**Gentera, S. A. B. de C. V.**
**and subsidiaries**

Consolidated financial statements

December 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

*(Translation from Spanish Language Original)*

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# Independent Auditors' Report

(Translation from Spanish Language Original)

The Board of Directors and Stockholders
Gentera, S. A. B. de C. V.:

(Millions of pesos)

## Opinion

We have audited the consolidated financial statements of Gentera, S. A. B. de C. V. and subsidiaries (Gentera), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of Gentera, S. A. B. de C. V. and subsidiaries, have been prepared, in all material respects, in accordance with the Accounting Criteria for Credit Institutions in Mexico (the Accounting Criteria), set forth by the National Banking and Securities 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 Gentera in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

The key audit matters are those that, according to our professional judgment, have been of the major relevance in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole and in forming of our opinion thereon, and we do not provide a separate opinion on these matters.

(Continued)

| Allowance for loan losses for $2,625 in the consolidated balance sheet | |
|---|---|
| See notes 3(f) and 8 to the consolidated financial statements | |
| Key audit matter | How the key audit matter was treated in our audit |
| The calculation of the consumer loan portfolio's allowance for loan losses involves the evaluation of different factors established in the methodologies set forth by the Commission, which include, among others, past-due billings, payments, balances reported in credit bureau, as well as the reliability in the update of information, which serves as an input for its determination. Therefore, we have determined the allowance for loan losses as a key audit matter. | The audit procedures applied to the determination by Management of the allowance for loan losses and the effect on income for the year included the assessment, through selective tests, of both the inputs used and the calculation method for the consumer credit portfolio, based on the methodology in force established by the Commission. |

| Calculation of labor obligations related to retirement and termination for $1,009 (liability) | |
|---|---|
| See notes 3(q) and 15 to the consolidated financial statements | |
| Key audit matter | How the key audit matter was treated in our audit |
| The determination of the liability for labor obligations related to defined benefit was made through actuarial calculations that requires judgment in the selection of the assumptions used to determine the net liabilities for defined benefits of labor obligations related to retirement and termination. Therefore, we have determined the accuracy and valuation of calculation of labor obligations related to defined benefits as a key audit matter. | Our audit procedures included assessing, through the involvement of our actuaries, both the reasonableness of the assumptions used by management to determine the net liability for defined benefits of the labor obligations related to retirement and termination, as well as the method of calculation used.<br><br>In addition, selective items were tested to corroborate the suitable incorporation of the personnel data that were included as a base for the actuarial calculation. |

(Continued)

| Current income taxes for $1,616 in the consolidated statement of income and deferred income tax asset for $1,505 in the consolidated balance sheet | |
|---|---|
| See notes 3(k) and 16 to the consolidated financial statements | |
| Key audit matter | How the key audit matter was treated in our audit |
| The determination of current and deferred income taxes is complex, because of the interpretation of the in-force legislation in the matter. Additionally, judgment application is required mainly on the valuation of deferred income tax assets to assess factors, both current and future, that allow estimating the realization of such assets. Therefore, we have determined the accuracy and valuation of current and deferred income taxes as a key audit matter. | The audit procedures applied in assessing the reasonableness of the calculations determined by Management for the recognition of current and deferred income taxes, included selective tests of the inputs used, as well as an assessment on the nature of the items that were part of the calculation, considering the in force legislation in tax matters.<br><br>With involvement of our tax specialists, we assessed the reasonableness of important tax assumptions and the reverse period of temporary differences and the tax losses carry forwards expiration. In addition, we assessed the reasonableness of the taxable income projections determined by Management of Gentera that support the probability of materialization of deferred income tax assets. |

(Continued)

| Goodwill impairment test assessment for $2,427 (asset). | |
|---|---|
| See notes 3(m), 11 and 12 to the consolidated financial statements | |
| **Key audit matter** | **How the key audit matter was treated in our audit** |
| Gentera recognized goodwill arising from the acquisition of a subsidiary and associated entities. Such goodwill is subject to impairment testing which is performed through the use of valuation techniques that involve a significant judgment for the determination of the future cash flows estimated by management.<br><br>Most of the goodwill has been assigned to the cash flow generating units (CGUs) of the acquired businesses.<br><br>The annual impairment test for goodwill is considered a key audit matter due to the complexity of the calculations and the significant judgments necessary in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the CGUs stems from the predicted discounted cash flow models. These models use several key assumptions, including future sales prices, growth percentages of the terminal values and the weighted average cost of capital (discount rate). | Our audit procedures for this key issue included, among others, the following:<br><br>- We involved our specialists to assist us in evaluating the appropriateness of the discount rates used, which included comparing the weighted-average cost of capital to the average of the sectors of the relevant markets in which the CGUs operate.<br>- We assessed the appropriateness of the assumptions applied to key data such as volumes, operating costs, inflation and long-term growth rates, which included comparing such data to external sources as well as our evaluation based on our knowledge of the client and of the industry.<br>- We carried out our own sensitivity analysis, which included assessments of the effects of possible reasonable reductions in growth rates and projected cash flows to evaluate the impact on the current difference between the goodwill originated and the value of the CGUs. |

## Emphasis of matter

We draw attention to note 11 to the consolidated financial statements, which describes that on December 30, 2019, Gentera signed a purchase-sale agreement for the sale of its investment in Pagos Intermex, S. A. de C. V. (Pagos Intermex), whereby Gentera will transfer ownership of 100% of its shareholding to a third party, once the agreed transaction closing activities are completed. As a result of the foregoing, the investment in Pagos Intermex as of December 31, 2019 is presented under the caption "Long-lived assets available for sale, net" and the results for the years ended December 31, 2019 and 2018, are presented under the caption "Discontinued operations" in the consolidated statement of income. Our opinion is not modified in respect of this matter.

(Continued)

## Other information

Management is responsible for the other information. The other information includes the information included in the Annual Report corresponding to the year ended December 31, 2019, to be presented to the Commission and the Mexican Stock Exchange (the Annual Report), but does not include the consolidated financial statements and our auditors' report thereon. The Annual Report is estimated to be available to us after the date of this auditors' report.

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

In connection with 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 obtained during the audit, or if it appears to be materially misstated.

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

## Responsibilities of Management and those charged with governance in relation to the consolidated financial statements

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

In preparing the consolidated financial statements, Management is responsible for assessing Gentera'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 Gentera or to cease operations, or has no realistic alternative but to do so.

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

## Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

- 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 with conditions that may cast significant doubt on Gentera'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 Gentera to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Gentera to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide to those charged with governance of the entity a statement that we have fulfilled the applicable requirements of ethics in relation with the independence and that we have communicated to them all the relationships and other matters from which it is possible to hope reasonably that they can affect our independence and, where appropriate, the corresponding safeguards.

(Continued)

Among the matters that have been an object of communication with those charged with governance, we determine those which have been of the major relevance in the audit of the consolidated financial statements of the current period and that are, in consequence, the key audit matters. We describe these matters in our auditor´s report unless legal or regulatory provisions prohibit public disclosure of the matter or, in extremely rare circumstances, we determine that a matter should not be communicated in our report as it could be reasonably expected that the adverse consequences thereof would exceed its public interest benefits.

KPMG Cárdenas Dosal, S. C.

Carlos Fernández Galguera

Mexico City, February 26, 2020.

**Gentera, S. A. B. de C. V. and subsidiaries**

Consolidated balance sheets

December 31, 2019 and 2018

(Millions of pesos)

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

| Assets | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents (note 6) | $ 6,875 | 7,795 |
| Investment securities (note 7): | | |
| Trading | 200 | 300 |
| Available-for-sale securities | 635 | 632 |
| | 835 | 932 |
| Current loan portfolio (note 8): | | |
| Commercial loans: | | |
| Business and commercial | 5,009 | 1,398 |
| Consumer loans | 35,518 | 33,347 |
| Residential mortgages | 2 | 5 |
| Total current loan portfolio | 40,529 | 34,750 |
| Past-due loan portfolio (note 8): | | |
| Commercial loans: | | |
| Business and commercial | 138 | 49 |
| Consumer loans | 1,025 | 925 |
| Residential mortgages | - | 1 |
| Total past-due loan portfolio | 1,163 | 975 |
| Total loan portfolio | 41,692 | 35,725 |
| Less: | | |
| Allowance for loan losses (note 8) | 2,625 | 2,224 |
| Loan portfolio, net | 39,067 | 33,501 |
| Other accounts receivable, net (note 9) | 2,086 | 1,570 |
| Property, furniture and equipment, net (note 10) | 1,032 | 1,144 |
| Investment in associated companies (note 11) | 2,428 | 2,399 |
| Long-lived assets available for sale, net (note 11) | 241 | - |
| Deferred income tax, net (note 16) | 1,505 | 1,303 |
| Other assets, deferred charges and intangibles, net (note 12) | 2,571 | 2,944 |
| Total assets | $ 56,640 | 51,588 |

| Liabilities and stockholders' equity | 2019 | 2018 |
|---|---|---|
| Liabilities: | | |
| Deposit funding (note 13): | | |
| Demand deposits | $ 2,138 | 1,484 |
| Time deposits: | | |
| General public | 9,093 | 7,388 |
| Money market | 920 | 620 |
| Debt securities issued | 9,114 | 8,459 |
| Global account of deposits with no movements | 8 | 1 |
| | 21,273 | 17,952 |
| Banking and other borrowings (note 14): | | |
| Short-term | 3,577 | 3,851 |
| Long-term | 7,042 | 8,221 |
| | 10,619 | 12,072 |
| Other accounts payable: | | |
| Income tax payable | 553 | 188 |
| Employee statutory profit sharing payable (note 16) | 124 | 104 |
| Sundry creditors and other accounts payable (note 17) | 3,550 | 3,185 |
| | 4,227 | 3,477 |
| Deferred credits and prepayments | - | 4 |
| Total liabilities | 36,119 | 33,505 |
| Stockholders' equity (note 19): | | |
| Paid-in capital: | | |
| Capital stock | 4,764 | 4,764 |
| Additional paid-in capital | 558 | 558 |
| | 5,322 | 5,322 |
| Earned capital: | | |
| Statutory reserves | 1,888 | 1,948 |
| Prior years' results | 10,060 | 7,699 |
| Valuation of available-for-sale securities | (1) | (54) |
| Cumulative translation adjustment | 531 | 642 |
| Remeasurements for employees' defined benefits | (612) | (489) |
| Net income | 3,275 | 2,965 |
| | 15,141 | 12,711 |
| Non-controlling interest | 58 | 50 |
| Total stockholders' equity | 20,521 | 18,083 |
| Commitments and contingent liabilities (note 20) | | |
| Total liabilities and stockholders' equity | $ 56,640 | 51,588 |

| Memorandum accounts | 2019 | 2018 |
|---|---|---|
| Contingent assets (note 6) | $ 808 | 1,808 |
| Uncollected interest accrued on past-due loans (note 8) | 107 | 184 |
| Other memorandum accounts (note 14) | 12,038 | 9,545 |

The historical capital stock as of December 31, 2019 and 2018, amounts to $4,764, in both years.

The accompanying notes are an integral part of these consolidated financial statements.

"These consolidated balance sheets were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Article 78 of the "General Provisions Applicable to Issuers of Securities and Other Securities Markets Participants" applied on a consistent basis. Accordingly, they reflect the transactions carried out by the Institution through the dates noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated balance sheets were approved by the Board of Directors under the responsibility of the following officers."

| | | | |
|---|---|---|---|
| **RÚBRICA** | **RÚBRICA** | **RÚBRICA** | **RÚBRICA** |
| Enrique Majós Ramírez<br>Chief Executive Officer | Mario Ignacio Langarica Ávila<br>Chief Financial Officer | Marco Antonio Guadarrama Villalobos<br>Controller | Oscar Luis Ibarra Burgos<br>General Internal Auditor |

**Gentera, S. A. B. de C. V. and subsidiaries**

Consolidated statements of income

Years ended December 31, 2019 and 2018

(Millions of pesos, except earning per share)

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

| | | 2019 | 2018 |
|---|---|---|---|
| Interest income (note 22) | $ | 22,809 | 20,980 |
| Interest expense (note 22) | | (2,076) | (1,711) |
| Financial margin | | 20,733 | 19,269 |
| Allowance for loan losses (note 8) | | (3,164) | (2,632) |
| Financial margin after allowance for loan losses | | 17,569 | 16,637 |
| Commissions and fee income (note 22) | | 1,269 | 1,174 |
| Commissions and fee expense (note 22) | | (416) | (354) |
| Financial intermediation result | | (9) | 1 |
| Other operating income (expenses), net (note 22) | | (34) | 182 |
| Administrative and promotional expenses | | (13,808) | (13,720) |
| Operating income | | 4,571 | 3,920 |
| Equity method of associated companies (note 11) | | 199 | 68 |
| Operating income before income tax | | 4,770 | 3,988 |
| Current income tax (note 16) | | (1,616) | (1,102) |
| Deferred income tax (note 16) | | 209 | 52 |
| Net income before discontinued operations | | 3,363 | 2,938 |
| Discontinued operations | | (54) | 52 |
| Net income | | 3,309 | 2,990 |
| Non-controlling interest | | (34) | (25) |
| Controlling interest net income | $ | 3,275 | 2,965 |
| Earning per share (in pesos, see note 3(y)) | $ | 2.08 | 1.84 |

The accompanying notes are an integral part of these consolidated financial statements.

"These consolidated statements of income were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Article 78 of the "General Provisions Applicable to Issuers of Securities and Other Securities Markets Participants" applied on a consistent basis. Accordingly, they reflect the revenues and disbursements relating to the transactions carried out by the Institution during the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of income were approved by the Board of Directors under the responsibility of the following officers".

| RÚBRICA | RÚBRICA | RÚBRICA | RÚBRICA |
|---|---|---|---|
| Enrique Majós Ramírez<br>Chief Executive Officer | Mario Ignacio Langarica Ávila<br>Chief Financial Officer | Marco Antonio Guadarrama Villalobos<br>Controller | Oscar Luis Ibarra Burgos<br>General Internal Auditor |

**Gentera, S. A. B. de C. V. and subsidiaries**

Consolidated statements of changes in stockholders' equity

Years ended December 31, 2019 and 2018

(Millions of pesos)

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

| | Paid-in capital | | Earned capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Additional paid-in capital | Statutory reserves | Prior years´ results | Valuation of available-for-sale securities | Cumulative translation adjustment | Remeasurements for employees' defined benefits | Net income | Non-controlling interest | Total stockholders' equity |
| Balances as of December 31, 2017 | 4,764 | 558 | 1,358 | 6,803 | (61) | 793 | (400) | 2,905 | 85 | 16,805 |
| **Changes resulting from stockholders' decisions:** | | | | | | | | | | |
| Resolutions agreed on April 20, 2018: | | | | | | | | | | |
| Constitution of statutory reserve (note 19) | - | - | 145 | - | - | - | - | (145) | - | - |
| Constitution of reserve for the fund to repurchase shares (note 19) | | | 780 | - | - | - | - | (780) | - | - |
| Appropriation of prior year's net income | - | - | - | 1,980 | - | - | - | (1,980) | - | - |
| Dividend payment (note 19) | - | - | - | (1,084) | - | - | - | - | (60) | (1,144) |
| Repurchase of shares | - | - | (335) | - | - | - | - | - | - | (335) |
| Total | - | - | 590 | 896 | - | - | - | (2,905) | (60) | (1,479) |
| **Changes related to the recognition of comprehensive income:** | | | | | | | | | | |
| Net income | - | - | - | - | - | - | - | 2,965 | 25 | 2,990 |
| Valuation of available-for-sale securities, net of deferred taxes | - | - | - | - | 7 | - | - | - | - | 7 |
| Cumulative translation adjustment of subsidiaries, net | - | - | - | - | - | (151) | - | - | - | (151) |
| Remeasurements for employees' defined benefits, net of deferred taxes | - | - | - | - | - | - | (89) | - | - | (89) |
| Total | - | - | - | - | 7 | (151) | (89) | 2,965 | 25 | 2,757 |
| Balances as of December 31, 2018 | 4,764 | 558 | 1,948 | 7,699 | (54) | 642 | (489) | 2,965 | 50 | 18,083 |
| **Changes resulting from stockholders' decisions:** | | | | | | | | | | |
| Resolutions agreed on April 20, 2019: | | | | | | | | | | |
| Constitution of statutory reserve (note 19) | - | - | 11 | | - | - | - | (11) | - | - |
| Appropriation of prior year's net income | - | - | - | 2,954 | - | - | - | (2,954) | - | - |
| Dividend payment (note 19) | - | - | - | (593) | - | - | - | - | (26) | (619) |
| Repurchase of shares | - | - | (71) | - | - | - | - | - | - | (71) |
| Total | - | - | (60) | 2,361 | - | - | - | (2,965) | (26) | (690) |
| **Changes related to the recognition of comprehensive income:** | | | | | | | | | | |
| Net income | - | - | - | - | - | - | - | 3,275 | 34 | 3,309 |
| Valuation of available-for-sale securities, net of deferred taxes | - | - | - | - | 53 | - | - | - | - | 53 |
| Cumulative translation adjustment of subsidiaries, net | - | - | - | - | - | (111) | - | - | - | (111) |
| Remeasurements for employees' defined benefits, net of deferred taxes | - | - | - | - | - | - | (123) | - | - | (123) |
| Total | - | - | - | - | 53 | (111) | (123) | 3,275 | 34 | 3,128 |
| Balances as of December 31, 2019 | $ 4,764 | 558 | 1,888 | 10,060 | (1) | 531 | (612) | 3,275 | 58 | 20,521 |

The accompanying notes are an integral part of these consolidated financial statements.

"These consolidated statements of changes in stockholders' equity were prepared in accordance with the accounting criteria for credit institutions issued by the National Banking and Securities Commission based on Article 78 of the "General Provisions Applicable to Issuers of Securities and Other Securities Markets Participants" applied on a consistent basis. Accordingly, they reflect all the stockholders' equity account entries relating to the transactions carried out by the Institution during the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of changes in stockholders' equity were approved by the Board of Directors under the responsibility of the following officers."

| RÚBRICA | RÚBRICA | RÚBRICA | RÚBRICA |
|---|---|---|---|
| Enrique Majós Ramírez<br>Chief Executive Officer | Mario Ignacio Langarica Ávila<br>Chief Financial Officer | Marco Antonio Guadarrama Villalobos<br>Controller | Oscar Luis Ibarra Burgos<br>General Internal Auditor |

https://www.gentera.com.mx

**Gentera, S. A. B. de C. V. and subsidiaries**

Consolidated statements of cash flows

Years ended December 31, 2019 and 2018

(Millions of pesos)

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

| | 2019 | 2018 |
|---|---|---|
| Net income | $ 3,275 | 2,965 |
| Adjustment for items not requiring cash flows: | | |
| Losses (reverse) of impairment associated with investment activities | 132 | (4) |
| Depreciation and amortization | 661 | 697 |
| Loss on sale of furniture and equipment | 30 | - |
| Provisions | 959 | 922 |
| Current and deferred income tax | 1,407 | 1,070 |
| Discontinued operations | 17 | - |
| Equity investment in associated companies | (199) | (68) |
| | 3,007 | 2,617 |
| **Operating activities:** | | |
| Change in investment securities | 172 | (671) |
| Change in loan portfolio (net) | (5,577) | (3,697) |
| Change in other operating assets (net) | (675) | 261 |
| Change in deposit funding | 3,321 | 1,722 |
| Change in banking and other borrowings | (1,453) | 4,365 |
| Change in other operating liabilities | (711) | (535) |
| Payments of income tax | (1,172) | (1,090) |
| | (6,095) | 355 |
| Net cash flows from operating activities | 187 | 5,937 |
| **Investment activities:** | | |
| Proceeds from the disposal of furniture and equipment | 25 | 3 |
| Payments in the acquisition of furniture and equipment | (305) | (275) |
| Payments for acquisition of associated companies | (48) | - |
| Dividends received from associated companies | 99 | - |
| Investment in associated company | - | (2,132) |
| Increase in intangibles assets | (154) | (199) |
| Net cash flows from investment activities | (383) | (2,603) |
| **Financing activities:** | | |
| Payments associated to repurchase of own shares | (71) | (335) |
| Dividends payments in cash | (593) | (1,084) |
| Change in non-controlling interest | 8 | (35) |
| Net cash flows from financing activities | (656) | (1,454) |
| Net (decrease) increase in cash and cash equivalents | (852) | 1,880 |
| Effects on changes in cash and cash equivalents | (68) | (71) |
| Cash and cash equivalents at the beginning of the year | 7,795 | 5,986 |
| Cash and cash equivalents at the end of the year | $ 6,875 | 7,795 |

The accompanying notes are an integral part of these consolidated financial statements.

"These consolidated statements of cash flows were prepared in accordance with the accounting criteria for credit institutions, issued by the National Banking and Securities Commission, based on Article 78 of the "General Provisions Applicable to Issuers of Securities and Other Securities Markets Participants" applied on a consistent basis. Accordingly, they reflect the cash inflows and outflows arising from transactions carried out by the Institution during the years noted above. Furthermore, these transactions were carried out and valued in accordance with sound banking practices and the applicable legal and administrative provisions."

"These consolidated statements of cash flows were approved by the Board of Directors under the responsibility of the following officers."

| RÚBRICA | RÚBRICA | RÚBRICA | RÚBRICA |
|---|---|---|---|
| Enrique Majós Ramírez<br>Chief Executive Officer | Mario Ignacio Langarica Ávila<br>Chief Financial Officer | Marco Antonio Guadarrama Villalobos<br>Controller | Oscar Luis Ibarra Burgos<br>General Internal Auditor |

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

## (1) Description of business and significant transactions-

### *Description of business-*

Gentera, S. A. B. de C. V. (Gentera) is a Mexican corporation located in Insurgentes Sur 1458, Colonia Actipan, 03230, Mexico City, which purpose is to promote, organize and manage all types of civil or commercial entities, including but not limited to, multiple banking entities with the purpose of providing banking and credit services pursuant to the Law of Credit Institutions, as well as other financial entities, both domestic and foreign.

At December 31, 2019 and 2018, Gentera and its consolidated subsidiaries are comprised of:

i. Banco Compartamos, S. A., Institución de Banca Múltiple (the Bank) which in accordance with the Law for Credit Institutions, is authorized to carry out multiple banking activities which comprise, among others, granting loans, receipt of deposits, acceptance of borrowings, operation with securities and other financial instruments in Mexico.

ii. Compartamos, S. A. (Compartamos Guatemala) is an entity incorporated in Guatemala, which main activity is, among others, granting any type of loans and financing to individuals or entities with own funds in Guatemala, as well as granting or obtaining loans or financing of any nature.

iii. Compartamos Financiera, S. A. (Compartamos Financiera) is an entity incorporated under the regulations of the Republic of Peru, which purpose is to operate as a financial services entity, and is allowed to carry out all transactions and provide all services, by any means that result applicable and correspond, in accordance with established legal provisions that regulate entities of this nature in conformity with Peruvian legislation.

iv. Red Yastás, S. A. de C. V. (Red Yastás), is an entity incorporated in Mexico, which purpose is: a) to enter into agreements to provide services, either mandates or commercial commission with credit institutions to engage with other people on behalf of the aforementioned credit institutions, the commissions or services mandated, complying with applicable regulation on each transaction or banking service, b) to service credit institutions as manager of commission agents with the purpose of organizing service providers' networks or banking commission agents to carry out certain activities and c) to receive, process and distribute all types of funds or economic resources through electronic, manual or telephonic transfers or directly online through any other means of communication, among others.

v. Compartamos Servicios S. A. de C. V. (Compartamos Servicios), is an entity incorporated in Mexico, which purpose is to provide human resources services and personnel to the entities of the group, as well as to provide advisory in planning, organization and management of companies, among other activities.

(Continued)

vi. Controladora AT, S. A. P. I. de C. V. (Controladora AT), is an entity incorporated in Mexico, which consolidates Aterna, Agente de Seguros y Fianzas, S. A. de C. V. (Aterna). Controladora AT has as a purpose the purchase, sale, transfer, assessment, and in general the marketing in any way with shares, stocks, rights and interests in commercial corporations, and any other entities, domestic and foreign, either as a founder or by acquiring shares in companies that were previously constituted. Aterna is an entity incorporated in Mexico, which purpose is to act as insurance and bonding agent under the terms of the General Law for Insurance and Mutual Insurance Companies, Federal Bonding Institutions Act and Regulation of Insurance Agents and Bonding.

vii. Pagos Intermex, S. A. de C. V. ("Pagos Intermex") is an entity incorporated in Mexico, which main activity is the operation of money orders from the United States of America, mainly of Mexicans to their families in different states of Mexico, which are delivered through its network of correspondents. (consolidated subsidiary until December 31, 2018, see notes 4 and 11).

## (2) Authorization and basis of presentation-

### Authorization

On February 26, 2020, the Board of Directors and the following officers approved the issuance of the accompanying consolidated financial statements and their related notes:

| | |
|---|---|
| Enrique Majós Ramírez | Chief Executive Officer |
| Mario Ignacio Langarica Ávila | Chief Financial Officer |
| Marco Antonio Guadarrama Villalobos | Controller |
| Oscar Luis Ibarra Burgos | General Internal Auditor |

The Stockholders of Gentera are empowered to modify the consolidated financial statements after its issuance.

### Basis of preparation

### a) Statement of compliance

On March 16, 2011, the Commission issued the "Resolution that modifies the general regulations applicable to securities issuers and other securities market participants", which establishes that securities issuers which, through its subsidiaries, carry out mainly financial activities subject to the supervision of Mexican authorities, are required to prepare and audit its financial statements under the same basis applicable to such subsidiaries, with the purpose of ensuring that the financial information of both entities is comparable.

The aforementioned is determined when such activities represent more than 70% of consolidated assets, liabilities or total revenues at the prior year-end. Consequently, since the Bank comprises 56% and 77% of the consolidated assets and revenues, respectively, as of and for the year ended December 31, 2019 (60% and 78% respectively, in 2018), the accompanying consolidated financial statements have been prepared in conformity with the accounting criteria established by the Commission for credit institutions in Mexico.

The accounting criteria referred to in the prior paragraph, points out that the Commission will issue particular rules for specialized transactions and in the absence of specific accounting criteria from the Commission and in a broader context the Mexican Financial Reporting Standards (Mexican FRS) supplementary use of Mexican FRS A-8 will be followed and only in the event that the International Financial Reporting Standards (IFRS) referred to by Mexican FRS A-8 do not provide guidance to the accounting treatment, another set of established accounting standards may be used in the following order: generally accepted accounting principles in the United States of America ("US GAAP") or any other formal and recognized accounting criteria, that do not contravene the criteria of the Commission.

**b) Use of estimates and judgments**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

Judgments and assumptions and estimation uncertainties

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements and assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

— Notes 3(f), 3(g), 8 and 9 – Determination of the allowance for loan losses and recoverability of other accounts receivable: assumptions and inputs for its determination.

— Notes 3 (m), 10, 11 and 12 – Impairment assessment of book value of furniture and equipment, intangibles and goodwill: key assumptions for the recoverable amount, including recoverability of development costs, measurement of impairment of investment in associated companies.

— Notes 3 (k) y 16 – Recognition of deferred tax assets: availability of future taxable profits and materialize of deferred tax asset.

— Notes 3 (q) y 15 – Measurement of defined benefit obligations: key actuarial assumptions.

— Notes 3 (i) y 11 – Investment in associated companies: whether Gentera has significant influence.

— Note 3 (b) – Consolidation: whether the Company has factual control over an investee.

(Continued)

## c) Functional and reporting currency

The financial statements of the subsidiaries have been translated prior to consolidation, to the accounting criteria for credit institutions in Mexico set forth by the Commission, to present financial information in accordance with such criteria.

The financial statements of the foreign subsidiaries have been translated into Mexican pesos (reporting currency) considering that their recording and functional currency are the same, resulting in the use of the following exchange rates: a) year-end for monetary and non-monetary assets and liabilities ($5.6923 Mexican pesos per Peruvian sol and $2.4501 Mexican pesos per Guatemalan quetzal, b) historical for stockholder's equity and c) weighted average of the period ($5.77410 Mexican pesos per Peruvian sol and $2.49880 Mexican pesos per Guatemalan quetzal) for revenues, costs and expenses, translation effects are presented as part of stockholders' equity.

The exchange rates used in 2018 were: a) year-end for monetary and non-monetary assets and liabilities ($5.8260 Mexican pesos per Peruvian sol and $2.5399 Mexican pesos per Guatemalan quetzal, b) historical for stockholder's equity and c) weighted average of the period ($5.85030 Mexican pesos per Peruvian sol and $2.5445 Mexican pesos per Guatemalan quetzal) for revenues costs and expenses, translation effects are presented as part of stockholders' equity.

For purposes of disclosure in the notes to the consolidated financial statements, pesos or "$" refers to millions of Mexican pesos, and when reference is made to dollars, it means dollars of the United States of America.

## d) Transactions at the trade date

The consolidated financial statements of Gentera recognize assets and liabilities arising from investment securities on the trade date, regardless of the settlement date.

## (3) Summary of significant accounting policies -

The following summarizes the most important accounting criteria followed during the preparation of the consolidated financial statements, which have been applied consistently during the years presented, except as explained in note 4, which addresses changes in accounting policies recognized during the period.

### *(a) Recognition of the effects of inflation-*

The accompanying consolidated financial statements include the recognition of inflation effects in the financial information through December 31, 2007, based on the measurement factor derived from the value of the Investment Unit (UDI – Spanish abbreviation) which is an index, whose value is determined by Banco de México (the Central Bank) derived from inflation, given that beginning in 2008, in accordance with the Mexican FRS B-10 "Effects of Inflation", Gentera and subsidiaries operate on a non-inflationary economic environment (accumulated inflation in the prior three-year period less than 26%).

(Continued)

(Millions of pesos, except UDI value)

The percentage of accumulated inflation in the prior three-year period, yearly inflation and the value of UDI at each of the year-end are shown as follows:

| | | Inflation | |
|---|---|---|---|
| **December 31** | **UDI** | **Yearly** | **Cumulative** |
| 2019 | $ 6.399018 | 2.77% | 15.03% |
| 2018 | 6.226631 | 4.92% | 15.71% |
| 2017 | 5.934551 | 6.68% | 12.60% |
| | ======= | ===== | ====== |

***(b) Basis of consolidation-***

The accompanying consolidated financial statements as of and for the years ended December 31, 2019 and 2018, include the balances of Gentera and its subsidiaries mentioned below. All significant balances and transactions between Gentera and the subsidiaries have been eliminated upon consolidation:

| Entity | Equity | Functional currency |
|---|---|---|
| Bank | 99.98% | Mexican pesos |
| Compartamos Guatemala | 99.99% | Guatemalan quetzal |
| Compartamos Financiera | 99.99% | Peruvian soles |
| Red Yastás | 99.99% | Mexican pesos |
| Compartamos Servicios | 99.99% | Mexican pesos |
| Controladora ATP* | 50.00% | Mexican pesos |
| Pagos Intermex** (Until December 31, 2018 in the consolidated balance sheet) | 99.99% | Mexican pesos |

* Controladora AT is consolidated because Gentera has control on the financial policies and operating decisions of the subsidiary.

** On December 30, 2019, Gentera signed a purchase-sale agreement which purpose is to sell 100% of its shareholding, therefore, the investment in Pagos Intermex as of December 31, 2019 is presented under the caption "Long-lived assets available for sale, net" in the consolidated balance sheet and the results for the years ended December 31, 2019 and 2018, are presented under the caption "Discontinued operations" in the consolidated statements of income (see notes 4 and 11).

### *(c) Cash and cash equivalents -*

This caption comprises, bank accounts in local and foreign banks and restricted cash which are recognized at face value, and cash and cash equivalents in foreign currency are valued at the exchange rate issued by the Central Bank at the date of presentation of the consolidated financial statements. Interest earned from cash and cash equivalents is recognized in the consolidated income statement on an accrual basis (note 6).

The restricted cash and cash equivalents include documented bank loans with original maturities of up to three days ("Call Money"), deposit auctions and the deposit of monetary regulation, both with the Central Bank in accordance with the Law, in order to regulate the money market liquidity, such deposit bears interest at interbank funding rate. Also, this caption includes the saving fund of Gentera's employees and guarantee deposits with financial institutions in Peru.

The foreign exchange currencies acquired and agreed to be settled at later date to the purchase/sale transaction are recognized as restricted cash (foreign currency to be received), while foreign currency sold is recorded as cash outflow (currency to be delivered). The rights and obligations arising from the foreign exchange sales and purchases are recorded in the captions "Other accounts receivable" and "Sundry creditors and other accounts payable", respectively.

### *(d) Investment securities-*

Investment securities consist of equity instruments, government and banking securities, listed and unlisted, which are classified in accordance with the intention of use that Gentera assigns at the date of their acquisition as follows:

*Trading securities-*

Trading securities which are held for operation in the market are recorded at fair value using current prices obtained from specialists in the supply and price calculation to value securities portfolios, authorized by the Commission, known as "price vendors", and in case of unlisted securities, market prices of financial instruments with similar characteristics are used as reference, which uses prices calculated based on formal and widely accepted valuation techniques. The fair value is the amount at which interested parties are willing to exchange for the financial instrument, in an uninfluenced transaction. Valuation effects of this category are directly recognized in the consolidated income statement of the year under the caption "Financial intermediation result".

Expenses incurred in the acquisition of trading securities are recognized in the income of the year. Interest income is recognized in the consolidated income statement as accrued.

(Continued)

*Available-for-sale securities-*

Available-for-sale securities are comprised of equity instruments, whose intention is not to obtain profits derived from the differences in prices resulting from trading transactions, and therefore represent a residual category, that is, they are acquired with a different intention from trading or held-to-maturity securities.

At the moment of acquisition, these securities are recorded at fair value plus acquisition costs for the transaction, which represents the cost of acquisition for Gentera and are subsequently valued in the same way as trading securities; the valuation effect is recognized in stockholders' equity under "Unrealized gain or loss from valuation of available-for-sale securities", net of deferred taxes, which is cancelled to recognize in income the difference between the net value of realization and acquisition cost at the time of the sale.

The yield on debt securities is recorded in accordance with the effective interest method as appropriate according with the nature of the instrument; such income is recognized as realized in the consolidated income statement under "Interest income".

The cash dividends of the stock securities are recognized in the consolidated income of the year in the same period in which the right to receive the payment is generated.

*Securities impairment-*

When there is objective evidence that an available-for-sale security is impaired, the book value of the security is modified and the amount of the loss is recognized in the consolidated results for the year

*Reclassifications between categories-*

*Reclassifications of securities from trading to available-for-sale could be only permissible with the express authorization of the Commission.*

**(e) *Loan portfolio-***

Represents the outstanding balances of the amounts granted to borrowers, plus uncollected interest earned in accordance with the payment scheme. Outstanding loan and interest balances are classified as past-due according to the following criteria:

Commercial loans with principal and interest periodic partial payments – 90 or more days after due date.

Commercial loans with principal and interest payments – 60 or more days after due date.

Consumer and mortgage loans – 90 or more days past due.

(Continued)

*Residential mortgages* – When the outstanding loan balance presents installments payments not fully collected for 90 or more due days.

Loans are granted based on an analysis of the customer's application and the consultations made at the credit information bureaus. In some cases, as required, an analysis is conducted of the borrower's financial position and other general characteristics established in the applicable laws, Gentera's manuals and internal policies.

Loans, mainly consumer portfolio, are controlled by periodic visits to the clients by Gentera personnel, and by daily monitoring of the payments through the system, where the relevant personnel can follow-up on late payments.

Loans are collected weekly, biweekly or monthly. According with the contracted credit, clients make loan payments through deposits in banking accounts contracted by Gentera with other multiple banking institutions solely for that purpose, as well as its correspondents to conduct this type of operations and through its branch offices.

Evaluation on the credit risk of each client is handled by verifying their credit history with Gentera, and checking clients' credit ratings with the credit bureau.

Gentera's policy for avoiding risk concentration is based mainly on setting maximum amount limits on loans by the borrower.

Interests are recognized in income as accrued. However, the accumulation of interests is suspended when a loan is transferred to past due loan portfolio recording interest in memorandum accounts. When such interest is collected, these are recognized as income. Reserves are created for the total balance of non-collected accrued ordinary interest, related to the loans transferred to past due loans, at the moment of transfer.

Past due loans are transferred to current loans when the outstanding balances of past-due loans (principal and interest, among others) are totally settled or that existed evidence of sustained payments.

It is considered that there is sustained payment when the borrower shows compliance of the payment without delay for the total amount of principal and interest, for at least three consecutive installment payment of the loan payment scheme.

Commissions on late payment of loans are recognized in the consolidated income statement when the delay occurs.

As of December 31, 2019 and 2018, Gentera had mainly a short-term consumer loan portfolio (note 8).

In the event that Gentera sold loan portfolio previously written-off, the internal policy corresponding to such process, provides that participants be unrelated parties having as purpose obtaining the best possible market price. In addition, economic and reputational assessment of each participant is performed to make the best decision.

(Continued)

*Restructurings*

Loans with periodic payments of principal and interest, which are subject to restructuring, may be considered as in force at the time that such act is carried out, regardless the following requirements be applicable to them:

- Current loans that are restructured, without at least 80% of the original loan term of the loan having elapsed, shall be deemed to be current, only when they meet the criteria mentioned below:

  i. The borrower has covered all the interest accrued as of the date of the restructuring, and
  ii. The borrower would have covered the principal of the original loan amount, which at the date of the restructuring should have been covered.
  iii. If all the conditions described in the previous paragraph are not met, they will be considered as due from the time they are restructured and until there is no evidence of sustained payment.

- In the case of current loans that restructure during the course of the final 20% of the original term of the loan, these will be considered valid only when the borrower has:

  a) Liquidated all the interest accrued as of the date of the restructuring

  b) Covered the principal of the original loan amount, which at the date of the restructuring should have been covered, and

  c) Covered 60% of the original loan amount.

If all the conditions described in the previous paragraph are not met, they will be considered as due from the time they are restructured and until there is no evidence of sustained payment.

**(f) *Allowance for loan losses -***

An allowance for loan losses is booked which, in Management's opinion, is sufficient to cover for credit risks associated with the loan portfolio, as well as other credit risks.

Allowances for loan losses are based on analytical studies of the portfolio in accordance with the "General dispositions applicable to credit institutions" (the Dispositions) issued by the Commission, which include the following:

*Commercial loan portfolio-*

Allowances for loan losses for commercial loan portfolio are based on the individual assessment of the credit risk and classification of the costumers in accordance with the Dispositions issued by the Commission.

(Continued)

(Millions of pesos)

The loan portfolio with companies and individuals with business activity, with annual income or net sales less than 14 million UDIS is rated by the methodology described in Annex 21 of the Dispositions. Such methodology is based on the expected loss, which considers the probability of default, loss given default and exposure at default.

Allowances for loan losses booked at December 31, 2019 and 2018 were determined in conformity with the degree of risk and the corresponding percentage ranges of allowance as shown below:

| Degree of risk | Percentage ranges of allowance |
|---|---|
| "A-1" | 0 to 0.9 |
| "A-2" | 0.901 to 1.5 |
| "B-1" | 1.501 to 2.0 |
| "B-2" | 2.001 to 2.5 |
| "B-3" | 2.501 to 5.0 |
| "C-1" | 5.001 to 10.0 |
| "C-2" | 10.001 to 15.5 |
| "D" | 15.501 to 45.0 |
| "E" | Greater than 45.0 |

*Troubled loans* – Commercial loans with a high probability of not being totally collected

*Consumer loan portfolio-*

The calculation of the allowance for loan losses for consumer loans is made in conformity with the current dispositions issued by the Commission, which model of expected loss establishes that the allowance for loan losses is based on the probability of default, loss given default and exposure at default, considering for the calculation of the allowance the figures at the last day of each month.

The inputs to be considered in such model to determine the probability of default are comprised of: i) number of billings past due, ii) maximum number of billings past due, iii) payment made, iv) balance reported in the credit information companies, v) amount demandable reported in the credit information companies, vi) seniority of the borrower at the Gentera, vii) months elapsed since the last late payment in the last thirteen months reported in the credit information companies, viii) number of members of the group, ix) group cycles of the borrower, and x) original loan amount.

Additionally, when non-revolving consumer loans have collaterals, the covered and exposed parts must be segregated, considering an assignment in the given default loss of 10% to the covered part if related to cash collateral and /or liquid collateral and in case of mortgage collaterals a loss given default of 60% to the covered part may be assigned..

The allowance for loans losses for non-revolving consumer loan portfolio as of December 31, 2019 and 2018, is determined by the degree of risk assigned to the loan, as shown below:

(Millions of pesos)

| Degree of risk | Percentage ranges of allowance |
|---|---|
| "A-1" | 0 to 2.0 |
| "A-2" | 2.01 to 3.0 |
| "B-1" | 3.01 to 4.0 |
| "B-2" | 4.01 to 5.0 |
| "B-3" | 5.01 to 6.0 |
| "C-1" | 6.01 to 8.0 |
| "C-2" | 8.01 to 15.0 |
| "D" | 15.01 to 35.0 |
| "E" | 35.01 to 100.0 |

*Mortgage loan portfolio-*

The allowance for loan losses for residential mortgages is determined using the corresponding balances at the last day of each month. Furthermore, factors such as:
i) outstanding amount, ii) payment made, iii) value of property, iv) loan balance, v) past-due days, vi) loan denomination and vii) completeness of the file are considered. The total amount of allowance for each loan assessed is the result of multiplying the probability of default by the loss given default and exposure at default.

Degree of risk and percentages of allowance for loan losses at December 31, 2019 and 2018 are as shown below:

| Degree of risk | Percentage ranges of allowance |
|---|---|
| "A-1" | 0 to 0.50 |
| "A-2" | 0.501 to 0.75 |
| "B-1" | 0.751 to 1.00 |
| "B-2" | 1.001 to 1.50 |
| "B-3" | 1.501 to 2.00 |
| "C-1" | 2.001 to 5.00 |
| "C-2" | 5.001 to 10.00 |
| "D" | 10.001 to 40.00 |
| "E" | 40.001 to 100.00 |

*Write-offs* - Gentera has the policy to write-off the consumer loan portfolio that had 180 days after being considered past-due, except for those loans in process of judicial collection, given that during that period and once carried out all recovery efforts, its practical impossibility of recovery is determined, except in cases where management determines that a loan or group of loans must be written-off prior to this number of days. Such write off is carried out during the first days of each month, considering the loans that comply with the aforementioned term until the last day of the immediate previous month, canceling the unpaid balance of the loan against the allowance for loan losses. In the event that the loan balance to be write-off exceeds its corresponding allowance, prior to the write-off, such allowance is increased up to the amount of the difference.

(Continued)

In the case of commercial loans and residential mortgages the policy of write-off fits the moment once its recovery is determined to be impractical.

Recoveries related to written-off loans or loans written-down from the consolidated balance sheet are recognized in the consolidated statement of income of the year under the caption of "Allowance for loan losses".

The grading of the loan portfolio was conducted as of December 31, 2019 and 2018, and Management considers that the allowances resulting from such grading are sufficient to absorb the portfolio's loan loss risks.

### *(g) Other accounts receivable-*

This caption represents, among others, receivables from employees, accounts receivable from correspondents, recoverable income taxes and items directly related to the loan portfolio, which an allowance for doubtful receivables is determined based on the same percentage of risk assigned to the associated loan.

For the other receivables, including accounts receivable from correspondents, related to identified debtors with maturity exceeding 90 calendar days, a provision is created for the total unpaid balance (60 days if balances are unidentified), except for those related to recoverable tax balances and clearing accounts.

Management considers that the reserve for doubtful accounts is sufficient to absorb losses in accordance with Gentera's policies.

### *(h) Property, furniture and equipment-*

Property, furniture and equipment, including acquisitions from capitalized leases, are stated as follows:

i) Acquisitions conducted from January 1, 2008 at their historical cost, and

ii) Acquisitions made up to December 31, 2007 at their restated values, determined applying factors derived from the UDI, to their acquisition costs up to December 31, 2007.

Depreciation is calculated using the straight-line method, based on the estimated assets' useful life determined by Gentera's Management.

The leases are capitalized if the contract terms substantially transferred all inherent risks and benefits of ownership of the leased asset. The capitalized value is the value of the leased asset or the present value of minimum lease payments, whichever is less at lease inception. In the case of capital lease agreements, the interest rate used for calculating the present value of minimum payments is implicit in the related agreement. If interest rate is not available, the incremental rate as established on Mexican FRS D-5 "Leases" is used.

(Continued)

The related liability with the lessor is included in the consolidated balance sheet as an obligation for capitalized lease. The financial costs of the financing granted by the lessor to acquire the leased assets are recognized in the consolidated income statement as accrued. Lease payments are allocated between finance charges and reduction of the lease obligation in order to achieve a constant interest rate on the remaining balance of the liability. Assets held under capitalized leases are included within furniture and equipment and computer equipment captions, and its depreciation is calculated according to the term of the lease. The accounting policy for capitalized leases described in this note is based on the FRS D-5 "Leases", in force until December 31, 2018 (see note 24).

***(i) Investment in associated companies -***

Permanent investments in associated companies, in which Gentera has no significant influence or control, are valued using the equity method, through which the participation in the results and in the stockholders' equity of these companies is recognized using the financial statements of the Company. Same date and for the same Gentera period.

The other permanent investments made by the Group are recorded at cost, see note 11.

***(j) Long-lived assets available for sale-***

Long-lived assets are classified as intended to be sold if they meet all the following requirements:

a) Gentera's governance that approves this activity has committed to a sales plan.

b) The assets are available for immediate sale, in their current conditions, subject exclusively to the usual and customary terms for the sale of those assets and their sale is highly probable.

c) Actions to locate the buyer and other activities to complete the plan are underway. If the buyer is not located, at least the potential market has been identified.

d) It is expected that the sales plan will be completed in less than a year. This requirement is not met in the cases in which the entity enters into sales agreements that are essentially purchase options and sale contracts with a return lease. An extension of the one-year period to complete the sale does not prevent the asset from being classified as held for sale, if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed with a plan to sell the asset.

e) There is an adequate estimate of the prices to be received in exchange for the asset or group of assets.

f) It is not probable that there will be significant changes to the sale plan or it will be canceled. Assets for sale that meet the requirements of the preceding paragraph, must be evaluated on the date of approval of the sale plan at their net book value or the net sale price, the lower. If applicable, the impairment loss should be applied to the results of the year.

(Continued)

### *(k) Income tax (IT) and employee statutory profit sharing (ESPS)-*

The current IT and ESPS are determined according to current tax legislation (note 16).

Deferred IT and ESPS are recognized using the assets and liabilities method, which compares their accounting and tax values. Deferred IT and ESPS (assets and liabilities) are recognized for future tax consequences attributable to temporary differences between the value reflected in the consolidated financial statements of existing assets and liabilities and their respective tax bases, as well as for operating loss carryforwards and other recoverable tax credit.

Deferred IT 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. The effect of changes in tax rates on deferred IT and ESPS are recognized in consolidated results of the period in which they were enacted.

The current and deferred IT and ESPS are presented and classified to the consolidated results of the period, except for those originated from a transaction that was recognized directly in stockholders' equity.

Deferred asset for ESPS is totally reserved, given that Gentera has the policy to reward its employees up to a month of salary, even when there is no resulting payment base for ESPS according to the current tax legislation.

### *(l) Other assets, deferred charges and intangibles -*

This caption is mainly comprised of guarantee deposits, insurance and expenses paid in advance, intangibles, goodwill and expenses for debt issuance. Amortization is accounted for using the straight-line method during the life of each transaction.

The expenses paid in advance as of December 31, 2019 and 2018, do not present impairment losses nor reversals of impairment losses, since these still have the capacity to generate economic future benefits.

Amortization is calculated using the straight-line method, based on the estimated intangible's useful life determined by Management.

### *(m) Impairment of long-lived assets-*

Gentera periodically assesses the net carrying amount of property, furniture and equipment, intangibles assets, investment in associated companies and goodwill, to determine whether there is an indication that the carrying amount exceeds the recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net revenues reasonably expected to be generated by the asset. If the net carrying amount of the asset exceeds the recoverable amount, Gentera records the necessary provisions. When Gentera has the intention to sell such assets, these are reported in the consolidated balance sheet at the lower of net carrying amount or realizable value.

(Continued)

Long-lived assets, both tangible and intangible, are subject to impairment testing, in the case of assets with an indefinite life and goodwill, impairment testing is performed annually and assets with a definite life are only subject to impairment testing when there are signs of impairment.

### *(n) Deposit funding -*

Liabilities arising from deposit funding including demand deposits, time deposits, debt securities issued and global account of deposits with no movements are recorded at placement cost, plus interest expense, determined using the straight-line method as accrued.

Those securities issued at a price different from the face value, shall recognize a deferred charge or credit for the difference between the face value of the security and the amount of cash received, which will be recognized in the consolidated income statement as an interest income or expense as accrued, taking into account the maturity of the security.

Issuance expenses are initially recognized as deferred charges and amortized against the consolidated results for the period, according to the term of the debt issuance from which they derived.

### *(o) Banking and other borrowings-*

Banking and other borrowings comprise borrowings from banks and financing provided by development banking institutions and development funds specialized in financing economic, productive or development activities. The banking and other borrowings are recorded at the value of the contractual obligation; interest is recognized on an accrual basis in the consolidated income statement.

### *(p) Provisions-*

Liability provisions represent present obligations as a consequence of past events in which the outflows are probable in the short-term. These provisions have been recorded under the best estimate carried out by Management.

### *(q) Employee benefits -*

The benefits granted by Gentera to its employees are described in the following page.

*Short-term direct benefits-*

Short-term direct 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 Gentera has a legal or assumed obligation to pay this amount as a result of the past services provided and the obligation can be reasonably estimated.

*Long-term direct benefits-*

Gentera's net obligation in relation to the direct long-term benefits and which is expected to pay at least twelve months after the date of the most recent consolidated balance sheet presented, is the amount of future benefits that the 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 Gentera has no realistic alternative other than to make the corresponding payments or when the offer of these benefits cannot be withdrawn or when conditions that require the recognition of restructuring costs are met, whichever occurs first. If benefits are not expected to be settled within twelve after the date of the most recent consolidated balance sheet presented, then they are discounted.

*Post-employment benefits-*

Gentera has implemented a pension plan, which consists of a mixed scheme in which the benefit is derived from two components that are a defined benefit plan and a defined contribution plan.

The defined benefit plan is funded entirely by Gentera, and the defined contribution plan is funded with the contributions from both Gentera and the employees.

The cost of defined benefit plan is determined in accordance with provisions of the FRS D-3 "Employee benefits" and the cost of the defined contribution plan is equivalent to the amount of the contributions that Gentera makes to the individual employees' bank account.

Gentera records a provision to meet obligations for severance and seniority premiums. The recording of the provision is recognized in the results of each year based on actuarial calculations under the projected unit credit method using nominal interest rates and considering projected salaries.

(Continued)

Remeasurements (known before as actuarial gains and losses), resulting from differences between projected and actual actuarial assumptions at the end of the period, are recognized in the period when incurred under the caption "Remeasurements for employee defined benefits" within stockholders' equity.

### *(r) Stockholders' equity -*

Capital stock, statutory reserves and prior years' results are stated as follows: i) movements made beginning January 1, 2008 at their historical cost, and ii) movements made prior to January 1, 2008, at their restated values determined by applying factors derived from UDIS to their historical values through December 31, 2007.

### *(s) Repurchase of shares -*

The own shares acquired are shown as a decrease in the fund for the repurchase of own shares, included in the consolidated financial statements under the statutory reserves. Dividends received are recognized by decreasing their cost.

With respect to the sale of repurchased shares, the amount obtained in excess or deficit of their restated cost is recognized as additional paid-in capital.

### *(t) Cumulative translation adjustment-*

Represents the difference arising from translating foreign operations from the recording and functional currency, which are the same, to the reporting currency.

### *(u) Comprehensive income-*

Comprehensive income comprises the net income, cumulative translation adjustment of subsidiaries, remeasurements for employees defined benefits and unrealized gain from valuation of available-for-sale securities, as well as, items required by specific accounting standards to be included in the stockholders' equity, such items do not constitute capital contributions, reductions or distributions.

### *(v) Revenue recognition-*

Interest earned from cash and cash equivalents, investments in securities are recognized in the consolidated income statement as accrued, as per the effective interest method; while equity instruments are recognized at the time the right to receive payment is generated, against the consolidated results for the year.

(Continued)

Loan portfolio interest is recognized as accrued, except for those related to past-due portfolio, which are recognized in income when collected. Commissions are recognized when earned under the caption "Commissions and fee expense" in the consolidated income statement.

Amortization of premiums for the issuance of debt securities is also considered as income.

Income from sales of furniture and equipment is recognized in the consolidated income statement when all of the following requirements are met: a) the risks and benefits of the goods have been transferred to the buyer and no significant control thereon is retained; b) income, costs incurred or costs to be incurred are determined on a reliable basis, and c) Gentera is likely to receive economic benefits from the sale.

***(w) Interest expense-***

This caption comprises interest accrued on financing received to fund the operations of Gentera and the interest accrued from the demand and time deposits and the global account of deposits without movements, debt securities issued and banking and other borrowings, as well as the effects on changes in cash and cash equivalents.

***(x) Other operating income (expense)-***

This caption includes income and expenses such as financing cost of capital lease, charges for doubtful accounts, write-offs, donations, impairment losses of long-lived assets and result in the sale of furniture and equipment.

***(y) Earning per share-***

This caption represents the result of dividing the profit for the period by the weighted average of current shares during the period. For the years ended on December 31, 2019 and 2018, the earning per share is $2.08 Mexican pesos and $1.84 pesos, respectively.

***(z) Contributions to the Banks Savings Protection Institute (IPAB for its acronym in Spanish)-***

Contributions made by multiple banking institutions to the IPAB are made in order to establish a system to protect the banking savings of parties conducting guaranteed operations in the terms and with the restrictions stipulated in the Bank Savings Protection Law, as well as to regulate the financial support granted to multiple banking institutions for the protection of the interests of the savings of the public.

Contributions made for this concept for the years ended December 31, 2019 and 2018, amounted to $65 and $57, respectively, which were charged directly to results of the year.

(Continued)

### *(aa) Foreign currency transactions -*

The accounting records are maintained in both Mexican pesos and foreign currencies, which for consolidated financial statement presentation purposes, currencies other than dollars are translated to the dollar equivalent and subsequent to Mexican pesos as established by the Commission. For the dollar translation into Mexican pesos, the exchange rate determined by the Central Bank for the settlement in Mexico of transactions denominated in foreign currencies is used. Exchange gains and losses are recognized on accrual basis in the consolidated results of the year.

### (bb) Financial intermediation result-

Arises from the difference between the exchange rate used to buy or sell foreign currencies, including the adjustment to the final position, valued at the exchange rate referred to in the preceding paragraph, as well as the valuation at fair value of trading securities.

### (cc) Contingencies-

Liabilities or important losses related to contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. When a reasonable estimation cannot be made, qualitative disclosure is provided in the notes to the consolidated financial statements. Contingent income, earnings or assets are not recognized until their realization is certain (note 20).

### *(dd) Segment information-*

The accounting criteria prescribed by the Commission establishes that multiple banking institutions must segregate their activities in order to identify the different operating segments, which as minimum include: i) loan operations; ii) treasury and investment banking operations, and iii) operations conducted on behalf of third parties. In addition, due to materiality, additional operating segments and sub-segments can be identified (note 22).

(Continued)

## 4) Accounting changes-

**2019 accounting changes**

### (a) Accounting Criteria changes set forth by the Commission-

On December 27, 2017, the Commission published in the Federal Gazette (DOF for its acronym in Spanish) modifications to the Accounting Criteria. In accordance with such publication, the modifications related to accounting criteria B-6 "Loan portfolio" and D-2 "Income statement" became effective on January 1$^{st}$, 2019.

The Accounting Criteria aforementioned were modified to allow the cancellation, in the period in which they occur, of the excess of credit reserves in the balance of the allowance for loan losses, as well as to recognize the recoveries of loans previously written-off within the caption "Allowance for loan losses" in the consolidated statement of income.

### (b) 2019 FRS Revisions-

On December 27, 2018 the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF) issued a document called "2019 FRS Revisions", containing precise modifications to some of the existing FRS. The applicable FRS Revisions that became effective on January 1st, 2019, did not generate important effects on the consolidated financial statements.

### (c) Reclassifications-

On December 30, 2019, Gentera signed a purchase-sale agreement whose purpose is the sale of its shareholding in the subsidiary Pagos Intermex, whereby Gentera will transfer 100% ownership of its shareholding to a third party (note 11).

Derived from the change in the Accounting Criteria described in subsection "(a)" of this note and from the transaction described in the previous paragraph, the consolidated statement of income for the year ended December 31, 2018, was reclassified to conform with the presentation used in the income statement for the year ended December 31, 2019, as shown on the following page.

(Continued)

(Millions of pesos)

| | Previously reported figures | Accounting change and discontinued operations | Reclassified figures |
|---|---|---|---|
| Interest income | $ 20,987 | (7) | 20,980 |
| Allowance for loan losses | (2,712) | 80 | (2,632) |
| Commissions and fee income | 1,357 | (183) | 1,174 |
| Commissions and fee expense | (422) | 68 | (354) |
| Other operating income (expenses) | 260 | (78) | 182 |
| Administrative and promotional expenses | (13,768) | 48 | (13,720) |
| Current income tax | (1,123) | 21 | (1,102) |
| Deferred income tax | 53 | (1) | 52 |
| Discontinued operations | - | 52 | 52 |

- Aforementioned reclassifications include a credit for $80 in the caption "Allowance for loan losses" and a debit for $80 in "Other operating income (expense)", which relate to the recoveries of loans previously written-off for $78 and cancelation of credit reserve excess for $2, in accordance with the aforementioned in subsection (a) of this note.

**(5) Foreign currency position-**

In the case of the Bank, the Central Bank regulations establish the standards and limits for operations in foreign currencies carried out by the credit institutions as follows:

1. The (short or long) position in US dollars must not exceed a maximum of 15% of the Bank's basic capital.

2. The foreign currency position must not exceed 2% of net capital, except for the dollar or currencies referred to the dollar, which can reach up to 15% of the basic capital of the Bank.

3. The net foreign currency position must not exceed 1.83 times the Bank's basic capital.

4. The foreign currency operations investment regulations make it necessary to hold a minimum amount of liquid assets, in accordance with a calculation mechanism established by the Central Bank, based on the maturity of operations in foreign currency.

(Continued)

At December 31, 2019 and 2018, the Bank complies with the limits and standards established by Central Bank.

Foreign currency position (figures in millions) of Gentera and subsidiaries as of December 31, 2019 and 2018 is analyzed as follows:

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | **Dollars** | | **Pesos** | **Dollars** | | **Pesos** |
| Assets | | | | | | |
| National banks | 1 | $ | 11 | 2 | $ | 46 |
| Foreign banks | 10 | | 187 | 13 | | 245 |
| Accounts receivable | 1 | | 13 | 2 | | 47 |
| **Long position – net** | **12** | $ | **211** | **17** | $ | **338** |

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | **Guatemala Quetzals** | | **Pesos** | **Guatemala Quetzals** | | **Pesos** |
| Assets | 337 | $ | 827 | 308 | $ | 781 |
| Liabilities | (39) | | (95) | (31) | | (78) |
| **Long position – net** | **298** | $ | **732** | **277** | $ | **703** |

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | **Peruvian Soles** | | **Pesos** | **Peruvian Soles** | | **Pesos** |
| Assets | 3,156 | $ | 17,967 | 2,491 | $ | 14,514 |
| Liabilities | (2,476) | | (14,096) | (1,941) | | (11,309) |
| **Long position – net** | **680** | $ | **3,871** | **550** | $ | **3,205** |

As of December 31, 2019, the exchange rate determined by Central Bank and used by Gentera to value foreign currency assets was $18.8642 pesos per dollar ($19.6512 pesos per dollar in 2018). As of February 26, 2020, issuance date of the consolidated financial statements, the exchange rate is $19.1585 pesos per dollar.

(Continued)

(Millions of pesos)

## (6) Cash and cash equivalents-

At December 31, 2019 and 2018, cash and cash equivalents consist of the following:

| | | 2019 | 2018 |
|---|---|---|---|
| Cash on hand | $ | 1,937 | 2,201 |
| Mexican banks | | 1,776 | 1,137 |
| Foreign banks | | 589 | 1,493 |
| Restricted funds: | | | |
| Monetary regulation deposit with the Central Bank* | | 308 | 308 |
| Bank loans with original maturity up to three days * | | 500 | - |
| Deposit auction with the Central Bank * | | - | 1,500 |
| Other restricted funds | | 1,765 | 1,156 |
| | $ | **6,875** | **7,795** |

* Included as part of the caption "Contingent assets" in memorandum accounts.

For the years ended on December 31, 2019 and 2018, interest earned from Mexican and foreign banks, restricted funds and other restricted funds amounted to $378 and $265, respectively, recorded under the caption “Interest income” in the consolidated statement of income (see note 22)

The interest earned from banking accounts amounted to $132 and $117 for the years ended on December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, the monetary regulatory deposit with Central Bank has no established term and bears interest at the rate of bank deposit funding. For the years ended December 31, 2019 and 2018, the interest income earned from monetary regulatory deposit amounted to $25 and $24, respectively.

At December 31, 2019, the average rate of interbank loans with maturity up to 3 days was 8.05% (7.72% in 2018). For the years ended on December 31, 2019 and 2018, the interest income earned from Call Money transactions amounted to $143 and $103, respectively.

At December 31, 2019, and 2018, the weighted rate of the deposit auction with the Central Bank with an average term of 1 and 2 days was 7.52% and 7.33%, respectively. At December 31,2019, and 2018, the interest income amounted to $78 and $21, respectively.

As of December 31, 2019, the other restricted funds correspond to Gentera's savings fund for $7 and Mexican pesos time deposits of Gentera for $37, Compartamos Financiera for $1,141, Compartamos Servicios for $415, Red Yastás for $55 and Aterna for $110, with an average term of 5 days, and an average rate of 6.78%. As of December 31, 2018, they are made up of the savings fund for Gentera's employees for $7 and term deposits in national currency of Gentera for $167, Compartamos Financiera for $59, Compartamos Servicios for $631, Red Yastás for $161, Pagos Intermex for $50 and Aterna for $81, with an average term of 5 days, and an average rate of 6.64%.

(Continued)

At December 31, 2019 and 2018, Gentera has no coined precious metals.

## (7) Investment securities-

Cash surpluses resulting from Gentera operations are invested in debt and equity instruments, searching for the best available rate with the authorized counterparties.

Investments in securities are subject to different types of risks directly related to the market in which they operate, such as interest rates and credit and market liquidity inherent risks.

Risk management policies, as well as the analysis of the risks which Gentera is exposed to are described in note 23.

As of December 31, 2019 and 2018, investments in securities classified as trading are comprised of a Certificate of Deposit (CEDE) with a fair value of $200 and $ 300, respectively, at a rate of 8.01% and 8.75%, respectively, and a term of 168 and 252 days, respectively.

At December 31, 2019, available-for-sale securities are comprised of 550,318 shares corresponding to net equity instruments, with a market value of $11 (8,542,309 shares corresponding to net equity instruments, with a market value of $124 in 2018). Also, as of December 31, 2019 and 2018, this caption is comprised of certificates of deposit of the Central Bank of the Republic of Peru for $620 and $491, respectively and by Peruvian Treasury Bills for $4 and $17, respectively.

For the years ended December 31, 2019 and 2018, the caption of investments securities classified as available-for-sale securities recognized a net income (loss) in stockholders' equity net of deferred taxes, for $53 and $7, respectively.

At December 31, 2019 and 2018, the average rates of investments were 2.52% and 2.56%, respectively. For the years ended on December 31, 2019 and 2018, interest income from investments were to $50 and $22, respectively, recorded under the caption "Interest income" in the consolidated statement of income.

At December 31, 2019 and 2018, there were no transfer in securities between categories and there are no indicators of impairment over the value of the securities.

## (8) Loan portfolio-

The loan portfolio is comprised mainly of non-revolving consumer loans, with an average term of four months with a fixed rate and joint guarantee of the borrowers. Principal and interest are mainly paid on a weekly basis.

(Continued)

(Millions of pesos)

As of December 31, 2019 and 2018, total loan portfolio (current and past-due loans) are comprised as follows:

| **2019** | | **Principal** | **Accrued interest** | **Total loan portfolio** |
|---|---|---|---|---|
| Current loans: | | | | |
| Commercial loans: | | | | |
| Business and commercial | $ | 4,943 | 66 | 5,009 |
| Consumer loans | | 34,844 | 674 | 35,518 |
| Residential mortgages | | 2 | - | 2 |
| | | 39,789 | 740 | 40,529 |
| Past-due loans: | | | | |
| Commercial loans: | | | | |
| Business and commercial | | 127 | 11 | 138 |
| Consumer loans | | 920 | 105 | 1,025 |
| | | 1,047 | 116 | 1,163 |
| **Total loan portfolio** | $ | **40,836** | **856** | **41,692** |

| **2018** | | **Principal** | **Accrued interest** | **Total loan portfolio** |
|---|---|---|---|---|
| Current loans: | | | | |
| Commercial loans: | | | | |
| Business and commercial | $ | 1,381 | 17 | 1,398 |
| Consumer loans | | 32,673 | 674 | 33,347 |
| Residential mortgages | | 5 | - | 5 |
| | | 34,059 | 691 | 34,750 |
| Past-due loans: | | | | |
| Commercial loans: | | | | |
| Business and commercial | | 45 | 4 | 49 |
| Consumer loans | | 828 | 97 | 925 |
| Residential mortgages | | 1 | - | 1 |
| | | 874 | 101 | 975 |
| **Total loan portfolio** | $ | **34,933** | **792** | **35,725** |

(Millions of pesos)

At December 31, 2019 and 2018, the loans (current and past-due loans), broken-down by economic sector, are as follows:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| **Economic activity** | | **Amount** | **%** | **Amount** | **%** |
| Commerce | $ | 28,722 | 69 | 24,884 | 70 |
| Construction | | 55 | - | 43 | - |
| Professional services | | 4,814 | 12 | 4,025 | 11 |
| Agriculture | | 268 | 1 | 221 | 1 |
| Cattle raising | | 358 | 1 | 316 | 1 |
| Manufacturing | | 1,476 | 3 | 1,159 | 3 |
| Others | | 5,999 | 14 | 5,077 | 14 |
| **Total** | $ | **41,692** | **100** | **35,725** | **100** |

The distribution of the loan portfolio at December 31, 2019 and 2018, by geographical region is shown as follows:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| **In Mexico** | | **Current** | **Past-due** | **Current** | **Past-due** |
| Aguascalientes | $ | 132 | 3 | 120 | 2 |
| Baja California | | 888 | 26 | 761 | 18 |
| Baja California Sur | | 373 | 16 | 358 | 12 |
| Campeche | | 195 | 5 | 158 | 4 |
| Chiapas | | 1,150 | 41 | 1,032 | 36 |
| Chihuahua | | 395 | 12 | 332 | 7 |
| Coahuila | | 826 | 24 | 714 | 17 |
| Colima | | 102 | 4 | 83 | 3 |
| Mexico City | | 1,390 | 46 | 1,192 | 37 |
| Durango | | 415 | 15 | 349 | 13 |
| Estado de México | | 3,624 | 114 | 3,142 | 85 |
| Guanajuato | | 684 | 20 | 615 | 15 |
| Guerrero | | 973 | 25 | 860 | 19 |
| Hidalgo | | 801 | 28 | 735 | 12 |
| Jalisco | | 593 | 23 | 509 | 15 |
| Michoacán | | 865 | 31 | 782 | 20 |
| Morelos | | 413 | 15 | 363 | 10 |
| Nayarit | | 185 | 5 | 165 | 4 |
| Nuevo León | | 721 | 28 | 692 | 16 |
| Oaxaca | | 933 | 24 | 859 | 16 |
| Subtotal Mexico, to the next page | $ | 15,658 | 505 | 13,821 | 361 |

**Gentera, S. A. B. de C. V. and subsidiaries**

Notes to the consolidated financial statements

(Millions of pesos)

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| | | **Current** | **Past-due** | **Current** | **Past-due** |
| **Subtotal Mexico, from previous page** | $ | 15,658 | 505 | 13,821 | 361 |
| Puebla | | 1,661 | 45 | 1,529 | 32 |
| Querétaro | | 259 | 9 | 232 | 4 |
| Quintana Roo | | 346 | 9 | 307 | 6 |
| San Luis Potosí | | 375 | 9 | 332 | 7 |
| Sinaloa | | 432 | 18 | 390 | 12 |
| Sonora | | 592 | 18 | 532 | 14 |
| Tabasco | | 689 | 15 | 600 | 13 |
| Tamaulipas | | 1,087 | 20 | 886 | 13 |
| Tlaxcala | | 645 | 15 | 602 | 11 |
| Veracruz | | 2,632 | 75 | 2,318 | 49 |
| Yucatán | | 303 | 6 | 271 | 5 |
| Zacatecas | | 247 | 5 | 217 | 4 |
| Total Mexico | $ | 24,926 | 749 | 22,037 | 531 |
| **Abroad**: | | | | | |
| | | 623 | 26 | 626 | 22 |
| Guatemala | | | | | |
| Peru | | 14,240 | 272 | 11,396 | 321 |
| Total abroad: | | 14,863 | 298 | 12,022 | 343 |
| Accrued interests | | 740 | 116 | 691 | 101 |
| **Total loan portfolio** | $ | **40,529** | **1,163** | **34,750** | **975** |

(Continued)

**Gentera, S. A. B. de C. V. and subsidiaries**

Notes to the consolidated financial statements

(Millions of pesos)

As of December 31, 2019 and 2018, aging of the past-due loan portfolio is as follows:

| | | Aging | | | | |
|---|---|---|---|---|---|---|
| | | Days | | | Years | |
| **2019** | | **1 to 180** | **181 to 365** | **1 to 2** | **More than 2** | **Total** |
| Commercial loans: | | | | | | |
| Business and commercial | $ | 63 | 28 | 26 | 21 | 138 |
| Consumer loans | | 755 | 232 | 19 | 19 | 1,025 |
| | $ | **818** | **260** | **45** | **40** | **1,163** |

| | | Aging | | | | |
|---|---|---|---|---|---|---|
| | | Days | | | Years | |
| **2018** | | **1 to180** | **181 to 365** | **1 to 2** | **More than 2** | **Total** |
| Commercial loans: | | | | | | |
| Business and commercial | $ | 17 | 16 | 8 | 8 | 49 |
| Consumer loans | | 607 | 236 | 34 | 48 | 925 |
| Residential mortgages | | - | 1 | - | - | 1 |
| | $ | **624** | **253** | **42** | **56** | **975** |

Following is an analysis of the movements of the past-due loans, for the years ended December 31, 2019 and 2018:

| | | **2019** | **2018** |
|---|---|---|---|
| Past-due loans at the beginning of the year | $ | 975 | 1,046 |
| Plus: | | | |
| Transfer from current loans | | 3,076 | 2,765 |
| Less: | | | |
| Write-offs | | 2,685 | 2,653 |
| Collections | | 94 | 144 |
| Transfer to current loan portfolio | | 53 | 26 |
| Sale of loan portfolio | | 47 | - |
| Exchange rate fluctuation | | 9 | 13 |
| **Past-due loans at year-end** | $ | **1,163** | **975** |

As of December 31, 2019 and 2018, Gentera had a troubled loan portfolio of $24 and $11, respectively, from Compartamos Financiera, which is 100% reserved.

(Continued)

(Millions of pesos)

Interest and commission income for the years ended December 31, 2018 and 2017, according to the type of loan is comprised as follows:

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | **Interest** | **Commissions** | **Total** | **Interest** | **Commissions** | **Total** |
| Current loans: | | | | | | | |
| Business and commercial | $ | 993 | 24 | 1,017 | 376 | - | 376 |
| Consumer loans | | 21,375 | 275 | 21,650 | 20,312 | 335 | 20,667 |
| Residential mortgages | | 1 | - | 1 | 1 | - | 1 |
| Subtotal | | 22,369 | 299 | 22,668 | 20,689 | 355 | 21,044 |
| Past-due loans: | | | | | | | |
| Business and commercial | | 8 | - | 8 | 1 | - | 1 |
| Consumer loans | | 4 | - | 4 | 10 | - | 10 |
| Subtotal | | 12 | - | 12 | 11 | - | 11 |
| | **$** | **22,381** | **299** | **22,680** | **20,700** | **355** | **21,055** |

Interest accrued not collected on past-due loans, which by accounting criteria is recorded in memorandum accounts and applied to income until collected, at December 31, 2019 and 2018, amounts to $107 and $184, respectively.

For the year ended December 31, 2019, the amount recovered on the previously written-off loan portfolio, represented a profit of $64 (78 in 2018), which were recorded in the caption " Allowance for loan losses" in the consolidated statement of income.

At December 31, 2019 and 2018, the loan portfolio of the Bank and Compartamos Guatemala has not been pledged as collateral. The Compartamos Financiera's loan portfolio at December 31, 2019 and 2018, pledged as collateral for funding received for its operation, amounts to $1,225 and $435, respectively.

Loan management

The authorization of loans as responsibility of the Board of Directors is centralized in committees and empowered officers, whom in turn can delegate this authorization to the services office personnel.

For credit management, the general process is defined from the promotion to the recovery of the loan, specifying from each business unit policies, procedures and responsibilities of the officers involved and the tools to be used in each stage of the process.

The loan process is based on an in-depth analysis of loan applications in order to determine the overall risk of the borrower.

(Continued)

(Millions of pesos)

During the years ended on December 31, 2019 and 2018, Compartamos Financiera made restructuring loans for $102 and $65, respectively; these restructurings did not include capitalized interest, and likewise, no portfolio acquisitions were made for the aforementioned previous years.

**Allowance for loan losses**

As of December 31, 2019 and 2018, the rating of the overall loan portfolio and the provisions created based on the actual risk tables for each year, are as follows:

| **2019** | | **Rated loan portfolio** | | | | |
|---|---|---|---|---|---|---|
| **Risk** | | **Commercial** | **Consumer** | **Residential** | **Total** | **%** |
| A - 1 | $ | 141 | 21,049 | 2 | 21,192 | 51 |
| A – 2 | | 353 | 1,199 | - | 1,552 | 4 |
| B – 1 | | 1,675 | 249 | - | 1,924 | 5 |
| B – 2 | | 1,617 | 7,753 | - | 9,370 | 22 |
| B – 3 | | 67 | 452 | - | 519 | 1 |
| C – 1 | | 391 | 2,175 | - | 2,566 | 6 |
| C – 2 | | 108 | 1,234 | - | 1,342 | 3 |
| D | | 771 | 692 | - | 1,463 | 4 |
| E | | 24 | 1,740 | - | 1,764 | 4 |
| **Total** | $ | **5,147** | **36,543** | **2** | **41,692** | **100** |

| **2019** | | **Required allowance** | | | | |
|---|---|---|---|---|---|---|
| **Risk** | | **Commercial** | **Consumer** | **Residential** | **Total** | **%** |
| A - 1 | $ | 1 | 241 | - | 242 | 9 |
| A – 2 | | 5 | 32 | - | 37 | 1 |
| B – 1 | | 30 | 9 | - | 39 | 1 |
| B – 2 | | 36 | 318 | - | 354 | 13 |
| B – 3 | | 2 | 25 | - | 27 | 1 |
| C – 1 | | 32 | 157 | - | 189 | 7 |
| C – 2 | | 13 | 137 | - | 150 | 6 |
| D | | 193 | 153 | - | 346 | 14 |
| E | | 19 | 1,222 | - | 1,241 | 48 |
| **Total** | **$** | **331** | **2,294** | **-** | **2,625** | **100** |

(Continued)

(Millions of pesos)

| 2018 | | Rated loan portfolio | | | | |
|---|---|---|---|---|---|---|
| **Risk** | | **Commercial** | **Consumer** | **Residential** | **Total** | **%** |
| A - 1 | $ | 54 | 18,575 | 4 | 18,633 | 52 |
| A – 2 | | 101 | 991 | - | 1,092 | 3 |
| B – 1 | | 462 | 272 | - | 734 | 2 |
| B – 2 | | 430 | 8,794 | - | 9,224 | 26 |
| B – 3 | | 27 | 495 | - | 522 | 2 |
| C – 1 | | 124 | 1,712 | - | 1,836 | 5 |
| C – 2 | | 31 | 1,002 | 1 | 1,034 | 3 |
| D | | 207 | 912 | 1 | 1,120 | 3 |
| E | | 11 | 1,519 | - | 1,530 | 4 |
| **Total** | **$** | **1,447** | **34,272** | **6** | **35,725** | **100** |

| 2018 | | Required allowance | | | | |
|---|---|---|---|---|---|---|
| **Risk** | | **Commercial** | **Consumer** | **Residential** | **Total** | **%** |
| A - 1 | $ | - | 206 | - | 206 | 9 |
| A – 2 | | 1 | 26 | - | 27 | 1 |
| B – 1 | | 8 | 9 | - | 17 | 1 |
| B – 2 | | 10 | 360 | - | 370 | 17 |
| B – 3 | | 1 | 28 | - | 29 | 1 |
| C – 1 | | 10 | 123 | - | 133 | 6 |
| C – 2 | | 4 | 112 | - | 116 | 5 |
| D | | 52 | 195 | - | 247 | 11 |
| E | | 9 | 1,070 | - | 1,079 | 49 |
| **Total** | **$** | **95** | **2,129** | **-** | **2,224** | **100** |

The movements in the allowance for loan losses during the years ended December 31, 2019 and 2018, are as follows:

| | | **2019** | **2018** |
|---|---|---|---|
| Allowance for loan losses at the beginning of the year | $ | 2,224 | 2,252 |
| Plus: | | | |
| Increase in the provision for loan losses | | 3,218 | 2,712 |
| Less application of reserves due to write-offs: | | | |
| From current loans (by death) | | 66 | 54 |
| From past-due loans | | 2,685 | 2,653 |
| Sale of loan portfolio | | 46 | 2 |
| Exchange rate fluctuation | | 20 | 31 |
| **Allowance for loan losses at year-end** | **$** | **2,625** | **2,224** |

(Continued)

(Millions of pesos, except otherwise noted)

Compartamos Financiera carried out a sale of loan portfolio for an amount of 163,602 peruvian soles ($952 thousand pesos), the loan portfolio sold had book value of 8,168,215 peruvian soles ($46), which was reserved in 99%, the transaction was carried out in August 2019 and it was recognized In the caption of "Other operating income", in the consolidated statement of income.

At December 31, 2019 and 2018, the allowance for loan losses recorded by Gentera includes $32 y $25, respectively as a complement to reserve 100% of accrued interest from past-due loans at the end of these years

## (9) Other accounts receivable

At December 31, 2019 and 2018, this caption is comprised as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Loan portfolio accessories | $ | 230 | 163 |
| Other receivables: | | | |
| Sundry debtors (1) | | 878 | 756 |
| Debit from transactions with correspondents | | 1,059 | 499 |
| Debit by intermediation | | - | 215 |
| | | 2,167 | 1,633 |
| Less allowance for doubtful accounts | | (81) | (63) |
| | $ | **2,086** | **1,570** |

(1) Includes balances with related parties and associated companies for $637 and $586 in 2019 and 2018, see note 21.

## (10) Property, furniture and equipment -

At December 31, 2018 and 2017, this caption is comprised as follows:

| 2019 | | Original cost | Depreciation and amortization annual rate(%) | Accumulated depreciation and amortization | Net value |
|---|---|---|---|---|---|
| Land | $ | 2 | - | $ - | 2 |
| Constructions | | 21 | 5 | (10) | 11 |
| Office furniture and equipment | | 344 | 10 y 20 | (187) | 157 |
| Transportation equipment | | 218 | 25 | (111) | 107 |
| Computer equipment | | 366 | 15 al 67 | (271) | 95 |
| Others: | | | | | |
| Leasehold improvements | | 1,352 | * | (859) | 493 |
| Telecommunications equipment | | 319 | 10 | (152) | 167 |
| | **$** | **2,622** | | **$(1,590)** | **1,032** |

(Continued)

(Millions of pesos)

| 2018 | | Original cost | Depreciation and amortization annual rate (%) | | Accumulated depreciation and amortization | Net value |
|---|---|---|---|---|---|---|
| Land | $ | 2 | - | $ | - | 2 |
| Construction | | 18 | 5 | | (9) | 9 |
| Office furniture and equipment | | 330 | 10 and 20 | | (161) | 169 |
| Transportation equipment | | 217 | 25 | | (82) | 135 |
| Computer equipment | | 442 | 15 to 67 | | (320) | 122 |
| Other: | | | | | | |
| Leasehold improvements | | 1,271 | * | | (753) | 518 |
| Telecommunications equipment | | 331 | 10 | | (142) | 189 |
| | **$** | **2,611** | | **$** | **(1,467)** | **1,144** |

* The amortization rate of leasehold improvements is in accordance with the term of the lease agreement for each property.

For the year ended December 31, 2019, the charge to the consolidated income statement in the "Administrative and promotional expenses" caption, related to depreciation and amortization amounted to $234 and $121, respectively ($234 and $169, respectively).

| | | Original cost | |
|---|---|---|---|
| | | **2019** | **2018** |
| Fully depreciated assets | | | |
| Constructions | $ | 4 | 4 |
| Office furniture and equipment | | 50 | 33 |
| Transportation equipment | | 22 | 10 |
| Computer equipment | | 181 | 200 |
| Leasehold improvements | | 298 | 261 |
| Telecommunications equipment | | 28 | 7 |
| | $ | **583** | **515** |

The property, furniture and equipment owned by Gentera, is not pledged or restricted for its use or disposal.

Gentera as lessee has capitalized leases for transportation equipment, mobile devices and automated teller machines with terms of 3 to 4 years with purchase option. The lease of furniture and transportation equipment was recognized as capitalized because the present value of minimum lease payments exceeds 90% of fair market value of the asset at the beginning of the agreement.

(Continued)

(Millions of pesos)

At December 31, 2018 and 2017, assets leased through capitalized leases are comprised as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Transportation equipment | $ | 33 | 36 |
| Less accumulated depreciation | | 18 | 13 |
| | **$** | **15** | **23** |

The payable liability related to capitalized leases is as follows (see note 17):

| | | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | | **Future mínimum payments** | **Discounted interest** | **Present value** | **Furutre mínimum payments** | **Discounted interest** | **Present value** |
| Less than one year | $ | 9 | (1) | 8 | 13 | - | 13 |
| Between one and five years | | 9 | (1) | 8 | 20 | (4) | 16 |
| | $ | **18** | **(2)** | **16** | **33** | **(4)** | **29** |

Interest expense from capitalized leases during the years ended December 31, 2019, and 2018, was $2 and $3, respectively, which is recorded under the caption of "Other operating income (expenses), net" in the consolidated statements of income (see note 22).

## (11) Investment in associated companies-

On June 13, 2018, Gentera carried out a non-controlling investment in Fin Útil, S. A. de C. V. SOFOM, E.N.R. ("Fin Útil") and Comfu, S. A. de C. V. ("Comfu"), (collectively "ConCrédito"). The transaction involved a global amount of $2,585, (including an investment of $2,085 representing 36.8% of the capital share of the companies and $500 in a convertible loan). Fin Útil operates in 20 states of the Mexican Republic and specializes in consumer credit. The investment in ConCrédito was authorized by the Federal Commission of Economic Competition.

On November 29, 2018, Gentera carried out a non-controlling investment in Talento ConCrédito, S. A. de C. V. ("Talento ConCrédito"), part of the ConCrédito group for an amount of $7, which represents a 37.26% stake of the company's capital stock.

At December 31, 2019 and 2018, The investment in associated companies is valued by the equity method, considering the results and the stockholders´ equity of the companies whereby there is not control over the financial policies and the operating decisions are led by the controlling shareholders. The associated companies are show in the following page.

(Millions of pesos)

| December 31, 2019 | Activities | % of participation | | Stock Capital | Equity in net assets |
|---|---|---|---|---|---|
| Aflore | Microfinance | 26.67 | $ | 130 | 35 |
| Fin Útil (1) | Microfinance | 36.80 | | 1,655 | 609 |
| Comfu P(1) | Commercial | 36.80 | | 306 | 113 |
| Talento ConCrédito | Services | 37.26 | | 31 | 12 |
| | | | $ | **2,122** | **769** |
| **December 31, 2018** | | | | | |
| Aflore | Microfinance | 33.70 | $ | 125 | 42 |
| Fin Útil (1) | Microfinance | 36.80 | | 1,587 | 584 |
| Comfu (1) | Commercial | 36.80 | | 68 | 25 |
| Talento ConCrédito | Services | 37.26 | | 14 | 5 |
| | | | $ | **1,794** | **656** |

(1) As of December 31, 2019 and 2018, the goodwill derived from the investment in Fin Útil y Comfu amounts to $1,524 and $30, respectively, in both years.

The participation in the result of associated companies for the years ended December 31, 2019 and 2018, is as follows:

| December 31, 2019 | % | | Net assets | Equity in the assets |
|---|---|---|---|---|
| Aflore | 26.67 | $ | (28) | (7) |
| Fin Útil | 36.80 | | 303 | 111 |
| Comfu | 36.80 | | 238 | 88 |
| Talento ConCrédito | 37.26 | | 19 | 7 |
| | | $ | **532** | **199** |
| **December 31, 2018** | **%** | | | |
| Aflore | 33.70 | $ | (46) | (17) |
| Fin Útil | 36.80 | | 158 | 80 |
| Comfu | 36.80 | | 10 | 7 |
| Talento ConCrédito | 37.26 | | (6) | (2) |
| | | $ | **116** | **68** |

(Continued)

(Millions of pesos)

During the year 2019, the associated company Fin Útil made dividend payments to Gentera for $99.

As of December 31, 2019 and 2018, the other permanent investments at acquisition cost are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Avante.com.vc SOLUÇÖES E PARTICIPAÇÖES, S. A.* | $ | 109 | 109 |
| Epesos, S. A. P. I. de C. V. | | 44 | 44 |
| Reinventando el Sistema S.A.P.I de C.V. | | 21 | - |
| Pagos digitales Peruanos, S. A.* | | 21 | 19 |
| IDE345 III S.A.P.I de C.V. | | 19 | - |
| IDE345 II, S. A. P. I. de C. V. | | 15 | 15 |
| ALLVP Fund III,L.P. | | 6 | - |
| Grupo Aliada MX, S. A. P. I. de C. V.* | | 2 | 2 |
| Subtotal | | 237 | 189 |
| Impairment reserve | | (132) | - |
| | $ | **105** | **189** |

*As of December 31, 2019, an impairment reserve was recognized in these permanent investments equivalent to 100% of the investment amount.

*Long-lived assets available for sale – Shareholding sale*

On December 30, 2019, Gentera signed a purchase-sale agreement which purpose is to sell 100% of its investment of Pagos Intermex, whereby Gentera will transfer ownership of 100% of its shareholding to a third party, once the agreed transaction closing activities are completed, which are estimated to conclude during the first quarter of 2019. The sale Price was agreed at fair value.

Gentera recognized the net investment subject to this transaction within the caption “Long-lived assets available for sale, net” in the consolidated balance sheet as of December 31, 2019 and the equity method provided by Pagos Intermex was presented as discontinued operation in the consolidated statement of income for the years ended December 31, 2019 and 2018.

(Continued)

(Millions of pesos)

As of December 31, 2019, the long-lived assets available for sale are analyzed as shown below:

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 128 |
| Other accounts receivable | | 228 |
| Goodwill | | 40 |
| Other assets | | 101 |
| Income tax payable | | (6) |
| Other accounts payable | | (143) |
| Deferred income tax and employee statutory profit sharing | | (6) |
| Deferred charges and prepayments | | (4) |
| Subtotal | | 338 |
| Impairment loss to adjust to realization value | | (97) |
| long-lived assets available for sale, net | $ | **241** |

As of December 31, 2019, the long-term assets available for sale are analyzed as shown below:

| | | 2019 | 2018 |
|---|---|---|---|
| Interest income | $ | 7 | 7 |
| Commissions and fee income | | 190 | 183 |
| Commissions and fee expense | | (72) | (68) |
| Other operating income | | (11) | (2) |
| Administrative and promotional expenses | | (35) | (48) |
| Current income tax | | (26) | (21) |
| Deferred tax asset | | 1 | 1 |
| Subtotal | | 54 | 52 |
| | | | - |
| Impairment loss to adjust to realization value | | (97) | |
| Accrued expenses | | (11) | - |
| Discontinued operations | $ | **(54)** | **52** |

(Continued)

(Millions of pesos)

## (12) Other assets, deferred charges and intangibles--

At December 31, 2019 and 2018, this caption is comprised as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Goodwill (a) | $ | 873 | 933 |
| Gurantee deposits (b) | | 57 | 57 |
| Insurance (c) | | 6 | 4 |
| Development of the electronic banking system, intangibles and licenses (d) | | 2,727 | 2,729 |
| Advance payments | | 154 | 231 |
| Debt issuance costs (Cebures) | | 20 | 19 |
| | | 3,837 | 3,973 |
| Less: | | | |
| Accumulated amortization of development of electronic banking system and licenses | | 1,266 | 1,029 |
| | $ | **2,571** | **2,944** |

a) It derives from the acquisition of Compartamos Financiera and Intermex (in the latter case until the 2018, see note 11), which is subject to impairment testing.

b) Not amortizable deposit, subject to recovery upon expiration of each leasing agreement for the respective service office.

c) Insurance is amortized according to the duration of each policy. The amount charged to the consolidated income statement for the years ended on December 31, 2019 and 2018, amounted to $54 and $98, respectively.

d) Investment in intangibles includes the development of an electronic system for the control and management of banking operation, licenses and acquisition of software. The estimated useful life of the intangible asset and software is ten and seven years, respectively. The amortization of intangible assets and software for the years ended as of December, 31, 2019 and 2018, amounted to $306 and $294, respectively.

(Continued)

## (13) Deposit funding-

Deposit funding includes deposits on demand, time deposits and debt securities issued in Mexican pesos and global account of deposits with no movements. As part of the deposit funding, demand deposits for $1,088 and $935, as of December 31, 2019 and 2018, respectively, $8 and $1 for the global deposit account with no movement as of December 31, 2019, correspond to the Bank and 184 and 94 million of Peruvian soles correspond to Compartamos Financiera at December 31, 2019 and 2018, respectively (equivalent to $1,050 and $549 at December 31, 2019 and 2018, respectively). At December 31, 2019 and 2018, time deposits from general public include $1,282 and $1,321, respectively, from the Bank, as well as 1,392 and 1,041 million of Peruvian soles at December 31, 2019 and 2018, respectively (equivalent to $7,811 and $6,067, respectively).

The weighted average rates (non-audited) of the different deposits funding products (unaudited information) during the years ended on December 31, 2019 and 2018, are analyzed as follows:

| | **2019** | **2018** |
|---|---|---|
| Demand deposits | 1.44% | 1.51% |
| Time deposits | 4.96% | 4.81% |
| Money market | 3.62% | 4.77% |

As of December 31, 2019, the Bank maintains a term deposit (CEDES) of $ 201, with a term of 168 days
As of December 31, 2019 and 2018, Compartamos Financiera carried out money market issuances of Certificates of Deposit (CEDES) in Peruvian soles, which include 125 and 105, respectively (equivalent in Mexican pesos to $719 and $620), with maturities of one year. The interest expense by the CEDES during the years ended December 31, 2019 and 2018, amounts to $36 and $22, respectively (see note 22).

Compartamos Financiera, carried out a public offer on November 13, 2019 and June 6, 2018, for series "A" corporate bonds for 70 million of Peruvian soles (equivalent to Mexican pesos for $558 and $409), at a fixed annual nominal interest rate of 4.40625% plus 203 basis points and 4.8125% plus 203 basis points, respectively, and a term of 2 years, in both years. The current program was registered in the Public Registry of the Securities Market of the Superintendency of the Securities Market of Peru. The interest expense recognized by the Corporate Bonds as of December 31, 2019 and 2018 amounts to $18 and $11, respectively (see note 22).

(Continued)

(Millions of pesos)

At December 31, 2019 and 2018, long term unsecured Cebures were issued in Mexican pesos, under the current issuance program approved by the Commission for an amount of $9,000 and $12,000, respectively. The current issued Cebures are as follows:

**2019**

| **Cebures** | **Amount of issuance** | **Date of issuace** | **Maturity date** | **Interest rate** | **Balance** |
|---|---|---|---|---|---|
| COMPART 15 | $ 2,000 | September 2015 | August 2020 | TIIE 28 Days + 50bp | $ 2,000 |
| COMPART 16-2 | 2,000 | October 2016 | October 2023 | Fixed 7.50% | 2,000 |
| COMPART 18 | 2,500 | October 2018 | September 2022 | TIIE 28 Days + 42 bp | 2,500 |
| COMPART 19 | 2,000 | May 2019 | May 2024 | TIIE 28 Days + 45 bp | 2,000 |
| | | | | | 8,500 |
| Interest payable | | | | | 56 |
| **Total debt issuance** | | | | | $ **8,556** |

**2018**

| **Cebures** | **Amount of issuance** | **Date of issuace** | **Maturity date** | **Interest rate** | **Balance** |
|---|---|---|---|---|---|
| COMPART 14 | $ 2,000 | June 2014 | June 2019 | TIIE 28 Days + 40bp $ | 1,000 |
| COMPART 15 | 2,000 | September 2015 | August 2020 | TIIE 28 Days + 50bp | 2,000 |
| COMPART 16 | 500 | October 2016 | October 2019 | TIIE 28 Days + 47bp | 500 |
| COMPART 16-2 | 2,000 | October 2016 | October 2023 | Fixed 7.50% | 2,000 |
| COMPART 18 | 2,500 | October 2018 | September 2022 | TIIE 28 Days +42bp | 2,500 |
| | | | | | 8,000 |
| Interest payable | | | | | 50 |
| **Total debt issuance** | | | | | $ **8,050** |

Interest accrued derived from Cebures for the year ended on December 31, 2019, amounted to $730 ($648 in 2018), see note 22.

(Millions of pesos)

At December 31, 2019 and 2018, Cebures had the following maturity terms:

| Expiration year | | 2019 | 2018 |
|---|---|---|---|
| 2019 | $ | - | 1,550 |
| 2020 | | 2,056 | 2,000 |
| 2021 | | - | 2,500 |
| 2022 | | 2,500 | - |
| 2023 | | 3,000 | 2,000 |
| 2024 | | 1,000 | - |
| | $ | 8,556 | 8,050 |

## (14) Banking and other borrowings-

At December 31, 2019 and 2018, Gentera had contracted the following borrowings in Mexican pesos and in Peruvian soles, translated into Mexican pesos, as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Short term: | | | |
| Borrowings from development banks | $ | 777 | 573 |
| Borrowings from multiple banking institutions | | 1,827 | 1,871 |
| Public trusts borrowings | | 23 | 517 |
| Other institutions | | 950 | 890 |
| Total short-term | | 3,577 | 3,851 |
| Long term: | | | |
| Borrowings from development banks | | 1,500 | 2,000 |
| Borrowings from multiple banking institutions | | 225 | 503 |
| Public trusts borrowings | | 4,873 | 5,272 |
| Other institutions | | 444 | 446 |
| Total long term | | 7,042 | 8,221 |
| **Total banking and other borrowings** | $ | **10,619** | **12,072** |

As of December 2019 and 2018, there is a liability related to interest accrued for the amount of $39 and $65, respectively.

For the year ended December 31, 2019, the accrued interest from banking and other borrowings amounted to $810 ($648 in 2018), see note 22.

(Continued)

(Millions of pesos)

As of December 31, 2019 and 2018, the maturities of interbank and other agencies long-term loans are shown below:

| | | 2019 | 2018 |
|---|---|---|---|
| **Expiration** | | | |
| 2020 | $ | 419 | 2,679 |
| 2021 | | 3,262 | 2,583 |
| 2022 | | 899 | 2,467 |
| 2023 | | 304 | 492 |
| More than 5 years | | 2,158 | - |
| | $ | **7,042** | **8,221** |

Gentera´s received credit facilities as of December 31, 2019 and 2018, as well as the unused portion thereof, are shown below:

| | | 2019 | |
|---|---|---|---|
| **Institution** | | **Credit facility received** | **Unused portion*** |
| Fideicomiso Instituido en Relación con la Agricultura (FIRA) | $ | 8,000 | 3,105 |
| Nacional Financiera, S. N. C. (NAFIN) | | 4,000 | 2,000 |
| BBVA Bancomer, S. A. | | 150 | 150 |
| Banco Nacional de México, S. A. | | 1,183 | 1,108 |
| HSBC México, S. A. | | 556 | 556 |
| Banco Mercantil del Norte, S. A. | | 800 | 800 |
| Banco Santander (México), S. A. | | 500 | 350 |
| Corporación Financiera de Desarrollo S. A. (COFIDE) | | 3,047 | 2,307 |
| FONDEMI – COFIDE | | 68 | 68 |
| Línea puno - COFIDE | | 24 | 24 |
| Banco de la Nación | | 484 | - |
| BBVA Banco Continental | | 538 | - |
| Banco Interbank | | 226 | 226 |
| Banco GNB Perú, S. A. | | 285 | - |
| Citibank Perú, S. A. | | 943 | 374 |
| Banco del Bajío, S. A. | | 500 | 500 |
| Banco G&T Continental, S. A. | | 37 | 37 |
| Caja Municipal de Ahorro y Crédito de Arequipa, S. A. | | 171 | - |
| ICBC International Trade Processing Center | | 189 | 7 |
| Banco Interamericano de Finanzas | | 189 | 189 |
| Banco de Crédito del Perú, S. A. | | 228 | - |
| Banco Ve por Mas, S. A. | | 200 | 200 |
| Banco Internacional, S. A. | | 37 | 37 |
| | $ | **22,355** | **12,038** |

* See explanation on the next page.

(Continued)

(Millions of pesos)

| | | 2018 | |
|---|---|---|---|
| **Institution** | | **Credit facility received** | **Unused portion*** |
| Fideicomiso Instituido en Relación con la Agricultura (FIRA) | $ | 8,000 | 2,213 |
| Nacional Financiera, S. N. C. (NAFIN) | | 4,000 | 1,500 |
| BBVA Bancomer, S. A. | | 97 | 97 |
| Banco Nacional de México, S. A. | | 851 | 701 |
| HSBC México, S. A. | | 560 | 560 |
| Banco Mercantil del Norte | | 550 | 400 |
| International Finance Corporation | | 38 | 38 |
| Banco Santander (México), S. A. | | 500 | 300 |
| Corporación Financiera de Desarrollo S. A. (COFIDE) | | 2,725 | 2,369 |
| FONDEMI – COFIDE | | 69 | 69 |
| Línea puno – COFIDE | | 25 | 18 |
| Banco de la Nación | | 89 | 17 |
| Fideicomiso MIMDES – FONCODES | | 87 | - |
| BBVA Banco Continental | | 590 | 47 |
| Banco Interbank | | 59 | 31 |
| Corporación Andina de Fomento – CAF | | 197 | 197 |
| Banco GNB Perú, S. A. | | 234 | 29 |
| Scotiabank Perú, S. A. | | 98 | 98 |
| Citibank Perú, S. A. | | 688 | 41 |
| Banco del Bajío, S. A. | | 500 | 500 |
| Banco G&T Continental, S. A. | | 64 | 64 |
| Caja Municipal de Ahorro y Crédito de Arequipa, S. A. | | 41 | 41 |
| ICBC International Trade Processing Center | | 196 | 10 |
| Banco Interamericano de Finanzas | | 196 | 196 |
| Banco de Crédito del Perú, S. A. | | 236 | 9 |
| Pettelaar Effectanbewaarbedrijf | | 59 | - |
| Responsability SICAV (Lux) | | 218 | - |
| Responsability SICAV (Lux) Subordinada | | 11 | - |
| Micro-Small & Medium Enterprises Bonds, S. A. | | 354 | - |
| Responsability Management | | 178 | - |
| Credit Suisse Microf Fund Manage | | 42 | - |
| | $ | **21,552** | **9,545** |

* The amount of the unused credit facilities are recognized in memorandum accounts as part of the caption "Other memorandum accounts".

At December 31, 2019, Gentera had obtained funding from NAFIN and FIRA for $2,000 and $4,895, respectively ($2,500 and $5,787 in 2018, respectively). This funding was assigned to small entrepreneurs and the amount of accrued interest for the year ended on December 31, 2019, from the loans of NAFIN and FIRA were $178 and $413, respectively ($$94 and $346, in 2018, respectively).

(Continued)

(Millions of pesos)

As of December 31, 2019, borrowings accrued interest at average annual interest rates (non-audited) in Mexican pesos of 9.36% (7.81% in 2018), in Peruvian soles of 4.53% (7.31% in 2018).

## (15) Employees' benefits -

Gentera has a pension plan in a mixed scheme, in which the benefit that is granted to the personnel is derived from two components: defined benefit plan and defined contribution plan. The retirement pension plan covers the permanent employees. The benefits are based on 10 years of service and 65 years of age on the integrated daily wage. The defined benefit plan is funded in its entirety by Gentera, and the defined contribution plan is funded with contributions from both Gentera and the employees.

Gentera granted for one time only in 2012 the right to a recognition bonus of $35 for employees who had at that date two or more years of service in Gentera, and who enrolled in the plan at the time of its establishment, for financing purposes the total amount of such bonus is provided annually into a trust during 10 years, provided that the employees stay employed. As of December 31, 2019, Gentera has contributed $24.

***Cash flows***

The contributions and benefits paid for the years ended December 31, 2019 and 2018, are as follows:

| **2019** | | **Contribution to the fund** | **Benefits paid from the fund** |
|---|---|---|---|
| Termination | $ | - | 134 |
| Recognition bonus | | 2 | - |
| Defined benefit | | 60 | - |
| **Total** | $ | **62** | **134** |

| **2018** | | **Contribution to the fund** | **Benefits paid from the fund** |
|---|---|---|---|
| Termination | $ | - | 146 |
| Recognition bonus | | 2 | - |
| **Total** | $ | **2** | **146** |

(Continued)

(Millions of pesos)

***Obligations-***

The components of the defined benefit cost for the years ended December 31, 2019 and 2018, are as follows:

| | | **Legal compensation** | | **Seniority premium** | | **Pension plan** | |
|---|---|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Current Service Cost (CSC) | $ | 52 | 51 | 13 | 14 | 89 | 69 |
| Prior Service Labor (income) cost provided in the year | | 39 | (88) | (5) | (11) | (122) | (102) |
| Net interest on defined benefit net liability (DBNL) | | 34 | 27 | 4 | 3 | 26 | 11 |
| Reclassification of remeasurements of DBNL in OCI | | 138 | 172 | 4 | 2 | 67 | 38 |
| **Net cost for the period** | | 263 | 162 | 16 | 8 | 60 | 16 |
| **Increase (decrease) in remeasurements of the DBNL or (DBNA) in OCI** | | (113) | (3) | 9 | - | 233 | 122 |
| **Defined benefit cost** | $ | **150** | **159** | **25** | **8** | **293** | **138** |
| Beginning balance of DBNL or (DBNA) remeasurements | $ | 435 | 438 | 8 | 8 | 197 | 75 |
| Remeasurements generated in the year | | 25 | 169 | 13 | 2 | 300 | 160 |
| Reclassification of remeasurements recognized in OCI of the year | | (138) | (172) | (4) | (2) | (67) | (38) |
| **Ending balance of DBNL remeasurements** | | 322 | 435 | 17 | 8 | 430 | 197 |
| **Increase (decrease) in remeasurements of the DBNL or (DBNA) in OCI** | $ | (113) | (3) | 9 | - | 233 | 122 |
| Beginning balance of DBNL | $ | 410 | 388 | 46 | 46 | 278 | 140 |
| Defined benefit cost | | 150 | 159 | 25 | 8 | 293 | 138 |
| Contributions to the plan | | - | - | - | - | (60) | - |
| Payments charge to DBNL | | (125) | (137) | (8) | (8) | - | - |
| **Ending balance of DBNL** | $ | **435** | **410** | **63** | **46** | **511** | **278** |

As of December 31, 2019 and 2018, the financial situation of the obligation is as follows:

| | | **Legal compensation** | | **Seniority premium** | | **Pension plan** | |
|---|---|---|---|---|---|---|---|
| | | **2019** | **2018** | **2019** | **2018** | **2019** | **2018** |
| Defined benefit obligations (DBO) | $ | (435) | (410) | (63) | (46) | (818) | (510) |
| Plan assets | | - | - | - | - | 307 | 232 |
| **Financial position of the obligation** | $ | **(435)** | **(410)** | **(63)** | **(46)** | **(511)** | **(278)** |

(Continued)

(Millions of pesos)

During November and December, 2019 and 2018, Gentera paid termination benefits to employees for an amount of $17 and $16, respectively, reducing the labor obligations liability with respect to the one actuarially determined.

The cost, obligations and other elements of pension plans, seniority premiums and legal termination benefits other than restructuring, mentioned in note 3(q), was determined based on calculations prepared by independent actuaries at December 31, 2019 and 2018.

***Main actuarial assumptions -***

The main actuarial assumptions used, expressed in absolute terms, as well as the discount rates, yield of the plan assets, salary increases and changes in the indexes or other variables referred, at December 31, 2019 and 2018, the same actuarial assumptions in both years, as indicated below:

| Age | Death (%) Men | Death (%) Women | Disability (%) | Rotation (%) | Retirement |
|---|---|---|---|---|---|
| 20 | 0.00197 | 0.00093 | 0.00076 | 0.60606 | 0.000000 |
| 25 | 0.00230 | 0.00095 | 0.00100 | 0.11217 | 0.000000 |
| 30 | 0.00274 | 0.00099 | 0.00112 | 0.06802 | 0.000000 |
| 35 | 0.00332 | 0.00105 | 0.00129 | 0.04273 | 0.000000 |
| 40 | 0.00411 | 0.00116 | 0.00164 | 0.02734 | 0.000000 |
| 45 | 0.00517 | 0.00132 | 0.00221 | 0.01634 | 0.000000 |
| 50 | 0.00661 | 0.00158 | 0.00347 | 0.00903 | 0.000000 |
| 55 | 0.00859 | 0.00199 | 0.00712 | 0.00381 | 0.000000 |
| 60 | 0.01131 | 0.00270 | 0.00000 | 0.00000 | 0.510062 |
| 65 | 0.01512 | 0.00396 | 0.00000 | 0.00000 | 1.000000 |

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 7.55% | 9.18% |
| Rate of salary increases | 7.00% | 7.00% |
| Rate of increases to the minimum salary | 4.00% | 4.15% |

During the years of 2019 and 2018, the amount contributed to the defined contribution pension plan was $28 and $17, respectively.

(Continued)

(Millions of pesos)

## (16) Income Tax (IT) and Employee Statutory Profit Sharing (ESPS)-

### (a) IT

According to the current IT Law in Mexico, the IT rate for the fiscal years of 2019 and 2018 was 30%. The ESPS rate for the fiscal years of 2019 and 2018 was 10%. The IT rate in Peru for fiscal years of 2019 and 2018 was 29.5%. The IT rate in Guatemala for fiscal years of 2019 and 2018 was 25%.

The tax result differs from the accounting result, mainly in such items that are taxable or deductible differently for accounting and tax purposes, by the recognition of the inflation effects for tax purposes, as well as such items that only affect either the accounting or tax results.

Gentera does not consolidate its subsidiaries for tax proposes, following is presented for informative purposes the expense (income) in the consolidated income statement related to current and deferred income taxes for the years ended December 31, 2019 and 2018:

| | | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|---|
| | | **Current IT** | **Deferred IT in OCI** | **Deferred IT** | **Current IT** | **Deferred IT in OCI** | **Deferred IT** |
| Bank | $ | (1,039) | - | 134 | (628) | - | (102) |
| Gentera | | - | - | (17) | - | - | 71 |
| Compartamos Financiera | | (282) | 4 | 34 | (215) | 5 | 52 |
| Compartamos Servicios | | (247) | (17) | 81 | (224) | (27) | 48 |
| Controladora AT | | - | - | - | (19) | - | - |
| Red Yastás | | (28) | - | (24) | - | - | (16) |
| Compartamos Guatemala | | (20) | - | 1 | (16) | - | (1) |
| | $ | **(1,616)** | **(13)** | **209** | **(1,102)** | **(22)** | **52** |

On the next page, the reconciliation between the current and effective IT tax rates of the Bank for the years ended on December 31, 2019 and 2018, which provision is the main consolidated IT expense, is shown.

(Millions of pesos)

| | | 2019 | 2018 |
|---|---|---|---|
| Bank's income before IT | $ | 3,247 | 2,781 |
| IT at 30% rate on income before IT | $ | (974) | (834) |
| Plus (less) the effect of IT on: | | | |
| Deductible annual inflation adjustment | | 68 | 102 |
| Other, net | | 1 | 2 |
| IT expense in the Bank | $ | **(905)** | **(730)** |
| Effective IT rate | | 28% | 26% |

At December 31, 2019 and 2018, the main temporary differences of Gentera on which deferred IT asset (liability) arises, are analyzed as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Allowance for loan losses | $ | 649 | 527 |
| Furniture and equipment | | 57 | 44 |
| Installation expenses | | 174 | 155 |
| Employees' benefits | | 225 | 174 |
| Provisions | | 268 | 234 |
| Tax losses carryforward | | 439 | 447 |
| Other | | (17) | (18) |
| | | 1,795 | 1,563 |
| Less: | | | |
| Valuation allowance * | | 290 | 260 |
| **Deferred IT asset, net** | $ | **1,505** | **1,303** |

* As of December 31, 2019 and 2018, the valuation allowance corresponds mainly to the tax loss carryforwards from Gentera.

(Continued)

(Millions of pesos)

As of December 31, 2019 and 2018, a deferred liability relating to cumulative translation effect of subsidiaries was not recognized, given that the management intends to hold these equity investments.

Fort he year ended December 31, 2019, the deferred IT movement in Gentera represented a creditin the year results for $209, a debit for $13 in OCI and a credit for $6 related to Pagos Intermex which is presented in the caption "Discontinued operations". For the year ended December 31, 2019, in Gentera the deferred IT movement represented a credit to income of the year of $52 and a debit of $22 to stockholders' equity.

As of December 31, 2019 and 2018, deferred tax asset derived from ESPS amounted to $149 and $132, respectively, which is fully reserved.

The combined amounts of Capital Contributions Account (Cuenta de Capital de Aportación - CUCA -Spanish abbreviation) and the net tax profit account (Cuenta de Utilidad Fiscal Neta - CUFIN -Spanish abbreviation) of Gentera and subsidiaries as of December 31, 2019 and 2018, amounts to $8,235 and $17,364 and $8,297 and $22,174, respectively.

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.

### (b) ESPS

For the years ended on December 31, 2019 and 2018, determinated ESPS amounts to $123 and $98, respectively, which was recognized under the "Administrative and promotional expenses" caption in the consolidated statement of income.

As of December 31, 2019 and 2018, the ESPS payable from previous years amounts to $1 and $6, respectively.

## (17) Sundry creditors and other accounts payable-

At December 31, 2019 and 2018, the balance of this caption is comprised as follows:

| | | **2019** | **2018** |
|---|---|---|---|
| Capitalized lease liabilities (note 10) | $ | 16 | 29 |
| Social security contributions | | 159 | 162 |
| Other taxes | | 350 | 316 |
| Labor liabilities (note 15) P[(1)] | | 1,059 | 803 |
| Sundry provisions | | 944 | 922 |
| Sundry creditors | | 1,022 | 953 |
| | $ | **3,550** | **3,185** |

(Continued)

**Gentera, S. A. B. de C. V. and subsidiaries**

Notes to the consolidated financial statements

(Millions of pesos)

(1) Includes $37 and $30, at December 31, 2019 and 2018, respectively, of labor liability mainly from the subsidiaries abroad

Following is the analysis of the most significant provisions for the years ended December 31, 2019 and 2018:

| Type of provision | | Balance at January 1, 2019 | Plus increases | Less applications | Less cancellations | Balance at December 31, 2019 |
|---|---|---|---|---|---|---|
| Short term: | | | | | | |
| Sundry provisions | $ | 922 | 1,823 | 1,717 | 84 | 944 |

| Type of provision | | Balance at January 1, 2018 | Plus increases | Less applications | Less cancellations | Balance at December 31, 2018 |
|---|---|---|---|---|---|---|
| Short term: | | | | | | |
| Sundry provisions | $ | 931 | 1,619 | 1,379 | 249 | 922 |

Provisions represent present obligations for past events where it is more likely than not, there will be outflow of economic resources in the short-term.

Following are presented the main provision concepts at December 31, 2019 and 2018:

| | | 2019 | 2018 |
|---|---|---|---|
| Employees bonuses | $ | 244 | 236 |
| Advisory and services | | 210 | 114 |
| Legal provisions | | 52 | 28 |
| Commissions | | 6 | 7 |
| Other provisions | | 432 | 537 |
| **Total provisions** | $ | **944** | **922** |

(Continued)

## (18) Institute for the protection of bank saving (IPAB- for its acronym in Spanish)-

The System for the Protection of Bank Savings, in effect since 2005, comprises, among other changes, the protection of deposits from the general public amounting to the equivalent of 400,000 UDI (approximately $2.5 at December 31, 2019 and 2018), excluding interbank deposits and those payable to its stockholders and upper bank management, among others.

Fees paid to the IPAB during the years ended December 31, 2019 and 2018, amounted to $65 and $57, respectively, which were charged directly to the consolidated results of the year within the caption of "Administrative and promotional expenses".

## (19) Stockholders' equity-

### (a) Structure of stock and movements of stockholders' equity

Gentera was incorporated with a minimum fixed capital of fifty thousand Mexican pesos and an unlimited variable capital.

2019 movements-

At the general ordinary stockholder meeting held on April 12, 2019, the stockholders resolved to declare and pay dividends of $593, payable in one installments by wire transfer; the payment was made on July 31, 2019 and it  was settled through S. D. Indeval, S. A. de C. V. (Institución para el Depósito de Valores). At the same meeting, it was resolved to increase the legal reserve for $11, and cancel 11,977,698 shares nominative ordinary shares without nominal value expression, without reducing capital stock.

2018 movements-

At the general ordinary stockholder meeting held on April 20, 2018, the stockholders resolved to declare and pay dividends of $1,084, payable in two installments by wire transfer; the first payment was made on June 28, 2018 corresponding to $0.34 pesos per share; the second payment was made no later than November 29, 2018 corresponding to $0.34 pesos per share and both were settled through S. D. Indeval, S. A. de C. V. (Institución para el Depósito de Valores).

At the same meeting, it was resolved to increase the legal reserve for $145, the restoration of the fund for the acquisition of own shares for $80, increase the fund for the acquisition of own shares for $700, and cancel 2,459,999 nominative ordinary shares without nominal value expression , without reducing capital stock.

(Millions of pesos, except otherwise noted)

Gentera's subscribed and paid capital at December 31, 2019 and 2018, is comprised as follows:

| Series | Shares | Description | | Amount |
|---|---|---|---|---|
| **2019** | | | | |
| "Unique" | 415,595,676 | Minimum fixed capital with no withdrawal rights | $ | 1,201 |
| | 1,196,978,041 | Variable capital | | 3,563 |
| | **1,612,573,717** | **Capital stock** | $ | **4,764** |
| **2018** | | | | |
| "Unique" | 415,595,676 | Minimum fixed capital with no withdrawal rights | $ | 1,201 |
| | 1,208,955,739 | Variable capital | | 3,563 |
| | **1,624,551,415** | **Capital stock** | $ | **4,764** |

### *(b) Restrictions on stockholders' equity-*

The General Corporations Law requires the Company to separate annually 5% of their profits to constitute the statutory reserve until it reaches 20% of the capital stock.

Dividends paid are not subject to IT if they are paid from the net tax profit account (CUFIN -Spanish abbreviation). Any dividends paid in excess of this account will cause IT. The current tax will be payable by Gentera and may be credited against its IT in the same year or the following two years.

Dividends paid to individuals and residents abroad shall be subject to an additional tax of 10% with a definitive character, which shall be retained by the entities to distribute the dividends. The new rule applies only to the distribution of profits that are generated from January 1st 2014.

In the event of a capital reduction, the provisions of the IT Law state any excess of stockholders' equity over capital contributions, to be accounted with the same tax treatment as dividends.

### *(c) Capitalization requirements (unaudited)-*

The Ministry of Finance and Public Credit (SHCP-Spanish acronym) requires banks in Mexico to have a percentage of capitalization on assets at risk, which are calculated by applying certain percentages depending on assigned risk. As of December 31, 2019 and 2018, the Bank had complied with the percentage.

(Millions of pesos)

***Minimum capital stock-***

The Bank's subscribed and paid-in minimum capital is equivalent, in Mexican pesos, to the value of ninety million UDIs. The minimum capital stock required for the Bank to operate must be subscribed and paid-in. When the capital stock exceeds the minimum, at least 50% must be paid-in, provided this percentage is not below the established minimum.

In order to comply with minimum capital requirements, the Bank can consider the net capital held, as per the provisions of article 50 of the Law of Credit Institutions. At no time net capital can be less than minimum capital.

***Capitalization-***

***Net capital-***

The Bank maintains a net capital related to the market, credit and operating risk to which it is exposed, and which is not lower than the sum of the capital requirements for the aforementioned risks, in terms of the Capitalization Requirement Rules for Multiple Banking Institutions issued by the SHCP.

At December 31, 2019 and 2018, the Bank is in compliance with the capitalization rules, which require the Bank to maintain a certain net capital in relation to market and credit risks incurred in its operations, which may not be lower than the total amount from adding up capital requirements for both types of risk.

***Capitalization index of the Bank***

Capitalization rules for financial institutions establish requirements for specific levels of net capital, such as a percentage of assets subject to market, credit or operational risk. The Bank's capitalization Index (ICAP by its acronym in Spanish) as of December 31, 2019 and 2018 was 32.59% and 30.98%, respectively.

The ICAP on assets subject to credit risk ("ASRC" by its acronym in Spanish) as of December 31, 2019 and 2018, is 39.51% and 38.94%, respectively.

Following are the most relevant items of the ICAP at December 31, 2019 and 2018:

| | | **2019** | **2018** |
|---|---|---|---|
| Assets in market risk | $ | 4,187 | 4,801 |
| Assets in credit risk | | 27,551 | 24,498 |
| Assets in operational risk | | 1,661 | 1,511 |
| **Total risk assets** | $ | **33,399** | **30,810** |
| Net capital | $ | 10,886 | 9,563 |
| Ratio on assets subject to credit risk | | 39.51% | 38.94% |
| Ratio on assets subject to total risk | | 32.59% | 30.98% |

(Continued)

(Millions of pesos)

The Bank's net capital requirement derived from its exposure to credit risk must be at a minimum ICAP of 10.5%, which is the result of multiplying the weighted assets for which the standard method was used.

The net capital is determined as follows:

| | | December 31 | |
|---|---|---|---|
| | | **2019** | **2018** |
| Stockholders' equity1[1] | $ | 11,929 | 10,808 |
| Deduction of intangibles and deferred expenses or costs | | (1,043) | (1,245) |
| Basic capital | | 10,886 | 9,563 |
| Complementary capital | | - | - |
| **Net capital** | $ | **10,886** | **9,563** |

According to Article 220 of the Dispositions applicable to Credit Institutions, issued in the Official Gazette on December 2, 2005 and subsequent amendments, the Bank has as of December 31, 2019 a Fundamental Capital Ratio (CCF by its acronym in Spanish) higher than 0.7 plus the sum of the Systemic Countercyclical Supplement Capital (SCCS by its acronym in Spanish) and the Countercyclical Supplement Capital Ratio (SCCI by its acronym in Spanish), a Ratio of Basic Capital higher than 0.085 for the years of 2019 and 2018, plus the sum of SCCS and SCCI and an ICAP higher than 10.5%, for both years, plus the sum of SCCS and SCCI. Therefore the Bank is classified in the "I" category in accordance with the aforementioned provisions in both years.

The Ratio of Basic Capital 1 and the Ratio of Basic Capital, is determined as follows:

RBC1 = (Basic Capital 1 / Weighted Assets subject to Total Risks) / ICAPM
RBC = [(Basic Capital 1 + Basic Capital 2) / Weighted Assets subject to Total Risks] - / ICAPM
ICAPM = Ratio of minimum capitalization

Multiple banking institutions will be notified by the Commission of their rating with respect to their categories, as well as the applicable minimum corrective measures and/or special additional measures.

Special additional corrective measures could be applied by the Commission in addition to minimum corrective measures, which, depending on the category, could include the requirement to issue more detailed reports to the Board of Directors of those institutions and the Commission, and hiring special auditors to deal with specific questions with external auditors authorized by the Commission, to the replacement of officers, directors, statutory auditors, the modification of interest rate policies and the withdrawal of the Bank's operating authorization.

(Continued)

[1] As of December 31, 2019 and 2018, the computation only considers the following capital accounts: i) capital stock, ii) statutory reserves, iii) prior years' results, iv) net income, v) valuation of available-for-sale securities and vi) remeasurements for employees defined benefit. All this in accordance with the modification of Article 2 Bis, Section I, subsection a) of the General Provisions applicable to Credit Institutions, issued in the Official Gazette on November 28, 2012.

(Millions of pesos)

***Market risk-***

The capital required for the position of assets at market risk of the Bank as of December 31, 2019 and 2018 is as follows:

| Item | | Amount of the equivalent positions 2019 | 2018 | Capital requirement 2019 | 2018 |
|---|---|---|---|---|---|
| Operations at nominal rate in local currency | $ | 3,905.67 | 4,363.85 | 312.45 | 349.10 |
| Operations at nominal rate in foreign currency | | 0.23 | 0.36 | 0.02 | 0.03 |
| Shares and on shares positions | | - | - | - | - |
| Positions in foreign currency or with return indexed to exchange rates | | 280.90 | 436.82 | 22.47 | 34.95 |
| | $ | **4,186.80** | **4,801.03** | **334.94** | **384.08** |

***Credit risk-***

The amount corresponding to weighted assets subject to credit risk and their respective capital requirements of the Bank as of December 31, 2019 and 2018 is shown below per risk group and item:

| | | Risk weighted assets 2019 | 2018 | Capital requirement 2019 | 2018 |
|---|---|---|---|---|---|
| Risk group: | | | | | |
| From borrowers in loan portfolio: | | | | | |
| Group III (weighted at 20%) | $ | 237.828 | 198.873 | 19.026 | 15.9099 |
| Group III (weighted at 100%) | | 0.003 | 0.003 | 0.0003 | 0.0003 |
| Group VI (weighted at 100%) | | 24,390.785 | 21,649.944 | 1,951.263 | 1,732.9956 |
| Group VII_A (weighted at 20%) | | 35.159 | 48.905 | 2.813 | 3.9124 |
| Group VIII (weighted at 115%) | | 201.132 | 145.546 | 16.091 | 11.6437 |
| For transactions with related persons: | | | | | |
| Group III (weighted at 115%) | | 283.682 | 574.219 | 22.695 | 45.9375 |
| Of issuers of debt securities in position: | | | | | |
| Group III (weighted at 20%) | | 199.599 | 60.000 | 15.968 | 4.8000 |
| Permanent investments and other assets: | | | | | |
| Group III (weighted at 20%) | | 1.473 | 0.704 | 0.118 | 0.0564 |
| Group IV (weighted at 20%) | | 1.144 | 0.312 | 0.092 | 0.0249 |
| Group VII_A (weighted at 100%) | | 979.823 | 603.200 | 78.386 | 48.2560 |
| Group IX (weighted at 100%) | | 1,218.236 | 1,214.038 | 97.459 | 97.1230 |
| Group X (weighted at 1250%) | | 2.581 | 2.581 | 0.206 | 0.2065 |
| **Total credit risk** | $ | **27,551.445** | **24,498.325** | **2,204.12** | **1,960.866** |

(Continued)

(Millions of pesos)

***Operational risk-***

The capital requirement due to the exposure to the Bank's operational risk for December 2019 is $132.9, while for 2018 it was $120.9.

Capital requirements are calculated periodically and the sufficiency of the capital is evaluated. At December 31, 2019 and 2018, the Bank has maintained a capitalization index of 32.59% and 30.98%, respectively, higher than the current regulatory limit (10.5%).

***Leverage index-***

The rule for calculating the leverage index, as of December 31, 2019 and 2018 this index considers the follows:

| | | **2019** | **2018** |
|---|---|---|---|
| Basic capital | $ | 10,886 | 9,563 |
| Accounting assets | | 31,68 | 30,764 |
| Deductions | | 1,044 | 1,242 |
| Derivatives | | - | - |
| Repurchase/resell agreements and loan of securities | | - | - |
| Memo accounts – credit commitments | | 600 | 350 |
| Leverage index | | 35% | 32% |

## *(d) Bank´s agencies credit rating (unaudited)-*

As of December 31, 2019 and 2018 the Bank obtained the following agencies credit rating in both years:

| **Agency** | **Domestic ranking** | **Global ranking** |
|---|---|---|
| Fitch RatingsP[(1)] | 'AA+(mex) / F1+(mex)' | BBB- / F3 |
| Standard&Poor´sP [(2)] | 'mxAAA / mxA-1+' | BBB / A-2 |

(1) Ratified rating on el March 4, 2019.
(2) Ratified rating on June 7, 2019.

(Continued)

**Gentera, S. A. B. de C. V. and subsidiaries**

Notes to the consolidated financial statements

(Millions of pesos)

***Liquidity coverage ratio(unaudited) –***

| **2019** | | **Unweighted amount (average)** | **Weighted amount (average)** |
|---|---|---|---|
| Computable Liquid assets | | | |
| Total Computable Liquid Assets | $ | N/A* | 2,685 |
| Cash outflows | | | |
| Non-guaranteed retail financing | | 1,364 | 86 |
| Stable financing | | 1,003 | 50 |
| Less stable financing | | 361 | 36 |
| Non-guaranteed wholesale financing | | 500 | 287 |
| Operational deposits | | - | - |
| Non-operational deposits | | 419 | 206 |
| Unsecured debt | | 82 | 82 |
| Guaranteed wholesale financing | | N/A* | - |
| Additional requirements: | | 600 | 30 |
| Outflows related to derivative financial instruments and other guarantee requirements | | - | - |
| Outflows related to debt instrument financing losses | | - | - |
| Lines of credit and liquidity | | 600 | 30 |
| Other contractual financing obligations | | 134 | 134 |
| Other contingent financing obligations | $ | - | - |
| Total cash outflows | | N/A* | 538 |
| Cash inflows | | | |
| Cash inflows from guaranteed transactions | | - | - |
| Cash inflows from non-guaranteed transactions | | 9,370 | 5,319 |
| Other cash inflows | | 5 | 5 |
| Total cash inflows | | 9,374 | 5,323 |
| Total computable liquid assets | | N/A* | 2,685 |
| Total net cash outflows | | N/A* | 134 |
| Liquidity coverage ratio | | N/A* | 2,095.59% |

* N/A = Not applicable, since the values subject to division are zero.

(Continued)

**Gentera, S. A. B. de C. V. and subsidiaries**

Notes to the consolidated financial statements

(Millions of pesos)

| **2018** | | **Unweighted amount (average)** | **Weighted amount (average)** |
|---|---|---|---|
| Computable Liquid assets | | | |
| Total Computable Liquid Assets | $ | N/A* | 2,544 |
| Cash outflows | | | |
| Non-guaranteed retail financing | | 1,192 | 74 |
| Stable financing | | 898 | 45 |
| Less stable financing | | 294 | 29 |
| Non-guaranteed wholesale financing | | 812 | 553 |
| Operational deposits | | - | - |
| Non-operational deposits | | 812 | 553 |
| Unsecured debt | | - | - |
| Guaranteed wholesale financing | | N/A* | - |
| Additional requirements: | | 303 | 15 |
| Outflows related to derivative financial instruments and other guarantee requirements | | - | - |
| Outflows related to debt instrument financing losses | | - | - |
| Lines of credit and liquidity | | 303 | 15 |
| Other contractual financing obligations | | 130 | 130 |
| Other contingent financing obligations | $ | - | - |
| Total cash outflows | | N/A* | 773 |
| Cash inflows | | | |
| Cash inflows from guaranteed transactions | | - | - |
| Cash inflows from non-guaranteed transactions | | 9,824 | 6,124 |
| Other cash inflows | | - | - |
| Total cash inflows | | 9,824 | 6,124 |
| Total computable liquid assets | | N/A* | 2,544 |
| Total net cash outflows | | N/A* | 193 |
| Liquidity coverage ratio | | N/A* | 1,765% |

* N/A = Not applicable, since the values subject to division are zero.

(Continued)

The Liquidity Coverage Coefficient is calculated monthly, which is a regulatory requirement and determines the coverage provided by the Available Liquid Assets to cover the Net Cash Outflows in the next 30 days, the support system to perform the calculation of this indicator is the Compartamos Risk Management System (Sistema de Administración de Riesgos Compartamos (SARC)). The average presented considers the information, corresponding to the period from October 1 to December 31, 2019 and 2018. During the 2019 and 2018 quarter there was no departure from the daily Liquidity Coverage Ratio, and the corresponding scenario according to the Liquidity Provisions was Scenario I.

## (20) Commitments and contingent liabilities -

Compartamos Servicios entered into a lease agreement of a building for the exclusive use of corporate offices in Mexico, the amount of the rent is in dollars and it was translated into Mexican pesos as of April 1, 2013, date when conditions are met to occupy the building.

The term of the agreement is for a period of 126 months, starting on October 1, 2012, and ending on March 31, 2023, paying a total of 44,889,935 dollars at an exchange rate of $12.62 Mexican pesos per dollar, during the aforementioned period. For the payment of the rent Gentera has a grace period of six months to condition the property for its use beginning on October 1, 2012. Gentera entered into an amendment agreement dated October 29, 2018 for the return of floors 19, 20 and 21 with their respective terrace. The formal return of the aforementioned floors took place on April 30, 2019.

Between 2018 and 2017, the use of 5 more floors in addition to those already contracted to be used for operations, was added to the contract, thus the expense for this concept during the years ended December 31, 2018 and 2017 was $138 and $127, respectively.

The total amount of lease payments, which will be made during the following five years amounts to $2,464 ($596 in 2020, $580 in 2021, $549 in 2022, $399 in 2023 and $340 in 2024).

The majority of the lease agreements for the service offices are based on Gentera's templates, containing the following clauses: purpose, intent, duration, rent, guarantee deposit, form of payment, expense, additional obligations, rescission, returning of the building, maintenance and leasehold improvements, privation, non-compliance, contractual penalty, modifications, notices and notifications, assignment, absence of flaws and jurisdiction.

(Continued)

Most of the agreements establish the option of early termination for Gentera, prior notification to the lessor in writing.

For the most part, contract renewals require that the lessor respect the preemptive right established in the legislation, as well as signature of a new lease agreement in the same terms and conditions set forth in the expiring agreement. The lessor is to grant Gentera 60 days prior to expiration of the agreement to conduct the renewal.

Gentera will enjoy a term of 10 business days as from the first working date after the lesser delivers the agreement, in order for the former to decide whether or not to sign the agreement. Gentera does not sign lease agreements with an option to buy. All of the lease agreements are guaranteed with cash deposits, which are the equivalent to 1 or 2 months' rent, as the case may be. Under no circumstances does Gentera offer additional guarantees.

Rent agreements are paid on a monthly basis and are updated annually and increases are determined based on the National Consumer Price Index published by Central Bank the previous month prior to signing the agreement supporting said increase.

In most cases, the annual increase is capped to 10% of the rent price paid the prior year, in the event of macroeconomic contingencies, this percentage will be increased. Rent increases must be supported through an amending agreement, to be signed 30 days prior to the date on which the rent is to be increased.

Gentera's lease agreements do not consider caps on dividend payments and debt contracting. For the years ended December 31, 2019 and 2018, lease payments were recorded in the consolidated income statement for $860 and $848, respectively.

As of December 31, 2019, the Bank is involved in several claims and trials, derived from the normal course of its operations, according to the opinion of its legal counsels and the assessment made by management, there are elements of defense in which exists a probability to obtain a favorable outcome. As part of those claims, up to date stands out the nullity trials and claims brought by the Mexican Internal Revenue Service (SAT-Spanish acronym) for fiscal years 2006, 2010 and 2011, whose claim comes mainly from the difference in the criteria applied up to 2011 for determining the ESPS; the amounts observed by the SAT, regarding to ESPS are $74, $200, and $215 for the same years, respectively.

Compartamos Servicios is involved in several claims and labor trials, derived from the demands of ex-employees, whose effects are not expected to have material effect.

(Continued)

(Millions of pesos, except otherwise noted)

## (21) Balances and operations with related parties -

During the normal course of operations, Gentera conducted transactions with related parties.

Related parties are defined as either individuals or entities holding direct or indirect control of 2% or more of the shares representing Gentera's capital and the members of the Board of Directors.

Also considered as related parties are entities, as well as the advisors and officers thereof, in which Gentera has direct or indirect control over 10% or more of their shares.

The total sum of operations with related parties did not exceed 50% of the basic portion of the Bank's net capital, as set out in article 50 of the Law of Credit Institutions.

For the years ended on December 31, 2019 and 2018, Gentera granted to key management personnel, short term direct benefits for $400 and $304, respectively.

The main transactions celebrated with related parties for the years ended on December 31, 2019 and 2018, are as follows:

| | | **2019** | **2018** |
|---|---|---|---|
| Donation expenses | $ | 23 | - |
| Interest income from associated companies | $ | 86 | 43 |

The main balances with related parties for the years ended December 31, 2019 and 2018, are shown below:

| | | **2019** | **2018** |
|---|---|---|---|
| Accounts receivable | | | |
| Aflore | $ | 13 | 30 |
| Comfu | | 14 | 12 |
| Fin Útil | | 606 | 527 |
| C4 uno | | 4 | 17 |
| **Total** | $ | **637** | **586** |

(Continued)

(Millions of pesos)

## (22) Additional segments information-

Gentera has consumer, commercial and mortgage loans, thus its source of income is derived from interest of the loan products offered, in addition to the products of treasury operations, such as interest from investments in securities and repurchase/resell agreements. Liability transactions include demand and time deposits, debt securities issued and bank and other loans, from which interest expenses arise.

Out of the total income earned by the Bank (main subsidiary) for the years ended December 31, 2019 and 2018, 93% came from its loan operation. Consequently, the resources of deposit funding and bank and other loans obtained during the year were primarily used for the placement of loans, therefore the accrued interest are identified by the credit segment, same trend is reflected in administrative expenses. The remaining operations are the treasury segment and commissions from insurance operations.

***Financial margin-***

For the years ended on December 31, 2019 and 2018, the financial margin is shown below:

| | | 2019 | 2018 |
|---|---|---|---|
| **Interest income:** | | | |
| Loan portfolio interest | $ | 22,381 | 20,700 |
| Interest on cash and cash equivalents | | 378 | 265 |
| Interest arising from investments in securities | | 50 | 22 |
| | $ | **22,809** | **20,987** |
| **Interest expense:** | | | |
| Demand and time deposits | $ | 502 | 355 |
| Certificates of deposit | | - | 22 |
| Cebures (includes amortization of issuance expenses of $16 and $18 in 2019 and 2018, respectively) | | 746 | 666 |
| Corporate bonds (includes amortization of the expense for issuance of $1) | | 18 | 11 |
| Banking and other borrowings | | 810 | 648 |
| Result from the valuation of funds | | - | 9 |
| | **$** | **2,076** | **1,711** |

(Continued)

**Gentera, S. A. B. de C. V. and subsidiaries**

Notes to the consolidated financial statements

(Millions of pesos)

***Interests and commissions per type of loan-***

Interests and commissions per type of loan, for the years ended on December 31, 2019 and 2018, are comprised as follows:

| | | 2019 | | 2018 | |
|---|---|---|---|---|---|
| **Interest income** | | **Current** | **Past-due** | **Current** | **Past-due** |
| Commercial loans: | | | | | |
| Business and commercial | $ | 993 | 8 | 376 | 1 |
| Consumer loans | | 21,375 | 4 | 20,312 | 10 |
| Residential mortgages | | 1 | . | 1 | - |
| | $ | **22,369** | **12** | **20,689** | **11** |

For the years ended on December 31, 2019 and 2018, income and expense for commissions and fees, are comprised as follows:

| | | **2019** | **2018** |
|---|---|---|---|
| Commissions and fees income: | | | |
| Commercial loans | $ | 24 | - |
| Consumer loans | | 275 | 355 |
| Insurance operations | | 619 | 582 |
| Correspondent | | 59 | 62 |
| Other | | 292 | 175 |
| | $ | **1,269** | **1,174** |
| Commissions and fees expense: | | | |
| Bank fees | $ | 159 | 135 |
| Brokers | | 190 | 203 |
| Insurance operations | | 63 | 81 |
| Borrowings received | | 4 | 3 |
| | $ | **416** | **422** |

For the years ended December 31, 2019 and 2018, "Other operating income (expenses), net", is analyzed in the following page.

(Continued)

(Millions of pesos)

| | | 2019 | 2018 |
|---|---|---|---|
| Other operating income (expense), net: | | | |
| Allowance for bad debts, net | | (57) | (118) |
| Miscellaneous losses | | (19) | (24) |
| Donations | | (44) | (13) |
| Resulto n sales of furniture and equipment | | (43) | (27) |
| Capitalized leases | | (2) | (3) |
| Cancellarion of provisions[1] | | (32) | 234 |
| Other income (mainly insurance premiums) | | 163 | 131 |
| **Totales** | $ | **(34)** | **180** |

(1) For the year ended December 31, 2018, includes the cancellation of the provision for $165, which had been established in previous years due to ESPS litigation. In 2018, such provision was canceled because the profit sharing was inadmissible in accordance with section I of article 127 of the Federal Labor Law.

Following is a condensed consolidated income statement (including intercompany balances eliminations) of Gentera and subsidiaries for the years ended on December 31, 2019 and 2018:

| 2019 | | Gentera | Banco | Compartamos Guatemala | Compartamos Financiera | Red Yastás | Compartamos Servicios | Controladora AT | Intermex | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest income | $ | 14 | 17,628 | 590 | 4,497 | 21 | 51 | 8 | - | 22,809 |
| Interest expense | | (47) | (1,395) | - | (634) | - | - | - | - | (2,076) |
| Financial margin | $ | (33) | 16,233 | 590 | 3,863 | 21 | 51 | 8 | - | 20,733 |
| Financial margin adjusted for credit risk | $ | (33) | 13,802 | 498 | 3,222 | 21 | 51 | 8 | - | 17,569 |
| Operating income before income tax | $ | 125 | 11,558 | 81 | 807 | (31) | (7,904) | 134 | - | 4,770 |
| Discontinued operations | $ | - | - | - | - | - | - | - | (54) | (54) |
| **Net income** | **$** | **108** | **10,654** | **64** | **558** | **(55)** | **(8,071)** | **105** | **(54)** | **3,309** |

| 2018 | | Gentera | Banco | Compartamos Guatemala | Compartamos Financiera | Red Yastás | Compartamos Servicios | Controladora AT | Intermex | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest income | $ | 18 | 16,702 | 574 | 3,633 | 13 | 31 | 9 | - | 20,980 |
| Interest expense | | (11) | (1,168) | - | (532) | - | - | - | - | (1,711) |
| Financial margin | $ | 7 | 15,534 | 574 | 3,101 | 13 | 31 | 9 | - | 19,269 |
| Financial margin adjusted for credit risk | $ | 7 | 13,556 | 500 | 2,521 | 13 | 31 | 9 | - | 16,637 |
| Operating income before income tax | $ | 65 | 11,330 | 71 | 632 | (45) | (8,168) | 103 | - | 3,988 |
| Discontinued operations | | - | - | - | - | - | - | - | 52 | 52 |
| **Net income** | **$** | **135** | **10,601** | **54** | **469** | **(60)** | **(8,345)** | **84** | **52** | **2,990** |

(Continued)

## (23) Comprehensive risk management (CRM) from the Bank, main subsidiary (unaudited)-

The Bank recognizes that the essence of its business is to assume risks in seeking potential financial and social returns. Consequently, CRM is a core component of the business' strategy for identifying, measuring, overseeing and controlling the different types of risks faced during the normal course of operations.

The Institutions's CRM is considered to be an on-going process involving all levels of management. The structure for the Institution's CRM is based on the following guidelines:

a. Commitment by Top Management and the Board of Directors to properly manage risks encountered

b. Ongoing supervision of CRM policies and procedures.

c. Clear segregation of duties to ensure independence and objectivity in risk management.

d. Formal cooperation between the CRM structure and the business units.

e. Clear determination of responsibilities pertaining to CRM.

f. On-going supervision of the Internal Control and Audit area, to ensure proper compliance with CRM duties

Continuous supervision of the Internal Control and Audit area, to ensure proper compliance with the CRM function.

The Board of Directors has set up a Risk Committee to ensure that operations are conducted in line with the objectives, policies and procedures for CRM, as well as with the exposure limits approved by said committee. This committee meets at least once a month and works in accordance with the guidelines set out in the General dispositions applicable to credit institutions.

The Board of Directors has established the Risk Committee to oversee that the performance of operations is in accordance with the objectives, policies and procedures for the CRM, as well as the exposure limits approved by it. This Committee meets at least monthly and operates in accordance with the guidelines outlined in the General Provisions applicable to credit institutions.

The Risk Committee is aided by the Comprehensive Risk Management Unit (CRMU) for identification, measurement, oversight and disclosure of risks as per the General Provisions Applicable to Credit Institutions in effect and applicable best practices.

The CRM is based fundamentally on the determination of a structure of global and specific limits, and on the application of risk methodologies authorized by the Board of Directors.

(Continued)

***Credit risk-***

Credit risk management considers: identification, quantification, establishing of limits, risk policies and risk monitoring, potential losses due to borrower or counterparty default in operations with financial instruments.

The Bank's loan portfolio at December 31, 2019 and 2018 is made up in 99.1% and 97.9%, respectively, of loans made to individuals for a specific purpose (consumer portfolio) 0.9% and 2.1% with related parties in Mexican pesos. The consumer portfolio is sufficiently diversified to represent no concentration risk and there is a scarce value of individual positions. In accordance with the criteria set forth in paragraph 70 of "International convergence of capital measurements and capital standards" Basel II, the Bank's loan portfolio can be classified as retail portfolio.

As of December 31, 2019 and 2018, the portfolio is comprised for 3.1 and 2.8 million loans, respectively, as well the average outstanding balance in this dates has remained at approximately $8,519 and $8,016 Mexican pesos, respectively at an average term of five and four months, respectively.

As of December 2019 and 2018, the maximum authorized amount for a loan $202,400 and $200,000 Mexican pesos respectively in both years, as a result of which, the maximum financing limits established in the provisions for one individual or group of individuals representing a common risk were complied with no exceptions. In addition, no operations were conducted with customers considered an individual or group of individuals who, comprising one or more liability operations payable by the Bank, exceeded 100% of the basic capital.

Analyses of quality of the loan portfolio and credit risk rating thereof are conducted at least monthly. Loans are rated as per the methodology mentioned in note 3(f).

Rating-based distribution of the loan portfolio, that could be interpreted as the risk profile of the Institution's loan portfolio, shows its greatest concentration in rating A-1, current loan portfolio.

For comparative and sensitivity purposes, in the following page is a table which considers the modification of the Article 129 of the Provisions.

(Continued)

(Millions of pesos, except otherwise noted)

| Consumer loans | | Distribution of the loan portfolio by rating (data in percentages to the total loan portfolio) | | | |
|---|---|---|---|---|---|
| | | 2019 | | 2018 | |
| **Rating** | | **Balance** | **Average** | **Balance** | **Average** |
| "A-1" | $ | 67.0 | 66.7 | 67.2 | 66.9 |
| "A-2" | | 4.3 | 4.5 | 4.0 | 4.1 |
| "B-1" | | 0.9 | 0.8 | 1.1 | 1.1 |
| "B-2" | | 6.5 | 7.3 | 7.7 | 7.8 |
| "B-3" | | 1.7 | 1.9 | 2.1 | 2.1 |
| "C-1" | | 8.3 | 8.1 | 7.4 | 7.8 |
| "C-2" | | 4.3 | 3.9 | 4.0 | 4.0 |
| "D" | | 1.7 | 1.6 | 2.2 | 1.9 |
| "E" | | 5.3 | 5.2 | 4.3 | 4.3 |
| **Total** | $ | **100.0** | **100.0** | **100.0** | **100.0** |

Probability of default and loss given default weighted for exposure

| | | **2019** | **2018** | **Variation (%)** |
|---|---|---|---|---|
| Total exposure | $ | 26,268 | 23,127 | 14 |
| Probability of default (weighted exposure) (%) | | 5.2 | 7.7 | (16.3) |
| Loss given default (weighted exposure) (%) | | 76.4 | 76.4 | 0.3 |

The measurement methodology used to calculate the unexpected losses from the portfolio credit risk is an approximate of such loss through a Gamma distribution with parameters associated to the regulator model plus a calibration factor.

The expected loss is calculated, multiplying the exposure of the operation by the probability of default by the borrower, using the aforementioned rating model for assigning of probability of default, mentioned above.

| Commercial loan portfolio | | Credit risk 2019 | | Credit risk 2018 | |
|---|---|---|---|---|---|
| **Concept** | | **Balance** | **Average** | **Balance** | **Average** |
| Commercial loan portfolio: | | | | | |
| Total exposure | $ | 250 | 250 | 500 | 500 |
| Expected loss | | - | - | - | - |
| Unexpected loss at 95% | | - | - | - | - |
| Expected loss/total exposure | | N/A* | N/A* | N/A* | N/A* |
| Unexpected loss/total exposure | | N/A* | N/A* | N/A* | N/A* |

* N/A = It is not applicable, because the values subject to division are zero.

(Continued)

(Millions of pesos), except otherwise noted)

At December 31, 2019 and 2018, the quantitative information for credit risk of the consumer loan portfolio is shown as follow:

| | | Credit risk | | | |
|---|---|---|---|---|---|
| **Concept** | | **Balance 2019** | **Average 2019** | **Balance 2018** | **Average 2018** |
| Consumer loan portfolio: | | | | | |
| Total exposure | $ | 26,268 | 25,738 | 23,127 | 22,767 |
| Expected loss | | 3,316 | 3,192 | 2,650 | 2,553 |
| Unexpected loss at 95% | | 3,321 | 3,197 | 2,654 | 2,557 |
| Expected loss/total exposure | | 12.6% | 12.4% | 11.5% | 11.2% |
| Unexpected loss/total exposure | | 12.6% | 12.4% | 11.5% | 11.2% |

The expected loss pertaining to the loan portfolio under consideration as of December 31, 2019 represents 12.6% of the overall balance exposed to default. The Bank has set up loan loss reserves totaling $1,706, equivalent to 6.5% of the balance of the overall portfolio. As of December 31, 2018, the expected loss was of 11.5% and the allowance amounted to $1,351; 5.7% with respect to the balance of the overall portfolio at such date. The loan portfolio is rated in accordance with the rules for rating the loan portfolio issued by the SHCP and the methodology established by the Commission. The Bank only sets up allowance for loan losses in addition to those created as a result of the portfolio rating process, in compliance with Title Two, Chapter I, Section Four of Article 39 of the General Provisions Applicable to Credit Institutions. As of December 31, 2019 and 2018 additional reserves had been constituted by instruction of the Commission for 1.5 and $269,929 pesos, respectively.

Expected and unexpected losses are calculated on a monthly basis under different scenarios (sensitivity analyses), including stress scenarios. The results of the analysis are presented to the areas involved in portfolio risk management, to the Chief Executive Officer's Office and to the Risk Committee.

At December 31, 2019, interest income from loan operations amounted to $17,384, representing 98.4% of the Bank's total interest income, compared to the same item at December 31, 2018, the variation in income, in percentage terms is 4.8%.

| Income from loan operations | | **2019** | **2018** | **Variation (%)** |
|---|---|---|---|---|
| Loan interest income | $ | 17,384 | 16,583 | 4.8% |
| Total interest income | | 17,669 | 16,744 | 5.5% |
| Income from loan operations (%) | | 98.4 | 99.0 | - |

(Millions of pesos)

With respect to credit risk management for operations with financial instruments or counterparty risk, the credit risk exposure in operations with financial instruments, and the expected and unexpected loss thereof, are calculated on a monthly basis. As of December 31, 2019, the position in financial instruments subject to counterparty risk totals $700; 29% correspond to direct commercial banking (Certificates of Deposits in the money market) while 71% correspond to call money transactions. The expected loss pertaining to counterparty risk is 0.001% of the overall exposure. In comparison, as of December 31, 2018, the Bank's position in financial instruments subject to counterparty risk totaled $300; 100% in call money operations with an expected loss from counterparty risk of 0.001%, with respect to the overall exposure.

The methodology for managing credit risk in financial operations consists of an economic capital type model which generates an allocation of capital that must be available to cover the losses.

Probability of default: This information is obtained from the following sources: 1) Standard & Poors, rating granted to financial institutions based on their rating scale known as CAVAL over the long term; 2) Moody's, as with S&P, according to the rating granted over the long-term; 3) Fitch, is the third source for learning the rating granted by this agency, 4) HR Ratings and VERUM (these authorized rating agencies, according to the Appendix 1-B of the General Provisions for Banks), and 5) in the event the Institution has no rating from any of the three agencies, an average rating is assigned according to its group. The above grouping refers to the group to which it pertains in the market (P8, AAA, P12, other). In the event of rating differences, the lowest rating is used.

Following is the exposure to counterparty risk for purchase/sale of securities and interbank loans as of December 31, 2019 and 2018, as well as the maximum exposure to such risk during these years.

| | | **Exposure to counterparty risk at December 31, 2019** | | |
|---|---|---|---|---|
| | | **Amount at year-end** | **Maximum exposure** | **Concentration at year-end (%)** |
| Total position | $ | 700.76 | 0.2 | 100% |
| Purchase/sale of securities | | | | |
| Rating AAA | | - | - | - |
| Rating AA | | - | - | - |
| Rating A | | - | - | - |
| **Investment securities, trading and call money** | $ | **700.76** | **0.2** | **100%** |

* The authorized counterparty risk limit is 8% of the product related to the ASRC of the Bank's latest known net capital. The ASRC product x ICAP of the period was $718.

(Continued)

(Millions of pesos)

| | | Exposure to counterparty risk at December 31, 2018 | | |
|---|---|---|---|---|
| | | **Amount at year-end** | **Maximum exposure** | **Concentration at year-end (%)** |
| Total position | $ | 300.03 | 0.2 | 100% |
| Purchase/sale of securities | | | | |
| Rating AAA | | - | - | - |
| Rating AA | | - | - | - |
| Rating A | | - | - | - |
| **Investment securities, trading and call money** | $ | 300.03 | **0.2** | **100%** |

* The authorized counterparty risk limit is 8% of the product related to the ASRC of the Bank's latest known net capital. The ASRC product x ICAP of the period was $669.

Due to the nature of its business, it is the Bank's policy not to conduct brokerage operations or to act as issuer of derivative products.

***Market risk- -***

Market risk management considers, at least, identification, quantification and establishing of limits and monitoring of risks arising from changes in the risk factors affecting the valuation or expected results of asset or liability operations or those giving rise to contingent liabilities.

The portfolio of financial instruments subject to market risk in the Institution consists of operations of certificates of deposit in the money market and call money in 2019 and only certificates of deposits in 2018. As a result, the main risk factors that could affect the value of the investment portfolio are interest rates, spreads, and the prices of other financial instruments. It should be mentioned that the Institution's treasury operation is limited to investment of cash surpluses from the credit operation.

The process for risk measurement of risk assumed by the Institution to manage this type of risk is the Value at Risk (VaR), which is calculated on a daily basis. VaR is an estimation of the potential loss in value of a determined period of time given the level of confidence. The method used by the Institution is the historical simulation method.

(Millions of pesos)

Parameters used in calculating the VaR.

- Method: Historical simulation
- Confidence level: 99%
- Investment horizon: one day
- Number of observations: 252 days
- Weighting of scenarios: Equally probable

The market risk quantitative information as of December 31, 2019, is shown as follows:

| | | Value at Risk, 1 day (VaR) on December 31, 2019 | | | |
|---|---|---|---|---|---|
| **Portfolio** | | **Market value** | **VaR at 99%** | **% Position** | **Use of limit (%)[1]** |
| Total position | $ | 888.02 | 2.09 | 0.18 | 41.71 |
| Money[2] | | 200.76 | 0.004 | 0.002 | 0.008 |
| Purchase of securities | | - | - | - | - |
| Call Money | | 499.99 | 0.005 | 0.001 | 0.096 |
| Derivatives[3] | | - | - | - | - |
| Foreign currencies | | 187.27 | 2.09 | 1.12 | 41.78 |
| Equity | | - | - | - | - |

1. At December 31, 2019 the authorized risk limit is calculated based on the maximum exposure, with an exposure of $888.02 corresponds a limit of $5.

2. The positions subject to market risk referred to are certificates of deposits in the money market.

3. There are no derivative operations for trade or hedge purposes.

Following is the quantitative information for market risk as of December 31, 2018.

| | | Value at Risk, 1 day (VaR) on December 31, 2018 | | | |
|---|---|---|---|---|---|
| **Portfolio** | | **Market value** | **VaR at 99%** | **% Position** | **Use of limit (%)[1]** |
| Total position | $ | 591.23 | 3.96 | 0.67 | 52.76 |
| Money[2] | | 300.03 | 0.03 | 0.01 | 0.41 |
| Purchase of securities | | - | - | - | - |
| Call Money | | - | - | - | - |
| Derivatives[3] | | - | - | - | - |
| Foreign currencies | | 291.20 | 3.95 | 1.36 | 52.66 |
| Equity | | - | - | - | - |

1. The authorized risk limit is an amount calculated based on each million dollars of investment; as of December 31, 2019, with an exposure of $591.23, there is a limit of $7.5.

(Continued)

**Gentera, S. A. B. de C. V. and subsidiaries**

Notes to the consolidated financial statements

(Millions of pesos)

2. The positions subject to market risk referred to direct commercial banking.

3. There are no derivative transactions for trading or hedging purposes.

The market VaR is calculated daily, including the main positions, asset and liability, subject to market risk shown in the balance sheet, which is also used for interest rate risk management. The daily average VaR of the Bank in 2019 was $2.1, corresponding to 42% of the limit calculated exposure as of December 31, 2019. The daily average VaR held in 2018 was $3.5, corresponding to 44% of the last ASRM product x ICAP known as of December 31, 2018.

As part of the market-risk management process, backtesting, sensitivity and stress scenario tests are conducted.

Backtesting is conducted monthly to compare the losses and gains that would have been observed had the same positions been maintained, considering only the change in value due to market movements, against the calculation of the VaR. This allows for evaluating the accuracy of the prediction. To date, testing has been highly effective by more than 98.81%.

The sensitivity analyses conducted periodically normally considers movements of ±100 base points in rates or risk factors. Whereas to generate stress scenarios, movements of ±150 base points are considered in rates or risk factors.

As of December 31, 2019 and 2018, sensitivity and stress tests are as follows:

| | | Sensitivity analysis as of December 31, 2019 | | | |
|---|---|---|---|---|---|
| | | **Market value** | **VaR at 99%** | **Sensitivity +100 pb** | **Stress +150pb** |
| [2]Total position | $ | 888.02 | 2.09 | 9.86 | 14.73 |
| Money: | | | | | |
| Purchase of securities: | | | | | |
| Call Money | | 499.99 | 0.005 | 0.03 | 0.04 |
| Direct | | 200.76 | 0.04 | 0.043 | 0.12 |
| Foreign currencies | | 187.27 | 2.09 | 9.93 | 14.89 |

| | | Sensitivity analysis as of December 31, 2018 | | | |
|---|---|---|---|---|---|
| | | **Market value** | **VaR at 99%** | **Sensitivity +100 pb** | **Stress +150pb** |
| Total position | $ | 591.23 | 3.96 | 14.11 | 21.41 |
| Money: | | | | | |
| Purchase of securities: | | | | | |
| Call Money | | - | - | - | - |
| Direct | | 300.03 | 0.03 | 0.24 | 0.12 |
| Foreign currencies | | 291.20 | 3.95 | 14.82 | 22.23 |

(Continued)

2

(Millions of pesos)

Income from treasury operations at the end of 2019 was $285, accounting for 1.6% of the Bank’s overall interest income, the variation with 2018 was77.0%.

| | | Income from treasury operations | | |
|---|---|---|---|---|
| | | **2019** | **2018** | **Variation (%)** |
| Income from treasury operations | $ | 285 | 161 | 77.0% |
| Total interest income | | 17,669 | 16,744 | 5.5% |
| Income from treasury operations (%) | | 1.6% | 1.0% | |

***Interest rate risk-***

Interest rate risk is defined as the impact that variations in interest rates may generate on the balance sheet products, which may affect the results and the current value of the Bank's positions.

Interest rate risk management is based on the generation of interest gaps with contractual and stress scenarios to measure the possible impact of a movement in interest rates. The CRMU carries out, through its own reports, the correct elaboration and consolidation of information for the analysis of results in the corresponding committees.

To monitor the interest rate risk, the following scenario is considered:

An increase in the reference interest rate of 1,000 basis points (bp) is assumed and applied to the total flow of liabilities, which will generate an additional cash flow for interest payments. As of December 31, 2019 this increase means an over run of $1,982.

Derived from the structure of the Bank's balance sheet, it was determined not to consider the deposits without maturity for their analysis of the interest rate. Additionally, as of December 31, 2019, the Bank has not outstanding loans that, due to their nature, need to simulate their early repayments.

The Assets and Liabilities Committee (ALCO) conducts follow-up sessions that analyze market expectations, their possible impact on the Bank's interest rate and capital risk, as well as the efficiency of risk hedges within the operations of the balance sheet.

***Liquidity risk-***

Liquidity risk management includes, at least, identification, measurement and establishment of limits and follow up on risks or potential losses arising from the impossibility or difficulty of renewing liabilities or of contracting others under normal Institution conditions due to early or forced sale of assets at unusual discounts to settle its obligations, or to the fact that a position cannot be promptly sold, acquired or hedged by means of establishing an equivalent contrary position.

(Continued)

The Institution's business model is based on its reputation as a solid institution that always responds to its customers' credit needs. Therefore, liquidity risk management is an essential element for timely prevention of the differences arising from the possible "gap" between its main positions in terms of liquidity risk: expected cash flows (payments on current loans) and projected outflows (current expenses, placement of new loans).

The measurement methodology used in liquidity risk management is:

- Liquidity gap analyses consider the Bank's main assets and liabilities, whether recorded on or off the balance sheet, establishing maturity bands according to the characteristics of the products offered. A limit is established for each bucket.

- Liquidity Value at Risk (liquidity VaR) for measurement of the market's liquidity risk determines the possible inability to liquidate positions in one day and is calculated in the same way as the market VaR with a 10-day horizon.

As of December 31, 2019, the quantitative information for the analysis of liquidity gaps is as shown in the following page.

(Millions of pesos)

**Analysis of liquidity gaps (accumulated)[1] 2019**

| Bucket | | Gap | Limit* | Use of Limit (%) |
|---|---|---|---|---|
| 0-1 days | $ | 2,215 | 20% | 0% |
| 2-7 days | | 2,291 | 21% | 0% |
| 8-15 days | | 2,641 | 24% | 0% |
| 16-23 days | | 3,161 | 28% | 0% |
| 24-30 days | | 3,840 | 34% | 0% |
| 31-60 days | | 4,730 | 42% | 0% |
| 61-90 days | | 10,608 | 95% | 0% |
| 91-180 days | | 14,001 | 125% | 0% |
| 181-360 days | | 5,364 | 48% | 0% |
| 361-720 days | | 1,334 | 12% | 0% |
| 721-1,080 days | | (3,706) | (33)% | (33)% |
| 1,081-1,440 days | | (7,494) | (67)% | (67)% |
| 1,441-1,800 days | | (10,784) | (97)% | (97)% |
| > 1,800 days | | (10,784) | (97)% | (97)% |

**Analysis of liquidity gaps December 31, 2019**

| Bucket | | Gap | Limit | Use of limit (%) |
|---|---|---|---|---|
| 0-1 days | $ | 2,215 | 0.20 | 0% |
| 2-7 days | | 76 | 0.01 | 0% |
| 8-15 days | | 351 | 0.03 | 0% |
| 16-23 days | | 520 | 0.05 | 0% |
| 24-30 days | | 679 | 0.06 | 0% |
| 31-60 days | | 889 | 0.08 | 0% |
| 61-90 days | | 5,878 | 0.53 | 0% |
| 91-180 days | | 3,394 | 0.30 | 0% |
| 181-360 days | | (8,637) | (0.77) | (77)% |
| 361-720 days | | (4,030) | (0.36) | (36)% |
| 721-1,080 days | | (5,040) | (0.45) | (45)% |
| 1,081-1,440 days | | (3,788) | (0.34) | (34)% |
| 1,441-1,800 days | | (3,290) | (0.29) | (29)% |
| > 1,800 days | $ | - | - | - |

1 The calculation of the accumulated gaps is presented in order to clarify the period, where a gap of liquidity exists.

* The authorized risk limit is calculated as a percentage of the total liquid assets plus available lines

(Continued)

(Millions of pesos)

The liquid assets plus available lines as of December 31, 2019, were $11,158.

As of December 31, 2018, the quantitative information for the analysis of liquidity gaps is as follows:

| **Analysis of liquidity gaps (accumulated)[1] 2018** | | | | |
|---|---|---|---|---|
| **Bucket** | **Gap** | **Bucket** | **Limit** | **Use limit %** |
| 0-1 days | $ | 3,920 | 35% | - |
| 2-7 days | | 3,972 | 36% | - |
| 8-15 days | | 4,293 | 38% | - |
| 16-23 days | | 4,790 | 43% | - |
| 24-30 days | | 5,237 | 47% | - |
| 31-60 days | | 6,768 | 61% | - |
| 61-90 days | | 9,935 | 89% | - |
| 91-180 days | | 13,917 | 124% | - |
| 181-360 days | | 5,086 | 45% | - |
| 361-720 days | | (707) | (6)% | (6)% |
| 721-1,080 days | | (3,974) | (36)% | (36)% |
| 1,081-1,440 days | | (8,934) | (80)% | (80)% |
| 1,441-1,800 days | | (12,097) | (108)% | (108)% |
| > 1,800 days | $ | (12,097) | (108)% | (108)% |

| **Analysis of liquidity gaps as of december 31 of 2018** | | | | |
|---|---|---|---|---|
| **Bucket** | **Bucket** | **Bucket** | **Bucket** | **Bucket** |
| 0-1 days | $ | 3,920 | 35% | - |
| 2-7 days | | 52 | - | - |
| 8-15 days | | 320 | 3% | - |
| 16-23 days | | 497 | 4% | - |
| 24-30 days | | 448 | 4% | - |
| 31-60 days | | 1,531 | 14% | - |
| 61-90 days | | 3,167 | 28% | - |
| 91-180 days | | 3,982 | 36% | - |
| 181-360 days | | (8,831) | (79)% | (79)% |
| 361-720 days | | (5,793) | (52)% | (52)% |
| 721-1,080 days | | (3,267) | (29)% | (29)% |
| 1,081-1,440 days | | (4,960) | (44)% | (44)% |
| 1,441-1,800 days | | (3,163) | (28)% | (28)% |
| > 1,800 days | $ | - | - | - |

* The authorized risk limit is calculated as a percentage of the total liquid assets plus available lines.

The liquid assets plus available lines as of December 31, 2018, were $11,181.

(Continued)

(Millions of pesos)

Differences in flows (gaps) show excesses (greater asset flows than liability flows) in the first buckets, which is natural for the type of operations handled by the Bank, as 90% of the assets considered correspond to cash flows arising from recovery of loans with an average term of four months and investments at terms below 180 days, while liability flows correspond to financing contracted at the short and medium term maturity date, giving rise to a positive accumulated gap over 360 days, at the end of 2019, of $5,364. The overall accumulated gap is positive.

At December 31, 2019 the quantitative information for liquidity risk of the Bank, is as follows:

| | | VaR Liquidity, 10 days 2019 | | |
|---|---|---|---|---|
| | | **Value** | **Position** | **Use of limit (%)*** |
| VaR liquidity at 99% | $ | 6.6 | 0.6% | 41.7% |
| Money: | | | | |
| Purchase of securities | | | | |
| Call Money | $ | 0.02 | 0.001% | 0.1% |
| Foreign currencies | | 6.6 | 0.557% | 41.8% |
| Direct | $ | 0.001 | 0.0001% | 0.01% |

* The authorized risk limit is calculated based on the maximum exposure at December 31, 2019 with an exposure of $888.02 corresponds to a limit of $15.8.

The Bank net capital as of December 31, 2019 is $10,886.

December 31, 2018 the quantitative information for liquidity risk of the Bank, is as follows:

| | | VaR Liquidity, 10 days 2018 | | |
|---|---|---|---|---|
| | | **Value** | **Position** | **Use of limit (%)*** |
| VaR liquidity at 99% | $ | 12.5 | 2.1% | 52.8% |
| Money: | | | | |
| Purchase of securities | | | | |
| Call Money | | - | - | - |
| Foreign currencies | | 12.5 | 2.1% | 52.7% |
| Direct | $ | 0.1 | 0.02% | 0.4% |

* The authorized risk limit is calculated based on the maximum exposure at December 31, 2018 with an exposure of $591.2 corresponds to a limit of $23.7.

The Bank net capital as of December 31, 2018 is $9,563.

(Continued)

The average liquidity VaR for 2019 was $6.7, equivalent to 42.4% of the limit calculated at December 31, 2019 ($15.8). Sensitivity and stress tests are also conducted for liquidity risk management. The average liquidity VaR for 2018 was $11.1, equivalent to 46.9% of Institution's net capital as of December 31, 2018 ($23.7).

Diversification of the Bank's sources of financing are assessed periodically, assuming the related risk limits established in Chapter III of the General Provisions Applicable to Credit Institutions on Risk Diversification for conducting asset and liability operations. The diversification is evaluated through the aforementioned liquidity indicators, aforementioned above.

Additionally, in complying with the General Provisions Applicable to Credit Institutions, there is a Liquidity Contingency Plan in place, the purpose of which is to ensure that the Institution will be able to face its daily obligations under any circumstances, including a liquidity crisis; said Plan has been included in the policies and procedures manual for CRMU.

***Operational risk (including legal and technological risk)-***

Operational risk can be defined as the potential loss due to defects or deficiencies in internal controls resulting from errors in processing and storing operations or in the transmission of information, as well as to adverse administrative and legal rulings, fraud or theft, and it includes legal and technological risks.

In the Bank's methodology, management and control of operational risks include the following matters, among others:

The processes that describe each area's duties are identified and documented. The Institution has areas engaged in developing and documenting methods, procedures and processes under the Internal Control Director's Office.

Inherent operational risks and the controls pertaining to the processes that describe the Institution's substantial processes under "Risk and Control Matrixes" are identified and documented. Additionally, the internal audit area has implemented its audit model based on risks.

Consequences for the business arising from materialization of identified risks are assessed and reported to the heads of the areas involved, to the Chief Executive Officer and the Risk Committee. Each area must be aware of and participate in the control and management of own risks.

A historical database is maintained through systematic recording of the different loss events and their effects on the accounting records. Those events are duly identified through classification per business unit within the Institution, and are recorded in the Operational risk system.

(Continued)

Loss events identified by both the Risk area and the other Institution's areas are recorded, which are responsible for reporting any operating risk event that could arise or that has represented a loss for the Institution, the mentioned above environment of a culture of risk.

The operational risk loss events, including technological and legal, are recorded systematically, associating them with the corresponding business lines or units as well as the type of risk (1. Internal fraud, 2. Outside fraud, 3. Labor relations and occupational safety, 4. Clients, products and business practices, 5. External events, 6. Incidents in the business and flaws in the system, as well as 7. Execution, delivery and process management). The Institution considers fraud and damage to assets its main exposures.

A global tolerance level has been established for operational risk, taking into account the causes, origins or risk factors.

There is a Business Continuity Plan (BCM) that includes a Disaster Recovery Plan (DRP) aimed at technology risks and a Business Contingency Plan (BCP). The update of such plans is the responsibility of the leaders named for such purpose.

At closing of December 2019 and 2018 the Tolerance Level, which by the way it is defined can be understood as the Bank's Exposure to Operational Risk, is 0.30% of annual income, estimated monthly, equivalent to \$53.0 for 2019 and \$43.8 for 2018. The materialized loss events associated to operational risk amounted to 0.23% in 2019 and 0.26% in 2018 as a percentage of annual income, above the tolerance limit in both years, due to the payment of lawsuits, as well as losses from external causes and natural disasters.

***Technological risk-***

One important aspect of operational risk management is that pertaining to technological risk, which involves potential loss due to damage or failure from use or reliance on hardware, software, systems, applications, networks and any other means of conveying information in the Institution's supply of services to its customers.

The Institution has different internal controls that have the objective of minimizing the negative impacts due to the materialization of technology risks, internal controls such as:

i. Government structuring aimed at maintaining an adequate control of technological risks, ensuring an agile response capacity.

ii. Have the Operation Continuity Plan, through criteria such as criticality of applications and technological risk.

iii. Risk assessment, determination of treatment actions and evaluation of technological controls.

iv. Database backup and restoration procedures to ensure the availability and integrity of the historical archive of operations in case of contingency.

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v. Automated processes for carrying out daily reconciliations, in addition to generation of control figures to ensure the integrity of transactions between systems.

***Legal risk-***

The Bank's legal risk management, defined as the potential loss due to non-compliance with the applicable legal and administrative provisions, the issuance of unfavorable administrative and judicial resolutions and the application of sanctions, in relation to the Operations that the Institution carries out, has implemented policies and procedures to mitigate this risk that consider, among other things:

i. The review and approval of all agreements by the Legal Director's Office to ensure proper instrumentation of agreements and contracts.

ii. Procedures for filing and safeguarding agreements and other legal information.

iii. Detailed management of powers granted to the Board of Directors, so as to avoid misuse.

iv. Procedures to ensure adequate action in response to litigation, defend efficiently and effectively, be able to take action to protect and preserve the rights of the Institution.

v. Preparation of reports on the likelihood of issuance of adverse legal or administrative rulings. The reports are prepared at least on a quarterly basis.

vi. Procedures established to ensure that the Legal department safeguards the correct use of the Institution's trademarks, local trademarks, commercial notices and copyrights.

## (24) Recently issued financial reporting and regulatory standards-

**Changes in the dispositions issued by the Commission**

On November 4, 2019, the amendment to the Transitory Fourth Article of the Resolution that modifies the General Provisions Applicable to Credit Institutions was published in the Official Gazette (DOF for its acronym in Spanish), such amendment modified the previously published on December 27, 2017 and on November 15, 2018, remaining as follows: Financial Reporting Standards B-17 "Determination of fair value", C-3 "Accounts receivable", C-9 "Provisions, contingencies and commitments", C-16 "Impairment of financial instruments receivable", C-19 "Financial instruments payable", C-20 "Financial instruments to collect principal and interest", D-1 "Revenue from contracts with clients", D-2 "Costs for contracts with clients" and D-5 "Leases", issued by the Mexican Board of Financial Information Standards (Consejo Mexicano de Normas de Información Financiera, A. C. - CINIF) and referred to in paragraph 3 of accounting criteria A-2 "Application of particular rules", will become effective on January 1, 2021.

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**Leases**

The application of the FRS D-5 "Leases" will generate changes in the financial statements, mainly to the lessee. The main changes are as follows:

- Elimination of the classification of operating or financial leases for a lessee, and the lessee recognizes a lease liability at the present value of lease payments and an asset for the right of use in the same amount, of all leases with a duration greater than 12 months , unless the underlying asset is of low value.

- An expense is recognized for depreciation or amortization of assets for right of use and an expense for interest on lease liabilities.

- Modifies the presentation of related cash flows as outflows of cash from operating activities, with an increase in cash outflows from activities financing.

- Modifies the recognition of profit or loss when a seller-lessee transfers an asset to another entity and lease that asset on the way back.

Management is the process of quantifying the effects for the adoption of accounting criteria that will become effective on January 1st, 2021.

**2020 FRS Revisions**

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

FRS D-3 "Employee benefits"- FRS D-3 lays the groundwork for recognizing uncertain tax treatments in Employee Statutory Profit Sharing (ESPS), both current and deferred, as well as the disclosure requirements in that regard. This revision takes effect for the periods starting as of January 1, 2020.

FRS D-4 "Income taxes"- FRS D-4 lays the groundwork for recognizing uncertain tax treatments in income taxes, both current and deferred, as well as the disclosure requirements in that regard. It also includes rules for the recognition of income taxes generated by a distribution of dividends. These revisions take effect for the periods starting as of January 1, 2020.

Management estimates that the adoption of this new FRS shall have no significant effects in the financial situation of the companies.

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**Gentera, S. A. B. de C. V. and subsidiaries**

Notes to the consolidated financial statements

(Millions of pesos)

**RÚBRICA**

Enrique Majós Ramírez
Chief Executive Officer

**RÚBRICA**

Mario Ignacio Langarica Ávila
Chief Financial Officer

**RÚBRICA**

Marco Antonio Guadarrama Villalobos
Controller

**RÚBRICA**

Oscar Luis Ibarra Burgos
General Internal Auditor