

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

Financial Statements

December 31, 2013 and 2012

(With Statutory and Independent Auditors'
Reports Thereon)

(Free Translation from Spanish Language Original)

Guillermo García-Naranjo Álvarez
Contador Público

Statutory Auditor's Report
(Free Translation from Spanish Language Original)

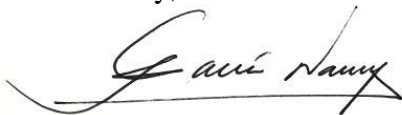
The Stockholders
Scotia Fondos, S. A. de C. V.,
Sociedad Operadora de Sociedades de Inversión,
Grupo Financiero Scotiabank Inverlat:

In my capacity as Statutory Auditor 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 reliability, fairness and sufficiency of the financial information furnished to you by the Board of Directors for the year ended December 31, 2013.

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, and were applied on a basis consistent with that of the preceding year. 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 Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat as of December 31, 2013, and the results of its operation and cash flows, for the year then ended, in conformity with the accounting criteria issued by the National Banking and Securities Commission for fund management companies in Mexico.

Sincerely,



Guillermo García-Naranjo Álvarez
Statutory Auditor

Mexico City, February 21, 2014.



KPMG Cárdenas Dosal
Boulevard Manuel Ávila Camacho 176
Col. Reforma Social
11650 México, D.F.

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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 Sociedades de Inversión,
Grupo Financiero Scotiabank Inverlat:

We have audited the accompanying financial statements of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat (“the Management Company”), that comprise the balance sheets including the statements of investment portfolio valuation as of December 31, 2013 and 2012, and 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.

Management’s responsibility for the financial statements

Management is responsible for the preparation and presentation of the accompanying financial statements, based on the accounting criteria established by the National Banking and Securities Commission (“the Commission”) for management fund companies in Mexico, 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.

Auditors’ responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Management Company’s preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Management Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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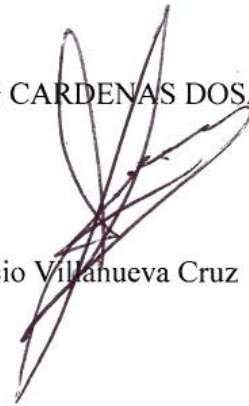
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat for the years ended December 31, 2013 and 2012, have been prepared, in all material respects, in conformity with the accounting criteria established by the Commission for fund management companies in Mexico.

KPMG CARDENAS DOSAL, S. C.

Mauricio Villanueva Cruz



February 21, 2014.



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

Balance Sheets

December 31, 2013 and 2012

(Thousands of Mexican pesos)

<u>Assets</u>	<u>2013</u>	<u>2012</u>	<u>Liabilities and Stockholders' Equity</u>	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	\$ 14	14	Accounts payable:		
Investment securities (note 5):			Income tax payable	\$ 17,555	9,759
Trading	<u>148,911</u>	<u>452,760</u>	Sundry creditors and other		
Accounts receivable (note 6)	<u>99,681</u>	<u>88,515</u>	accounts payable (note 8)	<u>75,858</u>	<u>69,278</u>
Permanent investments (notes 1 and 7)	<u>10,411</u>	<u>7,373</u>	Total liabilities	<u>93,413</u>	<u>79,037</u>
Deferred taxes, net (note 10)	<u>487</u>	<u>435</u>	Stockholders' equity (note 9):		
Other assets:			Paid-in capital:		
Deferred charges, prepaid expenses			Capital stock	<u>2,586</u>	<u>2,586</u>
and intangibles	27	27	Earned capital:		
Other short and long term assets (note 8)	<u>21</u>	<u>33</u>	Statutory reserves	517	517
	<u>48</u>	<u>60</u>	Retained earnings	352	339,242
			Net income	<u>162,684</u>	<u>127,775</u>
			Total stockholders' equity	<u>166,139</u>	<u>470,120</u>
Total assets	\$ <u>259,552</u>	<u>549,157</u>	Total liabilities and stockholders' equity	\$ <u>259,552</u>	<u>549,157</u>

<u>Memorandum accounts</u>	<u>2013</u>	<u>2012</u>
Other accounts	\$ 5,023	4,377
Assets in custody or under management (note 12)	<u>148,241,826</u>	<u>131,410,373</u>

See accompanying notes to financial statements.

The nominal value of the capital stock as of December 31, 2013 and 2012 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 Management 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 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.

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

SIGNATURE

Ernesto Diez Sánchez
General Director

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

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

Statements of Investment Portfolio Valuation

December 31, 2013 and 2012

(Thousands of Mexican pesos, except otherwise is indicated)

	<u>Issuer</u>	<u>Series</u>	<u>Type of security</u>	<u>Valuation rate</u>	<u>Rating or liquidity</u>	<u>Number of securities</u>	<u>Number of securities settled</u>	<u>Total securities of the issuer</u>	<u>Average unit acquisition cost (in pesos)</u>	<u>Total acquisition cost</u>	<u>Unit fair value (in pesos)</u>	<u>Total fair value</u>	<u>Days to maturity</u>		
December 31, 2013															
%	Trading securities:														
	Investment in equity instruments														
	Mutual funds investing in debt instruments														
0.78	Scotia Gubernamental, S. A. de C. V.	S I I D	SCOTIAG	C1	51	–	AAA/2	50,985,650	50,985,650	6,572,157,800	2.918351	\$ 148,794	2.920636	\$ 148,911	*
%	Permanent investments:														
	Mutual funds investing in debt instruments														
3.64	Fondo de Fondos Scotiabank de Mediano Plazo, S. A. de C. V.	S I I D	SBANKMP	A	51	–	AAA/4	999,999	999,999	27,490,366	1.000000	\$ 1,000	0.994589	\$ 994	*
0.13	Scotia Gubernamental Plus, S. A. de C. V.,	S I I D	SCOTLPG	A	51	–	AAA/7	999,999	999,999	777,942,749	1.000000	1,000	1.000000	1,000	*
100.00	Scotia Solucion 4 S.A. de C.V.,	S I I D	SCOT-S4	A	51	–	AA/3	999,999	999,999	1,000,000	1.000000	1,000	1.005724	1,006	*
0.21	Scotia Real S.A. de C.V.,	S I I D	SCOT-TR	A	51	–	AAA/6	999,999	999,999	486,055,048	1.000000	1,000	1.000966	1,001	*
											4,000		4,001		
	Mutual funds investing in equities														
0.07	Scotia Cartera Modelo S.A. de C.V.,	S I R V	SCOT-CM	A	52	–	–	999,999	999,999	1,353,537,245	1.000000	1,000	1.000000	1,000	*
0.81	Scotia Progresivo, S. A. de C. V.,	S I R V	SCOT-FX	A	52	–	–	62,500	62,500	7,762,030	18.571815	1,161	18.571815	1,161	*
2.56	Scotia Diversificado, S. A. de C. V.,	S I R V	SCOTEME	A	52	–	–	80,645	80,645	3,150,852	14.350296	1,157	14.350296	1,157	*
0.21	Scotia Global, S. A. de C. V.,	S I R V	SCOTGLO	A	52	–	–	999,999	999,999	486,983,835	1.000000	1,000	1.000000	1,000	*
0.60	Scotia Dinamico, S.A. de C.V.,	S I R V	SCOTDIN	A	52	–	–	999,999	999,999	166,408,131	1.000000	1,000	1.044286	1,044	*
99.78	Scotia Solucion 2 S.A. de C.V.,	S I R V	SCOT-FR	A	52	–	–	999,999	999,999	1,002,175	1.000000	1,000	1.047596	1,048	*
											6,318		6,410		
Total:											\$ 10,318		\$ 10,411		

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

Statements of Investment Portfolio Valuation, continued

December 31, 2013 and 2012

(Thousands of Mexican pesos, except otherwise is indicated)

	<u>Issuer</u>	<u>Series</u>	<u>Type of security</u>	<u>Valuation rate</u>	<u>Rating or liquidity</u>	<u>Number of securities</u>	<u>Number of securities settled</u>	<u>Total securities of the issuer</u>	<u>Average unit acquisition cost (in pesos)</u>	<u>Total acquisition cost</u>	<u>Unit fair value (in pesos)</u>	<u>Total fair value</u>	<u>Days to maturity</u>
December 31, 2012													
% <u>Trading securities:</u>													
Investment in equity instruments													
Mutual funds investing in debt instruments													
2.53	Scotia Gubernamental S.A. de C.V., S I I D	SCOTIA G	C1	51	–	AAA/2F	160,773,665	160,773,665	6,361,656,320	2.815340	\$ 452,633	2.816136 \$ 452,760	*
% <u>Permanent investments:</u>													
Mutual funds investing in debt instruments													
100.00	Fondo de Fondos Scotiabank de Mediano Plazo S.A. de C.V S I I D	SBANKMP	A	51	–	AA/5F	999,999	999,999	1,000,000	1.000000	\$ 1,000	1.028322 \$ 1,028	*
0.19	Scotia Gubernamental Plus S.A. de C.V., S I I D	SCOTLPG	A	51	–	AAA/7F	999,999	999,999	515,602,302	1.000000	1,000	1,000	*
										2,000		2,028	
Mutual funds investing in equities													
0.08	Scotia Cartera Modelo S.A. de C.V., S I R V	SCOT-CM	A	52	–	–	999,999	999,999	1,244,019,339	1.000000	1,000	1.000000 1,000	*
0.76	Scotia Progresivo, S.A. de C.V., S I R V	SCOT-FX	A	52	–	–	62,500	62,500	8,200,314	17.492212	1,093	18.571815 1,161	*
1.78	Scotia Diversificado S.A. de C.V., S I R V	SCOTEME	A	52	–	–	80,645	80,645	4,518,439	14.350296	1,157	14.350296 1,157	*
0.16	Scotia Global, S.A. de C.V., S I R V	SCOTGLO	A	52	–	–	999,999	999,999	611,379,694	1.000000	1,000	1.000000 1,000	*
99.01	Scotia Dinamico, S.A. de C.V., S I R V	SCOTDIN	A	52	–	–	999,999	999,999	1,009,990	1.000000	1,000	1.026952 1,027	*
										5,250		5,345	
										\$ 7,250		\$ 7,373	

* 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 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.

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

SIGNATURE

Ernesto Diez Sánchez
General Director

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

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

Statements of Income

Years ended December 31, 2013 and 2012

(Thousands of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Fee and commission income	\$ 938,058	833,507
Fee and commission expense	<u>(677,979)</u>	<u>(636,070)</u>
Income from services	<u>260,079</u>	<u>197,437</u>
Interest income	-	33
Unrealized gain on valuation of securities (note 5)	86	760
Net realized gain on purchase/sale securities net (note 5)	<u>10,937</u>	<u>16,456</u>
Brokerage margin	11,023	17,249
Other operating income (expense)	(1,136)	264
Administrative expenses (note 8)	<u>(41,339)</u>	<u>(38,590)</u>
	<u>(31,452)</u>	<u>(21,077)</u>
Net operating income	228,627	176,360
Equity method in the results of unconsolidable subsidiaries and associated companies (note 7)	<u>38</u>	<u>55</u>
Income before income taxes	<u>228,665</u>	<u>176,415</u>
Current income taxes (note 10)	(66,033)	(48,654)
Deferred income taxes, net (note 10)	<u>52</u>	<u>14</u>
	<u>(65,981)</u>	<u>(48,640)</u>
Net income	<u>\$ 162,684</u>	<u>127,775</u>

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 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.

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

SIGNATURE

Ernesto Diez Sánchez
General Director

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

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, 2013 and 2012

(Thousands of Mexican pesos)

		<u>Paid-in capital</u>	<u>Earned capital</u>		<u>Total stockholders' equity</u>	
		<u>Capital stock</u>	<u>Statutory reserves</u>	<u>Retained earnings</u>		<u>Net income</u>
Balances as of December 31, 2011	\$	2,586	517	231,574	107,668	342,345
Item related to stockholders' decisions:						
Appropriation of prior year net income		-	-	107,668	(107,668)	-
Item related to comprehensive income:						
Net income		-	-	-	127,775	127,775
Balances as of December 31, 2012		2,586	517	339,242	127,775	470,120
Item related to stockholders' decisions:						
Appropriation of prior year net income		-	-	127,775	(127,775)	-
Dividends declared and paid (note 9c)		-	-	(466,665)	-	(466,665)
Item related to comprehensive income:						
Net income		-	-	-	162,684	162,684
Balances as of December 31, 2013	\$	<u>2,586</u>	<u>517</u>	<u>352</u>	<u>162,684</u>	<u>166,139</u>

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 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.

These statements of changes in stockholders' equity faithfully match with the original statements of changes in stockholders' equity, which are properly signed and held by the Management Company.

SIGNATURE

Ernesto Diez Sánchez
General Director

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

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, 2013 and 2012

(Thousands of Mexican pesos)

	<u>2013</u>	<u>2012</u>
Net income	\$ 162,684	127,775
Items not requiring (providing) cash flow:		
Current and deferred income taxes	65,981	48,640
Provisions	6,176	647
Equity method in the results of unconsolidated subsidiaries and associated companies	(38)	(55)
Unrealized gain on securities	(86)	(760)
	<u>72,033</u>	<u>48,472</u>
Operating activities:		
Change in investment securities	303,935	(120,263)
Change in other operative assets	(11,155)	(7,779)
Change in other operative liabilities	405	802
Payments of income taxes	(58,237)	(45,007)
Net cash flows from operating activities	<u>234,948</u>	<u>(172,247)</u>
Investing activities:		
Payments for acquisition of subsidiary and associated companies	(3,000)	(2,000)
Payments for acquisition of other permanent investments	-	(2,000)
Net cash flows from investing activities	<u>(3,000)</u>	<u>(4,000)</u>
Financing activities:		
Net cash flows from financing activities for payment of dividends	(466,665)	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>14</u>	<u>14</u>
Cash and cash equivalents at end of year	\$ <u>14</u>	<u>14</u>

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 inflows and cash outflows 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.

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

SIGNATURE

Ernesto Diez Sánchez
General Director

SIGNATURE

H. Valerio Bustos Quiroz
Director of Group Accounting

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

Notes to Financial Statements

December 31, 2013 and 2012

(Mexican pesos in thousands)

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 Mutual funds”), which holds 99.99% of its capital stock. The Management Company obtained 92% and 97% of its fees and commissions income for 2013 and 2012, respectively from the Scotiabank investment funds, which are listed below (note 11):

Mutual funds investing in debt instruments:

- Scotia Disponibilidad, S. A. de C. V., (SCOTIA1)
- Scotia Rendimiento, S. A. de C. V., (SCOTIA2)
- 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., (SCOTLPE)
(Formerly SCOTIAC)
- Scotia para no Contribuyentes, S. A. de C. V., (SCOTCPE)
(Formerly 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)
- Fondo de Fondos Scotiabank de Mediano Plazo, S. A. de C. V. (SBANKMP)
- Scotia Solución 4, S.A. de C.V. (SCOT-S4)
- Scotia Real, S.A. de C.V. (SCOT-TR)

Mutual funds investing in equities:

- Scotia Patrimonial, S. A. de C. V., (SCOT-RV)
(Formerly SCOTIAE)
- Scotia Indizado, S. A. de C. V., (SCOTIPC)
(Formerly SCOTIA7)
- Scotia Estratégico, S. A. de C. V., (SCOTI12)

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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

(Mexican pesos in thousands)

- Scotia Crecimiento, S. A. de C. V., (SCOTI14)
- Scotia Internacional, S. A. de C. V., (SCOTUSA)
(Formerly 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)
- Scotia Inversiones Plus, S. A. de C. V., (SCOTDOL)
(Formerly Scotia Cobertura, S. A. de C. V., SCOTIA3)
- Scotia Global, S. A. de C. V. (SCOTGLO)
- Scotia Cartera Modelo, S. A. de C. V. (SCOT-CM)
- Scotia Dinámico, S.A. de C.V. (SCOTDIN)
- Scotia Solución 2, S.A. de C.V. (SCOT-FR)

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

Significant transactions 2013-

(a) Incorporation of mutual funds-

On August 19, 2013, the Fund Management Company incorporated two debt securities mutual funds named “Scotia Solución 4”, Sociedad Anónima de Capital Variable and “Scotia Real”, Sociedad Anónima de Capital Variable. The Fund Management Company contributed \$1,000 to each of the mutual funds. Such contributions are represented by Class “A” representative shares minimum fixed portion without right for withdrawal. Such mutual funds were introduced to the general public on October 15, 2013, with ticker symbol SCOT-S4 y SCOT-TR, respectively.

On October 3, 2013, the Fund Management Company incorporated a floating investment named mutual fund “Scotia Solución 2”, Sociedad Anónima de Capital Variable. The Fund Management Company contributed \$1,000, such contribution is represented by Class “A” shares minimum fixed portion without right for withdrawal. Such mutual fund was introduced to the general public on November 20, 2013, with ticket symbol SCOT-FR.

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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

(Mexican pesos in thousands)

(b) Dividends decree-

As mentioned in note 9(c) to the financial statements, on April 12, May 24, August 23 and November 13, 2013, dividends were decreed through resolutions of the Ordinary General Stockholders' Meetings for \$370,000, \$19,333 and \$57,965, respectively, which were paid during 2013.

Significant transactions 2012-

(a) Incorporation of mutual funds-

In May 2012, the Management Company incorporated the following two variable income mutual funds: "Scotia Global", Sociedad Anónima de Capital Variable and "Scotia Cartera Modelo", Sociedad Anónima de Capital Variable, as well as an mutual funds that invests in debt instruments: "Fondo de Fondos Scotiabank de Mediano Plazo", Sociedad de Inversión en Instrumentos de Deuda. The Management Company contributed \$1,000 to each of the investment companies. Such contributions are represented by Class "A" shares minimum fixed portion without right for withdrawal. Such companies became public on June 15, 2012.

In October 2012, the Management Company incorporated the variable income mutual funds called "Scotia Dinámico" Sociedad Anónima de Capital Variable", making an initial capital contribution of \$1,000. Such contribution is represented by Class "A" shares minimum fixed portion without right for withdrawal. Such mutual fund was introduced to the general public on November 27, 2012.

(2) Authorization and basis of presentation and disclosure-

On February 21, 2014, Ernesto Diez 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 National Banking and Securities Commission (the Commission) are empowered to modify the financial statements after issuance. The accompanying financial statements for 2013 will be submitted to the next Stockholders' Meeting for approval.

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

The accounting criteria provides 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 criterion A-4 of the Commission.

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

(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, 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.

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

Significant accounting policies applied in the preparation of the financial statements are summarized in the following page.

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(a) Recognition of the effects of inflation-

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

The year ended December 31, 2013 is considered non-inflationary economic environment (inflation accumulated over the three preceding years less than 26%), as established in MFRS B-10 "Effects of Inflation", consequently the effects of inflation on the 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:

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

(b) Cash and cash equivalents-

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

(c) Investment securities-

Investment securities include shares issued by the funds, governmental securities and other securities, classified at the date of acquisition as trading securities.

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Trading securities are those acquired with the intention of selling to get short-term gains arising from differences in prices resulting from its trading in the market. Securities at the time of acquisition are accounted for at fair value (which includes, where applicable, the discount or premium) which presumably corresponds to the price paid; transaction costs for the acquisition of securities are recognized in income on the same date. Subsequently, securities are valued at fair value provided by an independent price vendor, when the securities are sold, the result of buy/sell is determined by the difference between purchase price and the sale price, this concept shall include the reclassification from the result of valuation that has been previously recognized in the income statement.

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

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".

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

(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.

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(e) *Permanent investments-*

Permanent investments in entities 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.

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 income (expense)".

(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.

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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. 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 temporary differences is presented in the balance sheet.

(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 and promotional 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 the life insurance for retirees.

For both plans, irrevocable trusts have been created in which the plan assets are managed, except for severance payments.

The net periodic cost of the defined 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 MFRS 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.

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

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

(i) Revenue recognition-

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

Yields generated by deposits with financial institutions are recognized in the statement of income when accrued under the caption "Interest income".

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(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 CINIF issued the following MFRS and Improvements to MFRS beginning January 1, 2013 which had no significant effect in the Management Company's financial statements.

- **MFRS B-12 “Offsetting financial assets and financial liabilities”**
- **MFRS C-14 “Transfer and retirement of financial assets”**

2013 MFRS Improvements-

- **MFRS C-5 “Prepayments”**
- **Bulletin C-9 “Liabilities, provisions, contingent assets and liabilities and commitments”**
- **MFRS D-4 “Income Taxes”**

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Accounting changes 2012–

I. Changes in accounting criteria for mutual fund managers

On March 16, 2012, the resolution revising the general provisions applicable to investment companies and entities providing services thereto was published in the Federal Official Gazette. The resolution modified the accounting criteria for mutual fund managers, became effective on March 30, 2012 and had no significant effects on the mutual fund manager, except in the presentation of the statement of income. Such changes are mentioned as follows:

- ***Criterion A-3 “Application of general standards”***
- ***Criterion A-4 “Supplementary application of accounting criteria”***
- ***Criterion B-2 “Investment securities”***
- ***Criterion C-2 “Related Parties”***
- ***Criterion D-3 “Statement of Income”***

II. Improvements to 2012 FRS -

In December 2011, the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF) issued the document referred to as “2012 FRS Improvements”, which contains precise modifications to some FRS, effective from January 1, 2012 which had no effect on the financial statements of the Management Company, are mentioned as follows:

- **FRS A-7 “Presentation and disclosure”**

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(5) Investment securities-

As of December 31, 2013 and 2012, investment securities classified as trading securities amounts to \$148,911 and \$452,760 respectively (see detail in the statement of investment portfolio valuation).

Net realized gain on trading securities for the years ended December 31, 2013 and 2012 amounted to \$10,937 and \$16,456, respectively. Unrealized gain of investment securities as of December 31, 2013 and 2012 amounted to \$86 and \$760, respectively. These amounts are included in the statement of income under the captions “Net realized gain on securities” and “Unrealized gain on securities”, respectively.

As of December 31, 2013 and 2012, the investment securities of the Management Company are shares issued by 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, same day of settlement for purchase and sales.

SCOTIAG was rated in 2013 and 2012, 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, 2013 and 2012, accounts receivable’s balances are as follows:

	<u>2013</u>	<u>2012</u>
Related parties (note 11)	\$ 75,643	69,384
Recoverable taxes	10,437	10,563
Other accounts receivable	<u>13,601</u>	<u>8,568</u>
	<u>\$ 99,681</u>	<u>88,515</u>

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As of December 31, 2013 and 2012, 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.

(7) Permanent investments-

At December 31, 2013 and 2012, permanent investments include fixed capital of 10 fund management companies for \$10,411 (7 mutual funds for \$7,373 in 2012), which generated a result in the year of \$38 (\$55 in 2012).

(8) *Employees' benefits-*

The Management Company established a defined contribution pension plan and post-retirement benefits plan available until March 31, 2006. 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, 2013 and 2012, the Management Company's contributions to the defined contribution plan charged amounted \$340 and \$347, respectively, recognized in the statement of income under the caption "Administrative and promotional 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, 2013 and 2012.

The elements of the net periodic cost and the labor obligations for the years ended December 31, 2013 and 2012 are as shown in the following page.

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	<u>Seniority Premiums</u>			<u>Life insurance</u>
	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<u>2013</u>				
Service cost	\$ 2	–	2	5
Financial cost	2	1	3	4
Return on plan assets	(1)	–	(1)	(1)
Amortization	<u>2</u>	<u>–</u>	<u>2</u>	<u>3</u>
Net periodic cost	\$ <u>5</u>	<u>1</u>	<u>6</u>	<u>11</u>
<u>2012</u>				
Service cost	\$ 1	1	2	3
Financial cost	1	1	2	3
Return on plan assets	–	–	–	(1)
Amortization	<u>2</u>	<u>–</u>	<u>2</u>	<u>2</u>
Net periodic cost	4	2	6	7
Income recognition of actuarial gains generated in the year	<u>–</u>	<u>1</u>	<u>1</u>	<u>–</u>
Total cost	\$ <u>4</u>	<u>3</u>	<u>7</u>	<u>7</u>

The present value of benefit obligations of seniority premiums and life insurance for the years ended December 31, 2013 and 2012 are as follows:

	<u>Seniority Premiums</u>			<u>Life insurance</u>
	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
<u>2013</u>				
Defined benefit obligations (DBO)	\$ (26)	(10)	(36)	(60)
Plan assets at fair value	<u>7</u>	<u>3</u>	<u>10</u>	<u>22</u>
Financial situation of the fund	(19)	(7)	(26)	(38)
Past service for:				
Plan modifications	–	–	–	3
Cumulative actuarial losses	<u>21</u>	<u>–</u>	<u>21</u>	<u>39</u>
Projected asset (liability), net	\$ <u>2</u>	<u>(7)</u>	<u>(5)</u>	<u>4</u>

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<u>2012</u>	<u>Seniority Premiums</u>			<u>Life insurance</u>
	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Defined benefit obligations (DBO)	\$ (22)	(10)	(32)	(58)
Plan assets at fair value	<u>3</u>	<u>2</u>	<u>5</u>	<u>12</u>
Financial situation of the fund	(19)	(8)	(27)	(46)
Past service for:				
Plan modifications	–	–	–	4
Cumulative actuarial losses	<u>21</u>	<u>–</u>	<u>21</u>	<u>46</u>
Projected asset (liability), net	\$ <u>2</u>	<u>(8)</u>	<u>(6)</u>	<u>4</u>

A reconciliation of the projected asset (liability), net as of December 31, 2013 and 2012 is as follows:

	<u>Seniority Premiums</u>			<u>Life insurance</u>
	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Projected asset (liability), net at December 31, 2012	\$ 2	(8)	(6)	4
Net period cost 2013	(5)	(1)	(6)	(11)
Contributions to fund during 2013	5	1	6	11
Income recognition of actuarial gains and losses generated in the year	<u>–</u>	<u>1</u>	<u>1</u>	<u>–</u>
Projected asset (liability), net at December 31, 2013	\$ <u>2</u>	<u>(7)</u>	<u>(5)</u>	<u>4</u>

	<u>Seniority Premiums</u>			<u>Life insurance</u>
	<u>Retirement</u>	<u>Termination</u>	<u>Total</u>	
Projected asset (liability), net at December 31, 2011	\$ 2	(7)	(5)	4
Net period cost 2012	(4)	(2)	(6)	(7)
Contributions to fund during 2012	4	2	6	7
Income recognition of actuarial gains and losses generated in the year	<u>–</u>	<u>(1)</u>	<u>(1)</u>	<u>–</u>
Projected asset (liability), net at December 31, 2013	\$ <u>2</u>	<u>(8)</u>	<u>(6)</u>	<u>4</u>

Return on plan assets for the years 2013 and 2012, is \$2 in both years.

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During 2014, is expected to be contributed \$17 to the fund that covers labor obligations.

The present value of the statutory severance benefit obligations as of December 31, 2013 and 2012 are as follow:

	<u>2013</u>	<u>2012</u>
ABO (Acquired Benefits Obligation)	\$ <u>(363)</u>	<u>(411)</u>
DBO and net projected liability	\$ <u>(363)</u>	<u>(411)</u>

The net cost (income) for the statutory severance for the years ended December 31, 2013 and 2012 amounted to \$(48) and \$38, respectively.

The nominal rates used in the actuarial projections for the years ended December 31, 2013 and 2012 are:

	<u>2013</u>	<u>2012</u>
Yield on plan assets	7.75%	8.00%
Discount rate	8.75%	8.00%
Rate of increase in compensation	5.00%	5.00%
Estimated inflation rate	<u>4.00%</u>	<u>4.00%</u>

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

At December 31, 2013, the amortization period of unrecognized defined benefits for seniority premium benefits, life insurance and statutory severance, is as follows:

	<u>Seniority premiums</u>		<u>Life insurance</u>	<u>Severance indemnities</u>
	<u>Retirement</u>	<u>Termination</u>	<u>Retirement</u>	<u>Termination</u>
Prior service for transition liability actuarial (gain) or loss	<u>9.78</u>	<u>1</u>	<u>12.8</u>	<u>1</u>

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(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, 2013 and 2012, 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, 2013, 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, 2013 the capital contribution account (CUCA) and the tax basis retained earnings account (CUFIN) amount to \$3,337 and \$153,432, respectively.

(c) Dividends declared-

During 2013, the Management Company declared and paid dividends as follows:

<u>Declared date</u>	<u>Declared amount</u>	<u>Payment date</u>	<u>Amount paid</u>
13-nov-13	\$ 20,965	21-nov-13	\$ 20,965
13-nov-13	37,000	2-nov-13	37,000
23-aug-13	19,367	30-aug-13	19,367
24-may-13	19,333	31-may-13	19,333
<u>12-apr-13</u>	<u>370,000</u>	<u>23-apr-13</u>	<u>370,000</u>
	\$ <u>466,665</u>		\$ <u>466,665</u>

At December 31, 2013 there are no pending dividend payments.

For the year ended December 31, 2012 there was no declared nor payment dividends.

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(10) Income taxes (IT)-

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

The expense for income taxes is comprised as follows:

	<u>2013</u>	<u>2012</u>
Current Tax	\$ 66,095	48,654
Cancellation of 2012 tax provision	(62)	-
Deferred tax	<u>(52)</u>	<u>(14)</u>
	\$ <u>65,981</u>	<u>48,640</u>

At December 31, 2013 and 2012, the deferred IT asset is analyzed below:

	<u>2013</u>	<u>2012</u>
Asset (liability):		
Accruals	\$ 1,637	1,476
Prepaid expenses	<u>(15)</u>	<u>(27)</u>
	1,622	1,449
Rate	<u>30%</u>	<u>30%</u>
Deferred IT	\$ <u>487</u>	<u>435</u>

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The net favorable effect in the statement of income of deferred IT for the years ended December 31, 2013 and 2012 is analyzed below:

	<u>2013</u>	<u>2012</u>
Accruals	\$ (48)	(16)
Prepaid expenses	<u>(4)</u>	<u>2</u>
Deferred IT in the statement of income	\$ <u>(52)</u>	<u>(14)</u>

The following is an analysis of the effective tax rate for the fiscal years ended at December 31, 2013 and 2012:

	<u>Tax basis</u>	<u>IT</u>	
		<u>Tax at 30%</u>	<u>Effective rate</u>
<u>December 31, 2013</u>			
Income before income taxes	\$ 228,665	(68,600)	(30%)
<i>Allocation to current tax:</i>			
Adjustment for effects of inflation	(9,833)	2,950	1%
Accruals, net	161	(48)	-
Taxable income	113	(34)	-
Non-deductible expenses	1,235	(371)	-
Others, net	<u>(25)</u>	<u>8</u>	<u>-</u>
Current tax, to the next page	\$ <u>220,316</u>	<u>(66,095)</u>	<u>(29%)</u>

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	<u>Tax basis</u>	<u>Tax at 30%</u>	<u>IT Effective rate</u>
Current tax, from the previous page	\$ 220,316	(66,095)	(29%)
<i>Allocation to deferred taxes: (30% rate)</i>			
Prepaid expenses	(11)	4	—
Accruals	<u>(161)</u>	<u>48</u>	<u>—</u>
Deferred tax	<u>(172)</u>	<u>52</u>	<u>—</u>
Income tax	\$ <u>220,144</u>	<u>(66,043)</u>	<u>(29%)</u>
<u>December 31, 2012</u>			
Income before income taxes	\$ 176,415	(52,924)	(30%)
<i>Allocation to current tax:</i>			
Adjustment for effects of inflation	(14,275)	4,282	2%
Accruals, net	41	(12)	—
Non-taxable income	(225)	68	—
Non-deductible expenses	253	(76)	—
Others, net	<u>(28)</u>	<u>8</u>	<u>—</u>
Current tax	<u>162,181</u>	<u>(48,654)</u>	<u>(28%)</u>
<i>Allocation to deferred taxes: (30% rate)</i>			
Prepaid expenses	10	(3)	—
Accruals	<u>(57)</u>	<u>17</u>	<u>—</u>
Deferred tax	<u>(47)</u>	<u>14</u>	<u>—</u>
Income tax	\$ <u>162,134</u>	<u>(48,640)</u>	<u>(28%)</u>

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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.

Tax Environment:

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

In such decree, the IETU Law and the IT Law in effect as of December, 2013, were repealed and a new IT Law was enacted.

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

- The dividends paid to individuals and corporations resident abroad, shall be subject to an additional tax of 10%, which is considered final and must be retained by entities that distributes such dividends. The new rule solely applies to dividends payment from earnings generated beginning to January 1, 2014.
- A tax of 10% over the earnings obtained by individuals and residents abroad from the sale of shares listed on the stock exchange is established.
- The deductible amount of wage expenses that are exempted income for the worker will be deductible for only 47% and in some cases until 53%.

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(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. Most of these transactions originates income and expenses to each other. 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, 2013 and 2012, are shown below:

<u>Other related parties</u>	<u>2013</u>	<u>2012</u>
Revenues from:		
Fee and commission income	\$ <u>864,299</u>	<u>810,719</u>
Expenses for:		
Co-distribution and administrative services (fee and commission expense)	\$ 652,587	615,788
Financial advisory	25,455	23,976
Administrative fees	<u>33</u>	<u>23</u>

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Balances from related parties as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<u>Other related parties</u>		
<u>Receivable:</u>		
Cash and cash equivalents	\$ 10	10
Investments securities	148,910	452,760
Other accounts receivable	<u>83,480</u>	<u>69,384</u>
<u>Payable:</u>		
Other accounts payable	\$ <u>57,484</u>	<u>52,834</u>

For the years ended December 31, 2013 and 2012, there were no modifications to the actual conditions of the accounts receivable from and payable to related parties. Additionally, there were no items considered non-receivable or unlikely to collect, therefore no reserve was deemed.

For the year ended December 31, 2013 and 2012, the benefits granted to management amounted to \$ 4,553 and \$ 5,169 respectively.

(12) Memorandum accounts-

Assets in custody or under management

The transactions on behalf of third parties that the Management Company holds at December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Customer banks		
(Short term investments)	\$ 3,174	3,300
Securities holdings		
(Investment securities)	74,096,286	65,717,387
Debt Instruments		
(Mutual funds)	63,271,834	56,917,332
Common instruments		
(Mutual funds)	<u>10,870,532</u>	<u>8,772,354</u>
	\$ <u>148,241,826</u>	<u>131,410,373</u>

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(13) Risk management (unaudited)-

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 disposition in terms of risk management issued by the Banking 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).

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.

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The underlying market risk for the SCOTIAG Fund 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, 2013. 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, 2013 and 2012, levels of market risk VaR of Management Company are 0.006% and 0.005% with respect to net asset, respectively.

For example, at December 2013, if the VaR value for 1 day is used with 95% confidence level in accordance with the net assets of 0.006% and consider that the mutual fund “SCOTIAG” has net assets of \$17,912,536.9 at the same date, the maximum expected loss in 1 of 20 days of market operation ($1/20=5\%$), could be higher or equal to \$1,074.8, under normal conditions market.

Liquidity risk

The underlying liquidity risk for the SCOTIAG Fund 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, 2013 and 2012, the liquidity risk was 0.018% and 0.035% with respect to net asset, respectively.

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For the liquidity risk result at December 31, 2013, the loss that might arise from the sale of a position at unusual discounts due to extraordinary market conditions (exogenous liquidity risk) of all issuances contained in the mutual fund SCOTIAG is 0.018% on net assets, that is \$ 3,224.3.

Credit risk

Credit risk is defined as the potential loss due to default by an issuer or counterparty in transactions carried out by the fund management companies, including agreed real or personal guarantees, as well as any mitigation mechanism used by these investment companies. The SCOTIAG fund is comprised of government securities, therefore no credit risk arises.

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 below.

Policies for operational risk non-discretionary 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 Bank'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 establish mitigation of the risks identified.

The operating loss of the Management Company for the year ended December 31, 2013 amounts to \$1,252 in five events and for 2012 amounts to \$25 in 4 events.

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.

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.

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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, 2013 and 2012, 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 channel 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.

At December 31, 2013 and 2012, the Management Company does not record contingencies technological risk.

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(14) Recently issued accounting standards-

The CINIF has issued the MFRS and Improvements listed below, which will not have effect in the financial statements of Management Company, given that there is specific accounting criteria issued by the Commission applicable to management fund companies.

MFRS C-3 “Accounts Receivable”- It is effective for years beginning January 1, 2016, and is applicable retrospectively; however, early adoption is permitted beginning January 1, 2015. Some of the primary changes that present this MFRS are as follows:

- It is provided that accounts receivable based on a contract are deemed financial instruments. On the other hand, some other accounts receivable, resulting from legal or tax provisions, may include certain characteristics of a financial instrument, such as bearing interest, though these are not deemed financial instruments.
- It is set out that the allowance for doubtful trade receivables shall be recognized as revenue is earned. Thus, the allowance shall be recorded as expenses in the statement of comprehensive income.
- It is provided that, from the initial recognition, the money value in time shall be considered. Therefore, should the effect of the present value of the account receivable be significant in view of its term, an adjustment must be made taking into consideration such present value.
- A reconciliation between the initial and final balances of the allowance for doubtful accounts is required for each period presented.

It is not expected that the entry into force of the above MFRS, has an effect on the financial statements of the Management Company, to be rules of the Commission thereof.

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MFRS C-11 “*Stockholders’ equity*”- It is effective for years beginning January 1, 2014, and is applicable retrospectively and supersedes Bulletin C-11 “*Stockholders’ equity*” and Circular 38 “*Temporary acquisition of treasury stock*” and Circular 40 “*Accounting treatment of stock issuance and placement costs*”. Some of the main aspects resulting from the adoption of this FRS are as follows:

- It requires that in order to capitalize the advances for future capital stock increases, at the stockholders’ or partners’ meeting it shall be agreed that such advances be applied for future capital stock increases and also, the price per share to be issued pursuant to such contributions shall be fixed. Furthermore, it shall be agreed that these contributions shall not be refunded before being capitalized.
- MFRS C-11 broadly identifies financial instruments with characteristics of equity which would otherwise, be regarded as liabilities. However, the specific standard that classifies financial instruments as either equity or liabilities, within the same compound financial instrument, is MFRS C-12 “*Financial instruments with characteristics of liabilities and equity*”.

The Commission has not acted on its adherence to this new standard.

MFRS C-12 “*Financial instruments with characteristics of liabilities and equity*”- It is effective for years beginning January 1, 2014, and is applicable retrospectively and supersedes Bulletin C-12 “*Financial instruments with characteristics of liabilities, equity or both*”, and the provisions regarding these instruments under Bulletin C-2 “*Financial instruments*”. Some of the main aspects resulting from the adoption of this MFRS are as follows:

- It is set forth that the primary characteristic to be met for a financial instrument to be classified as an equity instrument, is that its holder be exposed to the entity’s risk and rewards rather than the right to charge the entity a fixed amount.
- By exception, if certain conditions apply and, provided there is no other obligation virtually assured to require payment to the holder, a redeemable instrument is classified as equity.

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- The subordination concept is included.

The Commission has not acted on its adherence to this new standard.

2014 Improvements to MFRS-

In December 2013 the CINIF published a document called “Improvements to 2014 MFRS, which contains specific amendments to certain existing MFRS. The improvements that produce accounting changes are as follows:

MFRS C-5 “Prepayments”-

The Commission has not acted on its adherence to this new standard.

Bulletin C-9 “Liabilities, provisions, contingent assets and liabilities and commitments”.

MFRS D-3 “Employee benefits”-

Management estimates that the improvements to MFRS will be immaterial on your financial position.