

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

Financial Statements

December 31, 2007 and 2006

(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, 2007.

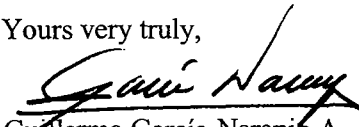
I have attended the stockholders' and board of directors' meetings to which I have been called, and I have obtained from the directors and management such information on the operations, documentation and accounting records, as I considered necessary in the circumstances. In addition, I have examined the balance sheet and the statement of portfolio valuation of the Management Company as of December 31, 2007, 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 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 forming part of the Scotiabank Group in México. During 2007, 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, 2007, 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.

Yours very truly,


Guillermo García-Naranjo A.
Statutory Auditor

Mexico City, February 15, 2008.



KPMG Cárdenas Dosal
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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 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, 2007 and 2006, 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 forming part of the Scotiabank Group in México. During 2007 and 2006, 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, 2007 and 2006, 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 15, 2008.

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

Balance Sheets

December 31, 2007 and 2006

(Thousands of constant Mexican pesos as of December 31, 2007, except otherwise stated)

Assets	<u>2007</u>	<u>2006</u>	Liabilities and Stockholders' Equity	<u>2007</u>	<u>2006</u>
Cash and equivalents (note 6)	\$ 22	35	Accounts payable:		
Investment securities (note 6):			Sundry creditors and other		
Trading	67,432	30,419	accounts payable (notes 3 and 6)	\$ 45,494	38,175
Accounts receivable (note 6)	44,764	36,415	Income tax and employee statutory		
Deferred taxes (note 5)	3,202	2,000	profit sharing payable	<u>12,639</u>	<u>2,624</u>
Other assets (note 3)	742	1,029	Total liabilities	<u>58,133</u>	<u>40,799</u>
			Stockholders' equity (note 4):		
			Paid-in capital:		
			Capital stock	<u>2,586</u>	<u>2,586</u>
			Earned capital:		
			Statutory reserves	457	457
			Deficit on labor obligations		
			upon retirement (note 3)	-	(4)
			Unappropriated retained earnings	26,060	17,412
			Net income	<u>28,926</u>	<u>8,648</u>
				<u>55,443</u>	<u>26,513</u>
			Total stockholders' equity	<u>58,029</u>	<u>29,099</u>
Total assets	<u>\$ 116,162</u>	<u>69,898</u>	Total liabilities and stockholders' equity	<u>\$ 116,162</u>	<u>69,898</u>

Memorandum accounts


	<u>2007</u>	<u>2006</u>
Authorized capital stock (nominal)	\$ 2,000	2,000
Other contingent liabilities	1,406	789
Transactions on behalf of third parties	<u>76,613,119</u>	<u>58,518,885</u>
Number of shares issued	<u>2,000,000</u>	<u>2,000,000</u>

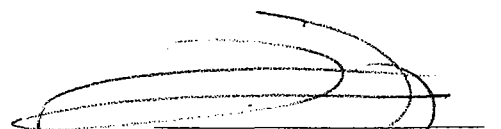
"The historical capital stock amounts to \$2,000,000 pesos".

See accompanying notes to financial statements.

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


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, 2007 and 2006

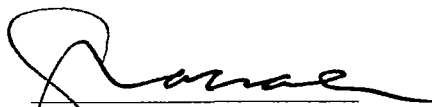
(Thousands of constant Mexican pesos as of December 31, 2007)

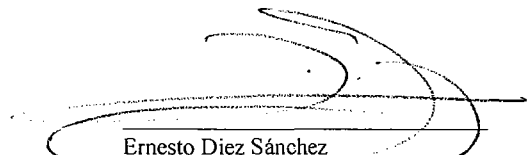
	<u>2007</u>	<u>2006</u>
Income from services:		
Fee and commission income (note 6a)	\$ 441,522	350,073
Fee and commission expense (note 6c)	(382,313)	(317,664)
Income from securities' transactions	3,023	1,732
Valuation gain (loss) on securities	326	(2)
Monetary position (loss) income, net	<u>(1,736)</u>	<u>1</u>
 Total operating income	 60,822	 34,140
Administrative expenses (note 6b)	<u>(16,769)</u>	<u>(19,861)</u>
 Operating result	 44,053	 14,279
Other income	741	235
Other expense	<u>(1,196)</u>	<u>(1,785)</u>
 Income before income tax (IT) and employee statutory profit sharing (ESPS) and extraordinary item	 43,598	 12,729
Current IT and ESPS (note 5)	(15,876)	(5,403)
Deferred IT and ESPS (note 5)	<u>1,204</u>	<u>467</u>
 Income from continued operations	 28,926	 7,793
Extraordinary item (note 3)	<u>-</u>	<u>855</u>
 Net income	 \$ <u>28,926</u>	 <u>8,648</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 Investment 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".


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, 2007 and 2006


(Thousands of constant Mexican pesos as of December 31, 2007)


	<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, 2005	\$ 2,586	457	-	9,016	8,396	20,455
Item related to stockholder decisions:						
Appropriation of prior year's income	-	-	-	8,396	(8,396)	-
Items related to comprehensive income:						
Adjustment for labor obligations upon retirement, net of deferred taxes of \$2 (note 4)	-	-	(4)	-	-	(4)
Net income	-	-	-	-	8,648	8,648
Balances as of December 31, 2006	2,586	457	(4)	17,412	8,648	29,099
Item related to stockholder decisions:						
Appropriation of prior year's income	-	-	-	8,648	(8,648)	-
Items related to comprehensive income:						
Cancellation of the adjustment of post-retirement labor obligations, net of deferred taxes in the amount of \$2 (note 4)	-	-	4	-	-	4
Net income	-	-	-	-	28,926	28,926
	-	-	4	-	28,926	28,930
Balances as of December 31, 2007	\$ 2,586	457	-	26,060	28,926	58,029

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 Investment Companies, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the movements 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".


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 Changes in Financial Position

Years ended December 31, 2007 and 2006

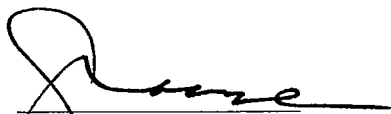
(Thousands of constant Mexican pesos as of December 31, 2007)

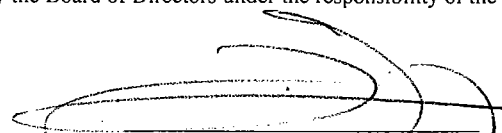
	<u>2007</u>	<u>2006</u>
Operating activities:		
Net income	\$ 28,926	8,648
Add charges (deduct credits) to operations not requiring (providing) funds:		
Depreciation	-	6
Valuation of securities	(326)	2
Deferred income tax and employee statutory profit sharing	(1,202)	(469)
Extraordinary item (note 4)	<u>-</u>	<u>(855)</u>
Funds provided by operations	27,398	7,332
Changes in operating accounts:		
Increase in treasury transactions (investment securities)	<u>(36,687)</u>	<u>(7,300)</u>
Funds (used in) provided by operating activities	<u>(9,289)</u>	<u>32</u>
Funds provided by financing activities through increase in other accounts receivable and taxes payable	<u>17,338</u>	<u>3,923</u>
Investing activities:		
Increase in accounts receivable	(8,349)	(3,890)
Decrease (increase) in other assets	<u>287</u>	<u>(61)</u>
Funds used by investing activities	<u>(8,062)</u>	<u>(3,951)</u>
(Decrease) increase in cash and equivalents	(13)	4
Cash and equivalents:		
At beginning of year	<u>35</u>	<u>31</u>
At end of year	<u>\$ 22</u>	<u>35</u>

See accompanying notes to financial statements.

"These statements of changes in financial position 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 Investment Companies, which are of a general and mandatory nature and have been applied on a consistent basis. Accordingly, they reflect all the source and applications of funds arising from 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 financial position were approved by the Board of Directors under the responsibility of the


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 Portfolio Valuation

December 31, 2007 and 2006

(Thousands of constant Mexican pesos as of December 31, 2007, except otherwise stated)

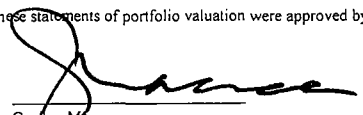
	<u>Series</u>	<u>Type of security</u>	<u>Valuation rate</u>	<u>Type of rate</u>	<u>Rating or liquidity</u>	<u>Number of securities</u>	<u>Total securities of the issue</u>	<u>Average unit acquisition cost (in pesos)</u>	<u>Total acquisition cost</u>	<u>Unit fair or accounting value (in pesos)</u>	<u>Total fair or accounting value</u>	<u>Days to maturity</u>
December 31, 2007												
Trading securities:												
Shares in mutual funds:												
	M6	SI	-	TR	-	2,116,099	175,236,389	31.845384	\$ <u>67,388</u>	31.866019	\$ <u>67,432</u>	*
December 31, 2006												
Trading securities:												
Shares in mutual funds:												
	M6	SI	-	TR	-	981,711	89,926,358	29.851677	\$ <u>29,306</u>	29.850562	29,305	*
Restatement for inflation to constant pesos											<u>1,114</u>	*
Total trading securities											\$ <u>30,419</u>	

* Without maturity

See accompanying notes to financial statements.

"These statements of 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 Investment Companies Law, 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 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

Notes to Financial Statements

December 31, 2007 and 2006

(Thousands of constant Mexican pesos as of December 31, 2007)

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”), which holds 99.99% of its capital stock. In fiscal years 2007 and 2006, 100% of the Management Company’s service income was derived from the Scotiabank mutual funds, which are listed below:

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., (FBC)
- 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., (Scotint)

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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, 2007)

(2) Summary of significant accounting policies-

(a) Authorization and basis of presentation and disclosure-

On February 15, 2008, Ernesto Diez Sánchez (Director of the Management Company) and Gordon Macrae (Director of Group Accounting for Grupo Financiero Scotiabank Inverlat, S. A. de C. V., the Group) authorized the issuance of the accompanying financial statements and related footnotes.

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 2007 will be submitted to the next Stockholders’ Meeting for approval.

The financial statements of the Management Company have been prepared based on the accounting criteria established by the Commission for 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 (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A. C. or CINIF). Such accounting criteria include particular presentation rules that differ from such 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.

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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, 2007,
except value of UDI)

The financial statements of the Management Company are expressed in thousands of constant Mexican pesos 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>
2007	\$ 3.932983	3.80%
2006	3.788954	4.16%
2005	3.637532	2.91%

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. Significant items subject to such estimates and assumptions include the valuation of investment securities, deferred tax assets, and assets and liabilities related to labor obligations. 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, classified in the category of trading securities, which are initially recorded at acquisition cost and subsequently marked to market by using information provided by an independent price vendor. Valuation effects are reported on the statement of income under "Valuation gain (loss) on securities". Upon sale of the securities, the valuation is reversed and the difference between net amount realized and the carrying value of the securities is reported in the statement of income under "Income from securities transactions".

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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, 2007)

(d) *Accounts payable-*

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

(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-*

The Management Company has a defined contribution pension and post-retirement benefit plan in place; plan contributions are recognized directly in the statement of income as expenses under "Administrative expenses" (see note 3).

Additionally, a benefit plan is in place covering the seniority premiums and compensation to which employees are entitled in accordance with the Federal Labor Law.

For both plans, irrevocable trusts have been created in which the plan assets are managed. The plan assets must be invested in Federal Government bonds or securities issued by authorized entities, and for employee housing loans.

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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, 2007)

The net periodic cost and the accrued seniority premiums benefits and severance payments are recognized 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.

(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) *Revenue recognition-*

Fees on services provided to the mutual funds are recorded in income when earned.

(i) *Expense recognition-*

The expenses incurred by the Management Company relate primarily to fees and administrative expenses, which are charged to operations as incurred.

(j) *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.

(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, 2007,
except otherwise stated)

(k) 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-

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. This plan calls for pre-established contributions by the Management Company, which may be fully withdrawn by the employee upon retirement if at least 55 years old or partially on employment termination in accordance with specific rules for vesting rights. Additionally, contributions are made by employees, who will be entitled to withdraw those contributions upon employment termination.

The amount of accumulated benefit obligations (ABO) transferred from the defined benefit plan to the defined contribution plan for all employees was \$161 (\$155 nominal), and the result from the extinction and reduction of the defined benefits obligation of \$855 was recognized as an extraordinary item in the statement of income for 2006.

For the years ended December 31, 2007 and 2006, the Management Company's contributions to the defined contribution plan charged to operations amounted to \$318 and \$250, respectively.

As a result of transferring all the employees to the defined contribution plan, the Management Company recognized an account receivable of \$874 from the trustee of the funds for the pension, the post-retirement medical benefits, life insurance and food coupons plan, equivalent to the market value of the remaining plan assets at December 31, 2006.

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The cost, obligations and contributions to the fund relating to the defined benefits 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 as of December 31, 2007 and 2006; the components of the net periodic cost and of labor obligations at nominal value for the years ended December 31, 2007 and 2006 are as follows:

	<u>Seniority premiums</u>	<u>Life insurance for retirees</u>	<u>Pensions and seniority premiums</u>	<u>Life insurance for retirees</u>
	<u>2007</u>	<u>2007</u>	<u>2006</u>	<u>2006</u>
Service cost	\$ 12	6	41	9
Interest cost	5	2	15	3
Return on plan assets	(5)	(3)	(40)	(2)
Amortization of transition liability	1	-	1	1
Plan improvements	-	3	-	3
Amortization of variances in assumptions and experience adjustments	<u>-</u>	<u>(1)</u>	<u>1</u>	<u>-</u>
Net periodic cost	<u>\$ 13</u>	<u>7</u>	<u>18</u>	<u>14</u>
Projected benefit obligations (PBO)	\$ 129	78	113	73
Plan assets at market value	<u>(128)</u>	<u>(98)</u>	<u>(99)</u>	<u>(66)</u>
Excess (deficit)	1	(20)	14	7
Unamortized items:				
Variances in assumptions and adjustments for experience	1	25	(11)	(63)
Plan improvements	-	(62)	-	-
Transition liability	<u>(2)</u>	<u>-</u>	<u>(3)</u>	<u>-</u>
Net projected asset	<u>\$ -</u>	<u>(57)</u>	<u>-</u>	<u>(56)</u>
Present benefit obligations	\$ 129		108	
Plan assets	<u>(128)</u>		<u>(99)</u>	
Net liability	<u>\$ 1</u>		<u>9</u>	
Additional liability	\$ 1		9	
Intangible asset	<u>(1)</u>		<u>(3)</u>	
Reduction in stockholders' equity	<u>\$ -</u>		<u>6</u>	

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Below is an analysis of the movements of the plan assets to meet the labor obligations for the years ended December 31, 2007 and 2006 (nominal):

		<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$	201	984
Contributions to the fund		20	179
Return on plan assets		5	46
Transfer to the defined contribution plan		-	(155)
Funds to be reimbursed to the Management Company relating to assets remaining from extinguished plans		-	(842)
Payments		<u>-</u>	<u>(11)</u>
Balance at year end	\$	<u>226</u>	<u>201</u>

At December 31, 2007 and 2006, statutory severance liabilities at nominal value, are analyzed as follows:

		<u>2007</u>	<u>2006</u>
PBO	\$	946	952
Unamortized items:			
Transition liability		(728)	(783)
Actuarial gains		<u>171</u>	<u>32</u>
Net projected liability	\$	<u>389</u>	<u>201</u>
Actual severance liabilities	\$	890	910
Plan assets		<u>-</u>	<u>-</u>
Net liability	\$	<u>890</u>	<u>910</u>
Additional liability and intangible asset	\$	<u>501</u>	<u>709</u>

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The net severance pay cost for the years ended December 31, 2007 and 2006 amounted to \$176 and 201, respectively.

Rates used in the actuarial projections are:

	<u>2007</u>	<u>2006</u>
Yield on plan assets	4.75%	5.00%
Discount rate	4.00%	4.50%
Rate of increase in compensation	1.25%	1.00%
Medical expense increase rate	3.00%	3.00%
Estimated inflation rate	4.00%	3.50%

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 2007, the amortization period of unrecognized items is 12.02 years for seniority premium benefits (12.27 in 2006), 20.85 years for life insurance (21.22 in 2006) and 10.97 years for severance indemnities (11.22 in 2006).

(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, 2007 and 2006, 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.

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(b) *Restrictions on stockholders' equity-*

Five percent of net income for the year must be appropriated to the statutory reserve, until it reaches 20% of the paid-in capital. At December 31, 2007 and 2006, 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 1.25% in 2007 (1.8% in 2006), tax on assets, (less certain liabilities in 2006). For the years ended December 31, 2007 and 2006 the AT due amounted to \$1,059 and \$474 (\$457 nominal), respectively, which did not exceed the IT liability of such years.

During fiscal 2005, the Management Company obtained a favorable resolution to compute ESPS using as a basis taxable income for IT purposes, which was the basis used for computing ESPS in 2007 and 2006.

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Following is a condensed reconciliation for the years ended December 31, 2007 and 2006, between accounting income before IT and ESPS and income for IT and ESPS purposes (nominal):

	<u>2007</u>	<u>2006</u>
Income before IT, ESPS and extraordinary item	\$ 43,598	12,729
Accounting effects of inflation	<u>687</u>	<u>156</u>
	44,285	12,885
Tax effects of inflation, net	(1,822)	(1,011)
Accrued expenses	(315)	1,234
ESPS paid in the year	(1,280)	(1,101)
Non-deductible expenses	61	123
Valuation (gain) loss on securities	(69)	2
Result from the extinction and reduction of the labor relationship for defined benefits	-	824
Other, net	<u>78</u>	<u>(176)</u>
Taxable income	\$ <u>40,938</u>	<u>12,780</u>
IT (28% and 29% for 2007 and 2006, respectively)	\$ 11,463	3,706
ESPS (10%)	4,094	1,278
Excess provision	-	110
Restatement for inflation effect	<u>319</u>	<u>309</u>
Current IT and ESPS expense	\$ <u>15,876</u>	<u>5,403</u>

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At December 31, 2007 and 2006, the deferred IT and ESPS asset is analyzed below:

	<u>2007</u>		<u>2006</u>	
	<u>IT</u>	<u>ESPS</u>	<u>IT</u>	<u>ESPS</u>
Asset (liability):				
ESPS payable	\$ 4,094	4,094	1,446	-
Accruals	4,362	4,362	4,495	4,495
Furniture and equipment	2	2	2	2
Prepaid expenses	(35)	(35)	(233)	(233)
Valuation of financial instruments	<u>-</u>	<u>-</u>	<u>(64)</u>	<u>(64)</u>
	8,423	8,423	5,646	4,200
Rate	<u>28%</u>	<u>10%</u>	<u>28%</u>	<u>10%</u>
	<u>2,359</u>	<u>843</u>	<u>1,580</u>	<u>420</u>
Deferred IT and ESPS	\$ 3,202		2,000	

The net favorable effect in the statement of income of deferred IT and ESPS for the year ended December 31, 2007 and 2006 is analyzed below:

	<u>2007</u>	<u>2006</u>
ESPS	\$ 1,151	42
Accruals	(48)	405
Furniture and equipment	-	1
Prepaid expenses	75	(34)
Valuation of financial instruments	<u>24</u>	<u>55</u>
	1,202	469
Deferred IT and ESPS on the adjustment for labor obligations upon retirement included in stockholders' equity	<u>2</u>	<u>(2)</u>
Deferred IT and ESPS in the statement of income	\$ <u>1,204</u>	<u>467</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.

On October 1, 2007, new laws were published, a number of tax laws were revised, and, additionally, a presidential decree was issued on November 5, 2007, which will be applicable beginning January 1, 2008. The most significant changes are: (i) derogation of the Asset Tax Law, and (ii) enactment of a new tax (business flat tax or IETU), which is based on cash flows and contains certain restrictions on tax deductions and, additionally, tax credits are granted mainly in connection with inventories, salaries taxed for IT purposes and social security contributions, tax losses arising from accelerated deduction, recoverable asset tax, and deductions related to fixed asset investments, deferred charges and expenses. The IETU rate will be 16.5% for 2008, 17% for 2009 and 17.5% for 2010 and thereafter.

Accordingly, the Management Company will continue to determine and pay IT incurred for the year. Should the IETU incurred for the same year exceed the IT, the IT actually paid may be credited against the IETU, with any excess being payable. If IETU is incurred, the payment will be considered final, not subject to recovery in subsequent years (with certain exceptions). However, according to management's projections, IETU will not be incurred by the Management Company in 2008; therefore, deferred taxes as of December 31, 2007 were determined on an IT basis.

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(6) Related-party transactions and balances-

During the normal course of business, the Management Company receives and provides services, leases offices and renders administrative services from and to related parties.

Balances receivable from and payable to related parties as of December 31, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
<u>Cash and equivalents:</u>		
Scotiabank Inverlat, S. A., Institución de Banca Múltiple ("the Bank")	\$ 20	32
<u>Investment securities:</u>		
Mutual funds	\$ 67,432	30,419
<u>Accounts receivable:</u>		
Mutual funds	\$ 38,377	30,451
<u>Accounts payable:</u>		
Bank	\$ 14,459	9,222
Scotia Inverlat Casa de Bolsa, S. A. de C. V. ("the Brokerage Firm")	16,107	15,982
	\$ 30,566	25,204

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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, 2007 and 2006 amounted to \$441,522 and \$350,073, 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, 2007 and 2006 amounted to \$13,242 and \$11,970, 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, 2007 and 2006 amounted to \$329,648 and \$274,896, respectively.

(7) Accounting standards-

The CINIF has issued the following FRS, effective for years beginning after December 31, 2007, and which do not provide for earlier application.

- (a) **FRS B-10 "Effects of inflation"**- FRS B-10 supersedes Bulletin B-10 and its five documents of amendments, as well as the related circulars and INIF (Interpretation of Financial Reporting Standards) 2. The principal considerations established by this FRS are: (i) the change in the value of the Investment Unit (UDI) may be used for determining the inflation for a given period; (ii) an entity is only required to recognize the effects of inflation when operating in an inflationary economic environment (accumulated inflation equal to or higher than 26% in the most recent three-year period); and (iii) the accounts of Gain or Loss from Holding Non-monetary Assets (RETANM - Spanish abbreviation), Monetary Position Gains or Losses (REPOMO - Spanish abbreviation), and Deficit/Excess in Equity Restatement, will be reclassified to retained earnings, when the unrealized portion is not identified.

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Since accumulated inflation over the past three years is less than 26%, the Management Company will cease recognizing the effects of inflation on the financial information beginning in 2008 and until such time as an inflationary scenario, as defined above, returns. The Management Company's average monetary position over the past two years resulted in a charge to income of \$869.

- (b) **FRS D-3 "Employee benefits"**- FRS D-3 supersedes Bulletin D-3, the portion applicable to Employee Statutory Profit Sharing (ESPS) of Bulletin D-4 and INIF (Interpretation of Financial Reporting Standards) 4. The principal considerations established by this FRS are: (i) a maximum of five years is established for amortizing unrecognized/unamortized items, and the option is provided for immediate recognition of actuarial gains or losses in results of operations; (ii) recognition is eliminated of an additional liability and related intangible asset and any related item as a separate component of stockholders' equity; (iii) severance benefits are to be recognized directly in results of operations; and (iv) ESPS, including deferred ESPS, is to be presented in the statement of income as ordinary operations. Furthermore, FRS D-3 requires the use of the asset and liability method required by FRS D-4 for determining deferred ESPS, stating that any effects arising from the change should be recognized in retained earnings, without restating prior years' financial statements.

The Management Company estimates that the initial effects of this new FRS in the year 2008 will have a significant impact, as well as significant balance sheet presentation changes. To date, management is in the process of quantifying and recording the accounting movements in accordance with the new FRS.

- (c) **FRS D-4 "Taxes on Income"**- FRS D-4 supersedes Bulletin D-4 and Circulars 53 and 54. The principal considerations established by this FRS are: (i) the balance of the cumulative IT effects resulting from the initial adoption of Bulletin D-4 in 2000 is reclassified to retained earnings; (ii) AT is recognized as a tax credit (benefit), rather than as a tax prepayment; and (iii) the accounting treatment of ESPS incurred and deferred is transferred to FRS D-3, as mentioned in paragraph (b) above.

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Management estimates that the initial effects of this new FRS will not be material.

- (d) **FRS B-2 “Statement of cash flows”**- FRS B-2 supersedes Bulletin B-12 and paragraph 33 of Bulletin B-16. The principal considerations established by this FRS are: (i) the statement of cash flows replaces the statement of changes in financial position; (ii) cash inflows and cash outflows are reported in nominal currency units i.e. the effects of inflation are disregarded; (iii) two alternative preparation methods (direct and indirect) are established, without stating preference for either method. Furthermore, cash flows from operating activities are to be reported first, followed by cash flows from investing activities and lastly cash flows from financing activities; (iv) captions of principal items are to be reported gross; and (v) disclosure is required of the composition of items deemed cash equivalents.

The promulgation of this FRS will have no effect until the Commission adopts FRS B-2 since there is currently a specific criterion that governs the presentation of the statement of changes in financial position.