Second quarter 2021

SANTIAGO

Good morning, everyone and thank you for joining us in our second quarter 2021 earnings call. Joining us from Qualitas senior management are Jose Antonio Correa our CEO and Bernardo Risoul our CFO, to walk you through our quarter results, what to expect for the rest of the year and an update on our strategy for the mid-term. At the end, as always, we will leave some time for Q&A´s.

Information discussed on today's call may include forward-looking statements regarding Qualitas´ results and prospects, which are subject to risks and uncertainty. Actual results may differ materially from what is discussed here today, and the company cautions you not to place undue reliance on these forward-looking statements. Qualitas undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise.

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

JOSE ANTONIO

Thank you Santiago. Good morning everyone and thank you for joining us today.

- We are happy to share our strong second quarter results, with a top line ahead of our estimates and a bottom line within the expected range. As we continue to see progress on vaccination, people back on the streets and traveling, our claims are normalizing, reaching pre-COVID levels; we are quickly adapting to ensure we continue to provide excellence in service and the best value proposition; as a result, agents and clients, reward us with their preference. All that, while delivering a healthy and sustainable profitability.
- As we have mentioned before, our results should not be compared against 2020 due to the atypical effects of the pandemic, but rather to prior years and the industry overall. On the latter, despite a declining market and a competitive environment during this first half of the year, Qualitas has come out stronger. For references, during Q1, according to the latest industry public figures, the Mexican car insurance market decreased 10% with top competitors declining high double digit while we were flat, resulting in a share gain of 3 percentage points vs same period year ago.
- Moreover, and independently of comparable years, our June number of insured units, is the highest ever, now reaching 4.4 million, which, given the challenging environment, is worth celebrating.
- As we head into the 2nd half of the year we will continue to invest and prioritize our discussed strategy; ensuring we adjust our operations accordingly to the claims increase as we are not expecting any new lockdowns that would revert the trend.

- On this pricing topic, we are gradually and tactically increasing prices in specific segments and regions. A couple weeks ago, we adjusted in ~7% our prices in some of them. We acknowledge increasing prices at a time where competition is aggressively seeking to recover growth, is challenging, but is also the responsible reaction looking for the bottom line sustainability of the business.
- To mitigate potential top line pressure, we are further differentiating ourselves, leveraging our 27 years' expertise towards a better service & technology to prevent accidents and thefts, and improve customer experience.
- We also acknowledge capital optimization remains crucial to continue in the value creation path, in which Bernardo will elaborate later on. Our capital allocation strategy during the quarter has been focused on technology; having the right data analysis is key to assess the performance of the company and to optimize future decisions. In this matter, we have upgraded most of the platforms used in our operations and automation, we relaunched our agent's website and working on different improvements for our mobile app.
- Qualitas financial strength, as seen through our capital above regulatory requirements, continues to be close to all-time highs. Let me reinforce what I have mentioned before, we are actively looking for new opportunities that will create value to Qualitas and their shareholders in the mid-long term; this is consistent with our strategy, and the combination of patience, vision and talent is key for it to be successful. I can assure you that we will not take rushed decisions that could dilute our interests. Finally, on this capital topic, over the past decade we have built a track record of providing return to shareholders via share buybacks and dividends; we plan to continue doing so.
- I am confident about our ability to continue strengthening and growing our business, making the right decisions for the mid-long term by staying true to our principles. We are a team actively pursuing ways to increase service excellence and efficiency, drive productivity, and looking to keep growing the company in a sustainable way. That has gotten us to this leadership position that we intend to maintain and widen in the future.

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

BERNARDO

Thank you, Jose Antonio and good morning everyone.

- Going directly into our financials detail, top line was outstanding with a 28.4% increase vs year ago and +10% vs 2019; cumulatively speaking we are 13% above vs same period of both 2019 & 2020.

- The top line performance has been boosted by the traditional segment, which is up 11.5% vs same period 2020. This growth was driven by intentional efforts targeting individual policy holders which are up 28%, such efforts include, among other things, interest free payment that has been extended for the balance of the year. To highlight the 66% growth as well on financial institutions following the trend of the industry recovery and compares against a low base.
- Our international operation continues to be an engine of growth, up 31% in the quarter and 23% year today. Combined, they now represent 10% of the holding company for the first time in our history. To highlight Peru reached 6% market share, well above what we had estimate when we entered the market 2 years ago and now has expanded with 2 new offices reapplying the unique commercial model that we have in Mexico.
- Our **earned premiums** grew 4.5% in the quarter but still 2.5% below YTD as a result of reserves constitution reflecting the mobility recovery and key metrics evolution. Historically we see some seasonality with Q1 & Q4 where we constitute higher reserves than 2Q & 3Q, as we are seeing this year.
- Going into our costs, starting with our **loss cost** and ratio, according to Apple, mobility trends are back to pre-pandemic levels and there has been a shift to less use of public transportation and an increase in private transportation, this is reflected on number of claims which are 60% above vs second quarter 2020 and in line with those of 2019; the number of received calls during the quarter were up 53% vs same period 2020.
- As a result of this, loss ratio stood at 64.2% for the quarter and 61.8% cumulative, on the high end of our ongoing technical range of 60-65%. Important to remember that within this ratio, since 1Q21, we include our vertical subsidiaries costs.; as these businesses continue growing they will continue impacting our loss ratio, without any correlation with the claims of our insurance business.
- As José Antonio mentioned, this expected inflection point, which happen slightly earlier than we thought at the beginning of the year, triggered the decision to increase prices, which were effective beginning in July. Being true to our pricing discipline means that increases were not broad-based but calculated based on our three-vector model.
- The composition of our claims cost has evolved over the past couple of years, with the positive trend in robberies, combination of market and our internal program focused on risk prevention and recovery. By the end of the first half of 2021 56% of our loss cost was related to material damages, 25% to civil liabilities and 13% come from robberies, the rest from medical expenses and others.
- Our acquisition and operational cost were in line with historic averages. **Acquisition ratio** stood at 23.7%, well aligned with our growth in terms of written premiums, and **Operating ratio,** stood at 4.5% for the quarter, 567 bp below same period year ago.
- Overall, our **Combined ratio** stood at 92.4% and while is almost 15 pp above same period of last year and 3.9 pp above same period 2019, it is still in line with past 5 years' average and most

importantly, within the business on going target of 90-94%. The adjusted combined ratio, which meets international standards, stood at 92%.

- The **cumulative return on investments** stands $504 million pesos for the quarter or 5.9%; for the first half of the year our ROI stands at 5.5%, which is 125 bps ahead of ahead of Mexico´s reference rate and within our annual goal of 100-150 bps ahead of it. As we had indicated, in the low interest rate environment, we have diversified our portfolio and while still a conservative one with most of it on fixed income, we close the quarter with 15% equity, which compares to 10% in 2019.
- Further expanding on the portfolio management which now stands at $34 bn pesos we are expecting to see rates downward trend to revert, with sequential increases as quarter of a point we saw in late June to 4.25%, still very low relative to the 8.25% of 2019. This is a key component on our ability to deliver on profit and ROE expectations, thus we are thoroughly looking on how to maximize its return.
- Altogether, our second quarter **net income** was $976 million pesos. As mentioned before, to assess bottom line performance we should not compare against 2020, but rather prior years, which would leave this quarter above past 3Yr performance. For reference, YTD net income of $2,050 million is 18% down vs a strong year such as 2019, but when excluding positive one timers of $200 million we had back then and decrease of interest rates from 8% to 4%, we would be slightly above.
- Our organizational, commercial, and financial strength resulted in a 12month ROE of 29.1% important to note that, as we continue to see claims rate back to pre-covid and consider our high base of capital, we should expect ROE to soften in the next quarters towards the low end of our long-term target of 20-25%; this will still be attractive and ahead of peers and industry.
- Regarding our cumulative financial ratios, 12 months Earnings per Share stands at $12.7 pesos which compares to the $15.8 by the end of June 2020. This EPS is 46% higher than 2T19' EPS, reflecting the recent 7 million shares cancellation as well, which is still under process. Our net margin stands at 10.8% for the quarter; Price to Earnings stand at 7.3 well below other public insurance companies, and Price Book Value at 2.0
- Additionally, Qualitas currently holds the 20th position in the marketability index, a new record position for the company and in line with our strategy to be more liquid to be attractive to the market.

SOLVENCY MARGIN

- Now, moving to capital requirements and the consolidated Solvency Margin. At the end of June, our solvency margin was 625%, with $15,450 million above capital requirement and buffer, from which we will fund the approved share repurchase program and fund business strategic projects, expansions, and potential M&As.

- Our mentioned Health expansion, which will be done under a test and learn approach, we continue to move forward with the permits and approvals, and while this has taken longer than we initially thought, we should start operations late this year or beginning of next one. More news will come in the next months.
- Capital allocation will continue to be a priority, José Antonio already eluded to this in his opening remarks, we are committed to maximizing its use for our shareholders in which dividend will continue to play a key role. Let me touch of two areas that are usually of common interest: first, on M&A, where we have called out our interest of seeking accretive value opportunities in Mexico or Latin America but finding the right ones may take time and it will unlikely materialize in the short term, the timeline we are working against is 18 to 24 months.

  And second, on dividends; Qualitas has consistently distributed dividend over the past 6 years, we are now part of the S&P/BMV Dividend index and want to continue building a track record year on year; on this front and to further increase visibility and transparency we are revisiting our dividend policy, which we expect to share in the next quarter.
- We are committed to creating value and we know we can do it. To illustrate, let me go back to 2019 when we acquired 100% of the equity of Cristafácil, Outlet de Refacciones and Easy Car Glass, up to then, we were partial owners of these non-performing businesses which had negative track record. By fully owning them and establishing a new management, we invested and redefined priorities with an incredible turnaround. They have now consolidated themselves as a competitive advantage for Qualitas and an engine of profitable growth with a year-to-date stellar performance, reaching $590 million in sales and over $40 million pesos of profit in this first half of the year. Their future is bright, they will soon migrate into a single business line called FLEKK, will start operations on a new ecofriendly warehouse which will further expand their model with new business lines and under a more efficient operation.

ESG strategy

- Before we open up the line for questions, let me share some news on ESG and our commitment on this front. During this quarter we launched a campaign called "*Juntos cambiando vidas*", in which, for the first time, we amplified Qualitas corporate efforts by inviting employees, agents and business partners in selected projects towards children health, education and agricultural communities. We surpassed our goals, having over 1,000 participants and over $3 million pesos in donations.
- In addition, Qualitas Mexico was certified by the Mexican authorities in labor equality and no discrimination, ratifying our commitment towards a corporate culture of diversity and equal opportunities. Finally, we obtained the ISO 9001:2015 international certification in the process of remote vehicle' valuation. We are the first Mexican insurance company to receive this certificate.
- We believe this type of initiatives inspire individuals to engage, empower, and embrace a leadership mindset that directly contributes to improving the lives of the people in the

communities in which we operate and the success of our organization. All of these efforts made us part of the S&P/BMV Total Mexico ESG index sample for the second year in a row.

In summary, we feel very good on the results we are sharing today, we celebrate new watermarks in number of insured units, profitability is healthy despite navigating through the expected claim normalization, our capital position is strong and our focus towards executing against our strategy is sharp. We know we have a challenging 2nd half, but we are well set and see a great future ahead.

And with that, acknowledging a detailed report is available as of yesterday with all specific figures, I hand it over to the operator to take your questions.