SCRIPT 4Q23

SANTIAGO MONROY

Good morning and thank you for joining Qualitas fourth quarter and full year 2023 earnings call; I'm Santiago Monroy Qualitas IRO. Joining us today are our CEO & Chairman of the Board, Jose Antonio Correa and deputy CEO and Vice Chairman, Bernardo Risoul.

As a reminder, information discussed on today's call 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. 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 CORREA

Thank you Santiago. Good morning everyone; great to be with you and let me start by wishing you all, once again, the very best for this year.

It is likely that when we look back in a few years, 2023 will stand out as a year of remarkable performance, with top line up 28%, strong momentum of our operating subsidiaries and a notable growth in profits. The results also led us to surpass the 5 million insured units this year, reflecting the trust placed by our policyholders and more than 22 thousand agents; we have invested heavily to improve their service experience, both in our offices and through the many technological tools we have developed for them. Our constant efforts have paid off and I am proud that more than 70% of our processes have a satisfaction rate within our ~90% objective range.

There are 3 milestones of the year that I cannot miss to touch upon:

1. Qualitas achieved an **annual record high** in terms of **insured units** with a total of 5.3 million units across the five countries where we operate: an increase of 527 thousand units throughout the year. New car sales performance in Mexico, up 24% vs 2022 and finally 3% above 2019, were important drivers of volume growth.

   Growth makes us face an ongoing challenge of effectively deliver excellence in service and fulfill our customers' expectations; throughout the year, we created over 600 new positions to maintain quality standards for all of our clients; most of them to support our call center, claim officers' and operational team. The entire organization works within a horizontal structure to be able to provide service to our 562 service offices and all our agents who are our top priority. We must make sure that Qualitas' DNA truly prevails in new employees' generations, thus we have strengthened on-boarding programs, or what we call their "*qualitizacion*" process.

2. We keep on **strengthening our organization**; implementing a sound corporate governance and a succession plan has been a priority, and as such, our Board has been paying special attention when selecting its members, to their expertise and experience, including their knowledge of the different regions where Qualitas is present. Some of the initiatives taken were the appointment of Bernardo as Qualitas Controladora' deputy CEO, a new Board member addition with punctual oversight to our business strategy, reducing the average age of members, and Board training sessions related to sustainability topics, new regulations, among others.

   We are still in the recruitment process to find the best candidate for the CFO position; we have appointed a new CIO which will start in mid-February, and have made progress in our talent development programs filling key positions such as Innovation and special projects, prevention, offices and agents development, road assistance, among many others which are fundamental to shape our organization and integrate people and technology to successfully execute on customer-centric objectives. On this front, there is still work to be done and will remain as a priority for me and the leadership team during this year.

3. **Qualitas' corporate development plan** has made progress, executing in line with our 3-pillar strategy that we deployed a couple of years ago, by which we aim to further diversify our business to fuel sustainable growth in the mid-long term. While we strive to continue winning in our core business, Mexico auto insurance, we want to have a portfolio of businesses that share the responsibility of value creation. On that regard I celebrate three main achievements:
   - We celebrated the first anniversary of **Qualitas Salud**, which is our first entry in non-related auto business. Health insurance segment could represent an important potential for Qualitas where our value proposition, based on prevention and excellence in service, will seek to satisfy an unmet need of the 92% Mexican population without private insurance through a compensatory product with capped risk. In line with the plan, this year has been all about learning and adjusting, which we have. Our decision to enter organically allows us to better control growth and exposure, adjusting product to what proves to create value and with the expectation to make Qualitas Salud a relevant contributor to the holding company in the long run.
   - Second, including a **technology company,** focused on telematics, business intelligence and IoT to Qualitas family, aims to increase our efficiency in Mexico by leveraging data analysis to increase value proposition through new products and better risk assessment.
   - And third, we continue to make progress on our entry into Colombia. Being able to serve a 50 million people market will represent a big test, one we look forward while recognizing it will require resources, attention and Qualitas DNA. As such, we have agreed that Colombia will be our last geographic market expansion in the following years.

We are pleased with this year's performance and recognize that growth comes with new challenges to overcome; while we have made progress, we still face external factors pressuring our costs. Our industry is cyclical, and Qualitas' has weathered through many storms, we are certainly coming out stronger of this one and we are ready to face whatever comes next. We are thrilled to start a new year which brings 366 days of opportunities to service and protect our policyholders, whilst creating value to all stakeholders.

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

BERNARDO RISOUL

Good morning everyone. As Jose Antonio mentioned, in what is still a challenging environment, Qualitas posted very strong results during 2023 staying true to our core competitive strengths and our service commitment to policyholders and agents while adjusting to the evolution of the market dynamics and needs, including pricing and products.

Going directly to our top-line performance, written premiums were up 32.0% for the quarter and 28% for the year, being the traditional segment the most important driver, representing two thirds of our quarterly growth and 74% for the total year. Top line is worth celebrating not only for being unprecedented in terms of premiums but for proving that even in a mature business and despite all headwinds, strong growth is still possible.

Around half of our premium's growth was driven by new volume, with 527 thousand additional units an 11% increase vs 2022. As José Antonio mentioned, this organic growth was boosted by the strong year in new car sales, in addition to being able to attract new customers. Although at this point, we have no hard data, we would like to think there could be a slight increase in car insurance penetration.

The balance of our growth was driven by tariff' increases which, on a compound average, were up +24% during last year. The highly competitive environment we have been facing over the past 2 years, has not made it easy, but we have stayed the course to cope with claim cost increases and car prices; in some cases, these increases have led us to be ahead of the market and while we will closely monitor price competitiveness, we are committed to restoring the 5-7% target operating margin. At this point, we expect that most of the pricing catch up has already been made and will materialize along the year; 2024 pricing will incorporate the couple of points that we are yet pending as well as the evolution of industry costs.

The combination of volume and pricing resulted in a stronger leadership position in Mexico; by the end of Q3 which are the latest industry figures, Qualitas held 31.9% written premiums market share, up 120 bp vs same period year ago. In the heavy equipment segment, that share is now at 43.7% vs. 45.0% 2022, reflecting Qualitas' rational tariffication and a much more competitive segment. Market share is always a good thermometer, but in the case of Qualitas, it's a KPI that is not linked to anyone's performance.

Top line growth was seen across all businesses, with our international subsidiaries representing 6% of the total holding company underwriting by year end. When breaking it down by market, Mexico grew 30% in the year with an extraordinary 4th quarter performance up 32% and surpassing $6 billion pesos in a month for the first time.

LATAM subsidiaries, which include El Salvador, Costa Rica, and Peru, grew 41% in local currencies for the year and they are on the right path to maintain profitability and be accretive to the holding company ROE objective. Finally, in line with our strategy, the US subsidiary had a flat performance during the full year 2023, mainly focus on restoring profitability and shift the portfolio to bi-national products. Our cross-border premiums increased 22% in the year.

Earned premiums for the holding company were up 31% and 24% for the quarter and full year respectively. High growth led to high reserves constitution; this fourth quarter we constituted $2.4 billion pesos of reserves, $792 million pesos more vs 4Q22; on an annual basis we constituted $4 billion pesos, a $2.5 billion increase vs 2022.

Moving now to our costs, the loss ratio for the quarter stood at 70.7% and 70.9% for the full year. To better understand progress and challenges, I will provide specifics of our two main markets:

First, in Mexico, loss ratio stood at 67.5% for the quarter and 69.2% for the full year, confirming we have reached inflection point and sequentially moving towards the desired and sustainable range of 62 to 65%. 4th quarter results include hurricane OTIS impact of ~$290 million pesos, which was partially offset by our $5 million dollars catastrophic reinsurance policy, for a net impact of ~$200 million pesos. Service and cost continue to be stressed by the increasing number of claims that were up 11% in the 4th quarter and 13% annually; frequency is also trending slightly up, closing the year at 28.4% vs. 27.9% in 2022.

Average claims' cost was up 9.3% vs 2022, biggest callouts come from spare parts inflation and robberies. Even though official statistics shown spare parts inflation easing vs a year ago, internally we have not seen this happening; new brands arriving to the Mexican market without enough inventory have been pressuring even more the costs.

Regarding robberies, in line with historical performance close to federal elections in Mexico, they have increased 10% for Qualitas and 4% for the industry. Qualitas recovery rate stands at 43%, outperforming the rest of the industry average by 4 pp. Mix, and still a high value of vehicles also play an important role when calculating their impact as a percentage of our total loss costs.

Before I move to the US business, there is one item related to OTIS I would like to touch on, as I believe it helps understand Qualitas DNA in terms of commitment to policyholders, agility on decision making, as well as our social responsibility.

Back on October 25th, when OTIS a level 5 hurricane impacted the Mexican pacific coast directly hitting Acapulco, we quickly knew that was likely going to become the most expensive single event Qualitas has faced...and it did; but it was also a situation where we needed to be at our best, which we also did. Just 48 hours after impact, we announced that we were not only ready to help all our clients, but also waived all individual deductibles up to $20,000 pesos as a mean to support those that had lost everything. Moreover, a crew of 22 people moved to Acapulco as soon as the roads were open to install temporary service centers to support, manage and pay claims. When we think about our purpose of "insuring cars, protecting people" and how we are embracing ESG, this is it. I feel proud to be part of a Company that goes over and beyond our obligations when people need it and while doing so, we increase loyalty of agents and policyholders.

So, let me now move to our US business, where we continue our strategy of exiting the domestic market to focus on the cross border and bi-national products. The journey continues to be bumpy, recognizing it is not as fast, simple nor cheap, as we need to bring to closure the claims that trace back to 5 or even 7 years ago. These quarterly financials were impacted by the update actuarial analysis in which adverse developments of historic claims and verdicts, led to higher reserves constitution. In addition, there were 2 other decisions impacting results: 1) we have agreed with the California department of insurance to no longer operate at the low end of the reserves range, but move towards the mid-point in a 4 year plan, this meant a $7 million dollars increase in 2023 and 2) due to our external audit recommendation, we will start building a DTA reserves as a conservative and unlikely case if we were not able to turnaround the business in a way that we credit this taxes. All in, US business posted losses of close to $20 million dollars in the quarter and $30 million dollars for the year, part of which relates to reserves and provisions that we could recover once shifting the business.

Moving further down the P/L, our acquisition ratio stood at 21.4% and 22.3% for the quarter and the year respectively, in line with our historical range, benefiting from a strong performance in the traditional segment, which carries lower commissions. We feel comfortable with a natural portfolio composition between annual and multi-year policies, which is now at 81.2% and 18.8%.

Operating ratio for the quarter was 2.3%, benefited by the strong underwriting performance which represents higher income from underwriting fees; year-end ratio stood at 2.9%. The operating ratio is also benefited from our third-party vertical subsidiary sales, reflected as an income in the operating line. As a reminder, within our Operating Expenses is the EPS – employee profit sharing – which for the year represents 80 bps of total operating cost; Qualitas continues to outstand for its commitment to cost control, not only staying within the desired target but below industry which is at 4.4%.

All the above resulted in a combined ratio of 94% for the quarter, ending the year at 96%, being close to our 90-94% target. We are proud of the ability to create value and being true to our commitment to stay profitable at an operational level even in the already mentioned challenging dynamics.

Now, shifting gears and moving to our financial performance, our portfolio was successfully set up to benefit throughout the year from current interest rates levels. 89% of our total portfolio is invested in fixed income positions with a duration of 1.5 years and 9.6% yield to maturity by year-end; in the case of our Mexico business, the yield to maturity is 10.4%. The balance of our portfolio is mostly allocated in equities in Mexican FIBRAS and US / Global ETF's; we have already migrated more than half of our ETF´s target allocation and we will continue to do so in a gradual pace taking advantage of FX levels.

Our investment strategy does not foresee relevant changes, aiming to bring fixed income duration as close as it can get to 2 years- before reference rate cuts in Mexico begin. Our portfolio follows the guidelines, advisory and strategy decided by our Investment Committee as part of our institutionalized corporate governance.

We delivered a financial income of $1 billion during the quarter and $4 billion annually, implying a 9.4% annual ROI. Important to highlight that 15% of our portfolio is allocated outside Mexico, mostly in US dollars, which imply a different reference rate.

All in, Qualitas posted $1.1 billion net income for the quarter and $3.8 billion for the year, representing an annual 7% net margin. This represents 72% or $1.5 billion pesos more than in 2022; our 12-month ROE stood at 18.4%, reflecting bottom line growth and performance, but also our strong capital position; structurally if we were to exclude ~$300 million dollar of the excess cash we consciously have, our ROE would stand at 21%.

Net, we close the year with higher-than-expected top line growth and a strong momentum; we delivered positive underwriting profit that outstands in the industry and a well-positioned financial portfolio that benefited our financial performance. Once again, we confirm Qualitas' resilience and capability to create value.

Let me know touch on our regulatory capital; by year end it stood at $4.6 billion, with a solvency margin of $14.7 billion pesos, equivalent to 420% solvency ratio. Capital allocation will continue to follow our corporate development strategy which identifies avenues for future growth, all within the insurance ecosystem. Three of them are now under execution and we are assessing one due diligence process to strengthen our vertical operation.

Dividend distribution will continue to be part of our capital allocation and, although the decision relies on our AGM, from a management standpoint we believe upcoming dividend may once again be at the high end of our policy range, which is 40 to 90%. Anticipating a question that I have been receiving quite frequently regarding a potential extraordinary dividend, as mentioned, we are open to assess it although given the expected volatility in 2024 with upcoming federal elections in Mexico and the US, we do not consider prudent to appraise it this year.

Before moving to the Q&A session, let me provide you some color of what we could expect for this year performance, reminding that since a few years back, we do not disclose a formal guidance or targets, but rather some overall expectations:

- Top line growth momentum is expected to continue, but at a slower pace, with an estimate to be in the mid to high teens. Premiums growth is expected to be mostly driven by tariffs carryover and new pricing, while the number of units should reach on going targets of low / mid-single digit behind new car sales expectations and competitive pressure. Top line will continue to be fueled by Mexico and LATAM markets as they continue with a consistent growth pace, while the US is expected to be decline or flat at best.
- Regarding loss ratio, one of our core priorities, we expect to continue making progress towards our technical range objective of 62% to 65%. For the total year we should be close to our target and certainly better than the past 3 years.
- Acquisition ratio and operating ratio should continue within its historical levels with no major changes.
- The above metrics should lead to a combined ratio that could be close or within our objective range of 92%-94%
- Finally, our financial performance would be similar to results posted in 2023 given our fixed income duration strategy, with an ROI of around 10%.

As we head into a year of macroeconomic and political volatility, we will doble down on our strategy, we will address opportunities to outstand our service throughout the entire customer experience and, perhaps most importantly, we will remain agile to quickly adjust as needed. We like how Qualitas is set to start the year and we foresee a scenario in which we see a nice trifecta with continued strong top line momentum, a recovery in the underwriting part of the business and a well-positioned financial portfolio to maximize returns; all of that, while continue working on projects that will alllow Qualitas to keep on creating value for years to come. We are truly excited about the future.

And now operator please open the line for questions. Thank you.