Quálitas 1Q26 Earnings Call Script

JORGE PEREZ

Good morning and thank you for joining Quálitas first quarter 2026 earnings call. I'm Jorge Perez, Quálitas IRO.

Joining me today are Bernardo Risoul, our CEO, as well as our CFO, Roberto Araujo.

As a reminder, please note that 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. Quálitas undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise.

With that, I'll now turn the call over to Bernardo, our CEO, for his remarks.

BERNARDO RISOUL

Thank you, Jorge, and good morning, everyone. It is great to be with you all again.

Let me start by saying that **we are very pleased** with the way we have started 2026. Our first quarter results reflect a **strong start to the year**, with solid performance across both financial and operational key metrics, underscoring the consistency of our strategy, the strength of our business model, and the disciplined execution of our key initiatives in a dynamic environment.

As we communicated to the market back in January, we **expect 2026 to be a transition year**, as the company implements several initiatives to mitigate the impact of the VAT regulatory change. First quarter has confirmed what we are up against: claims have increased as a result of VAT new dynamics, competition has been aggressive, suppliers are increasing cost due to minimum wage adjustment and duties from China and customer cash is limited; but at the same time, first quarter has confirmed that the multiple actions we have implemented have been successful to partially mitigate so and that our business model is resilient. Let me be clear, **first quarter numbers are encouraging but** we recognize that challenges remain and **2026 will not be an easy year**.

On the top line, written premiums grew **15.3%,** and claims ratio came in within our technical range recognizing the lower seasonal frequency during the quarter and leading to a combined ratio of **90.2%** below of our long-term target. Furthermore, our **investment portfolio** continues to deliver financial income **ahead** of references rates led by the timely duration extension.

According to the latest **AMIS figures** which were released in March, during 2025 Quálitas held 33.9% written premiums market share and 36.2% in earned premiums in the Mexican auto insurance industry; within this, Quálitas leadership stands out in the heavy equipment segment where we hold a 45.2% market share. More importantly, in terms of profitability, in a year affected by the resolution of the SHCP regarding the VAT matter which led to a Q4 one time effect, Quálitas led the way holding a 80.2% of the sector underwriting results, standing out as the only auto insurer among the top 13 to achieve a positive operating bottom line apart from bank assurance. Full-year 2025 industry statistics show that Quálitas Mexico posted a combined ratio 171 basis points better than the top five companies and 510 basis points better than the total industry ex Quálitas. This confirms that despite price aggressiveness hasn't eased during this first quarter, profitability of the sector continues to be stressed.

In this environment, we remain focused on the **strategic priorities** that have guided Quálitas in recent years. Our **three-pillar strategy** continues to provide a clear framework to strengthen the business, enhance our competitive position, and drive sustainable value creation over the medium and long term.

Mexico remains at the core of our strategy, representing more than 95% of our underwriting. In our core market, we continue to focus on the elements that have consistently differentiated Quálitas: service excellence, close relationships with our agents, innovation across multiple fronts, and disciplined pricing and underwriting. Together, these strengths continue to position us favorably in a competitive and evolving market.

Winning in Mexico is at the top of the list. At the end of last year, after the confirmation of the VAT legal changes, we increased prices to partially offset the impact, while also starting specific efforts toward further cost reductions. Having a diversified portfolio in terms of business is a strength playing in our favor, as this first quarter a softer performance in the individual and traditional fleet business, were more than offset by some other new large accounts. We will continue to seek business retention but not at all cost, expecting that, as we have seen in prior cycles, some of those accounts will return in the future behind our value proposition where we are doubling down on service with Q1 delivering the best overall customer favorability in 4 years.

In terms of **Mexico´s market dynamics**, according to AMDA, industry figures remained relatively favorable overall, although with clear differences by segment. During the quarter, total new vehicle sales in Mexico increased 2.1% year-over-year, supported by a 3.7% increase in light vehicles, while heavy vehicle sales declined 28.0%. Looking ahead, AMDA estimates for 2026 continue to suggest modest growth in light vehicles and a more challenging environment for heavy units.

Regarding our second pillar, to **accelerate our subsidiary growth**, I would like to emphasize the progress we continue to make since it is steadily gaining traction, to demonstrate so, **LATAM subsidiaries grew 42%** this quarter in U.S. dollars. We remain focused on capturing these opportunities with discipline, strengthening local capabilities, expanding our footprint by opening offices in main cities of each country and, above all, continuing to replicate Quálitas' operating DNA in those markets where we see attractive long-term potential.

In parallel, we continue to make progress on our **vertical integration strategy**, which we view as a relevant driver of long-term value creation. Our vertical businesses are contributing with operating efficiencies that are gradually translating into a positive effect on our loss ratio. By capturing economies of scale, logistical efficiencies, customized risk prevention programs, and stronger coordination across the value chain, we are enhancing our claims management capabilities and improving overall cost efficiency.

As we look ahead, we will strive to make 2026 another strong year, but never at the expense of doing what is right for the long term of the business. In that sense, we are all working against 5 main priorities, we have specific KPIs by each area and individual linked to variable compensation, we are revamping our IT and Innovation team to cope with business needs just as an example we have over 100 projects that will improve service, reduce cost or increase productivity. All these efforts are underpinned by our plan to strengthen Quálitas culture across all employees.

Mexico's GDP outlook remains below ideal levels, Quálitas has shown in recent years that its growth trajectory has become less dependent on broader macroeconomic conditions, and this quarter is a great testimony of that.

Before closing, I would like to take a moment to **recognize our team**. Their dedication, commitment, and execution are what make these results possible and what gives us confidence in our future.

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, Bernardo, and good morning, everyone. We **started the year on a strong foot,** delivering better-than-expected top-line growth, as well as better-than-expected loss ratio performance, resulting in a combined ratio favorable to our target range with a resilient investment portfolio. As already mentioned, while this is just one quarter of a challenging year, it is always better to be ahead of the curve.

Going directly to our **top-line performance**, written premiums were up **15.3%** for the quarter.

In our Mexican operation, the **traditional segment** accounted for approximately **66%** of total written premiums, posting year-over-year growth of **12.9%.** Within this segment, **individual business** grew 3.8%, while **fleets** increased 25.7%. The fleet business was boosted by a few large policies. **Within this segment**, we continue to experience **significant pricing pressures** as competition seeks to attract volume; a behavior historically linked to healthy combined indexes. Against that backdrop, we stay focused on our underwriting discipline and portfolio quality to support our long-term profitability over short-term market share.

Regarding **the financial institutions segment**, which represented approximately **30%** of total written premiums, it grew **25.6%** year-over-year. This performance continues to reflect the continued shift in consumer preferences toward larger vehicles, such as SUVs and pickups, which carry higher average premiums, as well as by a higher mix of multiannual policies and increased market share with key financial institutions.

As reported, our **international subsidiaries** contributed by **4.2%** of total written premiums.

Across **Latin America,** subsidiaries posted a strong growth, with **20.3**% YOY. * It is important to highlight that our LATAM subsidiaries´ results during the quarter were particularly affected by foreign exchange effects, mainly as a result of the U.S. dollar depreciation. This had an impact on the reported growth in peso terms. Excluding this FX effect, LATAM written premium growth in U.S. dollars would have been **41.9**% compared to the reported **20.3%.**

In the **U.S.,** premiums **declined 77.1%,** this is consistent with our strategy to reshape the portfolio towards profitability. Specifically, in addition to the domestic program exit back in 2021, as of January 1st this year, Quálitas **no longer underwrite commercial cross border**, serving now our bi-national customers through a commercial partnership with the leading nicht insurance provider. As a result, our US Operation is focusing on properly managing the runoff of both programs and on building a binational PPA winning proposition. This decision has reduced the risk associated with continuing to insure the truck segment and reflects our disciplined approach to focusing on those businesses where we see a clear right to win.

Including **all subsidiaries**, we closed the quarter with almost **6.1 million insured units,** up by more than **200 thousand units** versus the same quarter of last year, equivalent to **a five-year** compound annual growth rate of **9.1%.**

Back to our financials**, earned premiums** increased **11.7%** for the quarter, growing at a slower pace than written premiums, mainly due to both the premium growth and the higher mix of multiannual policies, which **increased by 4.9 percentage points** versus 1Q25 and now represent **26.9%.**

During the first quarter, we constituted **$2.8 billion reserve**, consistent with the company's underwriting growth and mix. This represents an increase of **$991 million** compared to the same quarter of last year.

Moving now to our **costs**, the claims ratio stood at **62.6%** for the quarter, reflecting a strong performance despite the effects associated with the new 2026 Income Law. This result was primarily driven by the effective **implementation of the initiatives** we have put in place, including **targeted pricing** adjustments, **strict cost control** measures, and **efficiencies´** across our **vertically integrated** operations.

In Mexico, the **loss ratio stood at 61.2%** for the quarter, below our desired and sustainable range of 62% to 65%, highlighting the strength of our underwriting discipline and operational execution even under a more challenging regulatory environment.

It is important to highlight that the claims ratio also **reflects a seasonal component**, as the first half of the year typically benefits from lower frequency levels, with reduced impact from weather-related events such as the rainy season and extraordinary hurricanes, which are more commonly observed in the second half of the year.

Frequency for the quarter stood at **6.3%,** representing a decrease of 9 basis points versus the same quarter last year; representing the lowest level recorded in the past four years. Through our comprehensive risk prevention initiatives, cost discipline, and advanced data analytics, we have been working diligently to improve our cost performance. While we are optimistic about the positive impact of these efforts, it is important to recognize that this remains a work in progress and that this quarter's loss ratio was also the result of several variables aligning positively in our favor. Therefore, we remain cautious in interpreting these results, as we still need to monitor the performance of these variables going forward.

Regarding **thefts**, in this first quarter of the year, theft cases **decreased 13.8%** for Quálitas despite having more insured units becoming an important building block for our claim cost performance. Quálitas' **recovery rate** stood at **47.6%, 610 basis points above** the rest of **the industry** and improving vs last year. We continue enhancing our technological tools and coordination with suppliers and authorities to reduce costs and improve efficiency.

Moving to our **acquisition ratio**, it stood at **22.6%** for the quarter, 42 basis points above the same quarter of 2025, driven by the stronger growth in the financial institutions segment which carries higher commissions. Still, our acquisition ratio remains in line with our expectations and cost control indicators.

Then, our **operating ratio** for the quarter stood at **5.0%,** including the employee profit-sharing provision, and fees paid to service office and corporate bonuses that are linked as well to their successful performance during the period, aligning productivity and control efficiencies towards the positive results of Quálitas. If we were to exclude employees´ profit sharing from this provision (that by law must be incorporated), our operating expenses ratio would have stood at **3.9%** for the quarter.

All of the above resulted in a **combined ratio of 90.2%** for the quarter, favorably below our 92% to 94% target. Operating results exceeded our expectations, underscoring our underwriting discipline, the team's commitment to service excellence, and strict cost control. They also reflect the early benefits of the operating efficiency measures we began implementing at the end of last year.

In addition, the quarter benefited from a combination of favorable factors, including seasonality, improved theft recovery, a better average claim cost, and lower frequency and severity. While we are encouraged by these results, **we continue to view them with prudence**, as several of these variables will need to be monitored over the coming quarters.

Even amid a volatile environment, Quálitas continues to demonstrate the resilience of its business model and its ability to deliver sustainable growth and value to its stakeholders.

Now, moving to the financial side of our business, **comprehensive financial income decreased 23.3%** for the quarter, mainly reflecting the lower interest rate environment versus the same period last year as well as the one-time gains realized in Q125. As benchmark rates have continued to decline, the reinvestment yield of the portfolio has moderated accordingly, affecting quarterly financial income. Nonetheless, we remain mainly invested in **fixed income**, which represented **86.8%** of our total **$54 billion** portfolio, with an average duration of **2.5 years** and a yield to maturity of **8.3%;** in the case of our Mexican subsidiary, yield to maturity stood **at 8.9%.**

With the current portfolio composition, for each **25-basis point** decrease in rates, the annual benefit on portfolio valuation is approximately **~$300 million**.

The remainder of our portfolio allocated to equities remained resilient, although, as you may be aware, after a strong rally in late 2025, the **S&P 500** posted a **negative return of 4.3%** in the first quarter of 2026, as uncertainty persisted across markets amid geopolitical risks, trade tensions, and concerns about a potential economic slowdown. All our investment assets follow accounting guidelines and are classified as available for sale, so their performance, whether gains or losses, is reflected on our balance sheet until realized.

Our **investment strategy** has not had any relevant changes in 2026. We continue to target a fixed income duration of around 2.0 to 2.5 years, as reference rates remain in the mid- to high-single digits in Mexico, following the guidelines and strategy defined by our Investment Committee as part of our institutionalized corporate governance.

We delivered comprehensive financial income of $**1.2 billion** during the quarter, delivering a **7.4% ROI**. Total unrealized gains are approximately **$1.5 billion**, including FX impact. The unrealized gains were reduced **from the $2.0 billion** level at 2025 year-end due to our equity portfolio performance and the fluctuations observed particularly during the first quarter in interest rates that led to lower valuations in our fixed income assets reflected on our balance sheet. When considering all positions on a **mark-to-market** basis, **ROI** would have stood **at 4.2%** for the first quarter of the year. As the equity market performance gets back on track and interest rates continues easing, these unrealized gains will adjust accordingly.

Approximately **21.3%** of our portfolio is invested in **U.S. dollars**, given our international presence. For **every peso** that the **exchange rate** appreciates or depreciates, the estimated annual impact is **around $665 million**, serving as a natural hedge against FX depreciation.

Looking ahead, we expect our **investment portfolio** to continue delivering steady performance, with our fixed income allocation serving as an anchor during periods of volatility in equity markets. Following the negative performance of the S&P 500 in the first quarter of 2026, our portfolio continued to prove resilient, supported mainly by our fixed income exposure, which provided stability and consistent returns.

The duration of our portfolio enhances our ability to weather market fluctuations. Looking ahead, the financial markets in 2026 are expected to present a mix of challenges and opportunities. Despite the volatility in equity markets, our strategic focus on fixed income leads us to believe that our investment approach remains well balanced.

Our **effective tax rate** for the first quarter of 2026 stood **at 29.7%,** in line with historical levels.

Net income for the quarter reached **$1.6 billion**, with a net margin of **7.2%.**

Our **12-month ROE** stood at **16.8%** driven by the full year one-time VAT impact recognized in Q425. Our **ROE for the quarter** stood at **23.7%.**

Our performance delivered industry-leading profitability, while our strategic execution has ensured earnings durability and capital efficiency, positioning us well to navigate volatile times. In our business, consistency, discipline, and reliability remain essential. This approach continues to position Quálitas as a resilient and trusted long-term partner, allowing us to deliver sustained value to our stakeholders across different market cycles.

Although service remains and will continue to be our top priority, our financial focus for 2026 is centered on **three** main objectives: **a)** sustaining a healthy pace of underwriting growth, **b)** maintaining cost discipline to keep loss ratio within our target range, **and c)** delivering resilient investment income.

Our regulatory capital stood at **$6.4** billion, with a solvency margin **of $13.8** billion, equivalent to a solvency ratio of **314%.** In turn, our trailing 12-month earned premium-to-capital ratio stood at **2.7x**.

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 **$9.0 per share**, payable in two installments, representing a **71%** payout and in line with what we had anticipated to the market of being at the high end of our dividend policy range. If approved, over the past 3 years, Quálitas would have distributed over $10.9 billion in dividends, more than in the first 10 years combined.

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

As a reminder, **we do not disclose formal guidance or targets**, but rather overall expectations for the year. Therefore, we maintain top-line growth in the high single digits to low-double, with earned premiums growing steady. The loss ratio is expected to remain at the higher end of the technical range objective of 62% to 65%. The acquisition ratio and operating ratio should continue in line with historical levels, leading to a combined ratio at the upper end of our long-term target range of 92% to 94%.

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

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.**

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