Quálitas 3Q25 Earnings Call Script

JORGE PEREZ

Good morning and thank you for joining Quálitas third quarter and nine months 2025 earnings call. I'm Jorge Perez, Quálitas IRO.

Joining me today are José Antonio Correa, our CEO & Chairman of the Board, as well as Roberto Araujo, our CFO.

Before we begin, 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 José Antonio, our CEO, for his remarks.

JOSE ANTONIO CORREA

Thank you, Jorge, and good morning everyone. It's great to be with you once again.

We have a lot of **new and important** information to share, and I would like **to start by extending my appreciation** to our agents, policy holders and employees **for delivering a very strong 9 first months of the year**, especially considering a challenging macro environment.

Before I touch on some of these results, I want to **address developments** in the Mexican Congress regarding the **VAT topic**. Following various meetings between the Mexican Association of Insurance Institutions (AMIS) and the authorities. **On October 17, 2025**, a legal reserve to the 2026 Economic Package was submitted to the Mexican Congress, introducing an amendment to the Revenue Annual Law concerning insurance institutions. This amendment has already been approved by the Chamber of Deputies and is pending approval by the Senate, which is expected to occur in the next weeks. In this submission, a new article clarifies that the value-added tax charged to insurers by their claims suppliers is not creditable. In connection with this clarification, **a transitional article** is established **in the Law** to set forth the following:

- Any potential liabilities for insurance companies, whether arising from notified tax assessments or from current or future audits, related to the inability to credit VAT charged on claims up to 2024, will be eliminated. In addition, any active administrative or legal actions on this matter will be closed with no further obligations or consequences for either party.

- For practical purposes, **any type of contingency for 2024 and prior years could be eliminated**.
- **A correction is required** from insurance companies for **fiscal year 2025**, in which VAT paid to claims suppliers must be treated as non-creditable, **which will result in an amount payable to the tax authorities**.
- Beginning **in 2026, the VAT charged by claims suppliers will not be creditable and will only be deductible for income tax purposes**. This measure has consequences for existing insurance products for which claims occur as of 2026.

All the above will imply bringing to closure to this key matter which we believe is **very positive**. Having said so, the Board of Directors has approved the above proposal leading to two major implications for our business: **First**, a one-time impact that will hit our 2025 results and where the exact amount will be available once the new law's approval process has been concluded stating all specifics **and second**, an increase to our ongoing claim cost by no longer being able to credit the VAT; this effect will result in the need to compensate the extra cost via cost saving or other measures.

More to come on this matter, but given the relevance of the matter, I thought important to make it the first topic of today's call. **Again, and to be clear,** while we would have hoped for a different outcome, we now have **a clear path to putting this topic behind** and the basis for us to plan the future.

So, going back to our quarterly performance, we are **pleased to share strong third quarter** and **year-to-date results**. **Topline** growth was within our expectations, reaching a **10.7%** for the first nine months, with a sustainable loss ratio, resulting in a combined ratio of **91.3%**, which is better than our long-term target of **92% to 94%.** On the investment side, we posted strong financial income, even as interest rates continue easing at a faster than expected pace; thus, Quálitas delivered a **51.4% net income** growth in this quarter and a **40.3%** year-to-date, with a 12-month **ROE** of **26.7%**, well above our long-term objective. Celebration comes beyond financial metrics as in September, Quálitas México was honored for the **sixth consecutive year** as "La Aseguradora Ideal" for agents in Mexico or the "Ideal Insurance Company" which is particularly relevant considering our focus and commitment to exceed the expectations of our 25,000 non-exclusive agents.

Among several things to highlight in the quarter, I would like to **call out an important step** in our U.S. business, where we just formalized a **commercial partnership** with **NH Seguros,** the market leader in the cross-border business. This agreement will allow us to continue offering our commercial trucking customers a bi-national coverage, with a strong value proposition, but under a model that reduces risk to Quálitas and allows us to focus on other businesses where we see stronger growth and ROE potential.

Before I hand it over to Roberto, there is one **key topic** I want to share and that makes me very proud. In line with our commitment to continue strengthening our corporate governance and developing our organization, I have recommended the Board of Directors that the President and CEO roles be separated. As such, I am happy to announce effective January 1st 2026, Bernardo Risoul will take on the CEO role for Qualitas Controladora while I will remain as Executive President.

As you well know, **Bernardo has been Deputy CEO for the past 3 years**, and prior to that he held both the CFO and International CEO roles; his experience prior and at Qualitas, his passionate leadership, strong capacity and unique fit with Qualitas DNA makes him the right person for the role. I am extremely pleased and confident that this is a step that further strengthens Qualitas ability to continue creating value for all stakeholders for many years to come.

And with that, **I will hand it over to Roberto** for a deeper dive into our quarter and year to date financial performance.

ROBERTO ARAUJO

Thank you, José Antonio, and good morning, everyone.

Our **third quarter** and **nine-month** results reflect the strength of our strategy and our ability to deliver value despite the economic environment; while continue to deliver solid top-line performance, disciplined underwriting, a resilient investment portfolio and a combined ratio well within our long-term target range. Let me walk you through the details.

Starting with top-line performance:

Written premiums grew **7.3%** in the quarter and **10.7%** year to date.

In Mexico, the **traditional segment** accounted for **approximately 62%** of total written premiums, growing **2.7%** in the quarter and **5.7%** year to date. From this segment, the **individual business** increased **7.2%** in the quarter and **10.8%** year to date, while the **fleet business** decreased **3.6%** and **1.2%**, respectively. This performance mainly reflects the effect of adjusting pricing downward to be more in line with our ongoing long term profitability objectives; being partially offset by the increase on units insured, by capitalizing on our service offering, ensuring customers continue to choose Quálitas as their insurance company despite pricing pressures.

Moving to the **financial institutions segment**, this represented **approximately 33%** of total written premiums, growing **17.6%** in the quarter and **22.4%** year to date. This strong performance came despite the slowdown in new vehicle sales across the industry, including both light and heavy units. The growth continues to reflect the shift in consumer preference toward larger vehicles, mainly SUVs and pickups, which translate into higher average premiums, as well as the increase effect from multiannual vs annual policy mix; and the increased of Quálitas market share with key financial institutions.

As reported, our international subsidiaries contributed ~**5%** of total written premiums YTD.

Across **Latin America**, subsidiaries posted strong growth, with **29.7%** in the quarter and **37.5%** YTD.

Each quarter, we continue to achieve key milestones. For example, **Peru**, written premiums grew **26.9%** for the quarter and **36.6%** YTD, involving a **market share of 7.5%** and continues to outperform the competition; or **Colombia,** our most recent subsidiary, in which we have already achieved our goal of opening the 14 offices we had estimated for the end of 2025 and continue openings; while rapidly building scale and working with over 900+ agents; laying the groundwork for sustainable expansion.

In the U.S., as expected from our strategy to exit domestic business and focus on cross-border and bi-national products, premiums declined **-30.6%** in the quarter and **-24.0%** YTD. As José Antonio alluded earlier, the new strategic partnership for our cross-border business will help us deliver a healthier financial business into our US operation while providing Quálitas policyholders with the highest standard of service.

Altogether, insured units closed the quarter at **6.1 million**, a new record high, with over 110 thousand additional unit's vs the previous quarter and with **over 450 thousand** net additions vs the same period of last year; **a 7.9%-unit growth**, maintaining a solid compound annual growth trend of +10.1% over the last 5 years.

Back to our financials, earned premiums increased **16.2%** in the quarter and **14.8%** year to date, more in line with our expectations, reflecting the effect of reserve movements in accordance with a more stable topline growth pace. During the quarter, we released reserves for **$460 million**, compared to a constitution of **$814 million** in the same period last year, also benefited by the loss ratio improvement observed throughout the year. Year to date, reserve constitution totaled **$2.2 billion**. As a reminder, technical reserves constitution´ is based on approved regulatory models and speaks to the corresponding premiums´ growth. Consistent with our expectations, earned premiums are growing at a faster rate than written premiums being able to capitalize accelerated growth from past periods as well as the benefits from lower claims costs.

Moving down to our costs, our loss ratio stood at **62.4%** in the quarter, improving **6.8** percentage points vs PY. Furthermore, on a YTD basis, our loss ratio closed at **61.8%,** improving by **4.6** percentage points compared to last year. Although historically the third quarter is the highest of the year due to the meteorological events season, the company maintained the loss ratio well within our long-term target.

In Mexico, the loss ratio was **60.6%** in the quarter and **59.8%** for the first nine months of the year, representing a **7.0 pp** and **5.1 pp** improvement compared to the same period last year respectively, **exceeding our expectations**. It is worth highlighting that the heavy equipment portfolio showed an improvement of **6.3 percentage points** in its loss ratio versus 3Q24.

On **thefts**, year to date cases decreased **8.7%** for Quálitas despite having more insured units becoming an important building block for our claim cost performance. These results follow the historic annual seasonality where the first year of administration, we see reductions of thefts and are coupled with internal efforts on theft prevention and recovery. On the latter, Quálitas' recovery rate stands at **43.1%, 40 bps** above of 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.

Frequency on a twelve-month basis stood at **26.8%**, an improvement of **122 bp** compared to the prior year. On a quarterly basis, frequency decreased by **21 bp** versus 3Q24, reflecting continued improvements in risk prevention and driving behavior.

The **acquisition ratio** stood at **24.5%** in the quarter and **23.6%** YTD, about **1.8pp** and **1.3pp** higher than last year respectively, driven by the stronger growth in the financial institutions segment with carries higher commissions.

The operating ratio was **6.0%** for the quarter and YTD, including employee profit sharing **given the positive performance of our company**. As a result, we also had an increase in **fees paid to service offices** and **corporate bonuses** that are linked as well to their successful performance during the period aligning productivity and cost 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 **5.0% in the quarter** and **4.7% year to date**

Altogether, this resulted in a **combined ratio** of **93.0%** in the **quarter** and **91.3% year to date**, **fully delivering** on our commitments, confirming our business strategy discipline.

On the financial side of the business, comprehensive financial income declined by **4.1%** in the quarter, while growing **15.1%** on a YTD basis. Our portfolio, totaling **$52.4** billion pesos, remains 86.4% in fixed income, with an average duration of **2.3 years**, and yield to maturity of **8.6%**; for the Mexican subsidiary, yield stands at **9.3%**.

The rest of our portfolio allocated in equities has remained resilient from the market performance during the first nine months of the year. For example, the S&P 500 stumbled in the first quarter of the year, still a **+13.7%** return was observed on a YTD basis, setting a positive tone as markets headed into the last quarter of 2025. All our investment assets are classified as **"available for sale",** meaning their unrealized gains or losses are reflected in the balance sheet until realized.

Our **investment strategy** has not had any relevant changes in 2025, we have strived to bring our fixed income duration up to 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.

Total **comprehensive financial income** was $1.1 billion in the quarter and $3.9 billion YTD, delivering **7.6%** and **8.9%** ROI, respectively. **Unrealized gains** for the first nine months of the year are in the magnitude of ~$1.2 billion, including FX effects, and reflects both mark-to-market revaluations of our fixed income portfolio as rates began to ease, as well as gains in equities. When considering all mark-tomarket positions, ROI would be **13.2%** for the quarter and **12.2%** for the year

This reinforces **the importance of our available-for-sale** accounting treatment, in which valuation effects remain on the balance sheet until realized, but they expand the cushion of our capital base and highlight the embedded value within our portfolio. As interest rates continue their downward trajectory, these gains are likely to remain a relevant driver of our financial results.

Approximately **22% of our portfolio** is invested in **U.S. dollars** given our international presence. For every peso that appreciates or depreciates the estimated annual impact is around ~$650 million, serving as a natural hedge.

Our **effective tax rate** was about ~**31%** in the quarter and YTD in line with our historical trends.

Net income reached **$1.7** billion in the quarter and **$5.3** billion YTD, with net margins of 10.0% and 9.9%, respectively. Our 12-month ROE stands at **26.7%**, above our long-term target of 20–25%.

Our **regulatory capital** stood at $6.0 billion pesos, with a solvency margin of $18.0 billion; equivalent to a **solvency ratio of 401%.** Our 12-month earned premium to capital ratio is 2.6x.

We maintain a **strong capital position** that allows us to invest strategically to continue improving customer service and experience, through innovation and technology, while reinforcing our core capabilities. Our approach remains disciplined and selective, always with the goal of delivering long-term, sustainable value to our shareholders.

In summary, 2025 is poised to become **one of our best years** across most metrics, and while we need to understand the one-time impact of the VAT matter widely discussed by José Antonio, we are **proud of the business performance year to date**. We recognize that competition is strong, resulting from the claims industry cycle, but we **are well prepared for that.** We reaffirm our full-year top-line growth to be in the high single digits to low teens, with key performance indicators remaining within our target ranges.

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