



**Credit
Rating
Agency**

A NRSRO Rating*

Perpetual Bond

Crédito Real, S.A.B. de C.V., SOFOM, E.N.R.
ISIN US22548WAB81

HR BB+ (G)

Financial Institutions
July 30, 2019

Ratings

Perpetual Bond HR BB+ (G)

Outlook Stable

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Definition

The long-term global rating assigned to Crédito Real's Perpetual Bond is HR BB+ (G) with Stable Outlook. The issue with this rating provides inadequate safety for timely payment of debt obligations. Maintains high credit risk on a global scale basis. The "+" symbol indicates relative strength within the credit rating.

Rule 17g-7 Information Disclosure Form

The Rating Action Commentary (RAC) associated with this disclosure form is an integral part of the form.

1. Symbol, Number, or Score in the Rating Scale used by HR Ratings as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

Entity/Instrument	Rating Action	Rating Type	Rating Code
Crédito Real, S.A.B. de C.V., SOFOM, E.R. / CREAL PERPETUAL BOND US\$230M	Assign	Long-Term Rating	HR BB+ (G) / Stable

2. Version of the Procedure or Methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

The rating assigned by HR Ratings to the entity is based in accordance with the following methodologies established by the rating agency:

- Rating Methodology for Non-Bank Financial Institutions, May 2009
<https://www.hrratings.com/docs/metodologia/3.2.3.%20Non%20Bank.pdf>
- General Methodological Criteria, March 2019
<https://www.hrratings.com/docs/metodologia/GMC%20March%202019.pdf>

3. Main assumptions and principles used in constructing the procedures and methodologies to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The objective of the Rating Methodology for Non-Bank Financial Institutions is to evaluate the financial institution's ability and willingness to pay its debt through the relevant parameters that specifically affects these conditions. Also, HR Ratings evaluates the institution's capacity to maintain a certain level of capitalization. For this, the applicable Methodology identifies the main risk indicators within each credit risk category that affect the Non-Bank Financial Institution assessed; both those that are specific to the entity and those from external factors. Regarding the ability to pay, the major sources of risk that could cause delay or default on the settlement of any liability are determined.

To evaluate all the relevant risks that affect the Non-Bank Financial Institution credit quality, HR Ratings classifies them into qualitative risks and quantitative risks. The division of categories is fundamental to differentiate between the numerically measurable factors and based on the financial model (quantitative risks) of the factors that are sensitive to the management of the institution and which are unrelated to the financial model (qualitative risks).

The qualitative risks category includes risk factors such as: 1) Industry risk, 2) Assessment of management and operational risks and 3) Accounting, regulatory and competitive risks. Given the nature of the category, HR Ratings assigns a rating to each of these risks. This category includes factors not only related to the management of the business, but also with growth expectations of the rated institution.

The Financial projections for Non-Bank Financial Institutions represents the structural basis for the quantitative risks category. These projections incorporate historical financial information that the institution delivers to HR Ratings and with which forecasts are prepared minimum for the next 8 quarters. The information required by HR Ratings includes quarterly reports of Income Statements, Balance Sheets, and Cash Flow Statements for the last five years; however, in the event the institution has a shorter financial record, it will be considered from earliest information available.



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For the financial projections, the analyst focuses on the capacity of the institution to maintain a capital adequacy ratio and its ability to generate cash flow, even under a high stress scenario. Both factors are fundamental so that the entity can reliably meet its financing needs. The factors the analyst takes into consideration for the projections and to present a reliable scenario include economic environment, industry growth expectations, competition, business plan, business cycle, business financial situation, concentration risks of the portfolio and funding structure, among others. With the historically financial information and with the projection we calculate the key financial ratios for the quantitative analysis. The financial ratios taken into consideration are the profitability level, the operating efficiency, portfolio quality, market risk, solvency ratios and liquidity risk. The final rating represents the sum of the rating assessment given by the qualitative risks analysis and in the quantitative risk analysis.

4. Potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17q-7

- HR Ratings does not validate, guarantee or certify the accuracy, correctness or completeness of any information and is not responsible for any errors or omissions or for results obtained from the use of such information.
- Ratings and/or opinions assigned by HR Ratings are based on an analysis of the creditworthiness of an entity, issue or issuer, and do not necessarily imply a statistical likelihood of default.
- The credit ratings do not opine on the liquidity of the issuer's securities or stock.
- The credit ratings do not consider the possible loss severity on an obligation default.
- The credit ratings are not an opinion of the market value of any issuer's securities or stock, or the possibility that this value suffer a deterioration.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17q-7

The Analysis Committee noted no material limitations on the reliability, accuracy and quality on the data relied on in determining the credit rating.

The Analysis Committee noted no material limitations on the scope of historical data or on the accessibility to certain documents or other information that would have better informed any credit rating listed in this disclosure form. It should be noted that a Technical Note was incorporated for the Issuer's rating, regarding its Perpetual Bond Issuance and the impact it has on solvency metrics such as the capitalization ratio and the leverage ratio.

The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

6. Use of third party due diligence services as required by Paragraph (a)(1)(ii)(F) of Rule 17q-7

HR Ratings did not use third party due diligence services for this rating.

7. Use of servicer or remittance reports to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17q-7

HR Ratings does not use Servicer or Remittance Reports to conduct surveillance of this rating.

8. Description of types of data about any obligor, issue, security or money market instrument relied upon for determining credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17q-7

Among the main information used for the rating is:

- Annual Audited reports obtained from public record, regulatory filings and from the Company.
- Inter-annual financial statements and operational results.
- Projections, budget and guidelines provided by the Company.
- Presentations provided by the Company.
- Credit Loan and Leasing Portfolio.



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- Funding Structure.
- Liquidity Positions.
- Derivatives Position.
- Corporate Governance.
- Accounting Policies.

9. Overall assessment of quality of information available and considered in determining credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17q-7

The quality of the information provided by the entity is considered to be consistent with the quality observed within the asset class.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17q-7

The rating was solicited by the entity or issuer, or on its behalf, and therefore, HR Ratings has received the corresponding fees for the rating services provided. The following information can be found on our website at www.hrratings.com: (i) The internal procedures for the monitoring and surveillance of our ratings and the periodicity with which they are formally updated, (ii) the criteria used by HR Ratings for the withdrawal or suspension of the maintenance of a rating, and (iii) the procedure and process of voting on our Analysis Committee. The Analysis has been performed with complete independence from the received fees or any other business relation with the entity and in absolute concordance with the applicable methodologies.

The ratings and/or opinions assigned are issued on behalf of HR Ratings, not of its management or technical staff, and do not constitute an investment recommendation to buy, sell, or hold any instrument nor to perform any business, investment or other operation. The assigned ratings and/or opinions issued may be subject to updates at any time, in accordance with HR Ratings' methodologies.

11. Explanation or measure of potential volatility to the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17q-7

The main factors that could lead to the volatility of the rating are:

- Significant increases in nonperforming loans.
- Potential inorganic growth through mergers and acquisitions.
- Solvency deterioration due to aggressive growth or net losses.
- A strong increase in expenses due to an aggressive portfolio growth.
- Redemption of the Issuer's perpetual bonds, which would reduce equity in the Company's balance.
- Regulatory or fiscal changes in the Issuer's sector (non-bank financial institutions).
- Delay in the Issuer's cash inflows due to changes in local and federal government's administrations, which would impact its payroll discount credit business.
- Changes in Mexico's sovereign rating by HR Ratings

12. Historical performance and expected probability of default and expected loss in event of default as required by Paragraph (a)(1)(ii)(L) of Rule 17q-7

For historical performance of each rating listed in the disclosure form, click on the link in the ratings table presented on the first page.

Our credit ratings need to be understood as rankings of the relative creditworthiness of different entities or credits. Creditworthiness takes into consideration both the ability and willingness to meet debt obligations in the manner prescribed in the relevant documentation. Default refers to the noncompliance of previously agreed obligations.

As our ratings measure relative creditworthiness, they do not necessarily reflect any specific statistical probability of default. In order to make more valid rankings of creditworthiness our different methodologies will apply stress case scenarios to complement our base case analysis.



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13. Assumptions made by HR Ratings in determining announced credit ratings and examples of how assumptions impact the rating as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

- Strengthening of solvency indicators due to the issuance of a Perpetual Bond instrument, which was granted 50.0% equity credit by HR Ratings due to its characteristics. Moving forward, we expect a slight downward trend of solvency indicators due to the Company's aggressive growth strategy.
- Downward trend in profitability ratios, although they remain at strong levels given the Company's size and growth. In this regard, ROAA & ROAE stood at 4.4% and 15.0% at 1Q18, compared to 5.0% and 20.0% in 1Q17.
- Healthy portfolio performance, with the Delinquency Ratio and the Adjusted Delinquency Ratio standing at 1.9% and 5.7% at 1Q18 (vs. 2.1% and 6.0% at 1Q17). Asset quality has been maintained mainly due to diligence and collection processes. Despite this fact, there was a slight deterioration in delinquency buckets, which could impact NPL Ratio going forward
- Diversification of funding tools, which have a total authorizes amount of P\$35,441m al 1T18 and there are 32.4% of resources available.
- Inherent risk related to the Company's main market and sector, particularly in the context of changes in the administration of several governments at the federal and municipal level.

14. Representations, warranties and enforcement mechanisms available to investors as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7

The reporting of representations, warranties, and enforcement mechanisms does not apply to the credit rating listed in this disclosure form as it is not assigned to an asset-backed security.

15. Attestation as required by Paragraph (a)(1)(iii) of Rule 17g-7

Credit Rating Attestation

I, Fernando Sandoval, Financial Institutions / ABS Executive Director, have the responsibility for this rating action and, to the best of my knowledge:

- No part of the credit rating was influenced by any other business activities;
- The credit rating was based solely upon the merits of the obligor, security or money market instrument being rated and any relevant credit enhancement; and
- The credit rating was an independent evaluation of the risks and merits of the obligor, security or money market instrument and any relevant credit enhancement

Mexico City, July 30, 2019

/S/ Fernando Sandoval Financial Institutions / ABS Executive Director
HR Ratings de México, S.A. de C.V.



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HR Ratings de México, S.A. de C.V. (HR Ratings), is a securities rating agency authorized by the Mexican Banking and Securities Commission (Comisión Nacional Bancaria y de Valores (CNBV)), registered with the U.S. Securities and Exchange Commission (SEC) as a Nationally Recognized Statistical Rating Organization (NRSRO) for public finance assets, corporates and financial institutions, as described in Section 3(a)(62)(A) article (v) of the U.S. Securities Exchange Act of 1934, and certified as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA).

The above rating was requested by the entity or issuer, or on their behalf, and therefore HR Ratings has received the fees corresponding for the rating services provided. The following information is available on our website www.hrratings.com: (i) HR Ratings' procedure for monitoring our ratings and the frequency of reviews; (ii) the criteria applied by this rating agency to withdraw or suspend a rating, and (iii) the structure and voting process of our Credit Analysis Committee.

The ratings and/or opinions of HR Ratings de México S.A. de C.V. (HR Ratings) are opinions on credit quality and/or asset management, or refer to performance in terms of the corporate purpose for issuer companies and other entities or sectors, and are based solely on the characteristics of the entity, offering, and/or transaction, independent of any business activity between HR Ratings and the entity or issuer. The ratings and/or opinions given or issued are not recommendations to buy, sell, or hold any instrument or to conduct any type of business, investment, or operation, and may be subject to adjustment at any time, according to the rating methodologies of HR Ratings and the terms of article 7, section II and/or III, accordingly, of the "General provisions applicable to securities issuers and other participants in the securities market".

HR Ratings bases its ratings and/or opinions on information gathered from sources it considers accurate and reliable. HR Ratings, however, does not guarantee or vouch for the accuracy, precision, or completeness of any information and is not responsible for any error or omissions or for results obtained from the use of this information. Most issuers of debt instruments rated by HR Ratings have paid a credit rating fee based on the quantity and type of offering. The goodwill of the security or the solvency of the issuer, and, accordingly, the opinion given on the capacity of an entity in terms of asset management and performance on its corporate purpose may change, which may improve or lower the rating, without this implying any liability for HR Ratings. HR Ratings gives its ratings and/or opinions ethically and in adherence of healthy market practices and in compliance with applicable regulations, which can be found on the company website at www.hrratings.com, where documents such as the Code of Conduct, methodologies or criteria for rating, and current ratings are available.

The ratings and/or opinions given by HR Ratings include a credit quality analysis for an entity, issuer, and/or offering, therefore they do not necessarily reflect a statistical probability of default on payment, this being understood as the impossibility or lack of willingness of an entity or issuer to settle its contractual obligations of payment, in which case creditors and/or holders are forced to take measures to recover their investment, including restructuring the debt due to the debtor facing a situation of stress. However, to give our opinions on credit quality greater validity, our methodology considers stressed scenarios as a complement to the analysis prepared on a base scenario. The fees HR Ratings receives from issuers generally range from US\$1,000 to US\$1,000,000 (or the equivalent in another currency) per rating. In some cases, HR Ratings will rate some or all the offerings of a particular issuer for an annual fee. Annual fees vary between US\$5,000 and US\$2,000,000 (or the equivalent in another currency).