Peña Verde, S. A. B. and subsidiaries

Consolidated financial statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

(Free Translation from Spanish Language Original)

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Independent Auditors' Report

(Translation from Spanish Language Original)

The Board of Directors and the Stockholders

Peña Verde, S. A. B.

(Figures thousands of Mexican pesos)

Opinion

We have audited the consolidated financial statements of Peña Verde, S. A. B. and subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2017 and 2016, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of Peña Verde, S. A. B. and subsidiaries have been prepared, in all material respects, in accordance with Mexican Accounting Criteria for Insurance Institutions (the Accounting Criteria), issued by the National Insurance and Bonding Commission (the Commission).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, have been the most relevant in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion, thereon we express no a separate opinion about these matters.

(Continued)

Technical reserves ($12,610,222) and reinsurance's share on technical reserves $2,377,126.	
See notes 3h, 3n and 8 to the consolidated financial statements.	
Key audit matter	How the matter was addressed in our audit
The valuation of technical reserves, as well as their effects on the reinsurers' share on technical reserves, depends on the quality of the underlying information. This means into complexity and subjective judgments about future events, both internal and external, for which a change in assumptions, criteria or coverages may result in material impacts on the estimate. Because of the above, we considered this matter is a key matter to our audit.	As part of our audit procedures, we were supported by our actuarial specialists to understand and evaluate the actuarial practices applied by the Group in the calculation and accounting registration of the technical reserves, as well as consistency with the insurance and bonds regulation in force. We also consider, along with our actuarial specialists, the objectivity, competence, work and findings of independent actuaries engaged by Management, who assess the position and sufficiency of the technical reserves, including the evaluation of assumptions and significant methods used by Management. Additionally, we evaluated that the information provided to the independent actuary was consistent with the information provided to us as part of our audit. Furthermore, we obtained an understanding of the process and tested the internal control implemented by the Group for the creation of technical reserves, including the evaluation of the design and test of effectiveness of actuarial controls, which include reconciliations of key historical information and Management's review of estimates. Additionally, because the historic information of the claims is relevant for estimates, we tested the controls and conducted substantive test of detail on the claims and payments thereof.

Other information

Management is responsible for the other information. The other information comprises information included in the Group's Annual Report for the year ended December 31, 2017 (the Annual Report), which is to be filed with the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) and the Mexican Stock Exchange (Bolsa Mexicana de Valores), but does not include the consolidated financial statements and our auditors' report thereon. It is estimated that the Annual Report will be available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover other information and we do not express any type of assurance conclusion thereon.

(Continued)

As for our audit of the consolidated financial statements, our responsibility is to read the other information, when it's available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge acquired during the audit, or if it seems to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement in such other information, we shall be required to report such fact to those charged with governance.

Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation of the consolidated financial statements in accordance with the Accounting Criteria, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or to cease operations, or has no other realistic alternative.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

(Continued)

– We conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– We obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business within the Institution to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in the course of our audit.

We also provided those charged with the Institution's governance with a statement that we have complied with the ethics requirements applicable to independence and that we have communicated all relations and other matters reasonably expected to affect our independence and, where appropriate, the corresponding safeguards.

Among the matters that have been communicated to those charged with governance, we determine those matters that have been the most relevant in the audit of the financial statements of the current period and that are, consequently, key audit matters. We describe these matters in our audit report, unless the legal or regulatory provisions prohibit publicly disclosing the matter or, under extremely infrequent circumstances, we determine that a matter should not be communicated in our report because it is reasonable to expect that the adverse consequences of doing so would surpass the public interest benefits thereof.

KPMG Cárdenas Dosal, S. C.

Juan Carlos Laguna Escobar

Mexico City, March 28, 2018.

Peña Verde, S. A. B. and subsidiaries

Consolidated balance sheets

December 31, 2017 and 2016

(Thousands of Mexican pesos)

(These consolidated financial statements have been translated from the Spanish language original and for the convenience of foreign/English-speaking readers)

Assets	**2017**		**2016**	
Investments:				
Securities (note 5):				
Government	$ 7,368,297		6,534,359	
Corporate:				
Fixed income	268,637		136,551	
Variable rate	5,819,319		5,410,839	
Foreign	447,877		618,748	
	13,904,130		12,700,497	
Repurchase agreements (note 5)	232,512		151,915	
Loan portfolio, net:				
Current loan portfolio	40,209		16,695	
Past-due loan portafolio	237		285	
Allowance for loan losses	(756)		(697)	
	39,690		16,283	
Properties, net (note 6):	579,891	14,756,223	537,949	13,406,644
Employee benefits investment (note 10)		208,874		196,289
Cash and cash equivalents:				
Cash and cash in banks		522,440		366,890
Accounts receivable:				
Premiums (note 7)	1,610,213		1,773,414	
Subsidy premiums for property and casualty	42,907		20,321	
Agents and adjusters	2,305		5,407	
Notes receivables	21,122		16,889	
Other	84,163		78,875	
Allowance for doubtful accounts	(5,911)	1,754,799	(8,473)	1,886,433
Reinsurers and bonding companies, net (note 8):				
Current	625,072		451,416	
Retained deposits	93,774		80,495	
Reinsurance's share on technical reserves	2,377,126		1,698,258	
Reinsurers and bonding brokers	497		242	
Credit risk allowance for foreing reinsurers and bonding	(1,149)		(1,024)	
Allowance for doubtful accounts	(31,521)	3,063,799	(9,445)	2,219,942
Permanent stock investments:				
Other permanent investments		40,758		3,467
Other assets:				
Furniture and equipment, net (note 9)	58,684		55,355	
Foreclosed assets, net	8		8	
Sundry (note 9)	232,458		211,850	
Amortizable intangible assets, net	42,888	334,038	50,095	317,308
Total assets	$	20,680,931		18,396,973

Liabilities and Stockholders' Equity	**2017**		**2016**	
Liabilities:				
Technical reserves:				
Current risk:				
Life	$ 574,035		510,268	
Accidents and health	447,069		184,838	
Property and casualty	1,920,881		2,215,997	
Bonds in force	438,458		390,823	
	3,380,443		3,301,926	
Outstanding claims provision:				
For expired policies and pending payment claims	3,376,781		2,054,100	
For claims incurred but not reported and adjustment expenses	1,217,040		1,238,923	
Insurance funds under management	11,451		10,591	
Collected premiums to be applied	32,850		56,687	
	4,638,122		3,360,301	
Contingency reserve	187,929		169,549	
Catastrophic reserve	4,403,728	12,610,222	4,211,322	11,043,098
Employee benefits (note 10)		234,230		224,517
Creditors:				
Agents and adjusters	128,941		118,610	
Loss funds under management	-		(758)	
Sundry	444,223	573,164	358,917	476,769
Reinsurers and bonding companies (note 8):				
Current	781,978		890,951	
Retained deposits	8,245		14,671	
Other shares	206,743		15,561	
Reinsurers and bonding brokers	493	997,459	134	921,317
Other liabilities:				
Employee statutory profit sharing	11,575		6,275	
Income tax payable (note 13)	48,951		52,068	
Other obligations	186,754		241,092	
Deferred credits (note 13)	1,178,901	1,426,181	1,126,369	1,425,804
Total liabilities		15,841,256		14,091,505
Stockholders' equity (note 14):				
Controlling interest:				
Capital stock		422,608		422,608
Equity reserve:				
Statutory reserve	2,023		1,289	
Repurchase of own shares	231		151	
Additional paid-in capital	959,576	961,830	959,576	961,016
Valuation surplus		68,511		35,616
Conversion effect		(4,681)		-
Retained earnings		2,760,381		2,587,295
Net income		582,933		256,629
Total controlling interest stockholders' equity		4,791,582		4,263,164
Non-controlling interest		48,093		42,304
Total stockholders' equity		4,839,675		4,305,468
Commitments and contingent liabilities (note 17)				
Total liabilities and stockholders' equity	$	20,680,931		18,396,973

See accompanying notes to consolidated financial statements.

Peña Verde, S. A. B. and subsidiaries

Consolidated statements of income

Years ended December 31, 2017 and 2016

(Thousands of Mexican pesos)

(These consolidated financial statements have been translated from the Spanish Language original and for the convenience of foreign/English-speaking readers)

	2017		2016	
Premiums:				
Written (notes 8 and 11)	$	6,965,412		6,865,489
Less ceded (note 8)		1,444,073		1,989,812
Retained premiums		5,521,339		4,875,677
Less net increase in current risks reserve and bonds in force (note 3h)		496,700		367,348
Earned retained premiums		5,024,639		4,508,329
Less:				
Net acquisition cost:				
Agent commissions	265,644		256,784	
Additional compensation to agents	148,249		141,822	
Commission from reinsurance and bonding reinsurance taken	644,748		555,812	
Commission from reinsurance and bonding reinsurance ceded	(309,041)		(325,415)	
Non-proportional reinsurance cost	395,600		298,915	
Other	405,064	1,550,264	389,231	1,317,149
Net cost of claims and other outstanding obligations:				
Claims and other outstanding obligations (note 3h)	4,209,573		3,167,378	
Recovered claims from non-proportional reinsurance contracts	(1,142,050)		(163,179)	
Bonding claims	49,620	3,117,143	61,272	3,065,471
Technical income		357,232		125,709
Net increase in other technical reserves:				
Catastrophic risks	321,063		70,061	
Contingency reserve	27,446	348,509	20,101	90,162
Income from administrative services rendered		15		83
Gross income		8,738		35,630
Net operating expenses:				
Administrative and operating	302,813		278,153	
Personnel remuneration and fringe benefits	385,324		307,445	
Depreciation and amortization	32,341	720,478	19,256	604,854
Operating loss		(711,740)		(569,224)
Comprehensive financial result:				
Investment in securities	477,973		471,546	
Gain on sale of investments	547,567		12,563	
Investment securities valuation	389,243		283,040	
Premium surcharges	31,746		28,791	
Credit risk allowance for foreing reinsurers	180		(364)	
Credit risk reserves	972		(3,033)	
Other	20,992		14,657	
Foreign exchange result	(100,323)	1,368,350	113,584	920,784
Income before income tax and non-controlling interest		656,610		351,560
Income tax (note 13)		63,444		89,667
Consolidated net income		593,166		261,893
Non-controlling interest		(10,233)		(5,264)
Net controlling interest income	$	582,933		256,629

See accompanying notes to consolidated financial statements.

Peña Verde, S. A. B. and subsidiaries

Consolidated statements of changes in stockholders' equity

Years ended December 31, 2017 and 2016

(Thousands of Mexican pesos)

(These consolidated financial statements have been translated from the Spanish Language original and for the convenience of foreign/English-speaking readers)

	Capital stock	Capital earned								
		Reserves			Retained earnings					
	Paid-in capital stock	Statutory	Repurchase of own shares	Additional paid-in capital	From prior years	Current year	Valuation (deficit) surplus	Convertion effect	Non-controlling interest	Total stockholders' equity
Balances as of December 31, 2015	$ 422,608	1,289	855	959,576	1,943,816	613,087	12,298	-	331,832	4,285,361
Items related to stockholders' decisions:										
Transfer of prior year's net income	-	-	-	-	613,087	(613,087)	-	-	-	-
Dividends paid to stockholder's (note 14d)	-	-	-	-	(7,627)	-	-	-	-	(7,627)
Repurchase of own shares of subsidiries	-	-	(704)	-	-	-	-	-	(13)	(717)
Capital stock increases from non-controlling interest	-	-	-	-	52,123	-	-	-	(295,192)	(243,069)
Items related to the comprehensive income (note 14c):										
Surplus valuation from subsidiaries's properties	-	-	-	-	-	-	9,942	-	184	10,126
Subsidiaries valuation surplus related to long-term current risk reserves	-	-	-	-	-	-	18,121	-	343	18,464
Deferred taxes for the year	-	-	-	-	-	-	(4,745)	-	152	(4,593)
Employee benefits adjustment	-	-	-	-	(14,104)	-	-	-	(266)	(14,370)
Net income for the year	-	-	-	-	-	256,629	-	-	5,264	261,893
Balances as of December 31, 2016	422,608	1,289	151	959,576	2,587,295	256,629	35,616	-	42,304	4,305,468
Items related to stockholders' decisions:										
Transfer of prior year's net income	-	734	75,000	-	180,895	(256,629)	-	-	-	-
Dividends paid to stockholder's (note 14d)	-	-	-	-	(6,995)	-	-	-	-	(6,995)
Repurchase of own shares of subsidiries	-	-	(74,920)	-	-	-	-	-	-	(74,920)
Capital stock increases from non-controlling interest	-	-	-	-	(814)	-	-	-	-	(814)
Items related to the comprehensive income (note 14c):										
Surplus valuation from subsidiaries's properties	-	-	-	-	-	-	15,318	-	2	15,320
Surplus valuation from subsidiaries's investments	-	-	-	-	-	-	1,167	-	22	1,189
Deferred taxes for the year	-	-	-	-	-	-	16,410	-	71	16,481
Other	-	-	-	-	-	-	-	(4,681)	(4,539)	(9,220)
Net income for the year	-	-	-	-	-	582,933	-	-	10,233	593,166
Balances as of December 31, 2017	$ 422,608	2,023	231	959,576	2,760,381	582,933	68,511	(4,681)	48,093	4,839,675

See accompanying notes to consolidated financial statements.

Peña Verde, S. A. B. and subsidiaries

Consolidated statements of cash flows

Years ended December 31, 2017 and 2016

(Thousands of Mexican pesos)

(These consolidated financial statements have been translated from the Spanish Language original and for the convenience of foreign/English-speaking readers)

		2017	2016
Net income	$	582,933	256,629
Items not requiring cash:			
Unrealized gain on valuation coming from investing and financing activities		(389,243)	(283,040)
Allowance for doubtful accounts		19,698	74,054
Depreciation and amortization		32,341	19,256
Adjustment or increase related to technical reserves		(388,376)	839,518
Accruals		154,320	166,569
Current and deferred income tax		63,444	89,667
Investment in subsidiaries and associate		10,233	5,264
Subtotal		85,350	1,167,917
Operating activities:			
Changes in investment securities		(814,390)	(1,246,948)
Changes in repurchase agreements		(80,597)	(68,795)
Changes in loan portfolio		(23,466)	(14,856)
Changes in other premiums receivable		163,201	(860,549)
Changes in debtors		(29,005)	(17,046)
Changes in reinsurers and bonding reinsurers		(111,048)	464,320
Changes in other operating assets		(41,418)	16,958
Changes in contractual obligations and expenses related to claims		1,277,821	849,639
Changes in other operating liabilities		(128,403)	141,436
Net cash provided by operating activities		298,045	432,076
Investing activities:			
Net change of property, furniture and equipment		(55,085)	(102,748)
Increase in non-controlling interest		-	(242,365)
Net cash used in investing activities		(55,085)	(345,113)
Financing activities:			
Repurchase of own shares		(814)	(717)
Dividends paid		(6,995)	(7,627)
Repurchase of own shares of subsidiries		(74,920)	(704)
Net cash used in financing activities		(82,729)	(9,048)
Net increase in cash and cash equivalents		160,231	77,915
Effects due to changes in the value of cash		(4,681)	-
		155,550	77,915
Cash and cash equivalents:			
At beginning of year		366,890	288,975
At end of year	$	522,440	366,890

See accompanying notes to consolidated financial statements.

These consolidated financial statements have been translated from the Spanish Language original and for the convenience of foreign/English-speaking readers.

(1) Description of business-

Description

Peña Verde, S. A. B. (Peña Verde and together with its subsidiaries, the Institution or the Group), is a company incorporated under the laws of Mexico located at Sierra Mojada Number 626, Mexico City, in terms of the Insurance and Bonding Institutions Law (the Law), the Institution is mainly engaged in insurance and reinsurance activities within following operations and insurance lines:

a. Life.

b. Accident and health, in the lines of personal accidents and medical expenses.

c. Property and casualty, in the lines of miscellaneous and professional liability, marine and inland marine, fire, automobile, credit, multiple peril, agricultural and earthquake and other catastrophic risks.

d. Reinsurance and bonding reinsurance operations.

The Institution operates mainly in: Mexico, Latin America, the Caribbean region and overseas.

The consolidated financial statements for the years ended at December 31, 2017 and 2016, include the financial information of Peña Verde and its subsidiaries. The activities of its subsidiaries are described below:

- General de Seguros, S. A. B. (General de Seguros) - Its main activity is to act as an insurance institution in operations and insurance lines referred in the preceding paragraphs, in the terms of the Law.

- Reaseguradora Patria, S. A. (Reaseguradora Patria) - It is a Mexican company which its main purpose is to reinsure in life, accident and health, property and casualty and bonding lines, in terms of the Law.

- General de Salud, Compañía de Seguros, S. A. (General de Salud) - Its main activity is to act as an insurance institution in the line of health insurance, within the line of accidents and health, in terms of the Law.

(Continued)

- Servicios Administrativos Peña Verde, S. A. de C. V. (Servicios Peña Verde) - Its main activity is to provide all kinds of services related to the operation and business management.

- Patria Corporate Member Limited (PCM o Patria Corporate) – It is an entity created under the United Kingdom Law, the main object is to carry out reinsurance activities in different lines for insurance and reinsurance within the market of Lloyd's in the form of corporate member, which are managed by Pembroke Managing Agency Limited throughout the Special Purpose Syndicate 6125, established exclusively for this operation.

- CCSS Peña Verde, S. A. de C. V. (CCSS) – It was incorporated on October 23, 2012, and initiated operations on August 2016, its main activity is to provide call center services to clients, suppliers, insured and beneficiaries of the Group.

(2) Financial statement authorization, basis of preparation and oversight-

Authorization

On March 28, 2018, Manuel Escobedo Conover, Chief Executive Officer, authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

In accordance with the General Corporation Law (Ley General de Sociedades Mercantiles), and the Institution's bylaws, the stockholders and the board of directors, are empowered to modify the consolidated financial statements after issuance. The accompanying consolidated financial statements will be submitted to the next stockholders' meeting for approval.

In accordance with the provisions from the National Insurance and Bonding Commission (the Commission), the Commission is empowered to modify the financial statements of General de Seguros, General de Salud and Reaseguradora Patria after issuance.

Basis of preparation

a) Statement of compliance

The accompanying financial statements have been prepared in accordance with Mexican Accounting Criteria (the Accounting Criteria) for Insurance and Bond Institutions, established by the Commission in force as of the consolidated balance sheets date.

(Continued)

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires Management to make estimates and assumptions affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, furniture and equipment, valuation allowances for premiums receivable, loan portfolio, notes receivables, reinsurers and bonding, other receivables and deferred income tax assets; valuation of financial instruments and repurchase agreements, liabilities related to employee benefits and technical reserves. Actual results could differ from those estimates and assumptions.

c) Functional and reporting currency

The aforementioned consolidated financial statements are presented in Mexican pesos, which is the same as the recording currency and the functional currency.

For purposes of disclosure, “pesos” or “$” means thousands of Mexican pesos, and “dollars” or USD means thousands of U.S. dollars.

Overight

The Commission is responsible for the inspection and oversight of insurance institutions and carries out a review of the annual consolidated financial statements and other periodic information which institutions are required to prepare.

(3) Summary of significant accounting policies-

Significant accounting policies, set out in the next pages, have been applied consistently to all these consolidated financial statements, and have been applied consistently by the Institution.

(Continued)

(Thousands of Mexican pesos)

(a) Inflation effects recognition-

The accompanying consolidated financial statements have been prepared in accordance with Mexican Accounting Criteria for insurance institutions in effect as of the balance sheet date, which due to the Institution operates in a non-inflationary economic environment, include the recognition of the effects of inflation on the financial information through December 31, 2007, based on the Mexican National Consumer Price Index (NCPI). Annual and cumulative inflation percentages of the last three years and the indices used to determine inflation, are as follows:

		Inflation	
December 31,	**NCPI**	**Yearly**	**Cumulative**
2017	130.813	6.77%	12.72%
2016	122.515	3.36%	9.87%
2015	118.532	2.13%	10.52%

(b) Principles of consolidation-

The consolidated financial statements include the financial information of Peña Verde, S. A. B. and those of its subsidiaries which it controls. All significant inter-company balances and transactions have been eliminated in preparing the consolidated financial statements in consolidation. The consolidation was based on the financial statements of Peña Verde and the issuing companies as of December 31, 2017 and 2016, which have been prepared in accordance with the accounting criteria established by the Commission.

(c) Translation of foreign currency financial statements-

The financial statements of foreign operations are translated into the reporting currency by initially determining if the functional currency and the currency for recording the foreign operations are different and then translating the functional currency to the reporting currency, using the historical exchange rate and/or the exchange rate at year end.

(d) Investments in securities-

The Commission regulates the basis on which the Institution makes investments, for which an accounting and valuation criteria has been established, which classifies the investments according to the Management intention on ownership, as shown on the following page.

(Continued)

Securities for trading purposes-

Trading securities are debt or equity securities bought and held by the Institution to meet claims and operating expenses, so from the moment an investment is made in them there is an intention to trade them shortly, and in the case of debt securities on dates prior to maturity.

Debt securities are initially recorded at acquisition cost and performance accrual yield (interest, coupons or equivalents) is determined by applying effective interest method. Interests are recorded on the income statement when earned. Debt securities are stated at fair value using market prices provided by independent price vendors, or by specialized official publications on international markets. When quotation is not available, according to the last price recorded within the terms established by the Commission, the acquisition cost will be taken as an updated price for valuation.

Equity securities are recorded at acquisition cost and valued similarly to traded debt securities. Where there is no market value, the lower of the issuer's book value or acquisition cost shall be considered.

The valuation effects of debt and equity securities are recognized on the consolidated statement of income in “Comprehensive financial result” under “Investment securities valuation”.

On the date of its sale, the difference between the selling price and the carrying value of the securities will be recognized on the consolidated income statement. The sold securities’ valuation result recognized on the income statement is reclassified to “Comprehensive financial result for the gain on sale of investments” in the consolidated statement of income, on the date of the sale.

At the acquisition date, transaction costs related to debt securities and equity are recorded on the consolidated statement of income.

Available-for-sale securities-

These are those financial assets for which Management has an intention other than an investment for trading purposes or to be held to maturity from the time of investment, and it is intended to trade them in the medium term and in the case of debt instruments on dates prior to maturity, in order to obtain gains based on the changes in market value and not only through inherent returns.

(Continued)

Debt securities are recorded at acquisition cost. Performance interest yield (interest, coupons or equivalents) and valuation methodologies are the same than those applied to trading debt securities, including yield earned on the statement of income, however valuation effect is recorded on stockholders' equity under "Surplus from investments valuation" as long as such financial instruments are neither sold nor transferred to a different category. At the time of sale, the effects previously recorded in stockholders' equity, shall be recognized on the consolidated statement of income.

Equity instruments are recorded at acquisition cost. Investments in quoted shares are stated at fair value, based on the market prices released by the independent price vendors. If there were no market value, the accounting value of the issuer is considered. The valuation effects of equity instruments are recorded under "Valuation surplus" in stockholders' equity.

At the acquisition date, transaction costs related to debt and equity securities are recorded as part of the investment.

Transfers between categories-

Transfers between financial asset categories are permissible only when management's original intention for holding the financial asset is affected by changes in the Institution's financial capacity or a change in circumstances requiring modifying the original intent.

Only securities classified as available-for-sale may be transferred.

Transfer of categories of financial instruments for trading purposes is not allowed, except in case a financial instrument is in a market that, due to unusual circumstances outside the control of the Institution, ceases to be active and loses the characteristic of liquidity. This instrument may be transferred to financial instruments available-for-sale (debt or equity financial instruments).

Unrealized valuation results-

The Institution may not capitalize or share the profit from the valuation of any of the investments in securities until it is converted into cash.

(Continued)

Repurchase operations-

The repurchase operations are presented in a separate line item on the consolidated balance sheet. They are initially recorded at the agreed-upon price and valued at amortized cost, through the recognition of the premium in income of the year as accrued, according to the effective interest method; financial assets received as collateral are recorded in memorandum accounts.

Impairment-

The Institution assesses at each consolidated balance sheet date whether there is objective evidence that a security is impaired, with the objective and non-temporary evidence that a financial instrument has impaired in value is determined and recognized a corresponding loss.

(e) Cash and cash equivalents-

Cash and cash equivalents include bank accounts in local currency and dollars. At the balance sheet date, interest earned and currency translation gains/losses are presented on the consolidated statement of income as part of "Comprehensive financial result".

Checks that have not been collected after two business days of being deposited, and those that have been returned, must be reclassified to sundry debtors. Forty-five days after the checks were recorded in sundry debtors and have not been collected or recovered should be written off affecting results from the operations of the year. Checks issued prior to date of the financial statements that have not been delivered to the beneficiaries, must be reclassified as a part of "Cash and cash equivalents" without impacting the accounting records as a results of checks issuance.

(f) Debtors-

Premiums receivable-

For insurance operations-

Premiums receivable represents uncollected premiums with an aging lower than the term established in agreement or under 45-days aging according to the provisions of the Commission. When this status is exceeded, they are written off against the results of the year, except for premiums receivable from Federal Public Administration offices or entities, which are reclassified to "Receivables from agencies and public administration entities", if supported by a national public tender by these entities that signed, for purposes of the tender, an agreement with the Federal Government supported in the Federal Expense Budget for the corresponding fiscal year.

(Continued)

<u>For reinsurance operations</u>-

The balances for premiums correspond to accrued amounts of the minimum premium and deposits of the reinsurance operations taken by non-proportional contracts and whose recognition is annually from the beginning of validity.

The accrual of the minimum and deposit premium is recognized as cash flows are received according to the terms and conditions agreed in the contract, which can be quarterly or quarterly with a 90-day guarantee. In case of not complying with the agreed term, an estimate must be recognized.

If the agreed period is not met, the coverage must be canceled or the payment of said guarantee renewed after an agreement.

Loans to officers and employees, loans, credits or financing granted and other receivables-

Management conducts an analysis on recoverability on loans to officers and employees, as well as on accounts receivable from identified debtors in which at inception maturity is agreed to be longer than a period of 90 calendar days, accounting for an allowance for doubtful accounts when needed.

In the case of accounts receivable no included in the preceding paragraph, an allowance for doubtful accounts is provided for the full amount, considering the following criteria: for unidentified debtors, right after 60 calendar days of being recorded, and in the case of identified debtors, right after 90 calendar days of being recorded.

The commercial loan portfolio is rated quarterly, monthly when it related to mortgage loans applying a methodology that considers the probability of default, the severity of the loss and exposure to default, recognizing the effect of the reserve in the income of the year under the caption “Comprehensive financing result”.

The Commission may order the creation of preventive reserves from credit risk, in addition to those referred-to in the above paragraph, for the total balance owed as follows:

i. When the corresponding credits files have no or there is no documentation considered necessary according to the regulation in force, to exercise collection. This reserve is only released when the Institution addresses the deficiencies observed.

(Continued)

(Thousands of Mexican pesos)

ii. When a report issued by a credit information company on the history of the borrower has not been obtained (except loans to officers and employees, when the loan payments are received through discounts to salary), this reserve is canceled three months after the required report is obtained.

(g) Property, furniture and equipment-

The Institution's property is stated at acquisition cost and restated based on independent appraisals. Appraisals are required to be made annually.

From January 1, 2007, acquisitions of assets under construction or installation include the capitalization of the related comprehensive financial results as part of the value of assets.

Furniture and equipment are recognized at acquisition cost and through December 31, 2007, were adjusted for inflation by applying NCPI factors.

Depreciation on properties is calculated based on the remaining useful life of such assets, considering the restated value of constructions as determined by the latest appraisals performed.

Depreciation on furniture and equipment is calculated on the straight-line method over the estimated useful lives of the assets as determined by the Institution's Management. The total useful lives and the annual depreciation rates of the principal asset classes are as follows:

	Various	
	Years	**Rates**
Property	Several	Several
Transportation equipment	4	25%
Office furniture and equipment	10	10%
Computer equipment	4 y 3.3	25% and 30%
Computer support equipment	8.33	12%
Other	10	10%

Leasehold improvements are amortized over the useful life of the improvement or the related contract term, whichever is shorter.

Minor repairs and maintenance costs are expensed as incurred.

(Continued)

(h) ***Technical reserves***-

The Institution creates and assesses the technical reserves established in the Law, in accordance with the general provisions issued by the Commission in Title 5 of the Provisions for Insurance and Bonds Institutions (the Provision or CUSF from its Spanish acronym).

The technical reserves are established and valued in relation to all insurance and reinsurance obligations that the Institution has assumed against the insured and beneficiaries of insurance and reinsurance contracts, the administration expenses, as well as the acquisition cost assumed in relation thereto.

To establish and assess the technical reserves, actuarial methods based on the application of actuarial practice standards indicated by the Commission through general provisions, are used, and considering the information available in the financial markets, as well as the information available on technical insurance and reinsurance risks. The valuation of these reserves is assessed by an independent actuary and registered with the Commission.

For the technical reserves related catastrophic risk insurance and other reserves determined by the Commission according to the Law, the actuarial methods for establishment and valuation used by the Institution, were determined by the general provisions issued by the Commission.

The most important aspects to determine and account for the technical reserves are mentioned below.

Reserve for current risks-

The Institution registered with the Commission the technical notes and the actuarial methods used for creating and valuing the current risk reserve.

For insurance operations-

New methodologies to calculate the reserve for current risks came into effect in 2016. As a result of enforcing these methodologies, General de Seguros and General de Salud determined a release of $113,542, which is accrued in straight-line in a period of 2 years, the Institution recognized an income of $56,771 in each year.

The purpose of this reserve is cover the expected value of future obligations (best estimate), from the payment of claims, benefits, surrender payments, dividends, acquisition and administration expenses, as well as any other future obligation derived from the insurance contracts, plus a risk margin.

(Continued)

The best estimate will be equal to weighted average of the expected value of the future cash flows, considering income and expenses, of obligations, understanding as the weighted average by probability of these cash flows, considering the time value of money based on the free interest rate curves for each currency or monetary unit provided by the independent price vendors, as of the valuation date. The hypothesis and procedures with the future cash flows of obligations are determined, based on the best estimate defined by General de Seguros and General de Salud in their own method recorded for such calculation.

For purposes of calculating the future cash flows of revenues, the premiums that upon valuation date are overdue and outstanding are not considered, neither payments in installments accounted for in “Premium receivable” in the consolidated balance sheet.

Multiannual insurance-

In the case of multiannual policies, the current risk reserve is the best estimate of the future obligations of the current year in question, plus the rate premiums corresponding to future accumulated annuities with the corresponding return, for the time the policy has been in force, plus the risk margin. From premiums corresponding to future annuities, the acquisition cost should be subtracted for accounting purposes, need to be recorded in a separate way to the reserve an upon writing insurance policy.

General de Seguros considers multiannual policies those insurance contracts whose coverage is more than one year, provided that it is not a long-term life insurance or insurance where the future premiums are contingent and it is not expected to be returned when the risk expires.

Catastrophic risks insurance-

General de Seguros determines the balance of current risk reserve for earthquake, hurricane and other meteorologic risks with the non-accrued risk annual premium, considering the technical bases established in the CUSF, into Annex 5.1.5-a. for earthquake and into Annex 5.1.6-a. for hurricane and other meteorologic risks. In the case of policies that cover risks that according to their characteristics cannot be valued with the technical basis, mainly reinsurance taken abroad or covered goods located abroad, the current risk reserve is calculated for the non-accrued retained risk premium, once calculated the premium, 35% of the written premiums of each of the policies in force at the valuation date.

(Continued)

Risk margin-

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds (FOPA from its Spanish acronym) required to support the Solvency Capital Requirement (RCS from its Spanish acronym), necessary to meet General de Seguros's insurance and reinsurance obligations until its duration. For purposes of valuation of the current risk reserve, the RCS of closing of the preceding immediately quarter valuation is used.

The risk margin is determined for each line and type of insurance, according to the term and currency considered in calculating the best estimate of the corresponding insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the interest rate free of market risk that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding RCS.

For reinsurance operations-

New methodologies to calculate the reserve for current risks came into effect in 2016. As a result of enforcing these methodologies, Reaseguradora Patria determined an increase of such reserve for $21,049, which was recognized as an expense in 2016.

The purpose of this reserve is cover the expected value of future obligations (best estimate), from the payment of claims, benefits, surrender payments, dividends, acquisition and administration expenses, as well as any other future obligation derived from the insurance contracts, plus a risk margin.

The best estimate will be equal to weighted average of the expected value of the future cash flows, considering income and expenses, of obligations, understanding as the weighted average by probability of these cash flows, considering the time value of money based on the free interest rate curves for each currency or monetary unit provided by the independent price vendors, as of the valuation date. The hypothesis and procedures with the future cash flows of obligations are determined, based on the best estimate defined by Reaseguradora Patria in its own method recorded for such calculation.

(Continued)

Catastrophic risk insurance-

Reaseguradora Patria determines the current risk reserve in connection with the coverage for earthquake, hurricane and other meteorological risks, with the non-accrued portion of the annual premium, considering the technical bases described in the methodology of calculation of reserves for catastrophic risks, earthquake and other meteorological risks and the calculation of Probable Maximum Loss (PML) for Reaseguradora Patria based on the catastrophic risk assessment model of the Risk Management Solutions (RMS).

Risk margin-

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the RCS, necessary to meet the Reaseguradora Patria's insurance and reinsurance obligations for the maturity of the covered risk period. For purposes of valuation of the current risk reserve, the RCS of closing of the month immediately preceding valuation is used. If there are relevant increases or decreases in the amount of the Reaseguradora Patria's obligations as of the report date, Reaseguradora Patria makes adjustments to this risk margin, which allows to recognize the increase or decrease the margin may have from the situations mentioned. In these cases, the Commission is informed of the adjustment made and the procedures used to make this adjustment.

The risk margin is determined according to the term and currency considered in calculating the best estimate of the corresponding retained insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the interest rate free of market risk that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding RCS.

Outstanding claims provision-

For insurance operations-

The creation, increase, valuation and recording of the outstanding claims provision, according to fraction II of article 216 of the Law, is made through estimating obligations using actuarial methods that each insurance institution has registered with the Commission, in terms of Chapter 5.5 of the CUSF and by adhering to the principles and guidelines established in the provisions.

The purpose of this provision is to cover the expected value of accidents, benefits, guaranteed values or dividends, once the contingency provided for in the insurance contract occurs, plus a risk margin.

The amount of the outstanding claims provision will be equal to the sum of the best estimate and of a risk margin, which are calculated independently and in terms of the provisions of Title 5 of the CUSF.

This reserve includes the following components:

a) For expired policies and pending payment claims;

b) For dividends and periodic profit sharing;

c) For claims incurred but not reported and adjustment expenses, and

d) For the operations mentioned in the fraction XXI of article 118 of the Law.

Outstanding claims provision for claims and other obligations of known amount-

- These are the outstanding obligations at closing of the period from claims reported, overdue endowments, past due income, surrender payments and accrued dividends, among others, whose amount payable is determined upon valuation and is not likely to have adjustments in the future, the best estimate, for purposes of establishing this reserve is the amount corresponding to each one of the obligations known upon valuation.

  For a future obligation payable in installments, the current value of future cash flows is estimated, discounted using the interest rate curves free of market risk for each currency or monetary unit, plus the risk margin calculated according to the provisions in force.

  In case of reinsurance ceded operations, the corresponding recovery is recognized simultaneously.

Outstanding claims provision for incurred claims but not reported and adjustment expenses-

New methodologies to calculate the outstanding claims provision for claims incurred but not reported and adjustment expenses assigned to the claims came into effect in 2016. As a result of enforcing these methodologies, General de Seguros and General de Salud determined a difference in excess of $67,312 of this reserve, which is accrued in straight-line in a period of 2 years, the Institution recognized an income of $33,656 in each year.

(Continued)

- These are the obligations that arise from claims that having occurred as of the valuation date, have not yet reported or have not been completely reported, as well as well as the adjustment, salvages and recovery expenses. The reserve upon valuation is determined as the best estimate of future obligations, brought to the present value using discount rates corresponding to the interest rate curves free of market risk for each currency or monetary unit, plus the risk margin calculated according to the provisions in force. In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

  For purposes of calculating the reserve, a claim is defined as have not been completely reported when having occurred on dates prior to valuation of such claim, future claims or adjustments in addition to the estimates initially made.

Risk margin-

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the RCS, necessary to meet the General de Seguros and General de Salud's insurance and reinsurance obligations until its duration. For purposes of valuation of the outstanding claims provision, the RCS of closing of the preceding immediately quarter valuation is used.

The risk margin is determined for each line and type of insurance, according to the term and currency considered in calculating the best estimate of the corresponding insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the interest rate free of market risk that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the corresponding RCS.

Outstanding claims provision for payment management and past due benefits-

It is related to the management of the amounts that includes dividends and endowments that the insured entrusted to their beneficiaries by General de Seguros, the best estimate of the future obligations with the reserve is constituted, corresponding to the known amount of each of these obligations and, if applicable, the yields to be credited to these amounts.

The reserves correspond to the reinsurance operations taken, they are determined by applying the methodologies described above.

For reinsurance operations-

The creation, increase, valuation and recording of the outstanding claims provision is made through estimating obligations using the actuarial methods that Reaseguradora Patria has registered with the Commission.

The purpose of this provision is to cover the expected value of accidents, benefits, surrender payments or dividends, once the contingency provided for in the insurance contract occurs, plus a risk margin.

The amount of the outstanding claims provision will be equal to the sum of the best estimate and of a risk margin, which are calculated independently and in terms of the provisions of Title 5 of the CUSF.

This reserve includes the following components:

Outstanding claims provision for claims and other obligations of known amount-

- These are the outstanding obligations at closing of the period from claims reported, whose amount payable is determined upon valuation and is not likely to have adjustments in the future, the best estimate, for purposes of establishing this reserve is the amount corresponding to each one of the obligations known upon valuation.

  In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

Outstanding claims provision for incurred claims but not reported and adjustment expenses–

New methodologies to calculate the outstanding claims provision for claims incurred but not reported and adjustment expenses assigned to the claims came into effect in 2016. As a result of enforcing these methodologies, the Institution recognized an income of $28,750 in the 2016.

(Continued)

- These are the obligations that arise from claims that having occurred as of the valuation date, have not yet reported or have not been completely reported, as well as well as the adjustment, salvages and recovery expenses. The reserve upon valuation is determined as the best estimate of future obligations, brought to the present value using discount rates corresponding to the interest rate curves free of market risk for each currency or monetary unit, plus the risk margin calculated according to the provisions in force. In case of reinsurance ceded operations, the corresponding recovery is recorded simultaneously.

  For purposes of calculating the reserve, a claim is defined as have not been completely reported when having occurred on dates prior to valuation of such accident, future claims or adjustments in addition to the estimates initially made.

Risk margin-

This is calculated by determining the net capital cost corresponding to the Own Admissible Funds required to support the RCS, necessary to meet the insurance and reinsurance obligations over the covered risk period. For purposes of valuation of the outstanding claims provision, the RCS from the month immediately preceding the valuation date is used. If there are relevant increase or decrease in the amount of Reaseguradora Patria's obligations as of the report date, the Institution makes adjustments to this risk margin, which allows to recognize the increase or decrease the margin may have from the situations mentioned. In these cases, the Commission is informed of the adjustment made and the procedures used to make this adjustment.

The risk margin is determined for each type of insurance, according to the term and currency considered in calculating the best estimate of the corresponding insurance obligation.

The net capital cost rate used to calculate the risk margin is 10%, equivalent to the additional interest rate, in relation to the interest rate free of market risk that an insurance institution would require to cover the capital cost demanded to maintain the amount of Own Admissible Funds supporting the respective RCS.

(Continued)

Catastrophic risk reserve-

For insurance operations-

Earthquake and/or volcanic eruption risk-

The purpose of this reserve is to cover the probable maximum loss due to claims of catastrophic nature of General de Seguros in connection with underwriting earthquake insurance, the reserve is cumulative and its constitution and monthly increase will be made with the accrued portion of the retained premiums risk, it is calculated according with the model and technical procedures established in the Annex 5.1.5-a of the CUSF, from policies in force in the month its occurrence. The balance of this reserve will add the respective financial products calculated based on the average monthly effective rate using the published rates of the month related, 28-day Federation Treasury Certificates, and for foreign currency the average of the 30-day Libor rate. The respective financial products shall be capitalized on a monthly basis and may only be affected in the case of claims and under certain situations contemplated in the regulation, according to Chapter 5.6.5. section V of the CUSF, with the Commission's prior approval. The balance of this reserve has a maximum limit, determined by the technical procedure established in the rules issued by the Commission, according to Chapter 5.6.5. section VI of the CUSF.

Hurricane and other hydrometeorologic risks

The purpose of this reserve is to cover the probable maximum loss due to claims of catastrophic nature of General de Seguros in connection with underwriting hurricane and other hydrometeorologic insurance, the reserve is cumulative and its constitution and monthly increase will be made with the accrued portion of the retained premiums risk, it is calculated according with the model and technical procedures established in the Annex 5.1.6-a of the CUSF, from policies in force in the month its occurrence. The balance of this reserve will add the respective financial products calculated based on the average monthly effective rate using the published rates of the month related, 28-day Federation Treasury Certificates, and for foreign currency the average of the 30-day Libor rate. The respective financial products shall be capitalized on a monthly basis and may only be affected in the case of claims and under certain situations contemplated in the regulation, according to Chapter 5.6.5. section VI of the CUSF, with the Commission's prior approval. The balance of this reserve has a maximum limit, determined by the technical procedure established in the rules issued by the Commission, according to Chapter 5.6.5. section VIII of the CUSF.

(Continued)

Agricultural and livestock

The purpose of this reserve is to cover the probable maximum loss due to claims of catastrophic nature of General de Seguros in connection with underwriting agricultural and livestock insurance, the reserve is cumulative and its constitution and monthly increase will be made with the 35% of accrued portion of the retained premiums, from policies in force in the month its occurrence. The balance of this reserve will add the respective financial products calculated based on the average monthly effective rate using the published rates of the month related, 28-day Federation Treasury Certificates, and for foreign currency the average of the 30-day Libor rate. The respective financial products shall be capitalized on a monthly basis and may only be affected in the case of claims and under certain situations contemplated in the regulation, according to Chapter 5.6.1. section VI of the CUSF, with the Commission's prior approval.

The balance of this reserve has a maximum limit, determined by the technical procedure established in the rules issued by the Commission, according to Chapter 5.6.1. section VII of the CUSF.

For reinsurance operations-

Earthquake and/or volcanic eruption coverage -

This reserve is intended to cover the value of the maximum probable loss arising from the occurrence of catastrophic claims for earthquake insurance of retained risks by Reaseguradora Patria; it is cumulative and can only be affected in case of accidents and under certain situations contemplated in the regulation in force, and with the Commission authorization. This reserve is increased by the release of the retention current risk reserve of earthquake and the capitalization of financial products. The balance of this reserve will have a maximum limit, determined through the technical procedure established in the rules issued by the Commission.

(Continued)

Hurricane coverage and other meteorological risks -

This reserve is intended to cover the value of the maximum probable loss arising from the occurrence of catastrophic claims for hurricane insurance and other meteorological risks for Reaseguradora Patria. It is cumulative and can only be affected in case of accidents and under certain situations contemplated in the regulation in force, and with the Commission authorization. This reserve is increased by the release of the retention current risk reserve of hurricane and other meteorological risks and the capitalization of financial products. The balance of this reserve will have a maximum limit, determined through the technical procedure established in the rules issued by the Commission.

Reserve of catastrophic risks of agricultural and livestock-

This reserve is intended to cover the value of the probable maximum loss resulting from the occurrence of catastrophic claims of Reaseguradora Patria's liabilities for agricultural and animal insurance, it is cumulative and may only be affected in case of claims and under certain situations contemplated in the regulation in force, and with the Commission authorization. The increase to this reserve is made on a monthly basis as 35% of the accrued portion of the retained rate premium plus the financial product. The balance of this reserve will have a maximum limit, determined though the technical procedure established in the rules issued by the Commission.

Reserve of catastrophic credit insurance risks-

This reserve is intended to cover the value of the maximum probable loss arising from the occurrence of catastrophic claims of Reaseguradora Patria's liabilities for the risks retained by credit insurance, is cumulative and may only be affected in case of claims and under certain situations considered in the regulation in force, and with the Commission authorization. The increase to this reserve is constituted with an annual contribution which is calculated as 75% of the difference between the retained portion of the accrued risk premium and the retained portion of the claims recorded in the year. The balance of this reserve will have a maximum limit, determined through the technical procedure registered at the Commission.

(Continued)

Reserve of bonds in force for reinsurance operations-

The rules for establishing, increasing and valuing technical reserves for bonds in force and contingency, basically takes into consideration certain factors in the valuation of the reserves, such as: the ratio of claims paid by the ceding bonding institutions considering line of business, the market ratio, a weighted ratio and the total amount of obligations for each line. As a result of information provided by bonding companies, Reaseguradora Patria provides a reserve for bonds in force and contingencies in accordance with the procedure instructed by the regulator.

Based on Reaseguradora Patria's methodology, the reserve for bonds in force was determined by applying a factor of 0.87 to the base premium for bonding reinsurance business accepted, less the basic bond reinsurance commissions, net of reinsurance.

The reserve for bonds in force is released using the eighths method, except for the reserve created for bond premiums assumed in Mexico. This reserve may only be released when the risk covered by the respective bond policy has ceased.

Contingency reserve for reinsurance operations-

In 2017 and 2016, Reaseguradora Patria determined this reserve by applying the factor of 0.13 to retained premiums for bond reinsurance business accepted net of basic-bond-reinsurance commissions. The reserve is cumulative.

(i) Accruals-

Based on Management's estimates, the Institution recognizes accruals for present obligations where the transfer of assets or the rendering of services is virtually inevitable and arises as a consequence of past events, mainly by acquisition costs, operating expenses, personnel remuneration, gratifications and other amounts payable to employees.

(j) Employee benefits-

Short-term direct benefits

Short-term direct employee benefits are recognized in income of the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Institution has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

(Continued)

Long-term direct benefits

The Institution's net obligation in relation to direct long-term benefits (except for deferred ESPS - see subsection (k) Income taxes and employee statutory profit sharing), and which the Institution is expected to pay at least twelve months after the date of the most recent consolidated balance sheet presented, is the amount of future benefits that employees have obtained in exchange for their service in the current and previous periods. This benefit is discounted to its present value. Remeasurements are recognized in income in the period in which they are accrued.

Termination benefits

A liability is recognized for termination benefits along with a cost or expense when the Institution has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when the conditions that require the recognition of restructuring costs are met, whichever occurs first. If benefits are not expected to be settled wholly within twelve months after the date of the most recent balance sheet presented, then they are discounted.

Post-Employment Benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized in income as the related services are provided by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

The Institution's net obligation in relation to defined benefit: plans for pension, seniority premium and legal compensation benefits, is calculated separately for each plan, estimating the amount of future benefits that employees have earned in the current and prior periods, and discounting this amount to its present value and deducting therefrom, the fair value of plan assets.

The obligations for defined benefit plans are calculated annually by actuaries using the projected unit credit method. When the calculation results in a possible asset for the Institution, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or reductions in future contributions thereto. To calculate the present value of economic benefits, any minimum financing requirement should be considered.

(Continued)

The labor cost of current service, which represents the periodic cost of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in operating expenses. The Institution determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of estimates of contributions and benefit payments. Net interest is recognized under consolidated statement of income.

Modifications to the plans that affect past service cost are recognized in income immediately in the year the modification occurs, with no possibility of deferral in subsequent years. Furthermore, the effects of events of liquidation or reduction of obligations in the period that significantly reduce future service cost and/or significantly reduce the population eligible for benefits, are recognized in income of the period.

Remeasurements (formerly actuarial gains and losses), resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred as part of OCI within stockholder’s equity.

At December 31, 2017 and 2016, for purposes of recognizing benefits post-employment related to General de Seguros, the remaining average service life of employees approximates to 16 and 20 years, respectively for Group 1 and 1 and 2 year for Group 2, respectively (see note 10).

(k) Income Tax and Employee Statutory Profit Sharing (ESPS)-

Income tax and ESPS payable for the year are determined in conformity with the tax regulations in effect.

Deferred income tax and ESPS are accounted under the asset and liability method. Deferred income tax and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, a in the case of income tax, for operating loss carry forwards and other coverable tax credits. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax and ESPS of a change in tax rates is recognized in consolidated income statement in the period that includes the enactment date.

(Continued)

Current and deferred income taxes and ESPS are presented and classified in the results of operations of the period, except those arising from a transaction that is recognized in Other Comprehensive Income or directly in stockholders' equity.

(l) Accumulated effect by conversion-

It represent the difference that results from converting foreign operations from their functional currency to the reporting currency.

(m) Surplus from valuation-

The caption of "Surplus from valuation" includes the property valuation effect, valuation of long-term current risk reserves and its respective deferred tax.

(n) Revenue recognition-

Insurance and reinsurance premium revenues-

Revenues from these operations are recorded based on the premiums corresponding to the policies contracted, plus reinsurance premiums taken minus the premiums in reinsurance ceded.

The insurance premiums or the corresponding fraction, originated by the aforementioned operations that have not been paid by the insured within the term stipulated by the Law, are automatically canceled, releasing the current risk reserve and in the case of rehabilitation, the reserve is reconstituted as of the month in which the insurance is valid again.

Reinsurance

For insurance operations-

Taken

Transactions arising from reinsurance taken are recognized upon reception of ceding companies statements, which are generally formulated on a monthly basis, therefore premiums, claims, and commissions on reinsurance are recorded in the month following its occurrence.

(Continued)

Ceded

The Institution's limits the amount of its liability for risks assumed through the distribution with reinsurers, through automatic and facultative contracts, transferring a portion of the premium to these reinsurers.

The Institution has a limited retention capacity in all branches and engages excess loss coverage, which basically covers the lines of fire, motor, earthquake and other catastrophic risks.

For reinsurance operations-

Reinsurance taken and retroceded -

The main Reaseguradora Patria's revenues and costs are derived from treaties and facultative reinsurance business assumed from cedents which has entered into contracts at local and international level, as well as from retroceded business.

Facultative reinsurance business is recorded according to the acceptance of the business or when the payment of the premium is received. In the case of automatic treaties, the business is recorded according to the date in which statements of account are received from cedents, which is usually quarterly or semiannually. This results in a deferral in the recording of premiums, claims and commissions, by at least one quarter. According to the amendment letter 56/11 issued by the Commission beginning fiscal year 2013, transactions must be recognized no later than one month after the event occurred, accordingly Reaseguradora Patria needs to establish an estimate on premiums, claims and commissions, etc. through a mathematical calculation which consider the historical experience over concepts before mentioned and based on its own methodology and also approved by Commission.

As a consequence of what is mentioned above, in 2017 and 2016, the Institution recorded in the balance sheet a credit to "Allowance for doubtful accounts" amounting $31,384 and $9,033, respectively and a debit to "Administrative and operating expenses" for $22,351 and $77,177, respectively at the consolidated statement of income.

(Continued)

The Institution limits the total amount of its liability by distributing assumed risk among reinsurers through automatic and facultative treaties, ceding to the reinsurers a portion of the premium.

The Institution has a limited retention capacity in all lines and, in the case of catastrophic risks, takes out additional coverage for excess loss for fire, earthquake, hydrometeorological risk, automobile, life and bonding lines.

Retrocessionaires are required to reimburse the Institution for reported claims based on its share.

Salvage revenues for insurance operations-

For accounting purposes, salvage revenues are recognized as an asset and a decrease in the cost of claims when determined, and are recorded at estimated realizable value.

Profit sharing on reinsurance transactions-

For insurance operations

Profit sharing on reinsurance ceded is recorded as revenue based on the terms stipulated in the agreements includped in the respective reinsurance contracts and with technical results thereof are determined.

For reinsurance operations

The share in earnings from assumed and retroceded reinsurance business is not determined and recorded as an income or expense until technical results are known. This generally occurs the year after contracts expire.

Reinsurer's share in current risk and outslauding claims provision-

The Institution recognized in the balance sheet the reinsurer's share in current risks and claims incurred but not reported and adjustment expenses, as well as the expected amount of future obligations from reported claims.

(Continued)

The Institution's management determines the estimate of the recoverable amounts for the share of reinsurers in the provisions mentioned in the above paragraph, considering the temporary difference between the reinsurance recovery and the direct payments and the probability of recovery, as well as the counterpart's expected losses. The calculation methodologies for this estimate are registered with the Commission, and the effect is recognized on the consolidated statement of income under "Comprehensive financial result" and "Claims and other outstanding obligations" for insurance and reinsurance operations, respectively.

According to the provisions of the Commission, the recoverable amounts from reinsurance contracts with no counterparts authorized by the Commission, are not likely to cover the Investment Base, nor could they be part of the Own Admissible Funds.

Minimum and deposit premiums for reinsurance operations-

The minimum deposit premium for non-proportional contracts is recognized at the beginning of the contract with the corresponding premium unearned reserve.

Policy rights and premium surcharges-

Revenues related to policy rights are related to the recovery of costs of issuing the policy and are recorded in the consolidated statement of income as earned.

Revenues from premium surcharges is related to financing policies with periodic installments, which are deferred during policy term.

Service revenues-

The service revenues are recognized as earned.

(o) Net acquisition cost-

<u>For insurance operations</u>

This caption includes mainly the agent commissions that are recognized in the statement of income upon issuing the policies, additional compensation to agents and other acquisition expenses, and is decreased by the reinsurance ceded commission. The payment to agents is made when the premiums are collected.

For reinsurance operations

Acquisition expenses (commissions paid and brokerage) are charged upon issuance of policies for reinsurance business reported by the cedents. Commissions earned are credited to results of operations together with the respective retroceded premium.

(p) Business concentration-

The Institution carries out operations with a large number of clients, with no significant concentration with any of them in particular.

(q) Comprehensive financial result (CFR)-

The CFR includes interest income, valuation effects, premium surcharges, gain/loss on sale of financial instruments, foreign exchange gains and losses and allowance for credit risk from reinsurance amounts recoverable.

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of its execution or settlement. The Institution maintains its accounts in pesos and foreign currencies, which for purposes of presentation of financial statements were translated at the exchange rate of the last business day of the month, published by the Mexican Central Bank (see note 4). The exchange differences arising in relation to assets and liabilities denominated in foreign currencies are recorded in the consolidated statement of income for the year.

(r) Contingencies-

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until their realization is assured.

(s) Risk management-

As part of the corporate governance system, the Institution has established an integral risk management system in the insurance companies, which includes the definition and categorization of the risks to which the Institution may be exposed, taking into consideration, at least the information of the following page.

i. Underwriting insurance and reinsurance taken risk- shows the risk arising from the underwriting, taking into account the claims covered and the operating processes linked to its management and, depending on the type of insurance, considers the risks of casualty, longevity disability, illness, morbidity, expenses management, expiration, conservation, policy rescue, epidemic risk, premium as well as extreme events.

ii. The risk of underwriting bonding taken- shows the risk arising from the underwriting, taking into account the risk of payment of claims received with expectation of payment, guarantees of recovery, subscription of unsecured bonding agreements, as well as claims paid, premiums and reserves.

iii. Market risk - shows the potential loss due to changes in risk factors that influence the value of assets and liabilities, such as interest rates, exchange rates, price indexes, among others.

iv. Mismatch between assets and liabilities risk - shows the potential loss resulting from the lack of structural correspondence between assets and liabilities, due to the fact that a position can not be covered by establishing an equivalent opposite position, and considers the duration, currency, interest rate, exchange rates, price indexes, among others.

v. Liquidity risk - shows the potential loss from the early or forced sale of assets at unusual discounts to meet obligations, or from the fact that a position can not be appropriately disposed of or acquired.

vi. Credit risk - shows the potential loss arising from non-collection, or impairment in the solvency of counterparties and debtors in the operations carried out by the Institution, including the guarantees granted to it. This risk considers the potential loss arising from non-compliance with contracts intended to reduce risk, such as reinsurance contracts, as well as accounts receivable from intermediaries and other credit risks that can not be estimated with respect to the level of the risk-free interest rate.

vii. Concentration risk - shows the potential losses associated with an inadequate diversification of assets and liabilities, and that is derived from exposures caused by credit, market, underwriting and liquidity risks, or by the combination or interaction of several of them, by counterpart, by type of asset, area of economic activity or geographical area.

(Continued)

viii. Operational risk - reflects the potential loss due to deficiencies or failures in the operating processes, in information technology, in human resources, or any other adverse external event related to the operation of the Institution such as legal risk, strategic risk and reputational risk, among others.

Risk management policies

The Board of Directors of the Institution has the general responsibility for the establishment and supervision of comprehensive risk management policies. The Board of Directors has implemented a risk management system that is part of the organizational structure of the Institution, which is integrated to the decision-making processes and is supported by the internal control system designating a specific area of the Institution that is responsible of designing, implementing and monitoring the system of risk management (Risk management area), additionally the Risk management committee has been implemented to supervised the risk management policies and report to the board of directors about its activities.

The institution's risk management policies are established to identify and analyze the risks faced by the Institution, establish adequate risk limits and controls, and monitor risks and compliance with limits. Risk management policies and systems are reviewed periodically to reflect changes in market conditions and the Institution's activities.

The purposes of the Risk Management Area are:

I. Monitor, manage, measure, control, mitigate, and report on the risks to which the Institution is exposed, including those that are not perfectly quantifiable.

II. Monitor that the performance of the Institution's operations is in accordance with the comprehensive risk management´s limits, objectives, policies and procedures approved by the Board of Directors.

(t) Hierarchy-

Insurance institutions shall observe provisions under the Financial Reporting Standards (FRS), except when otherwise stated by the Commission, taking into consideration that insurance institutions conduct specialized operations.

(Continued)

(Thousands of Mexican pesos)

In cases where insurance institutions consider that there is no accounting criterion applicable to any of the operation they carry out, issued by the Mexican Council of Financial Information Standards, A. C. (CINIF for its Spanish acronym) or the Commission, they will apply the hierarchy bases provided in NIF A-8, considering what is mentioned below:

I. That in no case shall its application contravene the general concepts established in the accounting criteria for insurance institutions in Mexico established by the Commission.

II. That the rules that have been applied in the hierarchy process will be substituted, when a specific accounting criterion is issued by the Commission, or a FRS, on the subject in which said process was applied.

In case of following the hierarchy process, the Commission must be informed on the accounting standard that has been adopted, as well as its application base and the source used. In addition, the corresponding disclosures must be carried out in accordance with the regulations in force.

(4) Foreign currency position-

Monetary assets and liabilities denominated in foreign currencies translated into the reporting currency, as of December 31, 2017 and 2016, are shown below:

		Mexican pesos	
		2017	2016
Assets	$	8,704,032	7,710,971
Liabilities		(7,686,398)	(7,119,951)
Net assets	$	1,017,634	591,020
		=======	=======

As of December 31, 2017 and 2016, the exchange rate published by the Mexican Central Bank was $19.6629 and $20.6194 (Mexican pesos per dollar), respectively, and $26.60489 $25.48145 (Mexican pesos per pound); respectively, the Institution has no foreign exchange hedging instruments.

(Continued)

As of December 31, 2017 and 2016, the Institution did not have foreign exchange hedging instruments.

PCM a subsidiary located in United Kingdom, its registration and functional currency is the pound sterling and its financial statements were converted to the Mexican peso report currency to present the consolidated financial statements.

(5) Investments-

At December 31, 2017, the investment portfolio in local currency includes financial instruments held for trading purposes, with maturities between 4 and 10,539 days, with interest rates ranging between 2.50% and 10.00%.

At December 31, 2016, the investment portfolio in local currency includes financial instruments held for trading purposes, with maturities between 3 and 10,904 days, with interest rates ranging between 2.26% and 7.25%.

At December 31, 2017, the investment portfolio in foreign currency includes financial instruments held for trading purposes, with maturities between 2 and 10,250 days, with interest rates ranging between 1.45% and 6.15%.

At December 31, 2016, the investment portfolio in foreign currency includes financial instruments held for trading purposes, with maturities between 31 and 10,615 days, with interest rates ranging between 1.05% and 11.50%.

At December 31, 2017 and 2016, investment securities are analyzed as shown on the following page.

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

		2017				2016			
		Cost	**Accrued interest**	**Increase (decrease) from valuation**	**Total**	**Cost**	**Accrued interest**	**Increase (decrease) from valuation**	**Total**
Debt securities:									
Government securities:									
For trading purposes:									
Federal Treasury Certificates (CETES)	$	1,097,315	11,003	-	1,108,318	761,799	5,365	-	767,164
Development Bonds from Government (BONDES)		65,339	133	(1)	65,471	90,637	176	(24)	90,789
Development Bonds from Government (BONDES BPA)		-	-	-	-	24,973	61	6	25,040
Long Term Bonds from Government (M)		2,331	32	(109)	2,254	19	-	(13)	6
Bonds in Dollars UMS		1,741,441	39,120	(5,129)	1,775,432	2,761,675	47,110	(25,215)	2,982,320
Bonds in Dollars MEX		106,371	2,008	(3,550)	104,829	111,546	2,093	(11,410)	-
Bonds in Dollars BANCOMEXT		403,349	5,899	(446)	408,802	-	-	-	-
Federal Mortgage Company (SHF)		440,000	454	(3)	440,451	200,000	268	-	200,268
Bonds in UDIS		219,947	397	(3,576)	216,768	201,750	341	(979)	201,112
Certificates of Deposit issued by Nacional Financiera (CEDES NAFINSA)		3,185,842	16,061	-	3,201,903	2,275,624	4,465	-	2,183,568
Others		41,449	608	2,012	44,069	81,601	1,754	737	84,092
	$	7,303,384	75,715	(10,802)	7,368,297	6,509,624	61,633	(36,898)	6,534,359
Private companies securities:									
Fixed rate									
For trading purposes:									
Non-financial sector	$	265,938	5,960	(3,261)	268,637	136,258	1,266	(973)	136,551
Equity securities:									
Variable rate									
For trading purposes:									
Non-financial sector	$	2,578,418	-	3,059,658	5,638,076	2,687,655	-	2,663,893	5,351,548
Available-for-sale:									
Non-financial sector		171,964	-	9,279	181,243	58,971	320	-	59,291
	$	2,750,382	-	3,068,937	5,819,319	2,746,626	320	2,663,893	5,410,839
Foreing Securities:									
Debt securities:									
For trading purposes	$	229,580	-	87,210	316,790	153,875	3,048	-	156,923
Equity securities:									
For trading purposes		102,721	-	28,366	131,087	312,857	-	148,968	461,825
	$	332,301	-	115,576	447,877	466,732	3,048	148,968	618,748
Repurchase under agreement									
BONDES	$	226,793	-	-	226,793	147,776	-	-	147,776
Bank note		5,700	-	-	5,700	-	-	-	-
Protection Bonds		19	-	-	19	-	-	-	-
Others		-	-	-	-	4,139	-	-	4,139
	$	232,512	-	-	232,512	151,915	-	-	151,915

(Continued)

(Thousands of Mexican pesos)

(6) Property-

At December 31, 2017 and 2016, property is analyzed as follows:

		2017	2016
Land	$	101,592	101,592
Buildings		115,145	91,655
Special facilities		1,293	1,293
		218,030	194,540
Net valuation		403,491	381,894
Acumulated depreciation		(41,630)	(38,485)
	$	579,891	537,949
		======	======

During 2017 and 2016, the Institution made appraisals on its properties, resulting in an increase in their value of $32,986 and $10,127, respectively. The depreciation is calculated based on the remaining useful life and the restated value of the buildings, determined through the latest appraisals made. There were a several depreciation rates for 2017 and 2016.

(7) Premiums receivable-

Premiums-

As of December 31, 2017 and 2016, this caption is analyzed as follows:

		2017	2016
Life:			
Individual	$	26,900	28,725
Group and collective		21,116	56,873
		48,016	85,598
Accidents and health		176,439	164,421
Property and casualty		1,379,327	1,531,443
Bondings		14,594	-
		1,618,376	1,781,462
Allowance for doubtful accounts		(8,163)	(8,048)
	$	1,610,213	1,773,414
		=======	=======

(Continued)

(Thousands of Mexican pesos)

At December 31, 2017 and 2016, premiums receivable accounts for 7.8% and 9.6% of total assets, respectively.

(8) Reinsurers and bonding reinsurers-

(a) Reinsurance assumed-

Premiums assumed by the Institution as of December 31, 2017 and 2016, are analyzed as follows (see note 11):

2017		**Reaseguradora Patria**	**General de Seguros**	**PCM**	**Consolidated**
Life:					
Individual	$	68,812	-	-	68,812
Group and collective		428,383	-	-	428,383
Life		497,195	-	-	497,195
Accidents and health		138,164	-	47,613	185,777
Property and casualty:					
Liability		69,991	1,734	-	71,725
Inland marine		240,986	-	75,043	316,029
Fire		661,826	3,869	23,349	689,044
Earthquake		709,261	-	242,555	951,816
Agricultural		185,812	-	-	185,812
Automobile		180,665	-	-	180,665
Credit		5,206	-	-	5,206
Miscellaneous		357,663	8,457	14,112	380,232
Property and casualty		2,411,410	14,060	355,059	2,780,529
Bondings		430,429	-	-	430,429
	$	3,477,198	14,060	402,672	3,893,930

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

2016		**Reaseguradora Patria**	**General de Seguros**	**PCM**	**Consolidated**
Life:					
Individual	$	61,981	-	-	61,981
Group and collective		302,480	-	-	302,480
Life		364,461	-	-	364,461
Accidents and health		16,308	-	35,084	51,392
Property and casualty:					
Liability		57,620	973	-	58,593
Inland marine		192,203	-	53,675	245,878
Fire		601,458	5,255	46,755	653,468
Earthquake		632,684	-	147,494	780,178
Agricultural		131,261	-	-	131,261
Automobile		137,690	-	-	137,690
Credit		4,760	-	-	4,760
Miscellaneous		290,137	8,499	21,406	320,042
Property and casualty		2,047,813	14,727	269,330	2,331,870
Bonds		320,835	-	-	320,835
	$	2,749,417	14,727	304,414	3,068,558
		=======	=====	======	=======

(b) Retroceded / ceded reinsurance business-

The premiums ceded and retroceded for the year ended December 31, 2017 and 2016 are analyzed in the next page.

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

2017		**Reaseguradora Patria**	**General de Seguros**	**PCM**	**Consolidated**
Life:					
Individual	$	15,502	9,205	-	24,707
Group y collective		5,469	121,298	-	126,767
Life		20,971	130,503	-	151,474
Accidents y health		8,743	1	-	8,744
Property and casualty:					
Liability		13,246	40,907	-	54,153
Inland marine		52,062	40,906	14,644	107,612
Fire		65,889	56,552	5,613	128,054
Earthquake		134,166	81,934	-	216,100
Agricultural		33,358	487,117	-	520,475
Automobile		9,908	-	-	9,908
Miscellaneous		59,591	41,910	6,179	107,680
Property and casualty		368,220	749,326	26,436	1,143,982
Bondings		139,873	-	-	139,873
	$	537,807	879,830	26,436	1,444,073
		======	======	=====	=======
2016					
Life:					
Individual	$	12,762	10,941	-	23,703
Group and collective		7,921	133,457	-	141,378
Life		20,683	144,398	-	165,081
Accidents and health		509	144	-	653
Property and casualty:					
Liability		12,839	82,270	-	95,109
Inland marine		46,756	42,629	7,062	96,447
Fire		27,435	380,103	4,362	411,900
Earthquake		42,693	75,540	-	118,233
Agricultural		10,074	783,512	-	793,586
Automobile		7,145	487	-	7,632
Miscellaneous		50,920	141,050	3,652	195,622
Property and casualty		197,862	1,505,591	15,076	1,718,529
Bonds		105,549	-	-	105,549
	$	324,603	1,650,133	15,076	1,989,812
		======	=======	=====	=======

(Continued)

(Thousands of Mexican pesos)

(9) Other assets-

At December 31, 2017 and 2016, furniture and equipment are as follows:

		2017	2016
Office furniture and equipment	$	50,244	51,904
Computer equipment		76,278	69,494
Transportation equipment		49,394	45,906
Peripheral equipment		2,660	2,959
Other		2,524	2,511
Art pieces		1,150	848
		182,250	173,622
Less accumulated depreciation		123,566	118,267
	$	58,684	55,355
		======	======

At December 31, 2017 and 2016, the caption "Sundry" is integrated mainly by unrealized salvage inventory which amounted to $27,774 and $31,536, respectively, payments in advance of income tax for $30,376 and $44,216, respectively, and recoverable taxes for $125,605 and $109,611, respectively.

(10) Employee benefits-

General de Seguros

During 2011, General de Seguros established a mixed pension plan (Group 1), to cover personnel whose right to retirement is achieved after reaching 8 year after the date this plan was set up, and employees that at the time of retirement have at least 10 service years. Benefits are based on General de Seguros contribution that is the same amount of participant contributions (defined contribution) and ensures that the subaccount "Company" of the individual retirement account have a balance of at least the equivalent of 3 months plus 20 days basic salary per service year at the retirement (minimum guaranteed income).

Furthermore, employees have the right to retire within the next 8 years continued with the defined benefit pension plan (Group 2) covering employees who reach the age of 55 with at least 35 years of pensionable service or reaches the age of 60 years, regardless of their pensionable services. Benefits of this plan are based on service years and the amount of compensation.

(Continued)

(Thousands of Mexican pesos)

The policy of the General de Seguros to fund pension plans is to contribute the maximum deductible for income tax according to the projected unit credit amount method.

Cash flows-

At December 31, 2017 and 2016, benefits paid were as follows:

		Contributions to funds		Benefits paid	
		2017	**2016**	**2017**	**2016**
Legal compensation	$	-	-	1,969	1,707
Seniority premium		554	-	-	-
Pension plan		7,725	-	-	-
	$	8,279	-	1,969	1,707

Reaseguradora Patria

a) **Short-term direct benefits-**

These correspond to cumulative accrued remunerations granted and paid regularly to the employee, such as salaries, vacations, vacation premium and compensations.

b) **Post-employment benefits-**

Reaseguradora Patria has a defined benefit pension plan, which covers its personal with an indefinite term contract. Benefits are based on the years of service rendered between the date of entry and the date of retirement. The policy of Reaseguradora Patria to fund the pension plan is to contribute the maximum deductible amount for income tax according to the projected unit credit method.

The recognition of the plan anticipates future cost-sharing changes in relation to the established plan, which are consistent with Reaseguradora Patria's intention to annually increase the contribution rate of retirees, according to the expected inflation for the year. Reaseguradora Patria's policy is to fund the cost of these medical benefits at the administration discretion.

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

The benefits paid were as follows:

		2017	2016
Seniority premiums	$	64	73
Legal compensation		9,139	-
Pension plan		5,313	5,586
	$	14,516	5,659

The cost components of defined benefits for the year ended December 31, 2017 and 2016 are shown below:

2017		Seniority premium	Legal compensation	Pension plan
Current service cost (CLSA)	$	567	1,295	7,202
Net interest on defined benefits net liability (DBNL)		(3)	881	1,042
Reclassification of remeasurements of DBNL recognized in comprehensive income		48	12,550	1,968
Defined benefit cost	$	612	14,726	10,212
Ending balance of DBNL remeasurement	$	15	(244)	(2,401)
Beginning balance of DBNL	$	439	15,404	82,668
Defined benefit cost		579	3,418	14,256
Contributions to plan		(554)	-	(7,725)
Recognized profit		97	11,708	1,564
Payments charged to DBNL		(64)	(11,109)	(5,313)
Ending balance of DBNL	$	497	19,421	85,450
Amount of defined benefit obligations (DBO)	$	6,165	19,421	210,412
Plan Assets		(6,152)	-	(174,211)
Financial position of the obligation recorded	$	13	19,421	36,201

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

		Seniority premium	Legal compensation	Pension plan
CLSA	$	470	1,286	6,921
DBNL		(154)	745	(680)
Reclassification of remeasurements of DBNL recognized in comprehensive income		1,170	2,418	(2,199)
Defined benefit cost	$	1,486	4,449	4,042
Beginning balance of remeasurements (DBNA) or DBNL	$	(1,543)	4,818	(7,636)
Effect in recognition of accumulated profits and losses balance of no recognition plan [1][2]		(520)	(4,827)	15,220
Remeasurements on current year		486	1,724	5,473
Reclassification of remeasurements recognized in comprenhensive income		66	(965)	2,487
Remeasurements of PNBD	$	(1,511)	750	15,544
Beginning balance of remeasurements DBNL	$	143	17,381	39,148
Changes to modifications to the plan that affect retained earnings [1]		-	314	14,056
Effect in recognition of accumulated profits and losses balance of no recognition plan [1] [2]		(520)	(4,827)	15,220
Defined benefit cost		348	4,065	11,870
Recognized profit		468	146	2,374
Payments charged to DBNL		-	(1,707)	-
Ending balance of DBNL	$	439	15,372	82,668
Amount of defined benefit obligations (DBO)	$	5,283	15,372	207,886
Plan Assets		(5,328)	-	(173,895)
Financial position of the obligation recorded	$	(45)	15,372	33,991

As of December 31, 2017 and 2016, the Reaseguradora Patria pension fund's assets amounted to $81,525 and $69,083; respectively, the maximum obligation is $49,733 and $48,677, respectively, showing an excess of $31,792 and $20,406, respectively, which is a restricted investment.

(Continued)

[1] Adoption effect of FRS D-3.
[2] The Institution recognized the accumulated effect of profits and losses of the plan into income year.

(Thousands of Mexican pesos)

At December 31, 2017 and 2016, the defined contribution of General de Seguros amounts to $28,185 and $21,320, respectively.

At the valuation date of December 31, 2017 and 2016, assumptions were used as bases of calculation that shows below:

2017	**Peña Verde**	**Reaseguradora Patria**	**General de Seguros**	**CCSS Peña Verde**	**Servicios Peña Verde**
Nominal discount rate used in calculating the present value of obligations:	8.00%	7.75%	7.60%	7.47%	7.90%
Rate of increase in future salary levels	5.00%	5.00%	5.00%	5.00%	5.00%
Expected rate of return on plan assets	8.00%	7.75%	7.60%	4.00%	4.00%
Average remaining service life of employees (applicable for retirement benefits)	13 years	27 years	18 years	35 years	16 years
2016					
Nominal discount rate used in calculating the present value of obligations:	6.53%	6.53%	5.90%	6.53%	6.53%
Rate of increase in future salary levels	3.50%	6.70%	3.75%	3.35%	6.70%
Expected rate of return on plan assets	7.06%	6.53%	7.00%	7.06%	6.53%
Average remaining service life of employees (applicable for retirement benefits)	20 years	27 years	20 years	16 years	23 years

(11) Premiums issued, taken by reinsurance and issued in advance to the risk period covered-

Premiums issued-

The value of premiums issued by the Institution as of December 31, 2017 and 2016 are described in the next page.

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(Thousands of Mexican pesos)

		2017	2016
Life:			
Individual	$	98,087	124,120
Group and collective		313,081	360,362
		411,168	484,482
Accident and health		358,201	368,850
Property and casualty:			
Liability		101,068	156,362
Inland marine		73,444	72,492
Fire		85,291	404,936
Earthquake and hurricane		109,038	98,702
Automobile		1,285,592	1,161,294
Miscellaneous		83,887	173,744
Agricultural and livestock		563,793	876,069
		2,302,113	2,943,599
Reinsurance taken (note 8a)		3,893,930	3,068,558
	$	6,965,412	6,865,489

Premiums issued in advance to the risk period covered-

At the years ended 2017 and 2016, the Institution issued premiums, which period covered starts in years 2018 and 2017. Following are the transactions related to premiums issued in advance to the risk period covered:

		2017	2016
Premiums issued in advance:			
Accident and health	$	14,717	11,781
Property and liability:			
Liability		400	600
Automobile		28,938	30,624
Ocean marine and inland marine		3,591	4,106
Fire		287	379
Agricultual and livestock		-	10
Miscellaneous		7,865	9,572
Total premiums in advance to the risk period covered	$	55,798	57,072

(Continued)

Peña Verde, S. A. B. and subsidiaries

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(Thousands of Mexican pesos)

		2017	2016
Premiums ceded:			
Property and casualty:			
Liability	$	100	150
Ocean marine and inland marine		1,795	2,214
Fire		193	222
Agricultural and livestock		-	9
Miscellaneous		3,667	4,162
Total ceded premiums in advance to the risk period covered	$	5,755	6,757
		====	====
Net increase in current risk reserve	$	(45,425)	(50,315)
Agent commissions		(6,678)	(6,856)
Reinsurance commissions		985	2,036
Policy charges		2,772	2,786
		=====	=====

Balances at December 31, 2017 and 2016 related to premiums issued in advance to the risk period covered are showed below:

		2017	2016
Premiums receivable	$	68,476	70,276
Reinsurer's share		5,755	6,757
Reinsurance current		(4,770)	(4,721)
Current risks reserve		(51,180)	(57,072)
Premium surcharges		(465)	(729)
Unearned commissions		(6,678)	(6,856)
Value added tax to be accrued		(9,442)	(9,689)
		====	====

(Continued)

(12) Basis of Investment, RCS and minimum paid in capital-

The Institution is subject to the following liquidity and solvency requirements:

Basis of Investment - It is the sum of the technical reserves, advanced premiums and funds related to policy dividends management or indemnities and the reserves corresponding to contracts of investment insurance based on pension plans.

RCS - It is determined in accordance with the requirements established in the Law and in accordance with the general formula established in the provisions issued by the Commission. The purpose of this requirement is:

1. To have sufficient patrimonial resources in relation to the risks and responsibilities assumed by the Institution in function of its operations and, in general, of the different risks to which it is exposed;

2. The development of adequate policies for the selection and underwriting of insurance, as well as for the dispersion of risks with reinsurers in the transfer and acceptance of reinsurance operations;

3. To have an appropriate level of patrimonial resources, in relation to the financial risks that the Institution assumes, when investing the resources obtained from its operations, and

4. The determination of the assumptions and patrimonial resources that the Institution must maintain in order to deal with situations of an exceptional nature that put its solvency or stability at risk, derived both from the particular operation and from market conditions.

Minimum paid-in capital - It is a capital requirement that must be met by the Institution for each operation or line that is authorized (see note 14).

In the next page presents the coverage of the aforementioned requirements of General de Seguros, General de Salud and Reaseguradora Patria.

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Peña Verde, S. A. B. and subsidiaries

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(Thousands of Mexican pesos)

Coverage of statutory requirements of General de Seguros				
Statutory Requirements	**Surplus (Deficit)**		**Coverage Index**	
	Current year 2017	Prior year 2016	Current year 2017	Prior year 2016
Technical reserves [1]	$ 612,474	83,720	1.2	1.0
Solvency capital requirement [2]	$ 470,430	356,598	1.3	1.3
Minimum capital requirement [3]	$ 1,902,999	1,768,169	15.8	16.9

Coverage of statutory requirements of General de Salud				
Statutory Requirements	**Surplus (Deficit)**		**Coverage Index**	
	Current year 2017	Prior year 2016	Current year 2017	Prior year 2016
Technical reserves [1]	$ 136,268	26,009	1.9	1.1
Solvency capital requirement [2]	$ 84,055	120,399	2.4	3.5
Minimum capital requirement [3]	$ 174,566	186,741	19.4	21.4

Coverage of statutory requirements of Reaseguradora Patria				
Statutory Requirements	**Surplus (Deficit)**		**Coverage Index**	
	Current year 2017	Prior year 2016	Current year 2017	Prior year 2016
Technical reserves [1]	$ 495,252	520,308	1.0	1.0
Solvency capital requirement [2]	$ 429,506	198,989	1.3	1.2
Minimum capital requirement [3]	$ 1,392,071	1,298,741	18.1	17.5

(Continued)

[1] Investments that support technical reserves / basis of investment.
[2] FOPA / RCS.
[3] The Institution's capital resources computable according to the regulation / Requirement of minimum paid-in capital for each operation and / or line that is authorized.

(Thousands of Mexican pesos)

(13) Tax on earnings (Income tax (IT) and employee statutory profit sharing (ESPS))-

IT Law effective as of January 1, 2014, imposes an IT rate of 30% for 2014 and thereafter.

a) Income tax

The income tax expense is as follows:

		2017	2016
On income statement:			
IT current	$	47,529	43,941
IT deferred		15,915	45,726
	$	63,444	89,667
		=====	=====
On stockholders' equity:			
IT deferred	$	(6,811)	3,445
		=====	=====

Following are an individual summarized reconciliations between net income before IT and ESPS and taxable income for IT and ESPS for the years ended December 2017 and 2016 of General de Seguros and General de Salud combined, Reaseguradora Patria, Servicios Peña Verde, CCSS Peña Verde and Peña Verde as follows:

2017		General de Seguros y subsidiaria	CCSS-Peña Verde	Reaseguradora Patria	Servicios Peña Verde	Peña Verde	Total
Taxable income (benefit)	$	138,321	(13,757)	7,098	17,920	810	
Amortization of tax losses		-	-	(7,098)	-	-	
IT result		138,321	(13,757)	-	17,920	810	
			=====	====			
Rate		30%			30%	30%	
IT current		41,496			5,376	243	47,115
(Insufficiency) excess in provision		(582)			54	942	414
IT on earnings	$	40,914			5,430	1,185	47,529
		=====			====	====	=====

(Continued)

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2016		General de Seguros and subsidiary	CCSS-Peña Verde	Reaseguradora Patria	Servicios Peña Verde	Peña Verde	Total
IT result (benefit)	$	136,150	(13,079) =====	(23,792) =====	5,465	5,947	
Rate		30%			30%	30%	
IT current		40,845			1,640	1,784	44,269
Excess (insufficiency) in provision		(224)			(32)	(72)	(328)
IT on earnings	$	40,621 =====			1,608 ====	1,712 ====	43,941 =====

b) ESPS

The ESPS current and deferred expense for is as follows:

		2017	2016
On income statement:			
Current	$	11,526	6,861
Deferred		40,200	16,543
	$	51,726 =====	23,404 =====
On stockholders' equity:			
Deferred	$	(2,949) ====	1,148 =====

The ESPS is determined on the same basis as IT, without deducting the expense for the ESPS paid.

ESPS determined by the years ended December 31, 2017 and 2016 is shown in the next page.

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(Thousands of Mexican pesos)

2017	**General de Seguros**	**CCSS-Peña Verde**	**Reaseguradora Patria**	**Servicios Peña Verde**	**Total**
Taxable income (benefit) for IT	$ 102,919	(13,757)	7,098	17,920	
Plus (less):					
ESPS paid	6,350	-	-	-	
Non-deductible social security	(14,632)	(42)	(2,352)	(1,310)	
ESPS base	94,637	(13,799)	4,746	16,610	
Rate	10%		10%	10%	
Current ESPS	9,464		475	1,661	11,600
Insufficiency of provision	-		(54)	(20)	(74)
ESPS in result	$ 9,464		421	1,641	11,526

2016	**General de Seguros**	**CCSS-Peña Verde**	**Reaseguradora Patria**	**Servicios Peña Verde**	**Total**
Taxable income (benefit) for IT	$ 62,916	(13,079)	(23,792)	5,466	
Plus (less):					
ESPS paid	3,119	-	-	589	
Non-deductible social security	(1,797)	(14)	(1,002)	(847)	
ESPS base	64,238	(13,093)	(24,794)	5,208	
Rate	10%			10%	
Current ESPS	6,424			521	6,945
Insufficiency of provision	(75)			(9)	(84)
ESPS in result	$ 6,349			512	6,861

(Continued)

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The tax effects of temporary differences that give rise to significant portions of the deferred IT and ESPS assets and liabilities at December 31, 2017 and 2016 are shown below:

	2017		2016	
	IT	**ESPS**	**IT**	**ESPS**
Deferred (liabilities) assets:				
Investments	$(942,180)	(310,607)	(798,988)	(264,799)
Property	(100,692)	(33,565)	(110,221)	(36,740)
Furniture and equipment	(691)	(214)	(1,062)	(320)
Accruals	67,974	20,475	58,907	17,241
Sundry	(5,514)	(1,419)	(1,996)	(1,154)
Amortized expense	249	(5)	(191)	(21)
Employee benefits	(4,281)	(1,490)	-	-
Payments in advance	2,000	-	(686)	(227)
Collected premiums to be applied	9,854	3,005	14,661	4,256
Long-term current risk reserves	(2,613)	(871)	(5,539)	(1,846)
Credit risk allowance for foreign reinsurers	4,711	1,507	4,423	1,398
Monthly reinsurance estimate	9,546	3,183	3,123	1,041
Employee benefits	3,581	309	2,010	64
ESPS	99,742	-	127	-
Bonuses	4,001	1,022	1,575	410
Sundry creditors	-	-	42	14
Other	57	-	-	-
Tax losses carry forward	25,801	-	15,138	-
Net deferred liability	(828,455)	(318,670)	(818,677)	(280,683)
Insufficiency (excess) in provision	1,855	433	1,181	(303)
	(826,600)	(318,237)	(817,496)	(280,986)
Deferred liability registered	$ (1,144,837)		(1,098,482)	
	=======		=======	

Net deferred liability IT and ESPS is presented under “Deferred credits” on the consolidated balance sheet. Recognition of deferred income tax liability for the year 2017, gave rise to charges to “Net Income” for $56,115 ($15,915 of IT and $40,200 of ESPS), and gave rise to credits to “Surplus from valuation” for $9,760 ($6,811 of IT and $2,949 of ESPS).

(Continued)

(Thousands of Mexican pesos)

Net deferred liability IT and ESPS is presented under “Deferred credits” on the consolidated balance sheet. Recognition of deferred income tax liability for the year 2016, gave rise to charges to “Net Income” for $62,269 ($45,726 of IT and $16,543 of ESPS), and gave rise to charges to “Surplus from valuation” for $4,593 ($3,445 of IT and $1,148 of ESPS).

In assessing the reliability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

At December 31, 2017, tax losses carry forward expire as follows:

Company	Year	Tax losses carry forward
Reaseguradora Patria	2024	$ 48,164
Reaseguradora Patria	2026	23,972
CCSS - Peña Verde	2026	13,887
CCSS - Peña Verde	2027	13,757
		=====

(14) Stockholders’ Equity-

The main characteristics of Stockholder’s equity are described below:

(a) Structure of capital stock-

At December 31, 2017 and 2016 the capital stock amounted to $422,608, represented by 476,678,213 common and registered shares issued and outstanding, with no par value.

(b) Minimum paid-in capital-

Insurance companies must maintain a minimum paid-in capital for each operation or insurance line authorized, which in turn is also published by the Commission.

(Thousands of Mexican pesos, except otherwise stated)

In 2017 and 2016, the minimum paid-in capital required for insurance companies operating exclusively reinsurance was 50% of the amount required to a regular insurance company for each line of business in which it is engaged, except for bonding reinsurance, which requires 100%.

At December 31, 2017, General de Seguros (including General de Salud) and Reaseguradora Patria have the minimum required capital of $138,174 and $81,291, respectively, equivalent to 24,838,600 and 14,613,140, respectively, investment units (UDIs, the value of which is updated by inflation and determined by the Central Bank) The value of the UDI at December 31, 2016 was $5.562883 Mexican pesos per UDI.

At December 31, 2016, General de Seguros (including General de Salud) and Reaseguradora Patria have the minimum required capital of $120,548 and $78,636, respectively, equivalent to 24,838,600 and 14,613,140, respectively, UDIs. The value of the UDI at December 31, 2015 was $5.381175 Mexican pesos per UDI.

(c) Comprehensive income-

The comprehensive income reported on the consolidated statements of changes in stockholders' equity represents the results of the Institution's total activities during the year, and includes items below mentioned, which, in accordance with the rules issued by the Commission, are reported directly in stockholders' equity, except for net income:

		2017	**2016**
Net income	$	582,933	256,629
Property valuation		15,318	9,942
Deferred taxes for the year		16,410	(4,745)
Employee benefits effect		-	(14,104)
Subsidiaries valuation surplus related to long-term current risk reserves		1,167	18,121
Other		(4,681)	-
Non-controlling interest		5,789	5,677
Comprehensive income	$	616,936	271,520
		======	======

(Continued)

(d) Dividends-

At the Regular General Stockholders' Meeting held on April 28, 2017, a resolution was passed to declare a dividend by the amount of $6,995, $0.014674 Mexican pesos per each of the 476,678,213 shares, which were paid in cash through electronic transfer.

At the Regular General Stockholders' Meeting held on April 27, 2016, a resolution was passed to declare a dividend by the amount of $7,627, $0.016 Mexican pesos per each of the 476,678,213 shares, which were paid in cash through electronic transfer.

(e) Restrictions on stockholders' equity-

In accordance with the provisions of the LGSM, a minimum of 5% of net income for the year must be appropriated to the ordinary reserve, until it reaches paid-in capital. As of December 31, 2017, the ordinary reserve amounts to $2,023 and has not reached the required amount.

In accordance with the provisions of the Law, applicable to General de Seguros and Reaseguradora Patria, a minimum of 10% of net income for the year must be appropriated to the ordinary reserve, until it reaches paid-in capital.

According to Commission provisions, the unrealized gain on investment securities recorded in results of operations for the year may not be distributed to stockholders until the related investments are sold, as well as deferred tax assets recorded in net income following provisions of FRS D-4.

(15) Segment information-

Insurance operations

Operating segments are defined as components of an entity, oriented to the production and sale of goods and services that are subject to risks and returns that are different from those associated with other business segments.

As mentioned in note 1, General de Seguros and General de Salud main objective is to perform operations of insurance and reinsurance in various lines within the country, therefore, management of the Institution internally evaluates the results and performance for each line for making financial decisions.

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The main indicator used by management of General de Seguros and General de Salud to assess the performance is the technical result by line. This indicator presents the selected financial information by operating line, which is consistent with information used by management in making decisions.

The accounting policies used to determine the financial information by operating line are consistent with those described in note 3.

Operating segment information is presented based on the management approach according to FRS B-5 “Segment Financial Information”, such management approach is defined by each line in which General de Seguros and General de Salud operates.

Selected financial information in the income statement by line as of December 31, 2017 and 2016 are show following:

December 31, 2017

Line item		Life	Accidents and health	Motor	Agricultural	Property and casualty	Total
Premiums written	$	411,168	358,201	1,285,592	563,793	466,788	3,085,542
Premiums ceded		(130,503)	(2)	(504)	(487,117)	(261,704)	(879,830)
Retained premiums		280,665	358,199	1,285,088	76,676	205,084	2,205,712
Decrease (increase) in current risks reserve		11,782	9,747	(50,280)	25,969	56,251	53,469
Earned premiums		292,447	367,946	1,234,808	102,645	261,335	2,259,181
Net cost of claims and acquisition cost		(188,730)	(279,028)	(1,267,294)	24,935	(224,909)	(1,935,026)
Technical income (loss)	$	103,717	88,918	(32,486)	127,580	36,426	324,155

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December 31, 2016

Line item		Life	Accidents and health	Motor	Agricultural	Property and casualty	Total
Premiums written	$	484,482	368,850	1,161,294	876,069	920,963	3,811,658
Premiums ceded		(144,397)	(144)	(487)	(783,509)	(721,596)	(1,650,133)
Retained premiums		340,085	368,706	1,160,807	92,560	199,367	2,161,525
Decrease (increase) in current risks reserve		(1,084)	10,183	23,222	(5,396)	(45,065)	(18,140)
Earned premiums		339,001	378,889	1,184,029	87,164	154,302	2,143,385
Net cost of claims and acquisition cost		(310,450)	(265,367)	(1,226,633)	4,050	(154,304)	(1,952,704)
Technical income	$	28,551	113,522	(42,604)	91,214	(2)	190,681

Reinsurance operations

Operating segments are defined as components of Reaseguradora Patria, oriented to the sale of reinsurance coverages which are subject to risks and returns, different from those associated with other business segments.

Reaseguradora Patria is mainly involved in the reinsurance line of business, which operates on a regional basis geographically. Each geographical administration is responsible for all business activities in the countries of each region, which refers to the placement of reinsurance contracts in their different business (proportional, non-proportional and facultative). Consequently, Reaseguradora Patria's management evaluates the results and performance internally of each geographical area for decision-making, following a vertical integration approach.

In accordance with the approach mentioned, the daily operations of financial resources are allocated on country basis and not over operating component or line of business.

Technical result is the main indicator used by Reaseguradora Patria's management to evaluate the performance of each region. The indicator is presented in selected financial information for each geographic operating segment, which is consistent and used by the management in making decisions.

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The accounting policies applied for determination of financial information by geographic operating segment are consistent and are in line with what it is mentioned in note 3.

The operating segment information is presented based on the management approach in accordance with FRS B-5 "Segment information", this approach is limited by geographical areas.

Selected information of the income statement by geographic operating segment on December 31, 2017 and 2016 are indicated as shown below:

December 31, 2017

		Mexico and Caribe	Latin America	Overseas	Overseas PCM	Total
Premiums taken	$	1,380,271	1,822,929	273,998	402,672	3,879,870
Premiums retroceded		(154,991)	(377,844)	(4,972)	(26,436)	(564,243)
Retained premiums		1,225,280	1,445,085	269,026	376,236	3,315,627
Increase in current risks reserve		(362,333)	(140,829)	(31,080)	(15,927)	(550,169)
Earned retained premiums		862,947	1,304,256	237,946	360,309	2,765,458
Net acquisition cost		(427,406)	(448,727)	(125,839)	(126,908)	(1,128,880)
Net cost of claims and other outstanding obligations		(627,582)	(607,273)	(77,915)	(290,731)	(1,603,501)
Technical loss	$	(192,041)	248,256	34,192	(57,330)	33,077
		======	=======	======	======	======

(Continued)

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(Thousands of Mexican pesos)

December 31, 2016

		Mexico and Caribe	Latin America	Overseas	Overseas PCM	Total
Premiums taken	$	766,153	1,746,840	236,424	304,414	3,053,831
Premiums retroceded		(79,942)	(244,598)	(63)	(15,076)	(339,679)
Retained premiums		686,211	1,502,242	236,361	289,338	2,714,152
Increase in current risks reserve		(105,510)	(172,819)	(33,905)	(36,974)	(349,208)
Earned retained premiums		580,701	1,329,423	202,456	252,364	2,364,944
Net acquisition cost		(269,313)	(510,498)	(68,012)	(76,904)	(924,727)
Net cost of claims and other outstanding obligations		(316,343)	(842,545)	(143,245)	(203,056)	(1,505,189)
Technical loss	$	(4,955)	(23,620)	(8,801)	(27,596)	(64,972)

(16) Earnings per share-

As of December 31 2017 and 2016, the Institution has 476,678,213 common shares.

The formula applied by the Institution to determine earnings per share is to determine the factor of the period for which the shares repurchased were no longer in circulation, corresponding to the division between the number of days that the shares were no longer in circulation and total days of the period.

The related factor applies to the total of shares repurchased determining equivalence to the period when they were no longer in circulation, the result is subtracted from the number of circulating shares at the beginning of the period, calculating the weighted average number of circulating shares.

(Continued)

(Thousands of Mexican pesos, except earning per share)

Finally earning per share is calculated by dividing income attributable to shares by the weighted average number of circulating shares.

Determination of ordinary earnings per common share

Year	Net income of the year	Weighted average circulating shares	Earning per share (pesos)
2017	$ 582,933	476,678,213	$ 1.22
2016	$ 256,629	476,678,213	$ 0.54

As of December 31, 2017 and 2016, the Institution has no commitments or contingencies with any entity to issue, sell or exchange its own equity instruments to those dates.

(17) Commitments and contingent liabilities -

(a) There is a contingent liability arising from the labor obligations mentioned in note 3(j).

(b) On August 15, 2014, the Institution entered into agreement to provide services for structuring, managing disbursements and executing investment projects with Akua Capital, S. C., which will be in force for five years.

The consideration is established in three ways: (i) fixed fee payable monthly, (ii) contingent fixed fee payable annually, linked to meeting goals and (iii) variable fee payable at the end of each project based on the result of each of them. Additionally, there are clauses of default or early cancellation of both parts.

At December 2017 and 2016, there have not been any issues to register a contingent liability.

(Continued)

(c) The Institution is involved in a number of lawsuits and claims arising in the normal course of business and in which the final outcome will not have a significant adverse effect on the Institution's financial position and results of operations.

(d) In accordance with tax law, the tax authorities are entitled to examine transactions carried out during the five years prior to the most recent income tax return filed.

(e) In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

(18) Contingent commissions -

In fiscal years 2017 and 2016, the Institution executed agreements for paying contingent commissions with intermediaries as described in this note. Total payments under these agreements in the years 2017 and 2016, amounted to $208,990 and $229,170, respectively, for the 7% and 6%, respectively, of the premium issued by the Institution in fiscal years 2017 and 2016 for General de Seguros and 3.8 and 2.5%, respectively, for General de Salud.

Contingent commissions mean compensation or payments made to individuals or legal entities involved in intermediation or contracting of the Institution's insurance products, in addition to direct commission or compensation considered in the product design.

General de Seguros entered into agreements for contingent commission payments with individuals, legal entities and persons other than agents as follows:

(a) For life insurance products, agreements for volume of premiums, holding of the portfolio and generation of new businesses have been executed. For all products, the participation bases and criteria in all agreements, as well as the determination of contingent commissions, are directly related to the premiums paid in each fiscal year. Contingent commissions under such agreements are paid quarterly and annually.

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(b) For major medical expense products, agreements for volume of premiums, growth, and incidence of events and generation of new businesses have been executed. For all products, the participation bases and criteria in all agreements, as well as the determination of contingent commissions, are directly related to the premiums paid and claims for each fiscal year. Contingent commissions under such agreements are paid quarterly and annually.

(c) Agreements for property and liability products, agreements for volume of premiums, growth and claims have been executed. The participation bases and criteria in all agreements, as well as the determination of contingent commissions, are directly related to the premiums paid and the claims for each fiscal year. Contingent commissions under such agreements are paid annually.

(d) For intermediaries other than agents, compensation agreements have been executed, where bases are determined on fixed amounts depending on their annual sales volume. Contingent commissions under such agreements are paid monthly.

(e) For health products, whole sales force also participates in an annual contest whose prize is payable in kinds through attendance at conventions. The requirements for this competition are based on the level of production, number of new businesses and a maximum limit of claims.

The Institution and its shareholders, have no interest in the share capital of any of the intermediaries' entities with which the Institution has entered into.

The Institution also is involved in agreements with individual brokers known as "Promoters", who participate recruiting agents, training and following up their individual metrics. It mentions a productivity bonus based on the total sales of the individual brokers.

(19) Regulatory changes and recently issued regulatory standards-

The CINIF has issued the FRS and Improvements listed in following page.

FRS B-17 *"Determination of fair value"*- FRS B-17 is effective for years beginning on or after January 1, 2018, allowing for early adoption, provided it takes place concurrently with the adoption of FRS C-2, C-3, C-16, C,10, C,19 y C-20. Where appropriate, changes in valuation or disclosure must be recognized prospectively This establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific FRS.

FRS C-2 *"Investment in financial instruments"*- FRS C-2 establishes specific rules for the accounting recognition of investments in financial instruments, primarily those held for trading purposes, as well as the classification of financial instruments based on the business model an entity has for all instruments as a whole. This is effective for periods beginning on or after January 1, 2018, with retrospective effects and supersedes Bulletin C-2 *"Financial instruments"* and the Bulletin C-2 Application guidance. Early adoption is allowed starting January 1, 2016, provided that it is done concurrently with the FRS related to financial instruments whose effective date and possibility for early adoption are under the same terms.

Among the principal changes presented are:

- Classification of financial instruments in which investments are made, discarding the concept of intention to acquire and use an investment in a financial instrument to determine such classification, adopting instead, the business management model of investments in financial instruments for obtaining cash flows. This change eliminates the held-to-maturity and available-for-sale categories of instruments.

- Establishing the valuation of investments in financial instruments also according to the business model, indicating that each model will have a different line item in the statement of comprehensive income.

- Not allowing the reclassification of investments in financial instruments among the categories of financial instruments receivable, debt instruments at fair value and negotiable financial instruments, unless the entity's business model changes, which is considered highly unlikely.

- Adopting the principle that all financial instruments are valued upon initial recognition at fair value.

- Limiting certain disclosures to entities that conduct financial operations.

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FRS C-3 *"Accounts receivable"*- FRS C-3 is effective for years beginning on or after January 1, 2018, with retrospective effects, except for the valuation effects that may be prospectively recognized, if it is impractical to determine the effect on each one of the prior periods presented. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the adoption of FRS related to financial instruments whose effective date and possibility for early adoption are under the same terms as those indicated in this FRS. Some of the primary changes presented are the following:

- FRS C-3 provides that accounts receivable based on a contract are deemed financial instruments, while some other accounts receivable, resulting of legal or tax provisions, may have certain characteristics of a financial instrument, such as bearing interest, but are not in themselves financial instruments.

- FRS C-3 provides that the allowance for doubtful trade receivables shall be recognized as revenue is earned, based on the expected credit losses, and the allowance shall be recorded as an expense, separately when significant, in the statement of comprehensive income.

- FRS C-3 provides that, upon initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of the term, an adjustment must be made taking into consideration such present value.

- FRS C-3 requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

FRS C-9 *"Provisions, Contingencies and Commitments"*- FRS C-9 is effective for years beginning on or after January 1, 2018, allowing for early enforcement provided that it is done concurrently with the initial enforcement of FRS C-19 "Financial instruments payable". FRS C-9 supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this FRS does not result in accounting changes in the consolidated financial statements. Some of the primary aspects covered by this FRS include in the next page.

- The scope is narrowed by relocating the topic concerning accounting for financial liabilities to FRS C-19 “Financial instruments payable”.

- The definition of “liability” is modified by eliminating the qualifier “virtually unavoidable” and including the term “probable”.

- The terminology used throughout the standard is updated to standardize the presentation with the rest of the FRS.

FRS C-16 *“Impairment of financial instruments receivable”*- FRS C-16 is effective for years beginning on January 1, 2018 and early adoption is allowed as of January 1, 2017 provided that it takes place concurrently with the adoption of FRS related to financial instruments whose effective date and early adoption are in the same terms. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

The primary changes arising from this FRS consist of determining when and how expected impairment losses on financial instruments receivable should be recognized, including:

- It establishes that impairment losses on financial instruments receivable should be recognized if the credit risk increases and thus it is concluded that a portion of future cash flows of the financial instruments receivable will not be recovered.

- It proposes recognizing the expected loss based on the entity's historical experience of credit losses, current conditions and reasonable and supportable forecasts of the various quantifiable future events that could affect the amount of future cash flows of the financial instruments receivable.

- With regard to interest-bearing financial instruments receivable, it establishes estimating how much of the financial instruments receivable amount is deemed recoverable and when, since the recoverable amount must be recorded at present value.

FRS C-19 “Financial instruments payable”- FRS C-19 is effective for years beginning on or after January 1, 2018 with retrospective effects and early adoption allowed provided that they it takes place concurrently with the adoption of FRS C-9 and the FRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main points covered by this FRS include in the next page.

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- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.

- Long-term liabilities are initially recognized at present value.

- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting net income or loss.

- It includes the provisions of IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", which was not provided for by the existing standard.

- The effect of extinguishing a financial liability should be presented as financial income (loss) in the comprehensive statement of income.

- It introduces the concepts of amortized cost in valuing financial liabilities and of the effective interest method based on the effective interest rate.

FRS C-20 *"Financing instruments receivable"*- FRS C-20 shall be effective for years beginning January 1, 2018, and is applicable retrospectively. Early adoption is allowed as of January 1, 2016 provided that it takes place concurrently with the initial adoption of FRS related to financial instruments whose effective date and early adoption are in the same terms. Some of the main aspects resulting from the adoption of this FRS include the following:

- Classification of financial instruments within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.

- The valuation effect of investments in financial instruments is also focused on the business model.

- The reclassification of financial instruments is not permitted among receivables, strategic investments, and negotiable instruments, unless the entity changes its business model.

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- An embedded derivative that modifies the cash flows of principal and interest is not separated from its host receivable financial instrument. The entire receivable financial instrument shall be measured at fair value, as if it were a negotiable financial instrument.

2018 FRS Revisions

In December 2017, CINIF issued a document called "2018 FRS Revisions" containing precise modifications to some of the existing FRS. The main revisions that bring about accounting changes are the following:

FRS B-2 *"Statement of cash flows"*- Requires new disclosures about liabilities associated with financing activities, whether or not, they have required the use of cash or cash equivalents, preferably through a reconciliation of the initial and final balances thereof. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized retrospectively.

FRS C-6 *"Property, plant and equipment" and FRS C-8 "Intangible assets"*- Establishes that a method of depreciation and amortization of an asset based on the generation of economic benefits associated with its use is not appropriate, given that said amount may be affected by factors other than the pattern of consumption of economic benefits of the asset. Clarifies the meaning of the concept of consumption of future economic benefits of an asset. This revision will be effective for periods starting on or after January 1, 2018, allowing early adoption. The resulting accounting changes should be recognized prospectively.

Management estimates that the new FRS and the improvements to FRS will having no significant effects over financial information. The effects of the new FRS and the FRS for 2017 will depend on the adoption by the Commission.