

**FINANCIERA INDEPENDENCIA  
2Q23 EARNINGS CONFERENCE CALL  
FRIDAY JULY 21st, 2023**

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**Operator**

Good morning everyone and welcome to Financiera Independencia's 2023 second Quarter Results Conference Call. My name is Daniela, 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 second Quarter 2023 results conference call. With me today is Mr. Eduardo Messmacher, our Chief Executive Officer.

We published our 2Q23 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.

**I will start with some highlights from our 2Q23 operations**

- Reported Net Profit for the quarter reached 165 million pesos, standing once more as the highest for a second quarter in over a decade, 9% higher YoY.
- Our results were mainly driven by efficiency. Our costs were 6% lower in 2Q23 YoY while our cost as a percentage of our average portfolio decreased to 32% from 34% observed during 2Q22.
- We strengthened our balance sheet, with a decrease of 286 million pesos in Net debt, outpacing our portfolio sequential contraction of 285 million pesos. We closed the quarter with a 717 million pesos cash position.
- Our equity-to-asset ratio advanced 370 bps during the quarter and stood at 47%.

Our Loan Portfolio decreased 5% YoY, reaching 7.8 billion pesos, mainly pressured by the Mexican Peso 15% YoY appreciation. Our Mexican operations portfolio posted a 6% YoY expansion, whereas our US portfolio declined 4% in dollars terms. Under a constant FX rate the consolidated group portfolio would have posted a 2% YoY expansion.

In 2Q23 loan origination was 1.10 billion pesos, this figure stands 31% below last year's figure, reflecting a more prudent stance favoring high-quality origination due to recent macroeconomic headwinds; however, 5% higher on a sequential basis.

The consolidated NPL ratio, measured as Stage 3 loan portfolio over total portfolio, stood at 6.5% in 2Q23, unchanged against the last quarter, and 70 basis points above the 5.8% from twelve months ago.

Provision for Loan Losses (PLL) was 336 million pesos in 2Q23, a 1% increase when compared to the 333 million pesos of 1Q23. On a YoY comparison, we witnessed a 7% increase on this line. PLL to average loans increased from 16 to 17% year on year.

Findep's write-offs amounted to 405 million pesos in the second quarter, standing 7% below those witnessed during 1Q23, and 45% higher than 2Q22's figure. Compared to the average portfolio, trailing twelve months' write-offs increased from 13 to 19% YoY.

NPLs plus trailing twelve month write-offs over total loan portfolio plus write-offs stands at 22%, vs 16% registered in 2Q22.

Coverage Ratio reached 202%, measured as Allowances for Loan Losses over Stage 3 loans, standing 3 percentage points below the 205% observed in the last quarter, and below the 215% from twelve months ago.

In line with our main strategic priorities, our interest bearing liabilities decreased 20% YoY, compared to our loan portfolio's 5% contraction. On a neutral FX basis, interest bearing liabilities declined 13% YoY.

Cash and Cash Equivalents reached 717 million pesos, this figure stood 13% above last year's, and represents roughly 7% of Total Assets.

As such, net debt retreated 25% YoY from 4.7 billion pesos back in 2Q22 to 3.5 billion pesos in 2Q23. On a neutral FX basis, net debt declined 17% YoY.

Our solvency ratio reached 47% in 2Q23, compared to the 41% observed twelve months earlier.

The Company's Return on Equity ratio (ROAE) during the first half of the year improved from 13.4 to 13.7% YoY, and the Return on Assets ratio (ROAA) grew from 5.5 to 6% YoY, during 6M23. When considering Tangible Equity, the ROTE marginally advanced to 17.3%.

Our digital transformation remains our top priority, due to its benefits of amplifying our customer reach, strengthening our origination quality, expediting our processes, and improving our risk management. In Mexico, roughly 60% of new originations in 2Q23 came from digitally enabled channels, whereas in our US operations more than 40% of new customers come through our digital channels and  $\frac{2}{3}$  of renewals are made through the APP.

The aforementioned results have translated into improvements in our P&L. Our Operating Expenses posted a 6% YoY decrease during 2Q23, comparing favorably with a flat YOY average portfolio and a 4% YoY increase in interest income.

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

- *Independencia* currently represents 36% of the total portfolio, reaching roughly 2.8 billion pesos and a client base of 174 thousand. Performing loans grew 110 million pesos, or 4% YoY. While its Stage 3 ratio reached 6.4%. vs. 5.8% in 1Q23

- As for *Apoyo Económico Familiar*, its loan portfolio totaled 2.1 billion pesos (26% of the Company's total) serving a client base of roughly 97 thousand. Performing loans grew 120 million pesos, or 7% YoY. Posting improvements on its asset quality, its Stage 3 ratio stood at 7.9% vs. 8.1% 1Q23.
- Finally the loan portfolio of our US based company, *Apoyo Financiero* stood at 2.9 billion pesos (US\$172 million) with a client base of over 34 thousand. With this performance, AFI's loan portfolio represents 38% of the Company's total. Its asset quality posted sequential improvements reaching a stage 3 ratio of 5.7% vs. 6.1% in 1Q23.

AFI efficiencies remain present in 2Q23 posting a reduction in the non-interest expense to average portfolio ratio from 16% in 2022 to 13% 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.

We are confident that the long lasting positive impacts of efficiency in AFIs profitability outweigh the transitory downward pressures in the short term.

The overall performance in the quarter confirms the success of our strategy of focusing on our core business in our strategic markets. Our deep analytics and prudent origination have kept healthy risk metrics in our portfolio, particularly in a still complex economic context characterized by high interest rates and dollar depreciation. Asset quality combined with the efficiency achieved through our digital transformation leads to a step change in our results.

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

**Iván Barona – Financiera Independencia – CFO**

Thank you Eduardo.

**Financial Results**

In 2Q23 Interest Income was 1.19 billion pesos, a 4% YoY expansion, despite witnessing a 5% decrease in the loan portfolio.

Interest expense posted a 14% YoY increase, reaching 152 million pesos. It is important to highlight that the cost of funding as a % of average interest bearing liabilities remained contained, increasing by 357 bp, to 13.3% despite the higher rates environment experienced in Mexico (+413 bp) and US (+408 bp).

Net Interest Income of 1.03 billion pesos, was 3% higher than 2Q22.

The Provision for Loan Losses was 336 million pesos in 2Q23, 7% higher on a YOY basis.

Non-interest expense in 2Q23 came in 6% lower YoY, in comparison to a 3% increase in NII, and a 5% YOY lower loan portfolio, underscoring the efficiencies achieved on our operations.

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

**Financial Position**

The corporate strategy took our Company to a strong financial position with a liquidity buffer that represents 7% of the total assets and a high solvency ratio. Cash and Cash Equivalents closed the quarter at 717 million pesos, 13% above 2Q22.

Our net debt, measured as interest bearing liabilities minus cash and cash equivalents, reached 3.54 billion pesos at the end of the quarter. It posted a 1.2 billion pesos YoY contraction, compared to a 384 million pesos contraction in our loan portfolio, signaling sound cash generation. On a sequential basis, net debt retreated 286 million pesos, outpacing the 285 million pesos contraction in our loan portfolio. When adjusting for FX impacts, the net debt declined 173 million pesos during the quarter, whereas the portfolio

contraction would have been 129 million pesos. Our operating cash flow during 2Q23 reached 606 million pesos.

The Company's coverage Ratio reached 202%, measured as Allowances for Loan Losses over Stage 3 Loans, compared to a 215% posted back in 2Q22.

We reached a solvency ratio of 47% in 2Q23, compared to the 41% observed back in 2Q22.

Overall, the Company's financial health is good and in a stronger position to keep reaping benefits of operating leverage and its focus on digital transformation.

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 good day.

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