

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

Consolidated financial statements

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

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

Notes to the consolidated financial statements

For the years ended December 31, 2020 and 2019

(Mexican pesos)

These notes to the consolidated financial statements have been translated from the Spanish Language Original solely for the convenience of foreign/English speaking readers.

(1) Description of business and credit rating-

Description of business

Qualitas Controladora, S. A. B. de C. V. is an institution incorporated under Mexican laws located at José María Castorena No. 426 Col. San José de los Cedros, Cuajimalpa de Morelos, Mexico City, C.P. 05200, Mexico.

The consolidated financial statements for the years ended December 31, 2020 and 2019 include those of Qualitas Controladora, S. A. B. de C. V. and its subsidiaries (Qualitas Controladora and together with its subsidiaries, the Institution). Qualitas Controladora through its main subsidiaries, is engaged in insurance, coinsurance and reinsurance as a property and casualty insurer, specifically in the automobile line in accordance to the Insurance and Bonds Institutions Law (the Law or LISF from its Spanish acronym).

The Institution conducts operations mainly in Mexico, the United States of America (US), El Salvador, Perú and Costa Rica.

The main activities of the subsidiaries are described below:

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

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

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

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

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

Qualitas Financial is primarily engaged in the incorporation, organization and management of business corporations in the US; it is a 100% subsidiary of Qualitas Controladora and was incorporated on August 1, 2013 with a capital stock of \$196,264,500, fully paid on the same date. Qualitas Financial is the 100% holding of Qualitas Insurance Company, Inc. (Qualitas Insurance), which main activity is insurance, coinsurance and reinsurance as a property and casualty insurer in the automobile line of insurance in accordance to the California Department of Insurance, also Qualitas Financial is 100% holding company of Qualitas Premier Insurance Services (Qualitas Insurance Services), which is primarily engaged in management (Translation from Spanish Language Original)

(d) Qualitas Compañía de Seguros, S, A, (Qualitas Perú)-

Qualitas Perú was acquired during the year 2019 (See note 18), which is mainly engaged in the insurance and reinsurance as a property and casualty insurer in the automobile line of insurance in Perú. Qualitas Perú is subject the regulation issued by the Department of Insurance Banking and AFP of Perú. The Institution acquired 99.99% of Qualitas Perú's voting rights (formerly HDI Seguros, S. A) with a payment amounting to \$99,111,564.

Credit rating

As of December 31, 2020 and 2019, the Institution and its subsidiaries have a credit rating for both years as follows:

<u>Entity</u>	<u>Rating</u>	<u>Rating Agency</u>
Qualitas Controladora	"BB+"	Standard & Poor's
Qualitas México	"mxAA+"	Standard & Poor's
Qualitas Costa Rica	"A-"	Pacific Credit Rating
Qualitas Financial	"BBB-"	Standard & Poor's
Qualitas Perú	"B+"	Pacific Credit Rating

(2) Authorization, basis of presentation and oversight-

Authorization

On February 24, 2021, José Antonio Correa Etchegaray, Executive President equivalent to Chief Executive Officer, Bernardo Eugenio Risoul Salas, Chief Financial Officer and Juan Daniel Muñoz Juárez, General Accountant, authorized the issuance of accompanying consolidated financial statements and related notes thereto.

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

Basis of preparation

a) Statement of compliance

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

b) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following note:

- Note 3b - consolidation: whether the Institution has de facto control over an investee.

Assumptions and estimation uncertainties

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

- Note 3(o) - Technical reserves: valuation of technical reserves depends on key actuarial assumptions and the quality of the underlying data;
- Notes 3 (q) and 15 - Measurement of defined benefit obligations: key actuarial assumptions.

c) Functional and reporting currency

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

- Regarding Qualitas Controladora and Qualitas Mexico the reporting currency is equal to the local currency and its functional currency.

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- For Qualitas Costa Rica its local and functional currency is the Colon and its financial statements were translated to Mexican peso, reporting currency, to present the consolidated financial statements.
- For Qualitas Financial its local and functional currency is the Dollar and its financial statements were translated to Mexican peso, reporting currency, to present the consolidated financial statements.
- For Qualitas Perú its local and functional currency is the Peruvian Sol and its financial statements were translated to Mexican peso, reporting currency, to present the consolidated financial statements.

For purposes of the consolidated financial statement disclosure, “pesos” or “\$” means Mexican pesos, and “dollars” or “US\$” means U.S. dollars.

Oversight

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

(3) Summary of significant accounting policies -

The accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements, and have been applied consistently by the Institution.

(a) Recognition of the effects of inflation-

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

<u>December 31,</u>	<u>NCPI</u>	<u>Inflation</u>	
		<u>Yearly</u>	<u>Cumulative</u>
2020	109.271	3.15%	11.19%
2019	105.934	2.83%	15.10%
2018	103.020	4.83%	15.69%

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(b) Principles of consolidation-

The consolidated financial statements include those of Qualitas Controladora, S. A. B. de C. V. and those of its subsidiaries which it controls. All significant inter-company balances and transactions have been eliminated in consolidation. The consolidation was based on the audited financial statements (except for Qualitas Financial) of the issuing companies as of December 31, 2020 and 2019, which have been prepared in accordance with the Accounting Criteria and the Mexican Financial Reporting Standards (FRS) issued by the Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF from its Spanish acronym), the financial statements of the foreign subsidiaries were prepared in accordance with other accounting criteria, the effect on the consolidation of these subsidiaries is not material for the consolidated financial statements (See note 21).

(c) Translation of foreign currency financial statements-

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

(d) Investment in securities-

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

Securities for trading purposes-

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

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

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

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The valuation effects of debt and equity securities are recognized on the income statement in "Comprehensive financial results" under "Investment securities valuation".

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

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

Available-for-sale securities-

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

Debt securities are recorded at acquisition cost, interest yield recognition (interest, coupons or equivalents) and valuation methodologies are the same than those applied to trading debt securities, including yield earned on the income statement, however valuation effect is recorded on stockholders' equity under "Surplus from valuation" as long as such financial instruments are neither sold or transferred to a different category. At the time of sale, the effects previously recorded in equity, shall be recognized on the income statement.

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

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

Transfers between categories-

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

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

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

Unrealized valuation results-

The Institution shall not capitalize neither distribute profits from the valuation of any of the investments in securities until it is converted into cash.

Repurchase operations-

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

Impairment-

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

(e) Cash and cash equivalents-

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

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

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(f) Debtors-***Premiums receivable-***

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

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

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

In the case of accounts receivable not included in the preceding paragraph, an allowance for doubtful accounts is provided for the full amount, considering the following criteria: For unidentified debtors, right after 60 calendar days of being recorded, and in the case of identified debtors, right after 90 calendar days of being recorded.

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

The Commission may order the creation of preventive reserves from credit risk, in addition to those referred-to in the above paragraph, for the outstanding balance in the following cases:

- I. When the corresponding credits files have no or there is no documentation considered necessary according to the regulation in force, to exercise collection rights. This reserve is only released when the Institution addresses the deficiencies observed.
- II. When a report issued by a credit information company on the history of the borrower has not been obtained (except loans to officers and employees, when the loan payments are received through discounts to salary), this reserve is canceled three months after the required report is obtained.

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(g) Derecognition-

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

(h) Property, furniture and equipment-

The Institution's property is stated at acquisition cost and restated based on independent appraisals. Appraisals are required to be made annually. The property valuation increase or decrease is recorded in the "Valuation surplus" caption in equity and at the moment of the property sale such effect is recycled to the income statement.

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

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

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

	<u>Rates</u>
Property	1.11 to 5%
Transportation equipment	25%
Office furniture and equipment	10%
Computer equipment	30%
Other	25%

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

Minor repairs and maintenance costs are expensed as incurred.

(i) Permanent Investments-

The other permanent investments where the Institution does not have control, neither joint control nor significant influence, were carried at cost and, through December 31, 2007, adjusted for inflation by applying NCPI factors.

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(j) Goodwill-

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

(k) Intangible assets-

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

(l) Prepayments-

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

(m) Other assets-

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

(n) Impairment of furniture and equipment, amortizable intangible assets and long-lived intangible assets-

With exception of the property, the Institution assesses the net carrying amount of furniture and equipment, amortizable intangible assets and long-lived intangible assets, 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, the Institution accounts for the necessary impairment.

(o) Technical reserves-

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

During 2020, the Institution made amendments to the valuation methodologies of the current risks reserve in order to improve the arrangement of the matrices for calculating factors related to estimates, deviation and recoverable amounts, and the reserve for claims incurred but not reported and adjustment expenses optimizing the calculation of the deviation in this reserve. These amendments were approved by the Commission (See note 4).

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

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

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

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

Reserve for current risks-

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

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

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

For purposes of calculating the future flows of revenues, the premiums that upon valuation are past-due and outstanding are not considered, neither the fractional payments accounted for in "Premium receivable" in the balance sheet.

Multiannual insurance -

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

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

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Risk margin-

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

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

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

Outstanding claims provision-

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

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

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

This reserve includes the following components:

Outstanding claims provision and other known-amount obligations-

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

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

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

Reserve for claims incurred but not reported and adjustment expenses–

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

Risk margin-

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

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

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

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Reserve for outstanding obligations from contingent dividends -

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

(p) Accruals-

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

(q) Employee benefits-**Short-term direct benefits**

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

Long-term direct benefits

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

Termination benefits

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

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Post-Employment Benefits***Defined benefit plans***

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

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

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

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

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

(r) Loss funds under management-

It is related to the recorded amount of funds received for the payment of claims.

(s) Income Tax and ESPS-

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

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

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

(t) Cumulative currency translation adjustment-

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

(u) Revenue recognition-**Insurance and reinsurance premium revenues-**

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

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

Salvage revenues-

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

Profit sharing on reinsurance transactions-

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

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

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Policy rights and premium surcharges-

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

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

Service revenues-

The service revenues are recorded as earned.

(v) Reinsurance-***Current account***

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

Reinsurance taken

The transactions derived from reinsurance acceptances are accounted for based on the account statements received from the cedants, which are generally formulated monthly therefore the corresponding premiums, claims, commissions, etc., are recorded in the following month.

Reinsurance ceded

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

The Institution has a limited retention capacity in the property and casualty (automobile insurance) and contracts excess loss coverage, which basically covers as a property.

Recoverable reinsurance

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

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

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

According to the provisions of the Commission, the recoverable amounts from reinsurance contracts with counterparts with no authorized registration, are not likely to cover the Investment Base, nor could they be part of the Own Admissible Funds (Fondos Propios Admisibles or FOPA for its Spanish acronym).

(w) Net acquisition cost-

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

(x) Business concentration-

The Institution performs transactions with a large number of clients, with no significant concentration with any of them in particular.

(y) Comprehensive financial result (CFR)-

The CFR includes finance income and expense, finance income and expense include:

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

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

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

- the gross carrying amount of the financial asset.

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

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

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

(z) Contingencies-

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

(aa) Risk management-

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

- I. Underwriting insurance risk- shows the risk arising from the underwriting, taking into account the claims covered and the operating processes linked to its management and, depending on the type of insurance, considers the expense management, expiration, conservation, withdraws, premium risk as well as extreme events.
- II. Market risk – shows the potential loss due to changes in risk factors that influence the value of assets and liabilities, such as interest rates, exchange rates, price indexes, among others.
- III. Assets and liabilities mismatch risk - shows the potential loss resulting from the lack of structural correspondence between assets and liabilities, due to the fact that a position can not be covered by establishing an equivalent opposite position, and considers the duration, currency, interest rate, exchange rates, price indexes, among others.
- IV. Liquidity risk - shows the potential loss from the early or forced sale of assets at unusual discounts to meet obligations, or from the fact that a position can not be appropriately disposed of or acquired.

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

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- V. Credit risk - shows the potential loss arising from non-collection or the solvency of counterparties and debtors impairment over operations carried out by the Institution, including the guarantees granted. This risk considers the potential loss arising from non-compliance with contracts intended to reduce risk, such as reinsurance contracts, as well as accounts receivable from intermediaries and other credit risks that can not be estimated with respect to the level of the risk-free interest rate.
- VI. Concentration risk - shows the potential losses associated with an inadequate diversification of assets and liabilities, and that is derived from exposures caused by credit, market, underwriting and liquidity risks, or by the combination or interaction of several of them, by counterpart, by type of asset, area of economic activity or geographical area.
- VII. Operational risk - shows the potential loss due to deficiencies or failures in the operating processes, in information technology, in human resources, or any other adverse external event related to the operation of the Institution such as legal risk, strategic risk and reputational risk, among others.

Risk management policies

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

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

The purposes of the Risk Management Area are:

- I. Monitor, manage, measure, control, mitigate, and report on the risks to which the Institution is exposed, including those that are not perfectly quantifiable.
- II. Monitor that the performance of the Institution's operations is in accordance with the comprehensive risk management's limits, objectives, policies and procedures approved by the Board of Directors.

(ab) Specific accounting criteria-

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

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

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

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(ac) Hierarchy-

In cases where insurance institutions consider that there is no accounting criterion applicable to any of the operation they carry out, issued by the CINIF or the Commission, they will apply the hierarchy bases provided in FRS A-8 "Hierarchy", considering what is mentioned below:

- I That in no case shall its application contravene the general concepts established in the Accounting Criteria.
- II That the rules that have been applied in the hierarchy process will be substituted, when a specific accounting criterion is issued by the Commission, or an FRS, on the subject in which said process was applied.

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

(4) Accounting and technical reserves methodology changes-

As mentioned in note 3 (o) during 2020, the Institution made prospective modifications to the methodologies for determining the current risks reserves and the reserve for claims incurred but not reported and adjustment expenses that generated a decrease in these reserves at the their application date for \$136,231,118 and \$22,795,012, respectively.

(5) Foreign currency exposure-

Monetary assets and liabilities denominated in dollars translated into the reporting currency, as of December 31, 2020 and 2019, are presented below:

	Mexican pesos	
	2020	2019
Assets	\$ 5,423,920,599	4,573,328,327
Liabilities	(3,452,404,904)	(2,873,212,750)
Net assets	\$ 1,971,515,695	1,700,115,577

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

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(Mexican pesos)

As of December 31, 2020 and 2019, foreign exchange gain amounted to \$44,552,371 and \$7,463,558, respectively.

The exchange rates used in the various translation processes to the reporting currency at December 31, 2020 and 2019 were as follows:

Country of origin	Currency	Year-end exchange rate		Average exchange rate	
		2020	2019	2020	2019
United States of America and El Salvador	Dollars \$	19.9087	18.8642	21.5747	19.3275
Peru (Soles to dollars)	Sol	3.6210	3.3140	3.5098	3.3387
Costa Rica (Colones to dollars)	Colon	617.30	570.09	591.41	583.60

At December 31, 2020 and 2019, the Institution did not have foreign exchange hedging instruments.

(6) Investments-

At December 31, 2020 and 2019, the investment portfolio includes financial instruments classified as held for trading, which include maturities that range between 4 days to 23 years and 2 days to 24 years, respectively and financial instruments classified as securities available for sale, which include maturities that range between 238 days to 8.5 years and 10 years, respectively.

At December 31, 2020 and 2019, interest rates applied to financial instruments held for trading purposes portfolio range between 1.80% to 11.34% and 2.05% to 10.90%, respectively and interest rates applied to financial instruments of the securities available for sale range between 1.23% to 9.35% and 7.30%, respectively.

At December 31, 2020, there are not restrictions regarding the availability of financial instruments. At December 31, 2019, there are restrictions regarding the availability of financial instruments for \$36,524, as instructed by the regulator related to insurance contract claim.

At December 31, 2020 and 2019, financial instruments are described in the following page.

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

Notes to the consolidated financial statements

(Mexican pesos)

(7) Loans portfolio-

At December 31, 2020 and 2019, the current loans portfolio is comprised as follows:

		2020	2019
Mortgage	\$	22,487,515	59,796,382
Unsecured		222,458,510	87,385,785
Discount and rediscount		103,201,840	147,649,722
Accrued interest		72,742	85,125
	\$	348,220,607	294,917,014

At December 31, 2020 and 2019, the past-due loan portfolio is comprised as follows:

		2020	2019
Mortgage	\$	25,749,282	3,239,141
Unsecured		29,693,820	27,864,418
	\$	55,443,102	31,103,559

At December 31, 2020 and 2019, allowance for loan losses amounted to \$64,846,437 and \$37,317,078, respectively.

At December 31, 2020 and 2019, unsecured loans are as follows:

		2020	2019
Acceso Corp, S. A.	\$	99,743,500	-
Arrendomóvil de México, S.A. de C.V.		40,000,000	-
Autofinanciamiento de Automóviles Monterrey, S. A. de C. V.		1,602,192	9,312,372
Servicios de Intermediación, S. A. de C. V.		2,156,248	3,752,082
Benjamín Hernández Gutierrez		5,000,000	-
Ramon Aguilera Villanueva		2,429,955	2,822,383
Pargroup Agente de Seguros y Fianzas, S. A. de C. V		6,346,267	4,000,000
Rosave Agente de Seguros y Fianzas, S. A. de C. V.		4,761,162	9,940,000
Meneses Asesores, S. A. de C. V.		3,950,000	-
Carmarc Asesores, S. A. de C. V.		2,583,333	-
Trigarante Agente de Seguros y Fianzas, S. A. de C. V.		3,656,342	-
Innovazione Agente de Seguros y Fianzas, S. A. de C. V.		3,215,679	5,960,775
Mag Agente de Seguros y Fianzas, S. A. de C. V.		4,032,865	9,120,648
Equinox Agente de Seguros y Fianzas, S. A. de C. V.		4,000,000	-
Murguia Consultores Agente de Seguros y Fianzas, S. A. de C. V.		5,510,938	-
Rosas Abarca y Asociados, S. C.		-	5,000,000
Consultoria Gaysa, S.A. de C.V.		-	3,083,333
Other		33,470,029	34,394,192
	\$	222,458,510	87,385,785

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

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(Mexican pesos)

At December 31, 2020 and 2019, discount and rediscount loans are analyzed as follows:

	2020	2019
Promotora Sku, S. A. P. I. de C. V. SOFOM E.N.R.	\$ 73,465,730	78,101,110
Firma Car, S. A. P. I. de C. V.	24,486,110	49,298,612
Altum CP, S.A. de C. V.	1,250,000	16,250,000
Credicam, S. A. de C. V. SOFOM E.N.R.	4,000,000	4,000,000
	\$ 103,201,840	147,649,722

At December 31, 2020 and 2019, the Institution has recognized \$27,618,480 and \$ 42,047,999 of Interests from loans in the comprehensive financial result of the consolidated statements of income, respectively,

(8) Property-

At December 31, 2020 and 2019, property is as follows:

	2020	2019
Land	\$ 498,420,426	478,857,707
Buildings	501,385,326	473,892,019
Special facilities	55,005,949	55,005,948
	1,054,811,701	1,007,755,674
Accumulated depreciation	(109,865,466)	(95,450,083)
	944,946,235	912,305,591
Net valuation	909,530,315	814,840,770
Total	\$ 1,854,476,550	1,727,146,361

At December 31, 2020 and 2019, the Institution made appraisals of its properties, as a result an increase in their value of \$94,689,545 and \$92,507,980 was recorded, respectively. Depreciation is calculated based on the remaining useful life and the restated value of buildings, determined through the latest appraisals made. The applicable depreciation rate for 2020 ranges between 1.11% and 5% (1.29% and 2.43% rate for 2019).

(9) Accounts receivable-**Premiums-**

At December 31, 2020 and 2019 premiums receivable are described in the next page.

(Continued)

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

Notes to the consolidated financial statements

(Mexican pesos)

	2020	2019
Automobile:		
Fleets, financial and other	\$ 19,508,654,137	19,734,037,634
Individual	2,920,528,265	2,140,183,422
Foreign	619,077,590	570,749,562
	23,048,259,992	22,444,970,618
Receivables from agencies and entities of the federal public administration	208,449,875	168,794,249
	\$ 23,256,709,867	22,613,764,867

At December 31, 2020 and 2019 premiums receivable accounts for 34% and 36% of total assets, respectively.

(10) Reinsurers-

At December 31, 2020 and 2019, balances payable to reinsurers is analyzed as follows:

Institution	2020		
	Up-to 90 days	More than 180 and up-to 365 days	Total
Kot Insurance Company A. G	\$ -	61,938,327	61,938,327
Axa France IARD	59,183,781	-	59,183,781
Allianz Mexico, S.A.	9,755,263	-	9,755,263
Seguros Universales, S.A.	2,146,874	-	2,146,874
Münchener Rückversicherungs Gesellschaft	-	426,794	426,794
Other	21,430,179	-	21,430,179
Total	\$ 92,516,097	62,365,121	154,881,218
Percentage	60%	40%	100%
Institution	2019		
	Up-to 90 days	More than 180 and up-to 365 days	Total
Axa France IARD	\$ 33,379,471	-	33,379,471
Financial Insurance Company Limited	16,226,371	-	16,226,371
Other	40,294,664	-	40,294,664
Total	\$ 80,900,506	-	80,900,506
Percentage	100%	0%	100%

(Continued)

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

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At December 31, 2020 and 2019, the Institution ceded premiums from its property and casualty in the automobile insurance line amounting to \$380,842,348 and \$205,168,739, respectively.

(11) Other assets-Furniture and equipment:

At December 31, 2020 and 2019, furniture and equipment is analyzed as follows:

	2020	2019
Office furniture and equipment	\$ 344,770,901	334,970,151
Computer equipment	1,155,624,363	983,344,956
Transportation equipment	649,991,275	629,261,669
Other	1,312,700,669	1,039,741,192
	3,463,087,208	2,987,317,968
Less accumulated depreciation	(2,362,745,090)	(1,966,478,611)
	\$ 1,100,342,118	1,020,839,357

Other:

At December 31, 2020 and 2019 this line item is as follows:

	2020	2019
Unrealized salvage inventory	\$ 546,482,132	502,096,893
Spare parts inventory	96,621,232	77,118,562
Prepayments	289,885,468	318,926,514
Income tax prepayments	1,846,189,171	1,179,134,454
Deferred income tax (note 16)	1,842,957,685	1,561,189,876
Deferred employee statutory profit sharing (note 16)	450,679,251	391,819,080
	\$ 5,072,814,939	4,030,285,379

At December 31, 2020 and 2019, the "Amortizable intangible assets" and "Long live intangible assets" captions, include mainly computer software licenses, amortized at the rate of 5% as well as Goodwill from Quálitas Financial and Quálitas Peru acquisitions, respectively.

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

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(12) Creditors-

At December 31, 2020 and 2019 creditors are as follows:

	2020	2019
Use of facilities	\$ 2,651,968,617	2,669,757,401
Agents current account	2,008,196,445	1,889,100,841
Sundry	380,041,231	342,236,652
Amounts retained from adjusters	183,215,373	163,654,683
Accruals	1,111,615,480	666,420,320
Loss funds under management	3,824,950	20,241,488
	\$ 6,338,862,096	5,751,411,385

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

The value of written premiums from the Institution for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Automobile:		
Fleets, financial and other	\$ 21,888,211,081	24,601,458,233
Individual	11,521,635,474	9,686,258,642
Foreign	2,646,860,160	1,908,724,155
	\$ 36,056,706,715	36,196,441,030

Premiums issued in advance to the risk period covered-

At the end of years 2020 and 2019, the Institution issued premiums with a coverage period starting in years 2021 and 2020, respectively. The transactions related to premiums issued in advance to the risk period covered are as follows:

	2020	2019
Premiums issued in advance to the risk period covered:		
Issued	\$ 3,026,005,730	2,788,220,736
Ceded	8,710,057	21,065
Increase in currents risks reserve	\$ 2,504,800,192	2,286,867,880
Agent commissions	125,965,234	109,312,468
Policy rights	154,826,750	103,535,305
Acquisition cost	542,970,242	496,206,199

At December 31, 2020 and 2019 the balances related to premiums issued in advance to the risk period covered are analyzed in the next page.

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		2020	2019
Premiums receivable	\$	3,748,303,609	3,445,751,629
Reinsurers current account		8,710,057	21,065
Current risks reserve, net		2,504,800,192	2,286,867,880
Premium surcharges		52,336,247	78,719,501
Value added tax to be accrued		515,134,882	475,276,087
Commissions to be accrued		125,965,234	109,312,468
Creditors (Use of facilities)		542,970,242	496,206,199

(14) Basis of Investment, SCR and minimum paid in capital-

Qualitas México is subject to the following liquidity and solvency requirements:

Basis of Investment - It is the sum of the technical reserves, advanced premiums and funds related to policy dividends management.

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

- I. To have sufficient patrimonial resources in relation to the risks and responsibilities assumed by the Institution in function of its operations and, in general, of the different risks to which it is exposed;
- II. The development of adequate policies for the selection and underwriting of insurance, as well as for the dispersion of risks with reinsurers in the transfer and acceptance of reinsurance operations;
- III. To have an appropriate level of patrimonial resources, in relation to the financial risks that the Institution assumes, when investing the resources obtained from its operations, and
- IV. The determination of the assumptions and patrimonial resources that the Institution must maintain in order to deal with situations of an exceptional nature that put its solvency or stability at risk, derived both from the particular operation and from market conditions.

Minimum paid-in capital - It is a capital requirement that must be met by the Institution for each operation or line that is authorized (see note 17b).

As the follows presents the coverage of the aforementioned requirements.

Coverage of statutory requirements						
Statutory Requirements	Surplus (Deficit)			Coverage Index		
	Current year	Prior year (2019)	Prior year (2018)	Current year	Prior year (2019)	Prior year (2018)
Technical reserves ¹	10,132,320,739	7,722,814,677	5,621,574,857	1.32	1.22	1.16
SCR ²	8,929,824,500	6,139,186,191	3,468,233,891	5.74	3.85	2.08
Minimum capital requirement ³	10,228,700,753	7,361,283,295	6,497,947,421	187.59	139.73	129.50

¹ Investments that support technical reserves / basis of investment.

² FOPA / SCR (unaudited).

³ The Institution's capital resources computable according to the regulation / Requirement of minimum paid-in capital for each operation and / or line that is authorized.

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

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(Mexican pesos)

(15) Employee benefits-

a) Short-term direct benefits-

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

b) Post-employment benefits-

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

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

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

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

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

There were no contributions and benefits paid from the funds in 2020 and 2019.

The cost components of defined benefits for the year ended December 31, 2020 and 2019, are analyzed below:

		Seniority premium		Legal compensation		Pension plan	
		2020	2019	2020	2019	2020	2019
Current Service Cost (CSC)	\$	5,711,925	3,862,588	101,189,333	28,409,452	24,602,933	18,310,223
Net interest on Defined Benefits net Liability (DBNL)		1,325,431	826,614	4,289,128	4,340,817	10,989,421	8,343,247
Reclassification of remeasurements of DBNL recognized in comprehensive income		1,082,500	352,926	3,414,153	3,231,462	229,358	(1,051,776)
Defined Benefit Cost	\$	8,119,856	5,042,128	108,892,614	35,981,731	35,821,712	25,601,694

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

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(Mexican pesos)

	Seniority premium		Legal compensation		Pension plan	
	2020	2019	2020	2019	2020	2019
Beginning balance of DBNL remeasurements	\$ 8,018,577	2,169,107	16,487,246	12,357,370	5,065,804	(23,298,028)
Remeasurements generated in the year	20,117,819	6,202,396	5,256,571	7,361,338	(8,228,658)	27,312,056
Reclassification of remeasurements recognized in comprehensive income in the year	(1,082,500)	(352,926)	(3,414,153)	(3,231,462)	(229,358)	1,051,776
Ending balance of DBNL remeasurements	\$ 27,053,896	8,018,577	18,329,664	16,487,246	(3,392,212)	5,065,804
Beginning balance of DBNL Defined benefit cost	\$ 18,281,804	9,724,874	70,325,946	60,387,785	151,578,221	101,130,267
Payments charged to DBNL	(3,189,396)	(2,334,668)	(34,162,680)	(30,173,446)	(3,223,902)	(3,517,572)
Effect in comprehensive income	19,035,319	5,849,470	1,842,418	4,129,876	(8,458,016)	28,363,832
Ending balance of DBNL	\$ 42,247,583	18,281,804	146,898,298	70,325,946	175,718,015	151,578,221

The financial position of the defined benefit obligation as of December 31, 2020 and 2019, is detailed as follows:

Defined benefit obligations (DBO)	\$ 55,496,292	30,920,437	146,898,298	70,325,946	235,600,287	207,854,339
Plan assets	(13,248,709)	(12,638,633)	-	-	(59,882,272)	(56,276,118)
Financial position of the obligation	\$ 42,247,583	18,281,804	146,898,298	70,325,946	175,718,015	151,578,221

	2020	2019
Nominal discount rate used in calculating the present value of obligations:		
Seniority premium	6.75%	7.25%
Legal compensation	5.75%	6.75%
Pension plan	6.75%	7.25%
Expected rate of return on plan assets:		
Seniority premium	6.75%	7.25%
Legal compensation	6.75%	7.25%
Nominal increase rate for salaries	4.50%	4.50%
Average remaining service life of the Institution's employees:		
Seniority premium	14 years	14 years
Legal compensation	6 years	6 years
Pension plan	22 years	22 years

(Continued)

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

Notes to the consolidated financial statements

(Mexican pesos)

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

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

a) Income tax

The tax expense is as follows:

	2020	2019
On income statement:		
Current IT	\$ 2,951,517,415	2,096,287,395
Deferred IT	(387,762,827)	(162,488,376)
	\$ 2,563,754,588	1,933,799,019
On stockholders' equity – Deferred IT	\$ 85,950,746	23,765,774

For the years ended December 31, 2020 and 2019, the IT on a current and deferred basis in the consolidated statement of income is shown below:

	2020	2019
Current IT:		
Quáalitas México	\$ 2,893,031,823	2,055,842,656
Quáalitas Controladora	8,461,315	1,434,312
Quáalitas Costa Rica	19,461,474	18,942,145
Quáalitas Financiam	5,096,040	14,200,262
Other subsidiaries	25,466,763	5,868,020
	2,951,517,415	2,096,287,395
Deferred IT:		
Quáalitas México	(342,082,415)	(224,889,197)
Quáalitas Controladora	(79,572,484)	63,787,869
Quáalitas Financiam	7,004,100	2,350,849
Other subsidiaries	26,887,972	(3,737,897)
	(387,762,827)	(162,488,376)
Total	\$ 2,563,754,588	1,933,799,019

(Continued)

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

Notes to the consolidated financial statements

(Mexican pesos)

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

	2020	2019
Computed "expected" tax expense	\$ 2,808,551,117	2,187,560,411
Increase (reduction) resulting from:		
Dividends	(11,870,358)	(11,126,911)
Inflation tax effects, net	(144,588,947)	(106,368,445)
Non-deductible expenses	36,027,475	34,286,532
Other, net	(124,364,699)	(170,552,568)
IT expense	\$ 2,563,754,588	1,933,799,019

The tax effects of temporary differences that give rise to significant portions of the deferred IT assets and liabilities, at December 31, 2020 and 2019, are as follows:

	2020	2019
Deferred assets:		
Premium surcharges	\$ 226,604,037	261,269,689
Agent commissions	242,858,488	250,163,326
Additional compensation to agents	100,468,651	100,500,000
Use of facilities	795,590,585	799,757,256
ESPS payable	308,586,186	184,595,967
Employee benefits	58,013,359	29,318,081
Provisions	366,283,749	195,276,934
Furniture and equipment	193,364,638	144,645,123
Other	82,809,255	10,174,185
Total deferred assets	2,374,578,948	1,975,700,561
Deferred liabilities:		
Salvage inventory	(163,944,639)	(150,629,067)
Valuation from property	(243,945,645)	(216,855,085)
Valuation from investments	(65,683,493)	(35,761,892)
ESPS deferred	(135,880,081)	(117,289,266)
Total deferred liabilities	(609,453,858)	(520,535,310)
Deferred tax assets, net	\$ 1,765,125,090	1,455,165,251

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

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As of December 31, 2020 and 2019, the Institution has a net deferred income taxes liability registered in deferred credits by \$77,832,595 and \$106,024,625, respectively, which are mainly coming from the valuation of investments and properties.

b) ESPS and deferred ESPS

For the year ended December 31, 2020 and 2019, the ESPS expense is as follows:

	2020	2019
On income statement:		
ESPS	\$ 1,017,762,787	609,363,218
Deferred ESPS	(77,513,784)	54,661,334
	\$ 940,249,003	664,024,552
On stockholders' equity: Deferred ESPS	\$ 18,653,613	(1,171,904)

The ESPS temporary differences that give rise to significant portions of the deferred ESPS assets and liabilities, at December 31, 2020 and 2019 are as follows:

	2020	2019
Deferred assets:		
Premium surcharges	\$ 75,534,679	87,089,896
Use of facilities	265,196,862	266,585,752
Employee benefits	36,486,390	24,018,597
Provisions	113,037,668	65,287,301
Furniture and equipment	64,454,879	48,215,041
Other	19,324,659	19,705,022
Total deferred assets	574,035,137	510,901,609
Deferred liabilities:		
Salvage inventory	(54,648,213)	(50,209,688)
Valuation from property	(58,448,114)	(56,952,210)
Valuation from investments	(10,259,559)	(11,920,631)
Total deferred liabilities	(123,355,886)	(119,082,529)
Deferred tax assets, net	\$ 450,679,251	391,819,080

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

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

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From 2019 through 2020, the Institution applies a tax treatment to defer its payment of income tax and ESPS. Should the tax authorities retroactively revoke the tax treatment applied, the Institution estimates that the impact on its financial information will not be significant because the effect of applying the tax treatment on the current income tax and ESPS would be mostly offset by the effect of applying the tax treatment on the deferred income tax and ESPS. The Institution considers that the tax treatment applied in the past complied with the applicable laws and, if revoked, considers it likely that such treatment can be defended successfully in court. The Institution considers the determination of income tax and ESPS, current and deferred, to be adequate for all the fiscal years mentioned, based on an evaluation of several factors, including interpretations of tax legislation.

(17) Stockholder's equity-

The main characteristics of stockholders' equity are described below:

(a) Structure of capital stock-

At December 31, 2020 and 2019, capital stock is represented by 413,000,000 and 425,000,000, respectively, nominal common issued shares, unique series (Series I) with an updated nominal value of \$5.9664 and a historical nominal value of \$5.9664, which represent the fixed unlimited portion. At December 2020, there are 404,304,451 outstanding shares (413,279,364 at December 31, 2019).

During 2020, the Institution sold 3,025,087 of its own shares for \$18,048,933 which corresponds to their nominal value.

At the Stockholders' Meeting on April 20, 2020, a resolution was passed to increase the share repurchase reserve by \$1,400,000,000, as of that date the Institution had increased this reserve during year 2020 by \$34,091,057.

At the Stockholders' Meeting on April 20, 2020, a resolution was passed to reduce the variable portion of capital stock by \$71,597,011 through the cancellation of 12,000,000 nominal common shares without nominal value expression and that were repurchased by the Institution, the share repurchase reserve at that date was of \$810,595,569.

During 2019, the Institution bought 9,380,272 of its own shares for \$55,969,335 which corresponds to their nominal value.

At the Stockholders' Meeting on April 22, 2019, a resolution was passed to increase the share repurchase reserve by \$650,000,000, as of that date the Institution had increased this reserve during year 2019 by \$36,006,770. The \$50,000,000 to reach this last amount were taken from sale on shares premium.

At the Stockholders' Meeting on April 22, 2019, a resolution was passed to reduce the variable portion of capital stock by \$59,664,176 through the cancellation of 10,000,000 nominal common shares without nominal value expression and that were repurchased by the Institution, the share repurchase reserve at that date was of \$437,941,489.

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

Notes to the consolidated financial statements

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At December 31, 2020 and 2019, structure of capital stock is comprised of the following:

2020				
		Nominal	Revaluation	Total
Capital stock	\$	2,291,241,123	121,008,075	2,412,249,198
Statutory reserve		1,382,670,195	9,773,645	1,392,443,840
Valuation surplus, net		-	522,166,427	522,166,427
Foreign currency translation		139,618,186	-	139,618,186
Retained earnings		7,917,010,583	(93,988,946)	7,823,021,637
Net income		6,793,609,794	-	6,793,609,794
Remeasurement of employee benefits		(31,471,592)		(31,471,592)
Non-controlling interest		9,424,480	-	9,424,480
Stockholder's equity	\$	18,502,102,769	558,959,201	19,061,061,970
2019				
		Nominal	Revaluation	Total
Capital stock	\$	2,344,789,201	121,008,075	2,465,797,276
Statutory reserve		604,206,794	9,773,645	613,980,439
Valuation surplus, net		-	287,939,820	287,939,820
Foreign currency translation		136,926,871	-	136,926,871
Retained earnings		4,812,323,619	(93,988,946)	4,718,334,673
Net income		5,354,108,327	-	5,354,108,327
Remeasurement of employee benefits		(17,661,070)	-	(17,661,070)
Non-controlling interest		4,954,853	-	4,954,853
Stockholder's equity	\$	13,239,648,595	324,732,594	13,564,381,189

At December 31, 2020 and 2019, Paid-in capital includes the amount of \$11,545,094 Mexican pesos, coming from the partial capitalization of real state valuation surplus.

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

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

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

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

Notes to the consolidated financial statements

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(b) Minimum capital requirement-

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

At December 31, 2020 the Institution had the minimum capital requirement amounting to \$54,527,421, equivalent to 8,521,217 investment units (UDIs, which is a unit of account whose value is updated for inflation and is determined by Central Bank) valued at 6.399018 Mexican pesos per UDI which was the value as of December 31, 2019.

At December 31, 2019 the Institution had the minimum capital requirement amounting to \$53,058,474, equivalent to 8,521,217 investment units (UDIs, which is a unit of account whose value is updated for inflation and is determined by Central Bank) valued at 6.226631 Mexican pesos per UDI which was the value as of December 31, 2018.

(c) Comprehensive income (CI)-

At December 31, 2020 and 2019 the CI is further described as follows:

	2020	2019
Controlling net income	\$ 6,793,609,794	5,354,108,327
Surplus on property valuation	94,689,545	92,507,980
Deferred IT and ESPS on surplus property valuation	(30,911,883)	(27,506,360)
Surplus on investment valuation	235,037,725	68,540,285
Deferred IT and ESPS on surplus investment valuation	(64,588,780)	(10,424,780)
Employee benefits effect	(12,857,630)	(38,261,271)
Deferred IT and ESPS of employee benefits	(952,892)	15,337,271
Foreign currency translation adjustment on foreign operations	2,691,315	(34,028,160)
Other	-	11,653,697
Non-controlling interest	4,469,627	(3,447,005)
Consolidated net income	\$ 7,021,186,821	5,428,479,984

(d) Dividends-

At the Regular General Stockholders' Meeting held on April 20, 2020, a resolution was passed to declare a dividend by the amount of \$722,500,000, \$1.70 per share, which were paid in cash through electronic transfer.

At the Regular General Stockholders' Meeting held on April 22, 2019, a resolution was passed to declare a dividend by the amount of \$361,250,000, \$0.85 per share, which were paid in cash through electronic transfer.

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

Notes to the consolidated financial statements

(Mexican pesos)

(e) Restrictions on stockholders' equity-

According to the provisions of the Law, a minimum of 10% of the income must be appropriated to the statutory reserve, up to an amount equal to the amount of paid-in capital. As of December 31, 2020, the statutory reserve amounts to \$507,142,999, and has not reached the required amount.

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

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

(18) Acquisition-

On March 27, 2019, the Institution acquired 99 percent of the voting stock rights of Quálitas Peru (Formerly HDI Seguros, S. A.). Once the purchase agreement was signed and the authorization was obtained from the Department of Insurance Banking and AFP of Peru, the certificate of compliance was signed, giving rise to the transfer of control of the business acquired as of that date. The final results from Quálitas Peru has been included in the Institution's consolidated financial statements since that date.

The Institution incurred acquisition costs amounting to \$832,784 in relation to external legal fees and purchase audit costs (due diligence). These costs were recorded within administrative and operating expenses in the consolidated statement of income for year ended 2019.

The following table summarizes the estimated fair value of assets acquired and liabilities assumed at the date of acquisition:

Cash and cash equivalents	\$	18,616,125
Account receivable, net		48,265,170
Assets from technical reserve		33,825,435
Investment in securities and property		31,554,772
Other assets		62,531,466
Total assets acquired		194,792,968
Current liabilities		11,369,488
Liabilities to reinsurances		19,530,367
Technical reserves		65,454,867
Other liabilities		3,357,659
Total liabilities assumed		99,712,381
Net assets acquired	\$	95,080,587

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

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Fair values measurements

The valuation techniques used for measuring the fair value of material assets and liabilities acquired were as follows:

Assets acquired	Valuation technique
Property	Market value through commercial appraisals.
Technical reserves	Best estimate of liabilities plus risk margin.

Goodwill arise from the acquisition has been recognized as follows:

Consideration paid	\$	99,111,564
Fair value of identifiable net assets		95,080,587
Goodwill	\$	4,030,977

(19) Segment information–

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

a) General information by line of business.

2020				
	Written premium	Premium Ceded	Current risks reserve	Earned retained premiums
Line of business:				
Fleets, financial institutions and other	\$ 21,888,211,081	(380,842,348)	561,817,412	22,069,186,145
Individual	11,521,635,474	-	295,732,502	11,817,367,976
Foreign	2,646,860,160	-	(242,149,269)	2,404,710,891
Total consolidated	\$ 36,056,706,715	(380,842,348)	615,400,645	36,291,265,012
2019				
	Written premium	Premium Ceded	Current risks reserve	Earned retained premiums
Line of business:				
Fleets, financial institutions and other	\$ 24,601,458,233	(205,168,739)	(646,555,285)	23,749,734,209
Individual	9,686,258,642	-	(254,566,281)	9,431,692,361
Foreign	1,908,724,155	-	(191,498,983)	1,717,225,172
Total consolidated	\$ 36,196,441,030	(205,168,739)	(1,092,620,549)	34,898,651,742

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

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(Mexican pesos)

	2020	2019
Premium receivable:		
Fleets, financial and other	\$ 19,717,104,012	19,902,831,883
Individual	2,920,528,265	2,140,183,422
Foreign	619,077,590	570,749,562
Total consolidated	\$ 23,256,709,867	22,613,764,867

b) General information by geographical area.

	2020	2019
Written premium:		
Mexico	\$ 33,409,846,554	34,287,712,413
United State of America	1,777,582,473	1,115,940,562
Central America and Peru	869,277,688	792,788,055
Total consolidated	\$ 36,056,706,715	36,196,441,030

	2020	2019
Premium receivable:		
Mexico	\$ 22,730,899,973	22,043,015,305
United State of America	250,992,431	151,786,784
Central America and Peru	274,817,463	418,962,778
Total consolidated	\$ 23,256,709,867	22,613,764,867

(20) Earnings per share-

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

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

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(Mexican pesos)

(21) Group entities-**Investment in subsidiaries -**

At December 31, 2020 and 2019, the subsidiaries are shown as follows:

	Ownership		Principal activity
	2020	2019	
Qualitas Mexico	99.99%	99.99%	Practicing insurance, coinsurance and reinsurance as a property and casualty insurers in the automobile line of insurance in Mexico.
Qualitas Costa Rica	99.99%	99.99%	Practicing insurance, coinsurance and reinsurance as a property and casualty insurers in the automobile line of insurance in Costa Rica
Qualitas El Salvador	99.99%	99.99%	Practicing insurance, coinsurance and reinsurance as a property and casualty insurers in the automobile line of insurance in El Salvador.
Qualitas Peru	99.99%	99.99%	Practicing insurance, coinsurance and reinsurance as a property and casualty insurers in the automobile line of insurance in Peru
Qualitas Finacial	100.00%	100.00%	Holding company of Qualitas Insurance, practicing insurance, coinsurance and reinsurance as a property and casualty insurers in the automobile line of insurance in the United States.
Activos Jal, S. A. de C. V.	99.99%	99.99%	Property leasing and acquisition.
Cristafacil, S. A. de C. V. (Cristafacil)	99.99%	99.99%	Acquisition, sale and installation of automobile glass.
Outlet de Refacciones, S. A. de C. V. (Outlet de Refacciones)	99.99%	99.99%	Acquisition and sale of automobile spare parts.
Easy Car Glass, S. A. de C. V. (Easy Car Glass)	99.99%	99.99%	Acquisition, sale and installation of automobile glass.
Autos y salvamentos, S. A. de C. V. (Autos y salvamentos)	54.00%	54.00%	Salvage management and marketing.
Optimización de Talento, S. A. de C. V.	98.00%	98.00%	Advisory and training services for investment planning and business management.

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

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During the month of September 2019, the Institution increased its ownership in Cristafacil and Easy Car Glass to 99.99% in each subsidiary, which represented a decrease in the non-controlling interest for an amount of \$7,407,697, which was recorded in stockholders' equity in the " Retained earnings" caption.

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

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

At December 31, 2020 and 2019, the investment in subsidiaries corresponding to the non-controlling interest and its equity in income for the year then ended are shown below:

		Non-controlling interest in stockholders' equity	Non-controlling interest in comprehensive income
December 31, 2020			
Autos y salvamentos	\$	8,813,591	4,388,900
Optimización de Talento		591,788	76,066
Other		19,101	7,708
	\$	9,424,480	4,472,674
December 31, 2019			
Autos y salvamentos	\$	4,424,691	2,620,178
Optimización de Talento		515,722	78,685
Other		14,440	1,261,829
	\$	4,954,853	3,960,692

(22) Commitments and contingencies-

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

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

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- (b) There is a contingent liability arising from the employee benefits mentioned in note 3(q).
- (c) According with Mexican tax law, the tax authorities are entitled to examine transactions carried out during the five years prior to the most recent income tax return filed.
- (d) In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, since such prices must be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

(23) Contingent commissions-

At December 31, 2020 and 2019, the Institution executed agreements for payment of contingent commissions with intermediaries and corporations as described in this note, the total amount payments made under those agreements amounted to \$714,223,759 and \$562,124,764 accounting for 1.98% and 1.55%, respectively of the written premium in 2020 and 2019.

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

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

- (a) For property and casualty products, the Institution had entered into agreements related to the volume of premiums, growth and claims. The bases and criteria for participation in the agreements, and the determination of contingent commissions are directly related to the premiums paid and the claims of each year. Contingent commissions under these agreements are annually paid.
- (b) For other intermediaries who are not agents, the Institution had entered compensation agreements where the bases are determined on fixed amounts that depend on the annual sales volume. Contingent commissions under such agreements are paid on a monthly basis.

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

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(24) COVID-19-

During the pandemic, the Institution has operated uninterruptedly. It also made no changes to the policies and procedures applied, considering the regulatory and communication facilities published by both the Commission and the Ministry of Finance and Public Credit, however, it opted for several measures to maintain business continuity.

Measures taken in response to the pandemic include:

- 10% reduction in rates.
- Interest-free months payment facilities were granted.
- The Institution implemented measures to reduce the presence of employees in offices.

At the end of the year, the Institution maintained the number of units insured compared to the previous year. Low mobility, the decrease in thefts and the increase in the recovery of stolen units allowed at year ended close with a lower claims rate compared to the previous year. It is important to reiterate that, although the pandemic is a factor in these results, it is not the only one, so it is not possible to quantify its effect independently.

The drop in the acquisition rate is explained by the decline in written premiums through financial institutions, which represents a higher acquisition cost than the traditional segment.

The cost of claims increased in the last months of the year compared to the first months of the start of the pandemic derived from among other factors, a greater number of vehicles in circulation.

In terms of technical reserves, the fall in the year is due to a double effect, the marginal drop in the accumulated premium written, which causes the accrual to be greater than the provision of new reserves, and at the same time, the annual claims reduction that impacts the projection models so that a smaller number of reserves were constituted in the new policies issued. It should be noted that the Institution recognized the parameters of its authoritative methodology without considering actuarial judgments.

(25) Recently issued regulatory standards-

The CINIF has issued the FRS and Improvements listed below:

FRS C-15 “Impairment of long-lived assets”-. This FRS becomes effective for periods beginning January 1, 2022, and early application is allowed. It supersedes Bulletin C-15 “Impairment or disposal of long-lived assets”. The initial-adoption accounting changes must be recognized based on the prospective method. The main changes presented are:

- adds new examples of evidence to assess whether there is impairment and classifies it into internal or external sources of information and those applicable to investments in subsidiaries, associates or joint ventures.

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- changes the requirement to use a net sales price for the fair value, less costs of disposal to carry out impairment tests;
- establishes the option of using estimates of future cash flows and a discount rate, in actual terms;
- incorporates standards for the treatment of future cash flows in foreign currency in determining the recoverable amount;
- modifies FRS C-8, Intangible Assets, to indicate that goodwill must be allocated at a level of a cash-generating unit (CGU) that is expected to benefit from the synergy of the business acquisition;
- incorporates the recognition of goodwill impairment in two steps: i. first, by comparing the carrying amount of the CGU including goodwill with the recoverable amount, and if the latter is less, an impairment loss is generated; and ii. second, by having this loss affect goodwill first and foremost, even leaving it at zero, and later, if there is an excess loss to be allocated, distribute it pro rata among the other long-lived assets that are part of the CGU;
- eliminates the calculation of impairment through the perpetual value of intangible assets with indefinite useful lives, by modifying the impairment test.
- establishes the determination of impairment of corporate assets as follows: i. first, they are allocated to the CGU to which they belong fairly and consistently, ii. second, the carrying amount of the CGU, including corporate assets, is compared to the recoverable amount and if the latter is less, an impairment loss is generated, which is distributed pro rata among all long-lived assets that are part of the CGU, including corporate assets.
- modifies the disclosures in accordance with the changes described above.

FRS C-17 "Investment property"- This FRS becomes effective for periods starting as of January 1, 2021 with early application allowed. FRS C-17 eliminates the supplementary application of International Accounting Standard 40 (IAS 40) "Investment property". Likewise, FRS C-17 repeals Circular 55, "Supplementary application of IAS 40". The effects of adoption should be recognized retrospectively. The primary changes are: 1) the definition of investment properties is adjusted to establish that these assets are held by an investor under a business model whose main intent is to gain through the value appreciation (capital appreciation) in the medium term for the sale thereof; 2) allows the valuation of investment properties at acquisition cost or fair value.

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FRS C-22 “Cryptocurrencies”- This FRS becomes effective for periods starting as of January 1, 2021 with early application allowed. The effects of adoption should be recognized retrospectively. FRS C-22 establishes the valuation, presentation and disclosure standards for recognition of cryptocurrencies, mining expenses to obtain cryptocurrencies and cryptocurrencies held in custody in the financial statements, as well as the rules for determining the fair value of cryptocurrencies in which, where appropriate, the financial instruments receivable and payable are denominated.

Management estimates that the adoption of this news FRS shall have no significant effects

The Commission issued at December 2020 the modificatory letter 8/20, which it establishes that the FRS described below will enter into force on January 1, 2022:

FRS B-17 “Determination of fair value”- FRS B-17 This establishes the valuation and disclosure standards in the determination of fair value, in initial and subsequent recognition, if the fair value is required or allowed by other specific FRS. Where appropriate, changes in valuation or disclosure must be recognized prospectively.

FRS C-3 “Accounts receivable”- FRS with retrospective effects, except for the valuation effects that may be prospectively recognized, if it is impractical to determine the effect on each one of the prior periods presented. Some of the primary changes presented are the following:

- Provides that accounts receivable based on a contract are deemed financial instruments, while some other accounts receivable, resulting of legal or tax provisions, may have certain characteristics of a financial instrument, such as bearing interest, but are not in themselves financial instruments.
- Provides that the allowance for doubtful trade receivables shall be recognized as revenue is earned, based on the expected credit losses, and the allowance shall be recorded as an expense, separately when significant, in the statement of income.
- Provides that, upon initial recognition, the time value of money shall be considered. Therefore, should the effect of the present value of the account receivable be significant in light of the term, an adjustment must be made taking into consideration such present value.
- Requires a reconciliation between the beginning and ending balances of the allowance for doubtful accounts for each period presented.

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FRS C-9 “Provisions, Contingencies and Commitments” - FRS C-9, supersedes Bulletin C-9 “Liabilities, Provisions, Contingent Assets and Liabilities and Commitments”. The first-time adoption of this FRS does not result in accounting changes in the financial statements. Some of the primary aspects covered by this FRS include the following:

- The scope is narrowed by relocating the topic concerning accounting for financial liabilities to FRS C-19 “Financial instruments payable”.
- The definition of “liability” is modified by eliminating the qualifier “virtually unavoidable” and including the term “probable”.
- The terminology used throughout the standard is updated to standardize the presentation with the rest of the FRS.

FRS C-16 “Impairment of financial instruments receivable”- FRS C-16. It establishes standards for the accounting recognition of impairment losses of all financial instruments receivable; it indicates when and how an expected impairment loss should be recognized and establishes the methodology for determination.

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

- It establishes that impairment losses on financial instruments receivable should be recognized if the credit risk increases and thus it is concluded that a portion of future cash flows of the financial instruments receivable will not be recovered.
- It proposes recognizing the expected loss based on the entity's historical experience of credit losses, current conditions and reasonable and supportable forecasts of the various quantifiable future events that could affect the amount of future cash flows of the financial instruments receivable.
- With regard to interest-bearing financial instruments receivable, it establishes estimating how much of the financial instruments receivable amount is deemed recoverable and when, since the recoverable amount must be recorded at present value.
- It establishes that if the financial instrument that is solely for collecting principal and interest was not canceled due to the renegotiation, it is appropriate to continue measuring the financial instrument using the original effective interest rate, which should only be modified by the effect of the renegotiation costs.

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

- It provides for the possibility of measuring, subsequent to their initial recognition, certain financial liabilities at fair value when certain conditions are fulfilled.
- Long-term liabilities are initially recognized at present value.
- In restructuring a liability, without the future cash flows for its settlement being substantially modified, the costs and commissions expensed in this process shall affect the amount of the liability and be amortized on a modified effective interest rate basis instead of directly affecting net income or loss.
- It includes the provisions of IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”, which was not provided for by the existing standard.
- The effect of extinguishing a financial liability should be presented as financial income (loss) in the comprehensive statement of income.
- It introduces the concepts of amortized cost in valuing financial liabilities and of the effective interest method based on the effective interest rate.
- It is not required to recalculate the effective rate when it comes to variable interest rate of the financial instrument that does not produce material impact.

FRS C-20 “Financing instruments receivable”- Some of the main aspects resulting from the adoption of this FRS are as follows:

- Classification of financial instruments within assets. To determine such classification, the concept of intention to acquire and hold financial instruments has been removed. Instead, the concept of business management model is adopted, either for obtaining a contractual yield, generating a contractual yield and selling in order to achieve certain strategic objectives, or generating earnings from the purchase and sale thereof, in order to classify them in accordance with the respective model.
- The valuation effect of investments in financial instruments is also focused on the business model.
- The reclassification of financial instruments is not permitted among financial instruments solely to collect principal and interest, held to collect and sale, and trading financial instruments, unless the entity changes its business model.
- An embedded derivative that modifies the cash flows of principal and interest is not bifurcated from its host receivable financial instrument. The entire financial instruments solely to collect principal and interest shall be measured at fair value, as if these were a trading financial instrument.

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- There is no need to recalculate the effective rate when it comes to a variable interest rate of the financial instrument that does not produce material effects.

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

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

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

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

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

- In the case of lessees, leases are no longer classified as operating or finance and the lessee is required to recognize a lease liability at the present value of lease rentals and a right-of-use asset for the same amount for all leases with a term of more than 12 months, unless the asset is of low value.
- A lessee recognizes depreciation or amortization of the right-of-use asset and interest on the lease liability.
- In the statement of cash flows, the lessee modifies the presentation of the related cash flows, since cash outflows are deducted from operating activities with an increase in cash outflows (financing activities).
- In a sale-and-leaseback transaction, the recognition of any gain or loss is modified when the seller-lessee transfers an asset to another entity and leases that asset back from the buyer-lessor.
- Lessor’s accounting recognition does not change from the previous Bulletin D-5; only certain disclosure requirements are added.
- It incorporates the possibility of using a risk-free rate to discount future lease payments and thus recognize the lease liability of a lessee. It restricts the use of the practical solution to prevent significant and identifiable non-lease components from being included in the measurement of right-of-use assets and lease liabilities.

2020 FRS enhancements deferred to January 1, 2022

In December 2020, CINIF issued a document called “2021 FRS enhancements” containing precise modifications to some of the existing FRS.

The following revisions to the NIF 2020 have been deferred for adoption until January 1, 2022 as a consequence of the Commission issuing in December 2020 the Modifying letter 8/20, which generate accounting changes as follows:

FRS C-2 “Investment in financial instruments”- FRS C-2 allows the option of recognizing investments in certain trading capital instruments that are not traded in the short term, to be valued through the OCI. This improvement is effective for periods starting as of January 1, 2022. The accounting changes that arise must be recognized in accordance with the provisions of FRS B-1 Accounting changes and error corrections.

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FRS B-3 “Statement of comprehensive income”, FRS C-2 “Investment in financial instruments”, FRS C-19 “Financial instruments payable”, FRS C-20 “Financial instruments to collect principal and interest”- The improvement to these FRS specifies that the gains or losses due to the cancellation of liabilities and the effects of renegotiating financial instruments to collect principal and interest must be presented as part of the operating results. This improvement is effective for periods starting as of January 1, 2022. The accounting changes that arise must be recognized in accordance with the provisions of FRS B-1 Accounting changes and error corrections.

FRS D-5 “Leases”-. The improvements to this FRS are: i) clarifications to the disclosures for short-term and low-value leases for which a right-of-use asset was not recognized, ii) clarifying that the lease liability in a sale-leaseback operation must include both the fixed payments such as estimated variable payments and specifications are made of the procedure to be followed in accounting recognition. This improvement is effective for periods starting as of January 1, 2022. The accounting changes that arise must be recognized in accordance with the provisions of FRS B-1 Accounting changes and error corrections.

Management is assessing the effect of these enhancements due to the deferral in their adoption.