SCRIPT 2Q 2023

Santiago Monroy

Good morning and thank you for joining Qualitas second quarter and first half 2023 earnings call. Jose Antonio Correa and Bernardo Risoul, our CEO and deputy CEO, are joining us today. As a reminder, discussions in this event may include forward-looking statements. These statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during today's call. Let's turn it over to Jose Antonio, our CEO, for his remarks.

Jose Antonio Correa

Thank you, Santiago and good morning everyone. As we have been discussing for a while now, we continue to face several external factors impacting most industries worldwide, with insurance, and particularly the auto insurance industry being no exception. In Qualitas we have a clear understanding of these headwinds and their impact on our business; we have been taking actions to overcome them and return to our historical and objective margins. Looking at our 1st half performance, I can say this is still work in progress but the strong results in several fronts give us confidence that we are on the right track.

Before diving into our financials, let me walk you through some of these factors and give you an update of the industry' dynamics, while providing our view on their expected evolution towards the balance for the year:

- Related to our top-line growth, new car sales continued its positive trend up 22% vs first half last year and almost closing the gap versus 2019 levels; availability of new vehicles has ramped up during the year, although still not fully satisfying demand as several brands have 3 to 6 months of waiting time. These are positive news, and we expect the trend to continue throughout the year, however there are two factors that may impact this recovery: current high interest rates' levels, given that ~60% of new car sales in Mexico are done via credits and loans, so buying a new a car is now more expensive for consumers. Also, congestion in main Mexican harbors and logistics' issues are delaying new deliveries and hence inventories. Still, the recovery of new car sales is clear and a benefit for us as well as for the whole industry.
- On the other hand, cost pressures prevail, mainly explained by industry inflation, higher frequency, and spare parts availability. Mexico´s annualized inflation has been stabilizing closing at 5% in June, however spare parts and labor inflation, which have a direct correlation in our loss costs, are still at ~9%, which means that while easing vs last year, they are still high and putting pressure in our cost. In addition to the inflation, the auto industry is still facing challenges on spare parts availability, in many cases it takes months to get them. This shortage of supply contributes to high prices.
- Now, let me go back to the new auto sales, as there are interesting and relevant dynamic changes to which we are quickly adjusting striving to always be the insurer of choice. To mention a few of them:
    - 4 new brands have entered the market since 2019 and they now represent 7% of the market share. Consumers are now opting for SUVs rather than compact cars. As a reference, SUVs and

PICK UPS now represent 54% vs 40% of sales back in 2019. This has an impact also in our average premium cost.
  - Electric and hybrid units demand continue to increase; according to the latest AMIA figures, sales of this type of units have increase more than 30% during the year and currently represent 5% of total new car sales. We continue to specialize our teams to maintain our leadership in the knowledge, insurance and repairment of this type of units.

All the above impacted the entire industry and Qualitas underwriting and financial performance, in which Bernardo will provide more detail. I am glad to share that as per AMIS reported figures of 1Q 2023, Qualitas continues to lead the industry not only in premiums but, most importantly, on profitability with only one other top 5 competitor posting a positive underwriting result.

We have stated many times that we will always be true to our service and cost control pillars, aiming for a profitable operation while strengthening our leadership position in the market. External factors eluded before, have created a complex environment for the entire industry for over two years now; we have been adjusting our prices accordingly and will continue to do so until we fully recover cost inflation; it is encouraging to see this being also the intention of the broad market as we have seen recently.

Now, before I hand it over, let me briefly touch on the other key pilar of our financials: our portfolio. Mexico Central Bank has kept the benchmark policy rate at 11.25%. Our portfolio is well positioned to keep on benefitting from current context and, together with the Investment Committee, we have increased duration of our portfolio as well as defined a new approach for our equities position, always seeking to maximize return under a conservative and responsible asset allocation & duration strategy.

To wrap it up, our second quarter results show Qualitas' strength to continue retaining and attracting new customers but recognize that getting our claims cost back to the desired range is taking a bit longer than expected. Actions have been taken, and I expect that the inflection point will happen in the next 6-9 months as we fully materialize the benefit of the pricing and cost saving implemented plans. In the meantime, financial income will play a bigger role in delivering our ROE, which we expect to be closer to our ongoing objective towards the end of this year.

And now, I'll pass it to Bernardo for a deep dive in our quarter and YTD performance.

Bernardo Risoul

Thank you, Jose Antonio and good morning everyone. Our first half results reflect the anticipated peek in claims, a strong financial income, and an extraordinary top line. While not all of them are exactly where we would want them to be, they are on the right path, we are ahead of the industry, and we continue to build the long term of the business while navigating through this cycle turmoil. Let me provide more color on our performance:

Written premiums are up 24% for the quarter and 25% for the year. This growth represents $4.8 billion more premiums than first half 2022, something unseen even on an annual basis in the past 6 years. Growth was driven by tariff' increases which are up ~12% during this year, that together with an increase in the insured sum and mix, account for around 60% of this growth, while the increase of +385 thousand units contributed to the balance of the sensational top line performance. We are just 29 thousand units shy of reaching 5 million insured units in Mexico, while the total business is now at 5.2 million.

While new car sales have recovered throughout the year, it is the traditional segment that has outstand being up 33% thanks to the effort of our commercial network which now has more than 20.7 thousand agents being served through our 548 offices.

During the first 6 months of the year, 40% of our underwriting came from the traditional individual segment, 24% from fleets and 29% from financial institutions; the rest comes from our international subsidiaries. When compared to 3 years ago, our individual segment has increased 8 percentage points its weight in the mix, and this higher exposure is something we welcome as annual duration implies also faster reaction to price adjustments.

Regarding our international operation, quarterly written premiums are up 4.5% in local currency and down -14.5% in pesos: they are up 5.6% local currency and down 13% in pesos YTD. This performance reflects the 12%-peso appreciation in the first six months of the year. In line with our strategy, LATAM subsidiaries are accelerating growth and are up 58% YTD in local currency, while our US subsidiary has centered on executing our previously shared strategy focused on the cross-border products. Premiums for the US business are expected to be down this year as planned.

Since I am already talking about our US operation, let me expand on where our two-year turnaround process is. During the first half 2023, our bi-national product, which is mainly cross border, is up +15% while domestic products down -57% in local currency; the personal auto program, focused as well on Hispanic population was recently launched and is off to a good start. We have regained traction by repositioning the benefits of Qualitas as the one Company that covers both countries under one policy; the organizational structure is set to better serve this niche market and we are encouraged by the potential we see, particularly, as nearshoring is having a positive impact in Mexico.

Just during the first half of the year over, 10 global companies announced investments in Mexico to better serve the US, which implies higher flow of trucks and a confirmation of the nearshoring effect. Having said so, we are still digesting past years claims, mostly on domestic business, with some adverse developments still; we are expecting to have high loss ratio for this year leading to a negative bottom line, although making significant progress vs last year.

Moving back to Qualitas Controladora performance, earned premiums were up 18% for the quarter and 19% YTD, standing at $11.7 billion by June-end. Earned growth pace is directly correlated to reserves' behavior. We constituted reserves for ~$300 million, that compares to a $313 million release during the second quarter of last year; this $600 million delta affects quarterly results but will eventually be released. During the first six months of the year, we have constituted over $1.3 billion pesos reflecting loss ratio evolution and the strong top line performance.

Now going into our costs, inflationary and availability pressures mentioned by Jose Antonio continue to impact our loss ratio, which closed at 72% for the quarter and 71% for the year. To provide a better perspective I will break claims cost into 3 main buckets: frequency, spare parts, and thefts.

On frequency, we have seen a slight but consistent upward trend, closing 1H23 at 14.2% which compares to 13.5% vs same period last year; the reasons for frequency increase are not precise but we believe that higher number of motorcycles, coupled with new distractions such as mobile phones and shortage of truck operators are among the drivers. Not only has frequency increased but this quarter we are seeing higher severity, with unfortunate catastrophic accidents; during this quarter catastrophic events, including floods or hailstorms, increased 87% vs same quarter 2022.

On claims cost, we are under ongoing negotiations with dealers, workshops, and agencies; the strong Mexican peso and commodities stabilization has reduced some pressure but not yet fully reflected in lower prices as supply continues to be well surpassed by demand. To overcome this situation, we are taking actions among several fronts, where our vertical integration becomes a more relevant pillar to get right quality and better prices, providing us a competitive advantage now and in the future.

Among several strategies, is the enhancement of our remote & digital express adjustment tool; 28% of total claims during 1H23 were attended through this tool. Remote claim officers have a 3 to 1 productivity, so this percentage translates into more than $100 million pesos in savings while improving service experience.

Managing cost cannot come at the expense of service and given supply chain dislocation is still causing spare parts delays, we are providing two claims handling options for our policyholders: the traditional repair process through workshops or agencies, recognizing the longer repair times in some cases, or the option to obtain a payment for the claim cost.

On the third item affecting cost, for the first half of the year, robberies represent almost 15% of our total loss costs in comparison to the 13% same period 2022; due to mix and the increase in the value sum insured of units, the average cost per theft is up 38%. While we continue to recover almost 6 pp above the rest of the industry, we are taking additional actions to benefit our costs, such as better technological tools, strengthening efforts in preventing and avoiding robberies, and improving our recovery effectiveness together with different suppliers and authorities.

All these actions strive to mitigate claims ratio evolution and not relying only on pricing, which certainly carries most of the weight. We have been adjusting our tariffs gradually but consistently over more than two years now and doing so more aggressively recently. Just as a reference, in late April our auto tariffs increased high single digit and in June, we did the same in heavy equipment; on fleets, which are priced on historic claim results, we are also taking important decisions to ensure premiums are sufficient to cover current risks and costs. Given the nature of the business, the pricing benefits are gradual, and take one-entire year for each adjustment to fully reflect in our P&L. We will continue to adjust until we reach our target claim cost of 62-65%.

Before I move to our other ratios, let me just share one important piece of news on the competitive landscape, which speaks of the challenges of managing heavy equipment. During the past weeks, two insurance companies, among which is a top 3 and another is a top 10 in the truck segment, stated their intention to exit that market. This represents 10% market share and close to $4.3 billion pesos of opportunities, but most importantly, recognizes the need to be responsible on the tariffs, diligent on the operation and tireless on the efforts risk prevention, where we will double down.

Acquisition ratio stood at 22.6% for the quarter and 23.1% YTD. The quarterly decrease of 48 bp comes behind a stronger growth in our traditional and individual segment, despite new car sales performance that correlate to the financial institutions channel and carry higher acquisition costs.

Now, on the operating ratio, it stood at 3.3% for the quarter, 93 bp below the same period year ago. YTD operating ratio closed at 3%. This ratio is within our expected and objective range, benefitted from our endless commitment to cost control as well as two other factors: one, the income that comes from the underwriting fee where we charge a fix amount for each issued premium, that by the way, is a common practice in the industry; and two, our third-party vertical subsidiary sales, reflected as an income, up 42% versus 2Q22.

All the above resulted in a combined ratio of 97.7% for the quarter and 96.8% for the first half, being north of our 90-94% on-going target. I have already expanded on the actions being taken and we are working towards making sequential improvement in the next quarters to get back on track.

Regarding the financial income performance, second quarter delivered $860 million, reaching $1.8 billion during the first half of the year. This is 2.7x and 2.2x times than each respective period year ago. ROI for the quarter stood at 8.1% and 9.0% YTD.

Although our investment strategy hasn't changed and we are still well positioned to benefit from the current environment, our portfolio performance is not static and that explains a lower absolute amount than in the first quarter. Let me elaborate:

- The size of our portfolio decreased in $298 million vs. first quarter this year due to the dividend payment and higher claims paid.
- Our portfolio is distributed geographically to support our international operation; 13% is allocated outside Mexico, with different interest rate levels and returns. Our total portfolio was impacted by the appreciation of the peso, resulting in a $62 million pesos impact in our P/L and $191 million in our Balance Sheet. Important to mention that we do not speculate in currencies, as we are basically matched to assets/liabilities and the needs of the business.
- Also, as part of our fixed income strategy, we have around a quarter of the portfolio on real rates– that are instruments linked to inflation performance- they are called UDISADOS in Spanish; while the rates are attractive and highest in decades, locking some even at 5.3%, when inflation is lower, such as this quarter, yield will follow. This impacted in 90 bp our quarterly ROI or around $70 million.

All in, our portfolio has a 1.5-year duration and a 9.3% yield to maturity. We will continue to increase the duration of our portfolio having internally set two years as our ceiling.

Altogether, we posted a $746 million net income for the quarter and $1.6 billion for the first half, representing a 6.2% and 6.8% net margin respectively. The quarterly performance represents a 14% growth vs the same period last year and 18% growth YTD.

Regarding our financial ratios, our 12-month ROE stands at 13.1%, reflecting our strong capital position as well; 12 months Earnings per Share stands at $6.2 pesos.

Going into our regulatory capital requirement, by June end it stands at $4.3 billion with a solvency margin of $13.8 billion pesos, equivalent to 416% solvency ratio. Capital requirements also increased given the growing loss ratio and reflecting the mentioned challenges. Our corporate development strategy has progressed as expected, we have one due diligence process still under assessment.

Our excess capital remains strong, we are investing against the defined priorities while strengthening the organization in people and technology; we will continue to be disciplined and choiceful to provide sustainable results for our shareholders. In anticipation of what has been widely asked regarding a potential extraordinary dividend, that discussion will happen in due time, what I can say is we acknowledge excess cash belongs to our shareholders and while we are in no rush, we are open to assess it.

To wrap it up, our commitment to you remains unchanged. The right actions are in place and Qualitas' DNA backs our ability to create value despite challenges and circumstances. We continue evolving and adapting to achieve an inflection point, still expected during 2H, whilst prioritizing service experience to our policyholders and agents, day after day, quarter after quarter for decades to come.

And with that said, more than happy to take your questions.