**Qualitas Controladora,
S. A. B. de C. V. and subsidiaries**

Consolidated financial statements

December 31, 2016

(With Statutory and Independent Auditors´ Report Thereon)

(Free Translation from Spanish Language Original)

Independent Auditors’ Report

The Board of Directors and the Stockholders
Qualitas Controladora, S. A. B. de C. V.:

Opinion

We have audited the consolidated financial statements of Qualitas Controladora, S. A. B. de C. V. and subsidiaries (the Institution), which comprise the consolidated balance sheet as of December 31, 2016, the consolidated statements of income, changes in stockholders’ equity and cash flows for the year then ended, and notes, that include a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of Qualitas Controladora, S. A. B. de C. V. and subsidiaries have been prepared, in all material respects, in accordance with Mexican Accounting Criteria for Insurance Institutions, 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 Institution 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.

Emphasis of matter

During 2016, accounting changes were made as described in note 4 to the accompanying consolidated financial statements, which according to the provisions of the Commission in Letter 16/16, were applied prospectively. Additionally, this Letter indicates that, as a result of the above, the financial statements as of December 31, 2015 and for the year then ended are not presented jointly with the financial statements as of December 31, 2016 and for the year then ended, since they are not comparable. Our opinion is not modified in regards to this matter.

(Continued)

Key audit matters

The key audit matters are those that, in our professional judgment, have been most relevant in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the overall consolidated financial statements and in forming our opinion thereupon we express no separate opinion on these matters.

Technical reserves - $26,922,361,436 (Mexican pesos, see note 3(m) to the consolidated financial statements).

Key audit matter	***How was the key matter addressed in our audit***
The valuation of technical reserves, depends on the quality of the underlying information. This translates in complexity and subjective opinions about future events, both internal and external, for which a change in assumptions, criteria or coverages may result in material impacts on estimates.	We were supported by our actuarial specialists to understand and evaluate the actuarial practices applied by the Institution in the calculation and accounting registration of the technical reserves, as well as consistency with the insurance and bonds regulation in force. We also consider, along with our actuarial specialists, the objectivity, competence, work and findings of independent actuaries engaged by Management, who assess the position and sufficiency of the technical reserves, including the evaluation of assumptions and significant methods used by Management. Additionally, we evaluated that the information provided to the independent actuary was consistent with the information provided to us as part of our audit. Furthermore, we obtained an understanding of the process and tested the internal control implemented by the Institution for the creation of technical reserves, including the evaluation of the design and test of effectiveness of actuarial controls, which include reconciliations of key historical information and Management´s review of estimates. Additionally, because the historic information of the claims is relevant for estimates, we tested the controls and conducted substantive test of detail on the claims and payments thereof.

(Continued)

Other information

Management is responsible for the other information. The other information comprises information included in the Institution’s Annual Report corresponding to the year ended December 31, 2016, which is to be filed with the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) and the Mexican Stock Exchange (the Annual Report), but do not include the consolidated financial statements and our auditors’ report thereon. It is estimated that the Annual Report will be available to us after the date of this auditors’ report.

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

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

When we read the Annual Report, if we conclude that there is a material misstatement in such other information, we shall be required to report such fact to the persons responsible for the entity’s 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 Mexican Accounting Criteria for Insurance Institutions issued by the National Insurance and Bonds Commissions, and for such internal control as Management deems necessary to enable the preparation of consolidated financial statements that are free of material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Institution’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 Institution or to cease operations, or has no other realistic alternative.

Those charged with governance are responsible for overseeing the Institution’s financial reporting process.

Auditors’ responsibilities for 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 made on the basis of these consolidated financial statements.

(Continued)

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

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement due to fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonability of accounting estimates and related disclosures made by Management.

- We conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution'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 consolidated 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 Institution to cease to continue as a going concern.

- We 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 Institution audit. We remain solely responsible for our audit opinion.

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

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

(Continued)

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

Other matters

The financial statements of Qualitas Controladora, S. A. B. de C. V. as of and for the year ended December 31, 2015, which are not enclosed, were audited by other independent auditors, who on February 23, 2016 issued an unqualified opinion thereon.

KPMG CÁRDENAS DOSAL, S.C.

C.P.C. Rafael Gutierrez Lara

Mexico City, February 15, 2017.

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

Consolidated Balance sheet

December 31, 2016

(Mexican pesos)

This financial statement have been translated from the Spanish Language original and for the convenience of foreign/English speaking readers

Assets

Investment in securities (note 6):			
Government	$	4,505,048,223	
Corporate:			
Fixed income		8,917,133,890	
Variable income		3,949,293,679	
Foreign		711,456,313	
		18,082,932,105	
Repurchase agreements (note 6)		1,745,674,162	
Loan portafolio, net (note 7) :			
Current loan portafolio		406,536,256	
Past-due loan portafolio		19,699,081	
Allowance for loan losses		(3,398,356)	
		422,836,981	
Property, net (note 8)		1,323,912,491	21,575,355,739
Employee benefits investment (note 14)			68,405,674
Cash:			
Cash and cash in banks			753,995,698
Accounts receivable:			
Premiums (notes 9 and 17)		14,996,166,140	
Receivables from agencies and public administration entities (notes 9 and 17)		42,527,919	
Agents and adjusters		109,756,972	
Notes receivables		4,695,000	
Other		689,922,882	
Allowance for doubtful accounts		(85,620,201)	15,757,448,712
Reinsurers:			
Current		2,782,263	
Recoverable reinsurance		116,141,324	
Credit risk allowance for foreign reinsurers		(1,311,275)	
Allowance for doubtful accounts		(96,739)	117,515,573
Permanent stock investments:			
Other permanent stock investments			50,174,320
Other assets (note 11):			
Furniture and equipment, net		599,924,094	
Other		2,268,277,686	
Amortizable intangible assets , net		41,723,751	2,909,925,531
Total assets	$		41,232,821,247

Liabilities and stock holders equity

Liabilities:			
Technical reserves:			
Current risk:			
Property and casualty	$	20,119,047,953	
Outstanding claims provision:			
For expired policies and pending payment claims		6,104,325,437	
For claims incurred but not reported and adjustment expenses		35,126,316	
Advanced premiums		663,861,730	
		6,803,313,483	26,922,361,436
Employee benefits (note 14)			182,660,397
Creditors (note 12):			
Agents and adjusters		1,225,841,000	
Loss funds under management		6,390,501	
Sundry		2,815,674,528	4,047,906,029
Reinsurers (note 10):			
Current			93,477,624
Other liabilities:			
Employee statutory profit sharing (note 15)		217,720,251	
Income tax payable (note 15)		891,209,925	
Other		2,343,884,334	
Deferred credits		456,490,160	3,909,304,670
Total liabilities			35,155,710,156
Stockholders´ equity (note 16):			
Controlling interest:			
Capital stock			2,624,225,240
Reserve:			
Statutory		146,406,366	
Other		97,117,776	243,524,142
Valuation surplus			99,801,279
Retained earnings			1,562,624,403
Net income			1,290,578,806
Foreign currency traslation effects			217,390,325
Total controlling interest:			6,038,144,195
Non-controlling interest (note 19)			38,966,896
Total stockholders´equity			6,077,111,091
Commitment and contingencies (note 20)			
Total liabilities and stockholders´equity	$		41,232,821,247

(Continued)

Memorandum accounts

		2016
Control accounts	$	4,169,611,871
Funds under management		6,390,501
Collateral received from repurchase agreements		1,745,674,162
		=========

See accompanying notes to consolidated financial statements.

"Paid-in capital includes the amount of $11,545,094 Mexican pesos, coming from the partial capitalization of real state valuation surplus."

"The consolidated balance sheet was prepared in accordance with the accounting provisions issued by the National Insurance and Bonds Commission (Comisión Nacional de Seguros y Fianzas), applied on a consistent basis, and taken as a whole, correctly reflect transactions performed by Quálitas Controladora, S. A. B. de C. V. and subsidiaries up to the aforementioned date, which were carried out and valued in accordance with sound corporate practices and applicable legal and administrative provisions. "

"The consolidated balance sheet was approved by the Board of Directors under the responsibility of the signing officers."

"The consolidated financial statement and the notes which form part of the consolidated financial statement can be consulted by Internet on the following webpage: http://qinversionistas.qualitas.com.mx/portal/wp-content/uploads /Financial-Consolidated2020.pdf ".

"The consolidated financial statement was audited by Rafael Gutiérrez Lara, a member of KPMG Cárdenas Dosal, S. C., who was hired to render the external auditing services to Quálitas Controladora, S. A. B. de C. V. and subsidiaries; furthermore, the technical reserves of Quálitas Controldora, S. A. B. de C. V. were audited by Actuary Liliana Ganado Santoyo. "

"The report issued by the external auditor, the consolidated financial statement and the notes which form part of the audited consolidated financial statement and the report on the solvency and financial condition, will be made avaible for consultation on the following webpage: http://qinversionistas.qualitas.com.mx/portal/wp-content/uploads/Estados-Financieros-Consolidados2016.pdf as of the sixty calendar days following the closing of the year 2016."

Lic. Joaquín Brockman Lozano Executive President equivalent to Chief Executive Officer	C.P.C. Gabriel García Ruíz Internal Auditor	C.P. Juan Daniel Muñoz Juarez General Accountant

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

Statement of income

Year ended December 31, 2016

(Mexican pesos)

This financial statement have been translated from the Spanish Language
original and for the convenience of foreign/English speaking readers

Premiums:			
Written (notes 13 and 17)	$		30,189,526,472
Less ceded (notes 10 and 17)			103,153,046
Retained premiums			30,086,373,426
Less net increase in current risks reserve (note 17)			6,261,775,172
Earned retained premiums (note 17)			23,824,598,254
Less:			
Net acquisition cost:			
Agent commissions		1,793,428,327	
Additional compensation to agents		329,752,324	
Reinsurance taken commission		-	
Reinsurance ceded commission		(4,939,083)	
Non-proportional reinsurance cost		103,875,447	
Other		5,034,488,565	7,256,605,580
Net cost of claims and other outstanding obligations:			
Claims and other outstanding obligations			14,710,247,823
Technical and gross profit			1,857,744,851
Net operating expenses:			
Administrative and operating		(130,681,562)	
Salaries and fringe benefits		626,885,920	
Depreciation and amortization		254,503,489	750,707,847
Operating profit			1,107,037,004
Comprehensive financial result:			
Investment in securities		657,211,824	
On sale of investments		(69,238,596)	
Investment securities valuation		145,460,425	
Premium surcharges		197,873,405	
Interests from loans		29,791,708	
Credit risk reserves from foreign reinsurers		(3,398,356)	
Credit risk reserves		(1,311,275)	
Other		67,025,267	
Foreign exchange result (note 5)		(197,242,984)	826,171,418
Profit before taxes			1,933,208,422
Income tax, net (note 15)			632,589,872
Consolidated net income			1,300,618,550
Non-controlling interest (note 19)			(10,039,744)
Controlling interest	$		1,290,578,806
Basic and diluted earnings per share (note 18)	$		2.9009

See accompanying notes to consolidated financial statements.

(Continued)

"This consolidated statement of income was prepared in accordance with the accounting provisions issued by the National Insurance and Bonds Commission (Comisión Nacional de Seguros y Fianzas), applied on a consistent basis, an reflect all the revenues and expenses derived from the transactions performed by Quálitas Controladora, S. A. B. de C. V. and subsidiaries up to the aforementioned date, which were carried out and valued in accordance with sound corporate practices and applicable legal and administrative provisions. "

"This consolidated statement of income was approved by the Board of Directors under the responsibility of the signing officers."

Lic. Joaquín Brockman Lozano Executive President equivalent to Chief Executive Officer	C.P.C. Gabriel García Ruíz Internal Auditor	C.P. Juan Daniel Muñoz Juarez General Accountant

Quálitas Compañía de Seguros, S. A. de C. V. and subsidiaries

Statement of changes in stockholders' equity

Year ended December 31, 2016

(Mexican pesos)

This financial statement have been translated from the Spanish Language original and for the convenience of foreign/English speaking readers

	Paid in Capital Stock	Equity Earned							
			Retained earnings						
	Capital stock	Capital reserves	From prior years	Current year	Surplus from investment valuation	Foreign currency traslation effects	Total controlling interest	Non-controlling interest	Total stockholders Equity
Balances as of December 31, 2015	$ 2,578,777,564	253,602,979	1,424,985,322	556,067,737	17,921,050	113,588,858	4,944,943,510	27,428,405	4,972,371,915
Items related to stockholders' decisions:									
Transfer of prior year's net income	-	192,803,387	363,264,350	(556,067,737)	-	-	-	-	-
Dividends to stockholder's (note 16(d))	-	-	(225,000,000)	-	-	-	(225,000,000)	-	(225,000,000)
Repurchase of shares	(38,684,868)	(118,749,680)	-	-	-	-	(157,434,548)	-	(157,434,548)
Reclassification of repurchased shares from prior years	84,132,544	(84,132,544)	-	-	-	-	-	-	-
Items related to the comprenhensive income (note 16(c)):									
Valuation from property, net	-	-	-	-	70,126,461	-	70,126,461	-	70,126,461
Remesurement of employee benefits	-	-	-	-	11,753,768	-	11,753,768	-	11,753,768
Net income for the year	-	-	-	1,290,578,806	-	-	1,290,578,806	10,039,744	1,300,618,550
Other	-	-	(625,269)	-	-	103,801,467	103,176,198	1,498,747	104,674,945
Balances as of December 31, 2016	$ 2,624,225,240	243,524,142	1,562,624,403	1,290,578,806	99,801,279	217,390,325	6,038,144,195	38,966,896	6,077,111,091

See accompanying notes to consolidated financial statements.

"This consolidated statement of changes in stockholders´ equity was prepared in accordance with the accounting provisions issued by the National Insurance and Bonds Commission (Comisión Nacional de Seguros y Fianzas), applied on a consistent basis, an reflect all the movements in the stockholders´ equity accounts derived from the transactions performed by Quálitas Controladora, S. A. B. de C. V. and subsidiaries up to the aforementioned date, which were carried out and valued in accordance with sound corporate practices and applicable legal and administrative provisions. "

"This consolidated statement of changes in stockholders´equity was approved by the Board of Directors under the responsibility of the signing officers."

Lic. Joaquín Brockman Lozano
Executive President equivalent to Chief Executive Officer

C.P.C. Gabriel García Ruíz
Internal Auditor

C.P. Juan Daniel Muñoz Juarez
General Accountant

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

Consolidated statement of cash flows

Year ended December 31, 2016

(Mexican pesos)

This financial statement have been translated from the Spanish Language original and for the convenience of foreign/English speaking readers

Consolidated net income	$ 1,300,618,550
Items not requiring cash:	
Gain on securities valuation	(145,460,425)
Depreciation and amortization	254,503,489
Adjustment or increase in technical reserves	5,857,165,340
Employee statutory profit sharing, net	213,007,958
Allowance for loan losses	3,398,356
Allowance for doubtful accounts	(3,459,686)
Credit risk allowance on foreign reinsurers	1,311,275
Allowance for doubtful accounts on reinsurers	96,739
Current and deferred income tax	632,589,872
Subtotal	8,113,771,468
Operating activities:	
Changes in securities investment	(5,314,296,818)
Changes in loan portafolio	(192,982,319)
Changes in employee benefits, net	22,034,791
Changes in premiums receivable	(4,861,802,015)
Changes in other accounts receivable	(157,587,811)
Changes in reinsurers, net	56,084,195
Changes in operating assets	(531,218,656)
Changes in obligations and expenses assigned to claims	2,307,965,344
Changes in sundry creditors	1,049,225,746
Changes in other operating liabilities	516,826,125
Net cash provided by operating activities	1,008,020,050
Investment activities:	
Acquisition of property	(197,348,529)
Acquisition of furniture and equipment	(193,252,953)
Acquisition of intangible assets	(6,442,764)
Disposal of other permanent investments	(2,482,255)
Net cash used in investing activities	(399,526,501)
Financing activities:	
Repurchase of shares	(157,434,548)
Dividends paid to stockholders	(225,000,000)
Net cash used in financing activities	(382,434,548)
Net increase in cash and cash equivalents	226,059,001
Effects of exchange rate and levels of inflation	103,801,467
Cash and cash equivalents:	
At beginning of year	424,135,230
At end of year	$ 753,995,698

See accompanying notes to consolidated financial statements.

(Continued)

"This consolidated statement of cash flows was prepared in accordance with the accounting provisions issued by the National Insurance and Bonds Commission (Comisión Nacional de Seguros y Fianzas), applied on a consistent basis, an reflect all the cash flows derived from the transactions performed by Quálitas Controladora, S. A. B. de C. V. and subsidiaries up to the aforementioned date, which were carried out and valued in accordance with sound corporate practices and applicable legal and administrative provisions. "

"This consolidated statement of cash flows was approved by the Board of Directors under the responsibility of the signing officers."

Lic. Joaquín Brockman Lozano Executive President equivalent to Chief Executive Officer	C.P.C. Gabriel García Ruíz Internal Auditor	C.P. Juan Daniel Muñoz Juarez General Accountant

This notes to the 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

Qualitas Controladora, S. A. B. de C. V. (Qualitas Controladora and jointly with it´s subsidiaries, the Institution) is an insurance institution incorporated under Mexican laws located at José María Castorena No. 426 Col. San José de los Cedros, Cuajimalpa de Morelos, Mexico City, C.P. 05200, México.

The consolidated financial statements for the year ended December 31, 2016 include those of Qualitas Controladora, S. A. B. de C. V. and subsidiaries. Qualitas Controladora through its main subsidiaries, is engaged in insurance, coinsurance and reinsurance as a property and liability, specifically in the automobile line in terms of the Insurance and Bonds Institutions Law (the Law or LISF from its Spanish acronym).

The Institution conducts operations mainly at Mexico, United States of America, El Salvador and Costa Rica.

The main activities of the subsidiary companies are described below:

(a) Qualitas Compañia de Seguros, S. A. de C. V. (Qualitas Mexico)-

The principal activity of Qualitas Mexico is to engage, as laid down by Law, in insurance, coinsurance and reinsurance as a property and liability insurer in the automobile line; it is a 99.99% subsidiary of Qualitas Controladora and was incorporated on December 1, 1993 with a capital stock of $7,500,000, which was paid up on the same date. Qualitas Mexico is the holding of Qualitas Compañía de Seguros, S. A. (Qualitas El Salvador) of which it owns 99.99% of its share capital. Qualitas El Salvador is primarily engaged in insurance, coinsurance and reinsurance as a property and liability insurer in the automobile line in terms of the Insurance Companies Law and its Regulations, the Commerce Code issued by the Legislature of El Salvador as well as of technical standards, administrative rules, regulations, bulletins and provisions issued by the Financial System Superintendence of such country.

(Continued)

(Mexican pesos)

(b) Qualitas Compañia de Seguros, S. A. (Qualitas Costa Rica)-

Qualitas Costa Rica is chiefly engaged in insurance, coinsurance and reinsurance as a property and liability insurer in the automobile line in terms of the Law issued by the Legislature of the Insurance Market No.8653 and the Commerce Code Law No.3284 issued by the Legislature of Costa Rica as well as of technical standards, administrative rules, regulations, bulletins and provisions issued by the General Insurance Superintendence of such country; it is a 99.99% subsidiary of Qualitas Controladora and was incorporated on February 28, 2011, with a capital stock of $54,477,883, which was paid up on the same date.

(c) Qualitas Financial Services, Inc (Qualitas Financial)-

Qualitas Financial is primarily engaged in the incorporation, organization and management of business corporations in the United States of America; it is a 100% subsidiary of Qualitas Controladora and was incorporated on August 1, 2013 with a capital stock of $196,264,500, paid up on the same date. Qualitas Financial is the 100% holding of Qualitas Insurance Company, Inc. (Qualitas Insurance), which main activity is insurance, coinsurance and reinsurance as a property and liability insurer in the automobile line of insurance in terms of the California Department of Insurance.

Credit rating

As of December 31, 2016, the Institution and its subsidiaries have a credit rating as follows:

Entity	Rating	Rating Agency
Qualitas Controladora	“BB+”	Standard & Poor's
Qualitas México	“mxAA+”	Standard & Poor's
Qualitas Costa Rica	“BBB”	Pacific Credit Raiting
Qualitas Insurance	“BBB-”	Standard & Poor's

(Continued)

(2) Authorization, basis of preparation and supervision-

Authorization

On February 15, 2017, the Board of Directors authorized the issuance of accompanying consolidated financial statements and related notes thereto.

In accordance with the General Corporations Law, the provisions of the National Insurance and Bonds Commission (the Commission), and the bylaws of Qualitas Controladora, S. A.B. de C. V., the stockholders, the board of directors and the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) are empowered to modify the consolidated financial statements after issued. The consolidated financial statements will be submitted to the next Stockholders' Meeting for approval.

Basis of preparation

a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with Mexican accounting criteria for insurance institutions established by the Commission, in force as of the balance sheet date (see note 4).

In 2016, new accounting and technical reserve calculation criteria applicable to Mexican insurance institutions were in force (see notes 3 and 4). The Commission deems impractical for comparative financial statements to be presented for 2016, mainly because of the changes recorded in accounting estimates of assets and liabilities due to the Law coming into effect. Consequently, Letter 16/16 to Provisions for Insurance and Bonds Institutions (the Provisions or CUSF from its Spanish acronym) was issued and published in the Federal Gazette (DOF from its Spanish acronym) on November 1, 2016, and it establishes that no comparative 2015 financial statements be presented.

b) Use of estimates and judgments

The preparation of the 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation of property, furniture and equipment, Intangible assets; allowances for premiums receivable, loan portafolio, notes receivables, others notes receivables and valuation of deferred income tax assets and deferred employee statutory profit sharing; valuation of financial instruments, assets and liabilities related to employee benefits and technical reserves. Actual results could differ from those estimates and assumptions.

c) Functional and reporting currency

The aforementioned consolidated financial statements are presented in Mexican pesos (reporting currency), according to the following:

- For Qualitas Controladora and Qualitas Mexico the reporting currency is equal to the registration currency and its functional currency.

- For Qualitas Costa Rica its local and functional currency is the colon and its financial statements were converted to Mexican peso, reporting currency, to present the consolidated financial statements.

- For Qualitas Financial its local and functional currency is the dollar and its financial statements were converted to Mexican peso, reporting currency, to present the consolidated financial statements.

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

d) Oversight

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

(Continued)

(Mexican pesos)

(3) Summary of significant accounting policies -

The accounting policies set out below have been applied consistently to all these consolidated financial statements, and have been applied consistently by the Intitution, except as explained in note 4, which addresses changes in accounting policies recognized during the period:

(a) Inflation Effects Recognition-

The accompanying consolidated financial statements have been prepared in accordance with the accounting criteria for Insurance companies in Mexico established by the Commission in effect as of the balance sheet date, and taking into account that the Institution operates in a non-inflationary economic environment it includes 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
2016	122.515	3.36%	9.87%
2015	118.532	2.13%	10.52%
2014	116.059	4.08%	12.07%

(b) Principles of consolidation-

The consolidated financial statements include the accounts of Qualitas Controladora, S. A. B. de C. V. and those of its subsidiaries which it controls. All significant inter-company balances and transactions have been eliminated in consolidation. The consolidation was based on the audited financial statements (except for Qualitas Financial) of the issuing companies as of December 31, 2016, which have been prepared in accordance with the accounting criteria for Insurance companies in Mexico established by the Commission and the 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 from its Spanish acronym) (See note 19).

(Continued)

(c) Translation of foreign currency financial statements-

The financial statements of foreign operations are translated into the reporting currency by initially determining if the functional currency and the currency for recording the foreign operations are different and then translating the functional currency to the reporting currency, using the historical exchange rate and/or the exchange rate at year end, and the inflation index of the country of origin when the foreign operation is located in an inflationary economy.

(d) Investment in securities-

The Commission regulates the basis on which the Institution makes investments, for which an accounting and valuation criteria has been established, which classifies the investments according to the management intention on ownership, as follows:

Securities for trading purposes -

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

Debt securities are initially recorded at acquisition cost and performance accrual yield (interest, coupons or equivalents) is calculated by applying effective interest method. Interests are recorded on the income statement when earned. Traded debt securities are stated at fair value using market prices provided by independent price vendor, or by specialized official publications on international markets. When quotation is not available it could be used the acquisition cost as an indexed price for valuation.

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

(Continued)

The valuation effects of debt and equity securities are recognized on the income statement in “Comprehensive financial results” 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 income statement. The sold securities’ valuation result recognized on the income statement is reclassified to “Comprehensive financial result for the sale of investments” in the income statement, on the date of the sale.

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

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 income statement, however valuation effect is recorded on stockholders’ equity under “Surplus from investments valuation” as long as such financial instruments are neither sold or transferred to a different category. At the time of sale, the effects previously recorded in equity, shall be recognized on the income statement.

Equity instruments are recorded at acquisition cost. Investments in quoted shares are stated at fair value based on market prices released by independent price vendors, in the case where no market value is available, is considered the book value of the issuer. The valuation effects of equity instruments are recorded in the caption "Surplus from investment valuation" in stockholders’ equity.

(Continued)

At the acquisition date, transaction costs related to debt securities and equity 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.

Repurchase operations-

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

Impairment-

The Institution assesses at each 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.

(Continued)

(e) Cash and cash equivalents-

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

Checks that have not been charged after two business days after 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 (see note 4)-

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

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

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

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

The commercial loan portfolio is rated quarterly, monthly when it is mortgage loans, by applying a methodology that considers the probability of default, the severity of the loss and exposure to default, and recognizing the effect on the reserve in income of the year under “Comprehensive financing result” (see note 4).

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 in the following cases:

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 adresses 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 after the required report is obtained.

(g) Property, furniture and equipment-

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

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

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

(Continued)

(Mexican pesos)

Furniture and equipment are recorded at acquisition cost, and through December 31, 2007, were adjusted for inflation using the inflation index of the country of origin of the assets, and the variances in the exchange rate vis-à-vis the Mexican peso at year end.

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

	Rates
Property	1.25 to 4%
Transportation equipment	25%
Office furniture and equipment	10%
Computer equipment	30%
Other	25%

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.

(h) Permanent Investments-

The other permanent investments where the Institution holds between 1% and 16.67% of share in equity were carried at cost and, through December 31, 2007, adjusted for inflation by applying NCPI factors.

(i) Goodwill-

Goodwill represents the future financial benefits arising from other acquired assets that are not individually identifiable or separately recognizable. Goodwill is subject to impairment tests at the end of the reporting period and when there is an indication of impairment.

(j) Intangible Assets-

Intangible assets with definite useful life include mainly payments for the use of computer software licenses. The factors about the useful life are the expected use of the asset by the Institution and the typical life cycle of the software. These assets are recorded at acquisition cost and are amortized straight line over their estimated useful lives.

(Continued)

(k) 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.

(l) Other Assets-

Other assets include mainly unrealized salvage inventory, prepayments, prepaid taxes, deferred income tax and deferred employee statutory profit sharing.

(m) Technical reserves (see note 4)-

The Institution constitutes and assesses 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 valued in relation to all insurance and reinsurance obligations that the Institution has assumed against the insured and beneficiaries of insurance and reinsurance contracts, the administration expenses, as well as the acquisition expenses 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, will be used, and considering the information available in the financial markets, as well as the information available on technical insurance and reinsurance risks. The valuation of these reserves is assessed by an independent actuary and registered with the Commission.

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

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

Reserve for current risks -

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

(Continued)

New methodologies to calculate the reserve for current risks came into effect in 2016. As a result of enforcing these methodologies, the Institution determined a release of such reserve, which was recognized as income in 2016 (see note 4).

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

The best estimate will be equal to the expected value of the future flows, considering income and expenses, of obligations, understood as the weighted average by probability of these flows, considering the time value of money based on the curves of interest rate free of market risk for each currency or monetary unit provided by the independent price vendor, as of the valuation date. The hypothesis and procedures with which the future flows of obligations are determined, based on which the better estimate will be obtained, were defined by the Institution in the method submited for the calculation of the best estimate.

For purposes of calculating the future flows of revenues, the premiums that upon valuation are overdue and outstanding are not considered, nor are the fractional payments accounted for in “Premium receivable” in the balance sheet.

Multiannual insurance -

In the case of multiannual policies, the current risk reserve is the best estimate of the future obligations of the current year in question, plus the rate premiums corresponding to future accumulated annuities with the corresponding return, for the time the policy has been in force, plus the risk margin. Premiums corresponding to future annuities should be subtracted the acquisition cost that, for accounting purposes, if applicable, should be recorded upon issuing the reserve separately.

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

(Continued)

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 (RCS from its Spanish acronym), necessary to meet the Institution's insurance and reinsurance obligations until its duration. For purposes of valuation of the current risk reserve, the RCS of closing of the month immediately preceding valuation is used. If there are relevant increases or decreases in the amount of the Institution's obligations as of the report date, the Institution makes adjustments to this risk margin, which allows to recognize the increase or decrease the margin may have from the situations mentioned. In these cases, the Commission is informed of the adjustment made and the procedures used to make this adjustment.

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

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

Outstanding claims provision -

The establishment, increase, valuation and recording of the reserve for outstanding obligations is made through estimating obligations using the actuarial methods the Institution has registered for such purposes with the Commission.

The purpose of this reserve 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 reserve for outstanding obligations will be equal to the sum of the best estimate and of a risk margin, which are calculated separately and in terms of the provisions of Title 5 of the CUSF.

(Continued)

This reserve includes the following components:

Outstanding claims provision and other obligations of known amount-

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

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

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

Reserve for claims incurred but not reported and adjustment expenses–

New methodologies to calculate the reserve for claims incurred but not reported and adjustment expenses came into effect in 2016. As a result of enforcing these methodologies, the Institution determined a release of such reserve, which was recognized as income in 2016 (see note 4).

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

(Continued)

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

Risk margin-

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

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

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

Reserve for outstanding obligations from contingent dividends -

This reserve corresponds to dividends that do not yet constitute actual or overdue obligations, but that the Institution estimates to pay in the future for the distribution obligations of the profits provided in the insurance contracts, from the favorable behavior of the risks, returns or expenses during the accrued period of duration of the policies in force, the best estimate is determined by applying the method registered with the Commission. This methodology considers the repayment of a percentage of the premium collected through a dividend by claims, establishing the formula in its technical note for cars and vans of personal use up to 2 ½ tons, which considers a return factor (assigned by volume of premiums) on the difference resulting from subtracting the total claims to the net premium earned less expenses.

(Continued)

(n) Accruals-

Based on management estimates, the Institution recognizes accruals for present obligations where the transfer of assets or the rendering of services is virtually inevitable and arises as a consequence of past events, mainly acquisition costs, operating expenses and employee benefits.

(o) 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 Employee Statutory Profit Sharing (ESPS) - see subsection (p) 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 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.

(Continued)

Post-Employment Benefits

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.

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. Net interest is recognized under "Comprehensive financial result, net".

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 elegible 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 comprenhensive income within stockholder's equity.

(p) Loss funds under management-

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

(q) Income Tax and ESPS-

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

Deferred IT and ESPS are accounted for under the asset and liability method. Deferred taxes 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 IT, for operating loss carryforwards and other recoverable 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 tax and ESPS assets and liabilities of a change in tax rates is recognized on the consolidated statement of comprehensive income 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 directly in stockholders' equity.

(r) Cumulative currency translation effect-

Represent the difference resulting from the translation of the functional currency of foreign operations into the reporting currency.

(s) Revenue recognition-

Insurance and reinsurance premium revenues -

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

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

(Continued)

Salvage revenues-

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-

Profit sharing on reinsurance ceded is recorded as revenue based on the terms stipulated by the agreements included in the respective reinsurance contracts, as technical results thereof are determined.

Policy rights and premium surcharges-

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

(t) Reinsurance (see note 4)-

Current account

The transactions originated by the reinsurance contracts, both ceded and taken, issued by the Institution, are presented under “Current Account” in the balance sheet. For presentation purposes the net credit balances by reinsurer are reclassified to the corresponding liability.

Reinsurance ceded

The Institution limits the amount of its liability for risks assumed through the distribution with reinsurers, through automatic cuote share and excess of loss contracts, transferring a portion of the premium to these reinsurers.

Reinsurer's share in current risks and outstanding claims provision

The Institution records 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 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 income statement under "Comprehensive financial result".

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

(u) Net acquisition cost-

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

(v) Business concentration-

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

(Continued)

(w) Comprehensive financial result (CFR)-

The CFR includes interest income and expense, valuation effects, premium surcharges, results of selling financial instruments, foreign exchange gains and losses and preventive estimates of credit risk from loans granted and reinsurance amounts recoverable.

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of its execution or settlement. The Institution maintains its accounts in pesos and foreign currencies, which for purposes of presentation of financial statements were translated at the exchange rate of the last business day of the month, published by the Central Bank (see note 5). The exchange differences arising in relation to assets and liabilities denominated in foreign currencies are recorded in net income of the year.

(x) 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.

(a) Hierarchy-

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

In cases where insurance institutions consider that there is no specific criterion of measurement, presentation or disclosure for any transaction, covered by FRS or the Commission need to inform the latter, in order to perform sound analysis and where appropriate to issue an accounting guidance.

(Mexican pesos)

(4) Accounting changes and reclassifications -

Accounting changes-

The accounting changes recognized by the Institution in 2016 were derived from the adoption of the following accounting criteria issued by the Commission (see note 2)**.**

- **Criterion B-5 "*Loans*"-** This came into effect starting January 1, 2016, with prospective effects. The Institution has adopted this criterion, so the balance of loans granted of $221,410,164, as of January 1, 2016, were subject to a rating process to determine the preventive reserve required by the regulation in force, the preventive reserve amount totaled $3,398,356, and is presented under "Allowance for loan losses" in the balance sheet, and a loss on the income statement of 2016 under "Comprehensive financial result".

- **Criteria B-7 "*Debtors" and B-13 "Premiums*"-** These came into effect starting January 1, 2016, with prospective effects, affecting the results of 2016. The Institution has adopted these criteria. The effects from the adoption are shown below:

		Debit		Credit
Premium receivables	$	12,866,152 ========		
Written premium			$	12,866,152 ========

- **Criterion B-9 "*Reinsurers*"-** This came into effect starting January 1, 2016, with prospective effects. The Institution has adopted this criterion, so the balance of reinsurance recoverable for $49,843,969, as of January 1, 2016, were subject to an estimation process to determine the preventive reserve required by the regulation in force, the amount of the preventive reserve amounted to $1,311,275 and is presented in "Credit risk allowance for foreign reinsurers" in the balance sheet and a loss in the result of 2016 under "Comprehensive financial result".

(Continued)

(Mexican pesos)

- **Criterion B-11 *"Technical reserves"*-** This came into effect starting January 1, 2016, with prospective effects. The Institution has adopted this criterion and the effects from the adoption are shown below:

	Debit	Credit
Reserve of current risk (Balance sheet)	$ 439,877,671	
Increase in current risk reserve (Income statement)		$ 439,877,671
Claims incurred, but not reported (Balance Sheet)	$ 313,423,347	
Claims incurred, but not reported (Income statement)		$ 313,423,347

- **Criterion B-24 *"Coinsurance operations"*-** This came into effect starting January 1, 2016, with prospective effects. Up to December 31, 2015 the coinsurance operations were presented in "Reinsurers (net)". When adopting this criterion, the Institution made the following reclassifications on the balances as of as of December 31, 2015:

	Debit	Credit
Insurance institutions	$ 15,073,269	
Coinsurer share		$ 15,073,269

A condensed income statement is presented for 2016, effects of the adoption of the criteria area shown on the next page.

(Continued)

Qualitas Controladora, S.A.B. de C. V. and subsidiaries

Notes to the consolidated financial statements

(Mexican pesos)

	Effects from the criteria adoption	Transactions of 2016	Total
Retained premiums	$ 12,866,152	30,073,507,274	30,086,373,426
(-) Net increase in current risks reserve	(439,877,671)	6,701,652,843	6,261,775,172
Earned retained premiums	452,743,823	23,371,854,431	23,824,598,254
(-) Acquisition cost	-	7,256,605,580	7,256,605,580
(-) Net cost of claims and other outstanding obligations	(313,423,347)	15,023,671,170	14,710,247,823
Technical and gross profit	766,167,170	1,091,577,681	1,857,744,851
(-) Net operating expenses	-	750,707,847	750,707,847
Comprehensive financial result	(4,709,631)	830,881,049	826,171,418
Profit before taxes	761,457,539	1,171,750,883	1,933,208,422
(-) Income tax, net	(228,437,261)	(404,152,611)	(632,589,872)
Consolidated net income	533,020,278	767,598,272	1,300,618,550
Non-controlling interest	-	(10,039,744)	(10,039,744)
Net income-controlling interest	$ 533,020,278	757,558,528	1,290,578,806

(Continued)

(5) Foreign currency exposure-

Monetary assets and liabilities denominated in dollars translated into the reporting currency, as of December 31, 2016, were as follows:

		Mexican pesos
Assets	$	2,597,127,074
Liabilities		(1,748,213,375)
Net assets	$	848,913,699
		=========

As of December 31, 2016 foreign exchange losses amounting to $197,242,984 were recorded.

The exchange rates used in the various translation processes to the reporting currency at December 31, 2016 were as follows:

Country of origin	**Currency**	**Year-end exchange rate**	**Average exchange rate**
El Salvador	Dollars	20.6194	18.7193
United States of America	Dollars	20.6194	18.7193
Costa Rica	Colon	548.18	539.45

At December 31, 2016, the Institution did not have foreign exchange hedging instruments.

(6) Investments-

At December 31, 2016, the investment portfolio includes financial instruments held for trading purposes, which terms range between 3 days to 2 years.

At December 31, 2016, interest rates applied to financial instruments held for trading purposes portfolio range between .01% and 8.15%.

At December 31, 2016, financial instruments are analyzed as shown on the following page.

(Continued)

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

Notes to the financial statements

(Mexican pesos)

		Amount	Accrued interest	Increase (decrease) in valuation	Total
Debt securites:					
Government securities:					
For trading purposes					
BANOBRA	$	1,990,231,685	-	(14,716)	1,990,216,969
BONDESD		117,972,147	19,060	(44,849)	117,946,358
NAFIN		835,110,994	-	(2,557)	835,108,437
SHF		660,534,174	-	(2,022)	660,532,152
NOTAS SV		11,671,901	167,758	-	11,839,659
US GOVERNMENT BONDS		866,980,667	-	22,423,981	889,404,648
	$	4,482,501,568	186,818	22,359,837	4,505,048,223
Private companies securities known rate:					
For trading purposes					
Financial sector	$	3,439,621,721	10,362,770	(3,035,758)	3,446,948,733
Non-financial sector		5,356,500,716	21,824,657	91,859,784	5,470,185,157
	$	8,796,122,437	32,187,427	88,824,026	8,917,133,890
Foreign securities:					
For trading purposes					
Invesment in foreign securities	$	536,961,908	-	174,494,405	711,456,313
Equity securities:					
Private companies securities, variable income:					
For trading purposes					
Financial sector	$	33,156,750	-	11,618,750	44,775,500
Non-financial sector					
TAURUM B-M1		999,999,999	-	34,147,288	1,034,147,287
Other		2,135,245,884	-	735,125,008	2,870,370,892
	$	3,168,402,633	-	780,891,046	3,949,293,679
Total accrued interests			$ 32,374,245		
Total valuation increase, net				$ 1,066,569,314	
Repurchase agreements:					
BONDESD	$	275,259,000			
BONOS		508,796,154			
BPA182		156,842,708			
BPAG28		242,424,861			
SCOTIAB		3,919,681			
UDIBONO		481,620,903			
AERMXCB		1,339,017			
CETES		8,650,338			
CHIACB		62,320,497			
BACOMER		4,501,003			
	$	1,745,674,162			

(Continued)

(Mexican pesos)

(7) Loan portafolio-

At December 31, 2016, the current loan portfolio is comprised by the following:

Mortgage	$	4,477,510
Unsecured		108,499,480
Discount and rediscount		292,443,695
Accrued interest		1,115,571
	$	406,536,256
		=========

At December 31, 2016, the Institution recognized $19,699,081 of past-due portfolio and $3,398,356 of allowance for loan losses.

At December 31, 2016, unsecured loans are analyzed as follows:

Promotoría Virtual, S. A. de C. V.	$	5,222,598
Willis Agente de Seguros y de Fianzas, S. A. de C. V.		6,623,661
Bituaj, Agente de Seguros y de Fianzas, S. A. de C. V		7,767,730
Autofinanciamiento de Automóviles, S. A. de C. V.		15,000,000
PVM Agente de Seguros, S. A. de C. V.		12,577,846
Rosas Abarca y Asociados, S. C.		8,000,000
Others		53,307,645
	$	108,499,480
		=========

At December 31, 2016, discount and rediscount loans are analyzed as follows:

Credicam, S. A. de C. V. SOFOM E.N.R.	$	4,000,000
CI Banco, S.A. Institución de Banca Multiple		46,875,000
Firma Car, S. A. P. I. de C. V.		55,569,422
GT Credit, S. A. P. I. de C. V. SOFOM E.N.R.		70,000,000
Promotora Sku, S. A. P. I. de C. V. SOFOM E.N.R.		115,999,273
	$	292,443,695
		=========

(Continued)

(Mexican pesos)

(8) Property-

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

Land	$	382,789,594
Buildings		402,405,182
Special facilities		29,093,489
		814,288,265
Accumulated depreciation		(41,199,631)
		773,088,634
Net valuation		550,823,857
Total	$	1,323,912,491
		==========

During 2016, the Institution made appraisals of its properties, as a result an increase in their value of $118,091,278 was recorded. Depreciation is calculated based on the remaining useful life and the restated value of buildings, determined through the latest appraisals made. The applicable depreciation rate for 2016 ranges between 1.25% and 4%.

(9) Accounts receivable -

Premiums-

At December 31, 2016 premiums receivable are analyzed below:

Automobile:		
Fleets, financial and other	$	9,414,806,716
Individual		5,176,915,807
Foreign		404,443,617
		14,996,166,140
Receivables from agencies and entities of the federal public administration		42,527,919
	$	15,038,694,059
		============

At December 31, 2016 premiums receivable accounts for 36% of total assets.

(Mexican pesos)

(10) Reinsurers-

At December 31, 2016, balances receivable from reinsurers is analyzed as follows:

Institution		Up to 90 days	More than 180 days and up to 365 days	Total
Kot Insurance Company, A.G.	$	-	64,204,855	64,204,855
Paramount General Agency, Inc		-	6,004,382	6,004,382
Sun Coast General Insurance Agency, Inc		-	7,351,672	7,351,672
First Capital - Awis LLC		3,231,667	-	3,231,667
Other		1,213,628	11,471,420	12,685,048
Total	$	4,445,295	89,032,329	93,477,624
		=======	========	========
Percentage		5%	95%	100%
		===	====	====

During 2016, the Institution ceded premiums in the property and casualty (automobile insurance) line adding up to $103,153,046.

(11) Other assets-

Furniture and equipment:

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

		2016	Anual depreciation rate
Office furniture and equipment	$	261,158,076	10%
Computer equipment		639,692,723	30%
Transportation equipment		401,917,700	25%
Other		388,452,544	25%
		1,691,221,043	
Less accumulated depreciation		1,091,296,949	
	$	599,924,094	
		=========	

(Continued)

(Mexican pesos)

Other:

At December 31, 2016 this caption is analyzed as follows:

Unrealized salvage inventory	$	541,314,807
Spare parts inventory		81,394,897
Prepayments		393,594,318
Income tax prepayments		630,890,171
Deferred income tax (note 15)		477,059,527
Deferred employee statutory profit sharing (note 15)		144,023,966
	$	2,268,277,686

At December 31, 2016, the "Amortizable intangible assets" includes mainly computer software licenses, amortized at the rate of 5%.

(12) Creditors-

At December 31, 2016 creditors are as follows:

Use of facilities	$	2,140,051,558
Agents and adjusters		1,225,841,000
Other		477,813,921
Amounts withheld from adjusters		103,843,086
Accruals		93,965,963
Loss funds under management		6,390,501
	$	4,047,906,029

(13) Written premiums and issued in advance to the risk period covered -

Written premiums

The value of written premiums by the Institution as for the years ended December 31, 2016 are analyzed on the following page.

(Continued)

(Mexican pesos)

Automobile:	
Fleets, financial and other	$ 24,309,873,258
Individual	4,426,624,511
Foreign	1,453,028,703
	$ 30,189,526,472
	===========

Premiums issued in advance to the risk period covered-

At the year end 2016, the Institution issued premiums, which period covered starts in year 2017. Following are the transactions related to premiums issued in advance to the risk period covered:

Premiums issued in advance to the risk period covered:	
Issued	$ 2,771,516,369
Ceded	376,287
	==========
Increase in currents risks reserve	$ 2,107,950,805
Agent commissions	65,636,569
Policy charges	85,272,446
Acquisition cost	643,367,770
	==========

At December 31, 2016 the amounts related to premiums issued in advance to the risk period covered are analyzed below:

Premiums receivable	$ 3,339,226,942
Current account	376,287
Currents risks reserve	2,107,950,805
Premium surcharges	21,870,411
Value added tax to be accrued	460,567,716
Commissions to be accrued	65,636,569
Creditors (Use of facilities)	643,367,770
	==========

(Continued)

(14) Employee benefits-

The Institution has a defined benefit pension plan covering employees aged 65 or 60 provided they have 10 or more years of services and reducing 3% of the pension each year in which individual anticipate the normal retirement age, which consists of granting the pensionable salary, which is comprised by the average salary for the plan's purposes over the last 12 months prior to the retirement date, including the year-end bonus, divided by twelve and excluding all other compensation in cash or in kind.

This plan also covers seniority premiums, which are a single payment equivalent to 12 days for each year worked and considering the last salary received and limited to two times the minimum daily wage established by law.

Moreover, this plan also covers termination benefits, which consist of a single payment of three months of integrated salary, plus 20 days for each year worked, based on the last salary earned by the employee.

The related liability and the annual benefit cost are calculated by an independent actuary in accordance with the plan rules, using the projected unit credit method.

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-

Currently, the Institution recognizes benefits (seniority premiums and statutory severance pay) as required by the pensions plan, which covers all plant and full-time employees. This benefit consists of providing a pension in addition to the pension granted by the Mexican Institute of Social Security, according to the years of service at the Institution. The regular retirement pension shall be a joint lifelong monthly annuity, with a guarantee of 240 payments. These payments shall be paid in arrears and be equivalent to: 0.33% of the pensionable salary for each pensionable year of service, increased by 4.5 years.

There were no contributions and benefits paid from the funds in 2016.

The cost components of defined benefits for the year ended December 31, 2016 are shown on the following page.

(Continued)

Qualitas Controladora, S.A.B. de C. V. and subsidiaries

Notes to the consolidated financial statements

(Mexican pesos)

		2016		
		Seniority Premium	Legal Compensation	Pension plan
Current Service Cost (CLSA)	$	2,552,656	8,872,987	13,578,226
Net interest on Defined Benefits Net Liability (DBNL)		360,407	2,702,909	3,840,167
Reclassification of remeasurements of DBNL recognized in comprenhensive income		22,444	2,255,206	(537,980)
Reduction effect		23,658,968	-	-
Defined Benefit Cost	$	2,935,507	37,490,070	16,880,413
Beginning balance of DBNL remeasurements	$	317,212	13,612,084	(12,044,990)
Remeasurements generated in the year		(1,229,344)	(2,438,657)	(8,230,403)
Reclassification of remeasurements recognized in comprenhensive income in the year		(22,444)	(2,255,206)	537,980
Ending balance of DBNL remeasurements		(934,576)	8,918,221	(19,737,413)
Beginning balance of DBNL		4,971,133	47,800,343	51,202,224
Defined benefit cost		2,935,507	37,490,070	16,880,413
Payments charged to DBNL		(1,771,566)	(29,470,696)	(2,144,631)
Effect in comprenhensive income		(1,251,788)	(4,693,863)	(7,692,423)
Ending balance of DBNL	$	4,883,286	51,125,854	58,245,583

(Continued)

Qualitas Controladora, S.A.B. de C. V. and subsidiaries

Notes to the consolidated financial statements

(Mexican pesos)

The financing position of the Defined Benefit Obligation as of December 31, 2016 is listed below:

		2016		
		Seniority Premium	**Legal Compensation**	**Pension plan**
Defined benefit obligations (OBD)	$	15,340,606	51,125,854	116,193,937
Plan assets		(10,457,320)	-	(57,948,354)
Financial position of the obligation	$	4,883,286	51,125,854	58,245,583
		========	========	========

Nominal discount rate used in calculating the present value of obligations:

Seniority premium	8.00%
Legal compensation	7.25%
Pension plan	8.00%
	=====

Expected rate of return on plan assets:

Seniority premium	8.00%
Legal compensation	8.00%
Pension plan	4.50%
	=====

Average remaining service life of the Institution’s employees:

Seniority premium	14 years
Legal compensation	6 years
Pension plan	22 years

(Continued)

(Mexican pesos)

(15) Income tax (IT) and employee statutory profit sharing (ESPS)-

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

a) Income tax

The income tax expense is as follows:

On income statement:		
IT current	$	902,766,354
IT deferred		(270,176,482)
	$	632,589,872
On stockholders' equity – IT deferred	$	35,063,230

For the year ended December 31, 2016, the IT on a current and deferred basis in the consolidated statement of income is shown below:

Current:		
Qualitas Mexico	$	889,796,429
Qualitas Costa Rica		5,103,914
Qualitas Financial		489,884
Other subsidiaries		7,376,127
		902,766,354
Defferred:		
Qualitas Mexico		(272,203,623)
Qualitas Costa Rica		(72,835)
Qualitas Financial		(8,309,366)
Other subsidiaries		10,409,342
		(270,176,482)
Total	$	632,589,872

(Continued)

Qualitas Controladora, S.A.B. de C. V. and subsidiaries

Notes to the consolidated financial statements

(Mexican pesos)

Income tax expense attributable to income from continuing operations before income taxes, differed from the amounts computed by applying the Mexican statutory rate of 30% IT to income before income taxes, as a result of the items shown below:

Computed "expected" tax expense	$	579,962,527
Add ESPS expense		33,203,832
Increase (reduction) resulting from:		
Accounting loss on sale of shares		20,844,915
Dividends		(28,691,339)
Tax effects of inflation		(13,080,858)
Non deductible expenses		35,046,107
Other, net		5,304,688
IT expense	$	632,589,872

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

Deferred assets:		
Premium surcharges	$	130,969,446
Commissions to be accrued		126,636,417
Additional compensation to agents		39,038,682
Use of facilities		642,015,467
ESPS payable		30,698,555
Employee benefits		16,109,916
Provisions		39,626,491
Tax loss carry forwards		17,144,601
Other		45,202,236
Total deferred assets		1,087,441,811
Deferred liabilities:		
Salvage inventory		(162,394,442)
Valuation from property		(165,247,157)
Valuation from investments		(313,523,280)
Other		30,782,595
Total deferred liabilities		(610,382,284)
Deferred tax assets, net	$	477,059,527

(Continued)

Qualitas Controladora, S.A.B. de C. V. and subsidiaries

Notes to the consolidated financial statements

(Mexican pesos)

b) ESPS and deferred ESPS

The ESPS expense is as follows:

On income statement:		
ESPS	$	305,876,585
Deferred ESPS		(92,868,627)
	$	213,007,958
		=========
On stockholders' equity: - Deferred ESPS	$	11,687,743
		=========

The ESPS temporary differences that give rise to significant portions of the deferred ESPS assets and liabilities, at December 31, 2016 are as follows:

Deferred assets:		
Premium surcharges	$	43,656,482
Commissions to be accrued		42,212,138
Additional compensation to agents		13,012,893
Use of facilities		214,005,156
Employee benefits		6,055,500
Provisions		13,743,795
Other		9,923,175
Total deferred assets		342,609,139
Deferred liabilities:		
Salvage inventory		(54,131,481)
Valuation from property		(44,992,358)
Valuation from instruments		(104,507,759)
Other		5,046,425
Total deferred liabilities		(198,585,173)
Deferred tax assets, net	$	144,023,966
		=========

(Continued)

(Mexican pesos)

In assessing the realizability 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.

(16) Stockholder´s equity-

The main characteristics of stockholders' equity are described below:

(a) Structure of capital stock-

At December 31, 2016, capital stock is represented by 450,000,000 common, registered single series (Series I) shares with an updated par value of $5.9664 and a historical value of $5.6913, which represent the fixed unlimited portion, which is duly subscribed and paid up, 439,832,645 of which are shares outstanding. During 2016, the Institution repurchased 6,483,768 of its own shares for $38,684,868, which corresponds to their par value.

At December 31, 2016, structure of capital stock is comprised of the following:

		Nominal	Revaluation	Total
Capital stock	$	2,503,217,165	121,008,075	2,624,225,240
Statutory reserve		233,750,497	9,773,645	243,524,142
Valuation surplus, net		-	99,801,279	99,801,279
Foreign currency translation effects of foreign operations		217,390,325	-	217,390,325
Retained earnings		1,656,613,349	(93,988,946)	1,562,624,403
Net income		1,290,578,806	-	1,290,578,806
Non-controlling interest		38,966,896	-	38,966,896
Stockholder's equity	$	5,940,517,038	136,594,053	6,077,111,091
		==========	=========	==========

At December 31, 2016, Paid-in capital includes the amount of $11,545,094 Mexican pesos, coming from the partial capitalization of real state valuation surplus.

(Continued)

(Mexican pesos)

Variable portion of capital stock with right to reimbursement must be lower than paid in capital stock with no right to reimbursement.

According to the Law and the by laws of the Institution: a) foreign governments or government agencies, and b) credit institutions, mutual insurance companies, brokerage firms, auxiliary credit organizations, asset management companies and broker dealers, cannot not be shareholders of the Institution, directly or through an agent.

The Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público or SHCP) may authorize the participation in the capital of the Institution, to insurers and reinsurers abroad as well as foreign individuals or entities other than those mentioned in the previous paragraph.

(b) Capital mínimo pagado-

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

At December 31, 2016 the Institution had the minimum required capital amounting to $45,854,160, equivalent to 8,521,217 investment units (UDIs, which is a unit of account whose value is updated for inflation and is determined by Central Bank) valued at $5.381175 Mexican pesos per UDI which was the value as of December 31, 2015.

(c) Comprehensive income (CI)-

At December 31, 2016 the CI is analyzed below:

Consolidated net income	$	1,290,578,806
Surplus property valuation		116,877,435
Deferred IT and ESPS on Surplus property valuation		(46,750,974)
Effect by employee benefits		11,753,768
Foreign currency traslation effects of foreign operations		103,801,467
Other		873,478
Non-controlling interest		10,039,744
Consolidated net income	$	1,487,173,724
		=========

(Continued)

(Mexican pesos)

(d) Dividends-

At the Regular General Stockholders' Meeting held on April 28, 2016, a resolution was passed to declare a dividend by the amount of $225,000,000, $0.5 per share, which were paid in cash through electronic transfer.

(e) Restrictions on stockholder´s equity-

According to the provisions of the Law, a minimum of 10% of the income must be appropriated to the statutory reserve, up to an amount equal to the amount of paid-in capital.

According to the Commission's provisions, the unrealized gain on investment securities valuation recorded in results of operations for the year may not be distributed to stockholders until the related investments are sold, as well as deferred tax and ESPS assets recorded in income as a result of applying the FRS D-4 and D-3.

Only the dividends paid to shareholders in excess of "Net Tax Income" will be subject to a tax of 30%.

(17) Segment information–

Information by operating segments is presented based on the management approach. In addition, condensed information by line of business and geographical area is presented.

a) General information by line of business.

		2016			
		Written premium	Premium Ceded	Current risk reserve	Earned retained premiums
Line of business:					
Fleets, financial institutions and other	$	24,309,873,258	(103,153,046)	(4,497,220,973)	19,709,499,239
Individual		4,426,624,511	-	(911,993,572)	3,514,630,939
Foreign		1,453,028,703	-	(852,560,627)	600,468,076
Total consolidated	$	30,189,526,472	(103,153,046)	(6,261,775,172)	23,824,598,254

(Mexican pesos)

Premium receivable:		
Fleets, financial and other	$	9,457,334,635
Individual		5,176,915,807
Foreign		404,443,617
Total consolidated	$	15,038,694,059
		===========

b) General information by geographical area.

Written premium:		
Mexico	$	28,837,166,003
United State of America		834,962,461
Central America		517,398,008
Total consolidated	$	30,189,526,472
		===========
Premium receivable:		
Mexico	$	14,634,520,442
United State of America		170,091,111
Central America		234,352,506
Total consolidated	$	15,038,694,059
		===========

(18) Earnings per share-

Earnings per share results from dividing the year's net income by outstanding shares at year end.

The Institution presents the net basic earnings per share and the diluted earnings per share. The basic earnings per share is obtained by dividing the controlling equity in the net income by the weighted average of common outstanding shares during the period, adjusted by the weighted average of shares acquired during the year. The net diluted earnings per share is determined by adjusting the weighted average of shares repurchased during the year for purposes of all the potential diluted values.

(Continued)

(Mexican pesos)

(19) Group entities-

Investment in subsidiaries -

The subsidiaries are the following:

	Ownership 2016	Principal activity
Qualitas Mexico	99.99%	Practicing insurance, coinsurance and reinsurance as a property and liability insurers in the automobile line of insurance in Mexico.
Qualitas Costa Rica	99.99%	Practicing insurance, coinsurance and reinsurance as a property and liability insurers in the automobile line of insurance in Costa Rica
Qualitas El Salvador	99.99%	Practicing insurance, coinsurance and reinsurance as a property and liability insurers in the automobile line of insurance in El Salvador.
Qualitas Financial	100.00%	Holding company of Qualitas Insurance, practicing insurance, coinsurance and reinsurance as a property and liability insurers in the automobile line of insurance in the United States.
Activos Jal, S. A. de C. V.	99.99%	Property leasing and acquisition.
Cristafacil, S. A. de C. V. (Cristafacil)	56.00%	Acquisition, sale and installation of automobile glass.
Outlet de Refacciones, S. A. de C. V. (Outlet de Refacciones)	50.86%	Acquisition and sale of automobile spare parts.
Easy Car Glass, S. A. de C. V. (Easy Car Glass)	75.25%	Acquisition, sale and installation of automobile glass.
Autos y salvamentos, S. A. de C. V. (Autos y salvamentos)	51.00%	Salvage management and marketing.

(Continued)

(Mexican pesos)

Significant judgments and assumptions for determining the existence of control, were as follows: Qualitas Controladora has power over its subsidiaries for directing their relevant activities by significantly influencing their decisions. In addition the executives of Qualitas Controladora 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, Qualitas Controladora is principal being that it is the investor with power to make decisions and direct the relevant activities of its subsidiaries.

At December 31, 2016, the investment in subsidiaries corresponding to the non-controlling interest and its equity in income for the year then ended are shown below:

December 31, 2016		**Non-controlling interest in stockholders' equity**	**Non-controlling interest in comprehensive income**
Outlet de Refacciones	$	32,846,416	7,662,698
Easy Car Glass		2,938,737	323,258
Autos y salvamentos		1,785,357	1,626,690
Cristafacil		1,390,212	426,237
Other		6,174	861
	$	38,966,896	10,039,744
		========	========

(Continued)

(20) Commitments and contingencies-

(a) The Institution is involved in a number of lawsuit and claims arising in the normal course of business. It is anticipated by the Institution's management that the final outcome of these matters will not have a significant adverse effect on the financial position and results of operations.

(b) There is a contingent liability arising from the employee benefits mentioned in note 3(o).

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

(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.

(e) The tax authorities, by the Servicio de Administracion Tributaria (SAT) initiated a direct review of some aspects of the operation of the Institution. At February 15, 2017 the review is in process. The administration of the Institution does not expect significant additional costs arising in connection with this review.

(21) Contingent commissions-

During 2016, the Institution executed agreements for payment of contingent commissions with intermediaries and corporations as described in this note. The total amount of payments made under those agreements amounted to $329,752,324, representing 1.09% of the written premium by the Institution in 2016.

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

(Continued)

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

(a) For property and casualty products, the Institution had entered into agreements related to the volume of premiums, growth and claims. The bases and criteria for participation in the agreements, and the determination of contingent commissions are directly related to the premiums paid and the claims of each year. Contingent commissions payments under these agreements are annually.

(b) For other intermediaries who are not agents, the Institution had entered compensation agreements where the bases are determined on fixed amounts that depend on the annual sales volume. Contingent commissions under such agreements are paid on a monthly basis.

The Institution or its shareholders do not hold any share in the capital of the entities with which the Institution has entered into agreements for the payment of contingent commissions.

(22) Recently issued regulatory standards-

The CINIF has issued the FRS and Improvements listed below:

FRS B-17 *"Determination of fair value"*- FRS B-17 is effective for years beginning on or after January 1, 2018, allowing for early adoption. This establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific FRS.

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

(Continued)

Among the principal changes presented are:

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

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

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

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

- Limiting certain disclosures to entities that conduct financial operations.

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

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

(Continued)

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

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

- Requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

FRS C-9 *"Provisions, Contingencies and Commitments"*- FRS C-9 is effective for years beginning on or after January 1, 2018, allowing for early enforcement provided that it is done concurrently with the initial enforcement of FRS C-19 "Financial instruments payable". FRS C-9 supersedes Bulletin C-9 "Liabilities, Provisions, Contingent Assets and Liabilities and Commitments". The first-time adoption of this FRS does not result in accounting changes in the 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 is effective for years beginning on January 1, 2018 and early adoption is allowed as of January 1, 2017 provided that it takes place concurrently with the adoption of FRS related to financial instruments whose effective date and early adoption are in the same terms. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

(Continued)

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

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

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

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

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

- 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.

(Continued)

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

2017 FRS Revisions

In October 2016, CINIF issued a document called "2017 FRS Revisions" containing precise modifications to some of the existing FRS. The main revisions that bring about accounting changes are on the next page.

(Continued)

FRS C-11 *"Stockholders' equity"*-FRS C-11 establishes that expenses associated with registration of shares on a stock exchange of shares of an entity that as of the date of such registration were already held by investors and for which the issuing entity had already received the corresponding funds, should be recognized in income when accrued and not in stockholders' equity. This revision will be effective for periods starting on or after January 1, 2017 and the resulting accounting changes should be recognized retrospectively.

FRS D-3 *"Employee benefits"*- FRS D-3 establishes that the interest rate to be used in determining the present value of liabilities for long-term labor obligations must be a market rate free of, or with very low credit risk, representing the value of money over time, such as, the *government bond market rate or the high quality corporate bond market rate in absolute terms in a deep market*, and that the chosen rate should be used consistently over time. Additionally, it allows the recognition of remeasurements in OCI, requiring them to be reclassified to net income or loss or else recorded directly in net income or loss as of the date of origin. These revisions will take effect for years beginning on or after January 1, 2017, although early adoption is allowed. Accounting changes arising from changes in the discount rate should be recognized prospectively and those arising from a change in the option to recognize remeasurements should be recognized retrospectively.

Management estimates that the new FRS and revisions to FRS not generate significant effects on the financial information of the Institution. The effects of the new FRS and the revisions to FRS 2017 will depend on its adoption by the Commission.