October 25, 2018

10:00 AM CT

Operator: Good morning and welcome everyone to Credito Real's third quarter 2018 Earnings Conference Call. Credito Real issued its quarterly report on Wednesday, October 24, 2018. If you did not receive a copy via email, please do not hesitate to contact us in Mexico City at +52-55-52-289753. It is important to note that the presentation and the MP3 recording referred to this call will be available at www.creal.mx. Before we begin the call today, I would like to remind you that the information discussed in today's call may include forward-looking statements on Credito Real's future financial performance and prospects which are subject to risks and uncertainties. Actual results may differ materially and the Company cautions not to rely unduly on these forward-looking statements. The Company undertakes no obligation to publicly update or advise any forward-looking statements. With us this morning from Credito Real we have Mr. Angel Romanos, Chairman and CEO and Mr. Carlos Ochoa, Deputy CEO. They will discuss on the more important strategic financial and operating aspects of the third quarter 2018. I would now like to turn this conference over to Mr. Romanos. You may begin.

Angel Romanos: Thank you, Operator. Good morning, everyone, and thank you all for joining us today. I am pleased to share with you the Company's results for the third quarter 2018. This periods reaffirms the good performance registered during the first half of the year and consolidates a solid trend towards the achievement of our objectives set for 2018. This quarter unfolded on the more stable macroeconomic outlook in Mexico where consumer confidence reached its highest level since December 2007. The uncertainty in the country started to dissipate mostly thanks to relevant developments. On the one hand the favorable progress of renegotiation talks between the US, Mexico and Canada bringing the near closing of the Trilateral Trade Agreement the USMCA, and secondly a more realistic picture of newly elected federal governments' economic policy prospects. Likewise, it was particularly relevant for our payroll loan segment, the President elect's standpoint on supporting the centralization of payments of salaries and benefits for public education teachers despite pressures exerted by some unions. I would like to highlight the 31 percent annual growth of our consolidated loan portfolio which amounted to almost Ps. 35 billion during the period, as well as our net income that increased by over 25 percent when compared to the same period last year, reaching a total of Ps. 505 million. When our operations in Mexico payroll maintained a fair base in credit origination recording Ps. 1.7 billion this quarter, up almost 15 percent YoY mostly following the continuous incorporation of pensioners who bring stability and creditability to our interest income revenue strength. Similarly for the used car segments in Mexico loan origination posted almost Ps. 600 billion, almost nine times higher than the figure recorded in the third quarter 2017. Separately the small business loan portfolio posted a positive growth of 120 percent totaling Ps. 1.5 billion at quarter end supported by the launching of our new leasing product in Mexico where we expect to consolidate a good source of revenue at a low risk given the solid collateral underlying this product. Regarding US cars in the USA, loan origination improved and we remain optimistic by the higher synergies expected to reach by the launching of the Credito Real USA brand. We closed the period with an annual growth rate of almost 20 percent in credit origination totaling Ps. 447 million. Moreover, the United States' segments number forming loan ratio declined from 1.4 percent in third quarter '17 to 1.2 percent this quarter as we have succeeded in implementation of more comprehensive origination policies. Consequently, we expect the segment's performance will continue improving in the quarters ahead. Meanwhile, InstaCredit loan origination was flat this YoY, reaching

Ps. 791 million amid the surge of social challenges in Central America. In particular, Nicaragua a political crisis has shown no early signs of recovery and the source of strife continues, whereas in Costa Rica short-term concerns emerged during the public backlash against a recently approved fiscal reform. However, we are positive that the situation in Costa Rica will pass quickly and in Nicaragua we are taking all new measures to preserve our operation and our assets. Notwithstanding the challenging conditions in Central America, the solid performance in all our business segments in Mexico and the continuous improvement of the Company's operational standards greatly contributed to strengthen the asset quality of our portfolio during the period which, coupled with the efficient implementation of collection processes, enabled us to record a stable non-performing loan ratio of 2.1 percent, 20 bps below of that recorded in the third quarter of last year. Here it is important to mention that Credito Real remains committed to uphold the strong risk management focus to preserve its asset value recording a solid coverage ratio of around 150 percent at quarter end. The funding cost was 12 percent at quarter end, a slight annual expansion of 80 bps which partly reflects the increase in hedging costs associated to the coverage of a 30 million Swiss Franc tranche of our Swiss Franc bonds. Regarding the financial margin of the period, it registered an annual growth rate of 24 percent amounting to Ps. 1.7 billion. In this environment of positive results and the strong financial position, a very important development to announce is that the Board approved and decided to push forward an aggressive share buyback program given the mismatch we perceived in its current market valuation and our growth and profitability prospects. Therefore, the Board decided to buy back close to $100 million worth of shares at open market. To conclude, so far this year, despite the uncertainties surrounding the arrival of a new federal administration in Mexico and some headwinds arising from Central America, the resiliency of our operations and broad-based performance encourages us to walk through the end of the year confident to beat all the estimates ahead of our 2018 guidance. Before ending my participation I want to congratulate Carlos Ochoa and his team as they have been oriented in the rankings of the institution now investor for their high level of commitment and professionalism which day-to-day is reflected in the top quality service provided to our investors and our stakeholders. With this I want to thank you again and leave you with Carlos Ochoa.

Carlos Ochoa: Thank you, Angel. Good morning, and thank you all to be part of our quarterly conference call. During this quarter we reached an interest income of Ps. 2.2 billion increasing 24 percent when compared to the third quarter of 2017. This increase was mainly due to the growth in the loan portfolio mostly supported by the credit origination in Mexico. Regarding interest expense, we recorded an increase of 24.4 percent YoY reaching Ps. 833 million versus the Ps. 669 million in the third quarter last year following a larger credit portfolio and the upward adjustment of the reference rate in Mexico over the last 12 months. This increase also reflects into a lesser extent the hedging cost of the $30 million tranche of our Swiss bonds. The financial margin rose 23.8 percent to Ps. 1.7 billion, mainly driven by the portfolio growth despite the challenging conditions that our businesses in Central America are currently facing. Allowances for loan losses reached Ps. 472 million this quarter, 33 percent higher than the figure recorded in the same period last year representing 5.3 percent of our total loan portfolio. This increase came on the growth record along our different portfolio and partly reflects the measures adopted in relation to the Nicaragua operation. It is important to mention that in Costa Rica we do not expect any surge in credit allowances in the situation different than Nicaragua. Administrative expenses reached Ps. 931 million during the third quarter of 2018, showing a 16.8 percent increase when compared to the third quarter 2017 mainly following the increase in expenses associated to the portfolio expansion in Mexico for Ps. 83 million, a Ps. 38 million expense associated to downsizing and closure of branches in Nicaragua and Costa Rica and to a lesser extent a Ps. 16 million increase in the US administrative expenses due to the inventory restructuring Don Carlo. This quarter net income reached Ps. 506 million, an annual increase of 25.4 percent partly due to the change in the accounting treatment of the interest related to the perpetual notes which reflected a positive impact of Ps. 58 million. The net interest margin contracted 21.5 percent in the third quarter 2017 to 22.2 percent YoY. When it comes to financial ratios this quarter the consolidated yield which stood at 29.9 percent when compared to 31.9 percent recorded in the third quarter 2017 following a positive shift in the product mix while we altered to 25 incorporation of high quality assets rather than originating sales at higher interest rates. The quarter's efficiency ratio declined to 45.4 percent from 49 percent in an annual basis. ROE was 13.3 percent during the quarter while ROA reached 4.4 percent excluding the perpetual notes, the equity treatment and the decrease in the Company's equity, ROE attained 18.5 percent this quarter. In reference to the portfolio performance will be in broader detail in the analysis of our portfolio dynamics which increased by 31 percent to almost Ps. 35 billion at quarter end where the lease and used car Mexico portfolio recorded its highest growth rate. Our favorite portfolio increased by 38 percent to over Ps. 24.2 billion, mostly supported by the operation of Combinero Credito Maestro (inaudible 12:35). Our SME portfolio increased 88.3 percent YoY totaling Ps. 3.2 billion as of the third quarter of 2018 achieving an average (garbled 12:47). Our used car portfolio increased 6 percent YoY reaching Ps. 2.7 billion which increase was driven by the expansion of our used car business in Mexico that more than offset USA's performance. As of the 1Q18, used cars in Mexico represented 2.4 percent of the consolidated portfolio while the used car business in the states represents 5.4 percent of the same portfolio. In this case one portfolio reached Ps. 4.4 billion which represents 12.6 percent of consolidated portfolio and they originated close to Ps. 800 million or 12.4 percent of the total origination of the period. Finally, our best-in-class consolidated nonperforming loan ratio contracted to 2.1 percent from the 2.3 percent registered in the 3Q17 as a result of our comprehensive origination standards and improvement of collection procedures. Now turning to our financial position. As of September 30, 2018, total assets amounted to Ps. 37 billion, up 29.1 percent when compared to the figure recorded in the same period last year largely attributed to the annual growth recorded by the consolidated loan portfolio. The Company's outstanding debt amounted to almost Ps. 28 billion as of September, or 12.8 percent when compared to the Ps. 24.7 billion in line with our recent issuance of securities that reflected our balance of Senior Notes and amortization of some revolving credit participants. Along with the increase in total debt, total liability reached Ps. 31.7 billion at the quarter end, or 17.3 percent on an annual basis. To conclude my analysis on the relevant balance sheet items, as of the end of September, the stock quote inverse equity increased 63 percent reaching Ps. 15.3 billion, (inaudible 14:59) account recognition of the perpetual notes in the Company's capital stock. With this, I conclude my remarks and now let me turn back the call to the Operator to open the line for Q&A.

Operator: Thank you very much. Ladies and gentlemen, at this time we would like to open the floor for questions. If you would like to ask a question, please press *1 on your touchtone phones now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the questioning queue you may press *2. Again, that is *1 on your touchtone phone now to ask a question. Our first question will come from Diego Torres, MCC ITAU.

Diego Torres: Hi good morning, thank you for the call. I just have a couple of questions regarding the Central America. You mentioned about the Nicaragua operations and also Costa Rica and where you also operate. Both in terms of Nicaragua you say there are some political issues and in terms of Costa Rica they are also facing some let's say sovereign issues in terms of credit risk office concentration. How do you foresee those drivers in terms of loan growth, in terms of nonperforming loans? That is my first question. The second question that I do have is in terms of refinancing risk. I believe that you have something of Ps. 7 billion that comes due in 2019. Considering the loan growth in terms of loans and that debt coming due how are you considering to manage that? Thank you.

Carlos Ochoa: Okay. Well, when it comes to InstaCredit, the situation pervading in Nicaragua had a dramatic (inaudible 16:59) in commitment to InstaCredit. We have a portfolio which is worth about $30 to $35 million over there. Yes, the NPLs are spiking over there. Right now the NPLs specifically for Nicaragua they probably amount like 15 percent but the good side of the story is that about 85 percent of our customer base are nations paying into the monthly basis meaning that we receive cash from them. You cannot be very strict when collecting money in a situation like this, so basically what we are doing is receiving partial payments and I think that's the right approach. Basically by doing this we are limiting the total exposure of the business over there in spite of the NPLs specifically for that one. In Costa Rica it's a different situation. We think that the measures that the government is facing right now are moving in the right direction and probably we will see some improvements by the, I don't know, probably in the next three months. Your second question was about liability management, right? Right now the most visible parts of the liabilities that we currently have in the Senior Notes with 2019 which are due in March and we might be thinking to do something like that. Other than that all the payments that we do we are just going to roll them over because most of them are operational bank line. I don't know if this answers your questions Diego?

Diego Torres: Yes, just as a follow-up in terms of the Nicaragua and the Costa Rican operations, you mentioned that the portfolio in Nicaragua was roughly between $40 to $45 million at this point.

Carlos Ochoa: That's correct. That is correct. (Crosstalk 19:06)

Diego Torres: I mean Costa Rica. For Costa Rica and Panama, what is the size?

Carlos Ochoa: That's the difference. If you look that we currently have a portfolio worth about Ps. 230 million, $220 million that was Costa Rica and Panama much different. These are higher concentration in Costa Rica.

Diego Torres: Okay, and in terms of—

Carlos Ochoa: We believe that the situation in Nicaragua will affect the growth rates. Normally the InstaCredit business should be growing 15 percent to 20 percent but with the situation prevailing over there probably we would expect to be growing at 10 percent to 15 percent probably.

Diego Torres: Okay, but sorry I couldn't hear you well. You mentioned that if the situation improves in Nicaragua you consider it to grow between 10 percent to 20 percent?

Carlos Ochoa: Yes. Normally the InstaCredit business grows 15 percent to 20 percent but with the situation prevailing probably it will be growing 10 percent to 15 percent.

Angel Romanos: But we are not growing in Nicaragua. We are growing outside of Nicaragua.

Carlos Ochoa: Correct. Correct.

Diego Torres: Okay. Got it. Thank you.

Carlos Ochoa: Thank you.

Operator: Thank you very much. Once again ladies and gentlemen to ask a question you may press *1 on your touchtone phones now. Our next question will come from Gilberto Garcia, Barclays.

Gilberto Garcia: Hi, good morning. Thank you for the call. In the past you have talked about how you would like to have about half of your portfolio abroad by 2022. Even the issue that you have been facing in your current foreign operations in the US and Central America, did that make you reconsider this goal or would you say the challenges are temporary and normal occurrences in the recent start of operations there? Thank you.

Angel Romanos: We really believe this is part of the business cycles. In the US we are going to make good money on our foreclosure operation this year. The Dallas operation will be almost even at the end of the year which is where we had losses last year. I believe that our operations in the US are starting to stabilize and from there we have a good base to grow. In Central America I believe we have a very strong position with the InstaCredit brand especially in Costa Rica and Panama and we had a very strong institutional branding in Nicaragua but the Nicaragua problem will last and we don't believe we will be doing a lot more business there. But we can start accelerating our opening of branches in Panama and concentrate more in Costa Rica and Panama for the near future at least. In Nicaragua really we're concentrating on collecting the portfolio we have. We haven't closed our branches because people believe that the business is going away if you do that. We've been collecting pretty good and we've been giving a lot, helping people a lot to make smaller payments or go through a longer period of time. But we're recovering much more than we thought we would with the active situation and how it's going on. But we don't reconsider. We like having a diversified business and the US still is a priority for us in the future with the amount of Latin Americans there. We believe we have been through the learning curve and we're ready to start growing from a more solid base now.

Gilberto Garcia: Okay, understood, thank you very much.

Angel Romanos: You're welcome.

Operator: Thank you very much. Once again, ladies and gentlemen, if you would like to ask a question, you may press *1 on your touchtone phones now. Our next question will come from Diego Torres, MCC ITAU.

Diego Torres: Hi, sorry to take another question, if I may, but you mentioned about the share buyback program of $100 million. Could you provide much more color in terms of how you will be deploying that share buyback and also in terms of the sources?

Angel Romanos: We will start buying back our shares as soon as our required period ends. The Board last Tuesday authorized us all the way up to $100 million of shares to buy back. We believe the fee and the multiples on the stock are ridiculous compared to the industry and to our competitors. So at this price we're willing to buy back up to $100 million. The Board approved us to do that during the next 24 months. That's a two-year program but we want to do it as quick as possible as the price is down.

Diego Torres: Okay. Last if you could provide any guidelines or you have some guidelines for next year in terms of loan growth in terms of the main lines of subscribers for Credito Real or that is something that is not defined yet?

Angel Romanos: No, we don't have any numbers yet. We believe the business will keep growing consistently but we don't have any specific numbers yet for next year.

Diego Torres: Okay, thank you.

Angel Romanos: You're welcome.

Operator: Thank you very much. Again *1 to ask a question. Our next question will come from Natalia Corfield, JP Morgan.

Natalia Corfield: Hi, good morning everybody. I have two main questions. Starting with if you could provide some more color on what we can expect in terms of asset quality and provisions for next year and for this year as well. Also if you could provide more in terms of margins of the business. Lastly, I have a question also with regards to the fixed rate that you have because I saw that in this quarter it declined to 41 percent of your total debt and I was under the impression that you wanted to have a higher portion of fixed debt in your balance sheet in order to help offset a higher interest rate in Mexico. If you could give me color on that, that would be very helpful. Thank you.

Angel Romanos: Hello Natalia, how are you? I didn't get the first part of your question but you were asking about the NPLs and about the margins? That was the first part of your question?

Natalia Corfield: Yes. Given that your rate that we have seen in this quarter, what can we expect going forward in terms of asset quality provisions and what should we expect?

Angel Romanos: I would say the cost of risk should remain at the levels that you're seeing. This quarter was specifically good, I mean in those terms I mean we are start seeing a downward trend. When you net that out of the income from operation, I mean it was a good quarter. In terms of what we expect in terms of cost of risk I would say that with a 4.5 percent net of the other income from operations we feel comfortable in that sense mostly.

Natalia Corfield: You feel comfortable with your coverage ratio?

Angle Romanos: Yes we do. Yes we do. We don't have much room and we don't have much to say in those terms given that we are following CMBV regulatory framework. Basically that's how we are provisioning so we have not much to say. But to those terms what I can tell you is that given that the portfolio in Mexico is growing faster than the portfolio outside Mexico, that's where you see the improvement in terms of cost of risk, I mean in terms of the coverage ratio.

Natalia Corfield: Okay. What are the margins?

Angel Romanos: In terms of the margins I believe that right now they should be trending upward. I mean we believe it depends a lot on the concentration that we have on Instacredit. Right? If you look at the difference between this quarter and last year's quarter is the concentration in InstaCredit went down from the 16 percent which normally is less than 13 percent. That affects the margins. But even still, even with this, the NIM floats above the 20 percent and I'd say that it's going to be trending upward to probably 22 percent, 23 percent.

Natalia Corfield: Thank you. What about strategy with regards to the six debts that you had in your balance sheet.

Angel Romanos: Yes, the good thing between the 50 percent that we used to have in last quarter was the multiplication of $33 million of the Credit Suisse ability. We might consider to increase that portion and you can see this is about the right time to do that. Mostly we feel comfortable having fixed about 50 percent but we don't expect to do it right now given the market conditions.

Natalia Corfield: Okay. Thank you.

Angel Romanos: Thank you, Natalia.

Operator: Thank you very much. Ladies and gentlemen, once again as a quick reminder, if you would like to ask a question please press *1 on your telephone keypad now. Once again that is *1 to ask a question. Thank you very much. Speakers, at this time we have no further questions in the queue.

Carlos Ochoa: Thank you very much to all who participated this time.

Angel Romanos: Thank you.

Carlos Ochoa: Good-bye.

Operator: Thank you very much. Ladies and gentlemen at this time this conference has now concluded. You may disconnect your phone lines and have a great rest of the week. Thank you.

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