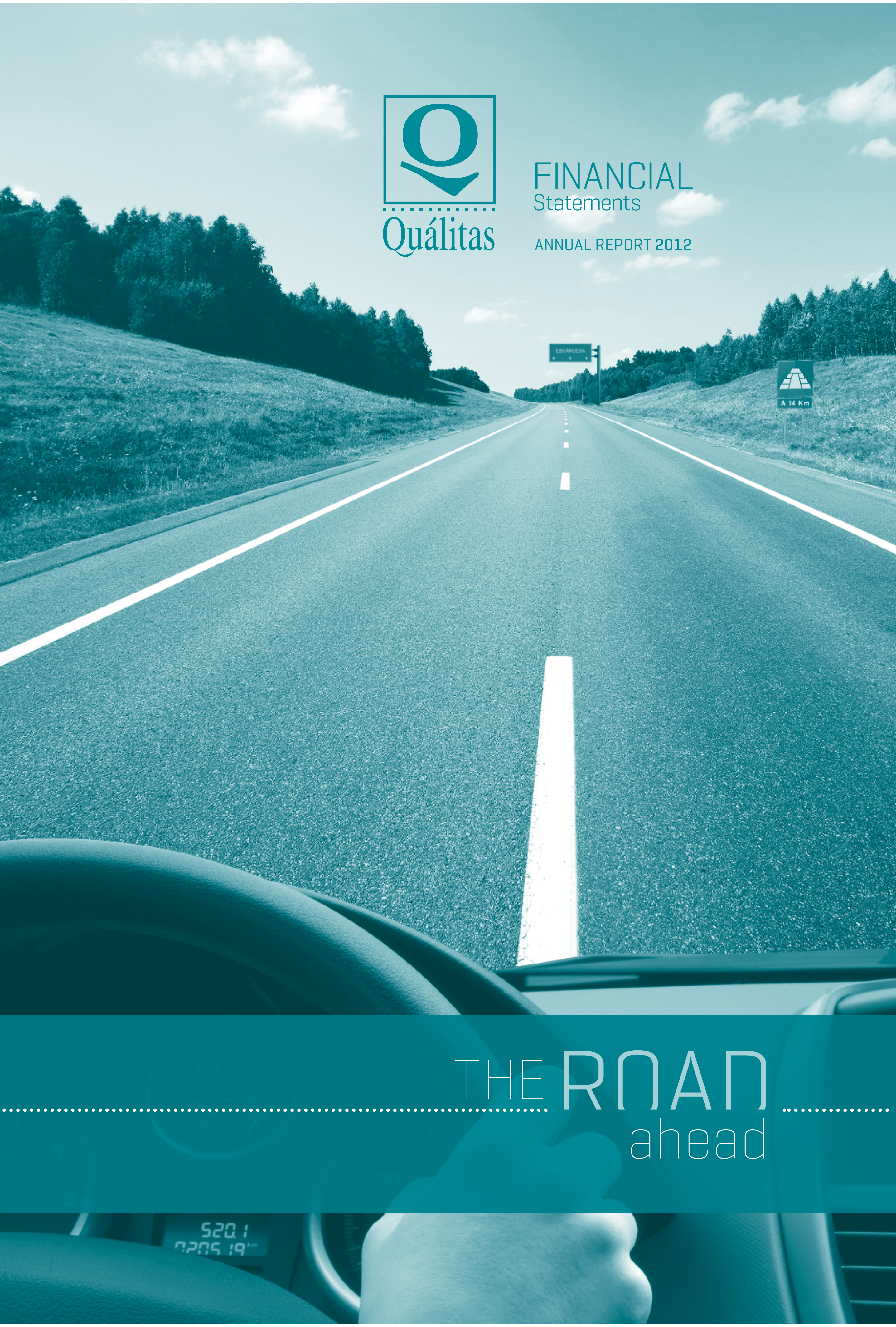
Quálitas

FINANCIAL Statements

ANNUAL REPORT **2012**



THE ROAD ahead

FINANCIAL Statements

Quálitas Controladora, S.A.B. de C.V. and subsidiaries

Independent auditors' report and consolidated financial statements 2012 and 2011

Consolidated Financial Statements as of Years Ended December 31, 2012 and 2011 and Independent Auditors' Report Dated 25 February, 2013

Quálitas

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Independent auditors' report to the Board
of Directors and Stockholders of Quálitas Controladora, S.A.B. de C.V. and Subsidiaries

We have audited the accompanying consolidated financial statements of Quálitas Controladora, S.A.B. de C.V and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, the consolidated statements of income, changes in stockholder's equity and cash flows for the years then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting criteria established by the National Insurance and Bonding Commission (the "Commission") through the provisions documented in the General Law of Institutions and Mutual Insurance contained in the Sole Insurance Circular, issued on December 13, 2010 (the "Regulatory Insurance Accounting Principles") and internal control that the Management of the Company deems necessary for the preparation of consolidated financial statements are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Quálitas Controladora, S.A.B. de C.V. and subsidiaries as of December 31, 2012 and 2011, and their financial performance and their cash flows for the years then ended, in accordance with Regulatory Insurance Accounting Principles.

Other matter

On June 19, 2012, the shareholders of Quálitas Compañía de Seguros, S.A.B. de C.V. (Insurance Company), swapped the shares of Insurance Company for shares of the Company at the rate of one Insurance Company share for one Company share, with the shareholders retaining the same equity percentages. As it was a transaction between common shareholders that did not involve any change in their equity percentages, for purposes of comparability the accompanying financial statements include those of the subsidiaries as if the Company were the holding company since the start of the earliest year presented.

The financial statements of Quálitas Controladora, S.A.B. de C.V. as of December 31, 2011 and for the year ended, before including those of the subsidiaries as if the Company were the holding company from the start of the earliest year presented, were audited by other auditors, who expressed an unchanged opinion on such financial statements on February 1, 2012.

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited

Francisco Javier Vázquez Jurado

February 25, 2013

Consolidated balance sheets

Quálitas Controladora, S.A.B. de C.V. and Subsidiaries

For the years ended December 31, 2012 and 2011
(In Mexican pesos)

Assets	2012	2011
Investments:		
Securities:		
Government	$ 2,062,569,948	$ 2,186,355,805
Private companies:		
Fixed maturities	4,600,579,247	4,464,494,159
Equity	930,579,859	424,180,800
Foreign	131,312,956	64,973,960
Net value	454,856,202	214,402,983
Interest receivable	14,095,043	13,117,334
(-) Impairment of securities	-	145,229
	8,193,993,255	7,367,379,812
Repurchase agreements	1,204,849,336	208,266,057
Loans:		
Secured	14,013,277	21,168,162
Discounts and re-discounts	5,000,000	11,083,333
(-) Allowance for doubtful accounts	3,334,769	5,377,431
	15,678,508	26,874,064
Property:		
Real Estate	481,621,037	224,136,175
Net value	323,508,553	272,879,476
(-) Depreciation	38,428,213	33,930,624
	766,701,377	463,085,027
Investment for labor obligations	47,635,712	38,587,398
Cash and cash equivalents:		
Cash and banks	60,741,676	141,176,844
Debtors:		
Premiums	6,007,826,779	5,297,536,537
Agents and adjusters	34,743,912	37,625,069
Accounts receivable	92,413,076	95,221,052
Loans to employees	33,064,805	34,024,673
Other	397,508,437	379,603,188
(-) Allowance for doubtful accounts	46,855,567	73,895,802
	6,518,701,442	5,770,114,717
Reinsurance companies:		
Reinsurance companies	5,216,750	7,806,058
Equity participation of re-insurers in outstanding claims	22,192,191	(7,001,286)
Equity participation of re-insurers in unearned premiums	52,548,626	2,098,373
Other equity participations interest	4,228,042	12,027,602
	84,185,609	14,930,747
Other permanent investments	15,549,306	15,226,135
Other assets:		
Furniture and equipment, net	317,769,696	272,481,814
Other	1,009,721,990	743,613,426
Amortizable expenses	11,435,127	9,432,742
(-) Amortization	9,573,885	7,970,616
	1,329,352,928	1,017,557,366
Total assets	$ 18,237,389,149	$ 15,063,198,167

Liabilities	2012	2011
Technical reserves:		
Properties and casualties	$ 8,341,794,336	$ 6,905,228,934
Contractual obligations:		
Unpaid claims and expirations	2,771,292,147	2,470,765,401
Incurred claims but not reported	102,957,467	101,946,319
Policy dividends	26,618,290	12,372,674
Premiums on deposit	57,147,524	55,724,086
	2,958,015,428	2,640,808,480
Preventative reserve:		
Catastrophic risks	592,649	1,337,882
Total reserves	11,300,402,413	9,547,375,296
Reserve for employee retirement obligations	95,747,147	80,096,081
Creditors:		
Agents and adjusters	480,842,470	447,514,639
Funds for losses management	3,801,669	2,263,043
Sundry creditors	1,098,642,753	894,138,499
Total liabilities	1,583,286,892	1,343,916,181
Reinsurance companies	89,548,344	24,303,309
Other liabilities:		
Provisions for employee profit sharing	2,623,523	4,566,817
Income tax payable	560,536,686	501,558,027
Other obligations	911,636,646	798,294,601
Deferred credits	110,624,427	190,355,707
	1,585,421,282	1,494,775,152
Stockholders' equity:	14,654,406,078	12,490,466,019
Capital stock	2,684,887,926	343,006,574
Reserves:		
Legal	-	181,694,394
Other	-	288,149,864
	-	469,844,258
Valuation surplus	(28,603,008)	100,470,168
Permanent investments	-	(2,638,479)
Retained earnings from prior years	(285,598)	753,455,396
Net income for the year	916,429,873	834,261,563
Translation effects of foreign operations	3,569,069	-
Excess in restated stockholders' equity	-	65,597,647
Controlling interest	3,575,998,262	2,563,997,127
Non-controlling interest	6,984,809	8,735,021
Total stockholders' equity	3,582,983,071	2,572,732,148
Total liabilities and stockholders' equity	$ 18,237,389,149	$ 15,063,198,167

Memorandum accounts	2012	2011
Reserve to incorporate employee retirement obligations	$ 865,527	$ 961,471
Recording accounts	1,382,227,258	1,659,547,310
	$ 1,383,092,785	$ 1,660,508,781

See accompanying notes to consolidated financial statements.

"The consolidated balance sheets were prepared in accordance with the accounting provisions issued by the National Insurance and Bonding Commission, applied on a consistent basis, and, taken as a whole, correctly reflect the operations performed by the Company up to the aforementioned date, which were carried out and valued in accordance with sound corporate practices and applicable legal and administrative provisions, and were recorded in the respective accounts in conformity with the current chart of accounts"

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

"The consolidated financial statements and the notes which form part of the consolidated financial statements, can be consulted by Internet on the following webpage: http://inversionistas.qualitas.com.mx/qinv/images/pdf/Key_fin_data/Reports/Edos_fin/Notas_edos_fin/2012/ef_dictaminados_12.pdf"

"The consolidated financial statements were audited by Accountant Francisco Javier Vázquez Jurado, a partner of Galaz, Yamazaki, Ruiz Urquiza, S.C., which was contracted to render the external audit services of the Company; furthermore, the technical reserves of the Company were audited by Actuary Luis Hernández Fragoso".

"The report issued by the external auditor, the consolidated financial statements and the notes which form part of the audited consolidated financial statements, will be made available for consultation by Internet on the following webpage:, http://inversionistas.qualitas.com.mx/qinv/images/pdf/Key_fin_data/Reports/Edos_fin/Notas_edos_fin/2012/ef_dictaminados_12.pdf, as of the 60 calendar days following the close of the year 2012".

Lic. Joaquín Brockman Lozano
Chief Executive Officer

C.P.C. Gabriel García Ruíz
Internal Auditor

C.P. Arturo Membrillo Romero
General Accountant

See accompanying notes to consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting provisions issued by the National Insurance and Bonding Commission, applied on a consistent basis, and reflect all the revenues and expenses derived from the operations performed by the Company up to the aforementioned date, which were carried out and valued in accordance with sound corporate practices and applicable legal and administrative provisions, and were recorded in the respective accounts in conformity with the current chart of accounts".

"These consolidated statements of income were approved by the Board of Directors under the responsibility of the signing officers."

Consolidated statements of income

Quálitas Controladora, S.A.B. de C.V. and Subsidiaries

For the years ended December 31, 2012 and 2011
(In Mexican pesos)

Premiums	2012	2011
Premiums written	$ 13,656,866,487	$ 11,341,036,291
(-) Premiums ceded	102,804,002	249,398,504
Retained premiums	13,554,062,485	11,091,637,787
(-) Net increase of the reserve of unearned premiums	1,446,091,145	492,190,972
Earned retained premiums	12,107,971,340	10,599,446,815
(-) Net acquisition cost:		
Agent commissions	813,088,778	700,912,981
Additional agent compensations	169,813,940	182,586,348
Commission for reinsurance ceded	844,903	124,671,746
Coverage due to excess of losses	13,017,860	11,259,554
Other costs	1,991,880,897	1,560,810,411
	2,986,956,572	2,330,897,548
(-) Net cost of claims and other contractual obligations:		
Claims and other contractual obligations	8,000,026,642	7,499,070,852
(-) Claims recovered on non-proportional reinsurance	598,632	5,698,210
Other claims	8,752,650	(852,859)
	8,008,180,660	7,492,519,783
Technical income	1,112,834,108	776,029,484
Net increase in other technical reserves:		
(-) Catastrophic risk reserve	(745,232)	(1,003,775)
Gross income	1,113,579,340	777,033,259
Operating expenses, net:		
Administrative and operating expenses	(115,479,137)	32,877,065
Employee remuneration and benefits	182,077,549	133,952,031
Depreciation and amortization	138,424,228	119,330,576
	205,022,640	286,159,672
Operating income	908,556,700	490,873,587
Net investment income:		
Investments	441,293,244	481,672,032
Sale of investments	93,855,838	6,756,415
Valuation of investments	240,519,407	(13,067,933)
Surcharges on premiums	119,088,745	123,475,618
Other	23,354,619	15,721,516
Exchange fluctuation	(18,490,833)	31,325,059
	899,621,020	645,882,707
Income before income taxes	1,808,177,720	1,136,756,294
Income tax expense	562,398,221	299,713,035
Net consolidated income	$ 1,245,779,499	$ 837,043,259
Controlling interest	$ 1,252,933,480	$ 834,261,563
Non-controlling interest	(7,153,981)	2,781,696
Net consolidated income	$ 1,245,779,499	$ 837,043,259
Basic earnings per common share	$ 0.5537	$ 0.3721
Diluted earnings per share	$ 0.5537	$ 0.3721

Lic. Joaquín Brockman Lozano
Chief Executive Officer

C.P.C. Gabriel García Ruíz
Internal Auditor

C.P. Arturo Membrillo Romero
General Accountant

Consolidated statements of Changes in Stockholders' Equity

Quálitas Controladora, S.A.B. de C.V. and Subsidiaries

For the years ended December 31, 2012 and 2011
(In Mexican pesos)

				Earned Capital
	Common Stock	Reserves	Retained Earnings from Prior Years	Net Income for the Year
Balances as of January 1, 2011 previously reported	$ 343,006,574	$ 431,920,409	$ 723,821,619	$ 379,238,482
Effects in prior years of accounting changes	-	-	(311,680,856)	-
Investment valuation	-	-	-	-
Adjusted balances as of January 1, 2011	343,006,574	431,920,409	412,140,763	379,238,482
Movements inherent to stockholders' decisions:				
Creation of reserves	-	37,923,849	(37,923,849)	-
Transfer of results from prior year	-	-	379,238,482	(379,238,482)
Total	-	37,923,849	341,314,633	(379,238,482)
Movements inherent to the recognition of comprehensive income:				
Comprehensive income:				
Net income for the year	-	-	-	834,261,563
Increase in valuation of properties	-	-	-	-
Other	-	-	-	-
Total	-	-	-	834,261,563
Balances as of December 31, 2011	343,006,574	469,844,258	753,455,396	834,261,563
Movements inherent to stockholders' decisions:				
Dividends declared	-	-	(225,000,000)	-
Effect on share swap	2,341,881,352	(469,844,258)	(1,363,002,558)	(336,503,606)
Transfer of results from prior year	-	-	834,261,564	(834,261,564)
Total	2,341,881,352	(469,844,258)	(753,740,994)	(1,170,765,170)
Movements inherent to the recognition of comprehensive income:				
Comprehensive income:				
Net income for the year	-	-	-	1,252,933,480
Other	-	-	-	-
Total	-	-	-	1,252,933,480
Balances as of December 31, 2012	$ 2,684,887,926	$ -	$ (285,598)	$ 916,429,873

See accompanying notes to consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with the accounting provisions issued by the National Insurance and Bonding Commission, applied on a consistent basis, and reflect all the movements in the stockholders' equity accounts derived from the operations performed by the Company up to the aforementioned date, which were carried out and valued in conformity with sound corporate practices and applicable legal and administrative provisions."

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

Other capital accounts	Excess in restated stockholders' equity	Valuation surplus	Translation effects of foreign operations	Non-controlling interest	Total stockholders´ equity
$ [2,638,479]	$ 65,597,647	$ 100,595,081	$ -	$ 5,022,518	$ 2,046,563,851
-	-	-	-	-	[311,680,856]
-	-	[29,026,688]	-	-	[29,026,688]
[2,638,479]	65,597,647	71,568,393	-	5,022,518	1,705,856,307
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	2,781,696	837,043,259
-	-	28,901,775	-	-	28,901,775
-	-	-	-	930,807	930,807
-	-	28,901,775	-	3,712,503	866,875,841
[2,638,479]	65,597,647	100,470,168	-	8,735,021	2,572,732,148
-	-	-	-	-	[225,000,000]
[1,475,521]	[65,597,647]	[105,457,762]			
-	-	-	-	-	-
[1,475,521]	[65,597,647]	[105,457,762]	-	-	[225,000,000]
-	-	-	-	[7,153,981]	1,245,779,499
4,114,000	-	[23,615,414]	3,569,069	5,403,769	[10,528,576]
4,114,000	-	[23,615,414]	3,569,069	[1,750,212]	1,235,250,923
$ -	$ -	$ [28,603,008]	$ 3,569,069	$ 6,984,809	$ 3,582,983,071

Lic. Joaquín Brockman Lozano
Chief Executive Officer

C.P.C. Gabriel García Ruíz
Internal Auditor

C.P. Arturo Membrillo Romero
General Accountant

Consolidated Statements of Cash Flows

Quálitas Controladora, S.A.B. de C.V. and Subsidiaries

For the years ended as of December 31, 2012 and 2011
(In Mexican pesos)

	2012	2011
Net consolidated income	$ 1,245,779,499	$ 837,043,259
Adjustments for items not including cash flows:		
Gain on sale of fixed assets	(12,380,921)	-
Allowance for doubtful accounts	(29,228,126)	22,322,637
Depreciation and amortization	138,424,228	119,330,576
Increase in technical reserves	1,385,369,916	646,220,352
Provisions	6,602,751	19,477,718
Current and deferred income taxes	562,398,221	299,713,035
	3,296,965,568	1,944,107,577
Operating activities:		
Change in investment securities	(826,468,214)	(1,671,640,462)
Change in receivables repurchase agreement	(996,583,279)	(72,314,132)
Change in premiums receivable	(710,290,242)	(377,414,606)
Change in debtors	1,981,968	18,461,654
Change in reinsurers	46,440,426	(416,640,609)
Change in other operating assets	(388,118,889)	(184,789,427)
Changes in contractual obligation and costs associated with claims	317,206,948	239,131,521
Change in other operating liabilities	(189,653,138)	457,321,692
Net cash provided by (used in) operating activities	551,481,148	(63,776,792)
Investing activities:		
Proceeds from disposal of property and equipment	29,335,368	11,625,731
Purchase of other permanent investments	(323,171)	-
Purchase of property and equipment	(444,901,351)	(175,215,557)
Net cash used in investing activities	(415,889,154)	(163,589,826)
Financing activities:		
Dividends paid	(225,000,000)	-
Other movements	5,403,769	-
Net cash used in financing activities	(219,596,231)	-
Net decrease in cash and cash equivalents	(84,004,237)	(227,366,618)
Adjustments to cash flow from changes in the exchange rate and inflation levels	3,569,069	-
Cash and cash equivalents at beginning of year	141,176,844	368,543,462
Cash and cash equivalents at end of year	$ 60,741,676	$ 141,176,844

"These consolidated statements of cash flows was prepared in accordance with the accounting provisions issued by the National Insurance and Bonding Commission, applied on a consistent basis, and reflect all the cash flows derived from the operations performed by the Insurance Company up to the aforementioned date, which were carried out and valued in conformity with sound corporate practices and applicable legal and administrative provisions."

"These consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the signing officers."

See accompanying notes to consolidated financial statements.

Lic. Joaquín Brockman Lozano
Chief Executive Officer

C.P.C. Gabriel García Ruíz
Internal Auditor

C.P. Arturo Membrillo Romero
General Accountant

Notes to the Consolidated Financial Statements

Quálitas Controladora, S.A.B. de C.V. and Subsidiaries

For the years ended as of December 31, 2012 and 2011
(In Mexican pesos)

1. Activities

Quálitas Controladora, S.A.B. de C.V. (the "Company") and subsidiaries was established and began operations on December 1, 1993. It is authorized by the Mexican Treasury Department ("SHCP") and the National Insurance and Bonding Commission (the "Commission") to perform property and casualty insurance and reinsurance operations, mainly in the field of automobile insurance, in accordance with the General Law on Insurance Companies and Mutual Companies (the "LGISMS") and the Commission, as the agency established for inspection and oversight of these companies.

During 2012, the Company did not interrupt any of its principal activities and did not perform the following activities:

I. Derivatives transactions,
II. Financial reinsurance transactions,
III. Capital lease contracts,
IV. Issuance of debentures or other credit instruments.

2. Basis for presentation

a. **Explanation for translation into English -** The accompanying consolidated financial statements have been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented on the basis of the accounting criteria that may not conform with accounting principles generally accepted in the country of use.

b. **Comparabilidad -** On June 19, 2012, the shareholders of Quálitas Compañía de Seguros, S.A.B. de C.V. (Insurance Company), swapped the shares of Insurance Company for shares of the Company at the rate of one Insurance Company share for one Company share, with the shareholders retaining the same equity percentages. As it was a transaction between common shareholders that did not involve any change in the equity percentages, for purposes of comparability the accompanying financial statements include those of the subsidiaries as if the Company were the holding company since the start of the earliest year presented.

The condensed financial information of the audited financial statements as of December 31, 2011 and for the year ended, as it was originally reported, is as follows:

Balance sheet		2011
Availability	$	47,211
Debtors		41,427
Total assets	$	88,638
Sundry creditors	$	324,236
Social capital		50,000
Retained earnings		(285,598)
Total liabilities and equity	$	88,638

Income Statement		2011
Administrative and operational expenses	$	277,394
Comprehensive financing		6,027
Loss for the year	$	283,421

c. **Monetary unit of the financial statements** - The consolidated financial statement and notes as of December 31, 2012 and for the year then ended include balances and transactions in pesos of different purchasing power.

d. **Comprehensive income** - This represents the modification in stockholders' equity during the year for items which are not capital contributions, reductions and distribution; it is composed of the net income for the year plus other items which represent a gain or loss from the same period, and are presented directly in stockholders' equity without affecting the income statement. In 2012, the other comprehensive income items are represented mainly by the result from valuation of real estate property and the effects of translation of foreign operations.

e. **Consolidation of the financial statements** - The accompanying consolidated financial statements as of December 31, 2012 include those of the Company and of its subsidiaries, which are described below:

Subsidiary	% equity	Activity
Quálitas Compañía de seguros, S.A.B. de C.V.	99.99	Sale of insurance policies and reinsurance operations in the field of automobile
Activos Jal, S.A. de C.V.	99.99	Real estate leasing
Administración y Dirección Corporativa COQU, S.A. de C.V.	98	Administrative and personnel services
Asesoría y Servicios Q, S.A. de C.V.	98	Administrative services
Quálitas El Salvador	99.99	Sale of insurance policies
Quálitas Costa Rica	99.99	Sale of insurance policies
Car One Outlet de Refacciones, S.A. de C.V.	51	Purchase and sale of spare parts

Significant intercompany balances and transactions have been eliminated.

f. **Translation of financial statements of foreign subsidiaries** - To consolidate financial statements of foreign subsidiaries, the accounting policies of the foreign entities are converted to the accounting criteria established by the Commission using the currency in which transactions are recorded. The financial statements are subsequently translated to Mexican pesos as set forth below.

Foreign operations whose functional currency is the same as the currency in which transactions are recorded translate their financial statements using the following exchange rates: 1) the closing exchange rate in effect at the balance sheet date for assets and liabilities; 2) historical exchange rates for stockholders' equity, and 3) the rate on the date of accrual of revenues, costs and expenses. Translation effects are recorded in stockholders' equity.

3. Summary of significant accounting policies

In accordance with the General Provisions Applicable to Issuers of Securities and Other Stock Market Participants ("Sole Circular of Issuers"), because the principal subsidiary of Quálitas Controladora is mainly engaged in the insurance and reinsurance operation, the Company's financial statements have been prepared and presented in accordance with the accounting criteria established by the Commission ("Regulatory Insurance Accounting Principles") through the Sole Insurance Circular ("Circular").

In accordance with Chapters 19.5 "Treatment related to the general accounting scheme" and 19.6 "Treatment for the specific application of financial reporting standards" of the Sole Insurance Circular (the "Circular"), as of January 1, 2011, the Company's accounting will be adjusted to reflect Mexican Financial Reporting Standards ("MFRS"), as issued by the Mexican Board for the Research and Development of Financial Reporting Standards (CINIF), except when, in the judgment of the

Commission, it is necessary to apply a specific regulation or accounting treatment, because of the specialized operations carried out by the Company. By the same token, the application of MFRS A-8 "Supplementation" is not permitted.

The accounting policies and those for preparation of the consolidated financial statements which the Company follows are in conformity with the accounting criteria established by the Commission, in the Circular. The preparation of the consolidated financial statements requires that the Company's management make certain estimates and use assumptions for purposes of the disclosures required therein. Nevertheless, actual results may differ from such estimates. The Company's management, in the application of its professional judgment, believes that the estimates and assumptions used were adequate under the circumstances.

I. Changes in accounting policies -
On December 28, 2011, modification 56/11 to the Circular were published in the Federal Official Gazette ("DOF"), to establish that as of January 1, 2012, charges and surcharges on premiums will be recorded in the income statement as they are earned.

II. Accounting policies - The significant accounting policies followed by the Company are as follows:

a. Recognition of the effects of inflation - The accumulated inflation of the three annual periods before December 31, 2012 and 2011 is 12.26% and 15.19%, respectively. For this reason, the economic environment qualifies as noninflationary in both years, and therefore the effects of inflation are not recognized in the accompanying consolidated financial statements. The inflation percentages for the years ended December 31, 2012 and 2011 were 3.57% and 3.82%, respectively.

As of January 1, 2008, the Insurer suspended recognition of the effects of inflation in the consolidated financial statements; however, the assets, liabilities and stockholders' equity include the effects of re-expression recognized up to December 31, 2007.

b. Investments -

1. In securities - Includes investments in debt and equity securities and are classified at the time of their acquisition for their valuation and recording, based on the intention of the Company's management regarding their use as: securities to finance the operation, held to maturity or available for sale. In accordance with that established in Chapter 12.2 of the Circular, the recording and valuation of investments in securities is summarized as follows:

I. Debt securities - These are recorded at their acquisition cost. The returns accrued in accordance with the effective interest rate are applied to results of the year. They are classified in one of the following categories:

a) Securities to finance the operation - These are valued at fair value, which is measured based on the market prices disseminated by the price suppliers or by official publications specializing in international markets. Unlisted securities are valued at fair value based on internal estimates of fair value. The effects from valuation are applied to results of the year.

b) Securities held to maturity - These are valued in accordance with the effective interest method and the effects from valuation are applied to results of the year.

c) Securities available for sale - These are securities not classified in one of the previous categories. They are valued at fair value based on the market prices disseminated by price suppliers or by official publications specializing in international markets.

Unlisted securities are valued at fair value based on technical determinations of fair value. The result from valuation, as well as its respective effect from monetary position, are recorded in stockholders' equity and are reclassified to results at the time of their sale.

II. Equity securities - These are recorded at acquisition cost. Listed securities are valued at net realizable value based on the market price as established in point I.a) above. Equity securities are classified into one of the following two categories:

a) Listed securities to finance the operation - The effects from valuation are applied to results of the year. If there were no market prices, the last price recorded will be taken for the valuation, using the lower of the book value of the issuer or the acquisition cost as the restated price.

b) Available for sale - The result from valuation, as well as its respective effect from monetary position, are recognized in stockholders' equity and are reclassified to results at the time of their sales.

2. In real estate - Investment in real estate is recorded at acquisition cost and is valued based on appraisals performed by independent experts authorized by the National Banking and Securities Commission ("CNBV"). Investment in buildings is depreciated by the straight-line method based on the estimated useful life. Appraisals must be performed at least every two years.

c. Funds available - These consist mainly of bank deposits in checking accounts and petty cash. They are valued at fair value and the returns generated are recognized in results as they are accrued.

d. Premium debtor- Uncollected premiums represent the balances of premiums which are aged by less than 45 days. In accordance with the relevant provisions of the LGISMS and the Commission, premiums aged by more than 45 days should be canceled against results for the year.

e. Reinsurers - The Company limits the amount of its liability by distributing the risks assumed with reinsurers, based on proportional contracts, by ceding a part of its premium to such reinsurers.

The reinsurers are obligated to reimburse the Company for the claims reported based on their participation.

f. Coinsurance - The operations derived from the coinsurance contracts that the Company performs in the auto and casualty segments are accounted for on a monthly basis and adjusted based on the account statements received from the co-insurers, which are received monthly.

g. Furniture and fixtures - Are recorded at their acquisition cost. The balances derived from acquisitions made prior to December 31, 2007 were restated by applying factors taken from the National Consumer Price Index ("NCPI") until that date. Depreciation is calculated according to the straight line method based on the estimated useful life of assets, as follows:

	Years
Furniture and equipment	10
Computer equipment	3
Other	4
Transport equipment	4

h. **Costs subject to amortization -** Installment expenses are recorded at their acquisition cost. The balances derived from acquisitions made prior to December 31, 2007 were restated by applying factors taken from the NCPI until that date. Amortization is calculated according to the straight line method by considering the period established by the Company for each particular expense.

i. **Salvage -** Is presented under the heading of other assets in the balance sheet; salvage is recognized as a total loss based on known casualties which, based on the Company's experience, is valued at a 35% compensation rate.

j. **Technical reserves -** The Commission requires that all technical reserves be audited annually by independent actuaries. On February 20, 2013 and February 14, 2012, the Company's independent actuaries issued their report to the effect that the reserves created for current risks, outstanding obligations and catastrophic risks at December 31, 2012 were determined in accordance with the legal provisions, the rules, criteria and practices established and permitted by the Commission and the actuarial practice standards adopted by the CONAC. Accordingly, on an aggregate basis, these reserves are sufficient to enable the Company to underwrite the obligations resulting from its insurance portfolio.

Technical reserves have been created according to legal provisions and those issued by the Commission. In order to value its technical reserves, the Company utilized the valuation methods and assumptions contained in its technical notes and the provisions detailed in Chapters 7.3, 7.4, 7.6, 7.8 and 7.9 of the Circular.

According to the provisions issued by the Commission, technical reserves must be valued as follows:

1. **Reserve for current risks**
   a. Casualty operation reserves are determined in the following manner:
   The expected value of future obligations derived from the payment of claims and benefits is projected by utilizing the recorded valuation method; this value is then matched with the unearned risk premium of current policies to obtain the efficiency factor used to calculate the reserves needed for each area or, if applicable, the types of insurance operated by the Company.

   The efficiency factor applied for this purposes must not be less than one. The adjustment applied to correct the insufficiency of the current risks reserve must be based on the result of multiplying the unearned risk premium by the respective sufficiency factor, less one. The unearned portion of administrative expenses must also be added to this calculation. Consequently, the amount determined for the current risks reserve is composed by the unearned risk premium of current policies, the reserve insufficiency adjustment and the unearned portion of administrative expenses.

2. Contractual obligations:
   a. Unpaid claims - A reserve is created for damages based on the estimated obligation amount.

   b. Incurred claims but not reported - This reserve is used to recognize the estimated amount of casualties yet to be reported to the Company. The estimate obtained by using the methodology approved by the Commission is recorded.

   c. Policy dividends - Represent the refund of a portion of the insurance premium; this amount is determined based on actuarial calculations which consider the casualty rate and severity.

   d. Insurance funds held in administration - Represent the policy dividends earned by insures, which are retained by the Company and held in administration, as established by insurance contracts.

   e. Premiums on deposit - Represent the collective premiums which, at the yearend close, have not been identified with premium debtor accounts to permit their application.

   f. Reserve for unvalued claims - This reserve reflects the expected amount of potential future payments to be made for claims reported to the casualty claims area and for which valuations have either not been reported or for which insufficient elements are available to allow the future payment obligations to be accurately determined.

3. Catastrophic risks - Are calculated according to the rules issued by the Commission for the creation and increase of special technical reserves for earthquakes, volcanic eruptions and catastrophic risks caused by hurricanes and other hydro-meteorological risks.

   As regards technical liabilities, based on its experience, the Company applied the following casualty and severity assumptions:

   These claims rate and severity assumptions were taken from the technical notes filed by the Company with the Commission.

k. Reserve for labor obligations - The liability derived from seniority premiums and compensation at the end of the work relationship is recorded when it is accrued; this amount is calculated by independent actuaries using the projected unit credit method and nominal interest rates.

l. Provisions - A provision is recognized when the Company has a current obligation based on a past event, which will probably result in the disbursement of economic resources and can be fairly estimated.

m. Income tax and business flat tax - Income Tax (ISR) and Business Flat Tax (IETU) are recorded in the results of the year in which they are incurred. In order to recognize whether, based on financial projections, it will incur ISR or IETU, the Company recognizes deferred tax based on the tax it will essentially pay. Deferred tax is recognized by applying the respective rate to the temporary differences obtained by matching the accounting and tax values of assets and liabilities and, if applicable, by considering tax loss carryforwards and certain tax credits. The deferred tax asset is only recorded when its recovery is highly likely.

n. Transactions denominated in foreign currency - Transactions denominated in foreign currency are recorded based on the exchange rate in effect at each transaction date. Monetary assets and liabilities denominated in foreign currency are valued in Mexican pesos according to the exchange rate in effect at the date of the financial statements. Exchange rate fluctuations are recorded in results.

o. Premium revenues - Revenues are recorded by considering contracted policy premiums and subtracting premiums assigned to reinsurance.

Unpaid premiums are canceled after 45 days and released from the current risks reserve. In the event of policy rehabilitation, the reserve is replenished as of the month in which insurance coverage is recovered.

Premium rights and surcharges represent revenues related to the financing derived from policies with installment payments (damages) and are recognized in income as they are accrued. Up to 2011, the collected amount was considered as income of the year, while the amount uncollected at yearend was recorded as deferred income.

p. Commissions - Commission expenses are recognized in results when the respective policies are issued.

q. Use of facilities - The expenses incurred by the Company to utilize the facilities where its products ("UDI") are sold are recognized when premiums are issued.

r. Claims cost - The claim cost is recognized in results when claims are received.

s. Memorandum accounts - These accounts are used to record informative data on taxes or other items which are excluded from the balance sheet. Audit procedures are only applied to the accrued amounts recorded in memorandum accounts when they result in the creation of an accounting entry:

1) Reserve for labor obligations at retirement (unaudited). This reserve is used to record the excess amount obtained by matching the net current liability with the net projected liability so as to recognize the figures of each new period.

2) Record accounts:
   - Sundry (unaudited) – These accounts are utilized to record uncollectible loans which were written-off by the Company; unidentified items and transactions are also recognized.

   The Company recognizes the unapplied or non-deducted amount or the accumulated amortization of fixed assets and unamortized expenses.

4. Investments

In accordance with applicable law and regulatory provisions issued by the Commission, the Company must maintain investments to cover the obligations represented by its technical reserves and its minimum guarantee capital. These investments are made in diversified instruments which are selected based on a combination of period and measured risk, as reflected by the Company's investment policies and requirements concerning the collateral exposure of assets and liabilities.

a. Based on the instrument type and issuer:

2012				
Nature and category	Acquisition cost	Valuation	Interest	Total
Debt instruments - National:				
Government:				
To finance operations	$ 2,062,569,948	$ (2,715,147)	$ 1,743,164	$ 2,061,597,965
Private National:				
To finance operations	4,459,758,614	181,031,681	12,122,631	4,652,912,926
Held to maturity	75,000,000	-	184,528	75,184,528
Total private	4,534,758,614	181,031,681	12,307,159	4,728,097,454
Equity instruments - National:				
Private:				
To finance operations	930,579,859	270,349,323	19,595	1,200,948,777
Total debt and capital – National	7,527,908,421	448,665,857	14,069,918	7,990,644,196
Debt instruments - Foreign:				
Private:				
To finance operations	65,820,632	-	19,159	65,839,791
Equity instruments - Foreign:				
Private:				
Available-for-sale	131,312,957	6,190,345	5,966	137,509,268
Total investments	$ 7,725,042,010	$ 454,856,202	$ 14,095,043	$ 8,193,993,255

2011				
Nature and category	Acquisition cost	Valuation	Interest	Total
Debt instruments - National:				
Government:				
To finance operations	$ 2,186,355,805	$ (11,880,602)	$ 1,236,003	$ 2,175,711,206
Private National:				
To finance operations	3,797,933,084	114,459,298	10,019,712	3,922,412,094
Held to maturity	20,000,000	-	42,594	20,042,594
Total private	3,817,933,084	114,459,298	10,062,306	3,942,454,688
Equity instruments - National:				
Private:				
To finance operations	424,180,800	108,884,747	-	533,065,547
Total debt and capital – National	6,428,469,689	211,463,443	11,298,309	6,651,231,441
Debt instruments - Foreign:				
Private:				
To finance operations	646,561,073	1,543,204	1,819,025	649,923,302
Equity instruments - Foreign:				
Private:				
Available-for-sale	64,973,962	1,396,336	-	66,370,298
Security impairment	(145,229)	-	-	(145,229)
Total investments	$ 7,139,859,495	$ 214,402,983	$ 13,117,334	$ 7,367,379,812

b. Based on instrument maturity:

2012				
Maturity	Acquisition cost	Valuation	Interest	Total
One year or less	$ 2,811,013,401	$ 281,298,459	$ 1,389,751	$ 3,093,701,611
More than one year and up to five years	2,882,086,813	3,439,672	4,786,497	2,890,312,982
More than five years and up to 10 years	716,364,223	10,713,745	2,422,212	729,500,180
More than 10 years	1,315,577,573	159,404,326	5,496,583	1,480,478,482
Total	$ 7,725,042,010	$ 454,856,202	$ 14,095,043	$ 8,193,993,255

2011				
Maturity	Acquisition cost	Valuation	Interest	Total
One year or less	$ 2,095,424,871	$ 111,176,762	$ 820,433	$ 2,207,422,067
More than one year and up to five years	3,173,039,516	7,832,456	7,635,994	3,188,507,965
More than five years and up to 10 years	627,944,699	15,616,431	2,157,670	645,718,800
More than 10 years	1,243,450,409	79,777,334	2,503,237	1,325,730,980
Total	$ 7,139,859,495	$ 214,402,983	$ 13,117,334	$ 7,367,379,812

c. According to Chapter 8.2 of the Circular, the investments made in securities by the Company to cover technical reserves must be rated by securities classification institutions authorized by the National Banking and Securities Commission ("CNBV"). These security ratings must fall within the ranges established by the Commission. The Company's investments in securities have the following ratings:

2012				
Rating	Maturity in less than one year	Maturity in more than one year	Total	%
Outstanding	$ 374,861,575	$ 3,488,662,799	$ 3,863,524,374	47
High	64,669,632	324,687,563	389,357,195	5
Good	219,703,429	139,533,705	359,237,134	4
Acceptable	2,509,355	36,825,248	39,334,603	1
Not Applicable	139,358,175	-	139,358,175	2
Equity instruments	1,334,679,207	6,904,345	1,341,583,552	16
Government	957,920,238	1,103,677,984	2,061,598,222	25
Total	$ 3,093,701,611	$ 5,100,291,644	$ 8,193,993,255	100%

2011				
Rating	Maturity in less than one year	Maturity in more than one year	Total	%
Outstanding	$ 307,387,148	$ 3,192,757,453	$ 3,500,144,601	48
High	87,043,391	342,517,364	429,560,755	5
Good	325,071,096	127,227,923	452,299,019	6
Acceptable	-	93,204,735	93,204,735	1
Not Applicable	-	125,372,623	125,372,623	2
Equity instruments	591,086,873	-	591,086,873	8
Government	896,833,559	1,278,877,647	2,175,711,206	30
Total	$ 2,207,422,067	$ 5,159,957,745	$ 7,367,379,812	100%

As of December 31, 2012 and 2011, the Company has no restricted liquidity investments for the settlement of legal proceedings.

As of December 31, 2012 and 2011, the Company did not sell financial instruments classified as securities held to maturity prior to their redemption date.

5. Cash

As of December 31, is composed as follows:

	2012	2011
Cash	$ 20,990,317	$ 13,511,181
Banks	39,751,359	127,665,663
Total	$ 60,741,676	$ 141,176,844

6. Other receivable

As of December 31,2012 and 2011, other receivables are composed as follows:

	2012	2011
Sundry debtors	$ 314,044,156	$ 331,243,994
Guarantee deposits	31,776,579	27,758,035
Value Added Tax	51,687,702	20,601,159
Total	$ 397,508.437	$ 379,603,188

7. Furniture and equipment

As of December 31, 2012 and 2011, the furniture and equipment is as follows:

	2012	2011
Furniture and fixtures	$ 150,166,946	$ 129,674,298
Computer equipment	354,614,749	314,389,858
Other	195,482,681	17,825,588
Vehicles	258,218,907	357,834,577
	958,483,283	819,724,321
Less accumulated depreciation	640,713,587	547,242,507
	$ 317,769,696	$ 272,481,814

8. Other assets (Sundry)

As of December 31, 2012 and 2011, is composed as follows:

	2012	2011
Salvage inventory(a)	$ 308,834,730	$ 294,514,693
Prepaid taxes	53,420,661	45,931,877
Prepaid taxes (b)	562,055,326	195,745,257
Deferred income taxes	85,411,273	207,421,599
	$ 1,009,721,990	$ 743,613,426

(a) As regards claims classified as total losses, based on its experience, the Company recognizes an unrealized salvage inventory equal to approximately 35% of compensation.

(b) This amount refers to estimated payments made on account of annual income tax, which can be applied to the respective liability when payment is made, in addition to recoverable balances derived from taxes paid in prior years.

9. Sundry creditors

As of December 31, 2012 and 2011, sundry creditors are as follows:

		2012		2011
UDI provision	$	588,537,316	$	586,501,371
Bank deposits		242,014,642		181,991,766
Other		246,818,288		104,372,855
Lawsuits		18,000,000		18,000,000
Dividends payable on shares		3,272,507		3,272,507
Total	$	1,098,642,753	$	894,138,499

10. Retirement benefits

The net cost of the period of obligations related to the pension plan, termination benefits and seniority premiums was $28,540,740 in 2012.

The Company has a defined-benefit pension plan for employees who reach the age of 60, or 55 when they have 35 or more years' of service. Under this plan, employees receive a pension based on the average salary of the last five years of employment prior to the retirement date.

This plan also covers seniority premiums, which include a single payment equal to 12 days' salary per each year worked, based on the most recent salary and limited to twice the legal minimum wage. This liability and the annual cost of benefits are calculated by an independent actuary utilizing the projected unit credit method and plan bases.

Similarly, this plan covers employee termination benefits, which are composed by a single payment equal to three months' salary plus 20 days for each year worked, based on the employee's final salary. This liability and the annual cost of benefits are calculated by an independent actuary utilizing the projected unit credit method and plan bases.

The current values of these obligations and the ratings used for calculation purposes are as follows:

		2012		2011
Defined benefit obligation	$	95,890,745	$	82,454,782
Plan assets at fair value		(47,458,982)		(38,103,847)
Underfunded		48,431,763		44,350,935
Initial transition liability to be amortized		-		(2,851,878)
Changes due to change of methodology		-		(461,155)
Actuarial loss not recognized		(4,061,575)		(3,597,207)
Premium recovered		-		1,749,508
Net projected liability	$	44,370,188	$	39,190,203

As of December 31, 2012, pension plan assets are invested in a trust with a bank:

		2012		2011
Private financial sector paper	$	47,635,712	$	38,587,398

The reserve for post-employment labor obligations is financed by contributions to a fund administered by the Company. Most of this reserve is covered by investments in investment funds; accrued interest is recognized within the reserve balance.

Net period cost comprises the following:

		2012		2011
Service costs	$	12,848,250	$	11,505,976
Financial cost		5,702,377		4,460,566
Expected yield on plan assets		(2,869,697)		(2,299,206)
Actuarial gain and loss		3,746,518		3,538,259
Past service costs		9,113,292		10,568,465
Actuarial gain and loss of prior years		-		38,434
Net cost for the period	$	28,540,740	$	27,812,494

11. Stockholders' equity

a. As of December 31, 2012 and 2011, subscribed and paid-in capital at par value (historical pesos) is as follows:

	Number of shares		Amount
Fixed Capital:			
Series A	1,350,000,000	$	1,610,932,756
Series B	900,000,000		1,073,955,170
Total	2,250,000,000	$	2,684,887,926

b. Pursuant to a resolution of the general ordinary stockholders' meeting on March 15, 2012, payment of dividends in cash, for $225,000,000 was approved.

c. According to the criteria issued by the Commission, gains derived from the valuation effects of investments in securities must be considered as unrealized. Accordingly, they cannot be capitalized and dividends cannot be paid to stockholders until they are realized in cash.

d. Under the LGISMS, the Company must utilize at least 10% of its profits of the year to create a legal reserve, until reaching 75% of paid-in capital. The legal reserve can be capitalized and must be replenished according to the new amount of paid-in capital. The legal reserve balance must not be distributed unless the company is dissolved.

e. The distribution of stockholders' equity, except restated paid-in capital and tax retained earnings, is subject to the payment of income tax at the rate in effect when the dividend is distributed. Any tax paid on this distribution may be credited against the payable income tax of the year in which the tax on the dividend is paid and against the tax of the year and estimated tax payments during the two subsequent fiscal years.

f. As of December 31, 2012 and 2011, tax account balances are as follows:

		2012		2011
Contributed Capital Account	$	2,843,224,538	$	59,334
Net Tax Income Account	$	446,295,385	$	-

12. Advance premiums

During 2012 and 2011, the Company issued insurance policies which took effect as of December 31, 2012 ("advance premiums"). As of December 31, 2012 and 2013, respectively, the following information on these advance premiums is presented in the balance sheets and statements of income:

Balance sheets:

	2012	2011
Assets:		
Premium debtor	$ 827,159,635	$ 664,682,659
Participation of re-reinsurers in unearned premiums	2,755,232	2,074,705
	$ 829,914,867	$ 666,757,364
Liabilities:		
Reserve of unearned premiums	$ 534,763,908	$ 465,810,169
Payables to insurance institutions	3,241,450	2,440,830
Un-accrued commissions	24,150,220	22,590,532
Sundry creditors (UDI)	124,974,802	59,559,050
VAT payable	113,252,203	91,037,887
Policy rights	-	20,896,151
Surcharges on policy	3,422,050	4,070,692
	$ 803,804,633	$ 666,405,311

Statements of income:

	2012	2011
Income:		
Premiums	$ 680,131,709	$ 548,723,021
Expenses:		
Premiums ceded	3,241,450	2,440,830
Increase to the reserve of unearned premiums	532,008,676	463,735,464
Agent commissions	24,235,083	22,635,624
Acquisition cost	124,974,802	59,559,050
	684,460,011	548,370,968
Technical (loss) income	(4,328,302)	352,053
Administration expenses (policy rights)	30,438,536	-
Net effect on statements of income	$ $26,110,234	$ 352,053

13. Contingent commissions

Contingent commissions are payments or compensations paid to individuals or entities engaged in intermediation activities or which intervened in the acquisition of the Company's insurance products. These amounts are paid in addition to the direct commissions or compensations considered in the design of each product.

In 2012, the Company executed agreements for the payment of contingent commissions with the individuals and entities acting as intermediaries and described in this note. During 2012, the total amount of payments made under these agreements for issuances and UDIS was $1,602,927,399 and $1,391,854,948, thereby representing 11.88 % and 12.39%, of the total premiums issued by the Company during 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the contingent commissions paid by the Company are composed as follows:

	2012	2011
Individuals	$ 50,597,078	$ 38,812,947
Entities	208,387,682	156,123,897
Entities UDIS	1,343,942,639	1,196,918,104
	$ 1,602,927,399	$ 1,391,854,948

Contingent commission agreements have the following characteristics:

a) **Individuals** - New sales, conservation, low casualty rate, profitability and general support.

b) **Entities** - New sales, conservation, low casualty rate and profitability, advisory services, portfolio management and technical and operating support for insurance policy management.

The Company does not hold any equity in the entities with which it has executed contingent commission agreements.

14. Foreign currency position

a. As of December 31, 2012 and 2011, the foreign currency monetary position is as follows:

	Thousands of U.S. Dollars	
	2012	2011
Monetary assets	45,421,477	46,061,326
Monetary liabilities	22,774,687	18,994,625
Monetary asset position – Net	22,646,760	27,066,701
Equivalent in Mexican pesos	$ 293,633,366	$ 377,515,519

b. The following Mexican peso exchange rates were in effect at the date of the financial statements and respective report:

	December 31,		February 25,
	2012	2011	2013
US dollar	$ 12.9658	$ 13.9476	$ 12.7028

15. Income taxes

The Company is subject in 2012 to ISR and IETU.

The ISR rate in 2012 and 2011 was 30%. In accordance with the Federal Income Law for 2013, which was enacted in 2012, the ISR rate applicable to companies will be 30% in 2013 and will decrease to 29% in 2014 and 28% in 2015 and thereafter

IETU - Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. Beginning in 2010, the IETU rate is 17.5%. The Asset Tax (IMPAC) Law was repealed upon enactment of the IETU Law; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid for the first time, may be recovered, according to the terms of the law.

Income tax incurred will be the higher of ISR and IETU.

Income taxes are as follow:

		2012		2011
ISR:				
Current	$	519,669,981	$	429,332,558
Deferred		42,728,240		(129,609,523)
	$	562,398,221	$	299,713,035

Based on its financial projections, the Entity determined that it will basically pay ISR. Therefore, it only recognizes deferred ISR.

a. The reconciliation of the statutory and effective rates expressed as a percentage of income before income taxes is:

	2012	2011
Statutory rate	30%	30%
Effect of permanent differences, mainly non-deductible expenses	-	-
Effects of inflation	2	1
Other permanent items	(1)	(6)
Effective rate	31%	26%

b. The main items generating the deferred ISR asset (liability) are as follows:

		2012		2011
Deferred ISR asset:				
UDI provision	$	180,242,997	$	179,591,402
Unaccrued commissions		66,267,465		62,353,904
Provisions		40,063,222		6,474,534
Premium surcharges		33,058,202		28,458,916
Policy rights		-		28,167,700
Broker bonus reserve		22,820,326		21,992,648
Furniture and fixtures		18,153,753		13,890,220
Brokers current account		8,286,857		8,627,738
Policy dividend reserve		7,985,487		3,711,802
Tax loss carryforwards		5,581,512		4,315,958
PTU liability		3,368,376		-
Fee provision		97,606		541,165
Reserve for obsolete inventories		-		419,267
Customer advances		-		72,015
Deferred ISR asset		385,925,803		358,617,269
Deferred ISR (liability):				
Salvage inventory		(79,236,104)		(77,722,781)
Valuation of debt instruments		(136,456,861)		(64,320,895)
Property		(81,105,549)		-
Insurance premium		(2,499,344)		-
Permanent investments		-		(9,151,994)
Other		(1,216,672)		-
Deferred ISR liability		(300,514,530)		(151,195,670)
Total deferred assets	$	85,411,273	$	207,421,599

16. Contingencies

As part of the normal course of its operations, the Company is involved in different legal proceedings. The Company's management considers that the provisions recorded at December 31, 2012 fully cover these contingencies and are sufficient to settle the amounts which could result from these lawsuits. It is therefore unlikely that these lawsuits, whether individually or collectively, will lead the Company to record an additional liability with a material effect on its financial position, the results of its operations or liquidity.

17. New accounting pronouncements

As part of its efforts to make Mexican standards converge with international standards, in 2012, the Mexican Board for Research and Development of Financial Reporting Standards ("CIMFRS") issued the following MFRS, and improvements to MFRS, which will become effective as of January 1, 2013:

MFRS B-3, Statement of Comprehensive Income (Loss)
MFRS B-4, Statement of Changes in Stockholders' Equity
MFRS B-6, Statement of Financial Position

Improvements to Mexican Financial Reporting Standards 2013

Some of the most important changes established by these standards are:

MFRS B-3 - Statement of Comprehensive Income (Loss) - Provides the options of presenting a) a single statement containing the items that make up net income (loss), as well as other comprehensive income (OCI)) and equity in OCI of other entities and be named statement of comprehensive income (loss), or b) two statements: the statement of income (loss), which should include only items that make up net income (loss) and the statement of other comprehensive income (loss), which should start from net income (loss) and immediately present OCI items and equity in OCI of other entities. In addition, MFRS B-3 establishes that items should not be separately presented as non-ordinary in the financial statement or the notes to the financial statements.

MFRS B-4, Statement of Changes in Stockholders' Equity - establishes the general rules for the presentation and structure of the statement of changes in stockholders' equity, such as showing retroactive adjustments due to accounting changes and correction of errors that affect the beginning balances of stockholders' equity and presenting comprehensive income (loss) in a single line item, providing a detail of all items making it up, according to the MFRS B-3.

MFRS B-6, Statement of Financial Position - Establishes, in a single standard, the structure of the statement of financial position as well as the related rules for presentation and disclosures.

Improvements to Mexican Financial Reporting Standards 2013 - The main improvements that result in accounting changes that should be recognized retroactively in fiscal years beginning on January 1, 2013 is:

Bulletin C-9, Accounting for Liabilities, Provisions, Contingent Assets and Liabilities and Commitments and Bulletin C-12, Accounting for Certain Financial Instruments With Characteristics of Liabilities, Equity or Both– Stipulate that costs incurred in connection with the issuance of debt obligations should be presented as a reduction of the related liabilities and recognized in current earnings using to the effective interest method.

Also, other Improvements to MFRS 2013 were issued that do not result in accounting changes but further clarify the definitions of certain terms.

At the date of issuance of these financial statements, the Company has not fully assessed the effects of adopting these new standards on its financial information.

18. Authorization to issue the financial statements

The issuance of these consolidated financial statements was authorized on February 25, 2013 by the Company's Board of Directors under the responsibility of General Director, Mr. Joaquín Brockman Lozano, General Accountant, Mr. Arturo Membrillo Romero, and Internal Audit Director, Mr. Gabriel García Ruíz. However, these financial statements are subject to the approval of the Ordinary Meeting of the Company's stockholders, which could request their modification under the General Corporate Law. Furthermore, the financial statements are subject to review by the Commission, which could request their issuance with certain modifications within the legal deadline established for this purpose.

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