First quarter 2021

Good morning, everyone and thank you for joining us in our first quarter 2021 earnings call. Joining us from Qualitas senior management, are Jose Antonio Correa our CEO and Bernardo Risoul our CFO, to provide an overview of the market and environment landscape, Qualitas´ performance and financials, an update on our strategy and the traditional Q&A session.

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And with that, I will turn the call to Jose Antonio Correa, our CEO.

Thank you Santiago. Good morning everyone and thank you for joining us today. I hope everyone of you and your families are remaining safe and healthy.

It´s been over a year since the Pandemic was declared in Mexico, it has been a tough journey for us all, and as I´ve said before, I recognize the commitment and great work of our people to provide uninterrupted best in class service to our agents and policy holders. The strong results, including record market share and profitability in 2020, speak to the agility and flexibility to adapt and our resilience to overcome unexpected situations.

While we are optimistic, we need to acknowledge we are still living times of uncertainties in Mexico and the other countries in which we operate, with a GDP recovery in Mexico that is expected to be in the 4-5% range for the year, but is yet to be seen and, most importantly, reflected in employment, disposable income, spending and consumer confidence.

Specifically, for our industry, the positive trend growth over the past decade was halted last year; based on AMIS data, car insurance premiums were down 8% in pesos during 2020, behind both market contraction and decrease on premiums cost. This trend, while improving, continued during this first quarter of the year with new car sales down double digit. The combination of high sector profitability in 2020 along with a contracting market results in a highly competitive pricing environment across all sectors.

On this front we are being aggressive defending our market position but disciplined, Qualitas has always seek to be the best value proposition for our agents and policy holders, which means being competitive but not necessarily the cheapest. We have decreased tariffs since last March behind the reduction of claims due to the pandemic; claims, however are expected to increase as we continue to see mobility and claims going back to historic averages. We are being agile and diligent seeking to renew our existing base of customers but ensuring any price decision weights technical data and mid-long term implications.

Before Bernardo walks you through our financials specifics, let me share that, in this challenging environment, I am pleased to see our first quarter results within the expected ranges, reiterating that 2020 is an atypical high comparable base. Our results reflect the strength of our business model and our capacity to create value despite the environment and market conditions.

Our financial strength and excess capital allowed us to propose a $1.6 billion pesos' dividend payment, $4 pesos per share, and a $1.2 billion pesos share buyback fund. Together we are returning close to $3 billion pesos to our shareholders, equivalent to a yield of over 6%. The latter took into consideration the recommendation from the Insurance Regulator in Mexico to banks and financial institutions, of not distributing dividends nor establishing share buyback programs during 2020 and 2021 to secure solvency during these times. We believe our proposals seeks to maintain attractive returns to our shareholders while at the same time being prudent.

Moving forward, we recognize the need to evolve and adapt to new market and environment conditions, and we will do so, but always maintaining our DNA and business model which has been a key element of our success. We will also stay the course on our three-pillar strategy defined since last year which focuses on 1) maintaining our indisputable leadership in the market 2) accelerating existing businesses through technological and product innovations and 3) exploring new engines of growth for the holding company.

We have mentioned our intent to start operations in the Health and Medical business line during this year subject to the pending approval from the regulator. This has taken us more time than we would have liked (COVID related), but we are getting closer and expect to provide specifics of this major step for Qualitas during the second half of the year.

We are also assessing new markets entry and potential M&A opportunities that could contribute to the mid-long-term growth of Qualitas. We do not have a specific timeline as it will also depend on when the right opportunities come, but having the funds available provides flexibility. We are allocating time and resources to this, and for the first time in our history, being intentional and structured about it and allocating capital for it.

I am confident about our ability to continue strengthening and growing our business while providing a strong ROE to our investors. We are making the right decisions for the mid-long term by staying true to our principles. Once again, we have proven Qualitas business model resilience and our ability to create value, while continuing playing to our strengths and excelling in service which is a never-ending journey.

Finally, to highlight that we continue adopting actions on ESG matters, such as reducing our greenhouse emissions, strengthening our corporate governance and improving the lives of people in the communities in which we operate, while creating value to all of our stakeholders. I would like to share some of these actions in future communications.

And with that let me pass it over to Bernardo, for further details regarding the financials results.

Thank you, Jose Antonio and good morning everyone.

Before I get into the results specifics, let me share that as of this quarter consolidated figures will now reflect our non-insurance businesses sales and costs in the operating and loss costs consistent to the nature of our insurance business and in compliance of accounting norms. For comparable purposes, adjustments have also been made on prior period and there is no effect on profit.

Having said that, and in the midst of what is still a challenging environment, we closed our first quarter in line with our expected ranges. Starting off with our top line, and expanding on what Jose Antonio mentioned, Mexican new car sales partially recovered in March, increasing 9% versus same month 2020, but still 12.7% below year ago in cumulative terms. We anticipate a sequential recovery, especially in the second quarter due to a low comparable base projecting that by year end new car sales return to positive territory.

Going fully into our results **written Premiums** closed at $9.7 billion, which represents a 1.2% increase versus first quarter of 2020. This top line performance was strong, considering macroeconomic and competitive environment, the industry contraction, as well as last year high comparable base pre-COVID-19. For reference, this is our highest ever 1st quarter in terms of written premiums and our total number of insured vehicles are at part of our record quarter which happens to be JFM 2020.

Our **traditional segment**, driven by our network of more than 16 thousand agents, was up 1.2% and financial institutions channel was down 3.6%, consistent to the trend of new car sales. We continued to support our clients with discounts in renewals and interest free payment; we have just announced the expansion of some of these benefits through the balance of the year.

In line with our strategy, international subsidiaries posted an accelerated growth of 25.6% versus same period year ago and now represent 7.6% of the Company. Within international markets, US and Peru led the growth: the US “borderless” product, which provides coverage on both sides of the border, growing 45%; Peru grew 46% and has moved from 0.9% to over 3% market share in less than 2 years of operation; Costa Rica market share surpassed 10% for the first time in our history. We are encouraged by these results as well as the engagement from agents and policyholders.

Our **earned premiums** closed at $8.6 billion, which is a 9% decrease versus first quarter of 2020. This result reflects a $1 billion of premium reserves constitution related to more normalized mobility figures and the expected increase on claims.

Both written and earned premiums are expected to reflect high volatility on quarterly indexes due to comparable periods and claims erratic behavior due to the pandemic. For reference, we should expect top line growth to be strong during the 2nd quarter, but not necessarily for the full year; and we also anticipate that earned premiums will trace back written premiums, as they did this quarter, due to the composition of technical reserves behind normalization trend in our loss costs. As always, we follow technical actuarial model for reserves constitution in which we have little to no room for discretionary decisions; in those cases, or variables where we have ranges we tend to follow the more conservative approach seeking to provide stability and avoid large fluctuations.

Our portfolio is composed by 76.8% annual policies, and 23.2% multiannual policies, which compares to a 78.6% and 21.4% respectively by the end of 2020. As we have mentioned before, being more skewed towards annual policies allow us to quickly adapt to market and macroeconomic changes, being able to adjust tariffs 3 to 4 times a year.

Regarding our **loss cost** and ratio, we have reached the anticipated inflection point; according to public information from Apple, mobility trends are back to pre-pandemic levels and there has been a shift to less use of public transportation. Our **loss cost** marginally increased 2.4% versus same period year ago; number of claims is approaching historic averages and we expect this is trend to continue as we see an economic reopening and recovery.

Our **loss ratio** stood at 59.3% or 662 bps above same period year ago, but still lower to 2019 and historic averages. As we have repeatedly mentioned, 2020 was atypical and should not be considered as a reference year; therefore, for better understanding and comparability, we will be referencing prior periods as well as our on-going expected range which is 60% to 65%. When seen through those lenses, first quarter 2021 loss ratio is positive and evolving as we anticipated.

Collateral effects of the pandemic will not always be negative, in our case, we will embrace changes that came along and are benefiting our stakeholders. As an example, we keep on boosting the implementation of the express adjustment tool, which implies lower costs. By the end of first quarter 2021, 21% of our claims were attended through this tool that was basically inexistent pre-covid.

On the robberies front, according to latest available data from OCRA, during first quarter 2021 the Mexican industry continued its positive trend, and they were also down -20% for Qualitas. We also managed to recover 54% of stolen units, which represents 7 percentage points above the industry average and proves the effectiveness of our risks administration program, knowledge, and experience.

Acquisition and operational cost were in line with historic averages. **Acquisition ratio** stood at 23.2%, well aligned with our growth in terms of written premiums, as we have not yet seen a total recovery of our underwriting through financial institutions channel, which carry out higher commissions.

Moving on to the **Operating ratio,** it stood at 4.1% for the quarter, 166 bp below same period year ago. The decrease is related to the employee profit sharing account which is directly related with our net income and partially related to the accounting change in the consolidation of the non-insurance vertical subsidiaries financial information, which sales are now accounted under this item so benefited our operating costs for this quarter & comparison reasons, and will continue to have this positive impact in the future.

Overall, our **Combined ratio** stood at 86.6%, 5.8 pp above same period of last year but still 50 bp below same period 2019. The adjusted combined ratio, which meets international standards, stood at 89.8%. This combined ratio stands below our five-year average and our expected range for the year of 89-94%.

Our **underwriting result** stands at $876 million, down 51.8% year over year due the mentioned increase of technical reserves of $1 billion, and cost behavior, but in line with expected ranges and needs to deliver in our ROE commitments.

Going into our **comprehensive financial income**, for the quarter it reached $531 million, significantly above last year's base which was impacted by the collapse of equities in March 2020. The **cumulative return on investments** stands at 5.0%, 100 bp ahead of Mexico´s reference rate and within our annual goal of 100-150 bps ahead of it. As mentioned before, on an absolute basis the decrease of reference rates will be a headwind for our financial income, for which we continue to gradually rebalance our portfolio composition towards variable income and asset diversification, but always in compliance with our internal investment policies and overall conservative approach. At quarter end our investment portfolio was 85% fixed income and 15% equity, which compares to 90/10 in 2019.

Altogether, our first quarter **net income** was $1 billion pesos, down 25.4% versus a year ago but still higher than the average of the past five years. Our organizational, commercial and financial strength resulted in a 37% ROE, which as Jose Antonio mentioned, is above of both, our 20-25% objective and the industry. Important to mention is that as we move along the year, we expect our ROE to average towards our objective range, both as a result of business performance and a higher capital base.

Regarding our cumulative financial ratios; 12 months Earnings per Share stood at $15.6 pesos that compares to the $13.2 by the end of first quarter last year. Our net margin stands at 11.1% for the quarter; Price to Earnings stand at 7.2 well below other public insurance companies, and Price Book Value at 2.4.

Now, moving to capital requirements and the consolidated Solvency Margin. At the end of March, our solvency margin was 662%, $4.5 bn above where we were same period year ago. The allocation of capital considers 4 main buckets:

First, to secure business operation by complying not only with the $2.8 billion pesos of capital requirement, but also with our internal policy of having 50% buffer to manage business changes and volatility. When taking this into consideration our surplus stands at $14.6 billion.

Second, we are funding our 3 pillar business strategy to continue on the winning path. We want to stay ahead on technology and innovation, to unleash the potential of our international and non-insurance companies' growth and to seek new opportunities. The trifecta of having capital, the team and the vision is unique and makes us feel excited about what we can accomplish by flawlessly executing our strategy.

We are also giving back to shareholders. We have built a history of paying dividends and we plan to continue doing so. As mentioned before by Jose Antonio, we are proposing to our General Shareholders meeting a dividend payment and a new share buyback program of the fiscal year 2021, that represents around a 6% yield and a +130% increase in cash returns to our shareholders. We are also proposing the cancellation of 7 million shares that were previously repurchased by the Company. With this cancellation, the number of shares outstanding will be 406 million shares.

Regarding our Corporate Governance structure, we continue to strengthen it. Upon General Assembly approval, our Board of Directors will remain with the same related members as a year ago and one additional Independent Board member. In line with our ESG commitment, we will adopt new best practices, seek a diverse Board from gender, ages and backgrounds; we are taking numerous and relevant actions across Environmental and Social matters.

Finally on capital allocation, we are taking a more conservative approach, as we did last year. Volatility and uncertainty remains, competition environment is tougher and we also considered the recommendation from the Mexican Insurance and Banking regulator to not distribute dividend nor fund share repurchase program.

But going back to the short / mid-term, as we have repeatedly mentioned, we acknowledge a challenging environment will continue, so we will keep our number one priority to maintain our customers and retain our client portfolio; to do this we will continue to be close to agents and policyholders and agile while adapting products and strategies to new market dynamics.

Second, we are reinforcing and looking to enlarge our competitive advantages in the market specifically in the Fleet segment. We rely on technology as the best ally in risks prevention with devices providing information to know driving behaviors, prevent accidents and facilitate the recovery of units in case of theft. But technology and innovation are everywhere and we closely follow latest global trends in the industry to assess relevancy, feasibility and readiness for our markets, and design test pilot models to learn and then expand.

Third, we are restructuring some of our operational process through healthy initiatives looking to cut down unnecessary costs, increase the monitoring of strategic levels while increasing revenue.

Finally, we continue exploring new business opportunities. As mentioned by José Antonio on his initial remarks, while there are still a few government approvals pending for our new Medical Insurance line, we are moving forward confident that will be underwrite our first policy before year end.

To wrap it up, business continues strong, we are proud on how everyone at Qualitas has embraced this challenging pandemic period and, as committed a year ago, we are coming out stronger. Our results, customer engagements, tools and clarity on priorities is at its highest, Qualitas is well positioned to better meet and exceed the needs of our agents and policy holders. We will manage what could be a volatile short to mid-term, consistent to the strategy we have outlined, and we are confident of a bright future for us all.

And with that, acknowledging a detailed report was issue as well yesterday, I close my remarks and hand it over to the operator to take your questions.