1Q 2022

SANTIAGO

Good morning and thank you for joining Qualitas first quarter 2022 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 to talk about our quarter results and performance.

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.

JOSE ANTONIO

Thank you, Santiago. Good morning, everyone, great to be with you all again. As stated in 2021, we continue to confront the new normal and facing business challenges while serving our customers at the best-in-class level.

Macroeconomic and global turmoil, leading to high inflation and shortage on new cars and auto parts, along with markets volatility, is affecting us all, with Qualitas being no exception. Our quarterly results are mixed and reflect this environment, as well as a continued & aggressive competition and mobility trends well above pre-pandemic. While our first quarter results are slightly below consensus and our own expectations, the reasons are clear and are being addressed, but must importantly our fundamentals are stronger than ever and our strategy, which includes international subsidiaries and new venues, is working and proving to be the right one.

Mexico car insurance market is yet to pick up, with 2021 numbers showing a slight recovery vs 2020, but still down -6% vs 2019 in nominal terms. This is being affected by new car sales contraction that continues and was down 2.9% vs last year and -24% vs 2019; we are expecting that things should sequentially improve in the 2nd half.   That, coupled with competition and inflation, put pressure in our underwriting results which came in the low-end of our expectations.

The second piece of our business, the financial returns, in which Bernardo will elaborate, fell short of our target due to the combination of equity performance and increase in rates that are not fully reflected due to the duration of our portfolio.

This quarter performance follows industry business cycle and should be seen as part of the expected ramp-up process after the atypical last two years; we have seen them before; we know what to do and we are taking the right actions.

I want to expand on the competitive environment, which as we have mentioned in prior calls, has been particularly aggressive on the pricing front, sometimes to unreasonable levels seeking to regain market share. Our goal is and will always be, to deliver the best value proposition for agents and policyholders, which doesn't mean being the cheapest. We acknowledge pricing levels are important but even more important is the service we provide.

During this quarter we adjusted prices of some business lines, which are now up around 10% vs. first quarter 2021, taking them back to pre-pandemic levels. We are adjusting once again in this 2nd quarter around 5% to partially recover industry inflation. The adjustments we are taking are supported by our technical models and, while carefully assessed, we recognize that this may have a toll in our premiums since we are moving ahead the market. This is the right action to ensure a sustainable and profitable operation.

In parallel, we are also focusing on new technological tools such as "Quali", our recently launched *Whatsapp* chatbot, the development of artificial intelligence in our call center and the strengthening of our claim teams and processes to excel in the service provided to our clients.

Let me now touch on another key pillar of our strategy, a move that not in the short term, but in a few years is expecting to be a relevant business: our new Health & medical operation; yesterday we informed to the market that the National Insurance and Bails Commission (CNSF) will soon start the certification visit to our new Qualitas Salud subsidiary; the visit is estimated to last between 2 and 3 months; this is an important and final step forward before having from the authorities a favorable opinion for the beginning of operations.

As a reminder, this new subsidiary will be completely independent of our Mexican auto insurance operation to assure not to lose focus in our core business.

In other news, as part of our never-ending efforts to sustainability, I'm glad to share that in January, Qualitas was included in the 2022 Bloomberg Gender-Equality Index (GEI) as one of the 10 Mexican companies and the only Mexican insurance company to join the index, proving our commitment to transparency and best practices in gender-related topics.

Before I hand it over to Bernardo, let me reiterate that one of Qualitas biggest strengths has been our agility and capacity to adjust and adapt; we will continue to follow very closely trends and factors that, while not under our control, impact our business, and we will continue prioritizing a sustainable and healthy operation.

We know the next couple of quarters are going to be challenging as the implemented actions will take time to fully reflect; top line will face new uphill's and claim index will likely stay on the high end of our expected range, but once again, all actions are intended to continue creating value to the policyholders, agents and shareholders. We will stay focused on executing against our priorities and strategy… and let me tell you: the future is bright.

And with that, I will hand it over to Bernardo to walk you through the financial details and, as said, a deeper dive on the financial income.

BERNARDO RISOUL

Good morning, everyone; as mentioned by José Antonio, first quarter operating results came in at the low end of our expectations while financial income performance was subpar.

Relative to the industry, based on the 2021 overall figures that were released in early March, our performance continues to be ahead of the industry across top and bottom line, most importantly, our value proposition continues to be privileged by the confidence of agents and policyholders, leading to record market share in Mexico and the balance of the markets where we play.

Going directly into our underwriting, top line grew 0.9% given the mentioned headwinds; worth highlighting is the strong performance of the individual segment in Mexico that increased +10% and of our international operation, growing above 26% in US dollars. Our international subsidiaries now represent 9.5% of the total company underwriting, aligned with our strategy of boosting their potential in each of the markets we play.

In addition to premiums, one KPI that we always look at to assess business strength is number of insured units, which this quarter once again reached a record high of 4.6 million units, an increase of 284 thousand units vs same period year ago or 109 thousand up vs last year closing. In a contracting market, these results are worth recognizing.

Due to the financial institutions business, linked to new car sales, our portfolio composition reflects a 78% of our policies have an annual duration and the remaining 22% are multiannual. This, among other factors, led to a lower reserve constitution, resulting in a 7.9% increase in earned premiums.

By the end of 2021 the total used car sales made through loan or credit increased 14.2% vs 2020. From the total car sales done through a financial institution, 16.7% were secondhand cars, the highest proportion in the past 8 years. Since the pandemic hit in 2020, the automotive trends have been changing continuously. The demand for used vehicles is increasing and we are taking advantage of this, through our network of 19 thousand agents.

Looking forward, we continue to aim for mid-single digit top line growth by year-end; we recognize that the speed of recovery on the auto industry and the effects of the price adjustments with unknow competitive reaction, may impact our growth pace in the next few quarters.

Moving into our costs and indexes, to better understand loss cost and ratio performance, I would like to mention how mobility trends impact our business:

Mexico, which continues to be our most relevant subsidiary, COVID-19 restrictions in terms of mobility were lifted and the country is fully back to normal. When comparing mobility trends of private transportation by the end of March vs. pre pandemic year 2019, we are seeing +48% of higher mobility. It seems everyone was desperate to get out of the house: students are back in schools, people back in the office – at least partially, travelers are back on the road and social gatherings are now 7 days a week. That increased mobility is impacting frequency and thus number of monthly claims which just this quarter were up 21% vs 1Q21.

In addition, Mexican inflation levels of 7.5% was something not seen in the past decade; even more, due to supply issues and commodity prices, auto industry inflation is a couple of points higher, reaching close to 10%.

These two main factors, which escalated faster than we expected, mean more claims at a higher cost, hence a 65.9% loss ratio by the end of the quarter. Total loss cost composition has not change much; in around 80% is related to property damages and civil liabilities, growing +29% during the quarter given the previously mentioned items, and around 13% related to thefts and robberies in which we have seen slight increase during this first quarter of the year.

These impacts are broad-based and affect everyone in the car insurance business; in our case we want to always stay ahead, partially mitigating cost increases by leveraging our scales and vertical integration. Most importantly, on our risk prevention programs, talked before at length and that seek to reduce accidents and thefts. The success of these efforts is seen and measured quarterly comparing not only our own goals but vs to the balance of the industry performance.

Our acquisition ratio was 23.9%, in line with the historical range, where a lower mix of financial institutions, which carry higher acquisition cost, is offset by agents bonuses which are paid based on collection timing. We are maintaining our commissions and bonuses in line with prior years, thus we do not expect major variances other than the ones coming from channel and customer mix.

Our operating ratio, stood at 3.7% for the quarter, 38 bp below same period year ago mainly explained by a 68% 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.

All of the above, resulted in a combined ratio of 93.5% for the quarter. The actions mentioned include but are not limited to tariffs increase, intent to get this combined ratio back to the low/mid-point of the 90-94% range, although it will not be immediate due to the nature of our business.

Moving now to the financial income pillar. First quarter delivered $345 million, representing a 3.3% ROI, below Mexico reference rate and our expectations. These soft results are mainly explained by our 15% equity position that underdeliver and, to a lower extent, the duration of our fixed income portfolio, which is ~0.7 years, therefore not benefiting immediately from rate hikes; on this, it is important to note that our liabilities have a duration of ~1.2 years, thus we are already ahead of the curve anticipating this higher interest rate environment. As you recall as at the beginning of the year, we mentioned our expectation for CETES was between 6.25% and 6.5% at year end, which is currently where we stand.

Regarding our equity exposure, we are expecting that it recovers in the next quarters. We will continue to seek positions and investment that will allow us to close the gap vs our target, which as you recall its to be 100-150 bps above the average Mexican reference rate target. At this time and considering Q1 and our portfolio position, meeting the initial targets seems challenging.

Altogether, we posted a $736 million net income for the quarter, which represents a 7.5% net margin. Important as well to note that these results include a lower effective tax rate vs historic one mainly driven by inflation adjustments combined with lower profitability and deduction of items, such as annual agents' bonuses that were reserved last year but paid in this 2022. We do not expect this low rate to be sustainable and likely to be back in the 20´s percent in the next quarters.

Regarding our financial ratios, our 12-month ROE stands at 17%, reflecting our strong capital position; 12 months Earnings per Share stands at $8.5 pesos, Price to Earnings stands at $13.5 and finally Price to Book Value at 2.2.

Now, going into our regulatory capital requirement, they stood at $3,619 million at the end of 1Q22, with a solvency margin of $16.4 billion pesos, equivalent to a solvency margin of 551%.

We are working on a capital allocation interdisciplinary project seeking business continuity and diversification. We are focusing on projects within the insurance ecosystem in Mexico, that contribute to the long-term sustainability of our business. We remain committed to the dates at mid-2023 to deliver properly.

Finally, and before we open up to your questions, later today we are having our General Shareholders Meeting where we are proposing the annual returns for our shareholders as follows:

1) The cancellation of 6 million shares that were previously repurchased; with this cancellation, the number of shares representing capital stock will decline from 406 million to 400 million shares outstanding.

2) A cash dividend payment of $2.6 billion pesos equivalent to $6.5 pesos per share, payable in two exhibits: $4.0 pesos in May, and $2.5 pesos in November. This would represent a 60% increase vs the cash dividend payment from last year, with ~5.7% dividend yield.

3) A new share buyback fund for a total amount of $1 billion pesos, with the main objective of increasing stock´s liquidity, which has improved significantly, going from 1 million USD traded on daily average to over 5 million USD in where we stand today. We will also continue acquiring some shares, although we are not going to cancel many of them, as we do not want to affect our ~40% float.

To wrap it up, our commitment to you remains unchanged. We have the strength, and we are ready to serve with excellence our customers by leveraging in our largest agents' network, in our focus based on customer needs and in technology, by capitalizing on our senior management experience. We're optimistic for the future, we have built the right foundation and focusing on what we can control. We are confident in our ability to successfully continue leading the industry. Our ambition is to transcend the industry and to create significant long-term value for all our stakeholders. Everything we've done puts us closer in achieving that ambition.

Now, operator please open the line for questions.