



# In the right direction

Consolidated Annual Report 2017

02

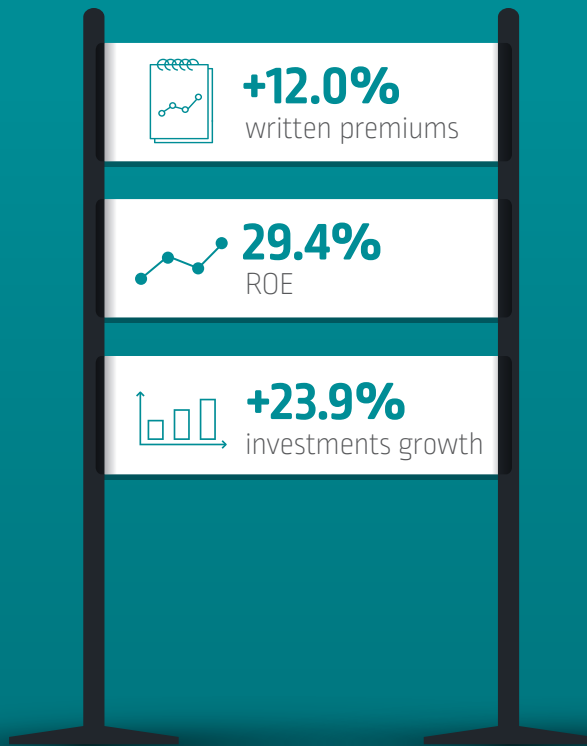
# Profitability:

creating value and sustainable development.



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GRI 102-7, FS6

**At Quálitas we are convinced that our focus on service excellence and the sustainability premise as a strategy of permanence over time have been reasons to tell a story of successful economic performance.**

## FINANCIAL HIGHLIGHTS

GRI 103-2, 103-3

In the second year of operations under the Solvency II regulation, the company reported growth with profitability coupled with a good market positioning and a stronger financial results.

Below are our key financial results:

Income Statement (million of Mexican pesos)	2017	2016	$\Delta$ %/bp	2015
			2017-2016	
Written Premium[1]	33,820	30,190	12.0%	19,856
Earned Premium	28,668	23,825	20.3%	17,065
Acquisition Cost	7,851	7,257	8.2%	4,518
Claims Cost	19,184	14,710	30.4%	11,747
Technical Result	<b>1,633</b>	<b>1,858</b>	<b>(12.1%)</b>	<b>800</b>
Operation Expenses	855	751	13.9%	803
Operating Result	<b>778</b>	<b>1,107</b>	<b>(29.7%)</b>	<b>[3]</b>
Comprehensive Financial Result	1,829	826	121.4%	833
Taxes	544	633	(14.0%)	266
Net Result	2,064	1,301	58.7%	564
<b>Balance Sheet (million of Mexican pesos)</b>				
Investments	26,735	21,575	23.9%	15,598*
Financial Assets, float	25,956	20,875	24.3%	15,002
Total Assets	51,059	41,233	23.8%	29,051
Technical Reserves	32,843	26,922	22.0%	18,691
Total Liabilities	43,108	35,156	22.6%	24,078
Stockholders' Equity	7,951	6,077	30.8%	4,972
<b>Costs Ratios</b>				
Acquisition Ratio	23.4%	24.1%	[76]	22.8%
Claims Ratio	66.9%	61.7%	517	68.8%
Operating Ratio	2.5%	2.5%	4	4.0%
Combined Ratio	92.8%	88.3%	446	95.6%
<b>Profitability Indicators</b>				
Return on Investment	6.5%	3.2%	323	5.5%
ROE 12m	29.4%	23.5%	588	12.1%

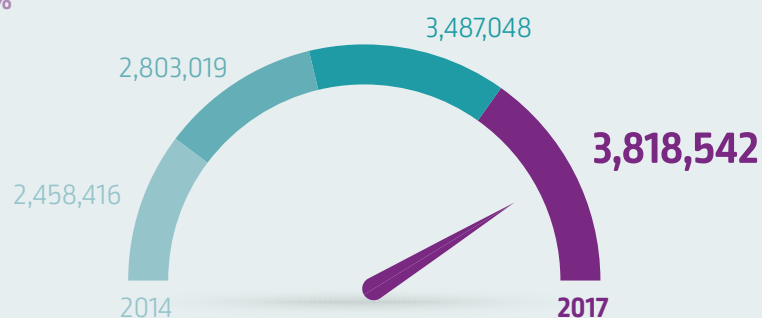
[1] The total written premium of Quálitas Controladora includes those of its automotive insurance subsidiaries and the sales of the other non-insurance subsidiaries related with the insurance processes or claim assistance.

\* This amount differs from the amount reported in the 2016 Annual Report given a reclassification made with respect to the concept of credits deriving from the adoption of Solvency II.

In 2017 the insured units increased by 9.5% reaching a total of 3.8 million vehicles.

### Insured Units

CAGR: 15.8%\*



\* Compound Annual Growth Rate

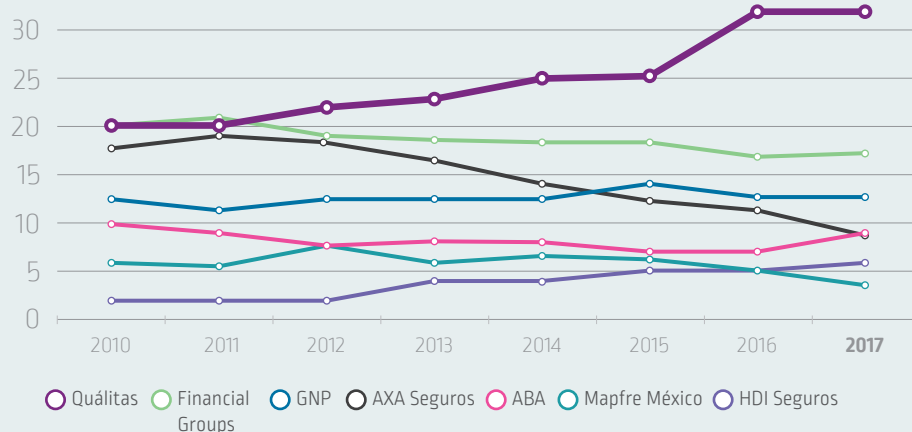
In 2017, the insurer in Mexico grew by 11.8%. It continues to represent 95% of the total written premiums. With respect to the foreign subsidiaries and considering a growth in dollars, Quálitas Insurance Company (QIC) grew by 11.7%, Costa Rica grew by 13.4% and El Salvador grew by 12.2%.

Premiums amounted to \$33,820 million pesos, representing a 12.0% increase. Quálitas remained as the leader of the Mexican market with a 31.3% market share.

### Market share (%) Based on written premiums

Insurer	2010	2011	2012	2013	2014	2015	2016	2017
<b>Quálitas</b>	<b>19.6</b>	<b>20.1</b>	<b>21.5</b>	<b>22.5</b>	<b>24.9</b>	<b>25.3</b>	<b>31.5</b>	<b>31.3</b>
G.N.P.	12.4	11.1	12.3	12.4	12.5	14.3	12.7	12.4
ABA/ACE	9.5	8.6	7.5	7.8	7.7	7.0	6.8	9.1
AXA Seguros	17.4	18.6	18.1	16.5	14.0	12.1	10.9	8.4
HDI	1.7	1.8	1.9	3.7	4.0	5.0	4.9	5.8
Mapfre México	5.4	5.5	7.4	5.9	6.5	6.3	4.8	3.6
Others	13.9	13.5	12.4	12.8	12.2	11.8	11.6	12.4
Financial Groups	20.1	20.8	18.9	18.4	18.3	18.2	16.8	17.0
<b>Total Market</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

## Market Share [%]



**31.3%**  
MARKET  
SHARE IN  
MEXICO

Source: Mexican Association of Insurance Companies (Asociación Mexicana de Instituciones de Seguros, AMIS as per its acronym in Spanish)

## GROWTH AND PROFITABILITY

## Written Premiums by Segments

	Written premiums (million of Mexican pesos)			
	2017	2016	$\Delta\$$ 17-16	$\Delta\%$ 17-16
Individual	7,516	6,156	1,360	22%
Fleets	9,303	6,754	2,549	38%
Automotive financing institutions	14,656	15,272	(615)	(4%)
Subsidiaries	1,537	1,358	179	13%
Others	807	649	158	24%
<b>TOTAL</b>	<b>33,820</b>	<b>30,190</b>	<b>3,630</b>	<b>12%</b>

Note: The figures of 2016 may vary from the figures previously reported due to accounts reclassifications.

The total **written premium increased by 12%** regardless of the sales decrease of new cars in Mexico and of the adjustments in premiums, increasing in most cases, as part of the profitability strategy. However, in the breakdown by segment, the individual and fleets segments, which are mainly distributed through agents and are annual policies, reported a higher growth than the total. On the opposite side, the automotive financing institutions, which mainly issue multiannual policies and obtain higher commissions, reported a decrease.



## Costs and Operating Result

As a result of the combination of sales by segment, the cost of acquisition or commissions paid to our intermediaries had a lower increase than written premium and grew less than revenues did; thus, recording a positive margin.

The most relevant cost for the company had a higher increase than earned premium. The claims cost was affected by the high level of inflation in Mexico (6.77%), by the significant increase in vehicle robberies (26.8%), volatility in the exchange rate impacting the price of vehicle spare parts, as well as meteorological and catastrophic events which caused heavy rains, hail, floods, etc. and which increased the number of reported claims.

Several **cost control** measures helped cushion the effect of the aforementioned events. Such measures include:

- Use of satellite tracking devices to control vehicle robbery and technological devices to avoid collisions
- Implementation of the “Ajuste Exprés” (Express Adjustment, a remote claims assistance without the need of a claims officer attending to the site of the accident which applies exclusively for cases that meet specific conditions)

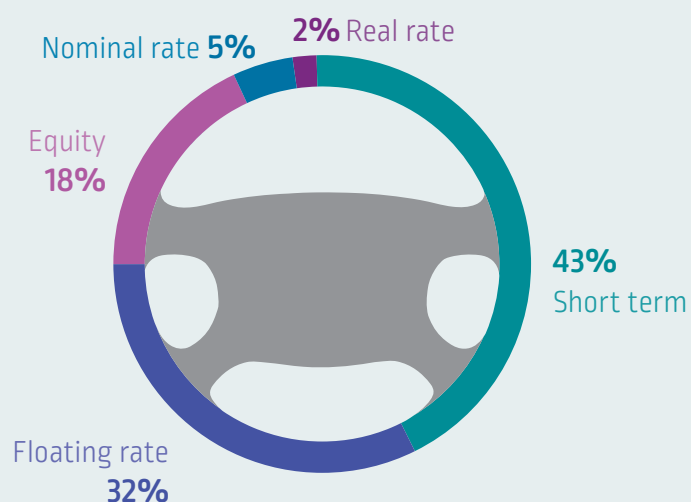
- Physical inspection requirement for insuring certain vehicles
- Negotiation of fixed-cost medical care packages with medical providers
- Repair shop certification program to guarantee service quality and competitive costs
- Chatbots or robots answering written conversations with policyholders in call center.

Our cost control and profitability strategy resulted in an operating income of \$778 million pesos, an operating ROE of 8.8%.

### Financial Result

The financial assets and the yield that can be obtained from these are an essential part of the net result of property and casualty insurance companies. For Quálitas, it is extremely important to maintain a stability strategy in the portfolio of debt instruments and fundamental and long-term equity investments.

### Distribution of the investment portfolio



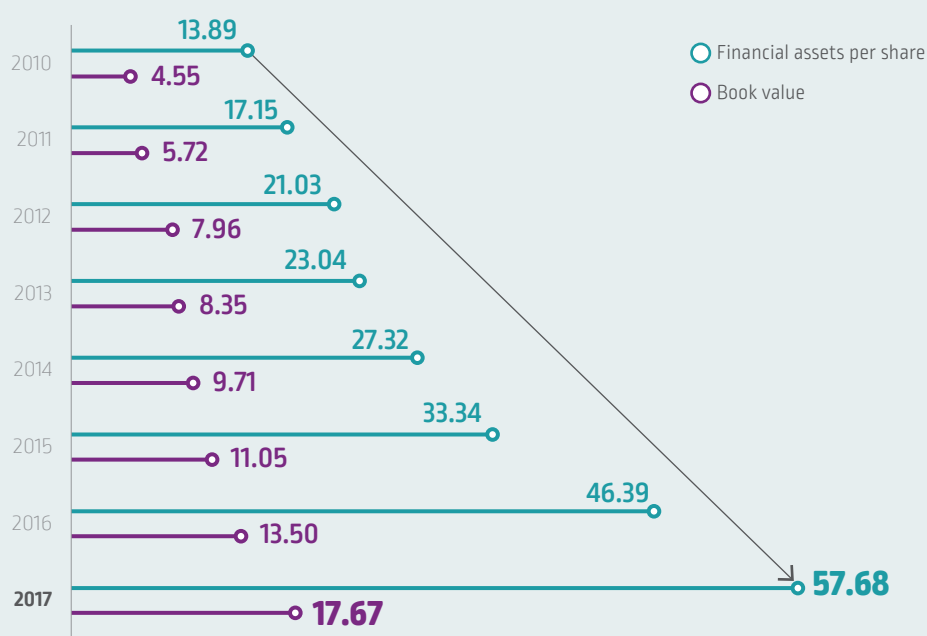
82% of the portfolio is invested in debt instruments and 18% in equity instruments, percentage lower than the 35% of the internal limit.



Throughout the year, we followed a **flexibility strategy** in which an important liquidity position was maintained in the debt portfolio to obtain benefits from movements in interest rates, mainly in Mexico.

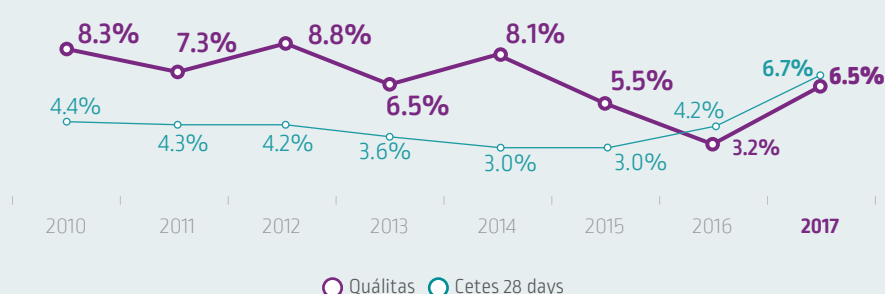
The equity position includes investments in companies listed on the Mexican Stock Exchange (BMV), the International Quotation System of such Stock Exchange, Real Estate Investment Trusts (REITs) and Development Capital Certificates (private equity).

## FINANCIAL ASSETS AND BOOK VALUE PER SHARE



The growth in financial assets of \$5,081 million pesos or \$11.29 pesos per share in the year, the increase in the interest rate in Mexico of 150 basis points to close at 7.25% at year end, besides the stability strategy of the portfolio and the growth in premium surcharges, led to an increase of 121.4% in the comprehensive financing results, a financial ROE of 20.6%.

The financial surcharge is an income derived from the interest charged to the policyholders who choose to pay their policy in installments.



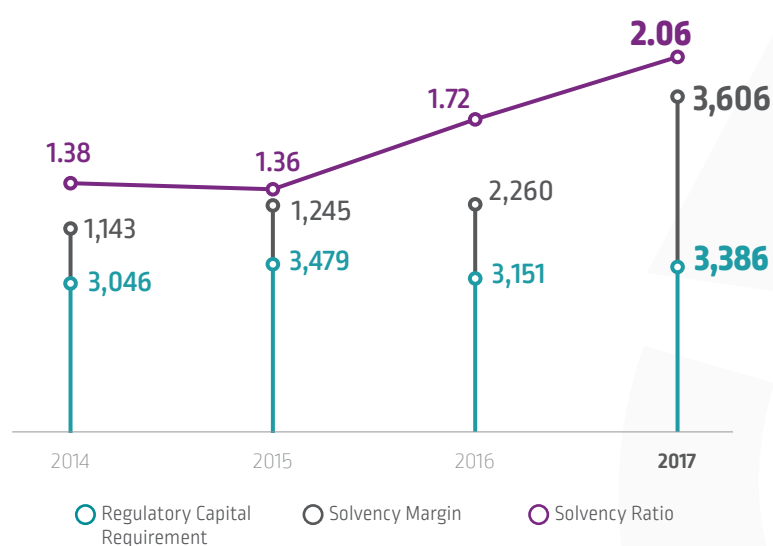
The annual return on investments was **6.5%**

### Net Result

Both, the operating and financial profitability, boosted the net result to record an increase of 58.7%, leading the company to obtain a ROE of 29.4%, which means that the capital would be duplicated every 2.5 years.

### Solvency Margin

Quálitas recorded a solvency margin of \$3,606 million pesos and a solvency ratio of 2.06.



### OUR STOCK (BMV:Q\*)

Quálitas Controladora is listed in the Mexican Stock Exchange (*Bolsa Mexicana de Valores*, BMV, as per its acronym in Spanish) with a **float of 40.34%** of shares.

The market capitalization was \$16,425 million pesos, an increase of 24.4% over 2016.

In 2017, **the stock price increased 24.4%** to close at \$36.50. Such increase reflected the strong results of the company derived from a good management, a strict costs control, and a correct management of investment portfolio.

The company was also able to advance **5 positions with respect to its marketability index** achieving to be placed in the 54th position in 2017 while in 2016 it was in position 59th.

Quálitas continues to be very active in the **share buyback program operation** with the purpose of providing liquidity to the stock and establishing a benchmark price in the market. In the year, 21.7 million shares were traded to end up with an outstanding of 8.6 million shares and cash of \$37.2 million pesos. The total amount allocated for the repurchase fund is \$300 million pesos.



## DISTRIBUTION OF ECONOMIC VALUE

GRI 201-1, 204-1

Value creation and its distribution are essential for the long-term development of both the company and its stakeholders in the markets in which the company operates.

Quálitas, through insurance sales and the management of the investment portfolio, obtains resources from which it **generates value**. Also, through its service and the provided assistance of claims, it further generates

economic value reaching to suppliers, employees, shareholders, the community and the government.

Finally, in order to continue operating and growing the company retains a portion of the economic value; thus, guaranteeing its permanence over time.

#### Generated Economic Value (million Mexican pesos)

Concept	2017	2016	Δ% 17-16
<b>Total Revenue (GEV)</b>	<b>30,497</b>	<b>24,651</b>	<b>23.7%</b>
Revenue by insurance operations	28,668	23,825	20.3%
Financing revenues (Investment portfolio and others)	1,829	826	121.4%

#### Distributed Economic Value (million Mexican pesos)

Concept	Stakeholder	2017	2016	Δ% 17-16
<b>Expenses (DEV)</b>		<b>28,703</b>	<b>23,575</b>	<b>21.8%</b>
Acquisition	Agents, automotive financial institutions, suppliers, employees	7,851	7,257	8.2%
Claims	Suppliers, employees	19,184	14,710	30.4%
Operation	Service offices, suppliers, employees	627	532	17.9%
Profit sharing	Employees	219	214	2.3%
Dividends	Shareholders	270	225	20.0%
Donations	Community	10	5	79.0%
Taxes	Government and authorities	544	633	(14.0%)
<b>Retained (GEV-DEV)</b>		<b>1,794</b>	<b>1,076</b>	<b>66.8%</b>

GEV: Generated Economic Value / DEV: Distributed Economic Value

We will continue generating value to all our stakeholders, being leaders in the automotive insurance market in Mexico, and strengthening our position in El Salvador, Costa Rica and United States.

GRI 102-1, 102-3



[www.qualitas.com.mx](http://www.qualitas.com.mx)

Quálitas Controladora, S.A.B. de C.V.  
Av. San Jerónimo 478, Álvaro Obregón, Jardines del Pedregal, 01900 Ciudad de México.