

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

Financial Statements

December 31, 2005 and 2004

(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 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, 2005.

I have attended the stockholders' and board of directors' meetings to which I have been called, 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 portfolio valuation of the Management Company as of December 31, 2005, and the related statements of operations, changes in stockholders' equity and changes in financial position 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.

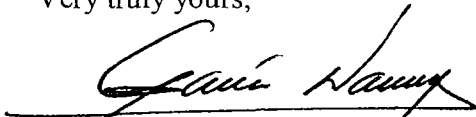
The Management Company is required to prepare and present its financial statements in accordance with the accounting criteria established by the National Banking and Securities Commission ("the Commission") for mutual fund management companies in Mexico, which in general conform to accounting principles generally accepted in Mexico, issued by the Mexican Institute of Public Accountants.

As discussed in note 1 to the financial statements, the Management Company is mainly engaged in the provision of administrative, distribution, valuation and promotional services as well as in portfolio management of mutual funds that are part of the Grupo Financiero Scotiabank Inverlat, S. A. de C. V. During 2005 and 2004, 100% of the Management Company's service revenues resulted from the foregoing.

(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 appropriate and sufficient in the circumstances, and have been applied on a basis consistent with that of the preceding year. Accordingly, such information is a fair, reasonable and sufficient representation of the financial position and portfolio valuation of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat as of December 31, 2005, and of the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the year then ended, in conformity with the accounting criteria established by the Commission for mutual fund management companies in Mexico.

Very truly yours,



Guillermo García-Naranjo A.
Statutory Auditor

Mexico City, February 10, 2006.



KPMG Cárdenas Dosal
Bosque de Duraznos 55
Col. Bosques de las Lomas
11700 México, D.F.

Teléfono: + 01 (55) 52 46 83 00
Fax: + 01 (55) 55 96 80 60
www.kpmg.com.mx

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 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, 2005 and 2004, and the related statements of operations, changes in stockholders' equity and changes in financial position 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in accordance with the accounting criteria for mutual fund management companies in Mexico. An audit consists of examining, on a test basis, the evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting criteria used and the 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 mutual fund management companies in Mexico, which in general conform to accounting principles generally accepted in Mexico, issued by the Mexican Institute of Public Accountants.

As discussed in note 1 to the financial statements, the Management Company is mainly engaged in the provision of administrative, distribution, valuation and promotional services as well as in portfolio management of mutual funds that are part of the Grupo Financiero Scotiabank Inverlat, S. A. de C. V. During 2005 and 2004, 100% of the Management Company's service revenues resulted from the foregoing.

(Continued)

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and portfolio valuation of Scotia Fondos, S. A. de C. V., Sociedad Operadora de Sociedades de Inversión, Grupo Financiero Scotiabank Inverlat as of December 31, 2005 and 2004, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the years then ended, in conformity with the accounting criteria established by the Commission for mutual fund management companies in Mexico, as described in note 2 to the financial statements.

KPMG CARDENAS DOSAL, S. C.



Alejandro De Alba Mora.

February 10, 2006.

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

Balance Sheets

December 31, 2005 and 2004

(Thousands of constant Mexican pesos as of December 31, 2005, except otherwise stated)

Assets	<u>2005</u>	<u>2004</u>	Liabilities and Stockholders' Equity	<u>2005</u>	<u>2004</u>
Cash and equivalents (note 6)	\$ 29	23	Other accounts payable:		
Investment securities:			Sundry creditors and other		
Trading	21,385	11,929	accounts payable (note 6)	\$ 31,311	29,452
Accounts receivable (note 6)	30,082	29,001	Income tax and employee statutory		
Furniture and equipment, net	6	40	profit sharing payable	<u>3,582</u>	<u>1,729</u>
Deferred taxes (note 5)	1,417	1,273	Total liabilities	<u>34,893</u>	<u>31,181</u>
Other assets	894	69	Stockholders' equity (note 4):		
			Paid-in capital:		
			Capital stock	<u>2,392</u>	<u>2,392</u>
			Earned capital:		
			Statutory reserves	423	195
			Retained earnings	8,339	3,627
			Net income	<u>7,766</u>	<u>4,940</u>
				<u>16,528</u>	<u>8,762</u>
			Total stockholders' equity	<u>18,920</u>	<u>11,154</u>
Total assets	\$ <u>53,813</u>	<u>42,335</u>	Total liabilities and stockholders' equity	\$ <u>53,813</u>	<u>42,335</u>

Memorandum accounts

	<u>2005</u>	<u>2004</u>
Authorized capital stock (nominal)	\$ 2,000	2,000
Other contingent liabilities	994	938
Transactions on behalf of third parties	<u>44,448,802</u>	<u>38,703,002</u>
Number of shares issued	<u>2,000,000</u>	<u>2,000,000</u>

See accompanying notes to financial statements.

"These balance sheets were prepared in accordance with the accounting criteria for mutual fund management companies issued by the National Banking and Securities Commission based on Articles 76, 77, 79 and 80, first paragraph and fraction I of the Investment Companies Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Management Company through the dates indicated above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

"The historical capital stock amounts to \$2,000,000".

Ricardo M. Herrerías Zamacona
General Director

Gordon Macrae
Director of Group Accounting

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

Statements of Portfolio Valuation

December 31, 2005 and 2004

(Thousands of constant Mexican pesos as of December 31, 2005)

	<u>Series</u>	<u>Type of security</u>	<u>Valuation rate</u>	<u>Type of rate</u>	<u>Rating or liquidity</u>	<u>Number of securities</u>	<u>Total securities of the issue</u>	<u>Average unit acquisition cost (in pesos)</u>	<u>Total acquisition cost</u>	<u>Unit fair or accounting value (in pesos)</u>	<u>Total fair or accounting value</u>	<u>Days to maturity</u>
<u>December 31, 2005</u>												
<u>Trading securities</u>												
Shares in mutual funds:												
Scotia G	B	51	-	TR	-	764,951	84,148,390	27.874160	\$ <u>21,322</u>	27.956519	\$ <u>21,385</u>	-
<u>December 31, 2004</u>												
<u>Trading securities</u>												
Shares in mutual funds:												
Scotia 5	B	51	-	TR	-	231,987	196,056,876	1.034530	\$ 240	1.084754	\$ 251	-
Scotia G	B	51	-	TR	-	440,039	68,644,340	25.515920	11,228	25.772232	11,341	-
Restatement for inflation to constant pesos									-		337	
Total trading securities									\$ <u>11,468</u>		\$ <u>11,929</u>	

See accompanying notes to financial statements.

"These statements of portfolio valuation were prepared in accordance with the accounting criteria for mutual fund management companies issued by the National Banking and Securities Commission based on Articles 76, 77, 79 and 80, first paragraph and fraction I of the Investment Companies Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the investment transactions carried out by the Management Company as of 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 statements of portfolio valuation were approved by the Board of Directors under the responsibility of the following officers".

Ricardo M. Herrerías Zamacona
General Director

Gordon Macrae
Director of Group Accounting

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

Statements of Operations

Years ended December 31, 2005 and 2004

(Thousands of constant Mexican pesos as of December 31, 2005)

	<u>2005</u>	<u>2004</u>
Income from services (note 6a.)	\$ 297,332	304,195
Income from securities' transactions	1,430	564
Valuation gain on securities	62	132
Interest income	5	3
Monetary position gain (loss), net	<u>57</u>	<u>(385)</u>
 Total operating income	 298,886	 304,509
 Administrative expenses (notes 6b. and 6c.)	 <u>(285,476)</u>	 <u>(294,278)</u>
 Operating income	 13,410	 10,231
 Other income	 235	 182
Other expense	<u>(1,314)</u>	<u>(1,517)</u>
 Income before income tax (IT) and employee statutory profit sharing (ESPS)	 12,331	 8,896
 Current IT and ESPS (note 5)	 <u>(4,709)</u>	 <u>(3,811)</u>
Deferred IT and ESPS (note 5)	<u>144</u>	<u>(145)</u>
 Net income	 <u>\$ 7,766</u>	 <u>4,940</u>

See accompanying notes to financial statements.

"These statements of operations were prepared in accordance with the accounting criteria for mutual fund management companies issued by the National Banking and Securities Commission based on Articles 76, 77, 79 and 80, first paragraph and fraction I of the Investment Companies Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect the revenues and disbursements relating to the transactions carried out by the Management Company for the years indicated above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

 Ricardo M. Herrerías Zamacona
 General Director

 Gordon Macrae
 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, 2005 and 2004

(Thousands of constant Mexican pesos as of December 31, 2005)

	<u>Capital stock</u>	<u>Statutory reserves</u>	<u>Retained earnings</u>	<u>Net income</u>	<u>Total stockholders' equity</u>
Balances as of December 31, 2003	\$ 2,392	34	557	3,231	6,214
Item related to stockholder decisions:					
Appropriation of prior year's income	-	161	3,070	(3,231)	-
Item related to comprehensive income:					
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,940</u>	<u>4,940</u>
Balances as of December 31, 2004	2,392	195	3,627	4,940	11,154
Item related to stockholder decisions:					
Appropriation of prior year's income	-	228	4,712	(4,940)	-
Item related to comprehensive income:					
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,766</u>	<u>7,766</u>
Balances as of December 31, 2005	\$ <u>2,392</u>	<u>423</u>	<u>8,339</u>	<u>7,766</u>	<u>18,920</u>

See accompanying notes to financial statements.

"These statements of changes in stockholders' equity were prepared in accordance with the accounting criteria for mutual fund management companies issued by the National Banking and Securities Commission based on Articles 76, 77, 79 and 80, first paragraph and fraction I of the Investment Companies Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Management Company for the years indicated above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

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

Ricardo M. Herrerías Zamacona
General Director

Gordon Macrae
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 Financial Position

Years ended December 31, 2005 and 2004

(Thousands of constant Mexican pesos as of December 31, 2005)

	<u>2005</u>	<u>2004</u>
Operating activities:		
Net income	\$ 7,766	4,940
Add charges (deduct credits) to operations not requiring (providing) funds:		
Depreciation	12	26
Valuation of securities	(62)	(132)
Deferred income tax and employee statutory profit sharing	<u>(144)</u>	<u>145</u>
Funds provided by operations	7,572	4,979
Changes in operating accounts:		
Investment securities	(9,394)	(2,522)
Accounts receivable	(1,081)	1,918
Other assets	(825)	46
Other accounts payable	<u>3,712</u>	<u>(4,422)</u>
Funds used in operating activities	(16)	(1)
Funds provided by investment activities from disposal of furniture and equipment	<u>22</u>	<u>-</u>
Increase (decrease) in cash and equivalents	6	(1)
Cash and equivalents:		
At beginning of year	<u>23</u>	<u>24</u>
At end of year	\$ <u><u>29</u></u>	<u><u>23</u></u>

See accompanying notes to financial statements.

"These statements of changes in financial position were prepared in accordance with the accounting criteria for mutual fund management companies issued by the National Banking and Securities Commission based on Articles 76, 77, 79 and 80, first paragraph and fraction I of the Investment Companies Law, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the sources and applications funds relating to the transactions carried out by the Management Company for the years indicated above. Furthermore, the transactions were carried out and valued in accordance with sound practices and the applicable legal and administrative provisions."

"These statements of changes in financial position were approved by the Board of Directors under the responsibility of the following officers"

 Ricardo M. Herrerías Zamacona
 General Director

 Gordon Macrae
 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, 2005 and 2004

(Thousands of constant Mexican pesos as of December 31, 2005)

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

(1) Description of business-

Activity-

Scotia Fondos, S. A. de C. V. (“the Management Company”) is a mutual fund management company that began operating on December 5, 2001 and is engaged in providing administrative, distribution, valuation, promotional and management services to the mutual funds of Grupo Financiero Scotiabank Inverlat, S. A. de C. V.; during 2005 and 2004, 100% of the Management Company’s service revenues resulted from the such funds, which are as follows:

- Scotia Disponibilidad, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 1, previously known as Scotia Liquidez para Personas Físicas, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda)
- Scotia Rendimiento, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 2)
- Scotia Cobertura, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 3)
- Scotia Liquidez Periódica, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 4)
- Scotia Patrimonial, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 5)
- Scotia Inversiones, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia 6)
- Scotia Indizado, S. A. de C. V., Sociedad de Inversión de Renta Variable (Scotia 7)
- Scotia Productivo, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scoti 10)
- Scotia Plus, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scoti 11)
- Scotia Estratégico, S. A. de C. V., Sociedad de Inversión de Renta Variable (Scoti 12)
- Scotia Crecimiento, S. A. de C. V., Sociedad de Inversión de Renta Variable (Scoti 14)
- Scotia Liquidez, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia A, previously known as Scotia Liquidez para Personas Morales, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda para Personas Morales)
- Scotia Previsional de Liquidez Restringida, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia C, previously known as Scotia previsional de Liquidación Restringida, S. A. de C. V., Sociedad de Inversión Especializada de Deuda para Personas Morales)

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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 constant Mexican pesos as of December 31, 2005)

- Scotia para no Contribuyentes, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia D, previously known as Scotia para no Contribuyentes, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda para Personas Morales)
- Scotia Gubernamental, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia G, previously known as Scotia Gubernamental para Personas Morales, S. A. de C. V., Sociedad Especializada de Deuda para personas Morales)
- Scotia Mercado de Dinero, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Scotia P, previously known as Scotia Mercado de Dinero, S. A. de C. V., Sociedad de Inversión de Renta Variable)
- Scotia Internacional, S. A. de C. V., Sociedad de Inversión de Renta Variable (Scotin T)
- FINDE 1, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Finde 1)

(2) Summary of significant accounting policies-

(a) Basis of presentation and disclosure-

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

In general, the accounting criteria established by the Commission conform to accounting principles generally accepted in Mexico (“Mexican GAAP”), issued by the Mexican Institute of Public Accountants (IMCP, see note 7).

For cases not contemplated therein, the accounting criteria include a process which provides for the supplementary use of other accounting principles and standards, in the following order: Mexican GAAP; International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board; accounting principles generally accepted in the United States of America (“US GAAP”); or in cases not covered by these principles and standards, any other formal and recognized accounting standards that do not contravene the general criteria of the Commission.

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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 constant Mexican pesos as of December 31, 2005,
except value of UDI)

The financial statements of the Management Company are expressed in Mexican pesos of constant purchasing power as of the most recent balance sheet date, using the Investment Unit (UDI) value, which is a unit of measurement whose value is determined by the Banco de México (Central Bank) based on inflation. The UDI values used are as follows:

<u>December 31</u>	<u>UDI</u>	<u>Annual inflation</u>
2005	\$ 3.637532	2.91%
2004	3.534716	5.45%
2003	3.352003	3.91%

The preparation of the financial statements requires management to make a number of estimates and assumptions relating to 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. Actual results could differ from those estimates and assumptions.

(b) *Cash and equivalents-*

This caption includes cash and bank account balances in local currency.

(c) *Investment securities-*

Investment securities include shares issued by the mutual funds to which the Management Company provides services, which are classified as trading securities according to management's investment intentions. Trading securities are initially recorded at cost and subsequently marked to market according to information provided by an independent price vendor. Valuation adjustments are reflected in the statement of operations, under "Valuation gain on securities".

(d) *Furniture and equipment-*

Furniture and equipment are initially recorded at their acquisition cost, and restated for inflation by applying UDI factors. Depreciation is calculated on the restated asset values using the straight-line method over the estimated useful lives of the assets.

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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 constant Mexican pesos as of December 31, 2005)

(e) Income tax (IT) and employee statutory profit sharing (ESPS)-

Deferred IT is accounted for under the asset and liability method, which compare the accounting and tax values. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary 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.

Deferred ESPS is recognized for temporary differences arising from the reconciliation between accounting income and income for ESPS purposes, on which it may reasonably be estimated that a future liability will arise and there is no indication that the liability will not materialize.

(f) Pensions, seniority premiums, post-retirement benefits and obligations for payments upon termination of labor relationship-

The Management Company has established a non-contributory pension plan, for which all employees who reach 65 years of age with at least 10 years of service are eligible. The pension plan also covers seniority premium benefits to which employees are entitled under the Federal Labor Law.

The net periodic cost and accrued liabilities for pensions and seniority premiums and post-retirement benefits, are reflected in results of operations for the year, based on independent actuarial computations which use the projected unit credit method and real interest rates in accordance with Mexican GAAP Bulletin D-3.

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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 constant Mexican pesos as of December 31, 2005)

Beginning January 1, 2005, Bulletin D-3 issued by the Mexican Institute of Public Accountant establishes a new provision that includes a reserve for compensation to employees upon termination of the labor relationship (severance liability), for reasons other than restructuring. Up until December 31, 2004, all other compensation to which employees were entitled in case of employment termination or disability were charged to operations as incurred. The effect of this change on the results of operations for the year is immaterial.

(g) *Restatement of capital stock, statutory reserves and retained earnings-*

This restatement is determined by multiplying stockholder contributions, statutory reserves and retained earnings, by UDI factors, which measure accumulated inflation from the dates contributed or earned, through the most recent year end. The resulting amounts represent the constant value of stockholders' equity.

(h) *Monetary position gain or loss-*

The Management Company recognizes in income the effect (gain or loss) in the purchasing power of its monetary position, which is calculated by multiplying the difference between monetary assets and liabilities at the beginning of each month by the monthly change in the UDI value. The aggregate of such monthly results, which is also restated using the UDI value at year end, represents the monetary gain or loss attributable to inflation, which is recorded in results of operations.

(i) *Service income and expenses-*

Fees relating to services rendered, or expenses incurred, are recognized at the time the services are provided or received.

(Continued)

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

Notes to Financial Statements

(Thousands of constant Mexican pesos as of December 31, 2005,
except otherwise stated)

(j) Contingencies-

Obligations 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.

(3) Pensions, seniority premiums, post-retirement benefits and obligations for payments upon termination of labor relationship-

Beginning January 1, 2005, the Management Company adopted Mexican GAAP Bulletin D-3, *Labor Obligations*, issued by the Mexican Institute of Public Accountants, which requires the recognition of a liability for compensation to employees upon termination of the labor relationship before retirement age (severance liability) for reasons other than restructuring, as determined by independent actuarial computations, based on the projected unit credit method using real interest rates. On adoption and in conformity with the option established, the Management Company recognized an unamortized asset and a liability of \$877 and an increase in expenses for the year of \$132. Amortization is based on the estimated average service lives of the employees entitled to such compensation.

The Management Company has a defined benefit seniority premium and pension plan covering substantially all of its employees. The benefits are based on years of service and the employees' compensation during the five years prior to retirement.

The cost, obligations and contributions to the fund of pension, seniority premiums, post-retirement medical benefits, life insurance and food coupon plans for retirees plans, were determined as of December 31, 2005 and 2004 based on computations made by independent actuaries and are analyzed in the following paragraphs.

The components of the net period cost for the years ended December 31, 2005 and 2004 are shown on the next page (nominal pesos).

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

Notes to Financial Statements

(Thousands of constant Mexican pesos as of December 31, 2005,
except otherwise stated)

	Pensions and seniority premiums		Medical benefits, life insurance and food coupons for retirees	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Service cost	\$ 101	115	18	15
Interest cost	37	39	6	5
Return on plan assets	(37)	(36)	(4)	(4)
Amortization of transition liability	(1)	3	6	5
Variances in assumptions and adjustments for experience	<u>1</u>	<u>(1)</u>	<u>1</u>	<u>(1)</u>
Net period cost	\$ 101	120	27	20
	===	===	===	===
Projected benefit obligations (PBO)	\$ 917	973	162	114
Plan assets at market value	<u>(903)</u>	<u>(848)</u>	<u>(81)</u>	<u>(91)</u>
PBO in excess of plan assets	14	125	81	23
Unamortized items:				
Prior services and plan modifications	(79)	(147)	(25)	16
Transition asset (liability)	<u>22</u>	<u>22</u>	<u>(35)</u>	<u>(39)</u>
Net projected (asset) liability	\$ (43)	-	21	-
	===	===	===	===
Actual benefit obligations:				
Plan assets	\$ 822	815	-	-
	<u>(903)</u>	<u>(848)</u>	<u>-</u>	<u>-</u>
Net asset	\$ <u>(81)</u>	<u>(33)</u>	<u>-</u>	<u>-</u>
Additional liability	\$ -	-	-	-
	===	===	===	===

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At December 31, 2005, severance liabilities are analyzed as follows:

PBO	\$	900
Plan assets at market value		<u>—</u>
PBO in excess of plan assets		900
Unamortized items:		
Transition asset		<u>(837)</u>
Net projected liability	\$	63
		<u>===</u>
Actual severance liabilities	\$	828
Plan assets		<u>—</u>
Net liability	\$	<u>828</u>
Additional liability	\$	765
		<u>===</u>

The net periodic cost for severance benefits amounted to \$188.

Below is an analysis of the movements of the plan assets to meet the labor obligations for the year ended December 31, 2005 (nominal):

Balance at beginning of year	\$	770
Contributions to the fund		134
Return on plan assets		<u>80</u>
Balance at year end	\$	<u>984</u>
		<u>===</u>

Rates used in the actuarial projections are:

	<u>2005</u>	<u>2004</u>
Yield on plan assets	5.0%	5.0%
Discount rate	5.0%	5.0%
Rate of increase in compensation	0.5%	0.5%
Medical expense increase rate	3.0%	3.0%
Estimated inflation rate	4.5%	4.0%
	<u>=====</u>	<u>=====</u>

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

For fiscal 2005, the amortization period of unrecognized items is of 22.87 years for pensions, 21.22 years for medical expenses, food vouchers and life insurance of retirees, 12.47 years for seniority premium and 10.96 years for severance benefits.

(4) 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, 2005 and 2004, the capital stock is represented by 2,000,000 common, nominative, fully subscribed and paid shares, with a par value of one peso each, divided into 1,000,000 shares corresponding to the minimum fixed portion of capital stock (Series "A") and 1,000,000 shares corresponding to the variable portion of 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.

Stockholder contributions and retained earnings are subject to income tax on the amounts distributed or refunded that exceed the amounts determined for tax purposes.

(5) Income (IT) and asset (AT) taxes and employee statutory profit sharing (ESPS)-

Under current Mexican tax regulations, corporations must pay the greater of their IT or AT. For determining taxable income, there are specific rules as to the deductibility of expenses and the recognition of the effects of inflation.

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The AT Law provides for a 1.8% tax on assets, less certain liabilities. The Management Company was not liable to AT during 2004, since, in accordance with the current Mexican tax law, companies during their pre-operating period, first year of operations and the two succeeding years, are exempt from AT. AT incurred for fiscal 2005 amounted to \$372.

During fiscal 2005, the Management Company obtained a favorable resolution to compute ESPS using as a basis the taxable income for IT purposes. Up until 2004, the Management Company computed ESPS on the basis of taxable income without recognizing the effects of inflation.

Following is a condensed reconciliation for the years ended December 31, 2005 and 2004, between accounting income before IT and ESPS and income for IT and ESPS purposes (nominal pesos):

	<u>2005</u>	<u>2004</u>	
	<u>IT and ESPS</u>	<u>IT</u>	<u>ESPS</u>
Income before IT and ESPS	\$ 12,331	8,644	8,644
Accounting effects of inflation	193	137	137
Tax effects of inflation, net	(597)	(597)	-
Accrued expenses	(194)	46	46
Non-deductible expenses	107	240	240
Valuation gain on securities	(63)	(125)	(125)
Non-taxable income	(160)	-	-
Other, net	<u>(60)</u>	<u>(112)</u>	<u>(109)</u>
Taxable income	\$ <u>11,557</u>	<u>8,233</u>	<u>8,833</u>
IT (30% and 33% in 2005 and 2004, respectively) and ESPS (10%)	\$ 4,623	2,717	883
Restatement effect	<u>86</u>	<u>185</u>	<u>26</u>
IT and ESPS expense	\$ <u>4,709</u>	<u>2,902</u>	<u>909</u>
		\$ <u>3,811</u>	

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Deferred tax assets as of December 31, 2005 and 2004 of \$1,417 and \$1,273, respectively, are mainly comprised of temporary differences arising from accrued expenses and prepaid expenses.

Other considerations

In accordance with the IT Law in force for fiscal 2005, the IT rate is 30% and will decrease to 29% and 28% in 2006 and 2007, respectively.

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.

(6) Related-party transactions and balances-

During the normal course of business, the Management Company carries out transactions with related parties, receives and provides services, leases offices and renders administrative services.

Balances receivable from and payable to related parties as of December 31, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
<u>Cash and equivalents:</u>		
Scotiabank Inverlat, S. A., Institución de Banca Múltiple	\$ 27	21
	=====	=====

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	<u>2005</u>	<u>2004</u>
<u>Accounts receivable:</u>		
Mutual funds	\$ 25,771 =====	24,115 =====
<u>Accounts payable:</u>		
Scotiabank Inverlat, S. A., Institución de Banca Múltiple	\$ 8,250	6,190
Scotia Inverlat Casa de Bolsa, S. A. de C. V. (“the Brokerage Firm”)	<u>13,616</u>	<u>14,831</u>
	\$ 21,866 =====	21,021 =====

Transactions:

- a) The Management Company has entered into agreements for providing management services to the mutual funds. Income from these services for the years ended December 31, 2005 and 2004 amounted to \$297,332 and \$304,195, respectively.
- b) The Management Company receives administrative services from the Brokerage Firm, which include the lease of office space, computer and communication systems and office furniture and equipment; accounting, legal and administrative services; stock certificate deposit and custody and any other indispensable services required for its operations. Total expense for such services for the years ended December 31, 2005 and 2004 amounted to \$11,490 and \$11,593, respectively.
- c) The Management Company receives services for the distribution of shares of the managed mutual funds from the Brokerage Firm and the Bank. Expenses for such services for the years ended December 31, 2005 and 2004 amounted to \$240,996 and \$250,076, respectively.

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(7) Recently issued accounting standards-

Through May 2004, the Accounting Principles Commission (Comisión de Principios de Contabilidad or CPC) of the IMCP was responsible for issuing accounting standards in Mexico. Those standards are contained in the Bulletins of Generally Accepted Accounting Principles (Bulletins), which are deemed to be standards, and in the Circulars, that are regarded as opinion or interpretations.

Beginning June 1, 2004, the aforementioned function was transferred to the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF). CINIF is an entity whose objectives are to develop Financial Reporting Standards (FRS) in Mexico, that are useful to both issuers and users of financial information, as well as to achieve as much consistency as possible with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board.

Through December 2005, CINIF has issued eight series A and one Series B Financial Reporting Standards. Therefore, Mexican FRS currently include both the standards issued by CINIF and the Bulletins and Circulars issued by CPC, that have not been revised, substituted or superseded by the new FRS.

The principal changes included in the aforementioned FRS, which are effective for fiscal years beginning after December 31, 2005, are the following:

- (a) Donations received are included in the results of operations, instead of in contributed capital.
- (b) Elimination of special and extraordinary items, classifying income statement income as ordinary and non-ordinary.
- (c) Retroactive recognition of the effects of changes in particular standards.
- (d) Disclosure of the authorized date for issuance of financial statements, as well as the officer or body authorizing issuance.