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Andrea Gonzalez

Good morning and thank you for joining Qualitas second quarter and first half 2024 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 Andrea. Good morning everyone; great to be with you again.

I would like to start providing our perspective since Qualitas started operations back in 1994, a first year during which we dealt with one of the most complicated periods economically, politically and socially in Mexico; since then and throughout 30 years we have managed to navigate through different macroeconomic challenges, political landscapes and volatility, proving the resilience of our unique business model while focusing on things that we can control. We recognize we are currently in times of relevant political changes in Mexico, in the US and globally, while we always stay close to understand implications, the organization remains focused on delivering value to our agents and policyholders, recognizing there are still plenty of opportunities within our own operations and within the auto insurance industry which is vastly underpenetrated. Always focused on what we can control.

According to latest Mexico industry figures during the first quarter 2024, automobile insurance written premiums increased 31%, Qualitas Mexico outperformed the industry with a 39% growth. Our leadership comes along with one the lowest loss ratio within the industry at 62%, compared to the 69% average from the rest of the industry. Our operational result was even higher than the total auto insurance industry result and, in terms of profitability our combined ratio stood at 87%, a significant 8 pp below the rest of the industry. We continue to face external pressures such as spare parts costs and limited availability which is now coupled with the beginning of rainy season and hurricanes. We will continue to assess and price accordingly, recognizing the competitive landscape has also adjusted tariffs in most cases, while we should always assume some players will seek to gain volume at the expense of insufficient premiums, a strategy that we believe unsustainable in the medium and long-term.

Now, moving to our first six months performance, we see **2024 as a year of two tails**: A first half with a strong momentum in the Mexican economy benefitted from pre-elections dynamism, in which Qualitas Holding written premiums grew 32.7%; and a second half where we expect a more cautious consumer behavior given the economy cycle of an election year plus the uncertainty of the US voting outcome. Recognizing you all seek some color on what to expect, I would say that we should land the year in the low to mid-twenties growth, higher than what we expected back in January, and confirming another year ahead of the industry.

With that in mind, six months **new car sales** posted a 12% increase vs same period of last year, June posting a slowdown in the pace with an 8% growth vs. same month 2023. As of today, AMDA adjusted its annual growth estimates to around 10%.

I am quite pleased with the results for the first half of the year, posting a stellar premium growth and consistent increase in number of insured units; we have also reached the inflection point in loss ratio towards our long-term target. Our financial income continues to be a tailwind and is poised to benefit from the extended high-rate cycle and, perhaps most importantly, we have made important improvements across all service indicators, right sizing the organization to support the volume growth and setting the bases for a sustainable future.

Moving to a non-financial topic and in line with our commitment to continue strengthening and developing our organization, I am pleased to announce that the Board of Directors has approved the appointment of Mr. Roberto Araujo as Qualitas Controladora Chief Financial Officer, effective July 16th. We conducted an extensive search seeking for the right fit for the position and I am pleased to have Roberto as part of the team. His breadth of experiences in different industries, including insurance, his leadership style and values will be instrumental in supporting many of Qualitas' initiatives and projects, rousting our corporate governance. We welcome him and look forward to his many contributions as we scale and grow our businesses to new levels.

Before handing it over to Bernardo and diving into our quarter financials, I would like to express a heart-felt appreciation to our agents and policyholders around the geographies where we operate as well as to our shareholders, our team and suppliers who support us. As we start the second half of the year, I feel, stronger than ever, that our strategy, our people, values and DNA are absolutely the right ones to keep on delivering a strong performance. And with that, I pass it over to Bernardo.

BERNARDO RISOUL

Thank you, Jose Antonio and good morning everyone. **First half of the year results** confirm that actions taken to restore profitability, while never easy, are proving to be effective. The strong top line and combined ratio within our long-term range set the stage for us to continue executing on our 3-pillar strategy while delivering ROE above 20%. Let me provide you more detail about our performance:

Written premiums were up 28% for the quarter and 32.7% for the first half of the year, with the traditional segment accounting for ~67% of total written premiums. The path Qualitas has built with strong relationships with agents throughout its 30 years has been the cornerstone of successful underwriting, ending the quarter with 5.6 million insured units which represents +272 thousand additional units during the first six months of the year. Around 50% of the top line growth was driven by tariff increases, reminding you all that it was during Jul-Dec of last year when tariff adjustments were steeper, thus forward looking, we should expect an ease on that pricing benefit. For the balance of the year, we will continue to adjust prices, but expect those ranges to be more in line with local and industry inflation, which at this point are mid-single digit; having said that, we should keep in mind that tariffs adjustments are done surgically and could vary significant by brand, coverage and zip code.

As Jose Antonio eluded, we expect a gradual slowdown in new car sales that coupled with the pricing behavior I just mentioned, lead us to moderate our expectations for 2nd half top line performance, but still pointing to another year of remarkable growth, especially considering the unprecedented 28% growth of last year.

Year-to-date, written premiums from our international subsidiaries represented 5% of the total holding company underwriting. LATAM subsidiaries were up +24% in US dollars and, in line with our strategy the US subsidiary is focusing on reshaping the mix, so premiums were down 7% during the period.

While international subsidiaries are still on the path to become more relevant for the holding company, they are certainly moving on the right direction with many things to celebrate. As a reference, during this AMJ quarter, **Costa Rican subsidiary** paid, for the first time a dividend to Qualitas Controladora, while also inaugurating new offices, proving that discipline and patience pay off.

In **Peru**, we continue to expand our commercial model. We recently started operations in a new service office at Lima San Miguel and are set to open in Trujillo and Chiclayo in the upcoming months.

In the **US**, our new strategy implementation is on track, with its portfolio composition by June-end being only 9% domestic. The actions and adjustments undertaken have resulted in satisfactory progress in closing litigation cases, which have decrease ~56% since last year. This has not been an easy process, but we have seen an evolution across all vectors, the new team is fully on board and determined to make daily progress; as we have mentioned before, we expect to reach a break-even performance by 2026.

Back to our financials', earned premiums were up 29% for both the quarter and for the first half, reflecting a reserve's constitution driven by the continuous strong top line growth pace. During second quarter we constituted $329 million reserve that represents $31 million pesos more than second quarter of last year, closing first half with a constitution of $2.8 billion reserve that represents $1.6 billion more than same period of last year.

Moving now to our costs, **loss ratio** stood at 65.7% for the quarter and at 64.9% YTD, as anticipated this quarter increased modestly vs prior one- but still proving the effectiveness of last year's price adjustments and the cost efficiency actions taken as this represents 6.2 and 5.8pp below second quarter and first half 2023 respectively. Our Mexican subsidiary posted a quarterly 64.7% loss ratio, a 6.4 pp decrease vs same period year ago and a 63.5% YTD ratio, a 6.7 pp improvement.

A few weeks back, rainy season in Mexico officially started, and while it has been higher than last year, it is still below historical average. States like Nuevo Leon and Tamaulipas experienced Alberto storm, without major damages to the citizens nor to our policyholders hence to our costs. We acknowledge natural seasonality of meteorological events have historically impacted third quarter, as seen in early July, when Hurricane Beryl developed with number of claims attended as expected for this type of contingency. At Qualitas we have a specific "*Weather related events protocol*" in order to attend situations such as floods, hails and hurricanes, prioritizing immediate attention and service to our policyholders through specialized in-site claim officers, but also with efficient filters at our call center to channel applicable claims towards the use of our digital express adjustment tool. Additionally, the protocol aims to reduce fraudulent claims.

As Jose Antonio mentioned, political and financial uncertainty, both domestic and international, have led to higher exchange rate volatility; let me provide broader visibility regarding **FX and its impact in our claims' costs**: between 20% to 25% of our expenses are linked to US currency, specifically spare parts' costs. While we should assume that any permanent change on FX would impact our costs, it is not immediate, nor it always has a direct co-relation as other factors come into play. For example, during the past 2 years in which we saw significant peso appreciation, spare parts prices did not reflect that due to scarcity of supply, commodity prices and sea freight costs.

Another factor related to claims are **thefts**, as we expected in an election year, robberies increased 3% for Qualitas and were practically neutral for the industry during the first half of the year, given 1) our largest volume and mix skewed to truck, which incorporate higher theft risk and 2) an increase on insured motorcycles that move statistics by number of units but with a much lower insured value. Nevertheless, our leading risk management and prevention focus has made Qualitas recovery rate stand at 42.4%, outperforming the rest of the industry average by 2.3 pp.

Moving to our **acquisition ratio**, it stood at 22.9% for the quarter and at 22.1% for the first half, in line with our historical range, commissions have remained unchanged, and variations incorporate mix of business lines and bonuses payouts. By June-end our portfolio composition was 82% annual and 18% multi-year policies.

Operating ratio for the quarter stood at 4.8% and 4.4% for the first half; year-to-date, employee profit sharing provision has more than doubled; excluding its effect, operating ratio would stand at 3.4% for the quarter and 3.1% in cumulative terms in line with our target; we believe this ratio provides a more accurate picture of our operational expenses given that, as we keep on delivering strong performance and profitability, our employee profit sharing provisions will keep on growing.

Operating costs also reflect our service offices fees, linked to underwriting growth and claim cost; as we have post significant improvement, these fees have increase as well in around +50% vs. first half 2023.

All the above resulted in a **combined ratio** of 93.5% for the quarter and 91.4% for the first half of the year, within our 92-94% target. The profit improvement was broad-based and reflects successful execution of Qualitas' business strategy to ensure the right pricing and underwriting risk, cost control and seeking a service that sets our value proposition well above our peers.

Now, moving to the **financial side of our business**, we continue to prioritize fixed income with 87% of our total portfolio invested on these types of assets with an average duration of 1.6 years and a 9.2% yield to maturity; in the case of our Mexican subsidiary the yield to maturity stands at 10.1%. We continue executing our strategy towards increasing duration up to 1.8 years, balancing short term opportunity cost with a longer visibility on this high-end rate cycle.

We now have 12% of our portfolio invested in equities, including FIBRAS, some remaining Mexican stocks which are in the sell process and around two-thirds of it placed on ETF´s which are mostly US; these assets follow accounting guidelines and are classified as “available for sale” so its performance, whether gains or losses, will be held on our Balance sheet.

Given this transition, as well as the growth in our international subsidiaries, by the end of June, ~20% of our total portfolio was invested in USD and other currencies, which imply a lower yield but also a natural hedge in terms of FX volatility. Just as a reference per each peso movement, our portfolio has an impact of ~$580 million pesos, entirely reflected in our Balance Sheet.

All in all, we delivered a financial income of $1.1 billion pesos for the quarter and $2.1 billion for the first half of the year, with an 8.8% and 8.9% ROI respectively, in line with our expectations. If we were to consider the whole financial performance, realized and unrealized, first-half 2024 ROI would have been 10.3%.

Second quarter effective **tax rate** stood at 32% and 34% in cumulative terms, which is still higher than our prior year’s average but on the path to more normalized levels throughout the year. As many times mentioned before, the past two years’ low tax rates were benefited by high inflation, so we are now expecting it to be within 28% to 30% range by year end.

Moving to recent queries from our investors regarding fiscal audits, there has been no change in the status of the **administrative resolution regarding VAT accreditation**. As a reminder, in our industry as in many others, being audited by the SAT is common and a normal process, we have seen it in the past and will likely see it moving forward. Qualitas has 4 audits in progress, going from 2016 to 2019, each one of them in different stages and being addressed accordingly. As I have mentioned before we use no tax heaven countries nor use any tax planning structure, fully complying with fiscal regulations. Now, regarding the VAT accreditation topic, it is important to highlight that this is a matter being audited across most companies in the sector; we remain confident that the authorities will reach a resolution that confirms that the criteria that has been used for decades, that is fully supported by its nature and that is true for the whole industry, is the right one. At this point, there is not any conclusive or final resolution, there are no provisions made and this continues to have zero impact in our financials.

All in, Qualitas posted $1.4 billion net income for the quarter and a $2.6 billion net income for the first half of the year with a 9% and 8% net margin respectively. Our 12-month ROE stood at 23.5%, already within our long-term target, reflecting our strong momentum, sequential improvement in claims’ costs and a well-positioned financial portfolio. Qualitas’ DNA has made us capable to overcome different challenges and as a 30-year-old company, we have been able to achieve considerable growth along with sustainable profits and value creation.

Our regulatory capital stood at $13.9 billion, with a solvency margin of $11.5 billion pesos, equivalent to 377% solvency ratio. Recent capital allocation determines our 12 months earned premium to capital ratio at 2.6x.

Now, as an update from Qualitas' corporate development plan that outlines our long-term goals to achieve sustainable growth, there are two main points to share:

First, we are at the last stage of the **due diligence process** for a full acquisition of a company that will strengthen our vertical integration; this has taken a bit more than we expected, but confident we will be locking the deal during the 3rd quarter.

Secondly, during early June we officially received authorization from Colombian finance regulator the *Superintendencia Financiera de Colombia* to constitute as an insurance company; with this key milestone we are moving towards the operational approval process and expect to start operations before the end of the year or very early next one. **Colombia** will provide us access to more than +17 million units in a similar context as the Mexican market, where we see an opportunity to reply and reinforce Qualitas' business model through specialization as a key competitive advantage, as there is no other specialized auto insurance company in that region.

Finally and to wrap it up, aligned with our strategic goals and career development programs, I want to thank Santiago Monroy who has been Qualitas IRO for the past 5 years, and whom will now be taking new responsibilities within the commercial side of the business as he continues to evolve and prepare for higher roles in the company. Andrea Gonzalez, who has been our IR manager for the past 3 years will now lead the IR team, confident that she will continue to do a great job.

To conclude, I want to congratulate Qualitas' team for an outstanding first half of 2024 and setting the base for the future. We are well poised to realize the full potential of our business model and to deliver solid long-term outcomes for all our stakeholders.

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