2Q 2022

ANDREA

Good morning and thank you for joining Qualitas second quarter 2022 earnings call: I'm Andrea Gonzalez Qualitas IR Manager. Joining us today are our CEO, Jose Antonio Correa and our CFO and International CEO, Bernardo Risoul to walk you through 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 Andrea. Good morning, everyone, great to be with you all again. I cannot think of a better way to illustrate the meaning of the VUCA word than this first half of the year: it's been volatile, uncertain, complex and ambiguous across many fronts. In these challenging environments I feel good about the results we delivered, growing written premiums and insured units while being profitable both in our underwriting and in our financial income.

Our quarterly performance is within the range of our expectations, recognizing that high inflation, a continuous restricted supply of new car sales and mobility above pre-pandemic levels have impacted the industry and our own results, thus comparison vs strong past years should not be taken as conclusive.

The inflation we have seen in recent months has put higher pressure in our cost structure. While we continue to look for efficiencies, trying to not fully pass through to consumers – or at least not immediately – we have been adjusting our tariffs. We did it during the first half, and we will do so again in the second. As I mentioned the last quarter, some of our competitors have lagged behind, using it as an opportunity to gain some volume at the expense of margin; this was confirmed on first quarter industry report, where small market share changes came along important increases on combined indexes, with some companies even above 100%.   We will remain competitive but financially disciplined as we strongly believe is in the best interest of the industry and the investors.

Let me mention, again, that underwriting result for Qualitas and for the industry follow a cyclical trend; we saw it after the 2008 crisis with strong growth periods from 2010 to 2012; and we saw again a few years ago. Qualitas has navigated different stages of the cycle during 28 years of history and while the nature of the crises may be different, we know what to do: we will stay focused on service and cost control, disciplined on tariffs adjustments, flexible and agile to react to consumer needs and market changes and all decisions will consider short and long-term implications. I can assure you that by doing so, we will once again come out stronger.

Managing this year turmoil is not coming at the expense of our long-term plans and executing on our 3-pillar strategy. On that regard, I am pleased to share new and relevant updates for our Health & Medical operation, where we expect to write our first premiums in this third quarter.

It is a major step for our Company but one that has been carefully planned and crafted, it is not intended to make the difference in the parent company results in the short term, but it will certainly in the next 5 years. Before I expand on the how, let me touch on the whys:

- First, because the potential is huge, data shows it and our agents, and the people have voice it. Mexican private health and medical insurance penetration is less than 10% and Qualitas Salud will become a great opportunity for a non-attended population segment, which we have estimated around 61 million people.
- Second, while we recognize auto and health are quite different lines, we know that high quality service, a unique value proposition and a company they can trust is relevant and is what Qualitas Salud will bring.
- And third, the maturity level in the Mexican Auto Insurance Industry and the evolution of it with new trends such as autonomous vehicles, shared mobility, etc., has made us pursue a business diversification. To be clear, we are not expecting a disruption on the auto insurance in the next decade, but we are responsible to set Qualitas for generations to come.

With those compelling facts, let me briefly comment on some relevant points on the product and strategy for Qualitas Salud:

- As we mentioned during our Qualitas Day with investors and analysts, we decided to launch Qualitas Salud in an organic way and under a humble approach: we will launch, learn, adjust, and then expand. Our entry will also be phased geographically, starting in Mexico City and the Metropolitan area. As I said, written premiums and capital requirement over the first couple of years are not expected to significantly affect our holding company results.
- The target market of QSalud will be C, C- population. We will focus on compensatory product for individuals which will enable us to have a limited responsibility and well-defined risks' caps. At this stage we are not going after the people that already have a premium private health insurance nor after the large corporate accounts.
- Qualitas Salud is a new company that will seek to specialize on health. That means we are not becoming a multiline insurance business. We will not jeopardize the specialization gained in auto. Small team, mixed of new members with health insurance background and a few that come from Qualitas Auto team is fully in place, back-office operation will be shared to benefit from scale and our commercial network will help boost expansion.

Perhaps the most important thing about this entry is that the Qualitas DNA will remain unchanged. We will be passionate to provide unique service, quick and unbiased to honor our commitments to agents and policy holders and obsessed with cost control. If we do this, we will provide a unique value proposition to all stakeholders, we will once again disrupt the market.

Before I hand it over to Bernardo, let me reiterate that I am pleased on how we are moving along with the execution of our strategy, we understand low ends of the cycle are never fun, but they bring along an opportunity for reinvention and to further stand out. I am certain of our ability to overcome it and optimistic about the future.

And with that, let's move to the financial details and a deeper dive on the quarter results. Bernardo, please.

BERNARDO RISOUL

Good morning, everyone; as mentioned by Jose Antonio in a year with several headwinds and macroeconomic volatility not seen in decades, our results continue to demonstrate Qualitas ability to adjust, react and create value.

Top line is up 6.9% for the quarter and 3.8% for the half year. To highlight the strong performance on individual segment that is up 12% YTD and international operation, growing above 14%.

Our international subsidiaries now represent 10% of the total business, aligned with our strategy of boosting businesses outside our core; we expect that non-Mexico car insurance should make up for ~20% of our business in the next 3-4 yrs.

As you know, new car sales are the largest source of new policies for the industry, thus has historically correlated to insurance market behavior. Mexico new car sales have stabilized and are now slightly above 2021 levels but still 14% below 2019, to further illustrate, first half of this year has been the lowest car sales in 8 years, of course excluding the pandemic period. Top line impact of this slowdown, considering Qualitas market share, is equivalent to 4 percentual points. On the positive, there are early signs of recovery, and we expect sequential improvement towards a strong 2023.

In terms of insured units, we once again, posted a new record with 4.7 million insured units, an increase of 239 thousand units vs same period year ago. Growth is broad base, we are growing number of units in each country and segment where we play.

Our portfolio composition is comprised by 78% annual policies and the remaining 22% in multiannual; this compares to a 74% and 26% respectively of last year, confirming the shift towards a more annual portfolio. This effect, mostly driven by the mentioned new car sales' slowdown, reduces exposure on years out, something that in light of current volatility is certainly welcomed.

Earned premiums posted a 7.7% increase, growing slightly ahead of written premiums as a result of technical reserves model and the mix of businesses. As a reminder, while not precise, historically we have constituted reserves during the first and fourth quarter while releasing during the second and third.

For the balance of the year, we expect to maintain low to mid-single digit top line growth resulting from a mix of volume and pricing. On the latter, let me expand a bit on what Jose Antonio mentioned and what is clearly a relevant topic considering the inflationary environment we are living. Local inflation in Mexico, our key market, stands at 8%, while industry inflation is around 2 points higher. Over the past quarters we have adjusted tariffs across all subsegments for a point-to-point increase of +12% vs 2021, but that is still a few points down relative to the pre pandemic level on real terms; as reminder we decreased prices as a mean to help customers bridge through 2020 and early 2021. We will continue to assess data and adjust accordingly, seeking that balance between restoring profitability while staying competitive in the market.

Moving into our costs and indexes, our claim ratio for the quarter was 68.1%, taking first half of the year to 67% with Qualitas Mexico, our main subsidiary, very much in line with 66.7%. Differences vs last year and ongoing target range result from the combination of the mentioned higher costs as well as an increase in mobility. On this regard, private transportation is around 50% higher than 2019 levels. Based on Google mobility stats, visits to supermarkets, shopping malls and the road in general have returned to normality; also, latest numbers of main real-state companies have published occupancy rates almost in same levels as 2019; thus at least in Mexico, people are pretty much back in the office. The increase in mobility is impacting frequency; the number of attended calls has increased 52% when comparing this first half of the year vs. same period 2021.

Addressing the higher cost reality will not solely rely on pricing. Our initiatives are placed at several fronts, for example, we have restricted the interest free monthly installments payments, and most importantly, we are leveraging our scale and vertical integration, competitive advantages that help us be better positioned vs balance of the market. We are expanding the lines managed by our own subsidiaries and pleased on how they no longer have become a supplier with better service and cost for Qualitas insurance businesses, but also a source of growth and profit for the parent company. As a final example, we continue to see the prices of salvages – those paid total losses – at an unprecedented high level, being able to recover 48.5% this second quarter, which is ~6 percentual points above same period 2021.

Due to the nature of our business, where we have policies sold with pre-price increases, the shift in trend is expected to be sequential and not immediate. Despite the taken actions and, those upcoming, we anticipate the second half of the year to still have high claim cost, especially considering the seasonality of rain season. We expect to get back to the 62-65% claim index only in 2023.

Our acquisition ratio was 23%, in line with the historical range, with a lower mix of financial institutions, which carry higher acquisition cost. Commissions for agents remained at same levels of prior years, helping us to have a sound ratio.

Our operating ratio, stood at 4.2% for the quarter, 31 bp below same period year ago, mainly explained by a 66% decrease of the employee profit sharing account –

referred as PTU in Spanish - and by our revised vertical accounting consolidation as well.

All of the above, resulted in a combined ratio of 95.3% for the quarter and 94.4% for the year, being slightly north of our 90-94% on going target, but not surprisingly as we bridge through the adjustment quarters of peek inflation, competition and mobility.

Moving now to the financial income, second quarter delivered $232 million for a cumulative year to day ROI of 2.6%. Soft portfolio performance can be explained by the two main items: first, global and Mexican stock market correction of double digit which key sectors such as Technology and Financials down 39% and 25% respectively in second quarter, relative to the overall stock market, our equity portfolio has performed slightly better**.** Our equity portfolio has specific names that, despite fundamentals remain strong, performance has been subpar.

And secondly, the duration of our fixed income portfolio, which is at 0.8 years and therefore hasn't yet benefited from the increase on rates. Relative to other insurance and financial institutions duration is quite short, thus we are in a favorable position. We will start capitalizing higher rates in the upcoming months and towards 2023 expecting to be a tailwind in our results.

Together with the Investment Committee we are assessing choices, at this time we do not expect important or abrupt changes to our equity position, and we should expect to progressively increase the duration of our portfolio, even beyond our one-year liability duration; as a reference last quarter portfolio duration was at 0.7 yrs and it is now 0.8 years, so we have been taking slightly longer positions.

Altogether, we posted a $656 million net income for the quarter and $1,391 million for the first half, representing a 7% net margin. Regarding our financial ratios, our 12-month ROE stands at 16.7%, reflecting our strong capital position; 12 months Earnings per Share stands at $7.8 pesos, Price to Earnings stands at $11.9 and finally Price to Book Value at 2.0. While key results are below year ago, considering the evolution of external factors, we feel positive about them and how we are setting the business for the future.

Going into our regulatory capital requirement, it stood at $3.7 million at the end of 2Q22, with a solvency margin of $14.9 billion pesos, equivalent to 508%.

Regarding capital allocation, we have concluded a thorough corporate development plan for the next 5 years. We have identified concrete avenues for growth where we will continue to create value. This key pillar of our strategy is an on-going effort that starts this quarter with our entry into the Health and Medical sector and will continue with new geographies, new business lines and vertical integration. While we cannot provide specifics on categories, markets or lines, let me share that all of them are within the insurance ecosystems, can yield strong ROE and Qualitas DNA and strengths will provide acceleration.

The amount to be invested in this strategy is yet to be determined, but will never jeopardize solvency nor dividends; we continue to be committed to shareholder dividend payment as we have done it over the past 6 years. As a reminder, this year we are paying a total of $6.5 pesos per share, of which $2.5 pesos are yet to be paid in November; this represents a 60% increase vs. last year and a yield of ~7% at current stock prices. In addition to cash dividend, we have also been cancelling shares as the 6 million approved in April this represents 1.5% of our shares. We will continue to assess ways to maximize return to our shareholders, while ensuring to remain a liquid stock.

In other news, as part of our never-ending efforts towards sustainability, I'm glad to share that at the beginning of this month, Qualitas was included as part of the new S&P/BMV Total Mexico ESG Index composition. Proving that our sustainable strategy and awareness is promoted from senior management throughout the company.

To wrap it up, our commitment to you remains unchanged. We face a challenging environment, but one that brings the best in each one at Qualitas. We know what to do and we are taking the actions to ensure we continue creating value to policyholders, agents and stakeholders.

Now, operator please open the line for questions.
