



# MEXARREND®

## LEASING INNOVATION

### Mexarrend Third Quarter 2020 Earnings Report

Mexico City, October 27<sup>th</sup>, 2020 — Mexarrend, S.A.P.I. de C.V. (“Mexarrend” or the “Company”), announced its unaudited consolidated financial results for the third quarter of 2020 (“3Q20”) and nine-month period (“9M20”) ending September 2020. All figures are expressed in Mexican Pesos (“\$”) unless stated otherwise and were prepared following International Financial Reporting Standards (“IFRS”).

#### CONFERENCE CALL DETAILS

Date: Wednesday, October 28<sup>th</sup>, 2020  
Time: 10:00am (Mexico City Time) / 12:00pm\* (ET)  
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\*Please bear in mind the two-hour time difference due to Eastern Daylight Time.

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## Financial and Operating Highlights 3Q20

- ❖ Over the quarter, Mexarrend continued to implement several initiatives to confront the COVID-19 pandemic. These include working remotely in an efficient way and thereby ensuring the continuity of the Company's operations, whilst safeguarding the well-being of our employees.
- ❖ We are focused on preserving the Company's liquidity, as well as strengthening our capitalization and leverage ratios.
- ❖ As we mentioned last quarter, in March we launched *Plan Cero*, which was offered to the entire portfolio of clients. Under this plan, payments for a period of 3 months were almost totally deferred, and a discount was offered on payments for the rest of this year. The operations' profitability and the level of collateralization were preserved.
  - ❖ Approximately 18% of our clients took up the *Plan*, and as of today, more than 80% of them are making payments again, after the 3-month deferral. Only 20% of participants requested an additional extension of support. This 20% represents less than 1% of our portfolio.
  - ❖ Collections for the year represents a decrease of \$266 million pesos for 2020 (14% of those projected), offset in future years (mainly from 2022 to 2024).
- ❖ All debt in dollars is hedged, both for coupon and principal payments, ensuring stability in the Company's cash flow. Mexarrend's hedge accounting shows variations when presenting the market value of its derivative instruments as part of the Company's assets, which are not always equal to the variations in the exchange rate shown in the income statement. These variations are presented in the OCI ("Other Comprehensive Income") stockholders' equity accounts.
- ❖ Total revenue in 3Q20 was \$351 million pesos, a decrease of 9.3% versus 3Q19. Cumulative revenue for 9M20 reached \$1,114 million pesos, a 5.1% increase compared to the same period in the previous year. Revenues for the period increased less than was estimated prior to the pandemic, as a consequence of very low originations during the quarter and Mexarrend's conservative approach to risk.
- ❖ Interest income on capital leases increased by 5.1% in 3Q20 compared to the previous year, and by 21.5% for 9M20, reaching \$900 million pesos.
- ❖ Gross profit decreased for 9M20 by 20.5% compared to 9M19, to \$342 million pesos with a margin of 30.7%. Results for the quarter followed the same trajectory, with a decrease of 35.7% to \$94 million pesos and a margin of 26.9%, compared to the previous period. This decrease is primarily due to almost zero originations during the quarter, which had three impacts: (i) a reduction of the commissions generated when registering new transactions; (ii) a lower generation of income from the financial operating margin; (iii) a temporary reduction in income due to operating lease operations that are part of the *Plan Cero*.

- ❖ Operating expenses were reduced by 3.8% in 3Q20 compared to the same period of the previous year, due to cost control measures that were implemented in the period and the reduction in sales commissions as a result of low origination. The cumulative result presented a 2.9% reduction in operating expenses compared to 9M19.
  - ❖ We continue our efforts to make our cost base more efficient with a structure that allows us to absorb the growth projected in the coming years.
- ❖ The Comprehensive Financing Result decreased by 52.2% in the first nine months of the year compared to the same period in 2019. This was mainly due to the greater cash position as a result of the bond issued in July 2019 and the one-off effects in 3Q19 from the issuance of the 2024 international notes, as well as the acquisition offer for the 2022 notes. This demonstrates the effectiveness of our hedges, neutralizing the effect of exchange rate variations in the quarter and in the cumulative period.
- ❖ In 3Q20 and 9M20 net income was \$11 million and \$18 million pesos respectively, demonstrating Mexarrend's financial strength in times of economic crisis.
- ❖ The total portfolio reached \$9.056 billion pesos as of September 30<sup>th</sup>, 2020, an increase of \$1.251 billion or 16.0% compared to the same period in 2019; the real estate portfolio increased by 27.6% compared to the same period last year, to \$1.275 billion pesos. This resulted in net productive assets reaching \$10.331 billion pesos.
  - ❖ The growth of the portfolio was less than that of previous quarters as a result of the uncertainty regarding the reactivation of the country's economy.
- ❖ Total assets remained stable at the end of the period, amounting to \$10.964 billion pesos compared to \$10.922 billion at the end of 9M19, largely due to the \$1.930 billion peso decrease in the cash position, due to the funds used from the 2024 bond.
- ❖ Our non-performing loan indicator increased to 6.1% as a result of the COVID-19 pandemic on the Mexican economy.
  - ❖ Given the current environment, we are following up with all the clients in our portfolio, in order to understand their liquidity needs. If necessary, we will work with them to change their payment program in the short term to support their cash flow, while always maintaining the guarantee limit and profitability in said transactions.
  - ❖ All transactions are duly collateralized. This collateral can be executed in two ways: (i) direct (leased equipment); (ii) indirect (mortgage guarantees, pledges, etc.). In most cases, both levels of collateralization are met, resulting in 1.8x coverage of capital at risk. This makes our portfolio very resilient, particularly with regard to the severity of the non-performing loan index, which has historically been 20% of this index.
- ❖ Reserves currently amount to 51% of the non-performing loan portfolio considering the total account (principal + future income).

- ❖ Financial debt decreased by \$297 million pesos from 2Q20 to 3Q20 and increased by \$423 million in comparison to the period ending in September 2019. A large part of this variation is due to exchange rate fluctuation.
- ❖ The Company's leverage ratio, considering the hedge of the principal of the dollar-denominated debt which was executed at a peso/USD rate of close to \$19.00 pesos and without considering the effects in OCI for the aforementioned hedges, was 5.2x, remaining at a similar level to the previous period.
  - ❖ Without considering the effect of this currency coverage, and as shown on the balance sheet, the leverage ratio was 7.6x, an improvement compared to the 8.2x at the end of the previous quarter, due to a stronger exchange rate at the end of the quarter (\$22.35 at the end of September 2020 vs \$23.13 at the end of June 2020).
  - ❖ If the cash position is considered in the calculation, the leverage ratio is reduced to 6.7x without considering the effect of the hedges and to 4.5x considering these effects.
- ❖ Mexarrend maintained a cash balance of \$1.002 billion, a decrease of \$1.930 billion pesos from 9M19 to 9M20, due to the origination of leases during the period. In 2Q20, a cash balance of \$1.463 billion pesos was reported. The variations were mainly due to the payment of the 2024 bond coupon in July, the cost of additional coverage and a higher origination in the quarter.
- ❖ A negative impact on the Other Comprehensive Income account continues to be reflected in the Company's shareholders' equity, due to the difference between the impact of the depreciation in the exchange rate and the market value of derivatives adjusted by the call spread premiums for \$330 million pesos at the end of September.
  - ❖ This figure is less than that reported in 2Q20, which was \$375 million pesos, due to the appreciation of the exchange rate in the period.
  - ❖ This account has no material impact on the Company's capital.

## Relevant Events

### Joint Venture with Zinobe = Centeo

During the quarter, Mexarrend announced the launch of Centeo through a joint venture with Zinobe, a leading fintech firm in the Colombian market. Mexarrend holds a 51% stake in Centeo.

The objective of the joint venture is to meet the needs of the Mexican SME market, which due to its nature requires a high level of automation. Additionally, positive externalities are expected for the Mexarrend ecosystem, which will help to consolidate the digitization process that began 12 months ago.

Centeo is a platform that takes advantage of technology to provide fast and flexible credit to SMEs in Mexico. Alternative data is used to make better risk decisions and increase origination capacity. Similarly, digital technologies are used to increase speed and efficiency to provide a superior transaction experience.

### Mexarrend announces approval of a US\$45 million loan from the US International Development Finance Corporation (“DFC”)

On October 15, 2020, Mexarrend announced the approval of a US\$45 million loan, with a 10-year term, from the United States International Development Finance Corporation (“DFC”). A letter of commitment has been signed by both parties and documentation is expected to be finalized before the end of the year. The resources will be used to grow Mexarrend’s portfolio and take advantage of opportunities that arise in the coming months, focusing on sectors that have demonstrated resilience during the current economic situation.

The approval of this facility shows the solidity of Mexarrend's systems, controls, processes and origination capacity, as well as its clear vocation to strengthen ESG processes and for financial inclusion in the Mexican market.

## Financial and Operating Summary

in million pesos

Financial Metrics	3Q19	3Q20	Var. %	9M19	9M20	Var. %
Total Revenues	387	351	(9.3)%	1,060	1,114	5.1%
Cost of Sales	240	256	6.8%	629	771	22.6%
Gross Profit	147	94	(35.7)%	431	342	(20.5)%
<b>Gross Margin (%)</b>	<b>38.0%</b>	<b>26.9%</b>	<b>(1,110)bps</b>	<b>40.7%</b>	<b>30.7%</b>	<b>(1,000)bps</b>
Operating Expenses	75	72	(3.8)%	226	219	(2.9)%
Operating Income	72	22	(69.0)%	205	123	(39.9)%
<b>Operating Margin (%)</b>	<b>18.6%</b>	<b>6.4%</b>	<b>(1,220)bps</b>	<b>19.3%</b>	<b>11.1%</b>	<b>(820)bps</b>
Other (income), expenses, net	0	2	305.9%	1	6	1,030.0%
Comprehensive Financing Result	239	60	(74.8)%	313	150	(52.1)%
Income before Income Taxes	(167)	(40)	76.4%	(109)	(32)	70.3%
Income Taxes	(17)	(51)	199.7%	(11)	(50)	356.5%
Net Income	(150)	11	107.6%	(97)	18	118.5%
<b>Net Income Margin (%)</b>	<b>(38.9)%</b>	<b>3.3%</b>	<b>4,220bps</b>	<b>(9.2)%</b>	<b>1.6%</b>	<b>1,080bps</b>

Operating Metrics	9M19	9M20	Var. %
Total Portfolio	7,805	9,056	16.0%
Leasing	7,020	8,444	20.3%
Credit and Factoring	718	557	(22.4)%
Services	67	56	(17.2)%
Non-Performing Loans	5.3%	6.1%	80bps
Real Estate Portfolio	999	1,275	27.6%
Net Productive Assets	8,804	10,331	17.3%
Financial Ratios	9M19	9M20	Var. %
R O A A (annualized)	(1.5)%	0.2%	170bps
R O A E (annualized)*	(9.8)%	1.6%	1,140bps
Financial Debt*/Stockholders' Equity*	5.9x	5.2x	(0.8)x
Capitalization* (Stockholders' Equity/Total Assets)	13.0%	14.9%	190bps
Stockholder's Equity*/Total Portfolio	18.0%	16.8%	(120bps)
Leasing Portfolio/Total Portfolio	89.9%	93.2%	330bps
Total Portfolio/Financial Debt*	0.9x	1.1x	0.2x
Current Assets/Current Liabilities	2.4x	1.9x	(0.8)x

\*Net financial ratios, not accounting for the effects caused by variations in the exchange rate for the quarter due to the debt coverage and eliminating the effect of the OCI on stockholders' equity.

## Message From Our CEO

It is clear that 2020 has been a year of change, volatility and uncertainty; many industries have changed permanently. During this period, our focus has been to understand the needs of our clients, maintain the health of the portfolio and favor a strong liquidity position. In the third quarter, the effectiveness of the *Plan Cero* was proven; the vast majority of the clients that participated are complying with the new payment plan and we expect a complete normalization of collection levels by the first quarter of 2021.

The complex environment has not distracted us from our strategic objectives and, in line with these objectives, in September we announced the launch of Centeo. This joint venture with Zinobe ([www.zinobe.com](http://www.zinobe.com)), a leading fintech firm in the Colombian market, is a new platform dedicated to serving the needs of small and medium-sized enterprises in Mexico. In the coming months, we will be providing more detail on this new business line, which we are confident will provide value-added solutions to the market, significantly improving our value offer.

We have continued to work on our financing strategy, to prepare ourselves for the rebound in economic activity and the opportunities that I am sure will emerge. Our strategy is focused on reducing current costs, extending our long-term amortization curve and having structures in place to enable more efficient cash management, thereby reducing negative carry. A couple of weeks ago, we were pleased to inform the market of the approval of a line of credit for US\$45 million from the US International Development Finance Corporation (“DFC”), which shows the strength of our portfolio and the efficiency of achievements in matters of sustainability. This approval is the culmination of an analysis and due diligence process lasting more than 12 months.

Additionally, and despite the uncertainty in the market, we have refinanced all the maturities of our short-term commercial paper program (“Cebures”), demonstrating Mexarrend’s strength and reputation in the Mexican market.

We continue to advance various processes, remaining in line with our strategic vision at all times.

Despite the depth of the global recession in the second and third quarters of the year, our operating margins remain at acceptable levels, proving Mexarrend's ability to react to adverse economic shocks.

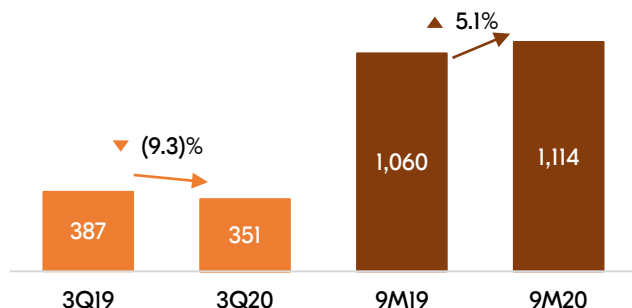
In the third quarter, we have prudently and gradually started to originate new transactions. We are optimistic that we will return to our historical levels of growth in the coming months.

**Alejandro Monzó**  
CEO, Mexarrend

## Income Statement

### Total Revenues

in million pesos

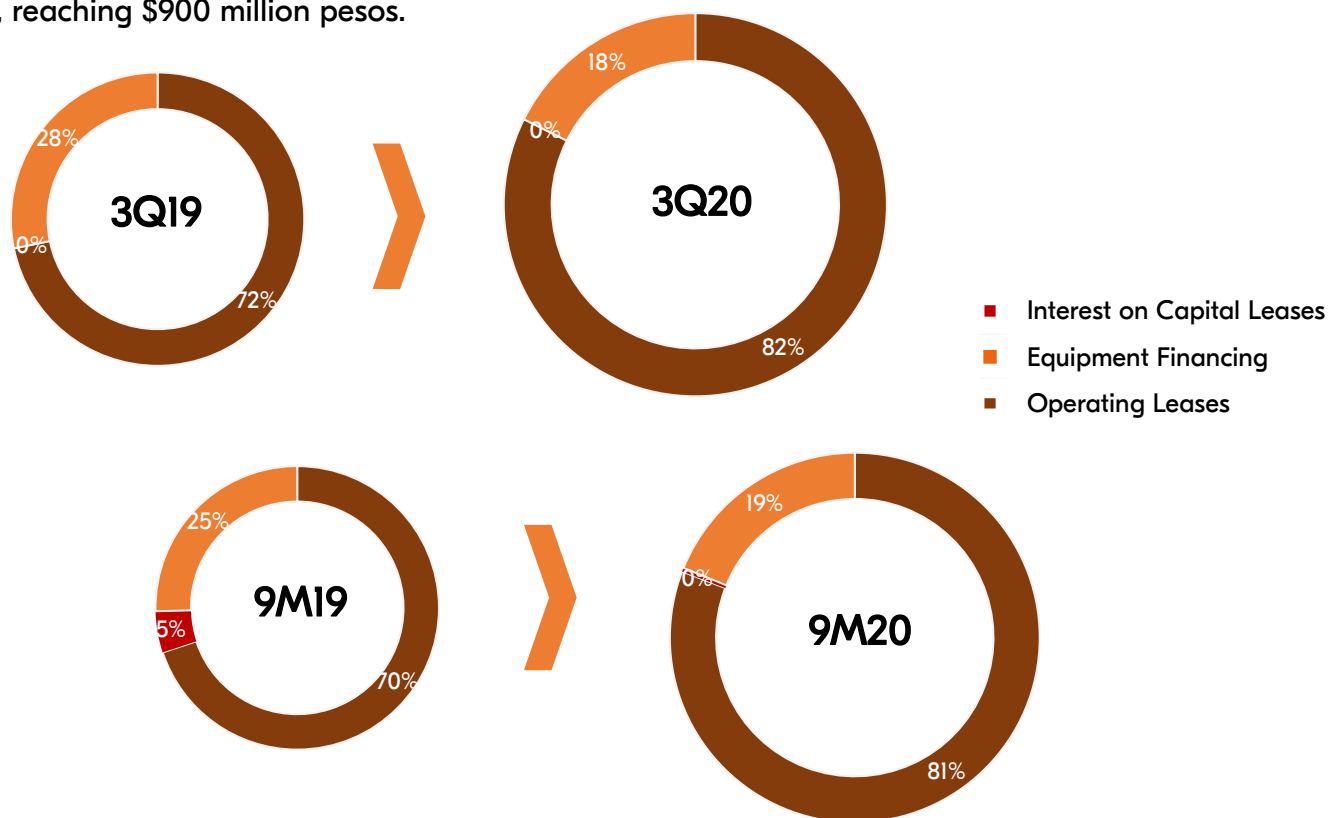


Revenues in 3Q20 when compared to 3Q19, fell by 9.3%. The effect on revenue growth in the quarter was due to low originations, but less than expected. This impacts commissions for new transactions, the financial margin of originations throughout their term as well as the impact of *Plan Cero* on operating lease operations.

In the cumulative result, total revenue grew by 5.1% or \$54 million pesos, reflecting an improvement of the Company's income.

### Revenue by Product Line

Interest income on capital leases increased by 5.1% compared to the previous year, reaching \$289 million pesos. As explained previously, the low revenue growth is due to the limited growth in the portfolio during the period. In 9M20 there was revenue growth in comparison to the same period of the previous year of 21.5%, reaching \$900 million pesos.



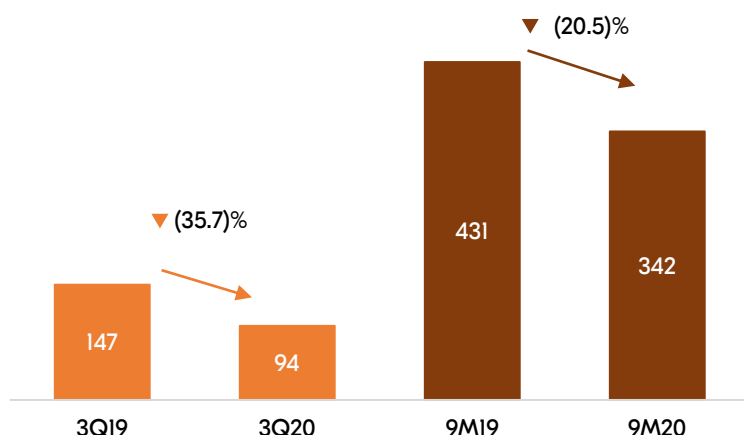


## Cost of Sales

Cost of sales increased by 6.8% in the period compared to the previous year, in line with income growth. Looking at the cumulative result, costs increased by 22.6%, mainly explained by the increase in debt related to the growth of the portfolio.

## Gross Profit

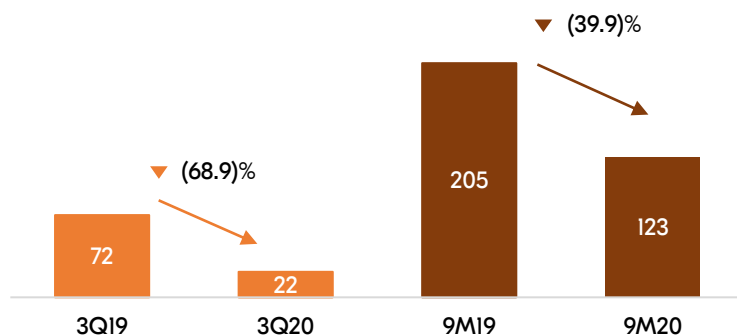
*in million pesos*



As a consequence of low originations during the period, there was a 35.7% decrease in the gross profit for the quarter and a 20.5% decrease in the cumulative gross profit as of September. In 3Q20 the gross margin reached 26.9% and a cumulative margin of 30.7% at the end of September.

## Operating Income

*in million pesos*



The effect of the low number of new transactions for the quarter is also reflected in the operating income for the period, which decreased by 68.9% in the quarter and by 39.9% for the cumulative period to the end of September.

We continue to analyze the Company's cost structure to operate more efficiently and to be prepared for the new economic environment in the coming quarters.

## Comprehensive Financing Result

The comprehensive financing result decreased by 52.2% for the cumulative period to the end of September 2020, mainly due to one-off effects from the issuance of the 2024 international notes and the acquisition offer for the 2022 notes, as well as an increase of \$40 million pesos in financial instrument premiums during the first nine months of the year.

Mexarrend maintained a significant cash position over the quarter, considering that origination decreased significantly. This is in line with the objective of protecting of the liquidity of the Company for the coming quarters, seeking greater visibility of the impact, duration and depth of the recession as a result of the COVID-19 pandemic.

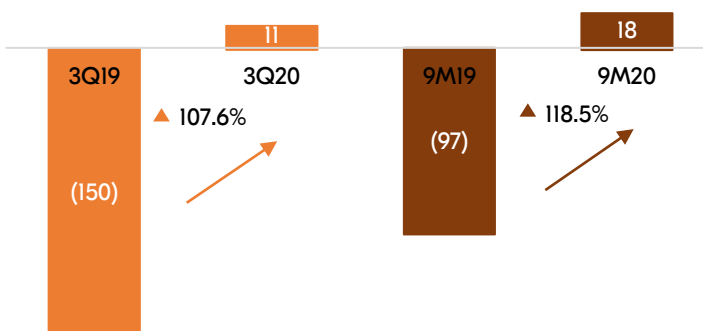
Although less than that of 2Q20, there was a significant foreign exchange loss, as a result of the depreciation of the Mexican peso. This effect has been neutralized for accounting purposes with the hedges available for this purpose.

## Net Profit

*in million pesos*

3Q20 reflected a net profit of \$11 million pesos, favorable when compared to the 3Q19 due to the extraordinary expenses seen last year related to the issuance of the international notes due on 2024.

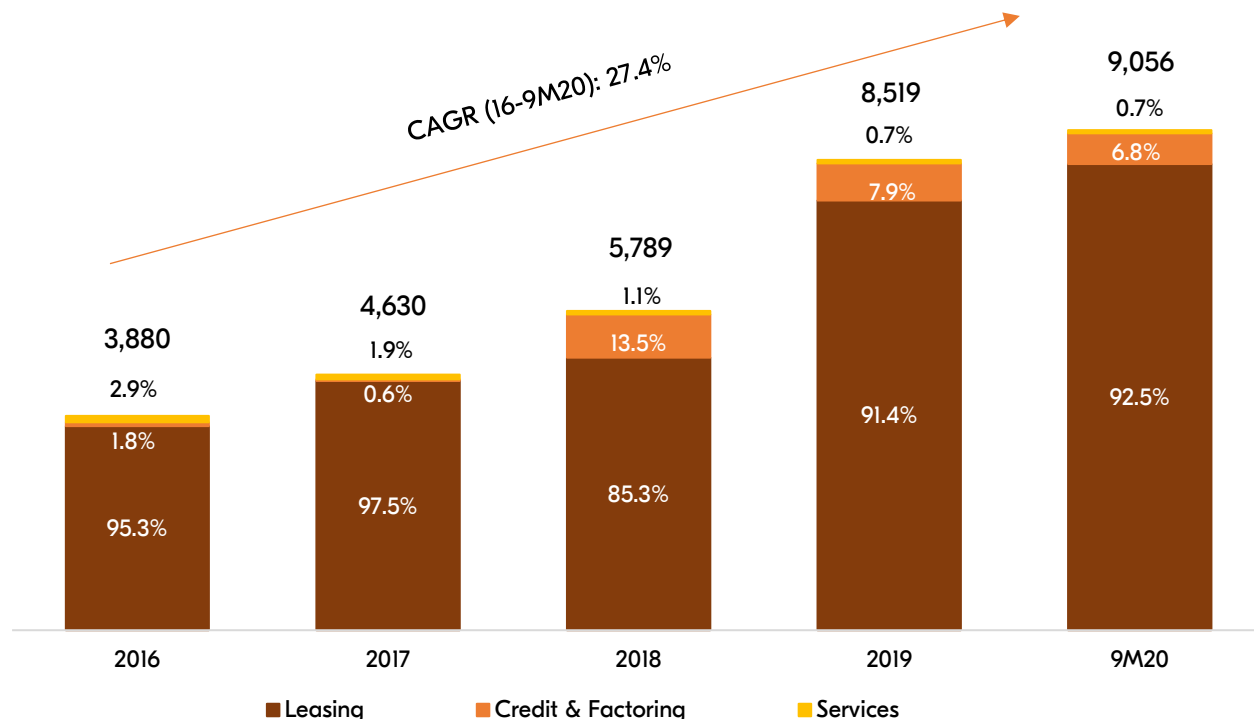
For the cumulative period to the end of September, net profit was \$18 million pesos, whereas the Company reported a loss as of 9M19 explained by the impact of non-recurring costs in 3Q19 as a result of the 2024 international notes issuance and the partial cancellation of the 2022 bond. These non-recurring expenses rose to \$140 million.



## Mexarrend's Portfolio

*in million pesos*

As of September 30<sup>th</sup>, 2020, the total portfolio increased by 16% to reach \$9.056 billion compared to the end of 3Q19. The increase was less than that reported in the previous quarter (21.3%), due to almost zero originations over the period. We are monitoring the opportunities and the environment to analyze those industries in which it makes the most sense to grow in the coming months - those which are resilient to the new market dynamics.



## Portfolio Diversification

We have a diversified portfolio in the country's main industries. The graph shows the industries according to the Global Industry Classification Standard ("GICS"), which is shown in greater detail later in this section.

The diversification of our portfolio is in line with the percentage of participation of these industries in the economy, ensuring that we participate in the areas of greatest growth in Mexico.

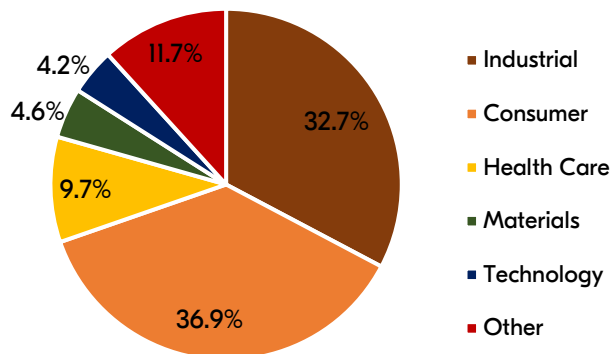
As shown in the "Client Composition in the Portfolio" section, we have low exposure to industries with high susceptibility to COVID-19 such as the auto parts, tourism and restaurant sectors.

A significant percentage of Mexarrend's clients are in Mexico City and the metropolitan area, which includes the State of Mexico.

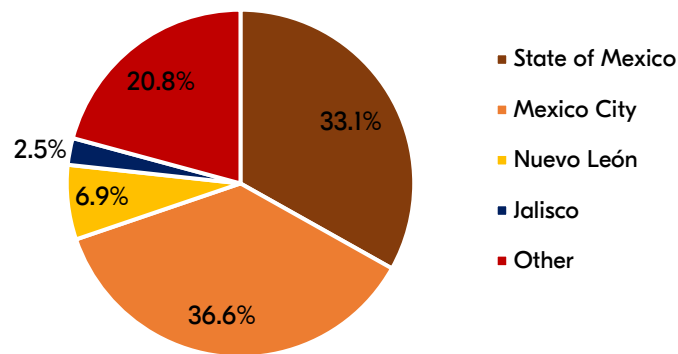
Our sales force operates throughout the country from our headquarters and currently has a representative office in Monterrey, to better serve the northern region.

We continue strengthening our presence in the regions with the highest economic growth and investment dynamics and remain cautious of industries with higher risks.

By Industry

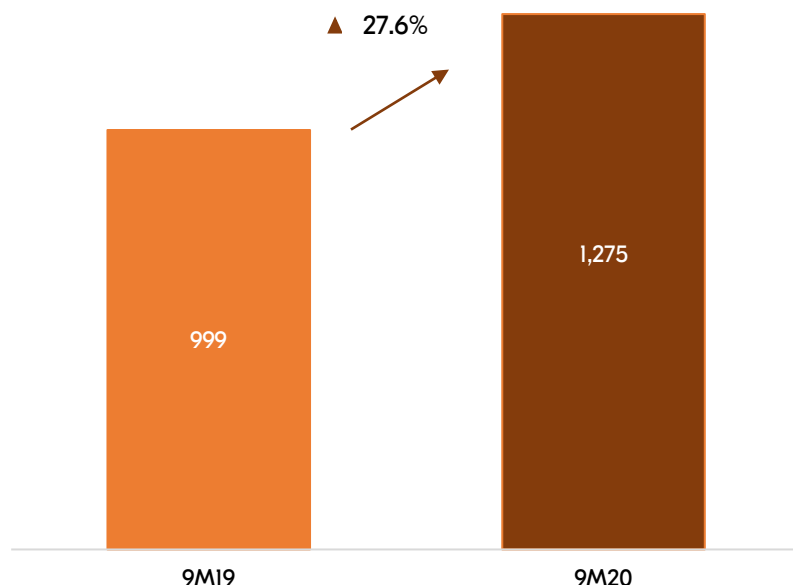


By Region



## Real Estate Portfolio

*in million pesos*



As of September 30<sup>th</sup>, 2020, real estate assets reached \$1.275 billion compared to \$999 million as of the end of September 2019, representing an increase of 27.6%, as a result of the development of the real estate leasing product.

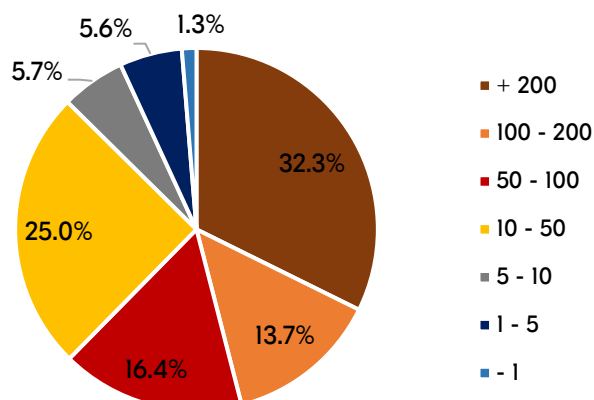
## Client Composition in the Portfolio

*in million pesos*

Mexarrend uses GICS to classify its existing customer portfolio. A more detailed analysis of the portfolio is presented below, as of 3Q20.

Sector	Amount		%		Sector	Amount		%			
	3Q19	3Q20	3Q19	3Q20		3Q19	3Q20	3Q19	3Q20		
Energy	8	6	0.1%	0.1%	Energy	8	6	0.1%	0.1%		
Materials	433	419	5.5%	4.6%	Materials	433	419	5.5%	4.6%		
Industrials	2,679	2,965	34.3%	32.7%	Capital Goods	1,171	1,013	15.0%	11.2%		
					Commercial & Professional Services	615	863	7.9%	9.5%		
					Transport	893	1,089	11.4%	12.0%		
Consumer Discretionary	2,379	3,346	30.5%	36.9%	Automobiles & Components	113	104	1.4%	1.1%		
					Consumer Durables & Apparel	1,044	854	13.4%	9.4%		
					Consumer Services	423	551	5.4%	6.1%		
					Media	355	1,128	4.5%	12.5%		
					Retail	444	709	5.7%	7.8%		
Other	382	393	4.9%	4.3%	Sale of Food and Products	165	100	2.1%	1.1%		
					Food, Beverage & Tobacco	212	284	2.7%	3.1%		
					Household & Personal Products	5	9	0.1%	0.1%		
Health Care	866	879	11.1%	9.7%	Health Care Equipment & Services	835	862	10.7%	9.5%		
					Pharmaceuticals, Biotechnology & Life Sciences	31	17	0.4%	0.2%		
Financial Services	151	192	1.9%	2.1%	Banks	1	2	0.0%	0.0%		
					Diversified Financial Services	131	183	1.7%	2.0%		
					Insurance	19	7	0.2%	0.1%		
Information Technology	492	385	6.3%	4.2%	Software & Services	458	364	5.9%	4.0%		
					Technology, Hardware & Equipment	34	21	0.4%	0.2%		
					Semiconductors & Semiconductor Equipment	0	0	0.0%	0.0%		
Telecommunication Services	234	418	3.0%	4.6%	Telecommunication Services	234	418	3.0%	4.6%		
Services	0	0	0.0%	0.0%	Services	0	0	0.0%	0.0%		
Real Estate	180	53	2.3%	0.6%	Real Estate	180	53	2.3%	0.6%		
Total		7,804	9,056	100%	100%	Total		7,804	9,056	100%	100%

## Portfolio Distribution by Ticket Size

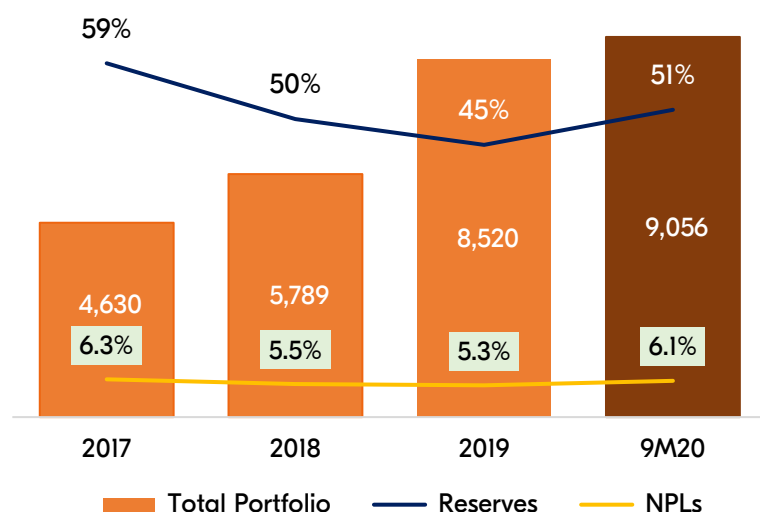


Transaction Size (in million pesos)	Number of Clients	%
+ 200	8	1%
100 - 200	9	1%
50 - 100	20	3%
10 - 50	99	13%
5 - 10	73	10%
1 - 5	209	28%
- 1	337	44%

Mexarrend operates under strict credit policies aligned with its priority of maintaining a high-quality portfolio. 95% of clients have transaction contracts of less than \$50 million pesos, thus maintaining a low level of concentration per customer.

## Non-Performing Loans

*in million pesos*



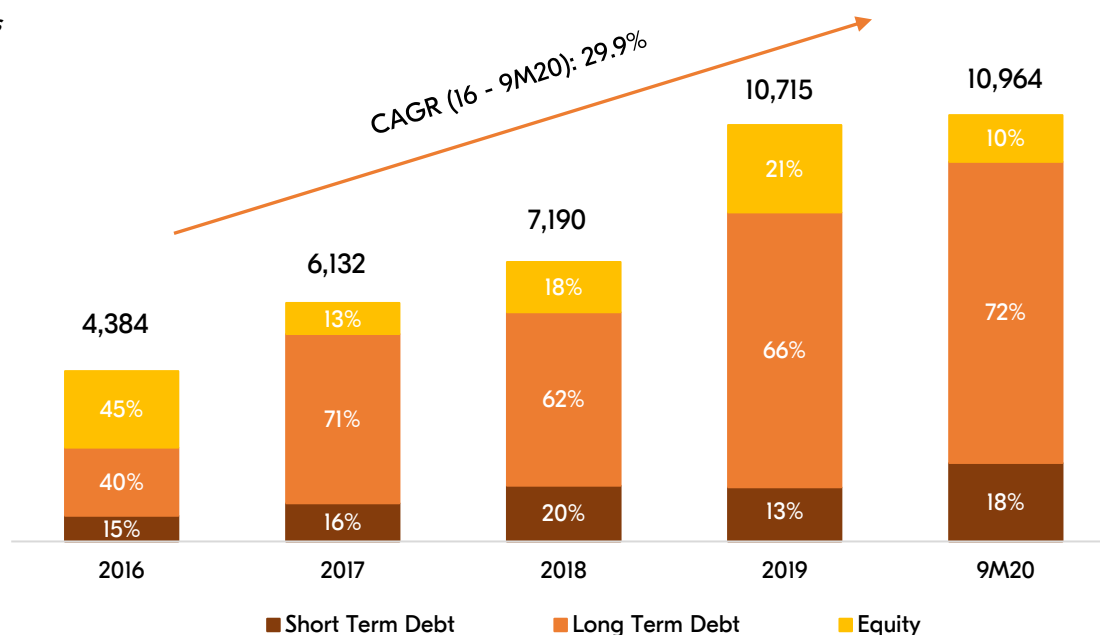
Non-performing loans (NPLs) as of September 30<sup>th</sup>, 2020 rose to \$548 million, representing 6.1% of the total portfolio. Although the NPL portfolio index is higher than that of 2Q20, we believe that this remains a positive achievement given the current difficult environment, which we are closely monitoring.

The loan loss reserve stood at \$281 million pesos (in line with IFRS 9), representing 51% of the NPL amount. This percentage considers the future value of the portfolio (principal + future income).

Mexarrend ended 3Q20 with a strong balance sheet, reaching a Total Portfolio/Financial Debt ratio of 1.1x and a Total Portfolio + Available Cash/Financial Debt ratio of 1.3x. The ratios mentioned above take the impact of our hedges into account.

## Balance Sheet

*in million pesos*



Total assets as of September 30<sup>th</sup>, 2020 remained fairly even when compared to September 2019, to end the period at \$10.964 billion. This is explained by the decrease of \$1.930 billion in available cash due to the placement of leases with the proceeds of the 2024 bond, and the increase in the preventive estimate of credit risks and derivative instruments (\$87.9 million and \$623 million pesos, respectively). Similarly, total short-term and long-term accounts receivable increased by \$887 million pesos as at the end of September 2020.

Total liabilities increased by 1.3% compared to the end of September 2019, to reach \$9.769 billion. Short-term liabilities decreased 10.5% or \$236 million pesos, while long-term liabilities increased \$365 million or 4.9%. The difference in total liabilities versus those reported in 2Q20 was a decrease of \$478 million pesos and is mainly explained by exchange rate fluctuations.

Our debt profile is adequate for the size of the Company and approximately 75% of liabilities mature in 2024, which positions the Company with a highly manageable level of debt obligations for the next three years. This is thanks to our active liability management.

## Impact of Hedges on the Balance Sheet

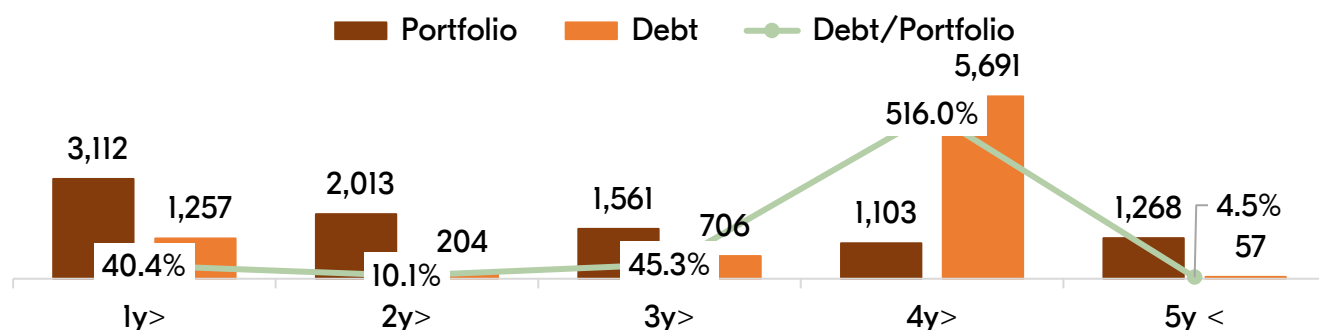
The Company acquired financial derivative instruments to cover the risk of future increases in the peso/dollar exchange rate for the payment of its debt denominated in dollars (call spreads to cover the principal and cross-currency swaps to cover the payment of semi-annual interest). These instruments are recorded at their fair value on the balance sheet within the assets sections and their counter account is Other Comprehensive Income ("OCI") within the stockholders' equity of the Company. The aforementioned hedges were made at the time of issuing the corresponding liability in foreign currency.

Operating exchange rate losses due to variations in the exchange rate are recorded in the income statement within the comprehensive cost of financing and are neutralized with the valuation of financial derivative instruments. This valuation is recorded as a complementary item of the exchange rate gain or loss on the income statement and its counter account is OCI within the Company's stockholder equity.

As of September 30<sup>th</sup>, 2020, the valuation of financial instruments that neutralize the operating exchange rate loss was greater than the change in fair value of the financial derivative instruments recorded on the asset, which resulted in a negative balance in OCI within the Company's stockholders' equity. This effect was less than that reflected in 2Q20 given the appreciation in the exchange rate in the last quarter.

### Portfolio vs Financial Debt

*in million pesos*



*Note: Amortization of the principal considering hedging. The value of the portfolio does not reflect the cash position of \$1.002 billion at the end of the period.*

The value of a theoretical liquidation of Mexarrend's portfolio in the next 5 years is \$9.056 billion, which compares to the total amortization of the Company's net financial debt of \$7.916 billion, taking into account the value of the amortizations of capital with their respective exchange rate hedges, as shown on the graph. If cash is considered at the end of the quarter, the net financial debt amounts to \$6.914 billion. If the value of the debt is taken without the effect of the hedges, the value of the debt to be amortized in the coming years amounts to \$9.022 billion.

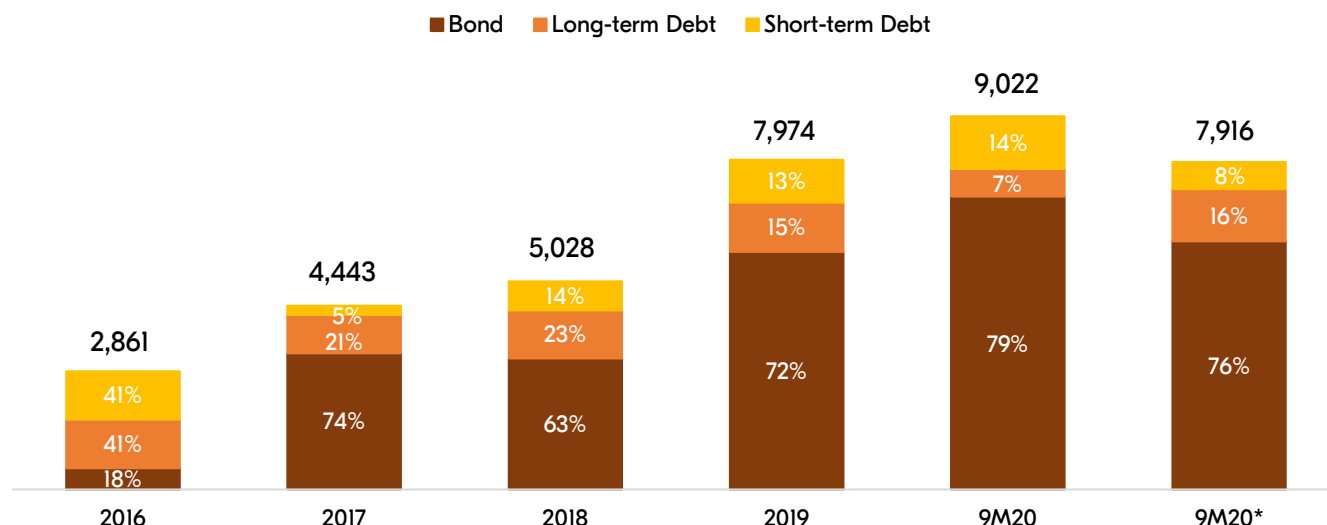
With the issuance of the bond in July 2019, debt amortizations for the coming years were significantly reduced, which was one of the key reasons behind the issuance. Mexarrend is committed to actively managing liabilities and, seeking the best cost and terms in the market.

Mexarrend is analyzing different funding alternatives with various financial institutions, with favorable levels of progress with each of them. Mexarrend has a solid reputation in the market, which has allowed us to continue with these negotiations, even considering the volatile environment in which we find ourselves.

We will seek to have these lines of credit in place by the end of the year, to be able to support growth when the financial environment's conditions improve, always taking into account the new risk assessments in the country and the industries with which we operate.



## Portfolio and Financial Debt Run-off (Short-term, Long-term & International Bond 2024) in million pesos



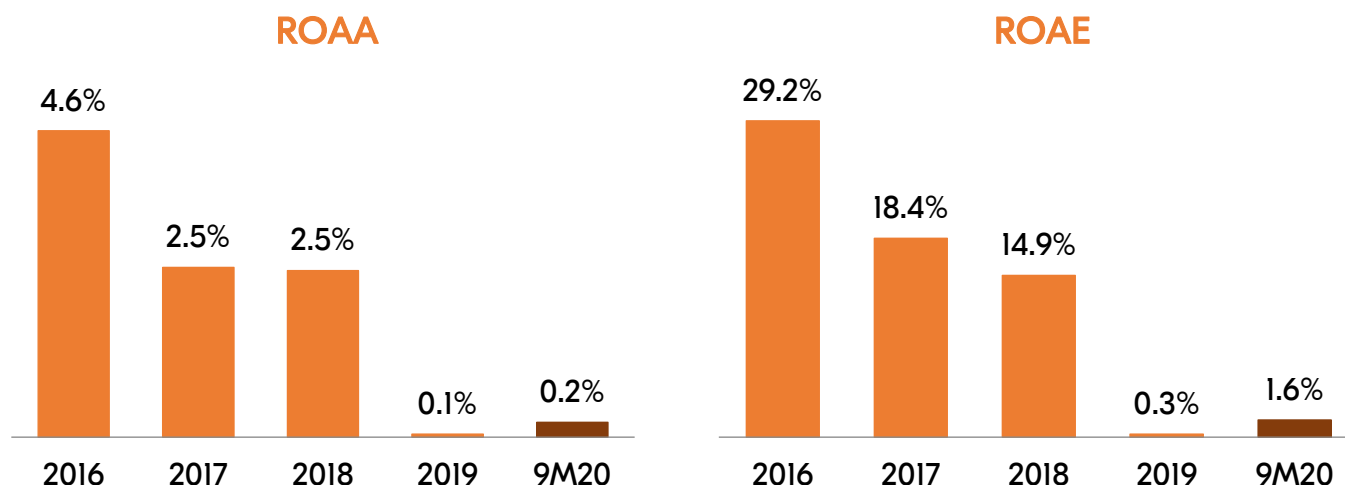
\* Note: This takes the effect of the hedges into account.

Mexarrend's debt profile is adequate for the growth of our business, with only 14% of our debt short-term. Of the short-term maturities, a significant proportion corresponds to the *Cebures* program in the local capital market, in which we have participated for over 10 years. Over the quarter we were able to refinance most of these maturities, despite the adverse market conditions.

Most of our leverage corresponds to the international bond issued in July 2019, which consists of a bullet payment in 2024, that is fully hedged against changes in the exchange rate.

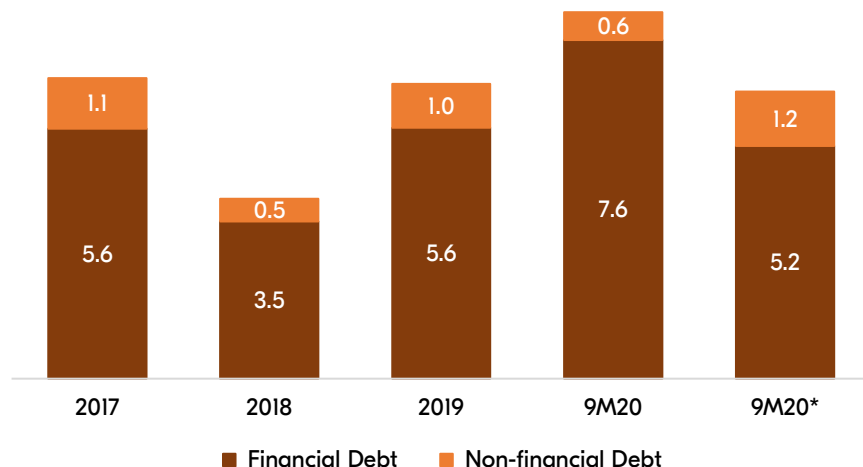
By taking the effect of the hedges into account, debt is reduced to \$7.916 billion pesos, with the 2024 international bond representing 76% of the total.

## Financial Ratios



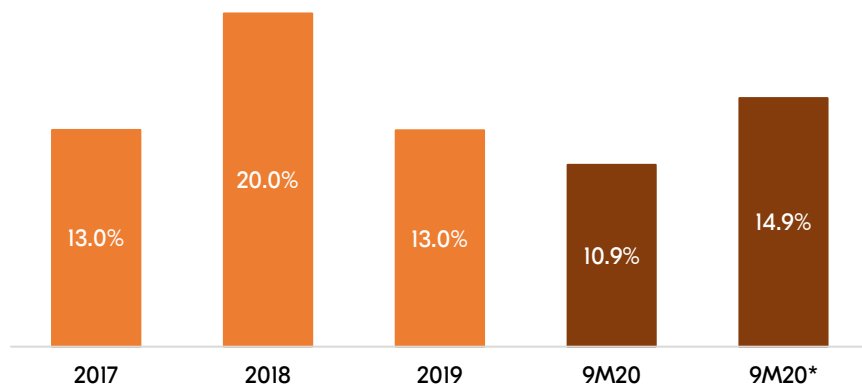
At the end of September 2020, ROAA and ROAE were 0.2% and 1.6%, respectively (considering the effect of exchange rate hedging for ROAE). This was an improvement compared to the 2019 figures and is mainly explained by the non-recurrent expenses that year related to the cancellation of the 2022 bond and issuance of the 2024 bond.

## Leverage Ratio



*\*Note: This takes the effect of the hedges into account.*

## Capitalization Ratio



*\*Note: Does not consider the effect of OCI generated by the FX hedges in the USD-denominated debt.*

The leverage ratio for the 9M20, isolating the effects of exchange rate fluctuations, was 5.2x for both debt and capital. As explained above, dollar debt obligations are duly covered and the amounts to be paid are converted at an exchange rate close to \$19.0 MXN/USD.

The capitalization ratio was 10.9% for 9M20. This was affected by the OCI in the capital account. If we isolate this effect, for the aforementioned reasons, the capitalization index would have been 14.9%.

The earnings for the year continue to reflect the only gradual deployment of the resources obtained by the bond issued in July 2019. The full profitability of the new portfolio will become apparent in the coming quarters and may be delayed due to the economic situation.

## Global and Local Credit Ratings

### Global

	2017	2019	3Q20
S&P	B+	BB-	B
Fitch Ratings	B+	BB-	B+

**S&P Global**



### Local

	2017	2019	3Q20
HR Rating	HR A-	HR A-	HR A
Fitch	BBB+	BBB+	BBB+

**FitchRatings**

On March 26<sup>th</sup>, 2020, S&P Global Ratings lowered Mexico's long-term global sovereign ratings in foreign and local currency as a result of COVID-19's impact on the country, the global environment, overall economic uncertainty, and drops in oil price. As a consequence, Mexarrend's rating was adjusted from BB- to B+.

As a result of the above, the ratings of the country's financial institutions were adjusted down, when stressing the capitalization scenarios considering the potential impact of the slowdown in the Mexican economy. On May 18<sup>th</sup>, 2020, Mexarrend's rating reflected an additional adjustment from B+ to B with a stable outlook.

On May 25<sup>th</sup>, 2020 HR Ratings ratified the rating of HR A with a stable outlook and HR2 for Mexarrend. This was due to the adequate performance and growth of the leasing portfolio in the last year, as well as the one-off nature of the impacts on capitalization and profitability as a result of the bond issuance in July 2019, which did not represent a cash outflow for the Company.

On June 10<sup>th</sup>, 2020, Fitch Ratings lowered Mexarrend's rating to B+ from BB-, which is explained by the leverage and capitalization ratios being pressured by the prospects of the economic environment in Mexico.

## Sustainability

During the first quarter of the year, Mexarrend reported important sustainability achievements that reflect the work that has been done in recent years. In February, we obtained the CEMEFI (Mexican Center for Philanthropy) distinction for a Socially Responsible Company (*Empresa Socialmente Responsable* in Spanish). This distinction recognizes our initiatives in the award's five pillars: 1) link with the community, 2) environment, 3) ethics and corporate governance, 4) quality of life and 5) management of social responsibility. We remain committed to strengthening these important pillars that contribute to the success and recognition of Mexarrend.

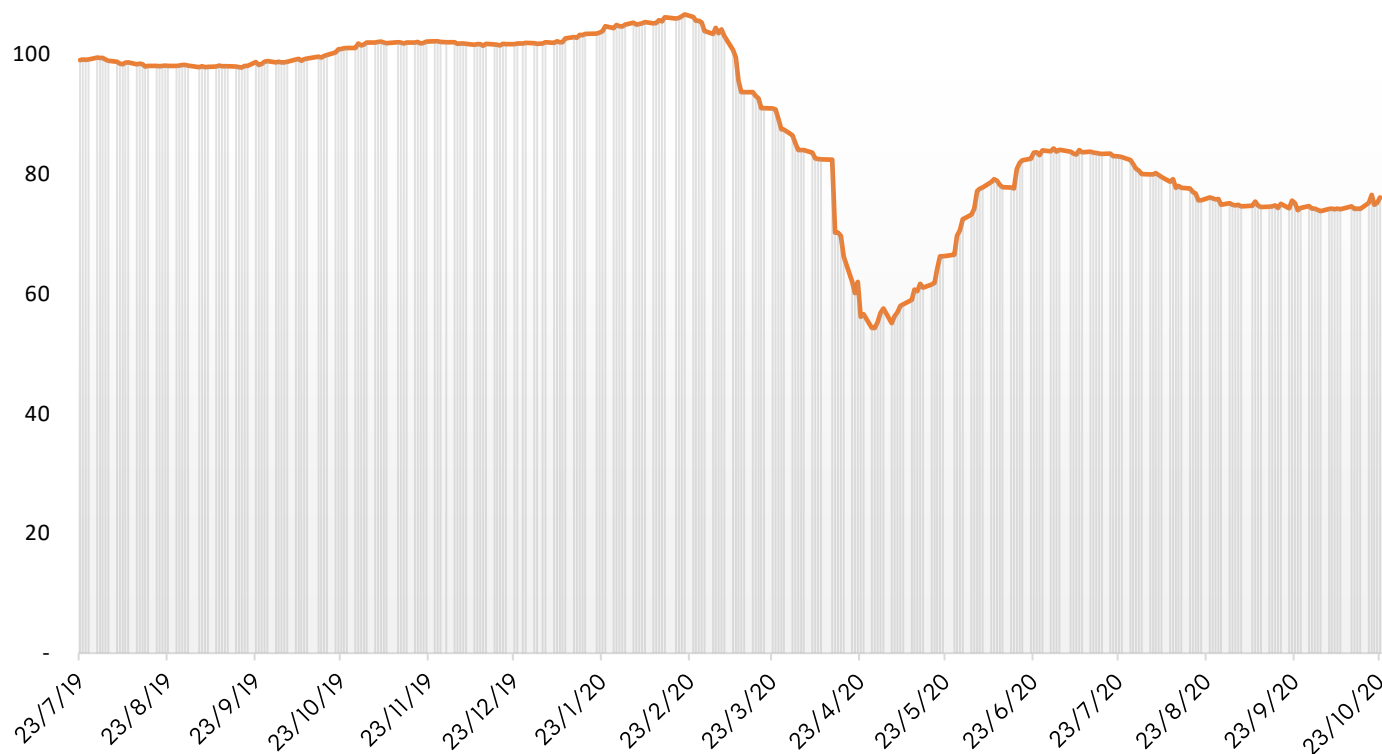
In this same period, we adhered to the United Nations Global Compact with the commitment to align our business strategy with Sustainable Development projects. The Global Compact considers ten fundamental principles with which Mexarrend has been firmly committed to since its inception.

This will allow us to share our best practices and to get to know and adopt other countries' and organizations' strategies that have managed to stand out with the principles implemented.

Additionally, last year we began the development of the Environmental and Social Risk Management System (*SARAS* in Spanish). It aims to identify, evaluate and monitor socio-environmental risks as part of the financing business, in addition to generating new business opportunities with existing and future clients in terms of sustainability. The SARAS model is based on the International Finance Corporation ("IFC") Performance Standards. Moreover, it adheres to our credit process and considers the identification of sectorial risk, territorial sensitivity and principles of gender equity. This is to optimally assess socio-environmental risks.

## Bond Performance (BMV: DOCUFOR 2024)

Performance of the bond issued in July 2019 for US\$300 million with a 5-year term (2024) and a coupon of 10.250% is shown below. The recent performance of the bond has been impacted by the volatility and uncertainty of the markets due to the COVID-19 pandemic.



Source: Bloomberg, with information at market close on October 23<sup>d</sup>, 2020.

## Reading Mexarrend's Financial Statements

### *Key components of Mexarrend's Income Statement and Balance Sheet*

#### Total Revenues

- **Interest on capital leases** → includes interest earned on capital lease payments and portfolio sales.
- **Equipment financing** → equipment financed under installment plan, includes both the interest and the principal.
- **Operating leases** → includes (i) the rental revenue from ICI's lease of real estate property, (ii) rental income associated with the operating lease business of ARG and (iii) the fees for certain maintenance and insurance services.
- **Factoring** → interest from factoring.

#### Costs

- **Interest expense** → includes the funding costs for the assets leased under all of our capital, operating leases and transportation services (renting) and other related services.
- **Equipment financing expense** → includes the costs of equipment that is purchased as part of our equipment financing business.
- **Depreciation of assets under operating leases** → depreciation of the real estate asset being rented by ICI and the depreciation of all the operating lease equipment leased by ARG as part of its renting business.

#### Balance Sheet (Assets)

- **Accounts receivable** → the net investment in leases.
- **Other assets** → mostly security deposits.
- **Property, furniture and equipment – net** → includes the properties from the Real Estate business derived from ICI and other equipment of the Company.

## Consolidated Profit and Loss Statement As of September 30<sup>th</sup>, 2020

*in millions of pesos*

INCOME	3Q19	3Q20	Var. %	9M19	9M20	Var. %
Interest on capital leases	275	289	5.1%	741	900	21.5%
Equipment financing	4	-	(100.0)%	50	4	(92.5)%
Operating leases	108	62	(42.7)%	269	210	(22.0)%
Total income	387	351	(9.3)%	1,060	1,114	5.1%
<b>COSTS</b>						
Interest expense	171	233	36.1%	442	674	52.4%
Cost of credit operations	-	-	-	51	4	(91.2)%
Depreciation of assets under operating leases	69	24	(65.9)%	136	93	(31.3)%
Total costs	240	256	6.8%	629	771	22.6%
<b>GROSS INCOME</b>	<b>147</b>	<b>94</b>	<b>(35.7)%</b>	<b>431</b>	<b>342</b>	<b>(20.5)%</b>
Cost of sales	5	7	49.0%	38	27	(30.1)%
Administrative expenses	55	47	(15.1)%	142	140	(1.6)%
Loan loss reserve	15	18	20.0%	46	53	15.2%
Operating expenses	75	72	(3.8)%	226	219	(2.9)%
<b>OPERATING INCOME</b>	<b>72</b>	<b>22</b>	<b>(69.0)%</b>	<b>205</b>	<b>123</b>	<b>(39.9)%</b>
Other (income) expenses, net	-	2	305.9%	1	6	1,030.0%
Interest income	(51)	(9)	(82.1)%	(78)	(57)	(26.5)%
Interest expenses	96	32	(67.2)%	153	138	(9.5)%
Net exchange profit (loss)	215	(241)	(211.9)%	134	1,119	736.1%
Valuation of financial derivative instruments	(194)	235	(220.8)%	(121)	(1,175)	(868.0)%
Premiums of financial derivative instruments	32	44	35.7%	85	125	47.6%
Extraordinary expenses	140	-	(100.0)%	140	-	(100.0)%
Comprehensive financing result	239	60	(74.8)%	313	150	(52.2)%
<b>INCOME BEFORE INCOME TAXES</b>	<b>(167)</b>	<b>(40)</b>	<b>76.4%</b>	<b>(109)</b>	<b>(32)</b>	<b>70.3%</b>
Taxes	(17)	(51)	199.7%	(11)	(50)	356.5%
<b>NET INCOME</b>	<b>(150)</b>	<b>11</b>	<b>107.6%</b>	<b>(97)</b>	<b>18</b>	<b>118.5%</b>

## Balance Sheet

### As of September 30<sup>th</sup>, 2020

*in millions of pesos*

ASSETS	9M19	9M20	Var. %
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2,932	1,002	(65.8)%
Accounts receivable	2,417	2,537	5.0%
Loan loss reserve	(193)	(281)	45.6%
Taxes to recuperate	224	279	24.4%
Sundry debtors	12	4	(62.7)%
Related party debtors	47	17	(63.2)%
Other assets	47	161	242.8%
Inventory	11	28	153.9%
<b>TOTAL CURRENT ASSETS</b>	<b>5,497</b>	<b>3,747</b>	<b>(31.8)%</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment - net	1,440	1,750	21.5%
Long-term receivables	3,423	4,190	22.4%
Other assets	220	112	(49.2)%
Financial derivative instruments	110	733	566.6%
Deferred taxes	-	198	-
Intangible assets	232	234	1.0%
<b>TOTAL NON-CURRENT ASSETS</b>	<b>5,425</b>	<b>7,217</b>	<b>33.0%</b>
<b>TOTAL ASSETS</b>	<b>10,922</b>	<b>10,964</b>	<b>0.4%</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Current portion of long-term debt	1,369	1,274	(7.0)%
Accounts payable	135	128	(5.1)%
Sundry creditors	737	597	(19.0)%
Related party creditors	6	12	102.6%
Income taxes and other taxes payable	9	9	(1.5)%
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,256</b>	<b>2,020</b>	<b>(10.5)%</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term debt	7,231	7,749	7.2%
Deferred income tax	153	-	(100.0)%
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>7,384</b>	<b>7,749</b>	<b>4.9%</b>
<b>TOTAL LIABILITIES</b>	<b>9,640</b>	<b>9,769</b>	<b>1.3%</b>
<b>STOCKHOLDERS' EQUITY AND RESERVES</b>			
Capital stock	1,323	1,323	0.0%
Retained earnings	180	184	2.3%
Valuation of financial derivative instruments	(123)	(330)	168.3%
Current year net income	(97)	18	(118.6)%
<b>TOTAL STOCKHOLDERS' EQUITY AND RESERVES</b>	<b>1,283</b>	<b>1,195</b>	<b>(6.9)%</b>
<b>LIABILITIES + STOCKHOLDERS' EQUITY</b>	<b>10,922</b>	<b>10,964</b>	<b>0.4%</b>



# MEXARREND®

## LEASING INNOVATION

### About MEXARREND

Mexarrend S.A.P.I. de C.V. has grown to be the second largest independent leasing company in Mexico in the last 21 years. The Company specializes in offering financing solutions to rapidly growing and underserved small and medium-sized enterprises (SMEs) for the acquisition of productive assets and equipment to support growth. Mexarrend provides reliable and competitive funding sources through its six main business lines: capital leasing, operating leases, transportation services, factoring, cash financing and equipment financing.

*This document may contain certain forward-looking statements. These statements are non-historical facts, and are based on the current vision of the Management of Mexarrend S.A.P.I. De C.V. for future economic circumstances, the conditions of the industry, the performance of the Company and its financial results. The terms "anticipated", "believe", "estimate", "expect", "plan" and other similar terms related to the Company, are solely intended to identify estimates or predictions. Some numbers were rounded up for presentation purposes. The statements relating to the implementation of the main operational and financial strategies and plans of investment of equity, the direction of future operations and the factors or trends that affect the financial condition, the liquidity or the operating results of the Company are examples of such statements. Such statements reflect the current expectations of the management and are subject to various risks and uncertainties. There is no guarantee that the expected events, trends or results will occur. The statements are based on several suppositions and factors, including economic general conditions and market conditions, industry conditions and various factors of operation. Any change in such suppositions or factors may cause the actual results to differ from expectations.*



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