SCOTIA FONDOS, S. A. DE C. V.
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Financial Statements

December 31, 2011 and 2010

(With Statutory and Independent Auditors' Reports Thereon)

(Free Translation from Spanish Language Original)

Statutory Auditor's Report
(Free translation from Spanish language original)

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

In my capacity as Statutory Auditor, and in compliance with the provisions of Article 166 of the General Corporation Law (Ley General de Sociedades Mercantiles) and the by-laws of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat ("the Management Company"), I hereby submit my report on the accuracy, sufficiency and fairness of the information contained in the accompanying financial statements furnished to the General Stockholders' Meeting by the Board of Directors for the year ended December 31, 2011.

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 addition, I have examined the balance sheet and the statement of investment portfolio valuation of the Management Company as of December 31, 2011, and the related statements of income, changes in stockholders' equity and cash flows for the year then ended, which are the responsibility of the Management Company's management. My examination was carried out in accordance with auditing standards generally accepted in Mexico.

The Management Company is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Commission") for management fund companies in Mexico, which in general conform to Mexican Financial Reporting Standards (FRS) issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera or CINIF). These accounting criteria include particular presentation and disclosure rules, which in certain respects differ from such standards, as explained in the fifth paragraph of note 2 to the financial statements.

As mentioned in note 1 to the financial statements, the Management Company renders administrative services: distribution, valuation, promotion and acquisition of the investment portfolio and its shares to the investment funds of Grupo Financiero Scotiabank Inverlat, S. A. de C. V., therefore 96% of its revenues have been obtained from these funds in 2011.

(Continued)

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 and have been applied on a basis consistent with that of the preceding year. Therefore, such information is a fair, reasonable and sufficient representation of the financial position and investment portfolio valuation of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat as of December 31, 2011, and of the results of its operations, the changes in its stockholders' equity and the cash flows for the year then ended, in conformity with the accounting criteria established by the Commission for fund management companies in Mexico.

Very truly yours,

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

Jorge Evaristo Peña Tapia
Statutory Auditor for Series "B" shares

Mexico City, February 15, 2012.

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 Sociedades de Inversión,
Grupo Financiero Scotiabank Inverlat:

We have examined the accompanying balance sheets and statements of investment portfolio valuation of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat ("the Management Company") as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Management Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in note 2 to the financial statements, the Management Company is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Commission") for management fund companies in Mexico, which in general conform to Mexican Financial Reporting Standards (FRS) issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera or CINIF). These accounting criteria include particular rules, primarily regarding presentation and disclosure rules that differ from such standards, as explained in the fifth paragraph of note 2 to the financial statements.

As mentioned in note 1 to the financial statements, The Management Company renders administrative services: distribution, valuation, promotion and acquisition of the investment portfolio and its shares to the investment funds of Grupo Financiero Scotiabank Inverlat, S. A. de C. V., therefore 96% and 95% of its revenues have been obtained from these funds in 2011 and 2010, respectively.

(Continued)

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and investment portfolio valuation of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat as of December 31, 2011 and 2010, and the results of its operations, changes in its stockholders' equity and its cash flows for the years then ended, in conformity with the accounting criteria established by the Commission for fund management companies in Mexico.

KPMG CARDENAS DOSAL, S. C.

Jorge Orendain Villacampa

February 15, 2012.

SCOTIA FONDOS, S. A. DE C. V.
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Balance Sheets

December 31, 2011 and 2010

(Thousands of Mexican pesos)

Assets		**2011**	**2010**	**Liabilities and Stockholders' Equity**		**2011**	**2010**
Cash and cash equivalents (note 11)	$	14	1,581	Accounts payable:			
				Income tax payable	$	6,817	16,545
Investment securities (notes 5 and 11):				Sundry creditors and other			
Trading		331,737	238,548	accounts payable (notes 8 and 11)		67,124	62,458
Accounts receivable (notes 6 and 11)		80,742	73,170	Total liabilities		73,941	79,003
Permanent investments (notes 1 and 7)		3,318	–	Stockholders' equity (note 9):			
				Paid-in capital:			
Deferred taxes, net (note 10)		421	356	Capital stock		2,586	2,586
Other assets:				Earned capital:			
Deferred charges, prepaid expenses				Statutory reserves		517	517
and intangibles		34	5	Retained earnings		231,574	135,421
Other short and long term assets (note 8)		20	20	Net income		107,668	96,153
		54	25			339,759	232,091
				Total stockholders' equity		342,345	234,677
Total assets	$	416,286	313,680	Total liabilities and stockholders' equity	$	416,286	313,680

Memorandum accounts

		2011	**2010**
Contingent assets and liabilities	$	3,276	2,613
Assets in custody or administration		124,631,335	114,786,665

See accompanying notes to financial statements.

"The nominal value of the capital stock as of December 31, 2011 and 2010 amounted to 2,000."

"These balance sheets were prepared in accordance with the accounting criteria applicable to the Institution, issued by the National Banking and Securities Commission, based on Article 76 of the Law for Fund Mangement Companies, 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 Institution for the years noted 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."

Ernesto Diez Sánchez
General Director

H. Valerio Bustos Quiroz
Director of Finance

SCOTIA FONDOS, S. A. DE C. V.
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Income

Years ended December 31, 2011 and 2010

(Thousands of Mexican pesos)

		2011	2010
Fee and commission income (note 11)	$	791,829	719,609
Fee and commission expense (note 11)		(641,473)	(583,710)
Income from services		150,356	135,899
Unrealized gain on securities (note 5)		1,290	200
Net realized gain on securities (note 5)		10,451	7,451
Brokerage margin		11,741	7,651
Total operating income		162,097	143,550
Administrative expenses (notes 8 and 11)		(10,557)	(11,484)
Net operating income		151,540	132,066
Other income		55	3,686
Other expense		(2,345)	(1,853)
		(2,290)	1,833
Income before income taxes and equity in the results of unconsolidated subsidiaries and associated companies		149,250	133,899
Income taxes (note 10):			
Current		(41,736)	(36,848)
Deferred		65	(898)
		(41,671)	(37,746)
Income before equity in the results of unconsolidated subsidiaries and associated companies		107,579	96,153
Equity in the results of unconsolidated subsidiaries and associated companies (note 7)		89	–
Net income	$	107,668	96,153

See accompanying notes to financial statements.

"These statements of income were prepared in accordance with the accounting criteria applicable to the Institution, issued by the National Banking and Securities Commission, based on Article 76 of the Law for Fund Management Companies, 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 Institution for the years noted 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."

Ernesto Diez Sánchez	H. Valerio Bustos Quiroz
General Director	Director of Finance

SCOTIA FONDOS, S. A. DE C. V.
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Changes in Stockholders' Equity

Years ended December 31, 2011 and 2010

(Thousands of Mexican pesos)

		Capital stock	Statutory reserves	Retained earnings	Net income	Total stockholders' equity
Balances as of December 31, 2009	$	2,586	517	86,746	48,675	138,524
Changes resulting from stockholder resolutions:						
Appropriation of 2009 net income		-	-	48,675	(48,675)	-
Changes related to the recognition of comprehensive income:						
Net income		-	-	-	96,153	96,153
Balances as of December 31, 2010		2,586	517	135,421	96,153	234,677
Changes resulting from stockholder resolutions:						
Appropriation of 2010 net income		-	-	96,153	(96,153)	-
Changes related to the recognition of comprehensive income:						
Net income		-	-	-	107,668	107,668
Balances as of December 31, 2011	$	2,586	517	231,574	107,668	342,345

See accompanying notes to financial statements.

"These statements of changes in stockholders' equity were prepared in accordance with the accounting criteria applicable to the Institution, issued by the National Banking and Securities Commission, based on Article 76 of the Law for Fund Management Companies, 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 Institution for the years noted 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."

Ernesto Diez Sánchez
General Director

H. Valerio Bustos Quiroz
Director of Finance

SCOTIA FONDOS, S. A. DE C. V.
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Cash Flows

Years ended December 31, 2011 and 2010

(Thousands of Mexican pesos)

		2011	2010
Net income	$	107,668	96,153
Items not requiring (providing) cash flow:			
Current and deferred income taxes		41,671	34,800
Provisions		292	381
Equity in the results of unconsolidated subsidiaries and associated companies		(89)	–
Unrealized gain on securities		(1,290)	(200)
		148,252	131,134
Operating activities:			
Change in investment securities		(91,899)	(85,438)
Change in other operative assets		(7,601)	(57,253)
Change in other operative liabilities		(47,090)	13,123
Net cash flows from operating activities		(146,590)	(129,568)
Investing activities:			
Payments for acquisition of subsidiary and associated companies		(1,068)	–
Payments for acquisition of other permanent investments		(2,161)	–
Net cash flows from investing activities		(3,229)	–
Net (decrease) increase in cash and cash equivalents		(1,567)	1,566
Cash and cash equivalents:			
At beginning of year		1,581	15
At end of year	$	14	1,581

See accompanying notes to financial statements.

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

Ernesto Diez Sánchez
General Director

H. Valerio Bustos Quiroz
Director of Finance

SCOTIA FONDOS, S. A. DE C. V.,
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Statements of Investment Portfolio Valuation

December 31, 2011 and 2010

(Thousands of Mexican pesos)

	Issuer	Series	Type of security	Valuation rate	Rating or liquidity	Number of securities	Number of securities settlement	Total securities of the issue	Average unit acquisition cost (in pesos)	Total acquisition cost	Unit fair or accounting value (in pesos)	Total fair or accounting value	Days to maturity
December 31, 2011													
Trading securities:													
2% Mutual funds	Scotia G	C1	51	–	AAA/2F	122,684,583	2,508,096	550,000,007	2.702759	$ 331,587	2.703985	$ 331,737	*
Permanent investments:													
61% Others (note 7)	Scoteme	A	52	–	–	–	–	80,646	14.082951	$ 1,136	14.344119	$ 1,157	*
December 31, 2010													
Trading securities:													
3% Mutual funds	Scotia G	M6	51	–	AAA/2F	93,932,339	87,597,838	3,320,000,011	2.541761	$ 238,754	2.539569	$ 238,548	*

* 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 Institution, issued by the National Banking and Securities Commission based on Article 76 of the law for Fund Management Companies, 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 Institution for the years noted above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions.

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

Ernesto Diez Sánchez
General Director

H. Valerio Bustos Quiroz
Director of Finance

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 operating 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 investment funds"), which holds 99.99% of its capital stock. The Management Company obtained 96% and 95% of its fee and commission income for 2011 and 2010, respectively from the Scotiabank investment funds, which are listed below:

Investment funds investing in debt instruments:

- Scotia Disponibilidad, S. A. de C. V., (SCOTIA1)
- Scotia Rendimiento, S. A. de C. V., (SCOTIA2)
- Scotia Cobertura, S. A. de C. V., (SCOTIA3)
- Scotia Inversiones, S. A. de C. V., (SBANKCP)
- Scotia Productivo, S. A. de C. V., (SCOTI10)
- Scotia Plus, S. A. de C. V., (SCOTI11)
- Scotia Previsional de Liquidez Restringida, S. A. de C. V., (SCOTIAC)
- Scotia para no Contribuyentes, S. A. de C. V., (SCOTIAD)
- Scotia Gubernamental, S. A. de C. V., (SCOTIAG)
- Finde 1, S. A. de C. V (FINDE1)
- Scotia Gubernamental Plus, S. A. de C. V., (SCOTLPG)

Investment funds investing in equities:

- Scotia Patrimonial, S. A. de C. V., (SCOTIAE)
- Scotia Indizado, S. A. de C. V., (SCOTIA7)
- Scotia Estratégico, S. A. de C. V., (SCOTI12)
- Scotia Crecimiento, S. A. de C. V., (SCOTI14)
- Scotia Internacional, S. A. de C. V., (SCOTINT)
- Scotia Progresivo, S. A. de C. V. (SCOT-FX)
- Scotia Diversificado, S. A. de C. V. (SCOTEME)
- Scotia Patrimonial Plus, S. A. de C. V. (SBANK50)
- (Formerly Scotia Mercado de Dinero, S. A. de C. V., SCOTIAP)

(Continued)

SCOTIA FONDOS, S. A. DE C. V.
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

(Thousands of Mexican pesos)

The Management Company only has 2 employees at the officer level; administrative and share distributive services required are provided by related parties (note 11).

Significant transactions 2011-

(a) Acquisiton of investment companies-

On January 3, 2011, the Management Company acquired for $1,229, the shares representing 99.99% of the fixed capital of two debt investment funds investing, in accordance with the relevant stock sale and purchase agreement. On the same date, the Management Company notified to the National Banking and Securities Commission (the Commission) of the execution of the transactions, and the stockholders' ledger of the acquirees was brought up to date. Furthermore, on April 6, an initial capital contribution amounting to $500 was made to each company. Those investment companies were placed to the general public as equity investment funds on August 30 and September 2, 2011 under the legal names of Scotia Progresivo, S. A. de C. V. (SCOT-FX) and Scotia Diversificado, S. A. de C. V. (SCOTEME), respectively.

(b) Incorporation of an investment company-

On March 28, 2011, the Management Company incorporated the debt investment fund "Scotia Gubernamental plus", Sociedad Anónima de Capital Variable, making an initial capital contribution of $1,000. That amount is represented by Class A shares representing the minimum fixed portion not subject to withdrawal. The investment fund was placed to the general public as a debt investment fund on June 16, 2011.

(2) Authorization and basis of presentation and disclosure-

On February 15, 2012, Ernesto Diez Sánchez (General Director of the Management Company) and H. Valerio Bustos Quiroz (Deputy Director of Finance for Grupo Financiero Scotiabank Inverlat, S. A. de C. V.) authorized the issuance of the accompanying financial statements and related notes.

(Continued)

SCOTIA FONDOS, S. A. DE C. V.
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

(Thousands of Mexican pesos)

The stockholders and the Commission are empowered to modify the financial statements after issuance. The accompanying financial statements for 2011 will be submitted to the next Stockholders' Meeting for approval.

The financial statements of the Management Company have been prepared based on the accounting criteria established by the Commission for management fund companies in Mexico. The Commission is responsible for the inspection and supervision of management fund companies and for reviewing their financial information.

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

In general, the accounting criteria established by the Commission conform to Mexican Financial Reporting Standards (FRS) issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF), and includes particular presentation and disclosure rules that differ from such standards, see note 3(l).

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 FRS, the suppletory process as established by FRS A-8 shall be applicable, and only when the International Financial Reporting Standards (IFRS) referred to by FRS A-8 do not resolve the accounting treatment, the suppletory application of an accounting standard pertaining to other regulatory framework may be opted for, in the following order: U. S. Generally Accepted Accounting Principles (US GAAP), and any other formal and recognized accounting standard, provided comply with the requirements of criterion A-4 of the Commission.

(Continued)

(Thousands of Mexican pesos, except UDI value)

(3) Accounting policies-

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, deferred tax assets, and assets and liabilities related to employee benefit obligations. Actual results could differ from those estimates and assumptions.

Significant accounting policies applied in the preparation of the financial statements are as follows:

(a) Recognition of the effects of inflation-

The accompanying financial statements include the recognition of inflation up to December 31, 2007. Year ended December 31, 2011 is considered as non inflationary economic environment (Cumulative inflation through the past 3 years lower than 26%), according to FRS B-10 "Effects of inflation"; consequently, inflation effects are not recognized in the Management Company's financial information. Cumulative inflation for the last 3 years is shown as follows:

		Inflation	
December 31	**UDI**	**Annual**	**Accumulated**
2011	$ 4.691316	3.65%	12.12%
2010	4.526308	4.29%	15.09%
2009	4.340166	3.72%	14.55%

(b) Cash and cash equivalents-

This caption includes cash and 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, government securities and other securities, classified at the date of acquisition as trading securities.

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

Interest earned, the gain or loss on foreign exchange, the dividends from net equity instruments, the valuation gain (loss) of fair value, the result for sales and the transaction costs derived from trading securities are recognized in the caption “Brokerage margin".

(d) Accounts receivable-

The uncollected amounts for services are evaluated by the Management Company’s management, for doubtful accounts, an allowance for estimated losses inherent in its past due accounts receivable over 90 days (60 days if the balances are not identified) is created by a charge to administrative expenses for the year.

(e) Permanent investments-

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

(Continued)

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

(f) Accounts payable-

Based on management’s estimates, the Management Company recognizes accruals for those present obligations in which the transfer of assets or the rendering of services is virtually assured and arises as a consequence of past events, principally fees and personnel bonuses.

(g) Income taxes (income tax (IT) and flat rate business tax (IETU)) -

IT or IETU payable for the year are determined in conformity with the tax provisions in effect.

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

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

(Continued)

(h) Employee benefits -

The Management Company has a defined contribution pension plan in place; plan contributions are recognized directly in the statement of income as expenses under the caption "Administrative expenses" (see note 8).

Additionally, a defined benefit plan is in place covering the seniority premiums and compensation to which employees are entitled in accordance with the Federal Labor Law and obligations related to the life insurance for retirees.

For both plans, irrevocable trusts have been created in which the plan assets are managed, except for compensations to which employees are titled in accordance with Federal Labor Law.

The net periodic cost of the benefit plans and the accrued seniority premiums benefits and severance payments other than restructure costs are recognized in expenses each year, based on computations prepared by independent actuaries according with actuarial procedures and principles generally accepted, and in accordance with FRS D-3 "Employee benefits". The methodology to calculate the obligations is the projected unit credit method, considering the use of actuarial assumptions that reflect the present value, salaries increase and the probability of payment of such benefit.

At the date of adoption of FRS 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 FRS 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 income.

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 income.

(Continued)

(i) Revenue recognition-

Management Company's fee and commission income corresponds mainly to the commissions for services rendered to the funds, which are recorded in the statement of income when earned.

(j) Expense recognition-

The expenses incurred by the Management Company relate primarily to commissions paid by the distribution of shares representing the capital stock of the funds, fees and administrative expenses, which are charged to expenses as incurred.

(k) Contingencies-

Liabilities or loss contingencies are recognized 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 financial statements. Contingent revenues, earnings or assets are not recognized until their realization is virtually assured.

(l) Statement of income-

The Management Company presents the statement of income in accordance with accounting criteria for fund management companies in Mexico. FRS requires the presentation of the statement of income classifying income, costs and expenses as ordinary and non-ordinary.

(4) Accounting changes–

<u>2011 FRS Revisions</u>

The CINIF had issued the FRS and amendments mentioned in the next page, that had no effect on the financial statements of the Management Company.

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SCOTIA FONDOS, S. A. DE C. V.
Sociedad Operadora de Sociedades de Inversión
Grupo Financiero Scotiabank Inverlat

Notes to Financial Statements

(Thousands of Mexican pesos)

FRS B-5 "*Operating segments*" - The principal changes as compared to superseded Bulletin B-5 "Operating segments" include: (i) the information to be disclosed by operating segment is that regularly used by top management and does not require segmentation into primary and secondary information or into segments identified, (ii) does not require that the entity's business areas be subject to different risks to qualify as operating segments and (iii) requires disclosing by segment and separately, interest income and expenses, as well as all other components of comprehensive financial results.

FRS B-9 "*Interim financial reporting*" - The principal changes as compared to superseded Bulletin B-9 "Interim financial reporting" include that the interim financial information, in addition to the balance sheet and income statement, include a comparative and condensed statement of stockholders' equity and statement of cash flows, and, for non-profit entities, the presentation of the statement of activities is expressly required. In addition, provides that the financial information reported at the end of the interim period should be presented comparatively with the equivalent interim period of the immediately preceding year and, in the case of the balance sheet, compared also to such financial statement as of the date of the immediately preceding fiscal year-end.

FRS C-5 "Prepayments" - Supersedes Bulletin C-5, and among other things, require that the following must be disclosed in notes to financial statements: breakdown of prepayments, policies for accounting recognition and impairment losses, as well as relevant reversal.

2011 FRS Revisions

In December 2010, the CINIF issued the document referred to as "2011 FRS Revisions", which had no effect on the financial statements of the Management Company:

- **Bulletin C-3 "Accounts receivable" –** Recognition of accrued interest income on accounts receivable is required, provided the relevant amount is reliably valued and likely to recover. Furthermore, it is provided that interest income on accounts receivable unlikely to recover must not be recognized.

(Continued)

- **Bulletin D-5 "Leases" –** The discount rate to be used on capital leases is established, disclosures related to such leases are added, and the timing for recognition of the gain or loss on a sale and leaseback deal is revised.

(5) Investment securities-

As of December 31, 2011 and 2010, investment securities classified as trading securities amount to $331,737 and $238,548 respectively, and consist of debt fund shares (see detail in the statement of securities portfolio valuation).

Net realized gain on trading securities for the years ended December 31, 2011 and 2010 amounted to $10,451 and $7,451, respectively. Unrealized gain of investment securities as of December 31, 2011 and 2010 amounted to $1,290 and $200, respectively. These amounts are included in the statement of income under the captions "Net realized gain on securities" and "Unrealized gain on securities", respectively.

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 rating according to the Commission of short term and government securities with a term no longer than 365 days, and with short term of settlement same day for buying and selling.

SCOTIAG was rated in 2011 and 2010, as AAA/2F by Fitch Ratings México, S. A. de C. V., who is "Outstanding" in terms of security of the fund, this rating includes the 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.

(Continued)

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(6) *Accounts receivable-*

As of December 31, 2011 and 2010, accounts receivable's balances are as follows:

		2011	2010
Related parties	$	69,442	63,646
Recoverable taxes		10,560	9,270
Other accounts receivable		740	254
	$	80,742	73,170

For the years ended December 31, 2011 and 2010, there were not changes in current conditions of accounts receivable with related parties and other accounts receivable, therefore there were not items considered by management as uncollectable or doubtful and no allowance was needed for these accounts.

(7) Permanent investments-

At December 31, 2011, permanent investments in shares are analyzed as follows:

		2011	
		Investment	Equity in the results
Subsidiaries:			
Scotia Diversificado (SCOTEME)	$	1,157	21
Other investments:			
Scotia Gubernamental Plus (SCOTLPG)		1,000	–
Scotia Progresivo (SCOT-FX)		1,161	68
	$	3,318	89

(Continued)

For the year ended December 31, 2011, the participation percentage which the Management Company has in the equity of its subsidiaries is 99%.

(8) *Employee benefits-*

The Management Company established a defined contribution pension plan and post-retirement benefits plan available until March 31, 2006. This plan calls for 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, 2011 and 2010, the Management Company's contributions to the defined contribution plan charged amounted $346 and $330, respectively, recognized in the statement of income under the caption "Administrative expenses".

The cost, obligations and contributions to the fund relating to the defined benefits pension plan, seniority premiums and life insurance are determined based on computations prepared by independent actuaries as of December 31, 2011 and 2010.

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The elements of the net periodic cost and the labor obligations for the years ended December 31, 2011 and 2010 are as follows:

	Seniority Premiums			Life
2011	**Retirement**	**Termination**	**Total**	**insurance**
Service cost	$ 1	1	2	2
Financial cost	1	1	2	2
Return on plan assets	-	(1)	(1)	(1)
Amortization	1	-	1	1
Net periodic cost	3	1	4	4
Income recognition of actuarial gains generated in the year	-	4	4	-
Total cost 2011	$ 3	5	8	4
2010				
Service cost	$ 1	1	2	1
Financial cost	1	1	2	1
Return on plan assets	(1)	(1)	(2)	(1)
Amortization	1	-	1	1
Net periodic cost	2	1	3	2
Income recognition of actuarial gains generated in the year	-	9	9	-
Total cost 2010	$ 2	10	12	2

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The present value of benefit obligations of seniority premiums and life insurance for the years ended December 31, 2011 and 2010 are as follows:

		Seniority Premiums			Life
2011		**Retirement**	**Termination**	**Total**	**insurance**
Defined benefit obligations (DBO)	$	(16)	(9)	(25)	(36)
Plan assets at fair value		2	2	4	12
Financial situation of the fund		(14)	(7)	(21)	(24)
Past service for:					
Plan modifications		-	-	-	4
Cumulative actuarial losses		16	-	16	24
Projected asset (liability), net	$	2	(7)	(5)	4
2010					
Defined benefit obligations (DBO)	$	(11)	(10)	(21)	(24)
Plan assets at fair value		3	7	10	10
Financial situation of the fund		(8)	(3)	(11)	(14)
Past service for:					
Plan modifications		-	-	-	4
Cumulative actuarial losses		10	-	10	14
Projected asset (liability), net	$	2	(3)	(1)	4

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A reconciliation of the projected asset, net as of December 31, 2011 is as follows:

		Seniority Premiums		Life
	Retirement	**Termination**	**Total**	**insurance**
Projected asset, net as of December 31, 2010	$ 2	(3)	(1)	4
Net periodic income 2011	(3)	(1)	(4)	(4)
Contributions to fund during 2011	3	1	4	4
Income recognition of actuarial gains and losses generated in the year	-	(4)	(4)	-
Projected asset (liability), net	$ 2	(7)	(5)	4

The present value of the statutory severance benefit obligations as of December 31, 2011 and 2010 are as follows:

	2011	**2010**
ABO	$ (447)	(586)
DBO	$ (447)	(586)
Transition liability	74	149
Projected liability, net	$ (373)	(437)

The net (income) cost for the statutory severance for the years ended December 31, 2011 and 2010 amounted to ($64) and $194, respectively.

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The nominal rates used in the actuarial projections for the years ended December 31, 2011 and 2010 are:

	2011	**2010**
Yield on plan assets	9.75%	9.00%
Discount rate	9.25%	8.75%
Rate of increase in compensation	5.00%	5.00%
Estimated inflation rate	4.00%	4.00%

The seniority premium assets consist of fixed-yield instruments held in a trust and managed by a committee appointed by the Management Company.

At December 31, 2011, the amortization period of unrecognized defined benefits for seniority premium benefits, life insurance and statutory severance, are as follows:

	Seniority premiums		**Life**	**Severance**
	Retirement	**Termination**	**insurance**	**indemnities**
Prior service for transition liability	1 year	1 year	-	1 year
Actuarial (gain) or loss	9.71 years	Immediately	14.7 years	Immediately

(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, 2011 and 2010, 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.

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(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, 2011, 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.

(10) Income taxes (income tax (IT) and flat rate business tax (IETU))-

Under the current tax legislation, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final, not subject to recovery in subsequent years. In accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, for 2013 the rate shall be 29% and for 2014 and thereafter, the rate is 28%. The IETU rate is 17.5% for 2010 and thereafter.

Owing to the fact that, according to Management Company's estimates the tax payable in future years will be IT, deferred tax effects as of December 31, 2011 and 2010 have been recorded on the IT basis.

At December 31, 2011 and 2010, the deferred IT asset is analyzed below:

	2011	2010
Asset (liability):		
Accruals	$ 1,423	1,209
Prepaid expenses	(21)	(21)
	1,402	1,188
Rate	30%	30%
Deferred IT	$ 421	356

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The next favorable (unfavorable) effect in the statement of income of deferred IT for the year ended December 31, 2011 and 2010 is analyzed below:

		2011	2010
Employee Statutory Profit Sharing (ESPS)	$	–	(893)
Accruals		65	(8)
Prepaid expenses and others		–	3
Deferred IT in the statement of income	$	65	(898)

For the years ended December 31, 2011 and 2010, the Management Company has no employees except two in directive level, for that reason, they do not participate in the ESPS.

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The following is an analysis of the effective tax rate for the fiscal years ended at December 31, 2011 and 2010:

			IT	
		Base	**Tax at 30%**	**Effective rate**
December 31, 2011				
Income before income taxes and equity in the results of unconsolidated subsidiaries and associated companies	$	149,250	(44,775)	(30%)
Allocation to current tax:				
Adjustment for effects of inflation		(10,572)	3,172	2%
Accruals, net		214	(64)	–
Non-cumulative income		(1)	–	–
Non-deductible expenses		223	(67)	–
Others, net		5	(2)	–
Current tax		139,119	(41,736)	(28%)
Allocation to deferred taxes: (30% rate)				
Accruals		(214)	65	–
Deferred tax		(214)	65	–
Income tax	$	138,905	(41,671)	(28%)

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		IT	
	Base	**Tax at 30%**	**Effective rate**
December 31, 2010			
Income before income taxes and equity in the results of unconsolidated subsidiaries and associated companies	$ 133,899	(40,169)	(30%)
Allocation to current tax:			
Adjustment for effects of inflation	(8,755)	2,627	2%
Accruals, net	(27)	8	–
Non-cumulative income	(3,115)	934	–
Non-deductible expenses	812	(244)	–
Others, net	14	(4)	–
Current tax	122,828	(36,848)	(28%)
Allocation to deferred taxes: (30% rate)			
Prepaid expenses	(13)	3	–
ESPS payable	2,975	(893)	–
Accruals	27	(8)	–
Deferred tax	2,989	(898)	–
Income tax	$ 125,817	(37,746)	(28%)

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.

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(11) Related-party transactions and balances-

Transaction carried out with related parties for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Revenues:		
Fee and commission income	$ 789,217	719,049
Expenses:		
Fee and commission expense	$ 621,927	556,424
Administrative expenses	19	17

Benefits granted by Company´s Directors for the years ended December 31, 2011 and 2010 amounted to $3,848 and $4,194, respectively.

Balances from related parties as of December 31, 2011 and 2010 are as follows:

	2011	2010
Assets:		
Cash and cash equivalents	$ 10	1,577
Investments securities	331,737	238,548
Other accounts receivable	69,442	63,646
Liabilities:		
Other accounts payable	$ 53,052	49,371

(Continued)

(12) Recently issued accounting standards-

The CINIF has issued the FRS and Improvements listed below:

FRS B-3 *"Statement of comprehensive income"*- FRS B-3 is effective for fiscal years beginning January 1, 2013 and is applicable retrospectively. FRS B-3 supersedes FRS B-3 "Statement of Income", Bulletin B-4 "Comprehensive Income" and the FRS Guideline 1 "Presentation or disclosure of the operating income or loss". The principal changes with respect to the superseded FRS B-3 include the following:

- The comprehensive income can be displayed in one or two statements as follows:

  a) In one statement: all the line items that comprise the net income or loss, as well as other comprehensive income (OCI) and the equity in the OCI of other entities shall be presented in one single document and shall be named "Statement of Comprehensive Income".

  b) In two statements: the first statement shall include solely the line items that comprise the net income or loss and shall be named "Statement of Income" and, the second statement shall bring forward the net income or loss reported at the end of the statement of income and present right away the OCI and the equity in the OCI of other entities. This statement shall be named "Statement of Other Comprehensive Income".

- The OCI shall be presented right after the net income or loss.

- Items shall not be presented in a segregated manner as non-ordinary, neither in the financial statement nor in the notes to the financial statements.

- Certain points are clarified regarding the items that shall be presented as part of the comprehensive financial results.

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- "Other income and expenses" shall regularly include amounts that are not relevant and shall not include operating items (such as gain or loss on sale of property, plant and equipment and the ESPS); thus, it is not required that it be presented in a segregated manner.

FRS B-4 *"Statement of changes in stockholders' equity"*- FRS B-4 is effective for fiscal years beginning January 1, 2013 and is applicable retrospectively. It mainly requires that the following be presented in a segregated manner under the statement of changes in stockholders' equity:

- Reconciliation between the initial and final balances of the line items that comprise the stockholders' equity.

- If applicable, retrospective adjustments arising from accounting changes and error corrections, which have an effect on the initial balances of each of the line items that comprise the stockholders' equity.

- Give a breakdown of ownership transactions relating to owners' equity in the entity.

- Reserve transactions.

- Comprehensive income in one line item, but broken down into all the items that comprise it: net income or loss, other comprehensive income, and the equity in the other comprehensive income of other entities.

  Management estimates that the effects of the 2012 FRS Improvements will be immaterial.

<u>2012 FRS Improvements</u>

On December 2011, the CINIF issued the document referred to as "2012 FRS Revisions", which contains some specifics modifications to FRS. The improvements that generate accounting changes are mentioned in the next page.

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- **FRS A-7 "Presentation and disclosure"-** FRS A-7 revises and adds certain paragraphs in order to clarify disclosure requirements with respect to key assumptions used at the end of the accounting period, to determine accounting estimates that imply uncertainty with a relevant risk of generating significant adjustments in the carrying amount of assets or liabilities in the following accounting period. These Improvements are effective beginning January 1, 2012 and are retrospectively applicable.

- **FRS C-1 "Cash and cash equivalents"-** FRS C-1 requires the presentation of restricted cash in the line item of "cash and cash equivalents", if the restriction expires within the twelve months following the date of the statement of financial position or in the regular course of the entity's operations. If the restriction expires at a subsequent date, it shall be classified as a long-term asset and named "restricted cash and cash equivalents". This revision is effective for fiscal years beginning January 1, 2012 and is retrospectively applicable.

- **Bulletin C-11 "Stockholders' equity"-** Elimination of recognition of donations received by for-profit entities in the contributed stockholders' equity. This revision is effective for fiscal years beginning January 1, 2012 and is prospectively applicable as to changes in valuation and retrospectively applicable as to changes in presentation.

Management estimates that the effects of the 2012 FRS Improvements will be immaterial.