SCRIPT 1Q24

SANTIAGO MONROY

Good morning and thank you for connecting to Qualitas first quarter 2024 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 again.

Before diving into our first quarter performance, and although many of you have probably already seen 2023 Mexican auto insurance industry figures, I would like to briefly point out some highlights and provide some color on current market dynamics:

- Total auto insurance industry posted an annual written premiums growth of 27%, Qualitas grew at a stronger pace, up 30%. This performance was mainly driven by strong 2023 new car sales figures and by tariff adjustments across the industry, in which Qualitas led the way on pricing while competitors still have room to follow throughout 2024.
- Regarding the underwriting performance of the Mexican auto insurance industry, only 15 out of 37 companies posted a positive operating result; Qualitas Mexico combined ratio stood at 94% vs 102% from the balance of the industry. As many times mentioned, excellence in service and cost control are and will continue to be our top priority; but this underwriting performance also reflects the external pressures our industry continues to face and which we believe will prevail during 2024 such as: first) frequency and mobility above pre-pandemic levels, second) thefts increase, in line with historical trends during election periods and third) spare parts costs and its limited availability, market supply chain still shows scarcity of specific brands' and models.

Qualitas' focus and actions are set to improve profitability and cost control, while strengthening our competitive advantages. This enabled us to post strong results during 2023 and outperform, once again, the market. We reached a record high market share of 32.8% in Mexico and, our bottom-line performance accounted for almost 60% of the total industry net result.

Our business model is evolving in line with technology and market needs, but after spending time with hundreds of agents and customers, I can tell you it is stronger than ever. Just as an example, around 35% of our clients process their total loss payments, and 25% their repairment payments 100% digitally; we are now attending 28% of claims remotely and in both cases, creating important operational efficiencies. At the same time the satisfaction rate for 1Q24 is above 90%, proving that it is possible to find projects that build on both cost and service improvement.

Before handing it over to Bernardo and diving into our first quarter financials, let me just tell you that I feel proud of our strong results. Top line momentum prevailed and has been achieved by the powerful efforts of our agents building a strong sales cycle, understanding the needs of our clients while staying focused on excelling in service. The solid performance is still positively impacted by new car sales growth in Mexico, which were up 11% year-over-year. All in, once again, we reached a record high in terms of insured units with a total of 5.5 million units, 191 thousand additional units vs 2023-year end. Tariff adjustments demonstrate an underwriting recovery, coupled by a strong financial income that translated into quarterly 38% bottom line growth.

As anticipated, we are on track to a strong year, with margins and ROE close to long-term objective ranges. We will continue to invest in technology and in our talent, the dedication of Qualitas' people has and will deliver. I would like to thank each one of them for what they do every day, we are encouraged to robust Qualitas' DNA and culture in each of our team members, and with the effort of all of them we strive to continue being recognized as the best-in-class service insurance company.

And with that, I'll turn it over to Bernardo to discuss the financial details of the quarter. Bernardo, please.

BERNARDO RISOUL

Thank you, Jose Antonio and good morning everyone. We are proud to continue creating value to all our stakeholders while being true to our unique DNA, so let me provide you more detail about this first quarter performance:

Written premiums were up 37%, with the traditional segment accounting for 69% of the total premiums and leading the way with an outstanding 44% growth. Top line was driven by both tariff increases and organic volume; directionally, the former accounts for a little over 60% of the growth. Important to highlight that 1st quarter top line was influenced by two large fleet policies that historically renewed in December, but even excluding those, top line growth would have been 33%.

As you recall, top line growth expectations for the year are to be in the mid-to-high double digit, expecting a stronger 1st half as most of the pricing happened during Jul-Dec of last year, therefore carry forward effect will be larger during the first half of this year. We are also closely monitoring new car sales evolution; as Jose Antonio eluded, even though its positive trend continues, the pace of it significantly deaccelerated vs 4Q and full year 2023 +24% growth. It is worth to mention that Chinese brands sales posted an 8% market share in the quarter, which compares to the 9.4% as of last year. All in, January, February and March figures resulted in a slowdown of AMDA new car sales estimates for the year, which is now 6.6% vs its prior expectation of ~8%.

To illustrate the growing complexity in the Mexican auto industry, back in 2019 there were 34 brands and 450 different vehicle models. For this year, several automakers have announced the launch of at least 78 new models, around 50% of them manufactured by Chinese brands and most of them classified as SUVs, which by the way, have higher repairment costs. With that in mind, we can estimate that by year-end, in Mexico there will be a total of 571 different vehicle models, so over 25% new models on the road vs. pre-pandemic times.

EV's and hybrid models' sales combined have increased +44%, representing 5.4% of total new car sales according to the latest available figures. EV's growing presence represents new challenges as well, including the introduction of elaborate electronic systems, expensive components, particularly their batteries and the challenge of finding specialized labor who can handle repairs. We are determined to make Qualitas the insurer of choice of this growing segment, therefore, we have built a team that is already partnering with the leading global brands to be trained to develop the right skills and a network of service and products that will help us differentiate.

Going back to our financials, top line growth was seen across all our geographies, with our international subsidiaries representing 6% of the total holding company underwriting by quarter-end. LATAM subsidiaries grew 43% in local currency. In line with our strategy, the US subsidiary grew 9%, as we continue to focus on restoring its profitability; by March-end our US portfolio composition was 86% cross border and PPA bi- national and only 14% domestic, as we move forward to a full exit from the domestic 18-wheeler commercial trucking. We have been accelerating in LATAM markets, and although in Qualitas' we do not follow market share as a key indicator, our subsidiaries progress has been reflected: in Costa Rica we reached 17.1%, up 3.6% from 2 years ago and in Peru we reached 7.8% share in less than 5 years of operation. In line with our strategy and recognizing there is value to be created, we will continue to invest and accelerate. As an example, during February, the Board of Directors spent 2 full days in Costa Rica reviewing international expansion plans as we also inaugurated our headquarters in that country, which also represent a sustainable real estate investment behind country's potential.

Earned premiums were up 29%- or $3.2 billion-pesos vs the same period of a year ago. Steep growth led to strong reserves constitution; as many of you recall, there is a seasonality within our reserve's behavior where in first and last quarter of the year we commonly constitute higher reserves. During JFM we constituted $2.5 billion reserve that represents $1.4 billion more than first quarter of last year.

Moving now to our costs, **the loss ratio** stood at 64.1% starting to prove the effectiveness of last year's price adjustments as this represents 540 bp below 1Q23 and 660 bp below 4Q. Recovery was mainly driven by our Mexican subsidiary performance, which posted a 62.2% loss ratio, a 702 bp decrease vs same period year ago.

First quarter loss ratio was benefited by the Holly Week that took place during last week of March, while in 2023 happened in April. Holiday seasons diminish frequency as average daily claims decrease ~20% during those days. Average claim cost is still pressured but stabilizing closer to average inflation, being up 4.5% vs 1Q23 and up 27.6% vs. 1Q19.

Another positive surprise in the quarter were thefts, decreasing 3% for Qualitas and 4% for the industry. Nevertheless, during this election period, it has been more challenging to recover stolen units; Qualitas recovery rate stands at 42.9%, outperforming the rest of the industry average by 320 bp, but stands 580 bp below 1Q19. Robberies represented 15.8% of our claims' costs, the same proportion as the first quarter of a year ago. As always, backed by our data analysis, we have been working on strategic initiatives not only to increase Qualitas' recovery rate, but also to prevent thefts and fraud.

Accelerated growth over the past 18 months has resulted in attending over 10 thousand calls per day and more than 4 thousand daily claims; in order to sustain service standards, we have increased +340 positions in the past 12 months exclusively in areas devoted to claims management.

Finally, our **loss ratio** continues to be impacted by our US subsidiary; as we have been mentioning, our US operation turnaround is still work in progress and will take us until 2026; while we are no longer underwriting domestic, we continue to deal with prior year claims under litigation. With the intent of having our reserves moving to the mid-point of the technical range, we will continue to increase IBNR reserves this and next year.

Moving to our **acquisition ratio,** it stood at 21.3% for the quarter in line with our historical range, commissions have remained unchanged and ratio for the quarter reflects a mix skewed towards individual and fleets, which carry a lower cost than financial institutions. Regarding portfolio composition between annual and multi-year policies, we feel conformable on where we stand, being 82% and 18% respectively. Finally, given the trend regarding premiums and loss ratio, we should expect higher payout of bonuses, which may increase this ratio in the following quarters.

Operating ratio for the quarter was 4%; a 129 bp difference vs 1Q23. When excluding EPS – employee profit sharing – which was up +145% or $126 million pesos more vs same period last year, operating ratio would be just 20 bps above last year. Operating costs will reflect our annual salary increases of 7% on average-, translating overall inflation and employee performance, and the ~700 new positions added to our payroll since January 2023 to cope with the mentioned accelerated growth. Our current headcount is aligned with our organization's strategic goals and growth; we will continue to carefully assess structure needs, implementing productivity projects through automatization and simplification, but always ensuring we are ready to serve our customers in a personalized way.

All of the above resulted in a **combined ratio** of 89.4% for the quarter, below our 90-94% target. We feel proud of having reached this target sooner than we expected but recognize there is still work to be done as this quarter results were benefited from a top line above full year expectation, an unforeseen decrease in thefts and the Holly Week positive effect.

In the **financial** side of our business, as anticipated, during March, Mexican central bank rate cut embarked Mexico on its easing cycle. By quarter-end, 88% of our total portfolio was invested in fixed income positions with a duration of 1.6 years and a 9.2% yield to maturity; as a reminder ~20% of our portfolio is invested in USD or other currencies, which imply a lower yield.

Our investment strategy continues to be anchor on fixed income, in which we will seek to further increase duration to get us between 1.6 to 2 years in the next 3-6 months, always seeking to balance short term opportunity cost with a longer visibility on this high-end rate cycle.

As a reference, with current portfolio composition, for each 25 bps decrease in Mexican interest rate, we have an annual impact of ~ $159 million pesos. Given our fixed income assets are classified as "available for sale", the impact is reflected on our Balance sheet, we do not have any assets booked mark-to-market.

The balance of our portfolio, accounting for 12% or ~$5.3 billion pesos is invested in equity; from that, we have around one quarter in Mexican Fibras and the balance in ETF's and single names of equity positions that we are progressively moving away from. We have already built more than half of our ETF´s target position, which as you recall is heavily exposed to the US market.

Finally, the strong business performance and the discipline in our financial management has resulted in portfolio assets increase of 20.5% vs last year. All in all, we delivered a financial income of $1 billion pesos with an 8.9% ROI, in line with our expectations and slightly below from what we reported same period last year, given since this first quarter we are booking the majority of our portfolio as "available for sale"; if we were to consider the whole financial performance, realized and unrealized, ROI would have been 10.6%.

First quarter effective tax rate stood at 36%, which is higher than our prior year's average. As many times mentioned before, the past two years' low tax rates were indicated to be lower than our sustainable rates mainly benefited by high inflation. This quarter effective tax rate was impacted by three particular aspects: 1) Higher employee profit sharing provisions, up 145% vs same period year ago, this being one good reason to increase operating expenses and taxes, 2) Quarter provisions – mainly in commissions and bonuses which are still unpaid and therefore still not tax-deductible and, 3) a lower annual inflation adjustment given its easing trend. Although this higher-than-expected tax rate impacted our net profit for the quarter, we are expecting the evolution throughout the year to take us closer to our historical annual rate and nearby to 30%.

All in, Qualitas posted $1.2 billion **net income** for the quarter with a 7.4% net margin, which is already within the range of our long-term target. Even with large reserves constitution and the higher-than-expected tax rate, first quarter net income represents 38% or $341 million pesos more than in same period 2023; our 12-month ROE stood at 19.1%, reflecting strong momentum, sequential improvement on our claims' costs and a well-positioned financial portfolio.

Moving to our regulatory capital, it stood at $5 billion, with a solvency margin of $12 billion pesos, equivalent to 336% solvency ratio. Recent capital allocation determines our 12 months earned premium to capital ratio at 2.3x.

During our past conference call, we mentioned there is one due diligence process intended to strengthen our vertical integration and maximize value creation, this is still currently under assessment and expect to make a final decision in this AMJ quarter; as always, we will inform promptly if and when we reach an agreement.

Before moving to the Q&A session, let me remind you of our next week General Shareholders' Assembly proposals:

- First, a cash dividend payment of $8 pesos per share payable in two exhibitions, representing an 84% payout and in line with what we had anticipated to the market of being at the high-end of our dividend policy range. This amount is 60% higher vs. last year dividend amount; just as a reference this is 1.7 times the absolute amount of dividends paid from 2016 to 2020 combined.

- We also proposed an $800 million pesos new share buyback fund with the main objective of providing liquidity for all investors.

With this, we reiterate our commitment to create value for our shareholders and exceed our customers' expectations. Actions taken set the stage for a very strong 2024. Our people consistently raise the bar at every stage of the insurance journey; reinforcing that our DNA and "*qualitization*" process remains as a top priority, as demand sophisticates and accelerates in the industry. Thank you all for spending time with us this quarter and giving us the opportunity to show the benefits of all the hard work the team has been doing to improve profitability and making sure we keep our business strong.

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