

FINANCIERA INDEPENDENCIA
4Q23 EARNINGS CONFERENCE CALL
FRIDAY FEBRUARY 23rd, 2024

Company Participants

- Eduardo Messmacher, Chief Executive Officer
- José María Cid, Chief Financial Officer

Operator

Good morning everyone and welcome to Financiera Independencia's 2023 Fourth Quarter Results Conference Call. My name is [*], 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. Joining us today from Financiera Independencia is Mr. Eduardo Messmacher, Chief Executive Officer, and Mr. Jose Maria Cid, Chief Financial Officer. I would now like to turn the call over to Mr. Jose Maria Cid.

Mr. Cid, you may begin.

Jose Maria Cid Michavila - Financiera Independencia – Chief Financial Officer

Good morning. Thank you for joining FINDEP's Fourth Quarter 2023 results conference call.

We published our 4Q23 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 4Q23 operations:

- Reported Net Profit for the quarter reached 215 million pesos, marking another quarter of strong performance, 24% higher YoY and marking the best quarterly reported performance in the Company's history.
- This result includes positive net adjustments of \$19.5 million pesos from amortizing loan origination costs, \$43.7 million pesos from a COVID related grant and tax credit in the US and a negative net adjustment of \$33.6 million pesos from credit reserves derived from the impact of hurricane Otis in Acapulco. Without these effects, 4Q23 proforma Net Profit would be \$185 million pesos, 6% above 4Q22 and still the best quarter in the past 10 years.
- The top line remains strong and operating expenses remain well controlled, with costs as a percentage of our average portfolio at 30% in the context of a decreasing portfolio balance mostly due to our prudent approach to the US economy and to FX effects.
- Liquidity is strong with cash at \$735 million pesos at quarter end, reflecting efforts taken to address short term debt maturities during the quarter. Net debt decreased \$235 million pesos from the prior quarter and 31% YoY.
 - As a brief reminder, on December 15, 2023, the Company successfully completed the full early amortization of its 8.0% senior notes that were scheduled to mature on July 19, 2024. This was supported by the new 3 year term credit line with HSBC Mexico which was separately announced on November 10, 2023.
- Our equity-to-asset ratio stands at 50% at quarter end, 9.8 percentage points above the same time last year.

Our Loan Portfolio of \$7.6 billion pesos decreased 11% YoY, including 13% appreciation of the Mexican Peso. Under a constant FX rate the consolidated group portfolio declined 6% YoY. Our portfolio based in Mexico posted a 1% YoY decline and our US portfolio declined 12% YoY in dollars terms.

In 4Q23 loan origination was \$1.1 billion pesos, this figure stands 15% below last year's figure (10% under a constant FX), reflecting a more prudent stance in originations due to the prevailing macroeconomic environment. Compared

to the prior quarter total loan originations decreased 3% with originations in Mexico declining 11% while those in the US increased 13%.

The consolidated NPL ratio, measured as the Stage 3 loan portfolio over the total portfolio, stood at 6.3% in 4Q23, improving 20 basis points against the prior quarter and 40 basis points below the prior year.

Findep's write-offs amounted to 396 million pesos in the fourth quarter, 3.5% higher than the prior quarter and 3% up from the prior year. Compared to the average portfolio, trailing twelve months' write-offs were at 20% vs 16% 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 19% in the prior year.

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.

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

- *Independencia* represents 36% of the total portfolio and experienced a contraction of 3% YoY. Net Profit increased 7% YoY, with steady net revenue figures and a solid and continuous reduction in operational expenses.
- *Apoyo Económico Familiar's (AEF's)* represents 28% of total portfolio and experienced a growth of 2% YoY. Net Profit declined 27% YoY driven by additional reserves related to the Acapulco hurricane.
- Finally, *Apoyo Financiero's (AFI's)* represents 36% of total portfolio and experienced a contraction of 24% YoY or 13% excluding the impact of FX. Net Profit increased \$51 million pesos in the fourth quarter or \$68 million excluding the impact of FX with a decline in Interest Income driven by contraction in the portfolio offset by declines in its Provision for Loan Losses and operational expenses.

In addition, there was an increase in Other Operating Income of \$67 million pesos YoY or \$65 million excluding the impact of FX, reflecting the recording of grant income from the Community Development Financial Institutions Equitable Recovery Program grant of \$44 million pesos and a Covid related payroll tax credit for \$21 million pesos.

This quarter's performance set a new record for our Company, with solid results and positive expected trends across each of the businesses. These results once again confirm the success of our strategy focusing on our core business in our strategic markets, leveraging our expertise in credit analysis and loan origination and prudently managing liquidity and debt. Disciplined execution of our strategy has helped us to deliver record results this quarter and for the year.

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

Jose Maria Cid Michavila – Financiera Independencia – CFO

Thank you Eduardo.

Financial Results

In 4Q23 Interest Income was \$1.2 billion pesos, a decrease of 4% YoY despite a 11% decrease in the loan portfolio, or 6% under a constant FX rate.

Interest expense of \$167 million pesos increased 4% YoY as we continue to proactively manage outstanding indebtedness.

Net Interest Income of \$1.05 billion pesos, declined 5% YoY.

The Provision for Loan Losses (PLL) was \$384 million pesos in 4Q23, 7% up compared to the prior quarter but 5% lower than the prior year. PLL to average loans was at 18%, flat to the prior quarter and vs.16% in the prior year, in the context of a 10% decline in average loans.

Non-interest expenses were \$577 million pesos in 4Q23 or 30% 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.

In line with our core strategic priorities, interest bearing liabilities are down 31% YoY, or 28% under constant FX, compared to a 11% decrease in the loan portfolio (6% decrease under constant FX). Compared to the prior quarter, interest bearing liabilities have decreased 18% as we successfully

completed the full early amortization of the 8.0% senior notes that were scheduled to mature on July 19th , 2024.

Financial Position

The Company maintains a strong financial position with Cash and Cash Equivalents at \$735 million pesos or 7% of Total Assets and a Solvency Ratio (Equity to Total Assets) of 50%.

Net debt, measured as interest bearing liabilities minus cash and cash equivalents, of \$3.1 billion pesos at the end of the quarter was down \$1.4 billion pesos or 31% from the prior year, a 25% decline under a constant FX rate, as we execute prudent portfolio and debt management. On a sequential basis, net debt decreased \$235 million pesos .

Our operating cash flow during 4Q23 was \$724 million pesos.

The Company's Coverage Ratio was 217%, measured as Allowances for Loan Losses over Stage 3 Loans, compared with 204% in the prior quarter and 202% prior year.

Our solvency ratio of 50% in 4Q23 compares favorably to 41% in the prior year.

The Company's Return on Equity ratio for the year was 14.1%, up 50 basis points from the same period prior year, and the Return on Assets ratio was 6.4% vs. 5.6% in the prior year. When considering Tangible Equity, it improved to 18% vs 17% in the prior quarter.

Overall, the Company delivered record results in the quarter and 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 great day.

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