CONSOLIDATED FINANCIAL STATEMENTS

2022

Quálitas

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
Quálitas Controladora, S. A. B. de C.V.:
(Mexican pesos)

KPMG

(Translation from Spanish Language Original)

OPINION

We have audited the consolidated financial statements of Qualitas Controladora, S. A. B. de C. V. and subsidiaries ("the Institution"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, the consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and notes, that include a summary of significant accounting policies and other explanatory information.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Institution in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

The key audit matters are those that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and we do not provide a separate opinion on these matters.

Current risk of property and casualty reserve amounting to $28,701,246,827 and outstanding claims provision for claims incurred but not reported reserve amounting to ($3,067,811,499)

See note 3 (o) to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The valuation of technical reserves for current risk and for claims not reported requires the application of the methodology approved by the Commission, which considers complex calculations and the use of internal and external data. An error in the calculation, as well as the quality of the underlying information may generate material impacts on the estimate. Therefore, we have considered the valuation of these reserves as a key audit matter.	The audit procedures performed among others, are as follows: - We evaluated on a selective basis, the accuracy and completeness of the relevant data used in the calculation. - We recalculated on a selective basis the determination of the estimate according to the methodology approved by the Commission. - We obtained an understanding of the process for the calculation and tested the internal control implemented by the Institution for the calculation and recording of the technical reserves. The procedures described above were performed with the support of our actuarial specialists.

Other Information

Management is responsible for the other information. The other information comprises information included in the Institution's Annual Report corresponding to the year ended December 31, 2022, which will be filed with the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) and the Mexican Stock Exchange (the Annual Report) but does not include the consolidated financial statements and our auditors' report thereon. The report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate that matter to those charged with the Intuition's governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, Management is responsible for assessing the Institution's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Institution or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

  If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Institution to cease to continue as a going concern.

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

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

We also provided those charged with the Institution's governance with a statement that we have complied with the ethics requirements applicable to independence and that we have communicated all relationships and other matters that may reasonably be thought to bear our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

KPMG Cárdenas Dosal, S. C.

Víctor Manuel Espinosa Ortiz
Mexico City, February 27, 2023

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

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

CONSOLIDATED BALANCE SHEETS

December 31, 2022 and 2021
(Mexican pesos)

Assets	2022		2021	
Investments securities (note 6):				
Government	$ 23,671,380,315		21,650,974,839	
Corporate:				
Fixed income	4,443,660,783		5,880,763,608	
Variable income	6,180,986,770		6,721,726,766	
Foreign	-		66,582,099	
Impairment loss	(30,629,801)		-	
	34,265,398,067		34,320,047,312	
Repurchase agreements (note 6)	19,291,837		87,913,151	
Loan portfolio, net (note 7):				
Current	666,713,413		368,194,611	
Past-due	31,697,466		31,197,633	
Allowance for loan losses	(52,214,961)		(40,533,309)	
	646,195,918		358,858,935	
Property, net (note 8)	2,163,421,967	37,094,307,789	2,030,778,166	36,797,597,564
Employee benefits investment (note 15)		82,040,790		76,329,059
Cash and cash equivalents:				
Cash and cash in banks		2,859,758,202		2,209,374,328
Accounts receivable:				
Premiums (notes 9, 13 and 19)	26,069,845,419		24,268,780,283	
Receivables from agencies and public administration entities (notes 9 and 19)	40,691,462		89,840,678	
Agents and adjusters	139,524,710		165,981,818	
Other	852,507,498		708,678,010	
Allowance for doubtful accounts	(137,850,939)	26,964,718,150	(190,092,796)	25,043,187,993
Reinsurers:				
Current	17,548,781		11,596,005	
Recoverable reinsurance	289,458,172		137,094,615	
Credit risk allowance for foreign reinsurers	(2,191,643)		(1,584,867)	
Allowance for doubtful accounts	(55,440)	304,759,870	(43,149)	147,062,604
Permanent stock investments:				
Other permanent stock investments		46,760,489		46,546,839
Other assets (note 11):				
Furniture and equipment, net	1,011,161,546		1,029,389,943	
Sundry	7,500,761,542		6,435,307,548	
Amortizable intangible assets , net	89,536,450		67,781,963	
Long lived intangible assets, net	33,963,980	8,635,423,518	35,545,175	7,568,024,629
Total assets	$	75,987,768,808		71,888,123,016

Liabilities and stockholders' equity	2022		2021	
Liabilities:				
Technical reserves:				
Current risks:	$			
Accidents and health	11,161,467			
Property and casualty	28,701,246,827		27,257,522,114	
	28,712,408,294		27,257,522,114	
Outstanding claims provision:				
For expired policies and pending payment claims	15,762,461,885		12,500,412,277	
For claims incurred but not reported and adjustment expenses	(3,067,158,715)		(2,589,889,725)	
Advanced premiums	754,330,596		681,504,229	
	13,449,633,766	42,162,042,060	10,592,025,781	37,849,548,895
Employee benefits (note 15)		490,993,727		434,200,682
Creditors (note 12):				
Agents and adjusters	2,356,351,937		2,206,134,595	
Loss funds under management	26,127,936		35,639,187	
Sundry	4,618,392,685	7,000,872,558	4,573,517,232	6,815,291,014
Reinsurers (note 10):				
Current	132,254,260		34,507,716	
Retained deposits	-	132,254,260	24,684,031	59,191,747
Other liabilities:				
Employee statutory profit sharing (note 17)	331,857,192		359,678,825	
Income tax payable (note 17)	861,255,591		931,616,190	
Other	4,516,887,276		4,076,396,708	
Deferred credits	972,420,700	6,682,420,759	983,491,825	6,351,183,548
Total liabilities		56,468,583,364		51,509,415,886
Stockholders´ equity (note 18):				
Controlling interest:				
Capital stock:				
Capital stock	2,386,567,046		2,422,365,551	
Repurchase of own shares	(36,203,877)	2,350,363,169	(51,751,967)	2,370,613,584
Reserve:				
Statutory	507,142,999		507,142,999	
Repurchase share reserve	922,603,752		865,953,144	
Other	411,933,993	1,841,680,744	339,079,172	1,712,175,315
Valuation surplus		223,414,511		331,132,806
Retained earnings		12,773,408,000		12,005,975,152
Net income		2,205,421,156		3,774,524,717
Currency translation adjustment		100,698,828		167,066,223
Remeasurement of employee benefits		3,756,580		4,383,802
Total controlling interest:		19,498,742,988		20,365,871,599
Non-controlling interest (note 21)		20,442,456		12,835,531
Total stockholders´equity		19,519,185,444		20,378,707,130
Commitments and contingencies (note 22)				
Total liabilities and stockholders´equity	$	75,987,768,808		71,888,123,016

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

CONSOLIDATED BALANCE SHEETS, CONTINUED

December 31, 2022 and 2021
(Mexican pesos)

Memorandum accounts

		2022	2021
Funds under management	$	26,127,936	35,639,186
Control accounts		3,585,320,646	3,976,592,914
Collateral received from repurchase agreements		19,291,837	87,913,151

See accompanying notes to consolidated financial statements.

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

“The consolidated balance sheets were approved by the Board of Directors under the responsibility of the signing officers.”

“The consolidated financial statements and the notes which form part of the consolidated financial statement can be consulted in Internet on the following webpage:https://qinversionistas.qualitas.com.mx/default/pdf/documentos-regulatorios/mx/2022/Notas-de-Revelacion-2023.pdf

“The consolidated financial statements were audited by Víctor Manuel Espinosa Ortiz, a member of KPMG Cárdenas Dosal, S. C., who was hired to render the external auditing services to Quálitas Controladora, S. A. B. de C. V. and subsidiaries; furthermore, the technical reserves of Quálitas Controldora, S. A. B. de C. V. were audited by Actuary Liliana Ganado Santoyo and Actuary Luis Hernández Fragoso”.

“The report issued by the external auditor, the consolidated financial statements and the notes which form part of the audited consolidated financial statement, will be made available for consultation on the following webpage: https://qinversionistas.qualitas.com.mx/default/pdf/documentos-regulatorios/mx/2022/Dictamen-Auditor-Externo-2023.pdf as of the forty-five calendar days following the closing of the year 2022.”

“Also, the Report on the Solvency and Financial Condition, will be located for consultation by Internet on the following webpage: https://qinversionistas.qualitas.com.mx/default/pdf/documentos-regulatorios/mx/2022/Reporte-Solvencia-Condicion-Financiera-2023.pdf as of the ninety calendar days following the closing of the year 2022.”

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

José Antonio Correa Etchegaray	Bernardo Eugenio Risoul Salas	Juan Daniel Muñoz Juárez	Gabriel García Ruíz
Executive President equivalent to Chief Executive Officer	Chief Financial Officer	General Accountant	Internal Auditor

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

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

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2022 and 2021
(Mexican pesos)

	2022	2022	2021	2021
Premiums:				
Written (notes 13 y 19):		$ 42,035,726,784		38,224,285,597
Less ceded (notes 10 y 19)		578,209,995		301,380,800
Retained premiums		41,457,516,789		37,922,904,797
Less net increase in current risks reserve (note 19)		1,488,597,185		1,855,626,012
Earned retained premiums (note 19)		39,968,919,604		36,067,278,785
Less:				
Net acquisition cost:				
Agent commissions	3,272,516,971		2,952,851,853	
Additional compensation to agents	1,053,122,820		927,164,268	
Reinsurance ceded commission	(7,777,827)		(21,000,049)	
Non-proportional reinsurance cost	7,422,131		6,061,002	
Other	5,128,218,552	9,453,502,647	4,966,359,759	8,831,436,833
Net cost of claims and other outstanding obligations:				
Claims and other outstanding obligations		28,194,001,710		23,436,694,787
Technical profit		2,321,415,247		3,799,147,165
Analog and related operations result		-		9,476,259
Gross profit		2,321,415,247		3,808,623,424
Net operating expenses:				
Administrative and operating, net	(124,832,851)		(147,030,965)	
Salaries and related costs	848,364,441		982,243,079	
Depreciation and amortization	565,882,311	1,289,413,901	482,185,436	1,317,397,550
Operating profit		1,032,001,346		2,491,225,874
Comprehensive financial result:				
Investment in securities	2,152,594,465		1,597,102,011	
On sale of investments securities	(158,111,061)		(104,667,855)	
Investment securities valuation	(952,428,173)		389,390,825	
Premium surcharges	327,016,602		299,065,146	
Interests from loans (note 7)	42,656,892		17,315,594	
Credit risk reserves from foreign reinsurers	(606,777)		(5,134)	
Credit risk reserves	(11,181,819)		67,659	
Other	15,909,395		48,013,274	
Foreign exchange result (note 5)	6,990,971	1,422,840,495	26,930,170	2,273,211,690
Profit before taxes		2,454,841,841		4,764,437,564
Income tax, net (note 17)		245,473,401		986,493,524
Consolidated net income		2,209,368,440		3,777,944,040
Non-controlling interest (note 21)		(3,947,284)		(3,419,323)
Controlling interest		$ 2,205,421,156		3,774,524,717
Basic and diluted earnings per share (note 20)		$ 5.5985		9.4753

See accompanying notes to consolidated financial statements.

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

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

José Antonio Correa Etchegaray
Executive President equivalent to Chief Executive Officer

Bernardo Eugenio Risoul Salas
Chief Financial Officer

Juan Daniel Muñoz Juárez
General Accountant

Gabriel García Ruíz
Internal Auditor

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2022 and 2021
(Mexican pesos)

	Paid in Capital Stock	Equity earned								
			Retained earnings							
	Capital stock	Capital reserves	From prior years	Current year	Remeasurement of defined benefits to employees	Surplus from investment valuation	Currency translation adjustment	Total controlling interest	Non-controlling interest	Total stockholders Equity
Balances as of December 31, 2020	$ 2,412,249,198	1,392,443,840	7,823,021,637	6,793,609,794	(31,471,592)	522,166,427	139,618,186	19,051,637,490	9,424,480	19,061,061,970
Items related to stockholders' decisions:										
Transfer of prior year's net income	-	956,773,620	5,836,836,174	(6,793,609,794)	-	-	-	-	-	-
Increase in share repurchase reserve (note 18 (a))	-	(737,825,863)	-	-	-	-	-	(737,825,863)	-	(737,825,863)
Dividends to stockholder's (note 18 (d))	-	49,235,792	1,652,000,000)	-	-	-	-	(1,602,764,208)	-	(1,602,764,208)
Repurchase of own shares (note 18 (a))	(41,635,614)	51,547,926	-	-	-	-	-	9,912,312	-	9,912,312
Items related to the comprehensive income (note 18 (c)):										
Valuation from property, net	-	-	-	-	-	63,776,082	-	63,776,082	-	63,776,082
Valuation from investment, net	-	-	-	-	-	(254,809,703)	-	(254,809,703)	-	(254,809,703)
Remeasurement of employee benefits	-	-	-	-	35,855,394	-	-	35,855,394	-	35,855,394
Net income for the year	-	-	-	3,774,524,717	-	-	-	3,774,524,717	3,419,323	3,777,944,040
Other	-	-	(1,882,659)	-	-	-	27,448,037	25,565,378	(8,272)	25,557,106
Balances as of December 31, 2021	2,370,613,584	1,712,175,315	12,005,975,152	3,774,524,717	4,383,802	331,132,806	167,066,223	20,365,871,599	12,835,531	20,378,707,130
Items related to stockholders' decisions:										
Transfer of prior year's net income	-	365,650,840	3,408,873,877	(3,774,524,717)	-	-	-	-	-	-
Increase in share repurchase reserve (note 18 (a))	-	(309,000,231)	-	-	-	-	-	(309,000,231)	-	(309,000,231)
Dividends to stockholder's (note 18 (d))	-	69,928,031	(2,639,000,000)	-	-	-	-	(2,569,071,969)	-	(2,569,071,969)
Repurchase of own shares (note 18 (a))	(20,250,415)	2,926,789	-	-	-	-	-	(17,323,626)	-	(17,323,626)
Items related to the comprehensive income (note 18 (c)):										
Valuation from property, net	-	-	-	-	-	89,439,105	-	89,439,105	-	89,439,105
Valuation from investment, net	-	-	-	-	-	(197,157,400)	-	(197,157,400)	-	(197,157,400)
Remeasurement of employee benefits	-	-	-	-	(627,222)			(627,222)		(627,222)
Net income for the year	-	-	-	2,205,421,156				2,205,421,156	3,947,284	2,209,368,440
Other	-	-	(2,441,029)	-			(66,367,395)	(68,808,424)	3,659,641	(65,148,783)
Balances as of December 31, 2022	$ 2,350,363,169	1,841,680,744	12,773,408,000	2,205,421,156	3,756,580	223,414,511	100,698,828	19,498,742,988	20,442,456	19,519,185,444

See accompanying notes to consolidated financial statements.

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

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

José Antonio Correa Etchegaray
Executive President equivalent to Chief Executive Officer

Bernardo Eugenio Risoul Salas
Chief Financial Officer

Juan Daniel Muñoz Juárez
General Accountant

Gabriel García Ruíz
Internal Auditor

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Years ended December 31, 2022 and 2021
(Mexican pesos)

		2022	2021
Consolidated net income	$	2,209,368,440	3,777,944,040
Items not requiring cash:			
Loss (gain) on securities valuation		952,428,173	(389,390,825)
Allowance for loan losses		(39,941,138)	(42,084,023)
Impairment loss on investment securities		30,629,801	-
Depreciation and amortization		565,882,311	482,185,436
Increase in technical reserves		1,488,597,185	1,855,626,012
Employee statutory profit sharing, net		109,977,410	331,425,926
Current and deferred income tax		245,473,401	986,493,524
Interest expense		11,038,395	-
Subtotal		5,573,453,978	7,002,200,090
Operating activities:			
Changes in investment on securities		(1,196,703,949)	466,307,271
Changes in loan portfolio		(299,018,635)	4,271,465
Changes in employee benefits, net		50,192,876	41,378,944
Changes in premiums receivable		(1,751,915,920)	(1,101,911,094)
Changes in other accounts receivable		(117,372,380)	(205,702,897)
Changes in reinsurers, net		67,109,737	(116,897,037)
Changes in other operating assets		(174,233,355)	(1,291,675,590)
Changes in obligations and expenses assigned to claims		2,671,532,423	1,647,934,677
Changes in sundry creditors		60,311,328	476,428,918
Changes in other operating liabilities		(807,563,538)	(3,607,458,988)
Net cash provided by operating activities		4,075,792,565	3,314,875,759
Investment activities:			
Acquisition of property		(27,902,533)	(91,775,219)
Acquisition of furniture and equipment		(319,739,299)	(392,138,601)
Acquisition of intangible assets		(25,810,780)	(9,913,395)
Net cash used in investing activities		(373,452,612)	(493,827,215)
Financing activities:			
Repurchase of own shares		(326,323,857)	(727,913,551)
Dividends paid to stockholders		(2,569,071,969)	(1,602,764,208)
Payments on lease obligations		(90,192,858)	-
Net cash used in financing activities		(2,985,588,684)	(2,330,677,759)
Net increase in cash and cash equivalents		716,751,269	490,370,785
Effects of exchange rate and levels of inflation		(66,367,395)	27,448,037
Cash and cash equivalents:			
At beginning of year		2,209,374,328	1,691,555,506
At end of year	$	2,859,758,202	2,209,374,328

See accompanying notes to consolidated financial statements.

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

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

José Antonio Correa Etchegaray
Executive President equivalent
to Chief Executive Officer

Bernardo Eugenio Risoul Salas
Chief financial Officer

Juan Daniel Muñoz Juárez
General Accountant

Gabriel García Ruíz
Internal Auditor

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022 and 2021
(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.

01 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, 2022 and 2021 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, in the accidents and health and automobile lines 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 Compañia 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 Compañia 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.

(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 providing management services (Translation from Spanish Language Original).

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

Qualitas Perú was acquired during the year 2019, 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 Peru´s voting rights (formerly HDI Seguros, S. A) with a payment amounting to $99,111,564.

(e) Qualitas Salud, S. A. de C. V. (Qualitas Salud)-

The main activity of Qualitas Salud is to engage, according to Law, in insurance, coinsurance and reinsurance as a property and casualty insurer in the accidents and health line; it is a 99.99% subsidiary of Qualitas Controladora and was incorporated on August 17, 2021 with a capital stock of $50,000,000, which was fully paid in 2022.

CREDIT RATING

As of December 31, 2022 and 2021, the Institution and its subsidiaries have a credit rating for both years as follows:

	Rating		
Entity	2022	2021	Rating Agency
Quálitas Controladora	"BB+"	"BB+"	Standard & Poor's
Quálitas México	"mxAAA"	"mxAAA"	Standard & Poor's
Quálitas Costa Rica	"A"	"A-"	Pacific Credit Raiting
Quálitas Financial	"BBB-"	"BBB-"	Standard & Poor's
Quálitas Perú	"A-"	"A-"	Pacific Credit Raiting
Quálitas Salud	"HR AA+"	-	HR Ratings

02 AUTHORIZATION, BASIS OF PRESENTATION AND OVERSIGHT-

AUTHORIZATION

On February 27, 2023, 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 and Gabriel García Ruiz, Internal Auditor, authorized the issuance of accompanying consolidated financial statements and related notes thereto.

In accordance with the General Corporations Law, the provisions of the National Insurance and Bonds Commission (the Commission), and the bylaws of Qualitas Controladora, S. A.B. de C. V., the stockholders, the Board of Directors and the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores) are empowered to modify the consolidated financial statements after 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 (note 4).

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 3 (d) – Financial instruments: definition of the business model: Financial instrument to collect or sell (FICS) or negotiable financial instruments (NFI).

Notes 3 (i) and 15– Leases: whether an arrangement contains a lease;

Note 3(b) – Consolidation: whether the Institution has de facto control over an investee.

Assumptions and estimation uncertainties

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

Note 3(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.

Note 3 (f) and 6 – Determination of the credit risk allowance and recoverability of accounts receivable: assumptions and inputs used in their determination.

Measurement of fair values

A number of the Institution accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Institution has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements and reports directly to the chief financial officer. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of Accounting Criteria, including the level in the fair value hierarchy in which the valuations should be classified. Significant valuation issues are reported to the Institution's audit committee.

When measuring the fair value of an asset or a liability, the Institution uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

As established in the accounting criteria, the value or market price is the amount that can be obtained from the sale or the amount that must be paid for the acquisition of a financial instrument in an organized or recognized stock market. For the purposes of this criterion, the value or market price of a title quoted in the Mexican market will be that provided by the price providers. In the case of securities listed on international stock exchanges, the value or market price will be that which is disclosed by said organizations (price providers) through official publications.

The Institution recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The following notes include additional information about the assumptions made in measuring fair values:

Notes 3 (d) and 6 – Financial instruments

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.
- 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 Qualitas El Salvador 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 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.

03 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, except as explained in note 4, which addresses changes in accounting policies recognized during the period.

(a) Recognition of the effects of inflation-

The accompanying consolidated financial statements 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 Investment Unit (UDI by its acronym in Spanish) whose value is determined by the Bank of Mexico (Central Bank). Annual and cumulative inflation percentages of the last three years, are as follows:

		Inflation	
December 31	UDI	Yearly	Cumulative
2022	7.6468	7.58%	19.50%
2021	7.1082	7.36%	13.87%
2020	6.6055	3.15%	11.19%

(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, 2022 and 2021, 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) Financial instruments-

i. Recognition and initial measurement

Financial assets and liabilities - including accounts receivable and payable - are initially recognized when these assets are originated or acquired, or when these liabilities are issued or assumed, both contractually.

Financial assets and financial liabilities (unless it is an account receivable or payable without a significant financing component) are measured and initially recognized at fair value, plus the transaction costs directly attributable to acquisition or issuance, when subsequently measured at amortized cost. An account receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets- Policy applicable from January 1, 2022

Upon initial recognition, financial assets are classified in the following categories, according to the business model and the characteristics of the contractual cash flows therefrom, as follows:

- *Financial instruments to collect or sell (FICS),* measured at fair value with changes through other comprehensive income, whereby the holder intends both to collect contractual cash flows of principal and interest and to obtain a profit on sale when the opportunity arises; and
- *Negotiable financial instruments (NFI),* measured at fair value with changes through income (FVI) that represents investments in debt or equity financial instruments, whereby the holder intends to obtain a profit through purchase and sale.

The classification of financial assets is based on both the business model and the characteristics of the contractual cash flows therefrom. According to the business model, a financial asset or a class of financial assets (a portfolio), can be managed under:

- A business model that seeks, both the recovery contractual cash flows (consisting of principal and interest), as well as obtaining profit through the sale of financial assets, necessitating a combined management model for these financial assets.
- A model that seeks maximum return through the purchase and sale of financial assets.

An entity may have multiple financial assets where each one, or classes of these, follow different business models.

Financial assets are not reclassified subsequent to their initial recognition unless the Institution changes its business model for managing financial assets, in which case all affected financial assets are reclassified to the new category at the time the change in the business model has occurred.

The reclassification of investments in financial instruments between categories is applied prospectively as of the date of change in the business model, without modifying any previously recognized income, such as interest or impairment losses.

When the Institution makes reclassifications of its investments in financial instruments in accordance with the aforementioned, it must request authorization of this fact in writing from the Commission within 10 business days following the authorization issued for such purposes by the Board of Directors of the Institution, detailing the change in the business model that justifies them.

A debt investment is measured at fair value through Comprehensive Income (CI) if it meets both of the following conditions and is not classified as measured at fair value through income:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

All financial assets not classified as measured at amortized cost or fair value through CI as described above are measured at fair value through income. The Institution will not be able to opt for the exception considered in the FRS to irrevocably designate in its initial recognition a financial instrument to collect or sell, to be subsequently valued at its fair value with effects on the net result.

On initial recognition of an equity investment that is not held for trading (NFI), the Institution may irrevocably elect to present subsequent changes in the investment's fair value in CI (FVCI). This election is made on an investment-by-investment basis.

Financial assets: - Business model assessment- Policy applicable from January 1, 2022

The Institution makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Institution's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Institution's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at fair value through income.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)- Policy applicable from January 1, 2022

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Institution considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, the Institution considers:

1. contingent events that would change the amount or timing of cash flows;
2. terms that may adjust the contractual coupon rate, including variable-rate features;
3. prepayment and extension features; and
4. terms that limit the Institution´s claim to cash flows from specified assets (e.g. "non-resources" features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Equity financial instruments that generate cash flows that do not meet the SPPI criteria are measured at fair value through income. Dividends are recognized in income, unless they represent a defined recovery in the cost of the investment, in which case it is recognized in CI.

In the derecognition of these instruments, the accumulated gain or loss that has been recognized in CI is not recognized in the results of the period.

Financial assets - Subsequent measurement and gains and losses- Policy applicable from January 1, 2022

NFI	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in income.
FICS	These assets are subsequently measured at fair value. Interest income calculated under the effective interest method, gains and losses from translation of foreign currency and impairment are recognized in income. Other net gains and losses are recognized in comprehensive income. At the time of derecognition, the gains and losses accumulated in CI are reclassified to income.

Investments in securities – Policy applicable before January 1, 2022

The Commission regulates the bases on which the Institution makes its investments, for which, it has established an accounting and valuation criteria, which classifies the investments according to the management intention on ownership, as mentioned below:

- Securities for trading purposes;
- Available for sale securities.

Investments in Securities: Subsequent Measurement and Gains and Losses – Policy applicable before January 1, 2022

Trading securities

Trading securities are debt or equity securities that the Institution has in its own position with the intention of covering claims and operating expenses, therefore, from the moment of investing in them, the intention is to negotiate them in the short term, and in the case of debt securities on dates prior to their maturity.

Debt securities are recorded at their acquisition cost and their return (interest, coupons or equivalent) is recognized using the effective interest method. Said interests are recognized as realized in the income statement. Debt securities are valued at their fair value based on market prices published by independent price providers or by official publications specialized in international markets, and if there is no quote, according to the latest price. registered within the terms established by the Commission, the acquisition cost will be taken as the updated price for valuation.

Equity securities are recorded at their acquisition cost and are valued similarly to listed debt securities. If there is no market value, for purposes of determining fair value, the book value of the issuer or the acquisition cost, the lowest.

The effects of valuation of both debt and equity instruments are recognized in the results of the year under the caption "Investment securities valuation" as part of the "Comprehensive financing result".

On the date of their disposal, the difference between the sale price and the book value of the securities will be recognized in the result of the year. The result from the valuation of the securities that are disposed of, recognized in the results of the year, is reclassified to the caption "Comprehensive financing result from the sale of investments" in the statement of income, on the date of the sale.

For debt and equity securities, their transaction costs are recognized in the results of the year on the acquisition date.

Available for sale securities

Are those financial assets in which, from the moment of investing in them, the administration has an intention other than an investment for trading purposes or to hold to maturity, and it is intended to trade them in the medium term and in the case of debt instruments on dates prior to their maturity, in order to obtain profits based on their changes in market value and not only through the inherent returns.

Debt securities are recorded at their acquisition cost, the recognition of their yield (interest, coupons or equivalent) and their valuation is carried out in the same way as the securities for trading purposes, including the recognition of the accrued yield in results as realized, but recognizing the effect of valuation in stockholders' equity in the caption "Surplus (deficit) from investment valuation", until such financial instruments are sold or transferred from category. At the time of sale, the effects previously recognized in stockholders' equity must be recognized in the results of the period in which the sale is made.

Equity instruments are recorded at their acquisition cost. Investments in listed shares are valued at their fair value, based on the market prices disclosed by independent price providers; if there is no market value, the book value of the issuer is considered. The effects of valuation of capital instruments are recorded in the caption "Surplus (deficit) from investment valuation" in stockholders' equity.

For debt and equity securities, their transaction costs are recognized as part of the investment on the acquisition date.

Financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are initially recognized at fair value and subsequently are measured at amortized cost. Interest income and gains and losses on translation of foreign currency are recognized in income. Any gain or loss on derecognition of accounts is recognized in income.

iii. Derecognition

Financial assets

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.

The Institution enters into transactions whereby it transfers assets recognized in its consolidated balance sheet but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Institution derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Institution also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in income.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Institution currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Impairment – Policy applicable from January 1, 2022

Financial instruments

The Institution recognizes loss allowances for Expected Credit Losses (ECL) on:

- financial assets measured at amortized cost;
- debt investments measured at fair value through comprehensive income.

The Institution measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the date of the financial statements; and
- other debt securities and bank balances for which credit risk (ie the risk of default occurring during the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivable and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the Institution considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Institution's historical experience and an informed credit evaluation and including prospective information.

The Institution assumes that the credit risk of a financial asset has increased significantly if it is more than 30 days past due, except in cases where the Institution has information that the risk has not increased significantly.

The Institution considers a financial asset to be in default when:

- the borrower is not likely to repay its credit obligations in full to the Institution, without a recourse by the Institution such as realizing security (if any is held); or

- the financial asset is more than 90 days past due, or when the Institution has reasonable and supported information to consider that a longer term is a more appropriate criterion.

The Institution considers that a debt instrument has a low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade". The Institution considers that this to be a rating of BBB- or higher by the rating agency S&P or Baa3 or higher by the rating agency Moody's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, about past events, current conditions and forecasts of future economic conditions.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Institution is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Institution expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Institution assesses whether financial assets carried at amortized cost and debt securities at fair value through CI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit -impaired includes the following observable data:

i. significant financial difficulty of the borrower or issuer;

ii. a breach of contract such as a default or being more than 90 days past due;

iii. the restructuring of a loan or advance by the Institution on terms that the Institution would not consider otherwise;

iv. it is probable that the borrower will enter bankruptcy or other financial reorganization; or

v. the disappearance of an active market for a security because of financial difficulties

Presentation of allowance for ECL in the consolidated balance sheet

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

For debt securities at fair value through CI, the loss allowance is charged to income, and is recognized in CI.

Write-off

The gross carrying amount of a financial asset is written off (partially or completely) to the extent that there is no realistic possibility of recovery. The Institution makes an assessment regarding the time and amount of the cancellation based on whether there is a reasonable expectation of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Institution's procedures for recovery of amounts due.

Policy applicable before January 1, 2022

The Institution assesses at the date of the consolidated balance sheet if there is objective evidence that a security is impaired, with the objective and non-temporary evidence that the financial instrument had impaired in value, the corresponding loss was determined and recognized.

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 agreements-

The repurchase operations are presented in a separate line item on the consolidated 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.

(e) Cash and cash equivalents-

Cash and cash equivalents include bank deposits in local currency and dollars. At the consolidated balance sheet date, interest earned and foreign exchange gains and losses are included in 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 recognizing the corresponding liability.

(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-

CREDITS-

The balance to be recorded in the loans or credits will be the one effectively granted to the borrower and, where appropriate, the insurance that has been financed. Any type of interest that accrues according to the credit payment scheme will be added to this amount.

In the cases in which interest is collected in advance, it will be recognized as an early collection in the heading of deferred loans and early collections, which will be amortized over the life of the loan under the straight-line method against results of the fiscal year, under "Interest on credits".

The loans or credits are grouped into current and overdue, according to the type of credit, that is, credits, without restriction and restricted credits, whether they are mortgage-backed loans for urban real estate or credits with collateral security for titles or securities and classified according to the nature of the operation.

PAST DUE PORTFOLIO-

The unpaid balance in accordance with the conditions established in the credit agreements will be recorded as Past Due Portfolio when:

1. It is known that the borrower is declared in bankruptcy, in accordance with the Bankruptcy Law, or
2. their amortizations have not been fully settled in the terms originally agreed, considering the following for this purpose:
   i. If the debts consist of credits with a single payment of principal and interest at maturity and are 30 or more calendar days past due;
   ii. If the debts refer to credits with a single payment of principal at maturity and with periodic payments of interest and the respective interest payment is 90 or more calendar days past due, or 30 or more calendar days after the principal is past due;
   iii. If the debts consist of loans with periodic partial payments of principal and interest, including home loans and are 90 or more calendar days past due.

Past-due loans that are restructured will remain in the past-due portfolio, as long as there is no evidence of sustained payment.

Loans greater than one year with a single payment of principal and interest at maturity that are restructured during the term of the loan will be considered past-due.

Renewals in which the borrower has not paid in time all the interest accrued in accordance with the originally agreed terms and conditions, and 25% of the original amount of the credit, will be considered past due as long as there is no evidence of sustained payment.

In the case of renewals in which the extension of the term is carried out during the validity of the credit, the 25% referred to in the previous paragraph must be calculated on the original amount of the credit that should have been covered to date.

ALLOWANCE FOR LOAN LOSSSES-

The Institution's Management makes the allowance for loan losses based on Chapter 8.14 of the Circular. Estimate must be calculated and recorded monthly, recorded under allowance for loan losses of the asset against the sub-heading of Preventive Write-offs for Credit Risks that is part of the heading of Comprehensive Financing Result.

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

The Commission may order the constitution of preventive reserves for credit risk, in addition to those referred to in the previous paragraph, for the total balance of the debt in the following cases:

i. When the corresponding files do not contain or do not exist the documentation considered necessary in accordance with the regulations in force, to exercise the collection action, this reserve is only released when the Institution corrects the observed deficiencies.

ii. When a report issued by a credit information society on the borrower's history has not been obtained (except for loans to officials and employees, when the collection of the credit is made through deductions made from their salary), said reserve is only canceled three months after obtaining the required report.

ACCOUNTS RECEIVABLE-

The institutions must follow in the first instance to what is established in the accounting criteria issued by the Commission and as well as observe the criteria indicated in FRS C-3 "Accounts Receivable" and FRS C-16 "Impairment of financial instruments receivable", of the FRS issued by the CINIF, as long as this is not contrary to what is established in the LISF and in the administrative provisions that emanate from it.

Institutions must observe the criteria indicated in FRS C-3, which will only be applicable to "other accounts receivable" referred to in paragraph 20.1 of FRS C-3.

PREVENTIVE ALLOWANCE FOR ACCOUNTS RECEIVABLE-

Institutions must create, where appropriate, an estimate that reflects their degree of irrecoverability. Estimate must be obtained by applying the provisions of section 42 of FRS C-16 "Impairment of financial instruments receivable", when the institutions use the practical solutions referred to in paragraph 42.6 of FRS C-16, the constitution of the estimates must be for the total amount of the debt and must not exceed the following terms:

- Within 60 calendar days following their initial registration, when they correspond to unidentified debtors, and
- Within 90 calendar days following their initial registration, when they correspond to identified debtors.

(g) Property, furniture and equipment-

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

	Rates
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.

(h) 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.

(i) Leases-

Policy applicable from January 1, 2022

At inception of a contract, the Institution assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Institution uses the definition of a lease in FRS D-5.

At commencement or on modification of a contract that contains a lease component, the Institution allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of real state the Institution has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Institution recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Institution by the end of the lease term or the cost of the right-of-use asset reflects that the Institution will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Institution's incremental borrowing rate. Generally, the Institution uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Institution's estimate of the amount expected to be payable under a residual value guarantee, if the Institution changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Institution presents right-of-use assets that do not meet the definition of investment property in furniture and equipment and lease liabilities in sundry creditors in the consolidated balance sheet.

(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 consolidated 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).

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

To establish and assess the technical reserves, actuarial methods based on the application of actuarial practice standards 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 to 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 consolidated balance sheet.

Multiannual insurance -

In the case of multiannual policies, the current risk reserve is the best estimate of the future obligations of the current year, 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.

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.

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.

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 product technical notes, 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 probable and arises as a consequence of past events, mainly acquisition costs, operating expenses and employee benefits; and that it is probable that in order to satisfy them, the Institution will have to part with financial resources.

(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.

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 certified actuaries in labor liabilities 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.

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.

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 consolidated 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.

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 and expense;
- premium surcharges;
- dividend income;
- impairment losses at fair value of financial instruments;
- the net gain or loss on financial assets at fair value through income;
- 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.

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) Specific accounting criteria-

The Institution shall observe, except when otherwise stated by the Commission, the specific accounting criteria included in the provisions and FRS issued by the 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.

(ab) 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.

(ac) Reclassifications-

The consolidated balance sheet for the year ended December 31, 2021 were reclassified to conform to the presentation used in 2022.

04 ACCOUNTING CHANGES-

The accounting changes recognized by the Institution in 2022 were derived from the adoption of the following FRS:

The Institution has adopted as of January 1st, 2022 the following regulations regarding financial instruments:

- **FRS B-17 *"Determination of fair value"*** (regarding financial instruments)
- **FRS C-2 *"Investment in financial instruments"***
- **FRS C-3 *"Accounts receivable"***
- **FRS C-16 *"Impairment of financial instruments receivable"***
- **FRS C-19 *"Financial instruments payable"***

The requirements of these regulations represent a significant change with respect to the previous regulations, however, they did not generate significant effects for the Institution.

The nature and effects of the key changes to the Institution's accounting policies are summarized below:

FRS B-17 *"Determination of fair value"-.* The Institution applied FRS B-17 in the determination of fair value. This FRS establishes the valuation and disclosure standards in the determination of fair value, in its initial and subsequent recognition, if the fair value is required or permitted by other particular FRSs. Where applicable, changes in valuation or disclosure are recognized prospectively. This FRS was applied, except for what is established in the particular criteria defined in the Provision for Insurance and Bond Institution.

FRS C-2 *"Investment in financial instruments"-.* The Institution applied FRS C-2, regarding the application of the regulations related to the registration, valuation and presentation in the financial statements of its investments in financial instruments as follows:

a) The Institution determined the business model it used to manage its investments in financial instruments, in order to classify them properly.

b) Derived from the analysis, the Institution determined its business model, the financial instruments assets were classified for their valuation and registration within one of the following categories: NFI or FICS. Therefore, it is specified that the category of Financial Instruments to collect principal and interest (FICPI) will be for the exclusive use of insurance institutions that operate pension insurance derived from social security laws considering the nature of their obligations.

c) The valuation results that were recognized before the investment was redeemed or sold are unrealized and, consequently, are not subject to capitalization or distribution of dividends among its shareholders, until they are realized in cash.

d) The exception to irrevocably designate in its initial recognition a financial instrument to collect or sell is not applicable to the Institution, to be subsequently valued at its fair value with effects on the net result referred to in FRS C-2.

e) Insurance Institution that carry out reclassifications of its investments in financial instruments, must request authorization of this fact in writing from the Commission within 10 business days following the authorization issued for such purposes by the Board of Directors of the Insurance Institution, detailing the change in the business model that justifies them.

f) The Institution, for the identification and recognition of impairment adjustments, will adhere to the provisions of FRS C-2 "Investment in financial instruments", issued by the CINIF.

FRS C-3 *"Accounts Receivable"* the Institution must adhere in the first instance to what is established in the criteria established in FRS C-3 "Accounts Receivable", of the FRS issued by the CINIF, as long as this is not contrary to what is established in the LISF and in the administrative provisions that emanate from it.

FRS C-16 *"Impairment of financial instruments receivable"-.* The Institution observed the criteria indicated in FRS C-16 "Impairment of financial instruments receivable" which establishes the standards for the accounting recognition of impairment losses of all financial instruments receivable (FIC); it indicates when and how an expected impairment loss should be recognized and establishes the methodology for its determination.

The main changes included in this FRS consist of determining when and how FIC's expected impairment losses should be recognized, including:

- Impairment losses of an FIC should be recognized when the credit risk has increased and it is concluded that part of the FIC's future cash flows will not be recovered.
- The expected loss is recognized based on the Institution's historical experience of credit losses, current conditions and reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows of the IFCs.
- With regard to interest-bearing FIC, it establishes estimating how much of the FIC 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.

The Commission establishes certain precisions for the application of FRS C-16 as follows:

a) For purposes of determining the amount of the expected credit loss referred to in FRS C-16, the effective interest rate used to determine the present value of the cash flows to be recovered was adjusted when it was decided to modify said rate in accordance with the provisions of FRS C-20.

b) The expected credit losses due to the impairment of investments in FICS financial instruments were determined in accordance with the provisions of FRS C-16.

c) In relation to settlement accounts receivable, in the cases in which the amount receivable was not realized within 30 calendar days from the date it was registered in settlement accounts, it was reclassified as past-due portfolio and was simultaneously constituted the estimate for irrecoverable or difficult collection of expected credit losses corresponding to the aforementioned amounts receivable, following the provisions of FRS C-16.

d) The Institution created an estimate that reflected the degree of unrecoverable of accounts receivable defined in accounting criteria B-8 "Accounts Receivable", said estimate was obtained by applying the provisions of FRS C-16.

FRS C-19 *"Financial instruments payable"-.* The Institution followed the criteria indicated in FRS C-19 "Financial instruments payable".

For the initial recognition of any financial instrument payable, the provisions of FRS C-19 are not applicable, regarding the use of the market rate as the effective interest rate in the valuation of the financial instrument payable when both rates are substantially different.

The exception to irrevocably designate a financial instrument payable upon initial recognition to be subsequently valued at its fair value with effect on net income is not applicable to the Institution.

The main characteristics of this FRS are the following:

- When restructuring a liability, without substantially modifying the future cash flows to settle it, the costs and commissions incurred in this process affected the amount of the liability and were amortized at a modified effective interest rate, instead of affecting directly the consolidated net profit or loss.
- The provisions of IFRIC 19 "Extinguishing of Financial Liabilities with Equity Instruments" which was not provided for by the existing standard.
- The effect of extinguishing a financial liability was presented as a financial result in the consolidated income statement.
- The concepts of amortized cost were valued financial liabilities and the effective interest method, based on the effective interest rate.
- It was established that it is not necessary to recalculate the effective rate before a variable interest rate of the financial instrument that does not produce material impact.
- Gains or losses from derecognition of liabilities and the effects of renegotiating financial instruments to collect principal and interest were presented as part of operating results.

Changes in accounting policies resulting from the adoption of the new standards relating to financial instruments have been applied retrospectively, except for the following:

The following assessments have been made based on the facts and circumstances that existed at the date of initial application:

- The determination of the business model in which a financial asset is maintained.
- The SPPI tests for financial assets, in order to conclude whether the clauses of the contracts that cover the financial assets do not violate the provisions of FRSs C-2, C-3 and C-20, in such a way that they are eligible for be subject to impairment tests under FRS C-16.
- If an investment in a debt instrument presented a low credit risk on the date of initial application of the new regulations, the Institution assumed that the asset's credit risk had not increased significantly since its initial recognition.

The following table shows the original measurement categories under the previous regulations and the new measurement categories under the new regulations for each class of financial assets and financial liabilities of the Institution as of January 1, 2022:

Financial assets	Note	Original classification under the previous Regulations	New classification		Original carrying amount	New carrying amount
Sovereign debt securities	6	For trading purposes	FICS	$	4,606,519,298	4,606,519,298
Corporate debt securities	6	For trading purposes	FICS		3,363,929,961	3,363,929,961
Sovereign debt securities	6	Avaible for sale securities	FICS		17,132,368,692	17,132,368,692
Corporate debt securities	6	Avaible for sale securities	FICS		2,583,415,746	2,583,415,746
Equity financial instruments (share titles)	6	For trading purposes	NFI		3,254,097,143	3,254,097,143
Equity financial instruments (share titles)	6	Avaible for sale securities	FICS		3,467,629,623	3,467,629,623
Other accounts receivable	6	Other accounts receivable	FICPI		708,678,010	708,678,010
Total financial assets				$	**35,116,638,473**	**35,116,638,473**

Financial liabilities	Note	Original classification under the previous Regulations	New clasification		Original carrying amount	New carrying amount
Creditors and reinsurers	11 and 13	Accounts payable	Other financial liabilities	$	6,874,482,761	6,874,482,761
Other liabilities	6	Other accounts payable	Other financial liabilities		4,076,396,708	4,076,396,708
Total financial liabilities				$	**10,950,879,469**	**10,950,879,469**

Management determined that the effect of the initial recognition of FRS C-16, corresponding to the impairment of other accounts receivable, resulted in a release of the estimate for $38,910,548 and a constitution for $30,463,343 for investments in securities.

The Institution's accounting policies for the classification of financial instruments under the new regulations are established in note 3 (d). The application of these policies resulted in the new classifications established in the table above.

FRS C-9 *"Provisions, Contingencies and Commitments"-.* The application of this FRS did not generate accounting changes in the financial statements. Among the main aspects covered by this FRS are 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.
- The amount of the provisions was discounted when the effect was important within the financial statements, it was considered important when the disbursements were expected to take place after twelve months after the date of the consolidated balance sheet.

Management determined that the adoption of this FRS did not generate significant effects.

FRS D-5 *"Leases"*-. The Institution applied this FRS as of January 1, 2022. Consequently, the comparative information presented for 2021 was not restated, and is presented as previously reported. The details of the changes are revealed below:

The Institution chose to apply the practical solution contained in FRS D-5 to assess which transactions are leases, applying the requirements of FRS D-5 only to contracts that were previously identified as leases. Contracts that were not identified as leases under Bulletin D-5 and IFRIC 4 were not reassessed to determine whether a lease exists under FRS D-5. Therefore, the definition of a lease under FRS D-5 was applied only to contracts entered into or modified on or after January 1, 2022.

At the beginning or in the modification of a contract that contains a lease component, the Institution assigns the consideration in the contract to each lease component based on its relative independent price. However, for real estate leases, the Institution has elected not to separate the non-lease components and to account for the lease and associated non-lease components as a single lease component.

Leases previously classified as operating:

Previously, the Institution classified property leases as operating leases. On transition, for these leases, the recognized lease liabilities were valued at the present value of the remaining lease payments, discounted at the Institution's incremental financing rate as of January 1, 2022.

Right-of-use assets are valued at an amount equal to the lease liability, adjusted by the amount of anticipated or accumulated lease payments.

The Institution used some practical solutions allowed by FRS D-5 to leases previously classified as operating leases, among them:

- The Institution applied a single discount rate to a set of leases with similar characteristics.
- FRS C-9 "Provisions, contingencies and commitments" was applied to assess whether the leases are onerous, adjusting the right-of-use asset by the provision for onerous leases recognized in the consolidated balance sheet on the date of initial application.
- did not recognize right-of-use assets and liabilities for leases whose lease term ends within 12 months after the date of initial application;
- it did not recognize the assets and liabilities for the right of use for leases of low value assets;
- excluded the initial direct costs of valuation of the right-of-use asset at the date of initial application; and
- Previously unknown information or circumstances were used, such as determining the lease term, when the contract contains options to extend or terminate the lease.

Impacts to the date of adoption

Management determined that the effects of adoption was a debit to right-of-use assets for $133,455,376 and a credit for the same amount in creditors for lease contracts within the consolidated balance sheet.

05 FOREIGN CURRENCY EXPOSURE-

Monetary assets and liabilities denominated in dollars translated into the reporting currency, as of December 31, 2022 and 2021, are presented below:

	Mexican pesos	
	2022	2021
Assets	$ 8,558,653,180	7,538,076,053
Liabilities	(5,935,024,291)	(4,922,369,547)
Net assets	**$ 2,623,628,889**	**2,615,706,506**

As of December 31, 2022 and 2021, foreign exchange gain amounted to $6,990,971 and $26,930,170, respectively.

The exchange rates used in the various translation processes to the reporting currency at December 31, 2022 and 2021 were as follows:

		Year-end exchange rate		Average exchange rate	
Country of origin	Currency	2022	2021	2022	2021
United States of America and El Salvador	Dollars	$ 19.5089	20.4672	20.0377	20.3770
Peru (Soles to dollars)	Sol	3.8140	3.9870	3.838	3.9003
Costa Rica (Colones to dollars)	Colon	601.99	645.25	650.15	625.65
Colombia (Colombian peso to dollars)	Colombian peso	4,810.2	-	4,812.89	-

At December 31, 2022 and 2021, the Institution did not have foreign exchange hedging instruments.

06 FINANCIAL INSTRUMENTS-

At December 31, 2022 and 2021, the financial instruments are analyzed as follows:

Investments in securities

		2022	2021
NFI:			
Equity instruments	$	2,524,055,626	3,254,097,143
Total	**$**	**2,524,055,626**	**3,254,097,143**
FICS:			
Sovereign debt securities	$	23,690,672,152	21,738,887,990
Corporate debt securities		4,443,660,783	5,947,345,707
Equity securities		3,656,931,144	3,467,629,623
Total	**$**	**31,791,264,079**	**31,153,863,320**

At December 31, 2022 and 2021, the investment portfolio includes financial instruments classified as FICS, which include maturities between 2 days to 23 years and 3 days to 22 years, respectively.

At December 31, 2022 and 2021, the interest rates applied to the portfolio of financial instruments classified as FICS range from 4.08% to 13.77% and from 4.13% to 14.78%, respectively.

At December 31, 2022 and 2021, investments in securities are analyzed on the next page.

Other accounts receivable

At December 31, 2021 and 2022, other accounts receivable amount to $852,507,498 and $708,678,010, respectively.

A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities as of December 31, 2022 and 2021, including their levels in the fair value hierarchy and based on the business models determined by the Institution. It does not include information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Financial assets measured at fair value

At December 31, 2022		Debt securities	Equity securities	Fair value
Carrying amount:				
FICS	$	28,134,332,935	3,656,931,144	Level 1
NFI		-	2,524,055,626	Level 1
Total	**$**	**28,134,332,935**	**6,180,986,770**	

Financial assets measured at fair value

As of December 31, 2021		Debt securities	Equity securities	Fair value
Carrying amount:				
FICS	$	27,686,233,697	3,467,629,623	Level 1
NFI		-	3,254,097,143	Level 1
Total	**$**	**27,686,233,697**	**6,721,726,766**	

	2022 Amount	2022 Accrued interest	2022 Increase (decrease) in valuation	2022 Impairment loss on securities	2022 Total	2021 Amount	2021 Accrued interest	2021 Increase (decrease) in valuation	2021 Total
Sovereign debt securities									
Government securities:									
FICS:									
BANOB	$ 5,082,154,676	2,520,020	109,513	-	5,084,784,209	2,666,576,144	-	367,257	2,666,943,401
SHF	-	-	-	-	-	52,865,450	189,783	(7,321)	53,047,912
NAFR	-	-	-	-	-	281,394,000	609,504	12,296	282,015,800
BPAG91	-	-	-	-	-	19,889,982	109,000	84,632	20,083,614
NAFF	200,000,000	7,128,000	(13,725,394)	-	193,402,606	200,000,000	7,084,000	(59,698)	207,024,302
BONDESD	4,729,823,954	26,356,313	20,370,282	-	4,776,550,549	6,251,598,799	14,094,766	14,857,336	6,280,550,901
BONDESF	2,772,388,857	12,141,008	1,206,698	-	2,785,736,563	995,310,150	151,110	194,990	995,656,250
BONDESG	895,321,251	526,500	(76,773)	-	895,770,978	-	-	-	-
BONOS	3,592,600,272	19,673,338	(568,538,680)	-	3,043,734,930	6,783,953,870	32,770,338	(497,081,809)	6.319,642,399
BPAG28	646,363,859	2,305,606	3,415,480	-	652,084,945	646,363,859	1,098,500	2,581,906	650,044,265
BPAG91	347,080,921	6,805,069	1,623,578	-	355,509,568	347,080,921	3,654,681	969,745	351,705,347
CETES	1,299,018,309	72,321,834	(7,273,073)	-	1,364,067,070	-	-	-	-
UDIBONO	769,065,389	1,585,148	8,451,582	-	779,102,119	-	-	-	-
US goverment bonds	3,836,622,687	17,256,508	(132,904,464)	-	3,720,974,731	3,823,042,400	8,726,415	(7,508,167)	3,824,260,648
El Salvador goverment bonds	19,662,047	-	-	-	19,662,047	-	-	-	-
	$ 24,190,102,222	168,619,344	(687,341,251)	-	23,671,380,315	22,068,075,575	68,488,097	(485,588,833)	21,650,974,839
Corporate debt securities:									
Private companies securities with known rate:									
FICS:									
Financial sector	$ 1,462,290,518	4,044,773	6,205,459	(470,000)	1,472,070,750	4,050,978,730	12,384,451	1,943,509	4,065,306,690
Non-financial sector	2,968,570,588	26,023,993	(23,474,548)	(30,159,801)	2,940,960,232	1,801,520,147	15,054,789	(1,118,018)	1,815,456,918
	$ 4,430,861,106	30,068,766	(17,269,089)	(30,629,801)	4,413,030,982	5,852,498,877	27,439,240	825,491	5,880,763,608
Foreign securities:									
FICS:									
Invesment in foreign securities	$ -	-	-	-	-	67,119,624	111,093	(648,618)	66,582,099

(Continued)

	2022					2021			
	Amount	Accrued interest	Increase (decrease) in valuation	Impairment loss on securities	Total	Amount	Accrued interest	Increase (decrease) in valuation	Total
Equity securities:									
Private companies securities, variable income:									
NFI:									
Financial sector	$ 2,699,580,831	-	(232,773,180)	-	2,466,807,651	2,699,580,829	-	493,481,633	3,193,062,462
Non-financial sector	57,119,766	-	128,209	-	57,247,975	57,119,766	-	3,914,915	61,034,681
	2,756,700,597	-	(232,644,971)	-	2,524,055,626	2,756,700,595	-	497,396,548	3,254,097,143
FICS:									
Financial sector	1,414,606,631	-	(108,343,437)	-	1,306,263,194	1,414,606,631	-	264,256,093	1,678,862,724
Non-financial sector	2,184,944,546	51,211	165,672,193	-	2,350,667,950	1,684,031,378	26,863	104,708,658	1,788,766,899
	3,599,551,177	51,211	57,328,756	-	3,656,931,144	3,098,638,009	26,863	368,964,751	3,467,629,623
	$ 6,356,251,774	51,211	(175,316,215)	-	6,180,986,770	5,855,338,604	26,863	866,361,299	6,721,726,766
Total accrued interests		$ 198,739,321					96,065,293		
Total valuation increase, net			$ (879,926,555)					380,949,339	
Total impairment loss				$ (30,629,801)					
Repurchase agreements:									
BONDESD	$ 19,793					32,461,332			
BONDESF	6,496,250					-			
BPAG91	1,508					-			
TBILP71	12,774,286					-			
NAFI	-					55,451,819			
	$ 19,291,837					87,913,151			

B. Financial risk management

As part of the corporate governance system, the Institution has established a comprehensive risk management system, which includes the definition and categorization of the risks the Institution might be exposed, considering 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.

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 Institution, through its training and management procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

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.

Credit risk:

Credit risk represents the potential loss that a financial instrument issuer can cause to the counterparty, by not meeting its obligations, and it originates mainly from accounts receivable and investments in debt instruments.

The carrying amount of financial assets represents the maximum credit exposure.

Impairment losses due to impairment of values recognized in results were as follows:

	2022	2021
Impairment loss on corporate debt securities at fair value through comprehensive income	$ 30,629,801	-

Expected credit loss assessment for other accounts receivable as of December 31, 2022

The Institution uses an estimation matrix to measure the expected credit losses of other accounts receivable from customers, which includes a large number of small balances.

The table shown below is information on credit risk exposure and expected credit losses for other accounts receivable as of December 31, 2022:

Various debtors

December 31, 2022	Weighted average loss rate		Gross carrying amount	Impairment loss allowance	Credit-impaired
Due between 1 - 30 days	.04%	$	210,813,802	88,707	No
Due between 31 - 60 days	.23%		8,044,636	18,204	No
Expired between 61 - 90 days	.54%		664,552	3,572	No
Overdue more than 90 days	1.27%		15,713,356	199,963	Yes
		$	**235,236,346**	**310,446**	

Representatives

December 31, 2022	Weighted average loss rate		Gross carrying amount	Impairment loss allowance	Credit-impaired
Due between 1 - 30 days	1.27%	$	908,946	11,506	No
Due between 31 - 60 days	2.50%		410,072	10,234	No
Expired between 61 - 90 days	3.23%		664,189	20,802	No
Overdue more than 90 days	3.82%		671,569	25,665	Yes
		$	**2,654,776**	**68,207**	

Insurers

December 31, 2022	Weighted average loss rate		Gross carrying amount	Impairment loss allowance	Credit-impaired
Due between 1 - 30 days	1.25%	$	947,522	11,828	No
Due between 31 - 60 days	1.96%		1,005,464	19,731	No
Expired between 61 - 90 days	2.38%		596,081	14,181	No
Overdue more than 90 days	2.98%		1,164,784	34,666	Yes
		$	**3,713,851**	**80,406**	

07 LOANS PORTFOLIO-

At December 31, 2022 and 2021, the current loans portfolio is comprised as follows:

		2022	2021
Mortgage	$	34,295,480	39,733,329
Unsecured		462,670,371	261,310,865
Accrued interest		84,299	111,795
Trust-guaranteed loans		169,663,263	67,038,622
	$	**666,713,413**	**368,194,611**

At December 31, 2022 and 2021, the past-due loan portfolio is comprised as follows:

		2022	2021
Mortgage	$	3,777,728	3,239,141
Unsecured		27,919,738	27,958,492
	$	**31,697,466**	**31,197,633**

At December 31, 2022 and 2021, allowance for loan losses amounted to $52,214,961 and $40,533,309, respectively.

At December 31, 2022 and 2021, unsecured loans are as follows:

	2022	2021
Casanueva Pérez, S. A. P. I.	$ 220,000,000	-
Rosas Abarca y Asociados, S. C.	7,166,667	-
Acceso Corp, S. A.	99,743,500	111,480,145
Age Capital, S. A.	68,586,364	62,038,634
Autofinanciamiento de Automóviles Monterrey, S. A. de C. V.	6,091,130	17,000,000
Mag Agente de Seguros y de Fianzas, S. A. de C. V.	5,295,972	9,632,875
Método Digital Agente de Seguros, S. A. de C. V.	2,907,335	-
Innovazione Agente de Seguros, S. A. de C. V.	5,379,201	8,553,013
Gamaliel Contreras Huerta	2,500,000	-
Rosave Agente de Seguros y Fianzas, S. A. de C. V.	-	8,611,111
Meneses Asesores, S. A. de C. V.	2,575,000	2,975,000
Jiro y Asociados, Agente de Seguros y Fianzas, S. A.	1,904,695	-
Jesús Lizárraga Velázquez	1,130,137	-
UNUS Agente de Seguros y Fianzas, S. A. de C. V.	1,010,000	-
Promo Q, S. A. de C. V,	5,041,667	-
Carmarc Asesores, S. A. de C. V.	-	1,583,333
Asesores Bre, S. A. de C. V.	1,546,667	-
Administración y Comercio Integral, S. A. de C. V.	1,000,000	-
Equinox Agente de Seguros y Fianzas, S. A. de C. V.	-	2,381,836
Consultoría Empresarial de Morelia, S. A. de C. V.	1,652,778	2,024,444
Lorama servicios, S. A. de C. V.	2,777,778	5,027,778
Consultoría Gaysa, S. A. de C. V.	1,500,000	1,204,314
Cayacho, S. A. de C. V.	1,440,000	-
Arroyo Administración y Asesoría, S. A. de C. V.	1,555,556	-
Others	21,865,924	28,798,382
	$ 462,670,371	**261,310,865**

At December 31, 2022 and 2021, Trust-guaranteed loans are analyzed as follows:

	2022	2021
Promotora Sku, S. A. P. I. de C. V., S.O.F.O.M., E. N.R.	$ 71,144,868	50,777,578
Scotiabank Inverlat, S. A.	56,666,666	-
Firma Car, S. A. P. I. de C. V.	41,851,729	16,261,044
	$ 169,663,263	**67,038,622**

At December 31, 2022 and 2021, the Institution has recognized $42,656,892 and $17,315,594 of Interests from loans in the comprehensive financial result of the consolidated statements of income, respectively.

08 PROPERTY-

At December 31, 2022 and 2021, property is as follows:

	2022	2021
Land	$ 564,983,410	559,760,336
Buildings	556,379,543	535,855,202
Special facilities	53,126,500	50,971,382
	1,174,489,453	1,146,586,920
Accumulated depreciation	(143,314,681)	(125,462,233)
	1,031,174,772	1,021,124,687
Net valuation	1,132,247,195	1,009,653,479
Total	**$ 2,163,421,967**	**2,030,778,166**

At December 31, 2022 and 2021, the Institution made appraisals of its properties, as a result an increase in their value of $122,593,716 and $100,123,164 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 2022 and 2021 ranges between 1.11% and 5% in both years.

09 ACCOUNTS RECEIVABLE-

Premiums-

At December 31, 2022 and 2021 premiums receivable are described is as follows:

	2022	2021
Automobile:		
Fleets, financial and other	$ 20,427,558,502	19,098,927,584
Individual	4,936,434,077	4,516,383,269
Foreign	705,852,840	653,469,430
	$ 26,069,845,419	24,268,780,283
Receivables from agencies and entities of the federal public administration	40,691,462	89,840,678
	$ 26,110,536,881	**24,358,620,961**

At December 31, 2022 and 2021 premiums receivable accounts for 34% of total assets in both years.

10 REINSURERS-

At December 31, 2022 and 2021, balances payable to reinsurers is analyzed as follows:

2022

Institution		Up-to 90 days	More than 90 and up-to 365 days	Total
Axa France IARD	$	35,200,035	-	35,200,035
Allianz Mexico, S.A. (Allianz México)		5,547,843	-	5,547,843
Seguros Universales, S. A. (Seguros Universales)		396,273	320,049	716,322
Ficosha Seguros, S. A. (Ficosha Seguros)		5,156,451	7,173,173	12,329,624
Kot Insurance Company, A. G.		-	49,164,684	49,164,684
Münchener Rückversicherungs -Gesellschaft		527,395	-	527,395
RGA Reinsurance Company		1,350,000	-	1,350,000
Others		27,418,357	-	27,418,357
Total	**$**	**75,596,354**	**56,657,906**	**132,254,260**
Percentage		57%	43%	100%

(Continued)

2021

Institution		Up-to 90 days	More than 90 and up-to 365 days	Total
Axa France IARD	$	34,089,595	-	34,089,595
Allianz Mexico		6,012,240	-	6,012,240
Seguros Universales		992,031	-	992,031
Ficosha Seguros		7,821,504	-	7,821,504
Navigators Insurance Company		2,264,792	-	2,264,792
Arch Reinsurance Europe Underwriting designated Activity Company		1,853,011	-	1,853,011
Münchener Rückversicherungs -Gesellschaft		1,022,350	-	1,022,350
Other		(19,547,807)	-	(19,547,807)
Total	**$**	**34,507,716**	**-**	**34,507,716**
Percentage		100%	0%	100%

At December 31, 2022 and 2021, the Institution ceded premiums from its property and casualty in the automobile insurance line amounting to $578,209,995 and $301,380,800, respectively.

11 OTHER ASSETS-

Furniture and equipment:

At December 31, 2022 and 2021, furniture and equipment is analyzed as follows:

		2022	2021
Office furniture and equipment	$	357,878,097	359,056,752
Computer equipment		1,348,274,772	1,289,633,296
Transportation equipment		756,529,716	709,843,769
Other		1,487,052,651	1,395,294,894
Assets under lease (right-of-use assets) (note 16)		204,424,679	-
		4,154,159,915	3,753,828,711
Less accumulated depreciation		(3,142,998,369)	(2,724,438,768)
	$	**1,011,161,546**	**1,029,389,943**

Sundry:

At December 31, 2022 and 2021 this line item are as follows:

	2022	2021
Unrealized salvage inventory	$ 705,585,891	580,325,992
Spare parts inventory	306,942,640	198,811,655
Prepayments	606,996,142	455,476,126
Income tax prepayments	2,559,265,465	2,778,813,573
Deferred income tax (note 17)	2,631,662,355	1,910,395,874
Deferred employee statutory profit sharing (note 17)	690,309,049	511,484,328
	$ 7,500,761,542	**6,435,307,548**

At December 31, 2022 and 2021, 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.

12 CREDITORS-

At December 31, 2022 and 2021 creditors are as follows:

	2022	2021
Use of facilities	$ 2,942,138,215	2,835,291,816
Agents current account	2,356,351,937	2,206,134,595
Sundry	857,313,023	732,335,083
Amounts retained from adjusters	197,795,935	197,958,085
Leases liabilities (note 16)	125,270,216	-
Accruals	495,875,296	807,932,248
Loss funds under management	26,127,936	35,639,187
	$ 7,000,872,558	**6,815,291,014**

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, 2022 and 2021 are as follows:

	2022	2021
Automobile:		
Fleets, financial and other	$ 23,262,134,705	21,594,031,884
Individual	15,351,319,156	13,391,060,333
Foreign	3,422,272,923	3,239,193,380
	$ 42,035,726,784	**38,224,285,597**

Premiums issued in advance to the risk period covered-

At the end of years 2022 and 2021, the Institution issued premiums with a coverage period starting in years 2023 and 2022, respectively. The transactions related to premiums issued in advance to the risk period covered are as follows:

	2022	2021
Premiums issued in advance to the risk period covered:		
Issued	$ 3,853,953,523	3,667,718,290
Ceded	5,194,362	5,744,261
Increase in currents risks reserve	$ 3,249,290,007	3,128,982,030
Agent commissions	180,381,794	175,772,817
Policy rights	188,277,387	200,746,909
Acquisition cost	704,126,350	656,993,704

At December 31, 2022 and 2021 the balances related to premiums issued in advance to the risk period covered are analyzed are as follows:

	2022	2021
Premiums receivable	$ 4,835,931,193	4,589,061,423
Reinsurers current account	5,194,362	5,744,261
Current risks reserve, net	3,249,290,007	3,128,982,030
Premium surcharges	131,690,239	90,039,947
Value added tax to be accrued	662,010,044	630,556,277
Commissions to be accrued	180,381,794	175,772,817
Creditors (Use of facilities)	704,126,350	656,993,704

14 BASIS OF INVESTMENT, SCR AND MINIMUM PAID IN CAPITAL-

Quálitas México and Quálitas Salud, S. A. de C. V. (Quálitas Salud) are 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 18b).

The coverage of the aforementioned requirements is as follows:

Quálitas México

Coverage of statutory requirements

Statutory Requirements	Surplus			Coverage Index		
	Current year	Prior year (2021)	Prior year (2020)	Current year	Prior year (2021)	Prior year (2020)
Technical reserves[1]	5,542,894,546	6,382,215,833	10,132,320,739	1.15	1.19	1.32
SCR[2]	3,466,327,680	5,085,358,396	8,929,824,500	2.18	3.13	5.74
Minimum capital requirement[3]	8,798,585,031	9,036,947,075	10,228,700,753	145.26	160.55	187.59

Quálitas Salud

Coverage of statutory requirements

Statutory Requirement	Surplus	Coverage Index
	Current year	Current year
Technical reserves[1]	49,823,793	5.27
SCR[2]	22,455,183	9.23
Minimum capital requirement[3]	47,979,321	3.96

[1] Investments backing technical reserves / investment base..

[2] Eligible own funds / RCS (unaudited)..

[3] The Institution's computable capital resources according to the regulation / Minimum paid capital requirement for each authorized operation and/or line of business.

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: 0.2% 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 2022 and 2021.

The cost components of defined benefits for the year ended December 31, 2022 and 2021, are analyzed bellow:

		Seniority premium		Legal compensation		Pension plan	
		2022	2021	2022	2021	2022	2021
Current Service Cost (CSC)	$	7,259,727	7,548,699	32,094,132	22,871,066	24,376,514	27,300,560
Net interest on Defined Benefits net Liability (DBNL)		3,601,652	2,851,712	10,253,477	7,695,262	13,322,750	11,860,966
Reclassification of remeasurements of DBNL recognized in comprehensive income		1,627,338	1,945,953	4,096,154	3,073,125	(2,397,189)	(157,059)
Defined Benefit Cost	**$**	**12,488,717**	**12,346,364**	**46,443,76**	**33,639,453**	**35,302,075**	**39,004,467**
Beginning balance of DBNL remeasurements	$	21,710,093	27,053,896	19,518,655	18,329,664	(47,608,654)	(3,392,212)
Remeasurements generated in the year		15,623,365	(3,397,850)	9,229,120	4,262,116	(20,336,129)	(44,373,501)
Reclassification of remeasurements recognized in comprehensive income in the year		(1,627,338)	(1,945,953)	(4,096,154)	(3,073,125)	2,397,189	157,059
Ending balance of DBNL remeasurements	**$**	**35,706,120**	**21,710,093**	**24,651,621**	**19,518,655**	**(65,547,594)**	**(47,608,654)**

		Seniority premium		Legal compensation		Pension plan	
		2022	2021	2022	2021	2022	2021
Beginning balance of DBNL	$	45,020,651	42,247,583	146,316,597	146,898,298	166,534,375	175,718,015
Defined benefit cost		12,488,717	12,346,364	46,443,763	33,639,453	35,302,075	39,004,467
Payments charged to DBNL		(4,889,179)	(4,229,493)	(38,974,632)	(35,410,145)	(3,105,908)	(3,971,665)
Effect in comprehensive income		13,996,027	(5,343,803)	5,132,966	1,188,991	(17,938,940)	(44,216,442)
Ending balance of DBNL	**$**	**66,616,216**	**45,020,651**	**158,918,694**	**146,316,597**	**180,791,602**	**166,534,375**

The financial position of the defined benefit obligation of Quálitas México as of December 31, 2022 and 2021, is detailed as follows:

	Seniority premium		Legal compensation		Pension plan	
	2022	2021	2022	2021	2022	2021
Defined benefit obligations (DBO)	$ 81,022,414	58,635,001	158,918,694	146,316,597	247,243,892	228,672,721
Plan assets	(14,406,198)	(13,614,350)	-	-	(66,452,290)	(62,138,346)
Financial position of the obligation	**$ 66,616,216**	**45,020,651**	**158,918,694**	**146,316,597**	**180,791,602**	**166,534,375**

At December 31, 2022, the amount of the DBO and the remeasurements of the DBNL in the comprehensive income of Quálitas Salud amounts to $2,626,425 and $301,615, respectively.

	2022	2021
Nominal discount rate used in calculating the present value of obligations:		
Seniority premium	9.00%	8.00%
Legal compensation	9.00%	7.75%
Pension plan	9.00%	8.00%
Expected rate of return on plan assets:		
Seniority premium	9.00%	8.00%
Legal compensation	9.00%	8.00%
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	21 years	21 years

16 ASSETS UNDER LEASES (RIGHT-OF-USE ASSETS) AND LEASES LIABILITIES -

The Institution leases real state and office equipment. The leases typically run for a period of 2 to 10 years, with an option to renew the lease after that date. Lease payments are renegotiated each year to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Institution is restricted from entering into any sub-lease arrangements.

Leases were entered into many years ago as combined leases of land and buildings. Before, these leases were classified as operating leases.

Information about leases for which the Institution is a lessee is presented below:

Assets under leases (Right-of-use assets)

Right-of-use assets related to leased properties that do not meet the definition of investment property are made up as follows:

		Buildings	Office equipment
Balance at January 1, 2022	$	133,138,193	317,183
Depreciation charge for the year		(85,092,617)	(578,577)
Additions		97,602,379	567,432
Derecognitions		(27,200,508)	-
Balance as of December 31, 2022	**$**	**118,447,447**	**306,038**

Amounts recognized in profit or loss

Leases under FRS D-5		2022
Interest on lease liabilities	$	11,038,395

Total cash outflows for leases during 2022 were $90,192,858.

The terms and conditions of the leases as of December 31, 2022 are as follows:

Currency	Nominal interest rate	Maturity Year	Nominal value	Present value
Pesos	7.31%	2027	$ 35,392,500	29,333,984
Pesos	5.61%	2024	18,221,563	17,082,836
Pesos	5.64%	2025	9,274,277	8,301,372
Pesos	7.33%	2028	9,277,231	7,908,068
Pesos	5.59%	2027	9,179,309	7,817,987
Pesos	7.40%	2023	10,200,000	7,783,814
Pesos	5.57% - 10.41%	Various	-	126,196,618

17 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:

	2022	2021
On income statement:		
Current IT	$ 958,082,969	897,599,154
Deferred IT	(712,609,568)	88,894,370
	$ 245,473,401	**986,493,524**
On stockholders' equity – Deferred IT	$ (144,563,992)	(98,906,312)

For the years ended December 31, 2022 and 2021, the IT on a current and deferred basis in the consolidated statement of income is shown below:

	2022	2021
Current IT:		
Quálitas México	$ 865,347,017	834,043,277
Quálitas Costa Rica	23,429,749	17,810,827
Quálitas Financial	2,236,271	(6,721,958)
Other subsidiaries	67,069,932	52,467,008
	958,082,969	897,599,154
Deferred IT:		
Quálitas México	(162,229,285)	92,394,066
Quálitas Controladora	(328,375,621)	62,508,601
Quálitas Financial	(189,055,577)	(64,384,383)
Quálitas Perú	(12,712,801)	619,245
Other subsidiaries	(20,236,284)	(2,243,159)
	(712,609,568)	88,894,370
Total	**$ 245,473,401**	**986,493,524**

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:

	2022	2021
Computed "expected" tax expense	$ 736,452,552	1,429,331,269
Increase (reduction) resulting from:		
Dividends	(48,336,578)	(23,034,155)
Inflation tax effects, net	(324,266,565)	(322,125,499)
Non-deductible expenses	18,023,470	19,005,939
Reserve of unreported obligations	(143,405,474)	(105,189,532)
Other, net	7,005,996	(11,494,498)
IT expense	**$ 245,473,401**	**986,493,524**

The tax effects of temporary differences that give rise to significant portions of the deferred IT assets and liabilities, at December 31, 2022 and 2021, are as follows:

		2022	2021
Deferred assets:			
Premium surcharges	$	243,982,315	243,704,519
Agent commissions		536,932,127	299,543,640
Additional compensation to agents		137,400,000	129,645,669
Use of facilities		876,558,059	848,281,076
ESPS payable		95,223,805	107,903,647
Employee benefits		57,292,038	56,901,588
Provisions		291,759,632	327,967,629
Furniture and equipment	$	222,419,303	202,856,401
Valuation from investments		113,138,691	15,012,652
Other		726,511,286	143,712,023
Total deferred assets		3,301,217,256	2,375,528,844
Deferred liabilities:			
Salvage inventory		(211,675,767)	(174,097,797)
Valuation from property		(217,564,725)	(272,738,451)
Leases		(28,565,736)	-
ESPS deferred		(211,100,436)	(153,555,564)
Total deferred liabilities		(668,906,664)	(600,391,812)
Excess provision		(648,237)	-
Deferred tax assets, net	**$**	**2,631,662,355**	**1,775,137,032**

As of December 31, 2021, the Institution has a net deferred income taxes liability registered in deferred credits by $135,258,842 which are mainly coming from the valuation of investments and properties.

b) ESPS

For the year ended December 31, 2022 and 2021, the ESPS expense is as follows:

		2022	2021
On income statement:			
ESPS	$	331,572,762	352,680,852
Deferred ESPS		(222,213,695)	(21,254,926)
	$	**109,359,067**	**331,425,926**
On stockholders' equity: Deferred ESPS	$	27,174,491	(39,550,151)

The ESPS temporary differences that give rise to significant portions of the deferred ESPS assets and liabilities, at December 31, 2022 and 2021 are as follows:

		2022	2021
Deferred assets:			
Premium surcharges	$	79,920,765	79,664,621
Agent commissions		175,881,707	-
Additional compensation to agents		45,007,824	-
Use of facilities		287,132,247	277,294,778
Employee benefits		39,929,852	35,095,419
Provisions		95,855,210	107,447,275
Furniture and equipment		72,857,415	66,311,771
Valuation from investments		37,060,599	54,027,636
Other		6,626,036	14,556,018
Total deferred assets		840,271,655	634,397,518
Deferred liabilities:			
Salvage inventory		(69,338,178)	(56,910,865)
Valuation from property		(71,267,211)	(66,002,325)
Leases		(9,357,217)	-
Total deferred liabilities		(149,962,606)	(122,913,190)
Deferred tax assets, net	$	**690,309,049**	**511,484,328**

Derived from the changes in the determination of the ESPS caused by the decree published on April 23, 2021 by the Federal Government, at December 31, 2022 and 2021, the Institution determined the deferred ESPS applying to the temporary differences of the deferred ESPS, a proportional rate of ESPS caused of 9.83% and 9.81%, respectively, which in turn is the result of dividing the ESPS equivalent to the three months of salary of the employees or the average of the last three years of ESPS paid by the ESPS caused determined following the procedure established in the Federal Labor Law.

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.

Since 2019 through 2021, the Institution applied 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.

18 STOCKHOLDER´S EQUITY-

The main characteristics of stockholders' equity are described below:

a) Structure of capital stock-

At December 31, 2022 and 2021, capital stock is represented by 400,000,000 and 406,000,000, 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 2022, there are 393,932,058 outstanding shares (397,326,124 at December 31, 2021).

During 2022 and 2021, the Institution buy and sold 3,394,066 and 21,673, respectively, of its own shares for $15,548,091 and $129,310, respectively, which corresponds to their nominal value.

At the Stockholders' Meeting on April 26, 2022, a resolution was passed to increase the share repurchase reserve by $1,000,000,000, as of that date the Institution had increased this reserve during year 2022 by $634,349,160.

At the Stockholders' Meeting on April 26, 2022, a resolution was passed to reduce the variable portion of capital stock by $35,798,506 through the cancellation of 6,000,000 nominal common shares without nominal value expression and that were repurchased by the Institution, the share repurchase reserve at that date was of $634,349,160.

At the Stockholders' Meeting on April 28, 2021, a resolution was passed to increase the share repurchase reserve by $1,200,000,000, as of that date the Institution had increased this reserve during year 2021 by $1,187,793,815.

At the Stockholders' Meeting on April 28, 2021, a resolution was passed to reduce the variable portion of capital stock by $41,764,923 through the cancellation of 7,000,000 nominal common shares without nominal value expression and that were repurchased by the Institution, the share repurchase reserve at that date was of $699,325,699.

At December 31, 2022 and 2021, structure of capital stock is comprised of the following:

2022

		Nominal	Revaluation	Total
Capital stock	$	2,229,355,094	121,008,075	2,350,363,169
Statutory reserve		1,831,907,099	9,773,645	1,841,680,744
Valuation surplus, net		-	223,414,511	223,414,511
Foreign currency translation		100,698,828	-	100,698,828
Retained earnings		12,867,396,946	(93,988,946)	12,773,408,000
Net income		2,205,421,156	-	2,205,421,156
Remeasurement of employee benefits		3,756,580	-	3,756,580
Non-controlling interest		20,442,456	-	20,442,456
Stockholder's equity	**$**	**19,258,978,159**	**260,207,285**	**19,519,185,444**

2021

		Nominal	Revaluation	Total
Capital stock	$	2,249,605,509	121,008,075	2,370,613,584
Statutory reserve		1,702,401,670	9,773,645	1,712,175,315
Valuation surplus, net		-	331,132,806	331,132,806
Foreign currency translation		167,066,223	-	167,066,223
Retained earnings		12,099,964,098	(93,988,946)	12,005,975,152
Net income		3,774,524,717	-	3,774,524,717
Remeasurement of employee benefits		4,383,802	-	4,383,802
Non-controlling interest		12,835,531	-	12,835,531
Stockholder's equity	**$**	**20,010,781,550**	**367,925,580**	**20,378,707,130**

At December 31, 2022 and 2021, Paid-in capital includes the amount of $11,545,094, 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.

(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, 2022, Quálitas México had the minimum capital requirement amounting to $60,570,796, 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 7.108233 Mexican pesos per UDI which was the value as of December 31, 2021.

At December 31, 2022, Quálitas Salud had the minimum capital requirement amounting to $12,114,156, equivalent to 1,704,243 investment units UDIs, valued at 7.108233 Mexican pesos per UDI which was the value as of December 31, 2021.

At December 31, 2021, Quálitas México had the minimum capital requirement amounting to $56,287,725, equivalent to 8,521,217 investment units UDIs, valued at 6.605597 Mexican pesos per UDI which was the value as of December 31, 2020.

(c) CI-

At December 31, 2022 and 2021 the CI is further described in the following page.

		2022	2021
Controlling net income	$	2,205,421,156	3,774,524,717
Surplus on property valuation		122,593,716	100,123,164
Deferred IT and ESPS on surplus property valuation		(33,154,611)	(36,347,082)
Surplus on investment valuation		(264,518,946)	(442,129,108)
Deferred IT and ESPS on surplus investment valuation		67,361,546	187,319,405
Employee benefits effect		(776,012)	48,371,254
Deferred IT and ESPS of employee benefits		148,790	(12,515,860)
Foreign currency translation adjustment on foreign operations		(66,367,395)	27,448,037
Non-controlling interest		7,606,925	3,411,051
Consolidated net income	**$**	**2,038,315,169**	**3,650,205,578**

(d) Dividends-

At the Regular General Stockholders' Meeting held on April 26, 2022, a resolution was passed to declare a dividend by the amount of $2,639,000,000, $6.50 per share, which were paid in cash through electronic transfer.

At the Regular General Stockholders' Meeting held on April 28, 2021, a resolution was passed to declare a dividend by the amount of $1,652,000,000, $4 per share, which were paid in cash through electronic transfer.

(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, 2022, 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%.

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.

2022

		Written premium	Premium Ceded	Current risks reserve	Earned retained premiums
Line of business:					
Fleets, financial institutions and other	$	23,262,134,705	(195,622,598)	879,955,565	22,186,556,542
Individual		15,351,319,156	-	580,706,753	14,770,612,403
Foreign		3,422,272,923	(382,587,397)	27,934,867	3,011,750,659
Total consolidated	**$**	**42,035,726,784**	**(578,209,995)**	**1,488,597,185**	**39,968,919,604**

2021

		Written premium	Premium Ceded	Current risks reserve	Earned retained premiums
Line of business:					
Fleets, financial institutions and other	$	21,594,031,884	(91,768,754)	995,894,710	20,506,368,420
Individual		13,391,060,333	-	617,582,034	12,773,478,299
Foreign		3,239,193,380	(209,612,046)	242,149,268	2,787,432,066
Total consolidated	**$**	**38,224,285,597**	**(301,380,800)**	**1,855,626,012**	**36,067,278,785**

		2022	2021
Premium receivable:			
Fleets, financial and other	$	20,468,249,964	19,188,768,262
Individual		4,936,434,077	4,516,383,269
Foreign		705,852,840	653,469,430
Total consolidated	$	**26,110,536,881**	**24,358,620,961**

b) General information by geographical area.

		2022	2021
Written premium:			
Mexico	$	38,613,453,861	34,985,092,217
United State of America		2,088,155,998	2,139,169,806
Central America and Peru		1,334,116,925	1,100,023,574
Total consolidated	$	**42,035,726,784**	**38,224,285,597**

		2022	2021
Premium receivable:			
Mexico	$	25,404,684,042	23,705,151,530
United State of America		80,670,587	134,715,964
Central America and Peru		625,182,252	518,753,467
Total consolidated	$	**26,110,536,881**	**24,358,620,961**

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.

21 GROUP ENTITIES-

Investment in subsidiaries -

At December 31, 2022 and 2021, the subsidiaries are shown as follows:

	Ownership 2022	Ownership 2021	Principal activity and location
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.
Quálitas 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.
Quálitas Perú	99.99%	99.99%	Practicing insurance, coinsurance and reinsurance as a property and casualty insurers in the automobile line of insurance in Peru.
Qualitas Financial	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%	Acquisition, sale and installation of automobile glass.
Logiflekk, S. A. de C. V. (Logiflekk, before 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%	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. (Optimización de Talento)	98.00%	98.00%	Advisory and training services for investment planning and business management.
Quálitas Salud	99.99%	-	Practicing insurance, coinsurance and reinsurance as an accidents insurers in the personal accidents, medical expenses and health line of insurance in Mexico.
Quálitas Servicios, S. A. S.	99.99%	-	Invest and/or acquire shares and shares of other companies

During september 2021, a merger was carried out between Logiflekk in its capacity as merger entity and Cristacil and Easy Car Glass as merged entity.

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, 2022 and 2021, the investment in subsidiaries corresponding to the non-controlling interest and its equity in income for the year then ended are shown below:

December 31, 2022

		Non-controlling interest in stockholders' equity	Non-controlling interest in comprehensive income
Autos y salvamentos	$	20,263,432	3,879,433
Optimización de Talento		158,090	63,380
Other		20,934	4,471
	$	**20,442,456**	**3,947,284**

December 31, 2021

		Non-controlling interest in stockholders' equity	Non-controlling interest in comprehensive income
Autos y salvamentos	$	12,125,073	3,311,202
Optimización de Talento		694,710	102,922
Other		15,748	5,199
	$	**12,835,531**	**3,419,323**

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.

(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.

(e) The tax authorities are conducting a direct examination of certain Quálitas México operations. At February 27, 2023, this examination is still in progress. Management of the Institution and their legal counsel do not anticipate that this examination will result in significant additional assessments.

23 CONTINGENT COMMISSIONS-

During the years 2022 and 2021, 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 $1,027,421,308 and $761,708,995 accounting for 2.66% and 2.37%, respectively of the written premium in 2022 and 2021.

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.

24 RECENTLY ISSUED FINANCIAL REPORTING STANDARDS-

The CINIF has issued the FRS listed below:

FRS B-14 "Earnings per share"- This FRS becomes effective for periods starting as of January 1, 2023 with early application allowed. Provide details for the determination of earnings per share. Management estimates that the adoption of this new FRS shall have no significant effects.

Deferral in the application of Financial Reporting Standards

On November 28, 2022, Modifying Circular 12/22 was published in the Official Gazette of the Federation, which establishes that FRS D-1 "Revenues from contracts with clients" and D-2 "Costs from contracts with clients", issued by the CINIF, will enter into force on January 1st. 2024.

2023 FRS Revisions

In December 2022, CINIF issued a document called "2023 FRS Revisions" containing precise modifications to some of the existing FRS. This revision made to the FRS result in accounting changes in the annual financial statements, which are shown below:

FRS B-15 Conversion of foreign currencies- This FRS revision becomes effective for the years that start from the 1st. January 2023, allowing its early application. Any change that it generates must be recognized in accordance with FRS B-1 Accounting changes and correction of errors. It makes modifications to the practical solution of the FRS that allows the preparation of financial statements without the effects of conversion to functional currency. This revision specifies which entities and in which cases this option can be exercised, establishing that an entity that does not have subsidiaries or controllers or that is a subsidiary, associate or joint venture, can prepare its financial statements without converting to functional currency, provided that they are financial statements exclusively for tax and legal purposes and do not have users who require the preparation of financial statements considering the effects of translation to functional currency.

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