Peña Verde, S. A. B. and subsidiaries

Consolidated financial statements

December 31, 2018 and 2017

(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, 2018 and 2017, 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 Bonds 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 ($12,431,274) and reinsurance's share on technical reserves $1,525,277.	
See notes 3k and 3r 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 assess the actuarial practices applied by the Group in the measuring and accounting booking 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 assessed 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 tests of details 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, 2018 (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 will be made 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:

- 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.
- 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

(Continued)

- 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.
- 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.

Rafael Gutiérrez Lara

Mexico City, April 2, 2019.

Peña Verde, S. A. B. and subsidiaries

Consolidated balance sheets

December 31, 2018 and 2017

(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	**2018**		**2017**	
Investments:				
Securities (note 5):				
Government	$ 8,489,111		7,368,297	
Corporate:				
Fixed income	262,288		268,637	
Variable income	4,424,509		5,819,319	
Foreign	717,004		447,877	
	13,892,912		13,904,130	
Repurchase agreements (note 5)	6,568		232,512	
Loan portfolio, net:				
Current loan portfolio	34,893		40,209	
Past-due loan portafolio	178		237	
Allowance for loan losses	(530)		(756)	
	34,541		39,690	
Properties, net (note 6):	616,490	14,550,511	579,891	14,756,223
Employee benefits investment (note 10)		212,984		208,874
Cash and cash equivalents:				
Cash and cash in banks		276,993		522,440
Accounts receivable:				
Premiums (note 7)	2,214,487		1,610,213	
Subsidy premiums for property and casualty	16,404		42,907	
Agents and adjusters	1,154		2,305	
Notes receivables	1,674		21,122	
Other	151,280		84,163	
Allowance for doubtful accounts	(22,832)	2,362,167	(5,911)	1,754,799
Reinsurers and bonds reinsurers, net (note 8):				
Current	769,045		625,072	
Retained deposits	101,272		93,774	
Reinsurance's share on technical reserves	1,525,277		2,377,126	
Reinsurers and bonds brokers	-		497	
Credit risk allowance for foreing reinsurers and bonds	(731)		(1,149)	
Allowance for doubtful accounts	13,221	2,408,084	(31,521)	3,063,799
Permanent stock investments:				
Other permanent investments		47,283		40,758
Other assets:				
Furniture and equipment, net (note 9)	47,399		58,684	
Foreclosed assets, net	8		8	
Sundry (note 9)	306,195		232,458	
Amortizable intangible assets, net	37,824	391,426	42,888	334,038
Total assets	$	20,249,448		20,680,931

Liabilities and Stockholders' Equity	**2018**		**2017**	
Liabilities:				
Technical reserves:				
Current risk:				
Life	$ 669,877		574,035	
Accidents and health	194,589		447,069	
Property and casualty	2,149,767		1,920,881	
Bonds in force	501,539		438,458	
	3,515,772		3,380,443	
Outstanding claims provision:				
For expired policies and pending payment claims	2,446,685		3,376,781	
For claims incurred but not reported and adjustment expenses	1,145,843		1,217,040	
Insurance funds under management	21,045		11,451	
Premiums collected in advance	25,517		32,850	
	3,639,090		4,638,122	
Contingency reserve	207,704		187,929	
Catastrophic reserve	5,068,708	12,431,274	4,403,728	12,610,222
Employee benefits (note 10)		170,896		234,230
Creditors:				
Agents and adjusters	138,434		128,941	
Loss funds under management	2,543		-	
Creditor for bond responsibilities constituted	114,020		-	
Sundry	484,902	739,899	444,223	573,164
Reinsurers and bonds reinsurers (note 8):				
Current	1,352,971		781,978	
Retained deposits	8,720		8,245	
Other shares	168,876		206,743	
Reinsurers and bonds brokers	494	1,531,061	493	997,459
Other liabilities:				
Employee statutory profit sharing	24,010		11,575	
Income tax payable (note 13)	70,262		48,951	
Other obligations	199,208		186,754	
Deferred credits (note 13)	746,370	1,039,850	1,178,901	1,426,181
Total liabilities		15,912,980		15,841,256
Stockholders' equity (note 14):				
Controlling interest:				
Capital stock		422,608		422,608
Equity reserve:				
Statutory reserve	2,359		2,023	
Repurchase of own shares	151		231	
Additional paid-in capital	959,576	962,086	959,576	961,830
Valuation surplus		101,547		68,511
Conversion effect		35,682		(4,681)
Retained earnings		3,373,485		2,760,381
Net income		(599,167)		582,933
Total controlling interest stockholders' equity		4,296,241		4,791,582
Non-controlling interest		40,227		48,093
Total stockholders' equity		4,336,468		4,839,675
Commitments and contingent liabilities (note 17)				
Total liabilities and stockholders' equity	$	20,249,448		20,680,931

Memorandum accounts:

	2018	**2017**
Securities on deposit	$ 161	161
Funds under management	17,513	16,092
Current bond liabilities	5,704,317	4,952,771
Tax loss carry forward	37,657	83,215
Reserve to be accrued from employee benefits	36,906	27,194
Control accounts	3,639,411	3,544,612
Collateral received under repurchased agreements	-	172
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See accompanying notes to consolidated financial statements.

Peña Verde, S. A. B. and subsidiaries

Consolidated statements of income

Years ended December 31, 2018 and 2017

(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)

		2018		2017	
Premiums:					
Written (notes 8 and 10)	$		7,344,849		6,965,412
Less ceded (note 8)			1,351,640		1,444,073
Retained premiums			5,993,209		5,521,339
Less net increase in current risks reserve and bonds in force (note 3k)			219,378		496,700
Earned retained premiums			5,773,831		5,024,639
Less:					
Net acquisition cost:					
Agent commissions		291,822		265,644	
Additional compensation to agents		125,310		148,249	
Commissions from reinsurance and bonds reinsurance taken		803,758		644,748	
Commissions from reinsurance and bonds reinsurance ceded		(315,157)		(309,041)	
Non-proportional reinsurance cost		448,618		395,600	
Other		415,961	1,770,312	405,064	1,550,264
Net cost of claims and other outstanding obligations:					
Claims and other outstanding obligations (note 3k)		3,499,475		4,209,573	
Recovered claims from non-proportional reinsurance contracts		(279,938)		(1,142,050)	
Bonds claims		96,513	3,316,050	49,620	3,117,143
Technical income			687,469		357,232
Net increase in other technical reserves:					
Catastrophic risks		657,943		321,063	
Contingency reserve		31,095	689,038	27,446	348,509
Income from administrative services rendered			14		15
Gross (loss) income			(1,555)		8,738
Net operating expenses:					
Administrative and operating		267,595		302,813	
Personnel remuneration and fringe benefits		243,261		385,324	
Depreciation and amortization		27,853	538,709	32,341	720,478
Operating loss			(540,264)		(711,740)
Comprehensive financial result:					
Investment in securities		471,607		477,973	
Gain on sale of investments		245,698		547,567	
Investment securities valuation		(1,200,181)		389,243	
Premium surcharges		32,861		31,746	
Credit risk allowance for foreing reinsurers		378		180	
Credit risk reserves		334		972	
Other		23,728		20,992	
Foreign exchange result		82,301	(343,274)	(100,323)	1,368,350
(Loss) income before income tax and non-controlling interest			(883,538)		656,610
Income tax (note 13)			(279,339)		63,444
Consolidated net (loss) income			(604,199)		593,166
Non-controlling interest			5,032		(10,233)
Net controlling interest (loss) income	$		(599,167)		582,933

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, 2018 and 2017

(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, 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	-	-	(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
Items related to stockholders' decisions:										
Transfer of prior year's net income	-	336	20,000	-	562,597	(582,933)	-	-	-	-
Dividends paid to stockholder's (note 14d)	-	-	-	-	(6,894)	-	-	-	-	(6,894)
Repurchase of own shares	-	-	(20,080)	-	-	-	-	-	-	(20,080)
Capital stock increases from non-controlling interest	-	-	-	-	-	-	-	-	-	-
Items related to the comprehensive income (note 14c):										
Surplus valuation from subsidiaries's properties	-	-	-	-	-	-	39,722	-	341	40,063
Surplus valuation from subsidiaries's investments	-	-	-	-	-	-	26,339	-	497	26,836
Deferred taxes for the year	-	-	-	-	-	-	(28,344)	-	(384)	(28,728)
Other	-	-	-	-	57,401	-	(4,681)	40,363	(3,288)	89,795
Net income for the year	-	-	-	-	-	(599,167)	-	-	(5,032)	(604,199)
Balances as of December 31, 2018	$ 422,608	2,359	151	959,576	3,373,485	(599,167)	101,547	35,682	40,227	4,336,468

See accompanying notes to consolidated financial statements.

Peña Verde, S. A. B. and subsidiaries

Consolidated statements of cash flows

Years ended December 31, 2018 and 2017

(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)

		2018	2017
Net (loss) income	$	(599,167)	582,933
Items not requiring cash:			
Unrealized gain on valuation coming from investing and financing activities		1,200,181	(389,243)
Allowance for doubtful accounts		(28,465)	19,698
Depreciation and amortization		27,853	32,341
Adjustment or increase related to technical reserves		1,698,609	(388,376)
Accruals		-	154,320
Current and deferred income tax		(279,339)	63,444
Investment in subsidiaries and associate		(5,032)	10,233
Subtotal		2,014,640	85,350
Operating activities:			
Changes in investment securities		(1,188,963)	(814,390)
Changes in repurchase agreements		225,944	(80,597)
Changes in loan portfolio		5,375	(23,466)
Changes in other premiums receivable		(604,274)	163,201
Changes in debtors		(20,015)	(29,005)
Changes in reinsurers and bonds reinsurers		382,628	(111,048)
Changes in other operating assets		(108,992)	(41,418)
Changes in contractual obligations and expenses related to claims		(941,632)	1,277,821
Changes in other operating liabilities		(7,700)	(128,403)
Net cash provided by operating activities		(242,989)	298,045
Net cash flows from investment activities due to net change in property and furniture and equipment		(7,879)	(55,085)
Financing activities:			
Repurchase of own shares		-	(814)
Dividends paid		(6,894)	(6,995)
Repurchase of own shares of subsidiries		(20,080)	(74,920)
Net cash used in financing activities		(26,974)	(82,729)
Net (decrease) increase in cash and cash equivalents		(277,842)	160,231
Effects due to changes in the value of cash		32,395	(4,681)
		(245,447)	155,550
Cash and cash equivalents:			
At beginning of year		522,440	366,890
At end of year	$	276,993	522,440

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 Periférico Sur Number 2771, Colonia San Jerónimo Lidice, Alcaldía Magdalena Contreras, C.P. 10200, Mexico City, in terms of the Insurance and Bonds 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 bonds 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, 2018 and 2017, include the financial information of Peña Verde and its subsidiaries. The activities of its subsidiaries of Peña Verde 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 bonds 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.

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- 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 statements authorization, basis of preparation and oversight-

Authorization

On April 2, 2019, Manuel Escobedo Conover, the 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), the provisions of the National Insurance and Bonds Commission (the Commission), and the statutes by Institution's by Peña Verde S. A. B., the stockholders, the board of directors and National Banking and Securities Commission (CNBV), are empowered to modify the consolidated financial statements after issuance. The consolidated financial statements will be submitted to the next stockholders' meeting for approval.

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 Bonds Institutions, established by the Commission in force as of the consolidated balance sheets date.

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. Actual results could differ from those estimates and assumptions.

Judgments

Information about judgement made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statement is described in note 3(b) - consolidation: whether the Institution has de facto control over an investee.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 3(k) – Technical reserves: key actuarial assumptions to estimate the expected value of future obligations, from the payment of claims, benefits, surrender values, dividends, acquisition and administration expenses, as well as any other future obligation derived from the insurance contracts, plus a risk margin.
- Note 3(m) – Measurement of defined benefit obligations: key actuarial assumptions
- Note 3(n) – Recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized
- Impairment testing of intangible assets: key assumptions for the recoverable amount, including the recoverability of development costs.

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.

(Continued)

(Thousands of Mexican pesos)

Oversight

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, described below, have been applied consistently to all these consolidated financial statements, and have been applied consistently by the Institution:

(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**
2018	103.020	4.83%	15.69%
2017	98.273	6.77%	12.72%
2016	92.039	3.36%	9.87%

(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. The consolidation was based on the financial statements of Peña Verde and the issuing companies as of December 31, 2018 and 2017, 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, and the inflation index of the of origin country when the foreign operation it is an inflationary economic environment.

(d) Investments in securities-

The Commission regulates the basis on which the Institution makes investments, for which an accounting and measurement criteria has been established, which classifies the investments according to the Management intention on ownership, as shown below:

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 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 measured 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 as a gain on sale of investments” in the consolidated statement of income, on the date of the sale.

(Continued)

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.

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 "Valuation surplus" 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).

(Continued)

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.

Repurchase agreements operations-

The repurchase agreements operations are presented in a separate line item on the consolidated balance sheet. They are initially recorded at the agreed-upon price and measured 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 dollars and sterling pounds. At the consolidated 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-

<u>For insurance operations</u>-

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.

<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 25% 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.

In terms of Chapter 8.14 of the Circular Única de Seguros y Fianzas (CUSF for its Spanish acronym), the commercial loan portfolio is rated quarterly, while the unsecured credit and mortgage loans are rated monthly. For the calculation of the allowance for credit risk, 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 financial 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) Derecognition-

The Institution derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Institution neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(h) 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 and 3.33	25% and 33%
Computer support equipment	8.33	12%
Other	10	10%

(Continued)

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.

(i) Intangible assets-

Intangible assets with a defined useful life include mainly systems and software. The factors about the useful life are the expected use of the asset are based on estimates made by the management. These assets are recorded at acquisition or development cost and are amortized in a straight line, over their estimated useful life of 6 and 10 years for software and deferred expenses, respectively.

(j) Prepayments -

Mainly include prepayments for the purchase of services that are received after the date of the balance sheet and in the ordinary course of operations.

(k) Technical reserves-

The Institution creates and measures the technical reserves established in the Law, in accordance with the general provisions issued by the Commission in Title 5 of the CUSF.

The technical reserves are established and measured 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 on the next page.

Reserve for current risks (RRC)-

The Institution registered with the Commission the technical notes and the actuarial methods used for creating and measuring 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, the Institution determined a release of this reserve, which is accrued in straight-line in a period of 2 years, the Institution recognized an income of $56,771 in the year 2017.

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 revenues 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.

(Continued)

Catastrophic risks insurance-

General de Seguros determines the balance of current risk reserve for earthquake, hurricane and other hydrometeorology 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 meteorology risks. In the case of policies that cover risks that according to their characteristics cannot be measured 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.

Risk margin-

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the Solvency Capital Requirement (SCR), necessary to meet the Institution’s insurance and reinsurance obligations until its expiration. For purposes of valuation of the current risk reserve, the SCR of closing of the preceding immediately quarter valuation is used.

RM= (Stock Funds) * (Term) * (Stock Cost)

Where:

- The Stock funds is determined by the corresponding distribution of the deviation of each line or sub-line between the deviations of all lines branch including insurance long term, by the Solvency Capital Requirement.

- The deviations of Current Risk Reserve (CRR) for each line or sub-line are the amounts corresponding to the prime in force, for the difference between the 99.5 percentile and the average of the index of claims, multiplied by the non-accrual factor and by the factor of retention.

- The deviations of SONR for each branch or sub-branch are the values resulting from the difference between the 99.5 percentile and the average of the SONR reserve estimate, multiplied by the retention factor.

(Continued)

For reinsurance operations-

Reaseguradora Patria registered with the Commission, technical notes and actuarial methods by means of which it constitutes and value the reserve for current risk reserve.

The purpose of this reserve is to 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.

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 Solvency Capital Requirement (SCR), necessary to meet the Institution's insurance and reinsurance obligations until its expiration. For purposes of valuation of the current risk reserve, the SCR of closing of the preceding immediately quarter valuation is used.

(Continued)

The risk margin is determined for each line of business and type of reinsurance, in accordance with the term and currency considered in calculating the best estimate of the related obligation of reinsurance taken.

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

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 for such purposes 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 known-amount obligations-

- 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 market-risk-free interest rate curves 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 y General de Salud determined a release of this reserve, which is accrued in straight-line in a period of 2 years, the Institution recognized an income of $33,656 in the year 2017.

- 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 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 market-risk-free interest rate curves 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 not been completely reported when having occurred on dates prior to valuation of such claim, future complementary claims or adjustments may exist into the estimates initially made.

(Continued)

Risk margin-

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

RM= (Stock Funds) * (Term) * (Stock Cost)

Where:

- The Stock funds is determined by the corresponding distribution of the deviation of each line or sub-line between the deviations of all lines of business including insurance long term, by the Solvency Capital Requirement.

- The deviations of CRR for each line or sub-line are the amounts corresponding to the premium in force, for the difference between the 99.5 percentile and the average of the index of claims, multiplied by the non-accrual factor and by the factor of retention.

- The deviations of SONR for each line or sub-line are the values resulting from the difference between the 99.5 percentile and the average of the SONR reserve estimate, multiplied by the retention factor.

Outstanding claims provision for payment management and past due benefits-

It is related to management 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 corresponding to the reinsurance taken are determined using the methodologies described in the next page.

(Continued)

<u>For reinsurance operations</u>-

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 known-amount obligations.

- 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-

- 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 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 market-risk-free interest rate curves 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 not been completely reported when having occurred on dates prior to valuation of such claim, complementary future claims or adjustments may exist into the estimates initially made.

(Continued)

Risk margin-

This is calculated by determining the net cost of capital corresponding to the Own Admissible Funds required to support the Solvency Capital Requirement SCR necessary to meet the Institution's insurance and reinsurance obligations until its expiration. For purposes of valuation of the current risk reserve, the SCR of closing of the preceding immediately quarter valuation is used.

The risk margin is determined for each branch and type of reinsurance, in accordance with the term and currency considered in calculating the best estimate of the obligation related to reinsurance taken.

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

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 the Institution 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 of 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.

(Continued)

Hurricane and other hydrometeorologic risks

The purpose of this reserve is to cover the probable maximum loss due to claims of catastrophic nature of the Institution in connection with underwriting hurricane and other hydrometeorology 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.

Agricultural and livestock

The purpose of this reserve is to cover the probable maximum loss due to claims of catastrophic nature of the Institution 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.

(Continued)

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.

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.

For the reinsurance taken operations from PCM catastrophic risks reserves are not provided.

Reserve of bonds in force for reinsurance operations-

The rules for establishing, increasing and measuring 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 bonds 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 bonds 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 bonds reinsurance business accepted, less the basic bonds reinsurance commissions, net of reinsurance.

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

Contingency reserve for reinsurance operations-

In 2018 and 2017, Reaseguradora Patria determined this reserve by applying the factor of 0.13 to retained premiums for bonds reinsurance business accepted net of basic-bonds-reinsurance commissions. The reserve is cumulative.

(Continued)

(l) 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.

(m) 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.

Long-term direct benefits

The Institution's net obligation in relation to direct long-term benefits (except for deferred ESPS - see subsection (n) 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.

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, 2018 and 2017, for purposes of recognizing benefits post-employment related to General de Seguros, the remaining average service life of employees approximates to 16 years, respectively for Group 1 and 3 and 1 year for Group 2, respectively (see note 12).

(n) 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.

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.

(o) Cumulative translation effect-

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

(p) 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.

(q) 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 portions, 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 reinstatement, the reserve is reconstituted as of the month in which the insurance is valid again.

(Continued)

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.

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 contracts and facultative reinsurance taken business assumed from cedents which has entered into contracts at local and international level, as well as from retroceded business.

Facultative reinsurance taken business are recorded according to the acceptance of the business or when the payment of the premium is received. In the case of automatic contracts, 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.

(Continued)

As a consequence of what is mentioned above, in 2018 and 2017, the Reaseguradora Patria recorded in the balance sheet a credit to "Allowance for doubtful accounts" amounting to $13,359 and $(31,384), respectively and a debit and credit, respectively, to "Administrative and operating expenses" for $(44,743) and $22,351, respectively at the consolidated statement of income.

The Institution limits the total amount of its liability by distributing assumed risk among reinsurers through automatic and facultative contracts, 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 bonds 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 included 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.

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.

(Continued)

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.

(r) Reinsurance-

Current account

The transactions originated by the reinsurance contracts, both transferred and taken, issued by the Institution, are presented under "Insurance and bonds institutions" in the consolidated balance sheet, for presentation purposes the net balance is offset by reinsurer.

Reinsurance 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.

Reinsurance ceded

The Institution 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.

(Continued)

Recoverable reinsurer's share

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.

The Institution's management determines the estimate of the recoverable amounts for the share of reinsurers in the technical reserves 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 pending obligations" for transactions of insurance and reinsurance, respectively.

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

(s) Net acquisition cost-

For insurance operations

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.

(t) Business concentration-

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

(u) Comprehensive financial result (CFR)-

Finance income and expense include:

- interest income;
- policy rights and premium surcharges;
- dividend income;
- the net gain or loss from the valuation of investments in financial instruments;
- gain or loss on the sale of investments in financial instruments;
- gain or loss in foreign currency for financial assets and financial liabilities;
- preventive reserves from credit risk for loans and recoverable reinsurance.

Interest income or expense is recognized using the effective interest method. Dividend income is recognized in income on the date on which the Institution right to receive payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of execution or settlement. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in force at the statement of financial position date. Exchange differences arising from assets and liabilities denominated in foreign currencies are reported on the consolidated statement of income.

(v) 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.

(Continued)

(w) Risk management-

As part of the corporate governance system, the Institution has established the risk management system, which includes the definition and categorization of the risks the Institution might be exposed, taking in consideration, at least the following:

i. Underwriting insurance 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 mortality, longevity, disability, illness, morbidity, the expenses management, expiration, conservation, policy rescue, epidemic, premium and reserve risks, as well as extreme events.

ii. The risk of underwriting bonds 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 bonds 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-collecting, 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.

(Continued)

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 those risks, by counterpart, by type of asset, area of economic activity or geographical area.

viii. Operational risk - shows 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 risk management policies of the Institution are established to identify and analyze the risks that is exposed, establish limits and risk controls and monitor the risks and compliance with the limits. Policies and Risk management 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.

(Thousands of Mexican pesos)

(x) Hierarchy-

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

In cases where insurance institutions consider that there is no accounting criteria 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, 2018 and 2017, are shown below:

		Mexican pesos	
		2018	**2017**
Assets	$	9,411,778	8,704,032
Liabilities		(7,523,953)	(7,686,398)
Net assets	$	1,887,825	1,017,634
		=======	=======

As of December 31, 2018 and 2017, the exchange rate published by the Mexican Central Bank was $19.6512 and $19.6629 (Mexican pesos per dollar), respectively, and $25.04742 $26.60489 (Mexican pesos per pound); respectively. The Institution has no foreign exchange hedging instruments.

(Continued)

Functional and recording currency for PCM, a subsidiary located in United Kingdom, is the to sterling pound and its financial statements were converted to the Mexican peso, reporting currency used in the consolidated financial statements.

(5) Investments-

At December 31, 2018, the investment portfolio in local currency includes financial instruments held for trading purposes, with maturities between 2 and 12,012 days, with interest rates ranging between 3.56% % to the 10.00%.

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% to the 10.00%.

At December 31, 2018, the investment portfolio in foreign currency includes financial instruments held for trading purposes, with maturities between 3 and 11,323 days, with interest rates ranging between 2.36% to the 11.50%.

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% to the 6.15%.

At December 31, 2018 and 2017, investment securities are as shown on the following page.

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Notes to consolidated financial statements

(Thousands of Mexican pesos)

		2018				2017			
		Cost	Accrued interest	Increase (decrease) from valuation	Total	Cost	Accrued interest	(Decrease) increase from valuation	Total
Debt securities:									
Government securities:									
For trading purposes:									
Federal Treasury Certificates (CETES)	$	684,390	9,086	702	694,178	1,097,315	11,003	-	1,108,318
Development Bonds from Government (BONDES)		99,985	204	(269)	99,920	65,339	133	(1)	65,471
Long term bonds from government (M)		1,140	4	(72)	1,072	2,331	32	(109)	2,254
Bonds in dollars UMS		1,822,363	18,885	(122,976)	1,718,272	1,741,441	39,120	(5,129)	1,775,432
Bonds in dollars MEX		106,308	2,026	(10,295)	98,039	106,371	2,008	(3,550)	104,829
Bonds in dollars BANCOMEXT		488,159	7,115	(20,785)	474,489	403,349	5,899	(446)	408,802
Federal Mortgage Company (SHF)		849,559	488	2,103	852,150	440,000	454	(3)	440,451
Bonds in UDIS		272,104	527	(11,779)	260,852	219,947	397	(3,576)	216,768
Certificates of Deposit issued by Nacional Financiera (CEDES NAFINSA)		4,254,130	30,085	-	4,284,215	3,185,842	16,061	-	3,201,903
Other		5,924	-	-	5,924	41,449	608	2,012	44,069
	$	8,584,062	68,420	(163,371)	8,489,111	7,303,384	75,715	(10,802)	7,368,297
Private companies securities:									
Fixed income									
For trading purposes:									
Non-financial sector	$	268,681	5,169	(11,562)	262,288	265,938	5,960	(3,261)	268,637
Equity securities:									
Variable income									
For trading purposes:									
Non-financial sector	$	2,250,315	-	2,158,149	4,408,464	2,578,418	-	3,059,658	5,638,076
Available-for-sale:									
Non-financial sector		18,271	-	(2,226)	16,045	171,964	-	9,279	181,243
	$	2,268,586	-	2,155,923	4,424,509	2,750,382	-	3,068,937	5,819,319
Foreing Securities:									
Debt securities:									
For trading purposes	$	433,390	-	(8,984)	424,406	229,580	-	87,210	316,790
Equity securities:									
For trading purposes		295,422	-	(2,824)	292,598	102,721	-	28,366	131,087
	$	728,812	-	(11,808)	717,004	332,301	-	115,576	447,877
Repurchase under agreement									
BONDES	$	6,565	-	-	6,565	226,793	-	-	226,793
Bank note		3	-	-	3	5,700	-	-	5,700
Protection bonds		-	-	-	-	19	-	-	19
	$	6,568	-	-	6,568	232,512	-	-	232,512

(Continued)

(Thousands of Mexican pesos)

(6) Property-

As of December 31, 2018 and 2017, property is as follows:

		2018	2017
Land	$	101,592	101,592
Buildings		115,145	115,145
Special facilities		1,293	1,293
		218,030	218,030
Net valuation		443,553	403,491
Acumulated depreciation		(45,093)	(41,630)
	$	616,490	579,891
		======	======

During 2018 and 2017, the Institution made appraisals on its properties, resulting in an increase in their value of $40,062 and $32,986, 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 2018 and 2017.

(7) Premiums receivable-

Premiums-

As of December 31, 2018 and 2017, this caption is as follows:

		2018	2017
Life:			
Individual	$	31,652	26,900
Group and collective		75,086	21,116
		106,738	48,016
Accidents and health		153,910	176,439
Property and casualty		1,946,867	1,379,327
Bonds		23,375	14,594
		2,230,890	1,618,376
Property subsidy		16,404	42,907
Allowance for doubtful accounts		(16,403)	(8,163)
	$	2,230,891	1,653,120
		=======	=======

(Continued)

(Thousands of Mexican pesos)

At December 31, 2018 and 2017, premiums receivable accounts for 11.02% and 7.99% of total assets, respectively.

(8) Reinsurers and bonds reinsurers-

(a) Reinsurance assumed-

Premiums assumed by the Institution as of December 31, 2018 and 2017, are as follows (see note 10):

2018		Reaseguradora Patria	General de Seguros	PCM	Consolidated
Life:					
Individual	$	63,520	-	-	63,520
Group and collective		489,174	-	-	489,174
Life		552,694	-	-	552,694
Accidents and health		(60,368)	-	71,532	11,164
Property and casualty:					
Liability		85,285	1,091	-	86,376
Ocean marine and inland marine		264,822	5	209,156	473,983
Fire		900,126	1,682	2,952	904,760
Earthquake		847,809	728	233,464	1,082,001
Agricultural		214,848	2,100	-	216,948
Automobile		277,444	-	-	277,444
Credit		1,614	-	-	1,614
Miscellaneous		450,420	8,688	20,564	479,672
Property and casualty		3,042,368	14,294	466,136	3,522,798
Bonds		524,823	-	-	524,823
	$	4,059,517	14,294	537,668	4,611,479

Peña Verde, S. A. B. and subsidiaries

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(Thousands of Mexican pesos)

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
Ocean marine and 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
Bonds		430,429	-	-	430,429
	$	3,477,198	14,060	402,672	3,893,930
		=======	=====	======	=======

(b) Retroceded / ceded reinsurance business-

The premiums ceded and retroceded for the years ended December 31, 2018 and 2017 are analyzed in the next page.

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

2018		**Reaseguradora Patria**	**General de Seguros**	**PCM**	**Consolidated**
Life:					
Individual	$	9,555	10,426	-	19,981
Group and collective		(2,473)	29,015	-	26,542
Life		7,082	39,441	-	46,523
Accidents and health		(7,966)	1,801	-	(6,165)
Property and casualty:					
Liability		14,695	41,065	-	55,760
Ocean marine and inland marine		18,353	47,305	13,764	79,422
Fire		93,687	76,186	716	170,589
Earthquake		253,614	60,891	25,988	340,493
Agricultural		24,733	301,916	-	326,649
Automobile		23,373	-	-	23,373
Miscellaneous		104,864	29,648	651	135,163
Property and casualty		533,319	557,011	41,119	1,131,449
Bonds		179,833	-	-	179,833
	$	712,268	598,253	41,119	1,351,640
		======	======	=====	=======
2017					
Life:					
Individual	$	15,502	9,205	-	24,707
Group and collective		5,469	121,298	-	126,767
Life		20,971	130,503	-	151,474
Accidents and health		8,743	1	-	8,744
Property and casualty:					
Liability		13,246	40,907	-	54,153
Ocean marine and 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
Bonds		139,873	-	-	139,873
	$	537,807	879,830	26,436	1,444,073
		======	======	=====	=======

(Continued)

(Thousands of Mexican pesos)

(9) Other assets-

At December 31, 2018 and 2017, furniture and equipment are as follows:

		2018	2017
Office furniture and equipment	$	50,668	50,244
Computer equipment		78,678	76,278
Transportation equipment		47,142	49,394
Peripheral equipment		2,660	2,660
Other		2,524	2,524
Art pieces		1,162	1,150
		182,834	182,250
Less accumulated depreciation		135,435	123,566
	$	47,399	58,684
		======	======

The item "Other" as of December 31, 2018 and 2017, is comprised as follows:

		2018	2017
Salvage inventory	$	39,804	27,774
Advance payments		74,962	40,902
Taxes paid in advance		138,912	125,605
Other		52,517	38,177
	$	306,195	232,458
		======	======

(Thousands of Mexican pesos)

(10) Premiums issued, taken by reinsurance and issued in advance-

Premiums issued-

The value of premiums issued by the Institution as of December 31, 2018 and 2017 are show below:

		2018	2017
Life:			
Individual	$	119,597	98,087
Group and collective		186,892	313,081
		306,489	411,168
Accident and health		371,191	358,201
Property and casualty:			
Liability		90,367	101,068
Ocean marine and inland marine		83,516	73,444
Fire		106,675	85,291
Earthquake and hurricane		85,409	109,038
Automobile		1,266,896	1,285,592
Miscellaneous		70,677	83,887
Agricultural and livestock		352,150	563,793
		2,055,690	2,302,113
Reinsurance taken (note 8a)		4,611,479	3,893,930
	$	7,344,849	6,965,412
		=======	=======

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

Premiums issued in advance to the risk period covered-

At the years ended 2018 and 2017, the Institution issued premiums, which period covered starts in years 2019 and 2018, respectively. Following are the transactions related to premiums issued in advance to the risk period covered:

		2018	**2017**
Premiums issued in advance:			
Accident and health	$	9,952	14,717
Property and liability:			
Liability		460	400
Automobile		28,650	28,938
Ocean marine and inland marine		4,009	3,591
Fire		93	287
Agricultual and livestock		3,369	-
Miscellaneous		6,831	7,865
Total premiums in advance to the risk period covered	$	53,364	55,798
Premiums ceded:			
Property and casualty:			
Liability	$	114	100
Automobile		86	-
Ocean marine and inland marine		2,009	1,795
Fire		37	193
Agricultural and livestock		1,132	-
Miscellaneous		3,139	3,667
Total ceded premiums in advance to the risk period covered	$	6,517	5,755
Net increase in current risk reserve	$	(42,363)	(45,425)
Agent commissions		(5,950)	(6,678)
Reinsurance commissions		1,466	985
Policy charges		2,562	2,772

(Continued)

(Thousands of Mexican pesos)

Balances at December 31, 2018 and 2017 related to premiums issued in advance to the risk period covered are shown below:

		2018	2017
Premiums receivable	$	65,001	68,476
Reinsurer's share on technical reserve		5,051	5,755
Reinsurance current		(5,051)	(4,770)
Current risks reserve		(47,144)	(51,180)
Premium surcharges		(591)	(465)
Unearned commissions		(5,950)	(6,678)
Value added tax to be accrued		(8,484)	(9,442)
		====	====

(11) Basis of Investment, SCR 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.

SCR - 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.

(Continued)

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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 14b).

Following is the coverage of the aforementioned requirements of General de Seguros, General de Salud and Reaseguradora Patria:

Coverage of statutory requirements of General de Seguros				
Statutory Requirements	**Surplus (Deficit)**		**Coverage Index**	
	Current year 2018	Prior year 2017	Current year 2018	Prior year 2017
Technical reserves [1]	$ 112,498	612,474	1.0	1.2
Solvency capital requirement [2]	$ 789,865	470,430	1.6	1.3
Minimum capital requirement [3]	$ 1,567,194	1,902,999	12.4	15.8

Coverage of statutory requirements of General de Salud				
Statutory Requirements	**Surplus (Deficit)**		**Coverage Index**	
	Current year 2018	Prior year 2017	Current year 2018	Prior year 2017
Technical reserves [1]	$ 166,925	136,268	2.3	1.9
Solvency capital requirement [2]	$ 145,198	84,055	4.2	2.4
Minimum capital requirement [3]	$ 195,616	174,566	20.3	19.4

Coverage of statutory requirements of Reaseguradora Patria				
Statutory Requirements	**Surplus (Deficit)**		**Coverage Index**	
	Current year 2018	Prior year 2017	Current year 2018	Prior year 2017
Technical reserves [1]	$ 619,969	495,252	1.0	1.0
Solvency capital requirement [2]	$ 367,370	429,506	1.3	1.3
Minimum capital requirement [3]	$ 1,017,129	1,392,071	12.7	18.1

(Continued)

[1] Investments that support technical reserves / basis of investment.
[2] Own Admissible Funds (OAF)/ SCR.
[3] The Institution's computable capital resources according to the regulation / Minimum paid-in capital requirement for each operation and / or line that is authorized.

(Thousands of Mexican pesos)

(12) Employee benefits-

General de Seguros

During 2011, General de Seguros established a mixed pension plan (Group 1), into which was transfered personnel whose right to retirement was achieving after reaching 8 years after the date this plan was set up, to cover 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 having 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.

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, 2018 and 2017, benefits paid were as follows:

		Contributions to funds		Benefits paid	
		2018	**2017**	**2018**	**2017**
Legal compensation	$	-	-	-	1,969
Seniority premium		727	554	-	-
Pension plan		8,162	7,725	-	-
	$	8,889	8,279	-	1,969

(Thousands of Mexican pesos)

<u>Reaseguradora Patria</u>

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 hiring 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.

The benefits paid were as follows:

		2018	2017
Seniority premiums	$	83	64
Legal compensation		533	9,139
Pension plan		4,512	5,313
	$	5,128	14,516
		=====	=====

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The cost components of defined benefits for the year ended December 31, 2018 and 2017 are shown below:

2018		**Seniority premium**	**Legal compensation**	**Pension plan**
Current service cost (CLSA)	$	685	1,811	6,102
Net interest on defined benefits net liability (DBNL)		-	1,368	2,650
Reclassification of remeasurements of DBNL recognized in comprehensive income		1,766	1,247	(50,669)
Defined benefit cost	$	2,451	4,426	(41,917)
		====	=====	=====
Ending balance of DBNL remeasurement	$	(1,716)	(727)	(50,157)
		====	=====	=====
Beginning balance of DBNL	$	497	19,019	84,082
Defined benefit cost		2,346	3,256.	(26,811)
Contributions to plan		(727)	- .	(8,162)
Recognized profit		44	1,171	(11,153)
Payments charged to DBNL		(93)	(958)	(4,512)
Gains in plan assets		-	-	(189)
Ending balance of DBNL	$	2,067	22,488	33,255
		====	=====	=====
Amount of defined benefit obligations (DBO)	$	6,117	22,488	142,291
Plan Assets		(4,390)	-	(147,080)
Financial position of the obligation recorded	$	1,727	22,488	(4,789)
		====	=====	=====

(Continued)

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2017		Seniority premium	Legal compensation	Pension plan
CLSA	$	567	1,295	7,202
Net Interest on 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
DBO	$	6,165	19,421	210,412
Plan assets		(6,152)	-	(174,211)
Financial position of the obligation recorded	$	13	19,421	36,201

As of December 31, 2018 and 2017, Reaseguradora Patria pension fund's assets amounted to $65,986 and $81,525, respectively; the maximum obligation is $38,385 and $49,733, respectively, showing an excess of $27,601 and $31,792, respectively, which is a restricted investment.

At December 31, 2018 and 2017, Reaseguradora Patria has recognized within the investment category for labor obligations, loans to employees for $540 and $600, respectively.

At December 31, 2018 and 2017, the defined contribution of General de Seguros amounts to $37,899 and $28,185, respectively.

(Continued)

(Thousands of Mexican pesos)

The rates used in the actuarial projections as of December 31, 2018 and 2017 are:

2018	**Peña Verde**	**Reaseguradora Patria**	**General de Seguros**	**CCSS Peña Verde**	**Servicios Peña Verde**
Nominal discount rate used in calculating the present value of obligations:	8.99%	8.98%	9.03%	8.94%	8.98%
Rate of increase in future salary levels	5.00%	5.00%	5.00%	5.00%	5.00%
Expected rate of return on plan assets	8.99%	8.98%	9.03%	8.94%	4.00%
Average remaining service life of employees (applicable for retirement benefits)	12 years	27 years	19 years	32 years	16 years
2017					
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

(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:

		2018	**2017**
On income statement:			
IT current	$	66,478	47,529
IT deferred		(345,817)	15,915
	$	(279,339)	63,444
		=====	=====
On Other Comprehensive Income (OCI):			
IT deferred	$	(21,381)	(6,811)
		=====	=====

(Continued)

Peña Verde, S. A. B. and subsidiaries

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Following are an the satand-alone condensed reconciliations between net income before IT and ESPS and taxable income for IT and ESPS for the years ended December 2018 and 2017 of General de Seguros and General de Salud, Reaseguradora Patria, Servicios Peña Verde, CCSS Peña Verde and Peña Verde as follows:

2018		**General de Seguros**	**General de Salud**	**CCSS Peña Verde**	**Reaseguradora Patria**	**Servicios Peña Verde**	**Peña Verde**	**Total**
Taxable income	$	(85,310)	44,484	(2,242)	229,147	13,437	3,952	
Amortization of tax losses		-	-	-	(71,043)	-	-	
IT result		(85,310)	44,484	(2,242)	158,104	13,437	3,952	
Rate			30%		30%	30%	30%	
IT current			13,345		47,431	4,031	1,186	65,993
(Insufficiency) excess in provision			-		(588)	556	517	485
IT on earnings	$		13,345		46,843	4,587	1,703	66,478

2017		**General de Seguros y subsidiaria**	**CCSS-Peña Verde**	**Reaseguradora Patria**	**Servicios Peña Verde**	**Peña Verde**	**Total**
Taxable income (loss)	$	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)

(Thousands of Mexican pesos)

b) ESPS

The ESPS current and deferred expense are as follows:

		2018	2017
On income statement:			
Current	$	24,229	11,526
Deferred		(129,761)	40,200
	$	(105,532)	51,726
OCI:			
Deferred	$	(7,347)	(2,949)

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

ESPS for the years ended December 31, 2018 and 2017 are shown as follow:

2018		General de Seguros	CCSS-Peña Verde	Reaseguradora Patria	Servicios Peña Verde	Total
Taxable income (loss) for IT	$	(85,310)	(2,242)	229,568	13,437	
Plus (less):						
ESPS paid		9,496	-	-	-	
Non-deductible social security		(19,474)	-	(2,019)	(1,105)	
ESPS base		(95,288)	(2,242)	227,549	12,332	
Rate				10%	10%	
Current ESPS				22,755	1,233	23,988
Insufficiency in provision				56	185	241
ESPS in income statement	$			22,811	1,418	24,229

(Continued)

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2017	General de Seguros	CCSS-Peña Verde	Reaseguradora Patria	Servicios Peña Verde	Total
Taxable income (loss) 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 in provision	-		(54)	(20)	(74)
ESPS in Income Statement	$ 9,464		421	1,641	11,526

The tax effects of temporary differences that give rise to significant portions of the deferred IT and ESPS assets and liabilities at December 31, 2018 and 2017 are shown below:

	2018 IT	2018 ESPS	2017 IT	2017 ESPS
Deferred (liabilities) assets:				
Investments	$ (562,569)	(187,044)	(942,180)	(310,607)
Property	(120,724)	(40,241)	(100,692)	(33,565)
Furniture and equipment	(205)	(62)	(691)	(214)
Accruals	69,591	20,720	67,974	20,475
Sundry	(305)	(2,053)	(5,514)	(1,419)
Amortized expense	1,101	205	249	(5)
Employee benefits	-	-	(4,281)	(1,490)
Payments in advance	(607)	(147)	2,000	-
Premiums collected in advance	10,256	3,241	9,854	3,005
Long-term current risk reserves	(10,664)	(3,555)	(2,613)	(871)
Credit risk allowance for foreign reinsurers	7,157	2,366	4,711	1,507
Monthly reinsurance estimate	(3,989)	(1,330)	9,546	3,183
Employee benefits	4,163	421	3,581	309
ESPS	65,932	-	99,742	-
Bonuses	6,090	1,470	4,001	1,022
Sundry creditors	110	37	-	-
Other	817	33	57	-
Tax losses carry forward	34,618	-	25,801	-
Net deferred liability	(499,228)	(205,939)	(828,455)	(318,670)
Insufficiency (excess) in provision	2,740	10,058	1,855	433
	(496,488)	(195,881)	(826,600)	(318,237)
Deferred liability registered	$ (692,369)		(1,144,837)	

(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 2018, gave rise to charges to "Net Income" for $475,578 (($345,817) of IT and ($129,761) of ESPS), and gave rise to credits to "Surplus from valuation" for $28,728 ($21,381 of IT and $7,347 of ESPS).

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).

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, 2018, tax losses carry forward expire as follows:

Company	Year	Tax losses carry forward
CCSS - Peña Verde	2026	$ 14,022
CCSS - Peña Verde	2027	14,339
CCSS – Peña Verde	2028	1,721
General de Seguros	2028	87,963
		=====

(14) Stockholders' Equity-

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

(a) Structure of capital stock-

At December 31, 2018 and 2017 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.

(Continued)

(Thousands of Mexican pesos, except otherwise stated)

In 2018 and 2017, 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 bonds reinsurance, which requires 100%.

At December 31, 2018, General de Seguros (including General de Salud) and Reaseguradora Patria have the minimum required capital of $147,406 and $86,722, 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, 2017 was $5.934551 Mexican pesos per UDI.

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.

(c) Comprehensive income-

The comprehensive income reported on the consolidated statements of changes in stockholders' equity represents the results of the General de Seguros, General de Salud, Reaseguradora Patria and PCM 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 (loss):

		2018	2017
Net (loss) income	$	(599,167)	582,933
Property valuation		39,722	15,318
Deferred taxes for the year		(28,344)	16,410
Employee benefits effect		35,682	-
Subsidiaries valuation surplus related to long-term current risk reserves		26,339	1,167
Translation effect		35,682	-
Other		57,401	(4,681)
Non-controlling interest		(7,866)	5,789
Comprehensive (loss) income	$	(476,233)	616,936
		======	======

(Continued)

(d) Dividends-

At the Regular General Stockholders' Meeting held on April 30, 2018, a resolution was passed to declare a dividend by the amount of $6,894, $0.0147 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 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.

(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, 2018, the ordinary reserve amounts to $2,359 and has not reached the required amount.

In accordance with the provisions of the Law, applicable to General de Seguros, General de Salud 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.

The Institution will not be able to distribute dividends until dividends has not been received from subsidiaries.

(15) Segment information-

<u>Insurance operations</u>

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 shows 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, 2018 and 2017 are shown below:

December 31, 2018

Line item		Life	Accidents and health	Motor	Agricultural	Property and casualty	Total
Premiums written	$	306,489	371,192	1,266,895	354,249	448,838	2,747,663
Premiums ceded		(39,441)	(1,802)	(5)	(302,371)	(254,634)	(598,253)
Retained premiums		267,048	369,390	1,266,890	51,878	194,204	2,149,410
Decrease (increase) in current risks reserve		(99,892)	3,649	(25,713)	15,885	(377)	(106,448)
Earned premiums		167,156	373,039	1,241,177	67,763	193,827	2,042,962
Net cost of claims and acquisition cost		(172,413)	(304,115)	(1,230,804)	(8,133)	(104,241)	(1,819,706)
Technical income (loss)	$	(5,257)	68,924	10,373	59,630	89,586	223,256

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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

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, 2018 and 2017 are indicated as shown below:

December 31, 2018

		Mexico and Caribe	Latin America	Overseas	Overseas PCM	Total
Premiums taken	$	1,477,49	2,184,233	397,791	537,668	4,597,185
Premiums retroceded		(148,689)	(511,811)	(51,768)	(41,119)	(753,387)
Retained premiums		1,328,804	1,672,422	346,023	496,549	3,843,798
Decrease (increase) in current risks reserve		94,219	(137,730)	(58,769)	(10,650)	(112,930)
Earned retained premiums		1,423,023	1,534,692	287,254	485,899	3,730,868
Net acquisition cost		467,597)	(488,918)	(166,031)	(185,806)	(1,308,352)
Net cost of claims and other outstanding obligations		(727,351)	(707,113)	(182,467)	(341,371)	(1,958,302)
Technical income (loss)	$	228,075	338,661	(61,244)	(41,278)	464,214
		======	=======	======	======	=====

(Thousands of Mexican pesos)

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) income	$	(192,041)	248,256	34,192	(57,330)	33,077
		======	=======	======	======	======

(16) Earnings per share-

As of December 31 2018 and 2017, 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 outstanding shares at the beginning of the period, calculating the weighted average number of outstanding shares.

(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 outstanding shares.

Determination of ordinary earnings per common share

Year	Net (loss) income of the year	Weighted average outstanding shares	Earning per share (pesos)
2018	$ (599,167)	476,678,213	$ (1.26)
	=======	=========	====
2017	$ 582,933	476,678,213	$ 1.22
	=======	=========	===

As of December 31, 2018 and 2017, 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) As of December 31, 2018 and 2017, the Institution has entered into a contract for receiving business management services for senior management with Servicios Peña Verde with indefinite term. The expense for the years ended December 31, 2018 and 2017 for the services received amounted to $104,900 and $85,700, respectively. In addition in 2018 an agreement for the lease of the property with Reaseguradora Patria was signed, expense in connections with this transaction at the end of the year is $264.

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

(c) 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 agreement 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.

(Continued)

At December 2018 and 2017, there have not been submited metrics to account for a contingent liability.

(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 that carry out transactions with related parties are subject to fiscal limitations and obligations, in terms of determining agreed prices, since they must be comparable to those that would be used with or between independent parties in comparable operations.

In the event that the tax authorities review the prices and reject the amounts determined, they could demand, in addition to the collection of the tax and corresponding accessories (update and surcharges), fines on the omitted contributions, which could be up to 100% about the updated amount of contributions.

(18) Contingent commissions to agents -

In fiscal years 2018 and 2017, the Institution executed agreements for paying contingent commissions with intermediaries as described in this note. Total payments under these agreements in the years 2018 and 2017, amounted to $176,914 and $208,990, respectively, accounting for 6.7% and 7.1%, respectively, for General de Seguros and 4.5 and 3.8%, 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 and General de Salud 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, keeping levels of the portfolio and for 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.

(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) Recently issued regulatory standards-

The CINIF has issued the FRS and Improvements that are described in the next page.

FRS B-17 "Determination of fair value"- FRS B-17 This FRS 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. Where appropriate, changes in valuation or disclosure must be recognized prospectively.

FRS C-3 *"Accounts receivable"*- FRS 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. Some of the primary changes are as follows:

- 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.

- 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.

- 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.

- 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, 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 financial statements. Some of the primary aspects covered by this FRS include the following:

- 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 its presentation with the rest of the FRS.

(Continued)

FRS C-16 ***"Impairment of financial instruments receivable"*****-** FRS C-16. 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:

- 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.

- 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-20 ***"Financial instruments receivable"*****-** Some of the main aspects resulting from the adoption of this FRS are as follows:

- 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 financial instruments, unless the entity changes its business model.

- 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.

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FRS D-1 *"Revenue from contracts with customers"*- FRS D-1 establishes standards for the accounting recognition of revenues arising from contracts with customers. It eliminates the supplementary application of International Accounting Standard (IAS) 18 *"Revenues"*, SIC 31 *"Revenues – Barter transactions of advertising services"*, IFRIC 13 *"Customer Loyalty Programs"*, and IFRIC 18 *"Transfers of assets from customers"*. Additionally, this FRS, along with FRS D-2, repeals Bulletin D-7 *"Construction and manufacturing contracts of certain capital goods"* and IFRS 14 *"Construction, sales and service contracts related to real estate"*. Some of the primary changes are the following:

- The transfer of control as basis for timely recognize revenues.
- The identification of the obligations to be fulfilled in a contract is required.
- It indicates that the transaction amount between obligations to fulfill must be assigned based on independent sales prices.
- The concept "conditional account receivable" is introduced.
- The recognition of collection rights is required.
- Requirements and guidance on how to value the variable consideration and other aspects, upon measuring the income are established.

FRS D-2 "Costs from contracts with customers"- FRS D-2 establishes rules for the accounting recognition of costs of sales of goods or provision of services. Concurrently with FRS D-1 *"Revenues from contracts with customers"*. Along with this FRS, it repeals Bulletin D -7 *"Construction and manufacturing contracts of certain capital goods"* and IFRS 14 *"Construction, sales and service contracts related to real estate"*, except regarding the recognition of assets and liabilities in this type of contracts within the scope of other FRS.

The primary change is the separation of the standard related to the recognition of revenues from contracts with customers, from the standard corresponding to the recognition of costs for contracts with customers. Additionally, it extends the scope of Bulletin D-7, referring exclusively to costs related to construction and manufacturing contracts for certain capital goods, to include costs related to all types of contracts with customers.

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FRS D-5 "Leases" It supersedes Bulletin D-5 "Leases". First time adoption of this FRS results in accounting changes in the financial statements, chiefly for the lessee, and provides for different recognition options. Main changes included the following:

- In the case of lessees, leases are no longer classified as operating or finance and the lessee is required to recognize a lease liability at the present value of lease rentals and a right-of-use asset for the same amount for all leases with a term of more than 12 months, unless the asset is of low value.

- A lessee recognizes depreciation or amortization of the right-of-use asset and interest on the lease liability.

- In the statement of cash flows, the lessee modifies the presentation of the related cash flows, since cash outflows are deducted from operating activities with an increase in cash outflows (financing activities).

- In a sale-and-leaseback transaction, the recognition of any gain or loss is modified when the seller-lessee transfers an asset to another entity and leases that asset back from the buyer-lessor.

- Lessor's accounting recognition does not change from the previous Bulletin D-5; only certain disclosure requirements are added.

2019 FRS Revisions

In December 2018, CINIF issued a document called "2019 FRS Revisions" containing precise modifications to some of the existing FRS. The improvements made to the FRS does not result in accounting changes in the annual financial statements.

Management is assessing the effect of the new FRS, the FRS that will be applicable in January 1, 2020 and the FRS revisions would no generate significant effects. The effects of the new FRS and the revisions to FRS 2018 will depend on its adoption by the Commission.