

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

Financial Statements

December 31, 2006 and 2005

(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, 2006.

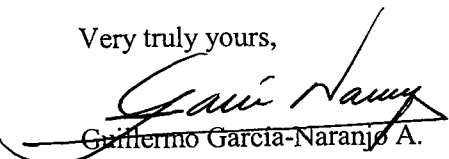
I have attended the stockholders' and board of directors' meetings to which I have been called, and I have obtained from the directors and management such information on the operations, documentation and accounting records, as I considered necessary in the circumstances. In addition, I have examined the balance sheet and the statement of portfolio valuation of the Management Company as of December 31, 2006, and the related statements of income, 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 Financial Reporting Standards (FRS) issued by the 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). These accounting criteria include particular presentation rules, which in certain respects differ from such standards.

As discussed in note 1 to the financial statements, the Management Company is mainly engaged in the provision of management services: distribution, valuation, promotion and portfolio acquisition of shares of mutual funds that are part of the Grupo Financiero Scotiabank Inverlat, S. A. de C. V. During 2006, 100% of the Management Company's service revenues resulted from the foregoing.

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, 2006, 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 Garcia-Naranjo A.
Statutory Auditor

Mexico City, February 16, 2007.



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

Teléfono: + 01 (55) 52 46 83 00
Fax: + 01 (55) 55 20 27 51
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, 2006 and 2005, and the related statements of income, 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 Financial Reporting Standards (FRS) issued by the 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). These accounting criteria include particular presentation rules, which in certain respects differ from such standards.

As discussed in note 1 to the financial statements, the Management Company is mainly engaged in the provision of management services: distribution, valuation, promotion and portfolio acquisition of shares of mutual funds that are part of the Grupo Financiero Scotiabank Inverlat, S. A. de C. V. During 2006 and 2005, 100% of the Management Company's service revenues resulted from the foregoing.

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, 2006 and 2005, 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 16, 2007.

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

Balance Sheets

December 31, 2006 and 2005

(Thousands of constant Mexican pesos as of December 31, 2006, except otherwise stated)

Assets	<u>2006</u>	<u>2005</u>	Liabilities and Stockholders' Equity	<u>2006</u>	<u>2005</u>
Cash and equivalents (note 6)	\$ 34	30	Accounts payable:		
Investment securities (note 6):			Sundry creditors and other		
Trading	29,305	22,275	accounts payable (notes 3 and 6)	\$ 36,777	32,615
Accounts receivable (note 6)	35,081	31,334	Income tax and employee statutory		
Furniture and equipment, net	-	6	profit sharing payable	<u>2,528</u>	<u>3,731</u>
Deferred taxes (note 5)	1,928	1,476	Total liabilities	<u>39,305</u>	<u>36,346</u>
Other assets (note 3)	991	932	Stockholders' equity (note 4):		
			Paid-in capital:		
			Capital stock	<u>2,492</u>	<u>2,492</u>
			Earned capital:		
			Statutory reserves	440	440
			Deficit on labor obligations		
			upon retirement (note 3)	(4)	-
			Unappropriated retained earnings	16,775	8,686
			Net income	<u>8,331</u>	<u>8,089</u>
				<u>25,542</u>	<u>17,215</u>
			Total stockholders' equity	<u>28,034</u>	<u>19,707</u>
Total assets	\$ <u>67,339</u>	<u>56,053</u>	Total liabilities and stockholders' equity	\$ <u>67,339</u>	<u>56,053</u>

Memorandum accounts

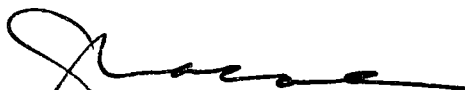
	<u>2006</u>	<u>2005</u>
Authorized capital stock (nominal)	\$ 2,000	2,000
Other contingent liabilities	760	1,035
Transactions on behalf of third parties	<u>56,375,876</u>	<u>46,299,102</u>
Number of shares issued	<u>2,000,000</u>	<u>2,000,000</u>

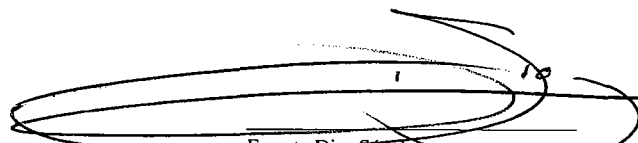
"The historical capital stock amounts to \$2,000,000 pesos".

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 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".


Gordon Macrae
Director of Group Accounting


Ernesto Díez Sánchez
On behalf of the Management Company

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

Statements of Portfolio Valuation

December 31, 2006 and 2005

(Thousands of constant Mexican pesos as of December 31, 2006, except otherwise stated)

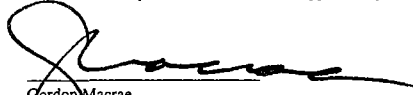
	<u>Series</u>	<u>Type of security</u>	<u>Valuation rate</u>	<u>Type of rate</u>	<u>Rating or liquidity</u>	<u>Number of securities</u>	<u>Total securities of the issue</u>	<u>Average unit acquisition cost (in pesos)</u>	<u>Total acquisition cost</u>	<u>Unit fair or accounting value (in pesos)</u>	<u>Total fair or accounting value</u>	<u>Days to maturity</u>	
December 31, 2006													
Trading securities:													
Shares in mutual funds:													
	Scotia G	M6	51	-	TR	-	981,711	89,926,358	29.851677	\$ <u>29,306</u>	29.850562	\$ <u>29,305</u>	*
December 31, 2005													
Trading securities:													
Shares in mutual funds:													
	Scotia G	B	51	-	TR	-	764,951	84,148,390	27.874160	21,322	27.956519	21,385	*
	Restatement for inflation to constant pesos										-	890	*
	Total trading securities										\$ <u>21,322</u>	\$ <u>22,275</u>	

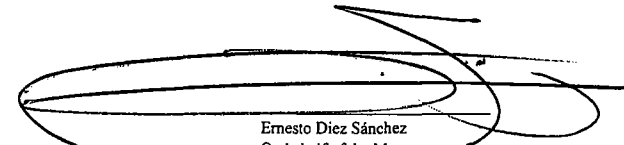
* Without maturity

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, 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 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 portfolio valuation were approved by the Board of Directors under the responsibility of the following officers":


Gordon Macrae
Director of Group Accounting


Ernesto Diez Sánchez
On behalf of the Management Company

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

Statements of Income

Years ended December 31, 2006 and 2005

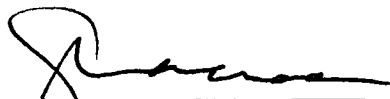
(Thousands of constant Mexican pesos as of December 31, 2006)

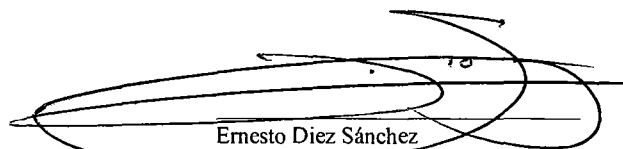
	<u>2006</u>	<u>2005</u>
Income from services (note 6a.):		
Commissions and fees	\$ 337,253	309,709
Income from securities' transactions	1,669	1,490
Valuation (loss) gain on securities	(2)	65
Interest income	-	5
Monetary position income, net	<u>1</u>	<u>59</u>
 Total operating income	 338,921	 311,328
Administrative expenses (notes 6b. and 6c.)	<u>(325,165)</u>	<u>(297,360)</u>
 Operating income	 13,756	 13,968
Other income	226	245
Other expense	<u>(1,720)</u>	<u>(1,369)</u>
 Income before income tax (IT) and employee statutory profit sharing (ESPS) and extraordinary item	 12,262	 12,844
Current IT and ESPS (note 5)	(5,205)	(4,905)
Deferred IT and ESPS (note 5)	<u>450</u>	<u>150</u>
 Income from continued operations	 7,507	 8,089
Extraordinary item (note 3)	<u>824</u>	<u>-</u>
 Net income	 \$ <u>8,331</u>	 <u>8,089</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, 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".


Gordon Macrae
Director of Group Accounting


Ernesto Diez Sánchez
On behalf of the Management Company

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, 2006 and 2005

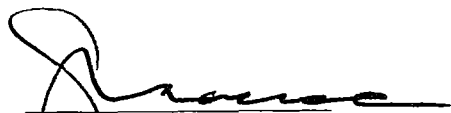
(Thousands of constant Mexican pesos as of December 31, 2006)

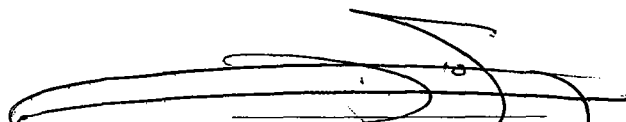
	<u>Capital stock</u>	<u>Statutory reserves</u>	<u>Deficit on labor obligations upon retirement</u>	<u>Unappropriated retained earnings</u>	<u>Net income</u>	<u>Total stockholders' equity</u>
Balances as of December 31, 2004	\$ 2,492	202	-	3,778	5,146	11,618
Item related to stockholder decisions:						
Appropriation of prior year's income	-	238	-	4,908	(5,146)	-
Item related to comprehensive income:						
Net income	-	-	-	-	8,089	8,089
Balances as of December 31, 2005	<u>2,492</u>	<u>440</u>	<u>-</u>	<u>8,686</u>	<u>8,089</u>	<u>19,707</u>
Item related to stockholder decisions:						
Appropriation of prior year's income	-	-	-	8,089	(8,089)	-
Item related to comprehensive income:						
Adjustment for labor obligations upon retirement, net of deferred taxes of \$2 (note 3)	-	-	(4)	-	-	(4)
Net income	-	-	-	-	8,331	8,331
	-	-	(4)	-	8,331	8,327
Balances as of December 31, 2006	<u>\$ 2,492</u>	<u>440</u>	<u>(4)</u>	<u>16,775</u>	<u>8,331</u>	<u>28,034</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, 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".


Gordon Macrae
Director of Group Accounting


Ernesto Diez Sanchez
On behalf of the Management Company

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, 2006 and 2005

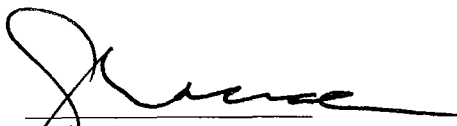
(Thousands of constant Mexican pesos as of December 31, 2006)

	<u>2006</u>	<u>2005</u>
Operating activities:		
Net income	\$ 8,331	8,089
Add charges (deduct credits) to operations not requiring (providing) funds:		
Depreciation	6	12
Valuation of securities	2	(65)
Deferred income tax and employee statutory profit sharing	(452)	(150)
Extraordinary item (note 3)	<u>(824)</u>	<u>-</u>
Funds provided by operations	7,063	7,886
Changes in operating accounts:		
Investment securities	(7,032)	(9,785)
Accounts receivable	(3,747)	(1,126)
Other assets	(59)	(859)
Accounts payable	<u>3,779</u>	<u>3,867</u>
Funds provided by (used in) operating activities	4	(17)
Funds provided by investment activities from disposal of furniture and equipment	<u>-</u>	<u>23</u>
Increase (decrease) in cash and equivalents	4	6
Cash and equivalents:		
At beginning of year	<u>30</u>	<u>24</u>
At end of year	<u>\$ 34</u>	<u>30</u>

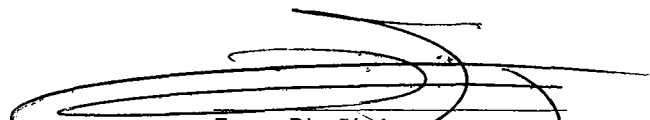
See accompanying notes to financial statements.

"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, 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 application of 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."



 Gordon Macrae
 Director of Group Accounting



 Ernesto Diez Sánchez
 On behalf of the Management Company

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

Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of constant Mexican pesos as of December 31, 2006)

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. (Scotiabank mutual funds); during 2006 and 2005, 100% of the Management Company’s service revenues resulted from the such funds, which are as follows:

Mutual funds investing in debt instruments:

- Scotia Disponibilidad, S. A. de C. V., (Scotia 1)
- Scotia Rendimiento, S. A. de C. V., (Scotia 2)
- Scotia Cobertura, S. A. de C. V., (Scotia 3)
- Scotia Liquidez Periódica, S. A. de C. V., (Scotia 4)
- Scotia Patrimonial, S. A. de C. V., (Scotia 5)
- Scotia Inversiones, S. A. de C. V., (Scotia 6)
- Scotia Productivo, S. A. de C. V., (Scoti 10)
- Scotia Plus, S. A. de C. V., (Scoti 11)
- Scotia Liquidez, S. A. de C. V., (Scotia A)
- Scotia previsional de Liquidez Restringida, S. A. de C. V., (Scotia C)
- Scotia para no Contribuyentes, S. A. de C. V., (Scotia D)
- Scotia Gubernamental, S. A. de C. V., (Scotia G)
- Scotia Mercado de Dinero, S. A. de C. V., (Scotia P)
- FINDE 1, S. A. de C. V., Sociedad de Inversión en Instrumentos de Deuda (Finde 1).

Mutual funds investing in equities:

- Scotia Indizado, S. A. de C. V., (Scotia 7)
- Scotia Estratégico, S. A. de C. V., (Scoti 12)
- Scotia Crecimiento, S. A. de C. V., (Scoti 14)
- Scotia Internacional, S. A. de C. V., (Scotin T)

(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, 2006)

(2) Summary of significant accounting policies-

(a) Basis of presentation and disclosure-

On February 16, 2007, Ernesto Diez Sánchez (on behalf of the Management Company) and Gordon Macrae (Director of Group Accounting) authorized the issuance of the accompanying financial statements and related footnotes.

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 Financial Reporting Standards (FRS) issued by the Mexican Board for Research and Development of Financial Reporting Standards (CINIF, see note 7). Such accounting criteria include particular presentation rules that differ from said standards.

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: FRS; International Accounting 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.

(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, 2006,
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>
2006	\$ 3.788954	4.16%
2005	3.637532	2.91%
2004	3.534716	5.45%

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 income, under "Valuation (loss) 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.

(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, 2006)

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

Deferred IT and ESPS 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.

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

Effective April 1, 2006, the Management Company established a defined contribution pension and post-retirement plan; the amounts contributed by the Management Company are recognized directly as expenses in the statement of income (see note 3).

Through March 31, 2006, the Management Company had a defined benefit pension plan (non-contributory) covering all employees aged 65 and with ten years of service, and a post-retirement benefit plan. In addition, there is a plan covering the seniority premiums and severance payments to which employees are entitled in accordance with the Federal Labor Law.

The net periodic cost and the accrued seniority premiums benefits, and severance payments are recognized in income each year based on computations prepared by independent actuaries of the present value of these obligations, using the projected unit credit method and actual interest rates. Amortization of the net cost of prior unrecognized services is based on the average remaining service life of the employees eligible to plan benefits.

(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, 2006)

(g) *Restatement of capital stock, statutory reserves and unappropriated 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.

(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.

(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, 2006,
except otherwise stated)

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

Effective April 1, 2006, the Management Company established a defined contribution pension and post-retirement benefits plan, which covers all employees who belonged to the defined benefits plan which was discontinued as of March 31, 2006. The present plan establishes contributions from the Management Company and the employees, which can be withdrawn in their entirety by the employee when reaching 65 years of age and 10 years of service.

The present benefit obligation amount transferred from the defined benefits plan to the defined contribution plan was \$155 and the result from the extinction and reduction of the defined benefits obligation of \$824 was recognized as an extraordinary item in the statement of income.

For the period of April 1 to December 31, 2006, the charge to income corresponding to the Management Company's contributions to the defined contribution plan amounted to \$241.

As resulting of transferring all the employees to the defined contribution plan, the Management Company recognized an account receivable of \$842 from the trust administrator of the funds for the pension, the post-retirement medical benefits, life insurance and food coupons, equivalent to the market value of the remaining plan assets at December 31, 2006.

The cost, obligations and contributions to the fund relating to the pension plan and seniority premiums, as well as the post-retirement medical benefits, life insurance and food coupons are determined based on computations prepared by independent actuaries at December 31, 2006 and 2005 (only for seniority premiums in 2006); the components of the net periodic cost and of labor obligations at nominal value for the years ended December 31, 2006 and 2005 are shown on the next page.

(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, 2006,
except otherwise stated)

	Pensions and seniority premiums		Medical benefits, life insurance and food coupons for retirees
	<u>2006</u>	<u>2005</u>	<u>2005</u>
Service cost	\$ 41	101	18
Interest cost	15	37	6
Return on plan assets	(40)	(37)	(4)
Amortization of transition liability	1	(1)	6
Variances in assumptions and adjustments for experience	<u>2</u>	<u>1</u>	<u>1</u>
Net periodic cost	\$ <u>19</u>	<u>101</u>	<u>27</u>
Projected benefit obligations (PBO)	\$ 113	917	162
Plan assets at market value	<u>(99)</u>	<u>(903)</u>	<u>(81)</u>
PBO in excess of plan assets	14	14	81
Unamortized items:			
Prior services and plan modifications	(11)	(79)	(25)
Transition (liability) asset	<u>(3)</u>	<u>22</u>	<u>(35)</u>
Net projected (asset) liability	\$ <u>-</u>	<u>(43)</u>	<u>21</u>
Present benefit obligations	\$ 108	822	
Plan assets	<u>(99)</u>	<u>(903)</u>	
Net (asset) liability	\$ <u>9</u>	<u>(81)</u>	
Additional liability	\$ 9	-	
Intangible asset	<u>(3)</u>	-	
Reduction in stockholders' equity	\$ <u>6</u>	<u>-</u>	

(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, 2006,
except otherwise stated)

From January 1, 2005, the Management Company adopted the provisions of FRS Bulletin D-3, Labor Obligations relating to the recognition of the liability for compensation upon the termination of the employment relationship before the employees reaching retirement age (legal severance) for reasons other than restructuring. At the time of the adoption of the Bulletin, according to the available option the Management Company recognized an unamortized asset and a liability of \$913, to be amortized over the remaining average service life of the employees expected to receive such compensation, and an increase of \$137 in that year's expense.

At December 31, 2006 and 2005, statutory severance liabilities at nominal value, are analyzed as follows:

	<u>2006</u>	<u>2005</u>
PBO	\$ 952	900
Plan assets at market value	<u>—</u>	<u>—</u>
PBO in excess of plan assets	952	900
Unamortized items:		
Transition liabilities	(783)	(837)
Actuarial gains	<u>32</u>	<u>—</u>
Net projected liability	\$ <u>201</u>	<u>63</u>
Actual severance liabilities	\$ 910	828
Plan assets	<u>—</u>	<u>—</u>
Net liability	<u>910</u>	<u>828</u>
Additional liability	<u>709</u>	<u>765</u>

The net periodic cost for severance benefits for the years ended December 31, 2006 and 2005 amounted to \$194 and 196, respectively.

(Continued)

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

Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of constant Mexican pesos as of December 31, 2006,
except otherwise stated)

Below is an analysis of the movements of the plan assets to meet the labor obligations for the years ended December 31, 2006 and 2005 (nominal):

	<u>2006</u>	<u>2005</u>
Balance at beginning of year	\$ 984	770
Contributions to the fund	179	134
Return on plan assets	46	80
Transfer to the defined contribution plan	(155)	-
Funds to be reimbursed to the Management Company relating to assets remaining from extinguished plans	(842)	-
Payments	(11)	-
Balance at year end	\$ 201	984
	===	===

Rates used in the actuarial projections are:

	<u>2006</u>	<u>2005</u>
Yield on plan assets	5.0%	5.0%
Discount rate	4.5%	5.0%
Rate of increase in compensation	1.0%	0.5%
Medical expense increase rate	3.0%	3.0%
Estimated inflation rate	3.5%	4.5%
	=====	=====

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

For fiscal 2006, the amortization period of unrecognized items is 12.27 years for seniority premium benefits (12.47 in 2005), and 11.22 years for severance indemnities (10.96 in 2005).

(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, 2006,
except otherwise stated)

(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, 2006 and 2005, 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 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, 2006 and 2005, the Management Company had appropriated the total statutory reserve requirement, equal to 20% of its historical capital stock.

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.

The AT Law provides for a 1.8% tax on assets, less certain liabilities. For the years ended December 31, 2006 and 2005 the AT due amounted to \$457 and \$387, respectively, which did not exceed the IT liability of such years.

(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, 2006)

During fiscal 2005, the Management Company obtained a favorable resolution to compute ESPS using as a basis taxable income for IT purposes; which is the same basis for computing ESPS in 2006.

Following is a condensed reconciliation for the years ended December 31, 2006 and 2005, between accounting income before IT and ESPS and income for IT and ESPS purposes (nominal):

	<u>2006</u>		<u>2005</u>
	<u>ISR</u>	<u>ESPS</u>	<u>ISR and ESPS</u>
Income before IT, ESPS and extraordinary item	\$ 12,259	12,259	12,331
Accounting effects of inflation	<u>626</u>	<u>626</u>	<u>193</u>
	12,885	12,885	12,524
Tax effects of inflation, net	(1,011)	(1,011)	(597)
Accrued expenses	1,234	1,234	(194)
2005 ESPS paid in 2006	(1,101)	-	-
Non-deductible expenses	123	123	107
Valuation (gain) loss on securities	2	2	(63)
Result from the extinction and reduction of the labor relationship for defined benefits	824	824	-
Other, net	<u>(176)</u>	<u>(176)</u>	<u>(220)</u>
Taxable income	\$ 12,780	13,881	11,557
	=====	=====	=====
IT (29% and 30% for 2006 and 2005, respectively) and ESPS (10%)	\$ 3,706	1,388	4,623
Restatement effect	<u>111</u>	<u>-</u>	<u>282</u>
	\$ 3,817	1,388	
	=====	=====	
Current IT and ESPS expense	\$ 5,205		4,905
		=====	=====

(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, 2006)

At December 31, 2006 and 2005, the deferred IT and ESPS asset is analyzed below:

	<u>2006</u>		<u>2005</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
Asset (liability):				
ESPS payable	\$ 1,393	-	1,204	-
Accruals	4,330	4,330	3,218	3,218
Furniture and equipment	2	2	-	-
Prepaid expenses	(224)	(224)	(134)	(134)
Valuation of financial instruments	<u>(62)</u>	<u>(62)</u>	<u>(196)</u>	<u>(196)</u>
	5,439	4,046	4,092	2,888
Rate	<u>28%</u>	<u>10%</u>	<u>29%</u>	<u>10%</u>
	<u>1,523</u>	<u>405</u>	<u>1,187</u>	<u>289</u>
Deferred IT and ESPS	\$ 1,928		1,476	

The net favorable effect, in statement of income of deferred IT and ESPS for the year ended December 31, 2006 is analyzed below:

ESPS	\$ 41
Accruals	390
Furniture and equipment	1
Prepaid expenses	(33)
Valuation of financial instruments	<u>53</u>
	452
Less:	
Deferred IT and ESPS on the adjustment for labor obligations upon retirement included in stockholders' equity	<u>2</u>
Deferred IT and ESPS in statement of income	\$ 450

(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, 2006)

Other considerations

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

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, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
<u>Cash and equivalents:</u>		
Scotiabank Inverlat, S. A., Institución de Banca Múltiple	\$ 31	28
	=====	=====
<u>Investment securities:</u>		
Mutual funds	\$ 29,305	22,275
	=====	=====
<u>Accounts receivable:</u>		
Mutual funds	\$ 29,336	26,884
	=====	=====

(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, 2006)

Accounts payable:

	<u>2006</u>	<u>2005</u>
Scotiabank Inverlat, S. A., Institución de Banca Múltiple	\$ 8,884	8,593
Scotia Inverlat Casa de Bolsa, S. A. de C. V. ("the Brokerage Firm")	<u>15,397</u>	<u>14,183</u>
	<u>\$ 24,281</u>	<u>22,776</u>

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, 2006 and 2005 amounted to \$337,253 and \$309,709, 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, 2006 and 2005 amounted to \$11,532 and \$11,968, 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, 2006 and 2005 amounted to \$264,829 and \$251,021, respectively.

(7) Accounting standards-

Beginning June 1, 2004, CINIF is responsible for issuing financial reporting standards in Mexico. To accomplish this task, the CINIF received from the Mexican Institute of Public Accountants the bulletins of Generally Accepted Accounting Principles and Circulars issued through that date, which have been renamed as FRS, and will continue in force until modified, substituted or superseded by a new FRS. Through December 2006, CINIF had issued eight series A and one series B FRS, effective for fiscal years beginning after December 31, 2005. Therefore, all prior series A bulletins, as well as bulletins B-1 and B-2, have been superseded.