Quálitas 2Q26 Earnings Call Script

JORGE PEREZ

Good morning, and thank you for joining Quálitas second 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, while the second quarter confirmed that 2026 continues to be a **transition year** for Quálitas, we are encouraged by the way the company is navigating a demanding environment. The quarter reflects the complexity of the market, the resilience of our business model, as well as the early and ongoing benefits of the actions we began implementing at the end of last year.

As we have been communicating, **2026** poised itself to be quite **unique** as we would have to cope not only with the implications of global turmoil and a Mexico´s stagnant GDP growth, but also with the effects associated with the VAT regulatory change in which the sales tax paid in claims is no longer credited. On top of that, competition has intensified, and supplier costs continue to rise due to minimum wage adjustments. In the case of Mexico for example, GDP is expected to grow by roughly ~1%, tightening disposable income across both companies and individuals. In that context, we continue to move forward with initiatives focused on operating efficiencies, cost control, pricing discipline, and further leveraging the advantages that come from our leadership position, scale, and vertical integration capabilities. These efforts are helping us partially offset the new cost dynamics, despite the mentioned challenging market conditions.

From a quarterly **performance** standpoint, **written premiums** were basically flat while presenting a 7.7% growth on a year-to-date basis.

To better understand these results, it is important to look at the **market dynamics** as we are at the stage of the underwriting cycle where several competitors are increasingly relying on price cuts to seek volume growth; this is not new, we have seen it before and even anticipated, but what has been a bit unexpected is the depth and aggressiveness, especially in a year where the whole industry is digesting the mentioned effects of VAT changes. In several cases, both fleets and individuals, premiums are below a year ago despite the explained inflationary headwinds.

On this front, **our compass for all decisions** is doing what is best for Quálitas in the long term, we have never managed the company to deliver the quarter, but **rather sustainable value creation**. Easier said than done, but it basically resumes to defend all accounts where it makes sense to do so, but also wise when deciding to let some of those go, especially if there is certainty that those accounts will come at a loss. **When it comes to pricing, we will be aggressive, but not irresponsible.** In parallel we will continue to **strengthen our service**, which by the way, continues to improve, being at the highest satisfaction survey in the past 5 years, and by doing so, seek to recover those customers that leave because of a lower price once the cycle normalizes. We have determined that, while seeking efficiencies and productivity, we will not jeopardize services in any way, but rather double down on it as the long-term competitive advantage.

The environment is pushing us to **go beyond on cost control** and we are relentlessly doing so. For instance, our **loss ratio** remained within our technical target range, despite not only the mentioned VAT impacts, but the fact that this year's rainy season appears to be starting earlier than usual, with heavy rains already observed throughout this second quarter.

Keeping loss ratio in control led to a **cumulative combined ratio of 92.8%,** in line with our full-year objective.

Our **investment portfolio** continues to be a solid contribution to results, benefiting from the timely extension of duration, allowing us to continue generating financial income above reference rates despite the downward trend in interest rates. Overall, this translated into a **ROE for the period of 21.4%.**

According to the latest **AMIS figures**, as of Q1 2026, Quálitas remains the undisputable leader in the Mexican auto insurance industry, with a market share of **34.2%** in written premiums, 37.4% in earned premiums, and **45.4%** in the heavy equipment segment. In underwriting results, Quálitas accounted for 83% among the top five auto insurers in the sector. More importantly, our leadership continues to be reflected not only in scale, but also in profitability and operating performance, reinforcing the strength of our business model even during periods of elevated market pressure.

Looking ahead, we remain cautiously optimistic for the rest of 2026. As we enter the second half, a period typically characterized by higher claims volumes and the impact of underwriting at lower premiums, we are committed to executing our defined strategic priorities, continuing to invest in key areas, and proactively adjusting our operations to remain agile and ready to respond.

Regarding our **three-pillar strategy**, winning in **Mexico remains our foremost priority**. Our insurance business in Mexico continues to be the main driver of the group and the foundation of our long-term value creation.

From a **new vehicle sales** standpoint, according to **AMDA**, the quarter continued to show a positive trend, both in light and heavy units, with growth of 7.1% in light vehicles and 8.2% in heavy units. These figures were a pleasant surprise and an outlier relative to some other sectors in Mexico; we do expect a slowdown in personal auto while commercial vehicles, including trucks and busses, are expecting to recover from a year-to-date decline of 11.5%. New vehicle sales remain an important industry metric, even if the competitive landscape and the broader macroeconomic context continue to remain fluent. At the same time, our priority remains to serving and retaining our existing customer base.

Regarding our **second pillar**, we continue to see encouraging progress in our international subsidiaries. I would like to emphasize the traction and positive momentum we are experiencing with strong performance across all priority markets. Our **LATAM** subsidiaries grew **39%** this quarter **in U.S. dollars**, consolidating as a strong option through our a proposal that relies on excellence in service. We remain committed to investing in these operations and building their capabilities with a long-term perspective, we are making good progress towards them becoming an engine of profitable growth.

As for our **U.S. subsidiary**, we continue to reshape the portfolio toward profitability. We are focused on properly managing the runoff of the businesses we have decided to exit, while continuing to build a stronger and more competitive bi-national PPA proposition. This approach has reduced the risk associated with the commercial segment and reflects our disciplined focus on those businesses where we believe we have a clear right to win.

Overall, in this important pillar, our strategy remains focused on disciplined growth, strengthening local capabilities, and continuing to replicate Quálitas' operating DNA in those markets where we see attractive long-term potential.

In parallel, we continue to move forward on **our third pillar** through our new businesses and vertical integration strategy. These businesses continue to strengthen our operating model by generating efficiencies, improving coordination across the value chain, and supporting better claims management and cost control. As in prior quarters, we see these benefits materializing gradually, but they are increasingly becoming an important component of our long-term competitiveness. We will **continue to assess avenues of growth in new segments or markets**, as long as they fit with Qualitas DNA and can be accretive to our operation.

Before **closing,** I would like to recognize our team. Their commitment, discipline, and execution continue to be the foundation of our results and the reason why we remain confident in the future of Quálitas.

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.

Going directly to our **top-line performance**, written premiums for the quarter showed a marginal decline of 0.5%, which translates into a 7.7% growth for the first half of the year, consistent with our full year topline expectations. It is important to highlight a one-time effect resulting from a shift of coverage in one of our largest multi-annual accounts. Excluding this effect, written premiums growth would have been 3.4% and year to date would have stood at 9.5%.

In our **Mexican** operation, the **traditional segment** accounted for 63% of total written premiums, posting a decline of 3.2% in the quarter, while showing an increase of 5.5% growth year to date. Within this segment, **individual** business grew 2.5% in the quarter and 3.1% year to date, while **fleets** decreased 12.4% in the quarter and grew 8.9% year to date; the referred one timer came into the fleet business, which would have grown mid-single digit if normalized.

Regarding the **financial institutions'** segment, which represented 32% of total written premiums, it grew 5.9% in the quarter and 15.4% year to date. The growth within this segment was also affected by the competitive environment in specific brands and models with some financial institutions.

As reported, our **international subsidiaries** contributed **~5%** of total written premiums year to date, with LATAM strong growth being partially offset by the US operation decline.

Across **Latin America**, **as reported** our subsidiaries posted strong growth of 26.0% in the quarter and 22.9% year to date. It is important to highlight that our LATAM subsidiaries' results have been **affected by foreign exchange** effects, mainly due to the depreciation of the U.S. dollar. This has had an impact on the reported growth in peso terms. **Excluding this FX effect**, written premiums in **LATAM** would have **grown 38.8% in U.S. dollar** terms during the quarter, compared to the reported 26.0%, and **40.1%** year to date, compared to the reported 22.9%.

In **Colombia**, performance remains in line with our expectations. As we continue adapting to the market's unique characteristics, we are building a solid foundation with the same service excellence DNA that defines our group, committed to achieving sustainable growth through the same discipline and vision that have proven to be part of our success. As of today, we have 20 active offices enabling $11.4 million U.S. dollars of written premium, well above our initial projections. Our goal by year-end is to have 25 offices open, but most importantly to consolidate as the preferred options to those agents that have given us an initial opportunity.

In the **U.S.,** premiums declined 80.3% in the quarter and 78.8% year-to-date consistent with our expectations as we focus only on the PPA.

Including all subsidiaries, we closed the quarter with more than **6.1 million insured units**, up by ~120 thousand units versus the same quarter of last year, equivalent to a five-year compound annual growth rate of 8.5%.

Back to our financials, **earned premiums** increased 4.4% for the quarter and 8.0% year to date, growing at a faster pace than written premiums. As you know, earned premium growth is directly correlated with reserve behavior. During the quarter, we released 322 million in reserves, compared to 730 million in reserve constitution in the second quarter last year. For the first semester of the year, reserve constitution totaled $2.6 billion, 2% below the same period last year. This, combined with the deceleration seen in written premiums and the change in the mix of multiannual policies in the portfolio — which declined from representing 23.0% in Q2 2025 to 20.7% in Q2 2026 — explains the dynamics of our earned premiums.

Moving down to our costs, the **loss ratio** stood at 64.8% for the quarter. This result reflects the early start to the rainy season, as well as the impact of higher average claim costs resulting from the VAT effect, which by the end of the first half of 2026 represented approximately 340 basis points of the loss ratio. All of this was partially offset 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 **as well as** the **reduction in thefts** coped with the continuous improvement in our **recovery rate** during the year. Furthermore, on a year-to-date basis, our loss ratio closed at 63.7%, standing at the midpoint of our 62% to 65% target range.

In Mexico, the loss ratio stood at 63.9% for the quarter and 62.5% for the first half of the year, well within 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 and intense competition.

It is worth mentioning that **frequency** for the quarter was 6.6%, representing a decrease of 23 basis points versus the same quarter last year.

As for **thefts,** year-to-date theft cases decreased 15.3% for Quálitas despite having more insured units becoming an important building block for our claim cost performance.

Quálitas' **recovery rate** stood at 49.4%, 619 basis points above the rest of the industry and improving versus 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 25.1% for the quarter and 23.7% for the first half of the year, driven by the stronger growth of the financial institution´s segment, which carries higher commissions.

Then, our **operating ratio** stood at 5.8% for the quarter and 5.4% for the first six months of the year, including the employee profit-sharing provision, as well as fees paid to service offices and corporate bonuses linked to their successful performance during the year, aligning productivity and control efficiencies towards the positive results of Quálitas. The quarterly ratio increase was also influenced by the deceleration in written premiums, as a lower top-line base naturally puts additional pressure on the ratio. Excluding employee profit sharing, which by law must be incorporated, our operating expenses ratio would have stood at 5.0% for the quarter and 4.4% for the first six months of the year.

All of the above resulted in a **combined ratio** of 95.7% for the quarter and **92.8%** for the first half of the year, standing within our 92% to 94% full-year target.

Once again, I would like to reiterate that Quálitas' business model is built for the long run. Even while facing adverse factors during the year, our focus will always be on returning value to our stakeholders through sustained business profitability.

Now, moving to the **financial side** of our business, comprehensive financial income decreased 4.7% for the quarter and 15.1% year-to-date, mainly reflecting the lower interest rate environment versus the same period last year. As benchmark rates have continued to decline, the reinvestment yield of the portfolio has moderated accordingly, lowering quarterly financial income. Nonetheless, our Investment Committee and team have remained very responsible and diligent, while at the same time taking advantage of **selective windows of opportunity** that have emerged in recent months as a result of macroeconomic volatility. In those periods, we have been able to lock-in products offering attractive yields and extend the longer end of the curve in order to maintain our duration within the ranges we have been targeting. Results speak for themselves as we currently stand, on the **Mexico portfolio**, on a **yield to maturity of 8.9%** where reference rate in Mexico stands at 6.5%, a 240 basis points delta that will allow us to continue seeing strong results for the coming quarters.

We remain mainly invested in **fixed income**, which represented 85.7% of our total $53.4 billion portfolio, with an average consolidated **duration of 2.6 years** and a **yield to maturity of 8.4%.**

With the current portfolio composition, for each 25-basis point decrease in rates, the annual benefit on portfolio valuation is approximately ~$309 million.

The **rest** of our portfolio allocated to **equities** has remained resilient during the first half of the year. For example, although the S&P 500 stumbled in the first quarter of the year, a positive 9.6% return was still observed on a year-to-date basis, setting a relatively more constructive tone as markets headed into the second half. All our investment assets are classified as **"available for sale"**, meaning their unrealized gains or losses are reflected in the balance sheet until realized, even as uncertainty persists across markets amid geopolitical risks, trade tensions, and concerns about a potential economic slowdown.

Our **investment strategy** has not had any relevant changes in 2026. We have continued targeting 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.

Our **comprehensive financial income** reached $1.2 billion during the quarter and $2.3 billion year-to-date, delivering **7.4% ROI**, in both quarterly and year-to-date perspectives. **Total unrealized gains** are approximately $2.4 billion, including FX impact. The unrealized gains increased from the $1.5 billion level at the end of Q1 this year due to the performance of our equity portfolio and the interest-rate reduction of 25 basis points observed during the quarter, which led to higher valuations of our fixed income assets reflected on the balance sheet. When considering all positions on a **mark-to-market** basis, **ROI** would have stood at 13.6% for the quarter and 8.9% for the year.

Approximately 21% 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.

The duration of our portfolio enhances our ability to weather market fluctuations. Going forward, 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** was 30% year-to-date, in line with historical levels.

Net income reached $1.4 billion for the quarter and $2.9 billion year-to-date, with net margins of 8.0% and 7.5%, respectively.

Our **12-month ROE** stands at 18.3%, reflecting the full year one-time VAT impact recognized during Q4 of last year; **ROE for the period** stood at 21.4%. Despite headwinds, we continue to be committed to a long-term ROE of close or above 20%, including this 2026.

Our regulatory capital stood at $6.6 billion, with a solvency margin of $16 billion pesos, equivalent to a **solvency ratio of 341%.** In turn, our trailing 12-month earned premium-to-capital ratio stood at 2.9x.

Our performance delivered industry-leading profitability, while our strategic execution has ensured earnings durability and capital efficiency, positioning us well to navigate volatile times.

As we have been communicating, we are in midst of our transition year, navigating a complex and challenging environment, but in challenging environments, character shows. And service is where character becomes tangible to our customers. Our results this quarter reflect some of these headwinds; yet, the full picture is what matters, and our full picture is built on a simple principle: when our clients need us most, **Quálitas delivers!** That is our foremost priority.

In closing, we are proud of our solid first half performance. We delivered profitable growth, paving the way for the future and reaching key milestones despite external pressures. Our capital position remains robust, and our strategy is clearly defined. While the second half may present new challenges, we are fully prepared to navigate them and continue delivering long-term, sustainable value.

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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