

**FINANCIERA INDEPENDENCIA  
1Q23 EARNINGS CONFERENCE CALL  
FRIDAY APRIL 21st, 2023**

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**Operator**

Good morning everyone and welcome to Financiera Independencia's 2023 First Quarter Results Conference Call. My name is Joe, and I will be your operator for today's call. At this time, all participants are in a listen only mode. After the speakers' remarks, there will be a question-and-answer session.

(OPERATOR INSTRUCTIONS)

As a reminder, this video conference is being recorded. For opening remarks and introductions, I would now like to turn the call over to Mr. Iván Barona, Financiera Independencia's Chief Financial Officer.

Mr. Barona, you may begin.

**Iván Barona - Financiera Independencia – Chief Financial Officer**

Good morning. Thank you for joining FINDEP's First Quarter 2023 results conference call. With me today is Mr. Eduardo Messmacher, our Chief Executive Officer.

We published our 1Q23 results yesterday, which are available on our Investor Relations website FINDEP.MX

I would like to remind you that the information shared during this conference call may include forward-looking statements, and as such, are subject to assumptions, uncertainties, risks, and other factors that could cause actual results to differ materially from those described, including risks that may be beyond the Company's control.

Now, I will turn the call over to Eduardo Messmacher.

**Eduardo Messmacher – Financiera Independencia – CEO**

Thank you Iván. Good morning everyone.

Our results for this quarter reflect the continued emphasis on executing our priorities that are: improving our maturities profile, strengthening our balance sheet, and maintaining positive profitability trends.

**I will start with some highlights from our 1Q23 operations**

- Reported Net Profit for the quarter reached 166 million pesos, 13% higher YoY, standing once more as the highest for a first quarter in over a decade.
- Our results were mainly driven by efficiency. Our costs were 1% lower in 1Q23 YoY while our cost as a percentage of our average portfolio decreased to 31% from 34% observed during 1Q22.
- We strengthened our balance sheet, with a decrease of 760 million pesos in Net debt QoQ, outpacing our portfolio sequential contraction of 507 million pesos. We closed the quarter with a 1.1 billion pesos cash position.
- Our equity-to-asset ratio advanced 260 bps during the quarter and stood at 43%

Net interest income during the quarter reached 1.05 billion pesos, standing 8% higher YoY, in line with the loan portfolio expansion.

Provision for Loan Losses was 333 million pesos in 1Q23, a 17% decrease when compared to the 404 million pesos of 4Q22. On a YoY comparison, we witnessed a 17% increase on this line. Provision for Loan Losses to average loans increased from 15 to 16% year on year.

Our 1% YoY decrease in operating Expenses compares favorably with a 4% expansion in the loan portfolio. This performance was able to offset higher credit costs during the quarter, yielding a 166 million pesos net profit, standing 13% above last year's.

Our Loan Portfolio reached 8.05 billion pesos. The Mexican Peso appreciation took a toll on the consolidated figure, and under a constant FX rate the portfolio would have posted a 9% YoY expansion vs the 4% in reported figures.

In 1Q23 loan origination was 1.05 billion pesos, this figure stands 18% below last year's figure, reflecting a more prudent stance favoring high-quality origination due to recent macroeconomic headwinds.

The Stage 3 loan portfolio over total portfolio, stood at 6.5% in 1Q23, 20 basis points below the 6.7% observed in the last quarter, and 70 basis points above the 5.8% from twelve months ago.

Findep's write-offs amounted to 435 million pesos in the first quarter, standing 13% above those witnessed during 4Q22, and 45% higher than 1Q22's figure. Compared to the average portfolio, trailing twelve months' write-offs increased from 14 to 18% YoY.

Coverage Ratio reached 205%, measured as Allowances for Loan Losses over Stage 3 loans, standing 3 percentage points above the 202% observed in the last quarter, and below the 218% from twelve months ago.

Cash and Cash Equivalents reached 1.1 billion pesos, this figure stood 20% above last year's, and represents roughly 10% of Total Assets. It is important to note that during the quarter the company used roughly 21.9 million dollars in our Senior unsecured debt exchange offer.

Our exchange offer obtained a 64.4% acceptance, reducing our 2024 maturities by 104 million USD. This result favorably impacts our maturity profile and reinforces our commitment to our funders, investors, customers, and collaborators.

As such, our net debt decreased 19% YoY, from 4.7 billion pesos back in 1Q22 to 3.8 billion pesos in 1Q23. On a neutral FX basis, net debt declined 13% YoY.

Our solvency ratio reached 43% in 1Q23, compared to the 39% observed twelve months earlier.

The Company's Return on Equity ratio (ROAE) improved on a yearly basis from 13.4 to 13.9% YoY, and the Return on Assets ratio (ROAA) grew from 5.4 to 5.8% YoY. When considering Tangible Equity, the ROTE remained unchanged at 17.7%.

Now I would like to delve into each of our subsidiaries' performance during the quarter.

- *Independencia* currently represents 35% of the total portfolio, reaching roughly 2.8 billion pesos and a client base of 177 thousand. Performing loans grew 248 million pesos, or 10% YoY while its NPL ratio grew from 5% to 5.8% YoY
- As for *Apoyo Económico Familiar*, its loan portfolio totaled 2.0 billion pesos (25% of the Company's total) serving a client base of roughly 98

thousand. Performing loans grew 162 million pesos, or 9% YoY while its NPL ratio improved from 8.5% to 8.1% YOY

- Finally, *Apoyo Financiero's* finished the quarter with a loan portfolio of 3.2 billion pesos (179 million USD) with a client base of over 35 thousand. AFI's loan portfolio represents 40% of the Company's total and grew US\$8.6 million, or 5% YoY. AFI's NPLs increased from 4.8 to 6.1%

AFI efficiencies remain present in 1Q23 posting a reduction in the non-interest expense to average portfolio ratio from 14% in 2022 to 11% in the quarter. This managed to partially offset increased credit cost in the quarter related to asset quality deterioration on the back of macroeconomic pressures.

The overall performance in the quarter reflects the successful execution of our strategy, particularly in a complex economic context. We will continue to focus on prudent growth and efficiency to sustain our results.

I will now turn the call over to Iván so he can provide details of our first quarter financials. Go ahead Iván.

### **Iván Barona – Financiera Independencia – CFO**

Thank you Eduardo.

## **Financial Results**

In 1Q23 Interest Income was 1.22 billion pesos, a 10% YoY expansion, aided by an 4% increase in the loan portfolio.

Interest expense posted a 24% YoY increase, reaching 163 million pesos. It is important to highlight that the cost of funding as a % of average interest bearing liabilities remained contained, increasing by 280 bp, to 12.3% despite the higher rates environment experienced in Mexico (+480 bp) and US (+445 bp).

Net Interest Income of 1.05 billion pesos, was 8% higher than 1Q22.

The Provision for Loan Losses was 333 million pesos in 1Q23, 17% higher on a YOY basis.

Non-interest expense in 1Q23 came in 1% lower YoY, in comparison to an 8% increase in NII, and a 4% YOY expansion in total loan portfolio, underscoring the efficiencies achieved on our operations.

With all the above explained, the company highlights this as our strongest profit for a first quarter in over a decade.

## **Financial Position**

The corporate strategy took our Company to a strong financial position with a liquidity buffer that represents 10% of the total assets and a high solvency ratio. Cash and Cash Equivalents closed the quarter at 1.10 billion pesos, 20% above 1Q22, and 4% above last quarter's.

Our interest bearing liabilities reached 4.93 billion pesos at the end of the quarter, standing 718 million below last quarter's. This figure comes on the back of a reduction in our unsecured debt, it is important to note that due to our Senior Notes Exchange Offer we paid down roughly 20.8 million dollars. Furthermore, the Mexican Peso appreciation also impacted this figure. When adjusting for FX impacts, the total debt declined 474 million pesos during the quarter, or 8% QoQ. Our operating cash flow during 1Q23 reached 606 million.

We reached a solvency ratio of 43% in 1Q23, compared to the 39% observed back in 1Q22. Tangible equity to net debt stands at 99%.

Overall, the Company reflects a more comfortable maturities profile, higher capitalization, and improved profitability.

Now I would like to open the call to questions. Operator, please do so...

## **Iván Barona - Financiera Independencia – CFO**

Thank you very much for your time and interest in Financiera Independencia. The information presented today confirms that our strategy has been paying off and demonstrates our market leadership. If you have any further questions, please don't hesitate to contact me. My contact information is on our website FINDEP.MX.

Have a great day.

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