Third quarter 2021

Good morning and thank you for joining Qualitas third quarter 2021 earnings call. I'm Santiago Monroy Quálitas IRO and joining us today are our CEO, Jose Antonio Correa and our CFO and International CEO, Bernardo Risoul.

As a reminder, 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 because of new information, future events, or otherwise.

Let's turn it over to Jose Antonio, our CEO for his quarter' remarks.

- Thank you, Santiago. Good morning everyone, great to be with you all again. Before moving into the financials, let me share an update regarding COVID-19. We are encouraged by the latest stats in Mexico showing a continued decline in hospitalization and COVID-19 cases, and an increase in the vaccination process. So far, around 51% of the Mexican adult population has received at least one dose, which are positive news for the economic recovery and for the future growth of our underwriting business. The percentage of vaccination in Qualitas organization is close to 75%, which makes us happy, we now see more people back in the office and we have restarted face to face meetings with our agents.
- Now, moving into the business, we shared our third quarter results which came in within the expected ranges. We are seeing a challenged top line behind a soft market recovery and more aggressive competition, and a bottom line that reflects the anticipated increase on claims due to both, mobility being back to pre-covid levels and seasonal effects. Being true to our DNA has allowed us to come out stronger of this pandemic, with more insured units than ever, a record market share, a more diversified portfolio, and a stronger pipeline for the future, while delivering on the sustainable profitability. I feel proud of Qualitas´ performance, proving once again our resilience and capability of creating value to all our stakeholders, despite the circumstances.
- When looking at the results, I would like to notice once again, that this year performance should not be compared against 2020 due to the many times mentioned atypical effects of the pandemic, but rather to prior years and the industry overall.
- Let me touch on the Mexican market landscape, which still represents 91.7% of our business and where the car industry has seen a slower than expected recovery and where we are not exempted from the supply chain global crisis. Until September, new car sales were up 14% when compared to same period of 2020, but still 21% down vs same period 2019; Mexico's car production fell 33% in September, which we believe will continue to become a headwind in new car sales stabilization impacting the balance of the year as well and likely early 2022.

- The above-mentioned new car sales situation, combined with what is a partial economic recovery, has taken a toll on the Auto insurance Market. According to the latest industry public figures, during the first half of the year, Mexican car insurance market increased 3.3%; Qualitas outperformed once again with a 11.4% growth during the same period.
- Our capability of retaining our agents and clients, being their number one option despite previous facts, has translated to achieving a new record high regarding insured units reaching 4.5 million, which means more than 325 thousand units versus end of last year.
- During the past 15 years, service and discipline has allowed us to maintain our leadership. By the end of the first half of the year and for the first time in our history we reached a 32% of market share in Mexico. As mentioned in our last call, we continue to keep our pricing discipline and thoroughness, and started adjusting prices back in July acknowledging this would put even more pressure on a highly competitive market but recognizing that is the right thing to do for the sustainability of the business.
- Consistent to our strategy, we are focused on excelling day by day, while seeding the projects that will deliver the sustainability of the business in the mid-long term. Now more than ever, we will widen our competitive advantages, strengthening our vertical integration, strive for exceeding in all service related matters, and increase ways to innovate regarding the needs and expectations of our policyholders.

Now, I will ask Bernardo to walk you through our financial details and after his remarks, we would be glad to take your specific questions.

Thank you, Jose Antonio and good morning everyone. As we anticipated, this was a challenging quarter, but one in which we delivered solid results taking the year on route to achieve what we set as a goal back in January: performance ahead of the industry, indexes within the sustainable ranges and establishing projects for the mid / long term.

- Going into our financials, we posted a positive top line for the quarter growing 2.7% vs year ago and up 9.3% & 9.5% cumulative speaking vs 2020 & 2019 respectively. In a contracting environment, these growth rates are remarkable.
- The top line performance was driven by the traditional segment, which is up 6.1% vs same period 2020 and up 7.8% vs. 2019. Top line was also helped by the mentioned increase in insured units which were supported by several efforts, including interest free payments and our unique network of 18 thousand agents around the country.
- As Jose Antonio eluded before, we have and should continue to expect some pressure on the top line growth as we have priced in line with the needs and loss ratio increase, but ahead of the balance of the market. The new car sales environment will be a headwind as well for the whole industry, although relative to 2018 and before, our exposure to that line of business has reduced significantly representing ~38% by the end of 2018 of our total underwriting to ~32% this first nine months of the year.

- Our international subsidiaries continue to be an engine of growth for the year up +18.5% vs 2020 in pesos and 28.6% in dollars. Although third quarter premiums in pesos were just north of last year, they are still growing +10.5% in local currencies for the quarter. The softer growth was also driven by our decision to pace down our US business which was growing above 50% and where we were seeing higher than expected loss ratios.
- So, on this front, we have adjusted our game plan to better balance top and bottom-line growth. We have made changes to our underwriting process and claims management, especially in Texas.
- Just to close on the international market, number of insured units was up 10% vs the end of 2020 and continues the path of growing quarter after quarter. We are expanding faster our tools developed in Mexico and staying on course despite macro & political volatility.
- Our **earned premiums** decreased 0.2% in the quarter and are still 1.8% below YTD as a result of the needed reserves build up. Just as a reminder during the 9M 2020 we released over $1.9 billion of reserves, and in the 9M21 we have constituted $515 million. Historically we experience some seasonality constituting higher reserves during Q1 & Q4 than 2Q & 3Q, as we have seen during this year.
- Expanding on our **loss cost** and ratio, mobility trends are at higher levels than pre-pandemic. To illustrate, during this third quarter we received 45% more number of calls in our call center than 3Q20 and 20% more than 3Q19; furthermore, September just became the month with most received calls.
- Additionally, this rainy season has been heavier than previous years, with frequent floods across the nation that have impacted our claims ratio as well. As a reference, according to the Mexican National Meteorological Service, during this quarter, rainfall was 8.6% above past 3 years average.
- As a result of the above, our loss ratio stood at 66.1% for the quarter and 63.3% for the nine months. Important to remember that within this ratio and since 1Q21, due the consolidation guidelines, our vertical subsidiaries costs impact our loss costs and hence our loss ratio. When excluding it, YTD loss ratio stands at 62.6% which is in the mid-point of our ongoing technical range target of 60-65%.
- Our acquisition and operational cost were in line with historic averages. **Acquisition ratio** stood at 23.8%, aligned with our growth in terms of written premiums and includes a one timer ~$80 million; **Operating ratio,** stood at 4.8% for the quarter, 208 bp below same period year ago due to the decrease in the employee profit sharing account.
- Overall, our **Combined ratio** stood at 94.7% for the quarter and 91.3% YTD; while this is significantly ahead of last year, as we have been mentioning and was once again called out by Jose Antonio, we rather compare against the ongoing target of 90-94%. The adjusted combined ratio, which meets international standards, stood at 91.8% during these 9 months of the year.
- Our **financial income** stands $534 million for the quarter and at $1,653 for the first nine months of the year. Quarterly and cumulative ROI stands at 5.4%. During September, Banxico increased the interest rate by 25 basis points taking it to 4.75%; the move marked the third consecutive hike, confirming the anticipated inflection point on interest rate, but still far from the 9M2019 CETES rate average of 8.0%. Considering our portfolio is heavily skewed towards fixed income, it is fair to

expect higher absolute returns as we continue to see increase on interest rates worldwide. Additionally, during this quarter we took profits from some positions of the equity portfolio, which have resulted in a decrease of our equity position from the 15% at the end of last quarter to 13% this quarter. We expect to stay within this range and will continue to assess sector and stock that fit within our strategy.

- Altogether, our third quarter **net income** stood at $920 million, short of past two years, but well ahead of priors. Cumulatively speaking, net income stands at $2,970 million.
- As for our 12-month ROE, by the end of September stands at 23.7%. As we have been discussing over the past interactions, as we see claims and combined ratios back to ongoing levels, and acknowledging our high base of capital, we should expect ROE to sequentially soften, with chances of having a few quarters below the low end of our 20-25% long term target.
- Let me just ensure we get the full ROE picture; given the outstanding business results of the past 2 years, and mainly 2020, plus the discipline on the use of capital, we stand in an unprecedented and favorable position of liquidity and solvency, which plays against when looking at the ROE in the short term. As a reference if we were to exclude the atypical benefit of 2020, our ROE would be above our long-term target. When seen this way our business is very healthy on this front as well.
- Regarding our cumulative financial ratios, 12 months Earnings per Share stands at $10.9 pesos which compares to the $16.6 by the end of September last year. This EPS is 3.6% higher than 3Q19' EPS. Our net margin stands at 10.4% for the quarter; Price to Earnings stand at 8.7 well below other public insurance companies, and Price Book Value at 2.0
- Additionally, Qualitas now ranks 18th in the Mexican marketability index, trading over $5 million dollars per day, a new record high for the company which demonstrates our efforts and commitment to be more liquid and attractive for shareholders and the market overall. We will continue to be active in terms of our share buyback program and increasing presence in investor' conferences; we have increased our efforts in the past 3 years and plan to continue doing so.

SOLVENCY MARGIN

- Now, moving to capital requirements and the consolidated Solvency Margin. At the end of September, our solvency margin was 637%, with ~$13.5 billion above capital requirement and buffer, from which we will continue to fund our share repurchase program as well as strategic projects, expansions, and potential M&As.
- Capital allocation will continue to be a priority, we are committed to maximizing its use for our shareholders in which dividend will continue to play a key role. Consistent to what we have said, we are assessing for new opportunities to create value in the mid-long term, and we have set a time frame of 18-24 months, which would take us to a mid-2023, what we believe is a reasonable timeline to avoid rushed decision, while providing a bit more clarity on what you can expect.

- And we are moving along, we have identified a potential new Latin America market, we were there a few weeks ago, we are encouraged by what we saw, but likely it would need to be done as a greenfield entry as no M&A candidates seem feasible.
- We are also moving along the technology and innovation angle, seeking to better serve our customer while differentiating from competition. We are now participating in an IBM innovation program, meeting with different Israelian startups. There are amazing things and just need to ensure they are relevant and feasible for the Mexican market.
- We are confident of Qualitas capability to continue creating and increasing value year over year; investing and giving back as well to our shareholders. On this topic, we recognized the need to revisit our dividend policy, this was committed to you last quarter and as such, it is now approved by our board. Our updated dividend policy captures the feedback from several of you and a seeks to provide more clarity. Qualitas has distributed and increased dividend over the past 6 years, and we plan to continue doing so. Our new dividend policy states that: *"Qualitas will maintain at least 1.5 times the regulatory capital requirement. Once it has complied with it, will recommend a dividend payment between 40% and 90% of the net income from previous year. The value of the previously mentioned range will depend on the underwriting results, future projects and other considerations".*

ESG strategy

- Before we open the line for questions, let me share some news on our ESG actions; now focus on the environment and specifically of our annual reforestation campaign involving more than 725 Qualitas' employees from México, Costa Rica, El Salvador and Perú participated. Given the pandemic context, we coordinated a virtual campaign where all our employees were invited to do any kind of exercise, anywhere and accumulate miles; the more miles each employee exercised, the more trees we222 planted. All together we accumulated +9,300 miles in 7 days, so almost 16,000 trees will be planted across the 4 countries who participated.
- This is a true example of our commitment as a Company, together with our employees, to take the actions needed to continue walking on the sustainability path.

So, in summary, we feel good of our performance; we celebrate new watermarks in number of insured units, profitability is healthy despite navigating through the expected normalization, our capital position is strong and our focus towards executing against our strategy is sharp.

We will be happy to answer all your questions and doubts now. Will begin with the phone ones. Operator could you open the line please?