

**Tokio Marine Compañía de Seguros,  
S. A. de C. V.**  
(An Affiliate of Tokio Marine Delaware  
Corporation)

Financial Statements for the Years  
Ended December 31, 2006 and 2005,  
and Independent Auditors' Report  
Dated February 28, 2007

**Tokio Marine Compañía de Seguros, S. A. de C. V.**  
**(An Affiliate of Tokio Marine Delaware Corporation)**

# **Independent Auditors' Report and Financial Statements 2006 and 2005**

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## Independent Auditors' Report to the Board of Directors and Stockholders of Tokio Marine Compañía de Seguros, S. A. de C. V.

We have audited the accompanying balance sheets of Tokio Marine Compañía de Seguros, S. A. de C. V. (the "Company"), as of December 31, 2006, and the related statements of income, changes in stockholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended December 31, 2005, which are presented only for purposes of comparison, were audited by other auditors, whose report, dated February 23, 2006, expressed an unqualified opinion on those financial statements.


We conducted our audit in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and that they are prepared in accordance with the accounting rules and practices prescribed or permitted by the National Insurance and Bonding Commission (the "Commission"). An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Accounting rules and practices prescribed or permitted by the Commission, the application of which is mandatory for the Company, vary in certain significant respects from Mexican Financial Reporting Standards. Information relating to the nature of such differences is presented in Note 2 to the financial statements.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Tokio Marine Compañía de Seguros, S. A. de C. V. as of December 31, 2006, and the results of its operations, changes in its stockholders' equity and changes in its financial position for the year then ended in conformity with the accounting rules and practices prescribed or permitted by the Commission.

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

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

  
Francisco Javier Vázquez Jurado

February 28, 2007

**Tokio Marine Compañía de Seguros, S. A. de C. V.**  
**(An Affiliate of Tokio Marine Delaware Corporation)**

**Balance Sheets**

**As of December 31, 2006 and 2005**

(In Mexican pesos of purchasing power of December 31, 2006)

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Investments:		
Securities:		
Government	\$ 155,903,217	\$ 135,352,016
Private companies:		
Fixed rate	112,621,014	61,612,557
Variable rate	49,823	51,841
Valuation – Net	(840,919)	(704,039)
Accrued interest income	<u>1,490,676</u>	<u>1,264,009</u>
	<u>269,223,811</u>	<u>197,576,384</u>
Investment in employee retirement obligations reserve	<u>354,154</u>	<u>288,119</u>
Cash	<u>875,620</u>	<u>1,214,734</u>
Debtors:		
Uncollected premiums	104,564,764	60,651,236
Agents	3,957	5,426
Personnel loans	1,159,984	1,137,287
Other receivables	<u>5,164,183</u>	<u>1,076,968</u>
	<u>110,892,888</u>	<u>62,870,917</u>
Reinsurers:		
Insurance companies	38,435,448	51,859,410
Participation of reinsurers for pending claims	42,501,224	65,906,242
Participation of reinsurers for current risks	1,916,988	822,130
Other participations	19,306,287	967,097
Reinsurance brokers	<u>8,088,751</u>	<u>10,244,502</u>
	<u>110,248,698</u>	<u>129,799,381</u>
Other assets:		
Furniture and equipment – Net	5,452,548	4,499,624
Foreclosed assets	2,922,268	694,041
Amortizable costs	14,436,498	14,436,060
Accumulated amortization	<u>(9,181,385)</u>	<u>(7,396,912)</u>
	<u>13,629,929</u>	<u>12,232,813</u>
Total	<u>\$ 505,225,100</u>	<u>\$ 403,982,348</u>

See accompanying notes to financial statements.

**Memoranda accounts**

	<b>2006</b>	<b>2005</b>
Recording accounts	\$ 262,172,238	\$ 246,809,085
	<u>\$ 262,172,238</u>	<u>\$ 246,809,085</u>

<b>Liabilities</b>	<b>2006</b>	<b>2005</b>
Technical reserves:		
Current risks:		
Life	\$ 4,626,321	\$ 3,235,265
Accident and sickness unearned premiums	9,021	9,386
Damages	<u>71,848,705</u>	<u>26,039,716</u>
	<u>76,484,047</u>	<u>29,284,367</u>
Contractual obligations:		
Unpaid claims and expirations	84,323,829	70,426,507
Incurred claims but not reported	12,771,642	10,928,693
Policy dividends	2,646,256	2,503,231
Premiums on deposit	<u>4,557,869</u>	<u>3,405,192</u>
	<u>104,299,596</u>	<u>87,263,623</u>
Contingency reserve:		
Catastrophic risk- Net	<u>37,388,767</u>	<u>24,023,227</u>
	<u>218,172,410</u>	<u>140,571,217</u>
Reserve for employee retirement obligations	<u>354,150</u>	<u>288,114</u>
Creditors:		
Agents	6,151,716	5,692,509
Sundry creditors	<u>597,352</u>	<u>911,197</u>
	<u>6,749,068</u>	<u>6,603,706</u>
Reinsurers:		
Insurance companies	70,252,103	66,858,794
Other participations	<u>153,870</u>	<u>171,399</u>
	<u>70,405,973</u>	<u>67,030,193</u>
Other liabilities:		
Employee statutory profit-sharing	3,123,803	1,445,429
Income tax payable	4,211,354	2,532,675
Other liabilities	20,105,334	13,721,589
Deferred credits	<u>473,145</u>	<u>146,158</u>
	<u>27,913,636</u>	<u>17,845,851</u>
Total liabilities	<u>323,595,237</u>	<u>232,339,081</u>
<b>Stockholders' equity:</b>		
Common stock	222,171,693	222,171,693
Reserves:		
Legal	23,291,654	22,258,229
Other	17,685,210	17,685,210
Retained earnings	84,697,566	89,756,728
Net income for the year	17,417,530	3,405,197
Insufficiency in restated stockholders' equity	<u>(183,633,790)</u>	<u>(183,633,790)</u>
Total stockholders' equity	<u>181,629,863</u>	<u>171,643,267</u>
Total liabilities and stockholders' equity	<u>\$ 505,225,100</u>	<u>\$ 403,982,348</u>

**Tokio Marine Compañía de Seguros, S. A. de C. V.**  
**(An Affiliate of Tokio Marine Delaware Corporation)**

**Statements of Income**

For the years ended December 31, 2006 and 2005

(In Mexican pesos of purchasing power of December 31, 2006)

	2006	2005
Underwriting income:		
Premiums written	\$ 456,764,792	\$ 339,259,487
Premiums ceded	<u>245,417,032</u>	<u>255,577,285</u>
Retained premiums	211,347,760	83,682,202
Net increase in technical reserves	<u>47,797,973</u>	<u>3,334,041</u>
Net retained premiums	<u>163,549,787</u>	<u>80,348,161</u>
Net acquisition cost:		
Agent commissions	20,156,312	16,346,488
Commission for reinsurance accepted	3,324,632	2,949,229
Commission for reinsurance ceded	(44,242,491)	(55,508,846)
Coverage due to excess of losses	28,168,828	15,676,914
Other costs	<u>17,924,817</u>	<u>14,473,371</u>
	<u>25,332,098</u>	<u>(6,062,844)</u>
Net cost of claims and other contractual obligations:		
Claims and other contractual obligations	101,467,171	37,401,258
Casualty rate of nonproportional reinsurance	<u>(38,253,756)</u>	<u>641,993</u>
	<u>63,213,415</u>	<u>38,043,251</u>
Technical income	<u>75,004,274</u>	<u>48,367,754</u>
Net decrease in other technical reserves:		
Other reserves	<u>14,516,544</u>	<u>2,548,284</u>
Gross income	<u>60,487,730</u>	<u>45,819,470</u>
Operating expenses, net:		
Administrative and operating expenses	11,600,186	9,183,660
Employee remuneration and benefits	21,994,796	17,337,269
Depreciation and amortization	<u>3,714,292</u>	<u>3,634,631</u>
	<u>37,309,274</u>	<u>30,155,560</u>
Operating income	<u>23,178,456</u>	<u>15,663,910</u>

(Continued)

	2006	2005
Net investment income (loss):		
Investments	11,914,441	7,340,567
Loss on sale of investments	(814,276)	-
Valuation of investments	(114,112)	(1,901,831)
Surcharges on premiums	420,762	283,778
Other	(641,432)	366,992
Exchange fluctuation	2,223,106	(6,348,417)
Monetary position loss	(6,422,181)	(6,218,083)
	<u>6,566,308</u>	<u>(6,476,994)</u>
 Income before income tax	 29,744,764	 9,186,916
Provisions:		
Income tax expense	9,166,405	4,336,289
Employee statutory profit-sharing	3,160,829	1,445,430
	<u>12,327,234</u>	<u>5,781,719</u>
 Net income	 <u>\$ 17,417,530</u>	 <u>\$ 3,405,197</u>

See accompanying notes to financial statements.

**Tokio Marine Compañía de Seguros, S. A. de C. V.**  
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**Statements of Changes in Stockholders' Equity**

For the years ended December 31, 2006 and 2005

(In Mexican pesos of purchasing power of December 31, 2006)

	Balance as of January 1, 2005	Movements		Balance as of December 31, 2005	Movements		Balance as of December 31, 2006
		Increase	Decrease		Increase	Decrease	
Common stock:							
Authorized	\$ 222,171,693	\$ -	\$ -	\$ 222,171,693	\$ -	\$ -	\$ 222,171,693
Reserves:							
Legal	21,052,610	1,205,619	-	22,258,229	1,033,425	-	23,291,654
Other reserves	17,685,210	-	-	17,685,210	-	-	17,685,210
Retained earnings	97,055,618	4,665,727	11,964,617	89,756,728	3,405,197	8,464,359	84,697,566
Net income for the year	4,665,729	3,405,197	4,665,729	3,405,197	17,417,530	3,405,197	17,417,530
Insufficiency in restated stockholders' equity	<u>(183,633,790)</u>	<u>-</u>	<u>-</u>	<u>(183,633,790)</u>	<u>-</u>	<u>-</u>	<u>(183,633,790)</u>
Total stockholders' equity	<u>\$ 178,997,070</u>	<u>\$ 9,276,543</u>	<u>\$ 16,630,346</u>	<u>\$ 171,643,267</u>	<u>\$ 21,856,152</u>	<u>\$ 11,869,556</u>	<u>\$ 181,629,863</u>

See accompanying notes to financial statements.

**Tokio Marine Compañía de Seguros, S. A. de C. V.**  
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**Statements of Changes in Financial Position**

For the years ended December 31, 2006 and 2005

(In Mexican pesos of purchasing power of December 31, 2006)

	2006	2005
Operating:		
Net income	\$ 17,417,530	\$ 3,405,197
Items applied to results that did not require resources:		
Depreciation and amortization	<u>3,714,292</u>	<u>3,634,631</u>
	21,131,822	7,039,828
Increase (decrease) in liabilities:		
Technical reserves:		
Current risks	47,199,680	677,915
Contractual obligations	17,035,973	(321,577,857)
Contingency reserve	13,365,541	1,187,825
Payable to reinsurers	3,375,780	(55,325,634)
Employee retirement obligations	66,036	66,256
Creditors	145,362	(4,055,320)
Other liabilities	<u>10,067,787</u>	<u>(756,017)</u>
	<u>91,256,159</u>	<u>(379,782,832)</u>
(Increase) decrease in assets:		
Debtors	(48,021,971)	14,633,218
Receivable from reinsurers	19,550,683	358,099,955
Other assets	(5,111,410)	7,086,339
Investment in employee retirement obligations reserve	<u>(66,035)</u>	<u>(66,255)</u>
	<u>(33,648,733)</u>	<u>379,753,257</u>
Net resources provided by operating activities	<u>78,739,248</u>	<u>7,010,253</u>
Financing:		
Decrease in stockholders' equity	<u>(7,430,935)</u>	<u>(10,720,343)</u>
Net resources used in financing activities	<u>(7,430,935)</u>	<u>(10,720,343)</u>
Investing:		
(Increase) decrease from investing in:		
Cash	(339,114)	(1,915,115)
Securities	<u>71,647,427</u>	<u>(1,794,975)</u>
Net resources provided by (used in) investing activities	71,308,313	(3,710,090)
Investments at the beginning of the year	<u>\$ 198,791,118</u>	<u>\$ 202,501,208</u>
Investments at the end of the year	<u>\$ 270,099,431</u>	<u>\$ 198,791,118</u>

See accompanying notes to financial statements.

**Tokio Marine Compañía de Seguros, S.A. de C.V.**  
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## **Notes to Financial Statements**

**For the years ended December 31, 2006 and 2005**

**(In Mexican pesos of purchasing power of December 31, 2006)**

### **1. Nature of business**

Tokio Marine Compañía de Seguros, S.A. de C.V. (the “Company”) is authorized by the Mexican Treasury Department (“SHCP”) and the National Insurance and Bonding Commission (the “Commission”), to operate as a subsidiary insurance company (legally defined as an “Affiliate”) of Tokio Marine Delaware Corporation and sells insurance products for life, accident and sickness, property and casualty and reinsurance operations as provided for in the General Law on Insurance Companies and Mutual Funds (the “Law”) and by the Commission, the regulatory agency of insurance companies. During 2006 and 2005 the Company did not interrupt any of its principal activities.

### **2. Basis of presentation and significant accounting policies**

*Explanation for translation into English* - The accompanying financial statements have been translated from Spanish into English for use outside of Mexico. These financial statements are presented on the accounting rules and practices prescribed or permitted by the Commission.

*Significant accounting policies* - The accounting policies followed by the Company are in conformity with the accounting rules and practices prescribed or permitted by the Commission, which differ in certain respects from Mexican Financial Reporting Standards (“MFRS” s”) issued by the Mexican Board for Research and Development of Financial Reporting Standards (“CINIF”). Preparation of financial statements requires that management to make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and the accompanying notes. Although these estimates are based on management’s best knowledge of current events, actual results may differ.

*New financial reporting standards* - As of June 1, 2004, the function of establishing and issuing MFRS became the responsibility of the Mexican Board for Research and Development of Financial Reporting Standards (“CINIF”). CINIF decided to rename the accounting principles generally accepted in Mexico (MEX GAAP), previously issued by the Mexican Institute of Public Accountants (“IMCP”), as Mexican Financial Reporting Standards. As of December 31, 2005, eight Series A standards had been issued (NIF A-1 to NIF A-8), representing the Conceptual Framework, intended to serve as the supporting rationale for the development of such standards, and as a reference to resolve issues arising in practice; NIF B-1, Accounting Changes and Correction of Errors, was also issued. The Series A NIFs and NIF B-1 went into effect as of January 1, 2006.

#### **I. New Circulars issued by the Commission**

On November 7th, 2006, the Commission issued Circular S-18.2.2, published in the Federal Official Gazette on December 4, 2006, in which the Commission established general provisions regarding Insurance Companies’ annual notes to financial statements. The Circular established the disclosure requirements in relation to derivative instruments, composition of available funds, circumstances involving restrictions on available funds and the purpose to which investments are applied, valuation assumptions for assets, liabilities and capital, information on each category of investments in financial instruments, issues which may result in a change in the valuation of assets, liabilities and capital, financial reinsurance operations, employee retirement remuneration plan, capital lease agreements, information on subordinated debentures, interrupted activities and events subsequent to the close of the year.

During 2006 and 2005, the Company did not carry out any of the following activities:

- a. Transactions with derivative instruments,
- b. Financial reinsurance transactions,
- c. Capital lease agreements,
- d. Issues of subordinated debentures or other credit instruments.

On September 20, 2006 the Commission issued Circular S-10-5, published in the Federal Official Gazette on October 19, 2006, which establishes that the valuation and recording of obligations for pensions and seniority premiums must be based on that established in Bulletin D-3 (“D-3”), as described below in the summary of the Company’s significant accounting policies.

## **II. Differences with MFRS**

The accounting policies followed by the Company differ in certain respects from MFRS, commonly applied in the preparation of financial statements by non-regulated entities; therefore, the information included in the accompanying financial statements is not intended to be in conformity with MFRS. Such differences include:

- The grouping and presentation of financial statements are carried out according to practices established by the Commission
- The classification, valuation and recording of investments are performed according to practices established by the Commission
- The direct cost of policy acquisition is recorded in the income statement as they are incurred, instead of deferring and amortizing them as the premiums are accrued.
- Income taxes are not adjusted for the effect of certain temporary items reported for tax purposes in years other than those in which they are recognized for accounting purposes as required by Bulletin D-4, "Accounting Treatment of Income Tax, Tax on Assets and Employee Statutory Profit-Sharing".
- Policy rights and premium surcharges are recorded in results when they are collected, not when they are accrued.
- Up to December 31, 2005, the valuation of the liability for seniority premium was based on actuarial studies determined using figures at the start of the year and projected to December 31 of each year, and were therefore not based on actual data at the close of the year. The Company records the costs for vacation premium and other seniority-based labor benefits, as well as severance payments, at the time they are paid, not when they are accrued or estimated.
- In the recognition of the effects of inflation in the financial statements, certain technical reserves are considered as nonmonetary items. The net increases recorded in results of the technical reserves are decreased by the effect resulting from applying the National Consumer Price Index (NCPI) adjustment factor at the close of each month to the initial liability balance of such reserves.
- The information related to the comprehensive income or loss is not presented, as required by MFRS.
- The recognition of certain technical reserves, expressly stipulated by the Commission, is deferred and amortized into income over time, and not recognized in full when the amount of the reserve is initially determined.
- The effects of Bulletin B-15 “Impairment in the value of long-lived assets and their disposal” are not quantified.

- The revenues and costs derived from reinsurance transactions are recorded when they are known, not as they are accrued.

I. **Accounting policies** - The significant accounting policies of the Company are as follows:

a. **Recognition of the effects of inflation** - The Company recognizes the effects of inflation in the financial statements in accordance with the guidelines established in Circular S-23.1, issued by the Commission on November 25, 1998, which are summarized as follows:

1. The Company restates its financial statements and the related notes to Mexican pesos of purchasing power as of the most recent balance sheet date presented. Accordingly, the financial statements of the prior year have been restated to Mexican pesos of purchasing power and, therefore, differ from those originally reported in the prior year
2. The statements of income are restated to show Mexican pesos of purchasing power of December 31, 2006, using the NCPI of the month in which the transactions generating the income, costs and expenses took place.
3. The changes presented in the statements of changes in financial position are determined based on the differences between the beginning and ending balance sheets, both expressed in Mexican pesos of purchasing power of December 31, 2006.
4. Other nonmonetary assets are restated as of the acquisition date based on a method that is based on changes in general price levels, applying factors derived from NCPI.
5. Technical reserves are determined and presented as restated at constant pesos as of the date of the most recent balance sheet presented, in conformity with actuarial valuation procedures.
6. Stockholders' equity is restated from the date on which capital is contributed or its other constituent headings are generated, applying factors derived from the NCPI
7. Monetary position result represents the effects of inflation on the Company's net monetary assets or liabilities. It is calculated by applying the NCPI factors to net monthly monetary position. Gains result from holding a net liability monetary position and losses from holding a net asset monetary position.
8. Insufficiency in restated stockholders' equity represents the accumulated monetary position result through the initial restatement of the financial statements
9. The restated factor used up to December 31, was 1.0405, which referred to the inflation applicable for the period from January 1 through December 31, 2006.

b. **Investments**

1. In securities - Investments include debt securities and equity securities, which may or may not be listed on the Mexican Stock Exchange, and are classified for valuation and recording purposes upon acquisition, based on the decision of the Company's management regarding their future utilization. In accordance with Circular S-16.1.3, issued by the Commission on October 28, 2002, the accounting treatment for investments in securities is summarized as follows:

- I Debt securities - Debt securities are recorded at acquisition cost. Valuation effects and accrued yields are charged to results of the year using the amortized cost method, and are classified in one of the following two categories:
  - a) To finance operations – Listed instruments are stated at net realizable value based on market prices issued by third party providers or international official specialized publications. Unlisted securities use the price of similar stock instruments as market value for valuation purposes.
  - b) Held to maturity – These instruments are stated using the amortized cost method (imputed interest). They cannot exceed an amount equal to the long-term portion of the Company’s technical reserves.
  
- II Equity securities – Equity securities are recorded at acquisition cost. The listed instruments are stated at net realizable value based on market price as stated in item I. a) above, and are classified in one of the following two categories:
  - a) To finance the operation (only listed instruments) - Valuation effects are charged to results of the year.
  - b) Available for sale - Unlisted instruments are stated based on the equity method provided that the audited financial statements of the issuer are available, or at acquisition cost. Valuation effects of both unlisted and listed securities are recorded in stockholders’ equity under the heading of share valuation surplus. The investment in subsidiaries is valued by the equity method, for which reason the proportional part of the Company’s participation in results and stockholders' equity of the subsidiary is recognized as of the date on which the investment was made. The valuation effects of other permanent investments in shares are applied to stockholder’s equity.
  
- c. ***Furniture and equipment-*** Furniture and equipment are stated at acquisition cost and restated applying factors derived from the NCPI. Depreciation is calculated using the straight-line method based on the estimated remaining useful lives of the related assets, as follows::

	Years
Furniture and fixtures	10
Computers	3.3
Vehicles	4
Other	10

- d. ***Amortizable costs*** - Amortizable costs are recorded at acquisition cost and restated applying factors derived from the NCPI. Amortization is calculated using the straight-line method over ten years
  
- e. ***Technical reserves*** - As provided for by the Commission, all the Company’s technical reserves must be audited annually by independent actuaries. the independent actuaries issued their opinion informing that the amounts recorded of technical reserves by the Company were calculated in conformity with the rules and practices established by the Commission and these reserves are enough to face responsibilities.

Technical reserves are created under the terms established by law, and the provisions issued by the Commission. For purposes of the valuation of technical reserves, the Company used the valuation methods and assumptions established in its technical notes, and in accordance with the provisions contained in Circulars S-10.1.2., S-10.1.7, S-10.1.7.1, and S-10.6.6 issued by the Commission on September 11, 2003 and published in the Federal Official Gazette on September 30, 2003; S-10.6.4 issued by the Commission on March 31, 2004 and S-10.1.8, issued on May 13, 2004 and published in the Federal Official Gazette on April 27, 2004 and June 1, 2004, respectively.

The reserves for current risks are valued as follows

1. Life reserve

- a) The reserve for life insurance is determined per actuarial formulas based on the characteristics of the in-force policies, which are reviewed and approved by the Commission.

The current risk reserve is valued in the following manner:

I) Life insurance for periods of less than or equal to one year:

The calculated expected value of future obligations arising from the payment of claims and benefits derived from in-force policies, in accordance with the filed valuation method and, if applicable, the discounted expected value of future revenues from net premiums is compared with the value of unearned premium of in-force policies to determine the sufficiency factor applicable to the current risk reserve calculation for each insurance type operated by the Company.

The current risk reserve established for each insurance type operated by the Company is obtained by multiplying the unearned risk premium of in-force policies by the respective sufficiency factor. Under no circumstances is the sufficiency factor used for such purposes less than one. Furthermore, the unearned portion of administrative expenses is added to the current risk reserve.

II) Life insurance for periods of more than one year:

The current risk reserve is valued based upon the actuarial method used to determine the minimum reserve amount, provided the result exceeds that produced by the sufficiency method recorded in the technical note authorized by the Commission. If this is not the case, the current risk reserve is valued by the sufficiency method.

- b) Reserves for accident and sickness insurance transactions are determined as follows:

The projection of the expected value of future obligations derived from claims and benefits is determined according to the filed valuation method and compared with the unearned risk premium of in-force policies to obtain the sufficiency factor used to calculate the reserve for each insurance branch or type operated by the Company. Under no circumstances should the sufficiency factor applied for such purpose be less than one. The adjustment of the current risk reserve due to insufficiency is obtained by multiplying the unearned risk premium by the respective sufficiency factor minus one.

Furthermore, the unearned portion of administration expenses is added. The current risk reserve is obtained by adding the unearned risk premium of in-force policies, the reserve insufficiency adjustment and the unearned portion of administration expenses. The commission used for these purposes is the commission paid, for each branch, which cannot exceed the following recorded percentages:

Branch	Percentage
Fire	30%
Meteorological and water-based phenomena	11%
Earthquake	5%
Electronic equipment	12%
Breakdown of machinery	12%
Rc	24%
Theft	18%
Money and valuables	12%
Windows	15%
Neon signs	15%
Boilers	18%
Contractors' equipment	12%
Transportation	18%

15% of the premium paid is considered for the calculation of the provision for administrative expenses, while the recorded profit margin of 5% is also considered in the case of the Damages operation.

## 2. Contractual Obligations

- a) Unpaid losses and expirations - Losses for life, accidents and health, casualty and annuities are recorded as liabilities and expensed as they become known. Annuity and life losses are determined based on the insured amount. Losses for accidents and sickness are adjusted based on estimates amounts of obligations, and the recovery of reinsurance ceded is simultaneously recorded. Expirations are obligations for endowments established in the insurance contract.
- b) Incurred losses but not reported - The purpose of this reserve is to recognize the estimated amount of losses, which have occurred but have not been reported to the Company. The reserve is recorded based on the loss rate of prior years and the calculation is adjusted quarterly in accordance with the methodology approved by the Commission.
- c) Policy dividends - This reserve is determined per actuarial studies based on loss rates. Dividends are established in the insurance contract.
- d) Premiums on deposit - Represent fractional policy collection, the amounts of which are pending to be identified.
- e) Reserves for unvalued accidents – This reserve reflects the expected value of future accident and sickness payments which, after being reported during the year in question or prior years, can be paid at a future date. Notwithstanding, the amount of such payments cannot be accurately determined as the respective valuation has not yet been performed, or because additional payments derived from previously valued claim could arise. This provision came into effect in the year 2005, originating a credit and a charge to the income statement of the year in the amount of \$(8,653,475) and \$1,984,226, as of December 31, 2006 and 2005, respectively.

3. Contingency reserve.

Prior to December 31, 2001, the contingency reserve was established in accordance with the provisions and factors established by the Commission. Its purpose was to cover extraordinary contingencies of losses experienced on retained premiums, and insufficiencies, which may arise in the other technical reserves. Pursuant to the amendments to the Law published in the Federal Mexican Official Gazette on January 16, 2002, at least 25% of this reserve must be released each year beginning 2002, to ensure its total release by 2005. However, if such release generates an insufficiency in its minimum guaranteed capital, the Company must file a plan with the Commission to correct this situation. Furthermore, the Company may also elect to release a percentage in excess of the annual 25%, providing such release does not create an insufficiency in its minimum guaranteed capital. At December 31, 2005, 100% of this reserve has been released.

4. Reserve for catastrophic risks

This reserve is cumulative and is increased by the release of the earthquake insurance retention current risk reserve, and by the amount of the financial proceeds that would be obtained from applying the average 28 day CETES (Treasury Bill) rate, or the 30 day foreign currency LIBOR rate, to such reserve.

- f. **Employee retirement obligations** - Seniority premiums and pension plan was recognized as costs over employee years of service and were calculated by Company actuaries using the projected unit credit method at net discount rates. The Company estimates that by recognizing this liability at present value, it will cover the obligation derived from such benefits at the estimated retirement date of its present group of employees. Under Commission guidelines, the Company determines the value of such plans based on actuarial studies performed at the beginning of each year and projected to December 31. The Company withholds, administers and records all the fund assets of seniority premium and pension funds, which are invested in conformity with the Income Tax Law and Commission's rules.
- g. **Reinsurance** - In accordance with Commission rules and the policies for insurance companies, a portion of insurance taken out by the Company is ceded as reinsurance to other companies, which share in the cost of losses and the premiums.
- h. **Provisions** - Provisions are recognized for obligations that result from a past event, that are probable to result in the use of economic resources and that can be reasonably estimated.
- i. **Revenue recognition**- The revenues from the insurance premiums for accidents and illness and damage are recorded when the policies are issued, and are decreased by the premiums ceded in reinsurance.

The revenues from life insurance premiums are recorded when invoices are issued.

The premiums not collected within the deadline established by the law (30 days) are canceled. Premium surcharges are recognized as revenues when they are collected.

- j. **Policy acquisition costs** - Policy acquisition costs, such as commissions and costs related to placement of new business are charge to expense as incurred.

- k. **Income tax and tax on assets** - Income tax (“ISR”) and tax on assets (“IMPAC”) are recorded in results of the year in which they are incurred. The IMPAC paid is charged to results of the year in which it is incurred and it is recognized as income in the year it is recovered.
- l. **Foreign currency balances and transactions** - Foreign currency transactions are recorded at the applicable exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in foreign currency are valued in Mexican pesos at the exchange rate in effect at the balance sheet date. Exchange fluctuations are recorded in the results of the year. As of December 31, 2006 and 2005, the official exchange rates of MX \$10.8116 and MX \$10.634 per U.S. \$1.00 were used.

### 3. Investments

According to the Law and the Commission’s rules, the Company should keep investments to cover liabilities represented by the technical reserves and the minimum capital guarantee coverage. Such investments are made in diversified instruments, whose selection is based on a combination of measured term and risk which forms part of the Company's investment policies and the underlying requirement for assets and liabilities. In accordance with Circular S-18.2.2, the investment portfolio information is as follows:

- a) According to the instrument issuer.

Nature and category	2006			
	Acquisition cost	Valuation	Interest	Total
Debt instruments - domestic				
Government investments				
To finance operations	\$ 155,903,217	\$ (837,723)	\$ 1,434,887	\$ 156,500,381
Private companies				
To finance operations	<u>112,621,014</u>	<u>-</u>	<u>55,789</u>	<u>112,676,803</u>
Total debt instruments	<u>268,524,231</u>	<u>(837,723)</u>	<u>1,490,676</u>	<u>269,177,184</u>
Equity instruments -domestic				
private companies				
To finance operations	<u>49,823</u>	<u>(3,196)</u>	<u>-</u>	<u>46,627</u>
Total equity instruments	<u>49,823</u>	<u>(3,196)</u>	<u>-</u>	<u>46,627</u>
Total investments	<u>\$ 268,574,054</u>	<u>\$ (840,919)</u>	<u>\$ 1,490,676</u>	<u>\$ 269,223,811</u>

Nature and category	2005			
	Acquisition cost	Valuation	Interest	Total
Debt instruments –domestic				
Government instruments				
To finance operations	\$ 135,352,016	\$ (701,239)	\$ 1,251,178	\$ 135,901,955
Private companies				
To finance operations	61,612,557	-	12,831	61,625,388
Total debt instruments	196,964,573	(701,239)	1,264,009	197,527,343
Equity instruments–domestic				
private companies				
To finance the operations	51,841	(2,800)	-	49,041
Total equity instruments	51,841	(2,800)	-	49,041
Total investments	\$ 197,016,414	\$ (704,039)	\$ 1,264,009	\$ 197,576,384

b) Based on maturity:

Term	2006			
	Acquisition cost	Valuation	Interest	Total
One year or less	\$ 170,979,571	\$ 144,328	\$ 221,292	\$ 171,345,191
More than one year and up to five years	54,218,909	(649,389)	641,545	54,211,065
More than five and up to 10 years	43,375,574	(335,858)	627,839	43,667,555
Total	\$ 268,574,054	\$ (840,919)	\$ 1,490,676	\$ 269,223,811

Term	2005			
	Acquisition cost	Valuation	Interest	Total
One year or less	\$ 96,816,900	\$ 165,694	\$ 223,931	\$ 97,206,525
More than one year and up to five years	100,199,514	(869,733)	1,040,078	100,369,859
	-	-	-	-
Total	\$ 197,016,414	\$ (704,039)	\$ 1,264,009	\$ 197,576,384

- c) In accordance with Circular S-11.2.4 of the Commission, issued on April 24, 2006, the investments in the Company's securities intended for coverage of technical reserves should be classified by securities ratings agencies authorized by the CNBC, which must be within one of the classification rating bands established by the Commission. The classification of ratings of investments in securities is as follows:

Rating	2006		Total	%
	Maturity less than one year	Maturity more than one year		
Excellent	\$ 170,979,571	\$ 97,544,666	\$ 268,524,237	99.9

Rating	2005		Total	%
	Maturity less than one year	Maturity more than one year		
Excellent	\$ 96,816,900	\$ 100,147,674	\$ 196,964,574	99.9

As of December 31, 2006 and 2005, the Company has no investment in securities that are intended to cover claims in litigation.

#### 4. Available funds

The balance of available funds as of December 31, 2006 and 2005 is composed as follows:

	2006	2005
Cash on hand	\$ 43,386	\$ 44,737
Banks Mexican pesos	47,326	25,503
Banks foreign currency	784,908	1,144,494
Total	\$ 875,620	\$ 1,214,734

#### 5. Real estate and furniture and equipment.

	2006		
	Historical Cost	Revaluation	Total
Furniture and fixtures	\$ 2,211,679	\$ 1,586,710	\$ 3,798,389
Computers	5,477,849	1,238,393	6,716,242
Vehicles	2,948,221	262,157	3,210,378
Other	2,569,494	1,101,278	3,670,772
	13,207,243	4,188,538	17,395,781
Less accumulated depreciation	(8,155,161)	(3,788,072)	(11,943,233)
	\$ 5,052,082	\$ 400,466	\$ 5,452,548

	2005		
	Historical Cost	Revaluation	Total
Furniture and fixtures	\$ 2,231,268	\$ 1,499,143	\$ 3,730,411
Computers	4,685,517	1,040,173	5,725,690
Vehicles	1,767,332	240,339	2,007,671
Other	2,581,444	997,820	3,579,266
	11,265,561	3,777,475	15,043,038
Less accumulated depreciation	(7,297,852)	(3,245,562)	(10,543,414)
	\$ 3,967,709	\$ 531,913	\$ 4,499,624

**6. Amortizable costs**

	2006	2005
Installation expenses	\$ 14,436,498	\$ 14,436,060
Less accumulated amortization	<u>(9,181,385)</u>	<u>(7,396,912)</u>
	<u>\$ 5,255,113</u>	<u>\$ 7,039,148</u>

**7. Foreclosed assets**

	2006	2005
Salvage inventory	\$ 2,722,431	\$ 693,935
Other prepaid expenses	<u>199,837</u>	<u>106</u>
	<u>\$ 2,922,268</u>	<u>\$ 694,041</u>

**8. Foreign currency balances and transactions**

a. Monetary position in foreign currency:

	Balances in US Dollars	Mexican Peso Equivalent
Assets	\$ 35,502,516	\$ 383,839,002
Liabilities	<u>22,128,872</u>	<u>239,248,513</u>
Position-long	<u>\$ 13,373,644</u>	<u>\$ 144,590,489</u>

b. Transactions in US dollars, except deposits in credit institutions, were as follows:

	2006	2005
Premiums issued on direct insurance taken	\$ 35,090,803	\$ 26,397,928
Premiums issued on direct insurance returned	19,968,132	20,793,882
Casualties incurred in direct insurance taken	17,465,978	8,900,783
Claims recovered for reinsurance ceded and returned	9,573,564	7,238,472
Cost of reinsurance coverages	2,521,397	1,397,506
Claims recovered on nonproportional reinsurance coverage	3,372,886	(40,773)
Commissions on reinsurance taken	246,840	243,438
Brokerage for reinsurance brokers	196,003	231,294
Commissions on reinsurance ceded and returned	3,461,139	4,316,134

**9. Transactions and balances with related parties**

a. Transactions with related parties in the regular course of business were as follows:

	2006	2005
Revenues:		
Reinsurance operations	\$ 163,912,267	\$ 134,351,421
Services collected	<u>3,212,786</u>	<u>7,017,082</u>
	<u>\$ 167,125,053</u>	<u>\$ 141,368,503</u>
Expenses:		
Reinsurance operations	\$ 190,926,107	\$ 208,315,650
Administrative services paid	<u>1,127,758</u>	<u>1,362,799</u>
	<u>\$ 192,053,865</u>	<u>\$ 209,678,449</u>

b. Balances receivable and payable with related parties are:

	2006	2005
Receivable-		
Tokio Marine and Nichido Fire Insurance Co., Ltd.	<u>\$ 25,166,309</u>	<u>\$ 23,080,351</u>
Payable-		
Tokio Marine and Nichido Fire Insurance Co., Ltd.	<u>\$ 60,035,552</u>	<u>\$ 51,340,017</u>

**10. Employee retirement obligations.**

The valuation of the reserve for employee retirement obligations for the employee seniority premium plan is covered without considering the additional contractual benefits which are granted to employees after their retirement date.

This plan also provides seniority premium benefits, which consist of a lump sum payment of 12 days' wage for each year worked, calculated using the most recent salary, not to exceed twice the legal minimum wage established by law. The related liability and annual cost of such benefits are calculated by an independent actuary on the basis of formulas defined in the plans using the projected unit credit method. The projected values of these obligations and the rates used for their calculation are as follows:

	2006 Seniority premium	2005 Seniority premium
Current benefits obligations	<u>\$ 303,217</u>	<u>\$ 280,611</u>
Projected benefits obligations	\$ 354,293	\$ 330,514
Investment in the reserve	<u>354,154</u>	<u>288,119</u>
Investment status	<u>(139)</u>	<u>(42,395)</u>
Net periodic cost	<u>\$ 65,797</u>	<u>\$ 63,794</u>

The amortization period of the unamortized seniority premium items for 2006 is as follows:

Item	Years
Amortization of transition liability	8.75

As of December 31, 2006 and 2005, the seniority premium assets are invested as follows:

	2006	2005
Treasury bills	\$ <u>354,154</u>	\$ <u>288,119</u>

## 11. Stockholders' equity

a. Stockholders' equity at December 31, 2006 is as follows:

	Number of Shares	Par Value	Effect of Restatement	Total
Common stock				
Fixed – Series E	6,499,000			
Series M	<u>1</u>			
	6,500,000	\$ 65,000,000	\$ 157,171,693	\$ 222,171,693
Legal reserve		15,644,116	7,647,538	23,291,654
Other		4,180,729	13,504,481	17,685,210
Result from prior years		71,626,621	13,070,945	84,697,566
Income for the year		24,146,777	(6,729,247)	17,417,530
Insufficiency in restated stockholders' equity	<u>-</u>	<u>-</u>	<u>(183,633,790)</u>	<u>(183,633,790)</u>
Total	<u>        </u>	<u>\$ 180,598,243</u>	<u>\$ 1,031,620</u>	<u>\$ 181,629,863</u>

b. At a stockholders' ordinary general meeting held on April 28, 2006, the Company's stockholders declared dividends of \$7,209,416 (par value), and at a stockholders' ordinary general meeting of April 29, 2005, declared dividends of \$11,300,993 (par value).

c. In accordance with the rules established by the Commission, the gains derived from the effects of valuing investments in shares are considered as unrealized and, consequently, cannot be capitalized or distributed as dividends among the shareholders, except in cash.

d. For legal purposes, a minimum of 10% of annual profits must be used to create a legal reserve, until such amount equals 75% of paid-in capital. The legal reserve can be capitalized, but not distributed unless the Company is dissolved, and must be reconstituted based on the new amount of paid-in capital. At December 31, 2006 and 2005, the legal reserve, in historical pesos, is \$15,644,116 and \$14,640,108 respectively.

e. Stockholders' equity, except restated paid-in capital and tax retained earnings will be subject to income tax payable by the Company at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated income taxes of the year in which the tax on dividends is paid and the following two fiscal years.

f. The balances of the stockholders' equity tax accounts as of December 31 are:

	2006	2005
Contributed capital account	\$ <u>222,171,693</u>	\$ <u>222,171,693</u>
Net tax income account	\$ <u>18,383,566</u>	\$ <u>7,873,373</u>

- g. At December 31, 2006, stockholders' equity includes the effects of the gain on the valuation of investments in securities and the restatement of other nonmonetary assets, which will incur ISR if realized when the respective assets are sold. Tax restatement of the cost of the respective assets, which may differ from accounting restatement, will be considered in determining ISR.

## **12. Contingent commissions.**

Contingent commissions are payments to individuals or corporations that participated in the brokerage or the contracting of Company insurance products, which are additional to direct commissions or payments considered during product design.

In the years 2006 and 2005, the Company did not have any agreements for the payment of contingent commissions with brokers, corporations or individuals.

## **13. Income tax, asset tax and employee statutory profit sharing**

The Company is subject to income ("ISR") and asset ("IMPAC") taxes. ISR is computed taking into consideration the taxable and deductible effects of inflation. Taxable income is increased or reduced by the effects of inflation on certain monetary assets and liabilities through the inflationary component, which is similar to the monetary position gain or loss. On December 1, 2004 certain amendments to the ISR and IMPAC laws were enacted in 2005. The most significant amendment was the ISR rate, which was reduced to 30% in 2005 and will be further reduced to 29% in 2006 and 28% in 2007. Due to amendments to the tax laws in effect as of 2007, a tax credit equivalent to 0.5% or 0.25% of the tax result may be obtained, when referring to taxpayers audited for tax purposes, and subject to certain requirements. IMPAC is calculated by applying 1.8% on the net average of assets not affected by financial brokerage, such as fixed assets, land, deferred expenses and charges that do not back liabilities with third parties resulting from financial brokerage, in conformity with applicable legislation. Only debts from the acquisition of the above assets may be deducted from the asset value. IMPAC is payable only to the extent that it exceeds ISR payable for the same period; any required payment of IMPAC is creditable against the excess of ISR over IMPAC of the following ten years. As of 2007 the IMPAC rate will be 1.25% of the value of assets held in the year, but no debts may be subtracted from such value.

Additionally, as of 2006 the full amount of employee statutory profit sharing paid will be deductible.

## **14. New accounting principles.**

With the enactment as of January 1, 2006 of the Series NIF-A, which comprises the Conceptual Framework, as indicated in Note 3, certain provisions generated divergences with the specific NIF in effect, for which reason in March 2006 the CINIF issued the Interpretation to Financial Reporting Standards ("INIF") Number 3, Initial application of the NIF, which established that the terms of the specific NIF which have not yet been modified should be applied temporarily until fully integrated with the Conceptual Framework. Therefore, in 2006, for example, the classification of revenues, costs and expenses in the income statement into ordinary and non-ordinary is not yet required, while the other comprehensive items forming part of stockholders' equity should be reclassified to the statement of income at the time the underlying net assets are realized.

Continuing with the goal of furthering convergence with international financial reporting standards, on December 22, 2006 the CINIF issued the following NIF, which go into effect for years beginning as of January 1, 2007:

NIF B-3, Statement of income.

NIF B-13, Events subsequent to the date of the financial statements.

NIF C-13, Related parties.

NIF D-6, Capitalization of the comprehensive financing result.

At the date of issuance of these financial statements, the Commission has not issued any guidance for adoption of these new standards, which must be followed as of January 1, 2007 for those entities which present their financial statements in accordance with Mexican financial reporting standards.

**15. Financial statements issuance authorization.**

These financial statements were authorized for issuance on January 30, 2007 by the Company's Board of Directors under the responsibility of the General Director Mr. Shinichi Hara; Internal Auditor Mr. Arturo Ruiz Mendoza and the Accounting Manager, Mr. Oscar Campos Martínez, and are subject to the approval of the Company's stockholders' ordinary general meeting, which may decide to change them as established in the General Companies Law. Furthermore, these financial statements are subject to review by the Commission, which may order that the financial statements be disseminated with the relevant amendments and within the deadlines established for such purpose in the Law.

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