4Q21 AND FULL YEAR 2021

Good morning and thank you for joining Qualitas fourth quarter and full year 2021 earnings call; I'm Santiago Monroy Qualitas IRO. 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 remarks.

Thank you, Santiago. Good morning, everyone, great to be with you all again. We hope you had a wonderful holiday season and that 2022 comes with health and happiness for all of you.

Results of the quarter and full year 2021 reflect a strong and consistent performance, overcoming several challenges we faced such as mobility returning to normal and even above pre pandemic levels, inflation above historical average and supply constraints that affect the car industry recovery. Qualitas results once again delivered in our commitment of creating value to policy holders, agents, and shareholders.

Let me expand a bit on the Mexican automotive industry; in terms of new car sales, it suffered the biggest year-end seasonal slump in more than two decades, due to a lack of inventory to meet seasonal demand in the face of the semiconductor crisis. This situation impacted the industry and our own fourth quarter top line, but this is not the first time we face these challenges: new cars sales in Mexico have been in a declining path for more than 4 consecutive years; that's why we have been prioritizing our underwriting through our more than 18 thousand agents' network, remaining close and thoughtful of their needs and concerns. As a result, we have posted sustained growth in number of units.

The inflationary environment has also posed some challenges and, together with mobility normalization, has increased claims cost, for which we have increased tariffs during the second half of the year for a total of +8.5%; discipline has always been part of our DNA, and while we try to stay competitive, we will adjust towards being in sustainable operating ratios.

When looking at the results, I would like to highlight once again, that this year performance should not be compared against 2020 but rather to prior years, our ongoing targets, and the industry overall.

Year end results came in within the expected ranges and in-line with the consensus estimates. As you may recall, at the beginning of the year we talked about our goals, which included to grow ahead of the market; according to the latest sector figures, which are September, we were doing so, standing at a record market share in Mexico, growing steady Internationally, while delivering as well, financial performance ahead of industry.

Before handing it over to Bernardo to discuss the specifics and 2022 expectations, let me share 3 things that I feel mostly proud for 2021 and that will continue to be an anchor to fuel future growth:

FIRST; Qualitas' service DNA and cost discipline. We are a team of 5 thousand employees that devote their work to exceed expectations and provide best in class service. Achieving strong business results during the pandemic with uninterrupted service, speaks to the commitment of each one; I thank and recognize all of them.

This is a never-ending journey, and we are constantly revisiting our end-to-end processes to identify opportunities where we can do better and be more efficient. Service and cost go hand in hand with innovation and technology, as seen in our "express adjustment" virtual tool that now attends 22% of our total claim's vs less than 3.5% in 2019.

Service also means being where clients need us to be; during 2021 we opened 9 new service offices and 22 new development offices (ODQs) expanding our network in Mexico and the countries in which we operate.

SECOND; Our strategy is working, and we will stay on course. As you recall, we have shared a simple, clear, and focused 3 pillar strategy:

Maintaining and widen our leadership in the Mexican market; investing resources to expand our competitive advantages and continue to offer new solutions and tools to the market.

Second, boost our growth potential in our international and non-insurance subsidiaries, encouraged by their potential- expansion and margins, and energized on new markets and venues.

Third, exploring new business opportunities within the insurance ecosystem, such as our health & medical operation, where we can create value while finding synergies with our core business.

LASTLY, we have embraced and are moving faster in terms of sustainability. Today we are the only Latin-American insurance company part of the Dow Jones Sustainability Mila-Pacific Alliance Index; proof of Qualitas' active **ESG** strategies such as our annual reforestation campaign, the migration to a hybrid fleet, support of dozens of organizations to help the needed, labor equality and no discrimination policies, amongst other.

In terms of corporate governance, as we remember Joaquín Brockmann on the first anniversary of his passing; we have come to live the importance of succession plan, strong processes and a corporate culture that is shared and lived beyond a few. What a better way to honor his legacy, than to live daily and strengthen our unique business model, improving and excelling in service, while assuring personal and professional development of our employees, to continue strengthening our organization.

I am confident that we have a bright future ahead, but one that will not be exempted of challenges. We acknowledge new car sales will probably take a few months to ramp up, and we will continue to face cost increases and strong competition. By being true to our business fundamentals and effectively executing our strategy, leads me to be optimistic on our ability to grow top and bottom line in 2022.

And with that, I will ask Bernardo to walk you through the financial details and after his remarks, as always, we would be glad to take your questions.

Thank you, Jose Antonio and good morning, everyone. In the challenging environment eluded before, we delivered solid results during 2021, with a performance ahead of the industry & healthy indexes within the sustainable and provided ranges:

- Diving directly into our financials, despite being slightly below year ago in the quarter, we posted a positive top line for 2021, up +6.3% vs last year and +5.7% vs 2019. With the headwinds already mentioned, these growth rates are noticeable.
- When looking at the fourth quarter premiums specifics, it is important to note that 4th quarter 2020, our comparison base, included significant 2–3-year multiannual policies writing which represented over $600 million of underwriting. When excluding this, our quarterly top line growth would have been in the mid-single digit.
- Also on the top line, José Antonio talked about new car sales performance, one that we expect to sequentially be improving throughout the next quarters. For reference, if new car sales had been at 2019 levels, our fair share of business would have represented ~$360 million adding 1 percentual point of growth during the year.
- In terms of the international operation, we saw strong performance across every single one of them, with OND being no exception, closing +34.8% in pesos and +32.4% in dollars. These subsidiaries continue to be an engine of growth for the holding company; annually speaking they now represent 8.5% of our premiums, almost twice vs 3 years ago.
- The understanding of premium performance needs to be coupled with the number of insured units, where in 2021 we posted a new watermark, up 7.5% year over year, or +312 thousand more units, reaching 4.5 million by the year end. When looking at the details, number of insured units grew across all markets and vehicle types. For perspective, growth of insured units would be equivalent to the size of a top 6 Mexico auto insurance company.
- **Earned premiums,** decreased -1.9% in 2021 driven by the constitution of $1.9 billion pesos in reserves out of which $1.3 came in in the 4th quarter. As you recall, technical models are locally regulated and incorporate growth and claim performance, which explains this increase. For reference, during 2020 we released $615 million, and by the end of 2021, we have over $37.8 billion in technical reserves.
- Expanding into our **loss cost** and ratio, it is worth to mention annual mobility trends: we have seen that annually mobility is +22% above pre-pandemic levels, which speaks to the desired recovery of

the economy, but also explained by the shift in trends as public transportation is still -27% down vs. 2019. Within that context, Qualitas' 2021 loss ratio closed at 65%. As mentioned before, due to revised consolidation accounting norms, our vertical or non-insurance subsidiaries costs impact our loss cost and hence our loss ratio. **When excluding this, 2021 loss ratio stands at 63.4%** which is in the mid-point of our 2021 technical range target of 60-65%. Our quarterly loss ratio, excluding the revised vertical accounting consolidation effect, stands at 65.9%.

- Importantly, as we continue to see growth internationally and in non-insurance businesses, we should no longer assume Qualitas Controladora loss ratio is equal to the one of Qualitas Mexico, thus we will be providing additional perspective as we are doing now.
- Our 2021 acquisition and operational cost were in line with historical averages. **Acquisition ratio** stood at 23.3% for the year, aligned with our growth in written premiums. Our **Operating ratio,** stood at 3.4% for the year, 3.2 bp below same period year ago mainly explained by the decrease of the employee profit sharing account – referred as PTU in Spanish - and by our revised vertical accounting consolidation; their sales are now accounted as revenues in the other income item within our operating expenses.
- Our 4Q operating ratio stands at 0.9% driven by 3 main factors: first, the significant decrease in the employee profit sharing provision, down -92% vs same period year ago and reflects not only the softer base but new labor reform regulation, which in our case, resulted in a lower employee profit sharing amount versus prior criteria; second, the favorable effect of the revised accounting consolidation from our non-insurance subsidiaries that implied an income of $218M for the quarter. And lastly and to a lower extent, the release of certain provisions in compliance with accounting guidelines.
- Our claim management and operation continue to rely heavily on service, both, through committed people and through technology and innovation. The only way to stay ahead is to combine them in an efficient and effective way. To illustrate how this is executed, and expanding on what Jose Antonio already mentioned, for our policyholders we also launched "Follow your crane", in Spanish "Sigue tu grúa" feature which works as a disposable link and as part of our mobile app to provide the function to follow in real-time the crane requested and improve their service experience.
- Besides, our service via Whatsapp now can be used to report simple claims, ask frequent questions, renew insurance policies, locate the nearest service office and other features.
- We also relaunched our Agent's Platform with enhanced features to manage their portfolio, TRACK claims, and an upgraded data storage with automatic statistics; striving to reinforce our long term and close relationship with them: we improve service to agents, and they as well create value to policyholders. They are key and instrumental for our business.
- All of the above resulted in a **Combined ratio** of 93.4% & 91.7% for the quarter and full year respectively; while this is significantly ahead of last year due to the reasons previously discussed, this annual ratio stands in the low end of the range provided at the beginning of last year, and according to 9 months AMIS figures, well below of our top 5 competitors and Mexican market average.

- Our **financial income** closed in $620 million for the quarter and at $2,273 million pesos for the year. Our annual ROI stands at 5.6% or 120 bps ahead of the annual average Mexican reference rate (CETES), basically at the midpoint of the target we have set for our investment portfolio. During the fourth quarter, Banxico increased the interest rate taking it from 4.75% in Q3 to 5.5%; in line with some analysts, we expect this upward trend to continue and will manage the portfolio accordingly. Our equity exposure changed from the 13% at the end of last quarter to 15% this quarter.
- Regarding the **effective tax rate**, for the 4Q21 our rate was 11.7% and 21% for the full year. This lower rate is explained by the Employee Profit Sharing (PTU) and agent bonus provisions for 2020 that were reflected in last year' P&L but paid in 2021 affecting the tax base; additionally, the local inflation adjustments and the higher technical reserves' constitution, played in favor as well for the taxable income. We are not involved in any tax planning, we are complying with 100% of regulation.
- Altogether, for the 4Q21 we posted $808 million net income, which represents a 7.6% net margin. Our 2021 **net income** stood at $3,778 million which represents a 9.9% net margin.
- As for our 12-month ROE, by the end of December stands at 19.2%, just shy of our mid-long-term objective but in line with expectations considering the high capital base; just as a reference, if we were to exclude 2020 atypical benefit because of the pandemic which is around $2.8 bn pesos, our 2021 ROE would be above 22%.
- As we have been mentioning over the past earnings calls, our capital position and solvency margin is being carefully managed to fund business needs, new growth opportunities while delivering returns to our shareholders. This unprecedented and favorable position of capital and liquidity actually plays against our short-term ROE but, when wisely invested, will provide diversification and sustainability of our business in the mid and long term, and support our commitment to continue paying dividends to shareholders, as we have done during 17 years and consecutively during the past 6 years.
- Specifics on our corporate development path, opportunities and venues will be shared as we have make progress. We have a plan in place, with the discipline and intentionality that is required. We are committed to the mentioned timeline of mid-2023.
- Going into our financial ratios, 12 months Earnings per Share stands at $9.3 pesos Price to Earnings stands at 11.2, and Price Book Value at 2.1.

SOLVENCY MARGIN

- Now, moving to capital requirements and Solvency Margin, by the end of December, our solvency margin was 565%, with ~$13.6 billion above capital requirement and buffer, from which as I just eluded, will continue to fund our share repurchase program as well as strategic projects, expansions, and potential M&As.
- Finally on the use of capital, and reiterating we do not intent to maintain these levels of solvency margin nor excess capital, let me share that corporate development ideas, including potential M&As and expansions, will not come at the expense of dividends and we plan to honor our revised

policy. On that front, management will be issuing a recommendation to the General Assembly for its meeting on late April.

With that, I believe we have covered highlights of the quarter and 2021 full year, and I would like to shift towards our expectations in the recently started 2022.

No different to last year, we stand with many uncertainties outside of our control that can affect our performance in the next quarters. Just to mention a few: new car sales time and speed of recovery, local and industry inflation, and interest rates. We are focusing on what we can control and maintaining the agility, flexibility and discipline, that has described Qualitas over the years and that will continue to be instrumental moving forward.

As such, we believe it would be unfeasible to share a detailed guidance, so we will share some overall expectations and ranges towards 2022:

- On Premiums we are expecting to grow ahead of the market with Mexico being at par and international business contributing to 1-2 pts. Growth will be contingent on the new car sales recovery as well as pricing environment. Our base plan is to be in the mid-single digit growth range.
- On claims, considering mobility and inflation, excluding any consolidation effect, our insurance businesses are expected to be in a loss cost ratio 63% to 65% range.
- Acquisition and operating cost are expected to remain within the historical average of 23% to 24% and 4% to 5% respectively.
- Summing all of the above, combined ratio target should be within 90% to 94%, slightly ahead of past 3 years but consistent to our ongoing structural model.
- On the investment side, our objective remains unchanged, which is to be between 100 to 150 bps above the average reference rate. With the expectations to see rates hike, the absolute contribution of the comprehensive financial income to our net profit is expected to be higher.
- As per ROE, as I mentioned, we acknowledge the excess capital effect on ROE, thus can anticipate that 2022 ROE at the low range of our mid-long term 20% to 25% target.

To wrap up, we're pleased with this year's performance, the strengths of the company as excellence in service, cost control, our fortress balance sheet, talent, and culture have enabled us to perform well through this challenging period. As we look ahead and the environment normalizes, new challenges will undoubtedly arise, but we feel confident with the position of the company and the strategy going forward.

That’s it… operator we will be glad to open the line for Q&A.