Peña Verde, S. A. B. and subsidiaries

Consolidated financial statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

KPMG Cárdenas Dosal, S.C.
Manuel Ávila Camacho 176 P1,
Reforma Social, Miguel Hidalgo,
C.P. 11650, Ciudad de México.
Teléfono: +01 (55) 5246 8300
kpmg.com.mx

Independent Auditors' Report

(Translation from Spanish Language Original)

The Board of Directors and the Stockholders

Peña Verde, S. A. B.

(Figures in 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, 2019 and 2018, 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 significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, we do not provide a separate opinion on these matters.

(Continued)

Liability on technical reserves $13,957,218.	
See note 3k to the consolidated financial statements.	
Key audit matter	**How the matter was addressed in our audit**
The valuation of technical reserves requires significant judgments about assumptions, coverage and the application of actuarial assumptions. A change in assumptions, criteria or coverages, as well as the quality of the underlying information can produce material impacts on the estimate. Therefore, we have considered the valuation of technical reserves as a key audit matter of our audit.	The audit procedures applied included, but were not limited to: - We evaluate actuarial assumptions, claims rates, expected frequency and severity used by management in the construction of estimates. - We compare these assumptions with certain expectations that are based on the Institution's experience, current trends and our knowledge of the industry. - For certain types of insurance product lines, we also compare our projections with management's estimates, assessing that the estimates are based on the Insurance and Bond Institutions Act and the rules for their constitution set out in the Single Circular for Insurance and Bonds Institutions. - We gained an understanding of the process, and evaluated the internal control implemented by the Institution for the creation of technical reserves. Tested controls include key information matching controls and review of estimates. - In addition, because historical claims information is relevant to estimates, we test the controls and conduct sustantive test of details over claims and claims payments. The procedures described above were performed with the support of our actuarial specialists.

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, 2019 (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. The Annual Report is expected to made available to us after the date of this auditors' report.

(Continued)

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

In connection with 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 our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement of this other information, we are required to report that 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 deems 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 realistic alternative but to do so.

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.

KPMG

- 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 appropriate audit evidence regarding the financial information of the entities or business activities 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 during our audit.

We also provide those charged with the Institution's governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relations and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those that were of the most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG CÁRDENAS DOSAL, S. C.

SIGNATURE

C. P. C. Paul Scherenberg Gómez

Mexico City, April 13, 2020.

Peña Verde, S. A. B. and subsidiaries

Consolidated balance sheets

December 31, 2019 and 2018

(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		**2019**		**2018**	
Investments:					
Securities (note 5):					
Government	$	8,892,703		8,436,611	
Corporate:					
Fixed income		145,465		262,288	
Variable income		4,312,858		4,277,682	
Foreign		1,053,139		302,059	
Restricted cash		753,543		614,272	
		15,157,708		13,892,912	
Repurchase agreements (note 5)		32,322		6,568	
Loan portfolio, net:					
Current		32,513		34,893	
Past-due		-		178	
Allowance for loan losses		(216)		(530)	
		32,297		34,541	
Properties, net (note 6):		659,845	15,882,172	616,490	14,550,511
Employee benefits investment (note 10)			203,373		212,984
Cash and cash equivalents:					
Cash and cash in banks (note 3d)			331,760		276,993
Accounts receivable:					
Premiums (note 7)		2,377,791		2,214,487	
Premiums for property and casualty subsidy (note 7)		7,407		16,404	
Agents and adjusters		1,077		1,154	
Notes receivables		2,934		1,674	
Receivables from bond responsibilities in claims paid		18,729		-	
Other		91,675		151,280	
Allowance for doubtful accounts		(4,832)	2,494,781	(22,832)	2,362,167
Reinsurers and bonds reinsurers, net (note 8):					
Current		1,332,403		769,045	
Retained deposits		115,090		101,272	
Reinsurance's share on technical reserves		2,086,900		1,525,277	
Reinsurers and bonds brokers		-		-	
Credit risk allowance for foreing and bonds reinsurers		(2,525)		(731)	
Allowance for doubtful accounts		14,190	3,546,058	13,221	2,408,084
Permanent investments:					
Other			43,278		47,283
Other assets:					
Furniture and equipment, net (note 9)		42,446		47,399	
Foreclosed assets, net		608		8	
Sundry (note 9)		284,029		306,195	
Amortizable intangible assets, net		88,782	415,865	37,824	391,426
Total assets	$		22,917,287		20,249,448

Liabilities and Stockholders' Equity		**2019**		**2018**	
Liabilities:					
Technical reserves:					
Current risk:					
Life	$	582,814		669,877	
Accidents and health		236,557		194,589	
Property and casualty		2,591,107		2,149,767	
Bonds in force		540,953		501,539	
		3,951,431		3,515,772	
Outstanding claims provision:					
For expired policies and pending payment claims		2,708,022		2,446,685	
For claims incurred but not reported and adjustment expenses		1,453,231		1,145,843	
Insurance funds under management		33,860		21,045	
Premiums collected in advance		19,843		25,517	
		4,214,956		3,639,090	
Contingency reserve		227,812		207,704	
Catastrophic reserve		5,563,019	13,957,218	5,068,708	12,431,274
Employee benefits (note 10)			226,529		170,896
Creditors:					
Agents and adjusters		157,866		138,434	
Loss funds under management		2,264		2,543	
Bond responsibilities accruals		161,426		114,020	
Sundry		473,964	795,520	484,902	739,899
Reinsurers and bonds reinsurers (note 8):					
Current		1,887,843		1,352,971	
Retained deposits		3,043		8,720	
Other shares		218,167		168,876	
Reinsurers and bonds brokers		1,030	2,110,083	494	1,531,061
Other liabilities:					
Employee statutory profit sharing		9,185		24,010	
Income tax payable (note 13)		17,690		70,262	
Other obligations		217,644		199,208	
Deferred credits (note 13)		883,232	1,127,751	746,370	1,039,850
Total liabilities			18,217,101		15,912,980
Stockholders' equity (note 14):					
Controlling interest:					
Capital stock			422,608		422,608
Equity reserve:					
Statutory reserve		2,446		2,359	
Repurchase of own shares		151		151	
Additional paid-in capital		959,576	962,173	959,576	962,086
Valuation surplus			113,883		101,547
Cumulative translation effect			59,383		35,682
Retained earnings			2,772,814		3,373,485
Net income			325,913		(599,167)
Total controlling interest			4,656,774		4,296,241
Non-controlling interest			43,412		40,227
Total stockholders' equity			4,700,186		4,336,468
Commitments and contingent liabilities (note 18)					
Total liabilities and stockholders' equity	$		22,917,287		20,249,448

Memorandum accounts:

		2019	**2018**
Securities on deposit	$	-	161
Funds under management		18,621	17,513
Current bond liabilities		6,400,023	5,704,317
Tax loss carry forwards		34,979	37,657
Reserve to be accrued on employee benefits		45,384	36,906
Control accounts		3,686,105	3,639,411
		=======	=======

See accompanying notes to consolidated financial statements.

Peña Verde, S. A. B. and subsidiaries

Consolidated statements of income

Years ended December 31, 2019 and 2018

(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)

		2019		2018	
Premiums:					
Written (notes 8 and 10)	$		8,213,566		7,344,849
Less ceded (note 8)			1,578,681		1,351,640
Retained premiums			6,634,885		5,993,209
Less net increase in current risks reserve and bonds in force			326,124		219,378
Earned retained premiums			6,308,761		5,773,831
Less:					
Net acquisition cost:					
Agent commissions		281,002		291,822	
Additional compensation to agents		141,711		125,310	
Commissions from reinsurance and bonds reinsurance taken		895,496		803,758	
Commissions from reinsurance and bonds reinsurance ceded		(342,760)		(315,157)	
Non-proportional reinsurance cost		403,244		448,618	
Other		429,348	1,808,041	415,961	1,770,312
Net cost of claims and other outstanding obligations:					
Claims and other outstanding obligations		4,262,834		3,499,475	
Recovered claims from non-proportional reinsurance contracts		(570,520)		(279,938)	
Bonds claims		65,031	3,757,345	96,513	3,316,050
Technical income			743,375		687,469
Net increase in other technical reserves:					
Catastrophic risks		637,321		657,943	
Contingency reserve		30,904	668,225	31,095	689,038
Income from administrative services rendered			-		14
Gross income (loss)			75,150		(1,555)
Net operating expenses:					
Administrative and operating		376,063		267,595	
Personnel remuneration and fringe benefits		505,366		243,261	
Depreciation and amortization		25,962	907,391	27,853	538,709
Operating loss			(832,241)		(540,264)
Comprehensive financial result:					
Investment in securities		531,953		471,607	
Gain on sale of investments		386,417		245,698	
Investment securities valuation		357,793		(1,200,181)	
Premium surcharges		32,355		32,861	
Credit risk allowance for foreing reinsurers		(1,778)		378	
Credit risk reserves		331		334	
Other		26,028		23,728	
Foreign exchange result		(32,091)	1,301,008	82,301	(343,274)
Income (loss) before income tax and non-controlling interest			468,767		(883,538)
Income tax (note 13)			139,487		(279,339)
Consolidated net income (loss)			329,280		(604,199)
Non-controlling interest			(3,367)		5,032
Net controlling interest income (loss)	$		325,913		(599,167)

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, 2019 and 2018

(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	Cumulative transaltion effect	Non-controlling interest	Total stockholders' equity
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)
Other		-	-	-	-	57,401	-	-	-	-	57,401
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 income taxes for the year		-	-	-	-	-	-	(28,344)	-	(384)	(28,728)
Other		-	-	-	-	-	-	(4,681)	40,363	(3,288)	32,394
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
Items related to stockholders' decisions:											
Transfer of prior year's net income		-	87	-	-	(599,254)	599,167	-	-	-	-
Other		-	-	-	-	(1,417)	-	-	-	-	(1,417)
Items related to the comprehensive income (note 14c):											
Surplus valuation from subsidiaries's properties		-	-	-	-	-	-	38,366	-	204	38,570
Surplus valuation from subsidiaries's investments		-	-	-	-	-	-	(39,784)	-	(752)	(40,536)
Deferred income taxes for the year		-	-	-	-	-	-	13,754	-	(404)	13,350
Other		-	-	-	-	-	-	-	23,701	770	24,471
Net income for the year		-	-	-	-	-	325,913	-	-	3,367	329,280
Balances as of December 31, 2019	$	422,608	2,446	151	959,576	2,772,814	325,913	113,883	59,383	43,412	4,700,186

See accompanying notes to consolidated financial statements.

Peña Verde, S. A. B. and subsidiaries

Consolidated statements of cash flows

Years ended December 31, 2019 and 2018

(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)

		2019	2018
Net controling interest income (loss):	$	325,913	(599,167)
Items not requiring cash:			
Unrealized gain on valuation coming from investing and financing activities		(357,793)	1,200,181
Allowance for doubtful accounts		(17,488)	(28,465)
Depreciation and amortization		25,962	27,853
Adjustment or increase related to technical reserves		395,875	1,698,609
Current and deferred income tax		139,487	(279,339)
Non - controling interest		3,367	(5,032)
Subtotal		515,323	2,014,640
Operating activities:			
Changes in investment securities		(907,003)	(1,188,963)
Changes in repurchase agreements		(25,754)	225,944
Changes in loan portfolio		3,049	5,375
Changes in other premiums receivable		(154,307)	(604,274)
Changes in debtors		38,376	(20,015)
Changes in reinsurers and bonds reinsurers		(558,952)	382,628
Changes in other operating assets		(15,776)	(108,992)
Changes in contractual obligations and expenses related to claims		1,090,285	(941,632)
Changes in other operating liabilities		73,422	(7,700)
Net cash provided by (used in) operating activities		58,663	(242,989)
Net cash flows from investment activities due to net change in property and furniture and equipment		(25,998)	(7,879)
Financing activities:			
Dividends paid		-	(6,894)
Repurchase of own shares		-	(20,080)
Net cash used in financing activities		-	(26,974)
Net increase (decrease) in cash and cash equivalents		32,665	(277,842)
Effects due to changes in the value of cash		22,102	32,395
		54,767	(245,447)
Cash and cash equivalents:			
At beginning of year		276,993	522,440
At end of year	$	331,760	276,993

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 and credit rating-

Description of business

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, 2019 and 2018, include the financial information of Peña Verde and its subsidiaries. The activities of its subsidiaries of Peña Verde are described below:

- 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 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 a, b and c preceding paragraphs, in the 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 and medical expenses insurance, within the line of accidents and health, in terms of the Law.

- 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.

(Continued)

- 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 Hamilton Insurance Group, Ltd (formerly 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.

Credit Rating

As of December 31,2019 the Institution´s subsidiaries have the following credit raiting:

Subsidiary	Term	Scale	Rating	Rating agency
General de Seguros	Short	National	AA+(mex)	Fitch Ratings
General de Salud	Short	National	AA+(mex)	Fitch Ratings
Reaseguradora Patria	Short	National	AAA(mex)	Fitch Ratings

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

Authorization

On April 13, 2020, 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 of the 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.

(Continued)

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) – The valuation of technical reserves depends on the key actuarial assumptions and the quality of the underlying information;
— Note 3(m) – Measurement of defined benefit obligations: key actuarial assumptions;
— Note 3(o) – Recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carriy forwards 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 consolidated financial statements are presented in Mexican pesos, which is the same as the recording currency and the functional currency, according to the following:

- For the PCM subsidiary with country of origin United Kingdom, its recording currency is the British Pound and its functional currency is the USD dollar, its financial statements were translated into the reporting currency Mexican peso to consolidate such subsidiary.

(Continued)

- For the rest of the subsidiaries, the Mexican peso is the functional currency.

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

Oversight

The CNBV has supervisory powers over issuers of securities in Mexico to dictate the accounting standards to which the aforementioned issuers must follow in the preparation and presentation of the consolidated financial statements.

(3) Summary of significant accounting policies-

Signifcant accounting policies, described below, have been applied consistently to the 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
2019	105.934	2.83%	15.10%
2018	103.020	4.83%	15.69%
2017	98.273	6.77%	12.72%

(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, 2019 and 2018, 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 operation 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 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, the acquisition cost could be used as an indexed 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.

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

(Continued)

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).

Unrealized valuation results-

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

(Continued)

Repurchase 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.

Restricted cash and securities-

There is a legal agreement that grants Lloyd's Corporation the right to apply funds for the settlement of any claim arising out of the PCM Subsidiary's share in Lloyd's Unions. These funds may only be released with Lloyd's permission and only in circumstances where the amounts are replaced by an equivalent asset or after the expiration of the company's liabilities with respect to its underwriting. The balance of these funds in cash and cash equivalents as of December 31, 2019 and 2018 amounts to $78,849 and $27,373, respectively and also in investments in securities (see note 5).

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-

For insurance operations-

Premiums receivable represents uncollected premiums with an aging lower than the term established in agreement or under 45-days aging according to the provisions of the Commission. When this status is exceeded, they are written off against the results of the year.

(Continued)

For reinsurance operations-

Premiums for reinsurance transactions are as follows:

a) The premium balances correspond to the amount payable of the minimum premium and deposit of reinsurance transactions taken by non-proportional contracts and which are recognized on an annual basis from the beginning of validity.

   The accrual of the minimum premium and deposit, is recognized as the 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. An estimate should be recognized if the agreed deadline is not met.

   In the event that the agreed deadline is not met, the coverage must be cancelled or the guarantee payment is extended based on a new agreement (see note 7).

b) The balances of the premiums receivable subscribed by PCM include the accumulated balances of 36 months of underwriting, since the results of the distribution of profits or losses will be given 36 months after subscription. This period can be extended to one year if the premium is cancelled. The Union may make account distributions or cash calls in accordance with the cash flow of a particular account year and subject to Lloyd's requirements. (see note 7).

Premiums in property and casualty subsidies-

Property and casualty subsidy premiums are recorded in accordance with the agreement issued annually by the Ministry of Finance and Public Credit with respect to the operating rules of agricultural insurance premium subsidy and support for agricultural insurance funds.

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, and 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."

(Continued)

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.

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 later when the report is available.

(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 properties are stated at cost of acquisition and restated based on independent appraisals. Appraisals are required to be made annually. The valuation increase or decrease is recorded in the account "valuation surplus/deficit" under equity caption and at the time of selling the property, this effect is recycled to the statement of income.

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 described on the following page.

(Continued)

(Thousands of Mexican pesos)

	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%

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 basis 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.

(Continued)

For the technical reserves related catastrophic risk insurance and other reserves required by Law, actuarial methods for creation and valuation were determined following general provisions issued by the Commission.

The most important aspects to determine and account for the technical reserves are as follows:

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-

The purpose of this reserve is to cover the expected value of future obligations (best estimate), arising from the payment of claims, benefits, surrender payments, dividends, acquisition and administration expenses, as well as any other future obligations derived from 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, obligations, as the weighted average 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 current year best estimate of the future obligations, plus the rate premiums corresponding to future accumulated annuities and related return, for the time the policy has been in force, and the risk margin. For premiums related to future annuities, the acquisition cost accounted for in a separate manner to the reserve must be substracted.

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 those insurance contracts in which 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= (Capital Funds) * (Term) * (Capital Cost)

Where:

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

- The deviations of Current Risk Reserve (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.

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.

(Continued)

The best estimate will be equal to weighted average of the expected value of the future cash flows, considering income and expenses, obligations, as the weighted average 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 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 the immediately preceding quarter closing at the valuation date is used.

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.

(Continued)

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 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-

- 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= (Capital Funds) * (Term) * (Capital Cost)

Where:

- The Capital 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 long term insurance, by the Solvency Capital Requirement.

- 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 below:

For reinsurance operations-

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

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

(Continued)

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.

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 the immediately preceding quarter closing at valuation date 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.

(Continued)

Catastrophic risk reserve-

For insurance operations-

Earthquake and/or volcanic eruption risk-

The purpose of this reserve is to cover the probable maximum loss due to claims of catastrophic nature of 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 conditions contemplated in the regulation, according to Chapter 5.6.5. section V of the CUSF, and 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, as mentioned in Chapter 5.6.5. section VI of the CUSF.

Hurricane and other hydrometeorologic risks

The purpose of this reserve is to cover the probable maximum loss due to claims of catastrophic nature of 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 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 conditions contemplated in the regulation, according to Chapter 5.6.5. section VI of the CUSF, and with the Commission's prior approval. The balance of this reserve has a maximum limit, determined by the technical procedure established in the rules issued by the Commission, according to Chapter 5.6.5. section VIII of the CUSF.

(Continued)

Agricultural and livestock

The purpose of this reserve is to cover the probable maximum loss due to claims of catastrophic nature of 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 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, as mentioned in Chapter 5.6.1. section VI of the CUSF, and with the Commission's prior approval.

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

For reinsurance operations-

Earthquake and/or volcanic eruption coverage-

This reserve is intended to cover the value of the maximum probable loss arising from the occurrence of catastrophic claims for earthquake insurance of retained risks by Reaseguradora Patria; it is cumulative and can only be affected in case of accidents and under certain conditions 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 hydrometeorological 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 hydrometeorological risks for Reaseguradora Patria. It is cumulative and can only be affected in case of accidents and under certain conditions 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 hydrometeorological 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 conditions 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.

(Continued)

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-

In 2019 and 2018, 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.

(l) Accruals-

The Institution recognizes, based on Management estimates, liability provisions for those present obligations in which the transfer of assets or the provision of services is virtually unavoidable and arise as a consequence of past events, mainly retroceded premiums, reinsurance commissions and counterguarantee taken, commissions to agents, operating expenses, salaries, bonuses and other payments to personnel

(Continued)

(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 (o) 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.

(Continued)

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, 2019 and 2018, for purposes of recognizing benefits post-employment related to General de Seguros, the remaining average service life of employees approximates to15 and 16 years, respectively for Group 1 and 3 and 1 year for Group 2, respectively (see note 12).

(n) Loss management funds-

The amount of funds received for the payment of claims is recorded.

(o) 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, and 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.

(p) Cumulative translation effect-

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

(q) 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 income tax and ESPS.

(r) 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.

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.

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.

As a consequence of what is mentioned above, in 2019 and 2018, the Reaseguradora Patria recorded in the balance sheet a credit to "Allowance for doubtful accounts" amounting to $39,824 and $13,359, respectively and a debit and credit, respectively, to "Administrative and operating expenses" for $(26,465) and $(44,743), 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*-**

<u>For insurance operations</u>

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.

<u>For reinsurance operations</u>

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 when 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.

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.

(s) 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.

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 be part of the Own Admissible Funds.

(Continued)

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 lines and engages excess loss coverage, which basically covers the lines of fire, motor, earthquake and other catastrophic risks.

(t) 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. 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.

(u) Business concentration-

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

(v) Comprehensive financial result (CFR)-

Finance income and expense include:

- interest income;
- interest expense;
- policy rights and premium surcharges;
- dividend income;
- 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.

(Continued)

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.

(w) 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.

(x) 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.

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.

(Continued)

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.

(y) Application of particular rules-

The Institution shall observe, except when otherwise stated by the Commission, the specific accounting criteria included in the provisions and Mexican Financial Reporting Standards (FRS) issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF) regarding accounting matters not considered in the Accounting Criteria as long as the following is met:

i. Are effective and in force;
ii. Early adoption has not been taken;
iii. Do not contradict the general bases of the accounting criteria, and
iv. There is not statement by the Commission regarding clarifications to the specific accounting criteria included in the FRS, or regarding scope-out, among others.

(z) Hierarchy-

In cases where insurance institutions consider that there is no accounting criterion applicable to any of the operation they carry out, issued by the CINIF or the Commission, they will apply the hierarchy bases provided in FRS 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 as issued 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 an 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.

(Thousands of Mexican pesos)

(4) Foreign currency position-

Monetary assets and liabilities denominated in foreign currencies translated into the reporting currency, as of December 31, 2019 and 2018, are shown below:

		Mexican pesos	
		2019	**2018**
Assets	$	12,779,148	10,597,609
Liabilities		(10,656,311)	(8,836,666)
Net assets	$	2,122,837	1,760,943

The exchange rates published by Banco de México used in the different conversion to the report currency as of December 31, 2019 and 2018, are as follows:

		Exchance rate (pesos)	
Country of origin	**Currency**	**2019**	**2018**
United States	Dollar	18.8642	19.6512
United Kingdom	Pound	24.98375	25.04742

As of December 31, 2019 and 2018 the Institution had no hedging instruments to cover exchange rate risks.

(5) Investments-

At of December 31, 2019, 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 2.50% to the 10.00%.

At of 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 of December 31, 2019, the investment portfolio in foreign currency includes financial instruments held for trading purposes, with maturities between 364 and 11,688 days, with interest rates ranging between 1.54% to the 4.20%.

At of 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 of December 31,2019 and 2018, investment securities are as shown on the following page.

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

		2019				2018			
		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)	$	672,478	12,751	(232)	684,997	684,390	9,086	702	694,178
Development Bonds from Government (BONDES)		114,153	294	(267)	114,180	99,985	204	(269)	99,920
Long term bonds from government (M)		258,427	1,021	(671)	258,777	1,140	4	(72)	1,072
Bonds in dollars UMS		2,131,613	29,041	(28,360)	2,132,294	1,769,863	18,885	(122,976)	1,665,772
Bonds in dollars MEX		-	-	-	-	106,308	2,026	(10,295)	98,039
Bonds in dollars BANCOMEXT		664,205	9,723	8,093	682,021	488,159	7,115	(20,785)	474,489
Federal Mortgage Company (SHF)		819,856	1,354	311	821,521	849,559	488	2,103	852,150
Bonds in UDIS		183,499	396	8,780	192,675	272,104	527	(11,779)	260,852
Certificates of Deposit issued by Nacional Financiera (CEDES NAFINSA)		3,966,906	32,776	211	3,999,893	4,254,130	30,085	-	4,284,215
Other		6,345	-	-	6,345	5,924	-	-	5,924
	$	8,817,482	87,356	(12,135)	8,892,703	8,531,562	68,420	(163,371)	8,436,611
Private companies securities:									
Fixed income:									
For trading purposes:									
Non-financial sector	$	146,592	1,463	(2,590)	145,465	268,681	5,169	(11,562)	262,288
Equity securities:									
Variable income:									
For trading purposes:									
Non-financial sector	$	1,964,237	-	2,347,281	4,311,518	2,103,488	-	2,158,149	4,261,637
Available-for-sale:									
Non-financial sector		1,340	-	-	1,340	18,271	-	(2,226)	16,045
	$	1,965,577	-	2,347,281	4,312,858	2,121,759	-	2,155,923	4,277,682
Foreing securities:									
Debt securities:									
For trading purposes	$	759,619	5,362	(7,111)	757,870	18,445	-	(8,984)	9,461
Equity securities:									
For trading purposes		294,635	-	634	295,269	295,422	-	(2,824)	292,598
	$	1,054,254	5,362	(6,477)	1,053,139	313,867	-	(11,808)	302,059
Restricted securities									
Debt securities:									
For trading purposes	$	578,410	-	-	578,410	466,637	-	-	466,637
Equity securities:									
For trading purposes		175,133	-	-	175,133	147,635	-	-	147,635
	$	753,543	-	-	753,543	614,272	-	-	614,272
Repurchase under agreement									
BONDES	$	7,005	-	-	7,005	6,565	-	-	6,565
Bank notes		3	-	-	3	3	-	-	3
Protection bonds		25,314	-	-	25,314	-	-	-	-
	$	32,322	-	-	32,322	6,568	-	-	6,568

(Continued)

(Thousands of Mexican pesos)

(6) Property-

As of December 31, 2019 and 2018, property is as follows:

		2019	2018
Land	$	101,592	101,592
Buildings		123,549	115,145
Special facilities		1,293	1,293
		226,434	218,030
Net valuation		482,124	443,553
Acumulated depreciation		(48,713)	(45,093)
	$	659,845	616,490

During the 2019 and 2018 financial years, the Institution practiced appraisals on its properties, resulting in an increase in the value of the same by $38,570 and $40,063, respectively. The calculation of the depreciation is based on the remaining useful life on the updated value of the buildings, determined with the latest appraisals practiced, the applicable depreciation rates range from 1.13% to 6.67% in 2019 and from 1.11% to 6.25% in 2018.

(7) Premiums receivable-

Premiums-

As of December 31, 2019 and 2018, this caption is as follows:

		2019	2018
Life:			
Individual	$	42,075	31,652
Group and collective		87,921	75,086
		129,996	106,738
Accidents and health		278,658	153,910
Property and casualty		1,951,405	1,946,867
Bonds		17,732	23,375
		2,377,791	2,230,890
Property and casualty subsidy		7,407	16,404
Allowance for doubtful accounts		-	(16,403)
	$	2,385,198	2,230,891

(Continued)

(Thousands of Mexican pesos)

At December 31, 2019 and 2018, premiums receivable accounts for 10.41% and 11.02% of total consolidated assets, respectively.

(8) Reinsurers and bonds reinsurers-

(a) Reinsurance assumed-

Premiums assumed by the Institution as of December 31, 2019 and 2018, are as follows (see note 10):

2019		Reaseguradora Patria	General de Seguros	PCM	Consolidated
Life:					
Individual	$	48,034	-	-	48,034
Group and collective		371,248	-	-	371,248
Life		419,282	-	-	419,282
Accidents and health		46,391	-	45,349	91,740
Property and casualty:					
Liability		90,232	2,432	1,086	93,750
Ocean marine and inland		371,664	14	172,877	544,555
Fire		1,440,175	3,464	282,078	1,725,717
Earthquake		1,006,671	748	-	1,007,419
Agricultural		417,947	2,366	-	420,313
Automobile		152,984	-	-	152,984
Credit		4,999	-	61,623	66,622
Miscellaneous		534,810	9,176	26,337	570,323
Property and casualty		4,019,482	18,200	544,001	4,581,683
Bonds		565,209	-	-	565,209
	$	5,050,364	18,200	589,350	5,657,914

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	$	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

(b) Retroceded / ceded reinsurance business-

The premiums ceded and retroceded for the years ended December 31, 2019 and 2018 are analyzed in the next page.

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

2019		Reaseguradora Patria	General de Seguros	PCM	Consolidated
Life:					
Individual	$	5,371	11,649	-	17,020
Group and collective		58,034	20,501	-	78,535
Life		63,405	32,150	-	95,555
Accidents and health		(5,782)	3,997	3,435	1,650
Property and casualty:					
Liability		27,229	49,386	-	76,615
Ocean marine and inland marine		29,914	36,364	49,022	115,300
Fire		176,904	75,030	73,430	325,364
Earthquake and hurricane		309,418	37,367	-	346,785
Agricultural		32,949	198,741	-	231,690
Automobile		10,565	-	-	10,565
Miscellaneous		97,354	32,522	5,398	135,274
Property and casualty		684,333	429,410	127,850	1,241,593
Bonds		239,883	-	-	239,883
	$	981,839	465,557	131,285	1,578,681

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 and hurricane		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

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

(9) Other assets-

At December 31, 2019 and 2018, furniture and equipment are as follows:

		2019	2018
Office furniture and equipment	$	49,893	50,668
Computer equipment		81,695	78,678
Transportation equipment		50,569	47,142
Peripheral equipment		2,660	2,660
Other		2,524	2,524
Art pieces		1,162	1,162
		188,503	182,834
Less accumulated depreciation		146,057	135,435
	$	42,446	47,399

The item "Other" as of December 31, 2019 and 2018, is comprised as follows:

		2019	2018
Salvage inventory	$	56,368	39,804
Advance payments		38,978	74,962
Taxes paid in advance		168,268	138,912
Other		20,415	52,517
	$	284,029	306,195

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

Premiums issued-

The value of premiums issued by the Institution as of December 31, 2019 and 2018 are shown on the next page.

(Continued)

(Thousands of Mexican pesos)

		2019	2018
Life:			
Individual	$	130,723	119,597
Group and collective		182,983	186,892
Life		313,706	306,489
Accident and health		424,932	371,191
Property and casualty:			
Liability		74,117	90,367
Ocean marine and inland marine		69,435	83,516
Fire		100,205	106,675
Earthquake and hurricane		58,937	85,409
Automobile		1,221,335	1,266,896
Miscellaneous		65,961	70,677
Agricultural and livestock		227,024	352,150
Property and casualty		1,817,014	2,055,690
Reinsurance taken (note 8a)		5,657,914	4,611,479
	$	8,213,566	7,344,849

Premiums issued in advance to the risk period covered-

At the years ended 2019 and 2018, the Institution issued premiums, which period covered starting in years 2020 and 2019, respectively. Following are the transactions related to premiums issued in advance to the risk period covered:

		2019	2018
Premiums issued in advance:			
Accident and health	$	21,581	9,952
Property and liability:			
Liability		1,706	460
Automobile		46,278	28,650
Ocean marine and inland marine		458	4,009
Fire		390	93
Agricultual and livestock		2,834	3,369
Miscellaneous		6,334	6,831
Total premiums in advance to the risk period covered	$	79,581	53,364

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

		2019	2018
Premiums ceded			
Property and casualty:			
Liability	$	1,417	114
Automobile		105	86
Ocean marine and inland marine		229	2,009
Fire		249	37
Agricultural and livestock		1,112	1,132
Miscellaneous		2,815	3,139
Total ceded premiums in advance to the risk period covered	$	5,927	6,517
Net increase in current risk reserve	$	(67,004)	(42,363)
Agent commissions		(7,983)	(5,950)
Reinsurance commissions		1,333	1,466
Policy charges		3,184	2,562

Balances at December 31, 2019 and 2018 related to premiums issued in advance to the risk period covered are shown below:

		2019	2018
Premiums receivable	$	96,601	65,001
Reinsurer's share on technical reserve		4,593	5,051
Insurance current		(4,593)	(5,051)
Current risks reserve		(71,599)	(47,144)
Premium surcharges		(920)	(591)
Unearned commissions		(7,983)	(5,950)
Value added tax to be accrued		(12,915)	(8,484)

(Continued)

(Thousands of Mexican pesos)

(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.

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**			**Coverage Index**		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Technical reserves [1]	$ 219,869	112,498	612,474	1.1	1.0	1.2
Solvency capital requirement [2]	$ 325,805	789,865	470,430	1.6	1.6	1.3
Minimum capital requirement [3]	$ 1,871,412	1,567,194	1,902,999	14.0	12.4	15.8

(Thousands of Mexican pesos)

Coverage of statutory requirements of General de Salud						
Statutory Requirements	**Surplus**			**Coverage Index**		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Technical reserves [1]	$ 86,218	166,925	136,268	1.5	2.3	1.9
Solvency capital requirement [2]	$ 109,012	145,198	84,055	3.6	4.2	2.4
Minimum capital requirement [3]	$ 230,506	195,616	174,566	22.7	20.3	19.4

Coverage of statutory requirements of Reaseguradora Patria						
Statutory Requirements	**Surplus**			**Coverage Index**		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**
Technical reserves [1]	$ 815,716	619,969	495,252	1.1	1.1	1.1
Solvency capital requirement [2]	$ 621,027	367,370	429,506	1.7	1.4	1.3
Minimum capital requirement [3]	$ 1,292,173	1,017,129	1,392,071	15.2	12.7	18.1

(1) Investments that support technical reserves / basis of investment.
(2) Own Admissible Funds (OAF)/ SCR (Non audited).
(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.

(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.

(Continued)

(Thousands of Mexican pesos)

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

Cash flows-

At December 31, 2019 and 2018, benefits paid were as follows:

		Contributions to funds		Benefits paid	
		2019	**2018**	**2019**	**2018**
Seniority premium	$	914	727	2,594	-
Pension plan		5,441	8,162	6,674	-
	$	6,355	8,889	9,268	-

Reaseguradora Patria

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

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

b) **Post-employment benefits-**

Reaseguradora Patria has a defined benefit pension plan, which covers its personal with an indefinite term contract. Benefits are based on the years of service rendered between the date of 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:

		2019	**2018**
Seniority premiums	$	-	83
Legal compensation		-	533
Pension plan		4,393	4,512
	$	4,393	5,128

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

The cost components of defined benefits for the year ended December 31, 2019 and 2018 are shown below:

2019		**Seniotory Premium**	**Legal Compensation**	**Pension Plan**
Current service cost (CLSA)	$	827	2,455	6,470
Net interest on defined benefits net liability (DBNL)		155	1,876	(461)
Cost per interest		29	-	3,090
Interest income to the plan assets		(29)	-	(3,243)
Reciclying of remeasurements of DBNL recognized in comprehensive income		1,323	1,622	33,715
Defined benefit cost	$	2,305	5,953	39,571
Ending balance of DBNL remeasurement	$	(1,323)	(1,622)	(33,715)
Beginning balance of DBNL	$	1,726	22,488	(4,790)
Defined benefit cost		2,327	3,714	30,595
Contributions to plan		(914)	-	(5,441)
Actuarial gains		320	2,240	10,193
Losses of plan assets		(342)	-	(467)
Payments charged to DBNL		(40)	(402)	-
Gains in plan assets		-	-	(597)
Transfers of plan assets by increased maximum obligation		-	-	(9,168)
Ending balance of DBNL	$	3,077	28,040	20,325
Amount of defined benefit obligations (DBO)	$	8,823	28,040	192,072
Plan Assets		(5,746)	-	(171,747)
Financial position of the obligation	$	3,077	28,040	20,325

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

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
Reciclying 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)	(1,247)	(50,669)
Beginning balance of DBNL	$	13	19,019	34,832
Defined benefit cost		2,311	3,256	(30,380)
Contributions to plan		(727)	(533)	(8,162)
Actuarial gains		44	1,171	(11,153)
Payments charged to DBNL		(10)	(425)	-
Gains in plan assets		96	-	(383)
Transfers of plan assets by increased maximum obligation		-	-	10,456
Ending balance of DBNL	$	1,727	22,488	(4,790)
Amount of defined benefit obligations (DBO)	$	6,117	22,488	142,290
Plan Assets		(4,390)	-	(147,080)
Financial position of the obligation	$	1,727	22,488	(4,790)

As of December 31, 2019 and 2018, Reaseguradora Patria pension fund's assets amounted to $75,667 and $65,986, respectively; the maximum obligation is $47,241 and $38,385, respectively, showing an excess of $28,426 and $27,601, respectively, which is a restricted investment.

At December 31, 2019 and 2018, Reaseguradora Patria has recognized under the investment category for labor obligations, loans to employees amounting to $480 and $540 respectively.

At December 31, 2019 and 2018, the defined contribution of General de Seguros amounts to $45,292 and $37,899, respectively.

(Thousands of Mexican pesos)

The rates used in the actuarial projections as of December 31, 2019 and 2018 are:

2019	Peña Verde	Reaseguradora Patria	General de Seguros	CCSS Peña Verde	Servicios Peña Verde
Nominal discount rate used in calculating the present value of obligations	7.13%	7.25%	7.30%	7.25%	7.12%
Rate of increase in future salary levels	5.00%	5.00%	5.00%	5.00%	5.00%
Expected rate of return on plan assets	7.13%	7.25%	7.30%	7.12%	4.00%
Average remaining service life of employees (applicable for retirement benefits)	13 years	25 years	16 years	4 years	16 years

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	4 years	16 years

(13) 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.

(Thousands of Mexican pesos)

a) Income tax

The income tax expense (benefit) is as follows:

		2019	2018
Income statement:			
IT current	$	15,215	66,478
IT deferred		124,272	(345,817)
	$	139,487	(279,339)
Other Comprehensive Income (OCI):			
IT deferred	$	(10,618)	(21,381)

Following are in the stand-alone basis condensed reconciliations between net income before IT and ESPS and taxable income for IT and ESPS for the years ended December 2019 and 2018 of General de Seguros and General de Salud, Reaseguradora Patria, Servicios Peña Verde, CCSS Peña Verde and Peña Verde as follows:

2019		General de Seguros	General de Salud	CCSS-Peña Verde	Reaseguradora Patria	Servicios Peña Verde	Peña Verde	Total
Taxable income (loss)	$	78,641	14,372	(2,497)	15,151	19,577	2,860	
Amortization of tax losses		(78,641)	-	-	-	-	-	
IT results		-	14,372	(2,497)	15,151	19,577	2,860	
Rate			30%		30%	30%	30%	
IT current			4,312		4,545	5,873	858	15,588
(Insufficiency) excess in provision			-		78	(469)	18	(373)
IT	$		4,312		4,623	5,404	876	15,215

2018		General de Seguros	General de Salud	CCSS-Peña Verde	Reaseguradora Patria	Servicios Peña Verde	Peña Verde	Total
Taxable (loss) income	$	(85,310)	44,484	(2,242)	229,147	13,437	3,952	
Amortization of tax losses		-	-	-	(71,034)	-	-	
IT results		(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	$		13,345		46,843	4,587	1,703	66,478

(Continued)

(Thousands of Mexican pesos)

b) ESPS

The ESPS current and deferred expense are as follows:

		2019	2018
Income statement:			
Current	$	10,717	24,229
Deferred		45,407	(129,761)
	$	56,124	(105,532)
OCI:			
Deferred	$	(3,540)	(7,347)

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, 2019 and 2018 are as follows:

2019		General de Seguros	CCSS-Peña Verde	Reaseguradora Patria	Servicios Peña Verde	Total
Taxable income (loss) for IT	$	78,641	(3,411)	37,209	20,925	
Plus (less):		-	-	-	-	
ESPS paid		-	-	-	-	
Non-deductible social security		(21,654)	-	(2,100)	(3,548)	
ESPS base		56,987	(3,411)	35,109	17,377	
Rate		10%		10%	10%	
Current ESPS		5,699	-	3,511	1,738	10,948
Insufficiency in provision		-	-	26	(257)	(231)
ESPS in income statement	$	5,699	-	3,537	1,481	10,717

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

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
Excess in provision				56	185	241
ESPS in income statement	$	-	-	22,811	1,418	24,229

The tax effects of temporary differences that give rise to significant portions of the deferred IT and ESPS assets and liabilities at December 31, 2019 and 2018 are as follows:

		2019		2018	
		IT	ESPS	IT	ESPS
Deferred (liabilities) assets:					
Investments	$	(666,007)	(219,585)	(562,569)	(187,044)
Property		(127,254)	(42,418)	(120,724)	(40,241)
Furniture and equipment		(275)	(54)	(205)	(62)
Accurals		81,872	23,900	69,591	20,720
Sundry		(12,756)	(4,252)	(305)	(2,053)
Amortized expenses		2,089	734	1,101	205
Payments in advance		(207)	(69)	(607)	(147)
Premiums collected in advance		11,950	3,731	10,256	3,241
Long-term current risk reserves		1,497	499	(10,664)	(3,555)
Credit risk allowance for foreing reinsurers		14	4	7,157	2,366
Monthly reinsurance estimates		(11,947)	(3,983)	(3,989)	(1,330)
Allowance for doubtful accounts		9,842	3,268	-	-
Employee benefits		5,211	707	4,163	421
ESPS		73,974	-	65,932	-
Bonuses		6,067	1,322	6,090	1,470
Sundry creditors		182	119	110	37
Other		168	(540)	(8,609)	33
Tax losses carry forwards		13,644	-	34,618	-
Net deferred liability		(611,936)	(236,617)	(508,654)	(205,939)
Insufficiency (excess) in provision		(7,851)	(778)	2,740	10,058
		(619,787)	(237,395)	(505,914)	(195,881)
Derferred liability	$	(857,182)		(701,795)	

(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 2019, gave rise to charges to "Net Income" for $169,679 ($124,272 of IT and $45,407 of ESPS), and gave rise to credits to "Surplus from valuation" for ($14,158) ($10,618) of IT and ($3,540) 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 2018, gave rise to credits 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).

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, 2019, tax losses carry forwards expire as follows:

Company	**Year**	**Tax losses carry forward**
CCSS - Peña Verde	2026	$ 15,082
CCSS - Peña Verde	2027	14,903
CCSS - Peña Verde	2028	2,318
CCSS – Peña Verde	2029	2,551
		$ 34,854

(14) Stockholders' Equity-

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

(a) Structure of capital stock-

At December 31, 2019 and 2018 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 is also published by the Commission.

(Thousands of Mexican pesos, except otherwise stated)

In 2019 and 2018, 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, 2019, General de Seguros (including General de Salud) and Reaseguradora Patria have the minimum required capital $154,661 and $90,991, 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, 2018 was $6.226631 Mexican pesos per UDI.

As of December 31, 2018, General de Seguros (including General de Salud) and Reaseguradora Patria have covered the minimum capital required amounting to $147,406 and $86,722, respectively, equivalent to 24,838,600 and 14,613,140, respectively, investment units valued at $5.934551 pesos, which was the value of the UDI as of December 31, 2017.

(c) Comprehensive income (loss)-

The comprehensive income (loss) 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):

		2019	**2018**
Net income (loss)	$	325,913	(599,167)
Property valuation surplus		38,366	39,722
Deferred taxes for the year		13,754	(28,344)
Valuation surplus related to long-term current risk reserves		(39,784)	26,339
Translation effect		23,701	40,363
Other		-	(4,681)
Non-controlling interest		3,185	(7,866)
Comprehensive income (loss)	$	365,135	(533,634)

d) Dividends-

At the Regular General Stockholders' Meeting held on April 30, 2019, 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.

(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, 2019, the ordinary reserve amounts to $2,446 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.

In accordance with the provisions of the Commission, the results for the Investment securities valuation that are recognized before the investment is redeemed or sold will be unrealized and, consequently, will not be subject to capitalization or dividend distribution among its shareholders, until they are converted into cash.

The updated amount, on tax bases, of the contributions made by the shareholders, can be reimbursed to them without any tax, to the extent that said amount is equal to or greater than the stockholders' equity.

The profits on which the ISR and the other shareholders' equity accounts have not been covered, will originate an ISR payment, in the event of distribution, at the rate of 30%, so that the shareholders will only be able to dispose of 70% of the amounts mentioned.

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

(15) Segment information-

Insurance operations

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

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

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.

(Continued)

Peña Verde, S. A. B. and subsidiaries

Notes to consolidated financial statements

(Thousands of Mexican pesos)

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, 2019 and 2018 are shown below:

December 31, 2019

Line item		Life	Accidents and health	Motor	Agrícultural	Property and casualty	Total
Premiums written	$	313,706	424,932	1,221,335	227,024	386,855	2,573,852
Premiums ceded		(32,151)	(3,997)	-	(198,743)	(230,666)	(465,557)
Retained premiums		281,555	420,935	1,221,335	28,281	156,189	2,108,295
Decrease (increase) in current reserve		34,280	(21,036)	39,658	10,339	(3,102)	60,139
Earned premiums		315,835	399,899	1,260,993	38,620	153,087	2,168,434
Net cost of claims and adquisition cost		(224,206)	(315,762)	(1,256,621)	(22,143)	(131,771)	(1,950,503)
Technical result	$	91,629	84,137	4,372	16,477	21,316	217,931

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 result	$	(5,257)	68,924	10,373	59,630	89,586	223,256

(Continued)

(Thousands of Mexican pesos)

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.

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, 2019 and 2018 are indicated as shown below:

December 31, 2019		**México and Caribbean**	**Latin America**	**Overseas**	**Overseas PCM**	**Total**
Premiums taken	$	1,821,233	2,489,932	739,199	589,350	5,639,714
Premiums retroceded		(154,117)	(712,564)	(115,158)	(131,285)	(1,113,124)
Retained premiums		1,667,116	1,777,368	624,041	458,065	4,526,590
Decrease (increase) incurrent risk reserve		(93,689)	(121,359)	(174,602)	3,387	(386,263)
Earned retained premiums		1,573,427	1,656,009	449,439	461,452	4,140,327
Net acquisition cost		(483,324)	(661,707)	(115,187)	(37,301)	(1,297,519)
Net cost of claims other outstanding obligations		(566,804)	(936,267)	(332,008)	(482,285)	(2,317,364)
Technical result	$	523,299	58,035	2,244	(58,134)	525,444

(Continued)

(Thousands of Mexican pesos)

December 31, 2018		Mexico and Caribbean	Latin America	Overseas	Overseas PCM	Total
Premiums taken	$	1,477,493	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 result	$	228,075	338,661	(61,244)	(41,278)	464,214

(16) Earnings per share-

As of December 31 2019 and 2018, 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.

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 income (loss) of the year	Weighted average outstanding shares	Earning per share (pesos)
2019	$	325,913	476,678,213	0.68
2018	$	(599,167)	476,678,213	(1.26)

As of December 31, 2019 and 2018, the Institution has no commitments or contingencies with any entity to issue, sell or exchange its own equity instruments.

(Continued)

(Thousands of Mexican pesos)

(17) Group entities-

Share in subsidiaries-

The main subsidiaries are as follows:

Subsidiaries	**Equity interest 2019**	**2018**
General de Seguros	98.1564%	98.1464%
Reaseguradora Patria	99.9822%	99.9822%
Servicios Peña Verde	99.9999%	99.9999%
PCM	99.9999%	99.9999%
CCSS-Peña Verde	99.9999%	99.9999%

Significant judgments and assumptions for determining the existence of control, were as follows: Peña Verde has power over its subsidiaries for directing their relevant activities by significantly influencing their decisions. In addition the executives of Peña Verde are actively involved in board meetings of their subsidiaries.

Significant judgments and assumptions for identifying if the Institution is agent or principal were as follows: according to that mentioned in the preceding paragraph, Peña Verde is principal being that it is the investor with power to make decisions and direct the relevant activities of its subsidiaries.

(18) Commitments and contingent liabilities –

a) There is a contingent liability derived from the employee benefits mentioned in note 3(m).

b) On August 15, 2014, the Company entered into a contract for the provision of services for the structuring, management of disbursements and execution of investment projects with Akua Capital, S.C., which was valid for 5 years. On December 13, 2019, the two companies signed a termination agreement in where the obligations are settled.

c) In accordance with current Mexican tax law, the authorities have the power to review up to five fiscal years prior to the last IT statement filed.

d) In accordance with the Income Tax law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, since such prices must be similar to those that would be used in arm´s-length transactions.

   Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

(Continued)

(19) Contingent commissions to agents -

In the 2019 and 2018 financial years, the Institution executed agreements for the payment of contingent commissions with intermediaries and corporations as described in this note. The total amount of payments made under these agreements in 2019 and 2018 amounted to $184,858 and $176,914, respectively, representing 7.8% 6.7% for General de Seguros, 3.3% and 4.3% for General de Salud, of the premium issued in the 2019 and 2018 financial years, respectively.

Contingent commissions means payments or compensations to individuals or corporations who participated in the intermediation or participated in the procurement of insurance products with General de Seguros and General de Salud, in addition to the direct commissions or compensations considered in the products design.

General de Seguros and General de Salud entered into agreements for the payment of contingent commissions with individuals, corporations and others who are not agents according to the following:

a) For life products, agreements related to the volume of premiums, the conservation of the portfolio and the generation of new businesses. For all products, the basis and criteria for participation in the agreements, as well as the determination of contingent commissions, are directly related to the premiums paid for each financial year. Payments of contingent commissions under such agreements are paid on a quarterly and annual basis.

b) For products of major medical expenses, agreements related to the volume of premiums, growth, claims and the generation of new businesses. For all products the basis and criteria for participation in the agreements, as well as the determination of contingent commissions, are directly related to the premiums paid and the claims rate of each financial year. Payments of contingent commissions under such agreements are paid on a quarterly and annual basis

c) For property and casualty products, agreements related to the volume of premiums, growth and claims are concluded, where the basis and criteria for participation in the agreements as well as the determination of contingent commissions are directly related to the premiums paid and the claims rate of each financial year. Payments of contingent commissions under such agreements are paid on an annual basis.

d) For other non-agent intermediaries, with compensation agreements, where the basis for compensation are derermined on fixed amounts that depend on the volume of annual sales. Payments of contingent commissions are paid on a monthly basis.

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

(Continued)

The Institution or its shareholders do not maintain any shareholding in the social capital of corporations, with which the Institution has agreements for the payment of contingent commissions.

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. Contracts with these corporations set out a bonus on the total sales of the independent individuals that they are coordinating.

(20) Subsequent event-

The World Health Organization has declared the coronavirus outbreak COVID-19 as a global pandemic. Many governments are taking strict measures to contain and/or delay the spread of the virus. Actions taken in response to the spread of COVID-19 have resulted in a significant disruption of trading operations and a significant increase in economic uncertainty, with more volatile asset prices and foreign exchange rates, and a sharp decline in long-term interest rates in developed economies. As of December 31, 2020, the latest figures reported by the Group remain with a stable trend.

(21) Recently issued regulatory standards-

The CINIF has issued the FRS and enhancements listed below:

FRS B-11 "Disposal of long-lived assets and discontinued operations"- FRS B-11 comes into effect for periods beginning January 1, 2020, and early adoption is not allowed. The first-time adoption of this FRS does not give rise to accounting changes in the financial statements. Among the principal aspects covered by this FRS are the following:

- FRS B-11 clarifies that long-lived assets are not reclassified as current assets until they meet the criteria to be classified as held for sale. In addition, certain assets of a class that an entity usually considers non-current, but that are exclusively acquired for the purpose of resale, will not be reclassified as current assets unless they meet the criteria to be classified as held for sale in accordance with this FRS.

- In relation to the assets presented in the balance sheet following a criterion based on liquidity, this FRS considers non-current assets to be those that are expected to be recovered over a period greater than twelve months after the balance sheet date or that of its cycle of operations if greater than twelve months.

- FRS B-11 establishes disclosure requirements for long-lived assets or disposal groups that are classified as held for sale, as well as for discontinued operations.

(Continued)

2020 FRS enhancements

In December 2019, CINIF issued a document named "2020 FRS enhancements" containing precise modifications to some of the existing FRS. The enhancements made to the FRS result in accounting changes in the annual financial statements, which are shown below:

FRS D-3 "Employee benefits"- FRS D-3 lays the groundwork for recognizing uncertain tax treatments in Employee Statutory Profit Sharing (ESPS), both current and deferred, as well as the disclosure requirements in that regard. This revision takes effect for the periods starting as of January 1, 2020, allowing early adoption in 2019. The accounting changes that arise must be recognized retrospectively or with the modified retrospective approach.

FRS D-4 "Income taxes"- FRS D-4 lays the groundwork for recognizing uncertain tax treatments in income taxes, both current and deferred, as well as the disclosure requirements in that regard. It also includes rules for the recognition of income taxes generated by a distribution of dividends. These revisions takes effect for the periods starting as of January 1, 2020, allowing early adoption in 2019. The accounting changes that arise must be recognized retrospectively or with the modified retrospective approach.

The Commission issued at December 2019 the modificatory letter 15/19, which it establishes that the FRS described below will be adopted on January 1, 2021:

FRS B-17 "Determination of fair value"- FRS B-17 this establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific FRS. 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 presented are the following:

- 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 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.

(Continued)

- 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 the presentation with the rest of the FRS.

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:

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

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

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

FRS C-19 "Financial instruments payable"- Some of the main points covered by this FRS include the following:

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

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

(Continued)

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

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

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

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

FRS C-20 ***"Financing instruments receivable"-*** 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.

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 the opportunity of revenue recognition is established.

- The identification of the obligations to be fulfilled in a contract is required.

(Continued)

- 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 valuing 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.

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.

(Continued)

2020 FRS enhancements deferred to January 1, 2021

In December 2019, CINIF issued a document called "2020 FRS enhancements" containing precise modifications to some of the existing FRS.

The following revisions to the NIF 2020 have been deferred for adoption until January 1, 2021 as a consequence of the Commission issuing in December 2019 the Modifying letter 15/19, which generate accounting changes as follows:

FRS C-16 "Impairment of financial instruments receivable"- FRS C-16 establishes that if the FICPI was not deregistered due to renegotiation, it is appropriate to continue valuing the financial instrument using the original effective interest rate, which should only be modified by the effect of the renegotiation costs. The accounting changes that arise must be recognized retrospectively.

FRS C-19 "Financial instruments payable"- FRS C-19 eliminates the requirement to recalculate the effective rate at a variable interest rate of the financial instrument that does not yield effects of relative importance. The accounting changes that arise must be recognized prospectively.

FRS C-20 "Financial instruments to collect principal and interest"- FRS C-20 eliminates the requirement to recalculate the effective rate at a variable interest rate of the financial instrument that does not yield effects of relative importance. The accounting changes that arise must be recognized prospectively.

FRS D-5 "Leases"- FRS D-5: 1) incorporates the possibility of using a risk-free rate to discount future lease payments and thus recognize the lease liability of a lessee 2) restricts the use of a practical solution to prevent important and identifiable non-lease components from being included in the measurement of right-of-use assets and lease liabilities. The accounting changes that arise must be recognized retrospectively or with the modified retrospective approach.

Initial assessment of management is that the effect of the applicable FRS and enhancements to FRS will not have significant impact.