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AM Best Affirms Credit Ratings of Quálitas Compañía de Seguros S.A.B. de C.V.

MEXICO CITY, May 23, 2019—AM Best has affirmed the Financial Strength Rating of B+ (Good), the Long-Term Issuer Credit Rating of “bbb-” and the Mexico National Scale Rating of “aa-.MX” of Quálitas Compañía de Seguros S.A.B. de C.V. (Quálitas) (Mexico City, Mexico). The outlook of these Credit Ratings (rating) is stable.

The ratings reflect Quálitas’ balance sheet strength, which AM Best categorizes as adequate, as well as its strong operating performance, neutral business profile and appropriate enterprise risk management.

Quálitas’ balance sheet strength is underpinned by risk-adjusted capitalization being at the strong level, as measured by Best’s Capital Adequacy Ratio (BCAR), sustained premium sufficiency and profitability metrics, the company’s consistent leading position in the auto insurance segment and its strong distribution network. Partially offsetting these positive rating factors are the company’s concentration in one business line and elevated underwriting leverage, which has shown improvement.

Quálitas has established a strong distribution capability across Mexico through its network of local agents, financial institutions and service offices. This has enabled the company to maintain its leading market position in Mexico’s auto insurance segment and achieve a 29.9% market share amid challenging competitive conditions.

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Quálitas' capital base has strengthened over time as a result of its sound underwriting performance, reflected in the 18.8% compound annual growth rate of its capital over the past five years. In 2017 and 2018, Quálitas managed to sustain profitability through underwriting backed by investment results, enabling the company to generate a return on equity of 35.4%, despite adverse market conditions driven by the auto sales slowdown, increased burglary rates and weather-related events.

Historically, the company has operated with higher than expected underwriting leverage for an auto insurance provider. However, by the end of 2018, the company's underwriting leverage, as measured by the ratio of net premiums written to capital, decreased from 5.1 to 4.5 times, mainly driven by increased reinvestment of earnings and premium growth in line with the market pace. AM Best expects Quálitas' dividend policy and growth targets to continue supporting current underwriting leverage trends.

Key rating drivers that could lead to positive rating actions for Quálitas include a sustained market-leading position along with continued favorable trends in risk-adjusted capitalization supported by positive technical results and an adequate reinvestment of profits. Key factors that could lead to negative rating actions include a sharp deterioration in its risk-adjusted capitalization to levels no longer supportive of the current ratings, whether derived from a substantial decline in profitability, aggressive dividend policy or strong growth in premiums without an appropriate capital support.

The methodology used in determining these ratings is Best's Credit Rating Methodology, which provides a comprehensive explanation of AM Best's rating process and contains the different rating criteria employed in the rating process. Best's Credit Rating Methodology can be found at www.ambest.com/ratings/methodology.

Key insurance criteria reports utilized:

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- AM Best's Ratings On a National Scale (Version Oct. 13, 2017)
- Available Capital & Holding Company Analysis (Oct. 13, 2017)
- Catastrophe Analysis in A.M. Best Ratings (Version Oct. 13, 2017)
- Evaluating Country Risk (Version Oct. 13, 2017)
- Understanding Universal BCAR (Version May 14, 2018)

View a general description of the [policies and procedures](#) used to determine credit ratings. For information on the meaning of ratings, structure, voting and the committee process for determining the ratings and monitoring activities, please refer to [Understanding Best's Credit Ratings](#).

- Previous Rating Date: May 16, 2018
- Date Range of Financial Data Used: Dec. 31, 2013 - March 31, 2018

This press release relates to rating(s) that have been published on AM Best's website. For additional rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best's [Recent Rating Activity](#) web page.

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