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ANDREA GONZÁLEZ

Good morning and thank you for joining Qualitas first quarter 2025 earnings call; I'm Andrea González, Qualitas IR Manager. Our CEO & Chairman of the Board is joining us today, Jose Antonio Correa, as well as our CFO, Roberto Araujo.

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 give it over to Jose Antonio, our CEO for his remarks.

JOSE ANTONIO CORREA

Thank you, Andrea. **Good morning,** everyone; It is great to be with you all again.

I would like to begin with a brief overview of the company's performance and key achievements of the quarter: Qualitas posted a **healthy start to 2025**, with a premium growth of **12%** (in line with the anticipated normalization from the growth trend experienced during the past two years); claim ratio came better than expected, considering a lower seasonal frequency during the quarter as well as a significant improvement in our heavy equipment ratio - proving the effectiveness of our risk prevention efforts, resulting in a **88.2% combined ratio lower than our long term target**; furthermore, our investment portfolio posted a **strong** financial income despite interest rates at an easing cycle.

According to the latest industry AMIS figures **Qualitas has reached a new record high** in terms of market share, with **34.1%** of the total market and **47%** in the heavy equipment segment, a noteworthy milestone for Qualitas, despite its not being part of our KPIs as we aim to be the best, not the largest nor targeting to a certain market share. Furthermore, our market share in terms of **earned premium** during 2024 was even higher at **35.8%.** We continue to be leaders, not only in market share but most importantly in terms of profitability. **2024** full year **industry statistics** show Qualitas Mexico with a combined ratio 630 bps better than the ratio of the top 5 companies and 720 bps better than the total industry when excluding Qualitas.

Before Roberto dives into our financial results, I want to address some of the challenges we are currently facing, including market volatility and the ongoing worldwide tariff increase discussions. These issues will most likely have an impact on our industry, however, **Qualitas is well positioned for ongoing healthy growth** with a clear strategy and corporate plan to mitigate these risks and remain committed to delivering value to our stakeholders.

We believe in our ability to adapt and thrive in this dynamic environment; we have driven down this road before. By way of illustration, during 2008- a year marked by a global decline in private consumption, Mexico' GDP fell from 3.3% in 2007 to 1.3%. Despite this economic contraction, the insurance industry in Mexico posted a growth of 3.7%, and Qualitas resilience stood out with an underwriting growth of 7.9% during this period. The insurance industry truly has an ability to maintain stability even in volatile environments, so I remark Qualitas' capability to withstand economic downturns and uncertainty.

Our 3-pillar strategy deployed a couple of years ago represents a clear opportunity for **Qualitas to grow further and diversify our business** in the mid-long term.

We strive to continue **winning in our core business- Mexico auto insurance**, which continues to be the main driver of our growth, **making it our foremost focus**. Qualitas' senior management and I have been very busy this quarter, engaging in numerous meetings with over 1,600 agents across major Mexican cities, we firmly believe that Mexico is our key growth engine, and in these volatile times, it is essential to continue strengthening our leadership position. We must never take this subsidiary for granted and always ensure it receives the attention and care it deserves.

Additionally, we have a portfolio of businesses that share the responsibility of value creation. On that regard we celebrate multiple achievements, such as:

- **In Colombia** we have successfully begun underwriting auto insurance policies. This achievement marks a pivotal expansion into a dynamic market, broadening our market presence by replicating Qualitas' DNA in our regional footprint.

- **Our vertical integration is more robust than prior years,** - Our technology company, which specializes in telematics, business intelligence, and IoT *(Information of Technologies),* has begun to generate gradual efficiencies within our Mexican operations—particularly in our heavy equipment insured units. Additionally, the **recent acquisition of a spare parts and glass distribution company** is expected to further strengthen our operational capabilities aiming to reduce costs, improve response times, and bring greater specialization to our claims handling processes. It is important to note that this vertical integration is a gradual process, and the benefits will materialize over time.

- **Qualitas Salud business with greater capabilities to provide excellence in service and to accelerate its growth** - although its size is still not relevant for the total holding company, underwriting from the first quarter of 2025 was almost 3x the amount of same period last year. We are on the **right path** to continue progressing in this segment.

Notwithstanding, **new car sales**, including light vehicles and heavy equipment, had almost a flat **growth of 1.2% during 1Q25**. As a point of reference, last years´ growth this time of year stood at 12%. Specifically **heavy equipment**, vehicles over 3.5 tons, **decreased sales by 27.7**% - we believe economic uncertainty has made businesses more cautious about investing in new heavy equipment and the Mexican peso volatility has also increased costs for imported machinery, further discouraging purchases.

According to AMDA expectations for coming quarters, new car sales will continue to decelerate in line with the economic downturn and international volatility, possible supply chain issues with ongoing tariff uncertainties and above all macro uncertainties. Despite this expected slowdown, we closed the quarter with **5.9 million insured units,** with over 336 thousand additional units vs same period of last year, equivalent to +6.6% unit growth, proving Qualitas' vision centered on excellence in service is our most unique competitive advantage to navigate through volatile times.

While acknowledging the difficulties, we are confident in **Qualitas' ability to navigate these obstacles and continue to seek healthy growth.** Still, we are prudent and continue to believe that the topline growth for the full year will land at high single digits to low teens along with the expected ratios well within our target ranges.

Therefore, I am **pleased to report** that our first quarter results prove that we have **started the year on the right foot-** reflecting the hard work and dedication of our team, **while we are encouraged, we remain vigilant and aware of the macroeconomic volatility that 2025 may bring**. We understand the challenges posed by market fluctuations and other external factors, and **we are prepared to navigate these uncertainties** centered on excellence in service and cost control as our long-time success recipe.

Consequently, our key priorities for 2025 include a proactive approach in the areas within our control to mitigate these risks, such as:

- We will continue to **focus on service**, **improving customer experience**, decreasing claims repairment timings, and striving to create value for our customers when they need us the most - we will keep focusing on improving our satisfaction rates for all our processes.

- We will also continue **nurturing our future success** by implementing the business **opportunities currently in our hands**, such as capitalizing our most recent companies´ acquisitions, seeking synergies with our existing vertical integrations as well as investing heavily in our newest business expansion in Colombia, while improving the productivity of our employees, along with our ongoing **cost-saving measures**, as already mentioned.

Our 2025 priorities also consider the **turnaround of our US operation**, getting back to profitable levels by next year, as well as addressing timely and properly, any **VAT inquiries** from the tax authorities, working **alongside with the insurance industry** and being close to the authorities and regulators, looking forward to reaching a favorable resolution.

Our **commitment to customer satisfaction and operational excellence** positions us well to continue delivering value to our shareholders, we will continue to build on our successes and face the future with confidence and resilience.

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

ROBERTO ARAUJO

Thank you, Jose Antonio, and good morning everyone. Qualitas has just hit the ground running in Q1, with solid top-line growth in line with our expectations, a combined ratio significantly better than our target, and a resilient investment portfolio.

Going directly to our **top-line** performance, **written premiums** were up +12% for the quarter.

In the case of our **Mexican operation**, the **traditional** segment accounted for ~67% of total written premiums- growing at a rate of +8.7%; from this segment **individual business** posted a growth of 21.4% and **our fleet business** decreased by -6.5%., which is partially distorted by large multi-year accounts from last year - deviating the comparison base, when excluding these accounts, growth from fleet business would have stand at 5%. On the other hand, **financial institutions** segment accounted for ~27% of total written premiums with a solid +22.0% growth.

During this first quarter, written premiums from our **international subsidiaries** represented **5.2%** of the total holding company underwriting.

The US subsidiary continues its journey on reshaping the mix towards being profitable, resulting in premiums diminishing to -25.0% for the quarter. We continue our exit strategy in the domestic market to focus on cross-border and bi-national products. Our portfolio composition by March-end no longer has domestic underwriting, while cross border / bi-national products representing 55% of our US portfolio, the remaining balance being the Private Passenger Auto (PPA) business. As you know, the domestic market has presented a challenging landscape, particularly due to the complexities of long-tail litigation processes. Despite these hurdles, Qualitas has consistently demonstrated a proven ability to deliver customized solutions tailored to our clients' unique needs. Our commitment to this strategic direction remains strong, and we believe it will ultimately lead to sustainable growth and improved financial performance.

As reported, our **LATAM subsidiaries** were up **+28.4%** for the quarter, in line with our strategy and recognizing there is value to be created. We will continue to invest and accelerate.

Growth in these subsidiaries underscores our ability to adapt to diverse market conditions and capitalize opportunities, for example **El Salvador subsidiary** posted a quarterly underwriting growth of **+75.6**%, also our **Peruvian subsidiary** posted a quarterly underwriting growth of **+40%,** as a matter of fact during March we acquired a new corporate office in Peru to further consolidate our team and expand our footprint. This strategic move will enhance our operational efficiency, foster collaboration, and support our continued growth in the region.

Our **new Colombian subsidiary** has successfully underwritten its **first auto insurance policies**. The auto industry in Colombia is experiencing robust growth, with the national vehicle fleet reaching approximately ~17 million vehicles in 2023. This growth is driven by an increasing number of vehicles on the road and a rising awareness of the importance of insurance coverage. Additionally, Colombia's middle class has expanded significantly, with the share of the population classified as middle class more than doubling from 11.3% to 29.6% between 2001 and 2014. This favorable demographic shift is contributing to higher demand for auto insurance. We are confident that our strategic entry into this market will yield substantial benefits and align with our long-term growth objectives.

Including all subsidiaries, as Jose Antonio previously mentioned, we closed the quarter with almost **5.9 million insured units**, which represents a new record high for the company, with over **157 thousand** additional units vs. 2024-year end.

Back to our financials', **earned premiums** were up +17.8% for the quarter also in line with our expectations, reflecting a reserve´ constitution in line with a more stable topline growth pace. During the first quarter, we constituted $1.9 billion reserve that represents almost 24% lower than the reserve constitution from same quarter of last year. As we have previously anticipated, earned premiums are growing at a faster pace than written premiums considering the stabilization on the topline growth (including the effects from multi-year policies), being now able to capitalize accelerated growth from past periods as well as the benefits from lower claim costs. As a reminder, the technical reserves constitution' is based on approved regulatory models and speaks to the corresponding premiums' growth.

Moving now to our **costs**, the claims ratio positively stood at **59.7% for the quarter**. This quarterly ratio posted a 4.33 pp improvement vs. the same quarter last year, exceeding our expectations. In **Mexico**, the loss ratio stood at **58.2%** for the quarter – a noticeable 4 pp decrease vs the same period a year ago, **successfully maintaining our loss ratio below than our desired and sustainable range of 62 to 65%.** It is important to highlight that the claim ratio has a seasonal effect throughout the year; historically the 1H of the year has a lower frequency in claims with a lower impact from weather conditions, including the rainy season / extraordinary hurricanes which are normally reflected in the 2H, triggering claims upwards.

Frequency of the quarter stood at 6.4%, a notable decrease compared to the previous quarter, also it is worth mentioning that our **heavy equipment** portfolio reflected a considerable improvement of almost more than 5pp in claims *ratio [IS% 1T25 EQ PESADO 60.6%, IS% 1T24 65.4%]*. Through our comprehensive risk prevention initiatives, cost discipline and advanced data analysis, we have been diligently working to improve our costs. While we are optimistic about the positive impact of these efforts, it is important to understand that this is a work in progress and that this quarterly loss ratio was an extraordinary outcome from multiple variables that aligned positively for us. However, we take these results with caution, as we need yet to observe future performance of multiple variables.

Throughout the first quarter despite markets volatility the **Mexican peso** appreciated 1.6%. FX volatility has led to many inquiries regarding the FX impact on our costs. As mentioned before, **FX does not immediately distress our costs,** the correlation between currency MX peso performance and our costs is not linear; prices for spare parts are determined mostly by supply and demand, the ongoing trade global discussions coincide with our planned and anticipated pricing adjustments. However, our **unique tariffication model** provides flexibility to change prices, if necessary, while ensuring we continue to deliver exceptional service. Consumers may not experience immediate impacts, but at the time of renewals, we will conduct thorough, case-by-case evaluations to determine whether adjustments in pricing—upwards, neutral, or downwards warranted based on loss costs. Given the fierce competitive landscape, we should expect to see Qualitas' tariffs going down, which will help us to continue winning under current market conditions.

Regarding **thefts,** in this first quarter of the year robberies decreased by -3% for Qualitas and -5% for total industry. Remember that these stats reflect our higher unit's growth vs industry and leading market share, especially in the heavy equipment segment where we have 47% market share, and insured motorcycles which have a lower insured value but high volume. Qualitas' recovery rate stands at 42%, 130 bps above the rest of the industry.

Moving to our **acquisition ratio**, it stands at 22.2% for the quarter, 86 bps above the same quarter of 2024. The increase in the **multi-year mix** from 18% in 1Q24 to 22% increases according to the current acquisition ratio-as commissions paid to financial institutions are higher than what we pay to agents, still our acquisition ratio is in line with our expectations and our cost control indicators.

Then, our **operating ratio** for the quarter stood at 6.3% for the quarter, this ratio includes **employee profit sharing** provision +30.6% higher **than same period of last year**, given the positive performance of our company; we also had an increase in fees paid to service offices and corporate bonuses linked as well to their successful performance during the period aligning productivity and cost control efficiencies towards positive results of the company. If we were to **exclude employee profit sharing from this provision** that by law must be incorporated into our operating expenses, the ratio would have stood at 4.8% for the quarter.

All the above resulted in a remarkable **combined ratio** of **88.2% for the quarter, positively below our 92-94% target**. The operating results for this quarter have surpassed our expectations, underscoring our robust underwriting discipline proof of our entire team's commitment to excellence in service and stringent cost control measures. Even amidst turbulent times, our company has proven to be a resilient business well positioned to continue driving sustainable healthy growth and delivering value to our stakeholders.

Now, moving to the **financial side of our business**, our **comprehensive financial income** grew 44.8% for the quarter, we continue to be **mainly invested in fixed income** representing 87% of our $51 billion pesos total portfolio with an average **duration of 1.87 years** and a 9.13% yield to maturity; in the case of our Mexican subsidiary the yield to maturity stands at 10%.

With the current portfolio composition for each **25 bp** that rates decrease, the impact on our portfolio valuation is around ~**$200 million** pesos on an annual basis.

The remaining of our portfolio allocated in **equities** remained resilient although as you may be aware, after a strong rally in late 2024, the S&P 500 stumbled in the first quarter of 2025 with a negative -4.6% return as uncertainty in the markets prevail given geopolitical risks, trade tensions and fears of an economic slowdown. All our investment assets follow accounting guidelines classified as **"available for sale"** so their performance, whether gains or losses, is considered on our Balance sheet until they are realized.

Our **investment strategy** has not had any relevant changes in 2025, we are striving to bring **fixed income duration around 2 years** as reference rates remain in the mid to high single digits in Mexico, following the guidelines, advisory and strategy decided by our Investment Committee as part of our institutionalized corporate governance.

We delivered a **comprehensive financial income of $1.5 billion** during the quarter, ~$475 million more than 1Q24. Our investment portfolio reached a 10.8% ROI for the quarter. **Unrealized gains** for the period are in the magnitude of ~**$100 million pesos** including FX benefit**.** The unrealized losses in our equity portfolio was partially compensated by our fixed income assets whereas current interest rates easing cycle, have contributed to increase the valuation translated on our balance sheet. **When considering all positions as mark to market**, **ROI would stand at 11.4% for the first quarter of the year.**

~23% of our portfolio is **invested in US Dollars** given our international presence, for **every peso that the FX appreciates or depreciates** the estimated annual impact is around ~**$700 million pesos** playing as a natural hedge for FX depreciation.

For the next quarters we can **expect a steady performance** in our investment portfolio, in which our **fixed income allocation plays in favor** when the equity markets undergo volatile times. Following the negative performance of the S&P 500 in the first quarter of 2025, our investment portfolio allocation has proved to be resilient, mostly given our fixed income asset allocation, providing stability and consistent returns.

The duration of our portfolio enhances our ability to weather market fluctuations. Looking ahead, the financial markets in 2025 are expected to experience a mix of challenges but also opportunities. Despite the volatility in equity markets, the strategic focus on fixed income makes us believe that we are well-balanced in our investment approach.

First quarter 2025 **effective tax rate** stood at 28%, in line with historical levels.

All in all, Qualitas posted a **$2.1 billion net income for the quarter**, with **an 11.4% net margin**. This absolute number is the second highest net income reported by Qualitas in its history- just behind 2Q 2020 where the pandemic had a major positive effect on our claim cost.

Our 12-month **ROE stood at 24.2**% within our long-term target. Our outstanding performance delivered industry-leading profitability, our strategic execution has ensured earnings durability and capital efficiency, positioning us well to navigate through volatile times.

In the insurance business, consistency and reliability are key. Our steady approach ensures that we remain a resilient and dependable partner for the long term, continuing to deliver exceptional value to our stakeholders.

While Service is and will be always our foremost priority, 2025 financial priorities, will be centered around **a) maintaining a steady pace in underwriting**, **b) ensuring stability in our cost control measures - keeping** our loss ratio within the target range, and **c) delivering a resilient investment income.**

Despite macroeconomic volatility, we are confident that this year will be positive for our company. Our strategy is rooted in excellence in service, which remains the cornerstone of our operations. By continuing to deliver exceptional value to our customers, we are well-positioned to navigate challenges ensuring sustainable growth and success.

Our **regulatory capital stood at $5.6 billion**, with a **solvency margin** of **$14.7 billion pesos**, equivalent to **362% solvency ratio**. Recent capital allocation determines our 12 months earned premium to capital ratio at 2.4x.

In terms of capital allocation, let me remind you of our **General Shareholders' Assembly** proposals next week on April 29th :

- First, a cash dividend payment of $10 pesos per share payable in two exhibitions, representing a 78% 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 25% higher vs. last year's dividend amount.

- We also proposed a $800 million pesos new share buyback fund.

It is worth mentioning there is **no news from the fiscal authority** regarding the audit procedures and the **VAT interpretation**. This matter continues under assessment in the corresponding instances, and we have not received any conclusive or final resolution. Qualitas' position stands firm with the corresponding legal arguments to support the industry criteria and thus, we trust the authorities will reach a reasonable resolution. As mentioned before, we will timely communicate any relevant progress to the market.

As a reminder, we do not disclose formal guidance or targets, but rather some **expectations** for the year; thus, we maintain Top line growth expectations at high single digits to the low-mid teens, with Earned premiums growing ahead. The loss ratio is expected to be within our target range of **62% to 65%.** The acquisition ratio and operating ratio should continue within its historical levels, leading to a **combined ratio within our objective range** between **92%-94%.**

I'm pleased to share that our results have exceeded expectations. This achievement is a testament to our team's dedication and strategic initiatives. **However, it's important to remain prudent** as we navigate the complexities of the current global landscape. The ongoing tariff discussions and market volatility require us to remain focused and stay vigilant in our approach.

As we move forward, our commitment to operational excellence and customer satisfaction remains unwavering under a disciplined cost control, this strategic focus of our Qualitas DNA will ensure that we remain resilient and responsive to the evolving needs of our customers and the broader market.

Thank you for your continued support and confidence in our company. Together, we will navigate these challenging times and seize the opportunities that lie ahead.

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