

IMPORTANT NOTICE

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THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS DOCUMENT MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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CONFIRMATION OF YOUR REPRESENTATION: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be: either (a) a QIB that is acquiring the securities for its own account or for the account of another QIB or (b) not a US person within the meaning of Regulation S under the Securities Act or have not received delivery of this electronic mail in the United States of America, its territories and possessions, any state of the United States and the District of Columbia; and "possessions" include Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands. By accepting the email and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers, as named in this document, or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada, in such jurisdiction.

Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the Offering Memorandum.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission, and consequently, none of the initial purchasers nor any person who controls any initial purchaser or any of their directors, officers, employees or agents, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the initial purchasers.



US\$230,000,000

**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto
Múltiple, Entidad Regulada
(incorporated under the laws of Mexico)
9.125% Subordinated Perpetual Notes**

We are offering US\$230,000,000 aggregate principal amount of our subordinated perpetual notes, or the notes. The notes have no fixed maturity date. However, at our option, we may redeem the notes, in whole but not in part, on November 29, 2022, or the First Call Date, and on every fifth anniversary thereafter, at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued interest (including any deferred interest and arrears of interest) up to (but not including) the redemption date of the notes. We may also redeem the notes, in whole but not in part, upon the occurrence of certain tax, accounting, ratings and certain other events at the applicable redemption prices as set forth in this offering memorandum. Subject to our right to defer payment, interest on the notes will be payable semi-annually in arrears on May 29 and November 29 of each year, each an Interest Payment Date, beginning on May 29, 2018.

As more fully described in this offering memorandum, we may, in our sole discretion, defer interest payments on the notes for any period of time; provided that any such deferred payments will themselves bear interest at the same rate as the principal amount of the notes and will become due and payable on the Mandatory Payment Dates (as defined under “Description of the Notes—Payment of Deferred Interest”). The notes will bear interest on their principal amount from (and including) November 29, 2017 to but excluding the First Call Date, at a rate of 9.125% per year; and from and including the First Call Date to but excluding the redemption date, if any, at, in respect of each Reset Period (as defined under “Description of the Notes—Principal and Interest Payments—Determination of Interest on the Notes”), the relevant Five Year US Treasury Rate plus: (A) in respect of the Reset Period commencing on or after the First Call Date but before November 29, 2037, 7.026% (the “Initial Margin”); (B) in respect of Reset Periods commencing on or after November 29, 2037 (15 years after the First Call Date): the Initial Margin plus 2.000%; provided that if our S&P credit ratings have been upgraded to investment grade then such 2.000% increase shall only become effective for Reset Periods commencing on or after November 29, 2042 (20 years after the First Call Date).

The notes will be our unsecured and subordinated obligations and will rank (i) junior to all of our existing and future Unsubordinated Indebtedness (as defined under “Description of the Notes—Ranking of the Notes”), (ii) *pari passu* among themselves and with all other future Subordinated Indebtedness (as defined under “Description of the Notes—Ranking of the Notes”), and (iii) senior to all existing and future classes of our Share Capital (as defined under “Description of the Notes—Ranking of the Notes”). The notes will be effectively subordinated to all existing and future liabilities of our subsidiaries. The notes do not restrict our ability or the ability of our subsidiaries to incur additional indebtedness in the future.

No public market currently exists for the notes. Application is expected to be made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the EuroMTF Market of the Luxembourg Stock Exchange.

Investing in the notes involves risks. See “Risk Factors” beginning on page 28 for certain information that you should consider before investing in the notes.

Offering Price: 100.000% plus accrued interest, if any, from November 29, 2017.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE MEXICAN NATIONAL SECURITIES REGISTRY (*REGISTRO NACIONAL DE VALORES*, OR “*RNV*”) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (*COMISIÓN NACIONAL BANCARIA Y DE VALORES*, OR “*CNBV*”), AND, THEREFORE, MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE NOTES MAY BE SOLD TO INSTITUTIONAL OR QUALIFIED INVESTORS IN MEXICO SOLELY PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (*LEY DEL MERCADO DE VALORES*) AND REGULATIONS THEREUNDER. WE WILL NOTIFY THE CNBV OF THE TERMS AND CONDITIONS OF THIS OFFERING OF THE NOTES OUTSIDE OF MEXICO. SUCH NOTICE WILL BE SUBMITTED FOR INFORMATIONAL PURPOSES ONLY TO THE CNBV TO COMPLY WITH ARTICLE 7, SECOND PARAGRAPH, OF THE MEXICAN SECURITIES MARKET LAW AND REGULATIONS THEREUNDER. THE DELIVERY TO, AND RECEIPT BY, THE CNBV OF SUCH NOTICE DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM. THIS OFFERING MEMORANDUM IS SOLELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV.

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, (the “Securities Act”), any state securities laws, or the securities laws of any other jurisdiction and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)), except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold in the United States only to qualified institutional buyers in compliance with Rule 144A under the Securities Act (“Rule 144A”) and to persons other than U.S. persons outside the United States in compliance with Regulation S. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of eligible offerees and certain restrictions on transfer of the notes, see “Transfer Restrictions.”

The notes will be ready for delivery in book-entry form only through the facilities of The Depository Trust Company (“DTC”) for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, société anonyme, Luxembourg (“Clearstream”) on or about, November 29, 2017.

Joint Bookrunners

UBS Investment Bank

BofA Merrill Lynch

Credit Suisse

The date of this offering memorandum is November 21, 2017.

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You should rely only on the information contained in this offering memorandum. Neither we nor the initial purchasers have authorized any other person to provide you with information that is different from or additional to that contained in this offering memorandum, and neither we nor the initial purchasers take responsibility for any other information that others may give you. You should assume that the information in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum, regardless of time of delivery of this offering memorandum or any sale of the notes. Our business, financial condition, results of operations and prospects may change after the date on the front cover of this offering memorandum. This document may only be used where it is legal to sell the notes. Neither we nor any of the initial purchasers are making an offer to sell or seeking offers to buy the notes in any jurisdiction where such an offer or sale is not permitted.

Unless otherwise specified or the context requires, references in this offering memorandum to “Crédito Real,” “the Issuer,” “the Company,” “we,” “us” and “our” refer to Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada.

NOTICE TO INVESTORS

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. By purchasing the notes, you will be deemed to have made the acknowledgements, representations, warranties and agreements described under the heading “Transfer Restrictions” in this offering memorandum. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

Neither the CNBV nor the U.S. Securities and Exchange Commission (the “SEC”), nor any state or foreign securities commission or regulatory authority, has approved or disapproved of the notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy, adequacy or completeness of this offering memorandum. Any representation to the contrary is a criminal offense.

We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so they can consider a purchase of the notes. We have not authorized its use for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering memorandum, you agree to these restrictions. See “Transfer Restrictions.”

This offering memorandum is based on information provided by us and by other sources that we believe are reliable. We cannot assure you that this information is accurate or complete. This offering memorandum summarizes certain documents and other information and we refer you to such documents and other information for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of our company and of the terms of this offering and the notes, including the merits and risks involved.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future.

Neither we nor the initial purchasers are making any representation to any purchaser of the notes regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding any investment in the notes.

We accept responsibility for the information contained in this offering memorandum. To the best of our knowledge and belief (and we have taken all reasonable care to ensure that), the information contained in this offering memorandum is in accordance with the facts and does not omit any material information. You should assume that the information contained in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum.

We reserve the right to withdraw this offering of the notes at any time, and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of notes sought by that investor. The initial purchasers and certain related entities may acquire for their own account a portion of the notes.

You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor any of the initial purchasers will have any responsibility therefor.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

NOTICE TO PROSPECTIVE INVESTORS IN THE EEA

To the extent that the offer of the notes is made in any European Economic Area (“EEA”) member state that has implemented Directive 2003/71/EC (as amended, including by Directive 2010/73/EC, together with any applicable implementing measures in any member state, the “Prospectus Directive”) before and on the date of publication of a prospectus, an offer to the public of any notes (including any offer pursuant to this document) is only addressed to (i) qualified investors in that member state within the meaning of the Prospectus Directive or (ii) fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer or (iii) has been or will be made otherwise in circumstances that do not require the issuer to publish a prospectus pursuant to Article 3(2) of the Prospectus Directive.

AVAILABLE INFORMATION

We are not subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). To permit compliance with Rule 144A under the Securities Act in connection with resales of notes, we will be required under the indenture under which the notes are issued (the “Indenture”), upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under “Transfer Restrictions”), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act, unless we either furnish information to the SEC in accordance with Rule 12g3-2(b) under the Exchange Act or furnish information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Any such request may be made to us in writing at our main office located at Avenida Insurgentes Sur No. 730, 20th Floor, Colonia del Valle Norte, Delegación Benito Juárez, C.P. 03103, Mexico City, Mexico, Attention: Investor Relations.

The Indenture will further require that we furnish to the Trustee (as defined under “Description of the Notes—General”) all notices of meetings of the holders of notes and other reports and communications that are generally made available to holders of the notes. At our written request, the Trustee will be required under the Indenture to mail these notices, reports and communications received by it from us to all record holders of the notes promptly upon receipt. See “Description of the Notes.”

We will make available to the holders of the notes, at the corporate trust office of the Trustee at our sole expense, copies of the Indenture as well as this offering memorandum, including a review of our operations, and copies in English of our annual audited consolidated financial statements and our quarterly unaudited consolidated financial statements. Information will also be available at the office of the Luxembourg Listing Agent (as defined under “Description of the Notes—General”).

Application is expected to be made to admit the notes to listing in the Official List of the Luxembourg Stock Exchange and to trading on the EuroMTF of the Luxembourg Stock Exchange, in accordance with its rules. This offering memorandum forms, in all material respects, the listing memorandum for admission to the Luxembourg Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Luxembourg Stock Exchange in connection with the notes, and to furnish all such information as the rules of the Luxembourg Stock Exchange may require in connection with the listing of the notes.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this offering memorandum relating to our plans, forecasts and expectations regarding future events, strategies and projections are just estimates. Examples of such forward-looking statements include, but are not limited to: (i) statements regarding our results of operations and financial position; (ii) statements of plans, objectives or goals, including those related to our operations; and (iii) statements of assumptions underlying such statements. Words such as “may,” “might,” “will,” “would,” “shall,” “should,” “can,” “could,” “believe,” “anticipate,” “continue,” “expect,” “estimate,” “plan,” “intend,” “foresee,” “seeks,” “predict,” “project,” “potential,” “target,” “strategy,” or the negative of these terms, and other similar terms are used in this offering memorandum to identify such forward-looking statements. Forward-looking statements included in this offering memorandum are based on our current expectations and projections related to future events and trends which affect or would affect our business, the economy and other future conditions.

Forward-looking statements include risks, uncertainties, changes in circumstances that are difficult to predict and assumptions, since these refer to future events and, therefore, do not represent any guarantee of future results. Therefore, our financial condition and operating income, strategies, competitive position and market environment may significantly differ from our estimates, in view of a number of factors, including, but not limited to:

- general economic, political, business and social conditions globally, and in particular in Mexico, the United States and the countries in which we conduct our business;
- our ability to implement our operating strategy and business plan;
- our ability to freely determine the interest rates we charge to our clients;
- our ability to attract new customers, and expand our business;
- our level of capitalization and reserves;
- our level of outstanding indebtedness, our ability to comply with the provisions set forth in our debt instruments and make timely payments therein, and our ability to obtain new debt instruments;
- changes to or termination of our agreements and relationships with our loan distributors;
- changes to the relationships our distributors have with government agencies and unions;
- our ability to collect on our loans;
- changes in the currency exchange rates, including the Mexican Peso/U.S. dollar exchange rate;
- increases in defaults by our customers, as well as any increase in our allowance for loan losses;
- credit risks, market risks and any other risks related to financing activities;
- competition in the Mexican markets for payroll loans, group loans, small business loans, mortgage loans and used car loans;
- perception by investors and authorities of our business;
- availability of funds and related funding costs;
- the stability of global credit markets;
- changes in the economy that alter the demand for consumer goods, consequently affecting offer and demand for our products and services;
- loss of reputation of our brands;

- inflation, devaluation of the peso and interest rate fluctuations in Mexico and other countries in which we conduct our business;
- risks inherent in international operations;
- trade barriers, including tariffs or import taxes and changes in existing trade policies or changes to, or withdrawals from, free trade agreements, including the North American Free Trade Agreement (“NAFTA”), to which Mexico is a party and which is currently undergoing renegotiation;
- changes in the policies of central banks and/or foreign governments;
- changes to accounting principles, laws, regulations, taxation and governmental policies related to our activities, including, but not limited to, usury and consumer protection laws;
- loss of key personnel;
- adverse administrative or legal proceedings;
- our clients’ ability to pay their loans and the stability of their sources of income;
- potential volatility in the foreign currency exchange market;
- decreases in our credit ratings;
- potential acquisitions;
- voting interests of our majority shareholders;
- declarations of insolvency, bankruptcy or becoming subject to *concurso mercantil*, *quiebra* or similar proceedings;
- potential risk factors presented under “Risk Factors” in this offering memorandum; and
- other developments, factors or trends affecting our financial condition and our operating income.

Therefore, our actual performance may be adversely affected and may significantly differ from the expectations set forth in these forward-looking statements, which do not represent a guarantee of our future performance. In view of these uncertainties, you must not rely on the estimates and forward-looking statements included in this offering memorandum to make an investment decision.

Forward-looking statements included herein are made only as of the date of this offering memorandum. Except as required by law, we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of anticipated or unanticipated events or circumstances.

PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Financial Information

This offering memorandum contains our audited consolidated financial statements as of December 31, 2014, 2015 and 2016 and for the years then ended, together with the notes thereto, which we refer to as the audited financial statements, and our unaudited condensed consolidated interim financial statements as of September 30, 2017 and for the nine months ended September 30, 2016 and 2017, together with the notes thereto, which we refer to as the interim financial statements. The audited financial statements and the interim financial statements are referred to herein jointly as the financial statements.

We are a regulated multipurpose financial institution entity (*sociedad financiera de objeto múltiple, entidad regulada*, or “*Sofom*” or “*Sofom E.R.*”), organized and operating under the General Law of Auxiliary Credit Organizations and Credit Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*), among others. We are under the permanent supervision of the CNBV and subject to the general provisions issued and approved by the CNBV in connection with (i) credit portfolio ratings and credit risk estimates, (ii) disclosure of financial information and external auditors, (iii) accounting, and (iv) prevention of transactions with illegal funds. We have prepared our financial statements under the accounting criteria established by the CNBV in its General Provisions Applicable to Public Bonded Warehouses, Exchange Houses, Credit Unions and Regulated Multipurpose Financial Institutions and General Provisions Applicable to Credit Institutions (*Disposiciones de Carácter General Aplicables a los Almacenes Generales de Depósito, Casas de Cambio, Uniones de Crédito y Sociedades Financieras de Objeto Múltiple Reguladas* and *Disposiciones de carácter general aplicables a las Instituciones de Crédito*, collectively “*Sofom GAAP*”). *Sofom GAAP* adheres to Mexican Financial Reporting Standards, which are individually referred to as Financial Reporting Standards (*Normas de Información Financiera*), as established by the Mexican Financial Reporting Standards Board (*Consejo Mexicano de Normas de Información Financiera, A.C.*), modified in certain areas based on the judgment of the CNBV in order to take into consideration the specialized operations of financial institutions.

Sofom GAAP differs in certain significant respects from accounting principles generally accepted in the United States (“U.S. GAAP”). See “Annex A—Summary of Certain Significant Differences Between *Sofom GAAP* and U.S. GAAP” for a description of certain differences between *Sofom GAAP* and U.S. GAAP as they relate to us. We are not providing any reconciliation to U.S. GAAP of the financial statements or other financial information in this offering memorandum. We cannot assure you that a reconciliation would not identify material quantitative differences between the financial statements or other financial information as prepared on the basis of *Sofom GAAP* if such information were to be prepared on the basis of U.S. GAAP or any other accounting principles.

The financial statements reflect our investment in Publiseg, S.A.P.I. DE C.V., SOFOM, E.N.R. (“Publiseg”), Grupo Empresarial Maestro, S.A.P.I de C.V. (“Grupo Empresarial Maestro”), Bluestream Capital, S.A.P.I de C.V. (“Bluestream Capital”), Cege Capital, S.A.P.I. de C.V., SOFOM, E.N.R (“Cege Capital”), Confianza Digital, S.A.P.I. de C.V., SOFOM, E.N.R. (“Credilikeme”), and the consolidation of Servicios Corporativos Chapultepec, S.A. de C.V. (“Servicios Corporativos Chapultepec”), CR Fact, S.A.P.I. de C.V. (“CR-Fact”), Crédito Real USA, Inc. (“CR USA”), Controladora CR México, S.A. de C.V. (“Controladora CR”), Directodo Mexico S.A.P.I. de C.V., SOFOM, E.N.R. (“Directodo”), CRHOLDINGINT, S.A. de C.V. (“Holding”) and Creal Dallas, LLC. (“Creal Dallas”). See “Business—Overview—History and Development.”

Currency Information

Unless otherwise specified, references to “\$,” “US\$,” “U.S. dollars” and “dollars” are to the lawful currency of the United States. References to “Ps.” and “pesos” are to the lawful currency of Mexico. References to “₡” and “colones” are to the lawful currency of Costa Rica.

This offering memorandum contains translations of various peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the specified rate or at all. Unless otherwise indicated, the dollar translations provided in this offering memorandum are calculated using an exchange rate of Ps.18.16 per U.S. dollar, the exchange rate determined by Banco de México on

September 29, 2017 and published in the Official Gazette of the Federation (*Diario Oficial de la Federación*, or the “Official Gazette”) on October 2, 2017

Rounding

We have made rounding adjustments to certain numbers presented in this offering memorandum. As a result, numerical figures presented as totals may not always be the exact arithmetic results of their components, as presented.

Industry and Market Data

Market data and other statistical information (other than in respect of our financial results and performance) used throughout this offering memorandum are based on independent industry publications, government publications, reports by market research firms or other published independent sources, including the World Bank, Euromonitor, Asociación Mexicana de Agencias de Investigación de Mercado y Opinión Pública (“AMAI”), ACCION International, Asociación Mexicana de Distribuidores Automotores, ProDesarrollo, a Mexican association that compiles information on major Mexican microfinance companies (“ProDesarrollo”). Some data are also based on our estimates, which are derived from our review of internal surveys, as well as independent sources. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness. You should not place undue reliance on estimates as they are inherently uncertain.

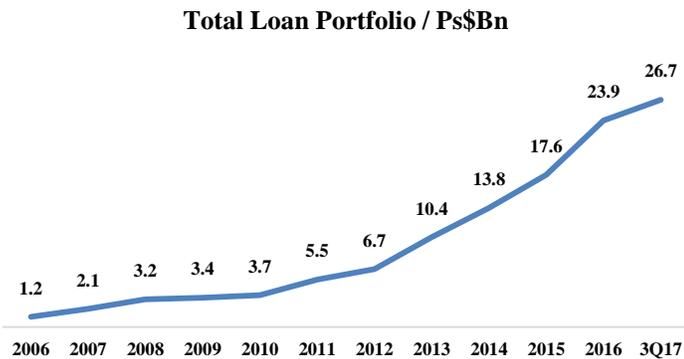
SUMMARY

This summary highlights certain information contained in this offering memorandum and may not include all the information relevant to you. For a more complete understanding of our business, you should read the following summary together with the more detailed information appearing elsewhere in this offering memorandum, including that set forth under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and the notes thereto included elsewhere in this offering memorandum.

Our Company

We are a leading specialty finance company in Mexico regulated by the CNBV, with presence in the United States, Costa Rica, Panama and Nicaragua. We focus on consumer lending, and we have a diversified and scalable business platform focused primarily on the following types of loans: (i) loans with payment via payroll deduction, or payroll loans (ii) consumer loans through Instacredit, (iii) loans for used car purchases, or used car loans, (iv) loans to small businesses, or small business loans, and (v) loans to small groups of borrowers, or group loans. We offer our products to the low- and lower middle-income segments of the population, which historically have been underserved by other financial institutions. According to the Mexican National Statistics and Geographical Institute (*Instituto Nacional de Estadística y Geografía*, or “INEGI”), these segments account for approximately 68.7% of the total working population, which represents approximately 36.9 million potential customers. On September 30, 2017, the average principal amount of our outstanding loans was Ps.32,602. All loans made or purchased by us are denominated in Mexican pesos, U.S. dollars, Costa Rican colones, or Nicaraguan cordobas, bear interest at fixed rates and are amortized in installments. We design our credit products with terms that we believe can be easily understood by customers, even if they have no previous credit history.

We have experienced consistently high portfolio growth rates over the past 10 years.



Our open-ended platform allows us to enter into new credit products and new regions, thus supporting our future expansion. We currently offer our payroll loans to unionized governmental employees through our distributors, which include Directodo (which operates under the brand name Kondinero), Publiseg (which operates under the brand name Credifiel), GEMA (which operates under the brand name Crédito Maestro) and other distributors. We believe our network of distributors and promoters offering credit products to the low- and lower middle-income segments of the population gives us a definitive competitive advantage to access a large number of potential customers from different economic sectors in Mexico. We have entered into financial factoring agreements with 11 distributors who originate payroll loans and manage loan collection. We have a 99.99% interest in Directodo, and a 49% interest in each of Publiseg and GEMA, which are three of the leading payroll loan distributors in Mexico, as well as exclusivity in the origination of loans from these distributors, creating a network of more than 300 branches. Our payroll loan distributors have access to workers and unions in federal, state and local governments and other public sector employers in most states of Mexico.

For our small-business loan product we have a business center in Mexico City that promotes loans directly to local businesses. In October 2013, we entered into an alliance with Fondo H in order to strengthen our position in the small- and medium-sized enterprise (“SME”) loan market and also acquired a Ps.657.5 million loan portfolio

from them. Fondo H is an originator focused on granting short- and medium-term loans to SMEs in Mexico. Its customer base includes businesses in the manufacturing, distribution and services sectors. Through the agreement, we provide exclusive funding for the loans originated by Fondo H.

Used car loans are originated through contracts with companies that sell pre-certified used cars. In 2016, we had 18 alliances with distributors. There are 28 branches located in 21 Mexican states, which provide secured financing for cars and commercial vehicles. We also have two distributors that operate five branches and have licenses to operate in 32 states in the United States with more than 390 dealers. These distributors are primarily focused on serving the Hispanic market segment with limited credit history in the United States.

Our group loans are originated by either us or by a distributor, through a joint network of 1,523 promoters and 181 branches. The promoters are familiar with the specific needs of small business owners and self-employed individuals.

In February 2016, we acquired 70% of Instacredit, a consumer loan-based company that has 72 branches throughout Costa Rica, Nicaragua and Panama. Instacredit started its business on April 2000 in San José, Costa Rica and since 2007 has expanded into other Central American countries. Instacredit offers everyday rapid credit solutions to low- and lower middle-income consumers that do not have access to traditional bank loans by offering the following products: consumer loans (unsecured), car loans (secured), SME loans (secured), and home equity loans (secured).

Distributors of payroll loans, small business loans and car dealerships that promote our loans use their own brands. Regardless of the brand, we leverage our expertise and standardized processes across our different products for analyzing and approving loans originated by distributors, promoters and specialized retail chains to deliver and process credit products tailored to their customers.

We analyze credit applications according to our own credit policies and procedures, regardless of the type of credit origination used. Based on this analysis, we approve or reject loans on an individual basis. This gives us the assurance that the loans we underwrite comply with our credit risk policies and are in line with our business strategy.

We strive to enhance the social well-being of our clients through our loans, which we believe provide them with the opportunity to access funds that would otherwise not be easily obtained, given the limited or nonexistent credit records of the majority of the individuals we serve.

Our business strategy is primarily focused on serving market segments that are underserved by larger financial institutions. We believe that the markets in which we operate present high growth and profitability potential.

We have maintained and implemented initiatives to consolidate our leading presence in each type of loan we offer with the exception of durable goods lending, which is a market segment we are in the process of exiting, and have significantly grown our business. For example, the compound annual growth rate ("CAGR") of our total loan portfolio from 2011 through 2016 was 34.1%, and the SME and used car loan businesses launched in 2013 together now represent 16.0% of our loan portfolio. During the 24 years that we have been in business, we have disbursed approximately 4.6 million loans to over 2.5 million customers.

From 2014 through 2016, our loan portfolio and interest income have increased by 73.3% and 109.1%, respectively, driven primarily by the expansion of our payroll, Instacredit and used car loans.

For the nine months ended September 30, 2017, we had interest income of Ps.6,199.9 million, a net financial margin of Ps.4,186.4 million and net income attributable to controlling interest of Ps.1,222.1 million. As of September 30, 2017, we had approximately 818,295 customers and a Ps.26,677.9 million total loan portfolio.

The table below shows the percentage breakdown of our interest income, loan portfolio, clients and loan origination by product category for our main products as of each of the dates indicated:

	As of and for the Year Ended December 31,						As of and for the Nine Months Ended September 30,			
	2014		2015		2016		2016		2017	
	<i>(in millions of pesos)</i>						<i>(in millions of pesos)</i>			
Interest Income										
Payroll Loans	2,853.8	85.8%	3,445.8	80.8%	3,727.1	53.6%	2,776.9	54.2%	3,782.3	61.0%
Consumer Loans (Instacredit)	-	-	-	-	1,704.6	24.5%	1,124.3	22.0%	1,557.3	25.1%
Used Car Loans	28.8	0.9%	354.0	8.3%	798.7	11.5%	609.1	11.9%	544.5	8.8%
Small Business Loans	142.0	4.3%	223.0	5.2%	265.8	3.8%	188.3	3.7%	245.9	4.0%
Group Loans	51.1	1.5%	38.9	0.9%	31.6	0.5%	20.1	0.4%	27.2	0.4%
Durable Goods Loans and Other	251.5	7.6%	202.6	4.8%	137.4	2.0%	107.3	2.1%	42.7	0.7%
Non Recurrent ¹	-	-	-	-	293.0	4.2%	293.0	5.7%	-	-
Total	3,327.1	100.0%	4,264.2	100.0%	6,958.2	100.0%	5,119.0	100.0%	6,199.9	100.0%
Total Loan Portfolio										
Payroll Loans	10,697.1	77.5%	12,953.0	73.6%	14,530.4	60.7%	14,305.3	62.8%	17,562.3	65.8%
Consumer Loans (Instacredit)	-	-	-	-	4,390.7	18.4%	3,632.6	15.9%	4,263.8	16.0%
Used Car Loans	360.3	2.6%	1,838.1	10.4%	2,778.6	11.6%	2,622.7	11.5%	2,568.1	9.6%
Small Business Loans	1,318.3	9.5%	1,485.5	8.4%	1,368.5	5.7%	1,398.4	6.1%	1,707.1	6.4%
Group Loans	290.9	2.1%	304.8	1.7%	418.4	1.7%	328.5	1.4%	211.9	0.8%
Durable Goods Loans and Other	1,138.3	8.2%	1,028.4	5.8%	440.4	1.8%	500.9	2.2%	364.8	1.4%
Total	13,804.9	100.0%	17,609.6	100.0%	23,927.0	100.0%	22,788.5	100.0%	26,677.9	100.0%
Clients										
Payroll Loans	336,842	63.4%	354,005	57.2%	352,667	45.0%	354,699	45.5%	366,928	44.8%
Consumer Loans (Instacredit)	-	-	-	-	161,785	20.6%	157,458	20.2%	178,558	21.8%
Used Car Loans	3,745	0.7%	12,780	2.1%	14,875	1.9%	14,634	1.9%	13,893	1.7%
Small Business Loans	385	0.1%	589	0.1%	233	0.0%	390	0.1%	351	0.0%
Group Loans	111,818	21.0%	164,579	26.6%	205,019	26.2%	194,161	24.9%	215,462	26.3%
Durable Goods Loans and Other	78,609	14.8%	87,128	14.1%	48,967	6.2%	57,402	7.4%	43,103	5.3%
Total	531,399	100.0%	619,081	100.0%	783,546	100.0%	778,744	100.0%	818,295	100.0%
Loan Origination										
Payroll Loans	3,079.3	45.3%	4,109.1	40.6%	4,969.3	33.7%	3,744.0	28.2%	3,941.6	28.5%
Consumer Loans (Instacredit)	-	-	-	-	2,999.4	20.3%	2,142.2	16.1%	2,562.6	18.5%
Used-Car Loans	281.2	4.1%	642.4	6.3%	1,516.5	10.3%	1,551.9	11.7%	1,356.9	9.8%
Small Business Loans	2,307.3	34.0%	3,433.6	33.9%	3,712.2	25.2%	2,798.2	21.0%	2,138.2	15.4%
Group Loans	495.1	7.3%	1,445.2	14.3%	1,384.6	9.4%	2,887.9	21.7%	3,711.1	26.8%
Durable Goods Loans and Other	632.8	9.3%	501.3	4.9%	98.7	0.7%	169.5	1.3%	130.7	0.9%
Total	6,795.6	100.0%	10,131.5	100.0%	14,751.4	100.0%	13,293.8	100.0%	13,841.1	100.0%

¹ Relates to interest income earned on a non-recurring gain of Ps.293.0 million due to the partial unwinding of the derivatives that hedged the 2019 Senior Notes.

We fund our portfolio primarily through our own capital, debt securities issued in the capital markets and bank credit lines. As of December 31, 2014, 2015 and 2016, we had capitalization ratios (defined as total stockholders' equity divided by total loan portfolio at the end of the period) of 38.8%, 38.1% and 38.8%, respectively. As of September 30, 2017, our capitalization ratio was 35.2%.

Our efficiency ratio (defined as administrative and marketing expenses for the period divided by the sum of (a) financial margin and (b) net commissions and fees collected) was 52.5% for the nine months ended September 30, 2017 compared to 54.3% for the nine months ended September 30, 2016, reflecting the consolidation of our newly acquired businesses such as Instacredit, Resuelve and AFS Acceptance LLC (“AFS”). In addition, our return on average stockholders’ equity (defined as net income attributable to controlling interest divided by average stockholders’ equity) for the nine months ended September 30, 2017 and September 30, 2016 was 17.9% and 23.2%, respectively. As of September 30, 2017, our non-performing loans as a percentage of our total loan portfolio was 2.3%.

The following is a brief description of our loan products:

- *Payroll Loans.* Our payroll loans are granted mainly to unionized state and federal public sector employees, retirees and pensioners. These loans are originated by our distributors and then we acquire the loans through portfolio purchasing operations. The loans are repaid through paycheck deductions pursuant to the borrowers’ prior written instructions. These instructions authorize a borrower’s public sector employer to make fixed installment payments (including interest) deducted from the borrower’s payroll wages before those wages are paid to the borrower, significantly mitigating the risk of default. Government agencies typically set limits for the percentage of net available salary that can be deducted from employees’ wages to repay a loan. We offer some of our customers the option to renew their loans before they reach maturity. Historically, approximately 35% of our payroll customers have renewed their loans, and we expect this trend to continue.

The relationships established by our distributors, either directly or through service providers, such as public relations firms, with those labor unions which employ or represent public sector employees in various regions of Mexico are formalized through cooperation agreements among our distributors, the labor unions and the public sector employers. These agreements provide that the distributor will offer loans that are payable through payroll deductions for unionized workers and also provide that the public sector employers must execute the employee’s instructions with respect to payment installments, including interest.

As part of our strategy to expand and strengthen our payroll loan distributions and increase profitability, we have acquired a 99.99% interest in Directodo in two steps in 2011 and 2014, and 49% of Publiseg and GEMA in 2011 and 2012, respectively. They operate under the brand names Kondinero, Credifiel and Crédito Maestro, respectively, and are three of the leading distributors of payroll loans in Mexico in terms of number of clients and loan origination. Directodo, Publiseg and GEMA collectively have a network of approximately 317 branches nationwide and a sales force of more than 4,400 promoters for loan origination. We believe that the elements that distinguish the Kondinero, Credifiel and Crédito Maestro brands from their competitors include their extensive nationwide coverage, high percentage of market share and experienced sales teams, which allow more efficient distribution and collection.

The acquisition of the ownership interests in Directodo, Publiseg and GEMA granted us exclusivity in the origination of payroll loans under the brands Kondinero, Credifiel and Crédito Maestro and allowed us to vertically integrate our operations and to increase our profitability by ensuring the receipt of a greater percentage of the proceeds of the loan portfolio originated by these three brands, as well as optimizing the use of their sales force. The exclusivity we have with Directodo, Publiseg and GEMA gives us the right, but not the obligation, to originate loans from those three distributors.

As of September 30, 2017, our average payroll loan had a principal amount of approximately Ps.47,863, a term of approximately 44 months and was payable in bi-weekly fixed installments of interest and principal, with an average annual interest rate of 50.6% and an average annual yield of approximately 31.5%, net of risk and profit sharing with our distributors. As of September 30, 2017, we had 366,928 payroll loans outstanding and a Ps.17,562.3 million payroll loan portfolio, which represented an estimated customer market share of 30% based on our calculations, with an average delinquency rate of 1.5%. For the nine months ended September 30, 2017, our payroll loan portfolio generated interest income of Ps.3,782.3 million, or 61.0% of our total interest income.

- *Used Car Loans.* Our used car loan business is mainly focused on financing semi-new and used cars through strategic alliances with a network of distributors that use their own sales force to promote our loans.

During the first quarter of 2014, we acquired a 51% interest in a company operating under the brand name Drive & Cash, which specializes in providing secured financing for privately owned cars and commercial vehicles. As of September 30, 2017, the Drive & Cash distribution network consisted of 28 branches located in 21 Mexican states. The average term of this product is 12 months with annual interest rate of 25%-74%.

In the United States, we provide services to the Hispanic market segment with limited credit history or access to credit through two companies that operate under the Don Carro and AFS brands, in which we have equity stakes of 80% and 99%, respectively. As of September 30, 2017, Don Carro had a distribution network consisting of five branches while AFS had licenses to operate in 32 states in the United States with more than 390 car dealers. As of September 30, 2017, our used car loan portfolio was Ps.2,568.1 million (of which 77.9% is related to our operations in the United States) with a total of 13,893 customers with an average delinquency rate of 1.2%. For the nine months ended September 30, 2017, our used car loan portfolio generated interest income of Ps.544.5 million, or 8.8% of our total interest income.

- *Small Business Loans.* This business aims to serve a market segment that is underserved by banks, through two different channels:
 - (1) An alliance with Fondo H, a small business loan distributor. In October 2013, we entered into an alliance with Fondo H in order to strengthen our position in the SME loan market and also acquired a Ps.657.5 million loan portfolio from them. Fondo H is an originator focused on granting short- and medium-term loans to SMEs in Mexico. Its customer base includes businesses in the manufacturing, distribution and services sectors. Through the agreement we provide exclusive funding for the loans originated by Fondo H. The average loan amount is of Ps. 4.9 million with an average term of 13 months. We believe this market represents a great opportunity because of the large number of small businesses in Mexico.
 - (2) An in-house brand in the Mexico City area: Crédito Real PYMES. The main customers of this brand are mom-and-pop stores, micro- and small enterprises and independent professionals. We provide enterprise financing through non-revolving short-term credit lines (with an average term of 12-36 months; 13 months for Fondo H) to fund working capital requirements and investment activities. Amounts range from Ps.50,000 to Ps.2.0 million. Interest rates and loan fees range from 18-48% and 1.0-3.5%, respectively.

Our general practice is not to provide financings for debt substitutions with other financial institutions, dividend payments, equity buybacks or project finance. As of September 30, 2017, the size of the small business loan portfolio was Ps.1,707.1 million with 351 clients and a delinquency rate of approximately of 2.8%. For the nine months ended September 30, 2017, our small business loan portfolio generated interest income of Ps.245.9 million, or 4.0% of our total interest income.

- *Group Loans.* Our group loans consist of short-term loans with terms ranging from 12 to 16 weeks made to micro-business owners, predominantly women, who form small pools of 12 to 25 borrowers. The borrowers use the loan proceeds exclusively to finance small commercial enterprises. Each individual in a group may borrow a different amount of money, but the repayment dates and applicable interest rates are the same for everyone in the group. Prior to disbursing a loan, we require each borrowing group to provide a security deposit equivalent to 10% of the principal loan amount. Each group member guarantees each other group member's obligations as joint obligors, assuming responsibility for any payment default by another group member. In 2015, we formed an alliance with two group loan distributors, Contigo and Somos Uno, in order to strengthen our loan origination. As of September 30, 2017, we offered group loans through a network of 181 branches and approximately 1,523 full time promoters, reaching 215,462 customers in 23 states throughout Mexico. Our promoters are responsible for identifying and forming borrowing groups, originating loans and ensuring the timely collection of payments by coordinating weekly meetings with the borrowing group. Loan payments are collected by a leader selected from within the members of the borrowing group. Each leader is accompanied by another group member to deposit collections on a weekly basis at nearby bank branches or certain convenience stores with which we have collection agreements. Approximately 60% of our group loan customers have applied to renew their group loan once their existing loan has been repaid in full. In order to enter into a new loan, the borrowing group must increase the number of members by at least one member. In addition, we offer each borrowing group member the

opportunity to acquire a year-long life and cancer insurance policy. As of September 30, 2017, 98% of our customers had acquired this insurance policy and we expect this trend to continue.

As of September 30, 2017, we had a Ps.211.9 million group loan portfolio with an average delinquency rate of approximately 0.1%. As of September 30, 2017, the average group loan of our distributors had a principal amount of approximately Ps.3,566 per group member, an average term of 3.8 months, and an average annual yield of 12.4%. For the nine months ended September 30, 2017, our group loan portfolio generated interest income of Ps.27.2 million, or 0.4% of our total interest income.

- *Durable Goods Loans.* We have made the decision to gradually exit the traditional durable goods loan business, which is why origination has ceased and our durable goods loan activity will cease once the remaining portfolio is recovered.

As of September 30, 2017, we had approximately 43,103 durable goods loans and other clients and outstanding of Ps.364.8 million. This portfolio decreased 27.2% in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. For the nine months ended September 30, 2017, our durable goods and other portfolio generated interest income of Ps.42.7 million, or 0.7% of our total interest income.

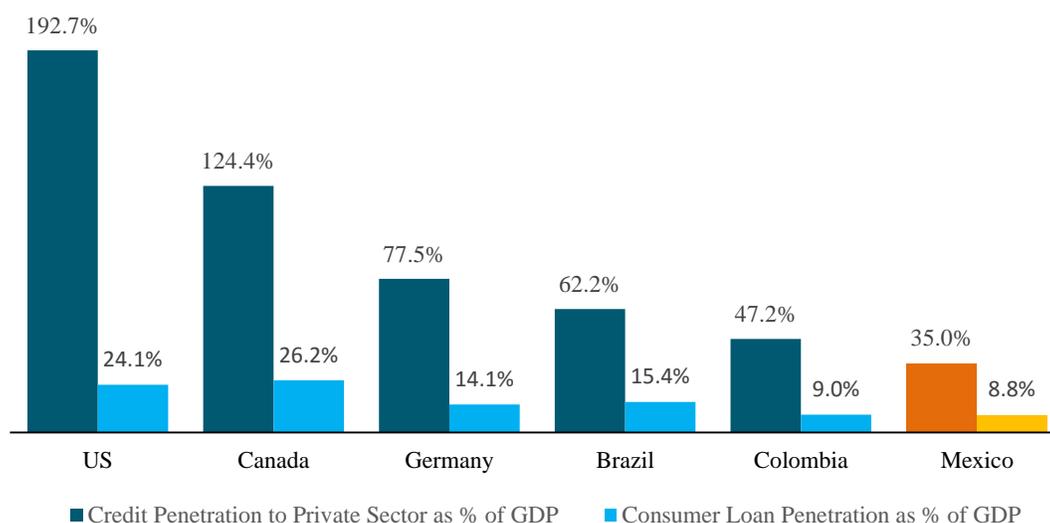
- *Instacredit.* On February 22, 2016, we announced the acquisition of a 70% equity interest in Instacredit. We invested in Instacredit to diversify and expand into the Central American market, focusing on the same type of customer segment that we serve in Mexico, which is the lower middle- to low-income segment of the population underserved by the traditional banking system. Instacredit contributed Ps.4,263.8, or 16.0%, to our loan portfolio as of September 30, 2017. Instacredit has a well-recognized brand with a multi-product platform, over 16 years of experience and 72 branches located in Costa Rica, Nicaragua and Panama with a large base of customers. It engages mainly in four business segments: consumer loans, car loans, SME loans and home equity loans, and we plan to focus primarily on consumer loans, car loans and SME loans.
- *Other Business Lines.* On December 14, 2015, we acquired a 55.2% equity interest in CAT 60, S.A.P.I. de C.V., the holding company of Resuelve. Resuelve offers services aimed at repairing individuals' credit standing by establishing a savings program for the customer and restructuring the customer's debt with its creditors. Resuelve has served over 145,000 customers in Mexico and manages approximately Ps.6.6 million in debt, without assuming the credit risk associated with lending to a customer. In 2014, as part of a strategy to expand the business, Resuelve began operations in Colombia and launched new lines of business, such as a product to manage the accounting of small businesses through an innovative technology platform. Additionally, Resuelve is a pioneer in lead generation for digital channels and lead management for financial services through a proprietary platform called "FinTech", and has become one of the main partners for the financial services divisions of Google and Facebook in Mexico. Finally, in 2015, we made a minority investment in Credilikeme, an internet-based consumer loan platform. Credilikeme allows clients to access same-day consumer loans with an average principal amount of Ps. 2,575 through an online platform. Credilikeme does not require a credit score but instead operates under a reward system. First-time clients initially have access to smaller loan amounts, but if the client repays the loan, Credilikeme rewards the client with access to a larger loan amount, a lower interest rate and a longer loan term.

Our Target Markets

According to the National Council for Financial Inclusion (*Consejo Nacional de Inclusión Financiera*, or "CONAIF"), Mexico has a large unbanked population, estimated at 32% of the adult population in 2015. The unbanked segment is primarily composed of low- and lower middle-income individuals, mostly living in rural areas. As of 2015, only 29% of the adult population has obtained some kind of financing from a formal financial institution. This environment provides enormous growth potential for financial institutions capable of catering to the unbanked portion of Mexican society. Mexico's large unbanked population is also reflected in the significantly low loan penetration levels relative to other Latin American countries.

The chart below presents the penetration level of private credit and consumer loans as a share of GDP in 2016 for select countries.

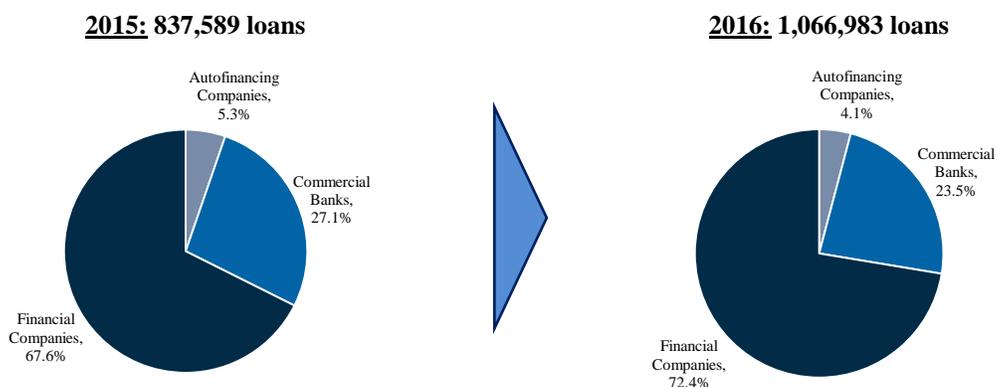
Credit Penetration (% of GDP)



Source: World Bank and Euromonitor with information as of 2016, except Credit Penetration to Private Sector as % of GDP of Canada and Colombia, which show figures as of 2008 and 2015, respectively.

Industry Overview

- Payroll Lending.** The Mexican payroll lending market is fragmented and dominated by regional competitors. Only a few market participants offer payroll lending nationally and can access the capital markets for funding. The total number of government employees in Mexico, including municipal, federal and state government employees, as well as pensioners, is approximately seven million according to the Institute of Security and Social Services for State Employees (*Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, or “ISSSTE”). We serve 366,928 active clients representing a 30% share of the payroll loan market in Mexico, measured in number of clients, out of an estimated one million potential payroll loan clients throughout the country.
- U.S. Auto Loans.** In 2016, there were 38.5 million vehicles sold in the retail used car market, an increase of 0.6% over the twelve months ended December 31, 2015, when the figure stood at 38.3 million. As sales continue to rise, lenders are looking to finance more consumer purchasing of used vehicles. The total number of auto loans for used cars in the United States showed an increase of 30% for the period from the third quarter of 2011 to the third quarter of 2016. We target the Hispanic population, which the U.S. Census Bureau estimated in July 2017 to represent the largest ethnic minority in the United States, with 57.5 million people, or 17.8% of the total population.
- Auto Loans in Mexico.** The total number of auto loans in Mexico showed a CAGR 19.8% from 2012 to 2016. In 2016, the Mexican auto loan industry reached the highest number of loans in the last 10 years with 1,066,983 loans, surpassing the 2015 level of 837,559 loans. The auto loan industry grew from 837,559 loans in 2015 to 1,066,983 loans in 2016, representing a 27.4% increase. Of the total number of loans in 2015, 67.6% were financed by non-commercial bank companies, while in 2016 that proportion grew to 72.4%. The top four players in auto financing in Mexico are NR Finance Mexico with 22% market share, GM Financial with 16% market share, VW Financial Services with 12% market share, and BBVA Bancomer with 10% market share.



Source: Mexican Automobile Distributors' Association (*Asociación Mexicana de Distribuidores Automotores*), as of December 2016.

- Small Business Loans.** According to Banco de México, a company is identified as an SME if it meets each of the following three conditions: (i) employs up to 100 people if its main activity is related to services; (ii) has annual sales of no more than Ps.250 million; and (iii) has an indebtedness level of less than or equal to 3.0 million investment units (*unidades de inversión*, or “UDIs”). As of 2015, Mexico had approximately 4.9 million business entities, of which 81.6% were identified as SMEs. We believe this market is highly underpenetrated by financial institutions, as only 5.6% of small businesses have access to credit due to their lack of credit history, collateral or previous bank references. The market leaders are HSBC under the brand Estimulo HSBC, BBVA under the brand Crédito Simple, Citibanamex under the brand Crédito Negocios and Banorte under the brand Crediactivo. According to Banco de México, 21% of all SME loans are financed by non-bank financial institutions, of which 67% are constituted as non-regulated financial entities. The market is highly fragmented, as most of these institutions target microfinancing with an average loan equivalent to US\$500.
- Group Loans.** We operate in the group loan market under the Contigo and Somos Uno brand names. There are more than seven million microfinance borrowers in Mexico. When compared to its regional peers, however, Mexico has the smallest loan portfolio, leaving a large population of the potential market unserved. We believe our business is well positioned to grow substantially in the following years in this segment.

Measuring the size and penetration of the group loan industry in Mexico poses significant challenges given the predominance of non-regulated competitors in the market, which have minimal reporting requirements, if any. A study published in 2010 by the Consultative Group to Assist the Poor (“CGAP”), an independent policy and research center dedicated to increasing financial access for the world’s poor, estimated that loans by microfinance institutions (“MFIs”) in Mexico amounted to 0.07% of GDP, lower than the 5.02%, 4.03%, 2.40% and 0.38% estimates for Bolivia, Nicaragua, Peru and Panama, respectively.

The following chart presents the main financial services providers for the different population segments in Mexico as of December 31, 2015 and also highlights our segments of focus:

Market Segments ⁽¹⁾	Main Competitors	Percentage of Total Population in Market Segment ⁽²⁾	Crédito Real Segment Focus
A and B		6.4%	Used Car Loans
C+		14.1%	Payroll Loans and Used Car Loans
C		15.5%	Payroll Loans and Used Car Loans
D and E		64.0%	Group Loans and Payroll Loans

(1) Market segments are defined based on monthly family income, in accordance with the categories established by AMAI: Segment E, from Ps.0 to Ps.2,699; Segment D, from Ps.2,700 to Ps.6,799; Segment C, from Ps.11,600 to Ps.34,999, Segment C+, from Ps.35,000 to Ps.84,999, Segment A and B, from Ps.85,000 or more.

(2) Source: AMAI based on cities with a population greater than 100,000.

According to CONAIF, approximately one of every five adults in Mexico earning less than Ps.3,000 per month has an outstanding line of credit. By contrast, approximately 70% of the population with a monthly salary higher than Ps.20,000 are reported to have an outstanding line of credit.

Our Competitive Strengths

Proven Track Record and Extensive Experience Providing Valuable and Easy-to-Understand Credit Products to the Underserved Segments of the Mexican Population

We believe that our over 24 years of experience in serving the financing needs of the low- and lower middle-income segments of the Mexican population provide us with unparalleled knowledge and understanding of our customers and their potential market. For example, our loan methodology for these market segments is based on our knowledge of our clients' needs and behavior. For our first-time customers, we run a credit analysis statistically. We have tailored our products, credit underwriting approval systems and operating infrastructure to serve these segments of the population. All of our loan products have fixed installments, and bear interest at fixed rates. We believe these fixed terms make our loan products easier to understand, and thus, more attractive for borrowers in the low- and lower middle-income segments by facilitating payment planning, which helps to reduce default rates. We strive to be a leader in every market in which we participate, and we believe that we have a strong market position in all the segments where we participate.

As of September 30, 2017, we had 366,928 payroll loan clients, which represented a loan portfolio of Ps.17,562.3 million, equal to 65.8% of our total loan portfolio. As of the same date, we also had 215,462 group loan clients and a loan portfolio of Ps.211.9 million, accounting for 0.8% of our total loan portfolio. In the durable goods loans and other segment, as of September 30, 2017, we had 43,103 clients and a loan portfolio of durable goods and other of Ps.364.8 million, representing 1.4% of our total loan portfolio. In the small business loans segment, as of September 30, 2017, we had 351 clients and a loan portfolio of Ps.1,707.1 million, representing 6.4% of our total loan portfolio. Finally, in the used car loans segment, as of September 30, 2017, we had 13,893 clients and a loan

portfolio of Ps.2,568.1 million, representing 9.6% of our total loan portfolio. Instacredit, as of September 30, 2017, had 178,558 clients and a loan portfolio of Ps.4,263.8 million, representing 16.0% of our total loan portfolio.

Loan Portfolio with Superior Quality and Performance

We believe that the nature of our loan products and the application of our operating models result in low delinquency rates of the loans in our portfolio. As of September 30, 2017, our non-performing loans (“NPL”) reached 2.3%. Our policy is to value the quality of the asset over the size of the portfolio.

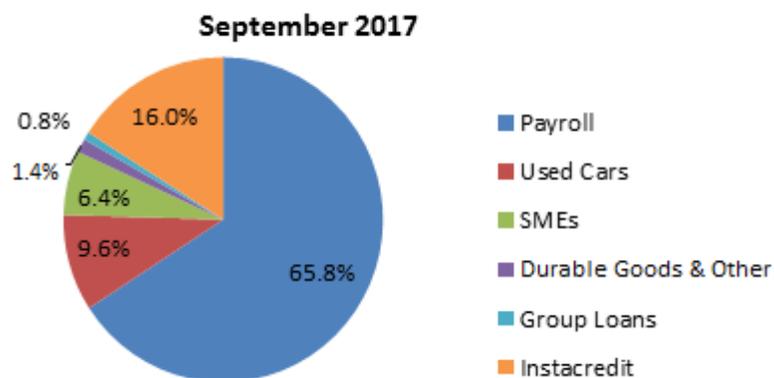
For our payroll loans, payments are collected directly from government agencies before any wages are paid to our borrowers, pursuant to the borrower’s prior written instructions. Additionally, public sector unionized employees typically have low turnover rates, thus mitigating our exposure to collection risks. In the case of group loans, we require our customers to provide a security deposit equivalent to 10% of the principal loan amount prior to the disbursement of each loan. In addition, each borrowing group member jointly and severally guarantees each other, assuming joint responsibility for any missed payment by another group member. A key differentiator of our business model is the level of discipline we maintain in the execution of our group loan methodology. We have implemented a number of policies and procedures that we believe have enabled us to maintain low delinquency rates on group loans, including the following requirements: (i) weekly group meetings with the promoter at which loan payments are collected; (ii) each borrowing group member must live within a 15-minute walking distance from the weekly meeting point; (iii) no more than two members of the same family are allowed to be part of a given borrowing group; and (iv) no loan disbursements may be made to the group unless all group members are physically present at the disbursement meeting.

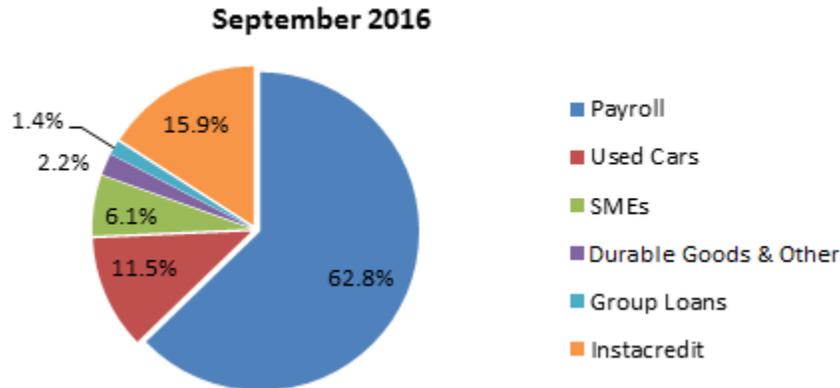
For our durable goods and used car loans, to maintain a low delinquency rate, we closely track an internal four-day past-due loan metric on which we act immediately to seek to bring the borrower up to date. In the case of durable goods, such purchases are typically planned in advance by households and considered in their budget, decreasing the delinquency rates of loans used to finance such purchases. In addition, we retain the invoice for any durable goods purchase financed by us until the loan is fully repaid, further helping to reduce delinquency rates. We believe our standardized and proven collection process, which allows for the continuous monitoring of client repayment dynamics and the implementation of early action in the case of delayed payments, has allowed us to maintain low delinquency rates across our product lines.

For our SME loans, we believe that the best way to maintain a low delinquency rate is to create a close relationship with the customer and create a product that matches the cash flow of the customer’s business. We structure the SME loan product to match the customer’s business, and provide an expedited and reliable source of funds when they are required. Our tailored approach and responsive customer service help us to maintain an SME loan portfolio with a low delinquency rate relative to the rest of the industry.

We believe our NPL ratio of 2.3% is one of the lowest among our peers with respect to each of our loan products as of September 30, 2017.

The charts below illustrate the increased diversification of our loan portfolio as of September 30, 2017, as compared to September 30, 2016:





We believe that our profitability, the quality of our assets and our efficiency and capitalization ratios compare favorably with other banking and group loan sectors in Mexico. The following table shows relevant statistics of selected financial services companies in Mexico and Latin America as of December 31, 2016:

Name	Return on Average Equity (1)	Consumer Loan Portfolio NPL Ratio(2)	Efficiency Ratio(3)	Capitalization Ratio(4)
Microfinance and Personal Consumer Companies				
Crédito Real	20.2%	2.2%	55.2%	38.8%
Banco Ahorro Famsa	3.8%	16.7%	69.6%	23.3%
Banco Azteca	12.9%	4.5%	86.2%	21.7%
BanCoppel	34.0%	15.1%	38.8%	39.5%
Compartamos	32.2%	4.5%	55.8%	44.0%
Consubanco	20.5%	6.2%	48.9%	49.8%
Financiera Independencia	6.0%	5.5%	74.9%	54.4%
Unifin	24.6%	0.8%	33.6%	61.1%
Commercial Banks				
Citibanamex	7.0%	3.9%	57.5%	25.3%
Banorte	14.4%	3.6%	50.8%	16.4%
Banregio	20.2%	1.3%	54.7%	16.3%
HSBC	2.4%	3.8%	77.0%	18.5%
Inbursa	9.5%	7.3%	35.4%	31.0%
Santander	13.7%	4.0%	45.1%	18.1%

Source: Company filings presented to CNBV as of December 31, 2016, except Financiera Independencia and Unifin which were obtained from public filings. Includes all subsidiaries.

1. Public information (2016 Net Income / Total Equity average during 2016).
2. Calculated as Consumer Non-Performing Loans divided by Total Consumer Loans.
3. Calculated as Administrative and Marketing Expenses divided by (Net Interest Income before Provisions + Net Fee Income).
4. Calculated as Total Shareholder's Equity as of December 2016 divided by Total Gross Portfolio as of December 2016.

Strong and Diversified Origination Platform

We have an open-ended platform with flexibility to develop, promote, underwrite and collect a wide variety of consumer loan products and support the expansion of our diversified business model. In the payroll loans business segment, we own a 99.99% interest in Directodo and a 49% interest in Publiseg and GEMA, which are three of our main distributors. We also have financial factoring agreements with 8 other independent distributors, through which

we provide national coverage for loan origination. Our used cars loans are originated through 18 distributors, one partnership with 28 branches in 13 states of Mexico and two partnerships in the United States with more than 400 points of sale. We acquired interests in two group loan distributors, Contigo (2015) and Somos Uno (2014), strengthening our group loan market participation in Mexico. These group loans are originated through our own network of 181 branches and over 1,523 promoters. Furthermore, in 2016 we invested in Instacredit, allowing us to diversify across other Central American markets with high growth potential. These origination platforms are independent from each other, operate under different brand names and respond to different market dynamics, thereby allowing us to expand the types of different consumer credit products that we offer. Through this solid loan origination network, we increased our loan portfolio by 17.1% as of September 30, 2017, as compared to the same period ended September 30, 2016.

Diversified Credit Risk

We use separate processes to originate loans in our various lines of businesses, since each line of business has distinct customer bases with different credit needs and repayment dynamics. The tenor of the loans we offer varies from one loan to another, ranging from 1 to 62 months. We believe that our business model enables us to effectively manage our exposure to credit risk by dispersing that risk across a large number of borrowers in different product categories and diverse geographic regions. The average balance of each loan in our portfolio is small: approximately Ps.47,863 for payroll loans, Ps.7,111 for durable goods loans, Ps.4.9 million for small business loans, Ps.3,566 per participant for group loans, Ps.23,879 for Instacredit and Ps.184,848 for used car loans, resulting in our credit risk being dispersed over approximately 818,295 loans outstanding as of September 30, 2017.

Proprietary Platform Tailored for the Segments We Serve

With over 24 years of experience, we have developed and refined our proprietary underwriting standards and a digitalized credit review system, which help ensure consistency in the quality of our loans and efficiency in our credit approval process. As part of our credit review process, we evaluate both quantitative and qualitative aspects of each credit application, allowing us to leverage our customer knowledge and prior experience to better assess credit risk on a case-by-case basis. Traditional credit providers, such as banks, typically have relatively low approval rates for customers in the market segments we serve, in part because many customers have limited or no credit records. We believe our lean and efficient operation allows us to service and monitor small loans that would typically be unprofitable for large traditional banks. We believe our risk analysis systems allow us to make better credit decisions when evaluating credit applications in the segments we target. As a result of our credit underwriting procedures and analysis, we have been able to maintain low delinquency rates in our loan portfolio. As of September 30, 2017, our non-performing loans as a percentage of our total loan portfolio were 2.3%. The development of our proprietary platform has also allowed us to reduce the response time to our customers without compromising the quality of our loans.

Our credit analysis process begins with our commercial partners filling out an application form for the applicant and uploading it to our secure channel platform, accompanied by identification and additional documents for proof of residence and income. The analysis process is initiated once all documents and information provided have been validated. Generally, we validate references through our call center or a door-to-door service provider. Next, we review the following credit reports of the applicant: (i) for customers with previous accounts, an internally generated credit report and (ii) for all applicants, a report from a third party credit bureau which is requested through a secure, password-protected, server-to-server connection. In analyzing the credit reports, we take into consideration payment behavior, previous reported income, addresses and phone numbers for future reference, total account balances and existing monthly payment obligations, either with us or with other financial institutions. Once all the above financial and credit behavior information is received about the applicant, our analyst calculates the “debt-to-income” and “pay-to-income” ratios for the individual applicant to determine the applicant’s maximum monthly payment amount, and the total amount of the approved loan.

Our commercial partners can monitor the status of each application in real time, including whether the application has been approved or rejected, along with some brief commentary from the analyst regarding the application such as total amount approved or reason for rejection.

The platform keeps a record of all the persons involved as well as any changes performed on every credit application during the entire credit analysis process.

Scalability of Our Business through Unique Technological Platform

The modular architecture of our origination platform and our standardized operational process enhance our flexibility and new product development capabilities to support future growth across current and new consumer loan segments. We believe our standardized and strict origination and collection processes, our strong recruiting, e-learning and continuous training programs, as well as our proprietary information technology systems, provide us with a scalable platform that enhances efficiency. Our internally-developed software allows us to effectively manage and service large volumes of loan applications and track the performance of our loan portfolio on a daily basis. Furthermore, our systems provide us with the flexibility to manage multiple loan products with different characteristics, as well as with the ability to expand our product offerings.

In addition to safeguarding all documentation in physical form, we digitalize 100% of our credit records and believe our scoring system is one of the core technological tools that allow us to grow without compromising asset quality. Our technological platform currently allows us to have a response time ranging from 30 minutes to 72 hours. We believe that our credit application processing times are shorter than those offered by our competitors and represent a significant competitive advantage. Additionally, we believe that our unique loan origination, processing and servicing technology allows us to serve large numbers of borrowers efficiently, providing us with a significant competitive advantage.

We have the capacity to cross check the performance of each payroll loan with our originating distributors and to monitor the portfolio performance on a daily basis. In the case of group loans, we measure delinquency performance on a four-day basis for internal purposes which allows us to take immediate action and thereby results in a lower NPL ratio. In addition, on average, our technological platform has historically allowed us to answer 97% of all customer incoming calls in less than 12 seconds.

During 2015 we began the first implementation stage of the roll-out of the new Oracle FLEXCUBE Core Banking system. This new platform has allowed us to generate robust information for our entire portfolio of products, increasing our capacity and response speed, while also adding flexibility to our current platform. In this way, FLEXCUBE enhances our system capacity in order to better serve our customers.

Solid Cash Flow Generation Combined with Strong Capitalization and Diversified Liquidity Sources

As of September 30, 2017, our payroll loans, group loans, durable goods loans, small business loans, Instacredit and used car loans had annual yields averaging 31.5%, 12.4%, 22.0%, 20.9%, 49.4% and 27.9% respectively, and had average terms of 44, 3.8, 12, 12 to 36, 22 to 60 and 12 to 36 months, respectively. The average yield of our portfolio, the frequency of collections and the relatively short-term nature of our loans result in a strong and steady cash flow. As of September 30, 2017, we collected principal and interest payments of approximately Ps.3,998.7 million, representing 61.7% of the average total loan portfolio.

In addition to this strong internal generation of operating cash flow, we have diverse sources of funding, including access to the domestic and international debt and securities markets, as well as bank credit lines. From September 30, 2016 to September 30, 2017, we increased our funding sources by entering into a new credit agreement and five amended credit agreements for a total aggregate principal amount of Ps.2,878.6 million with three domestic and two international financial institutions. In addition, we raised Ps.6,295.5 million through nineteen debt issuances in the domestic debt capital markets between September 30, 2016 and September 30, 2017, under our short-term and long-term notes programs. As part of our strategy, we continue to evaluate other financing sources, such as the securitization of portions of our loan portfolio, additional issuances of debt securities and additional credit lines. We believe that our cash flow from operations and funding sources provide us with the financial flexibility to meet our liquidity requirements, including our expected loan originations, and to continue growing our business, representing a competitive advantage in comparison with competitors who operate in the same market segments.

As of September 30, 2017, the unused portion of our bank credit lines totaled Ps.566.5 million and the authorized, unissued amount under our long and short-term note programs totaled Ps.4,050.0 million in the aggregate.

Throughout our history of growth, we have maintained a strong equity base, which we believe reflects solid and prudent capital management. As of December 31, 2014, 2015 and 2016, our capitalization ratio was 38.8%, 38.1% and 38.8%, respectively.

Experienced Management with Proven Track Record and Shareholder Support

Our management team consists of experienced professionals who have an average of 16 years of experience working in different segments of the Mexican financial sector. We believe our management team has been responsible for the profound organic growth that we have experienced since our incorporation in 1993 and has a proven track record of successfully expanding into new markets and introducing new products. Our main shareholders also have significant experience in the Mexican financial sector, having participated as either operating directors or shareholders of different financial institutions during the past 30 years. Moreover, some of our shareholders have been active players in the direct origination of our payroll loan business. Their combined knowledge, experience and support have proven to be valuable assets to us when formulating our strategy, developing new products or accessing new segments of the market. We believe that the knowledge, experience and support from our executive team and principal shareholders represent a significant competitive advantage.

Our Strategy

We believe that we are well-positioned to take advantage of the expected growth in the Mexican payroll loan, small business loan, group loan and used car loan segments in Mexico, the United States and Central America and to strengthen our diversified product mix in countries outside of Mexico. We intend to strengthen our presence in markets in which we already operate and to continue our geographic expansion by finding new partners already operating in untapped markets. We also intend to improve our operational efficiency by reducing our operating expenses as well as our cost of funding while maintaining high levels of market share and customer satisfaction. The following are the key elements on which our strategy is based:

- ***Grow Our Payroll Loan Business.*** We have consolidated our acquisition of Directodo, and are leveraging our existing synergies with Credifiel and Crédito Maestro in order to continue growing our payroll loan business by increasing the number of government agencies and labor unions we serve, in addition to increasing our penetration among the employees of those agencies and members of those unions with which we already have established payroll lending relationships through our distributors. Additionally, we are making greater efforts to penetrate new markets, which now represent an important part of our origination. As of September 30, 2017, we believe we had a penetration of approximately 38% of the government-agency and labor-union markets we served, and we believe this low penetration will allow for significant future growth. We believe the payroll loan business represents a market opportunity of more than 9.7 million people, creating significant growth opportunities for our payroll loan portfolio over the next several years. We constantly evaluate the inclusion of new distributors in our network in order to expand our geographic presence and grow in this market segment. Additionally, we will continue to consider strategic opportunities to vertically integrate our payroll loan business in order to further expand and improve our profitability. We believe these strategic opportunities will allow us to further consolidate and define the growth of our loan origination through distributors. We believe another area of opportunity is to increase the renewal rate of our loans, given that historically, approximately 35% of our payroll customers have renewed their loans.
- ***Expand Our Small Business Loan Business.*** We believe the low penetration of financial institutions in this market represents a good business opportunity for us. We believe that that our recent alliance with Fondo H establishes a good presence for us in this market and provides a good foundation for us to grow in this segment of the loan market.
- ***Expand Our Group Loan Business.*** We intend to grow our group loan business by partnering with other microfinance institutions. We believe that the potential of our group loan business will help us grow due to the low number of traditional financial institutions in these markets and the need for alternative financial services among the low- and lower middle-class population in Mexico. We believe that our group lending operations have great potential for geographic growth.

In particular, we believe that our existing branches will present significant opportunities for growth, as we increase the number of promoters per branch, focusing on knowledge of the specific needs of

microentrepreneurs in the geographical area of each branch. Additionally, we believe there is opportunity to increase the rate of renewals of group loans, and we are focusing on increasing the profitability of the operations of our group lending segment by developing product packages, including insurance products. We are developing a training program for increasing efficiency in our group loan branches, which we believe will allow us to expand more quickly.

- **Expand Our Used Car Loan Business.** We believe that this market represents significant growth opportunities and is an underserved market, both in Mexico and the Hispanic markets in the United States. We believe that recent partnerships with distributors of used car loans, Drive & Cash in Mexico and Don Carro and AFS in the United States, provide a solid base for continued distribution and expansion in this segment.

In Mexico, we provide loans for used cars through various partnerships with distributors that utilize their own sales force to promote our credit products. As of September 30, 2017, we operated through 18 distributors dedicated to buying and selling used cars. Additionally, during the first quarter of 2014, we acquired 51% of a company operating under the Drive & Cash brand name, dedicated to offering secured financing for commercial vehicles. As of September 30, 2017, the distribution network of Drive & Cash consisted of 28 branches located in 21 Mexican states.

In the United States, we serve the Hispanic market segment with limited credit history or access to credit, through two companies operating under the brands Don Carro and AFS, in which we have equity stakes of 80% and 99%, respectively. As of September 30, 2017, Don Carro had a distribution network of five branches while AFS has licenses to operate in 32 states in the United States and more than 390 locations that offer our credit products.

- **Capitalize on the Growth Potential of Underserved Markets.** We believe that growth opportunities for consumer credit financing continue to be substantial in light of a growing demand for consumer credit from a large portion of the population that has no or limited access to traditional financial services. We believe that given our leading market position and recognition, as well as our understanding of the customer segments we serve, we are well positioned to capitalize on the growth potential of non-traditional financial services in Mexico, including segments in which we do not currently operate. Our aim is to target these underserved markets with our various products. We plan to continue evaluating strategic opportunities to take advantage of the scalability and standardization of our business model, including our capacity for loan analysis and risk management in the markets in which we operate.
- **Latin American Expansion.** We began operations in Central America through the acquisition of 70% of Instacredit in 2016. Following the strategy of attending underserved markets in Mexico and abroad, we will seek to consolidate the presence of Instacredit in Costa Rica and continue its expansion to other countries, such as Nicaragua and Panama. The four main products that Instacredit currently offers are consumer loans, car loans, SME loans and home equity loans.
- **Preserve Our Diversified Sources of Funding and Strong Capital Base.** Throughout our history of growth, we have maintained a strong equity base, which we believe reflects solid and prudent capital management. As of December 31, 2014, 2015 and 2016, our capitalization ratio was 38.8%, 38.1% and 38.8%, respectively. Our strong balance sheet and responsible capital management have allowed us to issue debt in both the international and domestic capital markets. During 2010, our funding sources became further diversified through our offering of notes in the international bond markets and subsequent reopening for an aggregate principal amount of US\$210 million. In 2014, we issued another series of notes in the international bond markets for an aggregate principal amount of US\$425 million, which were repaid in part with the proceeds of our subsequent US\$625 million debt offering in 2016. In February 2017, we succeeded in refinancing our syndicated credit line with Credit Suisse for an aggregate amount of US\$110 million. As of September 30, 2017, debt securities represented 60.9% of our total debt, and the remaining 39.1% was represented by bank loans. As of September 30, 2017, we had credit lines with various financial institutions totaling Ps.10,405.9 million, of which the unused portion represented Ps.566.5 million. In terms of maturity profile, 8.3% of our debt will mature during 2017, including debt securities issued in the domestic market, and the remaining 91.7% will mature in 2018 or later. We believe that the issuance of these perpetual notes will further enhance our capitalization ratio.

- ***Focus on Profitability and Efficiency.*** We believe there is significant potential to improve the efficiency and profitability of our group loan business. As we continue to grow this segment, we believe our total operating expenses as a percentage of net interest income will decrease as operating leverage increases. Other initiatives to improve the profitability of our branches include adding more promoters per branch, reducing promoter turnover, increasing the average loan portfolio per promoter and expanding into complementary product offerings, such as insurance products. Additionally, as our payroll loan business grows, we expect to be able to improve the conditions of our profit sharing agreements with our distributors, allowing us to increase our income and profitability. We are constantly analyzing other ways of increasing our efficiency through improvements in our operating systems in order to reduce operational costs across our product lines.

Our Principal Offices

Our corporate offices are located at Avenida Insurgentes Sur No. 730, 20th Floor, Colonia del Valle Norte, Delegación Benito Juárez, C.P. 03103, Mexico City, Mexico, and our telephone number is +52 (55) 5340-5200. Our web site address is www.creditoreal.com.mx. The information on our web site is not a part of, and is not incorporated by reference into, this offering memorandum.

THE OFFERING

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of the Notes" section of this offering memorandum contains a more detailed description of the terms and conditions of the notes.

Issuer	Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada (the "Issuer" or the "Company").
Notes Offered	US\$230,000,000 million aggregate principal amount of our 9.125% Subordinated Perpetual Notes.
Offering Price	100.000%, plus accrued interest, if any, from November 29, 2017.
Issue Date	The notes will be issued on November 29, 2017.
Maturity	The notes are perpetual notes with no fixed final maturity date and no sinking fund provision.
Interest Rate / Step-up	The Notes will bear interest on their principal amount as follows: (i) from and including the issue date of the notes to but excluding the First Call Date, at a rate of 9.125% per year; and (ii) from and including the First Call Date to but excluding the redemption date, if any, at, in respect of each Reset Period (as defined herein), the relevant Five Year US Treasury Rate plus: (A) in respect of the Reset Period commencing on or after the First Call Date but before the Step-up Date, the Initial Margin; (B) in respect of Reset Periods commencing on or after the Step-up Date: the Initial Margin plus 2.00%.

"Five Year US Treasury Rate" means as of any Reset Interest Determination Date, (i) an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the *per annum* rate equal to the weekly average yield to maturity for United States Treasury securities with a maturity of five years from the next Reset Date and trading in the public securities markets or (ii) if there is no such published US Treasury security with a maturity of five years from the next Reset Date and trading in the public securities markets, then the rate will be determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Reset Date following the next succeeding Reset Interest Determination Date, and (B) the other maturity as close as possible to, but later than the Reset Date following the next succeeding Reset Interest Determination Date, in each case as published in the most recent H.15 (519). If the Five Year US Treasury Rate cannot be determined pursuant to the methods described in clauses (i) or (ii) above, then the Five Year US Treasury Rate will be the same interest rate determined for the prior Reset Interest Determination Date.

"H.15 (519)" means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States

Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the close of business on the second Business Day prior to the applicable Reset Date. H.15 (519) may be currently obtained at the following website: <https://www.federalreserve.gov/releases/h15/>.

“Reset Date” means the First Call Date and each date falling on the fifth anniversary thereafter.

“Reset Interest Determination Date” means, in respect of any Reset Period, the day falling two Business Days prior to the beginning of the relevant Reset Period.

“Reset Period” means each period from and including the First Call Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date.

The Issuer will give notice of such Five Year US Treasury Rate as soon as practicable to each of the paying agent, the holders of the notes and the Trustee, and, if required by the rules of the securities exchange on which such Notes are listed from time to time, to such securities exchange.

See “Description of the Notes—Principal and Interest Payments—Interest Rates and Interest Payment Dates.”

First Call Date.....	November 29, 2022 (5 years from the Issue Date).
Step-up Date	November 29, 2037 (15 years after the First Call Date), unless the Issuer’s credit ratings have been upgraded to investment grade on or prior to November 29, 2037 and such ratings continue to be investment-grade, then the Step-up Date shall be November 29, 2042 (20 years after the First Call Date).
Initial Margin.....	7.026%.
Interest Payment Dates	Subject to our right to defer payment of interest, interest on the notes will be payable semi-annually in arrears on May 29 and November 29 of each year, as applicable, beginning on May 29, 2018.
Ranking.....	The notes will be our unsecured and subordinated obligations and will rank (i) junior to all of our existing and future Unsubordinated Indebtedness, (ii) pari passu among themselves and with all other future Subordinated Indebtedness, and (iii) senior to all existing and future classes of our Share Capital. The notes will be effectively subordinated to all existing and future liabilities of our subsidiaries. The notes do not restrict our ability or the ability of our subsidiaries to incur additional indebtedness in the future.
Holders Acknowledgement of Subordinated Notes.....	Each holder of notes agrees that (i) the trustee will be the only party entitled to receive and distribute amounts paid in respect of the notes in the event of any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, <i>concurso mercantil</i> , <i>quiebra</i> or similar proceedings in connection with our insolvency or bankruptcy and (ii) in the event that, in connection with such proceedings, notwithstanding the subordination provisions agreed by the holder of the notes, any amount is allocated for payment to the holders of the notes prior to the payment of all of our Unsubordinated Indebtedness, any such amount received by the trustee will be required to be distributed by the trustee, on behalf of the holders of the notes, to the creditors of any of our unsatisfied Unsubordinated

Indebtedness. In furtherance of this agreement, the Indenture will provide that the trustee will have the exclusive right to file in any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings of the Company for the recognition of the claims of all holders of notes. Each holder of notes irrevocably instructs the trustee to file, on behalf of such holder, a claim for recognition of the claims of all of the notes in such event. The Indenture will provide that each holder of notes irrevocably instructs the trustee to abstain from voting during the course of any such bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceeding as described above of the Company in any matter submitted for approval by our general unsecured creditors in such proceedings.

In connection with any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings, holders of the notes will only be subject to such protections (including any individual rights) afforded to such holders under Mexican insolvency laws and statutes.

Interest Deferral We may, in our sole discretion, defer payment of interest that would otherwise be payable on any Interest Payment Date in whole, or in part by giving written notice to the trustee and holders of the notes not less than seven nor more than 14 business days before the applicable Interest Payment Date. Interest on deferred amounts will accrue from the deferred date, and arrearages of interest will be compounded on subsequent Interest Payment Dates, semi-annually, at the rate of interest on the notes. See “Description of the Notes—Option to Defer Interest Payments.”

Optional Payment of
Deferred Interest We may elect, in our sole discretion, to pay deferred interest at any time, together with any and all related arrearages of interest, with respect to the notes. If we elect to do so, our election must be to pay all outstanding deferred interest and related arrearages of interest with respect to the notes, and we will give not less than seven nor more than 14 business days’ notice thereof to the trustee and the holders of the notes. See “Description of the Notes—Payment of Deferred Interest.”

Mandatory Payment of
Deferred Interest We will pay any deferred interest and all related arrearages of interest in respect of the notes, in whole but not in part, on the first occurring Mandatory Payment Date following the Interest Payment Date on which such deferred interest first arose. See “Description of the Notes— Payment of Deferred Interest.”

Calculation of Interest Interest will be computed on the basis of a 360-day year of twelve 30-day months.

Change of Control In the event that a Change of Control that results in a Ratings Decline occurs with respect to the notes, we have the right to redeem the notes in whole (but not in part) at our option at any time at a redemption price equal to 101% of the principal amount of the notes to be redeemed.

If, in the event of a Change of Control that results in a Ratings Decline, we do not redeem the notes pursuant to the provisions described herein, we will permanently pay additional interest on the notes at a rate of 5.0% per annum. Unless we have redeemed the notes in connection with the occurrence of such event, the additional interest will become effective on the 90th day after the date on which a Change of Control occurs that results in a Ratings Decline. Accrued additional interest will be payable on the same dates and in the same manner as interest is generally paid on the notes. See “Description of the Notes—Redemption and Repurchase—

Redemption upon a Change of Control that Results in a Ratings Decline.”

Optional Redemption.....	On the First Call Date of the notes, and on every fifth anniversary thereafter, we have the right to redeem all, but not less than all, of the notes at our option at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued interest (including any deferred interest and arrearages of interest) up to (but not including) the redemption date of the notes. See “Description of the Notes—Redemption and Repurchase—Optional Redemption.”
Redemption for a Rating Methodology Event	If a Rating Methodology Event occurs with respect to the notes, we may redeem all, but not less than all, of the notes at any time (i) at a redemption price equal to 101% of the principal amount of the notes to be redeemed, if the date fixed for redemption falls prior to the First Call Date of the notes, and (ii) at a redemption price equal to 100% of the principal amount of the notes to be redeemed, if the date fixed for redemption falls on or after the First Call Date of the notes, in each case, plus accrued interest (including any deferred interest and arrearages of interest) up to (but not including) the redemption date of the notes. See “Description of the Notes—Redemption and Repurchase—Redemption for a Rating Methodology Event.”
Redemption for Tax Deductibility Event.....	If a Tax Deductibility Event occurs with respect to the notes, we may redeem all, but not less than all, of the notes at any time at (i) where the date fixed for redemption falls prior to the First Call Date of the notes, a redemption price equal to 101% of the principal amount of the notes to be redeemed, and (ii) where the date fixed for redemption falls on or after the First Call Date of the notes, a redemption price equal to 100% of the principal amount of the notes to be redeemed, in each case, plus accrued interest (including any deferred interest and arrearages of interest) up to (but not including) the redemption date of the notes. See “Description of the Notes—Redemption and Repurchase—Redemption for a Tax Deductibility Event.”
Redemption for Withholding Tax Event	If a Withholding Tax Event occurs with respect to the notes, we may redeem all, but not less than all, of the notes at any time at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued interest (including any deferred interest and arrearages of interest) up to (but not including) the redemption date of the notes. See “Description of the Notes—Redemption and Repurchase—Redemption for a Withholding Tax Event.”
Payment of Additional Amounts	If you are not a resident of Mexico for tax purposes, payments of interest on the notes to you will generally be subject to Mexican withholding tax at a rate of 4.9%. We will pay additional amounts in respect of those payments of interest so that the amount you receive after Mexican withholding tax is paid equals the amount that you would have received if no such Mexican withholding tax had been applicable, subject to limitations exceptions to be described under “Description of the Notes—Payment of Additional Amounts” in the offering memorandum.
Redemption upon a Substantial Repurchase Event.....	In the event that at least 80% of the initial aggregate principal amount of the notes has been purchased by us or on our behalf, we may redeem all, but not less than all, of the notes at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus accrued interest (including any deferred interest and arrearages of interest) up to (but not including) the redemption date of the notes. See “Description of the Notes—Redemption and Repurchase—Redemption upon a Substantial Repurchase Event.”

Redemption following an Accounting Event	If an Accounting Event occurs with respect to the notes, we have the right to redeem the notes in whole but not in part, at 101% of the principal amount of the notes to be redeemed if prior to the First Call Date, or at 100% if on or after the First Call Date. See “Description of the Notes—Redemption and Repurchase—Redemption following an Accounting Event.”
Limited Covenants.....	Holders of the notes will benefit from limited covenants contained in the Indenture, including only covenants to pay the redemption price, interest, deferred interest, additional amounts and arrears of interest if and when the same become due and payable (subject to deferral), as well as a reporting requirements covenant and a merger, consolidation or sale of assets covenant. See “Description of the Notes—Covenants.”
Limited Events of Default.....	<p>Each of the following will be an “Event of Default” with respect to the notes:</p> <ul style="list-style-type: none"> (i) we fail to pay interest on any note within 30 days after its due date; <i>provided</i> that the due date for deferred interest payments shall be the first Mandatory Payment Date following the Interest Payment Date on which such deferred interest first arose; (ii) we fail to pay the principal or premium, if any, of any note when due; or (iii) certain events involving our liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, <i>concurso mercantil</i>, quiebra or similar proceedings in connection with our insolvency or bankruptcy (a “Bankruptcy Event of Default”). <p>There is no right of acceleration of the payment of principal of the notes upon the occurrence of any Event of Default described in clauses (i) and (ii) above. However, upon the occurrence of an Event of Default described in clause (iii) above, the entire principal amount of all the notes and any accrued interest and any additional amounts and arrears of interest will be automatically accelerated as provided under the Indenture and by Mexican insolvency laws and statutes.</p> <p>See “Description of the Notes—Events of Default.”</p>
Further Issuances	We may, from time to time without the consent of holders of the notes of a series, issue additional notes on the same terms and conditions as the notes of that series (except for issue date, issue price and, possibly, the date upon which interest will begin to accrue and first be paid), which additional notes will increase the aggregate principal amount of, and will be consolidated and form a single series with, the notes of that series; <i>provided, however</i> , that any additional notes will be issued under a separate CUSIP, Common Code and/or ISIN number unless the additional notes are fungible with the original notes for U.S. federal income tax purposes.
Book-Entry; Delivery and Form	<p>The notes will be issued in registered form, without interest coupons, in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.</p> <p>Except in limited circumstances, the notes will be issued in the form of global notes.</p>

Listing	Application is expected to be made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the EuroMTF Market of the Luxembourg Stock Exchange.
Governing Law	The Indenture and the notes will be governed by the laws of the State of New York.
Use of Proceeds	To pay fees and expenses incurred in connection with this Offering, to repay certain of our indebtedness, and the remainder, if any, for general corporate purposes.
Taxation	For a summary of the Mexican federal income tax consequences and the U.S. federal income tax consequences of an investment in the notes, see “Taxation.”
Settlement	The notes will be delivered in book-entry form through the facilities of The Depository Trust Company, or DTC, for the accounts of its participants, including Euroclear and Clearstream.
Trustee, Registrar, Transfer Agent and Paying Agent	The Bank of New York Mellon
Luxembourg Paying Agent, Transfer Agent, and Listing Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
Statement of Intention	The following italicized text does not form a part of the terms of the notes:

We intend (without thereby assuming a legal obligation) to redeem or repurchase the notes only to the extent that the part of the aggregate principal amount of the notes to be redeemed or repurchased, which was assigned “equity credit” (or such similar nomenclature used by S&P from time to time) at the time of the issuance of the notes, does not exceed such part of the net proceeds received by us or any of our Subsidiaries during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance of securities by us or such Subsidiary to third party purchasers (other than our group entities) of securities assigned by S&P “equity credit” (or such similar nomenclature used by S&P from time to time) at the time of sale or issuance of such securities (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the notes), unless:

(i) the international rating assigned by S&P to us is at least “BB+” (or such similar nomenclature as is then used by S&P) and we are of the view that such rating would not fall below this level as a result of such redemption or repurchase;

(ii) in the case of a repurchase, such repurchase is of less than (a) 10% of the aggregate principal amount of the notes originally issued in any period of 12 consecutive months or (b) 25% of the aggregate principal amount of the notes originally issued in any period of 10 consecutive years;

(iii) the notes are redeemed (a) pursuant to a Tax Deductibility Event or (b) pursuant to a Withholding Tax Event or (c) pursuant to a Rating Methodology Event that results from an amendment, clarification or change in the “equity credit” criteria by S&P; or

(iv) such redemption or repurchase occurs on or after the Step-up Date.

SUMMARY FINANCIAL INFORMATION

The financial information for the years ended December 31, 2014, 2015, and 2016 has been derived from our audited financial statements included elsewhere in this offering memorandum, together with the notes thereto. The financial information for the nine-month periods ended September 30, 2016 and 2017 has been derived from our interim financial statements.

The following tables present summary financial information and other data as of December 31, 2014, 2015 and 2016 and for years then ended and as of and for the nine-month periods ended September 30, 2016 and 2017, as reported in our financial statements included elsewhere in this offering memorandum. Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be the exact arithmetic results of their components as shown herein.

Our financial statements were prepared in accordance with *Sofom* GAAP. *Sofom* GAAP differs in certain significant respects from U.S. GAAP. See “Annex A—Summary of Certain Significant Differences Between *Sofom* GAAP and U.S. GAAP” for a description of certain differences between *Sofom* GAAP and U.S. GAAP as they relate to us. No reconciliation of any of our financial statements to U.S. GAAP has been performed.

The financial statements reflect our investment in Publiseg, Grupo Empresarial Maestro, Bluestream Capital, Cege Capital, Credilikeme, and the consolidation of Servicios Corporativos Chapultepec, CR Fact, CR USA, Controladora CR, Directodo, Holding and Creal Dallas. See “Presentation of Certain Financial and Other Information.”

Income Statement	Year Ended December 31,			
	2014	2015	2016	2016⁽¹¹⁾
	<i>(in millions of pesos)</i>			<i>(in millions of dollars)</i>
Interest income.....	3,327.1	4,264.2	6,958.2	383.2
Interest expense	(882.3)	(952.3)	(1,916.4)	(105.5)
Financial margin	2,444.8	3,311.9	5,041.8	277.6
Provisions for loan losses	(264.5)	(345.6)	(831.6)	(45.8)
Financial margin after provisions for loan losses.....	2,180.3	2,966.3	4,210.2	231.9
Commissions and fees received	0.0	0.0	539.6	29.7
Commissions and fees paid.....	(99.0)	(142.2)	(283.4)	(15.6)
Intermediation Income	0.0	0.0	375.8	20.7
Other operating result	23.7	36.2	267.3	14.7
Administrative and marketing expenses	(629.6)	(1,138.1)	(2,922.0)	(160.9)
Operating result	1,475.4	1,722.3	2,187.5	120.5
Equity in income of associates.....	98.6	69.2	136.1	7.5
Income before income taxes	1,574.0	1,791.5	2,323.6	128.0
Income taxes	(334.8)	(421.6)	(504.4)	(27.8)
Net income.....	1,239.3	1,369.9	1,819.1	100.2
Non-controlling interest.....	(14.5)	1.5	(105.1)	(5.8)
Net income attributable to controlling interest	1,224.8	1,371.4	1,714.0	94.4

Income Statement

	Nine Months Ended September 30		
	2016	2017	2017⁽¹¹⁾
	<i>(in millions of pesos)</i>		<i>(in millions of dollars)</i>
Interest income.....	5,119.0	6,199.9	341.4
Interest expense	(1,316.6)	(2,013.4)	(110.9)
Financial margin.....	3,802.5	4,186.4	230.5
Provisions for loan losses	(541.5)	(951.9)	(52.4)
Financial margin after provisions for loan losses.....	3,261.0	3,234.5	178.1
Commissions and fees charged.....	393.0	599.1	33.0
Commissions and fees paid.....	(297.1)	(174.3)	(9.6)
Intermediation Income	302.2	112.8	6.2
Other operating income	317.5	265.1	14.6
Administrative and marketing expenses	(2,115.5)	(2,419.7)	(133.3)
Operating result.....	1,861.2	1,617.6	89.1
Equity in income of associates.....	92.3	109.0	6.0
Income before income taxes.....	1,953.5	1,726.6	95.1
Income taxes	(492.1)	(398.0)	(21.9)
Net income.....	1,461.3	1,328.6	73.2
Non-controlling interest.....	(92.6)	(106.4)	(5.9)
Net income attributable to controlling interest.....	1,368.7	1,222.1	67.3

Balance Sheet

	As of December 31,			
	2014	2015	2016	2016⁽¹¹⁾
	<i>(in millions of pesos)</i>			<i>(in millions of dollars)</i>
Assets:				
Cash and cash equivalents	53.8	120.8	315.8	17.4
Investments in securities.....	1,251.2	543.2	992.7	54.7
Derivatives	950.3	2,112.8	2,466.9	135.9
Performing loan portfolio				
Commercial Loans.....	13,544.3	15,706.6	16,656.0	917.2
Consumer Loans	-	1,486.9	6,754.0	371.9
Total performing loan portfolio	13,544.3	17,193.6	23,410.0	1,289.1
Non-performing loan portfolio				
Commercial loans	260.6	393.8	323.8	17.8
Consumer Loans	-	22.2	193.2	10.6
Total non-performing loan portfolio	260.6	416.1	517.0	28.4
Loan portfolio	13,804.9	17,609.6	23,927.0	1,317.6
Less: allowance for loan losses.....	(420.1)	(485.5)	(767.5)	(42.3)
Loan portfolio (net).....	13,384.8	17,124.1	23,159.6	1,275.4
Other accounts receivable (net)	1,156.2	2,258.9	3,577.2	197.0
Foreclosed assets (net).....	-	-	28.0	1.5
Property, furniture and fixtures, net	85.5	149.1	262.1	14.4
Long-term investments in shares	859.0	835.6	1,057.8	58.3
Other Assets	-	-	-	-
Other short and long-term assets.....	-	251.3	205.5	11.3
Deferred charges, advance payments and intangibles.....	2,174.8	2,599.5	3,849.7	212.0
Total assets.....	19,915.5	25,995.5	35,915.4	1,977.8
Liabilities				
Notes payable (Securitized Certificates).....	2,571.9	3,610.4	2,759.1	151.9
Senior notes payable	6,561.0	7,334.6	14,129.3	778.1
Bank loans and borrowings from other entities.....				
Short-term.....	1,120.3	3,490.5	5,051.7	278.2
Long-term.....	3,140.8	3,008.4	2,648.3	145.8
	4,261.0	6,498.9	7,700.0	424.0
Accrued liabilities and other accounts payable	346.1	652.1	448.9	24.7
Income taxes payable and employee profit sharing payable	52.0	100.5	254.7	14.0
Deferred taxes (net)	766.1	1,096.5	1,345.9	74.1

Total liabilities	14,558.3	19,283.0	26,638.0	1,466.9
Stockholders' equity:				
Capital stock	660.2	660.2	660.2	36.4
Share subscription Premium	1,474.8	1,448.0	1,450.3	79.9
Earned capital:				
Accumulated results from prior years	1,977.3	3,033.5	4,376.2	241.0
Result from valuation of cash flow hedges, net	5.6	89.3	229.4	12.6
Cumulative translation adjustment	-	2.8	167.6	9.2
Non-controlling interest.....	14.5	105.8	677.2	37.3
Re-measurments of employee defined benefits	<u>0.0</u>	<u>1.7</u>	<u>2.5</u>	<u>0.1</u>
Net income attributable to controlling interest.....	<u>1,224.8</u>	<u>1,371.4</u>	<u>1,714.0</u>	<u>94.4</u>
Total stockholders' equity	<u>5,357.2</u>	<u>6,712.5</u>	<u>9,277.4</u>	<u>510.9</u>
Total liabilities and stockholders' equity	<u>19,915.5</u>	<u>25,995.5</u>	<u>35,915.4</u>	<u>1,977.8</u>

Balance Sheet

	As of September 30		
	2016	2017	2017 ⁽¹⁾
	<i>(in millions of pesos)</i>		<i>(in millions of dollars)</i>
Cash and cash equivalents	524.3	580.2	32.0
Investments in securities	3,204.0	740.9	40.8
Derivatives	1,504.4	715.1	39.4
Performing loan portfolio			
Commercial loans.....	16,343.1	20,062.3	1,104.8
Consumer loans	5,880.8	5,999.2	330.4
Total performing loan portfolio	22,223.8	26,061.5	1,435.2
Non-performing loan portfolio			
Commercial loans.....	400.9	350.1	19.3
Consumer loans	163.7	266.3	14.7
Total non-performing loan portfolio	564.6	616.4	33.9
Loan portfolio	22,788.5	26,677.9	1,469.1
Less: allowance for loan losses.....	(802.9)	(982.7)	(54.1)
Loan portfolio (net)	21,985.5	25,695.2	1,415.0
Other accounts receivable (net)	3,941.2	3,838.9	211.4
Foreclosed assets (net).....	0.0	9.7	0.5
Property, furniture and fixtures, net.....	257.1	348.5	19.2
Long-term investments in shares	907.4	1,021.0	56.2
Other short and long-term assets	116.0	166.0	9.1
Deferred charges, advance payments and intangibles	3,890.3	4,030.3	221.9
Total assets	36,330.3	37,145.9	2,045.6
Liabilities			
Notes payable (Securitized Certificates).....	4,407.2	3,475.2	191.4
Senior notes payable.....	13,513.7	11,564.8	636.9
Bank loans			
Short-term	3,414.7	3,404.3	187.5
Long-term	3,678.3	6,248.4	344.1
	7,093.0	9,652.7	531.6
Derivatives	0.0	989.5	54.5
Accrued liabilities and other accounts payable	804.8	223.7	12.3
Income taxes payable and employee profit sharing payable	154.7	302.1	16.6
Deferred income taxes	1,400.0	1,549.0	85.3
Total liabilities	27,373.5	27,757.0	1,528.6
Stockholders' equity:			
Capital stock	660.2	660.2	36.4
Share subscription premium.....	1,454.2	1,470.6	81.0
Earned capital:			
Accumulated results from prior years.....	4,448.4	5,543.9	305.3
Result from valuation of cash flow hedges, net	279.5	(17.5)	(1.0)
Cumulative translation adjustment	112.3	(109.3)	(6.0)
Non-controlling interest	633.4	618.8	34.1
Net income attributable to controlling interest.....	1,368.7	1,222.1	67.3
Total stockholders' equity	8,956.8	9,388.8	517.0
Total liabilities and stockholders' equity	36,330.3	37,145.9	2,045.6

Other Financial Data and Ratios	As of and for the Year Ended December 31,		
	2014	2015	2016
Yield ⁽¹⁾	26.2%	27.1%	31.0%
Net Income Margin ⁽²⁾	19.3%	21.0%	22.5%
ROA: Return on average Total Assets ⁽³⁾	6.9%	6.0%	5.0%
Return on Average Loan Portfolio ⁽⁴⁾	9.7%	8.7%	7.6%
ROE: Return on average stockholders' equity ⁽⁵⁾	24.7%	22.2%	20.2%
Debt to Equity Ratio ⁽⁶⁾	2.5	2.6	2.7
Average interest income rate (total portfolio) ⁽⁷⁾	26.2%	27.1%	31.0%
Average cost of funds ⁽⁸⁾	7.5%	6.3%	8.2%
Efficiency ratio ⁽⁹⁾	26.8%	35.9%	55.2%
Capitalization Ratio ⁽¹⁰⁾	38.8%	38.1%	38.8%
Credit Quality Ratios			
Provisions for loan losses as a percentage of total loan portfolio.....	1.9%	2.0%	3.5%
Allowance for loan losses as a percentage of total past-due loan portfolio.....	161.2%	116.7%	148.4%
Total past-due loan portfolio as a percentage of total loan portfolio.....	1.9%	2.4%	2.2%
Allowance for loan losses as a percentage of total loan portfolio.....	3.0%	2.8%	3.2%

Other Financial Data and Ratios	As of and for the Nine Months Ended September 30,	
	2016	2017
Yield ⁽¹⁾	32.8%	33.1%
Net Income Margin ⁽²⁾	24.3%	22.3%
ROA: Return on average Total Assets ⁽³⁾	5.8%	4.6%
Return on Average Loan Portfolio ⁽⁴⁾	8.8%	6.5%
ROE: Return on average stockholders' equity ⁽⁵⁾	23.2%	17.9%
Debt to Equity Ratio ⁽⁶⁾	2.8	2.6
Average interest income rate (total portfolio) ⁽⁷⁾	32.8%	33.1%
Average cost of funds ⁽⁸⁾	8.1%	11.3%
Efficiency ratio ⁽⁹⁾	54.3%	52.5%
Capitalization Ratio ⁽¹⁰⁾	39.3%	35.2%
Credit Quality Ratios		
Provisions for loan losses as a percentage of total loan portfolio.....	3.2%	4.8%
Allowance for loan losses as a percentage of total past-due loan portfolio.....	142.2%	159.4%
Total past-due loan portfolio as a percentage of total loan portfolio.....	2.5%	2.3%
Allowance for loan losses as a percentage of total loan portfolio.....	3.5%	3.7%

(1) Yield is calculated by dividing the accrued income for the period by the average quarterly balance of the total loan portfolio. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(2) Net Income Margin is calculated by dividing the financial margin of the period by the average quarterly loan portfolio. For quarterly figures, cumulative financial margin is annualized by multiplying the amounts by four.

(3) Return on average total assets consists of net income attributable to controlling interest for the period divided by the average quarterly total assets. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(4) Return on average loan portfolio consists of net income attributable to controlling interest for the period divided by the average quarterly loan portfolio amounts. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(5) Return on average stockholders' equity consists of net income attributable to controlling interest for the period divided by average quarterly stockholders' equity. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(6) Debt to equity ratio consists of total debt at the end of the period divided by total stockholders' equity at the end of the period.

(7) Average interest income rate (total portfolio) consists of interest income for the period divided by the average quarterly loan portfolio amounts. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(8) Average cost of funds consists of interest expense for the period divided by the average quarterly funding amounts. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(9) Efficiency ratio consists of administrative and marketing expenses for the period divided by the sum of (a) financial margin and (b) the difference between (i) commissions and fees collected and (ii) commissions and fees paid for the period.

(10) Capitalization ratio consists of total stockholders' equity at the end of the period divided by total loan portfolio at the end of the period.

(11) Translated into U.S. dollars, solely for the convenience of the reader, using an exchange rate of Ps.18.16 per U.S. dollar, the exchange rate determined by Banco de México on September 29, 2017 and published in the Official Gazette on October 2, 2017. These convenience translations should not be construed as representations that the peso amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at the specified rate or at all. See "Exchange Rates" in this offering memorandum.

RISK FACTORS

You should carefully consider the following discussion of risks, as well as all the other information presented in this offering memorandum before investing in the notes. These risks are not the only risks that affect our business. Additional risks that are presently unknown to us, that we currently deem immaterial or that do not require specific disclosure may also impair our business. Any of the following risks, if they actually occur, could materially and adversely affect our business, results of operations, financial condition and prospects.

Risks Relating to Our Business

Our business, financial condition and results of operations have been, and may continue to be, adversely affected by the United States and international financial market, economic and political conditions.

Global economic and political conditions, as well as economic and political conditions specific to the markets in which we do business, may substantially affect our sales and profitability. Although we believe the adverse worldwide economic conditions experienced over recent years are improving, the degree and pace of recovery is uncertain and is expected to vary around the globe. Instability in global credit markets, the instability in the geopolitical environment in many parts of the world and other disruptions may continue to put pressure on global economic conditions. We are subject to risks associated with adverse economic conditions, including economic slowdown, inflation and the disruption, volatility and tightening of credit and capital markets. Additionally, changes in economic and financial conditions in the markets in which we operate and market our products may impact consumer confidence and consumer spending. In particular, a contraction in the credit markets may affect our ability to fund our operations. See “—*If we are not able to access sources of funding, our business, financial condition and results of operations may be adversely affected*” and “—*We have a significant amount of indebtedness that may impair our operating and financial flexibility and could materially and adversely affect our business, financial condition, results of operations and our ability to fulfill our obligations under the notes.*” In addition, a decline in interest rates for our products and an increase in our cost of funding could have a negative effect on our financial margins. Furthermore, the Mexican financial market is exposed to a certain extent to the ongoing social and political crisis in North Africa and the Middle East, which may result in increasing energy prices and volatility in the foreign currency exchange market and could negatively impact our results. Additionally, there may be potentially adverse market conditions for the Hispanic community in the United States due to a change in the political landscape. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the markets in which we operate. In particular, we may face, among others, the following risks in connection with these events:

- The worsening of global economic conditions and continued disruptions in the credit markets could lead to increased government regulation of our industry. Compliance with such regulation may increase our costs, limit the interest rates we may charge and limit our ability to implement our business strategies.
- The process we use to estimate losses inherent in our credit exposure requires subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of such process.
- The value of the portfolio of investment securities that we hold may be adversely affected by worsening economic conditions in Mexico, the United States and Central America.

The occurrence of any of these events may materially and adversely affect our business, financial condition and results of operations.

Changes in economic conditions could materially and adversely affect consumer demand, and thus demand for our loan products.

Demand for the loan products we offer depends on economic conditions, including GDP growth rates, inflation, unemployment, the cost of energy and other necessities, the availability of consumer credit, interest rates, consumer confidence, retail trends and foreign currency exchange rates. These economic conditions are beyond our control. If economic conditions worsen, demand for consumer goods will likely decline. A decline in demand for consumer

goods would also likely reduce demand for our payroll loans, to the extent those loans are used to finance consumer purchases, and for our group loans, because microbusiness owners use proceeds from those loans primarily to finance small commercial enterprises that are dependent on consumer demand. Our ability to receive payments on our loans in full and on time is also heavily dependent on the financial condition of borrowers, which is in turn heavily dependent on economic conditions. Worsening economic conditions, most notably rising unemployment, could negatively impact the financial condition of existing and potential borrowers, which could in turn both increase the share of our existing loans that are non-performing, thereby creating losses in and reducing the profitability of our loan portfolio, and adversely affect the creditworthiness of Mexican consumers, thereby reducing our loan approval rate. In addition, reduced access to credit and lower revenues may adversely affect our distributors and specialized retail chains, some of which may go out of business. The occurrence of any of these events may materially and adversely affect our business, financial condition and results of operations.

We are subject to fluctuations in interest rates. Imbalances in the interest rates and maturity between our loan portfolio and our sources of funds could adversely affect us and our capacity to expand our business.

We are exposed to interest rate and maturity mismatches between our loans and sources of funding. Our loan portfolio consists mainly of loans bearing interest at fixed rates, and the net interest income from our loans depends on the spread between our cost of funding and the interest rates we charge to our customers. An increase in interest rates, or general uncertainty about changes in interest rates, could affect demand for credit, and thus affect demand for our loan products. During 2016 and the nine-month period ended September 30, 2017, Banco de México increased its reference rate from 3.25% to 7.00%. Future increases in market interest rates in Mexico could increase our cost of funding under circumstances in which we could not timely and fully increase the interest rates we charge to our customers with respect to the loans we provide. Such a situation could reduce the net interest income we earn on our loan portfolio, or affect our ability to pay our liabilities, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

Any mismatch between the maturity of our loan portfolio and our sources of funds could magnify the effect of any imbalance in interest rates and could present a liquidity risk if we fail to obtain funding on an ongoing basis. An increase in our total cost of funds could result in an increase in the interest rates on our loans, which could, as a result, affect our ability to attract new customers and could limit the expansion of our business, particularly with respect to our payroll loan and group loan product lines, which we plan to expand significantly in the future. A decrease in the growth of our loan portfolio could materially and adversely affect our ability to pay our liabilities, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

If we are not able to effectively control the level of non-performing or poor credit quality loans in the future, or if our allowance for loan losses are insufficient to cover future loan losses, our business, financial condition and results of operations could be materially and adversely affected.

We may not be able to effectively control the level of non-performing loans in our total loan portfolio, including in respect to auto loans in the United States and consumer loans, SME loans, mortgage loans and auto loans in Central America, which are segments we recently entered into. In particular, the amount of our reported non-performing loans may increase in the future as a result of growth in our loan portfolio, deterioration in our credit approval process, the acquisition of any of our distributors or other entities (such as the acquisitions of a 49% ownership interest in each of Publiseg and GEMA) or other factors beyond our control, such as further weakening of the Mexican or global economy, other macroeconomic and political events affecting Mexico, events affecting specific industries or natural disasters. In addition, our current allowance for loan losses may not be adequate to cover an increase in the amount of non-performing loans or any future deterioration in the overall credit quality of our loan portfolio. As a result, if the quality of our loan portfolio deteriorates we may be required to increase our allowance for loan losses, which may adversely affect our financial condition and results of operations. Moreover, there is no precise method for predicting loan and credit losses, and we cannot assure you that our monitoring and risk management procedures will effectively predict such losses or that allowances for loan losses will be sufficient to cover actual losses. If we are unable to control the level of our non-performing or poor credit quality loans, our business, financial condition and results of operations could be materially and adversely affected.

We have a significant amount of indebtedness that may impair our operating and financial flexibility and could materially and adversely affect our business, financial condition, results of operations and our ability to fulfill our obligations under the notes.

As of September 30, 2017, we had total outstanding indebtedness of Ps.26,732.8 million (US\$1,472.15 million), not including accrued interest. Of our indebtedness outstanding as of September 30, 2017, Ps.2,227.0 million (US\$122.64 million), or 8.3%, consisted of indebtedness due to mature in 2017, while the remaining Ps.24,505.8 million (US\$1,349.51 million), equal to 91.7% of our total outstanding indebtedness, consisted of indebtedness due to mature after 2017. Accordingly, our capacity to continue funding our operations will depend in part on us being able to renew our maturing indebtedness and on the collection of our loan portfolio, which is due from a large number of customers located in different cities throughout Mexico, the United States and Central America and which is generated by a limited number of distributors. We anticipate that our leverage will continue for the foreseeable future. Our indebtedness could have important consequences, including the following:

- it may be difficult for us to satisfy our obligations under our existing credit facilities and other indebtedness and commitments, particularly in the event of a default under one of our other debt instruments;
- we may not be able to obtain additional financing, if needed, to fund our growth, working capital requirements, capital expenditures (including maintenance), debt service, general corporate or other obligations;
- increasing our vulnerability to adverse economic and industry conditions, including increases in interest rates, foreign currency exchange rate fluctuations and market volatility; and
- we may be placed at a competitive disadvantage in relation to our competitors that have less indebtedness.

If we are unable to comply with the provisions of our debt instruments and are unable to obtain a waiver or amendment, the indebtedness outstanding under such debt instruments could be accelerated. Acceleration of these debt instruments could have a material adverse effect on our business and financial condition and may affect our ability to fulfill our obligation under the notes.

Servicing our indebtedness, including the notes, will require a significant amount of cash. Our ability to generate cash depends on a variety of factors, many of which are beyond our control.

Our ability to make payments on our indebtedness, including the notes, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond our control. Our business may not be able to generate sufficient cash flow from operations and future borrowings may not be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness at or before maturity, and may not be able to complete such refinancing on commercially reasonable terms or at all. We may not have sufficient resources to repay our indebtedness as it becomes due or sufficient time to finance the repayment thereof. We are required to use a portion of our cash flow from operations to pay interest on our current and future indebtedness, which may require us to reduce funds available for other purposes, including new loan origination. If we are unable to generate cash to service, repay or refinance our indebtedness, our business, financial condition or results of operations may be materially and adversely affected.

If we are not able to access sources of funding, our business, financial condition and results of operations may be adversely affected.

We rely significantly on several sources of funding, including bank credit lines and publicly issued debt securities, to finance our operations. Adverse financial conditions, including the existence of a liquidity crisis, could limit our access to new or sustained funding. Any decrease in the availability of one or more of our funding sources could have an adverse effect on our business, financial condition and results of operations.

In the past, we have also relied on partial credit guarantees obtained from the Mexican development bank Nacional Financiera, S.N.C., Institución de Banca de Desarrollo (“NAFIN”) for some of our notes offerings in order to access the local debt markets. We may need to rely on partial credit guarantees from NAFIN in the future. We may be unable to secure such guarantees in a timely manner, on acceptable terms or at all, which could limit our

access to financing and have a material adverse effect on our business, financial condition and results of operation. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Bond Programs.”

We may also require additional capital in the future in order to grow our loan portfolio, remain competitive or enter into new businesses. In addition, we may need to raise additional capital to increase our equity base in the event that we experience large, unexpected losses in our loan portfolio. Our ability to obtain additional capital in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital-raising activities by financial institutions; and
- economic, political and other conditions in Mexico and elsewhere.

We may not be able to obtain additional capital in a timely manner, on acceptable terms or at all, which could have an adverse effect on our business, financial condition and results of operations.

Reductions in our credit ratings could increase our cost of borrowing and may make it more difficult to raise new funds or renew maturing debt.

Our credit ratings are an important component of our liquidity profile. Among other factors, our credit ratings are based on the financial strength, credit quality and concentrations of our loan portfolio, the level and volatility of our earnings, our capital adequacy, the level of our non-performing loans, the quality of our management, the liquidity of our balance sheet and our ability to access funding sources.

According to a report recently issued by a credit rating agency, our risk position remains moderate reflecting the transactional risks that arise from working with government entities. The agency raised concerns regarding the use of financial derivatives to cap the exchange rate in order to reduce the cost of funds that might be exposed to exchange rate fluctuations. Additionally, some of the assets acquired from Marevalley are mostly denominated in Costa Rican colones and around US\$218.3 million of those assets are denominated in U.S. dollars. Furthermore, the rapid lending growth could have a negative effect on the asset quality.

Downgrades in our credit ratings could increase the cost of debt issuances in public markets or any future borrowings. In addition, downgrades in our credit ratings could negatively impact our ability to renew maturing debt, making any such renewal more difficult and expensive. Credit ratings downgrades could have a material adverse effect on our business, financial condition and results of operations.

Competition from other financial institutions may adversely affect our profitability and market position.

We face competition from lenders that target our existing and prospective customers. In particular, there is substantial competition in the small business segment. Our competitors include banks, *Sofomes* and other financial institutions such as credit unions and cooperatives as well as commercial entities and informal loan providers. In addition, we face competition from the public sector, as the Mexican government currently engages in its own financing programs. Our group loan business also faces competition from non-governmental organizations (“NGOs”). We expect competition to continue to increase, particularly in our payroll and small business loans segments, as we continue expanding our operations in Mexico, the United States and Central America. Institutions with which we currently compete may have significantly greater assets and capital, access to financing sources, name recognition, geographic penetration, experience with credit rating structures and other advantages. In addition, our competitors may be better able than we are to anticipate and respond to market trends. In this manner, competition in our markets may adversely affect our business, prospects, financial condition and results of operations.

Mexican financial authorities have broad authority in certain areas.

The Mexican Congress approved changes to the Mexican Law for the Protection and Defense of Financial Services Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) gives CONDUSEF broad authority to oversee financial institutions. Among other things, CONDUSEF is (i) entitled to initiate class action

lawsuits against Mexican financial institutions in connection with events affecting groups of users of financial services; (ii) required to maintain a Bureau of Financial Entities (*Buró de Entidades Financieras*), which will set forth any and all information deemed material for users of financial services; (iii) empowered to (x) order amendments to any of the standard forms of commercial banking documentation (such as account and loan agreements) used by financial institutions if it considers provisions therein to be detrimental to users and (y) require financial institutions to adopt any necessary measure to halt, modify or avoid any harm or damage to users' rights; (iv) permitted to issue resolutions as part of arbitration proceedings, for the benefit of issuers, that would permit users to attach assets of financial institutions prior to the completion of arbitration proceedings; and (v) given broad authority to fine financial institutions that do not comply with an order issued by CONDUSEF.

We are dependent on three principal payroll loan distributors to originate payroll loans, on Fondo H to originate SME loans, on Contigo and Somos Uno for group loans and on three other companies for used car loans.

As of September 30, 2017, approximately 85% of our total payroll loan portfolio balance consisted of loans originated on our behalf by our three principal payroll loan distributors (Directodo, Publiseg and GEMA). Although we have entered into factoring agreements with our principal payroll loan distributors, in the majority of cases these agreements are not exclusive (with the exception of our agreements with Directodo, Publiseg, and GEMA, which are exclusive). The term of these agreements is indefinite, but they may be terminated by our distributors at any time by giving prior written notice to us. If any of our principal payroll loan distributors terminate their relationship with us or decrease the amount of loans they originate and offer to us, the size of our total loan portfolio could decrease, which would have a material adverse effect on the future size of our loan portfolio, our business, financial condition and results of operations.

As of September 30, 2017, approximately 38% of our SME loan portfolio balance consisted of loans originated on our behalf by our principal distributor Fondo H. Currently, we have an exclusivity agreement signed with this specialized SME origination company. As of September 30, 2017, approximately 100% of the origination of group loans is attributed to Contigo and Somos Uno distributors, in which the Company owns equity. For the used car business, the distributors Drive & Cash operating in Mexico and AFS and Don Carro operating in the United States originated 93% of the used car loan portfolio as of September 30, 2017. If any of our distributors terminate or decrease the amount of loans they originate, the size of our total loan portfolio could decrease, which would have a material adverse effect on the future size of our loan portfolio, our business, financial condition and results of operations.

The origination of payroll loans is highly dependent on the relationships and lobbying efforts that our distributors build and sustain with federal, state and local government entities, as well as with labor unions.

Our distributors have entered into cooperation agreements with approximately 305 public sector employers or employee labor unions in all of the Mexican states, and it is through these relationships that our distributors promote our payroll loan products. Some of these distributors depend, in turn, on the services of public relations firms in order to obtain and maintain contacts with government entities and labor unions. In some instances, the cooperation agreements provide for the payment of a fee by the distributor to the labor unions or government entities based on a percentage of the loans originated through the particular cooperation agreement. In some cases, the cooperation agreements provide for the payment of consideration to the labor unions, for the benefit of their members. These cooperation agreements can be terminated through simple notice. In the event that (i) our distributors are not able to maintain the existing agreements with these entities or with other federal, state and local governments or labor unions, (ii) our distributors, including Directodo, Publiseg and GEMA, are not able to maintain their existing agreements with public relations firms or (iii) the public relations firms are unable to maintain their contacts with federal, state and local governments or labor unions, our distributors' ability to originate new payroll loans could be diminished, which could reduce the size of our loan portfolio and affect our growth. In addition, the credit risk of our existing payroll loan portfolio could increase because payments on existing payroll loans could no longer be collected directly from the public sector employers of our borrowers or from the labor unions to which they belong. Any deterioration in the relationship between our distributors and the public sector employers or labor unions, between our distributors and the public relations firms, between the public relations firms and the public sector employers of labor unions, or any changes to the collection process of payroll loans may result in the termination or breach of the cooperation agreements (including for not complying with the agreements in a timely fashion) and have a material adverse effect on our business, financial condition and results of operations.

Our collection of payments on payroll loans is dependent on our distributors.

We do not have a direct relationship with the public sector employers or the employee labor unions that make payments through payroll deductions, on account of and pursuant to written instructions made by borrowers. The collection of these payments is carried out by our distributors, as our agents, in accordance with the financial contracts they have with us. See “Business—Payroll Distribution Loans—Loan Servicing and Collection.” Therefore, the punctual repayment of payroll loans depends on the effective collection efforts of our distributors working with public sector employers, as well as competent payroll administration practices by the public sector employers themselves. There may also be delays in the deposit of payments by public sector employers, which may be due to changes in administration, rotation of personnel or changes to information technology systems, among other factors, which may have a material adverse effect on our business, financial condition and results of operations.

The insolvency or operational capacity of our distributors could affect the collection and payment of our payroll loans.

We analyze the legal, financial, accounting and administrative profiles of our distributors in order to verify that they have the capacity to comply with their responsibility to ensure payment of the payroll loans they have originated. In the case of Directodo, Publiseg and GEMA, we are a partner and have diverse rights. However, we cannot ensure that distributors will always be able to effectively comply with their responsibility to ensure payment. The inability of our distributors to fulfill this responsibility may affect the receipt of payment for such loans and, consequently, may have a material adverse effect on our business, financial condition and results of operations.

There may be conflicts of interests between the public sector employers, the distributors and us.

In the operation of payroll loans, our interests and the interests of the public sector employers or the distributors may conflict, which may adversely affect our ability to ensure repayment of these loans and, therefore, the quality of our loan portfolio. More specifically, public sector employers could have an incentive to delay the deposit of the payroll deduction, as a way of financing their own operations, which could affect our liquidity.

The approval process for payroll loans does not always include a consultation with credit rating agencies regarding the credit history of potential clients.

With regard to payroll loan applications, consultations with credit rating agencies on the credit history of the loans being acquired are carried out at the discretion of the loan officer reviewing the application. We cannot ensure that lack of consultation regarding clients’ credit histories will not have a negative effect on the quality of our payroll loan portfolio.

Furthermore, there is no centralized information system that allows us to verify compliance with the maximum amount of payments that can be made by employees or union members through payroll deductions, which we define as 30% of the amount of each employee’s paycheck net of other charges. Thus, the information we have about a particular borrower might be insufficient to prevent situations that could affect the recovery of the loan, such as the payment of legally required obligations that have priority over payroll loans or the borrower incurring additional liabilities that affect the total amount of the borrower’s paycheck which is available for deductions. If such a situation were to occur, it could have a material adverse effect on our business, financial condition and results of operations.

In exceptional cases, loan installments could fail to be deducted from the paychecks of our payroll loan clients, which could materially and adversely affect our payroll loan business.

The instructions borrowers give to their employers to authorize deductions from their paycheck to service payroll loans may be revoked in exceptional cases. Similarly, payroll deductions may not be made accurately or promptly by the borrower’s public sector employer as a result of administrative problems or errors, the loss of employment or the incapacity of the borrower. If loan installments are no longer deducted from the paychecks of our payroll loan clients, our payroll loan business and credit profile may be materially and adversely affected, negatively impacting our business, financial condition and results of operations.

The origination, disbursement and operation of payroll loans may become subject to regulation, resulting in restrictions to our payroll lending operations.

In contrast with other Latin American countries, which have some form of regulation related to the origination and operation of payroll loans (including interest rate controls and limits on the maximum amount of indebtedness allowed for each borrower), as of the date of this offering memorandum, Mexico does not have an approved and organized regulatory framework for the origination, disbursement and operation of payroll loans. If any of these activities were to be regulated in Mexico, our operations in this sector could become subject to restrictive laws and regulations, which could have an adverse effect on our business, financial condition and results of operations. For example, in the education sector, since January 2015, the National Treasury (*Tesorería de la Federación*) through the Education Fund (*Fondo de Aportaciones para la Nómina Educativa*) centralized *Sindicato Nacional de Trabajadores de la Educación* (SNTE) teachers' payroll disbursements instead of using government agencies for federal employees. We believe that such centralization ensures a more efficient and standardized collection process, however, depending on a sole institution for the collection of a significant portion of payroll loans could concentrate possible market, operational, financial or other risks.

Our policies and internal control mechanisms may not be effective in preventing corrupt business practices.

We cannot ensure that our “best practices” and ethics policy for hiring and operations, and the internal control and practices derived from such policy, which we intend to expand to our distributors and promoters, will always be effective in preventing corrupt business practices by our employees and/or distributors in relation to their activities carried out during their dealings with public or private agencies, including the activities carried out during their origination of payroll loans. This could adversely affect our reputation, business, financial condition and results of operations, as well as our ability to continue to rely on the loan origination for payroll loans. See “Business—Credit and Risk Management Policies.”

Advertising carried out by our distributors in connection with their payroll loan origination may be unclear, which may constitute a violation of applicable law and may subject us to sanctions for our marketing activities.

As an entity engaged in financial marketing, we may be subject to sanctions for unfair competition if we offer information that is incorrect, false, incomplete or susceptible to confusion with regard to our products, pursuant to applicable law. We believe the documentation related to payroll loans originated by our distributors, as original creditors, clearly establishes the Total Annual Cost (“TAC”) and the fact that the loans will be subsequently transferred to us. However, the advertising carried out by our distributors in order to originate loans could be deemed unclear under applicable law, including with respect to Crédito Real's role as the ultimate creditor, specific interest rates and the TAC of loans, which could affect our public perception, result in sanctions or have an adverse effect on our business, financial condition and results of operations.

Payroll loan distributors' inability to verify the cash flow of money deposited by public sector employers may affect their relationship with us.

Payroll loan distributors may be unable to verify the cash flow of money deposited by public sector employers derived from the payment of accounts by borrowers, due to legal, technological, or other reasons. This may affect the relationship between us and our distributors. Any deterioration in the relationship between our distributors and the public sector employers (as well as any delays in the payments made by public sector employers), may have a material adverse effect on our business, financial condition and results of operations.

Our business and the business of our distributors, including Directodo, Publiseg and GEMA, may be adversely affected by the actions of public relations firms.

Some of our distributors, including Directodo, Publiseg and GEMA, who operate under the brand names Kondinero, Credifiel and Crédito Maestro, respectively, have entered into service agreements with various independent public relations firms, which provide contacts and carry out lobbying efforts in order to secure contracts with government entities and labor unions, such as various branches of SNTE. In some cases, the cooperation agreements provide for the payment of consideration to the labor unions (or government entities), for the benefit of their members. Any inappropriate action taken by these public relations firms when interacting with these entities, which neither we nor our distributors, including Directodo, Publiseg or GEMA, control, could affect Directodo's,

Publiseg's or GEMA's image and the loyalty of borrowers towards the Kondinero, Credifiel and Crédito Maestro brands and, consequently our distributors' ability to originate new payroll loans, and could subject us and our distributors to higher regulatory scrutiny and greater exposure to litigation or enforcement proceedings under relevant anti-corruption laws, which may have a material adverse effect on our business, financial condition and results of operations.

Group loans pose unique risks not generally associated with other forms of lending.

Our group loan customers are typically low-income individuals who have limited access to traditional sources of credit and need working capital for their microbusinesses. Loans to such borrowers may pose risks not generally associated with other forms of lending in Mexico. Our group loan customers typically have limited credit histories or none at all, posing a higher degree of risk than borrowers with established credit histories. Our group loans rely on non-traditional guarantee mechanisms, such as personal guarantees by each member of the borrowing group, which pose a higher degree of risk than loans secured by physical collateral. See "Business—Our Loan Products—Group Loans." As a result, in the future we may experience higher levels of non-performing loans and may be required to record higher provisions for loan losses, which may materially and adversely affect our results of operations and financial position. There can be no assurance that the levels of non-performing loans and subsequent charge-offs will not be materially higher in the future, which could have an adverse effect on our business, financial condition and results of operations. Furthermore, increased public scrutiny of the market, such as the recent political debate regarding lending practices in India and Bangladesh, may have an adverse effect on our business, financial condition and results of operations.

The expansion of our group loan business may not be successful.

As part of our growth strategy, in 2014 we entered into partnerships to grant group loans under the "Contigo" and "Somos Uno" brand names, and we intend to continue expanding our group loan business, including in areas where we currently do not have a significant presence. See "Business—Overview—History and Development." We may not be able to fully implement our expansion plans because of a number of factors, including inability of our partners to maintain high asset quality or effective collections processes, adverse changes in general economic conditions, adverse changes in the availability of desirable locations to offer loans or our inability to hire competent personnel in our proposed new locations. Difficulties in implementing our planned expansion may result in an adverse effect on our business, financial condition and results of operations.

Our business relies heavily on data collection, processing and storage information systems, the failure of which could materially and adversely affect the effectiveness of our risk management and internal control system as well as our financial condition and results of operations.

Our business is highly dependent on our ability to timely collect and process a large amount of information related to the existing customer base, including transaction processes that may increase in complexity with increasing volume in our business. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our business and to our ability to compete effectively. A partial or complete failure of any of these primary systems or the inappropriate handling of the data stored therein could materially and adversely affect our decision-making process, our risk management and internal control systems, as well as our ability to respond in a timely basis to changing market conditions. In addition, we may experience difficulties in upgrading, developing and expanding our information technology systems quickly enough to accommodate our growing customer base. We have not recently conducted an updated independent analysis on the effectiveness of our systems in order to confirm that there is no risk that the data stored therein could be manipulated inappropriately. If we cannot maintain an effective data collection and management system, or if we cannot upgrade that system to meet the changing circumstances of our business, then our business, financial condition and results of operations could be adversely affected.

We have recently entered into the United States and Central American markets and may not be able to fully understand the markets in such countries and the related risks.

We have recently started lending operations in the United States and in Central America, as a continuation and expansion of our current business. See "Business—Overview—History and Development." Our entrance into new markets other than Mexico, where we have gained experience since our origin, may represent an additional risk. Our

business model relies heavily on the experience of the distributors we partner with; however it may take time to fully understand the risks and dynamics associated with new markets. For example, these risks may include changes in the regulatory environment in the form of interest rate ceilings, changes that might affect the level of provisioning, unanticipated changes in the political landscape and unforeseen seasonal effects in such markets that might lead to a deterioration of the portfolio. See “—*Our business, financial condition and results of operations have been, and may continue to be, adversely affected by the United States and international financial market, economic and political conditions.*” We may not be able to fully understand the markets in such countries and related risks, and some of these adverse conditions may result in unexpected increases to our loan loss reserves and may affect our business, financial condition and results of operations.

Our inability to maintain, improve or upgrade our information technology infrastructure and credit risk management systems in a timely manner could adversely affect our competitiveness, financial position and results of operations.

Our ability to operate and remain competitive depends on, among other factors, our ability to maintain and upgrade our information technology infrastructure in a timely and cost-effective manner. We must continually make investments and improvements to our information technology infrastructure in order to remain competitive. The information available to our management through our existing information systems may not be timely or sufficient to manage risks or to plan for, and respond to, future changes in market conditions and other developments in our operations. We may experience difficulties in upgrading, developing and expanding such systems quickly enough to accommodate our growing customer base and range of products and services. Any failure to maintain, improve or upgrade our information technology infrastructure and management information systems in a timely manner, or the inappropriate manipulation of the data in our systems, could materially and adversely affect our competitiveness, financial position and results of operations. We have not conducted a recent and independent analysis of our systems confirming that there is no risk that the data stored in these systems cannot be manipulated inappropriately.

Future acquisitions or significant investments may not be successfully implemented or could disrupt our operations.

While we have in the past considered acquisitions of, or partnerships with, payroll loan distributors, and will continue to evaluate such opportunities as they arise, there can be no assurance that our evaluations will result in any such transaction in the near term. In addition, as we plan to continue growing our businesses, we may consider other strategic acquisitions or investments (including investments in regulated businesses) from time to time in Mexico and abroad. We face a variety of uncertainties and challenges relating to acquisitions and investments, including achieving expected synergies, retaining key employees, integrating operational and financial systems, maintaining levels of revenue and profitability, securing governmental approvals and minimizing exposure to potential liabilities. These risks, and the possibility that integration of any acquired business could require a significant amount of the time and resources of our management and employees, could disrupt our ongoing business and could have a material adverse effect on our business, financial condition and results of operations.

Antitrust laws may limit our ability to expand and operate through acquisitions or joint ventures.

Mexico’s and other countries’ antitrust laws and regulations may affect some of our activities, including our ability to introduce new products and services, to enter into new or complementary businesses, markets or joint ventures and to complete acquisitions. Approval of the Mexican Antitrust Commission (*Comisión Federal de Competencia Económica*) may be required for us to acquire and sell significant businesses or to enter into significant joint ventures that have an impact in the Mexican market, the market where we predominantly operate. The Mexican Antitrust Commission may not approve, or may impose conditions on, future acquisitions or joint ventures that we may pursue. As our operations and market share increase, future acquisitions or expansions may face increased regulatory scrutiny, investigations, orders and other obstacles under antitrust laws and regulations.

Our use of cross-currency swaps and currency options to hedge our foreign currency and interest rates exposure may negatively affect our operations especially in volatile and uncertain markets.

We are using, and may continue to use, cross-currency swaps to manage the risk profile associated with currency and interest rate exposure of our 2023 and 2019 Senior Notes or other debt offerings or bank credit lines, including the notes offered hereby. The use of such financial instruments may result in mark-to-market losses.

These mark-to-market losses are caused by decreases in the fair value of cross-currency swaps attributable to the appreciation of the peso against the U.S. dollar or fluctuations in interest rates in Mexico.

Our cross-currency swaps and currency options are subject to margin calls if the thresholds set by the counterparties are exceeded. The cash required to cover margin calls may be substantial and may reduce the funds available to us for our operations or other capital needs. Our existing credit facilities also contain cross default provisions which would be triggered if margin calls are not met. As a result, we may incur net losses from or may not be able to meet margin calls related to our cross-currency swaps, which may have a material adverse effect on our business, liquidity, financial condition and results of operation.

We are subject to financing terms which impose on us operational and financial restrictions that may limit our future business opportunities.

The terms and conditions of the notes offered hereby, the 2023 and 2019 Senior Notes and other existing indebtedness impose significant operational and financial restrictions on us. These restrictions limit our capacity to, among other things, (i) incur additional debt, (ii) pay dividends or depreciate or buy back capital stock, (iii) make investments, (iv) create liens, (v) carry out operations with affiliates, (vi) sell assets and (vii) consolidate or merge.

These restrictions could limit our capacity to take advantage of attractive growth opportunities we currently cannot foresee.

We may not be successful in our plans for growth, development and diversification.

It is possible that we may not be successful in our plans for growth and diversification of our business, or that we may need to incur additional costs in order to carry out these plans, which might have an adverse effect on our business, results of operations, financial situation and future projections.

We may be subject to penalties due to our advertising.

Since we are active in financial advertising, we might be subject to penalties based on unfair competition if such advertising includes wrong or incomplete information, or if such information is likely to lead to a mistake regarding the Company's credit products being in accordance with applicable law. Furthermore, we might be subject to penalties if we send advertising that offers our products or services to those customers who have expressly requested not to receive such advertising. This might cause an adverse effect in the activities, financial situation or operational results of the Company.

We depend on key personnel, our ability to retain and hire additional key personnel and the maintenance of good labor relations.

We depend on the services of our principal officers and key employees. The loss of any of our experienced principal officers, key employees or senior managers could negatively affect our ability to execute our business strategy. In line with our planned expansion, our future success also depends on our continuing ability to identify, hire, train and retain other qualified sales, marketing, collections and managerial personnel. Competition for such qualified personnel is intense and we may be unable to attract, hire, integrate or retain qualified personnel at levels of experience or compensation that are necessary to maintain our quality and reputation or to sustain or expand our operations. Our business, results of operations, prospects and financial condition could be adversely affected if we cannot attract and retain such necessary personnel.

Risks Relating to Our Controlling Shareholders

We are effectively controlled by a few shareholders, whose interests could conflict with the interests of other shareholders.

Members of our founding families control approximately 33% of our outstanding capital stock. Accordingly, such members of our founding families are able to control the majority of the decisions requiring the approval of a majority of shareholders. Our controlling shareholders control the election of the majority of our board of directors, the appointment of our senior management and our engaging in new business activities, pursuing strategic initiatives

or entering into mergers, acquisitions and other extraordinary transactions. Our controlling shareholders may exercise their control in a manner that differs from your interests as a noteholder.

We often engage in a variety of transactions with companies owned by our controlling shareholders which may cause conflicts of interest.

We have engaged and will continue to engage in a variety of transactions, such as entering into service agreements and factoring agreements with distributors, our controlling shareholders and a number of entities directly or indirectly owned or controlled by our controlling shareholders. See “Certain Relationships and Related Party Transactions.” While we intend to continue to transact business with related parties on an arm’s-length basis, such transactions could be affected by conflicts of interest between such related parties and us. We have agreed to terms governing certain of our indebtedness that limit our ability to engage in transactions with our affiliates.

Risks Relating to Mexico

Mexican governmental policies or regulations, including the imposition of an interest rate ceiling, may adversely affect our business, financial condition and results of operations.

We are a *sociedad anónima bursátil de capital variable* (variable capital public stock corporation) incorporated in Mexico, and most of our assets and operations are located in Mexico. As a result, we are subject to political, economic, legal and regulatory risks specific to Mexico for those operations conducted in Mexico. The Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican federal governmental actions and policies concerning the economy, state-owned enterprises and state-controlled, -funded or -influenced financial institutions could have a significant impact on private-sector entities in general and on us in particular, and on market conditions, including prices and returns on Mexican securities, including ours. In addition, the Mexican government may implement significant changes in laws, public policies and or regulations that could affect political and economic conditions in Mexico, which could adversely affect our business. See “—Political, economic and social conditions in Mexico could materially and adversely affect Mexican economic policy and, in turn, our operations.”

Applicable Mexican statutory law does not currently impose any limit on the interest rate we may charge a customer. However, Mexican statutory law could change, and our loans could become subject to interest rate caps. Furthermore, there is currently no regulatory limitation on the portion of an employee’s paycheck that can be deducted through payroll lending. However, regulations could change and paycheck deduction limits could be imposed. If Mexican law were to change in these ways, or if other changes in Mexican law were to occur, our business, financial condition and results of operations could be materially and adversely affected.

We cannot assure investors that changes in the future political environment, over which we have no control, will not have an adverse impact on our financial condition or results of operations and prospects. We do not have political risk insurance.

The Mexican Supreme Court of Justice has ruled that Mexican judges have the right to reduce interest rates which they consider unfair.

On June 27, 2014 the Mexican Supreme Court of Justice published a judicial precedent (jurisprudence or “*jurisprudencia*”) in the judicial gazette which allows Mexican judges to reduce the interest rate on a loan if they determine it to be excessive or abusive. The Mexican Supreme Court of Justice’s decision provides guidelines, including basic factors that a judge must analyze on a case by case basis, for making a determination regarding an interest rate (e.g. the interest rates charged by banks in similar operations, among others). However, the ruling does not provide clear limitations on a judge’s authority to reduce the interest rates. On January 22, 2016, the Mexican Supreme Court of Justice published another judicial precedent in the judicial gazette which clarified that the authority granted to Mexican judges to reduce the interest rates includes (i) instances where a party involved in the corresponding proceeding does not expressly request such reduction and (ii) trials in absentia. If a judge were to determine that our interest rates were excessive or abusive, it could have a material adverse effect on our business, financial condition, results of operations and prospects.

Political, economic and social conditions in Mexico could materially and adversely affect Mexican economic policy and, in turn, our operations.

Since 2012, the *Congreso General de los Estados Unidos Mexicanos* (“Mexican Congress”) has been politically divided, and the *Partido Revolucionario Institucional*, the President’s party, does not have majority in the Mexican Congress. This fact, along with other political circumstances have, to varying extents, limited the effects of political and economic reforms passed in recent years. In addition, Mexico’s next presidential and federal legislative election will be in July 2018. We cannot predict the outcome of these elections or whether potential changes in Mexican governmental and economic policy could adversely affect economic conditions in Mexico or the sector in which we operate and therefore could have an adverse effect on us.

Our business can also be affected by political developments in the United States. On January 20, 2017, the new U.S. presidential administration, for the period 2017 through 2020, started. Uncertainties surrounding the policies of the new administration, particularly with respect to matters of importance to Mexico and its economy such as trade (including the potential termination of the NAFTA and immigration, could have an adverse effect on the Mexican economy, and could adversely affect our business and our operating results.

We cannot predict the impact that political, economic and social conditions will have on the Mexican economy. Furthermore, we cannot provide any assurances that political, economic or social developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results of operations and prospects. Mexico has recently experienced periods of violence and crime due to the activities of organized crime. In response, the Mexican government has implemented various security measures and has strengthened its police and military forces. Despite these efforts, organized crime (especially drug-related crime) continues to exist in Mexico. These activities, their possible escalation and the violence associated with them may have a negative impact on the Mexican economy or on our operations in the future. Also, an earthquake with national impact recently affected Mexico and is likely to require that significant government funds be redirected to reconstruction efforts, which may impact other segments of the Mexican economy. The social and political situation in Mexico could adversely affect the Mexican economy, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

High inflation rates may adversely affect our financial condition and results of operations.

Mexico has a history of high levels of inflation and may experience high inflation in the future. Historically, inflation in Mexico has led to higher interest rates, depreciation of the peso and the imposition of substantial government controls over exchange rates and prices. The annual rate of inflation for the last three years, as measured by changes in the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*), as provided by INEGI and as published by Banco de México, was 4.08% in 2014, 2.13% in 2015 and 3.36% in 2016. Although inflation is less of an issue today than in past years, we cannot assure you that Mexico will not experience high inflation in the future, including in the event of a substantial increase in inflation in the United States.

In addition, increased inflation generally raises our cost of funding, which we may not be able to pass on to our customers through higher interest rates without adversely affecting the volume of our loans. Our financial condition and profitability may be adversely affected by the level of, and fluctuations in, interest rates, which affect our ability to earn a spread between the interest received on our loans and the cost of our funding. All of our loans have fixed interest rates, which may not reflect the real return we are receiving in an inflationary environment and may not, as a result, fully compensate us for the risk we are bearing on our loan portfolio. If the rate of inflation increases or becomes uncertain and unpredictable, our business, financial condition and results of operations could be adversely affected.

Fluctuations of the peso relative to the U.S. dollar could result in an increase in our cost of financing and limit our ability to make timely payments on foreign currency-denominated debt.

Because most of our revenues are, and are expected to continue to be, denominated in pesos, if the value of the peso decreases against the U.S. dollar, as has been the case in the recent past, our cost of financing may increase for U.S. dollar-denominated debt that we may incur or have outstanding, to the extent such obligations are not otherwise hedged with financial instruments. Severe depreciation of the peso may also result in disruption of the international foreign exchange markets. This may limit our ability to transfer or convert pesos into U.S. dollars and other

currencies for the purpose of making timely payments of interest and principal on our non-peso securities and any U.S. dollar-denominated debt that we may incur, to the extent such obligations are not otherwise hedged with financial instruments.

Currently, the peso-dollar exchange rate is determined on the basis of the free market float in accordance with the policy set by Banco de México. There is no guarantee that Banco de México will maintain the current exchange rate regime or that Banco de México will not adopt a different monetary policy that may affect the exchange rate itself, including imposing generalized exchange controls. Any change in the monetary policy, the exchange rate regime or in the exchange rate itself, as a result of market conditions over which we have no control, could have a considerable impact, either positive or negative, on our business, financial condition and results of operations.

The peso has been subject to significant devaluations against the U.S. dollar and may be subject to significant fluctuations in the future. In 2008, as a result of the negative economic conditions in the United States and in other parts of the world, local and international markets experienced high volatility, which contributed to the devaluation of the peso. In 2015 and 2016, the Mexican peso experienced one of its most significant depreciations as a result of the global negative market conditions. The Mexican government has implemented a series of measures to limit the devaluation of the peso and stabilize the local economy, and the peso appreciated against the dollar in the nine months ended September 30, 2017. However, we cannot assure you that such measures will be effective or ongoing or predict how they will impact the Mexican economy.

Developments in other countries could adversely affect the Mexican economy and our business, financial condition and results of operations.

The Mexican economy may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to adverse developments in other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, the prices of both Mexican debt and equity securities decreased substantially as a result of the prolonged decrease in the United States securities markets. Most recently, credit issues in the United States related principally to the sale of sub-prime mortgages have resulted in significant fluctuations in the financial markets. The variation of interest rates in the United States significantly affects the operations of the stock markets worldwide as investors modify their investment decisions based on the changes in risk levels in the United States.

In addition, in recent years economic conditions in Mexico have become increasingly correlated with economic conditions in the United States as a result of the North American Free Trade Agreement, or NAFTA, and increased economic activity between the two countries. Therefore, adverse economic conditions in the United States, the termination or re-negotiation of NAFTA or other related events could have a significant adverse effect on the Mexican economy. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not adversely affect our business, financial condition or results of operations. Uncertainties surrounding the policies of the new U.S. administration, particularly with respect to matters of importance to Mexico and its economy such as trade (including the potential termination of NAFTA) and immigration, could have an adverse effect on the Mexican economy, and could adversely affect our business and our operating results.

Furthermore, on June 23, 2016, the United Kingdom held an in-or-out referendum on the United Kingdom's membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union ("Brexit"). On March 29, 2017, the country formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union. The potential impact of Brexit on our results of operations is unclear. Depending on the terms of Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and volatility. The uncertainty before, during and after the period of negotiation could also have a negative economic impact and increase volatility in the markets, particularly in Europe. Such volatility and negative economic impact could, in turn, adversely affect the value and trading of the notes.

We are subject to accounting standards that differ from those applicable to public companies in the United States.

Our financial statements were prepared in accordance with *Sofom* GAAP. *Sofom* GAAP differs in certain significant respects from U.S. GAAP. See “Annex A—Summary of Certain Significant Differences Between *Sofom* GAAP and U.S. GAAP” for a description of certain differences between *Sofom* GAAP and U.S. GAAP as they relate to us. We are not providing any reconciliation to U.S. GAAP of the financial statements or other financial information in this offering memorandum. We cannot be certain that a reconciliation would not identify material quantitative or qualitative differences in our financial statements or other financial information as prepared on the basis of *Sofom* GAAP if such information had been prepared on the basis of U.S. GAAP.

Risks Relating to the Notes

Our obligations under the notes will be subordinated to other claims and obligations and the indenture governing the notes will provide that holders waive certain rights and limit certain claims.

Our obligations under the notes will be unsecured and subordinated. In the event of the acceleration of the principal of the notes due to our insolvency or liquidation and upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings in connection with our insolvency or bankruptcy, (1) all principal, premium, if any, and interest due or to become due on all Unsubordinated Indebtedness must be paid in full before the holders of Subordinated Indebtedness (including the notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of Subordinated Indebtedness (including the notes) will be entitled to receive *pari passu* among themselves any payment in respect thereof. Additionally, the indenture governing the notes will provide that holders of the notes waive certain rights and limit certain claims against us and our creditors. For additional information and a description of the indebtedness that will rank senior to the notes, see “Description of the Notes—Ranking of the Notes.” The notes will also be effectively subordinated to any of our secured debt, to the extent of the collateral securing such debt. In addition, we are a holding company and the notes will be effectively subordinated to all of our subsidiaries’ liabilities. As of September 30, 2017, our consolidated indebtedness amounted to US\$1,359.8 million, all of which is senior to the notes.

By virtue of such subordination, payments to a holder of notes will, in the events described above, only be made after all our obligations resulting from higher ranking claims have been satisfied. A holder of notes may, therefore, recover significantly less than the holders of Unsubordinated Indebtedness. Although subordinated debt securities may pay a higher rate of interest than comparable debt securities which are not subordinated, an investor in subordinated securities such as the notes may lose all or some of its investment if we become subject to any such bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings as described above.

The notes may not be a suitable investment for all investors.

Each potential investor in the notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the notes, the merits and risks of investing in the notes and the information contained or incorporated by reference in this offering memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the notes;
- understand thoroughly the terms of the applicable series of notes and be familiar with the behavior of the relevant financial markets and of any financial variable which might have an impact on the return on such series of notes; and
- be able to evaluate (either on their own or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The notes are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the notes unless it has the expertise (either on their own or with a financial adviser) to evaluate how the notes will perform under changing conditions, the resulting effects on the value of the notes and the impact this investment will have on the potential investor's overall investment portfolio.

We will have the right to defer interest payments on the notes.

We may elect, in our sole discretion, to defer, in whole or in part, payment of interest in respect of the notes in respect of any interest period by giving a deferral notice to the trustee and holders of such notes. Such deferral is not subject to any time limitations or mandatory termination, except in connection with a Mandatory Payment Date. If we make such an election, we shall have no obligation to make such payment and any such non-payment of interest will not constitute a default by us for any purpose. Any interest in respect of any series of notes the payment of which is deferred will, so long as the same remains outstanding, constitute arrearages of interest for that series, and arrearages of interest will only be payable as described in "Description of the Notes—Payment of Deferred Interest." In addition, during any period of deferral of interest, we will not be prohibited from making payments on any indebtedness ranking senior to the notes or on any *pari passu* debt or junior securities pursuant to their terms.

Any deferral of interest payments will likely have a material adverse effect on the market price of the notes. In addition, as a result of the interest deferral provisions of the notes, the market price of the notes may be more volatile than the market prices of other debt securities that are not subject to such deferrals and may be more sensitive generally to adverse changes in our financial performance.

The notes will be subject to optional redemption by us including upon the occurrence of certain specified events.

The notes will be redeemable, at our option, in whole but not in part, on the First Call Date applicable to the notes and on every fifth anniversary thereafter, at their principal amount together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding arrearages of interest.

In addition, upon the occurrence of a Rating Methodology Event, a Tax Deductibility Event, a Withholding Tax Event, or a Substantial Repurchase Event, we shall have the option to redeem, in whole but not in part, the notes at the prices set forth in "Description of the Notes—Redemption and Repurchase," in each case together with any accrued and unpaid interest up to (but excluding) the redemption date and any outstanding arrearages of interest.

If we redeem notes, holders may not be able to reinvest the redemption proceeds at favorable rates or in other securities with the same or similar features.

The interest rate on the notes will reset on the applicable First Call Date and for Reset Periods thereafter, which can be expected to affect the interest payment on, and the market value of, the notes.

The notes will accrue interest at a fixed rate until (but excluding) the applicable First Call Date. The initial fixed rate of interest for the notes will be reset on the relevant First Call Date and for subsequent Reset Periods as set forth in "Description of the Notes—Principal and Interest Payments." Holders should be aware that movements in market interest rates can adversely affect the price of the notes and can lead to losses for the holders if they sell the notes.

Holders of securities with a fixed interest rate that will be reset during the term of the securities are exposed to the risk of fluctuating interest rate levels and uncertain interest income as the reset rates could affect the market value of an investment in the notes.

Holders of the notes may be required to bear the financial risks of an investment in the notes for a long period.

The notes are perpetual notes with no fixed final maturity date. We will be under no obligation to redeem or repurchase the notes prior to such date, although we may elect to do so in certain circumstances. Holders of notes will have no right to call for the redemption of the notes, and the notes will only become due and payable in the limited circumstances relating to specified Events of Default (see "Description of the Notes—Events of Default"). Furthermore, holders may only be able to transfer their notes at a price less than the principal amount thereof or not

at all. Holders of notes should therefore be aware that they may be required to bear the financial risks associated with an investment in long-term securities and may not recover their investment in the foreseeable future.

We expect to be classified as a passive foreign investment company, or PFIC, which could result in adverse U.S. tax consequences to U.S. holders of our Notes.

Because the notes are perpetual with not fixed final maturity date, and because we may defer payment of interest on the notes, we intend to take the position that the notes will be treated as equity for U.S. federal income tax purposes. Based on the composition of our income and assets and our activities we expect to be classified as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes in the current and future years. PFIC characterization would result in material adverse consequences for you if you are a U.S. holder. See “Taxation—U.S. Federal Income Tax Considerations—Passive Foreign Investment Companies” in this offering memorandum. U.S. holders of Notes are urged to consult with their own U.S. tax advisors concerning the U.S. tax consequences of investing in the notes.

The notes will not limit our ability to issue senior or pari passu securities.

The indenture governing the notes will not limit the amount of the liabilities ranking senior to, or *pari passu* with, the notes which may be incurred or assumed by us from time to time, whether before or after the issue date. The incurrence of any such other liabilities may reduce the amount (if any) recoverable by holders of notes upon our bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceeding and/or may increase the likelihood of a deferral of interest payments under the notes.

The notes will contain limited Events of Default and remedies.

Holders of notes will have limited rights to enforce payment or the performance of our obligations in respect of the notes. Payment of principal on the notes will not accelerate if we fail to make payment of any principal, interest or premium when due. Moreover, if we fail to make payment of any principal or interest when due, the rights of holders are limited to requiring the trustee to initiate proceedings to compel the performance of such obligation, as further described in “Description of the Notes—Events of Default.”

The notes will only become immediately due and payable in the event of certain events involving our insolvency, liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy (including *concurso mercantil* and *quiebra*) or similar proceedings in connection with our insolvency or bankruptcy. In addition, under the indenture governing the notes, each holder of notes will be deemed to have agreed that the trustee will be the only party entitled to receive and distribute amounts paid in respect of the notes upon our insolvency or similar event. The indenture will also provide that each holder of notes irrevocably instructs the trustee to abstain from voting during the course of any such bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceeding as described above in any matter submitted for approval by our general unsecured creditors in such proceedings.

The notes do not have “cross-default,” “cross-acceleration” or similar protections.

The notes will not include an event of default relating to a payment or covenant default with respect to other indebtedness, or acceleration of any other indebtedness. In contrast, our currently outstanding bonds and loans generally have events of default relating to defaults and accelerations with respect to other instruments, and it is likely that future bonds and loans will also contain such provisions. Accordingly, there may be circumstances where we will be required to repay the principal, interest and other amounts due under other indebtedness, but the holders of notes will not have the right to require repayment of the notes. In such circumstances, we may have an incentive to pay or restructure other debt instruments prior to paying or restructuring the notes. In addition, in situations of financial distress short of insolvency or similar event, you may be unable to accelerate the notes or take enforcement action for a significant time after other creditors have exercised such rights.

The notes do not include the types of covenants we provide in other debt instruments.

The notes will not have the protections of any material covenants. Accordingly, the holders of notes will not benefit from many of the covenants that we have included in indentures and credit agreements in the past and are

likely to include in indentures and credit agreements in the future. As a result, holders of other indebtedness may have the right to pursue remedies against us when the holders of notes may not. In addition, we may be required to seek consents or waivers from holders of other indebtedness (or even prepay or redeem such indebtedness) without taking any action with respect to the notes.

The rating of the notes may be lowered or withdrawn depending on various factors, including the rating agencies' assessments of our financial strength and Mexican sovereign risk.

The rating of the notes addresses the likelihood of payment of principal. The rating also addresses the timely payment of interest on each payment date. The rating of the notes is not a recommendation to purchase, hold or sell the notes, and the rating does not comment on market price or suitability for a particular investor.

We cannot assure you that the rating of the notes or our corporate rating will continue for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in or withdrawal of the ratings will not be an event of default under the indenture. An assigned rating may be raised or lowered depending, among other things, on the respective rating agency's assessment of our financial strength, as well as its assessment of Mexican sovereign risk generally. Any downgrade in or withdrawal of the rating of the notes or our corporate rating may adversely affect the price of the notes.

A credit rating is not a statement as to the likelihood of interest deferral on the notes. Holders of notes have a greater risk of interruption of interest payments than holders of other securities with similar credit ratings but no, or more limited, interest deferral provisions.

We and any future note guarantors may incur substantially more debt, which could further exacerbate the risks associated with our indebtedness.

As of September 30, 2017, we had a total indebtedness (excluding accrued interest) of Ps.26,732.8 million (US\$1,472.2 million), of which Ps.4,937.5 million (US\$271.9 million) was secured by collateral. After giving pro forma effect to the offer and sale of the notes and the application of the net proceeds from this offering as described under "Use of Proceeds," we would have had total indebtedness (excluding accrued interest) of Ps.23,282.8 million (US\$1,282.2 million).

We and any future note guarantors may be able to incur substantial additional debt in the future. Although the agreements governing our outstanding indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent us from incurring obligations that do not constitute "indebtedness" as defined in the relevant documents. Adding new debt to our current indebtedness levels would increase our leverage. The related risks that we now face could intensify.

The notes are subject to transfer restrictions.

The notes have not been registered under the Securities Act or any state securities laws, and we are not required to and currently do not plan on making any such registration in the immediate future. As a result, the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Prospective investors should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time. See "Transfer Restrictions" for a full explanation of such restrictions.

An active trading market for the notes may not develop.

Currently there is no market for the notes. Application is expected to be made to have the notes listed on the Official List of the Luxembourg Stock Exchange and traded on the EuroMTF Market. Even if the notes become listed on this exchange, we may delist the notes. A trading market for the notes may not develop, or if a market for the notes were to develop, the notes may trade at a discount from their initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. The initial purchasers are not under any obligation to make a market with respect to the notes,

and we cannot assure you that trading markets will develop or be maintained. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes. If an active market for the notes does not develop or is interrupted, the market price and liquidity of the notes may be adversely affected.

Payments claimed in Mexico on the notes, pursuant to a judgment or otherwise, would be in pesos.

In the event that judicial proceedings are brought against us in Mexico, either to enforce a judgment or as a result of an original action brought in Mexico, or if payment is otherwise claimed from us in Mexico, we would not be required to discharge those obligations in a currency other than Mexican currency. Under article 8 of the Monetary Law of the United Mexican States (*Ley Monetaria de los Estados Unidos Mexicanos*) an obligation, whether resulting from a judgment or by agreement, denominated in a currency other than Mexican currency, which is payable in Mexico, may be satisfied in Mexican currency at the rate of exchange in effect on the date on which payments are made. Such rate is currently determined by Banco de México and published every banking day in the Official Federal Gazette. As a result, you may suffer a U.S. dollar shortfall if you obtain a judgment or a payment in Mexico. You should be aware that no separate action exists or is enforceable in Mexico for compensation for any shortfall.

Our and any future note guarantors' obligations under the notes would be converted in the event of bankruptcy.

Under Mexico's Law on Mercantile Reorganization (*Ley de Concursos Mercantiles*, or "Mexican Bankruptcy Law"), if we are declared bankrupt or become subject to a reorganization proceeding called *concurso mercantil*, our obligations under the notes (i) would be converted into pesos at the prevailing exchange rate at that time and location, not reflecting any devaluation of the peso to the U.S. dollar after such conversion, and thereafter the pesos would be converted into inflation-adjusted UDIs; (ii) would be satisfied at the time claims of all our creditors are satisfied subject to the subordination to higher rated claims; (iii) would be subject to the outcome of, and priorities (including subordination) recognized in, the relevant proceedings, which differ from those in other jurisdictions such as the United States; (iv) would cease to accrue interest from the date the *concurso mercantil* is declared; (v) would not be adjusted to take into account any depreciation of the peso against the U.S. dollar occurring after such declaration and (vi) would be subject to, in addition to the subordination of the notes to other creditors, certain statutory preferences, including tax, social security and labor claims, and claims of secured creditors (up to the value of the collateral provided to such creditors). There is also limited relevant related legal precedent or judicial history. For such reasons, the ability of the holders of the notes to effectively collect payments due under the notes may be compromised or subject to delay.

In addition, under Mexican law, it is possible that in the event we are declared insolvent, bankrupt or become subject to *concurso mercantil* or *quiebra*, any amount by which the stated principal amount of the notes exceeds their accumulated value (which includes accumulated and unpaid interest) may be regarded as not matured and, therefore, claims of holders of the notes may be allowed only to the extent of the accumulated value of the notes. At present, there are very few Mexican legal precedents regarding bankruptcy, *concurso mercantil* or *quiebra* in Mexico on this point and, accordingly, uncertainty exists as to how a Mexican court would measure the claims of holders of the notes.

We may not be able to make payments in U.S. dollars.

In the past, the Mexican economy has experienced balance of payments deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert pesos to foreign currencies, including U.S. dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. dollars to meet our U.S. dollar obligations and could also have a material adverse effect on our business, financial condition and results of operations. We cannot predict the impact of any such measures on the Mexican economy.

We may be unable to purchase the notes upon a change of control event, which would result in defaults under the Indenture governing the notes.

The terms of the notes require us to make an offer to repurchase the notes upon the occurrence of a change of control that results in a ratings decline at a purchase price equal to 101% of the principal amount of the notes, plus accrued interest to the date of the purchase. Any financial arrangements we may enter may require repayment of amounts outstanding upon the occurrence of a change of control event and limit our ability to fund the repurchase of your notes in certain circumstances. It is possible that we will not have sufficient funds at the time of any change of control to make the required repurchase of notes or that restrictions in our other financing arrangements will not allow the repurchase of the notes. If we fail to repurchase the notes in such circumstances, we would default under the Indenture which may, in turn, trigger cross-default provisions in our other debt instruments. See “Description of the Notes—Redemption upon a Change of Control that Results in a Ratings Decline”.

It may be difficult to enforce claims against us or our directors, executive officers and controlling persons.

Most of our directors, executive officers and controlling persons are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or us or to enforce against them or us in courts of any jurisdiction outside Mexico, judgments predicated upon the laws of any such jurisdiction, including any judgment predicated substantially upon the civil liability provisions of United States federal and state securities laws. We have been advised that there is doubt as to the enforceability in Mexican courts, in original actions or in actions for enforcement of judgments obtained in courts of jurisdictions outside of Mexico, of civil liabilities arising under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon United States federal or state securities laws.

No treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of principles of reciprocity and comity as well as the provisions of Mexican law relating to the enforcement of foreign judgments in Mexico, consisting of the review by Mexican courts of the United States judgment in order to ascertain whether Mexican legal principles of due process and public policy (*orden público*), among other requirements, have been duly complied with, without reviewing the merits of the subject matter of the case, provided that U.S. courts would grant reciprocal treatment to Mexican judgments.

Creditors of the Issuer holding negotiable instruments or other instruments governed by Mexican law that grant rights to executory proceedings (*título ejecutivo*) are entitled to attach assets of the Issuer at inception of judicial proceedings, which attachment is likely to result in priorities benefitting those creditors when compared to the rights of holders of the notes.

The Indenture governing the notes will contain periodic reporting requirements that will be different and less burdensome than would be applicable to us if we had agreed to register the notes following the closing of the offering.

We do not presently file periodic reports and other information with the SEC, and the Indenture governing the notes will not require us to file such reports or other information. The Indenture will require us to provide annual and quarterly reports, including English language translations, to the holders of notes and the trustee. The requirements of the Indenture, however, will be more limited in certain respects than those applicable to public companies under the Exchange Act. See “Description of the Notes—Covenants—Reporting Requirements.”

USE OF PROCEEDS

We estimate that the net proceeds from the issuance of the notes will be approximately US\$ 226.9 million (after deducting the initial purchasers' discounts and commissions and the payment of estimated offering expenses). We intend to use the net proceeds from this offering, (i) to pay fees and expenses incurred in connection with this Offering, (ii) to repay certain of our indebtedness; and (iii) the remainder, if any, for general corporate purposes.

EXCHANGE RATES

Mexico has had a free market for foreign exchange since the end of 1994 and Mexico's Central Bank (*Banco de México*) allows the peso to float freely against the U.S. dollar and other foreign currencies. As a result, policy has evolved toward an inflation targeting regime and Banco de México intervenes directly in the foreign exchange market only to reduce excessive short-term volatility. Banco de México, as an autonomous authority, recognizes price stability as its fundamental goal and implements monetary policy using a target for the overnight interest rate charged in the interbank market. An interest rate regime became effective on January 21, 2008, and substituted the regime based on daily balances known as the "corto." As part of the interest rate target regime, open market operations (liquidity auctions) aim to provide the incentives for commercial banks to keep their accounts at Banco de México with a balance of zero at the daily market closing, in an environment where the overnight rate equals the target rate. Banco de México provides or withdraws liquidity as needed to meet its target rate through these operations. Positive balances in the accounts kept by the commercial banks at Banco de México are not paid interest, while overdrafts or negative balances are charged twice the overnight interest rate target. An increase in interest rates can make domestic financial assets more attractive to investors than foreign financial assets, which could trigger an appreciation of the nominal exchange rate and vice versa.

On October 8, 2008, as a result of the foreign exchange volatility caused by the global financial crisis, the Foreign Exchange Commission (*Comisión de Cambios*) of the Federal Government, comprised of the Ministry of Finance (*Secretaría de Hacienda y Crédito Público*, or "SHCP") and Banco de México officials and which is responsible for determining Mexico's exchange rate policy, established daily dollar auctions in order to help stabilize foreign exchange markets. The dollar amounts auctioned have been modified in order to adapt to market conditions. Banco de México also announced in early 2010 that it would follow a policy of foreign reserve accumulation and, to facilitate such objective, it put in place a monthly auction of options to sell U.S. dollars to Banco de México pursuant to certain rules.

There can be no assurance that the Mexican government will maintain its current policies with respect to the peso or that the peso will not depreciate significantly in the future. The Mexican economy has suffered balance of payment deficits and shortages in foreign exchange reserves in the past. While the Mexican government, for more than 15 years, has not restricted the ability of Mexican and foreign individuals or entities to convert pesos to U.S. dollars, we cannot assure you that the Mexican government will not institute restrictive exchange control policies in the future. To the extent that any such restrictive exchange control policies were to be instituted in the future in the event of shortages of foreign currency, our ability to transfer or convert pesos into U.S. dollars and other currencies to service our foreign currency obligations, and your ability to transfer or convert our dividends paid in pesos into U.S. dollars and other currencies, would be adversely affected and foreign currency may not be available without substantial additional cost.

The following table sets forth, for the periods indicated, the low, high, average and period-end exchange rates determined by Banco de México, all expressed in nominal pesos per U.S. dollar.

Year Ended December 31,	Low	High	Average	Period End
2010	12.16	13.18	12.63	12.38
2011	11.50	14.24	12.42	13.98
2012	12.63	14.39	13.17	12.97
2013	11.98	13.44	12.77	13.08
2014	12.85	14.79	13.30	14.74
2015	14.56	17.38	15.88	17.25
2016	17.18	21.05	18.70	20.62
Month Ended				
January 2017	20.73	21.91	21.40	20.79
February 2017	19.70	20.79	20.29	19.99
March 2017	18.71	19.94	19.30	18.80
April 2017	18.49	19.11	18.79	18.96
May 2017	18.42	19.14	18.76	18.69
June 2017	17.88	18.62	18.13	18.06
July 2017	17.49	18.36	17.83	17.87
August 2017	17.62	17.97	17.81	17.81
September 2017	17.64	18.20	17.84	18.16
October 2017	18.21	19.22	18.82	19.15
Through November 20, 2017	19.05	19.23	19.12	19.12

This offering memorandum contains translations of certain peso amounts into U.S. dollars at specified rates solely for the convenience of the reader. The convenience translations should not be construed as a representation that the peso amounts actually represent such U.S. dollar amounts or that they could be converted into U.S. dollars at the specified rate or at all. The exchange rate used for purposes of convenience translations is the exchange rate published by Banco de México in the Official Gazette. The exchange rate determined by Banco de México on September 29, 2017 and published in the Official Gazette on October 2, 2017, expressed in nominal pesos per U.S. dollar, was Ps.18.16.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2017 (i) on an actual historical basis; and (ii) as adjusted to give effect to the issuance of the notes and the use of the proceeds therefrom as if it had occurred on September 30, 2017.

You should read this table together with the information under the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and notes thereto included elsewhere in this offering memorandum. Solely for the convenience of the reader, peso amounts appearing in the table below have been translated to U.S. dollar amounts at the exchange rate for pesos as determined by Banco de México on September 29, 2017 and published on October 2, 2017 by the Official Gazette, which was Ps.18.16 per U.S. dollar.

	As of September 30, 2017			
	Actual		As Adjusted	
	<i>(in millions of pesos)</i>	<i>(in millions of dollars)</i>	<i>(in millions of pesos)</i>	<i>(in millions of dollars)</i>
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Cash and cash equivalents.....	580.2	32.0	1,225.7	67.5
Short-term debt:				
Notes payable to financial institutions	3,475.2	191.4	-	-
Bank loans and borrowings from other entities	3,404.3	187.5	3,404.3	187.5
Long-term debt:				
Bank loans and borrowings from other entities.....	6,248.4	344.1	6,248.4	344.1
Senior Notes.....	11,564.8	636.9	11,564.8	636.9
Total debt.....	<u>24,692.7</u>	<u>1,359.9</u>	<u>21,217.5</u>	<u>1,168.4</u>
Stockholders’ equity:				
Notes issued hereby				
Paid-in capital	2,130.8	117.3	2,130.8	117.3
Earned capital	7,258.0	399.7	7,258.0	399.7
Notes issued hereby	-	-	4,120.3	226.9
Total stockholders’ equity.....	<u>9,388.8</u>	<u>517.0</u>	<u>13,509.1</u>	<u>743.9</u>
Total capitalization.....	<u><u>34,081.6</u></u>	<u><u>1,876.9</u></u>	<u><u>34,726.6</u></u>	<u><u>1,912.4</u></u>

SELECTED FINANCIAL INFORMATION

The financial information for the years ended December 31, 2014, 2015, and 2016 has been derived from our audited financial statements included elsewhere in this offering memorandum, together with the notes thereto. The financial information for the nine-month periods ended September 30, 2016 and 2017 has been derived from our interim financial statements.

The following tables present selected financial information and other data as of December 31, 2014, 2015 and 2016 and for years then ended and as of and for the nine-month periods ended September 30, 2016 and 2017, as reported in our financial statements included elsewhere in this offering memorandum. Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be the exact arithmetic results of their components as shown herein.

Our financial statements were prepared in accordance with *Sofom* GAAP. *Sofom* GAAP differs in certain significant respects from U.S. GAAP. See “Annex A—Summary of Certain Significant Differences Between *Sofom* GAAP and U.S. GAAP” for a description of certain differences between *Sofom* GAAP and U.S. GAAP as they relate to us. No reconciliation of any of our financial statements to U.S. GAAP has been performed.

The financial statements reflect our investment in Publiseg, Grupo Empresarial Maestro, Bluestream Capital, Cege Capital, Credilikeme, and the consolidation of Servicios Corporativos Chapultepec, CR Fact, CR USA, Controladora CR, Directodo, Holding and Creal Dallas. See “Presentation of Certain Financial and Other Information.”

<u>Income Statement</u>	Year Ended December 31,			
	2014	2015	2016	2016⁽¹¹⁾
	<i>(in millions of pesos)</i>			<i>(in millions of dollars)</i>
Interest income.....	3,327.1	4,264.2	6,958.2	383.2
Interest expense	(882.3)	(952.3)	(1,916.4)	(105.5)
Financial margin	2,444.8	3,311.9	5,041.8	277.6
Provisions for loan losses	(264.5)	(345.6)	(831.6)	(45.8)
Financial margin after provisions for loan losses.....	2,180.3	2,966.3	4,210.2	231.9
Commissions and fees received	0.0	0.0	539.6	29.7
Commissions and fees paid.....	(99.0)	(142.2)	(283.4)	(15.6)
Intermediation Income	0.0	0.0	375.8	20.7
Other operating result	23.7	36.2	267.3	14.7
Administrative and marketing expenses	(629.6)	(1,138.1)	(2,922.0)	(160.9)
Operating result	1,475.4	1,722.3	2,187.5	120.5
Equity in income of associates.....	98.6	69.2	136.1	7.5
Income before income taxes	1,574.0	1,791.5	2,323.6	128.0
Income taxes	(334.8)	(421.6)	(504.4)	(27.8)
Net income.....	1,239.3	1,369.9	1,819.1	100.2
Non-controlling interest.....	(14.5)	1.5	(105.1)	(5.8)
Net income attributable to controlling interest	1,224.8	1,371.4	1,714.0	94.4

Income Statement

	Nine Months Ended September 30		
	2016	2017	2017⁽¹¹⁾
	<i>(in millions of pesos)</i>		<i>(in millions of dollars)</i>
Interest income.....	5,119.0	6,199.9	341.4
Interest expense	(1,316.6)	(2,013.4)	(110.9)
Financial margin	3,802.5	4,186.4	230.5
Provisions for loan losses	(541.5)	(951.9)	(52.4)
Financial margin after provisions for loan losses.....	3,261.0	3,234.5	178.1
Commissions and fees charged.....	393.0	599.1	33.0
Commissions and fees paid.....	(297.1)	(174.3)	(9.6)
Intermediation Income	302.2	112.8	6.2
Other operating income	317.5	265.1	14.6
Administrative and marketing expenses	(2,115.5)	(2,419.7)	(133.3)
Operating result	1,861.2	1,617.6	89.1
Equity in income of associates.....	92.3	109.0	6.0
Income before income taxes	1,953.5	1,726.6	95.1
Income taxes	(492.1)	(398.0)	(21.9)
Net income	1,461.3	1,328.6	73.2
Non-controlling interest.....	(92.6)	(106.4)	(5.9)
Net income attributable to controlling interest	1,368.7	1,222.1	67.3

Balance Sheet	As of December 31,			
	2014	2015	2016	2016⁽¹¹⁾
	<i>(in millions of pesos)</i>			<i>(in millions of dollars)</i>
Assets:				
Cash and cash equivalents	53.8	120.8	315.8	17.4
Investments in securities	1,251.2	543.2	992.7	54.7
Derivatives	950.3	2,112.8	2,466.9	135.9
Performing loan portfolio				
Commercial Loans	13,544.3	15,706.6	16,656.0	917.2
Consumer Loans	-	1,486.9	6,754.0	371.9
Total performing loan portfolio	13,544.3	17,193.6	23,410.0	1,289.1
Non-performing loan portfolio				
Commercial loans	260.6	393.8	323.8	17.8
Consumer Loans	-	22.2	193.2	10.6
Total non-performing loan portfolio	260.6	416.1	517.0	28.4
Loan portfolio	13,804.9	17,609.6	23,927.0	1,317.6
Less: allowance for loan losses	(420.1)	(485.5)	(767.5)	(42.3)
Loan portfolio (net)	13,384.8	17,124.1	23,159.6	1,275.4
Other accounts receivable (net)	1,156.2	2,258.9	3,577.2	197.0
Foreclosed assets (net)	-	-	28.0	1.5
Property, furniture and fixtures, net	85.5	149.1	262.1	14.4
Long-term investments in shares	859.0	835.6	1,057.8	58.3
Other Assets	-	-	-	-
Other short and long-term assets	-	251.3	205.5	11.3
Deferred charges, advance payments and intangibles	2,174.8	2,599.5	3,849.7	212.0
Total assets	19,915.5	25,995.5	35,915.4	1,977.8
Liabilities				
Notes payable (Securitized Certificates)	2,571.9	3,610.4	2,759.1	151.9
Senior notes payable	6,561.0	7,334.6	14,129.3	778.1
Bank loans and borrowings from other entities				
Short-term	1,120.3	3,490.5	5,051.7	278.2
Long-term	3,140.8	3,008.4	2,648.3	145.8
	4,261.0	6,498.9	7,700.0	424.0
Accrued liabilities and other accounts payable	346.1	652.1	448.9	24.7
Income taxes payable and employee profit sharing payable	52.0	100.5	254.7	14.0
Deferred taxes (net)	766.1	1,096.5	1,345.9	74.1
Total liabilities	14,558.3	19,283.0	26,638.0	1,466.9
Stockholders' equity:				
Capital stock	660.2	660.2	660.2	36.4
Share subscription Premium	1,474.8	1,448.0	1,450.3	79.9
Earned capital:				
Accumulated results from prior years	1,977.3	3,033.5	4,376.2	241.0
Result from valuation of cash flow hedges, net	5.6	89.3	229.4	12.6
Cumulative translation adjustment	-	2.8	167.6	9.2
Non-controlling interest	14.5	105.8	677.2	37.3
Re-measurements of employee defined benefits	0.0	1.7	2.5	0.1
Net income attributable to controlling interest	1,224.8	1,371.4	1,714.0	94.4
Total stockholders' equity	5,357.2	6,712.5	9,277.4	510.9
Total liabilities and stockholders' equity	19,915.5	25,995.5	35,915.4	1,977.8

Balance Sheet

	As of September 30		
	2016	2017	2017 ⁽¹⁾
	<i>(in millions of pesos)</i>		<i>(in millions of dollars)</i>
Cash and cash equivalents	524.3	580.2	32.0
Investments in securities	3,204.0	740.9	40.8
Derivatives	1,504.4	715.1	39.4
Performing loan portfolio			
Commercial loans.....	16,343.1	20,062.3	1,104.8
Consumer loans	5,880.8	5,999.2	330.4
Total performing loan portfolio	22,223.8	26,061.5	1,435.2
Non-performing loan portfolio			
Commercial loans.....	400.9	350.1	19.3
Consumer loans	163.7	266.3	14.7
Total non-performing loan portfolio	564.6	616.4	33.9
Loan portfolio	22,788.5	26,677.9	1,469.1
Less: allowance for loan losses.....	(802.9)	(982.7)	(54.1)
Loan portfolio (net)	21,985.5	25,695.2	1,415.0
Other accounts receivable (net)	3,941.2	3,838.9	211.4
Foreclosed assets (net).....	0.0	9.7	0.5
Property, furniture and fixtures, net.....	257.1	348.5	19.2
Long-term investments in shares	907.4	1,021.0	56.2
Other short and long-term assets	116.0	166.0	9.1
Deferred charges, advance payments and intangibles	3,890.3	4,030.3	221.9
Total assets	36,330.3	37,145.9	2,045.6
Liabilities			
Notes payable (Securitized Certificates).....	4,407.2	3,475.2	191.4
Senior notes payable.....	13,513.7	11,564.8	636.9
Bank loans			
Short-term	3,414.7	3,404.3	187.5
Long-term	3,678.3	6,248.4	344.1
	7,093.0	9,652.7	531.6
Derivatives	0.0	989.5	54.5
Accrued liabilities and other accounts payable	804.8	223.7	12.3
Income taxes payable and employee profit sharing payable	154.7	302.1	16.6
Deferred income taxes	1,400.0	1,549.0	85.3
Total liabilities	27,373.5	27,757.0	1,528.6
Stockholders' equity:			
Capital stock	660.2	660.2	36.4
Share subscription premium.....	1,454.2	1,470.6	81.0
Earned capital:			
Accumulated results from prior years.....	4,448.4	5,543.9	305.3
Result from valuation of cash flow hedges, net	279.5	(17.5)	(1.0)
Cumulative translation adjustment	112.3	(109.3)	(6.0)
Non-controlling interest	633.4	618.8	34.1
Net income attributable to controlling interest.....	1,368.7	1,222.1	67.3
Total stockholders' equity	8,956.8	9,388.8	517.0
Total liabilities and stockholders' equity	36,330.3	37,145.9	2,045.6

Other Financial Data and Ratios	As of and for the Year Ended December 31,		
	2014	2015	2016
Yield ⁽¹⁾	26.2%	27.1%	31.0%
Net Income Margin ⁽²⁾	19.3%	21.0%	22.5%
ROA: Return on average Total Assets ⁽³⁾	6.9%	6.0%	5.0%
Return on Average Loan Portfolio ⁽⁴⁾	9.7%	8.7%	7.6%
ROE: Return on average stockholders' equity ⁽⁵⁾	24.7%	22.2%	20.2%
Debt to Equity Ratio ⁽⁶⁾	2.5	2.6	2.7
Average interest income rate (total portfolio) ⁽⁷⁾	26.2%	27.1%	31.0%
Average cost of funds ⁽⁸⁾	7.5%	6.3%	8.2%
Efficiency ratio ⁽⁹⁾	26.8%	35.9%	55.2%
Capitalization Ratio ⁽¹⁰⁾	38.8%	38.1%	38.8%
Credit Quality Ratios			
Provisions for loan losses as a percentage of total loan portfolio.....	1.9%	2.0%	3.5%
Allowance for loan losses as a percentage of total past-due loan portfolio.....	161.2%	116.7%	148.4%
Total past-due loan portfolio as a percentage of total loan portfolio.....	1.9%	2.4%	2.2%
Allowance for loan losses as a percentage of total loan portfolio.....	3.0%	2.8%	3.2%

Other Financial Data and Ratios	As of and for the Nine Months Ended September 30,	
	2016	2017
Yield ⁽¹⁾	32.8%	33.1%
Net Income Margin ⁽²⁾	24.3%	22.3%
ROA: Return on average Total Assets ⁽³⁾	5.8%	4.6%
Return on Average Loan Portfolio ⁽⁴⁾	8.8%	6.5%
ROE: Return on average stockholders' equity ⁽⁵⁾	23.2%	17.9%
Debt to Equity Ratio ⁽⁶⁾	2.8	2.6
Average interest income rate (total portfolio) ⁽⁷⁾	32.8%	33.1%
Average cost of funds ⁽⁸⁾	8.1%	11.3%
Efficiency ratio ⁽⁹⁾	54.3%	52.5%
Capitalization Ratio ⁽¹⁰⁾	39.3%	35.2%
Credit Quality Ratios		
Provisions for loan losses as a percentage of total loan portfolio.....	3.2%	4.8%
Allowance for loan losses as a percentage of total past-due loan portfolio.....	142.2%	159.4%
Total past-due loan portfolio as a percentage of total loan portfolio.....	2.5%	2.3%
Allowance for loan losses as a percentage of total loan portfolio.....	3.5%	3.7%

(1) Yield is calculated by dividing the accrued income for the period by the average quarterly balance of the total loan portfolio. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(2) Net Income Margin is calculated by dividing the financial margin of the period by the average quarterly loan portfolio. For quarterly figures, cumulative financial margin is annualized by multiplying the amounts by four.

(3) Return on average total assets consists of net income attributable to controlling interest for the period divided by the average quarterly total assets. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(4) Return on average loan portfolio consists of net income attributable to controlling interest for the period divided by the average quarterly loan portfolio amounts. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(5) Return on average stockholders' equity consists of net income attributable to controlling interest for the period divided by average quarterly stockholders' equity. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(6) Debt to equity ratio consists of total debt at the end of the period divided by total stockholders' equity at the end of the period.

(7) Average interest income rate (total portfolio) consists of interest income for the period divided by the average quarterly loan portfolio amounts. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(8) Average cost of funds consists of interest expense for the period divided by the average quarterly funding amounts. For quarterly figures, cumulative income is annualized by multiplying the amounts by four.

(9) Efficiency ratio consists of administrative and marketing expenses for the period divided by the sum of (a) financial margin and (b) the difference between (i) commissions and fees collected and (ii) commissions and fees paid for the period.

(10) Capitalization ratio consists of total stockholders' equity at the end of the period divided by total loan portfolio at the end of the period.

(11) Translated into U.S. dollars, solely for the convenience of the reader, using an exchange rate of Ps.18.16 per U.S. dollar, the exchange rate determined by Banco de México on September 29, 2017 and published in the Official Gazette on October 2, 2017. These convenience translations should not be construed as representations that the peso amounts actually represent U.S. dollar amounts or could be converted into U.S. dollars at the specified rate or at all. See "Exchange Rates" in this offering memorandum.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements, together with the notes thereto, included elsewhere in this offering memorandum. Our financial statements were prepared in accordance with Sofom GAAP, which differs in certain significant respects from U.S. GAAP. See "Annex A—Summary of Certain Significant Differences Between Sofom GAAP and U.S. GAAP" for a description of certain differences between Sofom GAAP and U.S. GAAP as they relate to us. No reconciliation of any of our financial statements to U.S. GAAP has been performed. Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be the exact arithmetic results of their components as shown herein.

Mexican Economic Environment

Our business is closely tied to general economic conditions in Mexico. As a result, our economic performance and our ability to implement our business strategies may be affected by changes in national economic conditions, including as a result of changes in the global economy and financial markets that impact Mexico.

In 2014, the Mexican economy grew by 2.3%, reflecting the slowdown of the U.S. economy during the first quarter of 2014, as well as an increase in taxes as a result of the tax reform adopted in Mexico in 2014 and a decline in Mexican oil production. Primarily as a result of the tax increases implemented by the Mexican tax reform, inflation increased to 4.5% in January 2014 and averaged 4.0% during the year.

In 2015, the Mexican economy grew by 2.6%, driven by a more dynamic export market along with the remaining effects of tax reforms implemented by the Mexican legislature and the recovery of the Mexican construction sector. Nevertheless, economic growth was limited by a reduction in Mexico's oil production. Inflation in 2015 reached a historical low of 2.1%, while averaging 2.7% during the year, mainly due to the favorable effects of Mexico's telecommunications reform, which resulted in the elimination of local phone line tariffs, and to modifications in the calculation of gasoline prices.

In 2016, the Mexican economy grew by 2.3%, reflecting strong domestic demand. Nevertheless, a falling Mexican oil production and a recession in the mining sector continued to adversely affect the Mexican economy. The inflation rate in Mexico in 2016 averaged 2.8%, 10 basis points higher than inflation in 2015.

In the nine months ended September 30, 2017, the Mexican economy grew 1.7%, on an annualized basis, driven by the strong performance of the services sector, along with a pickup in manufacturing activity. Inflation has remained relatively stable despite the depreciation of the peso against the U.S. dollar at the beginning of 2017 and the impact of the deregulation of energy prices.

Effect of Tax Legislation

On January 1, 2014, the Tax Reforms became effective. While the corporate income tax rate, which had previously been scheduled for reduction, remained at 30%, the Tax Reforms (i) resulted in several amendments to corporate tax deductions, among other things, by eliminating deductions that were previously allowed for related party payments to certain foreign entities and limiting tax deductions on severance payments to employees; (ii) imposed a 10% withholding income tax on dividends paid by the corporation to individuals or foreign residents; (iii) standardized the value-added tax in all areas of Mexico; (iv) required the use of electronic invoices and new monthly tax reports (including uploading certain accounting records) to be provided to governmental tax authorities; and (v) imposed a 10% income tax payable by individuals on the sale of stock listed on the Mexican Stock Exchange (Bolsa Mexicana de Valores).

The Tax Reforms also abolished the flat rate business tax law, or IETU (for its Spanish acronym) and the cash deposit tax, or IDE (for its Spanish acronym).

Under the Mexican Income Tax Law, the effect of inflation on monetary assets and liabilities are to be considered as a deduction, therefore decreasing the taxable income. The effect of inflation on monetary assets and liabilities is estimated considering the annual inflation rate recorded and the excess of either monetary assets or liabilities. The effect of inflation results in a tax deduction when monetary assets exceed monetary liabilities. Uncollectable accounts that have an unpaid balance of less than 30,000 UDIs and which have not received a payment within the last year are considered a deduction.

Interest Rate Fluctuations

Interest rate fluctuations in Mexico have a significant effect on our business, financial condition and results of operations. While our interest-earning assets bear fixed interest rates, all of our interest-bearing liabilities currently carry floating interest rates equal to the 28-day Interbank Equilibrium Interest Rate (*Tasa de Interés Interbancaria de Equilibrio*, or “TIIE”), plus a spread, and are subject to frequent re-pricing. The TIIE is the benchmark interbank interest rate applicable to borrowing from and lending to Banco de México in transactions denominated in pesos, and is published daily in the Official Gazette.

The following table presents the high, low and average TIIE during each of the periods indicated.

	TIIE ⁽¹⁾			End of Period
	High	Low	Average	
2010	4.9750%	4.8250%	4.9097%	4.8750%
2011	4.8850%	4.7500%	4.8231%	4.7900%
2012	4.8562%	4.7175%	4.7896%	4.8450%
2013	4.8475%	3.7765%	4.2807%	3.7900%
2014	3.8171%	3.2741%	3.5093%	3.3110%
2015	3.5525%	3.2780%	3.3167%	3.5475%
2016	6.1100%	3.5476%	4.4739%	6.1066%
Through November 17, 2017	7.3875%	6.1100%	7.0074%	7.3796%

(1) Banco de México information.

Our interest cost of funding is highly sensitive to market conditions. Our interest rate spread in our local debt offerings increased by more than 112 basis points during 2010 and by more than 70 basis points during 2009. In response to the increased cost of financing in Mexico, the Mexican government gradually reduced the reference interest rate, partially offsetting increases in the surcharge rate. For example, between December 31, 2010 and December 31, 2013, the TIIE fell 108.5 basis points, or 22.3%, to 3.7900%. As of December 31, 2016, the TIIE was 6.1066% and as of September 30, 2017, the TIIE was 7.3725%.

In addition, the fixed interest rates we charge on each of our loan products have historically been significantly higher than the variable rates we pay on our interest-bearing liabilities, resulting in favorable net interest margin. For example, our average interest rate earned on interest-earning assets for the year ended December 31, 2016 was 28.9% and our average interest rate paid on interest-bearing liabilities for the same period was 8.2%, resulting in a net interest margin of 22.5%. As a result, the amount of cash we receive from interest and principal payments on the loans in our loan portfolio typically far exceeds the payments we must make on our interest-bearing liabilities. Our favorable net interest income serves to mitigate the pressure on our margins caused by fluctuations in the interest rates we pay on our interest-bearing liabilities.

The table below presents the average size of each of our loan portfolios (Average Portfolio) along with the cash collected with respect to each loan portfolio (Collections) and Collections as a percentage of our Average Portfolio during 2014 and 2015 on an annual basis and during 2016 on a quarterly basis, and through the third quarter of 2017. Collections include both principal and interest payments. We believe that Collections as a percentage of our Average Portfolio will increase as the loan portfolio and interest income derived from our group loan business increases.

Period	Value	Payroll Loans	Used Cars	Small Business	Durable Goods Loans and Other	Group Loans	Consumer Loans (Instacredit)	Total
2014:	Average Portfolio.....	9,860.3	209.1	1,165.0	1,164.5	289.2	—	12,688.1
	Collections	4,550.2	74.2	1,935.0	745.9	454.2	—	7,759.5
	Collections as Percentage of Average Portfolio	46.1%	35.5%	166.1%	64.1%	157.0%	—	61.2%
2015:	Average Portfolio.....	12,003.1	850.6	1,585.0	1,014.9	295.7	—	15,749.3
	Collections	5,379.7	273.3	2,955.0	737.3	1,508.4	—	10,853.7
	Collections as Percentage of Average Portfolio	44.8%	32.1%	186.4%	72.6%	510.1%	—	68.9%
2016 Q1:	Average Portfolio.....	13,109.4	1,900.8	1,460.0	1,004.3	310.2	1,387.8	19,172.5
	Collections	1,284.9	316.2	729.3	140.2	265.5	396.7	3,132
	Collections as Percentage of Average Portfolio	39.2%	66.5%	199.8%	55.8%	342.4%	114.4%	65.4%
Q2:	Average Portfolio.....	13,708.9	2,163.9	1,442.5	914.1	284.4	2,950.2	21,464.0
	Collections	1,500.2	333.2	700.8	112.7	289.8	439.8	3,376.5
	Collections as Percentage of Average Portfolio	43.8%	61.6%	194.3%	49.3%	407.6%	59.6%	62.9%
Q3:	Average Portfolio.....	14,228.7	2,493.5	1,424.4	674.4	290.9	3,378.7	22,490.6
	Collections	1,698.5	376.4	981.3	80.8	347.2	473.7	3,957.9
	Collections as Percentage of Average Portfolio	47.7%	60.4%	275.6%	47.9%	477.5%	56.1%	70.4%
Q4:	Average Portfolio.....	14,417.9	2,700.7	1,383.5	470.6	373.5	4,011.7	23,357.7
	Collections	1,785.4	365.0	946.0	56.1	368.0	498.3	4,018.8
	Collections as Percentage of Average Portfolio	49.5%	54.1%	273.5%	47.7%	394.2%	49.7	68.8%
FY:	Average Portfolio.....	14,063.4	2,432.3	1,413.0	692.4	328.9	3,481.0	22,410.9
	Collections	6,269.0	1,390.8	3,357.4	389.9	1,270.5	1,808.5	14,486.1
	Collections as Percentage of Average Portfolio	44.6%	57.2%	237.6%	56.3%	386.3%	52.0%	64.6%
2017 Q1:	Average Portfolio.....	14,853.8	2,710.7	1,473.1	379.8	361.5	2,106.3	21,885.2
	Collections	1,568.3	320.4	740.3	62.8	549.3	1,046.1	4,287.2
	Collections as Percentage of Average Portfolio	42.2%	47.3%	201.0%	66.1%	607.9%	198.7%	78.4%
Q2:	Average Portfolio.....	15,976.3	2,533.1	1,597.9	249.6	268.2	4,085.6	24,710.6
	Collections	1,682.6	264.7	869.4	41.8	425.9	955.3	4,239.6
	Collections as Percentage of Average Portfolio	42.1%	41.8%	217.6%	67.0%	635.1%	93.5%	68.6%
Q3:	Average Portfolio.....	17,168.8	2,495.8	1,662.6	272.4	221.9	4,111.2	25,932.6
	Collections	1,589.2	297.1	639.1	67.2	443.2	963.0	3,998.7
	Collections as Percentage of Average Portfolio	37.0%	47.6%	153.8	98.7	798.8%	93.7%	61.7%

Key Factors Affecting our Financial Condition and Results of Operations

Loan Portfolio Performance

The performance of our loan portfolio depends on our ability to collect each expected installment payment on a timely basis, which in turn depends, in part, on the strength of our origination and credit approval processes. Since our incorporation in 1993, we have developed and improved our proprietary underwriting standards and credit review system and have built an infrastructure to support the implementation of our credit review process for each of our loan portfolios. For further explanation of the credit review process in each of our loan portfolios, see “Business—Our Loan Products—Payroll Loans—Credit Application and Review Process”; “Business—Our Loan Products—Small Business Loans—Distribution and Origination”; “Business—Our Loan Products—Group Loans—

Credit Application and Approval Process”; and “Business—Our Loan Products—Used Car Loans—Credit Application and Approval Process”. Our proprietary credit review process has, in part, enabled us to maintain low and stable NPL ratios in our loan portfolio, even through the economic downturn in 2008 and 2009. Our NPL ratios were 1.9%, 2.4% and 2.2% as of December 31, 2014, 2015 and 2016, respectively, and 2.3% as of September 30, 2017.

At September 30, 2017, none of our loans were restructured. The restructuring is formalized with each customer by changing the amounts of credit installments, the dates for partial payments of credit and the loan repayment periods, provided there is sustained evidence of payment by the customer, which is satisfied if the customer has made three consecutive monthly payments.

From time to time, we may sell a portion of our loan portfolio if we believe doing so would be commercially advantageous; we make such decisions on a case by case basis. We intend to continue growing our payroll loan business by increasing the number of government agencies and labor unions we serve and increasing our market penetration among employees of those agencies and members of those unions with which we have established payroll lending relationships through payroll distributors. We intend to increase our exposure to government entities to which we currently have low exposure and diversify our payroll loan portfolio. Regarding our Group Loans, our expansion plan contemplates geographic expansion, as well as to continue growing the number of clients served by our current promoters and hiring more promoters for our existing branches. We believe that our small business loan and used car loan businesses offer the greatest potential for growth in the Mexican market over the next several years. Moreover, the low penetration of financial institutions in the SME market represents a good business opportunity for us. Likewise, the used car loan market in Mexico is not very penetrated and should present a good opportunity for expansion. We have made the decision to gradually exit the traditional durable goods loan business, and our durable goods loan activity will cease once the remaining portfolio is recovered.

Critical Accounting Estimates

The preparation of financial statements in conformity with *Sofom* GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of our financial statements and revenues and expenses during the periods reported. Actual results could differ from these estimates, and changes in these estimates are recorded when known. The critical accounting policies used in the preparation of our financial statements are those that are both important to the presentation of financial condition and results of operations and require significant judgments with regard to estimates used. These critical judgments relate to the allowance for loan losses, deferred income taxes and employee retirement obligations.

Allowance for Loan Losses

Loans are granted based on an analysis of a borrower’s financial condition, the economic feasibility of investment projects that are to be financed by our group loans and other general criteria established by applicable laws and our internal policies and procedures. Our loans are made to legal or physical persons who carry out business activities of a commercial or financial nature, which is why we classify our loan portfolio as a commercial loan portfolio, in accordance with the CNBV’s standards.

Overdue balances of borrowers are recorded in the non-performing portfolio in the event of non-compliance with payment terms in which a loan installment or payment is past-due for specified periods. Loans are generally recorded as non-performing after 90 days of billing periods reporting non-compliance, at which time the accrual of interest is suspended. Pursuant to our financing and other agreements with our distributors, our distributors are severally liable for the unpaid amount of the loan, along with the borrowers. A distributor’s total liability is equal to the percentages of unpaid loan amounts determined within each promotion. As of September 30, 2017, the aforementioned contracts established a percentage of unpaid loan amounts of 2.3%. Joint and several liability is based on the percentage of shared risk agreed upon with each distributor on a case-by-case basis and is calculated over the unpaid amount of those loans which are more than 90 days past due.

The transfer of a loan from the non-performing loan portfolio to the current loan portfolio is carried out when the account payments are up-to-date and there have been no delays in its payment. Payments are considered up-to-date when there have been installment payments for the total amounts due at three consecutive payment dates. A payment is not considered up-to-date if payment is made prior to the scheduled amortization date.

Additionally, if a loan is restructured, it may be transferred to the current loan portfolio. The restructuring of this debt is formalized through modifications of the partial credit payment amounts, the payment due dates, and the amortization periods. Restructuring is permitted as long as there is evidence of sustained payment by the borrower, meaning three consecutive monthly payments.

The recognition of interest income is suspended when a loan is classified within the non-performing portfolio, and is recorded as income only when it is collected. Loans are written off when scheduled payments or installments are past due 181 days or more.

An allowance for loan losses is created for any ordinary interest earned but not collected on non-performing loans at the moment the loan is transferred to the non-performing portfolio.

We recognize the allowance for loan losses in our commercial loan portfolio based on the criteria of the CNBV, as follows:

Methodology for commercial loan portfolio

When classifying the commercial loan portfolio, we consider the Probability of Default, Severity of Loss and Exposure to Default, and also classify the aforementioned commercial loan portfolio into different groups and establish different variables for the estimate of the probability of default.

The amount of the allowance for loan losses of each loan will be determined by applying the following formula:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

R_i = Amount of the allowance for loan losses to be created for the nth credit.

PI_i = Probability of default of the nth credit.

SP_i = Severity of loss of the nth credit.

EI_i = Exposure to default of the nth credit.

The probability of default of each credit La (PI_i), is calculated using the following formula:

$$PI_i = \frac{1}{1 + e^{-\frac{\ln(2)}{40} \times (500 - TotalCreditScore_i)}}$$

For purposes of the above:

The total credit score of each borrower is obtained by applying the following:

$$TotalCreditScore_i = \alpha \times (QuantitativeCreditScore_i) + (1 - \alpha) \times (QualitativeCreditScore_i)$$

Where:

$QuantitativeCreditScore_i$ = is the score obtained for the nth borrower when evaluating the risk factors.

$QualitativeCreditScore_i$ = is the score obtained for the nth borrower when evaluating the risk factors.

α = is the relative weight of the quantitative credit score.

Unsecured loans

The Severity of Loss (SP_i) of commercial loans which are not secured by real, personal guarantees or credit-based collateral will be:

- a. 45%, for Preferential Positions.
- b. 75%, for Subordinated Positions, in the case of syndicated loans, those which for purposes of their payment order or preference, are contractually subordinated in relation to other creditors.
- c. 100%, for credits which report 18 or more months of arrears in payment of the due and payable amount under the terms originally agreed.

The Exposure to Default of each loan (EI_i) is determined based on the following:

- I. For disposed balances of uncommitted credit lines, which may be canceled unconditionally or which in practice permit an automatic cancellation at any time and without prior notice:

$$EI_i = S_i$$

- II. For the other lines of credit:

$$EI_i = S_i * \text{Max} \left\{ \left(\frac{S_i}{\text{Authorized Line of Credit}} \right)^{-0.5794}, 100\% \right\}$$

Where:

S_i : The unpaid balance of the credit at the classification date, which represents the amount of credit effectively granted to the borrower, adjusted for interest accrued, less payments of principal and interest, as well as debt reductions, forgiveness, rebates and discounts granted. In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet, for loans classified as non-performing portfolio.

Authorized Credit Line: the maximum authorized amount of the credit line at the classification date.

We may recognize the security interest in personal or real property, personal security and credit derivatives in the estimate of the Severity of Loss of the credits, in order to decrease the reserves derived from the portfolio classification. In any case, we may elect not to recognize the aforementioned securities if greater reserves are generated as a result. The provisions established by the CNBV are utilized for such purpose.

Consumer loan portfolio

The classification of the commercial portfolio is carried out on a quarterly basis and is calculated based on the balance of the debts on the final day of each month, considering the classification levels of the portfolio classified at the last known quarter, restated for the modification of the risk at the close of the current month. The allowance for loan losses is calculated according to the current methodology, as explained below.

Methodology for consumer loan portfolio (as of June 30, 2014)

When classifying the consumer portfolio, we consider the Probability of Default, the Severity of the Loss and Exposure to Default, while also classifying the aforementioned portfolio into different groups of risks.

As it is a non-revolving consumer credit portfolio, the calculation of the Probability of Default, Severity of the Loss and Exposure to Default, must adhere to the following:

The following numbers are determined for each credit operation:

Due and payable amount: The amount which the borrower has to pay in the billing period agreed. For credits with weekly and half-monthly billing periods, the accumulation of previous due and payable amounts not paid must not be included. For credits with a monthly billing period, the due and payable amount must include both the amount applicable to the month and the previous unpaid due and payable amounts, as the case may be.

Rebates and discounts may decrease the due and payable amount, only when the borrower fulfills the conditions required in the credit contract to do so.

Payment made: The amount applicable to the sum of the payments made by the borrower in the billing period.

Write-offs, reductions, waivers, rebates and discounts made to the credit or group of credits are not considered as payments. The value of this variable must be greater than or equal to zero.

Days in arrears: The number of calendar days at the classification date, during which the borrower has not fully paid off the due and payable amount under the terms originally agreed.

Total term: The number of billing periods (weekly, half-monthly or monthly) established contractually in which the credit must be settled.

Remaining term: Number of weekly, half-monthly or monthly billing periods which, as established in the contract, remain pending to settle the credit at the portfolio classification date. In the case of credits whose maturity date has elapsed without the borrower making the respective payment, the remaining period must be equal to the total term of the credit.

Original loan amount: The amount applicable to the total loan amount at the time it is granted.

Original value of the good: The amount applicable to the value of the financed good recorded by the Institution at the time the credit is granted. If the credit is not to finance the purchase or acquisition of a good, the original value of the good will be equal to the original amount of the credit. Also, the original amount of the credit may be used for credits which do not reflect the original value of the good and were granted prior to the enactment of these provisions.

Loan balance: The unpaid balance at the classification date, which represents the amount of credit effectively granted to the borrower, adjusted for accrued interest, less payments for financed insurance coverage, collections of principal and interest, and any reductions, waivers, rebates and discounts granted, as the case may be.

In any case, the amount subject to the classification must not include uncollected accrued interest, recognized in memorandum orders on the balance sheet, for loans which are in overdue portfolio.

Type of loan: In the case of the credits granted, they are personal; i.e., credits which are collected by us through any means of payment other than from the payroll account.

The creation and recording in books of the allowance for loan losses on the non-revolving consumer credit portfolio are based on figures at the final day of each month.

We determine the percentage used to determine the allowances to be created for each credit, which will be the result of multiplying the Probability of Default by the Severity of the Loss.

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

R_i = Amount of reserves to be established for the nth credit.

PI_i = Probability of Default on the nth credit.

SP_i = Severity of the Loss on the nth credit.

EI_i = Exposure to Default of the nth credit.

The Probability of Default of the non-revolving consumer credit portfolio whose Billing Periods are monthly or when involving credits with a single payment at maturity, as follows:

a) If $ATR_i^M \geq 4$ then $PI_i^M = 100\%$

b) If $ATR_i^M < 4$ then:

$$P_i^M = \frac{1}{1 + e^{-[-0.5753+0.04056 ATR_i^M+0.7923 VECES_i^M-4.1891\%PAGO_i^M+0.9962PER_i^M]}}$$

Where:

P_i^M = Monthly Probability of Default or the nth credit.

ATR_i^M = Number of Arrears observed at the calculation date of reserves, which is obtained by applying the following formula:

$$\text{Number of Monthly Days in Arrears} = \left(\frac{\text{Days in Arrears}}{30.4} \right)$$

When this number is not complete, it will take the value of the immediately higher complete number.

$VECES_i^M$ = Number of times that the borrower pays the original value of the good or, if there is no financed good, the number of times that the borrower pays the original amount of the credit. This number will be the coefficient resulting from dividing the sum of all the scheduled payments at the time of the origination, by the original value of the good.

If the payments of the credit consider a variable component, our best estimate will be used to determine the value of the sum of all the scheduled payments which must be made by the borrower. The value of such sum cannot be less than or equal to the original amount of the credit.

$\%PAGO_i^M$ = Average Percentage which the payment made represents of the due and payable amount in the last four monthly billing periods at the calculation date. The average must be obtained after having calculated the percentage which the payment made represents of the due and payable amount for each of the four monthly billing periods at the calculation date of the reserves. If less than four monthly billing periods have elapsed at the calculation date of the reserves, the percentage of those monthly Billing Periods remaining to complete four will be 100% for purposes of calculating this average, so that the variable of this calculation element will always be obtained using the average of four monthly percentages.

We determine the Severity of the Loss (SP) for the credits from the non-revolving consumer loan portfolio will be 65%, provided that the element ATR_i^M does not exceed 9, because in this case an SP of 100% is determined.

The Exposure to Default (EI_i) of each credit from the non-revolving consumer credit portfolio will be equal to the Loan Balance (Si).

Deferred Taxes

We calculate deferred taxes through the assets and liabilities method, which compares the accounting and tax values of assets and liabilities to determine deductible and taxable temporary differences to which the tax rate at which these items will be reversed is applied.

Significant management judgment is required in determining the necessity of any valuation allowance against recognized deferred income tax assets. The need for a valuation allowance is based on management's projections of future financial results. If actual results differ from these estimates or if we adjust the projections in future periods, we may need to materially adjust the valuation allowance, which may materially impact our results of operations in future periods.

Employee Retirement Obligations

Under the Federal Labor Law, we have obligations for severance and seniority premiums payable to employees who cease rendering services under certain circumstances, as well as other obligations derived from a labor agreement.

Each year we record the net periodic cost to create a fund covering the net projected liability for seniority premiums, pensions and severance payments upon retirement or resignation, thereby increasing the related liability, in accordance with actuarial calculations made by independent actuaries. These calculations are based on the projected unit credit method, which see each period of service as giving rise to an additional unit of benefit entitlement. We therefore create a present value liability to cover the defined benefits obligation at the estimated retirement date of each covered employee.

While we believe that our assumptions are appropriate, significant deviations from actual conditions or significant changes to our assumptions in the future may materially affect our employee retirement obligations and our future expenses.

Results of Operations for the Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016.

Interest Income

The following table sets forth the components of our interest income for the nine months ended September 30, 2016 and 2017.

	Nine Months Ended September 30,	
	2016	2017
	<i>(in millions of pesos)</i>	
Interest income from payroll loans	2,776.9	3,782.3
Interest income from used car loans	609.1	544.5
Interest income from small business loans.....	188.3	245.9
Interest income from durable goods loans and other	107.3	42.7
Interest income from group loans	20.1	27.2
Interest income from Instacredit loans.....	1,124.3	1,557.3
Non recurrent.....	293.0	-
Total interest income	<u>5,119.0</u>	<u>6,199.9</u>

Interest income includes the effect of non-recurring income recorded during the third quarter of 2016 due to the partial unwinding of the derivatives that hedged our 2019 Senior Notes.

For the nine months ended September 30, 2017, we had total interest income of Ps.6,199.9 million, reflecting an increase of Ps.1,080.8 million, or 21.1%, compared to Ps.5,119.0 million for the same period in 2016. Interest income earned on our Instacredit, payroll, group and small business loans increased 38.5%, 36.2%, 35.4% and 30.6%, respectively. While the interest income earned on our durable goods and used car loans decreased 60.2% and 10.6%, respectively, during the same period. The average balance of our total loan portfolio during the nine months ended September 30, 2017 was Ps.25,006.5 million, an increase of Ps.4,175.0 million or 20.0% from the Ps.20,831.5 million average balance during the nine months ended September 30, 2016. The increase in interest income primarily resulted from the growth in the loan portfolio supported principally by payroll business and by the full consolidation of Instacredit during 2017. Instacredit was acquired in February 22, 2016, and wasn't fully consolidated during the first nine months of 2016.

Interest Expense

Total interest expense, which consists primarily of interest paid and accrued on our interest-bearing liabilities, increased by Ps.696.9 million, reflecting a 52.9% increase to Ps.2,013.4 million for the nine months ended September 30, 2017, from Ps.1,316.6 million for the nine months ended September 30, 2016. This increase primarily resulted from higher cost of funding, higher total debt and integration of Instacredit into our portfolio. Our average balance of interest bearing liabilities debt portfolio increased from Ps.21,701.9 million for the nine months ended September 30, 2016 to Ps. 23,836.7 million as of September 30, 2017, reflecting an increase of Ps.2,134.8 million, or 9.8%.

Financial Margin

Our financial margin increased by Ps.384.0 million, or 10.1%, to Ps.4,186.4 million for the nine months ended September 30, 2017, compared to Ps.3,802.5 million for the nine months ended September 30, 2016.

For the nine months ended September 30, 2017, the average interest rate earned from the average interest-earning assets was 33.1% and the average interest rate paid on the portfolio was 10.7%, resulting in a net interest margin of 22.3%. Comparatively, the average interest rate earned from the portfolio during the nine months ended September 30, 2016 was 32.8% and the average interest rate paid on the portfolio during the same period was 8.4%, resulting in a net interest margin of 24.3%.

Provisions for Loan Losses

Provisions for loan losses, the estimated reserve amount reserved for the contingency of unrecoverable loans, increased by Ps.410.4 million, or 75.8%, to Ps.951.9 million for the nine months ended September 30, 2017, from Ps.541.5 million for the nine months ended September 30, 2016. During the three months ended March 31, 2016, allowances for loan losses were unusually low given that at the time of Instacredit consolidation, we were over-provisioned according to the methodology prescribed by the CNBV. Additionally, in the nine months ended September 30, 2017, the growth in provisions for Instacredit was attributable to the general deterioration of the Costa Rican market. We are taking the necessary measures in order to improve collections and asset quality.

As of September 30, 2017, the balance of the allowance for loan losses was Ps.982.7 million, which was equal to 159.4% of the Ps.616.4 million non-performing portfolio on our balance sheet as of that date. As of September 30, 2016, the balance of the allowance for loan losses was Ps.802.9 million, which was equal to 142.2% of the Ps.564.6 million non-performing portfolio on our balance sheet as of that date.

Commissions and Fees Income

Total commissions and fees received was Ps.599.1 million for the nine months ended September 30, 2017, compared to Ps.393.1 for the nine months ended September 30, 2016. This increase primarily resulted from the integration of Resuelve into our portfolio starting on December 14, 2015.

Commissions and Fees Paid

The following table sets forth the components of our commissions and fees paid for the nine months ended September 30, 2016 and 2017.

	Nine Months Ended September 30,	
	2016	2017
	<i>(in millions of pesos)</i>	
Bank fees and administrative commissions and fees ⁽¹⁾	76.5	0.0
Commissions and fees related to debt issuances ⁽²⁾	205.8	171.9
Other commissions and fees	14.8	2.4
Total commissions and fees paid	297.1	174.3

(1) Represents commissions paid for administrative and processing bank fees.

(2) Commissions and fees related to debt issuances include commissions and fees to third parties (e.g., underwriters and legal fees) in connection with the issuance of notes, the incurrence of indebtedness under credit facilities, the partial credit guarantees (*por aval*) from NAFIN, as well as commissions and fees payable to rating agencies.

Total commissions and fees paid decreased by Ps.122.8 million, or 41.3%, to Ps.174.3 million for the nine months ended September 30, 2017, compared to Ps.297.1 million for the nine months ended September 30, 2016. This decrease primarily resulted from higher commissions being paid in 2016 in connection with our debt issuances.

Administrative and Marketing Expenses

Administrative and marketing expenses, which consist primarily of personnel remuneration and benefits expenses, including expenses incurred for wages, year-end bonuses and vacation premiums, as well as expenditures related to our information technology systems and rents under our office lease agreements, increased by Ps.304.2 million to Ps.2,419.7 million for the nine months ended September 30, 2017, compared to Ps.2,115.5 million for the nine months ended September 30, 2016. This increase primarily resulted from the consolidation of Instacredit's administrative expenses in our financial results from February 22, 2016.

Operating Result

Operating result decreased by Ps.243.5 million, to Ps.1,617.6 million, for the nine months ended September 30, 2017, compared to Ps.1,861.2 million for the nine months ended September 30, 2016. This decrease primarily resulted from an increase in allowance for loan losses and in administrative expenses related to the consolidation of Instacredit into our financial statements.

Equity in Income of Associates

Equity in income of associates increased by Ps.16.7 million, to Ps.109.0 million, for the nine months ended September 30, 2017, compared to Ps.92.3 million for the nine months ended September 30, 2016. This increase primarily resulted from reduced payroll-related expenses in our associated companies (Crédito Maestro, Credifiel) and group loans (Contigo).

Income Taxes

The following table sets forth the components of our income taxes for the periods indicated.

	Nine Months Ended September 30,	
	2016	2017
	<i>(in millions of pesos)</i>	
ISR:		
Current.....	147.4	195.0
ISR:		
Deferred.....	344.7	203.1
Total Income Tax.....	<u>492.1</u>	<u>398.0</u>

Income taxes decreased by Ps.94.0 million to Ps.398.0 million for the nine months ended September 30, 2017, compared to Ps.492.1 million for the nine months ended September 30, 2016. The effective tax rate reached 26.4% and 24.6% respectively for the nine months ended in September 30, 2016 and 2017, respectively.

The decrease in current tax of Ps.47.6 million for the nine months ended September 30, 2017 primarily reflects decreases in the current taxes of our subsidiaries, Instacredit and Directodo.

The deferred tax for the nine months ended September 30, 2017 increased in line with the organic growth of the portfolio.

Non-controlling Interest

Non-controlling interest decreased income by Ps.106.4 million for the nine months ended September 30, 2017, a decrease of Ps.13.8 million from Ps.92.6 million for the nine months ended September 30, 2016, primarily due to participation in profits of our subsidiaries (Instacredit, Don Carro, AFS and Resuelve).

Net Income Attributable to Controlling Interest

Net income attributable to controlling interest decreased by Ps.146.5 million, to Ps.1,222.1 million for the nine months ended September 30, 2017, compared to Ps.1,368.7 million for the nine months ended September 30, 2016. This decrease in net income attributable to controlling interest primarily resulted due to a non-recurring gain from the unwinding of the cross-currency swap for the 2019 Senior Notes, which was recognized as interest income for the year ended December 31, 2016.

Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Interest Income

The following table sets forth the components of our interest income for the years ended December 31, 2016 and 2015.

	Years Ended December 31,	
	2015	2016
	<i>(in millions of pesos)</i>	
Interest income from payroll loans	3,445.8	3,721.1
Interest income from Instacredit	0.0	1,704.6
Interest income from used car loans	354.0	798.7
Interest income from small business loans.....	223.0	265.8
Interest income from durable goods loans and other	202.6	137.4
Interest income from group loans	38.9	31.6
Non-recurrent	0.0	293.0
Total interest income	<u>4,264.2</u>	<u>6,958.2</u>

For the year ended December 31, 2016, we had total interest income of Ps.6,958.2 million, reflecting an increase of Ps.2,694.0 million, or 63.2%, compared to Ps.4,264.2 million for the year ended December 31, 2015. Additionally, in 2016 we had a non-recurring effect of Ps.293.0 million due to the unwinding of our 2019 Senior Notes. Interest income earned on our payroll, small business and used car loans increased 8.2%, 19.2% and 125.6% respectively, while the interest income earned on our durable goods and other and microcredit group loans decreased 32.2% and 18.8% respectively, due to the diversification strategy we pursued, as well as the change in strategy in our group loans business, which changed from a system of proprietary branches to a network of strategic alliances, which reduced funding income but increased net income in the participation in the results of associates line. We decided to divest our durable goods business due to market conditions in that business line, which is the reason we ceased originations in this business line in the fourth quarter of 2016. Moreover, during 2016, we had an increase in interest income of Ps.1,704.6 million due to the acquisition of Instacredit in February 2016.

The average balance of our total loan portfolio during the year ended December 31, 2016 was Ps.22,410.9 million, an increase of Ps.6,661.6 million or 42.3%, from the Ps.15,749.3 million average balance during the year ended December 31, 2015.

The increase in the payroll, group loans and used car portfolios was of Ps.1,577.5 million. Ps.113.6 million and Ps.940.5 million, respectively, in the year ended December 31, 2015 compared to the year ended December 31, 2016. The durable goods and other and small business portfolios decreased Ps.588.0 million and Ps.177.0 million, respectively, during the same period. The increase in interest income is mainly explained by the growth in the loan portfolio driven by the payroll and used car businesses, which reflect our portfolio diversification strategy, as well as the strategic change in the group loans business mentioned previously and the inclusion of Instacredit in our results.

Interest Expense

Total interest expense, which consists primarily of interest paid and accrued on our interest-bearing liabilities, increased Ps.964.1 million, reflecting a 101.2% increase to Ps.1,916.4 million for the year ended December 31, 2016 from Ps.952.3 million for the year ended December 31, 2015.

The average amount of our debt used to fund the loan portfolio originated by the distributors increased from Ps.15,144.8 million during 2015 to an average for the year ended December 31, 2016 of Ps.23,488.1 million, representing an increase of Ps.8,373.3 million or 55.4%. This caused an increase in the cost of funds from 6.3% in 2015 to 8.2% in 2016, mainly explained by the increase in the TIIE rate, as well as higher cost of funds due to inclusion of Instacredit in our results. Moreover, in order to comply with the prepayment of US\$290 million of our 2019 Senior Notes, we maintained cash surplus during the second half of 2016 as a result of retaining a portion of the proceeds of the 2023 Senior Notes in cash, which had a negative effect on the cost of funds.

Financial Margin

Our financial margin increased by Ps.1,729.9 million, or 52.2%, to Ps.5,041.8 million for the year ended December 31, 2016, compared to Ps.3,311.9 million for the year ended December 31, 2015.

The average interest rate on interest-earning assets includes the loan portfolio as well as investments in securities and the non-recurring effect of the unwinding of derivative instruments in connection with the partial prepayment of the 2019 Senior Notes in July 2016. For the year ended December 31, 2016, the average interest rate earned from the average interest-earning assets was 28.9% and the average interest rate paid on interest-bearing liabilities was 8.2%, resulting in a net interest margin of 22.5%. Comparatively, the average interest rate earned from the average interest-earning assets during the year ended December 31, 2015 was 25.8% and the average interest rate paid on interest-bearing liabilities during the same period was 6.3%, resulting in a net interest margin of 21.0%.

Provisions for Loan Losses

Provisions for loan losses, the estimated reserve for unrecoverable loans, increased by Ps.486.0 million, or 140.6%, reflecting an increase to Ps.831.6 million for the year ended December 31, 2016 from Ps.345.6 million for the year ended December 31, 2015.

The increase was mainly driven by the inclusion of Instacredit in our financial results, as well as by the year-over-year growth in the loan portfolio.

As of December 31, 2016, the balance of the allowance for loan losses was Ps.767.5 million, which was equal to 148.5% of the Ps.517.0 million non-performing portfolio on our balance sheet as of that date. As of December 31, 2015, the balance of the allowance for loan losses was Ps.485.5 million, which was equal to 116.7% of the Ps.416.0 million non-performing portfolio on our balance sheet as of that date. In 2016, the effect of incorporating Instacredit in the allowance for loan losses was an additional Ps.428.7 million, adding 55.9% to the consolidated allowance for loan losses.

Comissions and Fees Income

Our commissions and fees income was Ps.539.6 million for the year ended December 31, 2016, due to the acquisition of Instacredit on February 22, 2016.

Commissions and Fees Paid

The following table sets forth the components of our commissions and fees paid for the years ended December 31, 2016 and 2015.

	Years Ended December 31,	
	2015	2016
	<i>(in millions of pesos)</i>	
Bank fees and administrative commissions and fees ⁽¹⁾	5.0	3.1
Commissions and fees related to debt issuances ⁽²⁾	137.1	280.2
Other commissions and fees	0.1	0.1
Total commissions and fees paid	<u>142.2</u>	<u>283.4</u>

(1) Represents commissions paid for administrative and processing bank fees.

(2) Commissions and fees related to debt issuances include commissions and fees to third parties (e.g., underwriters and legal fees) in connection with the issuance of notes, the incurrence of indebtedness under credit facilities, the partial credit guarantees (*por aval*) from NAFIN and the issuance of our Senior Notes, as well as commissions and fees payable to rating agencies.

Total commissions and fees paid increased by Ps.141.2 million, to Ps.283.4 million for the year ended December 31, 2016 from Ps.142.2 million for the year ended December 31, 2015. The increase resulted from the non-recurring effect of the partial prepayment of the 2019 Senior Notes of Ps.93.7 million in July 2016, as well as higher commissions related to the issuance of debt in 2016, in line with the average debt growth.

Administrative and Marketing Expenses

Administrative and marketing expenses, which consist primarily of personnel remuneration and benefits expenses, including expenses incurred for wages, year-end bonuses and vacation premiums, as well as expenditures related to our information technology systems and rents under our office lease agreements, increased by Ps.1,783.9 million to Ps.2,922.0 million for the year ended December 31, 2016, compared to Ps.1,138.1 million for the year ended December 31, 2015. The increase is mainly driven by the consolidation of the expenses of Kondinero, AFS, Resuelve, and Instacredit from October 15, 2014, October 21, 2015, December 14, 2015 and February 22, 2016, respectively, as well as investments in the used cars distribution network and efforts to enhance recognition of our brand.

Operating Result

Operating result increased by Ps.465.3 million to Ps.2,187.5 million for the year ended December 31, 2016 compared to Ps.1,722.3 million for the year ended December 31, 2015.

The increase was mainly due to the increase in financial margin due to the recognition of fees charged by Resuelve, partially offset by an increase in allowance for loan losses and an increase in administrative and marketing

expenses due to the consolidation of expenses of AFS, Resuelve and Instacredit as well as to the non-recurring effect of the prepayment of the 2019 Senior Notes.

Equity in Income of Associates

Equity in income of associates increased by Ps.66.9 million, to Ps.136.1 million for the year ended December 31, 2016 from Ps.69.2 million. The decrease is explained by the effect of consolidating AFS, Resuelve and Instacredit, in which we hold a majority equity stake.

Income Taxes

The following table sets forth the components of our income taxes for the years indicated.

	Years Ended December 31,	
	2015	2016
	<i>(in millions of pesos)</i>	
ISR:		
Current	85.9	234.0
ISR:		
Deferred	335.7	270.4
Total Income Tax	<u>421.6</u>	<u>504.4</u>

Income taxes increased by Ps.82.8 million, to Ps.504.4 million for the year ended December 31, 2016 from Ps.421.6 million for the year ended December 31, 2015. The effective tax rate reached 24.0% and 27.0% respectively, for 2015 and 2016.

The increase in the current ISR of Ps.148.1 million in the year ended December 31, 2016 compared to the year 2015 is attributable to the consolidation of AFS, Resuelve and Instacredit into our financial statements.

The decrease in deferred tax of Ps.65.3 million in the year ended December 31, 2016 compared to the year ended December 31, 2015 is mainly attributable to the accounting and tax differences in the allowance for loan losses, anticipated payments and accrued interest during the initial period of the portfolio.

Non-controlling Interest

Non-controlling interest decreased income by Ps.105.2 million for the year ended December 31, 2016, a decrease of Ps.106.7 million compared to Ps.1.5 million income for the year ended December 31, 2015, as a result of the recognition of our controlling interest in Don Carro, AFS and Instacredit under interest income.

Net Income Attributable to Controlling Interest

Net income attributable to controlling interest increased by Ps.342.7 million or 25.0%, to Ps.1,714.0 million for the year ended December 31, 2016, compared to Ps.1,371.4 million for the year ended December 31, 2015. Excluding the non-recurring effect of the unwinding of the financial derivatives transactions related to the prepayment of the 2019 Senior Notes in July 2016, net income for the year ended December 31, 2016 would have been Ps.1,542.1 million, which represented a 12.4% increase when compared to the net income in the year ended December 31, 2015.

Results of Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

Interest Income

The following table sets forth the components of our interest income for the years ended December 31, 2015 and 2014.

	Years Ended December 31,	
	2014	2015
	<i>(in millions of pesos)</i>	
Interest income from payroll loans	2,853.8	3,445.8
Interest income from used car loans	28.8	354.0
Interest income from small business loans.....	142.0	223.0
Interest income from durable goods loans and other	251.5	202.6
Interest income from group loans	51.1	38.9
Total interest income	3,327.1	4,264.2

For the year ended December 31, 2015, we had total interest income of Ps.4,264.2 million, reflecting an increase of Ps.937.1 million, or 28.2%, compared to Ps.3,327.1 million for the year ended December 31, 2014. Interest income earned on our payroll, small business and used car loans increased 20.7%, 57.0% and 1,130.9% respectively, while the interest income earned on our durable goods and other and microcredit group loans decreased 31.0% and 23.8% respectively, during the same period. The average balance of our total loan portfolio during the year ended December 31, 2015 was Ps.15,749.3 million, an increase of Ps.3,061.2 million or 24.1%, from the Ps.12,688.1 million average balance during the year ended December 31, 2014. The increase in interest income was driven by the increase in the average balance of our payroll loan and small business loan portfolios, together with the consolidation of Don Carro and the acquisition of AFS in the used car loan business line, which was partially offset by a decrease in interest income from durable goods loans.

Interest Expense

Total interest expense, which consists primarily of interest paid and accrued on our interest-bearing liabilities, increased Ps.70.0 million, reflecting a 7.9% increase to Ps.952.3 million for the year ended December 31, 2015 from Ps.882.3 million for the year ended December 31, 2014. This increase primarily resulted from an increase in our average level of indebtedness, which was used to finance the loan portfolio originated by our distributors. Our average balance of interest-bearing liabilities increased to Ps.15,114.8 million for the year ended December 31, 2015 from Ps.11,817.0 million for the year ended December 31, 2014, reflecting an increase of Ps.3,297.8 million, or 27.9%.

Financial Margin

Our financial margin increased by Ps.867.1 million, or 35.5%, to Ps.3,311.9 million for the year ended December 31, 2015, compared to Ps.2,444.8 million for the year ended December 31, 2014.

For the year ended December 31, 2015, the average interest rate earned from the average interest-earning assets was 25.8% and the average interest rate paid on interest-bearing liabilities was 6.3%, resulting in a net interest margin of 19.5%. Comparatively, the average interest rate earned from the average interest-earning assets during the year ended December 31, 2014 was 23.7% and the average interest rate paid on interest-bearing liabilities during the same period was 7.5%, resulting in a net interest margin of 16.2%.

Provisions for Loan Losses

Provisions for loan losses, the estimated reserve for unrecoverable loans, increased by Ps.81.1 million, or 30.7%, reflecting an increase to Ps.345.6 million for the year ended December 31, 2015 from Ps.264.5 million for the year ended December 31, 2014. This increase primarily reflects the increase in the average loan portfolio for the period.

As of December 31, 2015, the balance of the allowance for loan losses was Ps.485.5 million, which was equal to 116.7% of the Ps.416.1 million non-performing portfolio on our balance sheet as of that date. As of December 31, 2014, the balance of the allowance for loan losses was Ps.420.1 million, which was equal to 161.2% of the Ps.260.6 million non-performing portfolio on our balance sheet as of that date.

Commissions and Fees Paid

The following table sets forth the components of our commissions and fees paid for the years ended December 31, 2015 and 2014.

	Years Ended December 31,	
	2014	2015
	<i>(in millions of pesos)</i>	
Commissions and fees to specialized retail chains ⁽¹⁾	-	-
Bank fees ⁽²⁾	6.3	5.0
Total administrative commissions and fees	6.3	5.0
Commissions and fees related to debt issuances ⁽³⁾	92.6	137.1
Other commissions and fees	0.1	0.1
Total commissions and fees paid	<u>99.0</u>	<u>142.2</u>

(1) Commissions paid to distributors for the volume of loans originated, primarily for durable goods loans, based on the volume and conditions of such loans, such as interest rates and repayment periods, pursuant to the contracts entered into with our distributors.

(2) Represents commissions paid for administrative and processing bank fees.

(3) Commissions and fees related to debt issuances include commissions and fees to third parties (*e.g.*, underwriters and legal fees) in connection with the issuance of notes, the incurrence of indebtedness under credit facilities, the partial credit guarantees (*por aval*) from NAFIN and the issuance of our Senior Notes, as well as commissions and fees payable to rating agencies.

Total commissions and fees paid increased by Ps.43.2 million, or 43.6%, to Ps.142.2 million for the year ended December 31, 2015 compared to Ps.99.0 million for the year ended December 31, 2014. This increase primarily resulted from commissions and fees on an increased amount of debt issued to fund our loan portfolio origination.

Administrative and Marketing Expenses

Administrative and marketing expenses, which consist primarily of personnel remuneration and benefits expenses, including expenses incurred for wages, year-end bonuses and vacation premiums, as well as expenditures related to our information technology systems and rents under our office lease agreements, increased by Ps.508.5 million to Ps.1,138.1 million for the year ended December 31, 2015, compared to Ps.629.6 million for the year ended December 31, 2014. The variation is mainly due to the organic growth of our administrative services together with the consolidation of Directodo administrative expenses in 2015.

Operating Result

Operating result increased by Ps.246.8 million to Ps.1,722.2 million for the year ended December 31, 2015 compared to Ps.1,475.4 million for the year ended December 31, 2014. This increase primarily resulted from an increase in the financial margin, partially offset by an increase in the allowance for loan losses and administrative expenses.

Equity in Income of Associates

Equity in income of associates decreased by Ps.29.4 million to Ps.69.2 million for the year ended December 31, 2015, compared to Ps.98.6 million for the year ended December 31, 2014. This decrease primarily resulted from the consolidation starting in October 2014 of the results of Directodo as a majority-owned subsidiary, which was partially offset by our 49% participation in the results of Crédito Maestro and Publiseg.

Income Taxes

The following table sets forth the components of our income taxes for the years indicated.

	Years Ended December 31,	
	2014	2015
	<i>(in millions of pesos)</i>	
ISR:		
Current	20.1	85.9
ISR:		
Deferred	314.7	335.7
Total Income Tax	334.8	421.6

Income taxes increased by Ps.86.8 million to Ps.421.6 million for the year ended December 31, 2015, compared to Ps.334.8 million for the year ended December 31, 2014. The effective tax rate reached 20.0% and 24.0% respectively, for 2014 and 2015.

The current tax increased to Ps.85.9 million for the year 2015, compared to Ps.20.1 for the same period in 2014, reflecting the consolidation of Don Carro, AFS and Resuelve tu Deuda in 2015.

The increase in the deferred tax for the year ended December 31, 2015, compared to the same period in 2014, was primarily due to the accounting and tax difference in the methodology for determining the allowance for loan losses and the interest accrued during the initial period of a loan.

Non-controlling Interest

Non-controlling interest increased income by Ps.1.5 million for the year ended December 31, 2015, an increase of Ps.16.0 million compared to a loss of Ps.14.5 million for the year ended December 31, 2014, as a result of the consolidation of the results of Directodo, AFS and Resuelve Tu Deuda.

Net Income Attributable to Controlling Interest

Net income attributable to controlling interest increased by Ps.146.6 million or 12.0%, to Ps.1,371.3 million for the year ended December 31, 2015, compared to Ps.1,224.7 million for the year ended December 31, 2014. The increase in net income attributable to controlling interest was primarily the result of the reasons mentioned above.

Liquidity and Capital Resources

Our treasury is responsible for providing the resources needed to ensure that we can satisfy our working capital needs by securing a liquidity platform that allows us to achieve our aggressive growth projections. To this end, we have diverse sources of financing, such as bank credit lines, bond issuances in the local market and international markets. In addition, we constantly evaluate other potential sources of financing, such as the monetization of our portfolio and issuances of bond debt with partial guarantees.

The funds maintained in investments have been established during each quarter with the objective of providing the resources needed to fulfill our funding requirements. Short-term investments will serve to maximize value lost by maintaining these funds. If we have excess liquidity that will not be used in the short-term, we will analyze possible long-term investment opportunities, including in foreign currency. Investment proposals must include a certain combination of risk, yield, and financial instruments. We prioritize those investments that can be exchanged immediately for liquid capital.

As of September 30, 2017, we held Ps.580.2 million of cash and cash equivalents. Similarly, as of September 30, 2017, we had investments in securities valued at Ps.740.9 million, of which Ps.110.7 million were invested in financial instruments denominated in U.S. dollars, while the remaining Ps.630.2 million were denominated in pesos.

One of our sources of funding are notes (debt securities) publicly issued and placed in Mexico under our notes program. Other sources of funding are bank credit lines, including both revolving and term credit lines, provided by

recognized financial institutions, our U.S. dollar-denominated 2019 Senior Notes, which were issued in 2014 and our 2023 Senior Notes, which were issued in 2016.

Our total indebtedness (excluding accrued interest) increased by Ps.5,735.7 million, or 27.3%, from Ps.20,997.1 million as of September 30, 2016 to Ps.26,732.8 million as of September 30, 2017.

As of September 30, 2017, Ps.2,227.0 million, or 8.3%, of our total indebtedness (excluding accrued interest) consisted of short-term notes and outstanding bank credit lines due to mature in 2017. The remaining Ps.24,505.8 million, or 91.7%, of our total indebtedness (excluding accrued interest) consisted of both short-term and long-term notes and outstanding bank credit lines due to mature during 2018 and thereafter. As of September 30, 2017, we had a debt-to-equity ratio of 2.8 to 1. We continue to evaluate other financing sources, such as the securitization of portions of our loan portfolio, issuances of debt securities and bank credit lines.

The following tables present our total indebtedness (excluding accrued interest) as of December 31, 2014, 2015 and 2016 and as of September 30, 2016 and 2017 related to notes publicly issued in Mexico and bank financings in the form of credit lines:

	As of December 31						As of September 30,			
	2014		2015		2016		2016		2017	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
	<i>(in millions of pesos, except percentages)</i>									
Bank financings:										
At period end	4,196.0	6.38%	5,484.3	6.37%	4,314.0	9.04%	4,247.2	8.38%	7,125.9	10.00%
Average during period	3,825.8	7.02%	4,608.2	6.22%	5,896.4	7.89%	6,478.7	7.69%	5,742.0	9.76%
Maximum month-end balance.....	4,196.0	6.38%	5,484.3	6.37%	7,476.9	7.47%	7,476.8	7.47%	7,125.9	10.00%
Bond issuances:										
At period end	2,565.0	6.03%	3,605.0	5.62%	2,750.0	7.22%	4,395.5	6.55%	3,450.0	8.59%
Average during period	2,085.6	6.16%	3,008.3	5.53%	4,253.7	6.26%	4,450.4	6.06%	2,900.0	8.38%
Maximum month-end balance.....	2,642.8	6.03%	3,605.0	5.62%	4,927.0	6.28%	4,928.0	6.28%	3,450.0	8.59%
Total borrowings at period end (excluding accrued interest).....	6,761.0	6.25%	9,089.3	6.07%	7,064.0	8.33%	8,642.7	7.45%	10,575.9	9.54%

The following tables present, as of December 31, 2014, 2015, and 2016 and as of September 30, 2016 and 2017 our total indebtedness (excluding accrued interest) related to our 2019 and 2023 Senior Notes:

	As of December 31,						As of September 30,			
	2014		2015		2016		2016		2017	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
	<i>(in millions of pesos, except percentages)</i>									
Senior Notes										
At period end	6,898.8	9.06%	6,299.9	8.18%	13,891.3	10.34%	13,798.3	9.82%	13,706.8	11.88%
Average during period	5,577.8	9.26%	6,059.6	8.41%	10,068.3	8.76%	8,809.2	8.04%	13,752.9	11.52%
Maximum month-end balance.....	6,898.8	9.06%	6,299.9	8.18%	13,891.3	10.34%	13,798.3	9.82%	13,891.3	10.93%
Total.....	6,898.8	9.06%	6,299.9	8.18%	13,981.3	10.34%	13,798.3	9.82%	13,706.8	11.88%

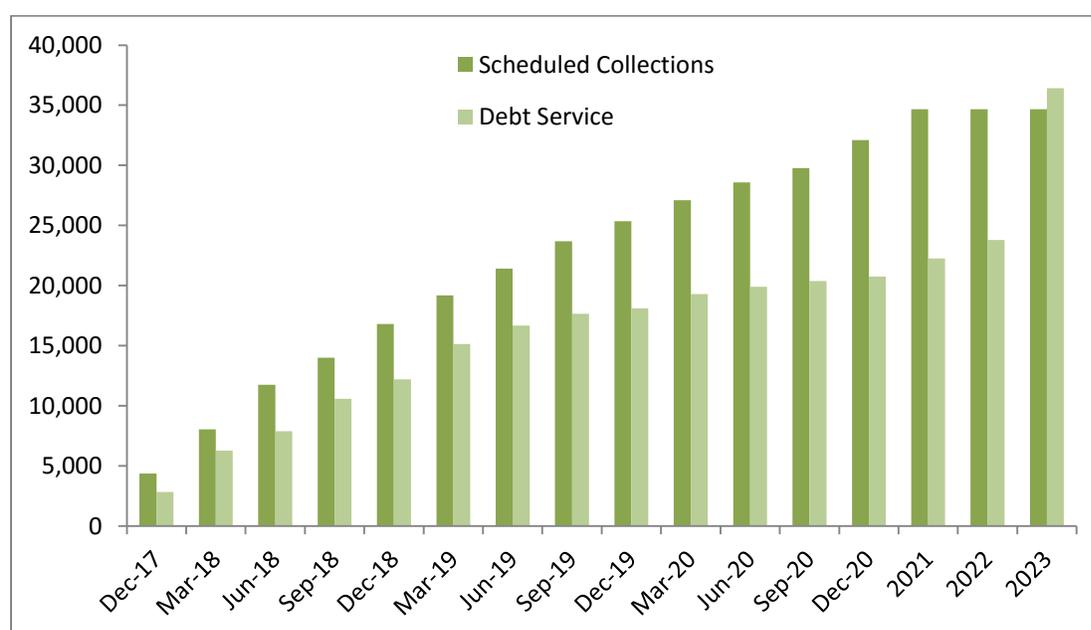
The following table presents, as of September 30, 2017 the indebtedness of our affiliates (excluding accrued interest):

	As of September 30, 2017					
	AFS		Instacredit		Resuelve	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
	<i>(in thousands of pesos, excluding percentages)</i>					
Bank financings						
At period end.....	498.8	5.23%	1,941.0	12.65%	10.3	10.00%
Average during period.....	628.4	5.66%	2,022.5	12.47%	6.6	9.83%
Maximum month-end balance.....	889.8	6.02%	2,265.8	12.70%	8.7	9.75%
Total	498.8	5.23%	1,941.0	12.65%	10.3	10.00%

Our management expects that cash flow from operations and other sources of liquidity will be sufficient to meet our liquidity requirements over the next 12 months. The main source of our cash flow from operations is collections of installment payments on the loans in our loan portfolio.

The table below presents our projected collections of principal and interest on outstanding loans in our loan portfolio (Collections) and our projected obligations under our outstanding indebtedness, as of September 30, 2017, including interest payments and the repayment of principal at maturity (Obligations), during the fourth quarter of 2017, and the first, second and third quarters of 2018, on a quarterly basis and in an aggregate amount over those periods. As set forth in the table, our collections, assuming no material change in the default rate of our loan portfolio, are expected to exceed our financial obligations during each quarter.

	2017	2018			Aggregate
	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	
			<i>(in millions of pesos)</i>		
Collections	4,371.7	8,035.2	11,746.3	13,984.4	38,137.6
Obligations	2,836.1	6,277.8	7,892.0	10,576.1	27,582.0

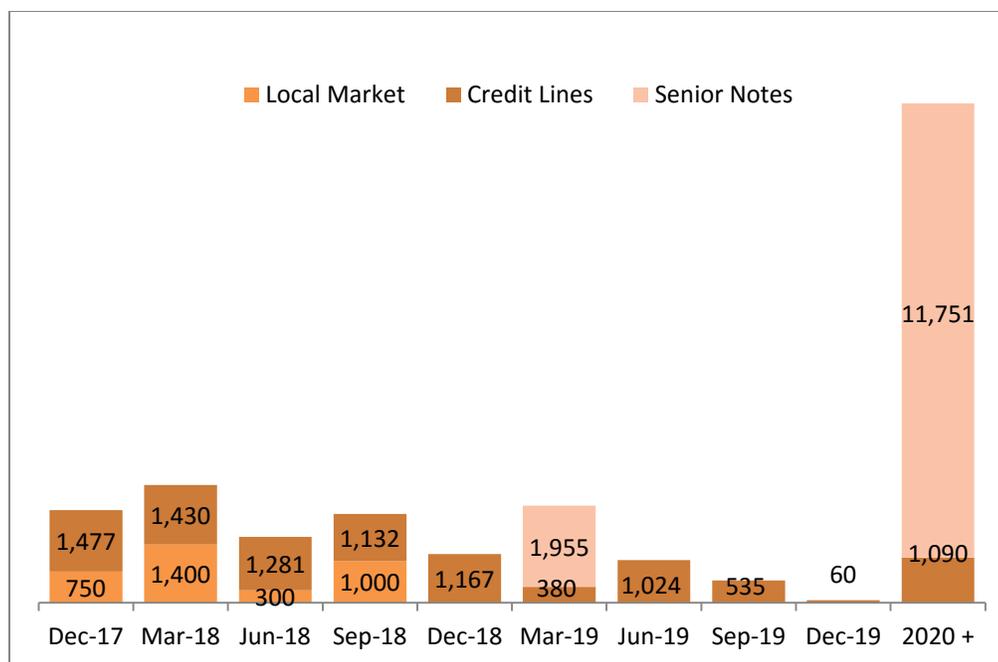


Contractual Obligations

The table below sets forth information regarding our contractual obligations (excluding accrued interest) as of September 30, 2017.

	As of September 30, 2017				2020 and Thereafter
	TOTAL	2017	2018	2019	
		<i>(in millions of pesos)</i>			
Debt (excluding accrued interest and mark-to-market): ⁽¹⁾					
Short-term debt	5,276.7	1,788.9	3,487.7	-	-
Current portion of long-term debt	33.9	33.9	-	-	-
Long-term debt	21,422.2	404.2	4,223.2	3,953.3	12,841.5
Operating leases	-	-	-	-	-
Total contractual obligations (excluding accrued interest and mark-to-market)	26,732.8	2,227.0	7,710.9	3,953.3	12,841.5

(1) For further information regarding the calculation of our contractual obligations, please see Note 13 to our annual financial statements.



As of September 30, 2017, our weighted debt maturity is 3.3 years. In contrast, our weighted debt maturity was 2.5 years as of December 31, 2014, 1.9 years as of December 31, 2015, 3.9 years as of December 31, 2016, and 3.9 years as of September 30, 2016.

As of September 30, 2017, Ps.4,937.5 million, or 18.5%, of our outstanding indebtedness (excluding accrued interest) was secured by collateral.

As of September 30, 2017, our contractual obligations denominated in U.S. dollars represented US\$870 million aggregate principal amount, US\$625 million of 2023 Senior Notes issued in 2016, the outstanding portion of US\$134.9 million of 2019 Senior Notes issued in 2014 and US\$110 million of a syndicated credit line. However, except for US\$75 million relating to the 2023 Senior Notes, the principal and interest payments related to these obligations were fully hedged through cross-currency swaps, which in some cases employ exchange rate caps.

As of September 30, 2017, we were in compliance with all payments of principal and interest under our outstanding indebtedness. The instruments governing our existing indebtedness contain certain covenants that limit the future actions we may take or transactions that we may enter into. Following is a brief description of the principal terms of such instruments.

Indenture Governing Our 2023 Senior Notes

On July 20, 2016, we entered into an indenture pursuant to which we issued and sold US\$625 million aggregate principal amount of 2023 Senior Notes. The 2023 Senior Notes will mature on July 20, 2023. As of September 30, 2017, we had US\$625.0 million of indebtedness outstanding under this indenture. The indenture governing the 2023 Senior Notes contains covenants that limit the creation of liens by us and any subsidiaries of ours, and will permit us and any subsidiaries to consolidate or merge with, or transfer all or substantially all of our assets, only if any such transaction complies with certain requirements. In addition, subject to a number of important exceptions and qualifications, the indenture (as amended or supplemented from time to time) governing the 2023 Senior Notes limits our ability and the ability of any subsidiaries of ours to incur additional indebtedness, pay dividends or redeem capital stock, make restricted payments, enter into certain transactions with shareholders and affiliates, secure our indebtedness and the indebtedness of our subsidiaries, guarantee debts and sell assets.

Indenture Governing Our 2019 Senior Notes

On March 13, 2014, we entered into an indenture pursuant to which we initially issued and sold US\$350 million aggregate principal amount of 2019 Senior Notes, followed by an additional issuance of US\$75 million aggregate principal amount of 2019 Senior Notes thereunder on March 18, 2014. The 2019 Senior Notes will mature on March 13, 2019. On July 20, 2016, we purchased a total principal amount of US\$290 million of the 2019 Senior Notes pursuant to a tender offer, using the proceeds of our 2023 Notes. As of September 30, 2017, we had US\$134.9 million of indebtedness outstanding under this indenture. The indenture governing the 2019 Senior Notes contains covenants that limit the creation of liens by us and any subsidiaries of ours, and will permit us and any subsidiaries to consolidate or merge with, or transfer all or substantially all of our assets, only if any such transaction complies with certain requirements. In addition, subject to a number of important exceptions and qualifications, the indenture (as amended or supplemented from time to time) governing the 2019 Senior Notes limits our ability and the ability of any subsidiaries of ours to incur additional indebtedness, pay dividends or redeem capital stock, make restricted payments, enter into certain transactions with shareholders and affiliates, secure our indebtedness and the indebtedness of our subsidiaries, guarantee debts and sell assets.

Loan Agreements

We have access to bank credit lines in an aggregate amount of Ps10,405.9 million as of September 30, 2017. As of September 30, 2017, an aggregate amount of Ps.9,576.0 million is outstanding from such bank credit lines. As of September 30, 2017, approximately Ps.4,937.5 million, or 18.5%, of our loan portfolio was pledged to secure our obligations under certain of our credit facilities. As of September 30, 2017, approximately Ps.566.5 million remains available under our bank credit lines.

Loan Agreement with NAFIN

On March 18, 2005, we entered into a term credit facility with NAFIN (as amended and supplemented on March 14, 2006, October 7, 2008, March 10, 2009, April 24, 2009, September 3, 2010, September 27, 2011, January 8, 2013, August 30, 2013, November 7, 2014 and April 4, 2017, respectively) for an aggregate principal amount of Ps.1,500.0 million for purposes of granting equipment and business loans. This revolving credit facility has an indefinite term. As of September 30, 2017, we had Ps.1,325.4 million of indebtedness outstanding under this credit facility. This agreement does not have a maturity date. We are subject to certain restrictive covenants under the terms of this credit facility that, among other things, limit our ability to sell or assign the accounts receivable we originate and fund with the proceeds of this loan.

Loan Agreement with Banco Invex

On March 29, 2017, we entered into a secured term credit facility with Banco Invex, S.A., Institución de Banca Múltiple, Grupo Financiero (“Banco Invex”), with a total principal amount of Ps.250.0 million. This credit facility will mature on October 7, 2018. The loans under this credit facility bear interest at a rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017 the outstanding principal amount under this contract was Ps.180.6 million. This credit facility requires us to comply with certain covenants that, among other things, limit our ability to: (1) sell, lease or grant bailment on our assets, (2) conduct mergers or spin-offs; (3) reduce our capital stock; and (4) modify our capital structure. Furthermore, under the terms of this facility, we are required to inform Banco Invex of any amendment to our bylaws and changes in our capital structure. This credit facility is secured by a pledge of a portion of our accounts receivable.

Loan Agreement with Banco Ve por Más

On May 15, 2017, we entered into a secured revolving credit facility with Banco Ve por Más, S.A., Institución de Banca Múltiple, Grupo Financiero Ve por Más (“Banco Ve por Más”) with a maximum aggregate principal amount of Ps.300.0 million. This credit facility will mature on December 15, 2020. The loans under this credit facility bear interest at a fixed or variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017, we had Ps.274.3 million of indebtedness outstanding under this credit facility. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit our ability to: (1) sell assets, (2) provide collateral to lenders, (3) reduce our capital stock

and (4) modify our capital structure. This credit facility is secured by a pledge of a portion of our accounts receivable.

Loan Agreements with Bancomer

On May 6, 2016, we entered into a secured credit facility with BBVA Bancomer, S.A. Institución de Banca Múltiple (“Bancomer”) Grupo Financiero BBVA Bancomer (as amended and supplemented on May 4, 2017 and June 2, 2017) for an aggregate principal amount of Ps.600.0 million. The loans under this credit facility bear interest at a variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement, with a maturity date of May 6, 2020. As of September 30, 2017, we had Ps.600.0 million of indebtedness outstanding under this credit facility. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit our ability to: (1) sell assets; (2) provide collateral to lenders; (3) incur additional indebtedness, as well as require us to maintain (A) a ratio of non-performing loans to total loans less than or equal to 5%, and (B) a coverage ratio of non-performing loans greater than or equal to 1.2x. This credit facility is secured by a pledge of a portion of our accounts receivable.

Loan Agreement with Scotiabank

On April 26, 2013, we entered into a term loan facility secured by a pledge with Scotiabank Inverlat S.A. Institución de Banca Múltiple (“Scotiabank”), Grupo Financiero Scotiabank Inverlat (as amended on September 3, 2015 and March 28, 2017), with a maximum aggregate principal amount of Ps.450.0 million. This credit facility will mature on April 28, 2020. The loans under this credit facility bear interest at a fixed or variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017, the unpaid amount under this credit facility was Ps.414.5 million. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit our ability to: (1) sell, lease or transfer assets; (2) provide collateral to lenders; (3) conduct mergers or spin-offs; (4) enter into derivative transactions for speculative purposes; (5) incur additional indebtedness; and (6) modify our capital structure, as well as require us to maintain (A) a minimum capitalization ratio of 13.5%, (B) a ratio of non-performing loans to total loans less than or equal to 4% and (C) a minimum risk coverage of 100%, among others. This credit facility is secured by a pledge of a portion of our accounts receivable.

Loan Agreement with Banco Del Bajío

On April 12, 2013, we entered into a credit facility secured by a pledge with Banco del Bajío, SA, Institución de Banca Múltiple (as amended on March 26, 2014, June 29, 2015 and April 8, 2016), with a maximum aggregate principal amount of Ps.350.0 million. This credit facility will mature on April 8, 2022. The loans under this credit facility bear interest at a variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017, the outstanding amount under this credit facility was Ps.330.6 million. This credit facility requires us to comply with certain covenants that, among other things, limit our ability to: (1) provide collateral to lenders, (2) reduce our capital stock, (3) conduct mergers or spin-offs and (4) modify our corporate structure. This credit facility is secured by a pledge of a portion of our accounts receivable.

Loan Agreements with Multiva

On December 11, 2015, we entered into a credit facility secured by a pledge with Banco Multiva, S.A., Institución de Banca Múltiple, Grupo Financiero Multiva, with a maximum aggregate principal amount of Ps.100.0 million. This credit facility will mature on December 11, 2017. The loans under this credit facility bear interest at a fixed or variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017, the outstanding amount under this credit facility was Ps.100.0 million.

On April 18, 2016, we entered into a credit facility secured by a pledge with Banco Multiva, S.A., Institución de Banca Múltiple, Grupo Financiero Multiva, with a maximum aggregate principal amount of Ps.100.0 million. This credit facility will mature on April 18, 2018. The loans under this credit facility bear interest at a fixed or variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017, the outstanding amount under this credit facility was Ps.100.0 million.

Loan Agreement with Credit Suisse

On February 16, 2017, we entered into a term loan facility with several lenders party thereto, Credit Suisse AG, Cayman Islands Branch, as administrative agent, and Credit Suisse Securities (USA) LLC, as lead arranger, with a maximum aggregate principal amount of US\$110.0 million. This credit facility will mature on February 21, 2020. The loans under this credit facility bear interest at a variable rate equal to LIBOR plus 5.5%. As of September 30, 2017 the outstanding amount under this credit facility was US\$110.0 million. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit our ability to (1) conduct mergers or spin-offs except as permitted thereunder; (2) sell, lease or transfer assets except as permitted thereunder; (3) pay dividends; and (4) create or permit to be created any lien except for permitted liens thereunder, as well as requires us to maintain (A) a capitalization ratio equal to or greater than 0.135:1.00; (B) a delinquency ratio equal to or lower than 0.04:1.00; (C) a risk coverage ratio equal to or greater than 1.00:1.00; (D) a leverage ratio equal to or lower than 3.5:1.00; and (E) a minimum liquidity ratio equal to or greater than 1.10:1.00.

Loan Agreement with Bladex

On November 30, 2015, we entered into a credit facility with Banco Latinoamericano de Comercio Exterior, S.A., with a maximum aggregate principal amount of Ps.420.0 million. This credit facility will mature on November 28, 2018. The loans under this credit facility bear interest at a variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017, the outstanding amount under this contract was Ps.248.9 million. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit our ability to: (1) sell assets; (2) provide collateral to lenders; (3) conduct mergers or spin-offs; (4) reduce our capital stock; and (5) modify our capital structure; as well as requires us to maintain (A) a capitalization ratio equal to or greater than 13.5%; (B) a leverage ratio equal to or lower than 3.5:1.0; (C) maintain a ratio of non-performing loans to total loans less than or equal to 5%; (D) minimum liquidity ratio equal to or greater than 1.1:1.0; and (E) a risk coverage ratio equal to or greater than 100%.

Loan Agreement with SMBC

On January 27, 2016, we entered into a term loan facility secured by a pledge with SMBC, S.A.P.I de C.V., SOFOM E.N.R. (as amended on September 12, 2017) with a maximum aggregate principal amount of Ps.900.0 million. This credit facility will mature on September 18, 2020. The loans under this credit facility bear interest at a variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017, the outstanding amount under this credit facility was Ps.700.0 million. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit our ability to (1) conduct mergers or spin-offs; (2) amend or modify our bylaws; (3) pay dividends except as permitted thereunder; and (4) create or permit to be created any lien except for permitted liens thereunder, as well as require us to maintain (A) a capitalization ratio equal to or greater than 13.5%; (B) a ratio of non-performing loans to total loans less than or equal to 4%, (C) a risk coverage ratio equal to or greater than 100%, (D) a collateral coverage ratio equal to or less than 65% and (E) a minimum liquidity ratio equal to or greater than 1.1:1.0.

Loan Agreement with Mifel

On August 1, 2016, we entered into a credit facility secured by a pledge with Banca Mifel, S.A., Institución de Banca Múltiple, Grupo Financiero Mifel, with a maximum aggregate principal amount of Ps.100.0 million. This credit facility will mature on August 1, 2019. The loans under this credit facility bear interest at a variable rate equal to TIEE plus an applicable margin set forth in the promissory notes that evidence each disbursement. As of September 30, 2017, the outstanding amount under this credit facility was Ps.100.0 million. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit our ability to (1) conduct mergers or spin-offs except as permitted thereunder; (2) sell, lease or transfer assets except as permitted thereunder; (3) pay dividends; and (4) create or permit to be created any lien except for permitted liens thereunder, and requires us to maintain (A) a capitalization ratio equal to or greater than 0.20:1.00; and (B) a delinquency ratio equal to or lower than 0.05:1.00.

Loan Agreement with Citibanamex

On August 10, 2017, we entered into a secured credit facility with Banco Nacional de Mexico, S.A. ("Citibanamex"), Grupo Financiero Citibanamex for an aggregate principal amount of Ps.500.0 million. The loans under this credit facility bear interest at a variable rate equal to TIEE plus an applicable margin set forth in the

promissory notes that evidence each disbursement. As of September 30, 2017, we had Ps.500.0 million of indebtedness outstanding under this credit facility, with a maturity date of August 8, 2018. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit our ability to: (1) conduct mergers or spin-offs except as permitted thereunder; (2) sell, lease or transfer assets except as permitted thereunder; (3) pay dividends; (4) create or permit to be created any lien except for permitted liens thereunder; and (5) incur additional indebtedness; and requires us to maintain: (A) a ratio of non-performing loans to total loans less than or equal to 4%, (B) a coverage ratio of non-performing loans greater than or equal to 100%, (C) capitalization ratio equal to or greater than 20%, and (D) a liquidity ratio equal to or greater than 10%. This credit facility is secured by a pledge of a portion of our accounts receivable.

Loan Agreement with Santander (Resuelve tu Deuda)

On September 11, 2017, Reparadora RTD, S.A. de C.V., entered into two credit facilities with Banco Santander (México), S.A., Integrante del Grupo Financiero Santander Mexico for a maximum aggregate principal amount of Ps.7.5 million each. These credit facilities mature 12 months after their execution date. The loans under these credit facilities bear interest at a variable annual rate of THIE plus 4.5%. As of September 30, 2017, the outstanding amount under each credit facility was Ps.5.0 million and Ps.5.3 million, respectively. The facility terms allow partial or full prepayments without penalty and require the borrower and its joint obligors to comply with certain restrictive covenants that, among other things, limit their ability to: (1) sell or impose a lien over assets; (2) provide collateral to lenders; (3) conduct mergers, transformations or spin-offs; and (4) transfer the shares that represent their capital stock or change the control of the company.

Loan Agreement with Wells Fargo (AFS)

On May 3, 2017, our subsidiary AFS entered into a senior credit facility with Wells Fargo Bank, National Association as administrative agent, as well as the lenders parties thereto, secured by a pledge over all the assets of AFS, with a maximum aggregate principal amount of US\$35.0 million. This credit facility will mature on May 3, 2018. The loans under this credit facility bear interest at a variable rate equal to LIBOR plus 4.0% to 4.5%, depending on the leverage ratio. As of September 30, 2017, the outstanding amount under this credit facility was Ps.498.8 million, or US\$27.5 million. This credit facility requires us to comply with certain restrictive covenants that, among other things, limit AFS's ability to (1) conduct mergers or spin-offs except as permitted thereunder; (2) sell, lease or transfer assets except as permitted thereunder; (3) create or permit to be created any lien except for permitted liens thereunder, and requires AFS to maintain (A) a Maximum Debt to Adjusted Tangible Net Worth Ratio (as defined therein) of no more than 2.25 to 1.0; (B) a Collateral Performance Indicator (as defined therein) of less than or equal to 32% as of the end of each calendar month; and (C) adjusted tangible net worth of at least US\$19,500,000 in the aggregate for all borrowers.

Loan Agreements of Instacredit

Our subsidiary Instacredit, S.A., is the borrower under 13 credit facilities (the "Facilities"), six of which are revolving. The creditors under the Facilities are Banco de Costa Rica, Banco Nacional de Costa Rica, Banco BCT, S.A., BCT Bank, Intl., Prival Bank (Costa Rica), (previously known as Banco de Soluciones Bansol de Costa Rica, S.A.), Banco Davivienda (Costa Rica), S.A., Banco Cathay de Costa Rica S.A., Banco Promerica de Costa Rica, S.A., Banco Lafise, S.A., Banco Improsa, S.A., MMG Bank Corporation and Republic Bank Limited. The total amount of the Facilities is ₡67.5 billion. Of the Facilities, three mature in 2018, and ten in 2020. Eleven of the Facilities bear interest at a variable annual interest rate and two have fixed annual rates which range between 8% and 14%. As of September 30, 2017, the outstanding amount under the Facilities was Ps.1,941.0 million. Payment obligations under the Facilities are secured by security trusts and/or personal guarantees. The Facilities require us to comply with certain restrictive covenants that, among other things, limit our ability to: (1) sell or impose a lien over assets, (2) provide collateral to lenders, (3) conduct mergers, transformations or spin-offs, (4) transfer the shares that represent its capital stock (5) pay dividends and (6) grant loans, as well as require Instacredit to maintain the following: (A) a ratio of floating assets to current liabilities greater than 1:1; (B) a ratio of total debt to total assets equal to or less than 80%; (C) an interest coverage ratio greater than 1:1; and (D) a minimum cash flow as required by each respective lender.

Bond Programs

On November 15, 2011, we established a revolving long-term note program that expired on November 15, 2016, with an aggregate principal amount of up to Ps.2,500.0 million, which was increased to an aggregate principal amount of up to Ps.5,000 million on March 23, 2016. Under such program we have two outstanding issuances: the sixth issuance under the program of a total of Ps.1,000.0 million which matures on March 23, 2018, and the seventh issuance under the program of a total of Ps.1,000.0 million which matures on September 13, 2018. The bonds under this program were originally registered in the RNV under Registration No. 2331-4.15-2011-004, and Registration No. 2331-4.15-2016-005 after renewing their securities registration, and in the corresponding listing on the Mexican Stock Exchange.

On March 7, 2017, the CNBV authorized the registration on the RNV of a new long and short-term note program, under which we are allowed to publicly issue a maximum aggregate principal amount of Ps. 7,500.0 million in the understanding that the aggregate principal amount of all outstanding short term notes can not exceed Ps.2,500.0 million. This program will expire on March 7, 2022. As of September 30, 2017, we had six outstanding issuances with an aggregate principal amount of Ps.1,450.0 million. The bonds under this program were registered in the RNV under Registration No. 2331-4.19-2017-011 and in the corresponding listing on the Mexican Stock Exchange.

The instruments governing our bonds contain certain covenants that, among other things, limit our ability to: (1) pay dividends; (2) guarantee the obligations of third parties; (3) conduct mergers; (4) reduce our capital stock; (5) enter into derivative transactions, unless they are entered into for hedging purposes; (6) amend our bylaws; and (7) incur additional indebtedness unless certain minimum financial ratios applicable to us are met.

As of September 30, 2017, we had eight outstanding issuances of notes with a combined aggregate principal amount of Ps.3,450 million. As of September 30, 2017, two of our outstanding issuances of notes had a maturity (as measured from the date of issuance) of greater than one year, which we consider long-term notes and our six remaining outstanding issuances of notes had a maturity (as measured from the date of issuance) of less than one year, which we consider short-term notes.

Below is a summary of our outstanding Peso-denominated notes (excluding accrued interest) as of September 30, 2017:

Issuance Date	Maturity Date	Principal Amount (in pesos)	Interest Rate	Term (Days)	Ticker
October 9, 2015	March 23, 2018	1,000,000,000	TIE + 2.00	896	CREAL-15
March 31, 2016	September 13, 2018	1,000,000,000	TIE + 2.70	896	CREAL-16
April 6, 2017	October 5, 2017	250,000,000	TIE + 0.90	182	CREAL-00217
May 4, 2017	November 9, 2017	250,000,000	TIE + 0.90	189	CREAL-00317
June 8, 2017	December 7, 2017	250,000,000	TIE + 0.90	182	CREAL-00417
July 6, 2017	February 1, 2018	200,000,000	TIE + 0.90	210	CREAL-00517
August 3, 2017	March 1, 2018	200,000,000	TIE + 0.85	210	CREAL-00617
September 7, 2017	April 5, 2018	300,000,000	TIE + 0.90	210	CREAL-00717

Off Balance Sheet Arrangements

As of September 30, 2017, we did not have any off balance sheet arrangements.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks associated with our assets, liabilities and operations, including risks related to interest rates, credit, inflation and exchange rates. We continually assess our exposure to market risk that arises in connection with our operations and financial activities.

Credit Risk

Credit risk is the possibility of a loss arising from a credit event, such as the failure by a borrower to make principal and interest payments under previously agreed terms, which causes an asset to lose value. The purpose of credit risk management is to mitigate and optimize credit risk, keeping our exposure to credit risk within a permissible level relative to our capital, in order to maintain the soundness of our assets and to ensure returns commensurate with risk. Our current credit policy sets forth uniform and basic operating concepts, code of conduct and standards for credit operations. By giving our employees extensive credit training, we aim to achieve a high standard of credit risk management, and create a better credit risk management culture within Crédito Real.

We have developed and refined our own proprietary underwriting standards and a digitalized credit review system, which help ensure high-quality loan portfolios and a faster credit approval process. In reviewing credit applications, we rely on both quantitative and qualitative measures, allowing us to utilize our knowledge and experience to better evaluate credit risk on a case-by-case basis. We believe our risk analysis systems allow us to make better credit decisions when evaluating credit applications from customers with limited or no credit histories or who work in the informal economy. We believe that our business model limits our credit exposure to credit risk. Our payroll loans are repaid on behalf of our borrowers through direct charges from the borrowers' paychecks pursuant to express written instructions from the borrowers. These instructions authorize a borrower's public sector employer or labor union to make fixed installment payments during the term of the payroll loan from the borrower's payroll wages before those wages are paid. In the case of group loans, we require our customers to provide a security deposit equivalent to 10% of the principal loan amount prior to the disbursement of each loan, and each group member jointly and severally guarantees each other group member's obligations, assuming joint responsibility for any missed payment by another group member. In addition, payments on our durable goods loans are supported by our possession of invoices for the goods purchased with the proceeds of such loans, facilitating repossession and limiting the ability of borrowers to dispose of the goods before the loans are fully repaid. However, for purposes of enforcing our collection rights, we use only the promissory notes (*pagarés*) that evidence the corresponding loans.

As part of our ongoing process to monitor risks, we monitor the credit collection process, which is a crucial aspect of our credit process. We analyze, evaluate and monitor each loan individually. Special attention is paid to non-performing loans, and stricter measures are used to monitor these loans.

Inflation Risk

Historically, high levels of inflation in Mexico have led to higher interest rates, depreciation of the peso and substantial government controls over exchange rates and prices. Increased inflation generally increases our cost of funding, which we may not be able to pass on to our customers through higher interest rates without adversely affecting the volume of the loans we originate. The level of and fluctuations in interest rates affect our ability to earn a spread between interest received on our loans and the cost of our funding. All of our loans have fixed interest rates, which may not reflect the real return we are receiving in an inflationary environment and may not, as a result, fully compensate us for the risk we are bearing on our loan portfolio. If the rate of inflation increases or becomes uncertain and unpredictable, our business, financial condition and results of operations could be adversely affected.

According to figures issued by INEGI, the annual rate of inflation in Mexico, as measured by changes in the National Consumer Price Index, was 6.5% in 2008, 3.6% in 2009, 4.4% in 2010, 3.8% in 2011, 3.6% in 2012, 4.0% in 2013, 4.1% in 2014, 2.1% in 2015 and 3.4% in 2016. High inflation can adversely affect consumer purchasing power and, thus, reduce the demand for the loan products we offer.

Fluctuations in Exchange Rates Between the Mexican peso and the U.S. dollar

We are exposed to foreign currency exchange rate risk and U.S. dollar-denominated interest rate risk as a result of our obligations contracted in this currency. Of the total aggregate amount of US\$625.0 million from our 2023 Senior Notes, we entered into cross-currency swap contracts for a total amount of US\$550.0 million and the remaining US\$75.0 million had a natural hedge from our used car loan portfolio originated in the United States. The total amount of our 2019 Senior Notes outstanding of US\$134.9 million and our syndicated credit line in a total aggregate amount of US\$110.0 million were both fully hedged by cross-currency swap contracts.

These instruments effectively allow us to fix the exchange rate at which the coupon and principal payments related to our contractual obligations. We entered into these cross-currency swaps to ensure that any depreciation of the peso with respect to the U.S. dollar during the term of our debt does not increase our debt obligations in peso terms and does not limit our ability to meet our foreign currency-denominated obligations. Therefore, under the cross-currency swaps, we deliver pesos to the counterparty under the swap at the beginning of the period and will receive amounts from our counterparties in U.S. dollars. Thus, essentially through these swaps funds received by us from our lending activities in local currency are applied to service our foreign currency (U.S. dollar) obligations without the need to convert pesos to U.S. dollars.

Additionally, we entered into a collar by purchasing a put at Ps.14.50 and the sale of a call at Ps.20.00 per U.S. dollar at the end of the transaction in March 2019, for US\$75.0 million of our 2019 Senior Notes. For accounting purposes, we have designated these instruments as hedging, recording fair value changes in the results of the period.

Any appreciation of the peso with respect to the U.S. dollar during the term of the debt may result in mark-to-market losses, which in turn, could trigger margin calls. Therefore, we have entered into credit lines with our cross-currency swap counterparties that help mitigate the risks of having to post collateral with our swap counterparties in order to satisfy margin calls. As of September 30, 2017, we have Ps.13.7 million posted as collateral to satisfy margin calls with three different counterparties.

We have determined that the cross-currency swap instruments meet the criteria to be accounted for as a fair value hedge. Accordingly, the value of the cross-currency swaps and the related hedged debt receive fair value accounting treatment.

Cross-currency swap agreements are managed in line with our risk policy, the treasury handbook and require authorization from our Executive Committee. As a result, we can only enter into derivative financial instruments for hedging purposes.

The effectiveness of our cross-currency swaps is measured through a regression model. This model measures the correlation between the change of the reasonable value of the primary position and the value of the hedging instrument. A retrospective effective test measures the difference between the primary position and the fair value of the cross-currency swaps. This is measured by evaluating the net present value of the expected cash flows of both the primary position and the fair value of the cross-currency swaps, discounted at the risk free rate.

The hedge is considered effective if both tests are in the range between 80% and 125%. As of September 30, 2017, both tests showed that the hedge was 100% effective.

Interest Rate Risk

We are exposed to interest rate and maturity mismatches between our loans and sources of funding. Our loan portfolio consists entirely of loans bearing interest at fixed rates, and the yield from our loans depends on the spread between our cost of funding and the interest rates we charge our customers. An increase in interest rates, or general uncertainty about changes in interest rates, could affect demand for credit, and thus demand for our direct and indirect financing products. In addition, an increase in market interest rates in Mexico could increase our cost of funding under circumstances in which we could not timely and fully increase interest rates we charge to our customers. Such a situation could reduce the spread we earn on our loan portfolio.

Any mismatch between the maturity of our loan portfolio and our sources of funds could magnify the effect of any imbalance in interest rates, also representing a liquidity risk if we fail to obtain funding on an ongoing basis. An increase in our total cost of funds for any of these reasons could result in an increase in the interest rates on our loans, which could, as a result, affect our ability to attract new customers.

Interest rate fluctuations in Mexico have a significant effect on our business. While our interest-earning assets bear fixed interest rates, all of our interest-bearing liabilities currently carry floating interest rates equal to the 28-day TIIE, plus a spread, and are subject to frequent repricing. The TIIE is the benchmark interbank interest rate applicable to borrowing from and lending to Banco de México in transactions denominated in pesos, published daily in the Official Gazette. For information regarding the high, low and average TIIE during each of the periods indicated in this offering memorandum, as well as information on our interest cost of funding, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Fluctuations.”

The cross-currency swap hedge agreement also includes an interest rate swap related to interest we incur on the 2019 and 2023 Senior Notes and our syndicated credit line. For our 2019 Senior Notes, and US\$211.8 million of our 2023 Senior Notes, the instrument changes the interest profile from a fixed rate in dollars to fixed rates in pesos, so we deliver interest calculated at a fixed rate in pesos to the counterparty every 28 days and the counterparty delivers interest calculated at a fixed rate and in U.S. dollars to us every six months. For the remaining amount of US\$338.2 million of our 2023 Senior Notes, the instrument changes the interest profile from a fixed rate in dollars to a variable rate in pesos, so we deliver interest calculated at a TIIE plus an applicable margin every 28 days and the counterparty delivers interest calculated at a fixed rate in U.S. dollars to us every six months.

In the case of the syndicated credit, the instrument changes the interest profile from a variable rate in dollars to a fixed rate in pesos, so we deliver interest calculated at a fixed rate in pesos to the counterparty every 30 days and the counterparty delivers interest calculated at LIBOR plus an applicable margin in U.S. dollars to us every three months.

As of September 30, 2017, we also had two interest rate swap contracts in order to change variable rates to fixed rates, for both of our medium term notes issued in the local market.

Considering all the contracted hedges by us, such as the cross-currency swaps and the interest rate swaps, 48.3% of our total debt has fixed rates.

SELECTED STATISTICAL INFORMATION

The following tables present certain of our selected statistical information and ratios for the periods indicated. The following information should be read in conjunction with our financial statements and the notes thereto included elsewhere in this offering memorandum, as well as “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Presentation of Certain Financial and Other Information.” The statistical information and discussion and analysis presented below for the fiscal years ended December 31, 2014, 2015 and 2016 and the nine month period ended September 30, 2016 and 2017 are presented solely for the convenience of the reader for analytical purposes.

Certain amounts and percentages included in this offering memorandum have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different contexts may vary slightly and figures in certain other contexts may not be an exact arithmetic result of the figures shown herein.

Average Balance Sheet and Interest Rate Data

Average balances for peso-denominated assets and liabilities have been calculated in accordance with the following procedure: Our nominal average balances are quarterly averages. Interest income (expense) for each category has been calculated in the following manner: aggregate interest income (expense) for the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2017 are nominal amounts. Interest income (expense) for the year is the total income (expense) for the twelve months so determined.

The average annual rates earned on interest-earning assets and the average annual rate paid on interest-bearing liabilities are nominal rates.

Average Assets and Interest Rates

The table below presents the average quarterly balance of assets, interest income and average annual interest rate for the periods indicated.

	For the year ended December 31,								
	2014			2015			2016		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
<i>(in millions of pesos, except percentages)</i>									
Investment in securities:									
Pesos	1,270.5	78.7	6.2%	595.7	16.2	2.7%	1,153.0	69.6	6.0%
Dollars.....	0.0	0.0	0.0%	0.0	0.0	0.0%	26.3	0.0	0.0%
Sub-total.....	1,270.5	78.7	6.2%	595.7	16.2	2.7%	1,179.3	69.6	5.9%
Loans:									
Pesos	12,688.1	3,248.3	25.6%	15,381.6	4,052.7	26.3%	16,956.2	4,779.0	28.2%
Dollars.....	367.7	195.3	53.1%	5,454.7	2,109.6	45.7%	2,109.6	2,109.6	45.7%
Sub-total.....	12,688.1	3,248.3	25.6%	15,749.3	4,248.0	27.0%	22,410.9	6,888.6	30.7%
Cash and cash equivalents:									
Pesos	103.9	0.0	0.0%	154.3	0.0	0.0%	322.7	0.0	0.0
Dollars.....	12.1	0.0	0.0%	160.1	0.0	0.0%	160.1	0.0	0.0
Sub-total.....	103.9	0.0	0.0%	166.4	0.0	0.0%	428.8	0.0	0.0
Total interest earning assets:									
Pesos	14,062.5	3,327.1	23.7%	16,131.6	4,068.9	25.2%	18,431.8	4,848.6	26.3
Dollars.....	379.8	195.3	51.4%	5,641.1	2,109.6	44.2	5,641.1	2,109.6	44.2
Sub-total.....	14,062.5	3,327.1	23.7%	16,511.4	4,264.2	25.8%	24,072.9	6,958.2	28.9
Allowances for loan losses:									
Pesos	(363.8)		0.0%	(423.6)		0.0%	(299.9)		0.0%
Dollars.....	(21.6)		0.0%	(500.0)		0.0%	(500.0)		0.0%
Sub-total.....	(363.8)		0.0%	(445.3)		0.0%	(799.9)		0.0%
Furniture and equipment net:									
Pesos	43.9		0.0%	109.8		0.0%	134.5		0.0%
Dollars.....	5.9		0.0%	116.9		0.0%	116.9		0.0%
Sub-total.....	43.9		0.0%	115.6		0.0%	251.4		0.0%
Other non-interest earning assets net:									

Pesos	4,051.2		0.0%	6,643.5		0.0%	10,363.7		0.0%
Dollars				80.7		0.0%	182.3		0.0%
Sub-total	4,051.2		0.0%	6,724.2		0.0%	10,564.0		0.0%
Total assets:									
Pesos	17,793.8	3,327.1	18.7%	22,461.3	4,068.9	18.1%	28,630.1	4,848.6	16.9
Dollars	-	-	-	444.7	195.3	43.9	5,440.4	2,109.6	45.8%
Total	17,793.8	3,327.1	18.7%	22,906.0	4,264.2	18.6%	34,070.4	6,958.2	20.4%

Nine Months Ended September 30,

	2016			2017		
	Average Balance	Interest Income	Average Interest Rate	Average Balance	Interest Income	Average Interest Rate
<i>(in millions of pesos, except percentages)</i>						
Investment in securities:						
Pesos	1,062.5	39.4	4.9%	571.6	26.2	6.1%
Dollars	4.4			76.6		0.0%
Sub-total	1,066.9	39.4	4.9%	648.3	26.2	5.4%
Loans:						
Pesos	16,654.3	5,079.6	40.7%	18,563.6	4,296.9	30.9%
Dollars	4,177.2	0.0		6,443.0	1,877.1	38.8%
Sub-total	20,831.5	5,079.6	32.5%	25,006.6	6,173.7	32.9%
Cash and cash equivalents:						
Pesos	309.1	0.0	0.0%	289.5	0.0	0.0%
Dollars	124.9	0.0		231.4	0.0	0.0%
Sub-total	434.0	0.0	0.00%	521.0	0.0	0.0%
Total interest earning assets:						
Pesos	18,026.0	5,119.0	37.9%	19,424.8	4,322.8	29.7%
Dollars	4,306.5	0.0		6,751.0	1,877.1	37.1%
Sub-total	22,332.5	5,119.0	30.6%	26,175.8	6,199.9	31.6%
Allowances for loan losses:						
Pesos	(348.2)		0.0%	(269.9)		0.0%
Dollars	(381.2)		0.0%	(625.8)		0.0%
Sub-total	(729.4)		0.0%	(895.6)		0.0%
Furniture, property and equipment, net:						
Pesos	136.7		0.0%	154.3		0.0%
Dollars	86.4		0.0%	124.9		0.0%
Sub-total	223.2		0.0%	279.2		0.0%
Other non-interest earning assets, net:						
Pesos	9,425.3		0.0%	8,693.4		0.0%
Dollars	338.9		0.0%	1,167.3		0.0%
Sub-total	9,764.2		0.0%	9,860.7		0.0%
Total assets:						
Pesos	27,239.9	5,119.0	25.1%	28,002.5	4,322.8	20.6%
Dollars	4,350.6	0.0		7,417.5	1,877.1	33.7%
Total	31,590.5	5,119.0	21.6%	35,420.0	6,199.9	23.3%

Average Liabilities, Stockholders' Equity and Interest Rates

The table below presents the average quarterly balances of liabilities and stockholders' equity, interest expense and average annual interest rates for the periods indicated.

	For the year ended December 31,								
	2014			2015			2016		
	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate
	<i>(in millions of pesos, except percentages)</i>								
Bank loans:									
Pesos	3,992.3	305.7	7.7%	4,852.6	371.6	7.7%	5,845.9	368.5	6.3%
Dollars.....				180.2	6.3	14.0%	2,985.7	229.9	9.1%
Sub-total.....	3,992.3	305.7	7.7%	5,032.9	377.9	7.5%	8,831.6	598.4	6.8%
Notes payable and Senior Notes Payable:									
Pesos	7,824.7	576.6	7.4%	10,081.9	574.4	5.7%	15,138.5	1,318.0	8.7%
Dollars.....							482.0	0.0	
Sub-total.....	7,824.7	576.6	7.4%	10,081.9	574.4	5.7%	14,656.5	1,318.0	9.0%
Total interest-bearing liabilities:									
Pesos	11,817.0	882.3	7.5%	14,934.5	946.0	6.3%	20,984.4	1,686.5	8.0%
Dollars.....				180.2	6.3	14.0%	2,503.7	229.9	10.9%
Sub-total.....	11,817.0	882.3	7.5%	15,114.8	952.3	6.3%	23,488.1	1,916.4	8.2%
Non-interest-bearing liabilities:									
Pesos	1,023.0			1,454.9			1,778.6		
Dollars.....				163.8			310.8		
Sub-total.....	1,023.0			1,618.7			2,089.4		
Stockholders' equity:									
Pesos	4,953.7			6,097.5			7,352.4		
Dollars.....				75.0			1,140.6		
Sub-total.....	4,953.7			6,172.5			8,493.0		
Total liabilities and Stockholders' equity:									
Pesos	17,793.8	882.3	5.0%	22,486.9	946.0	4.2%	30,115.4	1,686.5	5.6%
Dollars.....				419.1	6.3	6.0%	3,955.1	229.9	6.9%
Total.....	17,793.8	882.3	5.0%	22,906.0	952.3	4.2%	34,070.4	1,916.4	5.6%

For the Nine Months Ended September 30, 2017,

	2016			2017		
	Average Balance	Interest Expense	Average Interest Rate	Average Balance	Interest Expense	Average Interest Rate
	<i>(in millions of pesos, except percentages)</i>					
Bank loans and loans with other entities (short-term):						
Pesos	6,131.9	332.7	7.2%	5,135.4	320.9	8.3%
Dollars	2,399.4	149.5	8.3%	3,367.9	144.8	5.7%
Sub-total.....	8,531.3	482.2	7.5%	8,503.2	465.8	7.3%
Local Bonds:						
Pesos	13,491.9	834.4	8.2%	16,016.9	1,547.6	12.9%
Dollars	(321.3)	0.0		(685.2)	0.0	
Sub-total.....	13,170.6	834.4	8.4%	15,331.7	1,547.6	13.5%
Total interest-bearing liabilities:						
Pesos	19,623.8	1,167.1	7.9%	21,154.1	1,868.6	11.2%
Dollars	2,078.1	149.5		2,682.6	144.8	7.2%
Sub-total.....	21,701.9	1,316.6	8.1%	23,836.7	2,013.4	11.3%
Non-interest-bearing liabilities:						
Pesos	2,036.8			1,956.8		
Dollars				294.9		
Sub-total.....	2,036.8			2,251.8		
Stockholders' equity:						
Pesos	7,851.8			6,725.5		
Dollars				2,376.8		
Sub-total.....	7,851.8			9,102.3		
Total liabilities and stockholders' equity:						
Pesos	29,512.4	1,167.1	5.3%	29,836.4	1,868.6	8.4%
Dollars	2,078.1	149.5		5,354.4	144.8	3.6%
Total	31,590.5	1,316.6	5.6%	35,190.8	2,013.4	7.6%

Changes in Financial Margin and Expense—Volume and Rate Analysis

The following tables allocate changes in interest income and interest expense between changes in volume and changes in rates for the year ended December 31, 2016 compared to 2015, for the year ended December 31, 2015 compared to 2014 and for the nine months ended September 30, 2017 compared to the same period ended September 30, 2016. Volume and rate variances have been calculated based on movements in quarterly average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. The net change attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

	2015/2014			2016/2015			September 2017/2016		
	Increase (decrease) due to changes in Interest			Increase (decrease) due to changes in Interest			Increase (decrease) due to changes in Interest		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	<i>(in millions of pesos, except percentages)</i>								
Investment in securities:									
Pesos	(41.8)	(20.7)	(62.5)	15.2	38.2	53.4	(6.1)	1.7	(4.4)
Dollars				-	-	-	-	-	-
Subtotal.....	(41.8)	(20.7)	(62.5)	15.2	38.2	53.4	(6.1)	0.1	(4.4)
Loans:									
Pesos	689.6	114.8	804.4	414.9	311.5	726.3	194.1	(455.1)	(261.0)
Dollars	0.0	195.3	195.3	2,702.3	(788.1)	1,914.2	-	625.7	625.7
Subtotal.....	689.6	310.1	999.7	3,117.2	(476.6)	2,640.6	194.1	170.6	364.7
Cash and cash equivalents:									
Pesos	—	—	—	—	—	—	—	—	—

	2015/2014			2016/2015			September 2017/2016		
	Increase (decrease) due to changes in Interest			Increase (decrease) due to changes in Interest			Increase (decrease) due to changes in Interest		
	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change	Volume	Interest Rate	Net Change
	<i>(in millions of pesos, except percentages)</i>								
Dollars									
Subtotal	—	—	—	—	—	—	—	—	—
Total interest-earning assets:									
Pesos	647.7	94.1	741.8	430.0	349.7	779.7	188.0	(453.4)	(265.4)
Dollars	0.0	195.3	195.3	2,702.3	(788.1)	1,914.2	-	625.7	625.7
Total	647.7	289.4	937.2	3,132.4	(438.4)	2,694.0	188.0	172.2	360.3
Bank loans:									
Pesos	65.9	0.0	65.9	76.1	79.1	3.0	(18.0)	14.1	(3.9)
Dollars	0.0	6.3	6.3	98.0	125.6	223.6	20.1	(21.7)	(1.5)
Subtotal	65.9	6.3	72.2	174.1	46.5	220.6	2.1	(7.6)	(5.5)
Notes payable and Senior Notes Payable:									
Pesos	166.3	(168.5)	(2.2)	(288.1)	455.4	743.5	52.1	185.7	237.7
Dollars				-	-	-	-	-	-
Subtotal	166.3	(168.5)	(2.2)	288.1	455.4	743.5	52.1	185.7	237.7
Total interest-bearing liabilities:									
Pesos	232.2	(168.5)	63.7	364.2	376.3	740.5	34.1	199.8	233.8
Dollars		6.3	6.3	98.0	125.6	223.6	20.1	(21.7)	(1.5)
Total	232.2	(162.2)	70.0	462.2	501.9	964.1	54.2	178.1	232.3

Interest-Earning Assets—Yield and Yield Spread

The following table sets forth the levels of our average interest-earning assets and our historical financial margin, interest rate, net yield and yield spread for the periods indicated.

	For the year ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	<i>(in millions of pesos, except percentages)</i>				
Total average earning assets					
Pesos	14,062.5	16,131.6	18,431.8	18,026.0	19,424.8
Dollars		379.8	5,641.1		6,751.0
Total	14,062.5	16,511.4	24,072.9	18,026.0	26,175.8
Historical financial margin⁽¹⁾					
Pesos	2,444.8	3,122.9	3,162.1	3,802.5	2,412.5
Dollars		189.0	1,879.7		1,732.2
Total	2,444.8	3,311.9	5,041.8	3,802.5	4,144.7
Gross yield⁽²⁾					
Pesos	23.7%	25.2%	26.3%	37.9%	29.7%
Dollars		51.4%	44.2%		37.1%
Weighted-average rate	23.7%	25.8%	28.9%	30.6%	31.6%
Net yield⁽³⁾					
Pesos	17.4%	19.4%	17.2%	28.1%	16.8%
Dollars		49.8%	39.4%		34.2%
Weighted-average rate	17.4%	20.1%	20.9%	28.1%	21.3%
Yield spread⁽⁴⁾					
Pesos	6.3%	5.9%	9.1%	9.7%	12.8%
Dollars		1.7%	4.8%		2.9%
Weighted-average rate	6.3%	5.8%	8.0%	2.4%	10.3%

(1) Financial margin is interest income less interest expense.

(2) Gross yield is determined by dividing interest income by average interest earning assets.

(3) Net yield is determined by dividing financial margin by average interest earning assets.

(4) Yield spread is the difference between gross yield on interest earning assets and the net yield.

Return on Average Total Assets and Average Stockholders' Equity

The following table presents selected financial data and ratios for the periods indicated.

	For the year ended December 31,			For the Nine Months Ended September 30,	
	2014	2015	2016	2016	2017
	<i>(in millions of pesos, except percentages)</i>				
Net income attributable to controlling interest ..	1,224.8	1,371.4	1,714.0	1,368.7	1,222.1
Average total assets.....	17,793.8	22,906.0	34,070.4	35,380.3	35,420.0
Average stockholders' equity.....	4,953.7	6,172.5	8,493.0	7,851.8	9,102.3
Net income attributable to controlling interest as a percentage of:.....					
Average total assets.....	6.9%	6.0%	5.0%	5.8%	4.6%
Average stockholders' equity.....	24.7%	22.2%	20.2%	23.2%	17.9%
Average stockholders' equity as a percentage of average total assets	27.8%	26.9%	24.9%	24.9%	25.7%
Dividend payout ratio.....	13.8%	11.4%	5.7%	0.0%	0.0%

Interest Rate Sensitivity of Assets and Liabilities

Our operations do not currently involve the granting of loans with floating interest rates. Additionally, our loans are denominated mainly in pesos. Bank loans and loans with other entities are contracted at both fixed and floating rates and are denominated in pesos, with the exception of our 2023 and 2019 Senior Notes, one syndicated loan and certain indebtedness that we assumed in connection with the acquisition of AFS and Instacredit, which are denominated in U.S. dollars, and certain indebtedness that we assumed in connection with the Instacredit acquisition, which is denominated in Costa Rican colones. In order to mitigate mismatches between active and passive rates, during 2017, we converted certain of our indebtedness that had floating rates to fixed rate indebtedness. As of September 30, 2017, more than 48.3% of our total indebtedness was set at fixed rates.

Interest Rate Sensitivity

The following table reflects our interest-earning assets and interest-bearing liabilities as of December 31, 2016 and as of September 30, 2017. Fixed-rate instruments were classified in this table according to their contractual maturity.

	As of December 31, 2016						
	0-30 Days	31-89 Days	90-179 Days	180-365 Days	Over 366 Days	Non-Rate Sensitive or Over One Year	Total
Assets:							
Cash and cash equivalents.....	315.8						315.8
Fixed-rate performing loans	719.7	1,165.1	1,399.8	2,465.1	17,660.3		23,410.0
Investment in securities	992.7					-	992.7
Total interest-earning assets	2,028.1	1,165.1	1,399.8	2,465.1	17,660.3		24,718.5
Other non-interest-earning assets.....						11,447.3	11,447.3
Non-performing loans						517.0	517.0
Less: Allowance for loan losses						767.5	767.5
Total assets.....	<u>2,028.1</u>	<u>1,165.1</u>	<u>1,399.8</u>	<u>2,465.1</u>	<u>17,660.3</u>	<u>11,196.9</u>	<u>35,915.4</u>
Liabilities and stockholders' equity:							
Notes Payable	9.2	450.0	300.0		2,000.0		2,759.2
Senior Notes Payable	311.4				13,817.9		14,129.3
Bank loans and borrowings from other entities	222.1	2,178.1	857.6	1,793.9	2,648.3		7,700.1
Total interest-bearing liabilities.....	542.6	2,628.1	1,157.6	1,793.9	18,466.2		24,588.5
Other non-interest bearing liabilities						2,049.5	2,049.5
Stockholders' equity						9,277.4	9,277.4
Total liabilities and stockholders' equity	<u>542.6</u>	<u>2,628.1</u>	<u>1,157.6</u>	<u>1,793.9</u>	<u>18,466.2</u>	<u>11,326.9</u>	<u>35,915.4</u>
Interest rate sensitivity gap.....	1,485.5	1,463.0	242.2	671.2	806.0	130.0	
Cumulative interest rate sensitivity gap	1,485.5	22.5	264.7	935.9	130.0	0.0	
Cumulative gap as percentage of total interest-earning assets.....	6.0%	0.1%	1.1%	3.8%	0.5%	0.0%	

As of September 30, 2017

	0-30 days	31-89 days	90-179 days	180-365 days	Over 366 days	Non-rate Sensitive for Over One Year	Total
<i>(in millions of pesos)</i>							
Assets:							
Cash and cash equivalents.....	580.2						580.2
Fixed-rate performing loans.....	759.3	1,273.5	1,466.9	2,404.9	20,156.9		26,061.5
Securities and investments.....	740.9						740.9
Total interest-earning assets.....	2,080.4	1,273.5	1,466.9	2,404.9	20,156.9	-	27,382.7
Other non-interest earning assets.....						10,129.5	10,129.5
Non-performing loans.....						616.4	616.4
Less: Allowance for loan losses.....						982.7	982.7
Total assets.....	2,080.4	1,273.5	1,466.9	2,404.9	20,156.9	9,763.2	37,145.9
Liabilities and stockholders' equity:							
Notes Payable.....	275.2	500.0	1,400.0	1,300.0	-		3,475.2
Senior Notes Payable.....	84.0	-	-	-	11,715.9		11,564.8
Bank loans and borrowings from other entities.....	898.9	631.4	1,439.5	2,431.9	4,015.9		9,652.7
Total interest bearing liabilities.....	1,258.1	1,131.4	2,839.5	3,731.9	15,731.8	-	24,692.7
Other non-interest bearing liabilities.....						3,064.3	3,064.3
Stockholders' equity.....						9,388.8	9,388.8
Total liabilities and stockholders' equity..	1,258.1	1,131.4	2,839.5	3,731.9	15,731.8	12,453.2	37,145.9
Interest rate sensitivity gap.....	822.3	142.1	(1,372.6)	(1,327.0)	4,425.1	(2,689.9)	
Cumulative interest rate sensitivity gap....	822.3	964.5	(408.2)	(1,735.1)	2,689.9	0.0	
Cumulative gap as percentage of total interest-earning assets.....	3.0%	3.5%	(1.5%)	(6.3%)	9.8%	0.0%	

As of September 30, 2017, interest-earning assets totaled Ps.27,382.7 million. Of these assets, 7.5% amortize periodically every 30 days or less. Such assets are integrated as follows: 97.9% by our performing loan portfolio and 2.1% by cash and cash equivalents. Of our total loans, most are fixed-rate loans.

Of our interest-bearing liabilities as of September 30, 2017, 100% consisted of loans from banks and other entities and totaled Ps.24,692.7 million. Of our total interest-bearing bank credit liabilities, 5.1% amortize every 30 days or less, as shown in our interest rate sensitivity table.

Cash and Cash Equivalents

We held cash in the amount of Ps.580.2 million as of September 30, 2017, representing 1.6% of our total assets.

Bank Financings and Bond Issuances

The following table sets forth our bank financings and bond issuances (excluding accrued interest) for the periods indicated.

	As of December 31						As of September 30,			
	2014		2015		2016		2016		2017	
	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
	<i>(in millions of pesos, except percentages)</i>									
Bank financings:										
At period end ⁽¹⁾	4,196.0	6.38%	5,484.3	6.37%	4,314.0	9.04%	4,247.2	8.38%	7,125.9	10.00%
Average during period ⁽²⁾ ..	3,825.8	7.02%	4,608.2	6.22%	5,896.4	7.89%	6,478.7	7.69%	5,742.0	9.76%
Maximum month-end balance.....	4,196.0	6.38%	5,484.3	6.37%	7,476.9	7.47%	7,476.8	7.47%	7,125.9	10.00%
Bond issuances:										
At period end ⁽¹⁾	2,565.0	6.03%	3,605.0	5.62%	2,750.0	7.22%	4,395.5	6.55%	3,450.0	8.59%
Average during period	2,085.6	6.16%	3,008.3	5.53%	4,253.7	6.26%	4,450.4	6.06%	2,900.0	8.38%
Maximum month-end balance.....	2,642.8	6.03%	3,605.0	5.62%	4,928.0	6.28%	4,928.0	6.28%	3,450.0	8.59%
Total borrowings at period end (excluding accrued interest).....	6,761.0	6.25%	9,089.3	6.07%	7,064.0	8.33%	8,642.7	7.45%	10,575.9	9.54%

⁽¹⁾ The interest rate at the end of the period is calculated as the weighted average interest rate of available lines of credit at the end of each period reported.

⁽²⁾ The average amount and interest rate are calculated considering the average of monthly end balances of the referred period.

Loan Portfolio

Total loan portfolio amounts set forth in this section include the total principal amount of performing and non-performing loans outstanding as of the date presented. The terms “total loans,” “loan portfolio,” and “total loan portfolio” include total performing loans plus total non-performing loans. See “Summary Financial Information.”

Our total loan portfolio as of September 30, 2017 and December 31, 2016 amounted to Ps.26,677.9 million and Ps.23,927.0 million, respectively. These changes represent an increase of 11.5% in our total loan portfolio from the preceding period. These increases were mainly due to payroll loan expansion enhanced by entering the pensioner market and the consolidation of Instacredit.

Classification of our Loan Portfolio

The following table sets forth the classification of our total loan portfolio in terms of performing and non-performing loan portfolios, as of December 31, 2014, 2015 and 2016 and as of September 30, 2017.

	As of December 31,					
	2014		2015		2016	
	Amount	% of Portfolio	Amount	% of Portfolio	Amount	% of Portfolio
	<i>(in millions of pesos, except percentages)</i>					
Performing loan portfolio	13,544.3	98.1%	17,193.6	97.6%	23,410.0	97.8%
Non-performing loan portfolio ...	260.6	1.9%	416.1	2.4%	517.0	2.2%
Total loan portfolio ⁽¹⁾.....	13,804.9	100.0%	17,609.6	100.0%	23,927.0	100.0%

	As of September 30,			
	2016		2017	
	Amount	% of Portfolio	Amount	% of Portfolio
	<i>(in millions of pesos, except percentages)</i>			
Performing loan portfolio	22,223.8	97.5%	26,061.5	97.7%
Non-performing loan portfolio	564.6	2.5%	616.4	2.3%
Total loan portfolio ⁽¹⁾.....	22,788.5	100.0%	26,677.9	100.0%

⁽¹⁾ Loan amounts include accrued interest.

Performing Loan Portfolio

Our total performing loan portfolio increased 17.3% as of September 30, 2017 compared to September 30, 2016. See “Business—Our Loan Products.”

Our performing payroll loan portfolio totaled Ps.17,290.5 million as of September 30, 2017, reflecting an increase of Ps.3,323.7 million, or 23.8% compared to September 30, 2016. This increase was primarily due to our recent entrance into the pensioners’ segment market. Our performing payroll loan portfolio as a percentage of our total performing loan portfolio was 66.4% as of September 30, 2017, compared to 62.8% as of September 30, 2016.

Our performing durable goods and other loan portfolio totaled Ps.324.8 million as of September 30, 2017, reflecting a decrease of Ps.163.6 million, or 33.5% compared to September 30, 2016. This decrease was primarily due to our strategy of divesting this business line. Our performing durable goods and other loan portfolio as a percentage of our total performing loan portfolio was 1.2% as of September 30, 2017 and 2.2% as of September 30, 2016.

Our performing Small Business loan portfolio totaled Ps.1,658.8 million as of September 30, 2017. Our performing Small Business loan portfolio as a percentage of our total performing loan portfolio was 6.4%. The increase was mainly driven by our strategy of extending the average loan term and average loan amount by focusing on larger accounts.

Our performing group loan portfolio totaled Ps.211.7 million as of September 30, 2017, reflecting a decrease of Ps.116.8 million, or 35.6%, compared to September 30, 2016. This decrease is primarily due to a lower origination in the period. The combined loan portfolio of these companies was Ps.211.9 million as of September 30, 2017, a decrease of 35.5% compared to September 30, 2016. Our performing group loan portfolio as a percentage of our total performing loan portfolio was 0.8% as of September 30, 2017, compared to 1.5% as of September 30, 2016.

Our performing Used Car loan portfolio totaled Ps.2,537.0 million as of September 30, 2017, a decrease of 0.8% compared to the same period in 2016. Our performing Used Car loan portfolio as a percentage of our total performing loan portfolio was 9.7% as of September 30, 2017.

The performing loan portfolio of Instacredit totaled Ps.4,031.98 million as of September 30, 2017 and the performing Instacredit loan portfolio as a percentage of our total performing loan portfolio was 15.5%.

Performing loan portfolio by product

	As of December 31,			As of September	
	2014	2015	2016	2016	2017
Performing loan portfolio by product: ⁽¹⁾					
			(in millions of pesos)		
Payroll Loans	10,498.4	12,633.5	14,234.7	13,966.8	17,297.4
Consumer Loans (Instacredit).....	-	-	4,287.5	3,535.7	4,031.9
Used Car Loans	359.3	1,814.8	418.4	2,557.0	2,537.0
Small Business Loans.....	1,278.4	1,445.6	426.6	1,347.4	1,658.8
Durable Goods Loans and Other	1,118.2	994.9	1,356.5	488.4	324.8
Group Loans.....	290.0	304.7	2,686.3	328.5	211.7
Total performing loan portfolio	13,544.3	17,193.6	23,410.0	22,223.8	26,061.5

⁽¹⁾ Loan amounts include accrued interest.

Loans by Geographic Concentration

The following table sets forth our loan portfolio based on geographic concentration as of the dates indicated. We have not observed any significant correlation between the incidence of delinquency and default on non-performing loans and geographic location.

State	As of December 31,				As of September 30,					
	2014		2015		2016		2016		2017	
	Loan Amount ⁽¹⁾	% of Portfolio ⁽²⁾	Loan Amount ⁽¹⁾	% of Portfolio ⁽²⁾	Loan Amount ⁽¹⁾	% of Portfolio ⁽²⁾	Loan Amount ⁽¹⁾	% of Portfolio ⁽²⁾	Loan Amount ⁽¹⁾	% of Portfolio ⁽²⁾
	<i>(in millions of pesos, except percentages)</i>									
Aguascalientes	96.4	0.7%	133.0	0.8%	189.1	0.8%	176.4	0.8%	121.5	0.5%
Baja California Norte	155.3	1.1%	202.0	1.1%	202.2	0.8%	205.1	0.9%	130.5	0.5%
Baja California Sur	56.1	0.4%	62.2	0.4%	90.5	0.4%	85.8	0.4%	73.8	0.3%
Campeche	247.3	1.8%	305.3	1.7%	266.8	1.1%	272.7	1.2%	154.3	0.6%
Chiapas	647.2	4.7%	866.6	4.9%	909.4	3.8%	936.3	4.1%	491.2	1.8%
Chihuahua	233.5	1.7%	251.2	1.4%	239.6	1.0%	240.0	1.1%	153.1	0.6%
Coahuila	94.5	0.7%	175.2	1.0%	224.4	0.9%	213.5	0.9%	177.0	0.7%
Colima	79.1	0.6%	60.0	0.3%	88.6	0.4%	88.6	0.4%	65.9	0.2%
Durango	67.5	0.5%	100.3	0.6%	117.0	0.5%	116.0	0.5%	94.5	0.4%
Estado de México	1,376.7	10.0%	1,502.1	8.5%	2,161.8	9.0%	2,065.0	9.1%	1,692.5	6.3%
Guanajuato	449.9	3.3%	460.9	2.6%	514.0	2.1%	503.5	2.2%	369.5	1.4%
Guerrero	1,267.6	9.2%	956.7	5.4%	979.4	4.1%	898.3	3.9%	639.8	2.4%
Hidalgo	326.2	2.4%	347.7	2.0%	333.6	1.4%	339.7	1.5%	225.2	0.8%
Jalisco	477.2	3.5%	568.0	3.2%	571.0	2.4%	588.7	2.6%	386.3	1.4%
Michoacán	357.5	2.6%	359.3	2.0%	362.5	1.5%	349.0	1.5%	299.3	1.1%
Morelos	244.2	1.8%	209.7	1.2%	176.9	0.7%	178.4	0.8%	133.5	0.5%
Nayarit	105.2	0.8%	108.0	0.6%	125.7	0.5%	127.1	0.6%	94.1	0.4%
Nuevo León	170.2	1.2%	303.1	1.7%	362.6	1.5%	335.3	1.5%	302.6	1.1%
Oaxaca	1,522.9	11.0%	1,684.1	9.6%	1,695.4	7.1%	1,732.0	7.6%	1,062.3	4.0%
Puebla	260.7	1.9%	319.1	1.8%	334.4	1.4%	308.4	1.4%	260.3	1.0%
Querétaro	88.4	0.6%	87.7	0.5%	196.8	0.8%	206.2	0.9%	88.3	0.3%
Quintana Roo	179.2	1.3%	162.5	0.9%	156.6	0.7%	151.5	0.7%	77.2	0.3%
San Luis Potosí	357.4	2.6%	382.7	2.2%	370.1	1.5%	364.4	1.6%	260.7	1.0%
Sinaloa	244.7	1.8%	300.4	1.7%	347.3	1.5%	350.1	1.5%	248.9	0.9%
Sonora	237.0	1.7%	269.9	1.5%	385.1	1.6%	340.6	1.5%	320.9	1.2%
Tabasco	449.6	3.3%	515.2	2.9%	424.7	1.8%	427.1	1.9%	290.5	1.1%
Tamaulipas	312.1	2.3%	400.3	2.3%	350.4	1.5%	356.2	1.6%	212.0	0.8%
Tlaxcala	255.8	1.9%	171.5	1.0%	125.5	0.5%	147.8	0.6%	69.5	0.3%
Veracruz	832.8	6.0%	1,472.6	8.4%	1,514.7	6.3%	1,440.9	6.3%	1,111.1	4.2%
Yucatán	144.8	1.0%	209.6	1.2%	207.2	0.9%	212.6	0.9%	117.4	0.4%
Zacatecas	104.1	0.8%	102.2	0.6%	82.1	0.3%	83.5	0.4%	50.2	0.2%
Ciudad de México	2,191.7	15.9%	2,982.4	16.9%	3,011.6	12.6%	3,041.3	13.3%	2,701.0	10.1%
Other Entities ⁽³⁾	172.1	1.2%	1,578.1	9.0%	101.4	0.4%	94.9	0.4%	8,040.4	30.1%
Subtotal	13,804.9	100.0%	16,138.2	91.6%	17,218.5	72.0%	16,976.9	74.5%	20,515.2	76.9%
United States of America ...	-	-	1,471.4	8.4%	2,317.8	9.7%	2,179.0	9.6%	1,838.0	6.9%
Central America	-	-	-	-	4,390.7	18.4%	3,632.6	15.9%	4,324.7	16.2%
Total	13,804.9	100%	17,609.6	100%	23,927.0	100.0%	22,788.5	100.0%	26,677.9	100.0%

(1) The loan amounts set forth in the table above include accrued interest.

(2) Percentage of portfolio equals the relevant loan amount by geographic concentration divided by the total loan portfolio.

(3) Other Entities includes IMSS and Mexican federal entities.

Total Performing Loan Portfolio by Loan Balance

The following table sets forth an analysis of our loan performing portfolio's composition as of the dates indicated according to the original principal amount borrowed.

	As of December 31,						As of September 30,			
	2014		2015		2016		2016		2017	
	Loan Amount	% of Portfolio	Loan Amount	% of Portfolio	Loan Amount	% of Portfolio	Loan Amount	% of Portfolio	Loan Amount	% of Portfolio
	<i>(in millions of pesos, except percentages)</i>									
Original principal amount:										
Less than Ps.3,000	133.2	1.0%	141.6	0.8%	25.9	0.1%	32.5	0.1%	26.6	0.1%
Between Ps.3,001 and Ps.5,000	254.9	1.9%	262.6	1.5%	190.5	0.8%	208.3	0.9%	180.8	0.7%
Between Ps.5,001 and Ps.10,000	1,109.6	8.2%	1,210.8	7.0%	1,218.9	5.2%	1,252.5	5.6%	1,161.3	4.5%
Between Ps.10,001 and Ps.15,000	1,262.6	9.3%	1,509.2	8.8%	1,771.8	7.6%	1,753.2	7.9%	1,773.6	6.8%
Between Ps.15,001 and Ps.20,000	1,213.1	9.0%	1,531.1	8.9%	1,874.7	8.0%	1,836.7	8.3%	1,896.7	7.3%
Over Ps.20,000	9,570.9	70.7%	12,538.3	72.9%	18,328.1	78.3%	17,140.7	77.1%	21,022.5	80.7%
Total loan portfolio	13,544.3	100.0%	17,193.6	100.0%	23,410.0	100.0%	22,223.8	100.0%	26,061.5	100.0%

Non-Performing Loan Portfolio

Our loan portfolio is classified as non-performing when loans are 90 days or more past due, and is recognized as non-performing up to the amount of the capital and interest due at that date. We rate our loan portfolio using an internal methodology based on the likelihood of a borrower's default and on the expected loss given default, as per the provisions of the general provisions applicable to credit institutions (*Disposiciones de Carácter General Aplicables a las Instituciones de Crédito*).

Overdue balances of borrowers are recorded in the non-performing portfolio in the event of non-compliance with payment terms in which a loan installment or payment is past-due for specified periods. Loans are generally recorded as non-performing after 90 days of billing periods reporting non-compliance, at which time the accrual of interest is suspended. Pursuant to our financing and other agreements with our distributors, our distributors are severally liable for the unpaid amount of the loan, along with the borrowers. A distributor's total liability is equal to the percentages of unpaid loan amounts determined within each promotion. As of September 30, 2017, the aforementioned contracts established a percentage of unpaid loan amounts of 2.3%. Joint and several liability is based on the percentage of shared risk agreed upon with each distributor on a case-by-case basis and is calculated over the unpaid amount of those loans which are more than 90 days past due.

The transfer of a loan from the non-performing loan portfolio to the current loan portfolio is carried out when the account payments are up to date and there have been no delays in its payment. Payments are considered up-to-date when there have been three consecutive amortizations for the total amounts due at each payment date. A payment is not considered up-to-date if payment is made prior to the scheduled amortization date.

Additionally, if a loan is restructured, it may be transferred to the current loan portfolio. The restructuring of this debt is formalized through modifications of the partial credit payment amounts, the payment due dates, and the amortization periods. Restructuring is permitted as long as there is evidence of sustained payment by the borrower, meaning three consecutive monthly payments.

We stop recognizing interest income when a loan is categorized as non-performing, and it is only re-categorized as income once the payment has been obtained. The loans are discounted for purposes of bookkeeping after 181 days from the date in which the payment or amortization was due.

With regard to ordinary accrued interests that have not been charged from non-performing loans, we create a preventive estimate for the total amount of said interest when the loan is transferred into our non-performing portfolio.

As of September 30, 2017, our total non-performing loan portfolio was Ps.616.4 million, or 2.3% of our total loan portfolio. Our total non-performing loan portfolio increased by Ps.51.8 million, or 9.2%, as compared to September 30, 2016, driven by the growth in our overall loan portfolio and by an increase of the non-performing loan portfolio of auto loans and the consolidation of Instacredit.

The following table sets forth an analysis of our non-performing loan portfolio (including non-performing interest) by product at the dates indicated.

	As of December 31,			As of September 30,	
	2014	2015	2016	2016	2017
	<i>(in millions of pesos)</i>				
Non-performing loan portfolio by product: ⁽¹⁾					
Payroll Loans.....	198.7	319.5	295.8	338.5	264.9
Used Car Loans	1.1	23.3	92.3	65.7	31.1
Small Business Loans	39.9	39.9	11.9	51.0	48.3
Durable Goods Loans and Other.....	20.0	33.4	13.8	12.5	40.0
Group Loans	0.9	0.0	0.0	0.1	0.2
Consumer Loans (Instacredit)			103.2	96.9	231.8
Total non-performing loan portfolio	260.6	416.1	517.0	564.6	616.4

⁽¹⁾ Loan amounts include accrued interest.

Allowance for Loan Losses

The methodology used to record our allowance for loan losses is based on an internal methodology based on the probability of a borrower's default and on the expected loss given default applied to the loan portfolio outstanding balance.

	As of December 31,					
	2014		2015		2016	
	Loans by Product	Allowances for loan losses	Loans by Product	Allowances for loan losses	Loans by Product	Allowances for loan losses
	<i>(in millions of pesos)</i>					
Payroll loans	10,697.1	(333.2)	12,953.0	(201.2)	14,530.4	(66.1)
Group loans	360.3	(3.9)	304.8	(32.2)	418.4	(15.5)
Durable goods loans and Other	1,318.3	(25.0)	1,028.4	(85.5)	440.4	(65.4)
Small business loans	290.9	(49.9)	1,485.5	(80.6)	1,368.5	(78.1)
Used cars loans	1,138.3	(8.1)	1,838.1	(86.0)	2,778.6	(113.7)
Instacredit	-	-	-	-	4,390.7	(428.7)
Total loan portfolio plus allowances	13,804.9	(420.1)	17,609.6	(485.5)	23,927.0	(767.5)

⁽¹⁾ Loan amounts include accrued interest.

	As of September 30,			
	2016		2017	
	Loans by product	Allowances for loan losses	Loans by product	Allowances for loan losses
	<i>(in millions of pesos)</i>			
Payroll Loans.....	14,305.3	(111.8)	17,562.3	(94.5)
Group loans	328.5	(15.5)	211.9	(15.7)
Durable good loans and Other	496.9	(65.7)	358.8	(68.8)
Small business loans	1,398.4	(71.1)	1,707.1	(78.3)
Used cars loans	2,622.7	(126.9)	2,568.1	(195.4)
Consumer Loans (Instacredit).....	3,632.6	(412.0)	4,263.8	(529.9)
Total loan portfolio plus allowances.....	22,788.5	(802.9)	26,677.9	(982.7)

For the periods ended September 30, 2016 and 2017 we recorded provisions charged against income totaling Ps.22,788. million and Ps.26,677.9 million, respectively.

Analysis of Allowance for Loan Losses

The following table analyzes our allowance for loan losses, movements in loans written-off and recoveries for the periods indicated, as well as changes to income and period-end allowances for loan losses, net of recoveries, as a result of the sale of non-performing loans at the end of each period. We use an internally-developed methodology to record our allowance for loan losses that is consistent with Basel recommendations and is based on the Probability of Default and Severity of Losses of the loan portfolio.

	For the year ended December 31,			For the Nine Months ended September 30,	
	2014	2015	2016	2016	2017
	<i>(in millions of pesos)</i>				
Balance at beginning of year	203.2	420.1	485.5	802.9	982.7
Less:					
Nominal balance at the beginning of the period	203.2	420.1	485.5	802.9	982.7
Plus:					
Increase to the allowance for loan losses	264.5	345.6	831.6	541.5	951.9
Sub-total	467.7	765.8	1,317.1	1,344.4	1,934.6
Less:					
Loan write-offs	241.5	355.2	1,026.8	541.5	951.9
Consolidation adjustment.....		74.9	477.1		
Balance at the end of the year	420.1	485.5	767.5	802.9	982.7

(1) The adjustment was due to the change in the methodology of calculation of allowance for loan losses for the commercial loan portfolio as of June 30, 2014. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Key Factors Affecting our Financial Condition and Results of Operations—Allowance for Loan Losses".

The increase in loan write-offs of Ps.410.4 million from September 30, 2016 to September 30, 2017 was primarily due to charge-offs in the payroll portfolio.

Workout and Credit Recovery

Our credit recovery unit handles debt recovery from borrowers whose loans have been classified as non-performing. See "Business—Loan Servicing and Collection" for additional information on recovery and collection of our loans. When non-performing loans exceed 180 days reporting non-compliance, such loans are charged off; it is understood that during such period all the collection proceeds have been collected and there is therefore a high probability that no further proceeds would be received from such loans. Written-off loans become subject to consideration for further action, including the sale of any such loan at a discount. The amounts recovered as a result of the sale of written-off loans are recorded in our income under the item "other income (expense) of the operation."

As of September 30, 2017, there were no restructured loans in our total loan portfolio. The restructuring of such debt is formalized with each customer by changing the amounts of credit installments, the dates for partial payments of credit and the loan repayment periods. All restructured loans are considered NPL until there is evidence of sustained payment by the customer, which is satisfied if the customer has made three consecutive monthly payments.

THE MEXICAN PAYROLL LENDING, SMALL BUSINESS, GROUP LOANS AND AUTO FINANCING MARKETS AND UNITED STATES AUTO FINANCING MARKET

Overview of the Mexican Macroeconomic Environment

Mexico has generally enjoyed stable and positive macroeconomic performance since the implementation of a wide range of reforms to liberalize the Mexican economy and open it to foreign trade and investment in the late 1980s. Since the 1995 currency and banking crisis, Mexico's GDP has grown on average 2.9% per year. In 2006, GDP grew at a rate of 5.0%, supported by exports of manufactured goods and strong foreign direct investment. Economic conditions began deteriorating in 2007, with Mexico's GDP growth rate slowing to 3.1%. In 2008 and 2009, the Mexican economy experienced significant deterioration as a result of the global financial crisis. Mexico's GDP growth rate slowed to 1.4% in 2008 and declined by 4.7% in 2009, the sharpest economic contraction since 1995. In 2010, the Mexican economy recovered considerably, with external demand and exports of manufactured goods driving annual GDP growth to 5.1%, the highest in the past 10 years. Mexican GDP grew at an average rate of 2.5% in the last five years, from 2011 to 2016.

In addition, since the beginning of 2017, Banco de México has increased the target rate for overnight interbank interest on four occasions, increasing from a rate of 5.75% at the beginning of 2017 to the current rate of 7.00%, with the last hike on June 22, 2017.

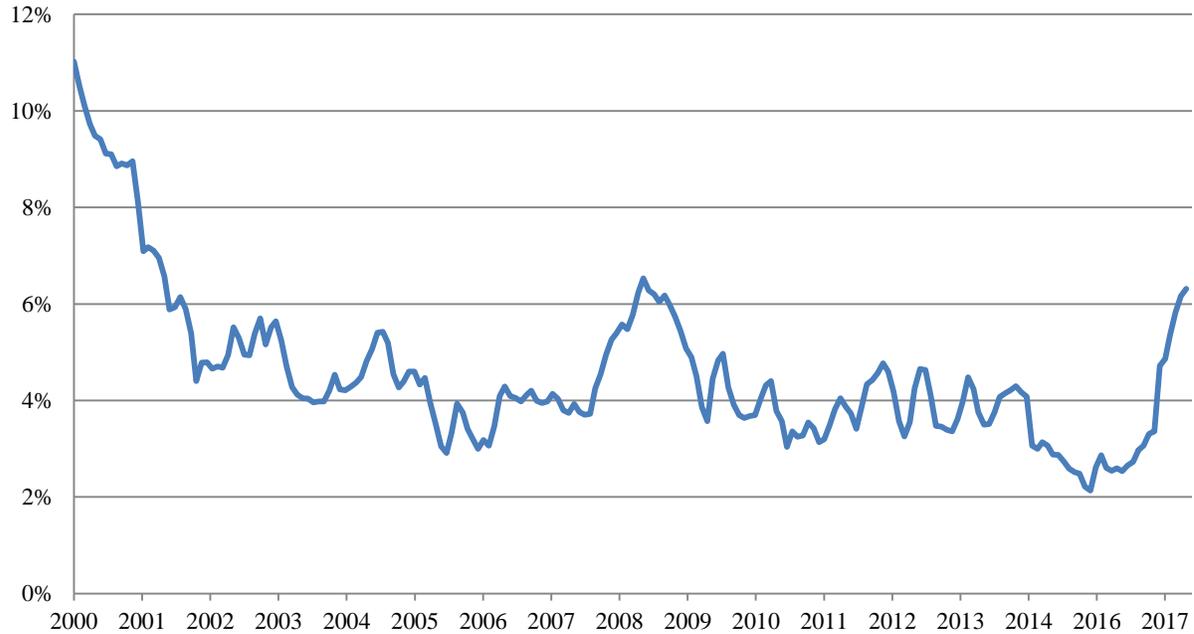
Banxico Interest Rate



Source: Banco de México, with 2017 data as of June 30, 2017.

As an independent entity, Banco de México has maintained a sound monetary policy that has generated little inflation, as the average annual inflation rate for the period since 2000 has been 4.6%. However, depreciation of the Mexican peso against the U.S. dollar has affected recent inflation levels. It reached 6.3% in June 2017, the highest level reported since December 2008.

Historical Inflation



Source: Banco de México, as of June 2017.

Unemployment rates have historically remained relatively stable throughout different stages of the economic cycle, maintaining an average level of 4.0% since 2000. As a result of the global financial crisis, Mexico's unemployment rate rose to an average of 5.3% in 2009, the highest level since 2000, but has gradually decreased as a result of the heightened manufacturing output and the subsequent economic recovery. The unemployment rate in Mexico was on average 3.9% in 2016.

From January 1, 2000 to June 31, 2013, the peso enjoyed over a decade of relative stability with an average daily exchange rate, as published by Banxico, of Ps.11.35 per U.S. dollar. During the global financial crisis, the peso experienced a significant depreciation relative to the U.S. dollar, reaching an exchange rate of Ps.15.37 in March 2009. Since mid-2014, the peso has gradually depreciated, with the exchange rate reaching a peak at Ps.21.91 in January 2017. However, the peso has appreciated against the dollar 17.1% since January. On September 29, 2017, the exchange rate was Ps.18.16 per U.S. dollar determined by Banco de México and published in the Official Gazette on October 2, 2017.

US dollar vs. Mexican Peso Exchange Rate since 2013

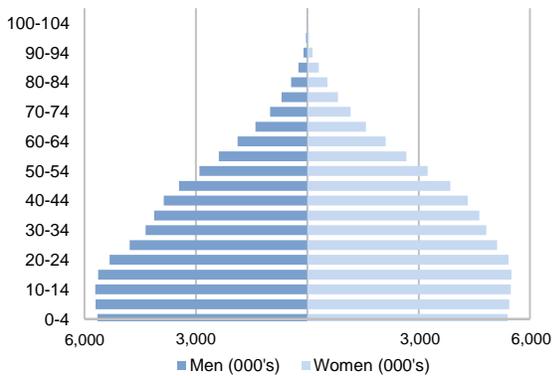


Source: Banco de México, as of June 2017.

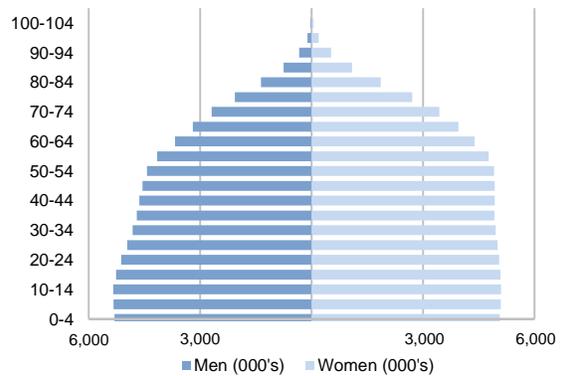
Additionally, we believe Mexico has a great demographic advantage, as it is expected to have an older population in 2050, as illustrated in the graph below, which would increase both the size of the workforce and domestic consumption significantly. During the next 40 years, we expect that Mexico will enjoy favorable demographic and socioeconomic trends that should drive future demand for consumer credit. According to the National Population Council, (*Consejo Nacional de Población*, or “CONAPO”), Mexico’s working age population (individuals between 15 to 60 years old) as a percentage of total population is expected to increase from 62.5% in 2016 to reach 71.3% in 2050.

Demographic Growth

Mexico Population Pyramid (2016)



Mexico Population Pyramid (2050)



Source: INEGI, CONAPO.

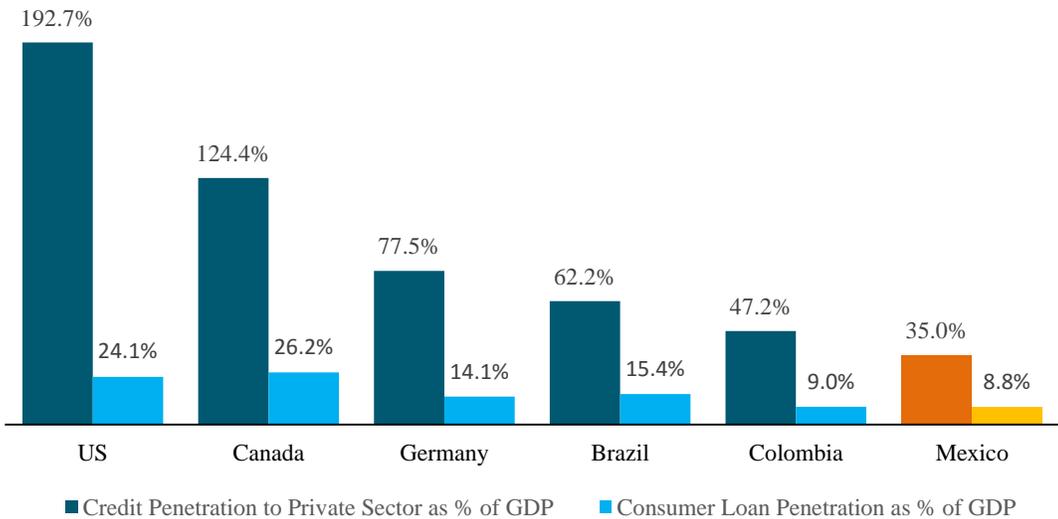
Overview of Credit to the Private Sector in Mexico

With the exception of the credit slowdown experienced in 2009 as a result of the global economic recession, private sector credit growth in Mexico has generally been strong in the past decade. According to the CNBV, total bank loans to the private sector grew at an average growth rate of 9.8% from December 2008 to December 2016. As of December 2016, the total bank loan portfolio to the private sector was Ps.3,618 billion, representing an increase of 14.2% compared to December 2015. Such bank loans to the private sector currently represent roughly 6.1% of the total bank loan portfolio, with the remaining 13.9% comprised of governmental loans. As of December 2016, commercial lending represented 63.2% of the total bank loans to the private sector portfolio, followed by consumer lending at 18.8% and mortgage lending at 18.1%.

Consumer loans, in particular, had a CAGR of 15.2% from 2010 through 2015, compared to a decrease of 20.6% and 28.0% in 2009 and 2008, respectively. Such recovery was driven primarily by the increase in GDP and employment, which in turn improved consumer confidence and household spending. Going forward, GDP growth, job creation and macroeconomic stability will be fundamental to support future consumer demand and consumer credit expansion in Mexico. Likewise, in the aftermath of the credit slowdown, the non-performing loan ratio of the Mexican banking system as of December 2009 was 3.2%; nonetheless, the quality of the Mexican banking system’s loan portfolio has improved since then, decreasing to 2.1% and 2.1% as of June 2017 and December 2016 respectively.

Despite intense loan growth since 1994, banking penetration in Mexico remains low compared to other Latin American countries and the rest of the world. Private sector loans in Mexico as of December 2016 represented 35.0% of GDP, compared to 47.2% in Colombia, 62.2% in Brazil, and 77.5% in Germany. Such low penetration is largely driven by the large fraction of the Mexican population that remains without access to financial services. According to CNBV, as of 2014 only 39.0% of the total adult population had a bank account in Mexico. Only 10.0% of the adult population has obtained some kind of financing from a formal financial institution. The unbanked segment is primarily composed of low- and middle-income individuals, mostly living in rural areas. This segment represents a significant growth opportunity for financial institutions capable of catering to this population.

Credit Penetration in Mexico (% of GDP)

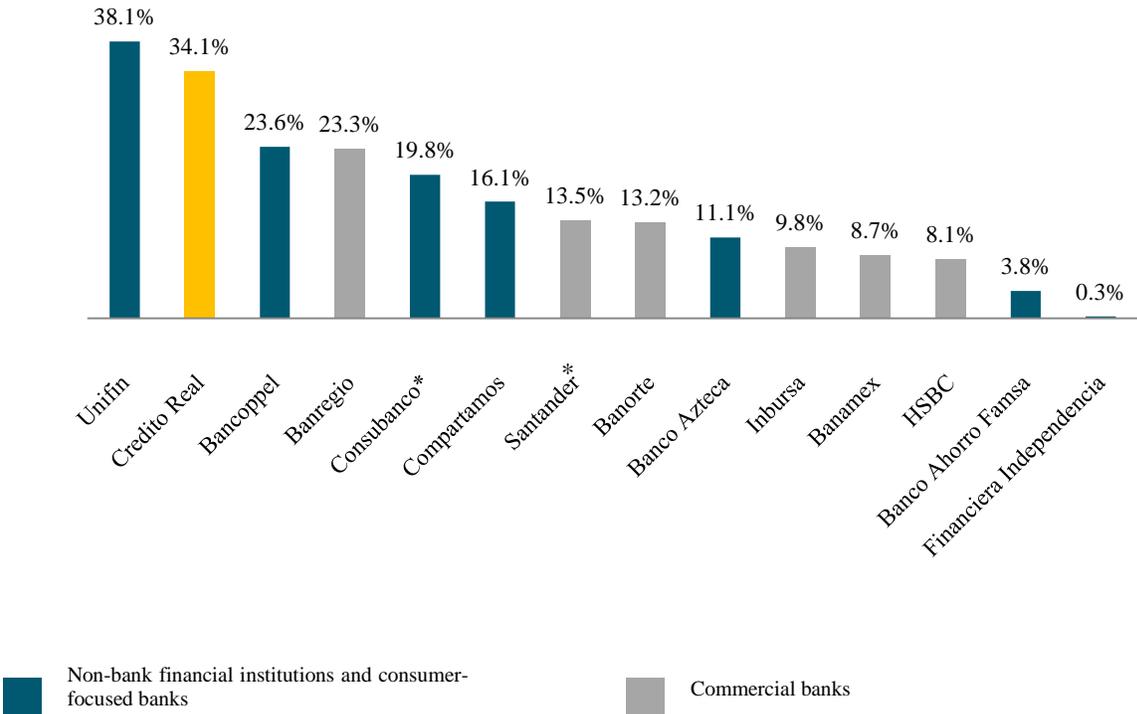


Source: World Bank and Euromonitor with information as of 2016, except Credit Penetration to Private Sector as 9% of GDP of Canada and Colombia, which show figures as of 2008 and 2015, respectively.

In order to stimulate financial inclusion among the low- and middle-income segments of the population, the Mexican government has supported the development of non-regulated financial institutions which, unlike banks, are not authorized to accept deposits from the general public. In July 2006, the Mexican Congress enacted reforms to deregulate lending entities and activities by allowing the creation of *Sofomes*. *Sofomes* are non-regulated, non-bank financial institutions that offer credit to consumers and small- and medium-sized businesses, often in connection with real estate development, auto financing and mortgage lending activities. By not imposing any limitations on foreign equity participation in non-regulated financial institutions, the Mexican government has encouraged competition, thereby increasing consumers' financing alternatives. According to CONDUSEF, there were 1,657 non-regulated registered *Sofomes* at the end of 2016.

Since their creation, non-bank financial institutions have targeted the low- and middle-income segments of the population with limited access to traditional sources of credit. During the last few years, consumer credit growth has been largely driven by non-bank financial institutions, such as Crédito Real, and small and medium-sized consumer focused banks. We believe that future growth in consumer lending will continue to be led by non-bank financial institutions and specialized small- to medium-sized banks that understand the credit risk and credit needs of the population that has been underserved by traditional banking institutions. The following chart presents the growth from 2011 to 2016 in the consumer loan portfolio of selected commercial banks in Mexico and of selected nonbank financial institutions and consumer-focused banks.

Consumer Loan Portfolio CAGR (2011-2016)



Source: Company filings presented to CNBV as of December 31, 2016, except Financiera Independencia and Unifin which were obtained from public filings.

*Consurbanco CAGR from 2012 – 2015; Santander CAGR from 2011 – 2016.

Since 2008, NAFIN, along with the SHCP, has implemented multiple programs to support non-regulated financial institutions with credit lines and guarantees. Other federal entities such as the Mexican Federal Mortgage Society (*Sociedad Hipotecaria Federal, S.N.C., Institución de Banca de Desarrollo*, or “SHF”), also provide credit to *Sofomes* looking to expand credit availability in specific sectors such as mortgages. In addition, global organizations like the International Bank for Reconstruction and Development and the Inter-American Development Bank support non-regulated lending by providing funding to development banks like NAFIN and the SHF.

Overview of the Payroll Lending Market in Mexico

There are different types of participants in the Mexican payroll lending market that can be distinguished based on their differing business models and the focus of their principal activities:

- **Funders:** Exclusively dedicated to providing funding to separate companies that have their own origination platforms and direct access to government entities. Funders have no direct contact with the end customer.
- **Brokers/Distributors:** Focused on loan origination through the use of their own commercial platforms. Brokers/distributors have direct access to customers, but do not fund or own the loan portfolios they originate.
- **Integrated Entities:** Companies that integrate the functions of both funders and brokers/distributors.

The Mexican payroll lending market is highly fragmented and dominated by regional competitors that have limited access to funding sources. Only a few market participants offer payroll lending on a nationwide basis and can access the capital markets for funding. Among these are Crédito Real, Consupago, S.A. de C.V., Ediciones Tratados y Equipos, S.A. de C.V., the Institute of the National Fund for Worker Consumption (*Instituto del Fondo Nacional para el Consumo de los Trabajadores*) and FISOFO S.A. DE C.V., SOFOM, E.N.R. Payroll lending products are mainly targeted at the low- and middle-income segments of the population that have limited or no access to credit from commercial banks. Most payroll lending companies target unionized government employees due to the generally low employment turnover of public sector employees, which is largely the result of historically strong labor unions.

As of 2015, according to IMSS and ISSSTE, the number of government and government-dependent employees in Mexico, including municipal, federal and state government employees, public education and public health workers, employees of quasi-sovereign organizations affiliated with ISSSTE and pensioners of both institutions, exceeded approximately 7.5 million people. During 2015, total compensation for pensioners alone exceeded Ps.292,952 million. We estimate that the potential for payroll lending in this segment of the population, considering a maximum payroll deduction of 30% of payroll income, exceeds Ps.87,885 million per year.

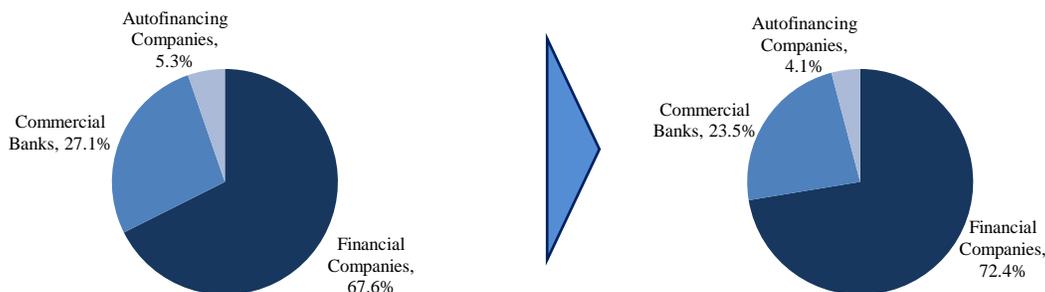
Non-performing payroll loans have traditionally been very low, with most non-performing loans having been made to employees who changed jobs or passed away during the loan term. As a result, payroll lending participants in Mexico have grown significantly while maintaining high-quality loan portfolios.

Overview of the Auto Loans Market in Mexico

The total number of auto loans in Mexico showed a CAGR of 18.1% from 2011 to 2016. In 2016, the Mexican auto loan industry reached its highest level of loans in the last 10 years with 1,066,983 loans. The auto loan industry grew from 837,559 loans in 2015 to 1,066,983 loans in 2016, representing a 27.4% increase. Of the total number of loans in 2015, 67.6% were financed by non-commercial bank companies, while in 2016 that proportion grew to 72.4%, showing a strong increase but with enough room to continue gaining market share against commercial banks. The top five players in auto financing in Mexico are NR Finance Mexico with 21.9% market share, GM Financial with 16.3% market share, VW Financial Services with 11.9% market share, BBVA Bancomer with 10.4% market share, and Toyota Financial Services with 5.5% market share.

2015: 837,589 loans

2016: 1,066,983 loans

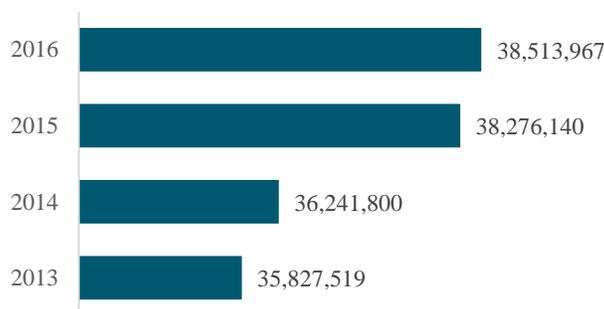


Source: Mexican Automobile Distributors' Association (*Asociación Mexicana de Distribuidores Automotores*), as of December 2016.

Overview of the Used Car Loan Market in the U.S.

The National Auto Auction Association estimates that member auction sales of used cars rose 4.6% to 9.8 million units in 2016. The association further forecasts that volumes will continue to grow in 2017 as increased retail activity drives dealer consignment higher and growth in new lease originations, finance contracts outstanding, and business and business fleet purchases push commercial consignments up. Used car demand has been steady and is growing with the increase in supply. In 2016, 38.5 million vehicles were sold in the retail used market, an increase of 1% over 2015, when the figure stood at 38.3 million.

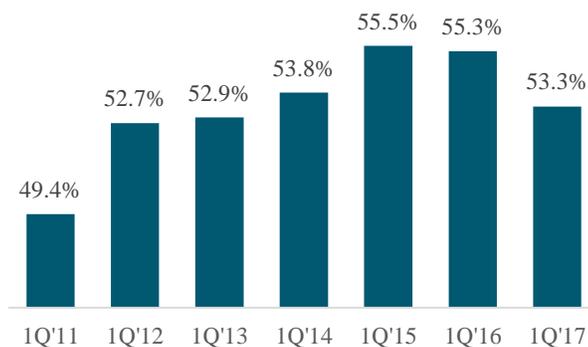
Sales of Used Vehicles in the U.S.



Source: Edmunds, Used Vehicle Market Report, February 2017.

As sales continue to rise, lenders are looking to finance more consumer purchasing of used vehicles. As of March 31, 2017, 35.6% of used car loans were financed by banks, followed by 26.4% by credit unions, 16.8% by finance companies, 12.7% by Buy Here Pay Here dealerships and the remaining 8.3% by captive finance companies. As of March 2017, 53.3% of all used vehicles were financed by auto loans compared to 55.3% in 2016.

Percentage of Used Vehicles with Financing in the U.S.



Source: Experian, State of the Automotive Finance Market as of 1Q 2017.

Our operations in the U.S. allow us to originate used car loans through subsidiaries and our alliances with established distributors, primarily serving the Hispanic market with limited credit history in the U.S.

The U.S. Census Bureau estimates that as of July 1, 2017, the Hispanic population represented 17.8% of the total U.S. population and was the largest ethnic minority with 57.5 million people. The top three states with the largest Hispanic populations are California, Texas, and Florida with 15.3 million people or 38.9% of the total state population, 10.9 million people or 39.1% of the state population and 5.2 million people or 24.9% of the total state population, respectively. In 2016, 30.2% of the U.S. households had an annual income that was below US\$35,000, compared to 35.5% of the Hispanic households. We believe that we are well positioned to take advantage of the Hispanic market opportunity in the auto financing segment.

Overview of the Small Business Loans Market in Mexico

According to Banco de México, a company is identified as an SME if it has: i) up to 100 employees if its main activity is related to services; ii) annual sales of less than Ps.250 million and iii) an indebtedness level of less or equal to 3.0 million UDIs. As of 2015, Mexico had approximately 4.9 million business entities, of which 81.6% were identified as SMEs

We believe this market is highly underpenetrated by financial institutions, as only approximately 5.6% of small businesses have access to credit due to their lack of credit history, collateral or previous bank references. The market leaders are HSBC under the brand Estimulo HSBC, BBVA under the brand Crédito Simple, Citibanamex under the brand Crédito Negocios, and Banorte under the brand Crediactivo. According to Banco de México, 21% of all SME loans are financed by non-bank financial institutions, of which 67% are constituted as non-regulated financial entities. The market is highly fragmented as most of these institutions target microfinancing with an average loan equivalent to US\$500.

Overview of the Group Loan Market in Mexico

Microfinance includes a diverse set of small-scale financial services, such as group loans, microinsurance and microsavings, that are provided principally to the low-income segment of the population in need of capital for funding a business, protection against risks, or safe and dependable savings and money transfer vehicles. Other financing alternatives available to the low-income segments, such as saving clubs, pawn shops, rotating savings, credit associations and other informal money-lenders do not offer the security, terms and stability that MFIs offer.

There are more than seven million microfinance borrowers in Mexico, the largest number of borrowers in the region.

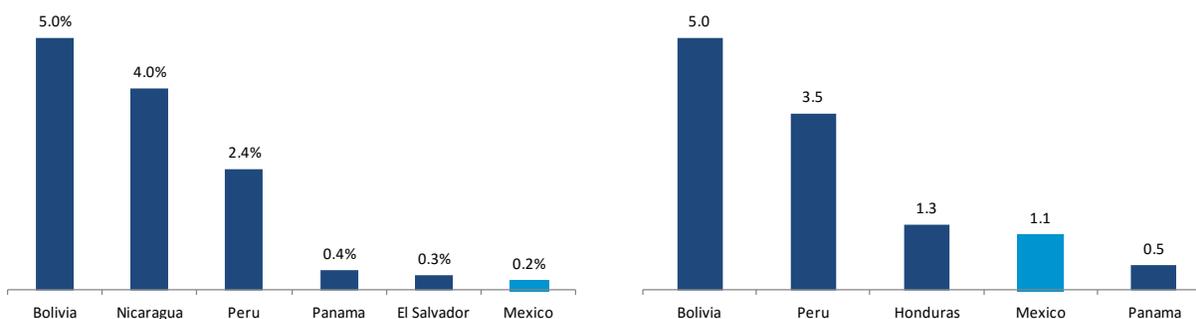
Group loans in Mexico are predominately targeted at low-income women, who represent 99% of total customers, as well as pensioners, small-scale farmers and micro-entrepreneurs. These groups receive an average loan amount of approximately Ps.8,530.

According to a study published by the National Program for Financing Microentrepreneurs (*Programa Nacional de Financiamiento al Microempresario*) and ProDesarrollo Finanzas y Microempresa, A.C., with information from 82 MFIs, the microfinance loan portfolio in Mexico grew 7.82% in the second quarter of 2016, compared with the same period in 2015. The average loan amount grew 0.79% from June 2015 to June 2016, increasing from Ps.8,284 to Ps.8,349. On June 30, 2017, the microfinance loan portfolio had an NPL ratio of 3.7%.

As of June 2016, the microfinance sector in Mexico was mainly composed of small and matured companies, with an average life of 10 years. The market was concentrated among 10 MFIs, whom together comprised around 83.0% of total loan portfolio market share. In terms of size, 55.0% of total companies were small (loan portfolio lower than US\$4.0 million), 14.0% were medium (loan portfolio between US\$4.0-US\$15.0 million) and 31.0% were large (loan portfolio greater than US\$15.0 million).

Participants in the Mexican group loan market include NGOs, cooperatives, development institutions, as well as regulated and non-regulated financial institutions and banks. Participants in the group loan market have become essential for the development of the low and middle income segments in Mexico.

The charts below present microfinance penetration, expressed as microfinance loans as a percentage of GDP and microfinance institution branches per 100,000 adults in select Latin American countries.



Source: CGAP Financial Access Report 2010

Principal Competitors in the Payroll Lending, Group Loan and Durable Goods Financing Markets in Mexico

The following table sets forth the principal companies in some of the markets in which we operate.

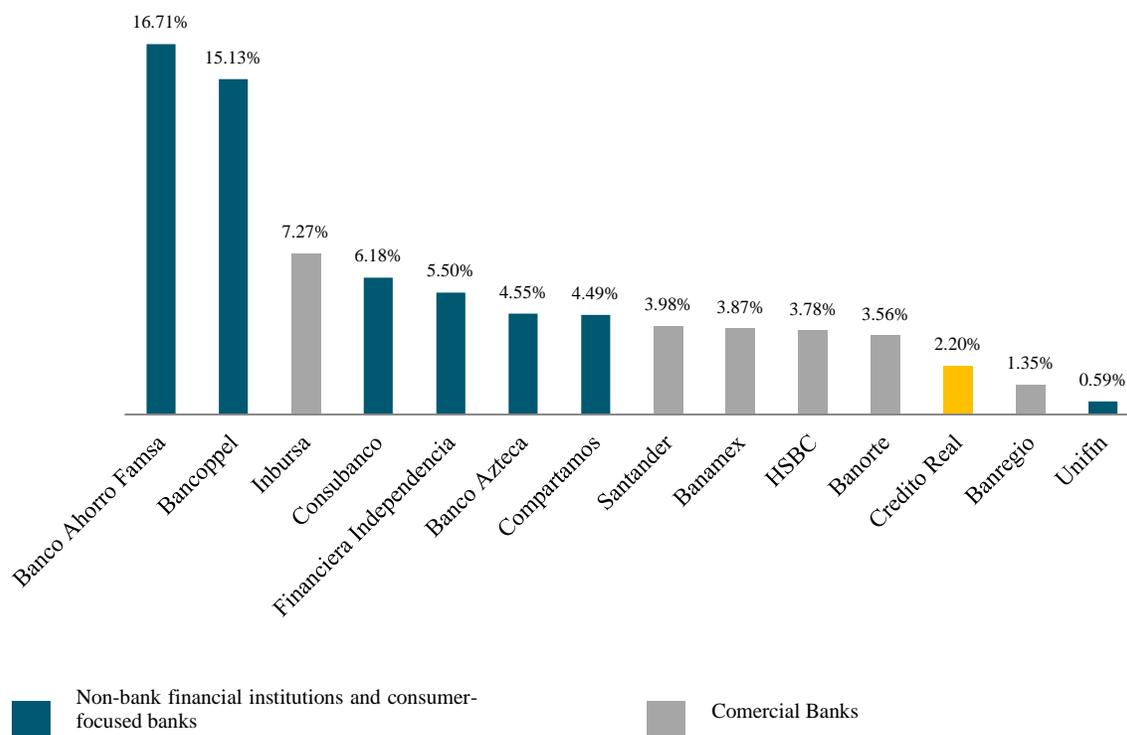
Principal Competitors in the Payroll Lending, Group Loan and Durable Goods Financing Markets in Mexico

Institution	Crédito Real Competing Product	Gross Consumer Loan Portfolio (2016)	Consumer Portfolio NPL Ratio (2016) ⁽¹⁾
		<i>(in millions of pesos)</i>	
Crédito Real		23,927	2.20%
Microfinance and Personal Consumer Companies			
Banco Ahorro Famsa	Durable Goods Loans	9,736	16.71%
Banco Azteca	Durable Goods Loans	36,814	4.55%
BanCoppel	Durable Goods Loans	14,424	15.13%
Compartamos	Group Loans	25,063	4.49%
Consubanco	Payroll Loans	5,744	6.18%
Financiera Independencia*	Group Loans	7,448	5.50%
Unifin*	Auto Loans	8,999	0.59%
Commercial Banks			
Citibanamex		190,209	3.87%
Banorte		89,832	3.56%
Banregio		2,182	1.35%
HSBC		58,327	3.78%
Inbursa		48,346	7.27%
Santander		100,065	3.98%

Source: Company filings presented to CNBV as of December 31, 2016, except Financiera Independencia and Unifin which were obtained from public filings.

The following chart presents the level of NPLs for select competitors across our product segments as of December 31, 2016:

Consumer Loan Portfolio NPL⁽¹⁾ Ratios of our Principal Competitors



Source: Company filings presented to CNBV as of December 31, 2016 except Financiera Independencia and Unifin which were obtained from public filings.

(1) Consumer non-performing loans /consumer gross loan portfolio as of December 31, 2016.

BUSINESS

Overview

History and Development

We began operations in 1993, when we were incorporated as a variable capital limited liability corporation (*sociedad anónima de capital variable*) under Mexican law. From 1993 to 2006, we operated as a secondary financial institution (*organización auxiliar de crédito*), authorized by the SHCP to conduct financial factoring and certain other financial operations, such as buying and selling accounts receivable and other credit documents. Prior to 2005, our business consisted primarily of durable goods lending to finance the acquisition of “white line products,” such as kitchen appliances and washing machines. Our durable goods lending business allowed us to gain scale and develop our business expertise and our technological platform.

In July 2006, the regulatory regime in Mexico was amended to, among other things, deregulate some credit activities and organizations. As a result, a new category of financial institutions known as multipurpose financial institutions or *Sofomes* were created. In December 2006, we amended our bylaws to become a non-regulated *Sofom* (*sociedad financiera de objeto múltiple, entidad no regulada*, or *Sofom E.N.R.*). On January 10, 2014, certain reforms to the Mexican General Law of Auxiliary Credit Organizations and Credit Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*) were published in the Official Gazette to provide that a *Sofom*, such as us, that issues debt securities registered with the RNV, should be considered a regulated *Sofom*, rather than a non-regulated *Sofom*. We have implemented the required changes in order to comply with provisions applicable to regulated *Sofomes*, which include, among other things, amending our corporate name and bylaws. We will continue to make all necessary changes to adjust our operations as required by the general provisions issued and approved by the CNBV. In sum, as a *Sofom*, we are permitted under Mexican law to (i) grant loans and engage in other types of financial transactions for various purposes; (ii) place securities in the capital markets and obtain financing from financial institutions, such as insurance and bonding companies; and (iii) grant loans that are not required to be targeted to a specific sector of the Mexican economy.

For a number of years, our strategy has been oriented towards diversification into different products that serve the same base of customers: those unattended by traditional financial institutions. The diversification process started in 2004 by introducing the payroll business. It continued with group loans, used car loans, SME loans and additional products. Consistent with this diversification process, in 2014, we expanded our business into the United States and more recently to Central America. Through this diversification, we gained access to a larger market but also obtained a natural hedge by having an asset denominated in U.S. dollars or in currencies of highly dollarized economies (with limited exchange rate volatility). As of September 30, 2017, 23.5% of our total loan portfolio and 31.3% of our net income attributable to controlling interest was denominated in a foreign currency.

As part of our strategy to consolidate our position in the payroll lending business and to secure a source of payroll loan origination, effective July 1, 2011, we acquired from Desarrollo 51, S.A. de C.V. (“Grupo Kon”) a 49% interest in the shares of one of our principal distributors, Directodo. The acquisition was carried out through the merger of Rasteroz, S.A. de C.V. (“Rasteroz”), a company holding 49% of Directodo’s shares, into Crédito Real. As a result of the merger, Rasteroz’s main shareholder, Venlo Resources Pte. Ltd., (a member of Grupo Kon) received 18.8% of our shares. Futu-Iem, a company holding 72.0% of our capital stock prior to the merger with Rasteroz, merged with and into Crédito Real as part of this transaction. As a result, the members of the Berrondo, Saiz and Esteve families became direct shareholders of Crédito Real. See “Principal Shareholders”. At the end of 2014, aiming to consolidate the leadership of the Company in payroll loans, we exercised the option to acquire the remaining 51% of Directodo (which operates its loan origination business under the brand name and trademark Kondinero). The merger took effect November 2014, and we currently own 99.99% of Directodo, which operates as our subsidiary.

Consistent with our acquisition strategy, on November 18, 2011, we acquired a 49% interest in the shares of Publiseg, one of our two main distributors of payroll loans. Publiseg operates under the brand name Credifiel. We paid for this strategic acquisition in cash.

In August 2012, and in order to further consolidate our position in the payroll loan market, we entered into an agreement to acquire a minority interest in the capital stock of GEMA. GEMA operates under the brand name

Crédito Maestro. We initially acquired a 40.8% ownership interest, and during the first quarter of 2013 increased our ownership interest to 49%. Additionally, the agreement provides options for us to acquire the remaining 51% interest in GEMA in 2017 and 2018.

In October 2012, we conducted an initial public offering and became a *sociedad anónima bursátil de capital variable* (variable capital public stock corporation).

During 2013, we continued to expand through the acquisition of a portfolio of SME loans and entered into an alliance with Fondo H, S.A. de C.V., SOFOM, E.N.R. thereby strengthening our presence in the SME loans market. We also continued our expansion into auto loans, which accounted for 3% of our loan portfolio as of December 31, 2014 and in order to strengthen growth in that product, in 2014, we acquired 51% of CR Fact, S.A.P.I. de C.V.

During 2014, we partnered with CEGE Capital, S.A.P.I., SOFOM, E.N.R., by acquiring 38% of its capital. This partner grants group loans under the “Contigo” brand. We also partnered with Bluestream Capital, S.A.P.I. de C.V. by acquiring 23% of its capital. This partner also grants group loans under the “Somos Uno” brand.

As a result of the Financial Reforms, in 2014, we became a regulated entity.

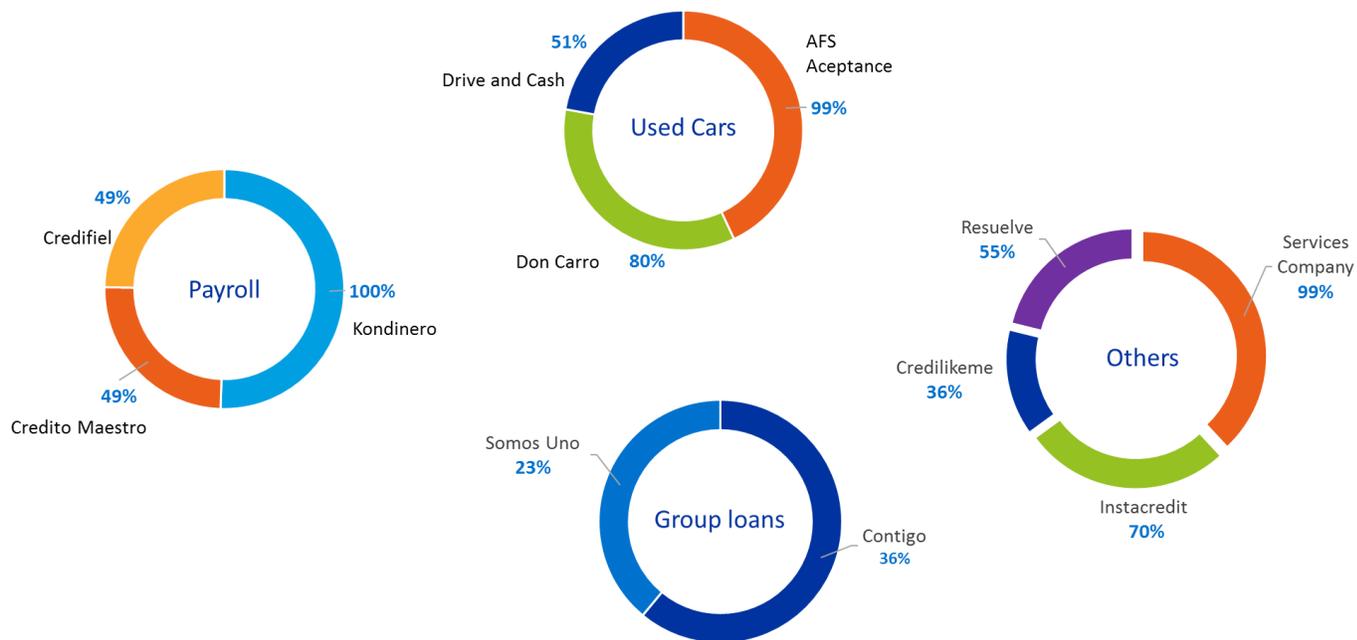
In order to strengthen the distribution for used car loans in the United States, in October 2015, we acquired 65% of the capital of AFS. AFS is a financial institution focused on providing loans for the purchase of used cars in the United States, with a presence in 32 states with a network of over 390 used car dealers.

In December 2015, we acquired 55.2% of the capital of CAT 60, S.A.P.I. de C.V., which holds several entities in the Resuelve Group. This entity offers credit repair services focused on people with debt problems, advising on savings plans and negotiating with creditors to reach an agreement and settle their debts.

Finally, in February 2016, we acquired 70% of the equity interests issued by a Panamanian company named Marevalley Corporation, which is a holding company with several entities in Costa Rica, Nicaragua and Panama operating under the “Instacredit” commercial name. This transaction contributed to our business diversification.

From December 31, 2014 to December 31, 2016, our loan portfolio increased at a CAGR of 31.9%, from Ps.10,423.5 million to Ps.23,927.0 million. During the over 24 years that we have been in business, we have disbursed approximately four million loans to more than two million customers.

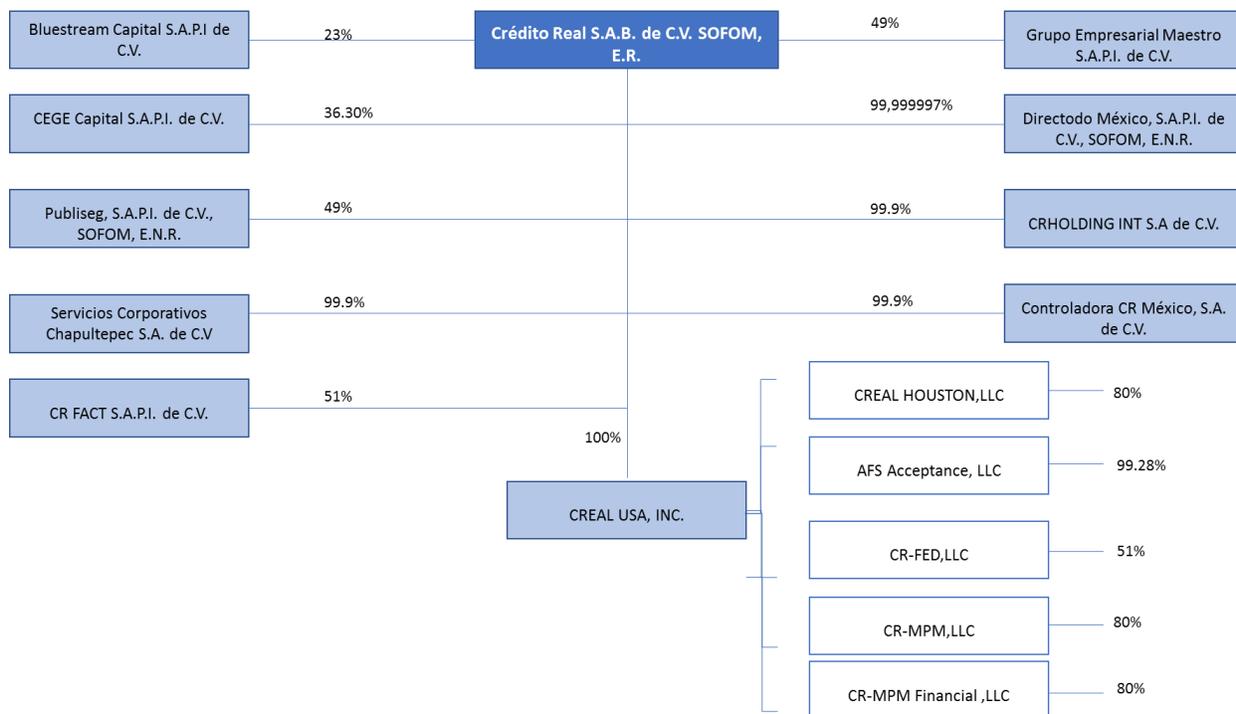
The following chart shows a breakdown of our subsidiaries by business line as of September 30, 2017:



Note: "Service Companies" (Servicios Corporativos Chapultepec) is a corporation which provides us exclusively with administrative services. Directodo (Kondinero), Publiseg (Credifiel) and GEMA (Crédito Maestro) are among Mexico's main payroll loan distributors.

Our Corporate Structure

Our corporate structure as of the date of this offering memorandum is shown in the chart below.



Note: CRHOLDINGINT, S.A. de C.V. is the holding company through which we hold our interests in nine Central American companies, including Instacredit. Grupo Empresarial Maestro, S.A.P.I. de C.V. is the holding company through which we hold our interests in six Mexican companies. Controladora CR México, S.A. de C.V. is the holding company through which we hold our interests in Credilikeme, Resuelve tu Deuda, and eleven other companies.

Principal Activity

We are a leading specialty finance company in Mexico regulated by the CNBV, with presence in the United States, Costa Rica, Panama and Nicaragua. We focus on consumer lending, and we have a diversified and scalable business platform focused primarily on the following types of loans: (i) loans with payment via payroll deduction, or payroll loans (ii) consumer loans through Instacredit, (iii) loans for used car purchases, or used car loans, (iv) loans to small businesses, or small business loans, and (v) loans to small groups of borrowers, or group loans. We offer our products to the low- and lower middle-income segments of the population, which historically have been underserved by other financial institutions. According to INEGI, these segments account for approximately 68.7% of the total working population, which represents approximately 36.9 million potential customers. On September 30, 2017, the average principal amount of our outstanding loans was Ps.32,602. All loans made or purchased by us are denominated in Mexican pesos, U.S. dollars, Costa Rican colones, or Nicaraguan cordobas, bear interest at fixed rates and are amortized in installments. We design our credit products with terms that we believe can be easily understood by customers, even if they have no previous credit history.

At September 30, 2017, our payroll loan portfolio totaled Ps.17,562.3 million, representing approximately 38% of the potential market according to our internal estimates based on market data. Additionally, according to ProDesarrollo, in 2015 we were one of the largest providers of group loans in Mexico, and our distributors had a total of 215,462 group loan customers as of September 30, 2017.

We fund our portfolio primarily through our own capital, debt securities issued in the local and international capital markets and bank credit lines. In 2010, we accessed the international debt markets through an inaugural five-year bond offering of our 2015 Senior Notes followed by a reopening for a combined aggregate principal amount of US\$210 million. In 2014, we issued US\$425 million in aggregate principal amount of our 2019 Senior Notes, which were repaid in part with the issuance of US\$625 million of our 2023 Senior Notes in 2016. As of December 31, 2014, 2015 and 2016, we had capitalization ratios (defined as total stockholders' equity divided by total loan portfolio at the end of the period) of 38.8%, 38.1% and 38.8% respectively. As of September 30, 2017, we had a capitalization ratio of 35.2%.

We strive to deliver economic value to our shareholders by enhancing the social well-being of our clients through our loans, which provide them with the opportunity to access funds that would otherwise not be easily obtainable, given the limited or nonexistent credit histories of the majority of the individuals we serve.

Our Loan Products

Overview

Our typical customer has historically had limited access to financing from banks and other traditional credit providers. Most of our customers have limited or no credit histories and are thus generally unable to meet the minimal lending standards of banks and traditional financial institutions. The interest rates we charge on our loans reflect the additional risks posed by lending to the customers we target, the difficulties in reaching such customers and the expenses involved in developing tailored consumer credit products to meet their needs, as well as in originating, servicing and monitoring small loans.

The following table sets forth the typical characteristics and terms of our products as of September 30, 2017.

	Loan Product					
	Payroll Loans	Used Car Loans	Small Business Loans	Durable Goods Loans and Other ⁽³⁾	Group Loans	Consumer Loans (Instacredit)
Main characteristics	Loans repaid through deductions from the paychecks of unionized government employees	Focused on financing semi-new and used cars through strategic alliances with a network of distributors that use their own sales force to promote our loans	Provides enterprise financing through non-revolving short- and long-term lines to fund working capital requirements and investment activities	Short-term consumer loans to finance purchases of durable goods from selected specialized retail chains	Small group loans for working capital requirements of micro-businesses	Focused on consumer loans, SME loans, and auto loans
Average loan amount (approx.)⁽¹⁾	Ps.47,863	Ps.184,848	Ps.4.9 million	Ps.7,111	Ps.3,566	Ps.23,879
Payment frequency	Every 2 weeks	Monthly	Monthly	Monthly	Weekly	Monthly
Average term	44 months	42 months (Local), 2 - 60 months (CR Fact), 54 months (Dallas), 62 months (AFS)	12 - 36 months, Fondo H: 13 months	12 months Other 13.3 months	3.8 months	22-60 months
Average yield	31.5%	27.9%	20.9%	22.0% Other 76.4%	12.4%	49.4%
Origination channel	11 distributors, (including 1 in Honduras), +6,000 sales representatives overall, owning 100% of Kondinero and 49% of the other two largest.	Alliances with 18 distributors. One partnership with 28 branches in 13 states of Mexico. Two strategic alliances in USA. Dallas with 5 branches, and AFS with over 390 distributors in 32 states of the US.	Alliance with Fondo H, and in-house brand. 5 sales reps. (3 Fondo H, 2 in-brand)	None.	Two partnerships. 181 branches and 1,523 promoters	Instacredit has presence in Costa Rica (56 branches), Nicaragua (13 branches) and Panama (3 branches).
Effective interest rate	50-65%	25-74%	17-48%	40-50% Other 76.4%	90-110%	32-62%
Risk and profit sharing (R&P)	Include sharing risk with the distributors	Include sharing risk with the distributors	Some loans include sharing risk with the distributor	Some products include sharing risk with the specialized retail chains	Not applicable	Equity participation
Percentage of loan portfolio	65.8%	9.6%	6.4%	1.4%	0.8%	16.0%
Delinquency rate	1.5%	1.2%	2.8%	11.1%	0.1%	5.4%
Number of outstanding clients (approx.)	366,928	13,893	351	43,103	215,462	178,558
Target market⁽²⁾	C+, C-, D+	C+, C, C-, D	C+, C	C, D+, D	C-,D, E	C+, C, D

(1) The amount of group loans includes the loan amount for each member of the group.

(2) Market segments are defined based on monthly family income, in accordance with the categories established by AMAI, as follows: Level E, between Ps.0 and Ps.2,699; Level D, between Ps.2,700 and Ps.6,799; Level D+, between Ps.6,800 and Ps.11,599; Level C, between Ps.11,600 and Ps.34,999; Level C+, between Ps.35,000 and Ps.84,999; and Levels A and B, Ps.85,000 or more.

(3) Divestment from durable goods loans is underway and no new loans are being made.

Between December 31, 2014 and December 31, 2016, our total loan portfolio grew by a CAGR of 31.7%. This growth increased our profitability as we took advantage of our operating and financial leverage.

Markets for Our Products

We provide our loan products throughout Mexico, including in several major metropolitan areas, such as Mexico City, and other large cities in the states of Guerrero, Morelos, Nuevo León, Puebla, Veracruz and Yucatán, among others. Our payroll and durable goods loan businesses, which are our oldest business lines, have a presence in every Mexican state, while our group loan business operates in 23 of the 32 Mexican states.

The following table shows the percentage breakdown of our loan portfolio in each of our main loan product categories by state as of September 30, 2017.

State	Business Line						Total
	Payroll Loans	Used Car Loans	Small Business Loans	Durable Goods Loans and Other	Group Loans	Consumer Loans (Instacredit)	
Aguascalientes	1.2%	0.0%	0.0%	0.0%	0.7%	0.0%	0.8%
Baja California	1.4%	0.0%	0.0%	0.4%	0.0%	0.0%	0.9%
Baja California Sur.....	0.8%	0.0%	0.0%	0.2%	0.0%	0.0%	0.5%
Campeche.....	1.6%	0.0%	0.0%	0.2%	0.0%	0.0%	1.0%
Chiapas.....	5.1%	0.2%	0.0%	0.2%	0.0%	0.0%	3.3%
Chihuahua	1.5%	0.2%	0.0%	0.0%	0.0%	0.0%	1.0%
Coahuila	1.7%	0.1%	0.0%	0.0%	1.8%	0.0%	1.1%
Colima.....	0.5%	0.1%	0.0%	0.2%	2.1%	0.0%	0.4%
Distrito Federal.....	13.0%	3.3%	95.3%	26.5%	0.0%	0.0%	14.9%
Durango.....	0.9%	0.0%	0.0%	0.0%	1.0%	0.0%	0.6%
Estado de México.....	11.7%	9.6%	4.6%	13.5%	8.9%	0.0%	9.1%
Guanajuato	3.0%	0.1%	0.0%	0.0%	8.1%	0.0%	2.3%
Guerrero	6.0%	0.0%	0.0%	0.0%	7.8%	0.0%	4.1%
Hidalgo.....	2.1%	0.1%	0.0%	0.0%	2.2%	0.0%	1.4%
Jalisco.....	2.9%	0.8%	0.0%	15.3%	7.8%	0.0%	2.4%
Michoacán.....	1.9%	0.0%	0.0%	0.0%	12.5%	0.0%	1.7%
Morelos	1.0%	0.2%	0.0%	0.0%	3.0%	0.0%	0.8%
Nayarit	0.8%	0.0%	0.0%	0.0%	2.3%	0.0%	0.6%
Nuevo León.....	2.8%	0.4%	0.0%	0.1%	2.0%	0.0%	1.9%
Oaxaca	10.9%	0.0%	0.0%	0.2%	2.6%	0.0%	7.1%
Puebla.....	2.1%	0.5%	0.1%	1.2%	3.9%	0.0%	1.6%
Querétaro.....	0.6%	0.2%	0.0%	19.5%	2.9%	0.0%	0.7%
Quintana Roo	0.7%	0.2%	0.0%	6.6%	0.0%	0.0%	0.5%
San Luis Potosí.....	2.3%	0.2%	0.0%	0.0%	3.7%	0.0%	1.6%
Sinaloa	2.2%	0.1%	0.0%	0.0%	3.7%	0.0%	1.6%
Sonora	3.2%	0.1%	0.0%	2.5%	1.1%	0.0%	2.1%
Tabasco	2.4%	0.2%	0.0%	0.4%	6.3%	0.0%	1.8%
Tamaulipas	2.2%	0.0%	0.0%	0.5%	0.0%	0.0%	1.4%
Tlaxcala.....	0.7%	0.0%	0.0%	0.0%	0.2%	0.0%	0.5%
Veracruz.....	10.4%	0.6%	0.0%	3.9%	10.3%	0.0%	7.1%
Yucatán	1.2%	0.1%	0.0%	4.7%	0.0%	0.0%	0.8%
Zacatecas.....	0.5%	0.0%	0.0%	0.0%	0.6%	0.0%	0.3%
Subtotal	99.1%	17.6%	100.0%	96.4%	95.5%	0.0%	75.9%
United States of America	0.0%	77.9%	0.0%	0.0%	0.0%	0.0%	7.3%
Central America	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	15.6%
Others(1)	0.9%	4.5%	0.0%	3.6%	4.5%	0.0%	1.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) The Others category reflects IMSS and Mexican federal entities that centralize their respective portfolios.

As of September 30, 2017, our payroll loan portfolio was concentrated primarily in the states of Mexico City (13.0%), Estado de México (11.7%), Oaxaca (10.9%) and Veracruz (10.4%). These concentrations are the result of the strong presence our payroll loan distributors have in those states and of the high population density of those areas.

As of September 30, 2017, our group loan portfolio was concentrated in the states of Michoacán (12.5%), Veracruz (10.3%), Estado De México (8.9%) and Guanajuato (8.1%). These are the states in which our group loan business has been active for the longest period of time, and as a result, where our promoters have the most developed relationships with existing and potential borrowers.

As of September 30, 2017, our small business loan portfolio was concentrated in Mexico City and Estado de México. This concentration results from the fact that we launched this new business line in Mexico City with plans to broaden the geographic span of this portfolio in the future.

As of September 30, 2017, our used car loans portfolio was concentrated in the United States (77.9%), Estado de México (9.6%) and Mexico City (3.3%). This concentration is the result of the operation of our partners in the United States and the current distribution agreements in Mexico. We expect to broaden the geographic span of this portfolio in the future.

Finally, as of September 30, 2017, our Instacredit loan portfolio was concentrated in Costa Rica with 74.1% of the loans located in that country. This concentration is the result of the inception of Instacredit in that country. We expect to broaden the geographic span of this portfolio in the future.

We believe that our efforts to consolidate our payroll business, work with durable goods specialized retail chains with nationwide scale, expand our group loan branch network and expand the geographic reach of our most recent business lines of small business loans and used car loans will enable us to achieve an even more diversified loan portfolio across all Mexican states.

The following sections describe our loan products in more detail.

Payroll Loans

Our payroll loans are granted through our distributors to unionized state and federal public sector employees, retirees and pensioners. These loans are originated by our distributors through portfolio purchasing operations. The loans are repaid through paycheck deductions pursuant to the borrowers' prior written instructions. These instructions authorize a borrower's public sector employer to make fixed installment payments (including interest) from the borrower's payroll wages before those wages are paid to the borrower, significantly mitigating the risk of default. Government agencies typically set limits for the percentage of net available salary that can be deducted from employees' wages to repay a loan. We offer certain of our customers the option to renew their loans before they reach maturity. Historically, approximately 35% of our payroll customers have renewed their loans, and we expect this trend to continue.

The relationships established by our distributors, either directly or through service providers, such as public relations firms, with those labor unions which employ or represent public sector employees in various regions of Mexico are formalized through cooperation agreements among our distributors, the labor unions and the public sector employers. These agreements provide that the distributor will offer loans that are payable through payroll deductions for unionized workers and also provide that the public sector employers must execute the employee's instructions with respect to payment installments, including interest.

Under these cooperation agreements, obligations are created between our distributors and government entities and/or labor unions, which allow the distributors to take the necessary steps to promote and provide payroll loans to unionized employees. Furthermore, under such cooperation agreements, labor unions typically agree to assist the distributors in processing and obtaining the discount codes (*claves de descuento*) required for direct payroll deductions to be made. Such discount codes are provided by employers. The government entity, in addition to making the payroll deductions and remitting payments directly to Crédito Real as beneficiary is obligated to report periodically to us and the distributors regarding the payroll deductions. Distributors are responsible for coordinating with the relevant government entities so that the appropriate systems are operating properly and payments for bi-

monthly amortization repayments are made on time. The government entities and/or labor unions are not involved in any way in the negotiation of loans, the loan approval process or the determination of the terms of credit agreements entered into by the distributors with unionized workers.

These cooperation agreements establish the mechanisms through which public sector employers or labor unions authorize our distributors to award loans to their employees, retirees, pensioners or union members, and promote such loans at work sites or events organized by labor unions. They include (i) the documentation that distributors must present to public sector employers or government entities in order to set up payroll deductions, as well as the timeline for such payroll deductions; (ii) the bank account through which the public sector employers must transfer or deposit payments received, as well as the specified periods for such transfers; (iii) in certain cases of termination, the obligations of government agencies to continue carrying out payments in accordance with the borrowers' instructions for loans which are still active are established; and (iv) the causes for termination or rescission of the loans. The specific terms and conditions of each cooperation agreement vary on a case by case basis. In certain cases, the cooperation agreements establish payments from the distributors to the public sector employers or labor unions for their assistance securing the payroll loan customers. In general, such payments are determined based on the amounts paid by the employees on the payroll loans.

In some instances, the cooperation agreements provide for the payment of a fee by the distributor to the labor unions (or the government agency), based on a percentage of the loans originated through the particular cooperation agreement. Distributors are responsible for coordinating with government entities and our branches in order to ensure that the corresponding information systems work adequately and payments are made on time.

The collection and maintenance of those cooperation agreements has a cost, which we estimate varies between 3% and 5% of revenues generated by the portfolio of payroll loans. This cost is fully covered by the distributors.

As a part of our strategy to expand and strengthen our payroll loan operations and increase profitability, on July 1, 2011, we acquired a 49% share in the capital of Directodo from Grupo Kon and also were granted an option to acquire the remaining 51% of the capital stock. Directodo operates its loan origination business under the brand name and trademark Kondinero, and is one of the leading originators of payroll loans in Mexico in terms of origination capacity. Directodo was founded in 2006 and has since originated payroll loans amounting to approximately Ps.5,000 million throughout Mexico.

On September 30, 2017, Directodo had 77 cooperation agreements with government agencies, and operated 120 branches in all states of Mexico. On September 30, 2017, Directodo had 1,400 employees, including 1,000 sales executives and 31 telephone operators.

The acquisition of Directodo was structured through the merger of Rasteroz, a subsidiary of Grupo Kon holding 49% of Directodo's shares, into Crédito Real. As a result of the merger, the shareholder of Rasteroz, Venlo Resources Pte. Ltd. (a member of Grupo Kon), received 18.8% of our outstanding shares. As part of the transaction, Directodo entered into an exclusivity agreement with us and Rasteroz entered into an agreement not to compete with Directodo and their directors and shareholders for the benefit of Crédito Real. These agreements include all of their loan origination activities and give us the right to fund 100% of the payroll loans originated by Directodo. At the end of 2014, aiming to consolidate our leading market share in payroll loans, we exercised the option to acquire the remaining 51% of Directodo (which operates its loan origination business under the brand name and trademark Kondinero). The merger took effect in November 2014 and currently we own 99.99% of Directodo.

Following the same strategy of vertical integration, on November 18, 2011, we acquired a participation equivalent to 49% of the capital of Publiseg, which operates under the brand Credifiel, and is one of the largest distributors of payroll loans in Mexico in terms of origination capacity. We also were granted an option to acquire the remaining 51% of the capital stock of the company. As of September 30, 2017, Publiseg was the third largest originator of payroll loans for us, with approximately Ps.205.2 million originated during the year. The negotiation with Publiseg's shareholders for the acquisition of the 49% interest included exclusivity and non-compete agreements with Publiseg and its managers and shareholders for our benefit. These agreements include all of Publiseg's loan origination activities and give us the right to fund 100% of the payroll loans originated by Publiseg.

Publiseg was founded in 2005. It currently has over 97 branches located in 32 states of Mexico with a sales force of over 2,400 developers. As of September 30, 2017, Publiseg had 106 cooperation agreements.

Similarly, in August 2012, as part of our strategy to consolidate our position in the payroll loan market, we entered into an agreement to acquire a minority interest in the capital stock of GEMA. The negotiation with GEMA's shareholders for the acquisition of an interest in GEMA included exclusivity and non-competition agreements with GEMA and its managers and shareholders for our benefit. We initially acquired a 40.8% ownership interest, and during the first quarter of 2013, we exercised an option to increase our ownership interest to 49%. Additionally, the agreement provides options for us to acquire and for the current shareholders of GEMA to sell the remaining 51% interest in GEMA in 2017 and 2018. On September 28, 2012, we were notified that the Mexican Antitrust Commission (*Comisión Federal de Competencia*) approved the consummation of this acquisition. The initial transaction was completed on October 4, 2012.

GEMA, which operates under the brand name Crédito Maestro, is one of the main payroll loan distributors in Mexico. As is the case for our investments in Kondinero and Credifiel, our investment in Crédito Maestro will be accounted for using the equity method. This transaction continues our strategy of vertical integration and should help us further operating synergies and increases in our net margin.

As of September 30, 2017, Crédito Maestro had cooperation agreements with 62 government agencies, and operated 100 branches in 32 Mexican states. As of September 30, 2017, Crédito Maestro had 1,600 employees, including 1,400 sales executives.

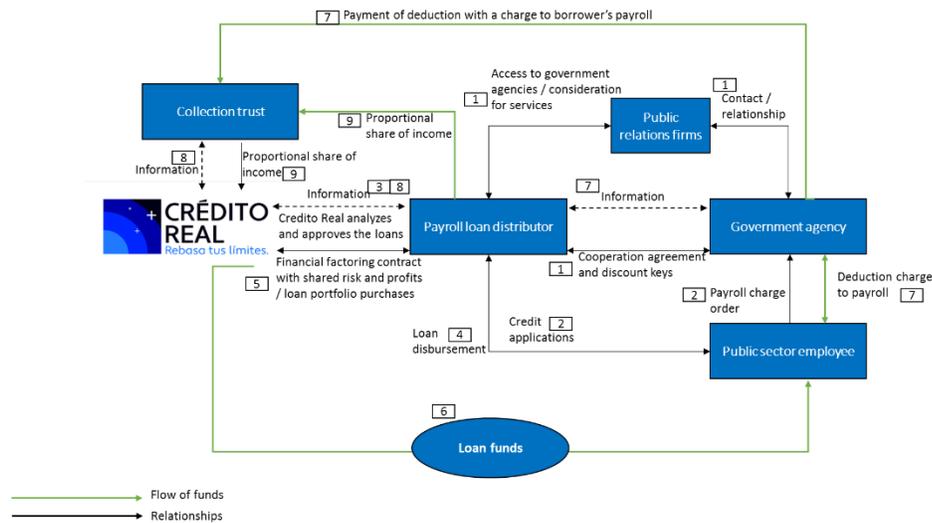
Currently, our payroll loans are originated by Directodo, Publiseg and GEMA under the Kondinero, Credifiel and Crédito Maestro brands, respectively, as well as by 8 other independent distributors. However, we review and analyze each credit application and approve loans according to our own lending policies and procedures, with the aim of ensuring that all of our loans meet the same quality standards. We share with each distributor the credit risk and the income generated by the loans it originates; however, each distributor retains responsibility for servicing and absorbing all operating costs relating to the loans. Government agencies transfer employees' loan payments directly to us or to a trust controlled by us, and we then transfer to each distributor its respective share of income net of any deductions related to non-performing loans.

Our distributors have access to approximately 305 government entities across all states in Mexico, and employ or are affiliated with approximately 1.6 million individuals.

Payroll loans have become an attractive alternative source of unsecured credit for Mexican consumers. Due to the method for repayment, borrowers find it easier to service and qualify for payroll loans compared to other forms of consumer financing. For the same reason, lenders tend to view payroll loans as a more attractive risk compared to other forms of consumer financing.

Our average payroll loan has an average term of approximately 44 months and an initial principal amount of approximately Ps.47,863 (equivalent to approximately 30% of the average borrower's gross annual income). The interest rates we offer on our payroll loans range from 45% to 55% per annum. As of September 30, 2017, we had approximately 366,928 clients with payroll loans outstanding with an aggregate principal amount of Ps.17,562.3 million, which represented approximately 65.8% of our total loan portfolio and 61.0% of our interest income. As of September 30, 2017, the percentage of non-performing loans in our total payroll loan portfolio was approximately 1.5%.

The following chart provides an overview of our payroll loan business model:



1. Distributors' access to government agencies, through public relations firms; signature of cooperation agreements between distributors and government agencies.
2. The distributor consolidates the loan application and compiles the documentation and information needed from the potential borrower (public sector employee); the loan application includes the instruction for a payroll charge granted by the employee/borrower to the agency.
3. We receive the documentation and information from the employee, evaluate the loan application, and approve the loan on a case-by-case basis. We keep the loan documentation (loan contract, pay stub, etc.).
4. The distributor grants the loan.
5. We acquire the loan through a financial factoring operation, pursuant to the financial factoring agreement entered into between us and the distributor.
6. We disburse the loan funds and the borrower/employee receives them.
7. The agency carries out the charges to the employee/borrower's payroll needed for the depreciation of the loan, and transfers the funds to the collection trust. The distributor carries out the collection of the loan with the agency, and receives information from the agency related to the charges made to the employee/borrower's payroll.
8. We receive information on the charges carried out by the agency and the funds received by the collection trust from both the distributor and the collection trust, reconcile this information and apply it to our systems.
9. We distribute the shared gains or losses between the distributor and us.

Business Model

Our business model allows both us and our distributors to focus on each of our respective competitive strengths. While we focus on risk management and funding, our distributors focus on increasing our potential customer base by signing new cooperation agreements with government entities or renewing existing ones and promoting our loans among unionized government employees.

Distribution and Origination

Payroll loans are originated by Directodo, Publiseg and GEMA, under the Kondinero, Credifiel and Crédito Maestro brands, respectively, and by other independent distributors, and later acquired by us via portfolio purchase operations, pursuant to financial factoring agreements with our distributors.

These financial factoring agreements stipulate that: (i) we will pay a specified price to the distributor for the acquisition of rights to the loan, including the formulas used to determine the final price based on fluctuating discounts and taking into consideration the quality of the acquired loan rights, assuming the effective payment of said loans; (ii) payment will be made in partial payments such that part of the price will be paid when the rights to the loan are acquired and part of the payment will be made later, in specified periods; (iii) there will be a joint and several obligation of the distributor in the event that the borrower of the loan acquired by us does not pay the loan

amounts due to us based on a percentage of the unpaid amount; and (iv) we may compensate the distributor for the joint and several obligation amount due to us by discounting any amount owed by us to such distributor.

For exclusively operational purposes, a part of the price for the acquisition of the loan in the financial factoring agreements is recognized as “interest income” or a “bonus”, although these concepts are part of the acquisition price for the loan rights, which is determined by taking into account: (i) the amounts paid by the borrowers to us and (ii) the dates on which such amounts are paid.

Factoring agreements entered into by us provide for partial recourse against the distributor if the borrowers do not meet their payment obligations. In terms of the factoring agreement, the distributors are liable to the borrowers for the percentage specified in such agreements with respect to amounts not paid by us.

We currently have factoring agreements with 11 distributors. These distributors in turn have cooperation agreements with public sector employers or employee labor unions in 305 governmental agencies across all states in Mexico, through which they promote our payroll loan products.

Loan origination occurs through a distributor, subject to our lending standards, our loan terms and our approval. Many of our distributors depend upon the services of public relations firms to provide contacts and lobby for contracts with public sector employers and/or labor unions. The fees paid to these public relations firms by our distributors or by us generally depend on the number of loans that originated from the specific public sector employer or labor union, and the collection of such loans.

Borrowers must be employees of a government agency or members of a labor union that has entered into a cooperation agreement with one of our distributors and must prove employment by producing pay stubs. We are responsible for verifying a borrower’s identity, employment and repayment capacity based on our credit policies. When loans are being originated, distributors are responsible only for collecting information. Borrowers can withdraw the proceeds of the loan against our account at any local bank. Depending on the distributor, loan disbursement can occur either by a deposit in the customer’s bank account, by check or by automated loan disbursement (*dispersion automática de pagos*, or “DAP”), with DAP being the most common. We serve as custodian for all credit documentation, including the irrevocable instructions from creditors for the deductions to be made from their paychecks.

Except for Directodo, Publiseg and GEMA, neither we nor any of our shareholders has an ownership interest in any of the distributors with which we operate. Aside from the acquisitions of 99.99% of Directodo and 49% of Publiseg and GEMA described above, we currently have no intention of acquiring another payroll loan distributor.

Credit Application and Review Process

The credit application process for our payroll loans depends partially on our distributors. They are responsible for collecting the information and sending it to us for our review. Our proprietary credit review and approval process includes both quantitative and qualitative features. Upon receiving a loan application, our credit department first evaluates the electronic credit application and supporting information provided by the distributor and processes the loan application on an individual basis. The credit decision is supported by automated processes through a central computer system using scoring tables and algorithms to evaluate the payment capacity of the applicant. The qualitative aspects of the loan request are evaluated by our credit analysts. Individualized scoring models are developed for our main specialized retail chains and generic scoring models are used with other specialized retail chains. Our ability to develop a tailored scoring model for a particular specialized retail chain depends on the amount and quality of the information we have on the risk profile of the specialized retail chain’s customer. Our business model does not include the possibility of pre-approval of payroll loans.

Loan Servicing and Collection

In Mexico, certain unionized employees receive their paychecks directly from their employers; others receive paychecks from their employers through the labor unions to which they belong. Each distributor registers each payroll loan it originates with the borrower’s employer or the borrower’s union, according to the entity from which the borrower receives his or her paycheck. The distributor submits signed instructions from the borrower to the borrower’s employer or union to make direct installment payments to the lender from the borrower’s paycheck.

Every two weeks, we collect from employers or unions of our borrowers, prior to the disbursement of paychecks, an amount equal to the total installment payments of our payroll loan borrowers; this amount is sent to a trust in which we are a trustor, and in which Crédito Real and our distributors are beneficiaries of the payroll loan collections received. Each distributor verifies the loan payments and sends an electronic file to us with the necessary information for the correct application of the payment in our management system. We then transfer to each distributor its respective share of income net of any deductions related to non-performing loans. This agreed-upon income percentage given to the distributor is treated as a bonus to the discount with which we acquired the loans from the distributor. On occasions, due to netting and compensation, we directly transfer to the distributor its share of income.

Loan Documentation

Payroll loans acquired from our distributors are documented through the execution of loan contracts and promissory notes. We store the loan contracts and original promissory notes in digital format, as well as by safekeeping signals.

There is no priority of payment for cases where a borrower has more than one loan with different lenders.

The payroll loan contracts do not allow for the payment of additional amounts in favor of the borrowers, such as interest. Some payroll loan contracts may establish penalties for voluntary prepayment by the borrowers. However, the borrowers have the option of making direct payments to the account specified in the contract pursuant to the terms and conditions established in said loan contracts.

Target Market

Our target market for payroll loans consists of unionized employees of federal, state and municipal governments and other public agencies with monthly gross income ranging from Ps.10,000 to Ps.30,000. As of September 30, 2017, approximately 45% of the payroll loans we acquired were made to current employees of the state and federal public school systems. Public healthcare professionals represent 3% of our loan originations and IMSS employees represent 36%, while other government employees account for the remaining 16%.

Competition

In addition to credit cards and other forms of financing, our primary competitors in the Mexican payroll loan market are the following companies:

- Crediamigo México, S.A. de C.V.;
- Consupago, S.A. de C.V.;
- Ediciones Tratados y Equipos, S.A. de C.V.; and
- FONACOT.

The remaining competitors in the Mexican payroll loan market are comprised of a number of other institutions, none of which, we believe, has a significant individual market share. We believe that our distributors with whom we operate generally do not work with other payroll lenders and enjoy stable relationships with public sector employers and labor unions. However, our agreements with our distributors are not exclusive, and we cannot assure you that our distributors with whom we operate will continue working primarily with us or that they will maintain their existing payroll loan cooperation agreements with public sector employers and unions.

Competitive Strengths

We provide low-cost funding to our distributors through our factoring operations. In addition, our profit/risk sharing arrangements with our distributors create an incentive for them to operate efficiently.

Our distributor network provides access to customers in different locations within Mexico. Our systems and technological platform give us the ability to tailor our payroll loan products to satisfy the specific needs of customers across diverse locations in Mexico.

We have a highly developed operational model, information technology systems and broad-based market expertise that help us to better adapt to the needs of our distributors and maintain better control over our payroll loan portfolio. In addition, our operational flexibility and capacity to innovate allow us to adapt to changing market conditions and constantly analyze opportunities as they arise with new distributors, agencies and markets more broadly.

The terms and conditions of our payroll loans include fixed interest rates, fixed terms and fixed installment plans. We believe our borrowers find such fixed terms easy to understand, making our payroll loan products more attractive.

Pensioners

Since 2014 we have been active in granting loans to pensioners of the IMSS. We estimate the pensioner market to be nearly 3.7 million people, mostly underserved by traditional financial institutions. One of the advantages of the pensioner segment is that the origination process is straightforward, because the monthly payment, and therefore the total amount of the loan, is determined by the IMSS itself, and the collection process is highly reliable. As of the end of the third quarter of 2017, loans to pensioners amounted to 32.6% of our total payroll loan origination.

Used Car Loans

Our used car loan business in Mexico is mainly focused on financing semi-new and used cars through strategic alliances with a network of distributors that use their own sales force to promote our loans. The cars have a life range of three to ten years. The average term of a used car loan is 42 months with an average interest rate of 33.8%. Additionally, all cars are insured and have a GPS system that allows us to know in real-time where the car is at all times.

In addition to this, we have a 51% equity interest in a company which operates under the brand name “Drive & Cash”, which is engaged in offering secured financing for private automobiles and commercial vehicles. As of September 30, 2017, the distribution network of Drive & Cash is composed of 28 branches located in 21 states nationwide in Mexico.

We also offer loans for used cars in the United States. We have a majority stake in a distributor operating under the brand “Don Carro” with five branches in Texas.

In addition, in October 2015, we acquired a majority stake in AFS, a credit operator for used cars. AFS has a service platform that enables it to operate in 32 states throughout the United States and has operating agreements in place with more than 390 distributors in that country.

We believe these investments in Don Carro and AFS will allow us to focus on serving the segment of the Hispanic market in the United States with limited access to used car loans and simultaneously will allow us to build a significant U.S. dollar-denominated asset base.

As of September 30, 2017, we had a used car loan portfolio of Ps.2,568.1 million with a customer base of 13,893 clients.

Distribution and Origination

We have distribution agreements with 18 distributors and direct agreements with 21 dealers through our internal sales force. Our principal distributors are GPI Comercial S.A. and Queremos FinanciarTE, S.A.P.I.de C.V. Our top two distributors collectively account for approximately 81% of our used car loans portfolio.

Loans are originated at the point of sale. The borrower must complete a credit application in the store and a commercial advisor sends it to Crédito Real with copies of the customer’s identification and income statements. The information is sent to the company through our digital platform.

Credit Application and Approval Process

Our proprietary credit review and approval process includes both quantitative and qualitative features. Upon receiving a loan application, our credit department first evaluates the electronic credit application and supporting information provided by our distributors and processes the loan application on an individual basis. The credit decision is supported by automated processes through a central computer system using scoring tables and algorithms to evaluate the payment capacity of the applicant. Quantitative information regarding payment capacity is determined based in part on proprietary industry data, in part on individualized payment history (if the applicant is a repeat customer) and in part based on information obtained from third-party credit bureaus.

For the used car loans applications that lack detailed credit histories, the qualitative portion of our proprietary credit review and approval process becomes paramount. This process, which typically takes approximately 24 hours to complete, involves individualized investigations into the creditworthiness of a potential borrower, including personal contact, typically by telephone, between our credit department and the borrowers' employer and other references that the borrower provides.

Loan Servicing and Collection

Repayment of our used car loans by our customers is typically accomplished through monthly payments to us through a local bank. All of our cars have a GPS that allows us to know in real time where each vehicle is at all times. We have implemented preventive collection procedures, including telephone calls to inform customers that a payment is coming due or has become overdue. Any loan that has two consecutive overdue payments is placed in a field collection process, and we may eventually pursue legal action for collection and repossession of the vehicle. Our used car loans are secured by a non-possessory pledge (*prenda sin transmisión de posesión*) on the car invoices of the purchased car (property title), which is endorsed by a guarantee in favor of us and is kept in a secure vault at the company. However, for purposes of enforcing our rights in collection procedures, we use only the promissory note that evidences the corresponding loan.

Competition

The market for used car loans in Mexico is not very penetrated. Our competitors are mainly:

- Some banks;
- Local financial companies; and
- Small car dealers that offer in-house loans.

In the U.S., we compete in the used car loan market mainly with:

- Banks and credit unions;
- Finance companies and captive finance companies; and
- Buy Here Pay Here dealerships.

Competitive Strengths

Our principal competitive strength is the flexibility of our financing program, our capability to do tailor financing programs that meet our clients' needs and credit profile and the efficiency in the overall loan process.

Small Business Loans

This business aim to serve a market segment that is underserved by banks, through two different channels:

- An alliance with a small business loan distributor. In October 2013, we entered into an alliance with Fondo H in order to strengthen our position in the SME loan market and also acquired a Ps.657.5 million loan portfolio. Fondo H is an originator focused on granting short- and medium-term loans to SMEs in Mexico. Its customer

base includes businesses in the manufacturing, distribution and services sectors. Through the agreement we provide exclusive funding for the loans originated by Fondo H. The enterprises that are granted such loans have annual sales between Ps.50,000,000 and Ps.100,000,000. The loan amounts range from Ps.1 million to Ps.10 million with loan terms from three to 24 months and interest rates of 20-25%. We believe this market represents a great opportunity because of the large number of small business in Mexico.

This alliance has enabled us to grow our loan portfolio more rapidly, from Ps.1,318.3 million at the end of 2014 to Ps.1,485.5 million at the end of 2015 and Ps.1,368.5 million at the end of 2016. This growth is equivalent to a CAGR of 1.3% over three years.

- A personal in-house brand in the Mexico City area. The main customers of our Crédito Real PYMES brand are mom and pop stores, micro and small enterprises and independent professionals. We provide enterprise financing through non-revolving short-term lines (up to 12 months) and long term lines (up to 36 months) to fund working capital requirements and investment activities. Amounts range from Ps.100,000 to Ps.1,000,000, with a preference for loans in an amount approximately equal to Ps.400,000. The collateral is comprised of personal guarantees, and on loans of Ps.500,000 and above we require a hard collateral, non-residential guarantee. Interest rates and loan fees range from 28-32% and 1.5-2.5%, respectively.

Distribution and Origination

Loans are originated through our official internet web site, commercial fairs, street screenings and our business center in Mexico City. The total sales force consists of ten sales representatives. Portfolio management and the approval process are performed through the Credit Relationship Manager System.

The prescreening process is performed by our six sales representatives and is based on a know-your-customer approach. The process involves the completion of a credit application that comprises: (1) commercial, personal and credit bureau references, (2) proof of cash flow generation based on banking and/or financial statements and (3) verification of place of business. Once a customer has been approved a preliminary term sheet is validated.

The financial analysis consists of an in depth interview to establish payment capacity. The analysis is based on cash flow rather than collateral lending. Our in-house financial model considers: cash flow generation, liquidity and leverage ratios, operating cycle and capital expenditure requirements. After the financial analysis, a Corporate Credit Summary is generated for approval by the Credit Committee (individual and joint faculties).

Loan Servicing and Collection

We have implemented a preventive collection procedure performed by the sales force team, which includes telephone calls and in some cases personal visits to the place of business to notify a customer that a payment is coming due or has become overdue. Any loan that has two consecutive overdue payments is transferred to a specialized collections division in order to procure payment.

Competition

Direct competition consists of other non-banking institutions and personal and corporate credit cards issued by banking institutions.

Competitive Strengths

Our main competitive strengths are our quick response time, our capability to perform tailor financing and personal and direct service.

Group Loans

We started our group loan business in March 2007. This loan product is targeted at owners of small, often informal commercial enterprises referred to as “microbusinesses.” The owners of microbusinesses typically have limited access to traditional financing sources such as banks. They typically rely on alternative financing, including cash loans from businesses such as ours, to supply working capital for their microbusinesses.

During 2014, we decided to change our strategy in group loans from direct originators with a branch network to partnerships to whom we provide funding and in whom we hold an equity participation. As a result, we handed over our branch network,

Currently, group loans are originated through two specialized operators, Contigo and Somos Uno, in which we have equity participations of 38% and 23%, respectively. These two partners together have a total of 1,523 promoters and a network comprising 181 branches. The promoters are familiar with the specific needs of micro-entrepreneurs and self-employed individuals.

Our group loans are short-term loans ranging from 12 to 16 weeks made to microbusiness owners, predominantly women, who form small groups of between 12 to 25 borrowers. The borrowers use the loan proceeds exclusively to finance small commercial enterprises. Each individual in a group may borrow a different amount of money, but the repayment dates and applicable interest rates are the same for everyone in the group. Prior to disbursing a loan, we require each borrowing group to provide to us a security deposit equivalent to 10% of the principal loan amount to be disbursed. Each group member jointly and severally guarantees each other group member's obligations, assuming responsibility for any payment default by another group member.

As of September 30, 2017, we offered group loans to a total of 215,462 customers. Over the next few years, we plan to consolidate our presence in the states in which we currently operate and to continue to eventually expand into other regions in order to build a national presence. We believe our growth strategy will yield significant improvements in our volume, margins and efficiency. We plan to increase the number of customers per promoter and per branch. Furthermore, we believe our disciplined execution and comprehensive training programs will also allow us to improve our operating efficiency and profitability.

Our promoters are responsible for identifying and forming borrowing groups, originating loans and ensuring the timely collection of payments by coordinating weekly borrowing group meetings. Loan payments are collected by a leader selected from within the members of the borrowing group. Each leader is accompanied by another group member to deposit collections on a weekly basis at nearby bank branches or certain convenience stores with which we have collection agreements. Approximately 60% of our group loan customers have applied to renew their group loan once their existing loan has been repaid in full. In order to renew a loan, the borrowing group must increase the number of members by at least one member. In addition, we offer each borrowing group member the opportunity to acquire a year-long life and cancer insurance policy. As of September 30, 2017, 98% of our customers had acquired such policy.

Our average group loan has a principal amount of Ps.3,566 per group member. As of September 30, 2017, we had a Ps.211.9 million group loan portfolio, which represented approximately 0.8% of our total loan portfolio and 0.4% of our interest income. The non-performing loans in our group loan portfolio as of September 30, 2017 were approximately 0.1% of our total group loan balance.

Distribution and Origination

We rely on employees known as promoters (*promotores*) to identify and recruit potential customers for our group loan products. These promoters operate and receive full salaries and benefits, as well as performance bonuses based on the volume and performance of the loans they help originate. In addition to identifying and recruiting potential customers, promoters are responsible for meeting with borrower groups every week to assess the performance of their microbusinesses and to supervise the collection of payments. Moreover, in 2015 we formed an alliance with two group loan distributors in order to strengthen our loan origination. As of September 30, 2017, we had 1,523 promoters across 181 branches within Mexico.

A key element in the development and maintenance is the formation and maintenance of our staff of promoters. We typically recruit candidates to become promoters from the local area. Our promoters play a key role in our group loan business, and we place a high priority on their training. Each promoter receives two months of training before starting work, which includes both classroom sessions and on-the-job training. This intensive training program is intended to familiarize our promoters with marketing and group formation strategies and with our detailed credit review process and to allow our promoters to develop a thorough understanding of the local market. Our promoters are supervised and evaluated on an ongoing basis by senior personnel and receive periodic training focused on innovations in our business and personal development. A significant portion of the costs involved in

expanding our group loan business relate to the recruiting, training and oversight of promoters. The historically high turnover rate of promoters in this business, which requires us to continuously recruit and train new promoters, contributes to these costs.

We believe that a key differentiator of our business model is our innovative origination and collection methodology for group loans and the level of discipline we maintain in the execution of such methodology. We have implemented a number of policies and procedures that we believe have enabled us to maintain low delinquency rates on group loans, including the following requirements: (i) weekly group meetings coordinated by promoter at which loan payments are collected; (ii) each borrowing group member must live within a 15-minute walking distance from the weekly meeting point; (iii) no more than two members of the same family are allowed to be part of a given borrowing group; and (iv) no loan disbursements may be made to the group unless all group members are physically present at the disbursement meeting. Loans are disbursed by DAP.

Credit Application and Review Process

Because many of our group loan customers have limited or no credit history, the documentation review process for these loans is generally limited to verifying the identities of the borrowers and their sources of income. Our promoters also play a significant role in the credit review process by personally investigating and evaluating prospective borrowers and working to organize effective and efficient borrowing groups. In addition, although our group loans are reviewed and approved by our branches, our central operations department continuously monitors the local credit review process to ensure that our credit review methodologies are applied appropriately.

Loan Servicing and Collection

Each member of a borrower group is required to attend a weekly meeting with the promoter that recruited the group. During this meeting, each member of the group makes the payment due on his or her portion of the loan. If any group member is short of funds or does not attend the meeting to make his or her respective payment, the other members of the group assume responsibility for making up the difference. Each group is led by a committee of three members (a president, a leader and a secretary, all of whom are elected by the group), who are responsible for collecting and verifying loan payments by each member of their group. The promoter is responsible for verifying the collection of payments and ensuring that the total amount of funds received is correct, but promoters do not receive or manage cash payments made by our customers. Instead, the group's committee is responsible for depositing the payment at an authorized bank branch or at certain convenience store chains with which we have collection agreements. Each group's committee keeps all receipts of its bank deposits in order to verify that payments have been made correctly.

As a principal measure for the enforcement of loan payments, we measure delinquency rates using a four-day late payment metric. Our promoters' monthly bonus is tied to their ability to maintain an average delinquency rate below 3.5%, as measured by our four-day metric. In addition, each promoter is required to attend every collection and payment meeting of their borrowing groups to ensure that borrowing groups have collected the total amount of their weekly due payments. Our central offices send to each branch manager the details of all loans that are in default for their timely follow-up on a daily basis.

Target Market

Our group loans are targeted at groups of individuals, primarily women, who own and operate small commercial enterprises but who do not have access to credit from traditional banks. These individuals generally have monthly incomes ranging from Ps.2,000 to Ps.5,000. The average loan balance for our group loans is Ps.3,566 per group member, has an average term of 12 or 16 weeks and carries an effective annual interest rate of 90% to 110%.

Competition

As a whole, we are one of the principal financial companies in Mexico. Our principal competitors at the national level are Banco Compartamos, S.A., Institución de Banca Múltiple, Financiera Independencia, S.A.B. de C.V., SOFOM, E.N.R. and Centro de Apoyo al Microempresario Fundación Integral Comunitaria. We also face competition from regional microlenders and the other players like pawn shops. We compete with these various

firms primarily on credit terms and customer service. In addition to other microlenders, we also face competition to a lesser extent from more traditional financing sources. In particular, credit cards have become more widely available in Mexico in recent years, and borrowers who currently rely on loans may be able to secure other sources of financing in the future.

Despite the intense competition, we believe that market penetration of microfinance in Mexico remains low. Our research and discussions with our group loan customers indicate that a significant portion of our group loan borrowers has never had contact with other lenders.

Competitive Strengths

We believe that the primary competitive strengths of our group loan business are our business model, our human resources and our customer service. We believe one of the most distinctive aspects of our business model is the level of discipline which we exercise in the implementation of our group lending methodology described above. We believe that our group loan customers value personal interaction in business relationships, and that our trained staff of promoters, who regularly meet with borrower groups throughout the term of their loan, are essential to cultivating these relationships. Many of our promoters hail from the same cities and regions of Mexico that they serve and can use local relationships to identify and source new customers for our group loans. In addition, we believe that we have designed adequate training programs and compensation schemes that enable and encourage our promoters to deliver a superior customer service. We believe our staff of promoters will be our most important asset in consolidating and growing our group loan business.

Durable Goods Loans

We have made the decision to gradually exit the traditional durable goods loan business, which is why origination has ceased and our durable goods loan activity will cease once the remaining portfolio is recovered.

As of September 30, 2017, we had approximately 43,103 durable goods loans and other clients and outstanding of Ps.364.8 million. This portfolio decreased 27.2% in the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016. For the nine months ended September 30, 2017, our durable goods and other portfolio generated interest income of Ps.42.7 million, or 0.7% of our total interest income.

Collection

In the event of a late or missed loan payment, collection efforts will be conducted.

- (i) For payroll loans, the collection effort will be conducted by our distributors, each of which has direct contact with the government agencies, labor unions and borrowers. We participate by informing the distributor of late payments. In case of a loss, we will share the loss with the distributor in accordance with the terms of the applicable loss agreement.
- (ii) For used car loans, each car outside of the United States has a GPS system that allows us to know in real-time where the car is located at all times. In addition, all cars are insured.
- (iii) For small business loans, we have certain warranties that support the loans.
- (iv) For durable goods loans, our call center will contact the borrower directly and attempt to recover the payment.
- (v) For group loans, the promoter, in concert with other members of the group, will handle the collection effort. We assess delinquency of the loans based on a four-day internal payment metric and determine what additional measures need to be taken after a loan becomes delinquent.

Other Businesses

Resuelve tu Deuda

During December 2015, we acquired a 55.2% equity stake in Resuelve tu Deuda whose main business consists of offering services to repair individuals' credit standing in Mexico and Colombia. Resuelve tu Deuda did not bring additional credit risk to Crédito Real, but as a fee business this acquisition helped us to diversify our total revenue. Resuelve tu Deuda represented 5.6% of our income for the nine months ended September 30, 2017 and we believe this business presents significant growth opportunities.

Instacredit

Instacredit is a consumer loan based company that has 72 branches throughout three countries; Costa Rica, Nicaragua and Panama. Instacredit started its business on April 2000 in San José, Costa Rica and since 2007 started expanding into other Central American countries.

Instacredit offers everyday rapid credit solutions to low and mid-level income consumers that do not have access to traditional bank loans. The products are the following: consumer loans (unsecured), auto loans (secured), SME loans (secured), and home equity loans (secured).

Consumer Loans

Consumer loans offer everyday credit solutions to clients that urgently need liquidity. These loans can be accessed through branches, direct sales force, promoters, renewal marketing or any of Instacredit's consumer dealership partners.

Due to the fact that all consumer loans are unsecured, the average interest rate in Costa Rica is 62.5%, 55.7% in Nicaragua and 54.0% in Panama, with an average duration of 40 months. All consumer loans represent approximately 45.8% of the Instacredit's loan portfolio as of September 30, 2017.

Within the consumer loans granted in Costa Rica, Instacredit allows its clients to use the facility of payroll deduction that is done through a third party cooperative. This option can only be offered to government employees. At the moment of the formalization of the loan, the customer signs a consent form providing authorization to the cooperative to deduct the corresponding installment amount each month. This collection method allows the Company to maintain a healthier portfolio.

Auto loans

Generally, auto loans are granted through auto dealership partners located throughout Costa Rica. At the moment of formalizing an auto loan, the clients must utilize the purchased vehicle as collateral in order for the loan to be granted, for which 100% of the auto loans are secured.

As of September 30, 2017, auto loans represent approximately 40.5% of Instacredit's active loan portfolio with an average interest rate of 48.6% in Costa Rica and 48.5% in Nicaragua and 42.8% in Panama.

SME Loans

SME Loans are granted to small and medium enterprises (2-5 employees) that can provide evidence of having a physical space where they conduct their business on a daily basis. These loans are generally originated in the branches since a site-visit to clients businesses must be conducted as a requirement for eligibility for a loan.

As an underwriting procedure, the SME must present valid bills, financial statements or any other way to prove financial capability to confront the monthly installments. SME loans are required to have a collateral such as a truck, a car, a house or any other personal asset that the analyst considers valuable enough to serve as collateral.

As of September 30, 2017, SME Loans represented 12.5% of the active loan portfolio with an average interest rate of 51.8% in Costa Rica, 55.9% in Nicaragua and 53.2% in Panama.

Home Equity Loans

Home equity loans are loans granted to clients that are looking to renovate their home and are willing to set the asset as collateral. In order for the house to be approved as collateral, the house must not have another mortgage in place with any other entity. The size of the loan is subject to the valuation of the asset performed by an authorized appraisal agent, the average loan-to-value for this product is 30% to 60%.

Home Equity Loans represent 1.3% of Instacredit's loan portfolio with an average interest rate of 49.6% in Costa Rica. This product is only being offered in Costa Rica.

General Underwriting Procedure

The general underwriting procedure is similar for the four loan types offered to Instacredit clients. This procedure includes the following steps:

- 1) Request form: A request form must be filled to verify the potential client's identity, address, income and employment. The request form can be completed in a branch, with the sales call center or in a dealership. This process usually takes ten minutes or less.
- 2) Data verification: Once the request form is completed by the potential client, it is then sent to a credit analyst where a financial background check is conducted using at least one of the credit bureau databases. In the case of SME loans a site-visit is required.
- 3) Credit evaluation: The credit analyst reviews the credit bureau report and determines the income to expense ratio to determine the indebtedness capability of the potential client. The mentioned ratio must not exceed 50%. The analyst will also examine the income sources provided by the potential client to determine the maximum amount that can be offered to the client. The data verification and the credit evaluation process, in a consumer loan will usually take 20 minutes or less.
- 4) Approval: All loans must be approved by a branch manager or regional manager depending on the size of the loan. Once the loan has been approved by the manager, the loan may be disbursed. The disbursement can be done directly in the branch in cash, by check or through a wire transfer, as per the client's request.

Collections

In order to create an easy to pay experience to clients, Instacredit provides them with the opportunity to pay their installments in its branches, in any bank, or in one of the Instacredit partners.

On average, Instacredit's branches collect approximately 72%, banks collect 17%, and Instacredit partners collect the remaining 12%.

In order to collect more efficiently, Instacredit has a collection call center in each of the countries it operates, the call center has specialized collection staff. As of September, 2017, over 220 employees were active collectors in Instacredit's call centers. The call center reminds clients to submit their next payment on time and coordinates payment agreements for overdue customers.

Target Market

Instacredit's target market for all four types of loans consist of the low and mid-level income population that does not easily qualify for a loan from a traditional bank, or requires immediate liquidity, meaning those customers do not have the ability to wait for several days for a small loan.

Competition

In addition to credit cards and other forms of financing, Instacredit's primary competitors in Costa Rica, Nicaragua and Panama are the following companies:

Company	Country	Loan Type	# Branches	Response Time
	Costa Rica	Personal loans	2	24 hours
	Costa Rica	Personal and credit cards	3	48 hours
	Panamá	Personal loans	32	2 hours
	Panamá	Personal loans	14	24 - 48 hours

Competitive Strengths

Instacredit's branch-based business model provides accessibility to clients all around Costa Rica, Nicaragua and in Panama to an immediate financial solution in less than 30 minutes. The partnerships held by Instacredit with different country-wide chains permit its clients to pay their installments anywhere in the country as late as midnight.

In addition, Instacredit's over 16 years of experience, strong brand positioning and expertise has allowed it to create an operational model highly developed to best fit potential and actual customer needs. With the support of its technological platform, it can fulfill any request of internal and external clients providing the best customer experience possible. In its constant effort to deliver the best possible customer service, Instacredit has a permanent marketing campaign, market research and customer service evaluation through all its branches and call center. This has allowed it to become the top-of-mind choice of its target market when it comes to cover a financial need.

Information Technology

Our technology systems department is responsible for the development and maintenance of our proprietary information system and infrastructure, administration and control of our databases and providing helpdesk assistance. The central technology platform for the administration of our portfolio belongs to us. Our systems are subject to security and quality control standards that are in line with industry practices and are continuously monitored through internal control procedures and internal and external audits.

We maintain an electronic record of all loans, as well as the different stages in their life cycle, in our portfolio management system. These records are updated every time there is contact with the borrower and any modifications resulting from such contacts are recorded. The databases are backed up automatically on a daily basis. We maintain a primary communication site in our central offices and also maintain a mirror data center located in another part of Mexico City for safety reasons.

Credit and Risk Management Policies

Credit risk is the possibility of a loss arising from a credit event, such as the failure by a borrower to make principal and interest payments under previously agreed terms, which causes an asset to lose value. The purpose of credit risk management is to mitigate and optimize credit risk, keeping our exposure to credit risk within a permissible level relative to our capital, in order to maintain the soundness of our assets and to ensure returns commensurate with risk. Our current credit policy sets forth uniform and basic operating concepts, code of conduct and standards for credit operations. By giving our employees extensive credit training, we aim to achieve a high standard of credit risk management and create a better credit risk management culture within Crédito Real.

We have developed and refined our own proprietary underwriting standards and a digitalized credit review system, which help ensure high-quality loan portfolios and a faster credit approval process. In reviewing credit applications, we rely on both quantitative and qualitative measures, allowing us to utilize our knowledge and experience to better evaluate credit risk on a case-by-case basis. We believe our risk analysis systems allow us to

make better credit decisions when evaluating credit applications from customers with limited or no credit histories or who work in the informal economy. We believe that our business model limits our exposure to credit risk. Our payroll loans are repaid through direct charges from the borrowers' paychecks pursuant to express written instructions from the borrowers. These instructions authorize a borrower's public sector employer or labor union to make fixed installment payments during the term of the payroll loan from the borrower's payroll wages before those wages are paid. In the case of group loans, we require our customers to provide a security deposit equivalent to 10% of the principal loan amount prior to the disbursement of each loan, and each group member jointly and severally guarantees each other group member's obligations, assuming joint responsibility for any missed payment by another group member. In addition, payments on our durable goods loans are supported by our possession of invoices for the goods purchased with the proceeds of such loans, facilitating repossession and limiting the ability of borrowers to dispose of the goods before the loans are fully repaid. However, for purposes of enforcing our collection rights, we use only the promissory notes (*pagarés*) that evidence the corresponding loans.

For loans to small and medium-sized businesses, we developed a hybrid credit approval procedure, in which different aspects of the clients are taken into consideration, including: the payment quality of previously contracted debt (knock-outs considered), contacting references, conducting field research, interviewing the clients, as well as applying a parametric score model. The latter includes demographic parameters, repayment capacity index, credit score, as well as qualitative and quantitative variables regarding the applicant and the credit facility.

As part of our ongoing process to monitor risks, we monitor the credit collection process, which is a crucial aspect of our credit process. We analyze, evaluate and monitor each loan individually. Special attention is paid to non-performing loans, and stricter measures are used to monitor these loans.

We adhere to an ethics policy and other procedures in all our operations and contracts, which includes internal controls and practices aimed at identifying, evaluating and preventing the risk of corrupt behavior by our officers or employees, directly or indirectly, in (i) their relationships with officers of public or private entities, (ii) the carrying out of commercial transactions and (iii) the implementation of credit practices (including the origination of payroll loans).

Employees and Labor Relations

As of September 30, 2017, there were a total of 535 individuals working at Crédito Real. The following table sets forth the number of our full-time employees and their positions:

<u>Number of Employees</u>	<u>Position</u>
456	Operational and Administrative
60	Managers
19	Officers

Our operational and administrative personnel belong to the National Union of Workers of Financial and Banking Institutions, Organizations and Auxiliary Credit Activities, Office Employees, and Similar of Mexico (*Sindicato Nacional de Trabajadores de Instituciones Financieras, Bancarias, Organizaciones y Actividades Auxiliares de Crédito, Empleados de Oficina, Similares y Conexos de la República Mexicana*), which are subject to a collective bargaining agreement dated May 1, 2010. As of the date of this offering memorandum, we had a good relationship with our employees and their unions. Of the total number of our employees, 99% are non-union managerial employees (*empleados de confianza*), while 1% are unionized.

Properties and Leases

Our executive offices in Mexico City, as well as all of our service offices and branches throughout Mexico, are located on leased premises. Our main fixed assets consist of computers, and office furniture and equipment.

Intellectual Property

In addition to other intellectual property rights and licenses, we own the following trademarks: *Crédito Real*, *BancaFon*, *CrediFon*, *CrediEquipos*, *Crediplus*, *CR Crédito Real*, *Pasión por crecer*, *AXEDES*, *Tu AXEDES*, *CR*

Crédito Real entidad financiera que te respalda tu AXEDES, CR Crédito Real tu Axedes, C+R, Carmas, Creal US, Credipoly, Creal, Crealfunding and C MAS R, all of which are registered with the Mexican Trademark Office.

Litigation

We are from time to time involved in certain legal proceedings that are incidental to the normal conduct of our business. We do not believe that the outcome of any such proceedings, if decided adversely to our interests, would have a material adverse effect on our business, financial condition, cash flows or results of operations.

MANAGEMENT

Board of Directors

The administration of our business is entrusted to our board of directors.

The board of directors is comprised of a maximum of 21 regular members determined by the general shareholders' meeting, of which at least 25% must be independent in accordance with the Securities Market Law (*Ley del Mercado de Valores*). Each regular member may have an alternate, and alternates for independent members must be independent as well.

Currently, the board of directors consists of 12 directors, including four independent directors and eight alternate directors. Each member of the board or their respective alternate holds office for a term of one year and may be reelected for subsequent terms. Certain independent members of our board receive fees for their services as approved by the shareholders' meeting. The board is assisted by its committees and by our executive officers, who manage our day-to-day affairs. The current members of our board of directors and their respective alternate directors was confirmed at our ordinary shareholders' meeting held on February 26, 2016 and at the board of directors meeting held on October 24, 2017.

The following individuals currently serve on our board of directors:

<u>Name</u>	<u>Title</u>	<u>Age</u>
Francisco Berrondo Lagos	Chairman	64
José Luis Berrondo Ávalos	Member	67
Ángel Francisco Romanos Berrondo	Member	51
Moisés Rabinovitz Ohrenstein	Member	61
Iser Rabinovitz Stern	Member	35
Allan Cherem Mizrahi	Member	37
Gerardo Ciuk Díaz	Member	55
Juan Pablo Zorrilla Saavedra	Member	37
José Eduardo Esteve Recolons (*)	Member	51
Gilbert Sonnery Garreau-Dombasle (*)	Member	65
Raúl Alberto Farías Reyes (*)	Member	34
Enrique Alejandro Castillo Badia (*)	Member	38

The following individuals are alternate directors:

<u>Name</u>	<u>Title</u>	<u>Age</u>
Eduardo Berrondo Avalos	Alternate	60
Luis Berrondo Barroso	Alternate	36
José Francisco Riedl Berrondo	Alternate	52
Aby Litjszain Chernizky	Alternate	40
Marcos Shemaria Zlotorynski	Alternate	57
Francisco Javier Velásquez López	Alternate	36
Jorge Esteve Recolons (*)	Alternate	50
Enrique Saiz Fernández (*)	Alternate	70

(*) Independent directors.

Mr. Francisco Berrondo Lagos is the cousin of Mr. Jose Luis Berrondo Avalos. Mr. Angel Francisco Romanos Berrondo is the nephew of Mr. Francisco Berrondo Lagos and Mr. Jose Luis Berrondo Avalos.

Mr. Moises Rabinovitz Ohrenstein is the father of Mr. Iser Rabinovitz Stern.

During December 2013, Guillermo Javier Solórzano Leiro was designated as Secretary of our board of directors and Gabriela Espinosa Cantú was designated as Alternate Secretary in the Board of Directors meeting of April 25, 2017.

Following are brief biographical descriptions of our directors:

Francisco Berrondo Lagos. Mr. Berrondo is the Chairman of our board of directors and has served on our board for 23 years. He was chief financial officer of Mabe, S.A. de C.V. for 17 years until 1992. From 1992 to 2002, he served as Director of Private and Corporate Banking of Bital. Mr. Berrondo currently sits on the board of directors of several companies, including Controladora Mabe, S.A. de C.V. and certain of its affiliates and subsidiaries, Coco Colima, S.A. de C.V., MM Promotora, S.A. de C.V., Vallarta Adventures, S.A. de C.V., Dolphin Adventures, S.A. de C.V., Cabo Dolphin, S.A. de C.V. and MMB Promotora. Mr. Berrondo holds a master's degree in economics from the University of Chicago.

José Luis Berrondo Avalos. Mr. Berrondo is a shareholder of Crédito Real and has served on our board for 23 years. He was Co-Chief Executive Officer of Mabe, S.A. de C.V. from 1984 through 1993. Since 2003, he has served as the sole Chief Executive Officer of Mabe, S.A. de C.V. Mr. Berrondo is currently Chairman of the board of directors of Mabe, S.A. de C.V., and a member of the board of directors of HSBC Grupo Financiero HSBC S.A. de C.V., HSBC México S.A., Institución de Banca Múltiple. Mr. Berrondo holds an M.B.A. from the Instituto Panamericano de Alta Dirección de Empresas, or IPADE.

Ángel Francisco Romanos Berrondo. Mr. Romanos is our Chief Executive Officer and has served on our board for 23 years. He was Treasurer of Mabe, S.A. de C.V., from 1987 through 1993 and Manager of International Business of CB Capitales, S.A. from 1994 through 1996. Mr. Romanos is also a member of the board of directors of Controladora Mabe, S.A. de C.V. He holds an M.B.A. with a specialty in finance and statistics from the Wharton School of Business.

Moisés Rabinovitz Ohrenstein. Mr. Rabinovitz has been chairman of Directodo's board of directors since its foundation in 2006. He has been chairman of the board of directors of Grupo Kon and its subsidiaries since 1997. He served as an advisor to MundiHogar from 1988 to 2003 and as General Director from 1995 to 2003. He was an advisor to and the General Director of Electrónicos y Muebles Ibser from 1982 to 1995. He holds a degree in business administration from the Technological Institute of Superior Studies of the West (*Instituto Tecnológico y de Estudios Superiores de Occidente*, or ITESO).

Iser Rabinovitz Stern. Mr. Rabinovitz has been General Director of Directodo since its foundation in 2006. He has been General Director of Grupo Kon and its subsidiaries since 2007. He is an advisor to Meor Real Estate. He holds a degree in business administration from the Technological Institute of Superior Studies of Monterrey (*Instituto Tecnológico de Estudios Superiores de Monterrey*).

Allan Cherem Mizrahi. Mr. Cherem is the Founder, Chief Executive Officer and a member of the board of directors of Fondo H and CEGE Capital. Mr. Cherem has worked in the manufacture, real estate and financial industries in Mexico. In 2008, Mr. Cherem founded Dinero Mágico, which was sold in 2012 to an international public company. Mr. Cherem is also involved in philanthropic activities. Mr. Cherem holds an Architecture degree from Universidad Anáhuac del Norte and an M.B.A. from Babson College with a specialty in entrepreneurship.

Gerardo Ciuk Díaz. Mr. Ciuk was Chief Executive Officer and a member of the board of directors of *Mexicana de Autobuses*. From 2000 to 2004, Mr. Ciuk was the President of the board of directors of Grupo Ambar. From 2000 to 2010, Mr. Ciuk was Chief Executive Officer and President of the board of directors of Grupo Mexicano en Apoyo a la Economía Familiar. From 2010 to date, Mr. Ciuk has been the President of the board of directors of Gear Alimentos, and since 2014, he has been General Director and a member of the board of directors of Cr-Fact. Mr. Ciuk holds a degree in Business Administration from Universidad Anáhuac.

Juan Pablo Zorrilla. He is the founder and Co-Chief Executive Officer of Resuelve tu Deuda. Mr. Zorrilla was editorial advisor at Grupo Reforma, associate at Barclays Capital and senior manager at Prudential Financial. He currently teaches the entrepreneurship class at Universidad Iberoamericana. Mr. Zorrilla holds a degree in industrial engineering from Universidad Iberoamericana and an M.B.A. from Stanford.

José Eduardo Esteve Recolons. Independent Director. Mr. Esteve has served in our board for 11 years. From 1994 through 2002, he was Director of Retail Banking at Bital and from 2002 through 2005, he was Director of Personal Financial Services at HSBC. He is currently the Chief Executive Officer of Comercial del Bosque, S.A. de C.V. Mr. Esteve is also on the board of directors of Controladora Mabe, S.A. de C.V. and Agrofinanzas. Mr. Esteve holds an M.B.A. from Southern Methodist University.

Gilbert Sonnery Garreau-Dombasle. Independent Director. Mr. Sonnery is member of the board of directors of JB Martin Company, Inc. (U.S.A) and of Edoardos Martin, S.A.B. de C.V. (Mexico). Mr. Sonnery was the General Director of the subsidiary JB Martin del Grupo, and also was the President of the board of directors and General Director of JB Martin, Limited (Canada); and advisor of MRM Holding, S.A. (France). Mr. Sonnery studied Business Administration in USA and Textile Engineering in France. Mr. Sonnery concluded a business certification (*Programa de Alta Dirección, AD-2*) at Instituto Panamericano de Alta Dirección de Empresa, or IPADE.

Raúl Farías. Independent Director. Mr. Farías has comprehensive experience in the micro finance and finance industries, both domestic and foreign. Mr. Farías expertise includes Banking and Financial Operations as well as M&A of financial institutions. Mr. Farías constantly advises financial institutions and corporate clients (domestic and foreign) such as Citibank, Bank of Tokyo, Citibanamex, Goldman Sachs, Jefferies and Deutsche Bank, among others. Since 2005, Mr. Farías has worked at Jones Day (Mexico City and New York). Mr. Farías holds a law degree from Escuela Libre de Derecho, a Master in Finance from the National University of Singapore and a Master of Laws from New York University.

Enrique Alejandro Castillo Cantú. Independent Director. Mr. Castillo has over 13 years of private equity experience. Currently, he is a Managing Director at the H.I.G. Capital headquarters in Mexico. Previously, Mr. Castillo was a Managing Partner at Nexxus Capital, where he led investments in healthcare, financial services, retail, education and real estate. Mr. Castillo also founded Ictus Capital, a boutique private equity and advisory firm. Mr. Castillo has served on the board of directors of several companies including Olab Diagnosticos Medicos, Harmon Hall and Modatelas. He also served as a member of the investment committee of Infonavit's Housing Savings Fund. Mr. Castillo received an MBA from INSEAD and graduated with academic excellence from the Universidad Iberoamericana in Mexico City with a degree in Industrial Engineering.

Executive Officers

The following table lists the names, positions and years of service of our executive officers:

Name	Position	Years with Crédito Real
Ángel Francisco Romanos Berrondo	Chief Executive Officer	24
Lourdes Patricia Ferro Bertolo	Co-Chief Executive Officer	1
Carlos Enrique Ochoa Valdés	Co-Chief Executive Officer / Chief Financial Officer	20
José Juan Gonzalez Abundis	Chief Operations Officer	1
Adalberto Robles Rábago	Human Resources Officer	10
Luis Calixto López Lozano	General Counsel	13
Luis Carlos Aguilar Castillo	Commercial Officer for Payroll Loans	22
Luis Arturo Magallanes Mantecon	Chief Marketing Officer	5
Claudia Patricia Jolly Zarazúa	Treasurer	19
Luis Berrondo Barroso	M&A Officer	2
Pablo Federico Bustamante González	Controller	1
Hector Huelgas Lamas	Internal Audit Officer	1
Felipe Guelfi Regules	Project Officer	1
Iga Maria Wolska	Investor Relations Officer	1

Following are brief biographical descriptions of our executive officers.

Ángel Francisco Romanos Berrondo. Mr. Romanos is our Chief Executive Officer. He has served in our board for 23 years. He was also Treasurer of Mabe, S.A. de C.V., from 1987 through 1993 and Manager of International Business of CB Captales, S.A., from 1994 through 1996. Mr. Romanos sits on the board of Mabe, S.A. de C.V. and holds an M.B.A. with a specialty in finance and statistics from the Wharton School of Business.

Lourdes Patricia Ferro Bertolo. Ms. Ferro is our Co-Chief Executive Officer. She has an extensive background in financial systems, particularly in credit. She has worked in institutions such as Ixe Banco and Banorte, among others, as a member of their credit and risk committees. Ms. Ferro holds a bachelor's degree in accounting from *Universidad La Salle*.

Carlos Enrique Ochoa Valdés. Mr. Ochoa has been our Chief Financial Officer since April 2015 and our Co-Chief Executive officer since 2016. Mr. Ochoa was Crédito Real's Chief Operating Officer from 2003 to 2015. Prior to that, he was our planning manager from 1997 to 2000 and our North Zone Operations Officer from 2000 to 2003. Mr. Ochoa holds a master's degree in finance from the Bristol University in the United Kingdom. He also holds a master's in economics from Instituto Tecnológico Autónomo de Mexico, or ITAM.

José Juan Gonzalez Abundis. Mr. Gonzalez has been our Chief Operating Officer since September 2017. Mr. Gonzalez brings unique expertise to his new role at Crédito Real after having served more than nine years as a senior executive in Kondinero. He previously was its Chief Operating Officer, where he significantly contributed to the Crédito Real-Kondinero merger. Prior to this role, he was involved in different departments within the organization, serving as Human Resources Director and Purchase Manager. Mr. Gonzalez holds a degree in Industrial Engineering from the Instituto Tecnológico de Monterrey and holds a master's degree in finance from the same institution.

Adalberto Robles Rábago. Mr. Robles has been our Human Resources Officer since 2008. Prior to that, he was the Human Resources Manager for Mabe, S.A. de C.V. from 2000 to 2008 and the Head of Human Resources at Grupo Desk from 1996 to 2000. Mr. Robles holds a leadership coach certification from Leadership International Management ("LIM").

Luis Calixto López Lozano. Mr. López has been our General Counsel since 2005. Prior to that, he was the Supervisor of our Legal Department from 1998 to 2000 and our Corporate Counsel from 2000 to 2004. From 2004 to 2005, he served as our External Corporate Counsel. Mr. López holds degrees in corporate law, anti-money laundering and terrorism financing and banking and financial law from the *Instituto Tecnológico Autónomo de México*, or ITAM, and holds a master's degree in corporate law from the *Universidad Panamericana*.

Luis Carlos Aguilar Castillo. Mr. Aguilar has been our Payroll Loans Commercial Officer since 2008, and previously served as our Chief Financial Officer between 1995 and 2008. Prior to that, he served as the Financial Audit Manager of Bital. Mr. Aguilar holds an M.B.A. from the Instituto Panamericano de Alta Dirección de Empresas, or IPADE

Luis Arturo Magallanes Mantecon. Mr. Magallanes is our Chief Marketing Officer. He has over twenty years of international management, sales and marketing experience. Mr. Magallanes previously worked at Coca-Cola in different positions, such as marketing director and regional director for The Coca Cola Company. At the Panamco Group (FEMSA), he served as vice president of marketing for Mexico, vice president of marketing for Brazil and vice president of marketing for Latin America. He has also served as marketing director for DHL Mexico.

Claudia Patricia Jolly Zarazúa. Ms. Jolly has been our Treasurer since 1998. She also served as the business manager at Televisa from 1989 through 1997, and also occupied different positions at Citibanamex in the Corporate Marketing and Analysis department. Ms. Jolly holds an M.B.A. from the *Instituto Tecnológico Autónomo de México*, or ITAM.

Luis Berrondo Barroso. Mr. Berrondo has been our Mergers and Acquisitions (M&A) Officer since 2015. Mr. Berrondo has comprehensive experience in finance, specializing in private equity and venture capital. Mr. Berrondo was the High-End Business General Manager at Mabe from 2010 to 2013. Additionally, Mr. Berrondo was managing director and partner at VARIV Capital from 2014 to 2015. Mr. Berrondo holds an M.B.A. from London Business School.

Pablo Bustamante. Mr. Bustamante is a licensed Public Accountant with an accounting degree from Universidad La Salle, where he also obtained a master's degree in finance. Additionally, in 2007, Mr. Bustamante received an MBA from the University of Quebec. He has ample financial accounting experience in the Mexican financial sector. Mr. Bustamante was the Director of Finances and Planning at Crédito Familiar, where he started in 2012 as Planning and Budget Manager. He was a comptroller for the Principal Financial Group, and was the Manager of Reporting and Accounting in Garante Aforte at Citigroup from 1996 to 2002.

Felipe Guelfi Regules. Mr. Guelfi has served as Project Manager since 2016. Mr. Guefi has extensive experience in the development of financial products. Mr. Guelfi has worked as an investment adviser and as Chief Financial Officer in financial institutions such as GE Money, and as a partner and Chief Executive Officer at Global

Lending Corporation. Mr. Guelfi holds a degree in Industrial Engineering from Worcester Polytechnic Institute and a postgraduate degree in Investment Advising from the University of Montevideo.

Héctor Huelgas Lamas. Mr. Lamas is a Public Accountant who graduated from the Universidad Nacional Autónoma de México. Mr. Huelgas has worked at J.P. Morgan Bank Mexico, Bank of America and HSBC. He has more than 16 years of experience in auditing. He has managed various auditing teams, has participated in committees, and has been a Team Leader for activities including global markets, private banking and investment banking.

Iga María Wolska. Ms. Wolska holds a degree in Business Administration and has a postgraduate degree in Financial and Accounting Administration from the University of Warsaw. Ms. Wolska also has a MBA from IPADE. She has extensive experience in areas relating to investments and finance. She has worked with numerous businesses including Vesta, ICA, GE Money and Moore and Stephens (in Poland), among others. Additionally, she has held positions such as Manager of Investor Relations, Coordinator of Investor Relations, Senior Consultant, and External Auditor.

Audit Committee

In a general shareholders' meeting held on February 26, 2016, Mr. José Eduardo Esteve Recolons and Mr. Gilbert Sonnery Garreau-Dombasle were appointed members of the Audit Committee. During the board meeting held on October 24, 2017, Mr. Enrique Alejandro Castell Badia was appointed as a new member of Audit Committee. The chairman of the Audit Committee is Mr. Enrique Alejandro Castell Badia. Pursuant to the provisions of the Stock Exchange Law (*Ley de Mercado de Valores*), and our bylaws, the three members appointed to the Audit Committee must be independent.

The Audit Committee is responsible for, among other things:

- reviewing and approving our financial statements and recommending their approval to our board;
- monitoring our policies, procedures and bylaws;
- identifying risks and opportunities;
- designating our internationally recognized external auditors;
- reviewing the progress of our operations;
- verifying that our business operations with our clients comply with our policies and the terms of our agreements with them;
- reviewing our controls and procedures;
- reviewing our audit reports, action plans and agreements with our executive officers; and
- acting as a link between our board and the external and internal auditors.

Corporate Practices Committee

In a general shareholders' meeting held on February 26, 2016, Mr. Gilbert Sonnery Garreau-Dombasle and Mr. José Eduardo Esteve Recolons were appointed members of the Corporate Practices Committee. During the board meeting held on October 24, 2017 Mr. Enrique Alejandro Castell Badia was appointed as a new member of Corporate Practices Committee. The chairman of the Corporate Practices Committee is Mr. Gilbert Sonnery Garreau-Dombasle. Pursuant to the provisions of the Stock Exchange Law and our bylaws, the three members appointed to the committee must be independent.

The Corporate Practices Committee is responsible for, among other things:

- reviewing and approving salary and compensations policies;

- reviewing position profiles of our first two levels of officers, as well as monitoring market salaries and compensation for these positions;
- reviewing and approving compensation and salary packages for first and second level officers;
- reviewing and approving related party transactions and other major transactions;
- reviewing and approving policies for use of our assets by officers and directors;
- authorizing changes to general payment terms for our employees;
- reviewing and approving long term compensation plans for our executives; and
- providing opinions on corporate governance issues to our board of directors.

Other Relevant Committees

In addition to the Audit Committee and the Corporate Practices Committee, the board of directors may establish other special committees considered necessary for the development of our operations, including the Executive Committee.

Executive Committee

The Executive Committee is responsible for reviewing and approving, among other things:

- annual budget and general strategies per business line;
- comparison of monthly results to our budget;
- investments exceeding US\$500,000, or its equivalent in pesos;
- long-term contracts exceeding US\$200,000, or its equivalent in pesos, on an annual basis;
- loans, debt or capital issues exceeding US\$3,700,000;
- new funding sources;
- terms of portfolio vs. funding;
- introduction of new products; and
- changes or new policies related to interest receivable, risks, compliance and allowances.
- reviewing the behavior of our loan portfolio;
- formulating proposals for provisions and reserves per business line;
- establishing the relation between the terms of the portfolio and our funding;
- proposing and analyzing sources of funding;
- approving loans;
- proposing risk and operational policies; and
- proposing operational policies for clients who may have operational risks.

In addition, we have a Communication and Control Committee composed of company directors and a compliance officer whose role is to develop strategies and procedures that will help to prevent money laundering and financing of terrorist activity. Our bylaws establish that the Board of Directors may establish whichever special committees it deems necessary for the development of our operations, by establishing the powers and obligations of such committees and indicating the number and titles of the members who shall constitute it.

Compensation

Certain members of our board of directors receive compensation for their activities as approved by the shareholders' assembly at the annual meeting.

The aggregate compensation paid to our officers includes fixed nominal salaries (which are revised by the Corporate Practices Committee periodically) as well as other types of consideration or compensation, such as loans for personal use, health insurance and additional vacation days, which vary depending on position, level of responsibility and performance. The Corporate Practices Committee is charged with approving our salary and compensation policies and offering recommendations to the board of directors regarding the approval of any consideration to be paid to our directors. For the year ended December 31, 2016, the aggregate compensation paid to our directors and executive officers was Ps.52.1 million.

On January 13, 2017, the general shareholder's meeting adopted a resolution approving a payment of Ps.25,000 to certain independent board members for their attendance at every meeting of the board of directors.

We do not pay any type of compensation to any other persons related to us, other than our officers and directors.

Neither we nor our subsidiaries have a retirement or pension plan in place for any of the aforementioned individuals.

Stock Option and Share Compensation Plans

Our share compensation plan for officers and employees was approved during the ordinary shareholders' meeting held on November 30, 2015, up to an amount equal to 2% of stockholders' equity. The board of directors, in consultation with the Corporate Practices Committee, implements, develops and administers this compensation plan.

Share Ownership

See "Principal Shareholders" for a description of the current ownership of our common stock by directors and executive officers.

SUPERVISION AND REGULATION OF THE MEXICAN FINANCIAL INDUSTRY

General

Mexico's financial industry is currently comprised of commercial banks, national development banks, broker-dealers and other non-bank institutions, such as insurance and reinsurance companies, bonding companies, credit unions, popular savings and loans companies, foreign exchange houses, bonded warehouses, mutual fund companies, pension fund management companies and *Sofomes*. On January 10, 2014 the Financial Groups Law (*Ley para Regular las Agrupaciones Financieras*) was published as part of the Financial Reforms. This Financial Groups Law aims to achieve the benefits of universal banking and tighten up controls of financial services companies that operate under a single financial group holding company. Most major Mexican financial institutions are members of financial groups.

The principal financial authorities that regulate financial institutions are the *SHCP*, Banco de México, the CNBV, the National Commission for Retirement Savings (*Comisión Nacional del Sistema de Ahorro para el Retiro*), the National Insurance and Bonds Commission (*Comisión Nacional de Seguros y Fianzas*), the Bank Savings Protection Institute (*Instituto para la Protección al Ahorro Bancario*) and the CONDUSEF.

Our operations are primarily regulated by the General Law on Negotiable Instruments and Credit Transactions (*Ley General de Títulos y Operaciones de Crédito*), the General Law of Credit Organizations and Auxiliary Activities (*Ley General de Organizaciones y Actividades Auxiliares del Crédito*), certain regulations of the Banco de México, the Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*), the Law for the Transparency and Ordering of Financial Services (*Ley para la Transparencia y Ordenamiento de los Servicios Financieros*), the regulations issued by CONDUSEF, the General Provisions Applicable to Public Bonded Warehouses, Exchange Houses, Credit Unions, and Regulated Multipurpose Financial Institutions (*Disposiciones de Carácter General Aplicables a los Almacenes Generales de Depósito, Casas de Cambio, Uniones de Crédito y Sociedades Financieras de Objeto Múltiple Reguladas*), the General Provisions Applicable to Securities Issuers and other Securities Market Participants (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y otros Participantes del Mercado de Valores*) and other regulations issued by the CNBV.

Under the provisions of the General Law of Credit Organizations and Auxiliary Activities, *Sofomes* are entitled to conduct lending, engage in financial leasing activities (*arrendamiento financiero*) and/or perform factoring (*factoraje financiero*) transactions in a professional and customary manner. Such activities do not require a license from any Mexican governmental authority. *Sofomes* are deemed to be financial entities.

Under the provisions of the General Law of Credit Organizations and Auxiliary Activities, *Sofomes* are regulated and supervised by the CNBV only if (i) they have a proprietary connection (*vínculo patrimonial*) with, among others, certain financial institutions, (ii) they issue debt securities registered with the RNV, under the terms of the Mexican Securities Market Law, as is our case, or (iii) they voluntarily adopt such regime.

Regulated *Sofomes* as a result of the issuance of debt securities registered with the RNV, as is our case, are subject to specific regulations enacted by the CNBV addressing: (i) credit portfolio ratings and credit risk estimates; (ii) disclosure of financial information and external auditors; (iii) accounting; and (iv) prevention of transactions with illegal funds.

On January 12, 2015 the CNBV amended the general provisions applicable to general deposit warehouses, currency exchange officers, credit unions and regulated multiple object financial companies (*Disposiciones de Carácter General aplicables a los Almacenes Generales de Depósito, Casas de Cambio, Uniones de Crédito y Sociedades Financieras de Objeto Múltiple Reguladas*) by which the regulated *sofomes* must comply with the rules granted by CNBV in connection with the matters mentioned above.

Regulated *Sofomes* must publish their financial statements periodically on their website and in a newspaper with national coverage, and deliver corporate and shareholders information to the CNBV. In addition, regulated *Sofomes* must comply with the banking rules related to accounting, regulatory credit reserves, and portfolio ratings in accordance with the general provisions applicable to credit institutions (*Disposiciones de carácter general aplicables a las instituciones de Crédito*).

Law for the Protection and Defense of Financial Service Users

The Law for the Protection and Defense of Financial Service Users (*Ley de Protección y Defensa al Usuario de Servicios Financieros*) became effective in April 1999 and was modified pursuant to the Financial Reforms. The purpose of this law is to protect and defend the rights and interests of users of financial services. To this end, the law provides for the creation of CONDUSEF, an autonomous entity that protects the interests of users of financial services. CONDUSEF acts as an arbitrator with respect to disputes submitted to its jurisdiction and seeks to promote better relationships among users of financial institutions and the financial institutions. As a *Sofom*, we must submit to CONDUSEF's jurisdiction in all conciliation proceedings and may choose to submit to CONDUSEF's jurisdiction in all arbitration proceedings that may be brought before it. Once the respective conciliation hearings are concluded, and in the case of a disagreement between the parties, we may be required to provide reserves against contingencies which could arise from proceedings pending before CONDUSEF. We may also be subject to recommendations by CONDUSEF regarding our standard agreements or information used to provide our services. We may be subject to coercive measures or sanctions imposed by CONDUSEF.

The Law for the Protection and Defense of Financial Service Users requires *Sofomes*, such as us, to maintain an internal unit (*unidad especializada*) designated to resolve any and all controversies submitted by our clients. We maintain such a unit. CONDUSEF also maintains a Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*), in which all providers of financial services must be registered, and such registry assists CONDUSEF in the performance of its activities. CONDUSEF is required to publicly disclose the products and services offered by financial service providers, including interest rates. To satisfy this duty, CONDUSEF has wide authority to request any and all necessary information from financial entities. All *Sofomes*, including regulated *Sofomes*, are required to register their standard form of agreements (*contratos de adhesión*) in the Registry for Standard Forms of Agreements (*Registro de Contratos de Adhesión*), which is managed by CONDUSEF, provided that the registration does not constitute a certification as to compliance of the laws and regulations for protection and defense of financial users and therefore, CONDUSEF may, at any moment, order a financial institution to modify its standard form of agreement for purposes of complying with the laws and regulations for protection and defense of financial users. CONDUSEF is empowered to initial class action lawsuits related to financial services institutions. All of our standard forms of agreements have been registered before CONDUSEF. All *Sofomes*, including non-regulated *Sofomes*, are required to register in the Registry of Financial Service Providers (*Registro de Prestadores de Servicios Financieros*) managed by CONDUSEF. We are currently registered as a regulated *Sofom* in this registry.

Law for the Transparency and Ordering of Financial Services

The Law for the Transparency and Ordering of Financial Services became effective in June 2007 and was modified pursuant to the Financial Reforms. The purpose of this law is to regulate (1) the fees charged to clients of financial entities for the use and/or acceptance of financial services; (2) the fees that financial entities charge to each other for the use of any payment system; and (3) other aspects related to financial services, in an effort to make financial services more transparent and protect the interests of the users of such services. This law grants Banco de México the authority to regulate certain fees and to establish general guidelines and requirements relating to payment devices and credit card account statements. It also grants to CONDUSEF the authority to regulate the requirements that need to be satisfied by the standard forms of agreement used by financial entities, the statements of account that are delivered by financial entities to their clients and the advertisement conducted by financial entities.

The Law for the Transparency and Ordering of Financial Services also grants Banco de México the authority to specify the basis upon which each financial entity must calculate its aggregate annual cost (*costo anual total*) charged in respect of loans and other services, which is comprised of the interest rates and fees on an aggregate basis. The aggregate annual cost must be publicly included by a *Sofom* in its standard forms of agreement and disclosed in its statements of account and advertisements.

Rules on Interest Rates

The rules of the Law for the Transparency and Ordering of Financial Services which is applicable to *Sofomes* provide that the standard forms of agreement are required to contain clauses that provide that (1) the applicable ordinary and default interest rates are expressed in annual terms and contain the applicable methodology for

purposes of calculating such interest rates; (2) if interest accrues based on a reference rate, the standard form of agreement must include at least one replacement reference rate, which will only be applicable if the original reference rate is discontinued; and (3) interest may not be charged by financial entities in advance and may only be charged after the corresponding interest period has elapsed. Banco de México has issued rules that limit the number of reference rates that may be used by some financial institutions.

Mexican law does not currently impose any limit on the interest rate or fees that a regulated *Sofom* may charge to its clients. However, the possibility of imposing such limits is subject to any future reform or amendment to applicable normativity. The Mexican Supreme Court of Justice has recently ruled that Mexican judges have the authority to reduce an interest rate if they determine it to be an unfair interest rate even if such reduction has not been solicited by the debtor, therefore the possibility of imposing such limits has been and continues to be debated by the Mexican Congress and Mexican regulation authorities.

Fees

Under Banco de México regulations, Mexican banks, and *Sofomes* may not, in respect of loans, deposits or other forms of funding and services with their respective clients, (1) charge fees that are not included in their respective, publicly disclosed, aggregate annual cost (*costo anual total*), (2) charge alternative fees, except if the fee charged is the lower fee, or (3) charge fees for the cancellation of credit cards issued. In addition, the Law for the Transparency and Ordering of Financial Services contemplates certain restrictions for the *Sofomes*, such as the prohibitions on: (1) charging fees different from those in connection with the services provided; (2) charging more than one fee for the same service or item; (3) charging fees with to prevent the client from transferring to a different financial institution; (4) charging fees for receiving payments made by users or clients in connection with loans granted by other financial institutions.

Banco de México, on its own initiative or as per request from CONDUSEF may assess whether reasonable competitive conditions exist in connection with fees charged by financial entities in performing financial operations. Banco de México must obtain the opinion of the Federal Competition Commission (*Comisión Federal de Competencia Económica*) in carrying out this assessment. Banco de México may take measures to address these issues.

Law for the Protection of Personal Data

On July 5, 2010, the Federal Law for Protection of Personal Data held by Private Parties (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*, or “LFPDPPP”), was published and it became effective on the next day. The purpose of the LFPDPPP is to protect personal data collected, held or to be used by individuals and private entities and to enforce controlled and informed processing of personal data in order to ensure data subjects’ privacy and the right to consent with respect to the use of protected information.

The LFPDPPP requires individuals and private entities to inform data subjects about the information being collected, used, disclosed or stored and the purpose of such collection, use, disclosure or storage via a privacy notice and provides special requirements for processing sensitive personal data (which is defined as data relating to race, physical condition, religious, moral or political affiliation, and sexual preferences). The LFPDPPP gives data subjects the right to: (1) access their data, (2) have inaccuracies in their data corrected or completed, (3) deny transfers of their data, and (4) oppose use of their data or have it deleted from a company’s system (other than in certain circumstances expressly set forth in the LFPDPPP, such as the exercise of a right or holding information required under applicable law). The LFPDPPP requires that, if disclosure of data is permitted, the transferee agrees to the same restrictions as those set forth in the privacy notice permits the original receipt and subsequent disclosure of information. The LFPDPPP also provides that data may be disclosed without the consent of the data subject in certain circumstances, including: (1) a law requires or permits disclosure; (2) disclosure is required in connection with medical treatment or (3) disclosure is required for public policy reasons or in connection with a legal action. The LFPDPPP requires immediate notice to a data subject of any security breach that significantly affects his/her property or moral rights.

The National Institute of Transparency, Access to Information and Data Protection, or the “Institute”, is authorized to monitor and enforce compliance with the LFPDPPP by private parties processing personal data. Such entities will be held liable for interfering with a data subjects’ exercise of their rights under the LFPDPPP and for

failing to safeguard their personal data. Data subjects who believe that a party is not processing their personal data in accordance with the LFPDPPP may request an investigation by the Institute. Following an investigation, the Institute may: (i) dismiss the data subject's claim or (ii) affirm, reject or modify an individual or private entity's answer to a data subject's claim. Penalties for repeat violation of the LFPDPPP's provisions include a fine equivalent of up to Ps.23.3 million (approximately US\$1.2 million), a prison sentence of up to five years or double the applicable fine or sentence for violations related to sensitive personal data.

Anti-Money Laundering Provisions

On March 17, 2011, the SHCP issued the General Provisions Applicable to *Sofomes* (*Disposiciones de Carácter General a que se refieren los artículos 115 de la Ley de Instituciones de Crédito, en relación con el 87-D de la Ley General de Organizaciones y Actividades del Crédito 95-Bis de este último ordenamiento, aplicables a las sociedades financieras de objeto múltiple*), or the Anti-Money Laundering General Provisions. The purposes of such General Provisions are to establish anti-money laundering and counter-terrorism rules and guidelines.

The Anti-Money Laundering General Provisions require *Sofomes*, among other things, to (1) establish identification ("know-your-client") policies and guidelines similar to those imposed on Mexican banks and other regulated financial entities, subject to strict identification methods and controls on clients and users of the *Sofomes* services; (2) record and keep information on clients and on money transfer and exchange transactions, and other kind of operations; and (3) report to authorities on relevant, unusual and suspicious internal transactions, and any other suspicious transaction, among other obligations.

Creditors' Rights and Remedies

Collateral Mechanisms

Mexican laws regarding the perfection and enforcement of security interests contemplate pledging assets without transferring possession (*prenda sin transmisión de posesión*), as well as a common security arrangement known in Mexico as the security trust (*fideicomiso de garantía*). The purpose of such mechanisms is to provide an improved legal framework for secured lending and to encourage banks to increase their lending activities. The pledging of personal property being used in a debtor's main business activity by making only a generic description of such property and perfecting a security interest in such personal property, is a structure frequently used. Provisions regulating security trusts are similar to those governing pledges of personal property, except they provide that title to the collateral must be held by the trustee. Security trusts permit enforcement without any judicial action, which is an alternative that has enhanced lending activities and expedited restructurings.

Bankruptcy Law

Mexico's current Bankruptcy Law (*Ley de Concursos Mercantiles*) was published on May 12, 2000 and amended on January 10, 2014, and has been frequently used as a means to conclude complex insolvency situations affecting Mexican companies by providing expedited and clear procedures, while at the same time granting creditors and other participants the certainty of an in-court solution. The law provides for a single insolvency proceeding encompassing two successive phases: a conciliatory phase of mediation between creditors and debtor and bankruptcy phase.

The Bankruptcy Law establishes precise rules that determine when a debtor is in general default on its payment obligations. The principal indications are failure by a debtor to comply with its payment obligations in respect of two or more creditors and the existence of the following two conditions: (1) 35% or more of a debtor's outstanding liabilities are 30 days past-due; and (2) the debtor fails to have certain specifically defined liquid assets and receivables to support at least 80% of its obligations which are due and payable. The bankruptcy law was amended to include the ability of a debtor to request the *concurso mercantil* prior to being generally in default with respect to its payment obligations, when such situation is expected to occur inevitably within the following 90 days. Furthermore, the Bankruptcy Law now allows the consolidation of *concurso mercantil* proceedings of companies that are part of the same corporate group.

The law provides for the use and training of experts in the field of insolvency and the creation of an entity to coordinate their efforts. Such experts include the intervenor (*interventor*), conciliator (*conciliador*) and receiver (*síndico*).

On the date the insolvency judgment is entered, all peso-denominated obligations are converted into UDIs, and foreign currency-denominated obligations are converted into pesos at the rate of exchange for that time and location and then converted into UDIs. Only loans with a perfected security interest (*i.e.*, mortgage, pledge or security trust) continue to accumulate interest as stipulated in the corresponding agreements and maintain their original currency or unit. The Bankruptcy Law mandates the netting of derivative transactions upon the declaration of insolvency.

The Bankruptcy Law provides for a general rule as to the period when transactions may be scrutinized by the judge in order to determine if they were entered into for fraudulent purposes, which is 270 calendar days prior to the judgment declaring insolvency. This period is referred to as the retroactive period. Nevertheless, upon the reasoned request of the conciliator, the intervenors, who may be appointed by the creditors to oversee the process, or any creditor, the judge may set a longer period. As a result of recent reforms, the retroactive period was lengthened to 540 calendar days with respect to transactions entered into with inter-company creditors.

A restructuring agreement must be subscribed to by the debtor, as well as recognized creditors representing more than 50% of (i) the sum of the total recognized amount corresponding to common creditors and subordinated creditors; and (ii) the total recognized amount corresponding to secured or privileged creditors subscribing to the agreement. Any such agreement, when confirmed by the court, becomes binding on all creditors, and the insolvency proceeding is then considered to be concluded. If an agreement is not reached, the debtor is declared bankrupt.

The Bankruptcy Law incorporates provisions relating to pre-agreed procedures, frequently used in jurisdictions outside Mexico, that permit debtors and creditors to agree upon the terms of a restructuring and thereafter file, as a means to obtain the judicial recognition of a restructuring reached on an out-of-court basis. This also provides protection against dissident minority creditors.

PRINCIPAL SHAREHOLDERS

The table below sets forth certain information regarding the ownership of our capital structure as of September 30, 2017.

<u>Shareholder</u>	<u>Number of Shares</u>	<u>%</u>
Founding Shareholders ⁽¹⁾	134,181,184	32.29
Mahler Enterprises Pte. Ltd. ⁽²⁾	18,790,716	4.79
Free Float	236,339,263	62.92
Total	392,219,424	100.0

(1) Consisting of members of the Berrondo, Saiz and Esteve families.

(2) Member of Grupo Kon. See "Business—Overview—History and Development".

No individual, entity or foreign government exercises control, significant influence or power over Crédito Real. The members of the Berrondo family, as a group, could exercise significant influence over Crédito Real. Francisco Berrondo Lagos and José Luis Berrondo Ávalos are the main shareholders from this group. They are also members of our board of directors.

Francisco Berrondo Lagos and José Luis Berrondo each have an individual share greater than 1% and less than 10% of the issued and outstanding shares of Crédito Real. Approximately 33% of our outstanding shares are owned by various members of the Berrondo, Saiz and Esteve families. If these individuals were to act in a coordinated manner, they could be deemed to control Crédito Real.

Crédito Real has no knowledge of any commitment that may result in a change of control of its shares.

101,029,081 shares of Crédito Real were offered in the initial public offering of the Company carried out on October 17, 2012, out of which: (i) 73,542,309 shares were subscribed and paid by the public and (ii) 27,486,772 shares were sold by the selling shareholders through a secondary offering.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Historically, our commercial operations with related parties have been subject to review by our independent advisors and the Corporate Practices Committee.

The following is a description of certain arrangements between us and related parties that are currently in effect.

Service Contract with Servicios Chapultepec

On November 12, 2001, Servicios Chapultepec, an affiliate of Crédito Real controlled by Futu-Iem, executed a service contract with Crediplus for the provision of certain key personnel. In June of 2007, Crediplus merged with Crédito Real, as a result of which, we assumed Crediplus' obligations under said service contract. Pursuant to this contract, we paid Servicios Chapultepec an amount equal to the salaries and compensations of the relevant personnel, plus a monthly commission equal to 5% of said amount. In 2014, 2015 and 2016 and the nine months ended September 30, 2016 and 2017, we paid Chapultepec a total of Ps.17.6 million, Ps.10.1 million and Ps.4.7 million, and Ps.3.3 million and Ps.2.9 million respectively.

Servicios Chapultepec became a wholly-owned subsidiary of Crédito Real as a result of the merger of Futu-Iem into Crédito Real.

Technical Assistance Contract with Servej

On May 30, 2001, Servej executed a service contract for technical assistance pursuant to which Eduardo Berrondo Ávalos and Francisco Berrondo Lagos provided us with certain professional and consulting services. As compensation for said services, we paid Servej an amount equal to 33% of said individuals' salaries. In 2014, 2015 and 2016, we paid Servej a total of approximately Ps.2.5 million, Ps.4.5 million and Ps.5.1 million, respectively. Servej is an affiliate of Crédito Real in which the shareholders of Crédito Real hold more than 10% of the shares.

Origination Transactions with Directodo, Publiseg and GEMA

As a result of the acquisition of 99.99% of the capital stock of Directodo and 49% of the capital stock of Publiseg and GEMA by Crédito Real, all the loan origination transactions between Crédito Real and Directodo, Publiseg and GEMA will be considered related party transactions.

All of our commercial operations with related parties have been carried out under market terms. In order to confirm this, as well as verify that these operations comply with relevant tax regulations, we have hired external auditors who are specialists in the development of studies on transfer pricing for the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2016 and 2017.

The following table summarizes our related party transactions in the years ended December 31, 2014, 2015 and 2016 and the nine months ended September 30, 2016 and 2017.

Related Party	Type of Transaction	Amounts Paid				
		Year Ended December 31,			Nine Months Ended September 30,	
		2014	2015	2016	2016	2017
				<i>(in pesos)</i>		
CEGE Capital, SAPI de CV SOFOM E.N.R.	Accrued Interest For	29,795,250	28,871,643	24,622,484	16,747,579	21,206,080
CR-FACT S.A.P.I. DE C.V.	Accrued Interest For	4,214,108	9,537,880	31,421,702	26,703,883	29,038,081
BluestreamCapital S.A. DE C.V.	Accrued Interest For	3,022,617	1,670,062	6,873,134	3,427,801	7,089,554
AFS ACCEPTANCE, LLC	Accrued Interest For			13,199,306	4,043,939	16,529,917
Autos Latitud 25	Accrued Interest For			590,926		
Creal Dallas	Accrued Interest For					
CR-MPM	Accrued Interest For			70,729,747	64,798,087	
CAT-60	Accrued Interest For			10,216,800	4,488,803	15,644,652
Instacredit, S.A. (Nicaragua)	Accrued Interest For			39,907,848	33,076,954	
Marevalley Corporation, S.A.	Accrued Interest For			1,174,566		69,118,546

Grupo Empresarial Maestro S.A. de C.V.	Accrued Interest For			2,846,062		
CONFIANZA DIGITAL, S.A.P.I. DE C.V.	Accrued Interest For			29,333		
CREAL ARRENDAMIENTO, S.A. DE C.V.	Accrued Interest For			869,097		12,942,912
CREAL DALLAS, LLC	Accrued Interest For			930,024		
H FINANCIEROS, S.A. DE C.V.	Accrued Interest For			4,136,179	1,238,779	
ENR OFEM D.F., S.A. DE C.V.	Accrued Interest For					875,000
Coco Colima	Accrued Interest For				122,885	35,197
Directodo México, S.A.P.I. de C.V.	Assignment Of Portfolio	918,134,612	1,022,927,269	1,222,771,539	983,133,318	1,283,408,588
Publiseq, S.A.P.I. de C.V., SOFOM, E.N.R.	Assignment Of Portfolio	708,091,065	630,215,813	871,309,132	592,766,829	628,056,164
Grupo Empresarial Maestro S.A. de C.V.	Assignment Of Portfolio	820,699,674	1,183,410,664	1,964,663,546	1,416,801,630	1,515,304,446
CEGE Capital, SAPI de CV SOFOM E.N.R.	Assignment Of Portfolio			157,650,365	540,602,043	
Fondo H	Assignment Of Portfolio		268,203,514	234,619,851	89,702,683	132,430,566
OFEM D.F., S.A. DE C.V.	Assignment Of Portfolio			81,118,288	67,974,099	
CR MPM	Assignment Of Portfolio			1,113,799,387	935,142,424	
BluestreamCapital S.A. DE C.V.	Assignment Of Portfolio			18,095,806	11,048,199	
Aventuras y Expediciones de Los Cabos, S.A. de C.V.	Fees For Opening Credit	18,645				
CR-FACT S.A.P.I. DE C.V.	Fees For Opening Credit	9,997				
Aventuras y Expediciones de Los Cabos, S.A. de C.V.	Financial Leasing	2,935,469	633,539	3,891,885	0	595,753
CR-FACT S.A.P.I. DE C.V.	Financial Leasing	147,387	83,410			
BluestreamCapital S.A. DE C.V.	Financial Leasing	735,083				140,894
Directodo México, S.A.P.I. de C.V.	Financial Leasing					1,870,692
OFEM D.F., S.A. DE C.V.	Financial Leasing			2,969,659		2,817,072
Coco Colima	Financial Leasing					363,614
Servicios Corporativos Chapultepec, S.A. de C.V.	Payroll Services	17,638,715	10,061,811	4,736,246	3,349,054	2,918,316
REPARADORA RTD, S.A. DE C.V.	Marketing Services			150,000		
Fondo H	Marketing Services			10,588,643	8,051,268	
CAT-60	Marketing Services				152,929	699,983
Directodo México, S.A.P.I. de C.V.	Income Services			16,740,016		44,868,867
CR-MPM	Income Services					2,463,018
Eventos Tenisticos	Income Services					17,210
Directodo México, S.A.P.I. de C.V.	Payroll Services					
CONFIANZA DIGITAL, S.A.P.I. DE C.V.	Payroll Services			77,929		
SOFOM ENR	Payroll Services					
Coco Colima	Payroll Services					28,863
Servej, S.A. de C.V.	Payroll Services	2,467,294	4,561,094	5,091,781	33,657	1,432,065

DESCRIPTION OF THE NOTES

This section of the offering memorandum summarizes the material terms of the Indenture (as defined below) and the notes. It does not, however, describe all of the terms of the Indenture and the notes. Upon request, we will provide you with copies of the Indenture. See “Additional Information” in this offering memorandum for information concerning how to obtain such copies.

In this section of the offering memorandum, references to the “Company,” “we,” “us” and “our” are to Crédito Real, S.A.B. de C.V., SOFOM, E.R. only and do not include our subsidiaries or affiliates. References to “holders” mean those who have notes registered in their names on the books that we or the Trustee maintain for this purpose, and not those who own beneficial interests in notes issued in book-entry form through The Depository Trust Company (“DTC”), or in notes registered in street name. Owners of beneficial interests in the notes should refer to “Form of Notes, Clearing and Settlement.”

General

The notes will be issued under the indenture (the “Indenture”), to be dated as of November 29, 2017, among us, The Bank of New York Mellon, as trustee (the “Trustee”), security registrar, paying agent, and transfer agent, The Bank of New York Mellon SA/NV, Luxembourg Branch, as Luxembourg paying agent and transfer agent.

The notes will be issued in registered form, without interest coupons, in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. All payments of principal of and premium, if any, and interest on the notes will be made in U.S. dollars.

Except in limited circumstances, the notes will be issued in the form of global notes. See “Form of Notes, Clearing and Settlement” in this offering memorandum.

The notes will not be registered under the Securities Act and may not be sold or otherwise transferred except pursuant to registration under the Securities Act, in accordance with Rule 144A or in a transaction that is otherwise exempt from or not subject to the registration requirements of the Securities Act. See “Transfer Restrictions.”

In certain circumstances, the notes may be redeemed at our option. The notes will not be subject to repayment at the option of the holders. There will be no sinking fund for the notes.

We may, from time to time without the consent of holders of the notes, issue additional notes on the same terms and conditions as the notes (except for issue date, issue price and, possibly, the date upon which interest will begin to accrue and first be paid), which additional notes will increase the aggregate principal amount of, and will be consolidated and form a single series with, the notes; *provided, however*, that any additional notes will be issued under a separate CUSIP, Common Code and/or ISIN number unless the additional notes are fungible with the original notes for U.S. federal income tax purposes.

Ranking of the Notes

The notes are our unsecured and subordinated obligations.

The Indenture for the notes provides that the notes will rank (i) junior to all of our existing and future Unsubordinated Indebtedness (as defined below), (ii) *pari passu* among themselves and with all other future Subordinated Indebtedness (as defined below), and (iii) senior to all existing and future classes of our Share Capital (as defined below). The notes will be effectively subordinated to all existing and future liabilities of our subsidiaries. The notes do not restrict our ability or the ability of our subsidiaries to incur additional indebtedness in the future.

Upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings, (1) all principal, premium, if any, and interest due or to become due on all Unsubordinated Indebtedness and all other indebtedness preferred by statute must be paid in full before the holders of Subordinated Indebtedness (including the notes) are entitled to receive or retain any payment in respect thereof, and (2) the holders of Subordinated Indebtedness (including the notes) will be entitled to receive *pari passu* among

themselves any payment in respect thereof. In any such event, the notes and any other Subordinated Indebtedness will be senior to all classes of our Share Capital.

“Unsubordinated Indebtedness” means all indebtedness for borrowed money, whether or not evidenced by notes, debentures or other written instruments, and whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, unless the terms thereof specifically provide that it is not superior in right of payment to Subordinated Indebtedness (including the notes).

“Subordinated Indebtedness” means all indebtedness for borrowed money, whether or not evidenced by notes, debentures or other written instruments, and whether outstanding on the date of execution of the Indenture or thereafter created, assumed or incurred, the terms of which specifically provide that it is junior in right of payment to Unsubordinated Indebtedness, but is senior in right of payment to all classes of Share Capital.

“Share Capital” means our common shares and any other future class of equity securities.

Holders Acknowledgement of Subordination of Notes

Each holder of notes (for itself and on behalf of the beneficial owners thereof), by purchasing the notes, whether in connection with the initial offering of the notes or a purchase at a later date, will be deemed to have agreed with us for the benefit of all of our present and future creditors, to subordinate the right of such holder to collect any amount of principal, premium, if any, and interest due or to become due in respect of the notes as described in “—Ranking of the Notes” above. We, for the benefit of all of our present and future creditors, accept this undertaking of the holders of the notes.

Each holder of notes agrees, to the greatest extent permissible under applicable law, that (i) the Trustee will be the only party entitled to receive and distribute amounts paid in respect of the notes in the event of any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings and (ii) in the event that, in connection with such proceedings, notwithstanding the subordination provisions agreed by the holder of the notes, any amount is allocated for payment to the holders of the notes prior to the payment of all of our Unsubordinated Indebtedness, any such amount received by the Trustee will be required to be distributed by the Trustee, on behalf of the holders of the notes, to the creditors of any of our unsatisfied Unsubordinated Indebtedness. In furtherance of this agreement, the Indenture will provide that the Trustee will have the exclusive right, to the greatest extent permissible under applicable law, to file in any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings of the Company for the recognition of the claims of all holders of notes. Each holder of notes irrevocably instructs the Trustee to file, on behalf of such holder, a claim for recognition of the claims of all of the notes in such event. The Indenture will provide that each holder of notes irrevocably instructs the Trustee to abstain from voting during the course of any such bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceeding as described above of the Company in any matter submitted for approval by our general unsecured creditors in such proceedings.

By purchasing the notes, whether in connection with the initial offering of the notes or a purchase at a later date, each holder of notes will be deemed to have waived any right of set-off, counterclaim or combination of accounts with respect to the notes (or between our obligations regarding the notes and any liability owed by a holder or the Trustee to us) that such holder might otherwise have against us. To the extent permitted by applicable law, if a payment or distribution is made to holders that, due to the subordination provisions, should not have been made to them, such holders are required to hold such payment or distribution in trust for the holders of Unsubordinated Indebtedness and pay such amounts over to them as their interests may appear.

Principal and Interest Payments

Maturity

The notes are perpetual notes with no fixed final maturity date or mandatory redemption date. We may redeem the notes in accordance with the provisions described in “—Redemption and Repurchase.”

Interest Rates and Interest Payment Dates

Subject to our right to defer payment of interest (see “—Option to Defer Interest Payments”), interest on the notes will be payable semi-annually in arrears on May 29 and November 29 of each year, as applicable (each an “Interest Payment Date”), beginning on May 29, 2018.

We will pay interest on the notes on the Interest Payment Dates to the holders in whose names the notes are registered at the close of business on May 14 and November 14, respectively, immediately prior to the applicable Interest Payment Date. Each payment of interest due on an Interest Payment Date will include interest accrued from and including the last date to which interest has been paid or made available for payment, or from the Issue Date (as defined below), if none has been paid or made available for payment, to but excluding the relevant payment date.

The Notes will bear interest on their principal amount as follows:

- (i) from and including November 29, 2017 (the “Issue Date”) to but excluding November 29, 2022 (the “First Call Date”), at a rate of 9.125% per year; and
- (ii) from and including the First Call Date to but excluding the redemption date, if any, at, in respect of each Reset Period (as defined below), the relevant Five Year US Treasury Rate (as defined below) plus:
 - (A) in respect of the Reset Period commencing on or after the First Call Date but before the Step-up Date (as defined below), the Initial Margin; or
 - (B) in respect of Reset Periods commencing on or after the Step-up Date: the Initial Margin plus 2.00%;

If any payment is due on the notes on a day that is not a Business Day (as defined below), we will make the payment on the next Business Day. Payments postponed to the next Business Day in this situation will be treated under the Indenture as if they were made on the original payment date. Postponement of this kind will not result in a default under the notes or the Indenture, and no interest will accrue on the postponed amount from the original payment date to the next Business Day.

Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

“Business Day” means a day other than a Saturday, Sunday or any day on which banking institutions are authorized or required by law to close in New York, New York or Mexico City, Mexico.

“Step-up Date” means November 29, 2037, unless the Company’s credit ratings have been upgraded to S&P Investment Grade on or prior to November 29, 2037 and such ratings continue to be Investment Grade, then the Step-up Date shall be November 29, 2042.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“S&P Investment Grade” means BBB- (or the equivalent) or higher by S&P; *provided* that if (i) S&P ceases to exist or (ii) for reasons not attributable to the Company and that are not under the Company’s control, S&P ceases to assign credit ratings to the Company, then “S&P Investment Grade” shall mean Baa3 (or the equivalent) or higher by Moody’s Investors Service Ltd. (“Moody’s”) or BBB- (or the equivalent) or higher by Fitch Ratings Ltd (“Fitch”).

Determination of Interest on the Notes

The Issuer will give notice of the Five Year US Treasury Rate as soon as practicable to each of the paying agent, the holders of the notes and the Trustee, and, if required by the rules of the securities exchange on which such Notes are listed from time to time, to such securities exchange.

“Five Year US Treasury Rate” means as of any Reset Interest Determination Date, (i) an interest rate (expressed as a decimal and, in the case of United States Treasury bills, converted to a bond equivalent yield) determined to be the per annum rate equal to the weekly average yield to maturity for United States Treasury securities with a maturity of five years from the next Reset Date and trading in the public securities markets or (ii) if

there is no such published US Treasury security with a maturity of five years from the next Reset Date and trading in the public securities markets, then the rate will be determined by interpolation between the most recent weekly average yield to maturity for two series of United States Treasury securities trading in the public securities market, (A) one maturing as close as possible to, but earlier than, the Reset Date following the next succeeding Reset Interest Determination Date, and (B) the other maturity as close as possible to, but later than the Reset Date following the next succeeding Reset Interest Determination Date, in each case as published in the most recent H.15 (519). If the Five Year US Treasury Rate cannot be determined pursuant to the methods described in clauses (i) or (ii) above, then the Five Year US Treasury Rate will be the same interest rate determined for the prior Reset Interest Determination Date.

“H.15 (519)” means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the United States Federal Reserve System and most recent H.15 (519) means the H.15 (519) published closest in time but prior to the close of business on the second Business Day prior to the applicable Reset Date. H.15 (519) may be currently obtained at the following website: <https://www.federalreserve.gov/releases/h15/>.

“Reset Date” means the First Call Date and each date falling on the fifth anniversary thereafter.

“Reset Interest Determination Date” means, in respect of any Reset Period, the day falling two Business Days prior to the beginning of the relevant Reset Period.

“Reset Period” means each period from and including the First Call Date to but excluding the next following Reset Date and thereafter from and including each Reset Date to but excluding the next following Reset Date.

Unclaimed Payments

All money paid by us to the Trustee or any paying agent that remains unclaimed at the end of two years after the amount is due to a holder will be repaid to us. After that two-year period, the holder may look only to us for payment and not to the Trustee, any paying agent or anyone else.

Option to Defer Interest Payments

We may, in our sole discretion, defer payment of interest that would otherwise be payable on any Interest Payment Date in whole, or in part. Interest may be so deferred by giving written notice of our decision to do so to the Trustee and holders of the notes as set forth under “—Notices,” not less than seven nor more than 14 Business Days before the applicable Interest Payment Date.

If we elect not to make any payment of interest on an Interest Payment Date, then we will have no obligation to do so, and our failure to pay interest will not be an Event of Default or any other breach of our obligations under the notes.

Interest payments deferred at our option as described above are referred to as “deferred interest.” Any and all deferred interest will bear interest as if it constituted principal of the notes at a rate which corresponds to the interest rate applicable to the notes (such further interest together with the deferred interest, being “arrearage of interest”).

Interest on deferred amounts will accrue from the deferred date, and arrearage of interest will be compounded on subsequent Interest Payment Dates, semi-annually, at the rate of interest on the notes.

Payment of Deferred Interest

We may, in our sole discretion, elect to pay deferred interest at any time, together with any and all related arrearage of interest, with respect to the notes. If we elect to do so, our election must be to pay all outstanding deferred interest and related arrearage of interest with respect to the notes, and we will give not less than seven nor more than 14 Business Days’ notice thereof to the Trustee and the holders of the notes as set forth under “—Notices.” On the payment date specified by us in any such notice, all outstanding deferred interest and related arrearage of interest with respect to the notes will become due and payable. Such notice will also specify the record date for determining the registered holders to which such amounts will be paid.

In addition, we will pay any deferred interest and all related arrears of interest in respect of the notes, in whole but not in part, on the first occurring Mandatory Payment Date following the Interest Payment Date on which such deferred interest first arose.

“Mandatory Payment Date” means the earlier of:

- (i) the 5th business day following the occurrence of a Compulsory Arrears of Interest Settlement Event;
- (ii) the date on which the notes are redeemed in whole or repaid in full in accordance with the terms of the Indenture;
- (iii) an Interest Payment Date in respect of which we have not elected to defer payment of the relevant scheduled interest payment with respect to the notes;
- (iv) in case of the filing of a voluntary petition for the commencement of, or the entry of an order approving involuntary proceedings against us that would constitute a Bankruptcy Event of Default; or
- (v) the adoption, by resolution of our shareholders of a plan relating to the liquidation or dissolution of the Company; *provided, however*, that this clause will not be applicable to a Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Company or another Subsidiary of the Company or the Company merging with an affiliate of the Company solely for the purpose of reincorporating the Company in another jurisdiction.

A “Compulsory Arrears of Interest Settlement Event” shall have occurred if:

- (i) a dividend, other distribution or payment of any nature was declared, paid or made in respect of any of our Share Capital or Parity Security (as defined below); or
- (ii) we, or any of our Subsidiaries, have repurchased, redeemed or otherwise acquired any of our Share Capital or Parity Security;

except, in each case, (x) where we are, or any of our Subsidiaries is, obligated under the terms of such securities to make such declaration, distribution, payment, redemption, repurchase or acquisition, or (y) any purchase of Share Capital undertaken in connection with any employee stock option plan or other employee participation plan, or (z) where such redemption, repurchase or acquisition is effected as a cash tender offer or exchange offer to all holders thereof at a purchase price per security which is below its par value.

“Parity Securities” means, at any time, any Subordinated Indebtedness (including any of the notes). The term Parity Security shall apply *mutatis mutandis* to any securities issued by one of our Subsidiaries to the extent that such securities are guaranteed by us or we otherwise assume liability for them and such guarantee or assumption of liability ranks *pari passu* with our obligations under Subordinated Indebtedness.

“Subsidiary” means, with respect to any Person, any other Person of which such Person owns, directly or indirectly, more than 50.0% of the voting power of the other Person’s outstanding Voting Stock.

“Voting Stock” means, with respect to any person, securities of any class of capital stock of such person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of any contingency) to vote in the election of members of the board of directors (or equivalent governing body) of such person.

Paying Agents

Initially, we have appointed the Trustee, at its corporate trust office in New York City, as a paying agent, and The Bank of New York Mellon SA/NV, Luxembourg Branch, as Luxembourg paying agent. We may appoint one or more other financial institutions to act as our paying agents, at whose designated offices the notes may be surrendered for payment upon their redemption, if any. We may add, replace or terminate paying agents from time to time; *provided* that we will maintain a paying agent in New York City. We may also choose to act as our own paying agent. We must notify you of changes in the paying agents as described under “—Notices.”

Payment of Additional Amounts

We are required by Mexican law to deduct Mexican withholding taxes from payments of interest, and amounts deemed interest (such as those arising from a discount in the purchase price), to holders of notes who are not residents of Mexico for tax purposes as described under “Taxation—Mexican Tax Considerations” in this offering memorandum.

We will pay to holders of the notes all additional amounts that may be necessary so that every net payment of interest or principal or premium to the holder will not be less than the amount provided for in the notes. By net payment, we mean the amount that we or our paying agent will pay the holder after deducting or withholding an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed or levied with respect to that payment by Mexico or any political subdivision or taxing authority thereof or therein.

Our obligation to pay additional amounts is, however, subject to several important exceptions. We will not pay additional amounts to or on behalf of any holder or beneficial owner for or on account of any of the following:

- (i) any taxes, duties, assessments or other governmental charges imposed solely because at any time there is or was a connection between the holder and Mexico, other than being a holder (or beneficial owner) of the notes or, receiving payments, of any nature, on the notes or enforcing rights under the notes;
- (ii) any taxes, duties, assessments or other governmental charges imposed solely because the holder or any other person fails to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with Mexico of the holder or any beneficial owner of the note, if compliance is required by law, regulation or by an applicable income tax treaty to which Mexico is a party and which is in effect, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and we have given the holders at least 30 calendar days’ notice prior to the first payment date with respect to which such certification, identification or reporting requirement is required to the effect that holders will be required to provide such information and identification;
- (iii) any taxes, duties, assessments or other governmental charges with respect to a note presented for payment more than 30 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to holders, whichever occurs later, except to the extent that the holder of such note would have been entitled to such additional amounts on presenting such note for payment on any date during such 30-day period;
- (iv) any estate, inheritance, gift or other similar tax, assessment or other governmental charge imposed with respect to the notes;
- (v) any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the notes;
- (vi) any payment on a note to a holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the additional amounts had the beneficiary, settlor, member or beneficial owner been the holder of such note;
- (vii) any tax, assessment or governmental charge that would not have been imposed but for a failure by the holder or beneficial owner (or any financial institution through which the holder or beneficial owner holds any note or through which payment on the note is made) to comply with any certification, information, identification, documentation or other reporting requirements (including entering into and complying with an agreement with the Internal Revenue Service) imposed pursuant to, or under an intergovernmental agreement entered into between the United States and the government of another country in order to implement the requirements of, Sections 1471 through 1474 of the Internal Revenue Code as in effect on the date of issuance of the notes or any successor or amended version of these provisions, to the extent such successor or amended version is not materially more onerous than these provisions as enacted on such date; and

(viii) any combination of the items in the clauses above.

The limitations on our obligations to pay additional amounts described in item (ii) above will not apply if the provision of information, documentation or other evidence described in item (ii) above would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a holder or beneficial owner of a note, taking into account any relevant differences between applicable U.S. law and Mexican law, regulation or administrative practice, than comparable information or other reporting requirements imposed under U.S. law (including any applicable income tax treaty to which Mexico is a party and which is in effect), regulations and administrative practice.

In addition, the limitation described in item (ii) above does not require that any person, including any non-Mexican pension fund, retirement fund or financial institution, register with the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*, or the “SHCP”) or the Tax Administration Service (*Servicio de Administración Tributaria*) to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

We will remit the full amount of any Mexican taxes withheld to the applicable Mexican taxing authorities in accordance with applicable law. We will also provide the Trustee with documentation satisfactory to the Trustee evidencing the payment of Mexican taxes in respect of which we have paid any additional amounts. We will provide copies of such documentation to the holders of the notes upon request.

In the event that additional amounts actually paid with respect to the notes pursuant to the preceding paragraphs are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such notes, and as a result thereof such holder is entitled to make a claim for a refund or credit of such excess from the authority imposing such withholding tax, then such holder shall, by accepting such notes, be deemed to have assigned and transferred all right, title and interest to any such claim for a refund or credit of such excess to us. However, by making such assignment, the holder makes no representation or warranty that we will be entitled to receive such claim for a refund or credit and incurs no other obligation with respect thereto.

Any reference in this offering memorandum, the Indenture or the notes to principal, premium, if any, interest or any other amount payable in respect of the notes by us will be deemed also to refer to any additional amounts that may be payable with respect to that amount under the obligations referred to in this subsection.

Redemption and Repurchase

We may redeem the notes in the circumstances, in the manner and at the prices described below. Any redeemed notes will stop bearing interest on the redemption date, even if you do not collect your money.

“Redemption Price” means:

- (i) in the case of a Rating Methodology Event, a Tax Deductibility Event or an Accounting Event (each as defined below), either:
 - (a) at a redemption price equal to 101% of the principal amount of the notes to be redeemed, if the date fixed for redemption falls prior to the First Call Date of the notes;
 - (b) at a redemption price equal to 100% of the principal amount of the notes to be redeemed, if the date fixed for redemption falls on or after the First Call Date of the notes;
- (ii) in the case of an Optional Redemption, a Withholding Tax Event or a Substantial Repurchase Event (each as defined below), at a redemption price equal to 100% of the principal amount of the notes to be redeemed; or
- (iii) in the case of a Change of Control that results in a Ratings Decline (each as defined below), at a redemption price equal to 101% of the principal amount of the notes to be redeemed;

in each case, plus accrued interest (including any deferred interest and arrears of interest) up to (but not including) the redemption date of the notes.

We may also at any time purchase notes together with their rights to interest and any other amounts relating thereto in the open market or otherwise at any price, subject to applicable laws and regulations.

Optional Redemption

On the First Call Date of the notes, and on every fifth anniversary thereafter, we have the right to redeem all, but not less than all, of the notes at our option (“Optional Redemption”), at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Trustee and the holders as set forth under “—Notices.”

Redemption for a Rating Methodology Event

If a Rating Methodology Event occurs with respect to the notes, we may redeem all, but not less than all, of the notes at any time at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Trustee and the holders as set forth under “—Notices.”

Prior to giving such notice to the holders, we will deliver to the Trustee in a form and with content reasonably satisfactory to the Trustee an Officer’s Certificate stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied, and the Trustee shall be entitled to accept and conclusively rely on the above certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein, in which event the same shall be conclusive and binding on holders of such notes.

“Officer” means the Chief Executive Officer, any Vice President, the Chief Financial Officer, the Treasurer or the Secretary who is a legal representative of the Company.

“Officer’s Certificate” means a certificate signed by an Officer.

A “Rating Methodology Event” means that we certify in a notice to the Trustee that an amendment, clarification or change has occurred in the equity credit criteria of S&P or Fitch, which amendment, clarification or change results in a lower equity credit for the notes than the then respective equity credit assigned on the Issue Date, or if equity credit is not assigned on the Issue Date, at the date when the equity credit is assigned for the first time.

Redemption for Tax Deductibility Event

If a Tax Deductibility Event occurs with respect to the notes, we may redeem all, but not less than all, of the notes at any time at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Trustee and the holders as set forth under “—Notices.”

Prior to giving such notice to the holders, we will deliver to the Trustee in a form and with content reasonably satisfactory to the Trustee:

- (i) an Officer’s Certificate stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied; and
- (ii) an opinion of an independent legal or tax adviser, appointed by us at our own expense, of recognized standing in Mexico to the effect that payments of interest by us in respect of the notes are no longer, or within 90 calendar days of the date of that opinion will no longer be, deductible in whole or in part for corporate income tax purposes in Mexico or any political subdivision or taxing authority thereof or therein affecting taxation as a result of a Tax Law Change.

The Trustee shall be entitled to accept and conclusively rely on the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein in which event the same shall be conclusive and binding on the holders.

“Tax Law Change” means any amendment to, or change in, the laws (or any rules or regulations thereunder) of Mexico or any political subdivision thereof affecting taxation, or any amendment to or change in an official

interpretation or application of such laws, rules or regulations, which amendment to or change of such laws, rules or regulations becomes effective on or after the Issue Date of the notes.

A “Tax Deductibility Event” shall be deemed to have occurred with respect to the notes if, as a result of a Tax Law Change (even if such change is not yet effective), payments of interest by us in respect of the notes are no longer, or within 90 calendar days of the date of any opinion of counsel provided pursuant to the Indenture will no longer be, deductible in whole or in part for corporate income tax purposes in Mexico or any political subdivision or taxing authority thereof or therein affecting taxation, and we cannot avoid the foregoing by taking reasonable measures available to us.

Redemption for Withholding Tax Event

If, as a result of any Tax Law Change, which is announced and becomes effective on or after the date on which the notes are issued, we would be obligated, after taking such measures as we may consider reasonable to avoid this requirement, to pay additional amounts in excess of those attributable to a Mexican withholding tax rate of 4.9% with respect to payments of interest and amounts deemed interest on the notes (see “—Payment of Additional Amounts” and “Taxation—Mexican Tax Considerations”) (a “Withholding Tax Event”), then, at our option, all, but not less than all, of the notes may be redeemed at any time on giving not less than 30 nor more than 60 days’ irrevocable notice of redemption to the Trustee and the holders as set forth under “—Notices,” at the applicable Redemption Price; *provided, however*, that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which we would be obligated to pay these additional amounts if a payment on the notes were then due and (2) at the time such notice of redemption is given such obligation to pay such additional amounts remains in effect.

Prior to the publication of any notice of redemption for taxation reasons, we will deliver to the Trustee:

- (i) an Officer’s Certificate stating that we are entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to our right of redemption for taxation reasons have occurred; and
- (ii) an opinion of Mexican legal counsel of recognized standing to the effect that we have or will become obligated to pay additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and conclusively rely on the above certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein in which event the same shall be conclusive and binding on the holders.

Redemption upon a Substantial Repurchase Event

In the event that at least 80% of the initial aggregate principal amount of the notes has been purchased by us or on our behalf (a “Substantial Repurchase Event”), we may redeem all, but not less than all, of the notes at any time at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days’ irrevocable notice of redemption to the Trustee and the holders as set forth under “—Notices.”

Prior to giving such notice to the holders, we will deliver to the Trustee in a form and with content reasonably satisfactory to the Trustee an Officer’s Certificate stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied and the Trustee shall be entitled to accept and conclusively rely on the above certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein, in which event the same shall be conclusive and binding on holders of such notes.

Redemption following an Accounting Event

If an Accounting Event occurs, then the Company may, subject to having given not less than 30 nor more than 60 calendar days’ notice to the holders in accordance with “—Notices” (which notice shall be binding and irrevocable), redeem the notes in whole but not in part at any time at the applicable Redemption Price.

Prior to the giving of notice of redemption of the notes following an Accounting Event pursuant to the Indenture, the Company will deliver to the Trustee:

- (i) an Officer's Certificate to the effect that the Company is or at the time of the redemption will be entitled to effect such a redemption pursuant to the Indenture, and setting forth in reasonable detail the circumstances giving rise to such right of redemption; and
- (ii) a copy of the Accounting Opinion (as defined below) relating to the applicable Accounting Event, and the Trustee shall be entitled to accept and rely conclusively upon the above certificate and a copy of the Accounting Opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event the same shall be conclusive and binding on the holders.

An "Accounting Event" shall be deemed to occur if the Company has received an opinion of a recognized accounting firm of international standing (an "Accounting Opinion") stating that, as a result of a change after the Issue Date in the accounting rules, methodology or official interpretations of the International Accounting Standards Board ("IASB") or similar governing body effective in Mexico, the notes, in whole or in part, must not or must no longer be recorded as "equity" pursuant to *Sofom* GAAP as in effect in Mexico or any other accounting principles applicable to us in lieu of *Sofom* GAAP.

"*Sofom* GAAP" means, collectively, the accounting criteria established by the CNBV in its General Provisions Applicable to Public Bonded Warehouses, Exchange Houses, Credit Unions and Regulated Multipurpose Financial Institutions (*Disposiciones de Carácter General Aplicables a los Almacenes Generales de Depósito, Casas de Cambio, Uniones de Crédito y Sociedades Financieras de Objeto Múltiple Reguladas and Disposiciones de carácter general aplicables a las Instituciones de Crédito*).

Redemption upon a Change of Control that Results in a Ratings Decline

In the event that a Change of Control occurs that results in a Ratings Decline, we may redeem the notes in whole (but not in part) at our option, at any time, at the applicable Redemption Price upon giving not less than 30 and not more than 60 calendar days' irrevocable notice of redemption to the Trustee and the holders as set forth under "—Notices."

Prior to giving such written notice to the holders, we will deliver to the Trustee an Officer's Certificate stating that we are entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem the notes in accordance with the Indenture have been satisfied and the Trustee shall be entitled to accept and conclusively rely on the above certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and the facts set out therein, in which event the same shall be conclusive and binding on holders of such notes.

If, in the event of a Change of Control that results in a Ratings Decline, we do not redeem the notes pursuant to the provisions described herein, we will permanently pay additional interest on the notes at a rate of 5.0% per annum. Unless the Company has redeemed the notes in connection with the occurrence of such event, the additional interest will become effective on the 90th day after the date on which a Change of Control occurs that results in a Ratings Decline. Accrued additional interest will be payable on the same dates and in the same manner as interest is generally paid on the notes.

The feature of the notes relating to a Change of Control that results in a Ratings Decline may in certain circumstances make more difficult or discourage a sale or takeover of the Company and, thus, the removal of incumbent management.

"Change of Control" means the occurrence of one or more of the following events:

- (1) any Person or a Group other than the Permitted Holders (as defined below) is or becomes the beneficial owner, directly or indirectly, in the aggregate of 35.0% or more of the total voting power of the Voting Stock of the Company; *provided* that the Permitted Holders beneficially own, directly or indirectly, in the aggregate a lesser percentage of the total voting power of the Voting Stock of the Company (or its successor by merger, consolidation or purchase of all or substantially all of its assets) than such other

Person or Group and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the board of directors of the Company or such successor (for the purposes of this clause, such other Person or Group shall be deemed to beneficially own any Voting Stock of a specified entity held by a parent entity, if such other Person or Group “beneficially owns” directly or indirectly, more than 35.0% of the voting power of the Voting Stock of such parent entity and the Permitted Holders “beneficially own” directly or indirectly, in the aggregate a lesser percentage of the voting power of the Voting Stock of such parent entity and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the board of directors of such parent entity);

- (2) the Company consolidates with, or merges with or into, another Person, or the Company sells, conveys, assigns, transfers, leases or otherwise disposes of all or substantially all of the assets of the Company, determined on a consolidated basis, to any Person, other than a transaction where the Person or Persons that, immediately prior to such transaction “beneficially owned” the outstanding Voting Stock of the Company are, by virtue of such prior ownership, or Permitted Holders are, the “beneficial owners” in the aggregate of a majority of the total voting power of the then outstanding Voting Stock of the surviving or transferee person (or if such surviving or transferee Person is a direct or indirect wholly-owned subsidiary of another Person, such Person who is the ultimate parent entity), in each case whether or not such transaction is otherwise in compliance with the Indenture;
- (3) individuals who on the Issue Date constituted the board of directors of the Company, together with any new directors whose election or whose nomination for election to the board of directors by the stockholders of the Company was voted upon favorably by the Permitted Holders, cease for any reason to constitute a majority of the board of directors of the Company then in office; or
- (4) the approval by the holders of capital stock of the Company of any plan or proposal for the liquidation or dissolution of the Company, whether or not otherwise in compliance with the provisions of the Indenture.

For purposes of this definition:

- (a) “beneficial owner” will have the meaning specified in Rules 13d-3 and 13d-5 under the Exchange Act, except that any Person or Group will be deemed to have “beneficial ownership” of all securities that such Person or Group has the right to acquire, whether such right is exercisable immediately, only after the passage of time or, except in the case of the Permitted Holders, upon the occurrence of a subsequent condition.
- (b) “Person” and “Group” will have the meanings for “person” and “group” as used in Sections 13(d) and 14(d) of the Exchange Act; and
- (c) the Permitted Holders or any other Person or Group will be deemed to beneficially own any Voting Stock of a corporation held by any other corporation (the “parent corporation”) so long as the Permitted Holders or such other Person or Group, as the case may be, beneficially own, directly or indirectly, in the aggregate at least 50.0% of the voting power of the Voting Stock of the parent corporation and no other Person or Group beneficially owns an equal amount of the Voting Stock of the parent corporation.

“Permitted Holders” means (a) Venlo Resources Pte. Ltd. and any affiliates thereof; (b) any member of the Berrondo, Saiz or Esteve families who holds shares of the Company on the Issue Date; (c) a parent, brother or sister of any individual named in clause (b); (d) the spouse or a former spouse of any individual named in clause (b) or (c); (e) the lineal descendants of any person named in clauses (b) through (d); (f) the estate or any guardian, custodian or other legal representative of any individual named in clauses (b) through (e); (g) any trust established principally for the benefit of any one or more of the individuals named in clauses (b) through (f); (h) any person in which a majority of the voting capital stock is owned, directly or indirectly, by any one or more of the persons named in clauses (b) through (g); and (i) MAHLER Enterprises PTE. LTD.

“Ratings Decline” means that at any time within 90 days (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by any Rating Agency) after the

earlier of the date of public notice of a Change of Control and of the Company's intention or that of any person to effect a Change of Control, the then-applicable rating of the notes is decreased or withdrawn by (i) if three Rating Agencies are making ratings of the notes publicly available, at least two of the Rating Agencies or (ii) if two or fewer Rating Agencies are making ratings of the notes publicly available, then any one of the Rating Agencies, by one or more categories; unless after such downgrade or withdrawal, the notes are assigned Investment Grade ratings by (y) at least two Rating Agencies or, (z) if only one Rating Agency assigned Investment Grade rating to the notes prior to such public notice, by at least one Rating Agency; *provided* that, in each case, any such Rating Decline results in whole or in part from a Change of Control.

"Investment Grade" means BBB- (or the equivalent) or higher by S&P, Baa3 (or the equivalent) or higher by Moody's and BBB- (or the equivalent) or higher by Fitch, or the equivalent of such ratings by another Rating Agency.

"Rating Agency" means any of Moody's, S&P or Fitch (or, in each case, any successor rating agency thereto).

Covenants

Holders will benefit from limited covenants contained in the Indenture including only covenants to pay the redemption price, interest, deferred interest, additional amounts and arrears of interest if and when the same become due and payable (subject to deferral) as well as the reporting requirements and merger, consolidation or sale of assets covenants below. Otherwise, there are no covenants restricting the ability of the Company or our subsidiaries to make payments, incur indebtedness, dispose of assets, issue and sell capital stock, enter into transactions with affiliates or engage in business other than our present business or any other positive or negative covenants. In addition, no negative pledge will apply to the notes.

Our failure to comply with the following provisions will not constitute an Event of Default under the Indenture.

Reporting Requirements

So long as any notes are outstanding, the Company will furnish to the Trustee:

- (a) Within 120 days following the end of each of the Company's fiscal years, information (presented in the English language) including sections titled "Consolidated Financial Information and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections with scope and content substantially similar to the corresponding sections in this offering memorandum (after taking into consideration any changes to the business and operations of the Company after the Issue Date), consolidated audited income statements, balance sheets and cash flow statements and the related notes thereto for the Company for the two most recent fiscal years in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X of the U.S. Securities and Exchange Commission, together with an audit report thereon by the Company's independent auditors;
- (b) Within 60 days following the end of each of the first three fiscal quarters in each of the Company's fiscal years (beginning with the fiscal quarter ended December 31, 2017), quarterly reports containing unaudited balance sheets, statements of income, statements of shareholders equity and statements of cash flows and the related notes thereto for the Company on a consolidated basis, in each case for the quarterly period then ended and the corresponding quarterly period in the prior fiscal year and prepared in accordance with GAAP, which need not, however, contain any reconciliation to U.S. GAAP or otherwise comply with Regulation S-X of the U.S. Securities and Exchange Commission, together with a "Management's Discussion and Analysis of Financial Condition and Results of Operations" section for such quarterly period and condensed footnote disclosure (in each case, presented in the English language);
- (c) Upon becoming aware of any Default or Event of Default, written notice of the event which would constitute a Default or an Event of Default, its status and what action the Company is taking or proposes to take in respect thereof. In addition, the Company is required to deliver to the Trustee, within 105 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers

thereof know of any Default or Event of Default that occurred during the previous fiscal year. If a Default or Event of Default occurs, is continuing and is actually known to the Trustee, the Trustee must mail to each holder notice of the Default or Event of Default within 90 days after the occurrence thereof. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any note, the Trustee may withhold notice if and so long as it in good faith determines that withholding notice is in the interests of the holders.

“Default” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“GAAP” means either (i) the accounting criteria established by the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, or the CNBV) applicable to the Company, (ii) the Mexican Financial Reporting Standards (Normas de Información Financiera) issued by the Mexican Board for Research and Development of Financial Information Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera) or (iii) the International Financial Reporting Standards, in each case as in effect from time to time.

None of the information provided pursuant to the preceding paragraph shall be required to comply with Regulation S-K as promulgated by the U.S. Securities and Exchange Commission. In addition, the Company shall furnish to the holders of the notes and to prospective investors, upon the requests of such holders, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the notes are not freely transferable under the Exchange Act by persons who are not “affiliates” under the Securities Act.

In addition, if and so long as the notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, copies of such reports furnished to the Trustee will also be made available at the specified office of the paying agent in Luxembourg.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee’s receipt thereof shall not constitute constructive notice of any information contained therein or determinable for information contained therein, including the Company’s compliance with any of the their respective covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officer’s Certificates).

Merger, Consolidation or Sale of Assets

Unless the following conditions are met, we may not consolidate with or merge into any other person or, directly or indirectly, transfer, convey, sell, lease or otherwise dispose of all or substantially all of our assets and properties and may not permit any person to consolidate with or merge into us:

- (i) if we are not the successor person in the transaction, the successor is organized and validly existing under the laws of Mexico or the United States or any political subdivision thereof and expressly assumes by supplemental indenture our obligations (including the obligation to pay additional amounts) under the notes or the Indenture;
- (ii) immediately after the transaction, no default under the notes has occurred and is continuing. For this purpose, “default under the notes” means an Event of Default or an event that would be an Event of Default with respect to the notes if the requirements for giving us default notice and for our default having to continue for a specific period of time were disregarded; and
- (iii) we have delivered to the Trustee an Officer’s Certificate and opinion of counsel, each stating, among other things, that the transaction complies with the Indenture.

If the conditions described above are satisfied, we will not have to obtain the approval of the holders in order to merge or consolidate or to sell or otherwise dispose of our properties and assets substantially as an entirety. In addition, these conditions will apply only if we wish to merge into or consolidate with another person or sell or otherwise dispose of all or substantially all of our assets and properties. We will not need to satisfy these conditions if we enter into other types of transactions, including any transaction in which we acquire the stock or assets of

another person, any transaction that involves a change of control of our company, but in which we do not merge or consolidate, and any transaction in which we sell or otherwise dispose of less than substantially all our assets.

Events of Default

Each of the following will be an “Event of Default” with respect to the notes:

- (i) we fail to pay interest on any note within 30 days after its due date; *provided* that the due date for deferred interest payments shall be the first Mandatory Payment Date following the Interest Payment Date on which such deferred interest first arose;
- (ii) we fail to pay the principal or premium, if any, of any note when due; or
- (iii) certain events involving our liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings in connection with our insolvency or bankruptcy (a “Bankruptcy Event of Default”).

Remedies Upon Event of Default

The payment of the principal of the notes will be accelerated only upon the occurrence of a Bankruptcy Event of Default. Upon the occurrence of a Bankruptcy Event of Default, the entire principal amount of all the notes and any accrued interest and any additional amounts and arrearages of interest will be automatically accelerated, without any action by the Trustee or any holder and any principal, interest or additional amounts will become immediately due and payable. There is no right of acceleration of the payment of principal of the notes upon the occurrence of any of the other Events of Default noted above. If an Event of Default occurs under the Indenture and is continuing, the Trustee may or, at the written request of holders of not less than 25% in principal amount of the notes and subject to the following paragraph, shall pursue any available remedy (excluding acceleration, except as provided above) under the Indenture to collect the payment of due and unpaid principal of and interest on the notes, or enforce the performance of any provision of the notes or the Indenture.

If any Event of Default occurs, the Trustee will have special duties. In that situation, the Trustee will be obligated to use those of its rights and powers under the Indenture, and to use the same degree of care and skill in doing so, that a prudent person would use under the circumstances in conducting his or her own affairs.

Except as described in the prior paragraph, the Trustee is not required to take any action under the Indenture at the request of any holders unless the holders offer the Trustee protection, known as an indemnity, from expenses and liability. If the Trustee receives an indemnity that is reasonably satisfactory to it, the holders of a majority in principal amount of the notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the Trustee. These majority holders may also direct the Trustee in performing any other action under the Indenture with respect to the notes.

The Trustee will have exclusive right, to the greatest extent permissible under applicable law, to file in any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, *concurso mercantil*, *quiebra* or similar proceedings of the Company for the recognition of the claims of all holders of notes, and you will not be permitted to bring your own lawsuit or other formal legal action under any of these circumstances. In any other circumstance, before you bypass the Trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the notes, the following must occur:

- you must give the Trustee written notice that an Event of Default has occurred and the Event of Default has not been cured or waived;
- the holders of not less than 25% in principal amount of the notes must make a written request that the Trustee take action with respect to the notes because of the default and they or other holders must offer to the Trustee indemnity reasonably satisfactory to the Trustee against the cost and other liabilities of taking that action;

- the Trustee must not have taken action for 60 days after the above steps have been taken; and
- during those 60 days, the holders of a majority in principal amount of the notes must not have given the Trustee directions that are inconsistent with the written request of the holders of not less than 25% in principal amount of the notes;

provided that the Indenture will provide that such rights of holders and responsibilities of the Trustee are limited as described under “—Ranking of the Notes—Holders Acknowledgement of Subordination of Notes.”

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the Trustee and how to declare or cancel an acceleration of the principal, premium, if any, or interest on the notes.

Waiver of Default

The holders of not less than a majority in principal amount of the notes may waive a past default for all the notes (after complying with the related requirements under the Indenture). If this happens, the default will be treated as if it had been cured. No one can waive a payment default on any note, however, without the approval of the particular holder of that note.

Modification and Waiver

There are three types of changes we can make to the Indenture and the notes under the Indenture.

Changes Requiring Each Holder’s Approval

The following changes cannot be made without the written approval of each holder of the outstanding notes affected by the change:

- a reduction in the principal amount, the interest rate or the applicable Redemption Price for a note;
- a change in the obligation to pay additional amounts;
- a change in the currency of any payment on a note other than as permitted by the note;
- a change in the place or date of any payment on a note;
- an impairment of the holder’s right to sue for payment of any amount due on its note;
- a reduction in the percentage in principal amount of the notes needed to change the Indenture or the notes under the Indenture; and
- a reduction in the percentage in principal amount of the notes needed to waive our compliance with the Indenture or to waive defaults.

Changes Not Requiring Approval

Some changes will not require the approval of holders of notes. These changes are limited to specific kinds of changes, including, but not limited to, curing any ambiguity, omission, defect or inconsistency, providing for successor entities in compliance with the Indenture, issuance of additional securities and changes as determined by us that would not adversely affect the holders of notes under the Indenture in any material respect.

Changes Requiring Majority Approval

Any other change to the Indenture or the notes will be required to be approved by the holders of a majority in principal amount of the notes affected by the change or waiver. The required approval must be given by written consent.

The same majority approval will be required for us to obtain a waiver of any of our covenants in the Indenture. Our covenants include the promises we make about merging and delivering reports which we describe under “Covenants—*Merger, Consolidation or Sale of Assets*” and “Covenants—*Reporting Requirements*.” If the holders approve a waiver of a covenant, we will not have to comply with it. The holders, however, cannot approve a waiver of any provision in a particular note or the Indenture, as it affects that note, that we cannot change without the approval of the holder of that note as described under “—Changes Requiring Each Holder’s Approval,” unless that holder approves the waiver.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the Indenture or the notes or request a waiver.

Special Rules for Actions by Holders

When holders take any action under the Indenture, such as giving a notice of default, declaring an acceleration, approving any change or waiver or giving the Trustee a written instruction, we will apply the following rules.

Only Outstanding Notes are Eligible for Action by Holders

Only holders of outstanding notes will be eligible to vote or participate in any action by holders. In addition, we will count only outstanding notes in determining whether the various percentage requirements for voting or taking action have been met. For these purposes, a note will not be “outstanding” if it has been surrendered for cancellation, if we have deposited or set aside, in trust for its holder, money for its payment or redemption or if such note is owned by the Company or an affiliate of the Company.

Determining Record Dates for Action by Holders

We will generally be entitled to set any day as a record date for the purpose of determining the holders that are entitled to take action under the Indenture. In some limited circumstances, only the Trustee will be entitled to set a record date for action by holders. If we or the Trustee set a record date for an approval or other action to be taken by holders, that vote or action may be taken only by persons or entities who are holders on the record date and must be taken during the period that we specify for this purpose, or that the Trustee specifies if it sets the record date. We or the Trustee, as applicable, may shorten or lengthen this period from time to time. This period, however, may not extend beyond the 180th day after the record date for the action. In addition, record dates for any global notes may be set in accordance with procedures established by the depositary from time to time.

Transfer Agents

We may appoint one or more transfer agents, at whose designated offices any notes in certificated form may be transferred or exchanged and also surrendered before payment is made upon redemption. Initially, we have appointed the Trustee, at its corporate trust office in New York City, as transfer agent. We may also choose to act as our own transfer agent. We must notify you of changes in the transfer agent as described under “—Notices.” If we issue notes in certificated form, holders of notes in certificated form will be able to transfer their notes, in whole or in part, by surrendering the notes, with a duly completed form of transfer, for registration of transfer at the office of our transfer agent in New York City. We will not charge any fee for the registration or transfer or exchange, except that we may require the payment of a sum sufficient to cover any applicable tax or other governmental charge payable in connection with the transfer.

Listing

We have applied to list the notes on the Official List of the Luxembourg Stock Exchange (the “LSE”) for trading on the Euro MTF Market. We will use our reasonable best efforts to maintain such listing, *provided* that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the “Transparency Directive”)

or any legislation implementing the Transparency Directive we could be required to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information, or we determine that it is unduly burdensome to maintain a listing on the LSE, we may delist the notes from the Euro MTF Market in accordance with the rules of the LSE and seek an alternative admission to listing, trading and/or quotation for the notes on a different section of the LSE or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as we may decide. Although there is no assurance as to the liquidity that may result from a listing on the LSE, delisting the notes from the LSE may have a material effect on the ability of holders of the notes to resell the notes in the secondary market.

Notices

So long as the notes are listed on the Official List of the LSE for trading on the Euro MTF Market and it is required by the rules of such exchange, all notices to holders of notes will be published in English:

- (1) in a leading newspaper having a general circulation in Luxembourg (which currently is expected to be *Luxemburger Wort*); or
- (2) on the website of the LSE Exchange at <http://www.bourse.lu>.

Notices will be deemed to have been given on the date of mailing or of publication as aforesaid or, if published on different dates, on the date of the first such publication. If publication as provided above is not practicable, notices will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

Neither the failure to give any notice to a particular holder, nor any defect in a notice given to a particular holder, will affect the sufficiency of any notice given to another holder.

Governing Law

The Indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York, United States of America.

Currency Indemnity

Our obligations under the notes will be discharged only to the extent that the relevant holder is able to purchase dollars with any other currency paid to that holder in accordance with any judgment or otherwise. If the holder cannot purchase dollars, in the amount originally to be paid, we have agreed to pay the difference. The holder, however, agrees that, if the amount of dollars purchased exceeds the amount originally to be paid to such holder, the holder will reimburse the excess to us. The holder will not be obligated to make this reimbursement if we are in default of our obligations under the notes.

The indemnity described above:

- constitutes a separate and independent obligation from the other obligations of the Company;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by any holder; and
- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note.

Submission to Jurisdiction

In connection with any legal action or proceeding arising out of or relating to the notes or the Indenture (subject to the exceptions described below), we have:

- submitted to the jurisdiction of any U.S. federal or New York state court in the Borough of Manhattan, The City of New York, and any appellate court thereof;
- agreed that all claims in respect of such legal action or proceeding may be heard and determined in such U.S. federal or New York state court and waived, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of our place of residence or domicile; and
- appointed CT Corporation System, with an office at 111 Eighth Avenue, New York, New York 10011, United States of America, as process agent.

The process agent will receive, on our behalf, service of copies of the summons and complaint and any other process which may be served in any such legal action or proceeding brought in such New York state or U.S. federal court sitting in New York City. Service may be made by mailing or delivering a copy of such process to us at the address specified above for the process agent.

A final judgment in any of the above legal actions or proceedings will be conclusive and may be enforced in other jurisdictions, in each case, to the extent permitted under the applicable laws of such jurisdiction.

In addition to the foregoing, the holders may serve legal process in any other manner permitted by applicable law.

To the extent that we have or hereafter may acquire or have attributed to us any sovereign or other immunity under any law, we have agreed to waive, to the fullest extent permitted by law, such immunity from jurisdiction or to service of process in respect of any legal suit, action or proceeding arising out of or relating to the Indenture or the notes.

Our Relationship with the Trustee

The Bank of New York Mellon is initially serving as the Trustee, security registrar, paying agent, and transfer agent. The Bank of New York Mellon SA/NV, Luxembourg Branch is serving as Luxembourg paying agent and transfer agent and Luxembourg listing agent. The Bank of New York Mellon and its affiliates may have other business relationships with us from time to time.

Statement of Intention

The following italicized text does not form a part of the terms of the notes or the Indenture:

We intend (without thereby assuming a legal obligation) to redeem or repurchase the notes only to the extent that the part of the aggregate principal amount of the notes to be redeemed or repurchased, which was assigned “equity credit” (or such similar nomenclature used by S&P from time to time) at the time of the issuance of the notes, does not exceed such part of the net proceeds received by us or any of our Subsidiaries (as defined herein) during the 360-day period prior to the date of such redemption or repurchase from the sale or issuance of securities by us or such Subsidiary to third party purchasers (other than our group entities) of securities assigned by S&P “equity credit” (or such similar nomenclature used by S&P from time to time) at the time of sale or issuance of such securities (but taking into account any changes in hybrid capital methodology or another relevant methodology or the interpretation thereof since the issuance of the notes), unless:

(i) the international rating assigned by S&P to us is at least “BB+” (or such similar nomenclature as is then used by S&P) and we are of the view that such rating would not fall below this level as a result of such redemption or repurchase;

(ii) in the case of a repurchase, such repurchase is of less than (a) 10% of the aggregate principal amount of the notes originally issued in any period of 12 consecutive months or (b) 25% of the aggregate principal amount of the notes originally issued in any period of 10 consecutive years;

(iii) the notes are redeemed (a) pursuant to a Tax Deductibility Event or (b) pursuant to a Withholding Tax Event or (c) pursuant to a Rating Methodology Event that results from an amendment, clarification or change in the “equity credit” criteria by S&P; or

(iv) such redemption or repurchase occurs on or after the Step-up Date.

BOOK-ENTRY, DELIVERY AND FORM

The notes are being offered and sold to qualified institutional buyers in reliance on Rule 144A (“Rule 144A notes”). Notes also may be offered and sold in offshore transactions in reliance on Regulation S (“Regulation S notes”). Notes will be issued at the closing of this offering only against payment in immediately available funds.

Rule 144A notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the “Rule 144A global notes”). Regulation S notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the “Regulation S global notes” and, together with the Rule 144A global notes, the “global notes”).

The global notes will be deposited upon issuance with the Trustee as custodian for DTC, in New York, New York, and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC as described below. Through and including the 40th day after the later of the commencement of this offering and the closing of this offering (such period through and including such 40th day, the “restricted period”), beneficial interests in the Regulation S global notes may be transferred to a U.S. person only in accordance with the certification requirements described below. Beneficial interests in the Rule 144A global notes may not be exchanged for beneficial interests in the Regulation S global notes at any time except in the limited circumstances described below. See “—Exchanges Between Regulation S Notes and Rule 144A Notes.”

Except as set forth below, the global notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the global notes may not be exchanged for notes in certificated form except in the limited circumstances described below. See “—Exchange of Global Notes for Certificated Notes.” Except in the limited circumstances described below, owners of beneficial interests in the global notes will not be entitled to receive physical delivery of notes in certificated form.

Rule 144A notes (including beneficial interests in the Rule 144A global notes) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under “Transfer Restrictions.” Regulation S notes will also bear the legend as described under “Transfer Restrictions.” In addition, transfers of beneficial interests in the global notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream is provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

DTC has advised us that DTC is a limited purpose trust company created to hold securities for its participating organizations (collectively, the “participants”) and to facilitate the clearance and settlement of transactions in those securities between participants through electronic book entry changes in accounts of its participants. The participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain custodial relationship with a participant, either directly or indirectly (collectively, the “indirect participants”). Persons who are not participants may beneficially own securities held by or on behalf of DTC only through the participants or the indirect participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the participants and indirect participants.

DTC has also advised us that, pursuant to procedures established by it:

- (1) upon deposit of the global notes, DTC will credit the accounts of participants designated by the initial purchasers with portions of the principal amount of the global notes; and
- (2) ownership of these interests in the global notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the participants) or by

the participants and the indirect participants (with respect to other owners of beneficial interests in the global notes).

Investors in the global notes who are participants in DTC's system may hold their interests therein directly through DTC. Investors in the global notes who are not participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are participants in such system. Euroclear and Clearstream will hold interests in the global notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a global note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a global note to such persons will be limited to that extent. Because DTC can act only on behalf of participants, which in turn act on behalf of indirect participants, the ability of a person having beneficial interests in a global note to pledge such interests to persons that do not participate in the DTC system, or otherwise take actions in respect of such interests may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the global notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or "holders" thereof under the Indenture for any purpose.

Payments in respect of the principal of, and interest and premium and additional interest, if any, on a global note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, the Issuer and the Trustee will treat the persons in whose names the notes, including the global notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, neither the Issuer, the Trustee, the transfer agent, registrar, the paying agent, nor any agent of the Issuer or the Trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any participant's or indirect participant's records relating to or payments made on account of beneficial ownership interest in the global notes or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records relating to the beneficial ownership interests in the global notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

DTC has advised us that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest) is to credit the accounts of the relevant participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the participants and the indirect participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the participants or the indirect participants and will not be our responsibility or that of DTC or the Trustee. Neither the Issuer nor the Trustee nor any of their respective agents will be liable for any delay by DTC or any of its participants in identifying the beneficial owners of the notes, and the Issuer and the Trustee and each such agent may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under "Transfer Restrictions," transfers between participants in DTC will be effected in accordance with DTC's procedures and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described herein, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the

case may be, by its respective depository; however, such cross market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counter-party in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf of delivering or receiving interests in the relevant global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised us that it will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose account DTC has credited the interests in the global notes and only in respect of such portion of the aggregate principal amount of the notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the notes, DTC reserves the right to exchange the global notes for legended notes in certificated form, and to distribute such notes to its participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Rule 144A global notes and the Regulation S global notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither the Issuer nor the Trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A global note is exchangeable for definitive notes in registered certificated form (“certificated notes”) if:

- (1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depository for the global notes and DTC fails to appoint a successor depository or (b) has ceased to be a clearing agency registered under the Exchange Act;
- (2) The Issuer, at its option, notifies the Trustee in writing that it has elected to cause the issuance of the certificated notes; or
- (3) there has occurred and is continuing a Default or Event of Default with respect to the notes.

In addition, beneficial interests in a global note may be exchanged for certificated notes upon prior written notice given to the Trustee by or on behalf of DTC in accordance with the Indenture. In all cases, certificated notes delivered in exchange for any global note or beneficial interests in global notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in “Transfer Restrictions,” unless that legend is not required by applicable law.

Exchanges Between Regulation S Notes and Rule 144A Notes

Beneficial interests in the Regulation S global notes may be exchanged for beneficial interests in the Rule 144A global notes only if:

- (1) such exchange occurs in connection with a transfer of the notes pursuant to Rule 144A; and
- (2) the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that the notes are being transferred to a person:
 - (A) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;
 - (B) purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and

(C) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interest in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in the Regulation S global note, whether before or after the expiration of the restricted period, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S.

Transfers involving exchanges of beneficial interests between the Regulation S global notes and the Rule 144A global notes will be effected in DTC by means of an instruction originated by the DTC participant and approved by the Trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S global note and a corresponding increase in the principal amount of the Rule 144A global note or vice versa, as applicable. Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and will become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interest in such other global note for so long as it remains such an interest. Transfers between Regulation S and Rule 144A notes will need to be done on a delivery free of payment basis and separate arrangements will need to be made outside of DTC for payment.

TAXATION

General

The following summary contains a description of the material U.S. and Mexican federal income tax consequences of the purchase, ownership and disposition of the notes, by holders that are non-residents of Mexico for tax purposes.

This summary is based upon federal tax laws of the United States and Mexico as in effect on the date of this offering memorandum, including the provisions of the income tax treaty between the United States and Mexico, which we refer to in this offering memorandum as the Tax Treaty, all of which are subject to change. This summary does not purport to be a comprehensive description of all the U.S. or Mexican federal tax considerations that may be relevant to a decision to purchase, hold or dispose of the notes. The summary does not address any tax consequences under the laws of any state, municipality or locality of Mexico or the United States or the laws of any taxing jurisdiction other than the federal laws of Mexico and the United States.

Prospective investors should consult their own tax advisors as to the Mexican and U.S. tax consequences of the purchase, ownership and disposition of notes, including, in particular, the effect of any foreign (non-Mexican and non-U.S.), state, municipal or local tax laws.

Mexico has also entered into or is negotiating several double taxation treaties with various countries that may have an impact on the tax treatment of the purchase, ownership or disposition of notes. Prospective purchasers of notes should consult their own tax advisors as to the tax consequences, if any, of the application of any such treaties.

Mexican Federal Tax Considerations

General

The following is a general summary of the principal Mexican federal income tax consequences of the purchase, ownership and disposition of the notes by holders that are not residents of Mexico, for Mexican federal income tax purposes, and that do not hold such notes through a permanent establishment for tax purposes in Mexico, to which income under the notes is attributable; for purposes of this summary, each such non-resident holder is referred to as a foreign holder.

This summary is based on the Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) and regulations in effect on the date of this offering memorandum, all of which are subject to change, possibly with retroactive effect, or to new or different interpretations, which could affect the continued validity of this summary.

This summary does not constitute tax advice, does not address all of the Mexican tax consequences that may be applicable to specific holders of the notes and does not purport to be a comprehensive description of all the Mexican tax considerations that may be relevant to a decision to purchase, own or dispose of the notes. In particular, this summary does not describe any tax consequences arising under the laws of any state, municipality or taxing jurisdiction other than certain federal laws of Mexico.

Potential investors should consult with their own tax advisors regarding the particular consequences of the purchase, ownership or disposition of the notes under the federal laws of Mexico (and the laws of any state or municipality of Mexico) or any other jurisdiction or under any applicable double taxation treaty to which Mexico is a party, which is in effect.

For purposes of Mexican taxation, an individual or corporation that does not satisfy the requirements to be considered a resident of Mexico for tax purposes, as specified below, is deemed as a non-resident of Mexico for tax purposes and a foreign holder for purposes of this summary.

Tax residency is a highly technical definition that involves the application of a number of factors that are principally described under Articles 9 and 10 of the Mexican Tax Code (*Código Fiscal de la Federación*) and in some cases, provisions of tax treaties executed by Mexico and in effect on the date of this offering memorandum, including the Tax Treaty. An individual is a resident of Mexico for tax purposes if he/she established his/her home in Mexico. When the individual in question has a home in another country, the individual will be deemed a resident

in Mexico if his/her center of vital interests is located in Mexican territory. This will be deemed to occur if (i) more than 50.0% of the aggregate income realized by such individual in the calendar year is from a Mexican source, or (ii) the principal center of his/her professional activities is located in Mexico. Mexican nationals who filed a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico and where his/her income is subject to a preferred tax regime as defined by Mexican law, will be considered Mexican residents for tax purposes during the fiscal year of the filing of notice of such residence change and during the following three fiscal years. Unless otherwise proven, a Mexican national is deemed a resident of Mexico for tax purposes.

A legal entity is a resident of Mexico if it maintains the principal administration of its business or the effective location of its management in Mexico.

If a legal entity or an individual is deemed to have a permanent establishment in Mexico for Mexican tax purposes or is deemed a resident of Mexico for tax purposes, any and all income attributable to that permanent establishment of such resident will be subject to Mexican income taxes, in accordance with applicable tax laws. However, any determination of residence, whether involving an individual or a corporation, should take into account the particular situation for each person or legal entity.

Payments of Interest

Pursuant to the Mexican Income Tax Law, payments of interest on the notes (including original issue discount, which is deemed to be interest) made by us to foreign holders will be subject to Mexican withholding tax at a rate of 4.9%, if, as expected, the following requirements are met:

- the issuance of the notes (including the principal characteristics of the notes) is notified to the CNBV pursuant to Article 7 of the Mexican Securities Market Law and Articles 24 Bis and 24 Bis 1 of the general regulations applicable to issuers and other market participants;
- the notes are placed outside of Mexico through banks or brokerage houses, in a country with which Mexico has in force a treaty for the avoidance of double taxation which is in effect (which currently includes the United States of America); and
- we timely comply with the informational requirements specified from time to time by the Mexican tax authorities under their general rules, including, after completion of the transaction described in this offering memorandum, the filing with the Mexican Tax Administration Service (*Servicio de Administración Tributaria*), fifteen business days after the placement of the notes, of certain information regarding the issuance of the notes and this offering memorandum.

If any of the above mentioned requirements is not met, the Mexican withholding tax will be 10.0% or higher. If the beneficial owner, whether acting directly or indirectly, individually or jointly with related persons, that receive more than 5% of the interest paid under the notes (i) are persons who own, directly or indirectly, individually or with related persons, 10% of our voting stock or (ii) are corporations or other entities, of which 20% or more of the voting stock is owned by us, directly or indirectly, jointly or severally, with persons related to us, then the Mexican withholding tax rate applicable to payments of interest under our notes may increase to the maximum applicable rate according to the Mexican Income Tax Law (currently 35%). For these purposes, persons will be related if:

- one person holds an interest in the business of the other person;
- both persons have common interests; or
- a third party has an interest in the business or assets of both persons.

As of the date of this offering memorandum, the Tax Treaty is not expected to have any effect on the Mexican tax consequences described in this summary, because, as described above, under the Mexican Income Tax Law, we expect to be entitled to withhold taxes in connection with interest payments under the notes at a 4.9% rate.

Payments of interest made with respect to the notes to a non-Mexican pension or retirement fund will be generally exempt from Mexican withholding taxes, provided that (1) the fund is the beneficial owner of such interest income and provides information to us in respect of such fund's place of residence, (2) the fund is duly established pursuant to the laws of its country of origin and (3) the relevant interest income is exempt from taxation in such country.

Holders or beneficial owners of the notes may be requested, subject to specified exceptions and limitations, to provide certain information or documentation necessary to enable us to apply the appropriate Mexican withholding tax rate on interest payments under the notes, made by us to such holders or beneficial owners. Additionally, the Mexican Income Tax Law provides that, in order for a foreign holder to be entitled to the benefits under the treaties for the avoidance of double taxation entered into by Mexico, it is necessary for the foreign holder to meet the procedural requirements established in such Law. In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not timely provided, we may withhold Mexican tax from interest payments on the notes to that holder or beneficial owner at the maximum applicable rate in effect, and our obligation to pay Additional Amounts relating to those withholding taxes will be limited as described under "Description of the Notes—Payment of Additional Amounts."

Payments of Principal

Under Mexican Income Tax Law, payments of principal on the notes made by us to foreign holders will not be subject to any Mexican withholding tax.

Taxation of Capital Gains

Under the Mexican Income Tax Law, capital gains resulting from the sale or other disposition of the notes by a foreign holder to another foreign holder are not taxable in Mexico. Gains resulting from the sale of the notes by a foreign holder to a Mexican resident for tax purposes or to a foreign holder deemed to have a permanent establishment in Mexico for tax purposes, will be subject to the Mexican taxes pursuant to the rules described above with respect to interest payments.

Other Mexican Taxes

Under current Mexican tax laws, generally there are no estate, inheritance, succession or gift taxes applicable to the purchase, ownership or disposition of the notes by a foreign holder. Gratuitous transfers of the notes in certain circumstances may result in the imposition of a Mexican federal tax upon the recipient. There are no Mexican stamp, issuer registration or similar taxes or duties payable by foreign holders of the notes with respect to the notes.

U.S. Federal Income Tax Considerations

The following discussion is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of our Notes. Except as otherwise indicated, this discussion applies only to beneficial owners of Notes who are "U.S. Holders" (as defined below) who hold such Notes as capital assets for U.S. federal income tax purposes (generally, property held for investment). This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing final, temporary and proposed U.S. Treasury Regulations, administrative pronouncements of the U.S. Internal Revenue Service (the "IRS") and judicial decisions, all as are currently in effect and all of which are subject to change (possibly on a retroactive basis) and to differing interpretations.

This discussion does not purport to address all U.S. federal income tax consequences that may be relevant to a particular holder. In addition, this discussion does not address tax consequences that may be relevant to U.S. Holders subject to special U.S. federal income tax treatment including:

- insurance companies;
- tax-exempt organizations;
- broker-dealers;

- traders in securities that elect to mark-to-market;
- banks or other financial institutions;
- partnerships or other pass-through entities;
- real estate investment trusts and regulated investment companies;
- persons whose functional currency is not the U.S. Dollar;
- U.S. expatriates;
- persons who hold our Notes as part of a hedge, straddle or conversion transaction; or
- persons who own, directly, indirectly or by attribution, 10% or more of the total combined voting power of our equity.

This discussion does not address any U.S. federal alternative minimum tax consequences, any U.S. federal estate or gift tax consequences, any state or local tax consequences, or any non-U.S. tax consequences of the acquisition, ownership or disposition of our Notes. You should consult your tax advisor regarding the U.S. federal, state, local and non-U.S. tax consequences to you of the acquisition, ownership and disposition of our Notes based on your particular circumstances.

You are a “U.S. Holder” if you are a beneficial owner of our Notes and for U.S. federal income tax purposes, you are:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds our Notes, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. Partners or partnerships considering an investment in our Notes should consult their tax advisors as to the U.S. federal, state, local and non-U.S. tax consequences to them of the acquisition, ownership and disposition of our Notes.

U.S. Federal Income Tax Characterization of the Notes

Because the Notes are perpetual with no fixed final maturity date, and because we may defer payment of interest on the Notes, we intend to take the position that the Notes will be treated as equity for U.S. federal income tax purposes.

Passive Foreign Investment Companies

Special adverse U.S. federal income tax rules apply to U.S. persons owning shares of a passive foreign investment company, or PFIC. A non-U.S. entity treated as a corporation for U.S. federal income tax purposes generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules with respect to certain subsidiaries, either:

- at least 75% of its gross income is “passive income,” or

- on average, at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes, among other things, interest, dividends, gains from the disposition of assets that produce passive income and gains from commodities transactions. We are engaged in the consumer lending business, and substantially all of our income will be derived from such business. Although interest and gains from the disposition of assets that produce interest income will not be treated as passive income (and the assets producing the interest generally will not be treated as passive assets) if they are derived in the active conduct of a banking business, we do not believe that we are engaged in the active conduct of a banking business as required by the PFIC rules. Based on the composition of our income and assets and our activities we expect to be classified as a PFIC for the current and future years.

If we are a PFIC for any taxable year in which a U.S. Holder holds our Notes (as we expect will be the case), absent such U.S. Holder validly making one of the elections discussed below, a U.S. Holder will be subject to special adverse tax rules with respect to (i) “excess distributions” received on our Notes and (ii) any gain recognized upon a sale or other disposition (including a pledge) of our Notes. Excess distributions are distributions, including distributions that may not be dividends for U.S. federal income tax purposes, received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or the U.S. Holder’s holding period for its Notes. Under these special tax rules, (a) the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for its Notes, (b) the amount allocated to the current taxable year and any year prior to our becoming a PFIC will be treated as ordinary income, and (c) the amount allocated to each other taxable year will be subject to tax at the highest tax rate in effect for that year and an interest charge (at the rate generally applicable to underpayments of tax) will be imposed on the resulting tax attributable to each such year.

QEF Election. A U.S. Holder could avoid the adverse PFIC tax consequences described above by making a “qualified electing fund,” or QEF, election. If a U.S. Holder makes this election, such holder would be taxed currently on its proportionate share of our ordinary income and net capital gains, but any gain subsequently recognized by the holder upon a sale or other taxable disposition of its Notes generally would be taxed as capital gain as described below under “—Sale, Exchange or Other Taxable Disposition of Notes.” We intend to provide each U.S. Holder of the Notes a PFIC Annual Information Statement that reflects, to the extent reasonable based on our earnings and profits, an amount equivalent to the stated coupon on the Notes for such year as ordinary income so that each such U.S. Holder is able to make a QEF election.

If we are a PFIC and we have any direct, and in certain circumstances, indirect subsidiaries that are PFIC (each a “Subsidiary PFIC”), a U.S. Holder will be treated as owning its pro rata share of the stock of each such Subsidiary PFIC and will be subject to the PFIC rules with respect to each such Subsidiary PFIC. However, it is not clear how the PFIC rules would apply to a U.S. shareholder that owns certain preferred shares of a PFIC that owns subsidiaries that are PFICs. We do not intend to comply with the necessary accounting and record keeping requirements that would allow a U.S. Holder to make a QEF election with respect to any Subsidiary PFIC.

Mark-to-Market Election. A U.S. Holder can also avoid the adverse PFIC tax consequences described above by making an election to include gain or loss on its Notes in its U.S. federal taxable income under a mark-to-market method of accounting, provided that the Notes are “marketable stock” for purposes of the PFIC rules. We do not expect that our Notes will be (or will remain) treated as marketable stock for purposes of the PFIC rules and accordingly, do not expect that the mark-to-market election will be available to U.S. Holders in respect of the Notes.

The rules dealing with PFICs are complex and are affected by various factors in addition to those described above. U.S. Holders are urged to consult their tax advisors regarding the PFIC rules in connection with their acquisition, ownership and disposition of our Notes.

PFIC Reporting Requirements. Subject to certain exceptions, a U.S. Holder is required to file an annual information return, currently on Form 8621, with respect to each PFIC in which it owns an interest directly or, in some cases, indirectly (including through certain pass-through entities), and the statute of limitations for collections may be suspended if it does not file such form. However, we may be unable to provide investors in the Notes with the information necessary to comply with reporting obligations with respect to such other PFIC. U.S. Holders should consult their own tax advisors regarding the PFIC reporting requirements.

Taxation of Payments on the Notes

Subject to the discussion above under “—Passive Foreign Investment Companies,” payments of stated interest on the Notes (including any Mexican tax withheld and Additional Amounts paid in respect thereof) will be treated as distributions on our stock and as dividends to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). We do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, so it is expected that distributions paid to U.S. Holders will generally be reported as dividends.

Payments on the Notes that are treated as dividends for U.S. tax purposes generally will not be eligible for the dividends received deduction available under the Code for certain corporate U.S. Holders. Dividends received by non-corporate U.S. Holders of qualified foreign corporations are subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. However, non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. As discussed above, we expect that we will be classified as a PFIC for the current and future years. Therefore, we do not expect that dividends we pay will be entitled to such reduced rates. You should consult your own tax advisors regarding the application of this legislation to your particular circumstances.

A U.S. Holder will be entitled, subject to a number of complex limitations and conditions, to claim a U.S. foreign tax credit in respect of Mexican withholding taxes imposed on dividends on the Notes (but at a rate not exceeding the applicable rate provided by the U.S.-Mexico Tax Treaty). U.S. Holders who do not elect to claim a credit for any foreign taxes paid during the taxable year may instead claim a deduction in respect of such Mexican withholding taxes, provided that the U.S. Holder elects to deduct all foreign taxes paid or accrued for the taxable year. Dividends received with respect to our Notes will be treated as foreign source income and will generally constitute passive category income for purposes of the foreign tax credit. Further, in certain circumstances, if you have held our Notes for less than a specified period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you may not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on our Notes. The rules governing the application of the U.S. foreign tax credit are extremely complex and you are urged to consult your tax advisor regarding the availability of the foreign tax credit to you based on your particular circumstances.

Sale, Exchange or Other Taxable Disposition of Notes

Subject to the discussion above under “—Passive Foreign Investment Companies,” a U.S. Holder generally will recognize gain or loss upon a sale, exchange or other taxable disposition of our Notes measured by the difference between the amount realized on the sale, exchange or other taxable disposition of our Notes and the U.S. Holder’s adjusted tax basis in our Notes. Any such gain or loss recognized will generally be capital gain or loss (provided that, if we are a PFIC, a QEF election is made) and will be long-term capital gain or loss if our Notes have been held for more than one year. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations under the Code.

If a Mexican income tax is withheld on the sale or other disposition of our Notes, your amount realized will include the gross amount of the proceeds of that sale or other disposition before deduction of the Mexican income tax. Capital gain or loss, if any, realized by you on the sale, exchange or other taxable disposition of our Notes generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of gain from the disposition of our Notes that is subject to Mexican income tax, you may not be able to benefit from the foreign tax credit for that Mexican income tax (i.e., because the gain from the disposition would be U.S. source), unless you can apply the credit (subject to applicable limitations) against U.S. federal income tax payable on other income from foreign sources or you are entitled to treat such gain as Mexican source under the U.S.-Mexico Tax Treaty if you are considered a resident of the United States for purposes of, and otherwise meet the requirements of, the U.S.-Mexico Tax Treaty. Alternatively, you may take a deduction for the Mexican income tax if you do not take a credit for any foreign taxes paid or accrued during the taxable year. The rules governing the application of the U.S. foreign tax credit are extremely complex and you are urged to consult your tax advisor regarding the availability of the foreign tax credit to you based on your particular circumstances.

Net Investment Income Tax

Certain U.S. Holders who are individuals, estates and trusts will be subject to a 3.8% tax on some or all of their “net investment income.” Net investment income generally includes gross income from dividends and gains from the sale of property (unless such income is derived in the ordinary course of a trade or business other than a trade or business that consists of certain passive or trading activities). U.S. Holders that are individuals, estates, or trusts should consult their own tax advisors regarding the applicability of this additional tax.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments in respect of our Notes and proceeds from the sale or other disposition of our Notes unless an exemption applies. U.S. Holders that fail to establish an exemption from information reporting may also be subject to backup withholding if they fail to provide a correct U.S. taxpayer identification number (or certification of other exempt status) or comply with any other applicable certification procedures. The amount of any backup withholding will be allowed as a credit against a U.S. Holder’s U.S. federal income tax liability and may entitle a U.S. Holder to a refund to the extent the withheld tax exceeds such U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Specified Foreign Financial Assets

U.S. Holders are required to report information with respect to their investments in certain “foreign financial assets” to the IRS, which would include an investment in our Notes not held through a custodial account with a U.S. financial institution. Investors who fail to report required information could become subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors are encouraged to consult their tax advisors regarding the possible implications of this reporting requirement on their investment in our Notes.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement, each initial purchaser named below has, severally and not jointly, agreed to purchase, and we have agreed to sell, the principal amount of the notes opposite such initial purchaser's name.

Initial Purchasers	Principal Amount
UBS Securities LLC	US\$76,667,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	US\$76,667,000
Credit Suisse Securities (USA) LLC	US\$76,666,000
Total	US\$230,000,000

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed, severally and not jointly, to purchase all of the notes sold under the purchase agreement if any notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchaser may be increased, the commitments of the defaulting initial purchaser may be assumed by other persons satisfactory to the non-defaulting initial purchasers and us or the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The initial purchasers have advised us that they propose initially to offer the notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed. The initial purchasers may offer and sell notes through certain of their affiliates.

The Notes Are Not Being Registered

The notes have not been, and will not be, registered under the Securities Act or the securities law of any other jurisdiction, and they may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. In connection with sales outside the United States, each of the initial purchasers has agreed that it will not offer, sell or deliver the notes to, or for the account of, U.S. persons (unless in reliance on Rule 144A) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and that it will send to each dealer to whom it sells such notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the notes are restricted as described below under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions."

New Issue of Notes

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any U.S. national securities exchange. Application is expected to be made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the EuroMTF Market of the Luxembourg Stock Exchange. However, we cannot assure you that the listing application will be approved. We have been advised by each initial purchaser that it presently intends to make a market in the notes after completion of the offering. However, it is under no obligation to do so and may discontinue any market making activities at its own discretion at any time without any notice. We cannot assure the liquidity of the trading market for the notes. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the notes will be made against payment of the notes on or about November 29, 2017, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as “T+ 5”). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes hereunder may be required, by virtue of the fact that the notes initially settle in T+ 5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

We have agreed that we will not, for a period of 90 days after the date of this offering memorandum, without first obtaining the prior written consent of each initial purchaser, directly or indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any dollar denominated debt securities, except for the notes sold to the initial purchasers pursuant to the purchase agreement.

Short Positions

In connection with the offering, the initial purchasers may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing notes in the open market.

Similar to other purchase transactions, purchases by the initial purchasers to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the initial purchasers make any representation that the initial purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

Some of the initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the initial purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Sales Outside of the United States

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

Mexico

The notes have not been and will not be registered with the RNV maintained by the CNBV, and, therefore, may not be offered or sold publicly in Mexico, except that the notes may be sold to institutional or qualified investors in Mexico solely pursuant to the private placement exemption set forth in Article 8 of the Mexican Securities Market Law and regulations thereunder. We will notify the CNBV of the terms and conditions of this offering of the notes outside of Mexico. Such notice will be submitted for informational purposes only to the CNBV to comply with Article 7, second paragraph, of the Mexican Securities Market Law and regulations thereunder. The delivery to, and the receipt by, the CNBV of such notice does not constitute or imply any certification as to the investment quality of the notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth in this offering memorandum. This offering memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the EEA, which we refer to as Member States, an offer to the public of any notes which are the subject of the offering contemplated by this offering memorandum may not be made in that Member State, except that an offer to the public in that Member State of any notes may be made at any time under the following exemptions under the Prospectus Directive:

- (1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (2) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant dealer or dealers nominated by us for any such offer; or
- (3) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of notes shall result in a requirement for the publication by us, the initial purchasers or any representative of a prospectus pursuant to Article 3 of the Prospectus Directive.

Any person making or intending to make any offer of notes within the EEA should only do so in circumstances in which no obligation arises for us or the initial purchasers to produce a prospectus for such offer. Neither we nor the initial purchasers have authorized, nor do they authorize, the making of any offer of notes through any financial

intermediary, other than offers made by the initial purchasers which constitute the final offering of notes contemplated in this offering memorandum.

For the purposes of this provision, and your representation below, the expression an “offer to the public” in relation to any notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any notes to be offered so as to enable an investor to decide to purchase any notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in each Member State.

Each person in a Member State who receives any communication in respect of, or who acquires any notes under, the offer of notes contemplated by this offering memorandum will be deemed to have represented, warranted and agreed to and with us and the initial purchasers that:

(1) it is a “qualified investor” within the meaning of the law in that Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(2) in the case of any notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (a) the notes acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than “qualified investors” (as defined in the Prospectus Directive), or in circumstances in which the prior consent of the representatives has been given to the offer or resale; or (b) where notes have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those notes to it is not treated under the Prospectus Directive as having been made to such persons.

Notice to Prospective Investors in the United Kingdom

This communication is only being distributed to and is only directed at persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Order or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Each of the initial purchasers has:

(1) only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act of 2000 (the “FSMA”)) received by it in connection with the issue or sale of any notes which are the subject of the offering contemplated by this offering memorandum in circumstances in which Section 21(1) of the FSMA does not, or would not, apply to us; and

(2) complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any notes in, from or otherwise involving the United Kingdom.

Notice to Prospective Investors in Switzerland

This offering memorandum, as well as any other material relating to the notes which are the subject of the offering contemplated by this offering memorandum, do not constitute an issue prospectus pursuant to Article 652a of the Swiss Code of Obligations. The notes will not be listed on the SWX Swiss Exchange and, therefore, the documents relating to the notes, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of the SWX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SWX Swiss Exchange. The notes are being offered in Switzerland by way of a private placement, (i.e., to a small number of selected investors only, without any public offer and only to investors who do not purchase the notes with the intention to distribute them to the public). The investors will be individually approached by the initial purchasers from time to time. This document, as well as any other material relating to the notes, is personal and confidential and do not constitute an offer to any other person. This document may only be

used by those investors to whom it has been provided in connection with the offering described herein and may neither directly nor indirectly be distributed or made available to other persons without our express consent. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in (or from) Switzerland.

Notice to Prospective Investors in Hong Kong

The notes may not be offered or sold in Hong Kong by means of any document other than (i) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, The Laws of Hong Kong) and any rules made thereunder, or (ii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, The Laws of Hong Kong), or which do not constitute an offer to the public within the meaning of the Companies Ordinance, and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance and any rules made thereunder.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than under circumstances in which such offer, sale or invitation does not constitute an offer or sale, or invitation for subscription or purchase, of the notes to the public in Singapore.

Notice to Prospective Investors in Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the “FIEL”) and each initial purchaser has agreed that it has not offered or sold and will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to Prospective Investors in Chile

The offer of the notes will begin on November 12, 2017 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*) (“SVS”). The notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the notes are not subject to the supervision of the SVS. As with all unregistered securities, the issuer of the notes is not required to disclose public information about the notes in Chile. The notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los valores comienza el 12 de noviembre, 2017 y está acogida a la NCG 336 de la superintendencia de Valores y Seguros de Chile (la “SVS”). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.

Notice to Prospective Investors in Peru

This offering memorandum and the notes have not been, and will not be, registered with or approved by the Superintendencia del Mercado de Valores, the Lima Stock Exchange or the Superintendencia de Banca, Seguros y

Administradoras Privadas de Fondos de Pensiones. Accordingly, the notes cannot be offered or sold in Peru, except in compliance with the applicable securities laws and regulations of Peru. This notice is for information purposes only and it does not constitute a public offering of any kind in Peru.

TRANSFER RESTRICTIONS

The notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered hereby only (a) to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act), or QIBs, in compliance with Rule 144A under the Securities Act and (b) in offers and sales that occur outside the United States to persons other than U.S. persons (“non-U.S. purchasers,” which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust)), in offshore transactions meeting the requirements of Rule 903 of Regulation S. As used herein, the terms “offshore transactions,” “United States” and “U.S. person” have the respective meanings given to them in Regulation S.

Each purchaser of notes will be deemed to have represented and agreed with us and the initial purchasers as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A under the Securities Act or (b) a non-U.S. purchaser that is outside the United States (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above);
- (2) It understands that the notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the notes have not been and will not be registered under the Securities Act, and that the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except as set forth below;
- (3) It shall not resell or otherwise transfer any of such notes except:
 - to the Company or any of its subsidiaries;
 - pursuant to a registration statement which has been declared effective under the Securities Act;
 - within the United States to a QIB in compliance with Rule 144A under the Securities Act;
 - outside the United States to non-U.S. purchasers in offshore transactions meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act; or
 - pursuant to another available exemption from the registration requirements of the Securities Act;
- (4) It agrees that it will give notice of any restrictions on transfer of such notes to each person to whom it transfers the notes;
- (5) It understands that the certificates evidencing the notes (other than the Regulation S global notes) will bear a legend substantially to the following effect unless otherwise determined by us:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN “OFFSHORE TRANSACTION” PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE

INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE COMPANY OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2A(V) ABOVE, THE COMPANY RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THIS LEGEND SHALL ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

- (6) If it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering memorandum, it acknowledges and agrees that, until the expiration of the 40-day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a U.S. global note, and that each Regulation S global note will contain a legend to substantially the following effect:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE SECURITIES ACT, THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

- (7) It acknowledges that the foregoing restrictions apply to holders of beneficial interests in the notes, as well as holders of the notes;
- (8) It acknowledges that the Company will not be required to accept for registration of transfer any notes acquired by it, except upon presentation of evidence satisfactory to the Company that the restrictions set forth herein have been complied with; and
- (9) It acknowledges that the Company, the trustee, the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of the notes are no longer accurate, it shall promptly notify the Company, the trustee and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole

investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

ENFORCEMENT OF CIVIL LIABILITIES

We are a *sociedad anónima bursátil de capital variable* (variable capital public stock corporation) organized under the laws of Mexico. Most of our directors, executive officers and controlling persons named herein are non-residents of the United States and substantially all of the assets of such non-resident persons and substantially all of our assets are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or us or to enforce against them or us in courts of any jurisdiction outside Mexico, judgments predicated upon the laws of any such jurisdiction, including any judgment predicated substantially upon the civil liability provisions of United States federal and state securities laws. We have appointed CT Corporation System, located in New York, New York, as an agent to receive service of process with respect to any action brought against us in any federal or state court in the State of New York arising from this offering.

As of this date, no treaty exists between the United States and Mexico for the reciprocal enforcement of judgments issued in the other country. Generally, Mexican courts would enforce final judgments rendered in the United States if certain requirements were met, including the review in Mexico of the U.S. judgment to ascertain compliance with certain basic principles of due process and the non-violation of Mexican law or public policy, provided that U.S. courts would grant reciprocal treatment to Mexican judgments. Additionally, there is uncertainty as to the enforceability, in (i) original actions in Mexican courts, of liabilities predicated, in whole or in part, on U.S. federal securities laws; and (ii) as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated on the civil liability provisions of U.S. federal securities laws.

LEGAL MATTERS

The validity of the notes will be passed upon for us by Paul Hastings LLP, our United States counsel, and for the initial purchasers by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the initial purchasers. Certain matters of Mexican law relating to the notes will be passed upon for us by Jones Day Mexico S.C., our Mexican counsel, and Ritch, Mueller, Heather y Nicolau, S.C., Mexican counsel to the initial purchasers.

INDEPENDENT AUDITORS

The financial statements of Crédito Real, S.A.B. de C.V., SOFOM, E.R. as of December 31, 2014, 2015 and 2016 and for each of the years then ended included in this offering memorandum, have been audited by Galaz, Yamazaki, Ruiz Urquiza, S.C. (member of Deloitte Touche Tohmatsu Limited), independent auditors, as stated in their report dated February 28, 2017 appearing therein.

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**Crédito Real, S.A.B. de C.V.,
Sociedad Financiera de
Objeto Múltiple, Entidad
Regulada and Subsidiaries**

Consolidated Financial
Statements for the Years Ended
December 31, 2016, 2015 and
2014 and Independent Auditors'
Report Dated February 28, 2017

**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto
Múltiple, Entidad Regulada and Subsidiaries**
Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Ciudad de México, México

**Independent Auditors' Report and
Consolidated Financial Statements for 2016,
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Independent Auditors' Report to the Board of Directors and Stockholders of Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada and subsidiaries (the "Entity"), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, the consolidated statements of income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and a summary of the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements have been prepared, in all material respects, in accordance with the accounting criteria established by the National Banking and Securities Commission (the Commission), through the "General Provisions applicable to public bonded warehouses, exchange houses, credit unions and regulated multiple purpose financial institutions" (the Accounting Criteria).

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial consolidated Statements* section of our report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for professional Accountants* ("IESBA Code") and with the Ethics Code issued by the Mexican Institute of Public Accountants (*IMCP Code*), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

Valuation of Financial Derivatives (See Note 6 to the consolidated financial statements)

The valuation of the Entity's financial instruments was considered as a key audit area given the degree of complexity involved in the valuation of certain financial instruments and the significance of the judgments and estimates made by management.

In the Entity's accounting policies, management has described the principal sources of estimates involved in the determination of the valuation of financial derivatives and, in particular, when fair value is established through the use of a valuation technique due to the complexity of the instrument or the unavailability of market data. Our audit focused on the tests of the valuation adjustments, including those for inclusion of collateral.

Our audit procedures to address these significant matters included:

- We have tested the design and implementation, as well as the operating effectiveness of the key controls in the processes of identifying, measuring and supervising the valuation risk of financial derivatives of the Entity, including the controls over data sources, pricing validation and other inputs used in the valuation models.
- We have tested the design and operational efficiency of the controls over the approval of the models or changes in existing models.
- Our audit work also included an analysis of the variables used in the models. This work included the calculation of the valuation as of August 31 and December 31, 2016, of a sample of financial instruments using independent variables and, in certain cases, resulted in valuations different from those calculated by the Entity. In our opinion the differences were within reasonable ranges.
- We have tested as of December 31, 2016, the inputs to the valuation model and involved the Firm's internal specialists from our valuation area to review the results of the model.
- We validated as of December 31, 2016 their correct presentation and disclosure in the consolidated financial statements.

We did not detect any exceptions in our tests of controls and substantive tests

Allowance for loan losses (See Notes 3 and 8 to the consolidated financial statements)

The Entity establishes the allowance for loan losses of its loan portfolio based on the portfolio classification rules established in the Provisions issued by the Commission, which establish methodologies for the evaluation and creation of reserves by type of loan. However, when classifying the loan portfolio, the Entity considers the Probability of Default, Severity of Loss and Exposure to Default, while also classifying the aforementioned loan portfolio into different groups and establishing different variables for the estimate of the probability of default. The estimate has been considered a key audit matter due to the significance of the completeness and accuracy of the information used for the determination of the risk parameters and the updating of the risk parameters in the determination of the calculation.

Our audit procedures to address this key audit matter included:

- We have tested the design and operating effectiveness of the relevant controls with a focus on the review-type controls, for the classification of the commercial loan portfolio into different groups, as well as consumer loans and home loans and the review of the variables for the estimate of the probability of default for each type of loan.
- We have tested the design and operating effectiveness of the determination of the credit rating and/or score, determined based on the quantitative factors related to the financial information of the borrower, credit bureau information and qualitative factors related to their environment, behavior and performance.

- We tested a sample of loans as of August 31 and December 31, 2016, assessed the reasonableness of the criteria and considerations used for the calculation of the estimate based on an independent calculation exercise, compared the results against those determined by the Entity with the aim of assessing any indication of management error or bias, and identified that the results were within reasonable ranges.

The results of our audit procedures were reasonable.

Impairment of long-lived assets (See Notes 1 and 12 to the consolidated financial statements)

The Entity has identified the business segment of payroll loan products, for which the Entity conducts the annual impairment analysis as established in Bulletin C-15 of Mexican Financial Reporting Standards, in which the discounted future flows are calculated to determine whether the value of the assets has been impaired, according to future cash flows and based on current conditions and future forecasts

Furthermore, on February 22, 2016 the Entity entered into a share purchase and sale agreement in which it acquired 70% of the common stock of Marevalley Corporation, a Panamanian company which holds various entities in Costa Rica, Nicaragua and Panama operating under the name "Instacredit".

The acquisition was recognized in conformity with Financial Reporting Standard B-7 ("NIF B-7") "Business acquisitions", under which a business acquisition is defined as a transaction whereby an entity directly or indirectly acquires the net assets of one or more businesses and thus obtains control.

The acquisition of shares of Marevalley Corporation by the Entity is considered a business combination under the scope of NIF B-7, on the basis that immediately prior to the purchase of shares these entities were not under common control.

Given the significance of the goodwill balance, it is essential to ensure that the tests performed by management to assess the impairment of goodwill are appropriate under the relevant standards.

The determination that the book value of goodwill is recoverable requires management to make significant estimates about future cash flows, discount rates and growth rates, based on management's views as to the future outlook of the business.

The Entity concluded the analysis for the identification and measurement of the intangible assets as follows: Goodwill of \$30,980 (thousands of pesos) and intangible assets of \$1,052,749 (thousands of pesos). The identified assets have an indefinite useful life and will undergo impairment testing at least once a year.

Our audit procedures to address the risk in relation to impairment of long-lived assets included the following:

Tests of internal control and substantive tests, in order to:

- Obtain a general understanding of the transaction, the financial performance and environment of the Entity as an analysis of the business segments, referred to in accounting parlance as cash generating units ("CGU").
- Understand the methodologies applied by the Entity to determine the estimate of the value of the intangible assets.
- Perform a technical analysis of the calculations prepared for the estimated valuations and used in the impairment test, as well as the results obtained, including the following activities:
 - a) Ascertain that the models consider the application of methodologies which are generally accepted and valid under applicable regulations;
 - b) Check that the financial models were prepared in accordance with Bulletin C-15, mainly with regard to the projection assumptions;

- c) Estimate a discount rate based on the Average Cost of Capital methodology for GGU with the aim of making a comparison with the discount rate estimated by the Entity.
- d) Analyze the arithmetic accuracy of the models, particularly in relation to the calculation of cash flows and the discount of such cash flows;
- e) Ascertain the appropriate determination of the selected multiples of comparable public companies, and of the adjustment variables used by the Entity for their application to the information of the CGU;
- f) Examine the general consistency of the valuation assumptions prepared and used by the Entity;
- g) Conduct a general analysis of the supporting information available.

Furthermore, our procedures to address the risk of the acquisition values prepared by the Entity included the following procedures:

- a) Our specialists in fair value calculations assisted us in the independent assessment of the discounts rates used and the methodology used in the preparation of the method to determine the fair value of the assets acquired.
- b) We also performed tests to assess the completeness and accuracy of the valuation model.
- c) We also considered sensitivity tests of the impairment model for changes in the assumptions.

Furthermore, we considered the appropriateness of the disclosures in relation to its impairment tests and whether the disclosures on sensitivity and assessment of the possible variations in key assumptions adequately reflect the risks of such assumptions.

We concluded that the assumptions used by management, including the discount rate and the assessment of the determination of goodwill recorded in the year, are appropriate. Furthermore, the Entity has not recognized impairment as of December 31, 2016 that required adjustments to the values of its long-lived assets.

Other Information Included in the Document Containing the Consolidated Audited Financial Statements

Management is responsible for the other information. The other information will include the consolidated financial information which will be included in the Annual Report that the Entity is required to prepare in accordance with Article 33, section I, subsection b) of Title Four, First Chapter of the *General Provisions Applicable to Issuers and Other Stock Market Participants in Mexico* (the Annual Report) and the instructions accompanying such provisions (the Provisions applicable to Issuers). The Annual Report is expected to be available after the date of this audit report.

Our opinion on the consolidated financial statements will not cover the other information and we will not express any form of assurance thereon.

In relation to our audit of the consolidated financial statements, our responsibility will be to read the Annual Report, when it is available, and when we do so, to consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or appears to contain a material misstatement. When we read the Annual Report, we will issue the representations on the reading of the annual report, as required in Article 33, section I, subsection b) number 1.2 of the Provisions applicable to Issuers.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements in accordance with the Accounting Criteria, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

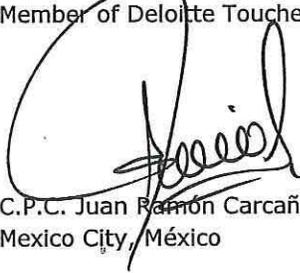
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

We communicate with those charged with governance of the Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance of the Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance of the Entity, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

Galaz, Yamazaki, Ruiz Urquiza, S.C.
Member of Deloitte Touche Tohmatsu Limited



C.P.C. Juan Ramón Carcaño López
Mexico City, México

February 28, 2017

**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple,
Entidad Regulada and Subsidiaries**
Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

Consolidated Balance Sheets

As of December 31, 2016, 2015 and January 1, 2015
(In thousands of Mexican pesos)

Assets	2016	2015	January 1, 2015
Cash and cash equivalents	\$ 315,774	\$ 120,840	\$ 53,778
Investment in securities:			
Trading securities	<u>992,675</u>	<u>543,266</u>	<u>1,251,201</u>
	992,675	543,266	1,251,201
Derivatives:			
Trading proposes	286,792	197,184	30,049
Hedging proposes	<u>2,180,134</u>	<u>1,915,634</u>	<u>920,209</u>
	2,466,926	2,112,818	950,258
Performing loan portfolio:			
Commercial loans:			
Commercial or business activity	16,656,043	15,706,653	13,544,267
Consumer loans	<u>6,753,971</u>	<u>1,486,897</u>	-
Total performing loan portfolio	23,410,014	17,193,550	13,544,267
Non-Performing loan portfolio:			
Commercial loans:			
Commercial or business activity	323,793	393,849	260,638
Consumer loans	<u>193,215</u>	<u>22,240</u>	-
Total non-performing loan portfolio	517,008	416,089	260,638
Loan portfolio	23,927,022	17,609,639	13,804,905
Less – Allowance for loan losses	<u>(767,460)</u>	<u>(485,506)</u>	<u>(420,131)</u>
Loan portfolio, net	23,159,562	17,124,133	13,384,774
Other accounts receivable, net	3,577,298	2,258,895	1,156,180
Foreclosed assets, net	28,004	-	-
Property furniture and fixtures, net	262,126	149,115	85,482
Long-term investment in shares	1,057,821	835,624	859,009
Other assets, (net)			
Deferred charges, advance payments and intangibles	3,849,668	2,599,489	2,174,801
Other short and long-term assets	<u>205,502</u>	<u>251,317</u>	-
	4,055,170	2,850,806	2,174,801
Total assets	\$ 35,915,356	\$ 25,995,497	\$ 19,915,483

Liabilities	2016	2015	January 1, 2015
Notes Payable (Securitized Certificates)	\$ 2,759,170	\$ 3,610,368	\$ 2,571,872
Senior Notes Payable	<u>14,129,273</u>	<u>7,334,554</u>	<u>6,560,995</u>
	16,888,443	10,944,922	9,132,867
Bank loans:			
Short-term loans	5,051,718	3,490,484	1,120,286
Long-term loans	<u>2,648,335</u>	<u>3,008,447</u>	<u>3,140,759</u>
	7,700,053	6,498,931	4,261,045
Other accounts payable			
Income taxes payable	236,252	88,312	51,946
Employee profit sharing payable	18,427	12,183	185
Accrued liabilities and other accounts payable	<u>448,921</u>	<u>642,098</u>	<u>346,111</u>
	703,600	742,593	398,242
Deferred taxes, net	<u>1,345,913</u>	<u>1,096,506</u>	<u>766,123</u>
Total liabilities	26,638,009	19,282,952	14,558,277

Stockholders' Equity

Paid in Capital:			
Capital stock	660,154	660,154	660,154
Share subscription premium	<u>1,450,269</u>	<u>1,447,985</u>	<u>1,474,814</u>
	2,110,423	2,108,139	2,134,968
Earned Capital:			
Legal reserve	132,030	132,030	126,136
Retained earnings	4,244,142	2,901,503	1,851,225
Result from valuation of cash flow hedges, net	229,447	89,270	5,596
Cumulative translation adjustment	167,623	2,754	-
Re-measurements of employee defined benefits	2,459	1,650	-
Net income attributable to controlling interest	1,714,001	1,371,358	1,224,801
Non-controlling interest	<u>677,222</u>	<u>105,841</u>	<u>14,480</u>
	7,166,924	4,604,406	3,222,238
Total stockholders' equity	9,277,347	6,712,545	5,357,206
Total liabilities and stockholder equity	\$ 35,915,356	\$ 25,995,497	\$ 19,915,483

Memorandum accounts (Note 22)

	2016	2015	January 1, 2015
Credit Commitments	\$ 452,071	\$ 1,096,563	\$ 481,429
Uncollected interest earned on non-performing portfolio	<u>505,852</u>	<u>313,547</u>	<u>188,158</u>

“The historical balance of capital stock as of December 31, 2016, 2015, and 2014 is \$657,238, for each year”.

See accompanying notes to consolidated financial statements.

**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple,
Entidad Regulada and Subsidiaries**

Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

Consolidated Statements of Income

For the years ended December 31, 2016, 2015 and 2014

(In thousands of Mexican pesos)

	2016	2015	2014
Interest income	\$ 6,958,201	\$ 4,264,239	\$ 3,327,074
Interest expense	<u>(1,916,396)</u>	<u>(952,291)</u>	<u>(882,257)</u>
Financial Margin	5,041,805	3,311,948	2,444,817
Provisions for loan losses	<u>(831,593)</u>	<u>(345,628)</u>	<u>(264,526)</u>
Financial margin after provision for loan losses	4,210,212	2,966,320	2,180,291
Commissions and fees income	539,596	-	-
Commissions and fees paid	(283,383)	(142,193)	(98,966)
Intermediation income	375,786	-	-
Other operating income	267,251	36,241	23,684
Administrative and marketing expense	<u>(2,921,990)</u>	<u>(1,138,065)</u>	<u>(629,573)</u>
Operating result	2,187,472	1,722,303	1,475,436
Equity in income of associates	<u>136,096</u>	<u>69,153</u>	<u>98,605</u>
Income before income taxes	2,323,568	1,791,456	1,574,041
Current income taxes	(234,046)	(85,927)	(20,063)
Deferred income taxes	<u>(270,356)</u>	<u>(335,659)</u>	<u>(314,697)</u>
	<u>(504,402)</u>	<u>(421,586)</u>	<u>(334,760)</u>
Net income	1,819,166	1,369,870	1,239,281
Non-controlling interest	<u>(105,165)</u>	<u>1,488</u>	<u>(14,480)</u>
Net income attributable to controlling interest	<u>\$ 1,714,001</u>	<u>\$ 1,371,358</u>	<u>\$ 1,224,801</u>
Earnings per share	<u>\$ 4.37</u>	<u>\$ 3.50</u>	<u>\$ 3.12</u>
Weighted average shares outstanding	<u>392,219,424</u>	<u>392,219,424</u>	<u>392,219,424</u>

See accompanying notes to consolidated financial statements.

**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple,
Entidad Regulada and Subsidiaries**
Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2016, 2015 and 2014
(In thousands of Mexican pesos)

	Paid in Capital			Earned Capital				Net income attributable to controlling interest	Non-controlling interest	Total stockholders' equity
	Capital stock	Share subscription premium	Legal reserve	Retained earnings	Results from valuation of cash flow hedges	Cumulative translation effect	Re-measurements of employee defined benefits			
Balances as of December 31, 2013	\$ 630,677	\$ 1,385,482	\$ 110,870	\$ 1,215,266	\$ 7,014	\$ -	\$ -	\$ 1,003,609	\$ -	\$ 4,352,918
Changes arising from stockholder decisions-										
Transfer of prior year results	-	-	-	988,343	-	-	-	(1,003,609)	-	(15,266)
Constitution of reserves	-	-	15,266	-	-	-	-	-	-	15,266
Repurchase of own shares	-	57,410	-	10,125	-	-	-	-	-	67,535
Effect of merger with Desarrollo 51, S.A. de C.V.	29,477	31,922	-	-	-	-	-	-	-	61,399
Dividend payments	-	-	-	(168,654)	-	-	-	-	-	(168,654)
Allowance for loan losses of commercial portfolio by change in classification methodology	-	-	-	(193,855)	-	-	-	-	-	(193,855)
Total entries approved by stockholders	29,477	89,332	15,266	635,959	-	-	-	(1,003,609)	-	(233,575)
Changes affecting comprehensive income-										
Result from valuation of cash flow hedging instruments	-	-	-	-	(1,418)	-	-	-	-	(1,418)
Net income	-	-	-	-	-	-	-	1,224,801	14,480	1,239,281
Total comprehensive income	-	-	-	-	(1,418)	-	-	1,224,801	14,480	1,237,863
Balances as of December 31, 2014	660,154	1,474,814	126,136	1,851,225	5,596	-	-	1,224,801	14,480	5,357,206
Re-measurements for employee defined benefits	-	-	-	-	-	-	(2,796)	-	-	(2,796)
Balances as of December 31, 2014 (restated)	660,154	1,474,814	126,136	1,851,225	5,596	-	(2,796)	1,224,801	14,480	5,354,410
Changes arising from stockholder decisions-										
Transfer of prior year results	-	-	-	1,218,907	-	-	-	(1,224,801)	-	(5,894)
Constitution of reserves	-	-	5,894	-	-	-	-	-	-	5,894
Repurchase of own shares	-	(26,829)	-	(10,092)	-	-	-	-	-	(36,921)
Dividend payments	-	-	-	(156,887)	-	-	-	-	-	(156,887)
Total entries approved by stockholders	-	(26,829)	5,894	1,051,928	-	-	-	(1,224,801)	-	(193,808)
Changes affecting comprehensive income-										
Result from consolidation of minority interest companies	-	-	-	-	-	-	-	-	90,865	90,865
Result from valuation of cash flow hedging instruments	-	-	-	-	83,674	-	-	-	-	83,674
Cumulative translation effect	-	-	-	-	-	2,754	-	-	1,984	4,738
Re-measurements of employee defined benefits	-	-	-	1,155	-	-	1,641	-	-	2,796
Net income	-	-	-	-	-	-	-	1,371,358	(1,488)	1,369,870
Total comprehensive income	-	-	-	1,155	83,674	2,754	1,641	1,371,358	91,361	1,551,943
Balances as of December 31, 2015	660,154	1,447,985	132,030	2,904,308	89,270	2,754	(1,155)	1,371,358	105,841	6,712,545
Changes arising from stockholder decisions-										
Transfer of prior year results	-	-	-	1,369,636	-	-	-	(1,371,358)	-	(1,722)
Constitution of reserves	-	-	-	-	-	-	-	-	-	-
Repurchase of own shares	-	2,284	-	(27,910)	-	-	-	-	-	(25,626)
Dividend payments	-	2,284	-	1,341,726	-	-	-	(1,371,358)	-	(27,348)
Total entries approved by stockholders	-	2,284	-	1,341,726	-	-	-	(1,371,358)	-	(27,348)
Changes affecting comprehensive income-										
Result from consolidation of minority interest companies	-	-	-	-	-	-	-	-	485,312	485,312
Result from valuation of cash flow hedging instruments	-	-	-	-	140,177	-	-	-	-	140,177
Cumulative translation effect	-	-	-	-	-	164,869	-	-	(19,096)	145,773
Re-measurements of employee defined benefits	-	-	-	(1,892)	-	-	3,614	-	-	1,722
Net income	-	-	-	-	-	-	-	1,714,001	105,165	1,819,166
Total comprehensive income	-	-	-	(1,892)	140,177	164,869	3,614	1,714,001	571,381	2,592,150
Balances as of December 31, 2016	\$ 660,154	\$ 1,450,269	\$ 132,030	\$ 4,244,142	\$ 229,447	\$ 167,623	\$ 2,459	\$ 1,714,001	\$ 677,222	\$ 9,277,347

See accompanying notes to consolidated financial statements.

**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple,
Entidad Regulada and Subsidiaries**

Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

Consolidated Statements of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

(In thousands of Mexican Pesos)

	2016	2015	2014
Net income	\$ 1,819,166	\$ 1,369,870	\$ 1,239,281
Adjustments for items that do not result in cash flows:			
Depreciation of furniture and fixtures	117,098	36,096	11,922
Amortization of intangibles assets	42,727	11,420	1,813
Provisions	63,834	(12,248)	66,702
Deferred income taxes	504,402	421,586	334,760
Equity in income of associate companies	<u>(136,096)</u>	<u>(72,525)</u>	<u>(98,605)</u>
	2,411,131	1,754,199	1,555,873
Operating Activities			
Change in investment in securities	(449,409)	707,935	(605,022)
Change in derivatives (asset)	(354,108)	(1,162,560)	(721,582)
Change in loan portfolio (net)	(6,035,429)	(3,739,359)	(3,358,372)
Change in other accounts receivables (net)	(1,318,400)	(1,102,715)	(188,217)
Change in foreclosed assets (net)	(28,004)	-	-
Change in other assets	(110,699)	(680,040)	(242,603)
Change in senior notes and notes payable	5,943,521	1,812,055	3,261,561
Change in bank loans	1,201,123	2,237,886	180,160
Change in other accounts payable	<u>(357,825)</u>	<u>265,396</u>	<u>34,732</u>
Net cash flows from operating activities	(1,509,230)	(1,661,402)	(1,639,343)
Investing activities:			
Net cash and marketable securities (delivered) acquired in connection with business acquisition	(1,136,393)	-	100,751
Acquisitions of property and equipment	(230,109)	(107,114)	(76,307)
Dividends received in cash	96,672	51,944	127,033
Decrease (increase) in investments in shares	<u>283,443</u>	<u>136,815</u>	<u>(101,424)</u>
Net cash flows from investing activities	<u>(986,387)</u>	<u>81,645</u>	<u>50,053</u>
Financing activities:			
Cash flow generated from hedging instruments	140,177	83,674	-
Unpaid dividends declared	-	(156,887)	-
Dividends paid in cash	-	-	(85,000)
Share subscriptions premium	2,284	(26,829)	5,678
Repurchase of own shares	(27,910)	(10,092)	10,125
Other	<u>-</u>	<u>-</u>	<u>29,477</u>
Net cash flows from financing activities	<u>114,551</u>	<u>(110,134)</u>	<u>(39,720)</u>
Net increase (decrease) in cash and cash equivalents	30,065	64,308	(73,137)
Effect for change in the value of cash and equivalents	164,869	2,754	-
Cash and cash equivalents at beginning of year	<u>120,840</u>	<u>53,778</u>	<u>126,915</u>
Cash and cash equivalents at end of year	<u>\$ 315,774</u>	<u>\$ 120,840</u>	<u>\$ 53,778</u>

See accompanying notes to consolidated financial statements.

Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada and Subsidiaries

Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

Notes to Consolidated Financial Statements

For the years ended December 31, 2016, 2015 and 2014

(In thousands of Mexican pesos)

1. Activities, regulatory environment and significant events

Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada and Subsidiaries (the “Entity” or “Crédito Real”), is a non- banking institution in Mexico, focused on consumer lending which has diversified business platform integrated mainly by six business lines: (i) payroll lending, (ii) durable goods loans, (iii) small and medium business loans, (iv) group loans, and (v) used car loans and (vi) Instacredit (Central America), where the loans offered include personal loans, automobile loans, loans for small and medium businesses (PYMES) and others. Loans paid via the payroll are offered to unionized government employees through a national network of 12 distributors with which credit granting agreements have been executed. Crédito Real has executed exclusivity agreements with three of the main distributors and also holds a significant amount of their common stock. The origination of consumer loans ceased as of June 2016, and only internal collection activities for the performing portfolio are being carried out. Loans are granted to small and medium businesses to cover the working capital requirements and investment activities of micro, small and medium enterprises; these resources are provided through a specialized broker or under the Entity’s own trademark. Group loans are mainly offered to groups of women with a productive activity by using the joint credit methodology; these loans are granted by two associate entities with a network of 1,334 promoters and 162 branches. Used car loans are granted to acquire preowned automobiles through agreements with 18 car dealers specialized in the purchase-sale of automobiles and a subsidiary with a network of 45 branches that offers financing by receiving automobiles and commercial vehicles as collateral; and finally through two entities which focus mainly on the Hispanic-American market with limited credit history in the United States of America (“EUA”): Don Carro, with five branches in Texas, and AFS Acceptance, which has around 400 distributors in 40 US states. The Entity has a presence in Costa Rica, Nicaragua and Panama with the brand Instacredit, through a network of 69 branches and more than 420 promoters. Instacredit is a recognized brand in Central America, with more than 15 years’ experience, and has a multiproduct platform offering loans in the segments of personal loans, automobile loans, PYMES and home improvements.

Article 87-D of the General Law on Credit Organizations and Ancillary Activities (“LGOAAC”) establishes that multiple purpose financing companies that issue securities listed on the National Securities Registry pursuant to the Securities Law must prepare consolidated financial statements according to the accounting criteria set forth in the General Provisions applicable to public bonded warehouses, exchange houses, credit unions and regulated multiple purpose financial institutions (the “Provisions”) established by the National Banking and Securities Commission (the “Commission”).

As the Entity is a regulated multiple purpose financial institution, it is obligated to prepare its consolidated financial statements in accordance with the accounting criteria established by the Commission as set forth in the Provisions.

Payroll loans

The Entity purchases loans with payment via payroll from distributors which offer credit products to the unionized workers of government agencies. These loans are also offered at times to pensioners or retired persons from the public sector. These loans are granted by distributors with which the Entity operates, and are then acquired by the Entity through financial factoring contracts in portfolio purchase transactions.

The payroll loans are settled through semimonthly installments which are made by the borrowers' employers, which consist of government agencies and other entities, in accordance with loan agreements signed by the borrower. Based on such loan agreements, a borrower authorizes the employer to use amounts deducted from the payroll for the fixed installment payments of the loan during its effective term. The risk of nonperformance decreases substantially over the term of the typical loan. The maximum limit established by government agencies in terms of the percentage of a worker's net salary that can be applied to settle a loan is 30%. The Entity offers certain customers the option of renewing their loans before they expire. However, the Entity does not preauthorize loans under any circumstances.

The relationships that have been established by the distributors, directly and through service providers such as public relations agencies, with the entities and unions that they use or affiliate workers of the federal government agencies and state agencies in different parts of the country, have been formalized through the execution of cooperation agreements, which enable the distributors to offer payroll loans to the affiliated workers of such unions and establish that the government agencies and entities execute the instruction received from the borrowers for the installments of principal and interest on the loans.

In accordance with the cooperation agreements, the government agencies and entities or unions process and grant the "discount codes" so that such agencies or entities can pay the loans by payroll directly (on behalf of the borrowers). Apart from making the payroll deductions and rendering payments directly to the collection trust in which the Entity is the beneficiary, the employers compile periodic reports to the distributors regarding the payroll deductions made on behalf of borrowers. The Distributors are responsible for coordinating with the different agencies and entities, so that the respective computer systems are accurate, and the payments are issued on a timely fashion. The employers do not intervene in any way in the negotiation, credit approval process or in the negotiations of the terms of the loan contract executed by the distributors with the affiliated workers.

The Entity estimates that the cost of procurement and maintenance of the aforementioned cooperation agreements ranges between 3% and 5% of the revenues generated by the payroll loan portfolio. Such cost is fully covered by the distributors.

The Entity's business model enables both the Entity and its distributors to make the most of their respective competitive advantages. While the Entity concentrates on administrating the credit risk, minimizing financial costs and maintaining diversified financing sources, the Distributors concentrate on increasing the number of possible customers through the execution of contracts with additional government agencies and entities or unions or renewing existing contracts, and on promoting the Entity's products among the affiliated workers of such agencies.

PYMES loans

The Entity has a partnership with Fondo H, S.A. de C.V. SOFOM, ENR ("Fondo H"), a company engaged in making short and medium-term loans to small and medium businesses (PYMES) in Mexico. Its customer base includes businesses from the manufacturing, distribution and services sectors. Based on this partnership, financing is provided exclusively for loans originated by Fondo H.

Used car loans

Used car loans in Mexico are originated through contracts with car companies that sell used cars. Currently 18 partnerships have been executed with distributors in more than 150 points of sale. Additionally, the Entity has a 51% holding in a company which operates under the brand "Drive & Cash", which is engaged in offering financing through the warranty of automobiles and commercial vehicles. As of December 31, 2016, the distribution network of Drive & Cash is composed of 45 branches located in 20 States Nationwide.

The Entity also offers loans for used cars in the US through a subsidiary and/or distributor in which it has a majority stake that operates under the brand "Don Carro" with five branches in Texas. It also has a majority stake in a credit operator for used cars doing business as "AFS Acceptance". Such operator has a service platform which enables it to operate in 45 states throughout the US, and also operating agreements in place with more than 400 distributors in that country.

Consumer loans

The Entity ceased offering consumer loans as of June 30, 2016, and dedicates resources exclusively to the collection of performing portfolio until completed.

Group loans

Group loans are originated through two specialized operators which have 1,334 promoters in a network comprising 162 branches. The promoters are familiar with the specific needs of micro-entrepreneurs and the self-employed.

The aforementioned group credit loans refer to non-revolving consumer loan portfolio, with a weekly or half-monthly payment period, granted to groups of persons in which each member is held jointly and severally liable for the total payment of the loan, although the classification of such loan is made individually for each member of the group.

Significant events 2016 -

- a) On August 4, 2016, Crédito Real reported that the short-term securitized certificates with ticker symbol CREAL 00715, in the amount of \$200,000,000 (two hundred million Mexican pesos), issued on September 3, 2015, were fully redeemed under the respective terms for the principal and interest. It also reported that the short-term securitized certificates with ticker symbol CREAL 00615, in the amount of \$100,000,000 (one hundred million Mexican pesos), issued on August 27, 2015, were fully redeemed on July 28, 2016.
- b) On July 20, 2016, Crédito Real announced the issue of Senior Notes for US \$625,000,000 (six hundred twenty-five million US dollars) under Rule 144A of the 1933 US Securities Act (“Securities Act”) and Regulation S, with maturity in 2023.

The Senior Notes have a semiannual coupon of 7.250% at a price of US \$99.326 and can be paid on or after the fourth anniversary of the settlement date. The Senior Notes received a global rating of “BB+” from Fitch Ratings and Standard & Poor’s.

- c) On February 22, 2016, Crédito Real entered into a sale purchase and share agreement whereby it acquired 70% of the common stock of Marevalley Corporation, a nationalized Panamanian company (“Marevalley Corporation”), for the amount of US \$70,000,000 (seventy million US dollars). The remaining 30% of the shares belong to Fundación Miriel.

Marevalley Corporation is the owner of various entities in Costa Rica, Nicaragua and Panama which operate under the name “Instacredit”. Instacredit is a group of financial institutions that offer loan products for medium and low income segments, which are poorly served by traditional banking institutions.

The acquisition was recognized in conformity with Financial Reporting Standard B-7 (“NIF B-7”) “Business acquisitions”, in which a business acquisition is defined as a transaction whereby an entity directly or indirectly acquires the net assets of one or more businesses and thus obtains control.

The acquisition of shares of Marevalley Corporation by the Entity is considered a business combination under the scope of NIF B-7, on the basis that immediately prior to the purchase of shares these entities were not under common control.

Accordingly, based on the analysis performed by management, we identified the following fair values of assets and liabilities acquired:

	Amount
<i>Balance sheet</i>	
Acquisition consideration paid	\$ 1,263,976
Amounts recognized for identifiable assets and liabilities assumed at December 31, 2016 (unaudited)	
<i>Current Assets:</i>	
Cash and cash equivalents	\$ 122,336
Sundry debtors	1,123
Loan portfolio	2,354,585
Transportation equipment, furniture and equipment	102,602
Other assets	300,345
<i>Intangible Assets::</i>	
Brand	<u>1,052,750</u>
Total identifiable assets	<u>3,933,741</u>
Short-term liabilities	(104,652)
Long-term liabilities	<u>(2,067,667)</u>
Total liabilities assumed	<u>(2,172,319)</u>
Non-controlling interest	<u>(528,427)</u>
Net assets acquired	<u>\$ 1,232,995</u>
Goodwill	<u>\$ 30,981</u>

Results recognized for the period from January 1, to December 31, 2016 (unaudited):

	Amount
<i>Statement of income</i>	
Total revenues	\$ 1,634,166
Total costs	(246,255)
Provisions for loan losses	<u>(326,648)</u>
Financial margin after provision for loan losses	1,061,263
Administrative and marketing expense	(927,518)
Other operating income	<u>259,506</u>
Net income	<u>\$ 189,940</u>

The identified intangible assets refer to the brand “Instacredit”, which operates in Costa Rica, Nicaragua and Panama.

Accounting effects of the acquisition of Marevalley:

At the close of the year 2016, the Entity concluded the analysis of identification and recognition of intangible assets over the course of the 12 months after the acquisition, in conformity with NIF B-7, and did not identify any intangibles additional to those indicated in the preceding paragraph.

During the period from the acquisition date up to December 31, 2016, Instacredit has contributed interest income of \$1,634,167 and net income of \$189,940, consolidated amounts which are reported in the statement of income. The combined interest income and net income for the year 2016, for pro forma acquisition purposes at the acquisition if they had been realized as of January 1, 2016, are \$550,402 and \$117,616, respectively.

- d) A share purchase and sale agreement signed on February 21, 2016 approved the subscription and payment of 7,714 Series A common stock shares of Marevalley Corporation by Crholdingint, S.A de C.V. (“Crholdingint”).
- e) Crédito Real Honduras S.A. de C.V. (“Crédito Real Honduras”), a 99.9% subsidiary of Crholdingint, which is in turn a 99.9% subsidiary of Crédito Real, was incorporated on November 24, 2016 in Tegucigalpa, Honduras with the subscription and payment of capital of \$338,960, equivalent to 4,150,248 shares.

Crédito Real Honduras is a company engaged in making loans through financial factoring and has a commercial partnership with CA Capital, S.A. de C.V (“CA Capital”).

Significant events 2015 –

- f) Pursuant to documentation prepared on June 1, 2015, the subscription and payment of 1,000 no Series, no Class common stock shares of Crédito Real USA, Inc., (“CR USA”) was approved, representing 100% of CR USA’s common stock, thereby becoming the Entity’s subsidiary. CR USA was established in the state of Delaware, USA.
- g) Pursuant to a Share Purchase Agreement executed on October 20, 2015, CR USA approved the subscription of 65,000 no Series, no Class common stock shares of AFS Acceptance, LLC, (AFS), which represents 65% of its common stock, and it is therefore considered a subsidiary of CR USA.
- h) Pursuant to deed No 15,210 executed on November 6, 2015, the subscription and payment of 999 Series A shares of the common stock of Controladora CR México, S.A. de C.V., (“Controladora CR”) was approved, which represents 99.9% of Controladora CR’s outstanding shares, thereby becoming the Entity’s subsidiary.
 - I. In the Extraordinary General Meeting held on December 13, 2015 the subscription and payment of 120,188 Series C, Class C common stock shares of CAT 60, S.A.P.I. de C.V. (“Resuelve tu Deuda”) was approved, which represents 55.21% of that company’s outstanding shares, thereby becoming a subsidiary of Controladora CR.
 - II. Additionally, at the Stockholders’ Extraordinary Meeting held on December 14, 2015, the subscription and payment of 38,886 Class A common stock shares of Servicios Adquiridos, S.A. de C.V. (“Servicios Adquiridos”) was approved, which represents 77.72% of that company’s outstanding shares, thereby becoming a subsidiary of Controladora CR.
 - III. Finally, at the Stockholders’ Extraordinary Meeting held on December 2, 2015, the subscription and payment of 1,465,169 Series “IP”, Class “C” common stock shares of Confianza Digital, S.A.P.I. de C.V., SOFOM, E.N.R. (“Credilikeme”) was approved, which represents 23.86% of its outstanding shares, thereby becoming an associate of Controladora CR.

As a result of the aforementioned transactions, the Entity's management has analyzed the fair values of the assets and liabilities acquired in this transaction, which generated goodwill of \$353,587, as discussed in Note 12.

Significant Events 2014 -

- i) Among other matters, during the Ordinary and Extraordinary General Meeting held on April 28, 2014, the Entity's stockholders resolved to approve the amendment of Article 1 of the Entity's corporate bylaws to establish its compliance with the regime applicable to regulated multiple purpose financing companies according to the fourth and fifth paragraphs of article 87-B of the LGOAAC. Accordingly, as of this date, the Entity's corporate denomination is Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada.
- j) Pursuant to a Share Purchase and Sale Agreement executed on September 19, 2014, the Entity subscribed and paid 800 no Series, no Class common stock shares of Creal Dallas, LLC (Creal Dallas), which represents 80% of its common stock, thereby becoming a subsidiary of Crédito Real. Such company was incorporated in the state of Delaware, USA.

Pursuant to a Share Purchase and Sale Agreement executed on September 19, 2014, the Entity subscribed and paid 800 no Series no Class common stock shares of CR MPM, LLC (Don Carro), which represents 80% of its common stock, thereby becoming a subsidiary of Creal Dallas. Such company was incorporated in the state of Delaware, USA.

- k) In accordance with resolutions approved during the Stockholders' Extraordinary General Meeting of October 31, 2014, Crédito Real acquired Directodo México, S.A.P.I. de C.V. ("Directodo") as a result of the merger with Desarrollo 51, S.A. de C.V. The merger took effect as of November 1, 2015, whereby the Entity remained as the absorbing Entity. At this meeting, the Entity increased its variable capital by \$29,477 through the delivery of 18,677,115 ordinary, nominative treasury Single Series Class II shares. The transaction amount was paid by exchanging shares issued by the Entity for the shares of Desarrollo 51, S.A. de C.V., which ceased to exist as a legal Entity following the merger. As of November 1, 2014, Directodo consolidates its financial statements with those of Crédito Real.

As a result of the above, Crédito Real obtained full control of Desarrollo 51, SA de CV as of October 31, 2014.

In relation to the analysis performed by management, the following assets and liabilities were identified and measured at fair value:

	Amount
Balance Sheets	
Acquisition consideration paid	\$ 1,401,495
Amounts recognized for identifiable assets and liabilities assumed at October 31, 2014 (unaudited)	
<i>Current Assets:</i>	
Cash and cash equivalents	\$ 100,751
Sundry debtors	518,006
Notes receivable and other receivables	6,993
Transportation equipment, furniture and equipment	6,008
Other assets	32,100

<i>Intangible Assets:</i>	
Brand	88,248
Software	4,931
Agreements with institutions	<u>1,161,834</u>
Total identifiable assets	<u>1,918,871</u>
Short-term liabilities	(538,277)
Long-term liabilities	<u>(13,896)</u>
Total liabilities assumed	<u>(552,173)</u>
Net assets acquired	<u>\$ 1,366,698</u>
Goodwill	<u>\$ 34,797</u>

Results recognized for the period from January 1, to October 31 2014 (unaudited):

	Amount
<i>Statement of Income</i>	
Total revenues	\$ 16,610
Total costs	<u>(19,477)</u>
Gross Loss	(2,867)
Interest receivable from factoring operations	362,039
Operating expenses	(255,914)
Participation in results of subsidiary	<u>(200)</u>
Income before tax	103,058
Income tax	<u>(26,441)</u>
Net income	<u>\$ 76,617</u>

Identified intangible assets are related to the trademark, software and agreements with government institutions for placing loans.

Accounting effects of the acquisition of Directodo:

At the year-end 2015, the Entity completed its analysis, identification and recognition of intangible assets over the 12 month period following the acquisition in conformity with NIF B-7, and did not identify any intangibles in addition to those indicated in the preceding paragraph.

During the period from the date of acquisition until December 31, 2014, Directodo has contributed interest income of \$129,849 and a net profit of \$34,260; these consolidated amounts are reported in the statement of income. The combined interest income and net income for 2015, giving pro forma effect to the acquisition as though it had taken place on January 1, 2015, are \$550,402 and \$117,616, respectively.

- l) In the Stockholders' Ordinary General Meeting on March 3, 2014, the subscription and payment of 2,550,000 Series "C" shares of the common stock of CR Fact, S.A.P.I. de C.V. ("CR-Fact") was approved. Such acquired shares represent 51% of the outstanding shares of CR-Fact, which became a subsidiary of the Entity.
- m) A Stockholders' Ordinary General Meeting held on March 31, 2014 approved the subscription and payment of 245,000 Class I, Series B ordinary, no par value common stock shares of Cege Capital, S.A.P.I. de C.V., SOFOM ENR., ("Cege"), which represent 37.98% of its shares outstanding, in which the Entity has a participation.

- n) Through unanimous resolutions adopted at a stockholders' meeting held on January 14, 2014, the Entity subscribed and paid 29,862 Class II ordinary, no par value common stock shares of Bluestream Capital, S.A. de C.V. ("Bluestream"), representing 23% of its shares outstanding, in which the Entity has a participation.

2. Basis of presentation

Explanation for translation into English - The accompanying consolidated financial statements has been translated from Spanish into English for use outside of Mexico. These consolidated financial statements are presented under the accounting rules issued by the Commission. Certain accounting practices applied by the Entity that are in conformity with the accounting rules issued by the Commission may not conform with accounting principles generally accepted in the country of use.

Monetary unit of the consolidated financial statements - The consolidated financial statements and notes as of December 31, 2016, 2015 and 2014 and for the years then ended include balances and transactions denominated in Mexican pesos of different purchasing power. Cumulative inflation rates over the three-year periods ended December 31, 2016, 2015 and 2014 were 10.52%, 12.08% and 11.80% in each period. Accordingly, the economic environment is not inflationary in either such period and no inflationary effects were recognized in the accompanying consolidated financial statements. Inflation rates for the years ended December 31, 2016, 2015 and 2014 were 3.36%, 2.13% and 4.08%, respectively.

As of January 1, 2008, the Entity's suspended the recognition of the effects of inflation in the consolidated financial statements; however, nonmonetary assets and liabilities and stockholders' equity include the effects of re-expression recognized up to December 31, 2007.

Comprehensive income- Is composed of the net result for the year plus other items that represent a gain or loss for the same period which, in conformity with the accounting practices followed by the Entity, are presented directly in stockholders' equity. As of December 31, 2016, 2015 and 2014, comprehensive income and loss is represented by the net result, the result from valuation of cash flow hedge instruments and the actuarial losses from defined benefit plans.

Consolidation of financial statements – The consolidated financial statements include the financial statements of Crédito Real and those of its subsidiaries over which it exercises control. Crédito Real's shareholding in its subsidiaries is shown below:

Subsidiaries	Shareholding percentage		
	2016	2015	2014
Servicios Corporativos Chapultepec, S.A. de C.V.	99.99%	99.99%	99.99%
Directodo México, S.A.P.I. de C.V.	99.99%	99.99%	99.99%
CR-Fact, S.A.P.I. de C.V.	51.00%	51.00%	51.00%
Controladora CR México, S.A. de C.V.	99.97%	99.90%	-
Crédito Real USA, Inc	100.00%	100.00%	-
Creal Dallas, LLC	80.00%	80.00%	-
CRholdingint, S.A. de C.V.	99.94%	99.9%	-

Servicios Corporativos Chapultepec, S.A. de C.V. ("Servicios Corporativos") -

The main activity of Servicios Corporativos is the provision of services. At December 31, 2016, 2015 and 2014, the majority of service revenues are derived from contracts with Crédito Real which has a 99.99% equity interest.

Directodo México, S.A.P.I. de C.V. ("Directodo") -

Directodo's main activity is lending cash to employees of government entities with which Directodo has entered into payroll discounting agreements, which are given in factoring arrangements with Crédito Real.

CR-Fact, S.A.P.I. de C.V. (“CR-Fact”) –

CR-Fact’s main activity is providing financing through lending that is secured by cars and commercial vehicles.

Crédito Real USA, Inc. (“CR USA”) –

As indicated in Note 1f., as of June 1, 2016, CR USA is a subsidiary of Crédito Real, which holds 100% of its equity.

The main activity is making investments in companies resident in the USA; it currently maintains the following investment:

I. AFS Acceptance, LLC. (“AFS”) –

As indicated in Note 1g., AFS became a subsidiary of CR USA on October 21, 2016 by virtue of CR USA’s shareholding of 65%.

AFS is a financial institution with more than 10 years operating in the market, granting loans for the acquisition of used cars in the US. The most important characteristics of AFS are: (1) its management team, which is comprised of shareholders, which have extensive experience in the used car market in the US, as well as specific market intelligence regarding the Latin market in the USA; (2) a presence in 40 states with a network of more than 300 used car dealers; (3) a sound understanding of the Hispanic market, and (4) a sophisticated, well-tested process for collections, risk analysis and credit origination.

Creal Dallas, LLC (“Creal Dallas”) -

As indicated in Note 1j., as of September 19, 2014, Creal Dallas is a subsidiary of Crédito Real, which holds 80% of its equity. Its principal activity is the sale of used cars through the following subsidiary:

I. CR MPM, LLC (“CR MPM”)–

As indicated in Note 1j., Don Carro became a subsidiary of Crédito Real on September 19, 2015 by virtue of Crédito Real’s shareholding of 80%.

Don Carro focuses on offering loans for the acquisition of used cars in the US, and at the close of the year 2016, has five branches in the state of Texas.

At year-end 2016, the Entity completed its analysis, identification and recognition of intangible assets over the 12 month period following the acquisition in conformity with NIF B-7, and did not identify any intangibles in addition to those recognized by CR MPM.

Controladora CR México, S.A. de C.V. (“Controladora CR”)–

As indicated in Note 1h. Controladora CR became a subsidiary of Crédito Real on November 6, 2016 by virtue of Crédito Real’s shareholding of 99.90%.

The principal activity is to make investments in companies acquired in national territory; at the close of December 2016, it maintains the following investments:

I. CAT 60, S.A.P.I. de C.V. (“CAT 60”)–

As indicated in Note 1h. CAT 60, as of December 1, 2016, this company is a subsidiary of Controladora CR, which holds 55.21% of its equity.

CAT 60 is the holding company of four subsidiaries, of which the most important is Reparadora RTD, S.A. de C.V. (“RTD”), offering credit repair services focusing on individuals who have taken on excessive debt, advising on savings plans and negotiating with creditors to reach an agreement and liquidate their debts, thereby rehabilitating the customer and enabling them to once again gain access to credit. RTD has rendered services to approximately 90,000 customers in Mexico and manages more than 3 billion pesos in debt without assuming the credit risk of its customers.

Currently, CAT 60 has investments in the following subsidiaries: Reparadora RTD, S.A. de C.V. (99.998%), Factivo, S.A. de C.V. (99.998%), RTF Agente de Seguros, S.A. de C.V. (99.98%) and Resuelve tu Deuda Colombia, S.A.S. (100%).

II. *Servicios Adquiridos, S.A. de C.V. (“Servicios Adquiridos”) –*

As indicated in Note 1h, Acquired Services became a subsidiary of Controladora CR on December 1, 2016 by virtue of Controladora CR’s shareholding of 77.72%.

III. *Confianza Digital, S.A.P.I. de C.V., SOFOM, E.N.R. (“Credilikeme”) –*

As indicated in Note 1b, Credilikeme became an associate of Controladora CR on December 1, 2015 by virtue of Controladora CR’s shareholding of 23.86%. Credilikeme’s main activity is financing by granting loans through a *Plataforma Digital Gamificado* (Digital Gaming Platform), which incorporates gaming elements into its digital platform to generate stimulating experiences, as well as desirable credit behavior and habits. The payment terms range from 2 to 6 months and the credit amounts from \$2,000 to \$12,000.

IV. *CRreal Arrendamiento, S.A. de C.V. (“CRreal Arrendamiento”) -*

CRreal Arrendamiento, as of November 1, 2016 is an associated company of Controladora CR, which holds 49% of its equity. Its main activity is the provision of financing through operating leases.

CRholdingint, S.A. de C.V. (“CRholdingint”) -

As indicated in Note 1d, CRholdingint as of November 6, 2015 is a subsidiary of Crédito Real, which holds 99.99% of its equity.

Its primary activity is to make investments in companies acquired abroad; at the close of December 2016 it holds the following investments:

I. *Marevalley Corporation -*

As indicated in Note 1 d, CRholdingint holds 70% of the shares of Marevalley Corporation, which is the holding company of the entities located in Costa Rica, Nicaragua and Panama operating under the brand “Instacredit”. Instacredit is a group of financial institutions which collectively offer loans geared to medium and low income segments, whose credit needs are poorly served by traditional banking institutions.

As of December 31, it has 69 branches in the aforementioned three countries, deals with 161,785 customers and has a total portfolio of more than \$4,390.

II. *Crédito Real Honduras, S.A. de C.V. (“Crédito Real Honduras”) -*

As indicated in Note 1e, CRholdingint holds 99% of the shares of Crédito Real Honduras, is a company engaged in the provision of financing through factoring and has a commercial partnership with CA Capital.

3. Summary of significant accounting policies

The significant accounting policies of the Company are in accordance with the accounting criteria prescribed by the Commission, which are set forth in the Provisions, which require management to make certain estimates and use certain assumptions to determine the valuation of certain items and disclosures included in the consolidated financial statements. Although actual results may differ, management believes that the estimates and assumptions used were appropriate under the current circumstances.

According to Accounting Criterion A-1 issued by the Commission, entities shall apply Mexican Financial Reporting Standards (“MFRS”, which is comprised of individual standards that are referred to as “NIF”) as issued by the Mexican Board of Financial Reporting Standards, A.C. (“CINIF”), except when in the opinion of the Commission, it is necessary to apply a specific accounting standard or criterion.

As of January 1, 2016 the Entity adopted the following modifications to the accounting criteria issued by the Commission.

The most significant changes are described below:

- a. It is established that the net asset for defined benefits to employees must be presented on the balance sheet under the heading of “Other assets”.
- b. The definition of “Transaction costs” in Accounting Criterion B-2, *Investments in securities* and in Accounting Criterion B-5, *Derivatives and hedge operations*.
- c. The definitions of “Borrower”, “Appraisal Percentage Guarantees”, “Payment capacity”, “Extended Portfolio”, “Assignment of Credit Rights”, “Consolidation of Credits”, “Debtor of Credit Rights”, “Vendor of Discounted Receivables”, “Financial Factoring”, “Purchaser of Discounted Receivables”, “Line of Credit”, “Discount Transaction”, “Special Repayment Regime”, “Ordinary Repayment Regime” and “Housing Subaccount”, are incorporated into Accounting Criterion B-6, Loan Portfolio.
- d. The definition of “Renewal” is modified in Accounting Criterion B-6, Loan Portfolio, to now consider it as that transaction in which the loan balance is settled partially or totally, through an increase in the total amount of the loan, or using the proceeds derived from another loan contracted with the same entity, involving either the same debtor, a joint obligor of such debtor, or another person who, due to his asset ties, represents common risks.
- e. Loans for financial factoring, discount and credit right assignment operations are incorporated in the definition of “Commercial Loans”.
- f. It is clarified that a loan will not be considered as renewed for any dispositions made during the effective term of a preestablished line of credit, provided that the borrower has settled the total amount of the payments which are due and payable under the original loan conditions.
- g. It is stipulated that for restructurings of loans with periodic payments of principal and interest whose repayments are less than or equal to 60 days in which the periodicity of payment is modified to shorter periods, the number of repayments equivalent to three consecutive repayments under the original loan payment scheme must be considered.
- h. The assumptions are established to consider that sustained payment exists for those loans with a single payment of principal at maturity, regardless of whether the payment of interest is periodic or at maturity, as follows:
 - i. The borrower must have paid at least 20% of the original loan amount at the time of the restructuring or renewal, or,
 - ii. The amount of the accrued interest must have been paid in accordance with the payment scheme for the respective restructuring or renewal at a term of 90 days.

- i. It is established that evidence must be made available to the Commission when demonstrating sustained payment to substantiate that the borrower has the appropriate payment capacity at the time the restructuring or renewal is performed, so as to meet the new loan conditions.
- j. It is clarified that the advance payment of installments of restructured or renewed loans, different from those with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, is not considered to be sustained payment. This is the case with repayments of restructured or renewed loans which are paid before the calendar days equivalent to loans with repayments that cover periods greater than 60 calendar days have elapsed.
- k. The extension of the loan term is incorporated as a restructuring situation.
- l. The respective standards for the recognition and valuation of financial factoring, discounting and credit right assignment transactions are included.
- m. It is established that commissions and fees different from those collected for granting the credit will be recognized in results of the year on the date that they are accrued, and if part or all of the consideration received for the collection of the respective commission or fee is received before the accrual of the respective income, such advance must be recognized as a liability.
- n. The item stating that overdrafts in customer checking accounts should be reported as non-performing portfolio is eliminated.
- o. The transfer to non-performing portfolio of the loans referred to in the preceding point will be subject to the exceptional deadline of 180 or more days in arrears as of the date on which:
 - i. The loan resources are disposed of for the purpose for which they were granted,
 - ii. The borrower begins a new employment relationship in which he has a new employer, or
 - iii. The partial payment of the respective repayment was received. The exception contained in this subsection will be applicable provided that it refers to loans under the ROA scheme, and each of the payments made during such period represents at least 5% of the repayment agreement.
- p. It is specified that loans with a single payment of principal at maturity, regardless of whether the interest is paid periodically or at maturity, will be considered as non-performing portfolio as long as there is no evidence of sustained payment.
- q. It will be considered that loans granted under a new line of credit, revolving or not, which are restructured or renewed at any time, may remain in performing portfolio provided that there are grounds to justify the payment capacity of the debtor. Furthermore, the borrower must have:
 - i. Settled the total amount of due and payable interest;
 - ii. Settled all of the payments for which he is liable under the terms of the contract at the date of the restructuring or renewal.
- r. It is established that when credit dispositions made under a line of credit are restructured or renewed independently from the line of credit which supports them, they must be assessed in accordance with the characteristics and conditions applicable to the restructured or renewed disposition or dispositions.

When as a result of such evaluation it is concluded that one or more dispositions granted under a line of credit should be transferred to non-performing portfolio due to the effect of their restructuring or renewal and such dispositions, individually or collectively, represent at least 40% of the total disposed balance of the line of credit at the date of the restructuring or renewal, such balance, as well as its subsequent dispositions, must be transferred to non-performing portfolio as long as there is no evidence of sustained payment of the dispositions which originated the transfer to non-performing portfolio, and the total dispositions granted under the line of credit fulfilled the due and payable obligations at the date of transfer to performing portfolio.

The aforementioned percentage is applicable as of January 1, 2016, and will be reduced to 30% for the year 2017, and 25% for the year 2018 and thereafter.

- s. The requirement that the borrower must have paid the total amount of the interest accrued at the date of renewal or restructuring to consider that a loan remains current will be considered as fulfilled, when after the interest accrued at the final cutoff date has been paid, the term elapsed between such date and the restructuring or renewal does not exceed the lower of half of the payment period under way or 90 days.
- t. Performing loans with periodic partial payments of principal and interest which are restructured or renewed more than once may remain in performing portfolio if there are elements to justify the payment capacity of the debtor. It is specified that in the case of commercial loans, such elements must be duly documented and placed in the loan file.
- u. If different loans granted by the same entity to the same borrower are consolidated in a restructuring or renewal, each of the consolidated loans must be analyzed as if they were restructured or renewed separately and, if as a result of such analysis it is concluded that one or more of such loans would have been transferred to non-performing portfolio due to the effect of such restructuring or renewal, then the total balance of the consolidated loan must be transferred to non-performing portfolio.
- v. With regard to presentation standards in the balance sheet and the statement of income, it is established that:
 - i. It is specified that the amount of loans for financial factoring, discount and credit rights assignment transactions will be presented net of the respective appraisal percentage guarantee.
 - ii. Any commissions received before the accrual of the respective revenue will be presented under the heading of "Deferred credits and advance collections".
 - iii. The financial revenue accrued in the financial factoring, discount and credit rights assignment transactions will be considered as interest income.
- w. Accounting Criterion C-5, *Consolidation of special purpose entities*, is eliminated.
- x. For the consolidated financial statements, it is incorporated in the application of specific standards that for those special purpose entities (SPE) created prior to January 1, 2009, in which control has been maintained, entities will not be required to apply the provisions contained in NIF B-8, *Consolidated or combined financial statements*, with regard to their consolidation.
- y. It is specified that users should adhere to the applicable regulation established by Banxico to include the purchase of foreign currencies that are not considered derivatives as "Funds available".
- z. It is now stipulated that if the balance of foreign currencies to be received offset with foreign currencies to be paid, shows a negative balance, such item must be presented under "Other accounts payable".
- aa. In the case of consolidated loans, if two or more loans originated the transfer to non-performing portfolio of the total balance of the consolidated loan, to determine the payments required to consider sustained payment, it is essential to observe the original payment scheme of the loan requiring repayments over the longest period. Previously, it was considered appropriate to apply the treatment for the worst of the loans to the total balance of the restructuring or renewal.
- bb. If in a restructuring or renewal, sundry loans granted by the same entity to the same borrower are consolidated, each of the consolidated loans must be analyzed as if they were restructured or renewed separately, and if based on such analysis it is concluded that one or more of such loans would have been transferred to non-performing portfolio as a result of such restructuring or renewal, the total balance of the consolidated loan must be transferred to non-performing portfolio.

- cc. As an amendment to Accounting Criterion C-4, *Information by segments*, the purchase and sale of foreign currencies is incorporated in the Treasury operations and investment banking segment.
- dd. It is established in Accounting Criterion B-7, *Foreclosed assets*, that in the case of assets whose valuation to determine fair value may be made through an appraisal, the latter must comply with the requirements established by the CNBV for providers of bank appraisal services.
- ee. It is clarified in Accounting Criterion C-2, *Stock market operations*, that in the case of stock market instruments executed and recognized in the consolidated financial statement prior to January 1, 2009, it will not be necessary to reevaluate the transfer of recognized financial assets prior to such date.

In this regard, the principal effects that this exception might have on such financial statements should be disclosed in the notes to the financial statements, as well as the effects of recognition of the adjustments for valuation of the profits on the residual of the assignee (recognized in results or in stockholders' equity) and of the asset or liability recognized for administration of transferred financial assets.

- ff. The definition of "Agreement with Joint Control", "Joint Control" is incorporated, and the definition of "Associate", "Control" "Holding Company", "Significant Influence", "Related Parties" and "Subsidiary" is modified in Accounting Criterion C-3, *Related parties*.
- gg. Individuals or business entities which, directly or indirectly, through one or more intermediaries exert significant influence on, are significantly influenced by, or are under significant influence of the entity, as well as agreements with joint control in which the entity participates, are now considered to be related parties.
- hh. The disclosure requirements contained in Accounting Criterion C-3, *Related parties*, are extended to agreements with joint control.
- ii. A heading named "*Re-measurements of defined benefits to employees*" is added as part of earned capital on the balance sheet, as a result of the enactment of NIF D-3, *Employee benefits*.
- jj. The heading "Collateral granted" is incorporated at the foot of the balance sheet within memorandum accounts.
- kk. The statement of changes in stockholders' equity should include re-measurements for defined benefits to employees as part of movements inherent to the recognition of comprehensive income, as a result of the enactment of NIF D-3, *Employee benefits*.

As of January 1, 2016, the Entity adopted the following new NIF issued by the CINIF applicable to Crédito Real:

New NIF D-3, Employee benefits. The principal modifications generated by the application of this new NIF in the financial information of Crédito Real are as follows:

- Discount rate for liabilities - Defined Benefits Obligation (OBD)
 - The discount rate to calculate the OBD will be determined based on the market rate of high-quality corporate bonds, provided that there is a deep market for such bonds. Otherwise, the market rate of the bonds issued by the federal government must be used.
- Recognition of actuarial gains and losses
 - The use of the broker is eliminated for the deferral of actuarial gains and losses.
 - The accumulated balance of retained earnings and accumulated losses as of December 31, 2016 will be recognized as part of stockholders' equity and in liabilities as of January 1, 2016.

- Any actuarial gains and losses generated as of January 1, 2016 will be treated as re-measurements of defined benefits to employees, and will be recognized in stockholders' equity and in liabilities.
- Amortization of actuarial gains and losses
The actuarial gains and losses recognized in stockholders' equity must be recycled to results in the Remaining Useful Life of the Plan.
- Expected return on plan assets
The expected return on the plan assets will be estimated with the discount rate of the liabilities instead of the expected rate of return for the fund.

In this regard, the initial effect of applying NIF D-3 in subsequent years will be that originated by the accumulated balance of unrecognized actuarial losses as of December 31, 2015. This balance is recognized in Earned capital under "Remeasurements of defined employee benefits" in 2016.

Furthermore, this accumulated balance of unrecognized actuarial losses as of December 31, 2015 will be recycled to results over the remaining labor life of the plan, which ranges between 9.5 and 14 years, depending on the respective benefit.

Changes in the NIF issued by the CINIF applicable to the Entity

NIF D-3, Employee benefits
Improvements to the NIF 2016

NIF D-3, Employee benefits - When a pre-existing payment condition exists due to the termination of the employment relationship, such payments must be valued as postemployment benefits. Furthermore, the cost of past services, plan amendments, personnel cutbacks, and the gains and losses from advance severance payments, such as compensation which qualifies as termination benefits, are recognized in results immediately. In contrast, the actuarial gains and losses resulting from the re-measurements should be recognized in other comprehensive income and loss (OCI) and recycled to the statement of (comprehensive) income over the average labor life. Such re-measurements result from comparing the defined benefits obligation and the plan assets determined at the close of the year, against the amounts that were projected at the beginning of the period for the current year. Another relevant change consists of matching the discount rate of the benefits obligation with a rate based on high-quality corporate bonds, in a deep market and, otherwise, using government bond rates. This same rate will be used to calculate the projection of the plan assets (net rate). Changes are recognized retrospectively.

Furthermore, with the enactment of NIF D-3, on December 31, 2015 the Commission issued different transitory articles to the "Ruling Modifying the General Provisions Applicable to Credit Institutions", published in the Federal Official Gazette on November 9, 2015.

These transitory articles establish that credit institutions may recognize the entire balance of plan amendments (past service) and the accumulated balance of gains and losses from the plan not recognized for entities which used the corridor approach progressively at the latest by December 31 each year.

If electing to progressively apply the balances described above, recognition of such balances should begin in the year 2016, recognizing 20% of the balances in that year and an additional 20% in each of the subsequent years, until reaching 100% over a maximum period of five years. The Entity elected not to defer it over the term permitted by the Commission.

Re-measurements of gains or losses on the defined benefits plan which should be recognized at the end of each period, as well as their respective recycling to results of the year, should be calculated on the total amount of the plan gains or losses; i.e., on the sum of the plan gains or losses, plus those not recognized on the balance sheet of the institutions.

Likewise, if all or part of the remaining effect is recognized earlier than the deadlines established, the Commission should be informed within the 30 calendar days following that on which the respective accounting adjustment is made. The entities may apply recognition early provided that at least 20% or the total remaining amount is recognized in the respective year.

Credit institutions which applied one of the above-mentioned options should disclose in the financial reporting public statements for the years 2016 and up to that in which the progressive recognition of the aforementioned effects is concluded, the adjustments derived from applying the option chosen.

Changes in accounting estimates applicable in 2015

Methodology for the determination of the allowance for loan losses applicable to consumer loan portfolio.

On August 27, 2015, the Commission issued a Ruling that modifies the Provisions whereby it makes certain adjustments to the methodology applicable to the classification of consumer loan portfolio in order to recognize therein the expected losses coverage scheme, as well as certain guarantees in the aforementioned process and to better provision the allowances for loan losses, taking into account that such guarantees are already recognized in the commercial loans granted.

For these consumer loans, the Commission considers it advisable to recognize the pari passu or first losses distribution scheme for such portfolio classification, in order to eliminate regulatory inconsistency.

The Entity did not have any material effects in the consolidated financial statements as of December 31, 2015 due to this change in estimate.

Improvements to NIF that generate accounting changes are:

NIF B-7, *Business acquisitions* – Clarifies that the acquisition and/or merger of entities under common control, and the acquisition of noncontrolling equity or the sale without losing control of the subsidiary, are outside the scope of this NIF, regardless of how the amount of the consideration was determined.

NIF C-7, *Investments in associates*, joint ventures and other permanent investments – Establishes that contributions in kind should be recognized at the fair value that was negotiated between owners or shareholders, unless they are the result of debt capitalization, in which case they should be recognized for the capitalized amount.

Improvements to NIF that do not generate accounting changes are:

Methodology for determination of the allowance for loan losses applicable to loans made under the Commercial Bankruptcies Law

On August 27, 2015, the Commission issued a Ruling which modifies the Provisions, clarifying the term in which credit institutions may continue using the methodology for the calculation of the allowances for loan losses with regard to loans made to borrowers declared bankrupt with a prior restructuring plan. This Ruling establishes that once an agreement is adopted between the borrower and the recognized creditors, or the bankruptcy of the borrower is determined in accordance with the Commercial Bankruptcies Law, such methodology cannot continue to be applied.

It also states that authorization may be requested from the Commission to continue using the methodology for the calculation of the allowances for loan losses with regard to loans granted to borrowers declared bankrupt with a prior restructuring plan for a term which cannot exceed six months computed as of the adoption of the agreement.

There were no material effects to the Entity's consolidated financial statements as of December 31, 2015 due to this change in estimate.

Below is a description of the most significant accounting policies followed by the Entity.

Reclassifications - Certain amounts in the consolidate financial statements as of and for the year ended December 31, 2015 and 2014 have been reclassified to conform to the presentation of the 2016 consolidate financial statements.

Translation of financial statements of subsidiaries in foreign currency – To consolidate the financial statements of foreign transactions, they are modified in the recording currency for presentation in the consolidated financial statements of the Entity. The financial statements are translated to Mexican pesos, using the following methodologies:

The foreign transactions whose recording currency and functional currency are the same, translate the financial statements at the following exchange rates: 1) closing rate for assets and liabilities, 2) historical rate for stockholders’ equity and 3) that of the accrual date for revenues, costs and expenses. The effects of conversion are recorded in stockholders’ equity.

Entities	Recording currency	Functional currency	Reporting currency
Creal Dallas	U.S. Dollar	U.S. Dollar	Mexican Peso
CR USA	U.S. Dollar	U.S. Dollar	Mexican Peso
Marevalley Corporation	U.S. Dollar	U.S. Dollar	Mexican Peso
Crédito Real Honduras	Lempira	U.S. Dollar	Mexican Peso

Cash and cash equivalents - It consists mainly of bank deposits in checking accounts, which are presented at face value, bank deposits and equivalent in foreign currency are valued at the exchange rate issued by Banco de Mexico at year end.

Investments in securities - The Entity invests in highly liquid, readily convertible into cash and subject to insignificant risk of changes in value. The investments of the Company as of December 31, 2016, 2015 and 2014, are classified as trading securities, which are securities that are acquired with the purpose of selling them in the near term to realize gains arising from changes in market prices. The investments are initially recognized at their acquisition price, and subsequently valued at fair value using market values provided by price vendors authorized by the Commission. Changes in fair value are recorded in results of the year.

Impairment in the value of investments in securities - The Entity assesses whether the date of the consolidated balance sheet there is objective evidence that a security is impaired. A security is considered to be impaired and, therefore, a loss from impairment is incurred if, and only if, there is objective evidence of the impairment as a result of one or more events that took place after the initial recognition of the security, which had an impact on its estimated future cash flows that can be determined reliably. It is highly unlikely that one event can be identified that is the sole cause of the impairment, and it is more likely that the combined effect of different events might have caused the impairment. The expected losses as a result of future events are not recognized, regardless of how probable they are. As of December 31, 2016, 2015 and 2014, management has not identified objective evidence of impairment of any investment in security.

Transactions with derivative financial instruments - The Entity recognizes all derivative financial instruments on the balance sheet at fair value, regardless of the purpose or intent for holding them. The accounting for changes in fair value of the derivative financial instruments varies, depending on whether the derivative is considered to be a hedge for accounting purposes, and whether the hedging instrument is a fair value or a cash flow hedge, as follows:

1. Certain derivative financial instruments, although considered to be an effective hedge from an economic perspective, are not designated as hedges for accounting purposes. Such contracts are recognized in the balance sheet at fair value with changes in fair value recognized in earnings.
2. For fair value hedges, changes in the fair value of the derivative instrument and the hedged item are recognized to the income or expense line item that is affected by the hedged item.

3. For cash flow hedges, the effective portion is recognized in stockholders' equity under other comprehensive income and the ineffective portion is recognized in earnings. The unrecognized gain or loss of the hedging instrument is recognized in earnings when the hedged transaction occurs.
4. Derivatives are presented in a specific heading of assets or liabilities, depending on whether their fair value (as a result of the rights and/or obligations they may establish) refers to a debit or credit balance, respectively. Such debit or credit balances may be offset subject to compliance with the applicable criteria.

Management performs transactions with derivatives for hedging purposes using interest rate and foreign exchange swaps to cover fluctuations in both interest rates and foreign currency exchange rates.

Financial assets and liabilities that are designated and qualify to be designated as hedged items and derivative financial instruments which are part of a hedging relationship are recognized in accordance with the provisions relating to hedge accounting in accordance with the provisions of Criterion B-5, Derivatives and hedging, issued by the Commission.

A hedging relationship qualifies to be designated as such when all the following conditions are met:

- Formal designation and sufficient documentation of the hedging relationship
- Coverage must be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk.
- For cash flow hedges, the forecasted transaction to be covered must be highly likely to occur
- Coverage must be reliably measurable.
- Coverage must be continually evaluated (at least quarterly).

The Entity suspends hedge accounting when the derivative instrument matures, has been sold, canceled or exercised, when the derivative does not reach a high effectiveness to offset the changes in fair value or cash flows of the hedged item, or when the Entity decides to cancel the hedge designation.

The Entity formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various derivative transactions. The Entity's policy is not to acquire these instruments for speculative purposes.

Foreign currency transactions - Transactions denominated in foreign currencies are recorded at the exchange rate of the transaction date. Monetary assets and liabilities denominated in foreign currencies are converted into Mexican pesos at the exchange rate published by Banco de México in effect at the balance sheet date; the effect of changes in exchange rates is recorded in the income statement as profit or loss.

Performing and non-performing loan portfolio - Represents amounts granted to borrowers plus uncollected and interest which is accrued on the unpaid balance. Interest collected in advance is recognized in the income statement during the period in which it is earned.

The unpaid balance of the loans is classified as Non-performing loan portfolio when the borrower fails to pay installments under the original contractual terms and the loan is 90 days past due. The unpaid balance of the loans considers the joint and several obligation of the distributor. The distributor is considered jointly and severally liable with the debtors for the unpaid amounts in the non-performing loan portfolio. The joint and several obligations arise in accordance with the financial factoring contracts and executed agreements. The amount of the joint and several obligations is equivalent to the percentages of the unpaid balances determined as part of each origination. The recognition of the interest income on these loans is suspended and is only recorded as income once it is collected. For control purposes, this unrecognized interest is recorded in memorandum accounts. The Entity's policy is to write off loans that are more than 181 days past due against the respective allowance for loan losses.

Payroll loans are originated by Directodo, Publiseg and Grupo Empresarial Maestro, S.A. de C.V. and Publiseg, S.A.P.I. de C.V. SOFOM ENR under the brand names Kondinero, Credifiel and Crédito Maestro, respectively, and other independent distributors from which the Entity acquires them subsequently through financial factoring contracts in portfolio purchase transactions.

Such financial factoring contracts stipulate (i) the payment owed by the Entity (principal) of a determinable price to the distributor (agent) for the acquisition of the credit rights (the financial factoring contracts contain the formulas to determine the final price based on variable discount rates, considering the quality of the credit rights acquired, in accordance with their actual collection); (ii) the payment of the price in installments (part of the price is paid at the time the credit rights are acquired and part is paid subsequently under the terms established in the financial factoring contract); (iii) the establishment of the distributor as partial joint and several obligor, if the debtor of the credit rights acquired by the Entity does not settle the amounts owed to the Entity, under the terms established in article 419, section II of the LGTOC (for the percentage of the unpaid amount owed); and (iv) the Company's right to offset, pursuant to article 2185 of the Federal Civil Code ("CCF"), any and all amounts which are owed to it by the distributors as a result of such partial joint and several obligation, against the amounts owed by the Company to the distributor in question.

Pursuant to article 419, section II of the LGTOC, the financial factoring contracts executed by the Entity establish the partial recourse against the distributor if the debtor of the credit rights acquired by the Entity does not fulfill its respective payment obligations. Pursuant to the financial factoring contracts themselves, the distributors are considered jointly and severally liable with the debtors for the percentages defined in such contracts for any amounts not paid to the Entity.

With regard to the ordinary uncollected accrued interest on loans that are considered non-performing portfolio, the Entity creates an allowance for the total amount of such interest, at the time of the transfer of the loan as non-performing portfolio.

The transfer from non-performing portfolio to performing portfolio is made when the borrower achieves sustained payment on the loan and does not present any arrears. Sustained payment is achieved when three consecutive installment payments that comply with the terms of the loan are received. The advance payment of the installments is not considered as sustained payment.

Restructurings and renewals

A restructuring is a transaction which derives from any of the following situations:

- a) Extension of credit enhancements (i.e. guarantees or collateral) which cover the loan in question, or,
- b) Modifications to the original conditions of the loan or the payment scheme, which include:
 - A change in the interest rate established for the remaining term of the credit:
 - A change in currency or account unit, or
 - The granting of a payment grace period that offers temporary relief from compliance with the payment obligations under the original terms of the loan, unless such concession is granted after the conclusion of the original contractual term, in which case it will be treated as a renewal.

Restructurings do not include transactions that involve performing loans and only result in modifications to one or more of the following original conditions of the loan:

Credit enhancements: only when they involve the extension or substitution of credit enhancements for others of higher quality.

Interest rate: when the interest rate is agreed.

Currency: provided that the market exchange rates applicable to the new currency are used.

Payment date: only if the change does not mean extending or modifying the scheduled payments. The change in scheduled payments must under no circumstances permit nonpayment in any period.

A renewal occurs when the term of the loan is extended during such term or upon its maturity, or when settlement occurs using the proceeds derived from a new loan entered into among the same counterparties or when the debtor is another party that, due to common shareholders with the original debtor, has similar credit risks. Take downs on existing lines of credit are not considered to be renewals.

Classification of loan portfolio - The loans made by the Entity to businesses or individuals with a commercial or financial business activity are classified as commercial portfolio.

The Entity classifies direct loans, including liquidity loans which do not have collateral for real property, granted to individuals, derived from credit card operations, personal loans, payroll loans, loans for the acquisition of consumer durables, including among others, auto loans and finance leasing operations carried out with individuals, as consumer loans.

Allowance for loan losses

The Entity recognizes the allowance for loan losses on commercial portfolio based on the criteria of the Commission, as follows:

Methodology for commercial loan portfolio

When classifying the commercial loan portfolio, the Entity considers the Probability of Default, Severity of Loss and Exposure to Default, and also classifies the aforementioned commercial loan portfolio into different groups and establishes different variables for the estimate of the probability of default.

The amount of the allowance for loan losses of each loan will be determined by applying the following formula:

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

- R_i = Amount of the allowance for loan losses to be created for the nth credit.
- PI_i = Probability of default of the nth credit.
- SP_i = Severity of loss of the nth credit.
- EI_i = Exposure to default of the nth credit.

The probability of default of each credit La (PI_i), will be calculated using the following formula:

$$PI_i = \frac{1}{1 + e^{-(500 - TotalCreditScore_i) \times \frac{\ln(2)}{40}}}$$

For purposes of the above:

The total credit score of each borrower will be obtained by applying the following:

$$TotalCreditScore_i = \alpha \times (QuantitativeCreditScore_i) + (1 - \alpha) \times (QualitativeCreditScore_i)$$

Where:

- $Quantitative\ Credit\ Score_i$ = is the score obtained for the nth borrower when evaluating the risk factors.
- $Qualitative\ Credit\ Score_i$ = is the score obtained for the nth borrower when evaluating the risk factors.
- α = is the relative weight of the quantitative credit score.

Unsecured loans

The Severity of Loss (SP_i) of commercial loans which are not secured by real, personal guarantees or credit-based collateral will be:

- a. 45%, for Preferential Positions.
- b. 75%, for Subordinated Positions, in the case of syndicated loans, those which for purposes of their payment order or preference, are contractually subordinated in relation to other creditors.
- c. 100%, for loans which report 18 or more months of arrears in payment of the due and payable amount under the terms originally agreed.

The Exposure to Default of each loan (EI_i) will be determined based on the following:

- I. For disposed balances of uncommitted credit lines, which may be canceled unconditionally or which in practice permit an automatic cancellation at any time and without prior notice:

$$EI_i = S_i$$

- II. For the other lines of credit:

$$EI_i = S_i * \text{Max} \left\{ \left(\frac{S_i}{\text{AuthorizedLineofCredit}} \right)^{-0.5794}, 100\% \right\}$$

Where:

S_i : The unpaid balance of the nth credit at the classification date, which represents the amount of credit effectively granted to the borrower, adjusted for interest accrued, less payments of principal and interest, as well as debt reductions, forgiveness, rebates and discounts granted. In any case, the amount subject to the classification must not include uncollected accrued interest recognized in memorandum accounts on the balance sheet, for loans classified as non-performing portfolio.

Authorized Credit Line: the maximum authorized amount of the credit line at the classification date.

The Entity may recognize the security interest in personal or real property, personal security and credit derivatives in the estimate of the Severity of the Loss of the loans, in order to decrease the reserves derived from the portfolio classification. In any case, it may elect not to recognize the aforementioned securities if greater reserves are generated as a result. The provisions established by the Commission are utilized for such purpose.

Consumer loan portfolio

The classification of the commercial portfolio is carried out quarterly and is calculated based on the outstanding balance as of the final day of each month, considering the classification levels of the portfolio classified at the last known quarter, restated for the modification of the risk at the close of the current month. The allowance for loan losses is calculated according to the current methodology, as explained below.

Methodology for consumer loan portfolio

When classifying the consumer portfolio, the Entity considers the Probability of Default, the Severity of the Loss and Exposure to Default, while also classifying the aforementioned portfolio into different groups of risks.

As it is a non-revolving consumer credit portfolio, the calculation of the Probability of Default, Severity of the Loss and Exposure to Default, must adhere to the following:

Determination of the following items for each credit operation.

Due and payable amount: The amount payable by the borrower in the billing period in accordance with the loan agreement. For loans with weekly and half-monthly billing periods, the accumulation of previous unpaid due and payable amounts must not be included. For loans with a monthly billing period, the due and payable amount must include both the amount applicable to the month and the previous unpaid due and payable amounts, as the case may be.

Rebates and discounts may decrease the due and payable amount, only when the borrower fulfills the conditions required in the credit contract to do so.

Payment made: The amount applicable to the sum of the payments made by the borrower in the billing period.

Write-offs, reductions, waivers, rebates and discounts made to the credit or group of loans are not considered as payments. The value of this variable must be greater than or equal to zero.

Days in arrears: The number of calendar days at the classification date, during which the borrower has not fully paid off the due and payable amount under the terms originally agreed.

Total term: The number of billing periods (weekly, half-monthly or monthly) established contractually in which the credit must be settled.

Remaining term: Number of weekly, half-monthly or monthly billing periods which, as established in the contract, remain pending to settle the credit at the portfolio classification date. In the case of loans whose maturity date has elapsed without the borrower making the respective payment, the remaining period must be equal to the total term of the credit.

Original loan amount: The amount applicable to the total loan amount at the time it is granted.

Original value of the asset: The amount applicable to the value of the financed asset recorded by the borrower at the time the loan is granted. If the loan is not to finance the purchase or acquisition of an asset, the original value of the asset will be equal to the original amount of the loan. Also, the original amount of the loan may be used for loans which do not reflect the original value of the asset and were granted prior to the enactment of these provisions.

Loan balance: The unpaid balance at the classification date, which represents the amount of the loan granted to the borrower, adjusted for accrued interest, less payments for financed insurance coverage, collections of principal and interest, and any applicable reductions, waivers, rebates and discounts granted.

In any case, the amount subject to the classification must not include uncollected accrued interest, recognized in memorandum accounts on the balance sheet for loans classified as non-performing portfolio.

Type of loan: Personal loans include those that are collected by the Entity through any means of payment other than from the payroll account.

The recognition of the allowance for loan losses on the non-revolving consumer loan portfolio are based on outstanding balances as of the final day of each month.

The Entity determines the percentage used to determine the allowances to be created for each loan, which will be the result of multiplying the Probability of Default by the Severity of the Loss.

$$R_i = PI_i \times SP_i \times EI_i$$

Where:

R_i = Amount of reserves to be established for the nth credit.

PI_i = Probability of Default on the nth credit.

SP_i = Severity of the Loss on the nth credit.

EI_i = Exposure to Default of the nth credit.

The Probability of Default of the non-revolving consumer loan portfolio whose Billing Periods are monthly or when involving loans with a single payment at maturity, as follows:

a) If $ATR_i^M \geq 4$ then $PI_i^M = 100\%$

b) If $ATR_i^M < 4$ then:

$$PI_i^M = \frac{1}{1 + e^{-[-0.5752 + 0.04058 \cdot ATR_i^M + 0.7922 \cdot \ln(CTR_i^M) - 4.1891 \cdot \ln(PAGO_i^M) + 0.7982 \cdot PER_i^M]}}$$

Where:

P_i^M = Monthly Probability of Default or the nth credit.

ATR_i^M = Number of Arrears observed at the calculation date of reserves, which is obtained by applying the following formula:

$$\text{Number of Monthly Days in Arrears} = \left(\frac{\text{Days in Arrears}}{30.4} \right)$$

When this number is not complete, it will take the value of the immediately higher complete number.

$VECES_i^M$ = Number of times that the borrower pays the original value of the asset or, if there is no financed asset, the number of times that the borrower pays the original amount of the loan. This number will be the coefficient resulting from dividing the sum of all the scheduled payments at the time of origination, by the original value of the asset.

If the payments of the loan include a variable component, the Entity's best estimate will be used to determine the value of the sum of all the scheduled payments to be made by the borrower. The value of such sum cannot be less than or equal to the original amount of the credit.

$\%PAGO_i^M$ = Average Percentage which the payment made represents of the due and payable amount in the last four monthly billing periods at the calculation date. The average must be obtained after having calculated the payment as a percentage of the due and payable amount for each of the most recent four monthly billing periods at the calculation date of the reserves. If less than four monthly billing periods have elapsed at the calculation date of the reserves, the percentage of those monthly billing periods remaining needed to comprise four billing periods will be 100% for purposes of calculating this average, so that the variable of this calculation element will always be obtained using the average of four monthly percentages.

The Severity of the Loss (SP) for the non-revolving consumer loan portfolio will be 65%, provided that the element ATR_i^M does not exceed 9. Otherwise, an SP of 100% is determined.

The Exposure to Default (Eli) of each loan from the non-revolving consumer loan portfolio will be equal to the Loan Balance (Si).

Loan portfolio acquisitions - On the acquisition date of the loan portfolio, the contractual value of the acquired portfolio is recognized and classified in accordance with the type of portfolio acquired. Any difference between the acquisition price and the contractual values are recorded as follows:

- a) When the acquisition price is lower than its contractual value, a gain is recognized in "Other revenues from operations" up to the amount recognized as allowance for loan losses, with the remaining difference recognized as a deferred credit, which will be recognized as the loan is amortized;
- b) When the acquisition price of the portfolio is greater than its contractual value, a deferred charge is recognized which will be recognized as the collections are made according with the proportion which these represent in the credit contract;
- c) For revolving loans, such difference will be recognized directly to results of the year on the acquisition date.

Other accounts receivable, net – Represents amounts owed to the Entity but not included in the loan portfolio and includes recoverable taxes, amounts paid to distributors and the amounts to be received from the distributors, interest accrued in a period before the first repayment of the loan, other debtors, as well as allowances for bad debts on these accounts. The amounts paid or to be received from the distributors are comprised of both (a) the amounts related to the distributor's jointly and severally liable for the amounts not paid by the debtors established in the financial factoring contracts, which are in non-performing portfolio and (b) the advances applicable to the distributor established in the financial factoring contract.

This items is also comprised of balances that are aged less than 90 days from initial recognition. Balances older than 90 days are reserved in full against income, regardless of their chances of recovery or the collection process for such assets.

Foreclosed assets- Foreclosed assets are recorded at fair value and are presented net on the balance sheet, discounting the reserve for impairment due to the drop in value, which is calculated as established in Accounting Criterion B-7 and Article 132 of the General Provisions Applicable to Credit Institutions. The reserve is recorded in the statement of income under Other income (expenses) from operations.

Furniture and fixtures, net – Furniture and fixtures is recorded at acquisition cost. Depreciation and amortization are calculated using a percentage based on the economic useful life of the assets.

Investments in subsidiaries - Permanent investments in entities in which they have control, are initially recognized based on the net fair value of identifiable assets and liabilities of the entity at the date of acquisition. This value is adjusted after the initial recognition of the corresponding portion of both the comprehensive income or loss of the subsidiary and the distribution of earnings or capital reimbursements thereof.

When the fair value of the consideration paid is greater than the value of the investment in the subsidiary, the difference represents goodwill, which is presented as part of the same investment.

Other permanent investments – Permanent investments made by the Entity over which control, joint control or significant influence are not exercised are recorded at acquisition cost.

Goodwill: The excess of cost over the fair value of the shares of subsidiaries at the date of acquisition is not amortized and is subject to impairment tests at a minimum, on an annual basis.

Impairment of long-lived assets in use – The Entity makes an impairment tests for the long-lived assets in use when an impairment indicator suggests that such amounts might not be recoverable, considering the greater of the present value of future net cash flows or the net sales price upon disposal. Impairment is recorded when the book value exceeds the greater of the aforementioned amounts.

Income taxes – Income tax (“ISR”) is recorded in the result of the year in which it is incurred. The Entity records deferred taxes by comparing accounting and tax basis of assets and liabilities. The resulting deductible and taxable temporary differences are multiplied by the tax rate expected to be in effect when such items reverse.

Employee Benefits – They are those granted to personnel and / or their beneficiaries in return for services rendered by the employee including all kinds of remuneration accrues as follows:

- I. Direct benefits to employees – They are assessed in proportion to the services provided, considering their current salaries and liability is recognized as it accrues. It includes mainly the Employee Profit Sharing ("PTU"), compensated absences, such as vacation and vacation premiums, and incentives.
- II. Employee benefits from termination, retirement and other The liability for seniority premiums and termination of the employment relationship are recognized as they accrue and are calculated by independent actuaries based on the method of projected unit credit using nominal interest rates, as indicated in Note 16 to the consolidated financial statements.
- III. Employee participation in profits - PTU is recorded in income for the year in which it is incurred and presented under the heading of "Administrative expenses" in the income statement. Deferred PTU is derived from temporary differences that result from comparing the accounting and tax bases of assets and liabilities and is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized.

As result of the 2014 Tax Reform, as of December 31, 2016, 2015 and 2014 PTU is determined based on taxable income, according to Section I of Article 9 of the Income Tax Law. Deferred PTU derived from temporary differences between the accounting and tax bases of assets and liabilities is recognized only when it can be reasonably assumed that a liability may be settled or a benefit is generated, and there is no indication that circumstances will change in such a way that the liabilities will not be paid or benefits will not be realized. As of December 31, 2016, 2015 and 2014, the Entity determined a tax loss, for which reason it did not have a basis for the determination of current and deferred PTU.

Other assets, net - Are represented mainly by (i) fees and expenses required financing activities as bank lines of credit and debt issues in the market that are amortized according to the term of the related contract, (ii) ISR, (iii) advance to third parties and (iv) other intangible assets. Intangible assets are classified as definite and indefinite useful life, the amortization of intangible assets is calculated using the straight-line method over the remaining life and are subject to impairment tests. Within this category in other assets short and long term car inventory is presented. Vehicles are initially recognized at acquisition value. The acquisition value of vehicles, including the costs have been incurred initially to be acquired and subsequently incurred to replace or increase its service potential. The repair and maintenance costs are recognized in the income statement as incurred.

Notes payable (Securitized certificates), bank loans and other loans - Include financial liabilities from the issuance of debt financial instruments in the stock market and bank loans and other agencies, which are recorded at the value of the contractual obligation to represent and includes accrued interest related to the debt. In the case of foreign currency obligations these are valued at the exchange rate on the last day of the year. Accrued interest is recorded in the income statement under "Interest expense".

Senior notes - They include financial liabilities from the issuance of financial instruments of unsecured debt securities in US dollars, listed on the Luxembourg Stock Exchange. These notes are aimed at institutional investors under Regulation 144A (CUSIP 22547AAA9) and under Regulation S (CUSIP P32506AA8) of the Securities Act of 1933 of USA. The value of the Senior Notes at year-end is estimated considering the exchange rate on the last day of the year and the valuation of the primary position using the same consideration valuation Instrument Cross Currency Swaps ("CCS") and accrued interest. Furthermore, all premiums and discounts paid for the issue of the Senior Notes are recorded in such item.

Sundry creditors and other payables - They are represented mainly by disposals of portfolio and Value Added Tax ("VAT") derived from portfolio purchases to various distributors pending payment.

Provisions - When the Entity has a present obligation as a result of a past event, which will probably result in the use of economic resources and that can be reasonably estimated, a provision is recognized.

Financial margin - The net interest margin of Entity consists of the difference resulting from total interest income less interest expense.

Recognition of interest income - Interest income is determined by applying the applicable interest rate to the outstanding principal balance during the reporting period.

The accrual of interest is suspended when an outstanding loan balance is deemed to be non-performing and is recorded as non-performing portfolio. Interest on non-performing loans is recognized as collected.

When installment payments are received on past due repayments which include principal and interest, they are first applied to the oldest interest.

Interest income recognized by the Entity refers exclusively to the Entity's share and, accordingly, excludes the share applicable to the distributors. Pursuant to the agreements executed, the Entity shares with each distributor the credit risk and the revenues generated on the loans originated by the distributor. The distributor is responsible for servicing the loan and covering all of the operating expenses related to the portfolio that it originates.

Interest expenses - They are recorded as accrued in accordance with contracts made are recorded in the income statement monthly.

Statements of cash flows— The cash flows statement presents consolidated Entity’s ability to generate cash and cash equivalents, as well as how the entity uses those cash flows to meet your needs. The preparation of the cash flow statement is performed on the indirect method, based on the net income for the period based on the provisions of Criterion D-4, *cash flow statements*, the Commission.

Earnings per share - Basic earnings per common share are calculated by dividing consolidated net income of the controlling interest by the weighted average number of common shares outstanding during the year. Diluted earnings per share are determined only when there is income from continuing operations by adjusting consolidated net income and common shares on the assumption that the Entity’s commitments to issue or exchange its own shares are to be met.

Memorandum accounts (see Note 22)

Loan commitments – The balance represents irrevocable letters of credit and unused credit lines.

Uncollected interest earned on non performing portfolio— They represent accrued interest recognized in the income statement, because it loans classified as non-performing loans.

4. Cash and cash equivalents

As of December 31, 2016, 2015 and 2014, the cash and cash equivalents were as follows:

	2016	2015	January 1, 2015
Banks:			
National currency	\$ 126,921	\$ 72,532	\$ 53,778
Foreign currency	<u>188,853</u>	<u>48,308</u>	<u>-</u>
	<u>\$ 315,774</u>	<u>\$ 120,840</u>	<u>\$ 53,778</u>

5. Investments in securities

As of December 31, 2016, 2015 and January 1, 2015, investments in securities were as follows:

	2016		
	Monto invertido	Tasa promedio	Importe
Investments in Mexican pesos (pesos)			
Commercial paper (a)	\$ 473,470	5.39%	\$ 561,566
Bank promissory notes (a)	200,000	5.91%	200,000
Bank promissory notes (a)	<u>44,862</u>	Entre TIIE +1.75 y +2.25	<u>45,642</u>
Total	<u>718,332</u>		<u>807,208</u>
Investments in foreign currency (USD)			
Government paper (b)	\$ 10,306	0.64%	\$ 10,306
Commercial paper (b)	<u>170,541</u>	7.25%	<u>175,161</u>
Total	<u>180,847</u>		<u>185,467</u>
Total	<u>\$ 899,179</u>		<u>\$ 992,675</u>

2015			
	Amount invested	Rate	Amount
Commercial paper (c)	\$ 129,641	7.5%	\$ 131,226
Bank promissory notes (d)	<u>411,836</u>	3.38%	<u>412,040</u>
Total securities available for sale	<u>541,477</u>		<u>543,266</u>
Total investments in securities	<u>\$ 541,477</u>		<u>\$ 543,266</u>

January 1, 2015

	Amount invested	Rate	Amount
Commercial paper (c)	\$ 39,165	10.25%	\$ 41,540
Bank promissory notes (d)	<u>1,209,646</u>	1.65%	<u>1,209,661</u>
Total securities available for sale	<u>1,248,811</u>		<u>1,251,201</u>
Total investments in securities	<u>\$ 1,248,811</u>		<u>\$ 1,251,201</u>

- (a) Investments denominated in Mexican pesos are comprised as follows:

Investments in bank paper are comprised of bank debt in pesos, with a three-day maturity. At the close of December 2016, they represent a total value of \$561,566.

Investments in corporate paper are comprised of corporate debt in pesos with maturities of between three and 132 days. At the close of December 2016, they represent a total value of \$245,642.

- (b) Investments denominated in US dollars are composed as follows:

As of December 31, 2006, investments in government paper denominated in US dollars, with a 10 day maturity, are \$10,306.

As of December 31, 2016, investments in corporate paper in US dollars are \$175,161. These investments are composed of corporate debt sold on international markets, maturing in July 2023, with limited liquidity and the risk proportionally linked to the issuer and the exchange rate.

- (c) Investments in US dollar-denominated negotiable securities are composed of investment grade corporate debt instruments traded in international markets, maturing in April, 2016, with limited liquidity, and risk proportionally tied to the issuer and the exchange rate.

As of December 31, 2016, 2015 and 2014, investments in marketable securities denominated in U.S. dollars amounts to \$10,306, \$131,226 and \$41,540, respectively.

- (d) Investments in bank paper and government paper consist of bank debt in Mexican pesos, whose maturities range from one to 31 days and which at December 2016, 2015 and 2014 amount to \$175,132, \$411,190 and \$534,510, respectively. Also, the Entity held one-day investments in bank paper denominated in U.S. dollars in the amount of MXP\$850, MXP\$675,151 and MXP\$119,645 as of December 31, 2016, 2015 and 2014, respectively.

6. Financial derivatives

The policy established by management is to contract financial derivatives with the aim of hedging the risks inherent to exposure in foreign currency (exchange rate) and due to interest rate risk generated by the contracting of debt instruments established in a currency other than the Mexican peso. Some instruments have been recognized as trading for accounting purposes because the accounting criterion establishes certain restrictions, mainly in transactions where there are ask option positions (short options).

Trading derivatives

Cross Currency Swap and Currency Option (CCS & CP)

On March 15, 2016, Crédito Real entered into a transaction with Morgan Stanley Bank in which based on a notional amount of MX \$1,790,000, it pays a monthly rate of 3.475% and also has a long call for a total of US 100,000 with a strike price of MX \$20.00 for each US dollar to cover the payment of principal of the line contracted with Credit Suisse for US \$100,000, beginning on February 19, 2016 and maturing February 19, 2018.

For accounting purposes, the Entity designated such financial derivative as held for trading purposes and records the changes in fair value in results for the period.

Trading characteristics	Morgan Stanley ID ENE1A	Option Details	Morgan Stanley ID ENE1A
Foreign currency:	Pesos (MXN)	Style of option:	European
Required to pay a fixed rate for foreign currency amounts:	CR	Type of option:	USD Call Largo
Transaction date:	March 15, 2016	Currency and amount of Call:	USD 100,000,000
Swap reference amount in pesos:	N/A	Strike:	\$20.00 MXN/USD
Start date:	February 20, 2016	Maturity Date:	February 19, 2017
Maturity date:	February 20, 2018		February 19, 2018
Reference amount in currency B:	MXN \$1,790,000,000	Premium:	-
Settlement dates currency B:	Every month as of February 20, 2016	Market value MXN (thousands)	\$ 166,639
Fixed rate for amounts in currency B:	3.475%	Market value USD (thousands)	\$ 8,082
Fraction for the count of days applicable to floating or fixed rate amounts in currency B::	Actual/360	Collateral MXN	\$ -
Market value MXN (thousands)	\$ (43,828)		\$ -
Market value USD (thousands)	\$ (2,126)		\$ -
Collateral MXN	\$ -		\$ -

On March 8, 2016, Crédito Real entered into a Cross Currency Swap with Credit Suisse AG, Cayman Islands Branc ("CS") for US \$100,000 at an exchange rate of MX \$17.90 for each US dollar, in which it pays a fixed interest rate of 0.27% denominated in pesos with swaps of principal, to cover the payment of the principal on the line of credit signed with Credit Suisse for US \$100,000, whose transaction date was February 19, 2016 and will be payable on February 19, 2018. Crédito Real also sold a call option (short call) of MX \$20.00 for each US dollar at maturity of the transaction.

Given that the option contains the obligation to purchase, for accounting purposes, the Entity has recognized such financial derivative as held for trading purposes and records the changes in fair value in results for the period.

Trading characteristics:

Trading characteristics	Credit Suisse ID 60576531	Option Details	Credit Suisse ID 60576531
Currency A:	Dollar (USD)	Style of option:	European
Currency B:	Pesos (MXN)	Type of option	USD Short call
Required to pay floating rate amounts in currency A:	Credit Suisse	Currency and amount of Call:	USD 100,000,000
Required to pay fixed rate amounts in currency B:	CR	Strike:	\$20.00 MXP/USD
Transaction date:	March 8, 2016	Maturity Date:	February 19, 2017 August 19, 2017 February 19, 2018
Swap reference amount in both currencies:	At the beginning and at Maturity	Premium:	-
Start date:	March 10, 2016	Market value MXN (thousands)	\$ (166,639)
Maturity date:	February 19, 2018	Market value USD (thousands)	\$ (8,082)
Reference amount in currency A:	USD 100,000,000	Collateral MXN	\$ -
Reference amount in currency B:	MXN \$1,790,000,000		
Exchange rate used to calculate the reference amount in currency B:	\$17.9000 MXN per USD		
Fixed rate for amounts in currency A:	0.00%		
Spread	N/A		
Fraction for the count of days applicable to the fixed rate for amounts in foreign currency A:	Actual/360		
A currency payment dates A:	The 19 th day of each month as of March 19, 2016		
A currency settlement date A:	February 19, 2018		
A currency payment dates B:	Every three months as of February 19, 2016		
Fixed rate for amounts in currency B:	0.27%		
Fraction for the count of days applicable to floating or fixed rate amounts in currency B:	Actual/360		
Market value MXN (thousands)	\$ 330,621		
Market value USD (thousands)	\$ 16,034		
Collateral MXN	\$ -		

Derivatives for hedging purposes

Derivatives designated as hedges recognize the changes in valuation according to the type of hedge in question: (1) when they are fair value hedges, the fluctuations in both the derivative and the hedged item are covered at fair value and recognized in results; (2) when they are cash flow hedges, the effective portion of the result of the hedging instrument is recognized in stockholders' equity as part of other comprehensive income, and the ineffective portion of the result of the hedging instrument is recognized immediately in results for the period.

Furthermore, in fair value hedges, the fair value of foreign currency debt is recognized on the consolidated balance sheet and the changes to this debt are recognized in results.

Changes in the fair value of the financial derivatives and changes in the fair value of the debt are recorded in the result from intermediation. The valuation of financial derivatives and of the primary position is made using widely accepted valuation techniques.

Relationship of Senior Notes with maturity in 2019

The Entity uses financial derivatives for hedging purposes to manage the risks related to fluctuations in the exchange rate applicable to its issue of Senior Notes with a yield of 7.50%, maturing in 2019. The Senior Notes were issued for US \$ 425,000. However, on August 9, 2016, a portion was paid in advance, resulting in a remaining outstanding balance of US \$134, 853. With the original amount, there were five financial derivatives for hedging purposes; however, when the prepayment was made, there were also modifications in the derivatives in order to not generate over-hedging. Below is a description of the derivatives in effect as of December 31, 2016, which continue to hedge the Senior Notes.

On July 2, 2015, the Entity entered into a Cross Currency Swap with Bank Morgan Stanley (France) sas (“Morgan”) for US \$75,000 at an exchange rate of MX \$14.50 per US dollar, in which a fixed rate of 6.30% is paid, to cover part of the senior note maturing in the year 2019. Furthermore, the Entity contracted a strategy with exchange rate options (collar) with the purchase of a put option at MX \$14.50 per US dollar and the sale of a call option at MX \$20.00 per US dollar in the final swap.

On August 9, 2016, the Entity restructured a Cross Currency Swap with Deutsche Bank, modifying only the notional amount to a remaining balance of US \$59,853 at an exchange rate of MX \$14.50 per US dollar, in which a fixed rate of 7.18% is paid to cover the rest of the Senior Note maturing in the year 2019.

For accounting purposes, given that the option is a zero cost collar, the Entity has designated the aforementioned financial derivatives as cash flow hedges. In the case of the currency swaps, the changes in the fair value of the derivative are recorded in other comprehensive income and loss, by reclassifying any ineffective portion and the respective amounts to the statement of income when the hedged forecast cash flows affect the results for the year. With regard to the options, only the intrinsic value was designated as cash flow hedges, for which reason the changes in the intrinsic value of the derivative are recorded in other comprehensive income and loss, reclassifying any ineffective portion to the statement of income and the extrinsic value is recognized immediately in results for the period.

Trading characteristics:

Characteristics of CCS	Morgan Stanley ID ELGKW	DEUTSCHE BANK (2) ID 6258211MX	Option Details	Morgan Stanley ID ELGKW
Currency A:	Dollar (USD)	Dollar (USD)	Style of option:	European
Currency B:	Pesos (MXN)	Pesos (MXN)	Type of option	USD Call / USD Put Collar (Call Corto, Put Largo)
Required to pay floating rate amounts in currency A:	Morgan Stanley	DB	Currency and amount of Call:	USD 75,000
Required to pay fixed rate amounts in currency B:	CR	CR	Currency and amount of Put:	USD 75,000
Transaction date:	July 2, 2015	August 9, 2015	Floor Rate:	\$14.50
Reference exchange amount in both currencies:	At the beginning and at Maturity	At the beginning and at Maturity	Cap Rate:	\$20.00
Start date:	March 13, 2015	March 13, 2014	Maturity date:	March 13, 2019
Maturity date:	March 13, 2019	March 13, 2019	Day of payment	March 13, 2019
A currency settlement date A:	USD 75,000	USD 59,853	Premium:	-
A currency settlement date B:	MXN \$1,087,500	MXN \$867,869	Market value MXN (thousands)	\$ (251,178)
Fixed rate for the amount in currency B for the first period:	\$14.5000 MXN per USD	\$14.5000 MXN prr USD	Market value USD (thousands)	\$ (12,181)
Floating rate for currency A:	7.50%	7.50%	Collateral MXN	\$
Spread	N/A	N/A		
Fraction for the count of days applicable to the fixed rate for amounts in foreign currency A:	30/360	30/360		
A currency payment dates A:	The 13th day of every March and September	The 13 th day of every March and September		
A currency settlement date A:	March 13, 2019	March 13, 2019		
A currency payment dates B:	Every 28 days as of July 2, 2015	Every 28 days as of March 13, 2014		
Floating or fixed rate for currency B:	6.30%	7.18%		
Fraction for the count of days applicable to floating or fixed rate amounts in currency B:	Actual/360	Actual/360		
Market value MXN (thousands)	\$ 697,365	\$ 540,489		
Market value USD (thousands)	\$ 33,820	\$ 26,213		
Collateral MXN	\$ 0	\$ 0		

As of December 31, 2016, due to the appreciation of the US dollar, there were no margin calls; accordingly, no financial assets were pledged as collateral. At the end of 2016, there were no funds available restricted due to margin calls. The Entity has mechanisms and committees in place to measure risk management and therefore ensure appropriate management thereof.

As of December 31, 2016, the fair value of the aforementioned financial derivatives for the hedging relationship of the Senior Note maturing in 2019, is \$986,676 pesos (\$47,852 US dollars), which was recorded as an asset with a credit to the supplemental account subsequent to the effect of the period through comprehensive income. The effect as of December 31, 2016 recognized in equity is \$ 303,038 (\$14,697 US dollars) and the effect recognized in the statement of income, as a gain, due to the exchange re-expression of the currency swaps and the extrinsic value of the options is \$683,638 (\$33,155 US dollars).

The periods in which the cash flows from the derivatives in relation to the hedging of the Senior Notes maturing in 2019 are expected to occur and impact the statement of results are as follows:

Year	Pesos	US dollars
2017	\$ 16,188,439	785,107
2018	\$ 84,650,999	4,105,406
2019	\$ 202,198,858	9,806,244

Relationship Medium-Term Securitized Certificates (C-REAL 15)

The Entity uses financial derivatives for hedging purposes to manage the risks related to fluctuations in the interest rate applicable to its issue of C-REAL 15 (ticker symbol) medium-term securitized certificates, which were placed on October 9, 2015, bearing interest at two percentage points above the 28 day TIE rate, and maturing on March 23, 2018.

On October 14, 2015, the Entity contracted an interest rate swap with Barclays Bank México, S.A. (“Barclays”) for \$250,000 at a fixed rate of 6.405%, to cover 25% of the C-REAL 15 securitized certificate.

On October 14, 2015, Crédito Real also contracted an interest rate swap with Deutsche Bank México, S.A., institución de banca múltiple (“db”), for \$250,000 at a fixed rate of 6.38%, to cover another 25% of the C-REAL 15 securitized certificate.

For accounting purposes, the Entity has designated the aforementioned financial derivatives as cash flow hedges, recording the changes in the fair value of the derivative in other comprehensive income and loss and reclassifying any ineffective portion and the respective amounts to the statement of income when the hedged forecast cash flows affect results for the year.

Trading characteristics:

Characteristics	Barclays ID 9005150	Deutsche Bank ID 8669130MX
Notional:	\$ 250,000	\$ 250,000
Currency:	MXN	MXN
Required to pay fixed rate:	Crédito Real	Crédito Real
Required to pay floating rate:	Barclays	Deutsche Bank
Transaction date:	October 14, 2015	October 14, 2015
Start date:	October 15, 2015	October 9, 2015
Characteristics	Barclays ID 9005150	Deutsche Bank ID 8669130MX
Maturity date:	March 23, 2018	March 23, 2018
Fixed rate:	6.4050%	6.38%
Floating rate:	TIE	TIE
Floating rate spread:	2.00%	2.00%
Fraction for the count of days applicable to floating or fixed rate:	Actual/360	Actual/360
Interest payment dates:	Every 28 days as of November 6, 2015	Every 28 days as of November 6, 2015
Market value MXN (thousands)	\$ 7,868	\$ 7,942
Collateral MXN (thousands)	\$ 0	\$ 0

As of December 31, 2016 no financial assets have been pledged as collateral. At the end of 2016 there were no funds available restricted due to margin calls. The Entity has mechanisms and committees in place to measure risk management and thus ensure appropriate management thereof.

As of December 31, 2016, the fair value of the aforementioned financial derivatives for the C-REAL 15 hedging relationship is \$15,811, which was recorded as an asset with a credit to the stockholders' equity supplemental account subsequent to the effect of the period through comprehensive income. The effect as of December 31, 2016 recognized in equity is \$13,236, and the effect reclassified to the statement of income as gains for accrued interest is \$2, 575.

The periods in which the cash flows from the derivatives in the C-REAL15 hedge relationship are expected to occur and impact the statement of income are as follows:

Year	Pesos
2017	\$ 10,110
2018	\$ 3,126

Syndicated Line Relationship

The Entity uses financial derivatives for hedging purposes to manage the risks related to fluctuations in the exchange rate and the interest rate applicable to its line of credit with Credit Suisse, for US \$100,000, whose transaction date was February 19, 2016, and will be payable on February 19, 2018, at the rate of monthly LIBOR plus 8.15%.

On February 23, 2016, the Entity entered into a Cross Currency Swap with Credit Suisse AG, Cayman Islands Branc ("CS"), at MX \$18.21 per US \$1.00, where it receives interest at LIBOR plus 8.15% and pays fixed interest of 9.32% denominated in Mexican pesos, with pure swaps of interest, to cover the interest on the line of credit signed with Credit Suisse.

For accounting purposes, the Entity has designated the aforementioned financial derivative as a cash flow hedge, recording the changes in the fair value of the derivative in other comprehensive income and reclassifying any ineffective portions and the respective amounts to the statement of income when the forecast cash flows hedged affect the results of the year.

Characteristics of CCS	Credit Suisse ID 60564894
Currency A:	Dollars (USD)
Currency B:	Pesos (MXN)
Required to pay floating rate amounts in currency A:	Morgan Stanley
Required to pay fixed rate amounts in currency B:	CR
Transaction date:	February 23, 2016
Reference exchange amount in both currencies:	N/A
Start date:	February 22, 2016
Maturity date:	February 19, 2018
A currency settlement date A:	USD 100,000
A currency settlement date B:	MXN \$1,821,000
Fixed rate for the amount in currency B for the first period:	\$18.2100 MXN per USD
Floating rate for currency A:	USD-LIBOR-BBA
Spread	8.15%
Fraction for the count of days applicable to the fixed rate for amounts in foreign currency A:	Actual/360
A currency payment dates A:	The 19th day of every February, May, August and November, beginning May 19, 2016
A currency settlement date A:	N/A
A currency payment dates B:	The 19th day of each month beginning March 19, 2016

Characteristics of CCS

Credit Suisse ID 60564894

Floating or fixed rate for currency B:	9.32%
Fraction for the count of days applicable to floating or fixed rate amounts in currency B:	Actual/360
Market value MXN (thousands)	\$ 32,391
Market value USD (thousands)	\$ 1,570
Collateral MXN	\$ -

As of December 31, 2016, no financial assets have been pledged as collateral. At the end of 2016, there were no funds available restricted due to margin calls. The Entity has mechanisms and committees in place to measure risk management and thus ensure appropriate management thereof.

As of December 31, 2016, the fair value of the aforementioned financial derivative in relation to the syndicated line hedge, is MX \$32,391 (\$1,570 US dollars), which was recorded as an asset with a credit to the stockholders' equity supplemental account subsequent to the effect of the period through comprehensive income. The effect as of December 31, 2016 recognized in equity is MX \$11,507 (\$558 US dollars) and the effect reclassified to the statement of income as gains for accrued interest is MX \$20,883 (\$1,013 US dollars).

The periods in which the cash flows from the derivative in the syndicated line hedging relationship are expected to occur and impact the statement of income are as follows:

Year	Pesos	US dollars
2017	\$ 2,452	119
2018	\$ 9,056	439

Senior Notes Relationship with maturity in 2023

The Entity uses financial derivatives for hedging purposes to manage the risks related to the fair value of its issue of Senior Notes with a yield of 7.25%, maturing in 2023.

On July 20, 2016, the Entity entered into five Cross-Country Swaps which hedge the fair value of the debt principal for the Senior Notes maturing in 2023, with the following financial institutions: (i) Barclays, (ii) Morgan Stanley, (iii) UBS, (iv) Banamex and (v) Deutsche Bank. This is because it is being converted into a debt that pays a fixed rate in US dollars payable in the Mexican peso variable rate derivatives. The issue of the Senior Notes maturing in 2023 was US \$625,000, whereas the financial derivatives were only contracted to cover up to the amount of US \$550,000.

Given the characteristics of the aforementioned five derivative instruments in relation to the hedge of the Senior Notes maturing in 2023, all such instruments were designated as fair value hedges for accounting purposes; i.e., the fluctuations in the derivative and in the hedged item are valued at fair value and are recognized in results in the same financial statement captions.

Trading characteristics	Barclays 9007408	Morgan Stanley DMFS4	UBS 95007852	Banamex 32754151EC_1	Deutsche Bank 9767201M
Currency A:	Dólares (USD)				
Currency B:	Pesos (MXN)				
Obligated to pay fixed rate for amounts in currency A:	Barclays	Morgan Stanley	UBS	Banamex	Deutsche Bank
Obligated to pay floating or fixed rate for amounts in currency B:	CR	CR	CR	CR	CR
Date of transaction:	July 20, 2016				
Swap reference amount in both currencies:	At the start and at maturity				
Starting date:	July 20, 2016				
Maturity date:	July 20, 2023				
Reference amount in currency A:	USD 125,000	USD 100,000	USD 100,000	USD 100,000	USD 125,000
Reference amount in currency B:	MXN \$2,361,250	MXN \$1,889,000	MXN \$1,889,000	MXN \$1,889,000	MXN \$2,361,250
Exchange rate used to calculate reference amount in currency B:	\$18.8900 MXN per USD				
Fixed rate for amounts in currency A:	7.25%	7.25%	7.25%	7.25%	7.25%
Spread	N/A	N/A	N/A	N/A	N/A
Fraction for counting of days applicable to fixed rate for amounts in currency A:	30/360	30/360	30/360	30/360	30/360
Payment dates currency A:	The 20 th day of every January and July as of July 20, 2016	The 20 th day of every January and July as of July 20, 2016	The 20 th day of every January and July as of July 20, 2016	The 20 th day of every January and July as of July 20, 2016	The 20 th day of every January and July as of July 20, 2016
Settlement date currency A:	July 20, 2023				
Payment dates currency B:	Every 28 days as of July 20, 2016	Every 28 days as of July 20, 2016	Every 28 days as of July 20, 2016	Every 28 days as of July 20, 2016	Every 28 days as of July 20, 2016
Floating rate for amounts in currency B:	TIIE 28D				
Spread Currency B:	6.13%	6.16%	6.215%	6.19%	6.17%
Fraction for the count of days applicable to the floating rate for amounts in currency B:	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360
Market value MXN (thousands)	\$ 262,450	\$ 221,146	\$ 200,217	\$ 203,976	\$ 257,464
Market value USD (thousands)	\$ 12,728	\$ 10,725	\$ 9,710	\$ 9,892	\$ 12,486
Collateral MXN (thousands)	\$ -	\$ -	\$ -	\$ -	\$ -

As of December 31, 2016, the fair value of the aforementioned financial derivatives in relation to the hedge of the Senior Notes maturing in 2023 is MX \$1,145,255 (\$55,452 US dollars), which was recorded as an asset and a gain in the statement of income. The effect as of December 31, 2016 recognized in the statement of income for the hedged item is MX \$1,145,255 (\$55,452 US dollars) as a loss.

Nature and degree of risks arising from the derivatives

The exchange rate as of December 31, 2016 is MX \$20.6194

The majority of the Entity's CCS enable it to fix the exchange rate to be used for the payment of the US dollar denominated debt on the date of maturity. When financing in foreign currency is entered into, the hedge enables the exchange rates to be appropriately managed.

By entering into the CCS to hedge the fair value of the Senior Notes maturing in 2023, the Entity has hedged the risk of a devaluation of the Mexican peso against the US dollar and has exposure to the risk of an appreciation in the Mexican peso against the US dollar. With regard to exchange rate risk, by entering into the CCS the Entity is exposed to the risk of variances in the TIIE rate in the contracts that include a floating rate.

By entering into the IRS, the Entity can fix the exchange rate for the payment of the interest on the debt in Mexican pesos derived from the CREAL15 securitized certificate.

Formal hedge documentation -

Once cash flow and fair value hedges are structured, the Entity prepares an individual file for each transaction containing the following documentation:

- The strategy and objective of the Entity's risk management, as well as the rationale that lead the decision to carry out the hedging operation.
- The specific risk or risks to be hedged.
- Hedge structure identifying the derivative financial instruments contracted for hedging purposes and the item generating the hedged risk.
- Definition of the elements composing the hedge, its objective and a reference to the effectiveness valuation method.
- Contracts for the hedged item and hedging instrument, as well as confirmation from the counterparty.
- Periodic hedge effectiveness tests at the prospective level regarding its estimated future evolution and at the retrospective level, concerning its past behavior. These tests are applied at least at the end of each quarter, according to the valuation method defined when creating the hedge files.

Risk management

The Entity has segregated risk evaluation and management under the following headings:

Credit risk: The credit risk refers to the risk whereby a customer or counterparty defaults on its contractual obligations, thus resulting in a financial loss for the Entity.

Market risk: the income volatility resulting from market changes that affect the evaluation of active or passive transaction positions such as interest rates and exchange rates.

Liquidity risk: the loss potentially generated by the Entity's inability to renew its liabilities or contract others under normal conditions.

Counterparty credit risk

The Entity manages the credit risk generated by its derivatives portfolio by only performing transactions with recognized counterparties with an investment-grade rating. At December 31, 2016, the Entity maintains a position composed by derivative financial instruments based on foreign currency swaps that represent an asset for it. The total potential loss expected from this type of derivative financial instrument is \$2,702,294, Mexican pesos. The Entity also has interest rate swaps, which represent an asset for the Entity and the potential loss expected from this type of financial derivatives amounts to \$15,811.

Sensitivity analysis

The Entity performed a sensitivity analysis so as to forecast situations that could result in extraordinary losses as regards the valuation of the derivative financial instruments composing its position at the December 2016 close.

A derivatives sensitivity analysis is performed by considering the following elements:

Estimate the surplus value or shortfall of the securities valuation in the event of:

- An increase of +1 peso in the MXN/USD exchange rate
- A decrease of -1 in the MXN/USD exchange rate
- An increase of +100 interest rate basis points
- A decrease of -100 interest rate basis points

Foreign currency sensitivity

Hedging derivatives fair value	+1 exchange rate	-1 exchange rate
Foreign currency swap	\$ 724,780	\$ (724,780)
Cash flow hedge derivatives	+1 exchange rate	-1 exchange rate
Foreign currency swap	\$ 153,997	\$ (153,997)
Foreign currency option	\$ (61,249)	\$ 61,249

Interest rate sensitivity of interest rate

Cash flow hedge derivatives	+100 bp tasa de interés	-100 bp tasa de interés
Interest rate swap	\$ 15,811	\$ (15,811)

If any of the sensitivity scenarios detailed in the above table actually arise, the losses generated by derivative instruments held for trading purposes and fair value hedges will directly affect the statement of income, while cash flow hedges will affect the Entity's capital.

Maturity analysis

Below is an analysis of the future obligations of the financial derivatives. Please note that even though the foreign currency swaps represent active positions as of December 31, 2016, the Entity elects to present the undiscounted future flows which represent a liability according to their maturity.

	2017	2018	2019	2020	2021	2022	2023
Foreign currency swaps	\$ 2,613,193	\$ 2,316,656	\$ 3,508,622	\$ 1,568,380	\$ 1,619,827	\$ 1,680,750	\$ 11,357,673
Interest rate Swaps	\$ 111,966	\$ 511,691	\$ -	\$ -	\$ -	\$ -	\$ -

7. Loan Portfolio

At December 31, 2016, 2015 and January 1, 2015, the loan portfolio was comprised as follows:

	2016	2015	January 1, 2015
Loan portfolio -			
Commercial portfolio	\$ 25,425,100	\$ 20,793,043	\$ 19,400,536
Consumer portfolio	<u>6,753,970</u>	<u>1,486,896</u>	<u>-</u>
Performing loan portfolio	32,179,070	22,279,939	19,400,536
Less-			
Interest accrued on factoring operations	(8,748,522)	(5,069,765)	(5,844,153)
Gauging warranty	<u>(20,534)</u>	<u>(16,624)</u>	<u>(12,116)</u>
Performing Loan Portfolio	23,410,014	17,193,550	13,544,267
Non-performing loan portfolio	<u>517,008</u>	<u>416,089</u>	<u>260,638</u>
Loan Portfolio	23,927,022	17,609,639	13,804,905
Less-			
Allowance for loan losses	<u>(767,460)</u>	<u>(485,506)</u>	<u>(420,131)</u>
Performing Loan Portfolio, net	<u>\$ 23,159,562</u>	<u>\$ 17,124,133</u>	<u>\$ 13,384,774</u>

At the end of December 2016, 2015 and January 1 2015, \$2,260,406, \$1,233,350 and \$1,474,378, respectively, of the loan portfolio is pledged to guarantee certain credit facilities.

The portfolio is comprised of 783,546, 619,000, and 531,000 customers at the end of 2016, 2015 and January 1, 2015, respectively.

The average loan balance is \$30, \$28 and \$26 at December 31, 2016, 2015 and January 1, 2015, respectively, with an average term of 38, 34 and 32, respectively, for both the commercial and consumer portfolios.

The interest income recognized by the Entity refers exclusively to the Entity's participation and, accordingly, excludes the participation applicable to the distributors. In accordance with the agreements executed, the Entity shares with the distributor the credit risk and the revenues generated by the loans originated by the distributor. The distributor is responsible for administering the service of the credit granted and covering all the operating expenses related to the portfolio that it originates.

At December 31, 2016, the performing loan portfolio that has a balance with at least one day of aging is as follows:

	0 to 30	31 to 60	61 to 90	Total
Commercial loan	\$ 15,424,298	\$ 652,666	\$ 579,081	\$ 16,656,045
Consumer loan	<u>6,507,656</u>	<u>176,993</u>	<u>69,320</u>	<u>6,753,969</u>
	<u>\$ 21,931,954</u>	<u>\$ 829,659</u>	<u>\$ 648,401</u>	<u>\$ 23,410,014</u>

At December 31, 2016, the non-performing loan portfolio that has balance with at least once day of aging is as follows:

	91 to 180
Commercial loan	\$ 323,792
Consumer loan	<u>193,216</u>
	<u>\$ 517,008</u>

8. Allowances for loan losses

At December 31, 2016, 2015 and January 1, 2015, the Entity maintained an allowance for loan losses equivalent to 148%, 161% and 128% of non-performing portfolio, respectively.

As of December 31, 2016, 2015 and January 1, 2015, changes in the allowance for loan losses were as follows:

	2016	2015	January 1, 2015
Opening balance	\$ 485,506	\$ 420,131	\$ 203,218
Portfolio applications	(1,026,759)	(355,158)	(241,468)
Adjustment for the modification of the rating methodology with an effect on capital	-	-	193,855
CR USA, Creal Dallas and Controladora CR consolidation effect	477,120	74,905	-
Charge to results	<u>831,593</u>	<u>345,628</u>	<u>264,526</u>
Closing balance	<u>\$ 767,460</u>	<u>\$ 485,506</u>	<u>\$ 420,131</u>

9. Other account receivable, net

As of December 31, 2016, 2015 and January 1, 2015, other accounts receivable were as follows:

	2016	2015	January 1, 2015
Other accounts receivable from distributors	\$ 2,707,174	\$ 1,887,883	\$ 870,708
Value added tax (VAT) receivable	60,968	57,921	289,747
Other debtors	828,910	306,611	9,617
Recoverable income tax	<u>11,351</u>	<u>42,500</u>	<u>13,816</u>
	3,608,403	2,294,915	1,183,888
Allowance for other accounts receivable	<u>(31,105)</u>	<u>(36,020)</u>	<u>(27,708)</u>
	<u>\$ 3,577,298</u>	<u>\$ 2,258,895</u>	<u>\$ 1,156,180</u>

As of December 31, 2016, 2015 and January 1, 2015, other accounts receivable from distributors were as follows:

	2016	2015	January 1, 2015
Interest accrued in advance period	\$ 113,247	\$ 569,909	\$ 128,244
Advances to distributors	1,610,107	761,852	356,322
Joint and several liability of the distributor	409,307	442,074	300,819
Other	<u>574,513</u>	<u>114,048</u>	<u>85,323</u>
Total	<u>\$ 2,707,174</u>	<u>\$ 1,887,883</u>	<u>\$ 870,708</u>

10. Property and furniture

As of December, 31, 2016, 2015 and 2014, property and equipment are as follows:

	Depreciation period (years)	2016	2015	January 1, 2015
Office Furniture and fixtures	10	\$ 175,833	\$ 56,329	\$ 22,267
Computers	3	137,428	52,467	14,868
Transportation equipment	4	<u>25,225</u>	<u>18,479</u>	<u>15,269</u>
		338,486	127,275	52,404
Less - Accumulated depreciation		<u>(173,594)</u>	<u>(56,496)</u>	<u>(20,400)</u>
		164,892	70,779	32,004
Installation expenses	20 and 10	129,566	91,068	58,825
Less - Accumulated amortization		<u>(32,332)</u>	<u>(12,732)</u>	<u>(5,347)</u>
		<u>97,234</u>	<u>78,336</u>	<u>53,478</u>
		<u>\$ 262,126</u>	<u>\$ 149,115</u>	<u>\$ 85,482</u>

11. Investment in shares of associates

As of December 31, 2016, 2015 and January 1, 2015, investments in shares of associated companies are as follows:

Entity	% Ownership 2016, 2015 and January 1, 2015	Book Value			Participation in Results		
		2016	2015	January 1, 2015	2016	2015	January 1, 2015
Directodo México, S.A.P.I. de C.V. (Ver Nota 1 e.) (a)	99.99%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,249
Publiseg, S.A.P.I. de C.V. SOFOM (a)	49.00%	463,119	448,502	340,251	14,617	24,716	24,038
Grupo Empresarial Maestro S.A. de C.V. (a)	49.00%	502,949	388,906	411,639	114,043	33,364	34,124
Bluestream Capital, S.A. de C.V. (b)	23.00%	1,173	507	703	666	(639)	(2,448)
Cege Capital, S.A.P.I. de C.V., SOFOM ENR (c)	36.3%	89,245	75,415	105,917	13,830	13,831	5,642
Otros	23.98%	<u>1,335</u>	<u>8,395</u>	<u>499</u>	<u>(7,060)</u>	<u>(2,119)</u>	<u>-</u>
		<u>\$ 1,057,821</u>	<u>\$ 921,725</u>	<u>\$ 859,009</u>	<u>\$ 136,096</u>	<u>\$ 69,153</u>	<u>\$ 98,605</u>

- (a) Directodo, Publiseg, and Grupo Empresarial Maestro, are the Entity's principal distributors, and their origination efforts are performed exclusively for the Entity. As of December 31, 2016, 2015 and 2014, these companies have cooperation agreements executed with different unions around the country, including several chapters of the National Education Workers' Union, the National Social Security Workers' Union, the Union of the Federal Public Education Department and the Health Workers' Union. Their operations began in 2006, 2005 and 2002, respectively, and their work forces have a nationwide presence and they have over 257 branches.
- (b) As indicated in Note 1n., by unanimous resolutions adopted at shareholders' meeting held on January 14, 2014, the Entity subscribed and paid 29,862 no par value, Class II common shares of Bluestream, which represent 23% of Bluestream's outstanding shares.
- (c) As indicated in Note 1m, in the Ordinary General Meeting of Shareholders held on March 31, 2014, the shareholders authorized the subscription and payment of 245,000 no par value, Class I, Series "B" common shares of Cege, which accounts for 37.98% of Cege's outstanding shares.

At the Extraordinary General Meeting of Shareholders held on December 17, 2014, the subscription and payment of 100,000,000 Series "C" preferred shares was approved, which is part of the variable capital of Cege, which was paid on December 29, 2014.

12. Other assets

As of December 31, 2016, 2015 and January 1, 2015, other assets were as follows:

	2016	2015	January 1, 2015
Goodwill (a)	\$ 1,053,517	\$ 1,022,536	\$ 623,437
Costs for issuance of securities and bank loans	40,400	85,076	86,013
Prepaid expenses (b)	205,502	178,587	156,319
Other long and short term assets (c)	<u>441,961</u>	<u>251,317</u>	<u>-</u>
	1,741,380	1,537,516	865,769
Intangible asset branch network (d)	80,641	80,641	80,641
Instacredit's Intangible Assets (See Note 1c)	1,052,750	-	-
Directodo's Intangible Assets (See Note 1k)	<u>1,255,013</u>	<u>1,255,013</u>	<u>1,255,013</u>
	2,388,404	1,335,654	1,335,654
Accumulated amortization	<u>(77,676)</u>	<u>(34,949)</u>	<u>(30,914)</u>
	2,310,728	1,300,705	1,304,740
Guarantee	<u>3,062</u>	<u>12,585</u>	<u>4,292</u>
	<u>\$ 4,055,170</u>	<u>\$ 2,850,806</u>	<u>\$ 2,174,801</u>

- (a) The acquisition of 49% of Grupo Empresarial Maestro implied the recognition of goodwill of \$580,158 for 2016, based on the book value and the price paid.

The acquisition of 23.86% of Credilikeme implied the recognition of goodwill of \$11,887 for 2016, based on the book value and the price paid.

The acquisition of 55.21% of RTD implied the recognition of goodwill of \$234,491 for 2016, based on the book value and the price paid.

The acquisition of 65% of AFS implied the recognition of goodwill of \$118,886 for 2016, based on the book value and the price paid.

The acquisition of 70% of Marevalley resulted in the recognition of goodwill of \$30,981 for 2016, in accordance with the fair value and the purchase price paid.

- (b) Is composed of licenses acquired for the portfolio system and expenses incurred for the execution of the loan portfolio operation and acquisition agreement with Fondo H, which will be amortized during the life of the portfolio acquired.
- (c) The other short- and long-term assets represent an inventory of 1,025 automobiles derived from consolidating the figures with Creal Dallas; the balance at the close of December 2016 in US dollars is \$12,209,019.
- (d) In a contract dated December 26, 2006, between the Entity and Crediplus, S.A. de C.V. (an affiliated Entity), the Entity acquired Crediplus' branch network, which originated and issued loans, as well as the know how developed by Crediplus regarding its branch network. This know how consists of: (i) analyzing and studying markets (ii) analyzing and studying customers; (iii) analyzing and studying demographic and socio-demographic profiles of zones; (iv) analyzing and studying area flows; (v) analyzing and studying backgrounds of zones; (vi) analyzing and studying competition; (vii) designing branches internally and externally; (viii) preparing operating and policies and procedures manuals; (ix) developing and implementing advertising schemes, and (x) preparing market strategies. The Entity also registered the Crediplus trademark and commercial advertisements with the Mexican Institute of Industrial Property. Such intangible was defined by Management as having a definite life of 20 years, for which reason it is being amortized over such term beginning May 2007.
- (e) At a Stockholders' Special Meeting held on October 31, 2014, Crédito Real carried out the acquisition of Directodo, as a result of the merger with Desarrollo 51, S.A. de C.V; in accordance with NIF B-7, the Entity concluded the analysis for the identification and quantification of the intangible assets as follows: (i) brand \$88,248, (ii) software \$4,931, and (iii) agreements with government agencies for the placement of loans \$1,161,834, the identified assets have an indefinite useful life and are subjected to impairment testing at least once a year.

13. Indebtedness

As of December 31, 2016, 2015 and January 1, 2015, indebtedness was comprised as follows:

	Rate	Date of maturity	2016	2015	January 1, 2015
Notes payable (Securitized Certificates)	TIIE + 1.4% to 2.80%	Between 2017 and 2018	\$ 2,750,000	\$ 3,605,000	\$ 2,565,000
Senior Notes	10.25% and 7.50%	Between March 2019 and July 2023	13,817,895	7,310,693	6,538,461
Accrued interest			<u>320,548</u>	<u>29,229</u>	<u>29,406</u>
Total			<u>\$ 16,888,443</u>	<u>\$ 10,944,922</u>	<u>\$ 9,132,867</u>

As of December 31, 2016 the stock certificates program (Certificados Bursátiles) has unsecured securities with a value of \$2,750,000.

Currently the Entity has two issues of Senior Notes, which is unsecured debt, issued abroad, for a total amount of US \$559 million.

The first issue was carried out on March 13, 2014, for US \$425 million, bears interest of 7.50% a year payable on a semiannual basis on March 13 and September 13 of each year until maturity on March 13, 2019. In July 2016, the option was taken to make a partial prepayment, for which reason the remaining balance as of December 31, 2016 is US \$134 million.

This first issue was rated by Standard & Poor's, which granted a long-term global rating of "BB", which rose to "BB+", on February 3, 2015. By the same token, HR Ratings on May 27, 2015 assigned the rating of HR BB+ (G), which rose to HR BBB-(G), on May 25, 2016.

The second issue was made on July 20, 2016, for US \$625 million, bearing interest of 7.25% a year payable on a semiannual basis on January 20 and July 20 of each year until maturity on July 20, 2023, and may be prepaid as of the fourth year of the issue.

This second issue was rated by Standard & Poor's, which granted a long-term global rating of "BB+"; by Fitch Ratings, which granted a rating of "BB+(EXP)"; and by HR Ratings, which granted a rating of HR BB-(G).

The Securities were issued and offered in accordance with Rule 144A and Regulation S of the US Securities Act of 1933. Principal will be paid at maturity of the instruments or, as the case may be, on the date of their advance redemption.

14. Bank Loans and other loans

As of December 31, 2016, 2015 and January 1, 2015, debt was comprised as follows:

	Rate	Date of Maturity	2016	2015	January 1, 2015
Bank Loans in MXN(a)	TIIE + spread	Between 2017 and 2019	\$ 2,502,786	\$ 3,696,902	\$ 3,164,678
Bank Loans in USD(b)	LIBOR + spread	Between 2017 and 2019	5,147,597	2,794,000	1,091,694
Accrued Interest			<u>49,670</u>	<u>8,029</u>	<u>4,673</u>
Total			<u>\$ 7,700,053</u>	<u>\$ 6,498,931</u>	<u>\$ 4,261,045</u>

- (a) As of December 31, 2016, the Entity has bank loans guaranteed with portfolio for \$4,461,892 and unsecured bank loans for \$3,582,991. Such lines were granted by 13 institutions to finance the growth of the loan portfolio and increase working capital. The loans are granted by financial institutions widely recognized in the Mexican Financial System. The lines of credit have maturity dates of between 90 days and three years and pay interest at a variable rate.
- (b) As of December 31, 2016 the Entity has two syndicated bank loans in foreign currency for a total of US \$100 million, which, valued at the close of the year, represents MX \$2,024,462 and pays interest at a variable LIBOR rate plus percentage points.

Contractual maturities of debt are as follows:

	Amount
2017	\$ 5,752,048
2018	4,207,255
2019	2,635,975
2020	11,623,000
Accrued interest	<u>370,218</u>
Total	<u>\$ 24,588,496</u>

15. Accrued liabilities and other accounts payable

As of December 31, 2016, 2015 and January 1, 2015, were comprised as follows:

	2016	2015	January 1, 2015
Provisions for various obligations	\$ 125,215	\$ 61,381	\$ 44,924
Liability for employee retirement obligations	29,615	24,891	19,953
Taxes payable	50,472	38,316	27,129
Dividends payable	2,361	158,712	1,825
Other accounts payable to distributors	208,087	287,845	196,781
Value Added Tax (VAT) payable	15,812	53,743	40,880
Other	<u>17,359</u>	<u>17,210</u>	<u>14,619</u>
	<u>\$ 448,921</u>	<u>\$ 642,098</u>	<u>\$ 346,111</u>

16. Labor obligations

Under the Federal Labor Law, the Entity has obligations for severance and seniority premiums payable to employees who cease rendering services under certain circumstances, as well as other obligations derived from a labor agreement.

Net periodic cost for the obligations derived from seniority premium and severance payments for obligations assumed was \$5,236, \$4,553 and \$3,616 in 2016, 2015 and 2014, respectively.

The Entity each year records the net periodic cost to create a fund to cover the net projected liability for seniority premiums, pensions and severance, thereby increasing the related liability, in accordance with actuarial calculations made by independent actuaries. These calculations are based on the projected unit credit method. Therefore, a provision is being created for the liability which at present value will cover the defined benefits obligation at the estimated retirement date of all the covered employees.

As of December 31, 2016, 2015 and January 1, 2015, the balance of the defined benefits plan fund was \$307, \$289 and \$281, respectively

As of December 31, 2016, 2015 and January 1, 2015, the Entity amortizes the variations in actuarial assumptions for seniority premiums over approximately 4.29, 3.37 and 4.40 years, respectively, based on the average remaining years of employee services.

The accounting changes generated by the initial application of NIF D-3 were recognized retrospectively and therefore the consolidated financial statements were reformulated for an accounting change as established in NIF B-1 "Accounting changes and error corrections".

As of December 31, 2016 and 2015, the gains and losses recorded in the OCI are presented net of their deferred tax liability (asset), which amounted to \$2,459 and (\$1,155), respectively.

The actuarial gains and losses at the time of adoption were recognized in the equity account Other Comprehensive Income and Loss. This amount will be recycled in the results for the year over the remaining average labor life.

As of December 31, 2016, 2015 and January 1, 2015, the balances and movements of the liabilities related to the Entity's defined benefits plan, which includes the pension plan, seniority premiums and severance payments, are shown below:

	2016	2015	January 1, 2015
Obligations from defined benefits	\$ (30,037)	\$ (28,363)	\$ (25,922)
Fair value of plan assets	<u>307</u>	<u>289</u>	<u>281</u>
Overfunded (underfunded) status	(29,730)	(28,074)	(25,641)
Unamortized items:			
Unrecognized plan improvements	-	1,501	1,696
Unrecognized actuarial losses	<u>-</u>	<u>1,682</u>	<u>3,992</u>
Projected net liability	<u>\$ (29,730)</u>	<u>\$ (24,891)</u>	<u>\$ (19,953)</u>

Net periodic cost is composed as follows:

	2016	2015	January 1, 2015
Services cost for the year	\$ 2,899	\$ 2,500	\$ 2,052
Financial cost	2,361	2,087	1,802
Expected yield on assets	(24)	(34)	(20)
Amortization of actuarial losses	-	-	(1)
Obligation reduction effect	-	-	(292)
Modification of obligations	-	-	195
Immediate recognition of actuarial losses for the year	<u>-</u>	<u>-</u>	<u>(120)</u>
Services cost for the year	<u>\$ 5,236</u>	<u>\$ 4,553</u>	<u>\$ 3,616</u>

Interest rates used in actuarial calculation in nominal terms for 2016, 2015 and 2014 were as follows:

	2016	2015	January 1, 2015
Discount rate	9.00%	8.50%	8.25%
Expected rate of return on assets	9.00%	8.50%	3.75%
Percentage increase in wages	4.75%	4.75%	3.75%

The movement of the projected net liability was as follows

	2016	2015	January 1, 2015
Opening balance	\$ (24,891)	\$ (19,953)	\$ (16,337)
Re-measurements recognized in ORI Consolidated Company	180	(470)	-
Provision of the year	<u>(5,019)</u>	<u>(4,468)</u>	<u>(2,985)</u>
Projected net liability	<u>\$ (29,730)</u>	<u>\$ (24,891)</u>	<u>\$ (19,953)</u>

17. Transactions and balances with related parties

The Entity, its subsidiaries and affiliates perform transactions between related parties including investments, credit and the provision of services, among others, the majority of which generate income for one entity and expenses for another. Transactions and balances with consolidated entities consolidate were eliminated and those of entities which do not consolidate are reflected in these consolidated financial statements.

a) Transactions with related parties, carried out in the ordinary course of business were as follows:

	2016	2015	January 1, 2015
Assets:			
Corporate loan portfolio	\$ 2,441,264	\$ 982,856	\$ 146,292
Receivables for services provided	<u>10,032</u>	<u>9,091</u>	<u>751,100</u>
Total Assets	<u>\$ 2,451,296</u>	<u>\$ 991,947</u>	<u>\$ 897,392</u>
Liabilities:			
Intercompany loans	<u>\$ (2,441,264)</u>	<u>\$ (982,856)</u>	<u>\$ 146,292</u>
Payables for services received	<u>(10,032)</u>	<u>(9,091)</u>	<u>751,100</u>
Total Liabilities	<u>\$ (2,451,296)</u>	<u>\$ (991,947)</u>	<u>\$ 897,392</u>
Results:			
Positive interest accrued	\$ 704,933	\$ 560,318	37,032
Interest paid	(704,933)	(560,318)	(37,032)

18. Stockholders' Equity

Capital stock as of December 31, 2016, 2015 and January 1, 2015, was comprised as follows:

	Number of Shares (Class I) Fixed Capital	Number of Shares (Class II) Variable Capital	Total stocks
“Unique” Series shares at no par value	<u>37,555,390</u>	<u>354,664,034</u>	<u>392,219,424</u>

A Stockholders' Ordinary Meeting held on February 26, 2016 agreed that because the individual financial statements approved by such Meeting reported net income of \$1,371,358 in fiscal year 2015, the following application should be made:

a. The transfer of \$1,371,358 of the Entity's individual income was transferred to the account “Result from previous years”.

As of December 31, 2016, common stock is \$660,154, of which \$62,931 refers to fixed capital (with no right of withdrawal), represented by 37,555,390 Unique Series, Class I ordinary, no par value shares, while \$597,223 refers to variable capital, represented by 354,664,034 Unique Series, Class II ordinary, no par value shares.

A Stockholders' Ordinary and Extraordinary Meeting held on April 22, 2015 agreed that because the individual financial statements approved by such Meeting reported net income of \$1,224,801 in fiscal year 2014, the following applications should be made:

- a. The transfer of \$5,894 from the Entity's individual net income, equivalent to 0.48% of the result for the year, to the heading "Legal reserve", because with such transfer the legal reserve represents 20% of common stock
- b. The remnant of \$1,218,907 of the Entity's individual income was transferred to the account "Result from previous years".

A Stockholders' Ordinary General Meeting held on November 13, 2015 adopted the following resolutions:

The payment to shareholders of a cash dividend taken from the account "Results from previous years" up to the amount of \$156,888, payable at the latest January 29, 2015.

The dividend payments approved to stockholders, as described above, were from the Net Tax Income Account ("CUFIN").

The Entity has a share buyback program up to the amount of net income, including the retained earnings from the immediately preceding year. At the close of the year 2016, 2015 and 2014 the amount of repurchased shares is \$75,570, \$51,203 and \$10,125 equivalent to 2,612,248, 1,342,516 and 320,313 shares.

In accordance with the General Corporate Law, at least 5% of the net profits for the year must be set aside to form the legal reserve until reaching 20% of common stock at par value. The legal reserve may be capitalized, but cannot be distributed unless the Company is dissolved, and must be replenished when it is decreased for any reason. As of December 31 2016, 2015 and January 1, 2015, the legal reserve established by the Entity amounts to \$132,030, \$132,030 and \$126,136, respectively.

Stockholders' equity, except restated paid-in capital and tax-retained earnings, will incur income tax payable by the Entity at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against income tax of the year in which the dividend tax is paid and, in the following two years, against tax for the year and the related estimated payments.

Dividends paid from the profits generated from January 1, 2014 to residents in Mexico and to nonresident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Entity.

Retained earnings that may be subject to withholding of up to 10% on distributed dividends is as follows:

Period	Amount	Distributed earnings	Reinvested earnings	Amount not subject to withholding
2014	\$ 85,000	\$ 168,655	\$ -	\$ 168,655
2015	\$ -	\$ 156,888	\$ 156,888	\$ -

The balances of the stockholders' equity tax accounts as of December 31, 2016, 2015 and 2014 are:

	2016	2015	January 28, 2015
Net tax income account	<u>\$ 16,894</u>	<u>\$ 98,122</u>	<u>\$ 58,758</u>
Contributed capital account	<u>\$ 2,622,611</u>	<u>\$ 2,537,356</u>	<u>\$ 2,498,363</u>

19. Balances and transactions in foreign currencies

a. The monetary position of foreign currencies as of December 31, 2016, 2015 and January 1, 2015 is :

	2016	2015	January 1, 2015
USD Dollars:			
Monetary assets	390,012	103,131	-
Monetary liabilities	<u>257,494</u>	<u>86,788</u>	<u>-</u>
Position (short) long	<u>132,518</u>	<u>16,343</u>	<u>-</u>
Equivalent in pesos	<u>\$ 2,732,500</u>	<u>\$ 281,895</u>	<u>\$ -</u>

b. Transactions in foreign currencies were as follows :

	2016	2015 (USD Dollars)	January 1, 2015
Interest expenses	<u>\$ (18,173)</u>	<u>\$ (1,771)</u>	<u>\$ -</u>
Interest income	<u>\$ 107,182</u>	<u>\$ 12,088</u>	<u>\$ -</u>

c. Exchange rates in pesos wing force date of the financial statements and the date of the auditor's report were as follows:

	2016	December 31, 2015	2014	February 28, 2017
Dollar, banking	<u>\$ 20.6198</u>	<u>\$ 17.2487</u>	<u>\$ 14.7414</u>	<u>\$ 19.9957</u>

20. Other operating income

As December 31, 2016, 2015 and 2014, were as follow:

	2016	2015	2014
Other revenue Central América	\$ 143,932	\$ -	\$ -
Other revenue US	108,393	-	-
Other revenue management services	<u>14,926</u>	<u>36,241</u>	<u>23,684</u>
	<u>\$ 267,251</u>	<u>\$ 36,241</u>	<u>\$ 23,684</u>

21. Income taxes

The Entity is subject to ISR. Under the LISR, the rate is 30% in 2015 and 2014 and it will continue at 30% in 2016 and thereafter.

ISR is computed taking into consideration the taxable and deductible effects of inflation, such as depreciation calculated on values in constant pesos, increased or reduced by the effect of inflation on certain monetary assets and liabilities through the annual inflation adjustment.

The provision of ISR results is as follows:

	2016	2015	January 1, 2015
ISR:			
Current	\$ (234,046)	\$ (85,927)	\$ (20,063)
Deferred	\$ (270,356)	\$ (335,659)	\$ (314,697)
Stock deferred	\$ (98,335)	\$ -	\$ -

As of December 31 2016, 2015 and January 1, 2015, the deferred tax balance is as follows:

	2016	2015	January 1, 2015
Deferred ISR assets:			
Allowance for loan losses	\$ 497,977	\$ 320,761	\$ 176,155
Furniture and fixtures	22,950	41,473	4,598
Provisions	17,152	19,518	13,143
Tax loss carryforwards	369,168	89,863	172,328
Other assets, net	37,078	1,968	1,930
Deferred ISR	944,325	473,583	368,154
Deferred ISR (liability):			
Other accounts receivable, net (a)	(1,749,544)	(1,456,761)	(998,861)
Advance payments	(167,109)	(113,328)	(135,416)
Derivative financial instruments	(373,585)	-	-
Deferred ISR liability	(2,290,238)	(1,570,089)	(1,134,277)
Deferred ISR (net)	\$ (1,345,913)	\$ (1,096,506)	\$ (766,123)

(a) Mainly advance earned income in the first period loan amortization.

Value-added tax - Pursuant to the Value-Added Tax Law, in order to obtain a credit for the value-added taxes paid by the Entity in the years 2016, 2015 and 2014, the Entity determined the amount of the credit considering the total of its taxed activities compared to the total activities subject to that tax. As a result, the Entity determined tax that was non-creditable and deductible for income tax purposes in the amount of \$82, \$26 and \$34, respectively, which was recognized in results of such year.

Accounting-tax reconciliation - The main items that affected the determination of the Entity's tax result were those related to the annual adjustment for inflation, interest accrued in advance period, advance payments and the allowances for loan losses which have not been deductible

Following is a reconciliation of the statutory ISR rate and the effective rate expressed as a percentage of income before ISR:

	2016	2015	2014
Statutory rate	30%	30%	30%
Effects of inflation	-%	(3%)	(8%)
Interest accrued in advance period	(6%)	(1%)	(1%)
Allowance for loan losses	1%	2%	2%
Advance payments	1%	2%	(1%)
Others	1%	(6%)	(2%)
Effective rate	27%	24%	20%

Tax loss carry forwards - As of December 31, 2016, the Entity has tax loss carry forwards for ISR purposes:

Maturity Date	Amount
2024	\$ 336,003
2026	<u>887,786</u>
	<u>\$ 1,223,789</u>

Review and tax matters

Action for annulment filed against the unpaid tax liability for rejection of deductions for the year 2007.

On July 9, 2015, the Entity filed an action for annulment against the Federal Tax Court to challenge official notice 900 06-2016-13558, dated April 29, 2015, whereby the Central Administrator for Inspection of the Financial Sector of the General Administration for Large Taxpayers of the Tax Administration Service, assessed against the Company an unpaid tax liability for \$38,090, related to income tax payable for fiscal year 2007, plus the respective restatements, surcharges and fines.

Such lawsuit was turned over to the First Metropolitan Regional Court of the Federal Tax Court which, through a ruling dated September 1, 2016, accepted the case, and assigned it docket number 17549/15-17-01-8.

The Entity is currently waiting for the expert evidence to be submitted in the lawsuit, after which a date will be set to present closing arguments, after which the respective verdict will be issued.

Management and its outside legal advisors consider it very unlikely that the tax liability assessed will be confirmed.

22. Memorandum accounts

Memorandum accounts for purposes of presentation required by the Commission in accounting policies are an integral part of the balance sheet, however, the memorandum accounts were only subject of external audit and relate to operations that have a direct bearing on the balance sheet accounts, however, these are not reviewed.

23. Comparative table of main asset and liability maturities

Main asset and liability maturities at December 31, 2016 are as follows:

	Until 6 months	From 6 months to 1 year	From 1 year to 5 years	Total
Cash and cash equivalents	\$ 315,774	\$ -	\$ -	\$ 315,774
Investment in securities	992,675	-	-	992,675
Derivative financial instruments	-	-	2,466,926	2,466,926
Loan portfolio,(net)	3,284,613	2,465,129	17,409,820	23,159,562
Other accounts receivable	<u>491,317</u>	<u>386,233</u>	<u>2,727,752</u>	<u>3,605,302</u>
Total assets	<u>\$ 5,084,379</u>	<u>\$ 2,851,362</u>	<u>\$ 22,604,498</u>	<u>\$ 30,540,239</u>

	Until 6 months	From 6 months to 1 year	From 1 year to 5 years	Total
Notes payable and Senior Notes	\$ 1,070,548	\$ -	\$ 15,817,895	\$ 16,888,443
Bank loans	3,257,774	1,793,942	2,648,337	7,700,053
Other accounts payable	<u>674,321</u>	<u>-</u>	<u>29,279</u>	<u>703,600</u>
Total liabilities	<u>5,002,643</u>	<u>1,793,942</u>	<u>18,495,511</u>	<u>25,292,096</u>
Assets less liabilities	<u>\$ 81,736</u>	<u>\$ 1,057,420</u>	<u>\$ 4,108,987</u>	<u>\$ 5,248,143</u>

24. Contingencies

As of December 31, 2016, 2015 and January 1, 2015, management and its legal, tax and labor internal and external advisers, consider that it has not received any legal claims or has not been subject to lawsuits that arise in the recognition of a contingent liability by the Entity.

25. Commitments

The Entity at December 31 2016, 2015 and January 1, 2015, has its own commitments and the operation mentioned in Note 13 “Indebtedness” and Note 14 “Bank Loans and other loans”.

26. Subsequent events

As of February 21, 2017, the Entity entered into an unsecured loan contract with Credit Suisse Ag. Cayman Islands Branch for US 110,000,000 at a fixed annual rate in Mexican pesos of 7.22%, for a three-year term, whose principal and interest are covered by the respective financial derivative. The resources will be used for debt refinancing.

27. Business segment information

Currently, the Entity has one operating segment, the loan portfolio, which represents the Entity’s sole strategic business unit. Operating segment information is determined based on the information used by management to assess performance and allocate resources. The following presents information for each business unit determined by Management. In addition, information is presented by products and geographical area.

	2016			
	Mexico	USA	Central America	Total
Payroll loans	\$ 14,530,433	\$ -	\$ 4,390,736	\$ 18,921,169
Group loans	418,402	-	-	418,402
Durable goods loans	440,381	-	-	440,381
Small business loans	1,368,462	-	-	1,368,462
Used car loans	<u>460,797</u>	<u>2,317,811</u>	<u>-</u>	<u>2,778,608</u>
Total	<u>\$ 17,218,475</u>	<u>\$ 2,317,811</u>	<u>\$ 4,390,736</u>	<u>\$ 23,927,022</u>

	2015			
	Mexico	United State	Central America	Total
Payroll loans	\$ 12,952,957	\$ -	\$ -	\$ 12,952,957
Group loans	304,785	-	-	304,785
Durable goods loans	1,028,362	-	-	1,028,362
Small business loans	1,485,472	-	-	1,485,472
Used car loans	<u>366,628</u>	<u>1,471,435</u>	<u>-</u>	<u>1,838,063</u>
Total	<u>\$ 16,138,204</u>	<u>\$ 1,471,435</u>	<u>\$ -</u>	<u>\$ 17,609,639</u>

	January 1, 2015			
	Mexico	United State	Central America	Total
Payroll loans	\$ 10,697,066	\$ -	\$ -	\$ 10,697,066
Group loans	290,901	-	-	290,901
Durable goods loans	1,138,273	-	-	1,138,273
Small business loans	1,318,326	-	-	1,318,326
Used car loans	<u>360,339</u>	<u>-</u>	<u>-</u>	<u>360,339</u>
Total	<u>\$ 13,804,905</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,804,905</u>

The loan portfolio which shows arrears in excess of 90 calendar days, and up to 180 calendar days, at the end of December 2016, 2015 and 2014, was \$926,315, \$687,168 and \$487,683, respectively. By the same token, the joint and several liability of the distributors for overdue loans as of those dates is \$409,309, \$271,078 and \$227,223, respectively, and is presented under Other accounts receivable. Accordingly, as of December 31, 2016, 2015 and 2014, the overdue loan portfolio was \$517,006, \$416,090 and \$260,638, respectively.

28. New accounting principles

As of December 31, 2016, the CINIF has issued the following NIFs and Improvements to NIFs which may affect the financial statements of the Entity.

Improvements to NIF 2017 - The following improvements were issued which generate accounting changes effective as of January 1, 2017:

NIF B-13, *Events after the date of the financial statements*, NIF B-6, *Statement of financial position*, NIF C-19, *Financial instruments payable*, and NIF C-20, *Financial instruments receivable* – If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

NIF C-4, *Inventories* and NIF C-6, *Properties, plant and equipment* – Require the disclosure of the amount of the inventories or machinery and equipment received and held temporarily on consignment, under administration, for maquila operations or for display, when there is a commitment to return them.

NIF C-11, *Stockholders' equity* – Establishes that the costs incurred to list shares in a stock market which at the date of such listing were already the property of investors, and for which the issuing entity had already received the respective proceeds, should be recognized in net income or loss at the time of their accrual, because it is considered that there was no equity transaction. It also clarifies that any expense incurred in the re-issuance of repurchased shares should be recognized as a reduction of the capital issued and placed.

NIF D-3, *Employee benefits* – Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term labor liability should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the *government bond market rate* or the *market rate for high-quality corporate bonds in absolute terms in a deep market*, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– *Application guidance*, B1– *Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market*. Early application is allowed.

a. Improvements to NIF 2017 – The following improvements do not generate accounting changes:

NIF C-2, *Investment in financial instruments*
NIF C-3, *Accounts receivable*
Bulletin C-15, *Impairment in the value of long-lived assets and their disposal*
NIF C-16, *Impairment of financial instruments receivable*
NIF C-20, *Financial instruments to collect principal and interest*

The improvements consist of outlining the scopes and definitions of these NIF to clearly indicate the appropriate application and accounting treatment; consequently, no effective date was established for these improvements. Furthermore, improvements were made to different NIF to change the acronyms used to identify certain receivable financial instruments.

b. The following NIF were issued and are effective January 1, 2018:

NIF B-17, *Determination of fair value*
NIF C-2, *Investments in financial instruments*
NIF C-3, *Accounts receivable*
NIF C-9, *Provisions, contingencies and commitments*
NIF C-10, *Financial derivatives and hedging relationships*
NIF C-16, *Impairment of financial instruments receivable*
NIF C-19, *Financial instruments payable*
NIF C-20, *Financial instruments receivable*
NIF D-1, *Revenues from contracts with customers*
NIF D-2, *Costs from contracts with customers*

NIF B-17, *Determination of fair value* – Defines fair value.

NIF C-2, *Investment in financial instruments (FI)* – The main change in this standard is the classification of the FI in which the investment is made. The intention of acquisition and utilization of an investment in an FI is discarded for purposes of determining its classification, and is replaced by the business model concept for the management of investments in FI to procure cash flows, which may be obtaining a contractual return from an FI, from the collection of contractual returns and/or sale or obtaining profits from their purchase and sale, with the aim of classifying the different FI. Furthermore, the investments in FI cannot be reclassified between the different categories (loans and receivables, financial liabilities at fair value and trading), unless the business model changes, which is considered unlikely to occur.

NIF C-3, *Accounts receivable* – The main changes consist of specifying that: a) the accounts receivable based on a contract represent a financial instrument; b) the allowance for bad debts for commercial accounts is recognized from the time the revenue is accrued, based on the expected credit losses; c) the time value of money should be considered as of the initial recognition; consequently, if the effect of the present value of the account receivable is material based on its term, it should be adjusted based on such present value, and d) required disclosures include an analysis of the change between the opening and closing balances of the allowance for bad debts.

NIF C-9, *Provisions, contingencies and commitments* – The term *probable* replaced the term *virtually avoidable* in the definition of liabilities. The first-time application of this NIF does not generate accounting changes in the financial statements.

NIF C-16, Impairment of financial instruments receivable (FIR) – Determine when and how the expected losses from impairment of FIR should be recognized; this is when, as result of an increase in the credit risk, it is concluded that a part of the future cash flows from the FIR will not be recovered, and proposes that the expected loss should be recognized based on the historical experience of credit losses, current conditions and reasonable and sustainable forecasts of the various quantifiable future events that might affect the amount of the future recoverable cash flows of the FIR, which means that estimates must be made and should be periodically adjusted based on past experience. Furthermore, in relation to interest-bearing FIR, entities shall estimate the amount and timing for the cash flows expected to be recovered, as the recoverable amount must be recognized at present value.

NIF C-19, Financial instruments payable – Establishes: a) the possibility of valuing, after their initial recognition, certain financial liabilities at fair value, when certain exceptional conditions are fulfilled; b) the valuation of long-term liabilities at their present value at initial recognition, considering their present value when their term exceeds one year or outside normal credit conditions, and c) when a liability is restructured, but the future cash flows to settle the liability are not substantially modified, the costs and commissions disbursed in this process will affect the amount of the liability and will be amortized based on a modified effective interest rate, instead of directly affecting the net income or loss.

NIF C-20, Financial instruments receivable – Specifies the classification of financial instruments in the assets, based on the business model: a) if the intention is to generate a profit through a contractual return, predetermined in a contract, they are recognized at amortized cost; b) if they are also used to generate a profit based on their purchase and sale, they are recognized at fair value. Any embedded financial derivative that modifies the cash flows of principal and interest from the host instrument will not be separated; instead, all will be valued at fair value, as if it were a negotiable financial instrument.

NIF D-1, Revenues from contracts with customers – Previously there was no Mexican accounting standard for revenue recognition, for which reason the main changes focus on providing greater consistency in revenue recognition and eliminating weaknesses in the previous supplemental standards. The most important changes consist of establishing a model for revenue recognition based on the following steps: a) transfer of control, the basis for the timeliness of revenue recognition; b) the identification of the different performance obligations in a contract; c) the allocation of the transaction amount between the different unfulfilled obligations based on independent selling prices; d) the introduction of the concept *conditional account receivable*, when an unfulfilled obligation is satisfied and an unconditional right to the consideration is generated because only the passage of time is required for the payment of such consideration to become enforceable; e) the recognition of collection rights, where in certain cases there may be an unconditional right to the consideration before an unfulfilled obligation is satisfied, and f) the valuation of the revenue, considering aspects such as the recognition of significant financing components, the noncash consideration cash and the consideration payable to a customer.

NIF D-2, Costs from contracts with customers – Separates the standard for recognition of the costs from contracts with customers from that related to recognition of the revenues from contracts with customers, and expands the scope to include costs related to all types of contracts with customers.

At the date of issuance of these consolidated financial statements, the Entity has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

29. Authorization to issue the consolidated financial statements

The consolidated financial statements were authorized for issuance on February 28, 2017, by the Director General of the Entity and are subject to approval by the Board of Directors and Shareholders, who may be modified in accordance with the provisions in the General Law of Commercial Companies.

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**Crédito Real, S.A.B. de
C.V., Sociedad Financiera
de Objeto Múltiple,
Entidad Regulada and
Subsidiaries**

Unaudited Condensed
Consolidated Interim
Financial Statements as of
September 30, 2017 and for
the nine months Ended
September 30, 2017 and
2016

Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada and Subsidiaries
Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, Mexico

Unaudited Condensed Consolidated Interim Financial Statements as of September 30, 2017 and for the Nine Months ended September 2017 and 2016

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**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple,
Entidad Regulada and Subsidiaries**
Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

Unaudited Condensed Consolidated Interim Balance Sheets

As of September 30, 2017 and December 31, 2016
(In thousands of Mexican pesos)

Assets	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 580,194	\$ 315,774
Investment in Securities:		
Trading securities	<u>740,937</u>	<u>992,675</u>
	740,937	992,675
Derivatives:		
Trading purposes	-	286,792
Hedging purposes	<u>715,094</u>	<u>2,180,134</u>
	715,094	2,466,926
Performing loan portfolio:		
Commercial loans:		
Commercial or business activity	20,062,273	16,656,043
Consumer loans:	<u>5,999,249</u>	<u>6,753,971</u>
Total performing loan portfolio	26,061,522	23,410,014
Non-Performing loan portfolio:		
Commercial loans:		
Commercial or business activity	350,097	323,793
Consumer loans:	<u>266,291</u>	<u>193,215</u>
Total non-performing loan portfolio	<u>616,388</u>	<u>517,008</u>
Loan portfolio	26,677,910	23,927,022
Less - Allowance for loan losses	<u>(982,684)</u>	<u>(767,460)</u>
Loan portfolio, net	25,695,226	23,159,562
Other accounts receivable, net:	3,838,932	3,577,298
Foreclosed assets, net	9,738	28,004
Property furniture and fixtures, net	348,486	262,126
Investment in shares of associates	1,020,954	1,057,821
Other assets, (net)		
Deferred charges, advance payments and intangibles	4,030,307	3,849,668
Other short and long-term assets	<u>166,002</u>	<u>205,502</u>
	<u>4,196,309</u>	<u>4,055,170</u>
Total assets	<u>\$ 37,145,870</u>	<u>\$ 35,915,356</u>

Memorandum accounts

Credit Commitments
Uncollected interest earned on non-performing portfolio

Liabilities	September 30, 2017	December 31, 2016
Notes Payable (Securitized Certificates)	\$ 3,475,216	\$ 2,759,170
Senior Notes Payable	<u>11,564,782</u>	<u>14,129,273</u>
	15,039,998	16,888,443
Bank loans:		
Short-term loans	3,404,294	5,051,718
Long-term loans	<u>6,248,428</u>	<u>2,648,335</u>
	9,652,722	7,700,053
Derivatives:		
Hedging purposes	<u>989,500</u>	-
	989,500	-
Other accounts payable:		
Income taxes payable	288,358	236,252
Employee profit sharing payable	13,783	18,427
Accrued liabilities and other accounts payable	<u>223,686</u>	<u>448,921</u>
	525,827	703,600
Deferred taxes, net	<u>1,548,992</u>	<u>1,345,913</u>
Total liabilities	27,757,039	26,638,009
Stockholders' Equity		
Paid in Capital:		
Capital stock	660,154	660,154
Share subscription premium	<u>1,470,647</u>	<u>1,450,269</u>
	2,130,801	2,110,423
Earned Capital:		
Legal reserve	132,030	132,030
Retained earnings	5,411,872	4,244,142
Result from valuation of cash flow hedges, net	(17,522)	229,447
Cumulative translation adjustment	(109,325)	167,623
Re-measurements of employee defined benefits	-	2,459
Net income attributable to controlling interest	1,222,142	1,714,001
Non-controlling interest	<u>618,833</u>	<u>677,222</u>
	<u>7,258,030</u>	<u>7,166,924</u>
Total stockholders' equity	<u>9,388,831</u>	<u>9,277,347</u>
Total liabilities and stockholder equity	<u>\$ 37,145,870</u>	<u>\$ 35,915,356</u>

	September 30, 2017	December 31, 2016
Credit Commitments	<u>\$ 123,675</u>	<u>\$ 452,071</u>
Uncollected interest earned on non-performing portfolio	<u>\$ 505,852</u>	<u>\$ 505,852</u>

“The historical balance of capital stock as of September 30, 2017, and December 31, 2016 is \$660,154, for each year”.

See accompanying notes to unaudited condensed consolidated interim financial statements.

**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple,
Entidad Regulada and Subsidiaries**
Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

**Unaudited Condensed Consolidated Interim
Statements of Income**

For the nine months ended September 30, 2017 and 2016
(In thousands of Mexican pesos)

	Nine months ended September 30,	
	2017	2016
Interest income	\$ 6,199,852	\$ 5,119,018
Interest expense	<u>(2,013,404)</u>	<u>(1,316,552)</u>
Financial margin	4,186,448	3,802,466
Provisions for loan losses	<u>(951,928)</u>	<u>(541,470)</u>
Financial margin after provision for loan losses	3,234,520	3,260,996
Commissions and fees received	599,147	393,064
Commissions and fees paid	(174,342)	(297,142)
Intermediation income	112,814	302,247
Other operating income	265,066	317,506
Administrative and marketing expense	<u>(2,419,652)</u>	<u>(2,115,477)</u>
Operating result	1,617,553	1,861,194
Equity in income of associates	<u>109,034</u>	<u>92,305</u>
Income before income taxes	1,726,587	1,953,499
Current income taxes	194,953	147,445
Deferred income taxes	<u>203,079</u>	<u>344,679</u>
	<u>398,032</u>	<u>492,124</u>
Consolidated net income	<u>\$ 1,328,555</u>	<u>\$ 1,461,375</u>
Net income attributable to controlling interest	<u>\$ 1,222,142</u>	<u>\$ 1,368,718</u>
Non-controlling interest	<u>\$ 106,413</u>	<u>92,657</u>
Earnings per share	<u>\$ 3.12</u>	<u>\$ 3.49</u>
Weighted average shares outstanding	392,219,424	392,219,424

See accompanying notes to unaudited condensed consolidated interim financial statements.

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**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple,
Entidad Regulada and Subsidiaries**
Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

**Unaudited Condensed Consolidated Interim
Statements of Changes in Stockholders' Equity**

For the nine months ended September 30, 2017 and 2016
(In thousands of Mexican pesos)

	Paid in Capital			Earned Capital					Non-controlling interest	Total stockholders' equity
	Capital stock	Share subscription premium	Legal reserve	Retained earnings	Results from valuation of cash flow hedges	Cumulative translation effect	Re-measurements of employee defined benefits	Net income attributable to controlling interest		
Balances as of January 1, 2016	\$ 660,154	\$ 1,447,985	\$ 132,030	\$ 2,904,308	\$ 89,270	\$ 2,754	\$ (1,155)	\$ 1,371,358	\$ 105,841	\$ 6,712,545
Changes arising from stockholder decisions-										
Transfer of prior year results	-	-	-	1,371,358	-	-	-	(1,371,358)	-	-
Repurchase of own shares	-	6,253	-	41,871	-	-	-	-	-	48,124
Total entries approved by stockholders	-	6,253	-	1,413,229	-	-	-	(1,371,358)	-	48,124
Changes affecting comprehensive income-										
Result from consolidation of minority interest companies	-	-	-	-	-	-	-	-	449,665	449,665
Result from valuation of cash flow hedging instruments	-	-	-	-	190,269	-	-	-	-	190,269
Cumulative translation effect	-	-	-	-	-	109,574	-	-	(14,774)	94,800
Re-measurements of employee defined benefits	-	-	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	-	-	1,368,718	92,657	1,461,375
Total comprehensive income	-	-	-	-	190,269	109,574	-	1,368,718	527,548	2,196,109
Balances as of September 30, 2016	\$ 660,154	\$ 1,454,238	\$ 132,030	\$ 4,317,537	\$ 279,539	\$ 112,328	\$ (1,155)	\$ 1,368,718	\$ 633,389	\$ 8,956,778
Balances as of January 1, 2017	\$ 660,154	\$ 1,450,269	\$ 132,030	\$ 4,244,142	\$ 229,447	\$ 167,623	\$ 2,459	\$ 1,714,001	\$ 677,222	\$ 9,277,347
Changes arising from stockholder decisions-										
Transfer of prior year results	-	-	-	1,714,001	-	-	-	(1,714,001)	-	-
Allowance for loan losses portfolio by change in classification methodology, net of income tax	-	-	-	(361,898)	-	-	-	-	-	(361,898)
Repurchase of own shares	-	20,378	-	(90,032)	-	-	-	-	-	(69,654)
Dividend payments	-	-	-	(96,800)	-	-	-	-	-	(96,800)
Total entries approved by stockholders	-	20,378	-	1,165,271	-	-	-	(1,714,001)	-	(528,352)
Changes affecting comprehensive income-										
Result from valuation of cash flow hedging instruments	-	-	-	-	(246,969)	-	-	-	-	(246,969)
Cumulative translation effect	-	-	-	-	-	(276,948)	-	-	(164,802)	(439,291)
Re-measurements of employee defined benefits	-	-	-	2,459	-	-	(2,459)	-	-	-
Net income	-	-	-	-	-	-	-	1,222,142	106,413	1,328,555
Total comprehensive income	-	-	-	2,459	(246,969)	(276,948)	(2,459)	1,222,142	(58,389)	639,836
Balances as of September 30, 2017	\$ 660,154	\$ 1,470,647	\$ 132,030	\$ 5,411,872	\$ (17,522)	\$ (109,325)	\$ -	\$ 1,222,142	\$ 618,833	\$ 9,388,831

See accompanying notes to unaudited condensed consolidated interim financial statements.

**Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple,
Entidad Regulada and Subsidiaries**
Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

**Unaudited Condensed Consolidated Interim
Statements of Cash Flows**

For the nine months ended September 30, 2017 and 2016
(In thousands of Mexican Pesos)

	Nine months ended September 30,	
	2017	2016
Consolidated net income	\$ 1,328,555	\$ 1,461,375
Adjustments for items that do not result in cash flows:		
Depreciation of furniture and fixtures	237,937	95,000
Amortization of intangibles assets	84,370	30,000
Deferred income taxes	203,079	492,124
Equity in income of associates	<u>(109,034)</u>	<u>(92,305)</u>
	1,744,907	1,986,194
Operating activities:		
Change in investment in securities	251,738	(2,660,724)
Change in derivatives (asset)	2,494,363	46,346
Change in loan portfolio (net)	(2,897,562)	(2,506,803)
Change in other accounts receivables (net)	(261,634)	(1,681,231)
Change in foreclosed assets (net)	18,266	-
Change in other assets	(141,139)	198,579
Change in senior notes and notes payable	(1,848,445)	4,908,317
Change in bank loans	1,952,669	(489,436)
Change in other accounts payable	<u>(177,773)</u>	<u>215,201</u>
Net cash flows from operating activities	1,135,390	16,443
Investing activities:		
Net cash and marketable securities delivered in connection with business acquisition	-	(392,912)
Acquisitions of property and equipment	(408,667)	(100,362)
Dividends received in cash	63,782	26,672
Investments in shares	<u>82,119</u>	<u>-</u>
Net cash flows from investing activities	<u>(262,766)</u>	<u>(466,602)</u>
Financing activities:		
Cash flow generated from hedging instruments	-	752,300
Dividends paid in cash	(96,800)	-
Share subscriptions premium	94,574	-
Repurchase of own shares	(164,228)	-
Other	<u>-</u>	<u>6,523</u>
Net cash flows from financing activities	<u>(166,454)</u>	<u>758,823</u>
Net increase in cash and cash equivalents	706,170	308,664
Effect for change in the value of cash and equivalents	(441,750)	94,801
Cash and cash equivalents at beginning of the period	<u>315,774</u>	<u>120,840</u>
Cash and cash equivalents at end of the period	<u>\$ 580,194</u>	<u>\$ 524,305</u>

See accompanying notes to unaudited condensed consolidated interim financial statements.

Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada and Subsidiaries

Av. Insurgentes Sur 730 Piso 20, Colonia Del Valle, Mexico City, México

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

As of September 30, 2017 and December 31, 2016 and for the period of nine months ended September 30, 2017 and 2016

(In thousands of Mexican pesos)

1. Activities and regulatory environment

Crédito Real, S.A.B. de C.V., Sociedad Financiera de Objeto Múltiple, Entidad Regulada and Subsidiaries (the “Entity” or “Crédito Real”), is a non-banking institution in Mexico, focused on consumer lending which has diversified business platform integrated mainly by six business lines: (i) payroll lending, (ii) durable goods loans, (iii) small and medium business loans, (iv) group loans, and (v) used car loans and (vi) Instacredit (Central America), where the loans offered include personal loans, automobile loans, loans for small and medium businesses (PYMES) and others. Loans paid via the payroll are offered to unionized government employees through a national network of 11 distributors with which credit granting agreements have been executed. Crédito Real has executed exclusivity agreements with three of the main distributors and also holds a significant amount of their common stock. The origination of consumer loans ceased as of July 2016, and only internal collection activities for the performing portfolio are being carried out. Loans are granted to small and medium businesses to cover the working capital requirements and investment activities of micro, small and medium enterprises; these resources are provided through a specialized broker or under the Entity’s own trademark. Group loans are mainly offered to groups of women with a productive activity by using the joint credit methodology; these loans are granted by two associate entities with a network of 1,523 promoters and 181 branches. Used car loans are granted to acquire preowned automobiles through agreements with 18 car dealers specialized in the purchase-sale of automobiles and a subsidiary with a network of 28 branches that offers financing by receiving automobiles and commercial vehicles as collateral; and finally through two entities which focus mainly on the Hispanic-American market with limited credit history in the United States of America (“EUA”): Don Carro, with five branches in Texas, and AFS Acceptance, which has around 396 distributors in 32 US states. The Entity has a presence in Costa Rica, Nicaragua and Panama with the brand Instacredit, through a network of 72 branches and more than 481 promoters. Instacredit is a recognized brand in Central America, with more than 15 years’ experience, and has a multiproduct platform offering loans in the segments of personal loans, automobile loans, PYMES and home improvements.

Article 87-D of the General Law on Credit Organizations and Ancillary Activities (“LGOAAC”) establishes that multiple purpose financing companies that issue securities listed on the National Securities Registry pursuant to the Securities Law must prepare consolidated financial statements according to the accounting criteria set forth in the General Provisions applicable to credit institutions, exchange houses, regulated credit unions and multiple purpose financial institutions (the “Provisions”) issued by the Mexican National Banking and Securities Commission (the “Commission”).

As the Entity is a regulated multiple purpose financial institution, it is obligated to prepare its consolidated financial statements in accordance with the accounting criteria established by the Commission as set forth in the Provisions.

Payroll Loans

The Entity purchases loans with payment via payroll from distributors which offer credit products to the unionized workers of government agencies. These loans are also offered at times to pensioners or retired persons from the public sector. These loans are granted by distributors with which the Entity operates, and are then acquired by the Entity through financial factoring contracts in portfolio purchase transactions.

The payroll loans are settled through semimonthly installments which are made by the borrowers' employers, which consist of government agencies and other entities, in accordance with loan agreements signed by the borrower. Based on such loan agreements, a borrower authorizes the employer to use amounts deducted from the payroll for the fixed installment payments of the loan during its effective term. The risk of nonperformance decreases substantially over the term of the typical loan. The maximum limit established by government agencies in terms of the percentage of a worker's net salary that can be applied to settle a loan is 30%. The Entity offers certain customers the option of renewing their loans before they expire. However, the Entity does not preauthorize loans under any circumstances.

The relationships that have been established by the distributors, directly and through service providers such as public relations agencies, with the entities and unions that they use or affiliate workers of the federal government agencies and state agencies in different parts of the country, have been formalized through the execution of cooperation agreements, which enable the distributors to offer payroll loans to the affiliated workers of such unions and establish that the government agencies and entities execute the instruction received from the borrowers for the installments of principal and interest on the loans.

In accordance with the cooperation agreements, the government agencies and entities or unions process and grant the "discount codes" so that such agencies or entities can pay the loans by payroll directly (on behalf of the borrowers). Apart from making the payroll deductions and rendering payments directly to the collection trust in which the Entity is the beneficiary, the employers compile periodic reports to the distributors regarding the payroll deductions made on behalf of borrowers. The Distributors are responsible for coordinating with the different agencies and entities, so that the respective computer systems are accurate, and the payments are issued on a timely fashion. The employers do not intervene in any way in the negotiation, credit approval process or in the negotiations of the terms of the loan contract executed by the distributors with the affiliated workers.

The Entity estimates that the cost of procurement and maintenance of the aforementioned cooperation agreements ranges between 3% and 5% of the revenues generated by the payroll loan portfolio. Such cost is fully covered by the distributors.

The Entity's business model enables both the Entity and its distributors to make the most of their respective competitive advantages. While the Entity concentrates on administrating the credit risk, minimizing financial costs and maintaining diversified financing sources, the Distributors concentrate on increasing the number of possible customers through the execution of contracts with additional government agencies and entities or unions or renewing existing contracts, and on promoting the Entity's products among the affiliated workers of such agencies.

PYMES Loans

The Entity has a partnership with Fondo H, S.A. de C.V. SOFOM, ENR ("Fondo H"), a company engaged in making short and medium-term loans to small and medium businesses (PYMES) in Mexico. Its customer base includes businesses from the manufacturing, distribution and services sectors. Based on this partnership, financing is provided exclusively for loans originated by Fondo H.

Used car loans

Used car loans in Mexico are originated through contracts with car companies that sell used cars. Currently 18 partnerships have been executed with distributors in more than 150 points of sale. Additionally, the Entity has a 51% holding in a company which operates under the brand "Drive & Cash", which is engaged in offering financing through the warranty of automobiles and commercial vehicles. As of September 30, 2017, the distribution network of Drive & Cash is composed of 28 branches located in 13 States Nationwide.

The Entity also offers loans for used cars in the US through a subsidiary and/or distributor in which it has a majority stake that operates under the brand "Don Carro" with five branches in Texas. It also has a majority stake in a credit operator for used cars doing business as "AFS Acceptance". Such operator has a service platform which enables it to operate in 32 states throughout the US, and also operating agreements in place with more than 396 distributors in that country.

Consumer Loans

The Entity ceased offering consumer loans as of June 30, 2016, and dedicates resources exclusively to the collection of performing portfolio until completed.

Group Loans

Group loans are originated through two specialized operators which have 1,523 promoters in a network comprising 181 branches. The promoters are familiar with the specific needs of micro-entrepreneurs and the self-employed.

The aforementioned group credit loans refer to non-revolving consumer loan portfolio, with a weekly or half-monthly payment period, granted to groups of persons in which each member is held jointly and severally liable for the total payment of the loan, although the classification of such loan is made individually for each member of the group.

2. Basis of presentation

Interim financial statements - The accompanying unaudited condensed consolidated interim financial statements as of September 30, 2017 and nine-month periods ended September 30, 2017 and 2016, have not been audited. In the opinion of Entity's management, all the adjustments (consisting mainly of ordinary, recurring adjustments) necessary for a fair presentation of the accompanying unaudited condensed consolidated interim financial statements are included. The results of the periods are not necessarily indicative of the results for the full year. These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Entity and the respective notes for the year ended December 31, 2016.

Monetary unit of the financial statements – The unaudited condensed consolidated interim financial statements and notes as of September 30, 2017 and December 31, 2016 and for the period and year then ended, respectively include balances and transactions of different purchasing power.

Consolidation of financial statements – The accompanying unaudited condensed consolidated financial statements include the financial statements of the Entity and those of its subsidiaries in which control is exercised. All significant intercompany balances and transactions have been eliminated.

Subsidiaries	Shareholding percentage	
	2017	2016
Servicios Corporativos Chapultepec, S.A. de C.V.	99.99%	99.99%
Directodo México, S.A.P.I. de C.V. (“Directodo”)	99.99%	99.99%
CR-Fact, S.A.P.I. de C.V.	51.00%	51.00%
Controladora CR México, S.A. de C.V. (“Controladora CR”)	99.97%	99.97%
Crédito Real USA, Inc. (“CR USA”)	100.00%	100.00%
Creal Dallas, LLC (“Creal Dallas”)	98.00%	80.00%
CRholdingint, S.A. de C.V.	99.94%	99.94%

Comprehensive income – Is composed of the net result for the period plus other items that represent a gain or loss for the same period which, in conformity with the accounting practices followed by the Entity, are presented directly in stockholders' equity. As of September 30, 2017 and December 31, 2016, comprehensive income and loss is represented by the net result, the result from valuation of cash flow hedge instruments and the actuarial losses from defined benefit plans.

Translation of financial statements of subsidiaries in foreign currency – To consolidate the financial statements of foreign transactions, they are modified in the recording currency for presentation in the consolidated financial statements of the Entity. The financial statements are translated to Mexican pesos, using the following methodologies: The foreign transactions whose recording currency and functional currency are the same, translate the financial statements at the following exchange rates: 1) closing rate for assets and liabilities, 2) historical rate for stockholders' equity and 3) that of the accrual date for revenues, costs and expenses. The effects of conversion are recorded in stockholders' equity.

Entities	Recording currency	Functional currency	Reporting currency
Creal Dallas	U.S. Dollar	U.S. Dollar	Mexican Peso
CR USA	U.S. Dollar	U.S. Dollar	Mexican Peso
Marevalley Corporation	U.S. Dollar	U.S. Dollar	Mexican Peso
Crédito Real Honduras	Lempira	U.S. Dollar	Mexican Peso

3. Significant account policies

For significant accounting policies, the Entity are in accordance with the accounting criteria prescribed by the Commission, which are set forth in the Provisions and has applied the same accounting policies and methods of computation in the preparation of these unaudited condensed consolidated interim financial statements as those applied in the consolidated financial statements for the year ended December 31, 2016.

According to Accounting Criterion A-1 issued by the Commission, entities shall apply Mexican Financial Reporting Standards (“MFRS, which is comprised of individual standards that are referred to as “NIF”) as issued by the Mexican Board of Financial Reporting Standards, A.C. (“CINIF”), except when in the option of the Commission, it is necessary to apply a specific accounting standard or criterion.

As of January 1, 2017 the Entity adopted the following modifications to the accounting criteria issued by the Commission and its effects are as follows:

The most significant changes are described below:

Improvements to NIF 2017 - The following improvements were issued which generate accounting changes effective as of January 1, 2017:

NIF B-13, *Events after the date of the financial statements*, NIF B-6, *Statement of financial position*, NIF C-19, *Financial instruments payable*, and NIF C-20, *Financial instruments receivable* – If an agreement is reached as of the authorization date for the issuance of the financial statements to maintain the contractual long-term payments of a debt instrument that is in default, such liability may be classified as a long-term item at the date of the financial statements; early application of this guidance as of January 1, 2016 is permitted.

NIF C-11, *Stockholders’ equity* – Establishes that the costs incurred to list shares in a stock market which at the date of such listing were already the property of investors, and for which the issuing entity had already received the respective proceeds, should be recognized in net income or loss at the time of their accrual, because it is considered that there was no equity transaction. It also clarifies that any expense incurred in the re-issuance of repurchased shares should be recognized as a reduction of the capital issued and placed.

NIF D-3, *Employee benefits* – Is modified to establish, as a basic principle, that the discount rate to be used in the determination of the present value of the long-term labor liability should be a free market rate with a very low credit risk, which represents the value of money over time. Consequently, either the *government bond market rate* or the *market rate for high-quality corporate bonds in absolute terms in a deep market*, could be used, indistinctly, provided that the latter complies with the requirements established in Appendix B– *Application guidance, B1– Guidance for the identification of issues of high-quality corporate bonds in absolute terms in a deep market*. Early application is allowed.

Improvements to NIF 2017 – The following improvements do not generate accounting changes:

NIF C-2, *Investment in financial instruments*

NIF C-3, *Accounts receivable*

Bulletin C-15, *Impairment in the value of long-lived assets and their disposal*

NIF C-16, *Impairment of financial instruments receivable*

NIF C-20, *Financial instruments to collect principal and interest*

The improvements consist of outlining the scopes and definitions of these NIF to clearly indicate the appropriate application and accounting treatment; consequently, no effective date was established for these improvements. Furthermore, improvements were made to different NIF to change the acronyms used to identify certain receivable financial instruments.

The above improvements did not impact the Entity's unaudited condensed consolidated financial statements.

4. Investments in securities

As of September 30, 2017 and December 31, 2016, investments in securities were as follows:

September 30, 2017			
	Amount invested	Rate	Amount
Investments in Mexican pesos (pesos)			
Commercial paper (a)	\$ 400,000	7.20%	\$ 400,000
Bank promissory notes (a)	<u>268,049</u>	6.64%	<u>268,194</u>
Total	<u>\$ 668,049</u>		<u>\$ 668,194</u>
Investments in foreign currency (USD)			
Commercial paper (b)	<u>\$ 72,743</u>	3.21%	<u>\$ 72,743</u>
Total	<u>72,743</u>		<u>72,743</u>
Total	<u>\$ 740,792</u>		<u>\$ 740,937</u>
December 31, 2016			
	Amount invested	Rate	Amount
Investments in Mexican pesos (pesos)			
Commercial paper (c)	\$ 473,470	5.39%	\$ 561,566
Bank promissory notes (c)	200,000	5.91%	200,000
Bank promissory notes (c)	<u>44,862</u>	Between +1.75 and +2.25	<u>45,642</u>
Total	<u>\$ 718,332</u>		<u>\$ 807,208</u>
Investments in foreign currency (USD)			
Government paper (d)	\$ 10,306	0.64%	\$ 10,306
Commercial paper (d)	<u>170,541</u>	7.25%	<u>175,161</u>
Total	<u>180,847</u>		<u>185,467</u>
Total	<u>\$ 899,179</u>		<u>\$ 992,675</u>

- (a) As of September 30, 2017, investments in trading securities denominated in Mexican pesos are comprised as follows:

Investments in corporate debt with a three-day maturity, for a total value of \$400,000. Investments in bank debt, with maturities ranging between three and 14 months for a total value of \$268,194.

- (b) As of September 30, 2017, U.S. dollar denominated investments of the Entity are comprised of bank deposits with three-day maturity for a total amount of \$72,743.

- (c) Investments denominated in Mexican pesos are comprised as follows:

Investments in bank paper are comprised of bank debt in pesos, with a three-day maturity. At the close of December 2016, they represent a total value of \$561,566. Investments in corporate paper are comprised of corporate debt in pesos with maturities of between three and 132 days. At the close of December 2016, they represent a total value of \$245,642.

- (d) Investments denominated in US dollars are comprised as follows:

As of December 31, 2006, investments in government paper denominated in US dollars, with a 10 day maturity, are \$10,306. As of December 31, 2016, investments in corporate paper in US dollars are \$175,161. These investments are composed of corporate debt sold on international markets, maturing in July 2023, with limited liquidity and the risk proportionally linked to the issuer and the exchange rate.

5. Financial derivatives

(In thousands of USD)

The policy established by management is to contract financial derivatives with the aim of hedging the risks inherent to exposure in foreign currency (exchange rate) and due to interest rate risk generated by the contracting of debt instruments established in a currency other than the Mexican peso or a variable interest rate.

Margin Call

Any appreciation of the peso with respect to the U.S. dollar during the term of the debt may result in mark-to-market losses, which in turn, could trigger margin calls. Therefore, we have entered into credit lines with our cross currency swap counterparties that help mitigate the risks of having post collateral with our swap counterparties in order to satisfy margin calls. As of September 30, 2017, we have MX \$13,690 posted as collateral to satisfy margin calls with three different counterparties.

Derivatives for hedging purposes

Relationship of Senior Notes with maturity in 2019

The Entity uses financial derivatives for hedging purposes to manage the risks related to fluctuations in the exchange rate applicable to its issue of Senior Notes with a yield of 7.50%, maturing in 2019. The Senior Notes were issued for US \$ 425,000. However, on August 9, 2017, a portion was paid in advance, resulting in a remaining outstanding balance of US \$134,853. With the original amount, there were five financial derivatives for hedging purposes; however, when the prepayment was made, there were also modifications in the derivatives in order to not generate over-hedging. Below is a description of the derivatives in effect as of September 2017, which continue to hedge the Senior Notes.

On July 2, 2016, the Entity entered into a Cross Currency Swap with Bank Morgan Stanley (France) (“Morgan”) for US \$75,000 at an exchange rate of MX \$14.50 per US dollar, in which a fixed rate of 6.30% is paid, to cover part of the senior note maturing in the year 2019. Furthermore, the Entity contracted a strategy with exchange rate options (collar) with the purchase of a put option at MX \$14.50 per US dollar and the sale of a call option at MX \$20.00 per US dollar in the final swap.

On August 9, 2017, the Entity restructured a Cross Currency Swap with Deutsche Bank, modifying only the notional amount to a remaining balance of US \$59,853 at an exchange rate of MX \$14.50 per US dollar, in which a fixed rate of 7.50% is paid to cover the rest of the Senior Note maturing in the year 2019.

For accounting purposes, given that the option is a zero cost collar, the Entity has designated the aforementioned financial derivatives as cash flow hedges. In the case of the currency swaps, the changes in the fair value of the derivative are recorded in other comprehensive income, by reclassifying any ineffective portion and the respective amounts to the statement of income when the hedged forecast cash flows affect the results for the year. With regard to the options, only the intrinsic value was designated as cash flow hedges, for which reason the changes in the intrinsic value of the derivative are recorded in other comprehensive income, reclassifying any ineffective portion to the statement of income and the extrinsic value is recognized immediately in results for the period.

Trading characteristics:

Characteristics of CCS	Morgan Stanley ID ELGKW	DEUTSCHE BANK (2) ID 6258211MX	Option Details	Morgan Stanley ID ELGKW
Currency A:	Dollar (USD)	Dollar (USD)	Style of option:	European USD Call / USD Put
Currency B:	Pesos (MXN)	Pesos (MXN)	Type of option	Collar (Call Corto, Put Largo)
Required to pay floating rate amounts in currency A:	Morgan Stanley	DB	Currency and amount of Call:	USD 75,000
Required to pay fixed rate amounts in currency B:	CR	CR	Currency and amount of Put:	USD 75,000
Transaction date:	July 2, 2015	August 9, 2016	Floor Rate:	\$14.50
Reference exchange amount in both currencies:	At the beginning and at Maturity	At the beginning and at Maturity	Cap Rate:	\$20.00
Start date:	March 13, 2014	March 13, 2014	Maturity date:	March 13, 2019
Maturity date:	March 13, 2019	March 13, 2019	Day of payment	March 13, 2019
A currency settlement date A:	USD 75,000	USD 59,853	Premium:	-
A currency settlement date B:	MXN \$1,087,500	MXN \$867,869	Market value MXN (thousands)	\$ (77,012)
Fixed rate for the amount in currency B for the first period:	\$14.5000 MXN per USD	\$14.5000 MXN per USD	Market value USD (thousands)	\$ (4,241)
Floating or Fix rate for currency A:	7.50%	7.50%		
Spread	N/A	N/A		
Reaction for the count of days applicable to the fixed rate for amounts in foreign currency A:	30/360	30/360		
A currency payment dates A:	The 13th day of every March and September	The 13 th day of every March and September		
A currency settlement date A:	March 13, 2019	March 13, 2019		
A currency payment dates B:	Every 28 days as of July 2, 2016	Every 28 days as of March 13, 2014		
Floating or fixed rate for currency B:	6.30%	7.18%		
Reaction for the count of days applicable to floating or fixed rate amounts in currency B:	Actual/360	Actual/360		
Market value MXN (thousands)	\$ 398,223	\$ 306,993		
Market value USD (thousands)	\$ 21,930	\$ 16,906		

As September 30, 2017, the fair value of the aforementioned financial derivatives for the hedging relationship of the Senior Note maturing in 2019, is MX \$628,204 pesos (\$34,595 US dollars), which was recorded as an asset with a credit to the supplemental account with the effect of the period through comprehensive income. The effect as of September 30, 2017 recognized in equity is MX \$203,626 (\$11,214 US dollars) and the extrinsic value of the options is MX \$77,378 (\$4,261 US dollars) for the Call, and MX \$366 (\$20 US dollars), for the Put. The effect reclassified to the statement of income as gains for accrued interest is MX \$8,163 and FX impact MX \$419,759 (\$23,116 US Dollars)

The periods in which the cash flows from the derivatives in relation to the hedging of the Senior Notes maturing in 2019 are expected to occur and impact the statement of results are as follows:

Year	Pesos	US dollars
2017	\$ (38,391)	(2,114)
2018	\$ 56,022	3,085
2019	\$ 185,995	10,243

Relationship Medium-Term Securitized Certificates (C-REAL 15)

The Entity uses financial derivatives for hedging purposes to manage the risks related to fluctuations in the interest rate applicable to its issue of C-REAL 15 (ticker symbol) medium-term securitized certificates, which were placed on October 9, 2015, bearing interest at two percentage points above the 28 day TIIE rate, and maturing on March 23, 2018.

On October 14, 2015, the Entity contracted an interest rate swap with Barclays Bank México, S.A. (“Barclays”) for MX \$250,000 at a fixed rate of 6.405%, to cover 25% of the C-REAL 15 securitized certificate.

On October 14, 2015, Crédito Real also contracted an interest rate swap with Deutsche Bank México, S.A., institución de banca múltiple (“db”), for MX \$250,000 at a fixed rate of 6.38%, to cover another 25% of the C-REAL 15 securitized certificate.

On April 05, 2017, Crédito Real also contracted an interest rate swap with Bank Morgan Stanley for MX \$500,000 at a fixed rate of 7.15%, to cover another 50% of the C-REAL 15 securitized certificate

For accounting purposes, the Entity has designated the aforementioned financial derivatives as cash flow hedges, recording the changes in the fair value of the derivative in other comprehensive income and reclassifying any ineffective portion and the respective amounts to the statement of income when the hedged forecast cash flows affect results for the year.

Trading characteristics:

Characteristics	Barclays ID 9005150	Deutsche Bank ID 8669130MX	Morgan Stanley YQOSW
Notional:	\$ 250,000	\$ 250,000	\$ 500,000
Currency:	MXN	MXN	MXN
Required to pay fixed rate:	Crédito Real	Crédito Real	Crédito Real
Required to pay floating rate:	Barclays	Deutsche Bank	Morgan Stanley
Transaction date:	October 14, 2015	October 14, 2015	April 5, 2017
Start date:	October 15, 2015	October 9, 2015	March 24, 2017
Maturity date:	March 23, 2018	March 23, 2018	March 23, 2018
Fixed rate:	6.4050%	6.38%	7.15%
Floating rate:	TIIE	TIIE	TIIE
Floating rate spread:	2.00%	2.00%	N/A
Fraction for the count of days applicable To floating or fixed rate:	Actual/360	Actual/360	Actual/360
Interest payment dates:	Every 28 days as of November 6, 2016	Every 28 days as of November 6, 2016	Every 28 days as of April 6, 2017
Market value MXN (thousands)	\$ 3,943	\$ 3,976	\$ 550

As of September 30, 2017, the fair value of the aforementioned financial derivatives for the C-REAL 15 hedging relationship is MX \$8,469, which was recorded as an asset with a credit to the stockholders’ equity supplemental account with the effect of the period through comprehensive income. The effect as of September 30, 2017 recognized in equity is MX \$3,002, and the effect reclassified to the statement of income as gains for accrued interest is MX \$5,467

The periods in which the cash flows from the derivatives in the C-REAL15 hedge relationship are expected to occur and impact the statement of income are as follows:

Year	Pesos
2017	\$ (517)
2018	\$ 3,519

Syndicated Line Relationship

The Entity uses financial derivatives for hedging purposes to manage the risks related to fluctuations in the exchange rate and the interest rate applicable to its line of credit with Credit Suisse, for US \$110,000, whose transaction date was February 21, 2017, and will be payable on February 19, 2018, at the Libor rate plus 5.5% of monthly

On February 21, 2017, the Entity entered into a Cross Currency Swap with Credit Suisse AG, Cayman Islands Branc (“CS”), at MX \$20.4698 per US \$1.00, where it pays fix rate 7.22% in MXN and receives libor plus 5.50% denominated in USD, to cover the exchange and interest rate of the syndicate line signed with Credit Suisse.

For accounting purposes, the Entity has designated the aforementioned financial derivative as a cash flow hedge, recording the changes in the fair value of the derivative in other comprehensive income and reclassifying any ineffective portions and the respective amounts to the statement of income when the forecast cash flows hedged affect the results of the year.

Characteristics of CCS	Credit Suisse ID 9003636
Currency A:	Dollars (USD)
Currency B:	Pesos (MXN)
Required to pay floating rate amounts in currency A:	Credit Suisse
Required to pay fixed rate amounts in currency B:	CR
Transaction date:	February 21, 2017
Reference exchange amount in both currencies:	N/A
Start date:	February 21, 2017
Maturity date:	February 21, 2020
A currency settlement date A:	USD 110,000
A currency settlement date B:	MXN \$2,251,678
Fixed rate for the amount in currency B for the first period:	\$20.4698 MXN per USD
Floating rate for currency A:	USD-LIBOR-BBA
Spread	5.50%
Fraction for the count of days applicable to the fixed rate for amounts in foreign currency A:	Actual/360
A currency payment dates A:	Quarterly, beginning 21 February 2017
A currency settlement date A:	N/A
A currency payment dates B:	The 21th day of each month beginning February 21, 2017
Floating or fixed rate for currency B:	7.22%

Characteristics of CCS	Credit Suisse ID 9003636
Fraction for the count of days applicable to floating or fixed rate amounts in currency B:	Actual/360
Market value MXN (thousands)	\$ (71,524)
Market value USD (thousands)	\$ (3,939)
Collateral MXN	\$ -

As of September 30, 2017, the fair value of the aforementioned financial derivatives for the syndical line hedge relationship is MX \$(71,523) (\$3,939 US dollars), which was recorded as an liability with a debit to the stockholders' equity supplemental account with the effect of the period through comprehensive income. The effect as of September 30, 2017 recognized in equity is MX \$98,541 (\$5,427 US dollars), and the effect reclassified to the statement of income as gains for accrued interest is MX \$14,788 (\$814 US dollars) and FX Impact MX\$(254,118) (\$13,994US dollars).

Additionally, there was an impact due to a compensatory fee of MX \$266,418 (\$1,455 US dollar), this fee was paid in March to Credit Suisse to enter the derivative with this characteristics.

The periods in which the cash flows from the derivative in the syndicated line hedging relationship are expected to occur and impact the statement of income are as follows:

Year	Pesos	US dollars
2017	\$ (287,157)	(15,183)
2018	\$ 19,028	1,048
2019	\$ 54,232	2,987
2020	\$ 115,356	6,353

Senior Notes Relationship with maturity in 2023

The Entity uses financial derivatives for hedging purposes to manage the risks related to the fair value of its issue of Senior Notes with a yield of 7.25%, maturing in 2023.

On July 20, 2017, the Entity entered into five Cross-Country Swaps which hedge the fair value of the debt principal for the Senior Notes maturing in 2023, with the following financial institutions: (i) Barclays, (ii) Morgan Stanley, (iii) UBS, (iv) Banamex and (v) Deutsche Bank. This is because it is being converted into a debt that pays a fixed rate in US dollars payable in the Mexican peso variable rate derivatives. The issue of the Senior Notes maturing in 2023 was US \$220,000, whereas the financial derivatives were contracted to cover all the amount. This Instruments designated as fair value and cash flow hedges for accounting purposes; i.e., the fluctuations in the derivative and in the hedged item are valued at fair value and are recognized in results in the same financial statement captions and the fluctuations in the derivative and in the hedged item are valued at cash flow are recognized in equity

Since in the CCS acquired at the beginning, the Entity paid pesos (MXN) at a variable rate, this year the Entity entered into four Interest Rate Swaps to partially switch that variable rate into a fixed rate, with the next institutions: Barclays, Morgan Stanley and two IRS with Credit Suisse. These instruments are designated as cash flow hedges for accounting purposes, recording the changes in the fair value of the derivative in other comprehensive income and reclassifying any ineffective portions and the respective amounts to the statement of income when the forecast cash flows hedged affect the results of the period.

Trading characteristics	Barclays 9007408	Morgan Stanley DMFS4	UBS 95007852	Banamex 32754151EC_1	Deutsche Bank 9767201M
Currency A:	Dollars (USD)				
Currency B:	Pesos (MXN)				
Obligated to pay fixed rate for amounts in currency A:	Barclays	Morgan Stanley	UBS	Banamex	Deutsche Bank
Obligated to pay floating or fixed rate for amounts in currency B:	CR	CR	CR	CR	CR
Date of transaction:	July 20, 2017				
Swap reference amount in both currencies:	At the start and at maturity				
Starting date:	July 20, 2017				
Maturity date:	July 20, 2023				
Reference amount in currency A:	USD 125,000	USD 100,000	USD 100,000	USD 100,000	USD 125,000
Reference amount in currency B:	MXN \$2,361,250	MXN \$1,889,000	MXN \$1,889,000	MXN \$1,889,000	MXN \$2,361,250
Exchange rate used to calculate reference amount in currency B:	\$18.8900 MXN per USD				
Fixed rate for amounts in currency A:	7.25%	7.25%	7.25%	7.25%	7.25%
Spread	N/A	N/A	N/A	N/A	N/A
Fraction for counting of days applicable to fixed rate for amounts in currency A:	30/360	30/360	30/360	30/360	30/360
Payment dates currency A:	The 20 th day of every January and July as of July 20, 2017	The 20 th day of every January and July as of July 20, 2017	The 20 th day of every January and July as of July 20, 2017	The 20 th day of every January and July as of July 20, 2017	The 20 th day of every January and July as of July 20, 2017
Settlement date currency A:	July 20, 2023				
Payment dates currency B:	Every 28 days as of July 20, 2017	Every 28 days as of July 20, 2017	Every 28 days as of July 20, 2017	Every 28 days as of July 20, 2017	Every 28 days as of July 20, 2017
Floating rate for amounts in currency B:	TIIE 28D				
Spread Currency B:	6.13%	6.16%	6.215%	6.19%	6.17%
Fraction for the count of days applicable to the floating rate for amounts in currency B:	Actual/360	Actual/360	Actual/360	Actual/360	Actual/360
Market value MXN (thousands)	\$ (170,417)	\$ (139,098)	\$ (145,594)	\$ (141,873)	\$ (175,038)
Market value USD (thousands)	\$ (9,384)	\$ (7,660)	\$ (8,018)	\$ (7,813)	\$ (9,639)

Characteristics IRS	Credit Suisse 9003699	Barclays 9009053	Morgan Stanley OZNNJ	Credit Suisse 9003793
Notional:	\$1,500	\$1,000	\$1,000	\$500
Currency:	MXN	MXN	MXN	MXN
Required to pay fixed rate:	CR	CR	CR	CR
Required to pay floating rate:	Credit Suisse	Barclays	Morgan Stanley	Credit Suisse
Transaction date:	April 18, 2017	May 15, 2017	June 14, 2017	June 14, 2017
Start date:	March 29, 2017	May 16, 2017	May 24, 2017	May 24, 2017
Maturity date:	July 29, 2023	July 20, 2023	July 23, 2023	July 20, 2023
Fixed rate:	7.26%	7.27%	7.12%	7.12%
Floating rate:	TIIE	TIIE	TIIE	TIIE
Fraction for the count of days applicable to floating or fixed rate:	Actual/360	Actual/360	Actual/360	Actual/360
Interest payment dates:	Every 28 days as of March 29, 2017	Every 28 days as of May 16, 2017	Every 28 days as of June 21, 2017	Every 28 days as of May 24, 2017
Market value MXN (thousands)	\$ (29,672)	\$ (20,269)	\$ (12,709)	\$ (6,355)
Market value USD (thousands)	\$ (1,634)	\$ (1,116)	\$ (700)	\$ (350)

As of September 30, 2017, the fair value of the Cross currency in relation to the hedge of the Senior Notes maturing in 2023 is MX (\$772,019) (\$42,514 US dollars), which was recorded as an liability and a loss in the statement of income. The effect as of September 30, 2017 recognized in the statement of income for the hedged item is MX\$(772,020) (\$42,514 US dollars) as a gains.

As of September 30, 2017, the fair value of the interest rate swaps for the Senior Notes 2023 in a hedging relationship is MX \$(69,005), which was recorded as an liability with a debit to the stockholders' equity supplemental account through comprehensive income. The effect as of September 30, 2017 recognized in equity is MX \$69,005, (\$3,800 US dollars)

The periods in which the cash flows from the derivatives in relation to the hedging of the Senior Notes maturing in 2023 are expected to occur and impact the statement of results are as follows:

Year	Pesos
2017	\$ 1,570
2018	\$ (531)
2019	\$ (19,707)
2020	\$ (24,573)
2021	\$ (16,647)
2022	\$ (9,583)
2023	\$ 466

Relationship Medium-Term Securitized Certificates (C-REAL 16)

The Entity uses financial derivatives for hedging purposes to manage the risks related to fluctuations in the interest rate applicable to its issue of C-REAL 16 (ticker symbol) medium-term securitized certificates, which were placed on March 31, 2016, bearing interest at two point five percentage points above the 28 day TIIE rate, and maturing on September 13, 2018.

On April 5, 2017, the Entity contracted an interest rate swap with Morgan Stanley for MX \$1,000,000 at a fixed rate of 7.18%, to cover 100% of the C-REAL 16 securitized certificate.

For accounting purposes, the Entity has designated the aforementioned financial derivatives as cash flow hedges, recording the changes in the fair value of the derivative in other comprehensive income and loss and reclassifying any ineffective portion and the respective amounts to the statement of income when the hedged forecast cash flows affect results for the year

Characteristics	Morgan Stanley ID YQOSZ
Notional:	\$ 1,000,000
Currency:	MXN
Required to pay fixed rate:	CR
Required to pay floating rate:	Morgan Stanley
Transaction date:	April 5, 2017
Start date:	March 30, 2017
Maturity date:	September 13, 2018
Fixed rate:	7.18%
Floating rate:	TIIE
Floating rate spread:	N/A
Fraction for the count of days applicable to floating or fixed rate:	Actual/360
Interest payment dates:	Every 28 days as of March 30, 2017
Market value MXN (thousands)	\$ 1,042

As of September 30, 2017, the fair value of the aforementioned financial derivatives for the C-REAL 16 hedging relationship is MX \$1,042, which was recorded as an asset with a credit to the stockholders' equity supplemental account subsequent to the effect of the period through comprehensive income. The effect as of September 30, 2017 recognized in equity is MX \$2,029, and the effect reclassified to the statement of income as gains for accrued interest is MX \$3,071.

September 30, 2017 recognized in equity is MX \$2,029, and the effect reclassified to the statement of income as gains for accrued interest is MX \$3,071.

Year	Pesos
2017	\$ (2,608)
2018	\$ 579

Nature and degree of risks arising from the derivatives

The exchange rate as of September 30, 2017 is MX \$18.1590

The majority of the Entity’s CCS enable it to fix the exchange rate to be used for the payment of the US dollar denominated debt on the date of maturity. When financing in foreign currency is entered into, the hedge enables the exchange rates to be appropriately managed.

By entering into the CCS as a fair value hedge of the Senior Notes maturing in 2023 and entering into a cash flow hedge of the Senior Notes maturing 2019, the Entity has hedged the risk of a devaluation of the Mexican peso against the US dollar and the risk of the interest rate. With regard to exchange rate risk, by entering into the IRS as a cash flow hedge of part of the Senior Notes 2023, the Entity is managing its risk to the variability of the interest rate THIE by fixing its rate

By entering into the CCS and the collar to hedge the cash flow of the Senior Notes 2019, the entity has hedged the risk of devaluation of the Mexican peso against the US dollar

By entering into the CCS to hedge the cash flow of the syndicated line, the entity has hedged the risk of a devaluation of the Mexican peso against the US dollar and the risk of the interest rate.

By entering into the IRS, the Entity can fix the exchange rate for the payment of the interest on the debt in Mexican pesos derived from the securitized certificate like Creal-15 and Creal-16.

Sensitivity analysis

The Entity performed a sensitivity analysis so as to forecast situations that could result in extraordinary losses as regards the valuation of the derivative financial instruments composing its position as of September 30, 2017 close.

A derivatives sensitivity analysis is performed by considering the following elements:

Estimate the surplus value or shortfall of the securities valuation in the event of:

- An increase of +1 peso in the MXN/USD exchange rate
- A decrease of -1 in the MXN/USD exchange rate
- An increase of +100 interest rate basis points
- A decrease of -100 interest rate basis points

Foreign currency sensitivity

Hedging derivatives	+1 exchange rate	-1 exchange rate
fair value		
Foreign currency swap	\$ 703,778	\$ (703,778)
Cash flow hedge derivatives	+1 exchange rate	-1 exchange rate
Foreign currency swap	\$ 266,592	\$ (266,592)
Foreign currency option	\$ (40,593)	\$ 40,593
<i>Interest rate sensitivity of interest rate</i>		
Cash flow hedge derivatives	+100 bps interest rate	-100 bps interest rate
Interest rate swap	\$ 142,097	\$ (142,097)

If any of the sensitivity scenarios detailed in the above table actually arise, the losses generated by derivative instruments held for trading purposes and fair value hedges will directly affect the statement of income, while cash flow hedges will affect the Entity's capital.

Maturity analysis

Below is an analysis of the future obligations of the financial derivatives. Please note that even though the foreign currency swaps represent active positions as of September 30, 2017, the Entity elects to present the undiscounted future flows which represent a liability according to their maturity.

	2017	2018	2019	2020	2021	2022	2023
Foreign currency swaps	(475,024)	(755,115)	(247,608)	(810,998)	(735,630)	(763,491)	(528,160)
Interest rate Swaps	7,401	17,360	12,027	14,231	20,890	31,616	24,072

6. Allowances for loan losses

As of September 30, 2017 and December 31, 2016, the Entity maintained an allowance for loan losses equivalent to 128%, of non-performing portfolio, respectively.

The Commission issued changes related to the rating methodology for the consumer portfolio, in order to change the model for estimating the allowance for loan losses. During the nine month period ended September 30, 2017, the cumulative effect recognized in stockholders' equity derived from the application of the change in the rating methodology for the loan portfolio amounted to \$361,898, net of income tax.

As of September 30, 2017 and December 31, 2016, changes in the allowance for loan losses were as follows:

	September 30, 2017	December 31, 2016
Opening balance	\$ 767,460	\$ 485,506
Portfolio applications	(1,244,615)	(1,026,759)
CR USA, Creal Dallas and Controladora CR consolidation effect	507,911	477,120
Charge to results	<u>951,928</u>	<u>831,593</u>
Closing balance	<u>\$ 982,684</u>	<u>\$ 767,460</u>

7. Investment in shares of associates

As of September 30, 2017 and December 31, 2016, investments in shares of associates companies are as follows:

Entities	% Ownership	Participation in stockholder's equity		Participation in Results	
		September 30, 2017	December 31, 2016	September 30, 2017	September 30, 2016
Publiseg, S.A.P.I. de C.V. SOFOM (a) ("Publiseg")	49.00%	\$ 481,313	\$ 463,119	\$ 18,194	\$ 9,664
Grupo Empresarial Maestro S.A. de C.V. (a) ("GEMA")	49.00%	440,955	502,949	60,037	72,531
Bluestream Capital, S.A. de C.V. (b)	23.00%	2,637	1,173	1,464	436
Cege Capital, S.A.P.I. de C.V., SOFOM ENR (c)	36.30%	94,423	89,245	9,971	11,096
Others	23.98%	<u>1,626</u>	<u>1,335</u>	<u>19,368</u>	<u>(1,422)</u>
		<u>\$ 1,020,954</u>	<u>\$ 1,057,821</u>	<u>\$ 109,034</u>	<u>\$ 92,305</u>

- (a) Directodo, Publiseg, and GEMA, are the Entity's principal distributors, and their origination efforts are performed exclusively for the Entity. As of September 30, 2017 and December 31, 2016 these companies have cooperation agreements executed with different unions around the country, including several chapters of the National Education Workers' Union, the National Social Security Workers' Union, the Union of the Federal Public Education Department and the Health Workers' Union. Their operations began in 2006, 2005 and 2002, respectively, and their work forces have a nationwide presence and they have over 257 branches.
- b) Pay two dividends, the first was paid in June 2017 by MX \$63,782, and the second will be pay in October 2017 by MX \$27,335.

8. Indebtedness

As of September 30, 2017 and December 31, 2016, indebtedness was comprised as follows:

	Rate	Date of maturity	September 30, 2017	December 31, 2016
Notes payable (Securitized Certificates)	TIIE + 0.85% to 2.70%	Between 2017 and 2018	\$ 3,450,000	\$ 2,750,000
Senior Notes	7.50% and 7.25%	Between 2019 and march 2023	11,480,797	13,817,895
Accrued interest			<u>109,201</u>	<u>320,548</u>
Total			<u>\$ 15,039,998</u>	<u>\$ 16,888,443</u>

On March 7, 2017, the Entity established a revolving long-term note program with an aggregate principal amount of up to \$5,000.0 million. Under this program the Entity has two outstanding issuances for an aggregate amount of \$2,000,000.

On March 7, 2017, the Commission authorized the registration on the RNV of a new short-term note program, under which the Entity was allowed to publicly issue a maximum aggregate principal amount of \$2,500,000. As of September 30, 2017, the Entity had six outstanding issuances with an aggregate principal amount of \$1,450,000 million.

The unsecured US\$134,853 Senior Notes remaining amount will mature on March 13, 2019, and pay semiannual interest at a 7.5% annual rate on March 13 and September 13 of each year.

The second unsecured US\$625,000 Senior Notes will mature on July 20, 2023, and pay semiannual interest at a 7.25% annual rate on July 20 and January 20 of each year and may be prepaid as of the fourth year of the issue.

Both notes are rated by Standard & Poor's, with a long-term global rating of "BB" and by HR Ratings with the rating HR BB-(G). The second issue was also rated by Fitch Ratings, with a rating of "BB+(EXP)".

Contractual maturities of indebtedness and bank loans and other loans are as follows:

	Amount
2017	\$ 750,000
2018	2,700,000
2019	1,386,685
2020	-
2023	10,094,112
Accrued interest	<u>109,201</u>
Total	<u>\$ 15,039,998</u>

9. Bank loans and other loans

As of September 30, 2017 and December 31, 2016, debt was comprised as follows:

	Rate	Date of Maturity	September 30, 2017	December 31, 2016
Bank Loans in MXN (a)	TIIE + spread	Between 2017 and 2020	\$ 4,999,350	\$ 2,502,786
Bank Loans in USD (b)	LIBOR + spread	Between 2017 and 2020	4,609,426	5,147,597
Accrued Interest			<u>43,946</u>	<u>49,670</u>
Total			<u>\$ 9,652,722</u>	<u>\$ 7,700,053</u>

- a) As of September 30, 2017, the Entity has bank loans guaranteed with portfolio for \$4,937,510 and unsecured bank loans for \$4,638,487 (excluding accrued interest). Such lines were granted by 27 institutions to finance the growth of the loan portfolio and increase working capital. The loans are granted by financial institutions widely recognized in the Financial System. The lines of credit have maturity dates of between 90 days and three years and pay interest at variable and fixed rate.
- b) As of September 30 2017, the Entity has a syndicated bank loan in foreign currency for a total of US \$110 million, which, valued as of September 30, 2017, represents \$2,251,678 and pays interest at a variable LIBOR rate plus percentage points.

Contractual maturities of indebtedness and bank loans and other loans are as follows:

	Amount
2017	\$ 1,486,356
2018	4,953,043
2019	2,175,070
2020	990,698
2023	3,609
Accrued interest	<u>43,946</u>
Total	<u>\$ 9,652,722</u>

10. Stockholders' Equity

Capital stock as of September 30, 2017 and December 31, 2016, was comprised as follows:

	Number of Shares (Class I) Fixed Capital	Number of Shares (Class II) Variable Capital	Total stocks
“Unique” Series shares at no par value	<u>37,555,390</u>	<u>354,664,034</u>	<u>392,219,424</u>

As of September 30, 2017 and December 31, 2016, common stock is \$660,154, of which \$62,931 refers to fixed capital (with no right of withdrawal), represented by 37,555,390 Unique Series, Class I ordinary, no par value shares, while \$597,223 refers to variable capital, represented by 354,664,034 Unique Series, Class II ordinary, no par value shares.

Pursuant to a resolution approved at the General Ordinary Stockholders' Meeting held on March 1, 2017, dividends of up to \$96,800 were declared payable from the “Results from previous years” account. The aforementioned dividend payments approved to stockholders are payable from the Net Tax Income Account (“CUFIN”).

The Entity has a share buyback program up to the amount of net income, including the retained earnings from the immediately preceding year. As 30 of September and as of the December 31, 2016 the amount of repurchased shares is \$175,456 and \$75,570 equivalent to 5,259,479 and 2,612,248 shares.

In accordance with the General Corporate Law, at least 5% of the net profits for the year must be set aside to form the legal reserve until reaching 20% of common stock at par value. The legal reserve may be capitalized, but cannot be distributed unless the Entity is dissolved, and must be replenished when it is decreased for any reason. As of September 30, 2017 and December 31, 2016, the legal reserve established by the Entity amounts to \$132,031, respectively.

Stockholders' equity, except restated paid-in capital and tax-retained earnings, will incur income tax payable by the Entity at the rate in effect when the dividend is distributed. Any tax paid on such distribution may be credited against income tax of the year in which the dividend tax is paid and, in the following two years, against tax for the year and the related estimated payments.

Dividends paid from the profits generated from January 1, 2014 to residents in Mexico and to nonresident shareholders may be subject to an additional tax of up to 10%, which will be withheld by the Entity.

Retained earnings that may be subject to withholding of up to 10% on distributed dividends is as follows:

Period	Amount	Distributed earnings	Taxable withholding Amount	Amount not subject to withholding
2014	\$ 85,000	\$ 168,655	\$ -	\$ 168,655
2015	\$ -	\$ 156,888	\$ 156,888	\$ -
2017	\$ -	\$ 96,800	\$ 96,800	\$ -

11. Balances and transactions in foreign currencies (In thousands of USD)

a. The monetary position of foreign currencies as of September 30, 2017 and December 31, 2016 is :

	September 30, 2017	December 31, 2016
USD Dollars:		
Monetary assets	443,164	390,012
Monetary liabilities	<u>(279,063)</u>	<u>(257,494)</u>
Long position	<u>164,101</u>	<u>132,518</u>
Equivalent in pesos	<u>\$ 2,979,910</u>	<u>\$ 2,732,500</u>

b. Transactions in foreign currencies were as follows as of September 30, 2017 and 2016 is:

	September 30, 2017	September 30, 2016
Interest expenses	<u>\$ (16,344)</u>	<u>\$ (12,660)</u>
Interest income	<u>\$ 111,736</u>	<u>\$ 79,201</u>

c. Mexican peso exchange rates in effect at the dates of the unaudited condensed consolidated financial statements and at the date of auditor's were as follows:

	November 3, 2017	September 30, 2017	December 31, 2016	September 30, 2016
U.S. dollar	<u>\$ 19.1850</u>	<u>\$ 18.1590</u>	<u>\$ 20.6194</u>	<u>\$ 19.3776</u>

12. Income taxes

Review and tax matters

Action for annulment filed against the unpaid tax liability for rejection of deductions for the year 2007.

On July 9, 2015, the Entity filed an action for annulment against the Federal Tax Court to challenge official notice 900 06-2017-13558, dated April 29, 2015, whereby the Central Administrator for Inspection of the Financial Sector of the General Administration for Large Taxpayers of the Tax Administration Service, assessed against the Entity an unpaid tax liability of \$38,090 related to income tax payable for fiscal year 2007, plus the respective restatements, surcharges and fines.

Such lawsuit was referred to the First Metropolitan Regional Court of the Federal Tax Court which, through a ruling dated September 1, 2016, accepted the case, and assigned it docket number 17549/15-17-01-8.

The Entity is currently waiting for the expert evidence to be submitted in the lawsuit, after which closing arguments will be presented and a verdict will be issued.

Management and its outside legal advisors consider it very unlikely that the tax liability assessed will be upheld.

13. Comparative table of main asset and liability maturities

Main asset and liability maturities at September 30, 2017 are as follows:

	Until 6 months	From 6 months to 1 year	From 1 year to 5 years	Total
Cash and cash equivalents	\$ 580,194	\$ -	\$ -	\$ 580,194
Investment in securities	740,937	-	-	740,937
Derivative financial instrument	-	-	715,094	715,094
Loan portfolio, net	1,909,156	1,803,804	21,982,266	25,695,226
Other accounts receivable, net	<u>801,211</u>	<u>1,025,571</u>	<u>2,012,150</u>	<u>3,838,932</u>
Total assets	<u>\$ 4,031,498</u>	<u>\$ 2,829,375</u>	<u>\$ 24,709,510</u>	<u>\$ 31,570,383</u>
	Until 6 months	From 6 months to 1 year	From 1 year to 5 years	Total
Notes payable and Senior Notes	\$ (2,150,000)	\$ (1,300,000)	\$(11,589,998)	\$(15,039,998)
Bank loans	(933,889)	(1,258,833)	(7,460,000)	(9,652,722)
Derivative financial instruments	-	-	(989,500)	(989,500)
Other accounts payable	<u>(496,549)</u>	<u>-</u>	<u>(29,278)</u>	<u>(525,827)</u>
Total liabilities	<u>(3,580,438)</u>	<u>(2,558,833)</u>	<u>(20,068,776)</u>	<u>(26,208,047)</u>
Assets less liabilities	<u>\$ 451,060</u>	<u>\$ 270,542</u>	<u>\$ 4,640,734</u>	<u>\$ 5,362,336</u>

14. Commitments

As of September 30, 2017 and December 31, 2016, the Entity, has its own commitments and the operation mentioned in Note 8 "Indebtedness" and Note 9 "Bank Loans and other loans".

15. Subsequent events

On October 30, 2017 a public offer of trust certificates was issued between the Entity and Banco Invex, S.A., Multiple Banking Institution, Invex Grupo Financiero for an amount of \$800,000. The certificates will be backed by collection rights.

Pursuant to a resolution at the Board of Directors' Meeting held on July 25, 2017, the merger of the Credit Entities Dallas, LLC and Crédito Real USA, LLC was approved which is in the process of being completed by the fourth quarter of 2017 and once the Entity receive the North American authorities' approval.

16. Business segment information

Currently, the Entity has one operating segment, the loan portfolio, which represents the Entity's sole strategic business unit. Operating segment information is determined based on the information used by management to assess performance and allocate resources. The following presents information for each business unit determined by the Entity, management. Financial information presented by products and geographical area is presented below.

	September 30, 2017			
	Mexico	USA	Central America	Total
Payroll loans	\$ 17,562,298	\$ -	\$ 4,263,778	\$ 21,826,076
Group loans	211,926	-	-	211,926
Durable goods loans	364,759	-	-	364,759
Small business loans	1,707,059	-	-	1,707,059
Used car loans	<u>567,747</u>	<u>2,000,343</u>	<u>-</u>	<u>2,568,090</u>
Total	<u>\$ 20,413,789</u>	<u>\$ 2,000,343</u>	<u>\$ 4,263,778</u>	<u>\$ 26,677,910</u>
	December 31, 2016			
	Mexico	USA	Central America	Total
Payroll loans	\$ 14,530,433	\$ -	\$ 4,390,736	\$ 18,921,169
Group loans	418,402	-	-	418,402
Durable goods loans	440,381	-	-	440,381
Small business loans	1,368,462	-	-	1,368,462
Used car loans	<u>460,797</u>	<u>2,317,811</u>	<u>-</u>	<u>2,778,608</u>
Total	<u>\$ 17,218,475</u>	<u>\$ 2,317,811</u>	<u>\$ 4,390,736</u>	<u>\$ 23,927,022</u>

17. New accounting principles

The following NIF were issued and are effective January 1, 2018:

- NIF B-17, Determination of fair value
- NIF C-3, Accounts receivable
- NIF C-9, Provisions, contingencies and commitments
- NIF C-10, Financial derivatives and hedging relationships
- NIF C-16, Impairment of financial instruments receivable
- NIF C-19, Financial instruments payable

NIF C-20, Financial instruments receivable
NIF D-1, Revenues from contracts with customers
NIF D-2, Costs from contracts with customers
NIF B-17, *Determination of fair value* - Defines fair value.

NIF C-3, *Accounts receivable* - The main changes consist of specifying that: a) the accounts receivable based on a contract represent a financial instrument; b) the allowance for bad debts for commercial accounts is recognized from the time the revenue is accrued, based on the expected credit losses; c) the time value of money should be considered as of the initial recognition; consequently, if the effect of the present value of the account receivable is material based on its term, it should be adjusted based on such present value, and d) required disclosures include an analysis of the change between the opening and closing balances of the allowance for bad debts.

NIF C-9, *Provisions, contingencies and commitments* - The term *probable* replaced the term *virtually avoidable* in the definition of liabilities. The first-time application of this NIF does not generate accounting changes in the financial statements.

NIF C-16, Impairment of financial instruments receivable (FIR) - Determine when and how the expected losses from impairment of FIR should be recognized; this is when, as result of an increase in the credit risk, it is concluded that a part of the future cash flows from the FIR will not be recovered, and proposes that the expected loss should be recognized based on the historical experience of credit losses, current conditions and reasonable and sustainable forecasts of the various quantifiable future events that might affect the amount of the future recoverable cash flows of the FIR, which means that estimates must be made and should be periodically adjusted based on past experience. Furthermore, in relation to interest-bearing FIR, entities shall estimate the amount and timing for the cash flows expected to be recovered, as the recoverable amount must be recognized at present value.

NIF C-19, Financial instruments payable - Establishes: a) the possibility of valuing, after their initial recognition, certain financial liabilities at fair value, when certain exceptional conditions are fulfilled; b) the valuation of long-term liabilities at their present value at initial recognition, considering their present value when their term exceeds one year or outside normal credit conditions, and c) when a liability is restructured, but the future cash flows to settle the liability are not substantially modified, the costs and commissions disbursed in this process will affect the amount of the liability and will be amortized based on a modified effective interest rate, instead of directly affecting the net income or loss.

NIF C-20, Financial instruments receivable - Specifies the classification of financial instruments in the assets, based on the business model: a) if the intention is to generate a profit through a contractual return, predetermined in a contract, they are recognized at amortized cost; b) if they are also used to generate a profit based on their purchase and sale, they are recognized at fair value. Any embedded financial derivative that modifies the cash flows of principal and interest from the host instrument will not be separated; instead, all will be valued at fair value, as if it were a negotiable financial instrument.

NIF D-1, Revenues from contracts with customers - Previously there was no Mexican accounting standard for revenue recognition, for which reason the main changes focus on providing greater consistency in revenue recognition and eliminating weaknesses in the previous supplemental standards. The most important changes consist of establishing a model for revenue recognition based on the following steps: a) transfer of control, the basis for the timeliness of revenue recognition; b) the identification of the different performance obligations in a contract; c) the allocation of the transaction amount between the different unfulfilled obligations based on independent selling prices; d) the introduction of the concept *conditional account receivable*, when an unfulfilled obligation is satisfied and an unconditional right to the consideration is generated because only the passage of time is required for the payment of such consideration to become enforceable; e) the recognition of collection rights, where in certain cases there may be an unconditional right to the consideration before an unfulfilled obligation is satisfied, and f) the valuation of the revenue, considering aspects such as the recognition of significant financing components, the noncash consideration cash and the consideration payable to a customer.

NIF D-2, Costs from contracts with customers - Separates the standard for recognition of the costs from contracts with customers from that related to recognition of the revenues from contracts with customers, and expands the scope to include costs related to all types of contracts with customers.

At the date of issuance of these unaudited condensed consolidated financial statements, the Entity has not completed its evaluation of the potential effects of adopting these new standards on its financial information.

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ANNEX A:

SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN SOFOM GAAP AND U.S. GAAP

Our financial statements are prepared and presented in accordance with *Sofom* GAAP as prescribed by the CNBV. Certain differences exist between *Sofom* GAAP and accounting principles generally accepted in the United States of America, or U.S. GAAP, which might be material to the financial information contained herein. The matters described below summarize those differences that may be material. We have not prepared a reconciliation of our financial statements and related footnote disclosures, appearing in the offering memorandum, from *Sofom* GAAP to U.S. GAAP and we have not quantified those differences. Accordingly, no assurance is provided that the following summary of differences is complete. In making an investment decision, investors must rely upon their own examination of us, the terms of the offering and the financial information. Potential investors should consult their own professional advisors for an understanding of the differences between *Sofom* GAAP and U.S. GAAP, and how those differences might affect the financial information herein.

Accounting for the Effects of Inflation

Mexico

Through December 31, 2007, *Sofom* GAAP required that the comprehensive effects of inflation be recorded in financial information and that such financial statements be restated to constant pesos as of the latest balance sheet date presented. Beginning January 1, 2008, *Sofom* GAAP modified the accounting for inflationary effects and defines two economic environments, an “inflationary environment” and a “non-inflationary environment.” An inflationary environment is one in which the cumulative inflation of the three preceding years is 26% or more, in which case the comprehensive effects of inflation should be recognized in financial information; a non-inflationary environment is one in which the cumulative inflation of the three preceding years is less than 26%, in which case, no inflationary effects should be recognized in financial information.

United States

Under U.S. GAAP, companies are generally required to prepare financial statements on a historical cost basis. Specific rules and regulations established by the SEC allow for companies to maintain the effects of inflations in its reconciliation from local GAAP to U.S. GAAP for companies registering securities with the SEC for sale in the United States, when, for local purposes, such company prepares comprehensive price-level adjusted financial statements, as required or permitted by their home-country GAAP. This is because the SEC recognizes that presentation of price-level adjusted financial information in inflationary economies is more meaningful than historical-cost based financial reporting.

Preoperating Costs

Mexico

Through December 31, 2002, under *Sofom* GAAP, preoperating costs incurred were permitted to be capitalized and amortized by us over the period of time estimated to generate the income necessary to recover such costs. Beginning January 1, 2003, only preoperating costs incurred during the development stage are capitalized and all other preoperating costs are expensed as incurred; previously capitalized amounts are permitted to continue to be amortized through December 31, 2008. Beginning January 1, 2009, any remaining unamortized preoperating costs must be written off to retained earnings.

United States

Under U.S. GAAP, preoperating costs should be treated as period expenses and are not capitalizable.

Labor Obligations

Mexico

Under *Sofom* GAAP, the discount rate to calculate the Defined Benefits Obligation OBD will be determined based on the market rate of high-quality corporate bonds, provided that there is a deep market for such bonds. Otherwise, the market rate of the bonds issued by the federal government must be used.

Under *Sofom* GAAP, the use of the broker is eliminated for the deferral of actuarial gains and losses and the actuarial gains and losses recognized in stockholders' equity must be recycled to results in the Remaining Useful Life of the Plan.

United States

Under U.S. GAAP, the accounting for defined benefit postretirement plans, which include seniority premiums within Mexico, was amended in 2006 such that an employer is required to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan). Accordingly, the related asset or liability should be equal to the projected net liability less any plan assets, such that all unrecognized items are recognized as part of the liability, with an offsetting charge or credit through other comprehensive income.

Under U.S. GAAP, the selected discount rate should reflect the rates at which the benefits can be effectively settled. Circumstances in which there is no deep market in high-quality corporate bonds are not specifically addressed.

Under U.S. GAAP, an entity may adopt either (1) the deferral method (i.e., corridor approach) and recycle amounts in excess of the corridor through net periodic benefit cost over an amortization period, or (2) a systematic method that results in faster recognition.

Deferred Income Tax and Statutory Employee Profit Sharing

Mexico

Sofom GAAP is similar to U.S. GAAP with respect to accounting for deferred income taxes in that an asset and liability approach is required. Under *Sofom* GAAP, deferred tax assets must be reduced by a valuation allowance if it is "highly probable" that all or a portion of the deferred tax assets will not be realized. The determination of the need for a valuation allowance must consider future taxable income and the reversal of temporary taxable differences. Net deferred income tax assets or liabilities are presented within long-term assets or liabilities.

Under *Sofom* GAAP, through 2007, deferred employee profit sharing is recognized only for timing differences arising from the reconciliation between accounting and taxable income for employee profit sharing purposes, for which it may be reasonably estimated that a future liability or benefit will arise and there is no indication that the liability will not be paid or the benefits will not be realized. Effective January 1, 2008, *Sofom* GAAP was modified such that it now requires a balance sheet methodology for determining deferred employee profit sharing, similar to that used for deferred income taxes.

Sofom GAAP allows the recognition of a net statutory employee profit sharing asset.

United States

Under U.S. GAAP, deferred income taxes are also accounted for using the asset and liability approach. A valuation allowance is recognized to reduce the value of deferred tax assets to the amount that, based on the weight of all positive and negative available evidence, is "more likely than not" to be realized. In order to make this determination, entities must consider future reversals of taxable temporary differences, future taxable income, taxable income in prior carryback years and tax planning strategies. Additionally, if a company has experienced recurring losses, little weight, if any, may be placed on future taxable income as objective evidence to support the recoverability of a deferred income tax asset. U.S. GAAP requires that deferred tax assets and liabilities be classified as current or long-term depending on the classification of the asset or liability to which the deferred relates.

U.S. GAAP also requires the use of the balance sheet methodology when calculating deferred employee profit and requires that a related liability be recorded for all temporary differences. U.S. GAAP does not allow the recognition of net deferred employee profit sharing assets.

Impairment of Long-Lived Assets in Use

Mexico

Under *Sofom* GAAP, long-lived assets with definite lives, such as property and equipment, are evaluated periodically in order to determine if a potential impairment indicator exists. The calculation of impairment losses requires the determination of the recoverable value of the assets. Recoverable value is defined as the greater of the net selling price of a cash generating unit and its value in use. Value in use is the present value of discounted future net cash flows.

In addition, under certain limited circumstances, the reversal of previously recognized impairment losses is permitted. Any recorded impairment losses are presented as non-ordinary expenses.

United States

U.S. GAAP requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of an asset is not recoverable when the estimated future undiscounted cash flows expected to result from the use of the asset are less than the carrying value of the asset. Impairment losses are measured as the difference between the carrying value of the asset and its fair value. Any impairment loss recorded for an asset to be held and used establishes a new cost basis and, therefore, cannot be reversed in the future. Impairment losses are classified within operating expenses in the statement of income.

Fair Value of Financial Instruments

Mexico

Sofom GAAP defines fair value as the amount an interested and informed market participant would be willing to exchange for the purchase or sale of an asset or to assume or settle a liability in a free market. This definition can consider either an entry or an exit price.

United States

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition only considers an exit price. Consideration must be given to the principal and most advantageous market and the highest and best use of the asset.

Furthermore, U.S. GAAP establishes a three-level hierarchy to be used when measuring and disclosing fair value in a company's financial statements. Categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels:

- Level 1 — Quoted prices for identical instruments in active markets.
- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

Allowance for Loan Losses

Mexico

Sofom GAAP requires a specific methodology to determine the allowance for loan losses, which take into consideration the value of the loan, the credit rating of the borrower (including country, financial and industry risk and payment experience) and any credit enhancements. Based on these factors, the CNBV prescribes a range of loss percentages that are to be applied to the value of the loan in order to determine the amount of the loan loss to be provisioned. Loan loss percentages are calculated by the CNBV based on either an expected loss model or an incurred loss model depending on the classification of the loan.

United States

U.S. GAAP accounting literature establishes that for larger, non-homogeneous loans, once an entity determines that a loan is impaired (meaning that it is probable that the entity will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement), the entity shall measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate. The estimates surrounding credit losses for U.S. GAAP purposes are based on an incurred loss model. For practical purposes, entities may also measure impairment based on a loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Fair value of the collateral must be used when foreclosure is deemed probable.

For smaller-balance homogeneous loans, entities should collectively evaluate the loans for impairment, using a formula based on various factors to estimate an allowance for loan losses, including past loss experience, recent economic events and current conditions, geographical concentrations and portfolio delinquency rates.

Acquisitions of Loan Portfolios

Mexico

Under *Sofom* GAAP, a loan portfolio that is acquired in a transaction that is accounted for as an asset acquisition or a business combination is initially measured based on the accounting criteria of the CNBV, net of allowances for loan losses determined in accordance with the CNBV's models. Such amounts generally coincide with the seller's basis and may differ materially from the fair value of the acquired loan portfolio.

United States

Under U.S. GAAP, a loan portfolio that is acquired in a transaction that is accounted for as an asset acquisition or a business combination is initially recognized at fair value.

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**Crédito Real, S.A.B. de C.V.,
Sociedad Financiera de Objeto Múltiple,
Entidad Regulada**

9.125% Subordinated Perpetual Notes



OFFERING MEMORANDUM

Joint Bookrunners

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