INVESTMENT AND SOVEREIGN RESEARCH January-23-2018

Your Best Interest At Heart. Full Stop.

Credito Real S.A.B. de C.V. SOFOM

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Company Overview

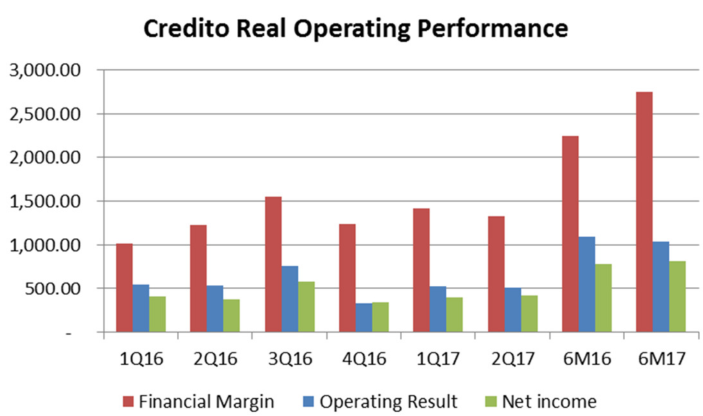
Credito Real is a leading financial institution in Mexico, with a focus on consumer lending. The Company has a diversified and scalable business platform in five main business lines: payroll credits, durable goods loans, small business loans, group loans and used car loans. Credito Real offers products mainly to the low and middle income segments of the population, which historically have been underserved by other financial institutions.

Financial Performance

Profitability

Credito Real reported net revenues of Ps. 2.93B for the first half of 2017, up 19.1% from the comparable period of 2016. Interest income rose 33.7% to Ps. 4.0B while interest expense rose 68.2% to Ps. 1.25B, resulting in a financial margin (net interest income) of Ps. 2.75B, a 22.2% improvement year-over-year. The increase in interest income was driven by the growth in the loan portfolio, supported by the SME, Instacredit and Payroll segments. The increase of interest expense was attributed to higher costs of funding and higher total debt. The average cost of funds for 2Q17 was 11.3%, a 370 basis points increase when compared to the 7.6% outrun for 2Q16.

The provision for loan losses more than doubled to Ps. 597M as the provision in 1H16 was unusually low. Credito Real has a solid allowance for loan losses which stood at 169.4% as at June 30, 2017. Administrative and promotional expenses rose to Ps. 1.61B, driven by increases in operating expenditure in CR Mexico (14.2%), Central America (37.1%) and the United States (31.3%) to Ps. 861.5M, Ps. 525.4M and Ps. 226.6M, respectively.

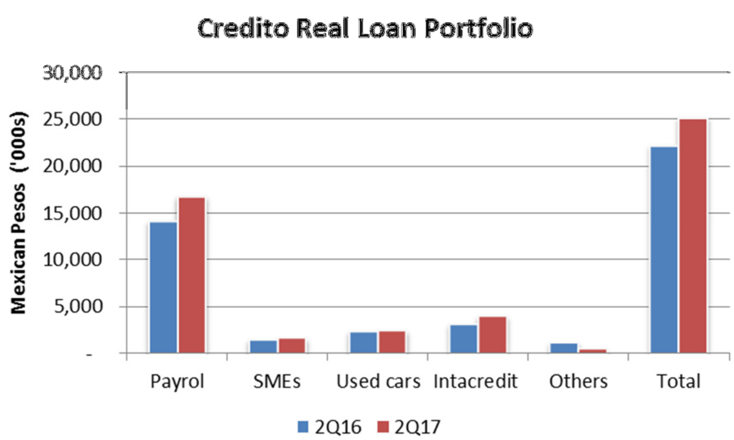


Credito Real S.A.B. de C.V. SOFOM

The increase in operating expenses led to a 4.7% decline in operating profits, which amounted to Ps. 1.04B for the period. The operating profit margin declined by 8.9 percentage points, year-over-year, to 35.6%. A 15.2% decline in income taxes and a positive participation in result of subsidiaries, associates & non-controlling participation of Ps. 15.5M led to net income of Ps. 819.2M, a 4.9% improvement from 1H16's result. The net profit margin fell to 27.9%, from 31.7% for the first half of 2016. The return on average assets for 1H17 was 4.7%, down from 5.2% in 1H16, while the return on average equity was 18.2%, down from 20.9% for the comparable period of 2016.

Solvency & Liquidity

Credito's total assets amounted to Ps. 34.6B at the end of the second quarter, up 9.4% or Ps. 2.92B from a year prior. This increase was driven by a 13.5% or Ps. 2.99B increase in the total loan portfolio which amounted to Ps. 25.19B. Double-digit growth was recorded for Instacredit, Payroll and SME loans. The non-performing segment of the loan portfolio amounted to Ps. 543.1M, a 5.2% increase year-over-year, and represented 2.2% of the total loan portfolio, which compares to 2.3% a year earlier. The NPL ratio decreased mainly in the Payroll and Cars businesses and is line with the 2%-3% long-term objective of the Company. Allowance for loan losses were sufficient at Ps. 919.9M, a 169.4% coverage ratio, compared to Ps. 825.6M or a 159.9% coverage ratio in 2Q16.



Other accounts receivable rose 13.6% to Ps. 3.83B, driven by growth to the payroll loan portfolio and the income paid in advance to payroll distributors. Cash and cash equivalents surged to Ps. 732.3M, up from Ps. 172.3M as at 2Q16. Investment securities were down 49.5% to Ps. 144.6M while other assets increased by 2.5% to Ps. 4.12B.

Total liabilities stood at Ps. 25.6B as at June 30, 2017, up 2.9% from a year earlier as total debt rose 1.6% to Ps. 23.15B. Debt consisted of notes payable of Ps. 3.0B, senior notes of Ps. 11.91B and bank loans of Ps. 8.23B. Shareholders' equity rose 10% to Ps. 9.0B as at the end of 2Q16. The debt-to-equity ratio stood at 2.57x, down from 2.78x at the end of 2Q16. The table below display CR's debt amortization schedule and highlights the fact that more than half the debt is due six years from now. Borrowings amounting to less than 15% of total obligations are due next year which the company should be able to meet given its strong solvency and profitability. In July, the Company issued US$625M in Senior Notes due 2023. These notes were used to increase the "long-term indebtedness and refinancing the major debt obligations of our Company."

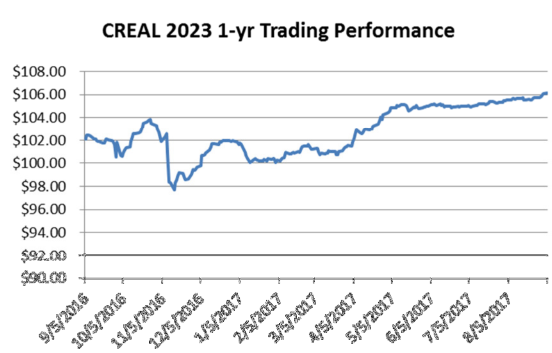
Debt Amortization Schedule September 2017

Date	Total	Bond Prin	Term Loan Out	Interest	%
2017	122	-	-	122	1%
2018	3,016	2,000	-	1,016	13%
2019	3,296	2,400	-	896	14%
2020	2,764	-	1,958	806	12%
2021	806	-	-	806	4%
2022	806	-	-	806	4%
2023	11,929	11,122	-	806	52%
Total	**22,740**	**15,522**	**1,958**	**5,260**	**100%**

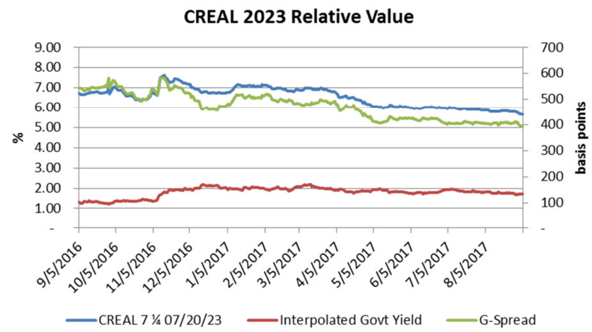
Outlook & Recommendation

In April 2017, Standard & Poor's Rating Agency revised its negative outlook on Credito Real to **stable**. The view reflects a "less aggressive credit growth rate" and "good internal capital generation", easing pressure on CR's risk-adjusted capital ratio. The decision was also driven by the Company's lower risk appetite and S&P's expectation that Credito Real will maintain its "prudent market risk management through conservative plain hedging policies for its foreign currency-denominated debt and stable asset quality."

Credito Real has an issuer credit rating of BB+ from S&P which is driven by strong market share in the nonbank payroll lending business while operating revenue steadily improves. S&P also noted the continued geographical diversification of CR's business through recent acquisitions. S&P also factored in a diversified funding structure with a more manageable debt maturity profile after the company recently refinanced it senior unsecured notes, resulting in low refinancing risks.



Credito Real S.A.B. de C.V. SOFOM



In terms of weaknesses, S&P noted the revenue concentration in the competitive payroll-lending industry; transactional & operational risks of operating with government entities; and funding oriented toward market debt.

The favourable outlook expressed by S&P was shared by the market as the 7.25% due 2023 bond has seen a 4.0% appreciation in its price over the last twelve months, trading at $106.14 on September 4, 2017. The yield on the 2023 bond fell 108 basis points to 5.66% while the spread over the interpolated government bond yield curve fell 150 basis points to 394 basis points.

This investment is most suitable for investors with a moderate-to-high risk tolerance. The company enjoys a prominent market position with strong operating and profitability margins but is in the business of relative high risk consumer loans with concentration risk in the payroll loans segment. This risk is slowly being addressed as the company expands into other business lines which include: SME, used car and business loans. CR's outlook is highly dependent on that of Mexico as a serious deterioration in macroeconomic variables will sour the demand for its suite of products and also lead to deterioration in the loan book from a surge in bad debts. These risks are mitigated by the company's current focus on revenue and geographical diversification. **As such, we continue to recommend Credito Real as Overweight.**

Credito Real S.A.B. de C.V. SOFOM

Abridged Financials

Millions of Pesos	Year Ended March					Six Months ended June		
	2012	2013	2014	2015	2016	2016	2017	% Change
Net Revenue	**1,456**	**2,012**	**2,469**	**3,348**	**5,685**	**2,462**	**2,932**	**19.1%**
Net interest income	1,436	2,001	2,445	3,312	5,042	4,478	4,949	10.5%
Administrative & promotional expenses	**-481**	**-484**	**-630**	**-1,138**	**-2,922**	**-1,310**	**-1,614**	**23.1%**
Operating Profit	633	1,053	1,475	1,722	2,188	8,956	9,898	10.5%
Net Income available to shareholders	**614**	**1,004**	**1,225**	**1,371**	**1,714**	**781**	**819**	**4.9%**
Total Assets	**10,965**	**15,100**	**19,916**	**25,996**	**35,915**	**33,081**	**34,619**	**4.6%**
Total Liabilities	**7,369**	**10,747**	**14,558**	**19,283**	**26,638**	**24,897**	**25,613**	**2.9%**
Shareholders' equity	**3,596**	**4,353**	**5,357**	**6,713**	**9,277**	**8,184**	**9,006**	**10.0%**
Key Ratios								
operating profit margin (%)	43.50	52.36	59.76	51.44	38.48	3,427.93	35.22	
Net profit margin	42.17	49.89	49.62	40.96	27.54	23.91	29.28	
Return on average assets (%)	6.36	7.70	7.00	5.97	5.54	5.44	5.18	
Return on average equity (%)	24.29	25.25	25.27	22.95	22.54	21.97	21.85	
net detb/EBIT (x)	10.68	9.33	9.04	10.06	11.10	11.24	10.49	
debt/equity (x)	1.90	2.29	2.50	2.60	2.65	2.78	2.57	

Source: http://www.jamstockex.com, JMMB Investment & Research, Bloomberg, Various Company Financial Statements, Standard & Poor's Rating Agency

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

COPYRIGHT INFRINGEMENT

No part of this research report may be modified or changed or exploited or used in any way for derivative works, or offered for sale, or used to construct any kind of database or mirrored at any other location without the express written permission of JMMB.

Thank you for respecting our intellectual property rights."

The investments referred to in this report may not be suitable for you should consult your licensed investment advisor. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable to your individual circumstances or otherwise constitutes a personal recommendation to you.

Disclosure Under The Securities Act

This disclosure is being provided pursuant to section 39 of the Securities Act. This research report is prepared by Jamaica Money Market Brokers Limited (JMMB) and the information and views expressed are those of JMMB. JMMB is a subsidiary of the JMMB Group Limited (JMMBGL). Associated persons of JMMB include JMMBGL and its subsidiaries and affiliated companies, including JMMB Fund Managers Limited, a licensed securities dealer and manager of collective investment schemes.

As at the date of this report, JMMB and its affiliates, directors, officers, employees and other associated persons may from time to time buy or sell, or act as principal or agent in, the securities mentioned in this research report. JMMB or its affiliates, directors, officers and employees have no interest in or interest in the acquisition or disposal of the securities other than expressed above. No part of their compensation is or will be related to the recommendations or opinions in this report.