Financial Statements

Annual Report 2013

Quálitas

Quálitas

Financial Statements

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

Independent auditors' report and consolidated financial statements 2013 and 2012

Consolidated Financial Statements for the Years Ended December 31
2013 and 2012 and Independent Auditors' Report Dated 24 February, 2014

Table of contents

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, 2013 and 2012, the consolidated statements of income, changes in stockholders' 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 Mutual Insurance Companies and Institutions contained in the Sole Insurance Circular, issued on December 13, 2010 (the "Regulatory Insurance Accounting Principles") and for such internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Independent Auditors

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 comply with ethical requirements and 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 of Quálitas Controladora, S.A.B. de C.V. and subsidiaries as of December 31, 2013 and 2012, have been prepared, in all material respects, in accordance with Regulatory Insurance Accounting Principles.

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 24, 2014

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

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

Assets		2013		2012
Investments:				
Securities:				
Government	$	1,419,537,072	$	2,062,569,948
Private companies:				
Fixed rate		5,472,053,437		4,600,579,247
Equities		1,520,348,407		930,579,859
Foreign securities		202,992,015		131,312,956
Net valuation		495,006,810		454,856,202
Interest receivable		15,023,424		14,095,043
		9,124,961,165		8,193,993,255
Repurchase agreements		693,590,868		1,204,849,336
Loans:				
Secured		17,895,598		14,013,277
Discounts and re-discounts		98,557,468		5,000,000
(-) Allowance for doubtful accounts		3,296,391		3,334,769
		113,156,675		15,678,508
Property:				
Real Estate		564,515,887		481,621,037
Net valuation		385,179,542		323,508,553
(-)Depreciation		43,875,641		38,428,213
		905,819,788		766,701,377
Investment related to labor obligations		58,565,654		47,635,712
Cash:				
Cash and banks		451,036,970		60,741,676
Debtors:				
Premiums		6,684,919,742		6,007,826,779
Agents and adjusters		35,620,177		34,743,912
Accounts receivable		121,739,294		92,413,076
Loans to employees		32,060,466		33,064,805
Other		409,832,179		397,508,437
(-)Allowance for doubtful accounts		55,096,624		46,855,567
		7,229,075,234		6,518,701,442
Reinsurance companies:				
Reinsurance companies		3,732,228		5,216,750
Equity participation of re-insurers in outstanding claims		64,790,740		22,192,191
Equity participation of re-insurers in unearned premiums		104,368,192		52,548,626
Other equity participations interest		4,315,863		4,228,042
		177,207,023		84,185,609
Other permanent investments		45,954,171		15,549,306
Other assets:				
Furniture and equipment, net		339,488,793		317,769,696
Other		1,223,298,199		1,009,721,990
Amortizable expenses		13,208,048		11,435,127
(-)Amortization		6,463,025		9,573,885
		1,569,532,015		1,329,352,928
Total assets	$	20,368,899,563	$	18,237,389,149

Liabilities		2013		2012
Technical reserves:				
Unearned premiums reserve	$	9,850,787,474	$	8,341,794,336
Contractual obligations:				
Unpaid claims and expirations		2,899,480,877		2,771,292,147
Claims incurred but not reported		108,882,996		102,957,467
Policy dividends		54,780,016		26,618,290
Premiums on deposit		67,432,542		57,147,524
		3,130,576,431		2,958,015,428
Preventative reserve:				
Catastrophic risks		131,886		592,649
Total reserves		12,981,495,791		11,300,402,413
Reserve for employee retirement obligations		118,451,279		95,747,147
Creditors:				
Agents and adjusters		558,098,126		480,842,470
Funds for losses management		5,359,321		3,801,669
Sundry creditors		1,178,787,141		1,098,642,753
		1,742,244,588		1,583,286,892
Reinsurance companies		137,928,278		89,548,344
Other liabilities:				
Provisions for employee profit sharing		4,789,449		2,623,523
Income tax payable		380,790,982		560,536,686
Other obligations		1,115,154,274		911,636,646
Deferred credits		131,322,356		110,624,427
		1,632,057,061		1,585,421,282
Total liabilities		16,612,176,997		14,654,406,078
Stockholders' equity:				
Capital stock		2,677,717,585		2,684,887,926
Reserves:				
Legal		45,821,494		-
Other		135,000,000		-
		180,821,494		-
Valuation surplus		(5,686,295)		(28,603,008)
Retained earnings from prior years		60,418,179		(285,598)
Net income for the year		817,917,153		916,429,873
Foreign currency translation effects of foreign operations		6,223,026		3,569,069
Controlling interest		3,737,411,142		3,575,998,262
Non-controlling interest		19,311,424		6,984,809
Total stockholders' equity		3,756,722,566		3,582,983,071
Total liabilities and stockholders' equity	$	20,368,899,563	$	18,237,389,149

Memorandum accounts	2013	2012
Employee retirement obligations reserve pending	$ 804,010	$ 865,527
Recording accounts	3,979,829,612	1,382,227,258
	$ 3,980,633,622	$ 1,383,092,785

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/2013/ef_dictaminados_13.pdf”

“The consolidated financial statements were audited by Accountant Francisco Javier Vázquez Jurado, a partner of Galaz, Yamazaki, Ruiz Urquiza, S.C., which was hired 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/2013/ef_dictaminados_13.pdf, as of the 60 calendar days following the close of the year 2013”.

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

For the years ended December 31, 2013 and 2012
(In Mexican pesos)

	2013	2012
Premiums:		
Premiums written	$ 15,226,078,713	$ 13,656,866,487
(-)Premiums ceded	104,851,235	102,804,002
Retained premiums	15,121,227,478	13,554,062,485
(-) Net increase of the reserve of unearned premiums	1,563,669,946	1,446,091,145
Earned retained premiums	13,557,557,532	12,107,971,340
(-) Net acquisition cost:		
Agents' commissions	955,882,008	813,088,778
Additional agents compensations	208,672,293	169,813,940
Commissions for reinsurance ceded	686,926	844,903
Coverage due to excess of losses	14,253,805	13,017,860
Other costs	2,376,144,968	1,991,880,897
	3,554,266,148	2,986,956,572
(-) Net cost of claims and other contractual obligations:		
Claims and other contractual obligations	8,996,839,220	8,000,026,642
(-) Claims recovered on non-proportional reinsurance	87,821	598,632
Other claims	34,333,752	8,752,650
	9,031,085,151	8,008,180,660
Technical income	972,206,233	1,112,834,108
Net increase in other technical reserves:		
(-) Catastrophic risk reserve	(460,763)	(745,232)
Gross income	972,666,996	1,113,579,340
Operating expenses, net:		
Administrative and operating expenses	138,376,469	(115,479,137)
Employee salaries and benefits	213,153,302	182,077,549
Depreciation and amortization	156,239,552	138,424,228
	507,769,323	205,022,640
Operating income	464,897,673	908,556,700
Net financing income:		
Investments	432,591,423	441,293,244
Sale of investments	168,076,696	93,855,838
Fair valuation of investments	38,636,595	240,519,407
Surcharges on premiums	116,607,966	119,088,745
Other	17,386,024	23,354,619
Foreign exchange rates fluctuation	8,212,069	(18,490,833)
	781,510,773	899,621,020
Income before income taxes	1,246,408,446	1,808,177,720
Income tax expense	424,549,490	562,398,221
Net consolidated income	$ 821,858,956	$ 1,245,779,499
Controlling interest	$ 817,917,153	$ 1,252,933,480
Non-controlling interest	3,941,803	(7,153,981)
Net consolidated income	$ 821,858,956	$ 1,245,779,499
Basic earnings per common share	$ 0.3664	$ 0.5537
Diluted earnings per share	$ 0.3664	$ 0.5537

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."

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, 2013 and 2012
(In Mexican pesos)

			Earned Capital	
	Common Stock	Reserves	Retained Earnings from Prior Years	Net Income for the Year
Balances as of January 1, 2012	$ 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
Movements inherent to stockholders' decisions:				
Dividends declared	-	-	(674,960,718)	-
Increase of reserves	-	45,821,494	(45,821,494)	-
Reserve for future repurchase of shares	-	135,000,000	(135,000,000)	-
Repurchase of shares	(7,170,341)	-	-	-
Transfer of results from prior year	-	-	916,429,873	(916,429,873)
Total	(7,170,341)	180,821,494	60,647,661	(916,429,873)
Movements inherent to the recognition of comprehensive income:				
Comprehensive income:				
Net income for the year	-	-	-	817,917,153
Increase in valuation of properties	-	-	-	-
Other	-	-	56,116	-
Total	-	-	56,116	817,917,153
Balances as of December 31, 2013	$ 2,677,717,585	$ 180,821,494	$ 60,418,179	$ 817,917,153

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	Foreign currency translation effects of foreign operations	Non-controlling interest	Total stockholders' equity
(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
-	-	-	-	-	(674,960,718)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	(7,170,341)
-	-	-	-	-	-
-	-	-	-	-	(682,131,059)
-	-	-	-	3,941,803	821,858,956
-	-	22,916,713	-	-	22,916,713
-	-		2,653,957	8,384,812	11,094,885
-	-	22,916,713	2,653,957	12,326,615	855,870,554
-	$ -	$ (5,686,295)	$ 6,223,026	$ 19,311,424	$ 3,756,722,566

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, 2013 and 2012
(In Mexican pesos)

		2013		2012
Net consolidated income	$	821,858,956	$	1,245,779,499
Adjustments for non-cash items:				
Gain on sale of fixed assets		(14,100,814)		(12,380,921)
Allowance for doubtful accounts		8,202,679		(29,228,126)
Depreciation and amortization		156,239,552		138,424,228
Increase in technical reserves		1,456,712,809		1,385,369,916
Provisions		11,774,190		6,602,751
Current and deferred income taxes		424,549,490		562,398,221
		2,865,236,862		3,296,965,568
Operating activities:				
Change in investment securities		(922,583,098)		(826,468,214)
Change in receivables repurchase agreement		511,258,468		(996,583,279)
Change in premiums receivable		(677,092,963)		(710,290,242)
Change in debtors		(138,961,674)		1,981,968
Change in reinsurers		7,178,086		46,440,426
Change in other operating assets		(209,616,488)		(388,118,889)
Changes in contractual obligation and costs associated with claims		172,561,004		317,206,948
Change in other operating liabilities		(256,577,412)		(189,653,138)
Net cash generated by operating activities		1,351,402,785		551,481,148
Investing activities:				
Proceeds from disposal of property and equipment		20,609,377		29,335,368
Purchase of other permanent investments		(30,404,865)		(323,171)
Purchase of property and equipment		(271,834,901)		(444,901,351)
Net cash used in investing activities		(281,630,389)		(415,889,154)
Financing activities:				
Dividends paid		(674,960,718)		(225,000,000)
Other movements		-		5,403,769
Repurchase of shares		(7,170,341)		-
Net cash used in financing activities		(682,131,059)		(219,596,231)
Net increase (decrease) in cash		387,641,337		(84,004,237)
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,653,957		3,569,069
Cash at beginning of year		60,741,676		141,176,844
Cash at end of year	$	451,036,970	$	60,741,676

See accompanying notes to consolidated financial statements.

"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."

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 December 31, 2013 and 2012
(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 Ministry of Finance ("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 2013, 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. Monetary unit of the financial statements – The consolidated financial statement and notes as of December 31, 2013 and 2012 and for the years then ended include balances and transactions in pesos of different purchasing power.

c. 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 2013 and 2012, the other comprehensive income items are represented mainly by the result from valuation of property and the effects of translation of foreign operations.

d. Consolidation of the financial statements – The accompanying consolidated financial statements as of December 31, 2013 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
Easy Car Glass S.A. de C.V.	72.44	Purchase, sale and services of Car glass installation
Quálitas Financial Services, S.A. de C.V.	100	Sale of insurance policies

Significant intercompany balances and transactions have been eliminated.

e. 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").

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. Accounting changes- As of January 1, 2013, the Entity adopted the following new Regulatory Insurance Accounting Principles:
NIF B-8, Consolidated or Combined Financial Statements
NIF C-7, Investments in Associated Companies, Joint Businesses and Other Permanent Investments

Improvements to Financial Reporting Standards 2013

Some of the principal changes established in these standards are:

NIF B-8, Consolidated or Combined Financial Statements– Modifies the definition of control. The existence of control of one entity over another is the basis for requiring that the financial information be consolidated. Under the new definition of control, entities may be required to consolidate certain entities that were not previously consolidated, or to cease consolidating other entities that were previously consolidated. This NIF establishes that an investor controls an investee when the investor (i) has the power to direct the significant activities of the investee, (ii) has exposure, or rights to variable returns from its involvement with the investee and (iii) has the ability to use its power over the investee to affect the amount of the investor's returns. The concept of protective rights is introduced, which is defined as rights that protect the participation of the noncontrolling investor but do not giveit power. It distinguishes between decision-makers acting as principal or agent. Anagent makes decisions on behalf of the principal and therefore does not exercise control. The term "Special Purpose Entity" has been eliminated and replaced by the term "Structured Entity," which refers to an entity that has been designed such that voting or similar rights are not the determining factors in identifying the party that exercises control.

NIF C-7, Investments in Associated Companies, Joint Businesses and Other Permanent Investments- Establishes that investments in joint businesses should be recognized by applying the equity method and that all income or loss effects derived from permanent investments in associated companies, joint businesses and others should be recognized in results under the heading equity in the results of other entities. The NIF requires additional disclosures designed to provide additional financial information with respect to associated companies and joint businesses and eliminates the term Special Purpose Entity (SPE).

Improvements to NIF 2013- The principal improvements that result in accounting changes that were recognized retrospectively beginning January 1, 2013 are:

NIF C-5, Prepaid Expenses, Bulletin C-9, Liabilities, Provisions, Contingent Assets and Liabilities and Commitments and Bulletin C-12, Financial Instruments with Characteristics of Liabilities, Equity or Both - Establish that costs incurred for issuance of debentures or bonds should be presented as a reduction to the respective liability and charged to results using the effective interest method.

Bulletin C-15, Impairment in the Value of Long-lived Assets and their Disposal - When an operation is discontinued, the obligation to restate the balance sheets of previous periods which are presented for comparative purposes is eliminated.

NIF D-4, Income Taxes - Recognizes that income taxes (current and deferred) should be presented and classified based on the transaction or event from which such taxes arise, for which reason they should be recognized in results of the period, except when they arise from a transaction or event that is recognized in other comprehensive results or directly in a heading of stockholders' equity.

Other improvements to NIF 2013 were issued and adopted, but did not generate accounting changes and primarily established clearer definitions of various terms; therefore, their adoption did not have a significant effect on the accompanying financial information.

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

a. Recognition of the effects of inflation - Cumulative inflation rates over the three-year periods ended December 31, 2013 and 2012 were 12.26%, in each period. Accordingly, the economic environment is not inflationary in either such year and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2013 and 2012 were 3.97% and 3.57%, respectively.

   Beginning on January 1, 2008, the Entity discontinued recognition of the effects of inflation in its financial statements. However, non-monetary assets and liabilities and stockholders' equity include the restatement effects recognized through 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 published by the price vendors 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 any of the previous categories. They are valued at fair value based on the market prices published by price vendors or by official publications specializing in international markets.

Unlisted securities are valued at fair value based on widely accepted fair value models. 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 adjusted to fair value 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. Cash - This consists 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 aged a maximum of 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 based on known claims as a total loss, based on the Company's experience, salvage 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 24, 2014 and February 14, 2013, 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, 2013 and 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. Claims incurred 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 policyholders, which are retained by the Company and held in administration, as established by insurance contracts.

   e. Premiums on deposit - Represent the collected premiums which, at the financial reporting date, have not been identified with premium debtor accounts to permit their allocation.

   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 there are not enough elements 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 to 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 results of the year in which they are incurred. To recognize deferred income taxes, based on its financial projections, the Company determines whether it expects to incur ISR or IETU and, accordingly, recognizes deferred taxes based on the tax it expects to pay. Deferred taxes are calculated by applying the corresponding tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carryforwards and certain tax credits. Deferred tax assets are recorded only when there is a high probability of recovery.

   As a result of the 2014 Tax Reform, as of December 31, 2013 deferred IETU is not recognized.

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 2012, the collected amount was considered as income of the year, while the amount uncollected at year end was recorded as deferred income.

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

q. Use of facilities - The expenses incurred by the Company to utilize the facilities where its products ("UOF") are sold are recognized in the income statement as policies 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 term 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:

2013								
Nature and category		Acquisition cost		Valuation		Interest		Total
Debt instruments - National:								
Government:								
To finance operations	$	1,419,537,072	$	176,321	$	389,360	$	1,420,102,753
Private National:								
To finance operations		5,438,375,423		165,814,952		14,308,034		5,618,498,409
Equity instruments - National: Private:								
To finance operations		1,520,348,407		281,338,626		-		1,801,687,033
Total debt and capital - National		8,378,260,902		447,329,899		14,697,394		8,840,288,194
Debt instruments - Foreign: Private:								
To finance operations		33,678,014		-		326,030		34,004,045
Equity instruments - Foreign: Private:								
To finance operations		202,992,015		47,676,911		-		250,668,926
Total investments	$	8,614,930,931	$	495,006,810	$	15,023,424	$	9,124,961,165

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:								
To finance operations		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

b. Based on instrument maturity:

2013								
Maturity		Acquisition cost		Valuation		Interest		Total
One year or less	$	3,432,068,668	$	329,462,714	$	2,190,443	$	3,763,721,825
More than one year and up to five years		3,537,729,522		8,482,178		5,488,754		3,551,700,454
More than five years and up to 10 years		713,612,020		8,015,614		1,337,009		722,964,643
More than 10 years		931,520,721		149,046,304		6,007,218		1,086,574,243
Total	$	8,614,930,931	$	495,332,839	$	15,023,424	$	9,124,961,165

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

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 rating 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:

2013							
Rating		Maturity in less than one year		Maturity in more than one year		Total	%
Outstanding	$	203,051,957	$	4,112,419,588	$	4,315,471,545	47
High		325,275,974		648,768,574		974,044,548	11
Good		256,861,973		76,673,679		333,535,652	4
Equity instruments		2,047,802,623		-		2,047,802,623	22
Government		946,439,322		507,667,475		1,454,106,797	16
Total	$	3,779,431,849	$	5,345,529,316	$	9,124,961,165	100%

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%

As of December 31, 2013 and 2012, the Company has no restricted liquidity investments for the settlement of legal proceedings.

As of December 31, 2013 and 2012, the Company did not sell financial instruments classified as securities held to maturity prior to their redemption date.

5. Cash

As of December 31, 2013 and 2012, is composed as follows:

		2013		2012
Cash	$	22,156,744	$	20,990,317
Banks		428,880,226		39,751,359
Total	$	451,036,970	$	60,741,676

6. Other receivables

As of December 31, 2013 and 2012, is composed as follows:

		2013		2012
Sundry debtors	$	333,054,077	$	314,044,156
Guarantee deposits		28,491,849		31,776,579
Value Added Tax		48,286,253		51,687,702
Total	$	409,832,179	$	397,508,437

7. Furniture and equipment, net

As of December 31, 2013 and 2012, the furniture and equipment is as follows:

		2013		2012
Furniture and fixtures	$	175,228,564	$	150,166,946
Computer equipment		362,129,345		354,614,749
Other		260,628,164		195,482,681
Vehicles		273,490,713		258,218,907
		1,071,476,786		958,483,283
Less accumulated depreciation		731,987,993		640,713,587
	$	339,488,793	$	317,769,696

8. Other assets (Sundry)

As of December 31, 2013 and 2012, are composed as follows:

		2013		2012
Salvage inventory(a)	$	374,670,903	$	308,834,730
Prepaid expenses		88,281,211		53,420,661
Prepaid taxes (b)		648,567,354		562,055,326
Deferred income taxes		111,778,731		85,411,273
	$	1,223,298,199	$	1,009,721,990

(a) As regards to 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, 2013 and 2012, sundry creditors are as follows:

		2013		2012
UOF provision	$	700,741,917	$	588,537,316
Bank deposits		235,145,778		242,014,642
Other		221,626,939		246,818,288
Lawsuits		18,000,000		18,000,000
Dividends payable on shares		3,272,507		3,272,507
Total	$	1,178,787,141	$	1,098,642,753

10. Retirement benefits

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:

		2013		2012
Defined benefit obligation	$	118,671,295	$	95,890,745
Plan assets at fair value		(57,707,496)		(47,458,983)
Underfunded		60,963,799		48,431,763
Actuarial loss not recognized		(10,968,067)		(4,061,575)
Net projected liability	$	49,995,732	$	44,730,186

As of December 31, 2013, pension plan assets are invested in a trust with a bank:

		2013		2012
Private financial sector paper	$	58,565,654	$	47,635,712

The reserve for 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:

		2013		2012
Service costs	$	14,322,471	$	12,848,250
Financial cost		5,771,531		5,702,377
Expected yield on plan assets		(3,106,099)		(2,869,697)
Actuarial gain and loss		9,362,587		3,746,518
Past service costs		-		9,113,292
Net cost for the period	$	26,350,490	$	28,540,740

11. Stockholders' equity

a. As of December 31, 2013 and 2012, subscribed and paid-in capital at par value (historical pesos) is as follows:

	2013		2012	
	Number of shares	Amount	Number of shares	Amount
Fixed Capital				
Serie A	1,350,000,000	$ 1,610,932,756	1,350,000,000	$ 1,610,932,756
Serie B	900,000,000	1,073,955,170	900,000,000	1,073,955,170
Repurchased shares	-	(7,107,341)	-	-
Total	2,250,000,000	$ 2,677,717,585	2,250,000,000	$ 2,684,887,926

b. Pursuant to a resolution of the General Ordinary Stockholders' Meeting on March 15, 2013, payment of dividends in cash, for $314,960,718 was approved.

c. Pursuant to a resolution of the General Ordinary Stockholders' Meeting on November 26, 2013, payment of dividends in cash, for $360,000,000 was approved.

d. 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.

e. 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.

f. 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.

g. As of December 31, 2013 and 2012, tax account balances are as follows:

	2013	2012
Contributed Capital Account	$ 2,860,760,886	$ 2,843,224,538
Net Tax Income Account	$ 1,965,184,329	$ 446,295,385

12. Advanced premiums

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

Balance sheets:		2013		2012
Assets:				
Premium debtor	$	1,699,985,188	$	827,159,635
Participation of re-reinsurers in unearned premiums		104,360,575		2,755,232
	$	1,804,345,763	$	829,914,867
Liabilities:				
Unearned premiums reserve	$	1,113,675,886	$	534,763,908
Payables to insurance institutions		104,851,235		3,241,450
Un-accrued commissions		52,266,515		24,150,220
Sundry creditors (UOF)		259,981,303		124,974,802
VAT payable		234,295,510		113,252,203
Surcharges on policy		15,999,326		3,422,050
	$	1,781,069,775	$	803,804,633

Statements of income:		2013		2012
Income:				
Premiums	$	1,404,230,634	$	680,131,709
Expenses:				
Premiums ceded		104,851,235		3,241,450
Increase to the reserve of unearned premiums		1,009,315,312		532,008,676
Agent commissions		54,680,799		24,235,083
Acquisition cost		259,981,302		124,974,802
		1,428,828,648		684,460,011
Technical (loss)		(24,598,014)		(4,328,302)
Administration expenses (policy rights)		47,874,003		30,438,536
Net effect on statements of income	$	23,275,989	$	26,110,234

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 2013 and 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 2013 and 2012, the total amount of payments made under these agreements for issuances and UOF was $1,899,594,389 and $1,602,927,399, respectively, thereby representing 12.27 % and 11.88 %, of the total premiums issued by the Company during 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the contingent commissions paid by the Company are composed as follows:

		2013		2012
Individuals	$	63,677,209	$	50,597,078
Entities		258,357,533		208,387,682
Entities UOF		1,577,559,647		1,343,942,639
	$	1,899,594,389	$	1,602,927,399

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, 2013 and 2012, the foreign currency monetary position is as follows:

		Thousands of U.S. Dollars 2013		
		2013		2012
Monetary assets		204,711,770		45,421,477
Monetary liabilities		86,016,841		22,774,687
Monetary asset position - Net		118,694,929		22,646,760
Equivalent in Mexican pesos	$	1,553,040,059	$	293,633,366

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

		December 31				February 24
		2013		2012		2014
US dollar	$	13.0843	$	12.9658	$	13.2704

15. Income taxes

The Entity is subject to ISR and through December 31, 2012, to ISR and IETU.

ISR - The rate was 30% in 2013 and 2012 and as a result of the new 2014 ISR law (2014Tax Law), the rate will continue at 30% in 2014 and thereafter.

The CINIF issued INIF 20 Financial Effects of the Tax Reform 2014, effective as of December 31, 2013, to provide guidance regarding the accounting recogntion of the issues included in the 2014 tax reform.

IETU - IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The respective rate was 17.5%.

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

Income taxes are as follow:

		2013		2012
ISR:				
Current	$	464,737,249	$	519,669,981
Deferred		(40,187,759)		42,728,240
	$	424,549,490	$	562,398,221

Based on its financial projections, the Company 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:

	2013	2012
Statutory rate	30%	30%
Effect of permanent differences, mainly non-deductible expenses	4	-
Effects of inflation	2	2
Other permanent items	(2)	(1)
Effective rate	34%	31%

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

		2013		2012
Deferred ISR asset:				
UOF provision	$	215,622,576	$	180,242,997
Unaccrued commissions		74,170,648		66,267,465
Provisions		37,732,281		40,063,222
Premium surcharges		38,684,283		33,058,202
Agents bonus reserve		20,664,072		22,820,326
Furniture and fixtures		21,523,979		18,153,753
Agents current account		8,418,576		8,286,857
policy dividend reserve		16,434,005		7,985,487
Tax loss carryforwards		(11,188,697)		5,581,512
Employee profit sharing		1,436,835		3,368,376
Others		1,474,367		
Deferred ISR asset		424,972,925		385,925,803
Deferred ISR (liability):				
Salvage inventory		(94,340,841)		(79,236,104)
Valuation of debt instruments		(148,020,396)		(136,456,861)
Property		(68,252,689)		(81,105,549)
Insurance premiums		(2,652,353)		(2,499,344)
Others		72,085		(1,216,672)
Deferred ISR liability		(313,194,194)		(300,514,530)
Total deferred assets	$	111,778,731	$	85,411,273

To determine deferred ISR at December 31, 2013, the Entity applied the applicable tax rates to temporary differences based on their estimated reversal dates. The result from applying different rates is presented in the caption tax effect due to tax rate changes.

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, 2013 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

During 2013, the Mexican Board for the Research and Development of Financial Reporting Standards enacted the following NIFs, which go into effect January 1, 2014, although early application is permitted as follows:

NIF B-12 Offsetting of Financial Assets and Financial Liabilities
NIF C-14 Transfer and Cancellation of Financial Assets

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

NIF B-12, Offsetting of Financial Assets and Financial Liabilities- Establishes that the offsetting of financial assets and liabilities in the statement of financial position is appropriate when: a] there is a legal right and obligation to collect or pay an offset amount, and b] the amount resulting from offsetting the financial assets of the financial liability reflects the expected cash flows of the Entity when it liquidates two or more financial instruments. Furthermore, it establishes that an entity should offset only when the following two conditions are fulfilled: 1] it has a legally enforceable and effective right to offset the financial asset and the financial liability under any circumstances and; 2] it has the intention of liquidating the financial asset and financial liability on an offset basis or realizing the financial asset and liquidating the financial liability simultaneously.

NIF C-14, Transfer and Cancellation of Financial Assets- Establishes the standards related to the accounting recognition of transfers and cancellations of financial assets different from cash and cash equivalents, such as receivables or negotiable financial instruments, as well as the presentation in the financial statements of such transfers and the related disclosures. In order for a transfer to also qualify as a cancellation, there should be a full assignment of the risks and benefits inherent to the financial asset.

The transferor of the financial asset will eliminate it from its statement of financial position at the time that it no longer has rights or is exposed to the future profit or loss, respectively, therefrom. Conversely, the recipient will assume the risks inherent to such financial asset acquired and will have an additional return if the cash flows originated thereby exceed those originally estimated, or a loss if the cash flows received were lower.

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 24, 2014 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.

Investor Relations

QUÁLITAS

Alejandro Meléndez
Investments and Investor Relations
amelendez@qualitas.com.mx
T: +52 (55) 1555-6137

Mariana Fernández
Investor Relations
mfernandez@qualitas.com.mx
T: +52 (55) 1555-6103

Anahí Escamilla
Investor Relations
aescamilla@qualitas.com.mx
T: +52 (55) 1555-6104

inversionistas@qualitas.com.mx

ANALYSTS

Carlos Pérez-Salazar (414 Capital)
cps@414capital.com

Martín Lara (Actinver)
mlara@actinver.com.mx

Ernesto Gabilondo (BBVA Research)
ernesto.gabilondo@bbva.bancomer.com

José Juan Carreño (Grupo Bursátil Mexicano)
Jcarre_o@gbm.com.mx

Enrique Mendoza (Interacciones)
emendozaf@interacciones.com

Carlos Ugalde (Signum Research)
carlos.ugalde@signumresearch.com

Andrés Audiffred (Ve por Más)
aaudiffred@vepormas.com.mx

Rafael Escobar (Vector)
rescobar@vector.com.mx

www.qualitas.com.mx