting records as I considered necessary in the circumstances.

In my opinion, the accounting and reporting criteria and policies followed by the Management Company, and considered by Management in preparing the financial statements presented at this meeting, are adequate and sufficient under the circumstances. Therefore, such financial information is a fair, sufficient and reasonable representation of the financial position and investment portfolio valuation of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Scotiabank Inverlat as of December 31, 2016, and of the results and cash flows for the year then ended, in conformity with the accounting criteria issued by the National Banking and Securities Commission (the Commission) for fund management companies in Mexico.

Sincerely,

SIGNATURE

Víctor Leonel Esquivel Romero
Statutory Auditor

Mexico City, February 23, 2017.

KPMG Cárdenas Dosal, S.C.
Manuel Ávila Camacho 176 P1,
Reforma Social, Miguel Hidalgo,
C.P. 11650, Ciudad de México.
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Independent Auditors' Report

(Free Translation from Spanish Language Original)

The Board of Directors and Stockholders
Scotia Fondos, S. A. de C. V.,
Sociedad Operadora de Fondos de Inversión,
Grupo Financiero Scotiabank Inverlat:

Opinion

We have audited the financial statements of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Scotiabank Inverlat ("the Management Company"), which comprise the balance sheets including statements of investment portfolio valuation as of December 31, 2016 and 2015, the statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Fondos de Inversión, Grupo Financiero Scotiabank Inverlat, have been prepared, in all material respects, in accordance with the accounting criteria for fund management companies in Mexico issued by the National Banking and Securities Commission (the Commission).

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

(Continued)

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

Those charged with governance are responsible for overseeing the Management Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Management Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Management Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Management Company to cease to continue as a going concern.

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

KPMG CARDENAS DOSAL, S. C.

SIGNATURE

Mauricio Villanueva Cruz

Mexico City, February 23, 2017.

Scotia Fondos, S. A. de C. V.
Sociedad Operadora de Fondos de Inversión
Grupo Financiero Scotiabank Inverlat

Balance Sheets

December 31, 2016 and 2015

(Thousands of Mexican pesos)

Assets		**2016**	**2015**
Cash and cash equivalents	$	14	444
Investment securities (notes 5 and 11):			
Trading		261,027	181,380
Accounts receivable (note 6)		120,196	105,063
Permanent investments (note 7)		54,780	48,999
Deferred taxes, net (note 10)		1,109	1,679
Other assets:			
Deferred charges, prepaid expenses and intangibles		4,335	9
Other short and long term assets		24	21
		4,359	30
Total assets	$	441,485	337,595

Liabilities and Stockholders' Equity		**2016**	**2015**
Other accounts payable:			
Income tax payable	$	-	5,157
Sundry creditors and other accounts payable		99,278	87,429
Total liabilities		99,278	92,586
Stockholders' equity (note 9):			
Paid-in capital:			
Capital stock		2,586	2,586
Earned capital:			
Statutory reserves		517	517
Retained earnings		150,081	39,342
Remeasurements of defined employee benefits		(7)	–
Net income		189,030	202,564
		339,621	242,423
Total stockholders' equity		342,207	245,009
Total liabilities and stockholders' equity	$	441,485	337,595

Memorandum accounts		**2016**	**2015**
Other accounts	$	7,110	6,122
Assets in custody or administration (note 12)		204,143,356	179,904,340

See accompanying notes to financial statements.

"These balance sheets were prepared in accordance with the accounting criteria applicable to the company, issued by the National Banking and Securities Commission, based on Article 76 of the Law for Mutual Funds, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the transactions carried out by the company through the dates indicated above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

"As of December 31, 2016 and 2015, the minimum fixed and variable historical capital stock amount to $1,000 and $1,000, respectively".

SIGNATURE
Ernesto Díez Sánchez
General Director

SIGNATURE
H. Valerio Bustos Quiroz
Director of Group Accounting

"These balance sheets faithfully match with the balance sheets originals, which are properly signed and held by the Management Company"

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

Scotia Fondos, S. A. de C. V.
Sociedad Operadora de Fondos de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Income

Years ended December 31, 2016 and 2015

(Thousands of Mexican pesos)

	2016	2015
Fee and commission income	$ 1,149,270	1,096,889
Fee and commission expense	(823,952)	(755,571)
Income from services	325,318	341,318
Unrealized gain on securities (note 5)	267	84
Net realized gain on securities (note 5)	8,079	4,584
Brokerage margin	8,346	4,668
Other operating (expense) income, net	(319)	686
Administrative expenses	(66,164)	(58,100)
	(58,137)	(52,746)
Net operating income	267,181	288,572
Equity in the results of unconsolidable subsidiaries and associated companies (note 7)	781	(31)
Income before income taxes	267,962	288,541
Current income taxes (note 10)	(78,364)	(86,990)
Deferred income taxes, net (note 10)	(568)	1,013
	(78,932)	(85,977)
Net income	$ 189,030	202,564

See accompanying notes to financial statements.

"These statements of income were prepared in accordance with the accounting criteria applicable to the company, issued by the National Banking and Securities Commission, based on Article 76 of the Law for Mutual Funds, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the income and expenses arising from the transactions carried out by the company during the periods indicated above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

SIGNATURE	**SIGNATURE**
Ernesto Díez Sánchez	H.Valerio Bustos Quiroz
General Director	Director of Group Accounting

"These statements of income faithfully match with the statements of income originals, which are properly signed and held by the Management Company"

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx

www.cnbv.gob.mx/Paginas/default.aspx

Scotia Fondos, S. A. de C. V.
Sociedad Operadora de Fondos de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Investment Portfolio Valuation

December 31, 2016 and 2015

(Thousands of Mexican pesos, except otherwise is indicated)

%		Issuer	Series	Type of security	Valuation rate	Rating or marketability	Number of traded securities	Number of settled securities	Total securities of the issuance	Average unit acquisition cost (in pesos)	Total acquisition cost	Fair or accounting value per share (in pesos)	Total fair or accounting accounting value	Days to maturity
	December 31, 2016													
%	**Trading securities:**													
	Investment in net equity instruments													
	Investment funds investing in debt securities													
100.00	Scotia Gubernamental, S. A. de C. V., F I I D	SCOTIAG	C1	51	–	AAA/2	81,835,090	81,835,090	81,835,090	3.207178	$ 262,460	3.189670	$ 261,027	*
%	**Permanent investments:**													
	Investment funds investing in debt securities													
0.11	Finde1, S. A. de C. V., F I I D	FINDE1	A	51	–	AAA/3	1,000,000	1,000,000	930,106,090	2.438698	$ 2,439	2.438698	$ 2,439	*
0.01	Scotia Inversiones, S. A. de C. V., F I I D	SBANKCP	A	51	–	AAA/3	250,000	250,000	3,682,930,023	6.458115	1,615	6.458115	1,615	*
0.05	Scotia Solución 5, S. A. de C. V., F I I D	SBANKDL	A	51	–	AAA/5	1,000,000	1,000,000	2,007,083,653	1.000000	1,000	1.000000	1,000	*
0.11	Fondo de Fondos Scotiabank de Mediano Plazo, S. A. de C. V., F I I D	SBANKMP	A	51	–	AAA/4	1,000,000	1,000,000	893,073,523	0.994589	995	0.994589	995	*
0.05	Scotia Real, S. A. de C. V., F I I D	SCOT-TR	A	51	–	AAA/5	1,000,000	1,000,000	1,906,868,798	1.000966	1,001	1.000966	1,001	*
0.21	Scotia Solución 8, S. A de C. V., F I I D	SCOTGMP	A	51	–	AAA/3	1,000,000	1,000,000	478,623,355	2.101069	2,101	2.101069	2,101	*
0.04	Scotia Productivo, S. A. de C. V., F I I D	SCOTI10	A	51	–	AA/5	1,000,000	1,000,000	2,332,248,332	1.411992	1,412	1.411992	1,412	*
0.01	Scotia Disponibilidad, S. A. de C. V., F I I D	SCOTIA1	A	51	–	AAA/3	1,000,021	1,000,021	11,297,203,768	1.619055	1,619	1.619055	1,619	*
0.08	Scotia Rendimiento, S. A. de C. V., F I I D	SCOTIA2	A	51	–	AAA/4	1,000,003	1,000,003	1,275,087,420	1.286423	1,286	1.286423	1,286	*
0.01	Scotia Gubernamental, S. A. de C. V., F I I D	SCOTIAG	A	51	–	AAA/2	1,000,007	1,000,007	8,506,307,205	2.820140	2,820	2.820140	2,820	*
0.06	Scotia Previsional de Liquidez Restringida, S. A. de C. V., F I I D	SCOTILP	A	51	–	AAA/5	1,000,014	1,000,014	1,770,761,066	1.390917	1,391	1.390917	1,391	*
0.12	Scotia Plus, S. A. de C. V., F I I D	SCOTIMB	A	51	–	AAA/6	1,000,000	1,000,000	828,266,217	1.686468	1,686	1.686468	1,686	*
0.16	Scotia Gubernamental Plus, S. A. de C. V., F I I D	SCOTLPG	A	51	–	AAA/6	1,000,000	1,000,000	629,312,128	1.000000	1,000	1.000000	1,000	*
0.20	Scotia Solución 4, S. A. de C. V., F I I D	SCOTUDI	A	51	–	AAA/6	1,000,000	1,000,000	500,434,042	1.030918	1,031	1.030918	1,031	*
											21,396		21,396	
	Investment funds investing in equities													
1.27	Scotia Solución 6, S. A. de C. V., F I R V	DYNUSA+	A	52	–	-	1,000,000	1,000,000	78,495,643	1.000000	$ 1,000	1.176030	$ 1,176	*
0.78	Scotia Patrimonial Plus, S. A. de C. V., F I R V	SBANK50	A	52	–	-	1,000,013	1,000,013	127,632,280	2.234718	2,235	2.234718	2,235	*
50.12	Scotia Objetivo 1, S. A. de C. V., F I R V	SCOT22	A	52	–	-	1,000,000	1,000,000	1,995,100	1.000000	1,000	1.024137	1,024	*
50.34	Scotia Objetivo 2, S. A. de C. V., F I R V	SCOT29	A	52	–	-	1,000,000	1,000,000	1,986,518	1.000000	1,000	1.075063	1,075	*
50.44	Scotia Objetivo 3, S. A. de C. V., F I R V	SCOT36	A	52	–	-	1,000,000	1,000,000	1,982,635	1.000000	1,000	1.119758	1,120	*
50.43	Scotia Objetivo 4, S. A. de C. V., F I R V	SCOT43	A	52	–	-	1,000,000	1,000,000	1,983,019	1.000000	1,000	1.142953	1,143	*
50.36	Scotia Objetivo 5, S. A. de C. V., F I R V	SCOT50	A	52	–	-	1,000,000	1,000,000	1,985,593	1.000000	1,000	1.157020	1,157	*
0.10	Scotia Cartera Modelo, S. A. de C. V., F I R V	SCOT-CM	A	52	–	-	1,000,000	1,000,000	1,014,495,292	1.000000	1,000	1.000000	1,000	*
0.24	Scotia Solución 2, S. A. de C. V., F I R V	SCOT-FR	A	52	–	-	1,000,000	1,000,000	415,400,670	1.047596	1,047	1.047596	1,047	*
0.13	Scotia Progresivo, S. A. de C. V., F I R V	SCOT-FX	A	52	–	-	62,501	62,501	48,627,432	18.571864	1,161	18.571864	1,161	*
0.15	Scotia Patrimonial, S. A. de C. V., F I R V	SCOT-RV	A	52	–	-	729,928	729,928	480,523,401	2.886791	2,107	2.886791	2,107	*
0.10	Scotia Inversiones Plus, S. A. de C. V., F I R V	SCOTDOL	A	52	–	-	980,393	980,393	987,616,102	1.600275	1,569	1.600275	1,569	*
30.59	Scotia Diversificado, S. A. de C. V., F I R V	SCOTEME	A	52	–	-	80,646	80,646	263,646	14.346651	1,157	15.002102	1,210	*
0.08	Scotia Solución 3, S. A. de C. V., F I R V	SCOTEUR	A	52	–	-	1,000,000	1,000,000	1,200,967,718	1.000000	1,000	1.000000	1,000	*
0.25	Scotia Global, S. A. de C. V., F I R V	SCOTGLO	A	52	–	-	1,000,000	1,000,000	397,953,740	1.000001	1,000	1.000001	1,000	*
0.89	Scotia Estratégico, S. A. de C. V., F I R V	SCOTI12	A	52	–	-	1,000,000	1,000,000	112,445,007	1.525722	1,526	1.525722	1,526	*
0.20	Scotia Crecimiento, S. A. de C. V., F I R V	SCOTI14	A	52	–	-	1,000,000	1,000,000	502,235,155	1.781064	1,781	1.781064	1,781	*
0.43	Scotia Indizado, S. A. de C. V., F I R V	SCOTIPC	A	52	–	-	1,000,000	1,000,000	234,191,030	7.418162	7,418	7.418162	7,418	*
0.05	Scotia Dinámico, S. A. de C. V., F I R V	SCOTQNT	A	52	–	-	1,000,000	1,000,000	2,158,897,197	1.044286	1,044	1.044286	1,044	*
0.12	Scotia Internacional, S. A. de C. V., F I R V	SCOTUSA	A	52	–	-	370,371	370,371	320,539,233	6.995951	2,591	6.995951	2,591	*
											32,636		33,384	
	Totals:										$ 54,032		$ 54,780	

(Continued)

Scotia Fondos, S. A. de C. V.
Sociedad Operadora de Fondos de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Investment Portfolio Valuation, continued

December 31, 2016 and 2015

(Thousands of Mexican pesos, except otherwise is indicated)

%		Issuer	Series	Type of security	Valuation rate	Rating or marketability	Number of traded securities	Number of settled securities	Total securities of the issuance	Average unit acquisition cost (in pesos)	Total acquisition cost	Fair or accounting value per share (in pesos)	Total fair or accounting accounting value	Days to maturity
	December 31, 2015													
%	**Trading securities:**													
	Investment in net equity instruments													
	Investment funds investing in debt securities													
100.00	Scotia Gubernamental, S. A. de C. V., F I I D	SCOTIAG	C1	51	–	AAA/2	58,781,510	58,781,510	58,781,510	3.083135	$ 181,231	3.085668	$ 181,380	*
%	**Permanent investments:**													
	Investment funds investing in debt securities													
0.11	Finde1, S. A. de C. V., F I I D	FINDE1	A	51	–	AAA/3	1,000,000	1,000,000	882,474,599	2.438698	$ 2,439	2.438698	$ 2,439	*
0.01	Scotia Inversiones, S. A. de C. V., F I I D	SBANKCP	A	51	–	AAA/3	250,000	250,000	3,613,215,946	6.458115	1,615	6.458115	1,615	*
0.08	Scotia Solución 5, S. A. de C. V., F I I D	SBANKDL	A	51	–	AAA/5	1,000,000	1,000,000	1,280,799,024	1.000000	1,000	1.000000	1,000	*
0.10	Fondo de Fondos Scotiabank de Mediano Plazo, S. A. de C. V., F I I D	SBANKMP	A	51	–	AAA/4	1,000,000	1,000,000	1,015,835,341	0.994589	995	0.994589	995	*
0.03	Scotia Real, S. A. de C. V., F I I D	SCOT-TR	A	51	–	AAA/5	1,000,000	1,000,000	3,923,420,066	1.000966	1,001	1.000966	1,001	*
0.19	Scotia Solución 8, S. A de C. V., F I I D	SCOTGMP	A	51	–	AAA/3	1,000,000	1,000,000	534,366,502	2.101069	2,101	2.101069	2,101	*
0.04	Scotia Productivo, S. A. de C. V., F I I D	SCOTI10	A	51	–	AA/5	1,000,000	1,000,000	2,319,727,430	1.411992	1,412	1.411992	1,412	*
0.01	Scotia Disponibilidad, S. A. de C. V., F I I D	SCOTIA1	A	51	–	AAA/3	1,000,021	1,000,021	8,309,581,012	1.619055	1,619	1.619055	1,619	*
0.08	Scotia Rendimiento, S. A. de C. V., F I I D	SCOTIA2	A	51	–	AAA/4	1,000,003	1,000,003	1,295,707,635	1.286423	1,286	1.286423	1,286	*
0.01	Scotia Gubernamental, S. A. de C. V., F I I D	SCOTIAG	A	51	–	AAA/2	1,000,007	1,000,007	6,699,338,391	2.820140	2,820	2.820140	2,820	*
0.04	Scotia Previsional de Liquidez Restringida, S. A. de C. V., F I I D	SCOTILP	A	51	–	AAA/5	1,000,014	1,000,014	2,398,919,117	1.390917	1,391	1.390917	1,391	*
0.10	Scotia Plus, S. A. de C. V., F I I D	SCOTIMB	A	51	–	AAA/6	1,000,000	1,000,000	1,002,945,198	1.686468	1,686	1.686468	1,686	*
0.11	Scotia Gubernamental Plus, S. A. de C. V., F I I D	SCOTLPG	A	51	–	AAA/6	1,000,000	1,000,000	921,651,897	1.000000	1,000	1.000000	1,000	*
0.19	Scotia Solución 4, S. A. de C. V., F I I D	SCOTUDI	A	51	–	AAA/7	1,000,000	1,000,000	525,218,109	1.030918	1,031	1.030918	1,031	*
											21,396		21,396	
	Investment funds investing in equities													
25.20	Scotia Solución 6, S. A. de C. V., F I R V	DYNUSA+	A	52	–	-	1,000,000	1,000,000	3,968,881	1.000000	1,000	0.966929	966	*
0.72	Scotia Patrimonial Plus, S. A. de C. V., F I R V	SBANK50	A	52	–	-	1,000,013	1,000,013	138,981,127	2.234718	2,235	2.234718	2,235	*
0.10	Scotia Cartera Modelo, S. A. de C. V., F I R V	SCOT-CM	A	52	–	-	1,000,000	1,000,000	1,011,532,047	1.000000	1,000	1.000000	1,000	*
0.30	Scotia Solución 2, S. A. de C. V., F I R V	SCOT-FR	A	52	–	-	1,000,000	1,000,000	334,522,888	1.047596	1,048	1.047596	1,048	*
0.60	Scotia Progresivo, S. A. de C. V., F I R V	SCOT-FX	A	52	–	-	62,501	62,501	10,411,604	18.571864	1,161	18.571864	1,161	*
0.21	Scotia Patrimonial, S. A. de C. V., F I R V	SCOT-RV	A	52	–	-	729,928	729,928	354,744,440	2.886791	2,107	2.886791	2,107	*
0.14	Scotia Inversiones Plus, S. A. de C. V., F I R V	SCOTDOL	A	52	–	-	980,393	980,393	679,109,022	1.600275	1,569	1.600275	1,569	*
2.09	Scotia Diversificado, S. A. de C. V., F I R V	SCOTEME	A	52	–	-	80,646	80,646	3,857,338	14.350292	1,157	14.350292	1,157	*
0.05	Scotia Solución 3, S. A. de C.V., F I R V	SCOTEUR	A	52	–	-	1,000,000	1,000,000	1,847,662,283	1.000000	1,000	1.000000	1,000	*
0.16	Scotia Global, S. A. de C. V., F I R V	SCOTGLO	A	52	–	-	1,000,000	1,000,000	608,086,951	1.000001	1,000	1.000001	1,000	*
0.60	Scotia Estratégico, S. A. de C. V., F I R V	SCOTI12	A	52	–	-	1,000,000	1,000,000	165,883,453	1.525722	1,526	1.525722	1,526	*
0.14	Scotia Crecimiento, S. A. de C. V., F I R V	SCOTI14	A	52	–	-	1,000,000	1,000,000	703,542,392	1.781064	1,781	1.781064	1,781	*
0.29	Scotia Indizado, S. A. de C. V., F I R V	SCOTIPC	A	52	–	-	1,000,000	1,000,000	339,840,694	7.418162	7,418	7.418162	7,418	*
0.10	Scotia Dinámico, S. A. de C. V., F I R V	SCOTQNT	A	52	–	-	1,000,000	1,000,000	1,015,462,172	1.044286	1,044	1.044286	1,044	*
0.10	Scotia Internacional, S. A. de C. V., F I R V	SCOTUSA	A	52	–	-	370,371	370,371	373,077,203	6.995951	2,591	6.995951	2,591	*
											27,637		27,603	
	Totals:										$ 49,033		$ 48,999	

*Without Maturity

See accompanying notes to financial statements.

"These statements of investment portfolio valuation were prepared in accordance with the accounting criteria applicable to the company, issued by the National Banking and Securities Commission based on Article 76 of the Law for Mutual Funds, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the investments in assets made by the company for the years indicated above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"These statements of investment portfolio valuation were approved by the Board of Directors under the responsibility of the following officers."

SIGNATURE
Ernesto Díez Sánchez
General Director

SIGNATURE
H. Valerio Bustos Quiroz
Director of Group Accounting

"These statements of investment portfolio valuation faithfully match with the statements of investment portfolio valuation originals, which are properly signed and held by the Management Company"

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

Scotia Fondos, S. A. de C. V.
Sociedad Operadora de Fondos de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Changes in Stockholders' Equity

Years ended December 31, 2016 and 2015

(Thousands of Mexican pesos)

	Paid-in capital	Earned capital				
	Capital stock	**Statutory reserves**	**Retained earnings**	**Remeasurements of defined employee benefits**	**Net income**	**Total stockholders' equity**
Balances as of December 31, 2014	$ 2,586	517	29,968	–	205,727	238,798
Item related to stockholders' decisions:						
Appropriation of prior year's net income	–	–	205,727	–	(205,727)	–
Dividends declared and paid (note 9c)	–	–	(196,353)	–	–	(196,353)
Item related to comprehensive income:						
Net income	–	–	–	–	202,564	202,564
Balances as of December 31, 2015	2,586	517	39,342	–	202,564	245,009
Item related to stockholders' decisions:						
Appropriation of prior year's net income	–	–	202,564	–	(202,564)	–
Dividends declared and paid (note 9c)	–	–	(91,824)	–	–	(91,824)
Item related to comprehensive income:						
Effect by adoption of accounting criteria, net of deferred taxes	–	–	(1)	(7)	–	(8)
Net income	–	–	–	–	189,030	189,030
Balances as of December 31, 2016	$ 2,586	517	150,081	(7)	189,030	342,207

See accompanying notes to financial statements.

"These statements of changes in stockholders' equity were prepared in accordance with the accounting criteria applicable to the company, issued by the National Banking and Securities Commission, based on Article 76 of the Law for Mutual Funds, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the entries of the stockholders' equity accounts arising from the transactions carried out by the company during the periods indicated above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

SIGNATURE
Ernesto Díez Sánchez
General Director

SIGNATURE
H. Valerio Bustos Quiroz
Director of Group Accounting

"These statements of changes faithfully match with the statements of changes originals, which are properly signed and held by the Management Company"

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

Scotia Fondos, S. A. de C. V.
Sociedad Operadora de Fondos de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Cash Flows

Years ended December 31, 2016 and 2015

(Thousands of Mexican pesos)

		2016	2015
Net income	$	189,030	202,564
Items not requiring (providing) cash flow:			
Provisions		(24,081)	(25,298)
Current and deferred income taxes		78,932	85,977
Equity in the results of unconsolidable subsidiaries and associated companies		(781)	31
Unrealized gain on securities		(267)	(84)
		53,803	60,626
Operating activities:			
Change in investment securities		(78,954)	36,716
Change in other operating assets		80,034	95,310
Change in other operating liabilities		(63,998)	(59,415)
Payments of income taxes		(83,521)	(101,422)
Net cash flows from operating activities		(146,439)	(28,811)
Net cash flows from investing activities, payments for acquisition of subsidiaries and associated companies		(5,000)	(37,596)
Financing activities:			
Dividends declared and paid of dividends in cash and net cash flows from financing activities		(91,824)	(196,353)
Net (decrease) increase in cash and cash equivalents		(430)	430
Cash and cash equivalents at beginning of year		444	14
Cash and cash equivalents at end of year	$	14	444

See accompanying notes to financial statements.

"These statements of cash flows were prepared in accordance with the accounting criteria applicable to the company issued by the National Banking and Securities Commission based on Article 76 of the Law for Mutual Funds, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, it reflects all the cash inflows and cash outflows relating to the transactions carried out by the company for the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

SIGNATURE
Ernesto Díez Sánchez
General Director

SIGNATURE
H. Valerio Bustos Quiroz
Director of Group Accounting

"These statements of cash flows faithfully match with the statements of cash flows originals, which are properly signed and held by the Management Company"

http://www.scotiabank.com.mx/es-mx/Acerca-de-Scotiabank/Relacion-con-Inversionistas/Relaciones-con-Inversionistas/estados-financieros.aspx

www.cnbv.gob.mx/Paginas/default.aspx

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

(1) Description of business and significant transactions-

Scotia Fondos, S. A. de C. V. ("the Management Company") is a fund management company that began operations on December 5, 2001 and is engaged in providing administrative services, distribution, valuation, promotional and management services to the investment funds of Grupo Financiero Scotiabank Inverlat, S. A. de C. V. ("Scotiabank Mutual Funds"), which holds 99.99% of its capital stock. The address of the Management Company is Bosques de Ciruelos No. 120, Col. Bosque de las Lomas, Mexico City.

On January 1, 2015, the Mutual Funds Law (formerly Law for Fund Management Companies) entered into force. The main changes of this Law consist that investment entities, in general, must be transformed into mutual funds and must have only one Founding Partner. Also, the Mutual Funds will not have Stockholders' Board, Board of Directors or Statutory Auditor, therefore such functions will be conferred on the Founding Partner and the Fund Management Company as well as members of the Board of Directors of the Fund Management Company; in this case, the Management Company will act as Founding Partner and Mutual Fund Management Company. Derived from the aforementioned, at the July 8, 2014 Extraordinary General Stockholders' Meeting, amendments to the bylaws of the Management Company were approved, which were authorized by the National Banking and Securities Commission (the Commission) through Official Letter 312-2/13658/2015 dated February 9, 2015. Such amended bylaws were certified by Notary Public on March 25, 2015, thus beginning such date the Management Company' legal name shall contain the expression "Sociedad Operadora de Fondos de Inversión" and act as such.

The Management Company obtained 91% and 88% of its fee and commission income for 2016 and 2015, respectively, from the Scotiabank Mutual Funds, which are listed below (note 11):

Mutual funds investing in debt instruments:

- Finde 1, S. A. de C. V., (FINDE1)
- Scotia Inversiones , S. A. de C. V., (SBANKCP)
- Scotia Solución 5, S. A. de C. V. (SBANKDL) [2]
- Fondo de Fondos Scotiabank de Mediano Plazo, S. A. de C. V. (SBANKMP)
- Scotia Real, S. A. de C. V. (SCOT-TR)
- Scotia Solución 8, S. A. de C. V., (SCOTGMP)

[1] Mutual funds newly incorporated in 2016 (see subsection (a) of this note)
[2] Mutual funds newly incorporated in 2015 (see subsection (c) of this note)

(Continued)

Mutual funds investing in debt instruments:

- Scotia Productivo, S. A. de C. V., (SCOTI10)
- Scotia Disponibilidad, S. A. de C. V., (SCOTIA1)
- Scotia Rendimiento, S. A. de C. V., (SCOTIA2)
- Scotia Gubernamental, S. A. de C. V., (SCOTIAG)
- Scotia Previsional de Liquidez Restringida, S. A. de C. V., (SCOTILP)
- Scotia Plus, S. A. de C. V., (SCOTIMB)
- Scotia Gubernamental Plus, S. A. de C. V., (SCOTLPG)
- Scotia Solución 4, S. A. de C. V. (SCOTUDI antes SCOT-S4)

Mutual funds investing in equities:

- Scotia Solución 6, S. A. de C. V. (DYNUSA+) (2)
- Scotia Patrimonial Plus, S. A. de C. V. (SBANK50)
- Scotia Objetivo 1, S. A. de C. V. (SCOT22) (1)
- Scotia Objetivo 2, S. A. de C. V. (SCOT29) (1)
- Scotia Objetivo 3, S. A. de C. V. (SCOT36) (1)
- Scotia Objetivo 4, S. A. de C. V. (SCOT43) (1)
- Scotia Objetivo 5, S. A. de C. V. (SCOT50) (1)
- Scotia Cartera Modelo, S. A. de C. V. (SCOT-CM)
- Scotia Solución 2, S. A. de C. V. (SCOT-FR)
- Scotia Progresivo, S. A. de C. V. (SCOT-FX)
- Scotia Patrimonial, S. A. de C. V., (SCOT-RV)
- Scotia Inversiones Plus, S. A. de C. V., (SCOTDOL)
- Scotia Diversificado, S. A. de C. V. (SCOTEME)
- Scotia Solución 3, S. A. de C. V. (SCOTEUR)
- Scotia Global, S. A. de C. V. (SCOTGLO)
- Scotia Estratégico, S. A. de C. V., (SCOTI12)
- Scotia Crecimiento, S. A. de C. V., (SCOTI14)
- Scotia Indizado, S. A. de C. V., (SCOTIPC)
- Scotia Dinámico, S. A. de C. V. (SCOTQNT)
- Scotia Internacional, S. A. de C. V., (SCOTUSA)

The administrative and share distribution services required by the mutual funds are provided as support and advice to the General Director by related parties (note 11).

(1) Mutual funds newly incorporated in 2016 (see subsection (a) of this note)
(2) Mutual funds newly incorporated in 2015 (see subsection (c) of this note)

(Continued)

Scotia Fondos, S. A. de C. V.
Sociedad Operadora de Fondos de Inversión
Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

(Thousands of Mexican pesos)

2016 Significant transactions-

(a) Incorporation of mutual funds-

On November 20, 2015, the Management Company incorporated the mutual funds investing in equity instruments called “Scotia Objetivo 1”, “Scotia Objetivo 2”, “Scotia Objetivo 3”, “Scotia Objetivo 4”, “Scotia Objetivo 5”, Sociedad Anónima de Capital Variable. The Management Company contributed in the capital stock for $1,000 in each of the mutual fuds. Such contribution is represented by minimum fixed portion of Class “A” representative shares without right for withdrawal. Such mutual funds were presented to the general public on March 11, 2016, with ticker symbol SCOT22, SCOT29, SCOT36, SCOT43 and SCOT50, respectively.

(b) Dividends declared-

As mentioned in note 9(c) on March 31, 2016, dividends were decreed through resolutions of the Ordinary General Stockholders’ Meeting for $91,824, charged to retained earnings, which were paid on the same date.

2015 Significant transactions-

(c) Incorporation of mutual funds-

On May 6, 2015, the Management Company incorporated the mutual fund called “Scotia Solución 5”, Sociedad Anónima de Capital Variable. The Management Company contributed in the capital stock for $1,000, such contribution is represented by minimum fixed portion of Class “A” representative shares without right for withdrawal. Such mutual fund was presented to the general public on June 9, 2015, with ticker symbol SBANKDL.

On June 5, 2015, the Management Company incorporated the mutual fund called “Scotia Solución 6”, Sociedad Anónima de Capital Variable. The Management Company contributed in the capital stock for $1,000, such contribution is represented by minimum fixed portion of Class “A” representative shares without right for withdrawal. Such mutual fund was presented to the general public on July 20, 2015, with ticker symbol DYNUSA+.

(Continued)

(d) Acquisition of mutual funds-

On October 15, 2014, the Management Company and Scotiabank Inverlat, S. A, Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat (the Bank), related party, held a purchase agreement to acquire all of the minimum fixed capital stock of Class "A" shares that the Bank owned from mutual funds; the transaction amounted to $35,596. The sale became effective when the transaction was authorized by the Commission through Official Letter 154/7541/2015 dated February 20, 2015.

(e) Dividends decree-

As mentioned in note 9(c) on March 31, 2015, dividends were decreed through resolutions of the Ordinary General Stockholders' Meeting for $196,353, which were paid on the same date.

(2) Authorization and basis of presentation-

Authorization-

On February 23, 2017, Ernesto Díez Sánchez (General Director of the Management Company) and H. Valerio Bustos Quiroz (Director of Group Accounting) authorized the issuance of the accompanying financial statements and related notes.

The stockholders and the Commission are empowered to modify the financial statements after issuance. The accompanying financial statements for 2016 will be submitted to the next Stockholders' Meeting for approval.

Basis of presentation-

(a) Statement of compliance-

The financial statements of the Management Company have been prepared based on the accounting criteria issued by the Commission for management fund companies in Mexico. The Commission is responsible for the inspection and supervision of management fund companies, as well as reviewing their financial information and other periodic information that the Management Company submits for review.

(Continued)

The accounting criteria provide that the Commission will issue particular rules for specialized operations and in the absence of an express accounting criterion issued by the Commission for management fund companies or for credit institutions, and in a wider context the Mexican Financial Reporting Standards (MFRS), 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, in the following order: U. S. Generally Accepted Accounting Principles (US GAAP), and then any other formal and recognized accounting standard, provided comply with the requirements of accounting criteria A-4 of the Commission.

(b) Use of estimates and judgments -

The preparation of the 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation of investment securities, the realization of deferred tax assets, and the assets and liabilities related to employees' benefit obligations. Actual results could differ from those estimates and assumptions.

(c) Functional and reporting currency-

The aforementioned financial statements are presented in the reporting currency (Mexican peso), which is the recording and the functional currencies.

For purposes of disclosure in the notes to the financial statements, "pesos" or "$" means thousands of Mexican pesos.

(Continued)

(Thousands of Mexican pesos)

(3) Summary of significant accounting policies-

Significant accounting policies applicable in the preparation of the financial statements are summarized below:

(a) Recognition of the effects of inflation-

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

The years ended December 31, 2016 and 2015 are considered as 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 Management Company's financial information are not recognized. Should be back in an inflationary environment, the cumulative effects of inflation not recognized in prior periods must be retrospectively recognized from the last period that the economic environment was considered as inflationary. The accumulated inflation rate of the three preceding years and inflation indices are as follows:

			Inflation	
December 31		**UDI**	**Annual**	**Accumulated**
2016	$	5.562883	3.38%	9.97%
2015		5.381175	2.10%	10.39%
2014		5.270368	4.18%	12.34%
		=======	=====	=====

(b) Cash and cash equivalents-

This caption includes cash and demand bank account balances in local currency. Cash and cash equivalents are accounted for at its nominal value.

(Continued)

(c) Investment securities-

Investment securities include shares issued by the funds, classified at the date of acquisition as 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 and this concept must cancel the result of valuation that has been previously recognized in the income statement.

Interest earned from debt securities are determined based on the effective interest method and recognized in the year's income under the brokerage margin.

Valuation effects are recognized in the year's income within the caption "Unrealized gain on securities". The purchase or sale results are presented under the caption "Net realized gain on securities".

(d) Accounts receivable-

Accounts receivable are evaluated by the Management Company to determine its estimated recovery value and, as required, to create the corresponding reserves. Accounts receivable 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.

(Continued)

(e) Permanent investments-

Permanent investments where the Management Company has control or significant influence are valued using the equity method, which recognizes the participation in result and stockholders' equity of these entities using its financial statements at the same reporting period of the Management Company. Under this caption minimum fixed capital stock Class "A" shares of mutual funds owned by the Management Company are included.

When a subsidiary, affiliates or joint venture become other permanent investment, the acquisition cost must be the value obtained from the equity method at the date of transition.

Dividends, if any, received from these investments are recognized in the statement of income under the caption "Other operating (expense) income".

(f) Provisions-

Based on management's estimates, the Management Company recognizes accruals for those present obligations in which it is probable the transfer of assets or the rendering of services and arises as a consequence of past events.

(g) Income taxes-

The income taxes payable for the year are determined in conformity with the tax provisions in effect.

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

Deferred income taxes are accounted for in accordance with the asset and liability method, which compares the accounting and tax values. Deferred income taxes (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 case of income tax, for tax loss carryforwards. Deferred income taxes assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(Continued)

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

The asset or liability for deferred income taxes to be determined for deductible or taxable temporary differences from the period, is presented in the balance sheet.

The deferred income tax asset is periodically valuated creating, where appropriate, valuation allowance for those temporary differences which might exist an uncertain recovery.

Current and deferred income taxes are presented and classified in the results of operations of the period, except those arising from a transaction that is recognized directly in a stockholders' equity caption.

(h) Employees' benefits-

Short-term direct benefits

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

(Continued)

Long-term direct benefits

The Management Company's net obligation in relation to direct long-term benefits, and which the Management Company is expected to pay at least twelve months after the date of the most recent balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value. Remeasurements are recognized in income in the period in which they are accrued.

Termination benefits

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

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized in income as the related services are provided by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

The Management Company's net obligation in relation to defined benefit plans for the seniority premiums and legal compensation is calculated separately for each plan, estimating the amount of future benefits that employees have earned in the current and prior periods, in accordance with the Federal Labor Law, as well as obligations related to retired life insurance plans, and discounting this amount to its present value.

For all plans, irrevocable trusts have been created in which the assets of the funds are managed.

(Continued)

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

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

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

Remeasurements (before actuarial gains and losses), resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of the comprehensive income within the caption “Remeasurements of defined employee benefits” and is subsequently recycled to the results of the period, based on the average remaining working life of the employees.

(Continued)

(i) Revenue recognition-

Management Company's income corresponds mainly to the earned fees and commissions for services rendered to the funds, which are recorded in the statement of income under the caption "Fee and commission income" when the services are provided.

Yields generated by investments with financial institutions are recognized in the statement of income in accrual basis within the brokerage margin.

(j) Memorandum accounts-

Memorandum accounts relate mainly to the assets in custody or under management.

The client assets values in custody and under management are presented at fair value in the corresponding memorandum accounts, representing the maximum expected amount by which the Management Company would be required to respond to their customers.

(k) Contingencies-

Liabilities or important loss related with contingencies are recorded when is probable that their effects will be materialized and the reasonable elements exist for their quantification. If reasonable elements do not exist, qualitative disclosure is provided in the notes to the financial statements.

Revenues, income and contingent assets are recognized until there is absolute certainty of its realization.

(4) Accounting changes–

The accounting changes recognized by the Management Company in 2016 are derived from the adoption of MFRS D-3 "Employee benefits".

(Continued)

a) MFRS D-3 *"Employee benefits"*-

Modifications to the plan

Due to its low level of materiality, the Management Company recognized the unfavorable effect derived from accumulated modifications to the plan as of January 1, 2016 for $1, prospectively, under the caption "Retained earings".

Remeasurements

Due to its low level of materiality, the Management Company recognized the unfavorable effect derived from remeasurements (formerly actuarial gains and losses) accumulated at January 1, 2016 for $19, net of deferred taxes, prospectively under the caption "Remeasurements of defined employee benefits" in stockholders' equity.

b) 2016 MFRS and MFRS improvements-

In December 2015, Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera or CINIF) issued the document referred to as "2016 MFRS Improvements", which contains precise modifications to some current MFRS. MFRS Improvements mentioned below that entered into force for the years beginning after January 1, 2016 did not generate important effects in the financial statements of the Management Company.

- *MFRS C-1 "Cash and cash equivalents" and MFRS B -2 "Statement of cash flows"*

- *Bulletin C-9 "Liabilities, provisions, contingent assets and liabilities and commitments"*

(5) Investment securities-

As of December 31, 2016 and 2015, investment securities classified as trading securities amount to $261,027 and $181,380, respectively (see detail in the Statement of Investment Portfolio Valuation).

Net realized gain on trading securities for the years ended December 31, 2016 and 2015 amounted to $8,079 and $4,584, respectively; unrealized gain on investment securities as of December 31, 2016 and 2015 amounted to $267 and $84, respectively. These amounts are included in the statement of income under the captions "Net realized gain on securities" and "Unrealized gain on securities", respectively.

(Continued)

(Thousands of Mexican pesos)

As of December 31, 2016 and 2015, the investment securities of the Management Company are shares of Scotia Gubernamental, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (SCOTIAG), which maintains a classification, according to the criteria established by the Commission of short term governmental securities with a term no longer than 365 days, same day for settlement and trade.

SCOTIAG was rated in 2016 and 2015, as AAA/2F by Fitch Ratings México, S. A. de C. V., such rating is "Outstanding" in terms of security of the fund, which is derived from the evaluation factors including: quality and diversification of the assets in portfolio, strengths, weakness of the management and the operation capacity (AAA) and (2) or "Low" in terms of sensibility to the market conditions.

(6) Accounts receivable-

As of December 31, 2016 and 2015, accounts receivable's balances are as follows:

		2016	**2015**
Related parties	$	91,943	82,570
Recoverable taxes		17,826	11,479
Other accounts receivable:			
Co-distribution and management services		7,530	9,911
Others		2,897	1,103
	$	120,196	105,063

As of December 31, 2016 and 2015, there were not changes in current conditions of other accounts receivable, therefore there were not items considered by management as uncollectable or doubtful and no allowance was needed for these accounts.

(Continued)

(7) Permanent investments-

At December 31, 2016 and 2015, permanent investments include minimum fixed capital stock Class "A" of 34 mutual funds for $54,780 (29 mutual funds for $48,999 in 2015), which generated a result in the year of $781 and ($31), respectively (see note 1, 2016 significant transactions).

(8) Employees' benefits-

The Management Company has a defined contribution retirement plan and a component of post-retirement benefits plan, all employees who belonged to defined benefit plan current until March 31, 2006 were incorporated to such plan. This plan sets out pre-established contributions by the Management Company, which may be fully withdrawn by the employee upon retirement if at least 55 years old or partially on employment termination in accordance with specific rules for vesting rights. Additionally, contributions are made by employees, who will be entitled to withdraw those contributions upon employment termination.

For the years ended December 31, 2016 and 2015, the debit to year-end results related to Management Company's contributions to the defined contribution plan amounted to $222 and $373, respectively, recognized in the statement of income under the caption "Administrative expenses".

The cost, obligations and fund assets relating to the defined benefits for seniority premiums and life insurance are determined based on computations prepared by independent actuaries as of December 31, 2016 and 2015.

The elements of the net periodic cost and the labor obligations for the years ended December 31, 2016 and 2015 are shown in the next page.

(Thousands of Mexican pesos)

		Seniority premium		**Legal compensation**		**Other post retirement benefits**	
		2016	**2015**	**2016**	**2015**	**2016**	**2015**
Current service cost (CLSA)	**$**	1	2	12	15	3	6
Financial cost		-	4	-	28	-	6
Return on plan assets		-	(1)	-	-	-	(2)
Amortization		-	2	-	-	-	4
Actuarial losses (gains) generated in the year		-	36	-	(75)	-	-
Income from anticipated reduction of obligations		-	(8)	-	-	-	(26)
Net interest on DBNA*		2	-	25	-	-	-
Reclassifications of remeasurements of DBNA* recognized in OCI		1	-	-	-	1	-
Cost (income) defined benefits	$	4	35	37	(32)	4	(12)
Initial recognition of DBNA* or (DBNL)* remeasurements	$	10	-	-	-	18	-
Remeasurements generated in the year		(3)	-	(10)	-	(6)	-
Reclassifications of remeasurements recognized in OCI of the year		(1)	-	-	-	(1)	-
Ending balance of remeasurements of DBNA or (DBNL)*	$	6	-	(10)	-	11	-
Beginning balance at December 31, 2015 of DBNA or (DBNL)*	$	(14)	(11)	(349)	(381)	5	(7)
Initial recognition of DBNA or (DBNL)* remeasurements	$	(10)	-	-	-	(18)	-
Balance at January 1, 2016 of DBNA o (DBNL)*	$	(24)	(11)	(349)	(381)	(13)	(7)
Net service cost		(3)	(35)	(37)	32	(3)	12
Benefits paid		-	32		-	-	-
Plan contributions		-	-	-	-		-
Remeasurements recognized in OCI of the year		3	-	10	-	6	-
Ending balance of DBNA or (DBNL)*	$	(24)	(14)	(376)	(349)	(10)	5

* Defined benefits net asset (DBNA) or Defined benefits net liability (DBNL)

(Continued)

(Thousands of Mexican pesos)

The financial position of the defined benefit obligations as of December 31, 2016 and 2015 is as follows:

	Seniority premium		Legal compensation		Other post retirement benefits	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Defined benefit obligations (DBO)	$ (24)	(24)	(376)	(349)	(29)	(31)
Plan assets	-	-	-	-	18	17
Financial Position of the obligation	(24)	(24)	(376)	(349)	(11)	(14)
Plan modifications	-	-	-	-	-	1
Actuarial losses to be amortized	-	10	-	-	-	18
Net projected end (asset) liability	$ (24)	(14)	(376)	(349)	(11)	5

The nominal rates used in actuarial projections as of December 31, 2016 and 2015, are as follows:

	2016	**2015**
Return on plan assets	9.00%	8.25%
Discount rate	9.00%	8.25%
Rate of increase in compensation	4.50%	5.00%
Estimated inflation rate	3.50%	4.00%

The seniority premium assets consist of 60% fixed-yield instruments and 40% of variable-yield instruments, managed in a trust and overseen by a Committee appointed by the Management Company.

(9) Stockholders' equity-

Following is a description of the main characteristics of the accounts included in stockholders' equity:

(a) Structure of capital stock-

At December 31, 2016 and 2015, the capital stock is represented by 2,000,000 common shares, fully subscribed and paid, with a nominal value of one peso each, divided into 1,000,000 shares corresponding to the minimum fixed portion capital stock (Series "A") and 1,000,000 shares corresponding to the variable portion capital stock (Series "B"). The variable portion of capital stock may at no time exceed the minimum fixed capital not subject to withdrawal.

(b) Restrictions on stockholders' equity-

Five percent of net income for the year must be appropriated to the statutory reserve, until it reaches 20% of the paid-in capital. At December 31, 2016, the Management Company had appropriated the total statutory reserve requirement, equal to 20% of its capital stock.

Stockholders' contributions and retained earnings are subject to income tax on the amounts distributed or refunded that exceed the amounts determined for tax purposes. At December 31, 2015 the capital contribution account (Cuenta de capital de aportación or CUCA) and the tax basis retained earnings account (Cuenta de utilidad fiscal neta or CUFIN) amount to $3,666 and $324,620, respectively.

(Continued)

(Thousands of Mexican pesos)

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 withheld by entities that distribute such dividends.

(c) Dividends declared-

At December 31, 2016 and 2015, the Management Company declared and paid dividends as follows:

		Dividends paid in 2016		Dividends paid in 2015	
Declared date	**Declared amount**	**Payment date**	**Amount paid**	**Payment date**	**Amount paid**
31-mar-16	$ 91,824	31-mar-16	$ 91,824		
31-mar-15	26,353	–	–	31-mar-15	26,353
31-mar-15	170,000	–	–	31-mar-15	170,000
	$ 288,177		$ 91,824		$ 196,353

At December 31, 2016 and 2015 there are no pending dividend payments.

(10) Income taxes (IT)-

IT Law effective as of January 1, 2014 imposes an IT rate of 30%. The current rate ESPS rate is 10%, for the years 2016 and 2015.

At December 31, 2016 and 2015, the expense for current IT, is as follows:

	2016	2015
Current tax	$ (78,363)	(86,969)
2015 IT payment	(1)	(21)
Deferred tax	(568)	1,013
	$ (78,932)	(85,977)

(Continued)

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At December 31, 2016 and 2015, the deferred IT asset is analyzed as follows:

		2016	**2015**
Asset (liability):			
Accruals	$	1,131	1,684
Prepaid expenses		(20)	(5)
Remeasurements		(2)	-
Deferred IT	$	1,109	1,679

The net (unfavorable) favorable effect in the statement of income for ($568) and $1,013 for the years ended at December 31, 2016 and 2015, respectively, correspond mainly to accruals in both years. The unfavorable effect in stockholders' equity at December 31, 2016 amounts to $2.

The following is an analysis of the effective tax rate for the fiscal years ended at December 31, 2016 and 2015:

			IT	
December 31, 2016		**Basis**	**Tax at 30%**	**Effective rate**
Income before income taxes	$	267,962	(80,389)	(30%)
Allocation to current tax:				
Adjustment for effects of inflation		(7,270)	2,181	1%
Accruals, net		(1,830)	549	–
Non-deductible expenses		1,906	(572)	–
Others, net		442	(132)	–
Current tax		261,210	(78,363)	(29%)
Allocation to deferred taxes:				
Deferred tax		1,898	(568)	–
Income tax	$	263,108	(78,931)	(29%)

(Continued)

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			IT	
		Basis	**Tax at 30%**	**Effective rate**
December 31, 2015				
Income before income taxes	$	288,541	(86,562)	(30%)
Allocation to current tax:				
Adjustment for effects of inflation		(3,360)	1,008	–
Accruals, net		3,193	(958)	–
Non-deductible expenses		267	(80)	–
Others, net		1,258	(377)	–
Current tax		289,899	(86,969)	(30%)
Allocation to deferred taxes:				
Deferred tax for accruals		(3,377)	1,013	–
Income tax	$	286,522	(85,956)	(30%)

Other considerations

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

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

(Continued)

(Thousands of Mexican pesos)

(11) Related-party transactions and balances-

In the normal course of transactions, the Management Company undertakes related party transactions such as banking and administrative services, etc. In accordance with the Management Company's policies, all transactions derived from banking and administrative services with related parties are authorized by the Board of Directors and are in accordance with arm's length transaction principle, guarantee and conditions of sound practices.

Major transactions with related parties for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Other related parties		
Revenues from:		
Fee and commission income	$ 1,048,888	962,268
Expenses for:		
Co-distribution and administrative services	$ 798,515	725,349
Financial advisory	26,515	27,176
Administrative fees	48	47

(Continued)

(Thousands of Mexican pesos)

Balances receivable from and payable to related parties as of December 31, 2016 and 2015 are as follows:

		2016	2015
Other related parties			
Receivable:			
Cash and cash equivalents	$	10	440
Investment securities		261,027	181,380
Accounts receivable		91,943	82,570
Payable:			
Other accounts payable	$	71,073	62,914

For the years ended December 31, 2016 and 2015, there were no modifications to the actual conditions of the accounts receivable from and payable to related parties. Additionally, there were no items considered uncollectable or unlikely to collect, therefore no reserve was deemed necessary.

For the year ended December 31, 2016 and 2015, the benefits granted to key management personnel amounted to $5,145 and $8,593, respectively.

(12) Memorandum accounts-

Assets in custody and administration

The transactions on behalf of third parties that the Management Company maintains at December 31, 2016 and 2015 are as follows:

		2016	2015
Customer banks (Short term investments)	$	3,607	3,134
Securities position (Funds' investment securities)		100,658,877	89,286,446
Debt instruments (Mutual funds)		86,278,173	75,909,621
Common instruments (Mutual funds)		17,202,699	14,705,139
	$	204,143,356	179,904,340

(Continued)

(13) Risk management (unaudited)-

Certain amounts and/or percentages calculated in this note may vary slightly against the same amounts or percentages indicated in any other note to the financial statements due to rounding of the amounts.

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 dispositions in terms of risk management issued by the Commission, the Board of Directors assumes responsibility over the Management Company 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.

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

Furthermore, the Risk Management Committee delegates responsibility to the Asset-Liability Committee for monitoring compliance of policies and procedures concerning market and liquidity risks. 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) Discretionary risks

Market risk

The market risk is defined as the potential loss before the changes in risk factors that have impact on the valuation or expected results in investments or liabilities of mutual funds, such as market price, interest rates, exchange rate, price index fluctuations, among others.

(Continued)

The underlying market risk for the mutual funds is determined using a methodology where the value at risk (VaR) is calculated through the variance-covariance (Var-Covar) parametric model, at a confidence level of 95%, a 1-year time window, and at a 1-day time horizon. A "Back Test" is performed for verifying the efficiency of the model used in measuring the VaR. This analysis is presented to the Risk Committee and the Board of the Fund Manager at least on a quarterly basis.

The UAIR has given punctual follow up to the circumstances presented in the market, influence on the VaR and presented excess in exposures with regard to the maximum authorized limit for the period from January 1 to December 31, 2016. During this specific period, the Board of Directors, Risk Committee, the General Director of the Management Company, Compliance and Internal Audit were notified that there have not been breaches to the VaR limits.

At December 31, 2016 and 2015, levels of market risk VaR of Management Company are 0.3273% and 0.28674% with respect to net asset, respectively.

For example, at December 2016, if the VaR value for 1 day is used with 95% confidence level in accordance with the net assets of 0.0034% and consider that the mutual fund "SCOTIAG" has net assets of $25,602,586 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 $871, under normal conditions market.

Liquidity risk

The underlying liquidity risk for the mutual funds is defined as the potential loss due to the advance or forced sale of assets at unusual discounts to meet payment obligations or because a position cannot be timely sold, acquired or covered by establishing an equivalent counter position.

The liquidity risk is calculated using the purchase and sale positions, with a 6-month time window, and calculating the monthly average value in the case of stock and 90 days with daily observations for debt instruments. At December 31, 2016 and 2015, the liquidity risk was 0.1668% and 0.1566% with respect to net asset, respectively.

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For the liquidity risk result at December 31, 2016, the loss that might arise from the sale of a position at unusual discounts due to extraordinary market conditions (exogenous liquidity risk), for example, of all issuances contained in the mutual fund SCOTIAG is 0.0139% on net assets, that is $3,559.

b) Non-discretionary risks

Operational Risk-

The operational risk is a non-discretionary risk defined as the risk of loss resulting from internal control failure or deficiencies, errors in transaction processing or storage or in data transmission, as well as for adverse administrative or legal resolutions, frauds or theft, external events and includes, among others, the technological and legal risk.

The Management Company has put in place policies and procedures enabling it to implement an appropriate operational risk management process, which is described as follows:

Policies for non-discretionary risks 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 Management Company.

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.

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Operational, legal and technological risk tolerance levels

This is an operational loss management tool that enables each of the Management Company'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 Management Company 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.

Operational Risk Assessment and Controls (ORAC)

The Management Company also has a structured methodology for evaluating operational risk and controls, which is applied to the entire structure, and through which inherent operational risks in their daily activities are identified, with the following objectives: (i) Evaluate inherent risk, the effectiveness of controls and residual risk and (ii) Establish mitigation of the risks identified.

The operating loss of the Management Company for the years ended December 31, 2016 and 2015, amounts to $1,443.4 (in 15 events) and $0.39 (in 4 events), respectively. Likewise, no risks are identified that, if materialized, would affect the results of the entity and of the funds that are managed.

Legal risk

Legal risk is defined as the potential loss from the failure of the legal and administrative provisions, issuance of unfavorable administrative and judicial resolutions and application of sanctions.

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In order to have policies and procedures that seek proper implementation of agreements and contracts where the Management Company is involved, the policies set forth in the legal manual are followed, which allows security to the operations of the Management Company, safeguarding its interests, preventing and reducing risks and legal contingencies.

Estimate of legal risk losses model

The Management Company 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.

At December 31, 2016 and 2015, the Management Company does not record contingencies legal risk.

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 cannel for transmitting information in rendering services to the Management Company customers.

In order to attend to requirements of regulations in terms of technological risk, the Bank 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.

(Continued)

At December 31, 2016 and 2015, the Management Company does not register contingencies technological risk.

(14) Commitments-

The Management Company has entered into service agreements with related parties, under which these companies provide advisory, distribution, custody and asset management services necessary for the Management Company's operations. These agreements are for an undefined period. Total payments under these agreements, reported in the statement of income under the caption "Fee and commission expense" and "Administrative expenses", were $825,028 and $752,572 for the years ended December 31, 2016 and 2015, respectively.

(15) Recently issued financial reporting standards-

The Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) has issued the MFRS and Improvements applicable to the activity of the Management Company mentioned as follows:

MFRS C-2 *"Investment in financial instruments"*- MFRS C-2 establishes specific rules for the accounting recognition of investments in financial instruments, primarily those held for trading purposes, as well as the classification of financial instruments based on the business model an entity has for all instruments as a whole. This is effective for periods beginning on or after January 1, 2018, with retrospective effects and supersedes Bulletin C-2 *"Financial instruments"* and the Bulletin C-2 Application guidance. Early adoption is allowed starting January 1, 2016, provided that it is done concurrently with the MFRS related to financial instruments whose effective date and possibility for early adoption are under the same terms.

Among the principal changes presented are:

- Classification of financial instruments in which investments are made, discarding the concept of intention to acquire and use an investment in a financial instrument to determine such classification, adopting instead, the business management model of investments in financial instruments for obtaining cash flows. This change eliminates the held-to-maturity and available-for-sale categories of instruments.

(Continued)

- Establishing the valuation of investments in financial instruments also according to the business model, indicating that each model will have a different line item in the statement of comprehensive income.

- Not allowing the reclassification of investments in financial instruments among the categories of financial instruments receivable, debt instruments at fair value and negotiable financial instruments, unless the entity's business model changes, which is considered highly unlikely.

- Adopting the principle that all financial instruments are valued upon initial recognition at fair value.

- Limiting certain disclosures to entities that conduct financial operations.

MFRS C-3 *"Accounts receivable"*- MFRS C-3 is effective for years beginning on or after January 1, 2018, with retrospective effects, except for the valuation effects that may be prospectively recognized, if it is impractical to determine the effect on each one of the prior periods presented. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the adoption of MFRS related to financial instruments whose effective date and possibility for early adoption are under the same terms as those indicated in this MFRS. Some of the primary changes presented are the following:

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

- Provides that the allowance for doubtful trade receivables shall be recognized as revenue is earned, based on the expected credit losses, and the allowance shall be recorded as an expense, separately when significant, in the statement of comprehensive income.

(Continued)

- Provides that, upon initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of the term, an adjustment must be made taking into consideration such present value.

- Requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

MFRS C-9 *"Provisions, Contingencies and Commitments"*- MFRS C-9 is effective for years beginning on or after January 1, 2018, allowing for early enforcement provided that it is done concurrently with the initial enforcement of MFRS C-19 "Financial instruments payable". MFRS C-9 supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this MFRS does not result in accounting changes in the financial statements. Some of the primary aspects covered by this MFRS include the following:

- The scope is narrowed by relocating the topic concerning accounting for financial liabilities to MFRS C-19 "Financial instruments payable".

MFRS C-16 *"Impairment of financial instruments receivable"*- MFRS C-16 is effective for years beginning on January 1, 2018 and early adoption is allowed as of January 1, 2017 provided that it takes place concurrently with the adoption of MFRS related to financial instruments whose effective date and early adoption are in the same terms. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

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

- It establishes that impairment losses on financial instruments receivable should be recognized if the credit risk increases and thus it is concluded that a portion of future cash flows of the financial instruments receivable will not be recovered.

- It proposes recognizing the expected loss based on the entity's historical experience of credit losses, current conditions and reasonable and supportable forecasts of the various quantifiable future events that could affect the amount of future cash flows of the financial instruments receivable.

- With regard to interest-bearing financial instruments receivable, it establishes estimating how much of the financial instruments receivable amount is deemed recoverable and when, since the recoverable amount must be recorded at present value.

- The definition of “liability” is modified by eliminating the qualifier “virtually unavoidable” and including the term “probable”.

- The terminology used throughout the standard is updated to standardize the presentation with the rest of the MFRS.

MFRS C-20 *“Financing instruments receivable”*- MFRS C-20 shall be effective for years beginning January 1, 2018, and is applicable retrospectively. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the initial adoption of MFRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main aspects resulting from the adoption of this MFRS are as follows:

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

- The valuation effect of investments in financial instruments is also focused on the business model.

(Continued)

- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable instruments, unless the entity changes its business model.

- An embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

2017 FRS Revisions

In October 2016, CINIF issued a document called "2017 MFRS Revisions" containing precise modifications to some of the existing MFRS. The main revisions that bring about accounting changes are the following:

MFRS B-13 *"Subsequent events as of the date of the financial statements" MFRS B-6 "Statement of financial position"*- These MFRS modify the classification requirements of assets, liabilities and stockholders' equity, mainly to establish that it is appropiate to maintain the classification of an item as long term as of the date of the financial statements, in the case of a financial asset or financial liability that: a) was contracted on a long-term collection or payment basis; and b) even when the borrower is in default as of the date of the financial statements, during the subsequent period between the date of the financial statements and the date on which they are authorized to be issued to third parties if an agreement is reached to maintain collection or payment on a long-term basis. This revision will be effective for periods starting on or after January 1, 2017, allowing early adoption for periods starting on or after January 1, 2016. The resulting accounting changes should be recognized prospectively.

MFRS C-11 *"Stockholders' equity"*-MFRS C-11 establishes that expenses associated with registration of shares on a stock exchange of shares of an entity that as of the date of such registration were already held by investors and for which the issuing entity had already received the corresponding funds, should be recognized in income when accrued and not in stockholders' equity. This revision will be effective for periods starting on or after January 1, 2017 and the resulting accounting changes should be recognized retrospectively.

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MFRS D-3 *"Employee benefits"*- MFRS D-3 establishes that the interest rate to be used in determining the present value of liabilities for long-term labor obligations must be a market rate free of, or with very low credit risk, representing the value of money over time, such as, the *government bond market rate or the high quality corporate bond market rate in absolute terms in a deep market*, and that the chosen rate should be used consistently over time. Additionally, it allows the recognition of remeasurements in OCI, requiring them to be reclassified to net income or loss or else recorded directly in net income or loss as of the date of origin. These revisions will take effect for years beginning on or after January 1, 2017, although early adoption is allowed. Accounting changes arising from changes in the discount rate should be recognized prospectively and those arising from a change in the option to recognize remeasurements should be recognized retrospectively.

Management estimates that the new MFRS and improvements to MFRS will not generate significant impact on its financial statements.