



# Financiera Independencia

FINANCING INCLUSION WITH INNOVATION

2019 ANNUAL REPORT



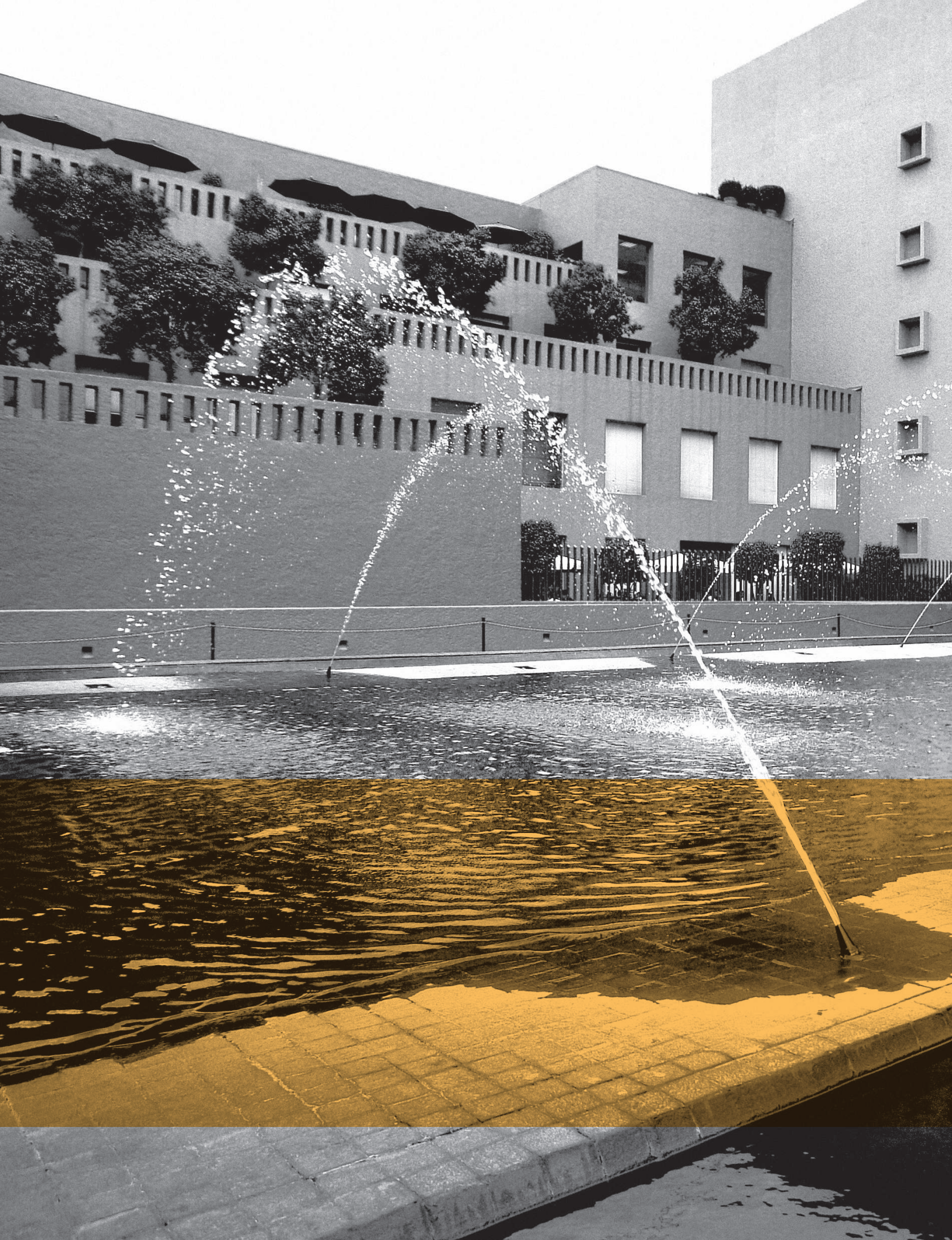


# Financiera Independencia

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**FINANCING INCLUSION WITH INNOVATION**

2019 ANNUAL REPORT



A photograph of a modern, grey building with a large fountain in the foreground. The fountain has several jets of water spraying upwards and outwards. The building has a prominent feature of horizontal slats. The scene is captured in a cinematic style with a warm, golden light. The fountain is in the foreground, and the building is in the background. The water is dark, and the sky is a soft, hazy grey. The overall mood is professional and sophisticated.

# For 26 years,

Financiera Independencia has built a successful business model aimed at providing financial services to people who are not served by traditional banking institutions. The Company stands out for its personalized, respectful, and fair treatment to its clients, and also for its highest commitment to innovation and quality.



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# Quality and innovation for all: the key to success

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## MESSAGE BY THE CHAIRMAN OF THE BOARD AND THE CEO

In 2019 we celebrated 26 years of being a leading company within the microcredit market, committed to financial inclusion. Our long and successful career has allowed us to cross borders and take our business to Brazil and the United States in order to serve clients with the same passion, quality, and fair treatment which have always distinguished us.

This year we reached the highest loan portfolio in our history: 8,785 million pesos, with a 6.7% annual growth. The performance of Más Nómina stands out, with a 30% growth against the previous year and which today represents 12% of the portfolio. We also acknowledge Apoyo Financiero, Inc., our subsidiary company in California, which increased its loan portfolio by 25% in the year and now represents 26% of the Company's total.

In 2019, we served more than half a million clients through 532 branch offices. We registered a 323.9 million pesos net profit, equivalent to 7.6% annual return on capital. We express our appreciation to each of our 7,858 collaborators for contributing to these good results.

Seven years ago we reviewed the company's strategic approach with the purpose of building a solid foundation for growth. As we have mentioned before, the success of the company is measured not by the number of clients, but rather by satisfied clients and not by the loan portfolio balance, but rather by a balance between the size of the portfolio and



the quality of the loans we grant, which is reflected in the Non-Performing Loans (NPL) ratio. By the end of 2019, we registered a 5.9% consolidated NPL ratio, which was within acceptable parameters according to our strategy, as a result of the application of conservative credit policies and the capability of managing our credit process efficiently.

The development of a risk management culture has been an essential element in order to offer viability and support to our business. In 2019, we continued strengthening our capabilities to identify, measure, and manage the risks posed by our activity, supported by learning gained from previous experiences, the use of our extensive database in combination with specialized analytical models.

Another key aspect that supports the business of Financiera Independencia and subsidiaries is the Aguascalientes Operational Center (COA, by its acronym in Spanish, Centro Operativo en Aguascalientes). In 2019 we continued to work in the consolidation of centralized and standardized processes in COA; more operations were assigned to it with the purpose of turning it into a comprehensive operation backup, under a single platform, which will allow us to reach higher service quality, safety, and efficiency standards.

We are an organization that bets on technology and innovation. We have been working in the addition of digital services to our business model, which is allowing us to build a high value product offer for our clients; with this we will be able to reach more people, earn their preference, and increase our market share. The addition of new technologies will also allow us to improve our labor productivity, reduce operation costs and increase our operation efficiency, which will be reflected in a greater ability to generate profits.

Almost 20 years ago we made a commitment to promote a social responsibility agenda within the company aimed at having positive impact on communities, changing lives and touching people's hearts, which has resulted in great learning experience and satisfaction for us. In 2019 we undertook diverse actions to support low-income communities and vulnerable children in the country. We also joined several reforestation and environmental rescue efforts.

We are very proud to close one more year with good results for all of Grupo FINDEP, which allows us to continue to grow and close new business opportunities.

We will continue to make the most out of all our resources, experience, and specialized knowledge in the microfinance sector to grow and create more employment, to include a greater number of people financially through our products and services, to strengthen the company's financial position and repay our investors appropriately.

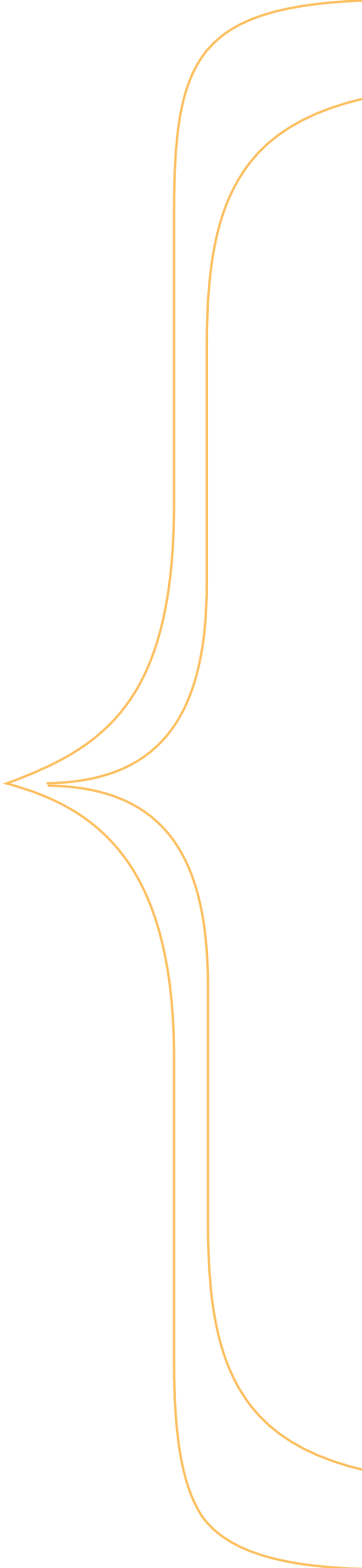
We thank the members of the Board of Directors for their valuable guidance in the strategic conduction of the company, to the management team for their talent, energy, and their goal-oriented broad experience, and to our amazing team of contributors for their dedication and commitment to everyday work.

**JOSÉ L. RIÓN SANTISTEBAN**  
CHAIRMAN OF THE BOARD OF DIRECTORS

**EDUARDO MESSMACHER  
HENRÍQUEZ**  
EXECUTIVE VICEPRESIDENT  
AND CEO OF THE GROUP

**Highlights**

**2019**



# 561,832

Total clients

Ps. **8,785**  
million

Total loan portfolio

6.7%

Annual growth

**7,858**

employees

**532**

branch offices

Ps. **324**  
million

Net profit

24%

More than 2018

**Ps. 0.96**

Earnings per share

**7.6%**

Return on equity

5.9%

NPL Ratio

34.5%

Solvency Ratio



CHAPTER  
ONE

# The Milestones of our history



# Over 26 years of history

Financiera Independencia has been a leading company within the Mexican microcredit market.

**1993**

Financiera Independencia is established as the first limited-scope financial institution (Limited Purpose Financial Entity) in Mexico. It begins operating in Toluca, Estado de México.

**1999**

The first Operation Center opens in León, Guanajuato.

**1994**

Geographic expansion across Mexico begins with the opening of the branches located in Celaya, Querétaro, Irapuato, Aguascalientes, and León.

**2003**

The Socially Responsible Company certificate is obtained.

**2007**

Financiera Independencia becomes a non-regulated financial institution (Multiple Purpose Financial Entity); it makes the first public offering of its shares in Mexico and abroad.

**2005**

One million loans granted.

**2004**

The company enters the microcredit market for self-employed people.



Its successful career has led the company across borders, taking its business model to Brazil and the United States to offer its services in other countries

with the same passion and quality.

2008

The second Operation Center opens in Aguascalientes.

2013

The acquisition of group loans takes place.

2011

Apoyo Financiero Inc. (AFI) and Apoyo Económico Familiar (AEF) acquisitions take place.

2010

The acquisition of Financiera Finsol takes place, the second largest supplier for group microcredits in Mexico. Financiera Independencia becomes the first micro-credit company in Latin America to enter the international debt market.

**2015**

One million clients served across 499 branches in Mexico, 30 in Brazil, and 20 in California, USA.

**2019**

Operational integration into a single business platform.

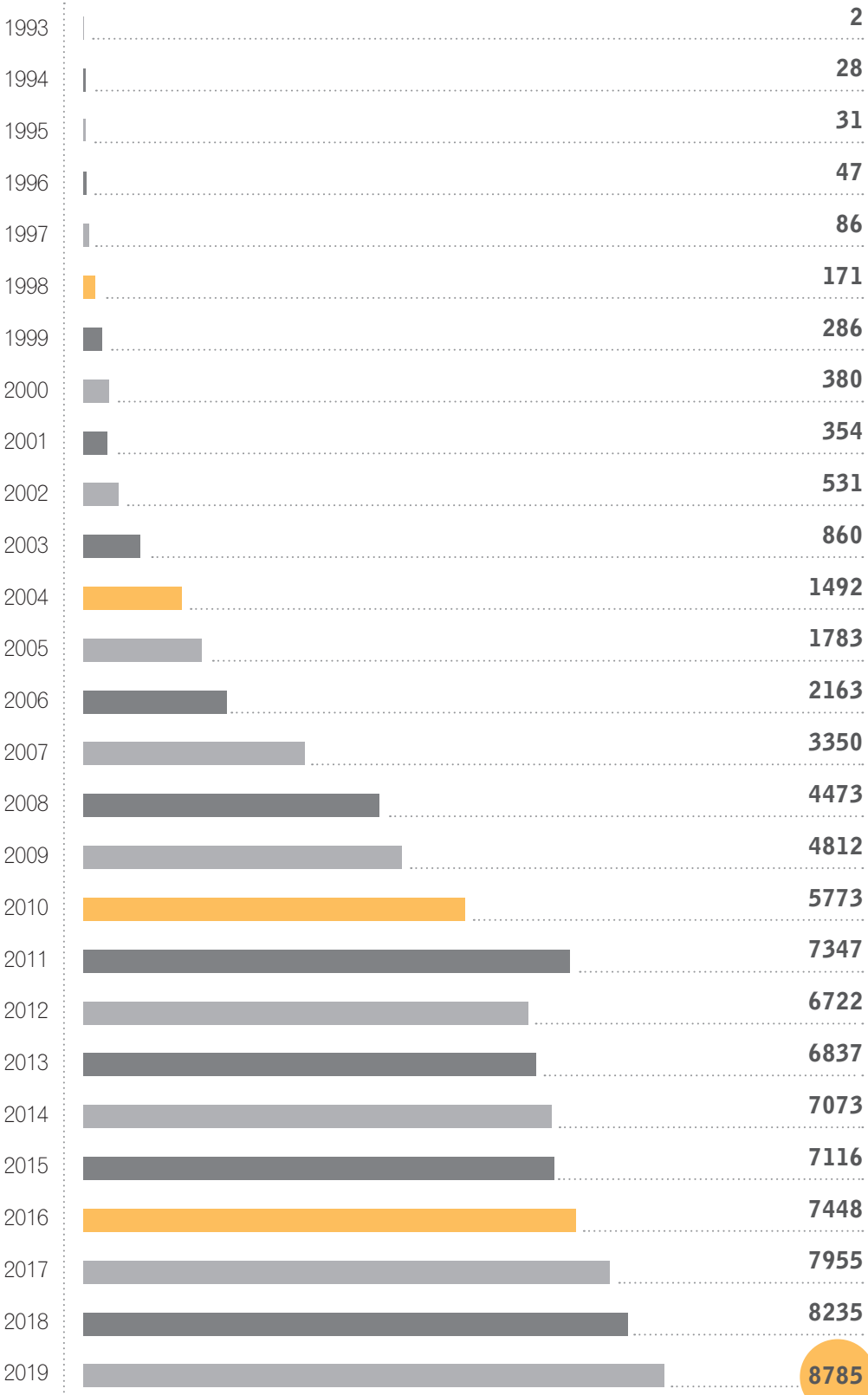
**2018**

Financiera Independencia celebrates its 25th anniversary.

**2017**

Financiera Independencia cancels its American Depositary Receipt program.

# TOTAL LOAN PORTFOLIO (MILLION PESOS)



**It is through our  
loans that we  
transform lives and  
help our clients  
make their dreams  
come true.**



CHAPTER  
TWO

# Who we are and what we do





500  
EURO



# **We are a leading company**

that provides financial services to people who are not served by banks.

We stand out for offering an excellent service and by treating our clients in a respectful and fair way.



# Our Market

We offer microcredits to middle and lower middle class population segments, who do not have access to formal financial services or are underserved by banks.

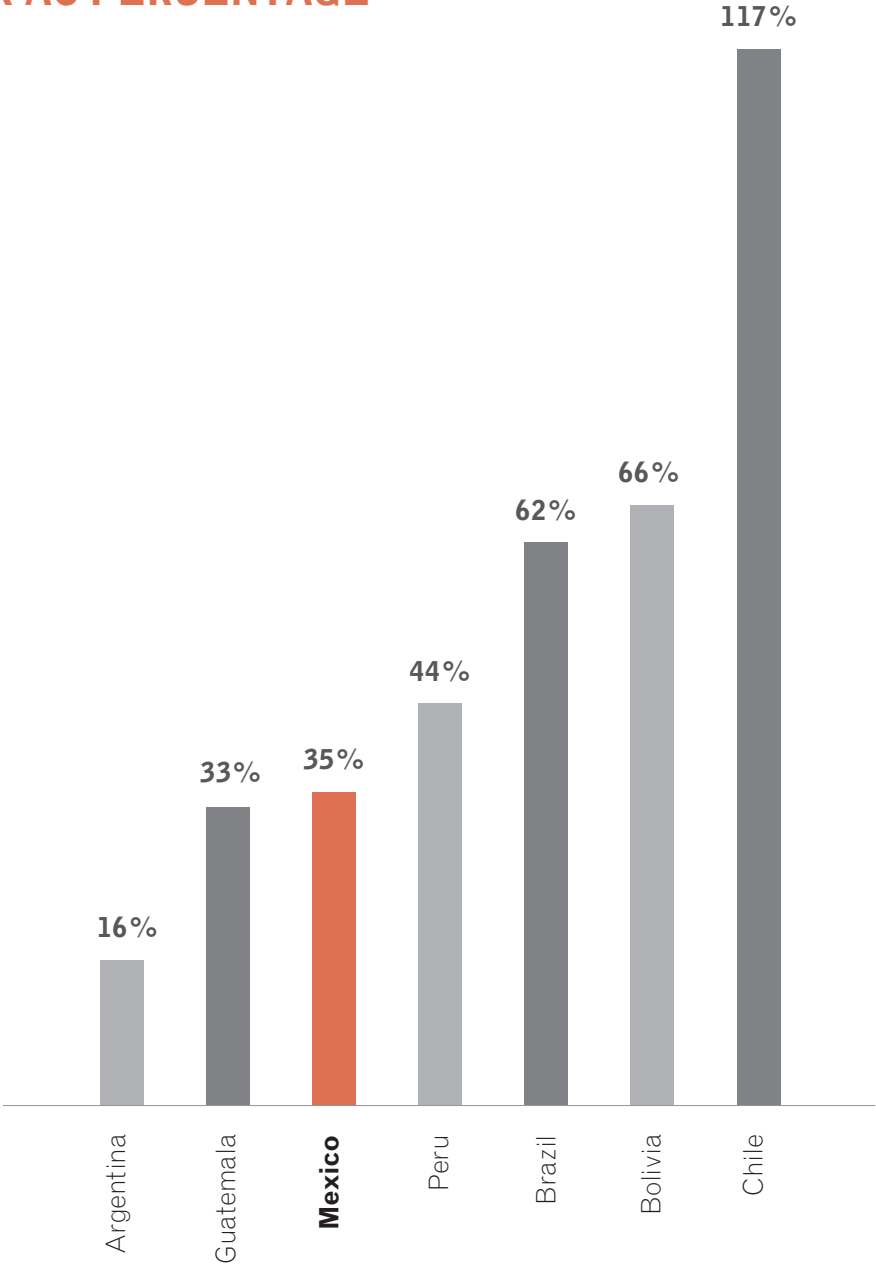
According to data published by the AMAI\*, it is estimated that 30% of Mexican homes belong to the C and C-socioeconomic levels, and 52% to D+, D, and E, and thus Financiera Independencia could reach 82% of the households in the locations where it is present.

In our country, credit to the private sector is only 35% of GDP which reflects a low financial products penetration rate when compared to other Latin American countries, such as Peru, Brazil, Bolivia, and Chile.

Mexico has a favorable outlook for population growth for the sector comprising people ages 20 to 59, which will reflect on a higher potential demand of microcredits for the following years, bringing an attractive opportunity for the company's growth and development.

\*AMAI: Asociación Mexicana de Agencias de Inteligencia de Mercado y Opinión Pública, A.C.

# CREDIT TO THE PRIVATE SECTOR AS PERCENTAGE OF GDP



Source: The World Bank.

# Our Strategic Approach

The strategic approach that has been employed since 2012 consists of privileging the quality and profitability of the loan portfolio over its size through

## A BUSINESS MODEL BASED ON FIVE PRINCIPLES:

1

### ROBUST, FLEXIBLE, AND SCALABLE BUSINESS MODEL

Built on 26 years of specialized knowledge on microfinance.

---

It has been strengthened in an organic manner and through strategic acquisitions.

---

It has managed to adapt to the changing conditions of the environment across several economic cycles.

---

It features a wide distribution platform to offer service in diverse geographic regions, even outside Mexico.

2

### OPERATION FOCUSED ON MARKETS WITH A SOLID FOUNDATION FOR SUSTAINABLE GROWTH

Underserved population segments with positive demographic dynamics allow to build a long-term growth path.

---

Technological and digital transformation development allow the creation of more efficient service models.

The purpose of the company is to maintain its position as leading personal microloans supplier in Mexico and seize its knowledge, experience, and operating platform to offer its services to a share of the market, both in Brazil and the United States of America through multiple products, while keeping high profitability and efficiency levels.

3

**PRUDENT BUSINESS MANAGEMENT TO BALANCE RISK AND GROWTH**

We encourage prudent and responsible business risk-taking.

---

We strengthen our analytic capacity and adopt healthy practices for appropriate risk management.

4

**POSITIONED FOR A SOLID GROWTH IN USA**

Tested business model in the US, mainly serving the Latin population based in California.

---

It allows to diversify the loan portfolio and the income base of the company.

5

**MAXIMIZE THE USE OF TECHNOLOGY FOR AN EFFICIENT GROWTH**

Unique data combination, operational discipline, and experience.

---

Efficiency while migrating the operation to the Cloud and greater integration of mobile technology both for the personnel and clients.

# The Principles of Financiera Independencia

FINANCING THE DREAMS  
OF OUR CLIENTS

**BY OFFERING  
THE BEST  
PRODUCTS  
THROUGH  
BREAKTHROUGH  
TECHNOLOGY,  
AND EXCELLENT  
CUSTOMIZED  
ATTENTION.**



1

This is how  
we are.



4

This is how  
we succeed.

2

This is how  
we act.



5

This is how  
we dream.

3

This is how  
we stand out.



6

This is our  
commitment.

# 1 This is how we are

There are more than **50 million grown-up people** in Mexico who do not have access to credit and who would surely be benefited from having it.

**IN GRUPO  
FINDEP WE  
KNOW THIS,  
WE BELIEVE IN  
THEM, AND WE  
ARE THEIR BEST  
CHOICE.**

.....

We are sure that through our financial services, we contribute to our clients' progress by helping them meet their **personal needs** and their **microbusinesses'**, **improving their life quality** for their own wellbeing, their families', and the society in which they live.

.....

**WE TRANSFORM THE LIVES OF OUR CLIENTS AND CONTRIBUTORS, MAKING DREAMS COME TRUE.**



2

# This is how we act

WE ACT RIGHTEOUSLY TO ACHIEVE  
THE MOST IMPORTANT CREDIT:

**THE ONE OUR CLIENTS  
PROVIDE US WHEN  
THEY BELIEVE AND  
PUT THEIR TRUST IN US.**

## **HONESTY**

We tell the truth  
and act honestly  
and righteously at  
all times.

## **COMMITMENT**

We accept our  
challenges, always  
looking for excel-  
lence. We keep our  
promises and set a  
good example.



## **RESPECT**

We treat others with dignity and fairness, regardless of their condition or if their way of thinking is different from ours.

## **COLLABORATION**

We accept and encourage new ideas and understand success as everyone's responsibility.

## **HIGH QUALITY SERVICE**

We take service as a way of life, convinced that it is the foundation of our path to success.

3

# This is how we stand out

WE ARE PERSEVERING, SOLID,  
AND TRUSTWORTHY.

WE WERE THE FIRST  
AND WE ARE THE BEST.  
WE ARE PROUD TO HAVE  
MADE THE DREAMS  
OF MANY PEOPLE  
COME TRUE.

**OVER**  
**13 MILLION**  
**DREAMS**

**MORE THAN**  
**700,000**  
**FAMILIES HAVE**  
**IMPROVED THEIR**  
**LIVES**

4

# This is how we succeed

**WE COMBINE THE BEST TECHNOLOGY WITH THE DEEPEST ANALYTIC KNOWLEDGE AND THE BEST TEAM TO OFFER A HUMAN TOUCH.**

We know that, in order to be profitable, we need:

## **CUSTOMER SERVICE APPROACH**

Clients are our priority at all times. Listening to them is essential in order to offer the best service in the least amount of time possible. We are aware that requesting a loan places our clients in a vulnerable position and we take care of them.

## **QUALITY ORIGIN**

Offering responsible loans to clients who have the intention of paying with amounts and conditions that lead to their success in a long-term relationship must be the foundation for the way we act.

**WE COMBINE TECHNICAL, SYSTEMATIC, AND HUMAN ASPECTS IN ORDER TO BE THE BEST.**

## RETENTION APPROACH

Clients with good behavior reaffirm the trust we offered them. Our job is to accompany them through the whole process offering simple, personal, and fair attention.

## FAIR AND EFFECTIVE COLLECTION

We are aware that this is the most critical point of our service. An effective collection with a fair treatment allows us to establish a long-term relationship. We seek to offer our clients the most appropriate choices and channels to help them meet their commitments.

## EFFICIENCY

We search for a warm and customized treatment for our clients, supported by an efficient operational network and optimized processes.

**WE ARE AWARE THAT OUR PEOPLE ARE OUR FOUNDATION.  
WE ATTRACT, KEEP, AND DEVELOP THE BEST PEOPLE WITHIN  
AN OPEN AND INCLUSIVE ENVIRONMENT.**

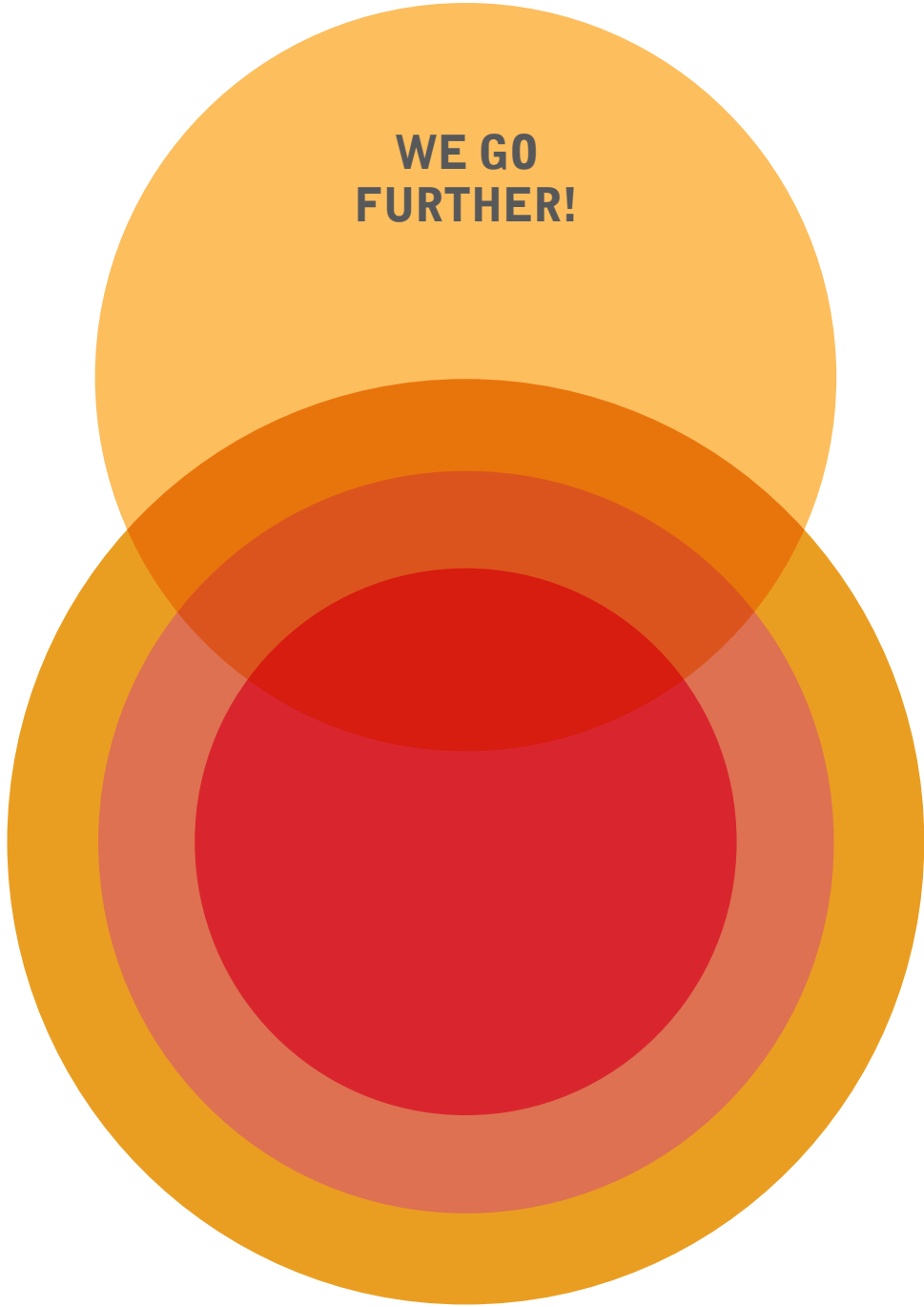
5

# This is how we dream

FOR A BETTER COUNTRY, BY HELPING  
A POPULATION SEGMENT THAT NEEDS  
IT AND NEEDS US.

FOR AN EXEMPLARY  
COMPANY WITH A  
LEADERSHIP THAT  
MAKES EXTRAORDINARY  
THINGS THROUGH ITS  
PEOPLE, IN THE RIGHT WAY.

**WE GO  
FURTHER!**





6

# This is our commitment

**WE WORK TO BE THE  
BEST CHOICE FOR:**

## **CLIENTS**

.....

We offer our services to those excluded because we trust them. We make them feel welcome to a financial institution. Together we make progress and achieve a better life quality for our families.

.....

## **CONTRIBUTORS**

.....

We are the best choice for the most talented people. We offer merit-based career opportunities. We develop and acknowledge our people through a leadership that emphasizes fair treatment and reciprocal commitment.

.....

## **STOCKHOLDERS**

.....

We acknowledge their double social commitment: towards our clients and towards our contributors. We are committed to offer them attractive returns in order to make their investment sustainable.

## **FUNDERS**

They are our main partners. We care for the quality of our portfolio and our costs to offer them certainty and benefits.

## **REGULATORY BODIES**

We work with absolute adherence to the regulations that correspond to us. We guarantee compliance for each one of our regulatory bodies.

**WE ARE COMMITTED  
TO MAINTAINING A  
LONG-TERM APPROACH  
AND TO DO THE RIGHT  
THING TO RECIPROCATE  
YOUR TRUST.**



CHAPTER

THREE

# Our businesses







# Financiera Independencia (FISA)

We grant loans to people ages 18 to 68, whether active workers, retired, or people who are undertaking activities on their own. It is through our credits that we help people

**handle an unexpected situation, finance a project, make their dreams come true.**

**281,260**

Total clients

---

**Ps. 3,522\***  
**million**

Total loan portfolio

\* / Does not include 5.8 million Pesos  
in other credits

**Ps. 212.9**  
**million**

Net Operating  
Income

---

**4,206**

employees

---

**163**

branch offices

## Our clients

Financiera Independencia grants unsecured loans to people who can prove they have a regular income through wages or salaries as employees or through a retired pension, who are considered to be within the “formal sector”. It also offers its services to people who own a business or who develop economic activities on their own, who are considered to be part of the “informal sector” or “self-employed”.

Independencia was pioneer in granting microcredits in Mexico; since 1993 it has offered financial services to excluded population groups or those who have been neglected by traditional banking, by offering them the opportunity to build a healthy credit record. In order to get a loan from Financiera Independencia, people submit documents, fill out a credit form, and get an answer in 48 hours.

## Our attention model

Financiera Independencia has 163 branch offices for client attention; in them, people ask for information, process their loans and, if these are approved, a check is given to clients so they can cash it in an affiliated banking institution.

People have the option of pre-filling a loan form through a call center or the internet.

People pay for their loans at Financiera Independencia branch offices or at affiliated commercial establishments. In some cases, they can make payments with credit or debit cards.

With the purpose of offering clients a “self-service” scheme, in 2019, Financiera Independencia kept 81 ATMs in operation at a number of branch offices. If clients hold a card with a magnetic strip, they are able to withdraw available cash from their loans and make payments 24/7. The company is working on initiatives to simplify and speed up the loan collection process; for example, by enabling efficient payment methods like direct debit and by equipping debt collectors with mobile tools.



## Our products and services

In 2019, Financiera Independencia kept its loan offer for people in the formal sector through the **CrediInmediato** and **Más Nómina** products.

New Financiera Independencia clients access the CrediInmediato Simple product for amounts from 3,000 pesos; loans can be used to purchase goods or services and are paid in 12 through 48 biweekly installments.

As clients show a good payment behavior, they have the chance to renovate their loans and change to the CrediInmediato Revolvente product, which offers them flexibility to access their loans, being able to make advance payments and principal payments without penalties.

Más Nómina is a product meant for people who are employees or retired, through loans that start at 3,000 pesos in terms that go from 6 to 60 months and which are paid by deducting them from the payroll. In 2019, the “digital credit” was launched, which allows clients to acquire a product without the need for a face-to-face interview, since identity validation is made through applied technology with biometric elements.

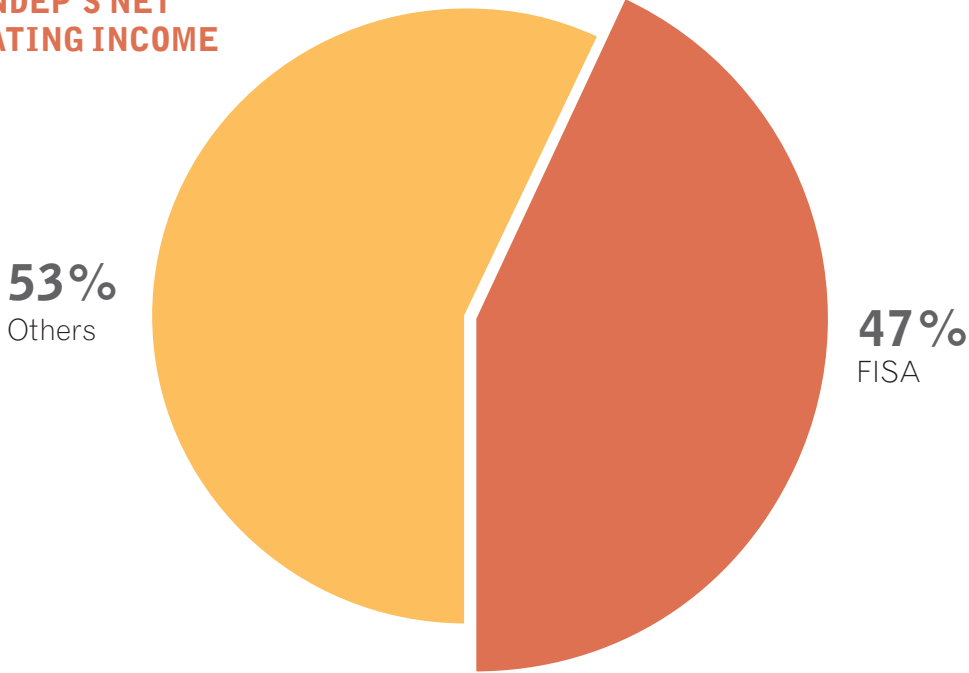
In 2019, Financiera Independencia kept its loan offer for people in the informal sector through the **CrediPopular**, **CrediMamá**, and **CrediConstruye** products.

As added value services for its clients, Financiera Independencia offers the possibility of financing life and unemployment insurance to affordable prices. It also offers the possibility for clients to get cell phone plans through financing.

**CONTRIBUTION TO  
FINDEP'S TOTAL  
LOAN PORTFOLIO**



**CONTRIBUTION  
TO FINDEP'S NET  
OPERATING INCOME**



## Highlights

In 2019, Financiera Independencia granted more than 2,300 million Pesos in loans, benefiting over 280 thousand clients.

The product Más Nómina registered a 31% growth in the year, by going from a portfolio balance of 786.6 million Pesos in December 2018 to 1,029.7 million Pesos in December 31st, 2019. This product represents 29% of the Financiera Independencia portfolio and 12% of the company's total loan portfolio. In 2019, Financiera Independencia expanded its branch office network from 158 to 163.

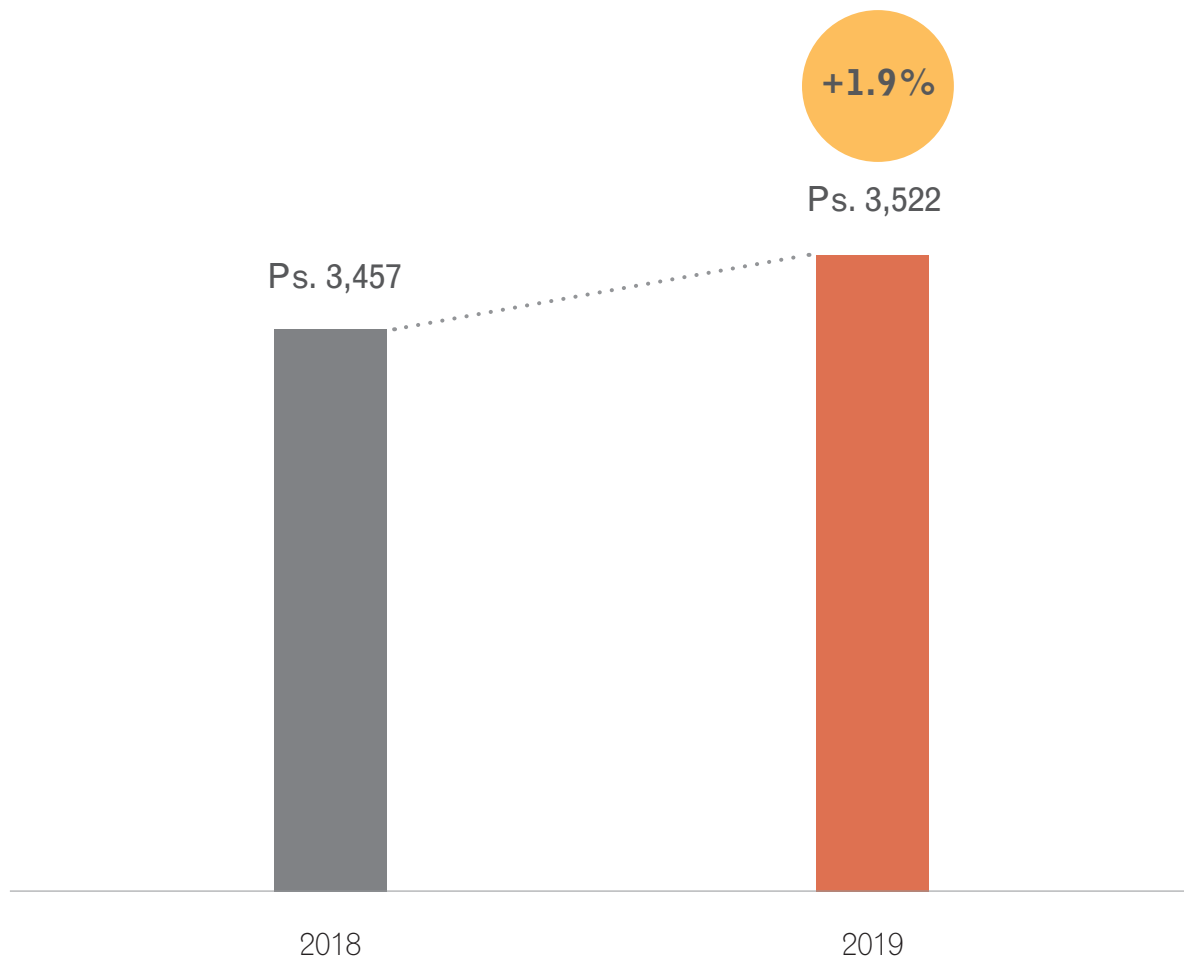
## Perspective and goals

Financiera Independencia continues to optimize its operation model of the branch office network and to work on technological tool development in order to help out the sales staff, simplify client procedures, and to offer a quality service.

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## 2019

As of December 31st, the loan portfolio in FISA totaled 3,522\* million Pesos, 1.9% higher versus 2018.



\*/ Does not include other credits.



# Apoyo Económico Familiar (AEF)

We grant loans to employees and people who own their business. More than just a loan, we offer our clients the possibility to access lifetime financing.

**If they comply,  
we renovate their  
credits as many  
times as they need it.**



**111,434**

Total clients

---

**Ps. 1,822  
million**

Total loan portfolio

---

**Ps. 87.1  
million**

Net Operating Income

---

**1,957**

employees

---

**164**

branch offices

Ps. = Mexican Pesos.

## Our clients

Apoyo Económico Familiar grants personal loans to women and men who can prove they have an income as employees and also to those who own a microbusiness. No guarantee is needed and people do not need to pawn their goods.

Since 2005, Apoyo Económico Familiar has financed the dreams of thousands of people: a house refurbishment, the daughter's 15-birthday party, the special family trip, the grocery store, the taco restaurant, among many others.

In order to have access to an AEF loan, people apply easily and have an answer within 24 hours.

## Our attention model

AEF has internet and social media promotion campaigns. It has 164 branch offices where people ask for information and fill out their loan application form. AEF has a toll free number and offers the option to prefill the loan application online.

When the loan is approved, people visit the branch office and pick up a check to their name, which they can cash at any affiliated commercial bank.

AEF offers its clients the possibility to customize their loan: people may choose between weekly, biweekly, or monthly payments, depending on the periodicity of their income. If payments are made weekly, people may choose the most convenient day of the week to pay.

AEF offers diverse channels so clients can pay for their loans, either at an AEF branch office, a bank, or at affiliated commercial establishments.



## **Our products and services**

Personal AEF loans range from 1,500 to 150 thousand pesos, depending on people's payment capacity.

The minimum loan term is 13 weeks and the maximum term is 156 weeks:

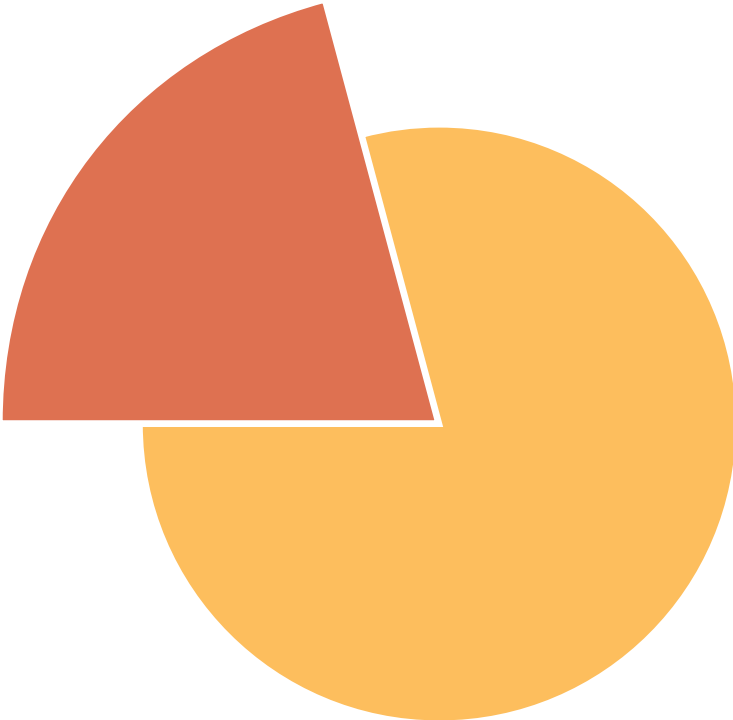
AEF offers its clients the possibility of having a family member sign and add their income to theirs in order for them to be easier to get the loan granted.

As clients prove their good payment behavior, they are given the opportunity to renovate their loan, with which they can build a credit history with the company for several credit cycles.

As added value services, AEF offers its clients the possibility of having the protection of a life insurance or getting cell phones through financing.

**CONTRIBUTION TO  
FINDEP'S TOTAL  
LOAN PORTFOLIO**

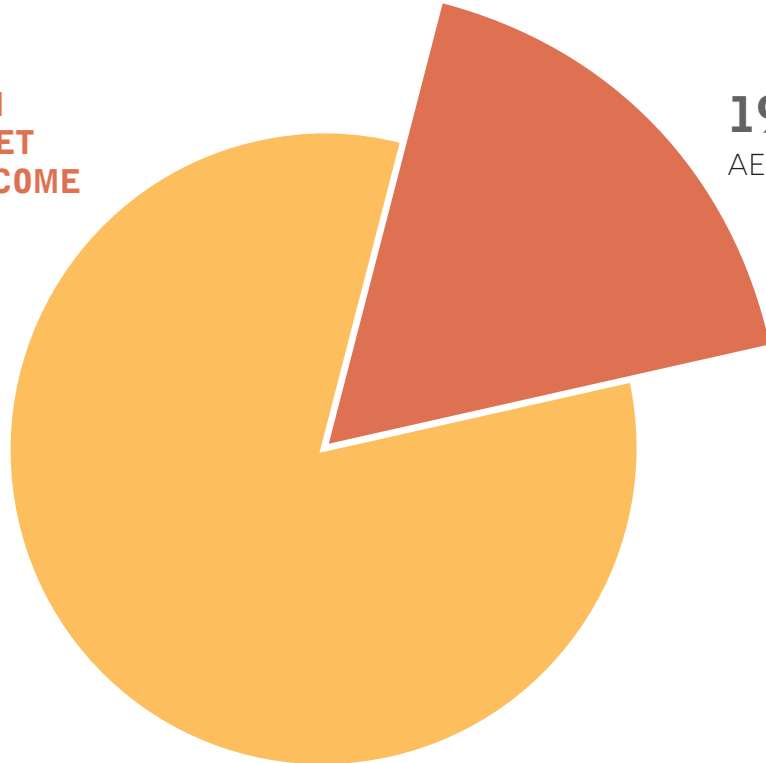
**21%**  
AEF



**79%**  
Others

**CONTRIBUTION  
TO FINDEP'S NET  
OPERATING INCOME**

**81%**  
Others



**19%**  
AEF

## Highlights

In 2019, AEF granted more than 1,200 million Pesos in personal loans, benefiting over 111 thousand clients in 18 states in the country.

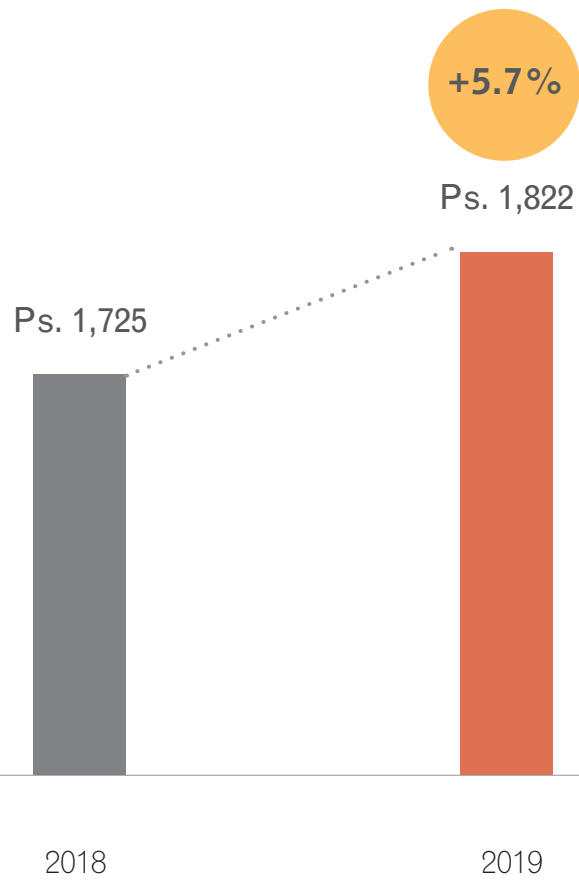
## Perspective and goals

AEF continues to optimize its operation model of the branch office network, with the purpose of increasing efficiency and profitability rates, and to continue offering a quality service for its clients.

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## 2019

As of December 31st, the loan portfolio in AEF totaled 1,822 million Pesos, 5.7% higher versus 2018.





# Apoyo Financiero Inc. (AFI)

We offer products with an outstanding service, so our clients seize opportunities and meet their goals.

**We are positioned within an attractive market in the United States, offering our services to the Latin American population in California.**



**31,187**

Total clients

---

**Ps. 2,243  
million**

Total loan portfolio in pesos

---

**Ps. 90.4  
million**

Net Operating Income

---

**224**

employees

---

**28**

branch offices

Ps. = Mexican Pesos.

## **Our clients**

AFI grants loans to people who can prove their income as employees or owners of a microbusiness in the state of California, United States, and who own a social security number.

Many AFI clients belong to the Latin American community in the United States. They are people who find it valuable to be able to access loans without the need to pawn their goods.

In order to have access to an AFI loan, people submit documents, fill out a loan application form, and get a quick answer.

## **Our attention model**

Apoyo Financiero contacts people through a network of 28 branch offices through a phone-based platform or the internet. The information and loan application form are submitted by clients at the branch office; there is also the option of filling out a pre-application online, which makes the process faster. When the loan is approved, clients are given a check at the branch office.

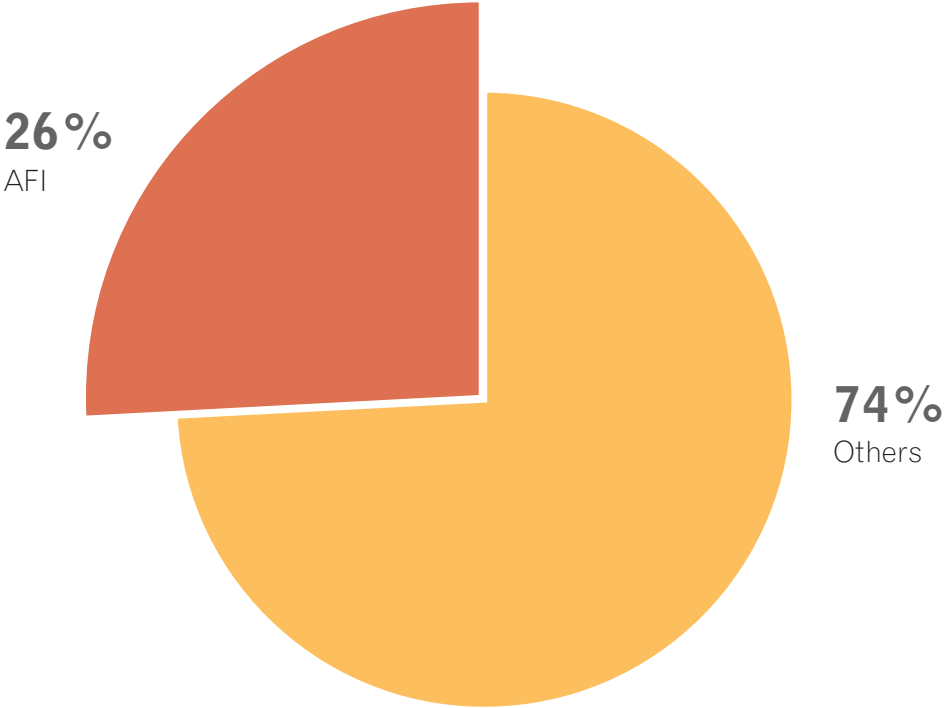
People make their loan payments at AFI branch offices or affiliated commercial establishments, whether in cash, through a personal check, or a money order.



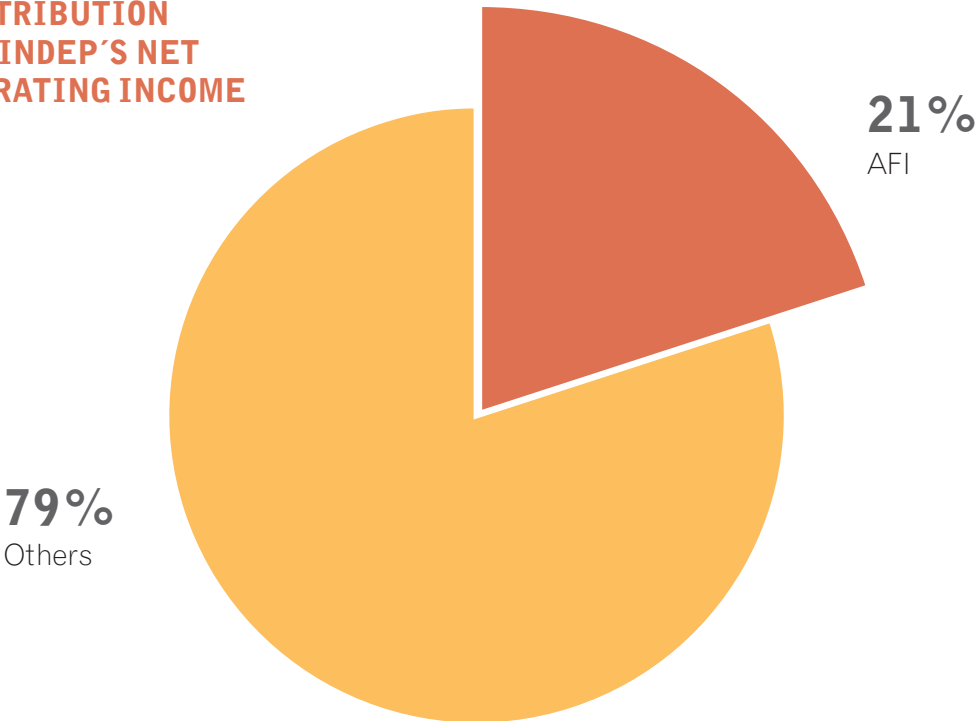
## **Our products and services**

Loans offered by Apoyo Financiero are in dollars and range from \$750 to \$10,000, depending on the clients' payment possibilities and of the good credit history clients' show. The credit term can go from four to 48 months and are paid every 14, 15, or 30 days, according to the scheme that best adapts to the clients' income frequency.

**CONTRIBUTION TO  
FINDEP'S TOTAL  
LOAN PORTFOLIO**



**CONTRIBUTION  
TO FINDEP'S NET  
OPERATING INCOME**



## Highlights

Apoyo Financiero has found the proper conditions for its growth in the USA. In 2019, it increased its client base in 20%, granted more than 110 million dollars in loans, increasing its loan portfolio balance to 2,243 million Pesos to December 31st. AFI's loan portfolio represents 26% of the company's total.

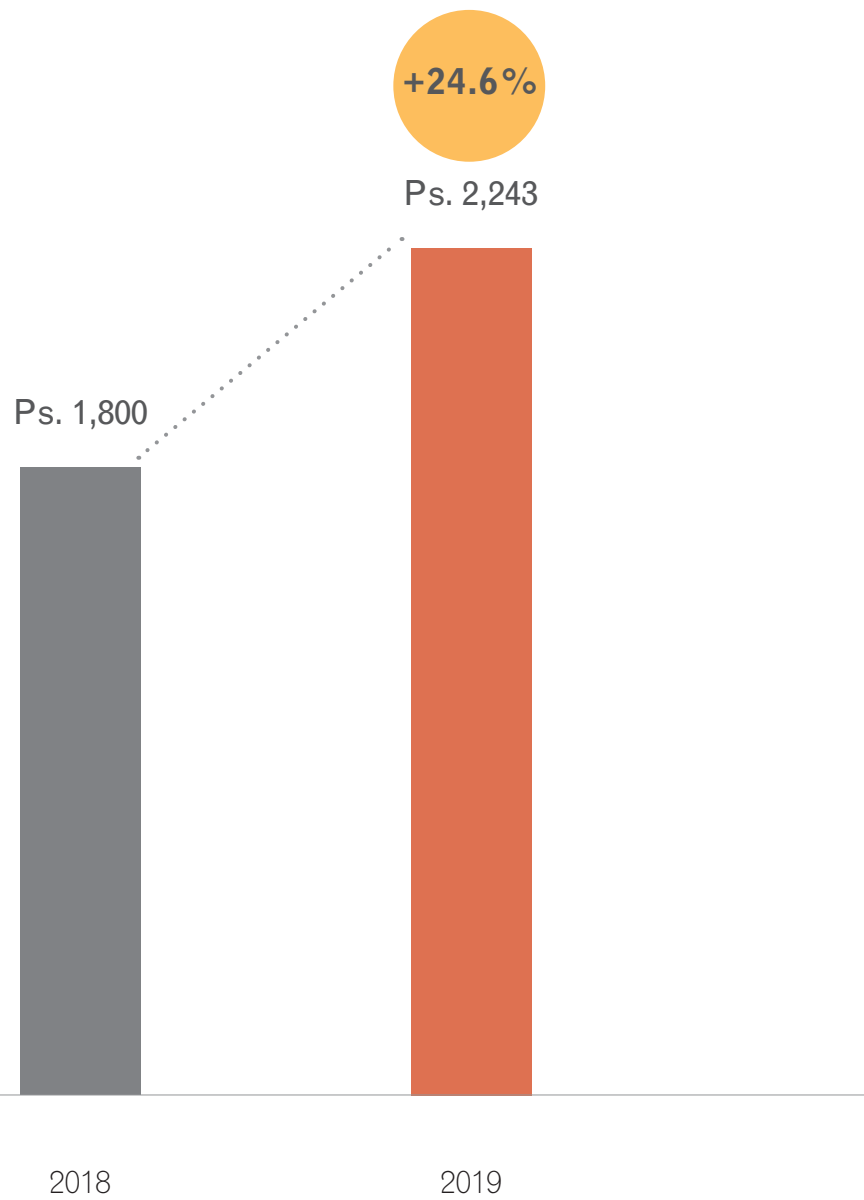
## Perspective and goals

Apoyo Financiero will continue to work to build solid foundations for its growth; it invests in technology to improve the quality service for its clients; analyzes the possibility of expanding its geographic presence to other states in the US.

---

## 2019

As of December 31st, the loan portfolio in AFI totaled 2,234 million Pesos, 24.6% higher versus 2018.





# Finsol México

We are the best financing option for self-employed people who lack a proper credit history to access loans on personal merits.

**We are a company committed with financial inclusion in Mexico.**



**103,084**

Total clients

---

Ps. **812**  
**millions**

Total loan portfolio

---

Ps. **40.8**  
**million**

Net Operating Income

---

**1,173**

employees

---

**148**

branch offices

Ps. = Mexican Pesos.

## Our clients

Financiera Finsol grants loans to women and men who work on their own, who require resources to develop their activities and make their small businesses grow.

For 16 years, Finsol has financed a wide range of productive and commercial activities in rural, suburban, and urban areas in Mexico. Today, 90% of Finsol clients are women.

In order to access a Finsol credit, people must be part of a group of at least eight participants – all of them shall know each other – and make the commitment to support each other and respond in solidarity to punctual loan payments.

## Our attention model

Finsol promotes its products and services through a sales force that travels across carefully chosen routes. It also offers information through its website and social media. Credit advisers will guide and accompany people through their registration process and until their loan is approved; they will also monitor the proper functioning of solidarity groups once loans have been granted.

Finsol has more than 27,000 spots where their clients can make their loan payments, by visiting bank branches, Financiera Independencia branches, or affiliated commercial establishments.

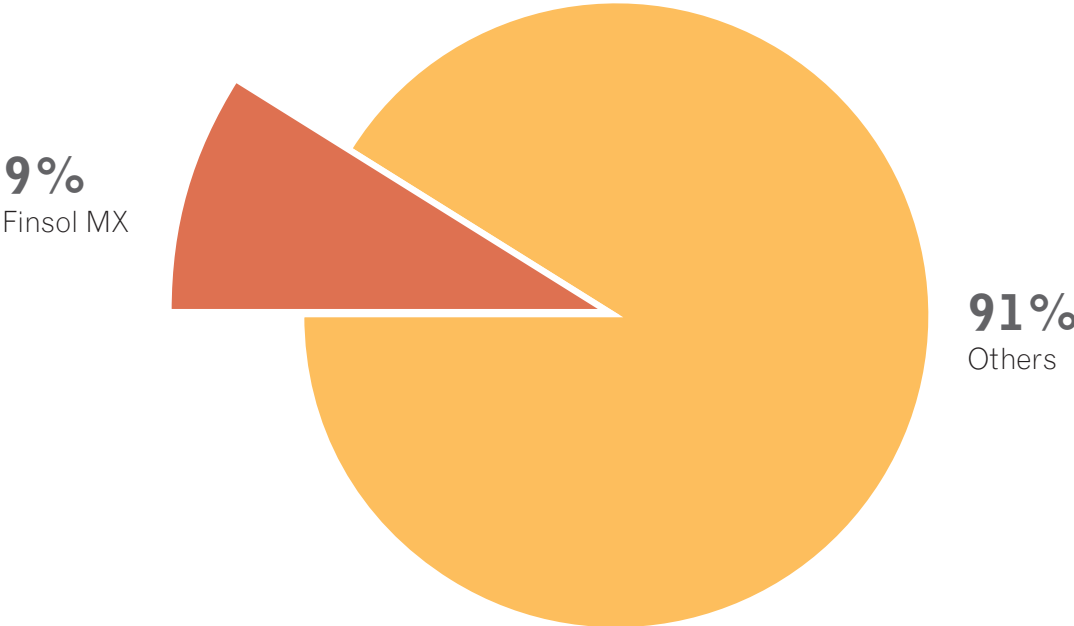


## **Our products and services**

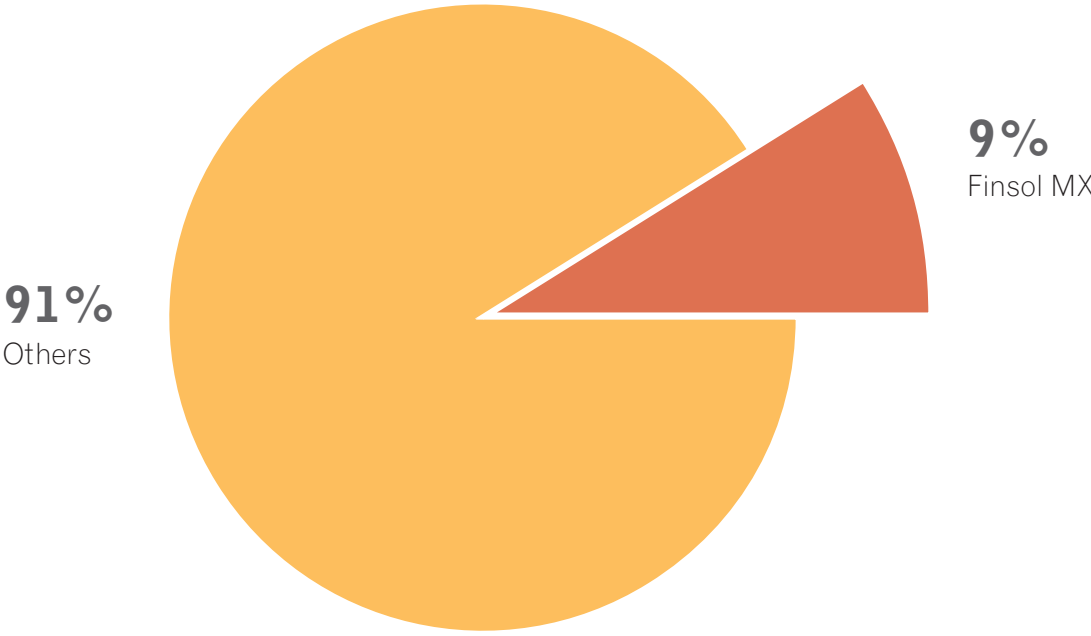
Finsol's flagship product continues to be Crédito Comunal, with amounts that range from 500 pesos per loan and which may increase through good payment behavior and the number of credit cycles people keep with Finsol. Each credit cycle can be 16, 20, 24, and 26 weeks long, with a weekly or biweekly payment frequency.

As added value services, Finsol offers its clients the possibility of having the protection of a life insurance and a serious disease insurance, in a financed way through a flexible payment scheme.

**CONTRIBUTION TO  
FINDEP'S TOTAL  
LOAN PORTFOLIO**



**CONTRIBUTION  
TO FINDEP'S NET  
OPERATING INCOME**



## Highlights

In 2019, Finsol granted more than 3,800 million pesos in group loans, benefiting over 103 thousand clients in 30 states in the country. 7,240 new solidarity groups were formed and 886 were kept with a good payment history, registering more than 30 credit cycles, which proves the commitment Finsol has to establish long term relationships with its clients.

In 2019 Finsol opened one branch in Tabasco and closed one branch in Estado de México.

## Perspective and goals

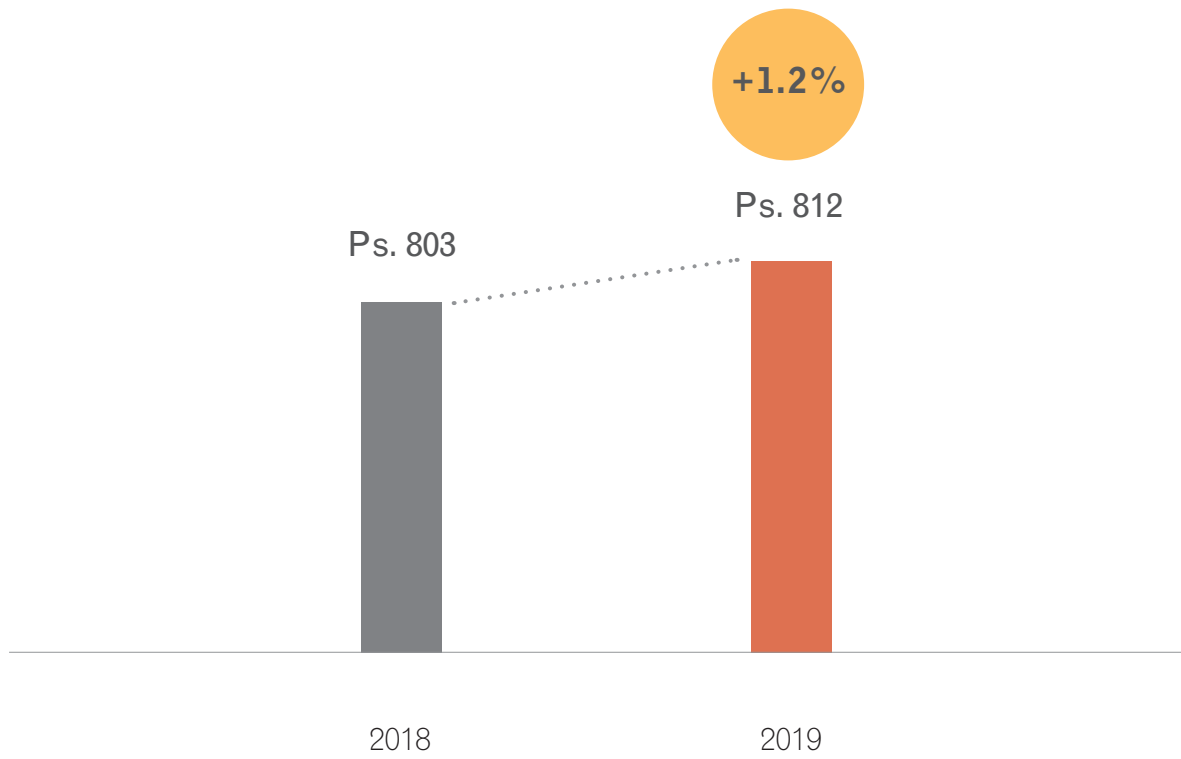
Finsol continues to calibrate its risk measuring models and adding technological tools to its credit process, with the purpose of attracting clients in an agile way and to offer quality service; all of this in order to meet three strategic goals:

- 1** Promote portfolio growth by keeping a good credit quality.
- 2** Achieve higher client retention.
- 3** Increase collection effectiveness to improve profitability.


---

## 2019

As of December 31st, the loan portfolio in Finsol Mexico totalized 812 million Pesos, 1.2% higher versus 2018.







Group Loans Business

# Finsol Brazil

We offer quality financial services to meet the needs of entrepreneurs and micro entrepreneurs

**who develop activities in the commercial, industrial, and service sectors in Brazil.**



**34,867**

Total Clients

---

Ps. **379**  
**million**

Total loan portfolio, valued in pesos

---

Ps. **20.1**  
**million**

Net Operating Income

---

**298**

employees

---

**29**

branch offices

Ps. = Mexican Pesos.

## **Our clients**

Finsol Brazil grants productive loans to entrepreneurs and micro entrepreneurs in five states in northeastern Brazil; for 12 years, it has financed a wide range of commercial and service activities for an amount higher than 1,700 million Brazilian reais.

## **Our attention model**

Finsol Brazil offers a personalized attention service through qualified credit agents, who will provide guidance on the most appropriate product to meet the specific needs of its clients.

It features 29 branch offices with client service; it also has a website and carries out promotional activities through its social media.

Finsol Brazil is committed to giving an answer to its clients regarding their loan applications in a time period no longer than three days.

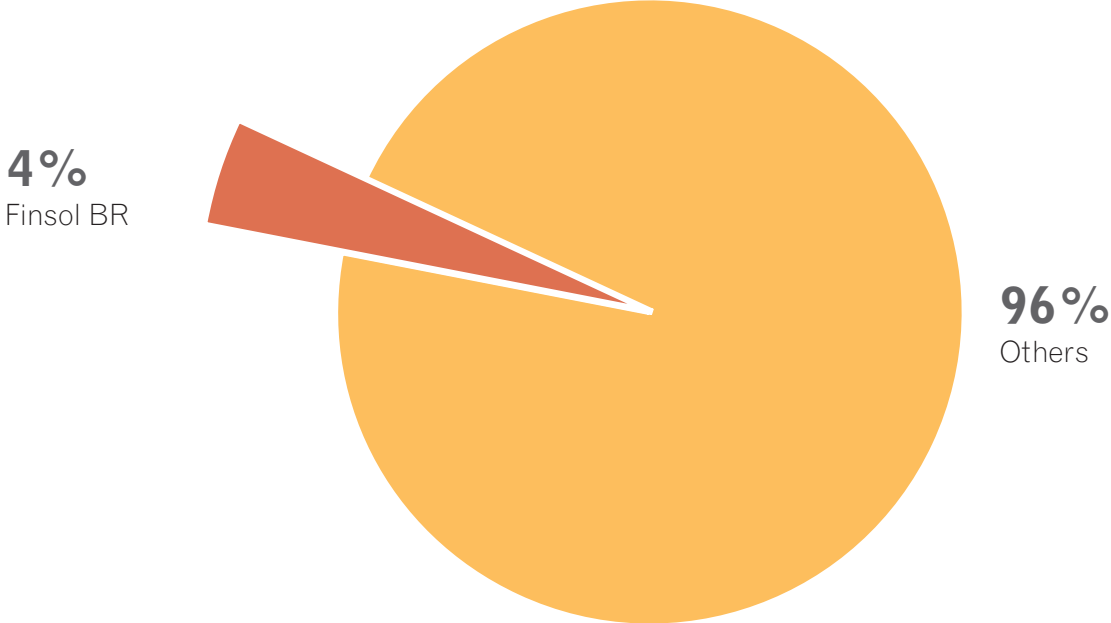


## **Our products and services**

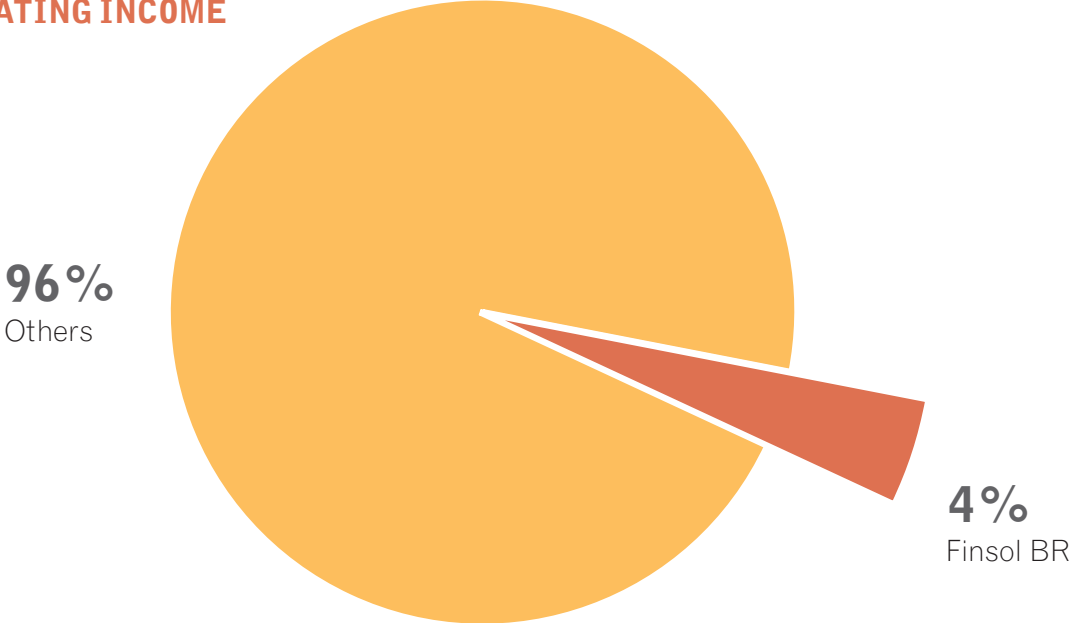
Finsol Brazil grants individual loans and also under the group loan scheme, in solidarity groups from 3 to 10 members. Loans are given for amounts ranging from 1,000 to 125,000 reais to meet working capital needs. Loans are also granted for the purchase of machinery and equipment for amounts ranging from 1,000 to 25,000 reais.

As added value services, Finsol Brazil finances the acquisition of a family life microinsurance, which protects families.

**CONTRIBUTION TO  
FINDEP'S TOTAL  
LOAN PORTFOLIO**



**CONTRIBUTION  
TO FINDEP'S NET  
OPERATING INCOME**



## Highlights

In 2019, Finsol Brazil focused on offering quality services to a 34,867 client base and granted 144 million reais in loans during the year (around 710 million Pesos).

In December 31st, 2019, the loan portfolio of Finsol Brazil totalized 379 million pesos and represents 4% of the company's total loan portfolio and 32% of the group loans business.

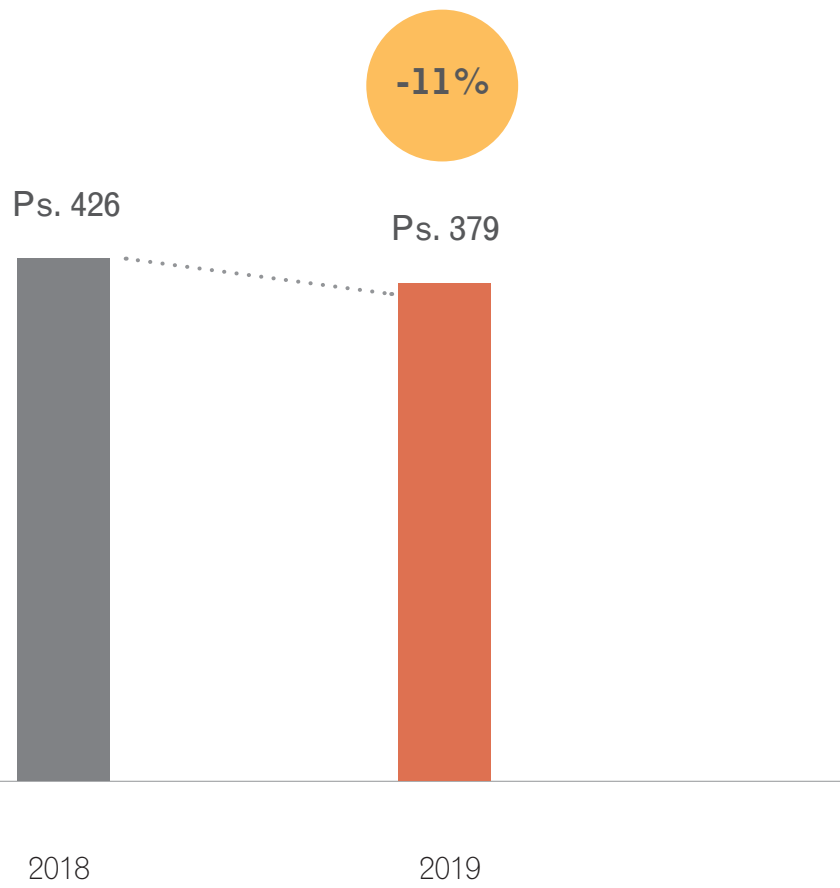
## Perspective and goals

Finsol Brazil continues to calibrate its risk measuring models and undertaking action to achieve higher efficiency and profitability levels. It is also working in the addition of more funding sources with local banks with the purpose of building a solid foundation for its growth.

---

## 2019

As of December 31st, the loan portfolio in Finsol Brazil totaled 379 million Pesos.





CHAPTER

FOUR

# Risk management culture





**We are**  
**a company**  
specialized in credit  
risk taking within the  
microfinance sector.

Our business is to lend money, and thus every day we carry out financial intermediation activities: we use financial resources generated by the company and we complement them with resources that come from banks and investors to channel them in the form of loans to our clients. As an organization we take risks in this intermediation activity, which we have learned to identify, measure, and manage in an increasingly effective way, through the promotion and strengthening of a risk management culture.

For 26 years, we have acquired specialized knowledge on the dynamics and risks posed by the microfinancing sector in Mexico and more recently, in Brazil and California. We have set up a database with information of more than 7 million clients and 13 million loans, which, when combined with our analytical models, allows us to have a better understanding of the risks in our business and how to manage them.

We have learned to assess moral solvency and payment capacity for each person who submits a loan application form, often with limited information, since this is a characteristic of the market we serve.



## OUR CREDIT POLICIES ARE CONSERVATIVE AND WE MANAGE RISKS IN A PRUDENT MANNER.

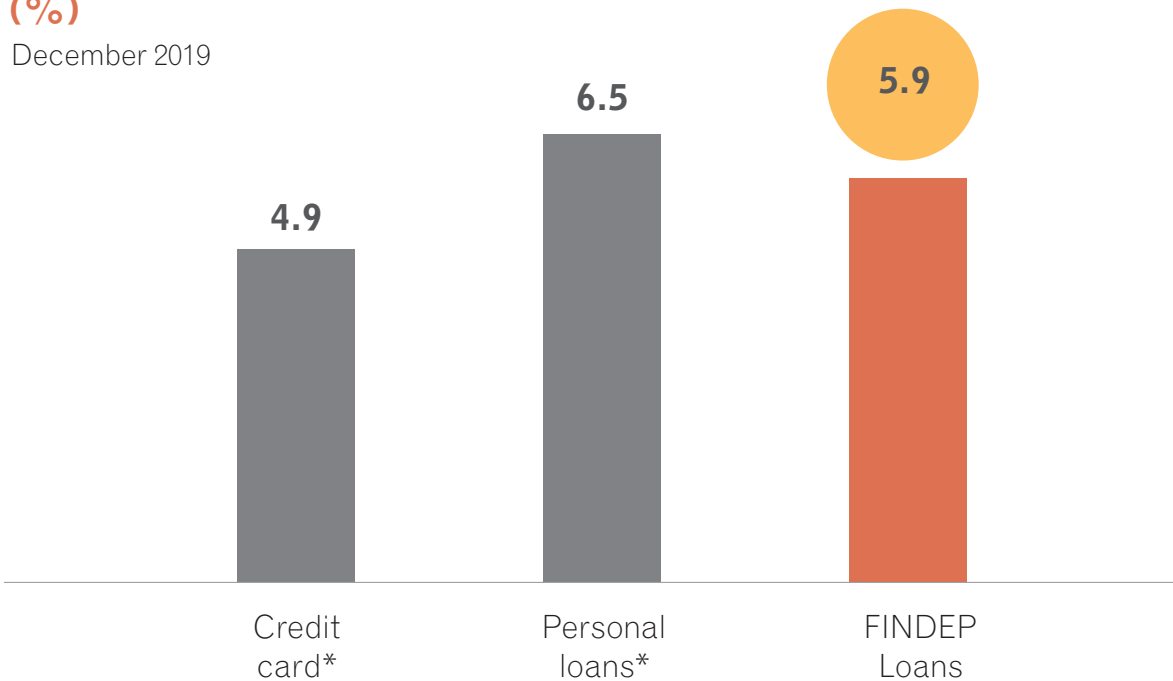
In Financiera Independencia we stand out for applying conservative credit policies for managing new clients; for giving close follow up to collection and for managing risks in a prudent way through operational discipline, which has allowed us to grow in quality for the past years.

Proof of this is that we ended 2019 with a 5.9%NPL ratio, which compares favorably with respect to average past due loans indicators observed in banking products in Mexico, such as personal loans and credit cards.

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### NON PERFORMING LOANS RATIO (%)

December 2019



\*/ Products offered by Mexican banks.

## **DIVERSIFICATION IS A KEY ELEMENT FOR BUILDING A SOLID FOUNDATION FOR GROWTH.**

The robustness of Financiera Independencia's business model is explained, to a large extent, by the wide client diversification, by geographical presence, and segments. The loan portfolio is pulverized in over half a million loans. As of December 31st, 2019, no state concentrated more than 14% of Mexico's loan portfolio; the three states with greater participation were Estado de Mexico, Mexico City, and Veracruz, representing 13.9%, 13%, and 7.5%, respectively.

Diversification constitutes a protection mechanism to face the risks in the business and allows for solid foundations to be built for long term growth. We consider that the growth of Apoyo Financiero in the United States will contribute to further diversify the loan portfolio, allowing for the credit profile to improve as a whole, which shall be reflected in a better rating on behalf of rating agencies.

## RISK MANAGEMENT RELEVANT ACTIONS

### IN 2019

we continued to strengthen our risk management culture through the following actions:

**a**

We updated the profiling process of our clients, by applying new analysis criteria, a better segmentation and selection, which allows us to identify and remove high risk clients and low profitability products.

---

**b**

We promoted operational discipline to assess the risk profile of each loan applicant, through objective criteria.

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**c**

We strengthened credit and operational policies by adding stricter document requirements, in addition to identification and references for filling out loan application forms. We have managed to transform the document verification process into a formal risk analysis, we increased field visits and verification phone calls, applying the same credit approval criteria both to new clients and to those who renovated their loans.

d

We strengthened performance in the collection area, designating our best collection agents to follow up on loans with few days in payments arrears, with the purpose of anticipating events with greater payment delay. This approach has allowed us to get better collection results and control the past due portfolio more efficiently.

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e

We modified the incentive scheme for the sales, operation, and collection teams, so their assessment and compensation are determined based on the profitability and quality reached by the loan portfolio in branch offices. In this way, we managed to align individual goals with the company's interests of privileging quality (acceptable risks) and profitability of the portfolio over its size.

---

f

We began the transformation of the risk feature for a comprehensive responsibility role to group level.

## **OTHER RISKS POSED BY THE BUSINESS**

The main risk in Financiera Independencia is on credit matters, but it is also exposed to other types of risk: exchange rate risk of pesos against dollars or Brazilian reais; discrepancy between loan interest rate which are fixed and liabilities which are sometimes reviewable; liquidity gaps created by the difference between collection flows and obligation payments, operational and legal risks, among others.

# **We are convinced**

that effective risk management is a fundamental part of our success and will allow us to continue to grow in a notable manner in the future.



CHAPTER

FIVE

# Comprehensive operational support







A considerable amount of the success in Financiera Independencia's business model lies in the effectiveness of the **operational support services.**

In 2019 we worked to centralize and standardize processes throughout the companies in the group under one comprehensive platform, and also to raise efficiency ratios in headquarters.

In Financiera Independencia we seek to build long term relationships with our clients and attract new ones by offering them fair treatment and personalized service of excellence.

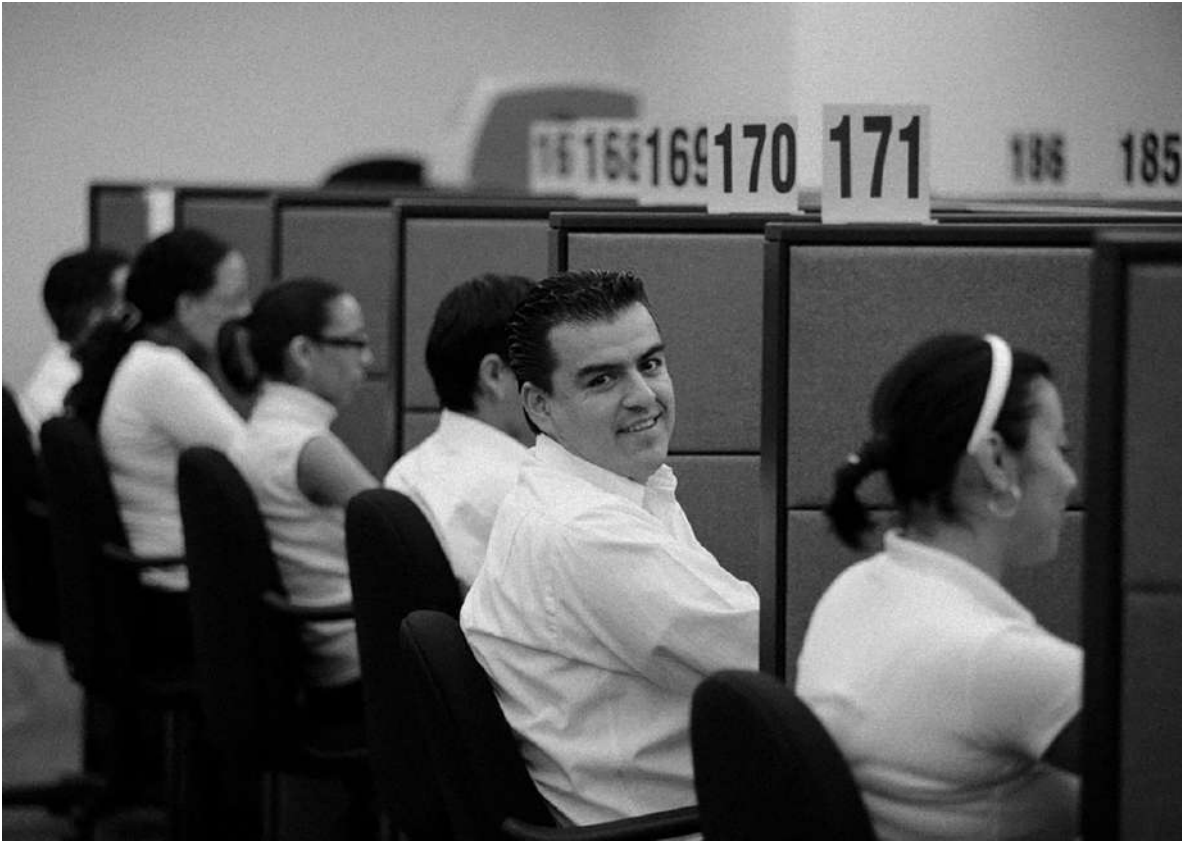
From our **Centro Operativo en Aguascalientes (COA)**, we manage diverse parts of the company's credit process centrally, from client prospecting to credit approval and collection.

The COA is managed at Centro Nacional de Captura (CENCA) through which the information from credit applicants is submitted; application assessment is made through Sistema Integral de Análisis de Crédito (SIAC); and file control and operations related to the management of granted loans is managed by Área Central de Crédito (ACC).



We work so COA can be a comprehensive operational and robust support for the growth of our business; we have assigned increasing key features that are made in a massive way, like phone checks, help desk, collection by charging credit or debit cards, checking accounts, among others. COA is responsible for client phone attention, for monitoring service quality both for processes of COA itself and for some face-to-face processes, and of those from the telemarketing areas in Independencia, Financiera Finsol, AEF, AFI, and Más Nómina.

In 2019, with the purpose of speeding up the credit origination process decreasing response times for clients, we established a hybrid operational model where, depending on the kind of product, origin of the sale, and even the rating of the branch office, the application could be integrated through the centralized processes at COA or by exercising the powers managers have in branch offices, without detracting from the quality of loan origination.



## **CENTRALIZED PROCESSES TO DRIVE GROWTH THROUGH SAFETY AND EFFICIENCY**

In 2019 we continued to work to strengthen centralized and standardized processes in COA for application attention, verifications, and credit approvals, in addition to loan renovations and collection, seeking to raise safety and efficiency standards in order to offer quality service to our clients. We also worked on the standardization of the company's technological infrastructure, including data management systems.

We have a centralized management training process, which provides us flexibility to open offices in a short time and begin operations in new locations at a relatively low cost. Through this methodology we have been able to broaden our distribution network in a sustainable way and will continue working to improve processes and adopt the technology that allows us to capture synergies and be more efficient.

In 2019 we managed to move forward significantly on the integration of operation support processes in central offices, for example, in relation to managing human resources, financial resources, purchases, treasury, accounting, among others.

## **INDEPENDENCE FROM THIRD PARTY BANKING SERVICES**

We own a distribution network which, along with our centralized collection processes, allows us to monitor operations with our clients in an efficient way, without depending on banking institutions for payment collection.

Credits granted by us are originated through our offices and payments made by our clients directly in our offices or through one of the 81 ATMs we own. We have agreements with commercial establishments so they act as collection points for our credits and we have worked to enable alternative no-contact means of payment like direct debit.

Our challenge is to offer more safe payment options to our clients by using digital means, which will allow us to lower costs and obtain benefits in a permanent way. We also seek to deliver loans through means different than checks, even in a no-contact manner, for which we have established a technology investment plan.



CHAPTER

SIX

# Digital transformation









**We are a  
company that  
bets in favor  
of technology  
and innovation.**

Throughout our history we have been pioneers in offering credit products with innovative features, which has earned us a leading position in the microfinancing market.

In recent years we decided to employ a digital transformation plan in the company, consisting of taking advantage of the latest breakthroughs in information and communication technologies to improve the quality of the services we offer our clients, increase the possibilities of including a greater number of people financially, and raise labor productivity rates and the company's operation efficiency.

## **USE OF TECHNOLOGY TO IMPROVE THE QUALITY OF OUR SERVICES**

The competition we face today forces us to constantly differentiate ourselves in order to protect our position within the market. We consider that the use of digital means in the credit process will help us offer value to our clients, which will be an important aspect to drive our growth.

For example, through the use of mobile devices it is possible for people to fill out their loan application forms in a remote way, without the need to visit one of our branch offices. It is also possible to make the credit file integration digital, avoiding the use of paper and to make application response time to shorten significantly.

In terms of means for credit resource delivery, it is possible to eliminate check delivery and offer self-service options for clients, in which they can use banking infrastructure free of charge to get their cash in a safe way and in extended hours, even for unbanked people.

Digital means offer multiple alternatives for clients regarding credit collection: from direct payment of loans to visiting a commercial establishment to make payments with flexible hours, even by using cell phones.

## **USE OF TECHNOLOGY TO RAISE WORK PRODUCTIVITY OF THE SALES TEAM**

Through geolocation technology and by using mobile devices, we can create efficiency in prospecting activities and in enrollment times for loan applications. It is also possible to manage productivity metrics for the sales force, through which we can measure their performance in an objective manner and link them to their compensation scheme. Through the adoption of this kind of technology, it is possible to increase the volume of credit origination without increasing the associated labor cost.

## **USE OF TECHNOLOGY TO INCREASE OPERATING EFFICIENCY IN THE COMPANY**

Microfinancing origination, operation, and collection costs have been typically high when compared to those in banking. Through the use of technology and digital means, it is possible to cut costs significantly and make space to a higher operating profitability.

It is predictable that the use of digital means will affect the role currently played by our company's branch offices, since these will cease to be physical spaces where money is given to or received from clients, and they will turn into operation units to manage credits in an electronic and automated way.

## **PROGRESS FOR 2019 AND FUTURE PERSPECTIVE**

We have started issuing the first “digital loans” through the integration of electronic files in Más Nómina. We will continue to work on the development of mobile apps that make the work of the sales team easier and on the use of digital services for the different phases of the credit process, with the purpose of making them 100% digital and with 100% remote procedures.



CHAPTER

SEVEN

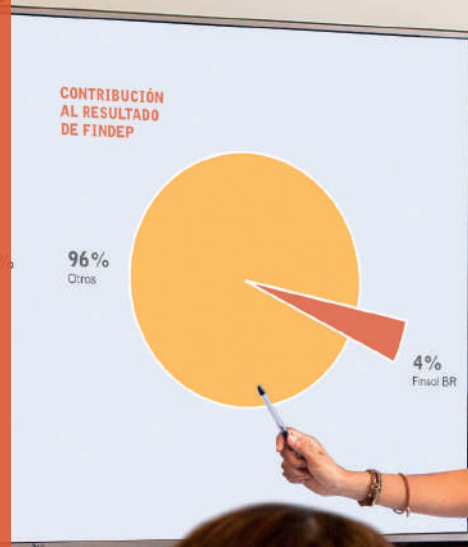
# Commitment to human capital formation





## TALENT MANAGEMENT IS AN ONGOING ACTIVITY

One of the most important challenges for the Human Resource area is to provide talent to meet the specific needs of all the company aspects: in headquarters and branch offices; in Mexico City and the rest of the country; for business generation functions and operational support; for the creation of a management team and employees.





### Reunión

- 8** **Revisión**  
Compara la reunión con un robot de 24 horas: ¿cuántos minutos y segundos se desperdician a lo largo de la reunión?
- 7** **Asignación**  
El Revisión, asigna los asuntos establecidos y las fechas de cumplimiento.
- 6** **Leer**  
Antes de la reunión para que ahorres el tiempo, lo completes más rápidamente y lleve los resultados.

Recuerda que una reunión corta mantiene...

REUNIONES EFICIENTES

Talent management is dynamic and linked to business performance. In 2019 the workforce decreased 3.1% when compared to the previous year, with growth for Finsol México and AFI staff, and reductions for the rest of the companies.

	2019	2018	VAR%
Total workforce	<b>7,858</b>	8,109	-3.1%
Independencia	<b>4,206</b>	4,443	-5.3%
Apoyo Económico Familiar	<b>1,957</b>	1,965	-0.4%
Finsol México	<b>1,173</b>	1,144	<b>+2.5%</b>
Finsol Brazil	<b>298</b>	348	-14.4%
Apoyo Financiero Inc	<b>224</b>	209	<b>+7.2%</b>

**IN 2019 WE FOCUSED ON INCREASING WORK SATISFACTION RATES, ON THE REDUCTION OF ROTATION RATES, AND ON ENCOURAGING A GREATER STABILITY FOR WORK TEAMS.**

## **WE STRENGTHENED STAFF TRAINING PROGRAMS**

We improved induction programs for new employees, focusing on concrete and practical content so they can integrate and offer results for the company in a short period of time.

We strongly encouraged online training courses.

## **WE REINFORCED THE DISSEMINATION OF FINDEP PRINCIPLES AND VALUES**

Financiera Independencia is driven by principles and values that promote respect, commitment, honesty, collaboration, and service for clients, vendors, and within the organization.

In 2019, we worked on reinforcing FINDEP values and principles, and on encouraging their everyday application among the staff.

We put special attention to inclusion and respect for diversity; we also continued with the Fuerza Implacable campaign, whose purpose is to strengthen the sense of belonging of all employees in all the companies of the group, an invitation to work in a collaborative manner for a common purpose called FINDEP.

## **WE MOVED FORWARD ON WORK PERFORMANCE MEASUREMENT**

In 2019 we held quarterly meetings to follow up on company performance, led by the CEO, the management team, and with the representative participation of diverse contributors. In such meetings, feedback was given on the progress of meeting business goals, which allowed us to align efforts and reaffirm commitments.

We applied a methodology to set purposes and goals for the year on a contributor level, aligned to the company's strategic purposes. We made performance assessments promoting direct supervisor to contributor feedback, which has allowed us to have an effective tool to manage and promote a result-oriented work culture.





CHAPTER

EIGHT

# Our commitment to the community







As we have been doing for 19 years and with a renovated commitment, we worked during 2019 as the great unstoppable force that we are, in favor of our environment, of the communities in most need, and the strengthening of the values and culture that distinguish us as a Group.

**Increasingly united, getting stronger and more unstoppable, we carried out the following campaigns during 2019:**

**REFORESTING MEXICO**



We planted 1,200 pines in a one and a half hectare space in Ejido de la Loba in Temascaltepec, Estado de México.



**FAMILY DAY**

In which more than 4 thousand contributors from 258 branch offices from all our companies, collected trash, painted sidewalks and benches in public spaces, and planted trees.



**UNSTOPPABLE HEART**

Through which we supported vulnerable children from communities where we have presence as Group and delivered \$5,194,963 to support more than 8 thousand children from all across the country.



## SHELTER THE HEART

We collected toys, clothes, shoes, and blankets for the “Luchamos Unidos Zacapoaxtlan” Foundation for low-income communities located in the mountains of the state of Puebla, in the Milpa Alta mayoralty, and the Ajusco area.



## THE BEST

We thanked and acknowledged the achievements and commitment of the more than 180 contributors who stood out for their results for the year during the “Los Mejores” event, held in Cancun, Quintana Roo.



## HEALTH MONTH

By the “Avoid being overweight and put the weight on your unstoppable health!” motto, more than 5 thousand contributors took part on diverse actions, such as: general medical check-ups (weight, height, waist), vaccination application, glucose measurements, etc.



## PILGRIMAGE

More than 800 people attended the Guadalupe Basilica to visit the Virgin, while similar pilgrimages happened in Acapulco and Mérida with around 500 attendees, totaling 1,300 contributors in the three locations.



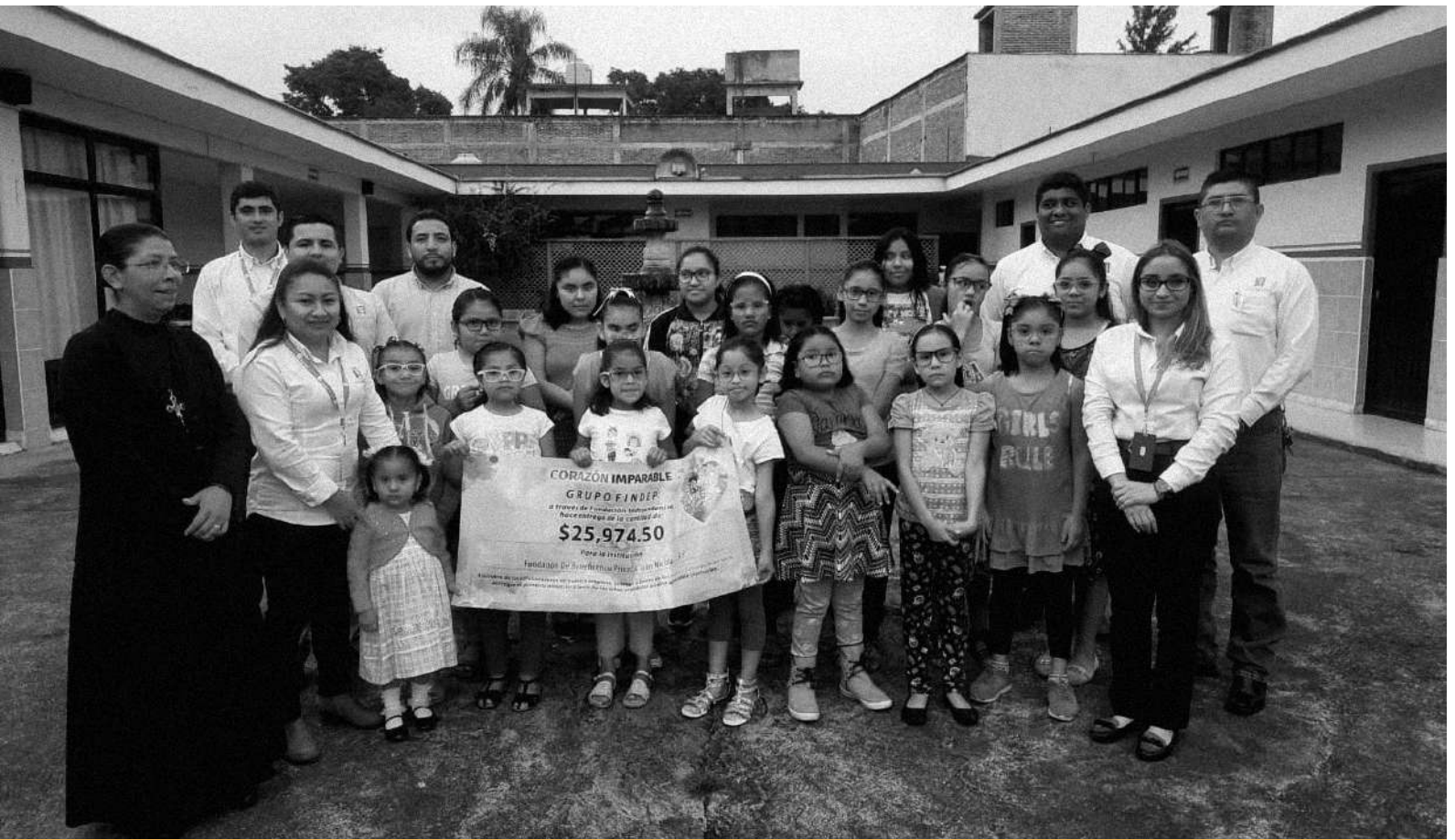
## EXCELLENCE AWARD

We acknowledged our contributors' children in elementary school who got an average of 10 through the whole 2018-2019 school term.



We established ourselves as a  
Socially Responsible Company





**and we continue to work!**



CHAPTER  
NINE

# Financial Performance









## Introduction

Below are the highlights of the Company's performance during 2019, its financial situation, and the results obtained, compared to 2018 records, based on diverse operational and financial information.

The financial statements for years 2019 and 2018 were prepared in line with the accounting foundations and practices established by Mexico's National Banking and Securities Commission (CNBV, by its acronym in Spanish), through the "Accounting criteria for multiple purpose financial institutions, regulated entities", referred to as "Bank Accounting Criteria", considering that the Company performs specialized operations.

On January 1st, 2018, the Company adopted the new Financial Information Standard NIF C-16, Impairment of Receivable Financial Instruments (NIF C-16). The adoption of this standard adjusted the elaboration model of the Preventive Estimation for Credit Risks, which, as of this date requires that, through the application of professional judgment, the administration shall determine the quantitative and qualitative factors that shall be applied for determining probability of non-compliance, severity of loss, and exposure to the non-compliant loan portfolio.

The results for the periods considered in the Report herein include the effects of the consolidation of the following subsidiaries: Apoyo Económico Familiar (AEF), one of the main microcredit institutions in Mexico; Apoyo Financiero, Inc. (AFI), microfinance company serving the unbanked Hispanic community mainly in California; Financiera Finsol (Finsol Mexico), one of the main institutions within the group loans market in Mexico, and Finsol Brazil, leading institution in group loans based in Brazil.

Unless otherwise stated, the financial information is expressed in millions of nominal Mexican Pesos.



## 2019 CONSOLIDATED RESULTS

	2019	2018	% VARIATION
<b>NET INTEREST INCOME</b>	<b>4,570.3</b>	<b>4,274.2</b>	<b>6.9%</b>
Provision for Loan Losses	1,416.1	1,216.6	16.4%
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>3,154.2</b>	<b>3,057.6</b>	<b>3.2%</b>
Commissions and fees collected	438.0	464.3	-5.7%
Commissions and fees paid	81.4	71.2	14.3%
Market related income	2.4	8.2	-70.4%
Other operating income (expense)	197.0	179.4	9.8%
<b>NET OPERATING REVENUE</b>	<b>3,710.3</b>	<b>3,638.3</b>	<b>2.0%</b>
Non-interest expense	3,258.9	3,284.1	-0.8%
Other management and operation expenses	1,117.0	1,152.3	-3.1%
Personnel expenses	2,141.8	2,131.8	0.5%
<b>Net operating income</b>	<b>451.4</b>	<b>354.2</b>	<b>27.4%</b>

**Net interest income after  
provisions for loan losses >>**

In 2019, Net Interest Income after Provision for Loan Losses was of Ps.3,154.2 million, a 3.2% increase with respect to 2018, as a result of the following:

## **INTEREST INCOME**

Interest Income was Ps.5,377.1 million in 2019, 6.9% higher than the Ps.5,031.9 million recorded in 2018, consistent with the 6.7% annual growth of the Company's total loan portfolio.

The loan portfolio for the formal segment grew 11.0% in 2019, from Ps.5,550.9 to Ps.6,159.8 million, representing 70.1% of the Company's total versus 67.4% in December 2018. The increase was driven by a Ps.442.8 million or 24.6% increase in AFI's loan portfolio; a Ps.42.9 million or 4.8% increase in AEF's loan portfolio for the formal; and a Ps.123.1 million or 4.3% increase in Independencia's portfolio for the formal segment.

Loans to the informal segment decreased 1.5% in 2019, from Ps.2,659.1 to Ps.2,619.0 million and now represent 29.8% of the Company's total loan portfolio, versus 32.3% in December 2018. This is explained by a Ps.46.9 million or 11.0% decrease in Finsol Brazil and by a Ps.57.5 million or 9.6% increase in Independencia's loan portfolio for the informal segment, which was partially offset by a Ps.55.0 million or 6.6% annual increase in AEF's loan portfolio for the informal segment and a Ps.9.4 million or 1.2% increase in Finsol Mexico's loan portfolio.

Independencia's total loan portfolio reached Ps.3,522.4 million, a 1.9%<sup>1</sup> increase in the year. As of December 2019, the breakdown of the loan portfolio in formal and informal segments was 84.7% and 15.3% respectively; Independencia's loan portfolio represents 40.0% of the Company's total, versus 42.0% in December 2018.

<sup>1</sup> If "Other credits" are considered, Independencia's portfolio would have increased 1.3% YoY.

The Finsol portfolio reached Ps.1,191.2 million at the end of 2019, a 3.1% decrease with respect to 2018. This is the result of a 11.0% annual decrease in the Finsol Brazil portfolio, which partially compensates with a 1.2% increase in the Finsol Mexico portfolio. In December 2019, the Finsol portfolio represented 13.6% of the Company's loan portfolio, compared to 14.9% the previous year.

Apoyo Económico Familiar registered a Ps.1,822.3 million portfolio to December 2019, a 5.7% increase when compared to 2018, with a 20.7% participation of the Company's portfolio, versus 20.9% the previous year.

The Apoyo Financiero Inc. portfolio was of Ps.2,242.8 million as of December 2019, 24.6% higher than in 2018, with a 25.5% participation of the Company's portfolio versus 21.9% in 2018.

The loan portfolio of the Company includes Ps.5.8 million in Other Loans, which include a credit granted to Siempre Creciendo, SA de CV SOFOM ENR in 2015 for the purchase of collection rights on behalf of its payroll portfolio up to 2021. This credit represents 0.1% of the Company's loan portfolio.

## **INTEREST EXPENSE**

In 2019, Interest Expense was Ps.806.8 million, amount 6.5% higher against the Ps.757.7 million of the previous year, related to a 30 basic point increase on the Interbank Offering Interest Rate (TIIE, by its acronym in Spanish), which serves as reference to establish the funding cost of bank lines hired by the Company. The average TIIE in 2019 was of 8.30% versus 8.00% in 2018.

## PROVISION FOR LOAN LOSSES

The Company assesses its loan portfolio by employing an internal methodology based on the non-compliance probabilities on behalf of the borrowers and on the severity of credit loss<sup>2</sup>, and acknowledges a Provision for Loan Losses (EPRC, by its acronym in Spanish), for deterioration of the loan portfolio, considering its own credit risk.

Regarding accounting provisions by the Mexican Banking Commission (CNBV), the Company carried out an income reclassification by loan portfolio recovery, which were recorded under the “Other operation income (expenses)” for 2018, having to be considered as part of EPRC as of 2019.

In 2019, the EPRC was of Ps.1,416.1 million and includes Ps.142.0 million of income through the recovery of loan portfolio. In 2018, the reported EPRC was of Ps.1,331.4 million, which when added to Ps.114.8 million of portfolio recoveries adjusts to Ps.1,216.6 million. With this, the EPRC of 2019 was 16.4% higher than in 2018.

Loan Write-Offs in 2019 totaled Ps.1,536.9 million, 12.3% above than the Ps.1,368.6 million from the previous year. Non-Performing Loans increased from Ps.454.7 million in 2018 to Ps.517.7 million in 2019, a 13.9% increase. However, the NPL ratio at the end of 2019 was 5.9% against 5.5% in 2018.

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<sup>2</sup> In accordance with the provisions of article 124 of the general provisions referred to by article 115 of the Credit Institutions Law regarding the 87 – D from the General Law for Auxiliary Activities and Organizations for Credit and 95 – Bis of the latter legal system, applicable to Multiple Purpose Financial Institutions, published by the SHCP (Secretariat of Finance and Public Credit) on March 17th, 2011 in the DOF (Official Journal of the Federation) and its reforms to date.



In 2019, Net Operating Revenue was Ps.3,710.3 million, 2% higher than the Ps.3,638.3 million recorded in 2018, highlighting the following:

Commissions and Fees Collected decreased 5.7% YoY, from Ps.464.3 million to Ps.438.0 million; Commissions and Fees Paid increased 14.3% YoY, from Ps.71.2 million to Ps.81.4 million, so total net income in commissions added up to Ps.356.6 million in 2019.

A Ps.2.4 million Market Related Income was posted in 2019 associated to currency fluctuations. It considers the effect of hedging instruments contracted to protect the income against Mexican peso fluctuations versus Brazilian Real in intercompany loans, between Independencia and Finsol Brazil.

Other operating income of Ps.197 million was obtained in 2019. It considers Ps.40.2 million in non-recurring income, for having formalized a commercial alliance with Casanueva Pérez, S.A.P.I. de C.V. and Interprotección, Agente de Seguros y Finanzas, S.A. de C.V., through a minority investment in one of their subsidiaries, with the purpose that such subsidiary acts as an intermediary for the insurance that FINDEP and its subsidiary companies, Financiera Finsol and Apoyo Económico Familiar, finance their clients in the development of their activities.

## **NET OPERATING INCOME**

In 2019, the Company earned a Net Operating Income of Ps.451.4 million, 27.4% higher than the Ps.354.2 million recorded in 2018. Setting aside the effect of the non-recurrent income for the insurance commercial alliance, the operation result is 16.1% higher than in 2018.

Net Operating Income in Independencia stands out by Ps.212.9 million and AFI's by Ps.90.4 million, both had a 54.1% and 127% annual growth, respectively, which helped to offset decreases registered in AEF's and Finsol Mexico's annual net operating income. Finsol Brazil obtained a Ps.20.1 million net operating income, which compares favorably with the Ps.9.5 million loss registered in 2018.

## NON-INTEREST EXPENSE

In 2019, the expenses for management and personnel were Ps.3,258.9 million, 0.8% less than the Ps.3,284.1 million registered in 2018.

Personnel expenses added up to Ps.2,141.8 million, figure similar to the one registered in 2018, considering that the Company reduced its personnel 3.1% (251 job positions) during the year.

Operation Expenses decreased 3.1% when compared to 2018, going from Ps.1,152.3 million to Ps.1,117.0 million.

## NET INCOME

As a result of the aforementioned and after taxes, the Company posted an annual Net Profit of Ps.323.9 million in 2019, representing a 23.6% increase versus 2018, equivalent to Ps.0.9598 earnings per share, considering a two to one stock split<sup>3</sup> approved on April 30th, 2019 during the general shareholders meeting of the Company, effective as of November 12th, 2019.

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<sup>3</sup> Over 675 million ordinary shares, without par value, unique series, representative of the Company's share capital, to end up with 337.5 million ordinary shares, nominative, unique series, of which 100 million correspond to the fixed part and 237.5 million shares to the variable portion of the capital stock.



## Financial Position

## TOTAL LOAN PORTFOLIO

In 2019, the total loan portfolio of the Company increased to Ps.8,784.5 million, a 6.7% YoY increase. AFI, AEF, Independencia, and Finsol Mexico grew their portfolios in 24.6%, 5.7%, 1.9%<sup>4</sup>, and 1.2%, respectively, while the Finsol Brazil portfolio contracted 11.0% YoY. Since 2015, the loan portfolio of the Company includes Other Loans, which by the end of 2019 added up to Ps.5.8 million from a loan granted to Siempre Creciendo S.A. de C.V. SOFOM ENR for the acquisition of the collection rights of their payroll portfolio.

Consistent with the strategic approach to privilege quality over growth, the number of clients of the Company decreased 10.8% in 2019 to sum 561,832, from which 281,260 clients belonged to Independencia<sup>5</sup>, 137,951 to Finsol, 111,434 to AEF, and 31,187 to AFI. The average loan balance per client increased 19.9% to Ps.15,625, as the result of a greater ratio of borrowers from the formal sector in the portfolio and of clients who kept a relationship for several cycles with the Company. AFI's growth also had a positive impact on this indicator.

As of December 31st, 2019, the loan portfolio represented 70.2% of the total Company assets, compared with 67.2% in December 31st, 2018. Cash and investments represented 3.6% of the total assets, the same percentage as in 2018.

## NON-PERFORMING LOANS

Non-Performing Loans were Ps.517.7 million, above Ps.454.7 million in 2018. The non-performing loan ratio (ICV, by its acronym in Spanish) of the Company was 5.9% at the end of 2019, 40 basis points (bps) above the 5.5% registered in December 2018.

<sup>4</sup> If "other credits" are considered, the Independencia portfolio would have increased 1.3% YoY.

<sup>5</sup> Independencia will only report active clients who do not have loans past due over 180 days.

AEF's NPL ratio decreased in 30 bps to 7.4%, while Independencia's, Finsol Mexico's, Finsol Brazil's, and AFI's increased in 50, 90, 20, and 90 bps to 7.2%, 5.8%, 3.1%, and 3.1%, respectively.

The Coverage Ratio<sup>6</sup> by the end of 2019 was 111.6% compared to 122.4% in 2018. It is important to point out that in January 2013, the Company established the policy of maintaining a Coverage Ratio above 100% at all times.

## **LIABILITIES**

As of December 31st, 2019, the total liabilities for the Company amounted to Ps.8,202.2 million, a 2.5% increase when compared to the Ps.8,000.9 million registered by December 31st, 2018.

By the end of 2019, the Company debt was composed by Ps.4,702.4 million long term debt issuance, Ps.2,856.3 million in bank and other entities loans, and Ps.643.5 million in accounts payable. The total of the credit lines acquired was Ps.4,710.4 million, of which Ps.1,866.2 million or 39.6% were available. The contractual maturity for current credit line agreements to December 2019 was as follows: Ps.1,865.4 million due in 2020, Ps.645.0 million due in 2021, Ps.100.0 million due in 2022 and the remaining Ps.2,100.0 million have non-specified tenors.

## **STOCKHOLDERS' EQUITY**

As of December 31st 2019, Stockholder's Equity was Ps.4,315.3 million, a 1.6% increase when compared to the Ps.4,247.1 million by December 31st, 2018. This increase reflects Ps.323.9 million in Net Profit earned during 2019, a positive Ps.16.6 million cumulative effect from currency conversion and a negative Ps.167.0 million effect on the result for the valuation of derivative instruments.

<sup>6</sup> Coverage Ratio: Allowances for Loan Losses /Non-Performing Loans.

Due to the variation on the debt denominated in foreign currency and the position in derivatives to hedge foreign exchange risk exposures, by December 31st, 2019, the Company registered a negative valuation of Ps.167.0 million on stockholders' equity, registered as Derivative Financial Instruments. This effect will eliminate itself as hedge contracts progress and expire. The breakdown is according to the following: a negative Ps.1.0 million effect for the market valuation of cross currency swaps, a negative Ps.237.60 effect for the revalorization of debt issuance, and a Ps.71.6 million profit on deferred taxes.

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## ROAE<sup>7</sup> / ROAA<sup>8</sup>

In 2019, the return on average capital (ROAE) of the Company was 7.6% against 6.2% in 2018. The return on average assets (ROAA) in 2019 was 2.6% against 2.1% in 2018.

## EFFICIENCY RATE<sup>9</sup> AND OPERATING EFFICIENCY<sup>10</sup>

During 2019, the Company reduced a net total of 6 branch offices and the workforce was reduced to 7,858 employees, 3.1% less than the 8,109 registered to December 31st, 2018.

The efficiency ratio in 2019 was 87.8%, less than the 90.3% in 2018; if we exclude the Preventive Estimate for Credit Risks, the efficiency ratio in 2019 is 63.6% when compared to the 26.9% in 2018.

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<sup>7</sup> ROAE: Net income for the year / Average stockholders' equity of the current and previous year.

<sup>8</sup> ROAA: Net income for the year / Average total assets of the current and previous year.

<sup>9</sup> Efficiency ratio: Non-interest expense / Net operating revenues

<sup>10</sup> Operating efficiency ratio: Non-interest expense / Average of total assets for the current and previous year.

**Consolidated income statement  
and balance sheet**

## FINANCIERA INDEPENDENCIA S.A.B. DE C.V., SOFOM, E.N.R

Consolidated Income Statement  
for the 12-month terms which ended  
on December 31st 2019 and 2018  
(million Pesos).

	VAR. 2019 VS. 2018			
	2019	2018	\$	%
Interest Income	5,377.1	5,031.9	345.2	6.9%
Interest Expense	806.8	757.7	49.0	6.5%
<b>NET INTEREST INCOME</b>	<b>4,570.3</b>	<b>4,274.2</b>	<b>296.1</b>	<b>6.9%</b>
Provision for Loan Losses	1,416.1	1,216.6	199.5	16.4%
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>3,154.2</b>	<b>3,057.6</b>	<b>96.6</b>	<b>3.2%</b>
Commissions and Fees Collected	438.0	464.3	(26.3)	(5.7%)
Commissions and Fees Paid	81.4	71.2	10.2	14.3%
Market Related Income	2.4	8.2	(5.8)	(70.4%)
Other Operation Income (expense)	197.0	179.4	17.6	9.8%
<b>NET OPERATING REVENUE</b>	<b>3,710.3</b>	<b>3,638.3</b>	<b>71.9</b>	<b>2.0%</b>
Non-Interest Expense	3,258.9	3,284.1	(25.2)	(0.8%)
<b>NET OPERATING INCOME (LOSS)</b>	<b>451.4</b>	<b>354.2</b>	<b>97.2</b>	<b>27.4%</b>
Income tax				
Current	119.0	56.4	62.7	111.2%
Deferred	8.4	35.8	(27.4)	(76.4%)
<b>TOTAL INCOME (LOSS) BEFORE MINORITY INTEREST</b>	<b>323.9</b>	<b>262.1</b>	<b>61.9</b>	<b>23.6%</b>
Minority Interest	-	-	-	-
<b>NET INCOME (LOSS)</b>	<b>323.9</b>	<b>262.1</b>	<b>61.9</b>	<b>23.6%</b>
Weighted Average Number of Shares	337.5	715.9	(378.4)	(52.9%)
EPS	0.9598	0.3661	0.5938	162.2%



## FINANCIERA INDEPENDENCIA S.A.B. DE C.V., SOFOM, E.N.R

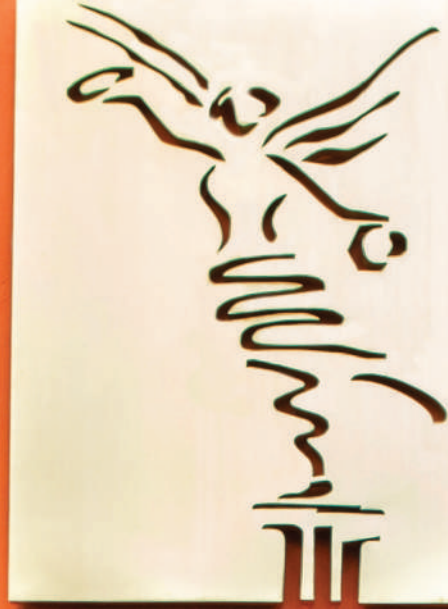
Consolidated Balance Sheet  
As of December 31st 2019  
and 2018 (in million Pesos)

	2019	2018	VAR. 2019 VS. 2018	
			\$	%
<b>ASSET</b>				
<b>CASH AND CASH EQUIVALENTS</b>	<b>452.5</b>	<b>435.1</b>	<b>17.4</b>	<b>4.0%</b>
Performing Loans	8,266.8	7,780.1	486.7	6.3%
Non-Performing Loans	517.7	454.7	63.1	13.9%
<b>TOTAL LOAN PORTFOLIO</b>	<b>8,784.5</b>	<b>8,234.8</b>	<b>549.8</b>	<b>6.7%</b>
Allowances for Loan Losses	(577.7)	(556.4)	(21.2)	3.8%
<b>TOTAL LOAN PORTFOLIO-NET</b>	<b>8,206.9</b>	<b>7,678.4</b>	<b>528.5</b>	<b>6.9%</b>
Other Accounts Receivable-Net	608.1	483.4	124.7	25.8%
Property, Plant & Equipment-Net	271.2	267.0	4.1	1.5%
Deferred Income Tax	1,030.0	928.3	101.7	11.0%
Derivative Financial Instruments	18.1	533.8	(515.6)	(96.6%)
Other Assets	1,930.8	1,922.0	8.7	0.5%
<b>TOTAL ASSETS</b>	<b>12,517.5</b>	<b>12,248.0</b>	<b>269.6</b>	<b>2.2%</b>

	2019	2018	VAR. 2019 VS. 2018	
			\$	%
<b>LIABILITIES</b>				
Long term debt issuance	4,702.4	4,954.3	(251.9)	(5.1%)
Bank and Other Entities Loans	2,856.3	2,439.0	417.4	17.1%
Derivative Financial Instruments	-	-	-	-
Other Accounts Payable	643.5	607.7	35.8	5.9%
<b>TOTAL LIABILITIES</b>	<b>8,202.2</b>	<b>8,000.9</b>	<b>201.3</b>	<b>2.5%</b>

#### STOCKHOLDERS' EQUITY

Capital Stock	157.2	157.2	-	0.0%
Additional Paid-In Capital	1,574.7	1,574.7	-	0.0%
Capital Reserves	14.3	14.3	-	0.0%
Retained Earnings	2,398.3	2,144.0	254.3	11.9%
Net Income (Loss) for the Year	323.9	262.1	61.9	23.6%
Financial Instruments-Derivatives	(167.0)	65.6	(232.5)	(354.7%)
Foreign exchange effect	16.6	34.2	(17.7)	(51.6%)
Other comprehensive income movement ent related to NIF	(2.7)	(5.0)	2.3	(45.6%)
Minority Interest	0.0	0.0	-	0.0%
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>4,315.3</b>	<b>4,247.1</b>	<b>68.2</b>	<b>1.6%</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>12,517.5</b>	<b>12,248.0</b>	<b>269.6</b>	<b>2.2%</b>



# FINANCIAL INDEPENDENCE



“

The construction of a solid foundation for growth:



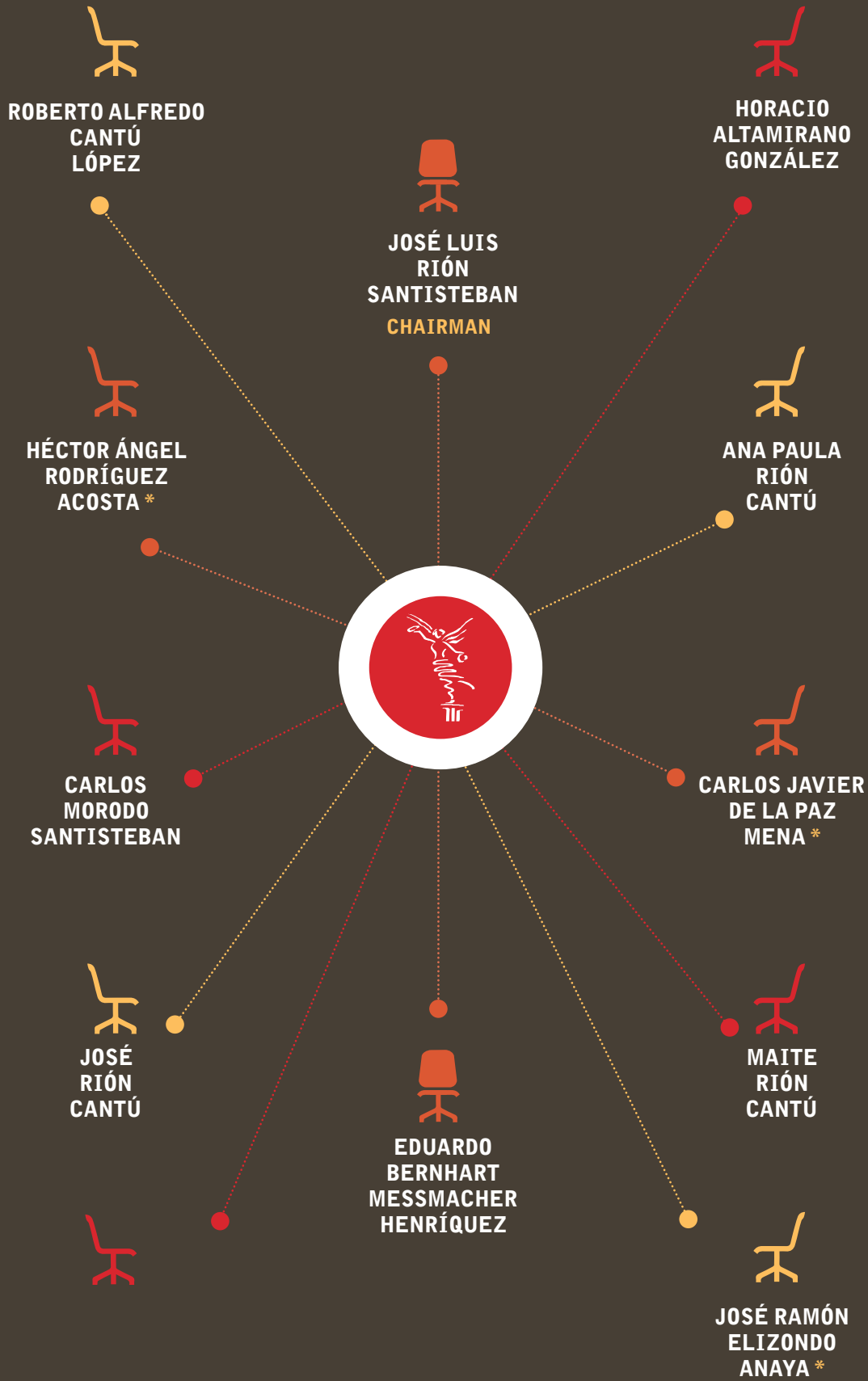
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**Financiera Independencia's strategic approach**

# Our Board of Directors

The Board of Directors is formed by 11 proprietary members appointed for a one-year term by the Ordinary General Stockholders' Meeting.

The Board of Directors meets at least four times per year and may meet as needed. In accordance with the Securities Market Law, at least 25% of the members in the Board of Directors shall be independent.



\* INDEPENDENT COUNSELOR

# The Executive Team

Financiera Independencia has a highly efficient and experienced management team; on average, the company's top managers have 18 years of experience within the financial services industry in Mexico.



**EDUARDO BERNHART  
MESSMACHER HENRÍQUEZ**  
EXECUTIVE VICE PRESIDENT AND CEO  
FOR FINANCIERA INDEPENDENCIA

**CARLOS ENRIQUE  
RAMÍREZ MACÍAS**  
CORPORATE DIRECTOR OF  
UNSECURED INDIVIDUAL BUSINESS

**LORENZO ADRIÁN ÁLVAREZ VITA**  
CORPORATE DIRECTOR OF  
NEW BUSINESS MODELS

**RUBÉN COHEN TIETZCH**  
DIRECTOR OF PAYROLL LOANS

**ANTONINO MORALES VARGAS**  
DIRECTOR OF APOYO FINANCIERO INC.

**MARCELO GEORGE  
DE MELO PINTO**  
DIRECTOR OF FINSOL  
BRAZIL GROUP LOANS

**ENRIQUE BROCKMANN DEL VALLE**  
CORPORATE DIRECTOR OF  
MANAGEMENT AND FINANCE

**JUAN ROMAN ESCAMILLA**  
CORPORATE DIRECTOR OF FINTECH

**GLORIA GABRIELA  
MONCAYO CISNEROS**  
CORPORATE DIRECTOR  
OF IT AND OPERATIONS

**MARÍA TERESA GARZA GUERRA**  
CORPORATE DIRECTOR  
OF HUMAN RESOURCES

**FRANCISCO JOSÉ VÁZQUEZ VÁZQUEZ**  
CORPORATE DIRECTOR OF LEGAL  
AND COMPLIANCE

**JUAN GARCÍA MADRIGAL**  
CORPORATE DIRECTOR  
OF INTERNAL AUDIT





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