

**FINANCIERA INDEPENDENCIA
3Q23 EARNINGS CONFERENCE CALL
FRIDAY OCTOBER 20th, 2023**

Operator

Good morning everyone and welcome to Financiera Independencia's 2023 Third Quarter Results Conference Call. My name is Luke, 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. Jose Maria Cid Michavila, Financiera Independencia's Chief Financial Officer.

Mr. Cid, you may begin.

Jose Maria Cid Michavila - Financiera Independencia – Chief Financial Officer

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

We published our 3Q23 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 Jose Maria. Good morning everyone.

I will start with some highlights from our 3Q23 operations

- Reported Net Profit for the quarter reached 163 million pesos, marking another quarter of strong and consistent performance this year, 7% higher YoY.
- The top line remains strong and operating expenses remain well under control, with costs as a percentage of our average portfolio at 32.5% in the context of a decreasing portfolio balance.
- Liquidity is robust with cash at \$1.4 billion pesos at quarter end, supporting a decrease of 163 million pesos in Net debt from the prior quarter.
- Our equity-to-asset ratio is at 45% at quarter end, 610 basis points above the same time last year.

Our Loan Portfolio of \$7.8 billion pesos decreased 10% YoY, including 13% appreciation of the Mexican Peso. Under a constant FX rate the consolidated group portfolio declined 5% YoY. Our portfolio based in Mexico posted a 2% YoY expansion, whereas our US portfolio declined 13% in dollars terms.

In 3Q23 loan origination was \$1.13 billion pesos, this figure stands 33% below last year's figure (30% under a constant FX), reflecting a more prudent stance favoring high-quality origination due to recent macroeconomic headwinds. Compared to the prior quarter loan originations increased 3% with originations in Mexico growing 8% and those in the US declining 8%.

The consolidated NPL ratio, measured as the Stage 3 loan portfolio over the total portfolio, stood at 6.5% in 3Q23, unchanged against the last quarter and 50 basis points above the prior year.

The Provision for Loan Losses (PLL) was 357 million pesos in 3Q23, 6% up compared to the prior quarter but 6% lower than the prior year. PLL to average loans was at 18%, flat to the prior year.

Findep's write-offs amounted to 382 million pesos in the third quarter, 6% below 2Q23 and 22% up from the prior year. Compared to the average portfolio, trailing twelve months' write-offs were at 20% vs 14% in the prior year.

NPLs plus trailing twelve month (TTM) write-offs over the total loan portfolio including TTM write-offs was at 23% compared with 17% in the prior year.

Our Coverage Ratio was 204%, measured as Allowances for Loan Losses over Stage 3 loans, compared with 202% in the prior quarter and 216% prior year.

In line with our core strategic priorities, interest bearing liabilities are down 21% YoY, or 14% under constant FX, compared to a 10% decrease in the loan portfolio (5% decrease under constant FX). Compared to the prior quarter, interest bearing liabilities have increased 12% as we work to structure the balance sheet to meet short term maturities.

Cash and Cash Equivalents reached \$1.4 billion pesos, 34% above the prior year representing 12% of Total Assets. With this, net debt declined 32% from the prior year (5 billion pesos in 3Q22 to 3.4 billion pesos in 3Q23) or a 25% decline under a constant FX rate.

Our solvency ratio (Equity to Total Assets) of 45% in 3Q23 compares favorably to 39% in the prior year.

The Company's Return on Equity ratio (ROAE) through the first nine months of the year was 13.4%, up 10 basis points from the same period in the prior year and the Return on Assets ratio (ROAA) was 5.7%, up 30 basis points also compared to the same period in the prior year. When considering Tangible Equity, the ROTE was consistent with the prior quarter at 17%.

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 two thirds of new originations in 3Q23 came from digitally enabled channels and in the US 35% of new customers came through our digital channels.

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

- *Independencia* currently represents 36% of the total portfolio, at \$2.8 billion pesos with a client base of 166 thousand. Performing loans decreased 19 million pesos YoY. The Stage 3 loan ratio was at 5.9% for the current quarter vs. 6.4% in the prior quarter.
- *Apoyo Económico Familiar's* loan portfolio was at \$2.1 billion pesos representing 27% of the Company's total and serving a client base of 97 thousand. Performing loans grew 73 million pesos YoY. The Stage 3 loan ratio was at 7.6% in the current quarter vs. 7.9% in the prior quarter.

- Finally the loan portfolio of our US based company, *Apoyo Financiero* stood at \$2.9 billion pesos (US\$165 million) with a client base of over 33 thousand. AFI's loan portfolio represents 37% of the Company's total. The Stage 3 loan ratio was at 6.2% vs. 5.7% in the prior quarter.

AFI continues to drive efficiencies in its operating expenses, with the ratio of non-interest expense to the average loan portfolio at 13% in the current quarter vs 15% for the same period prior year. This partially offsets increased credit costs related to continuing pressures from the macroeconomic environment. We are confident this expense discipline will support the business through economic cycles.

The overall performance in the quarter once again confirms the success of our strategy focusing on our core business in our strategic markets while leveraging our expertise in credit analysis and loan origination. Disciplined execution of our strategy has helped us to deliver consistent results this quarter and through the first nine months of the year.

I'll now hand over the discussion to Jose Maria so he can provide additional details of our third quarter results.

Jose Maria Cid Michavila – Financiera Independencia – CFO

Thank you Eduardo.

Financial Results

In 3Q23 Interest Income was \$1.2 billion pesos, a decrease of 3.1% YoY despite a 10% decrease in the loan portfolio, or 5% under a constant FX rate.

Interest expense of \$141 million pesos decreased 7% YoY as we proactively manage outstanding indebtedness in the context of constraints in portfolio growth and consider renewal options to manage short term maturities.

Net Interest Income of \$1.06 billion pesos, declined 3% YoY.

The Provision for Loan Losses was \$357 million pesos in 3Q23, 6% lower compared with prior year.

Non-interest expenses were \$631 million pesos in 3Q23 or 32.5% as a percentage of the average portfolio highlighting the discipline and control we've put in place to manage the expense base in the context of a decreasing portfolio balance.

Financial Position

The Company maintains a strong financial position with Cash and Cash Equivalents at \$1.4 billion pesos or 12% of total assets and a solvency ratio of 45%.

Net debt, measured as interest bearing liabilities minus cash and cash equivalents, of \$3.4 billion pesos at the end of the quarter was down \$1.6 billion pesos from the prior year as we execute prudent portfolio management. On a sequential basis, net debt decreased \$163 million pesos.

Our operating cash flow during 3Q23 reached \$621 million pesos.

The Company's coverage Ratio was 204%, measured as Allowances for Loan Losses over Stage 3 Loans, compared to a 216% prior year.

Overall, the Company delivered solid and consistent results in the quarter and through the first nine months of the year with disciplined execution of our key priorities.

Operator, we'd like to open the call for questions at this time.

Jose Maria Cid Michavila - Financiera Independencia – CFO

Thank you very much for your time and interest in Financiera Independencia. My contact information is available on our website at FINDEP.MX if you have any further questions.

Have a good day.

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