



Pichardo Asset Management
Independent Portfolio Management Firm

Equity Research

Analysis of Banking Credit as of August 2018

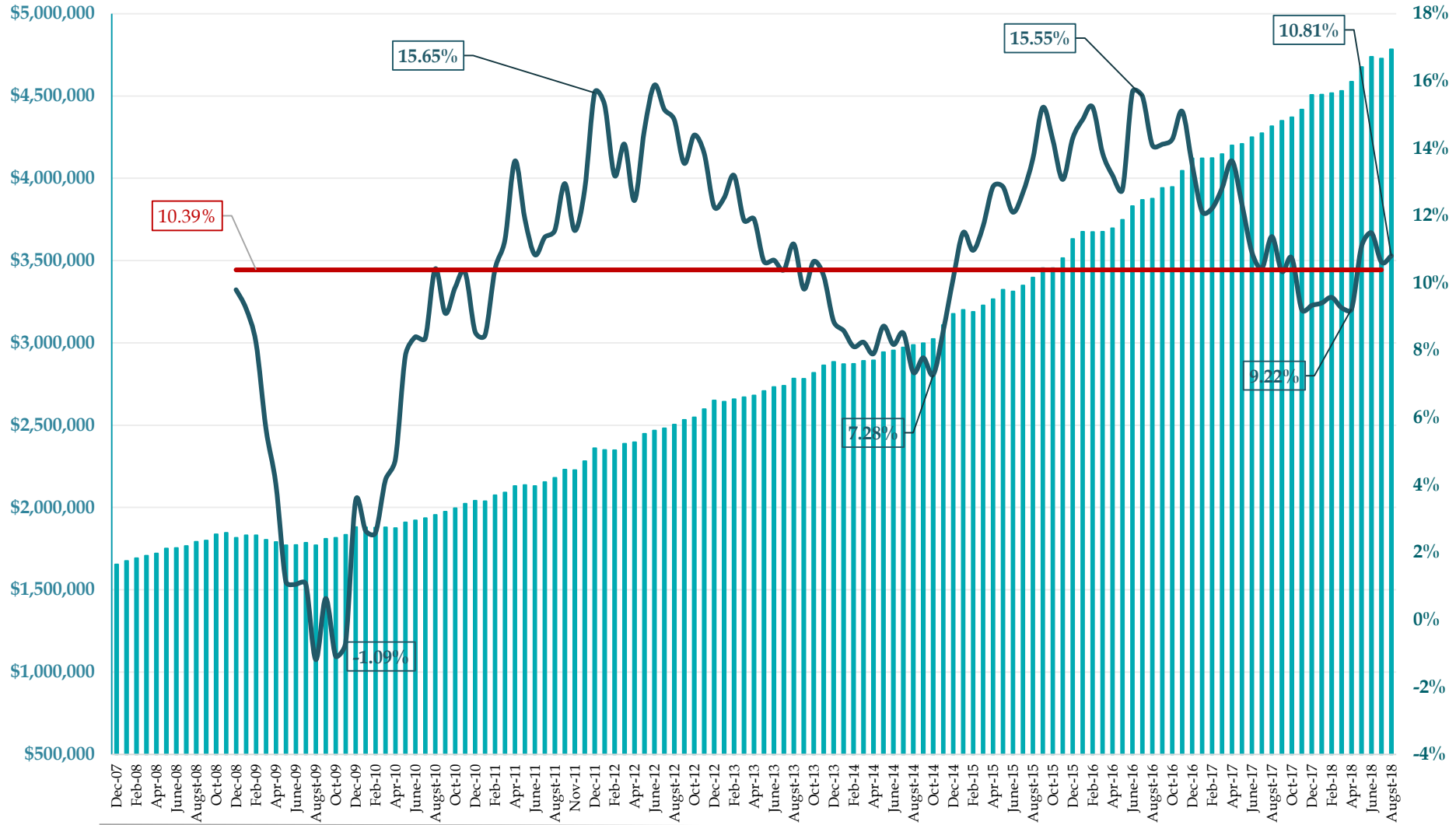
Data publication on October 9 2018

Source: CNBV – Banking and Exchange Commission.

October 11, 2018

In August 2018 the Mexican banking system reported a loan growth increment of +10.81% YoY, and +1.19% MoM. In July-2018 loan growth increased +10.62% Yo. On average loan growth for (July and August) was +10.71%, which compares to an average loan growth of +10.91% for the same period a year ago.

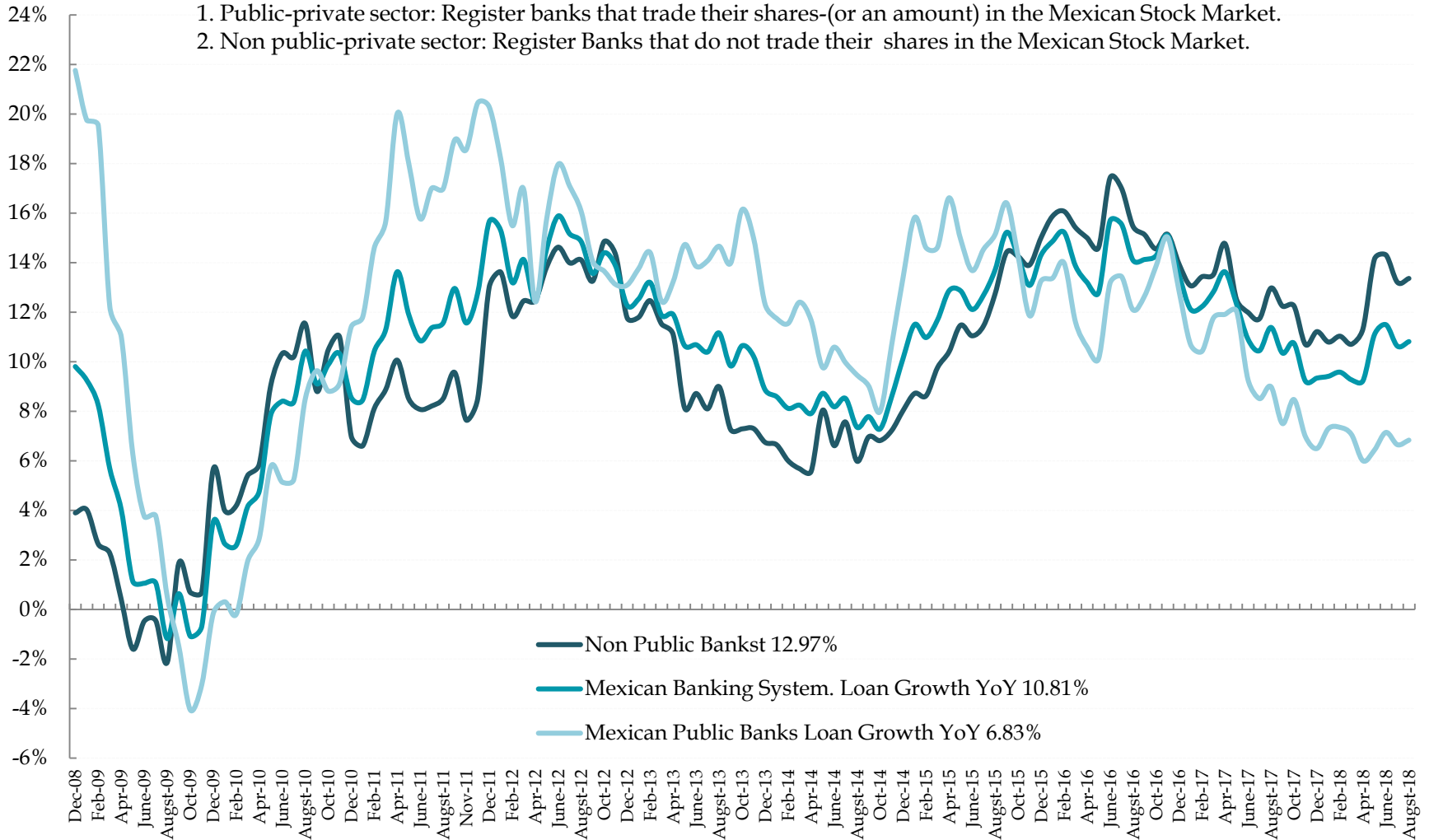
Banking System Credit:
(Monthly YoY, As of August 2018 +10.81%)



There are different dynamics within the banking system, the Mexican Public-*private* sector presents lower loan growth dynamics. In contrast, the Mexican non public-*private* sector is concentrating the highest lending rates.

Loan Credit Growth YoY (Monthly as of August 2018)

1. Public-private sector: Register banks that trade their shares-(or an amount) in the Mexican Stock Market.
2. Non public-private sector: Register Banks that do not trade their shares in the Mexican Stock Market.

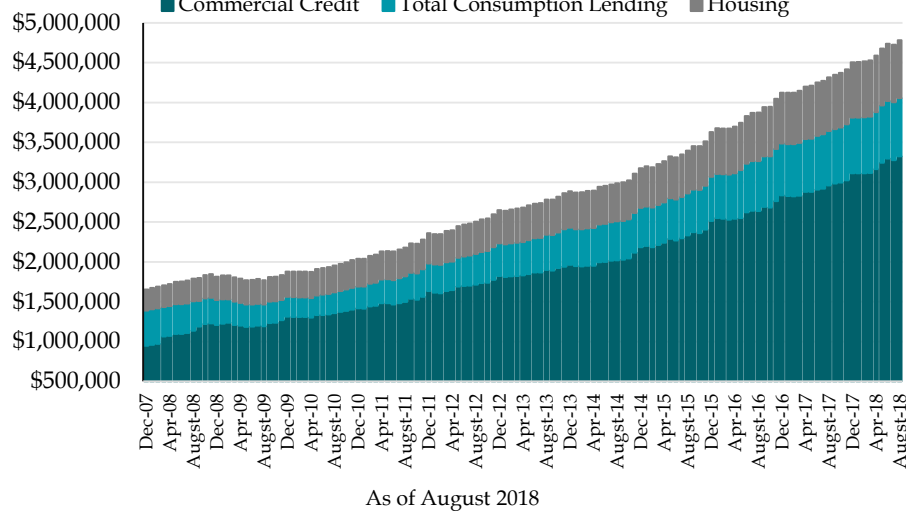


As of August 2018, Commercial Lending represented 70% of total lending and increased +12.3% YoY, both Consumption and "Housing-lending" contain similar weights. Consumption lending represented 15.27% and increased +7.05% YoY. Housing was 15.23% of total lending in Mexico and increased +7.74% YoY as of August 2018.

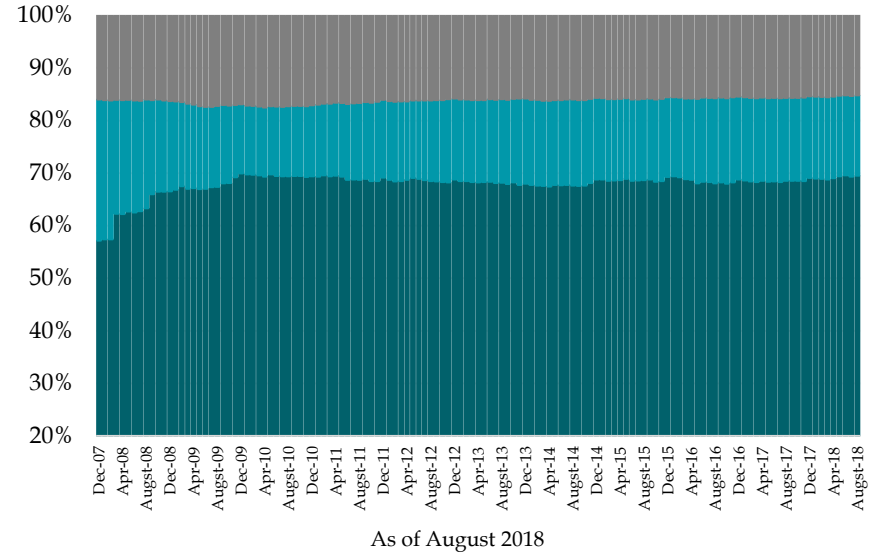


Banking System Credit

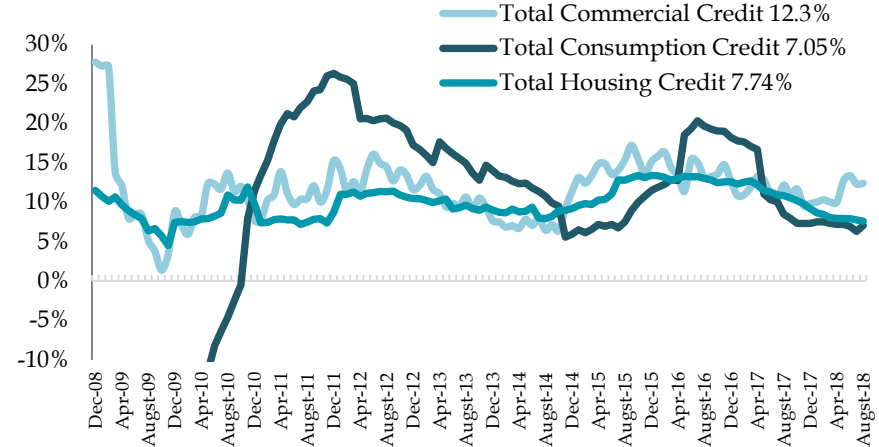
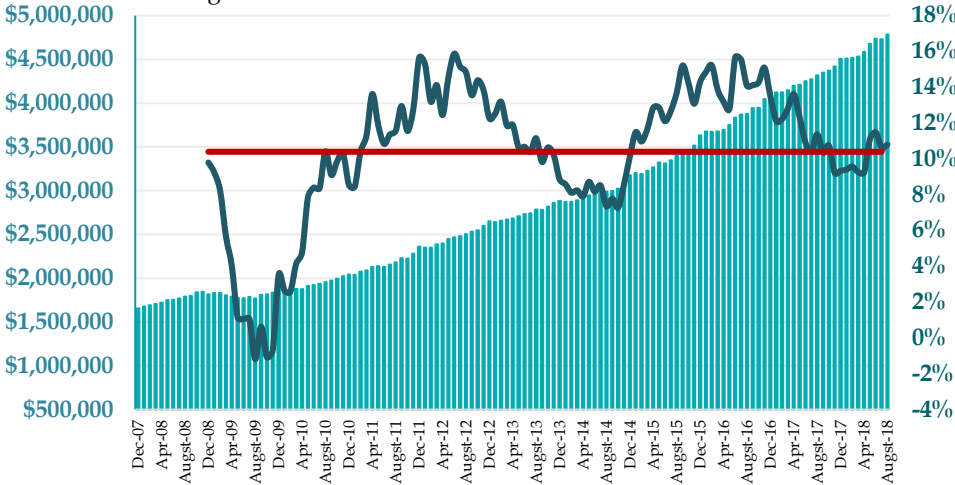
(Monthly data, as of August 2018)



As of August 2018
 ■ Commercial 69.5% ■ Consumption 15.27% ■ Housing 15.23%



■ Loan Gross Portfolio — Loan Gross Portfolio 10.81%
 — Historical Avg Loan Growth 10.39%



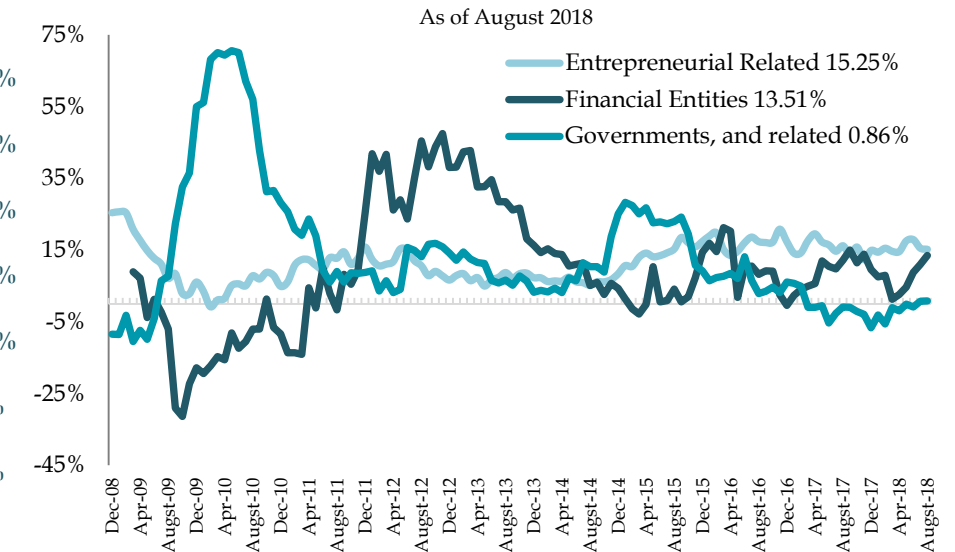
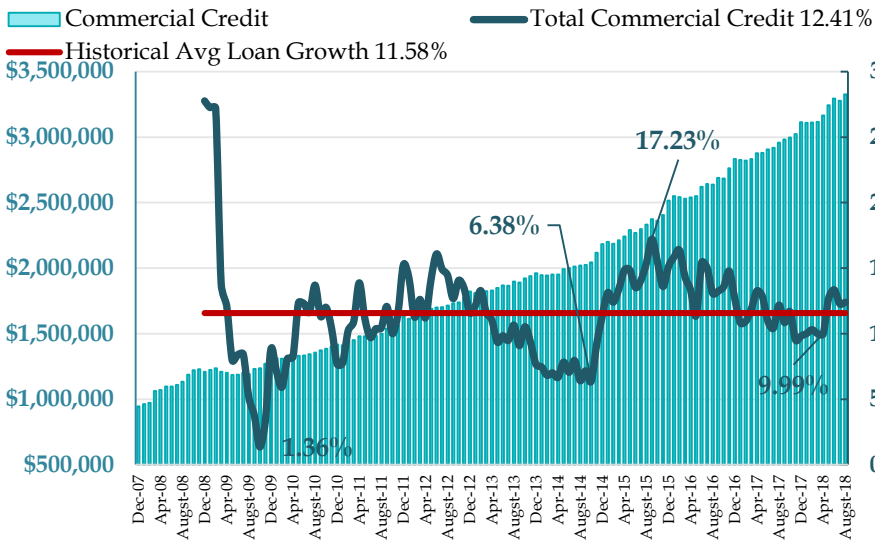
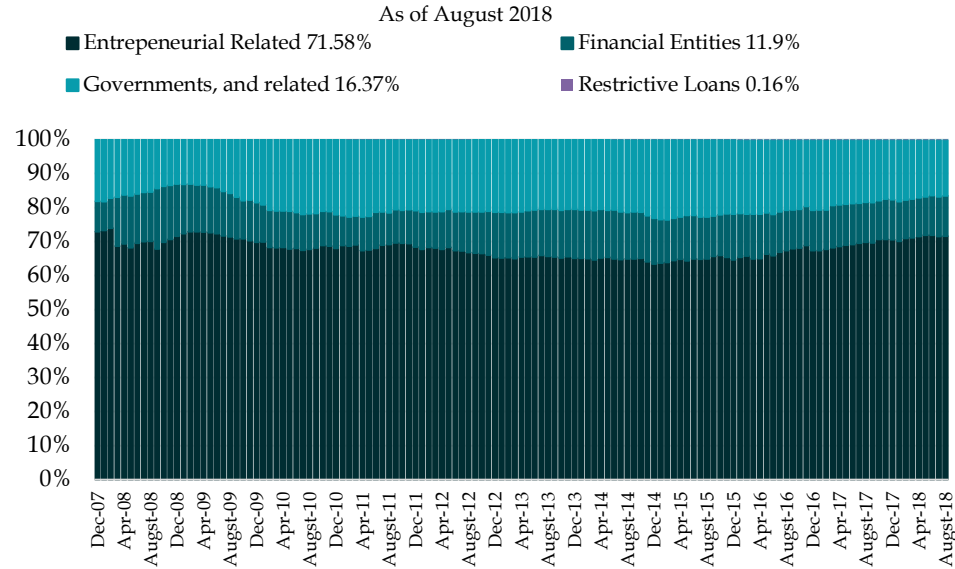
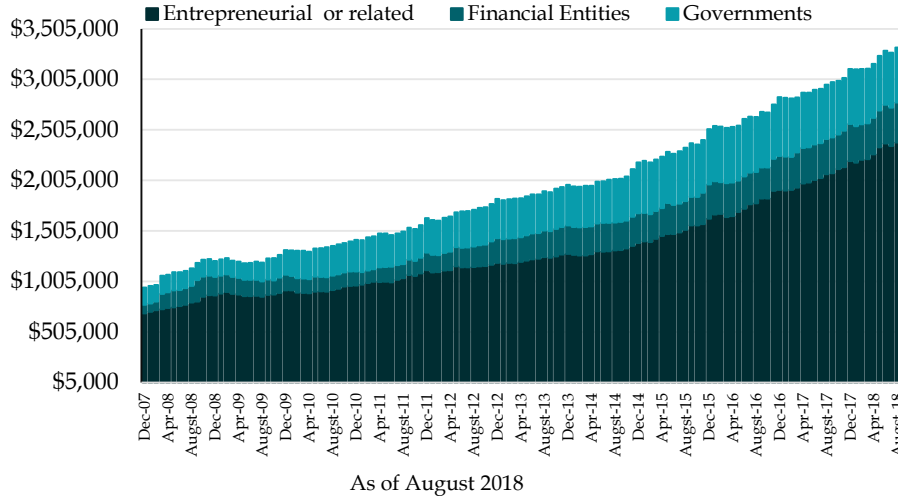
Experience *Consistency* *Vision*

Source: PAM & CNBV

As of August 2018, A the Commercial lending: Entrepreneurial and related represented 71% of total commercial lending. Financial entities and governments stood at 11.9% and 16.37%. The most stable and growing segment has been related to the Entrepreneurial which increased +15.25% YoY as of August 2018.



Commercial Credit (Monthly Data as of August 2018)



Experience

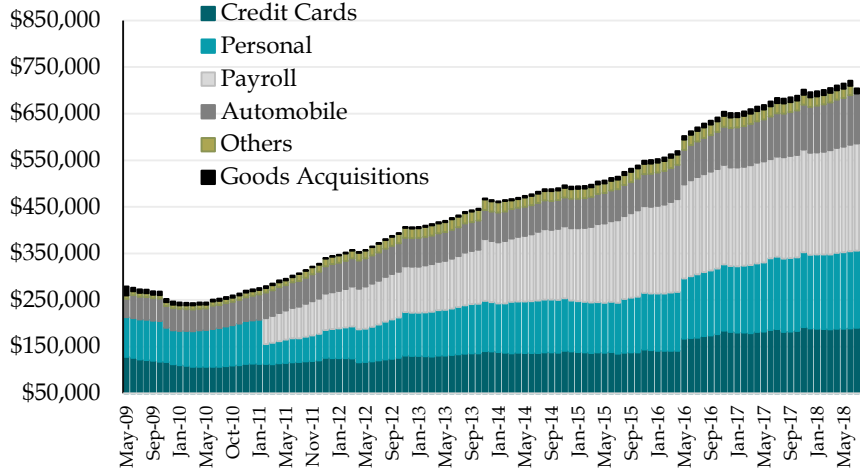
Consistency

Vision

Source: PAM & CNBV

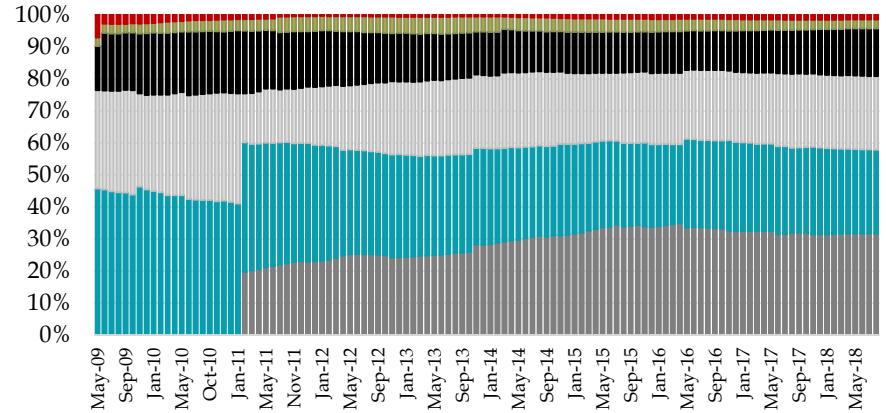
As of August 2018 and within the Consumption lending, Payroll lending reached a weight of 31.62% of total consumption lending and increased +6.23% YoY. Credit Cards represented 26.18% of total consumption and increased +4.89% YoY. Auto. Lending has kept a high growth when compared to other consumption products and ending August Auto. Lending increased +16.62% YoY.

Banking System: Consumption
(Monthly data, as of August 2018)



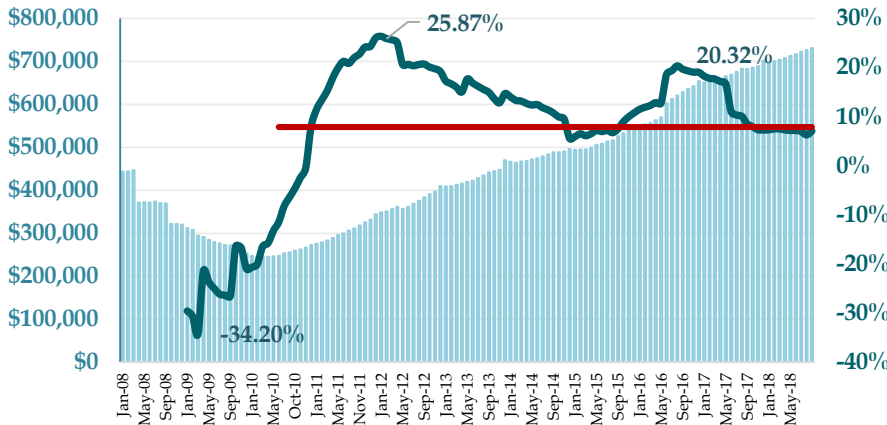
As of August 2018

- As of August 2018
- Payroll 31.62%
- Credit Cards 26.18%
- Personal 22.92%
- Automobile 14.66%
- Others 2.79%
- Goods Acquisitions 1.49%

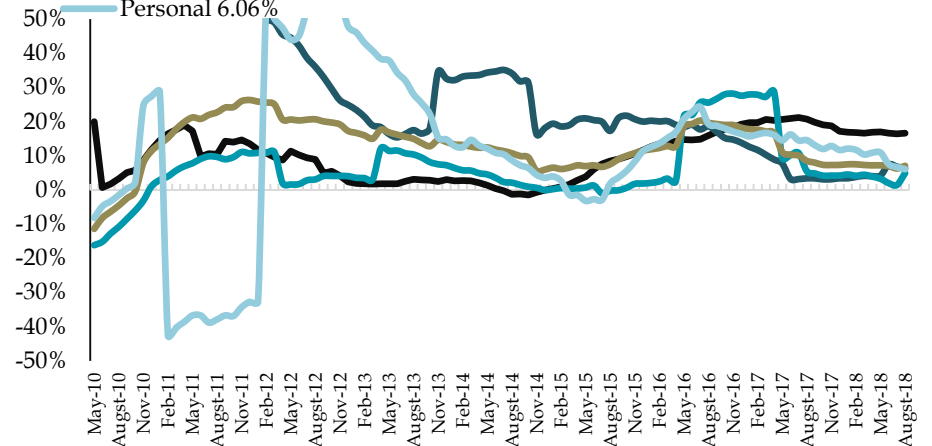


As of August 2018

- Total Consumption Lending
- Total Consumption Credit 7.05%
- Historical Avg Loan Growth 7.86%



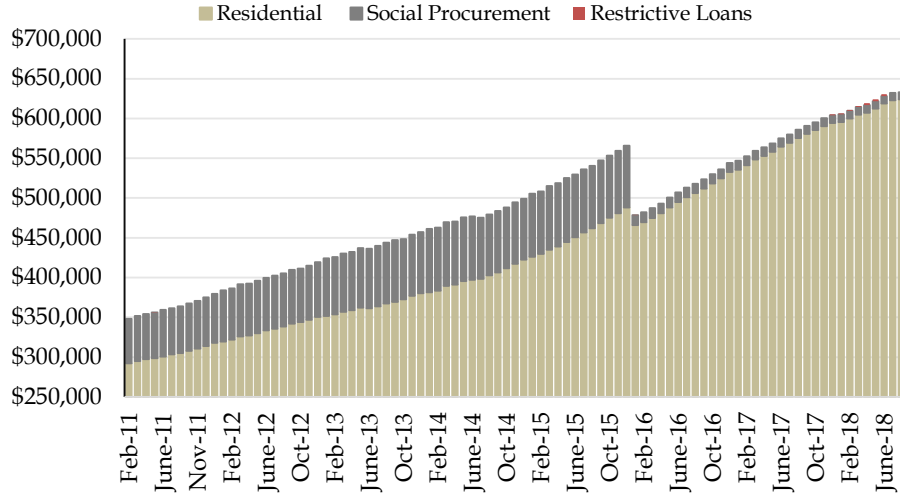
- Automobile 16.62%
- Payroll 6.23%
- Credit Cards 4.89%
- Total Consumption Credit 7.05%
- Personal 6.06%



As of August 2018, residential lending was 96% of total housing lending and increased +9.4% YoY. On the contrary “Social-procurement” decreased -12.42% YoY.

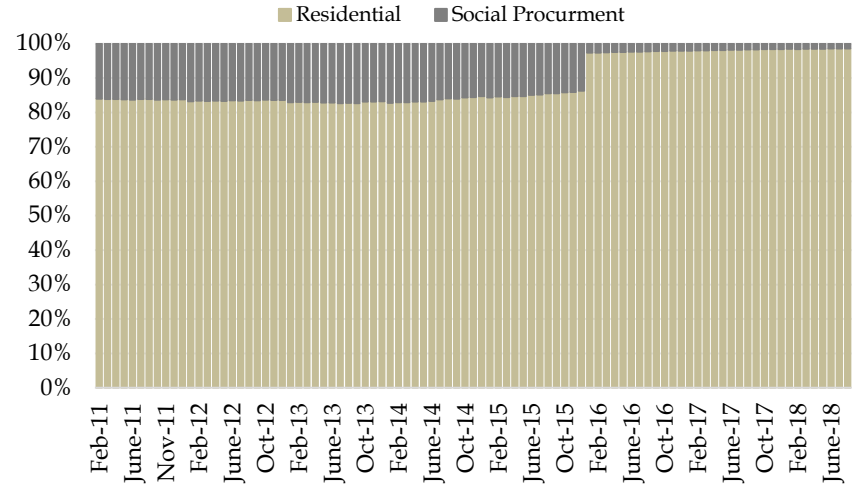


Banking System: Housing Credit
(Monthly, as of August 2018)

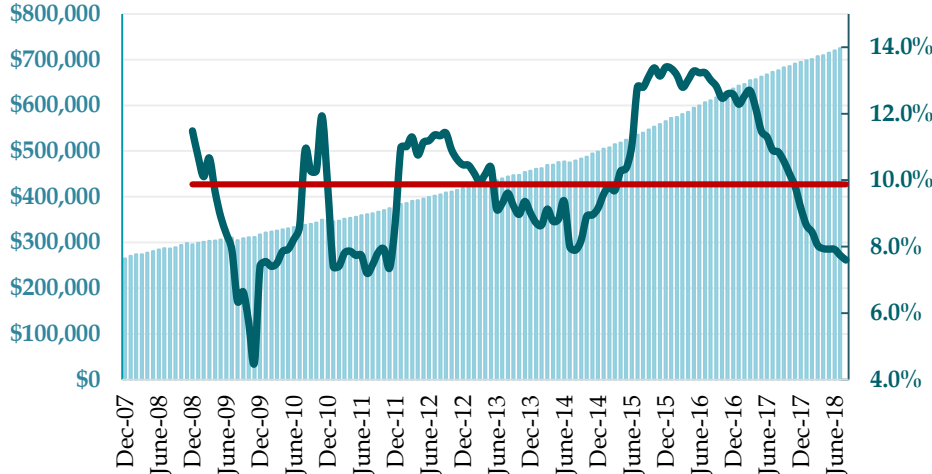


As of August 2018

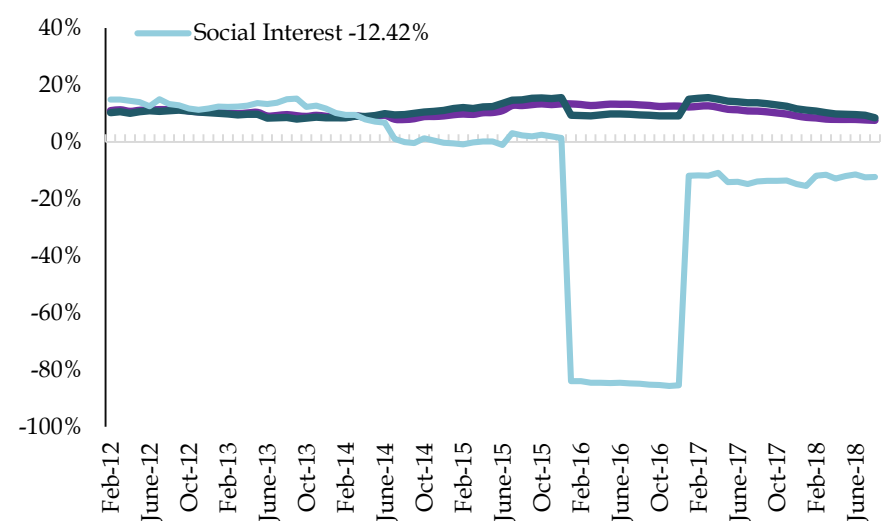
Banking System: Housing
(Monthly Data, as of August 2018)



Housing Total Housing Credit 7.74% Historical Avg Loan Growth 9.87%



Total Housing Credit 7.74% Residential 9.4%



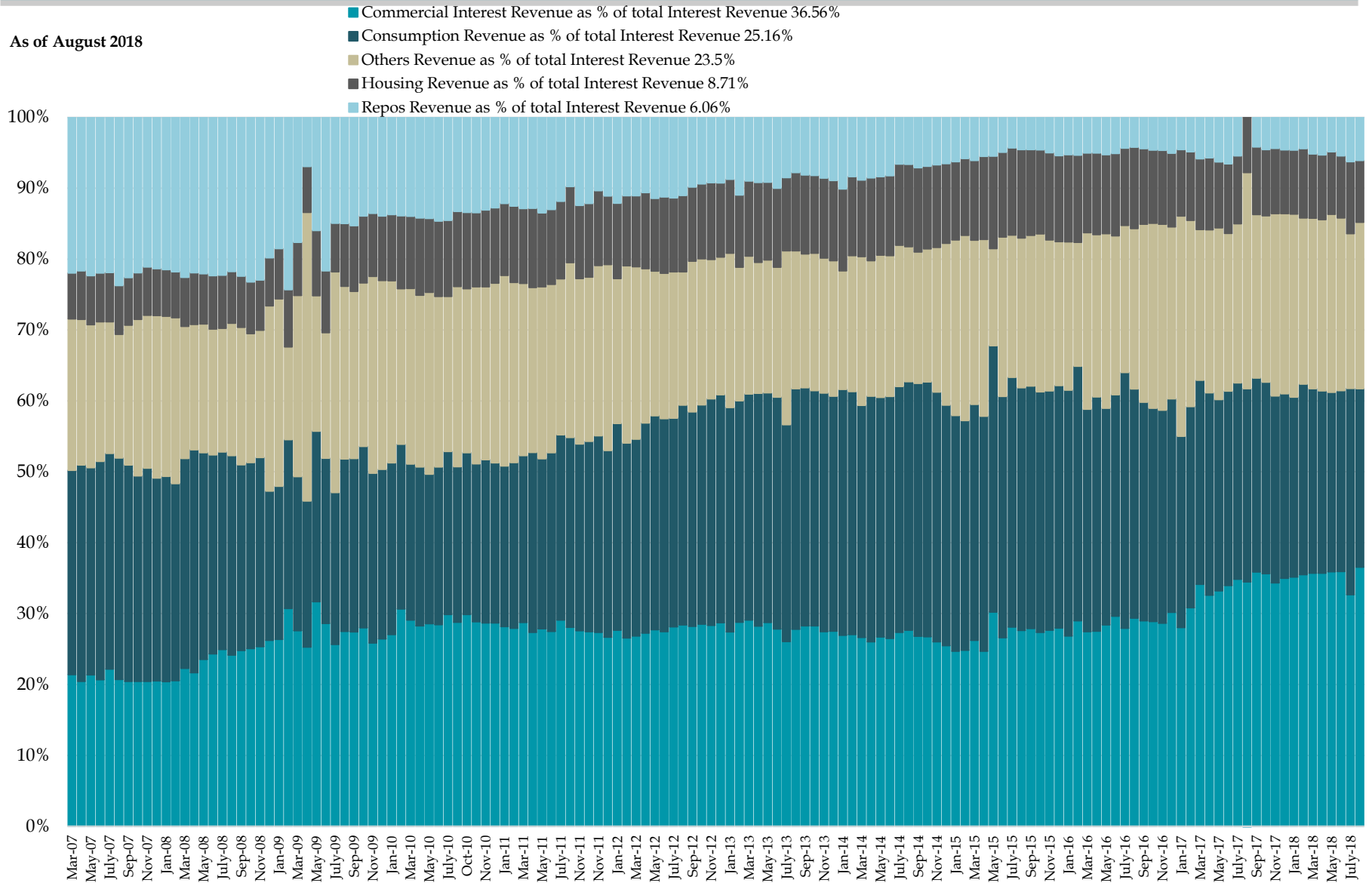
Experience

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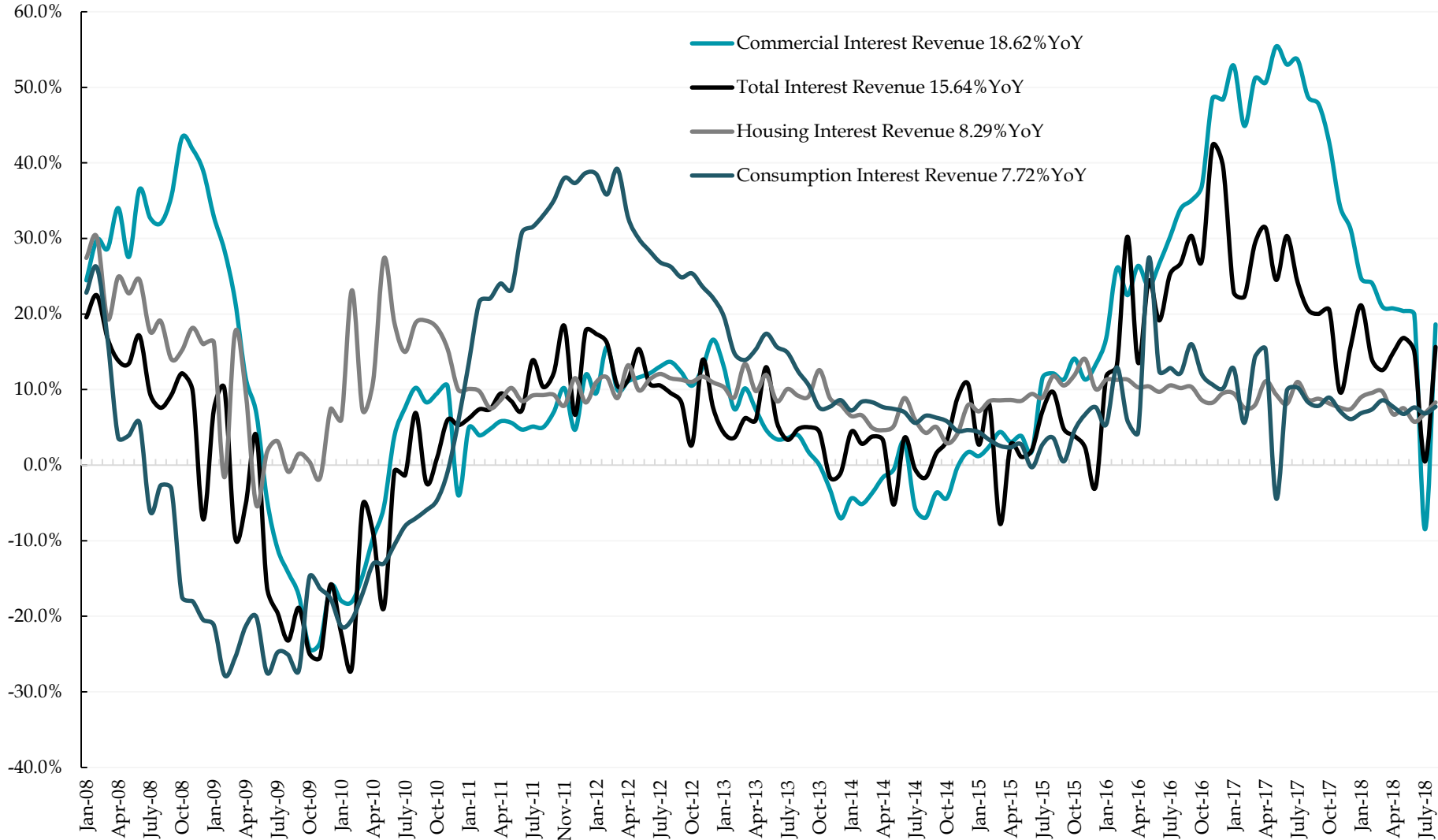
Source: PAM & CNBV

The Banking system generates higher interest revenue from the Commercial lending, being 36.56% of total Interest Revenue.



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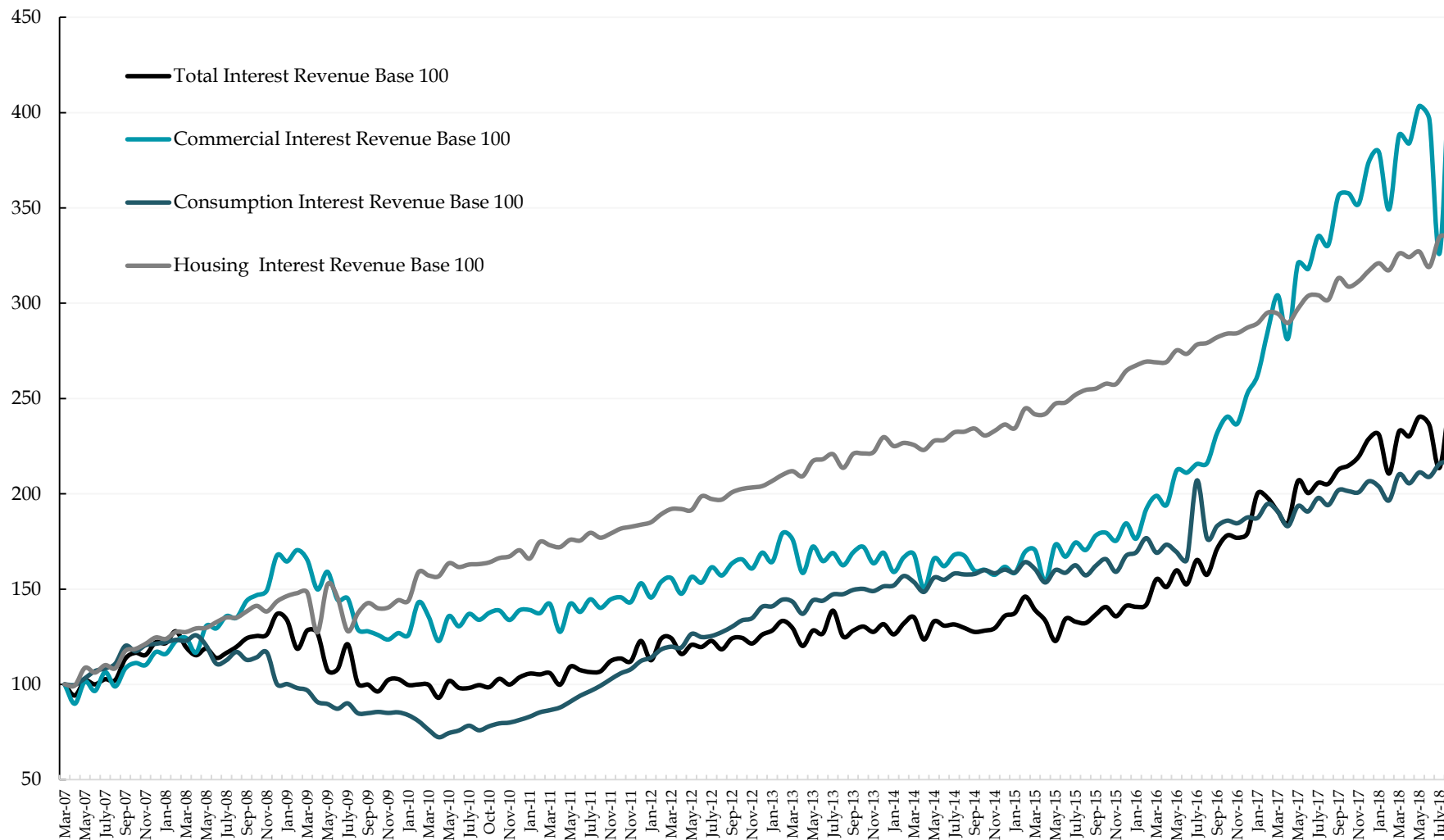
Banking System: Interest Revenue growth YoY
(January 2008- August 2018)



Since 2007, on equal constant prices (Base 100) The Commercial Interest Revenue have experienced the highest incremental change, followed by Housing.



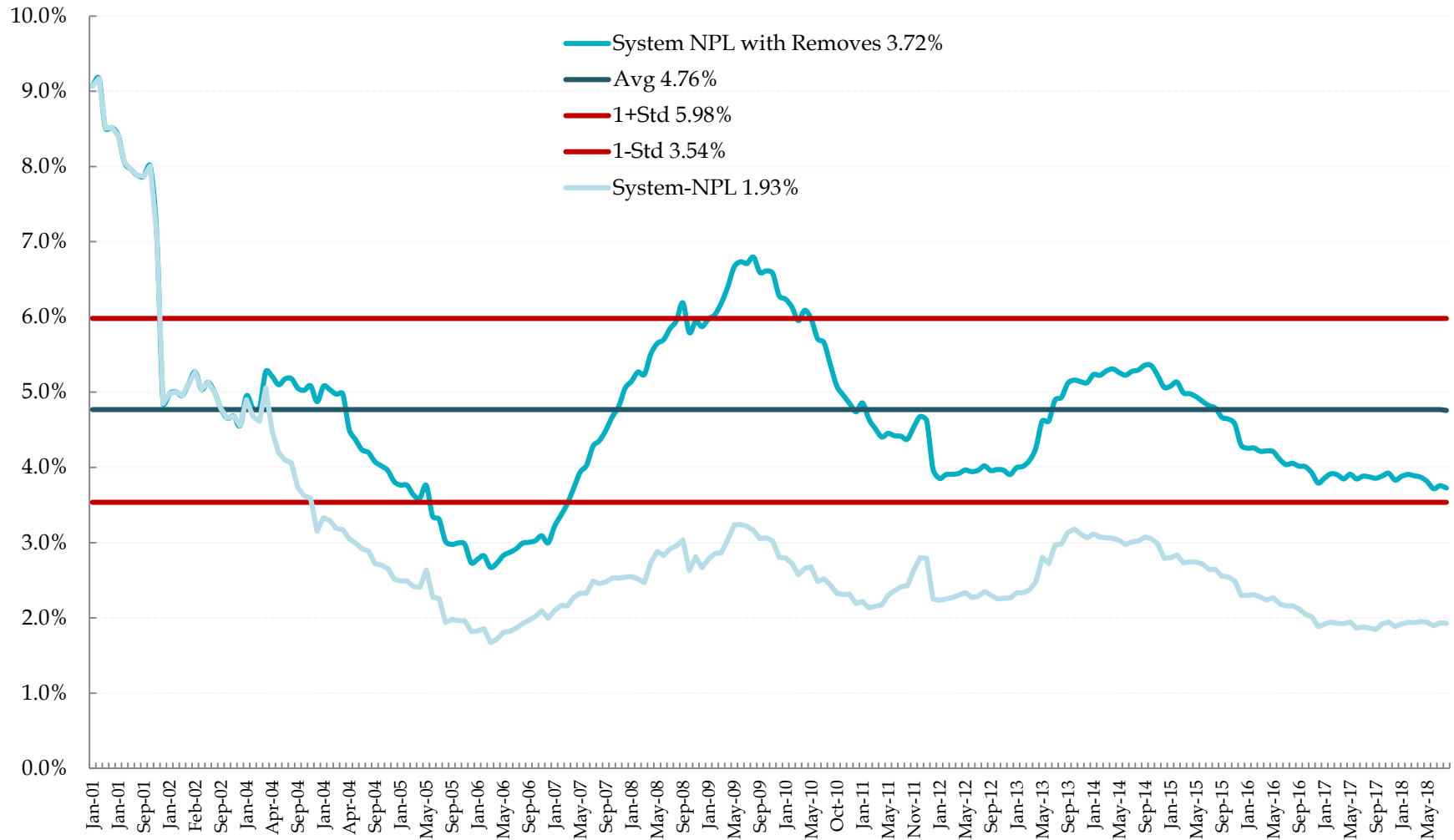
Base=100
(January 2007- August 2018)



Asset Quality: As of August 2018, the Mexican banking system presents stable and improved asset quality when compared to historical data. NPL, Non Performing Loans.



Historical NPL of the Mexican Banking System
(As of August 2018)



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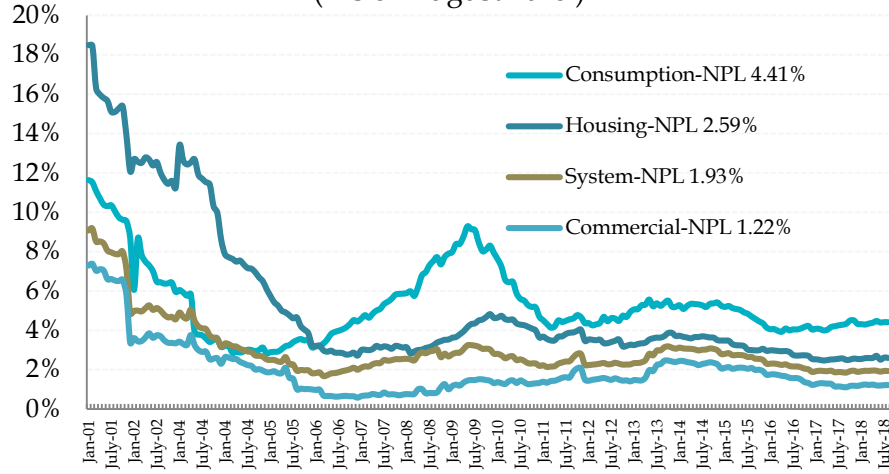
Vision

Source: PAM & CNBV

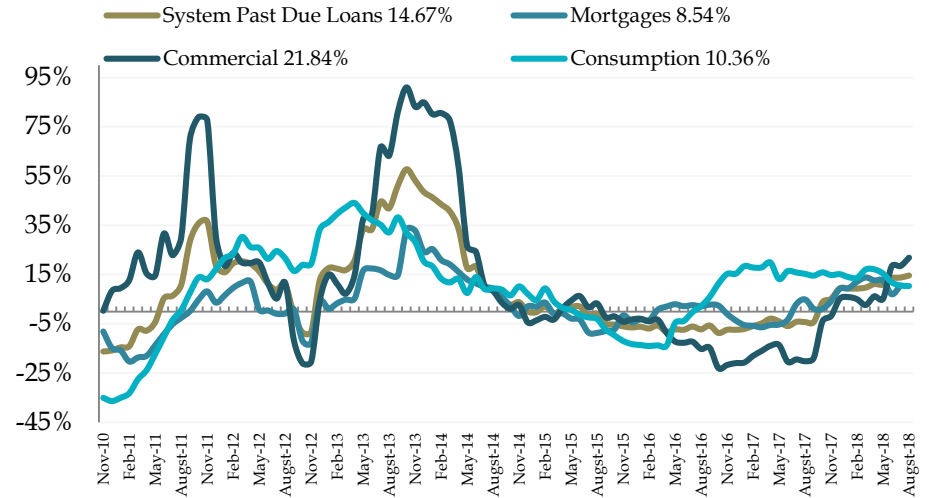
Asset Quality: As of August 2018, The Mexican banking system presents stable and improved asset quality when compared to historical data. In addition, Past due loans are signaling incremental rates, yet manageable when compared to historical data. NPL, Non Performing Loans.



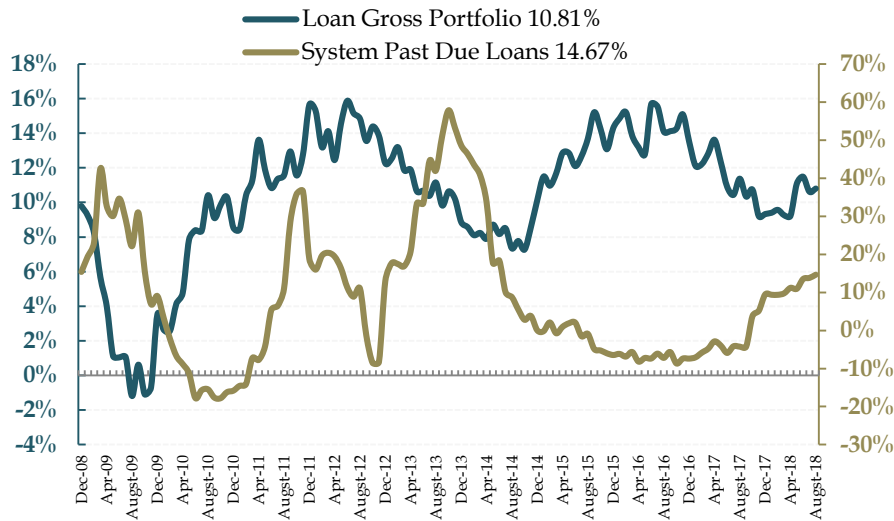
Mexican Banking System NPL
(As of August 2018)



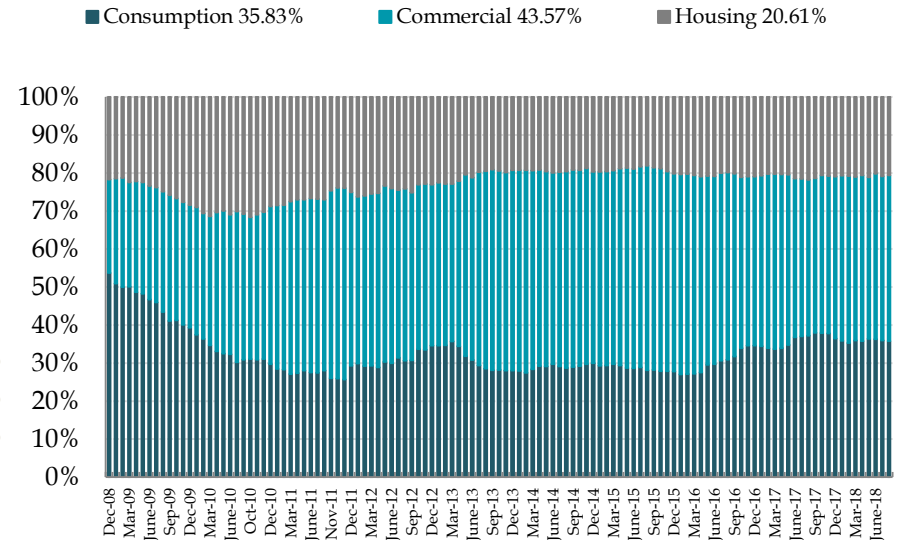
Past due Loans



Banking System: Credit vs Past due Loans



Past due loans.



Experience

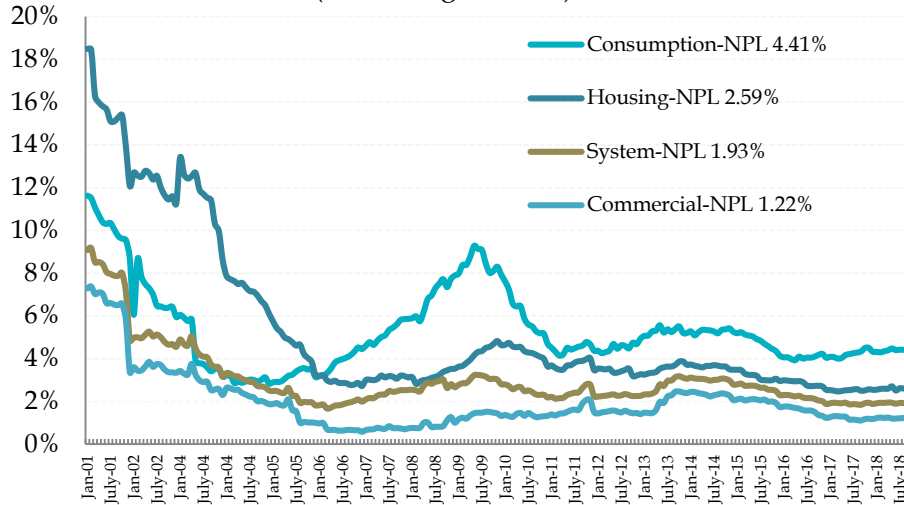
Consistency

Vision

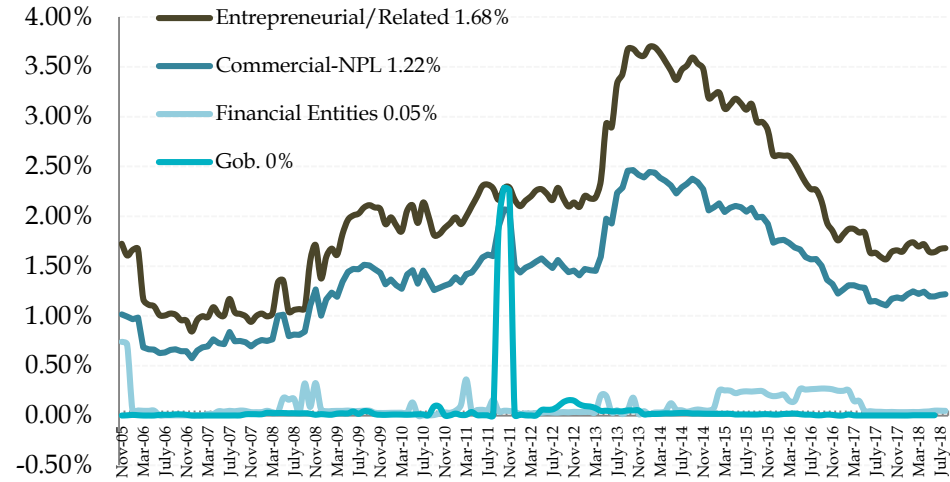
Source: PAM & CNBV



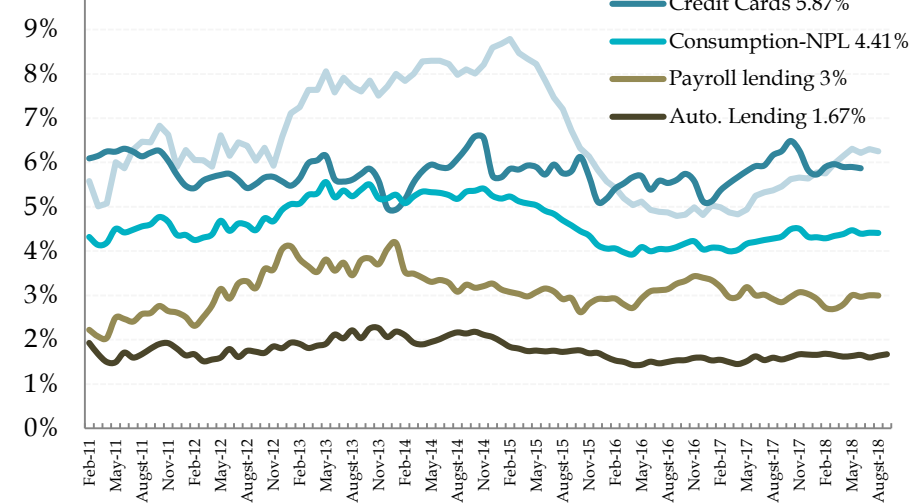
Mexican Banking System NPL
(As of August 2018)



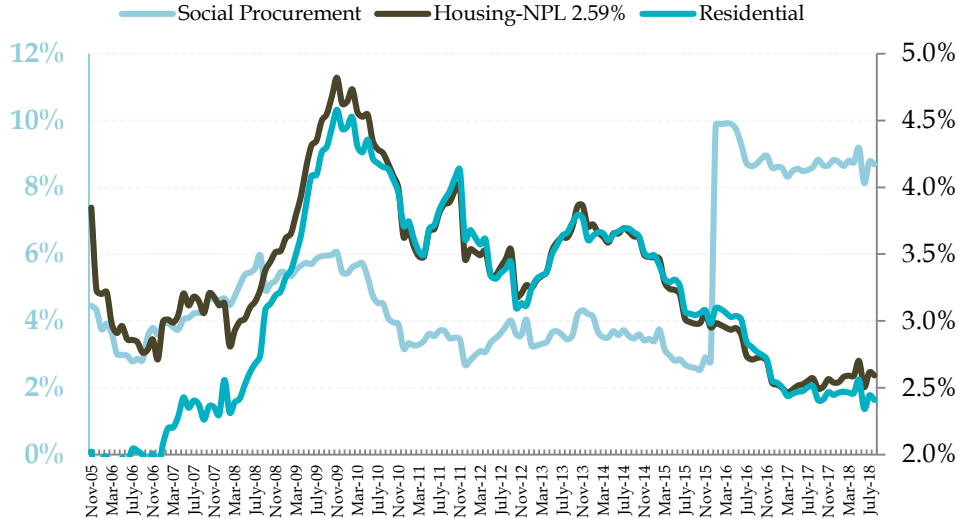
Commercial NPLs
(Monthly Data as of August 2018)



Consumption NPLs
(Monthly data, As of August 2018)

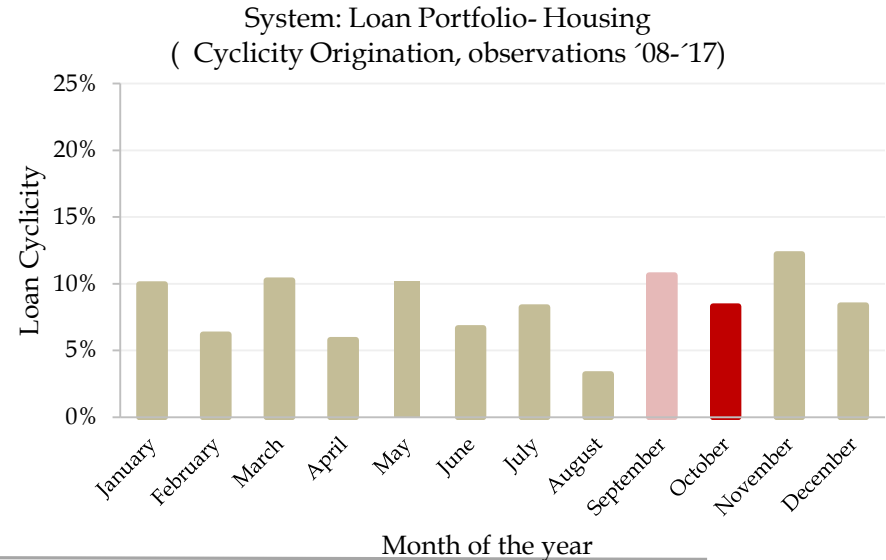
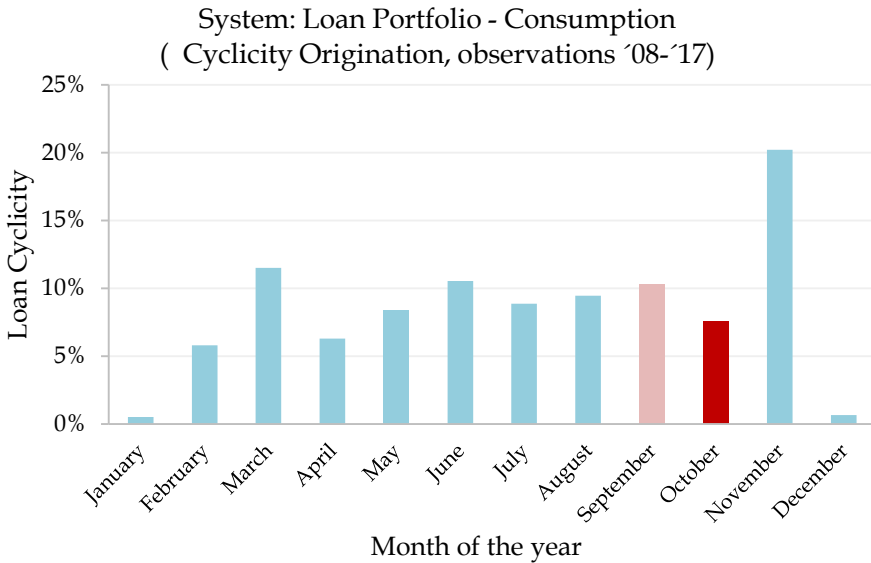
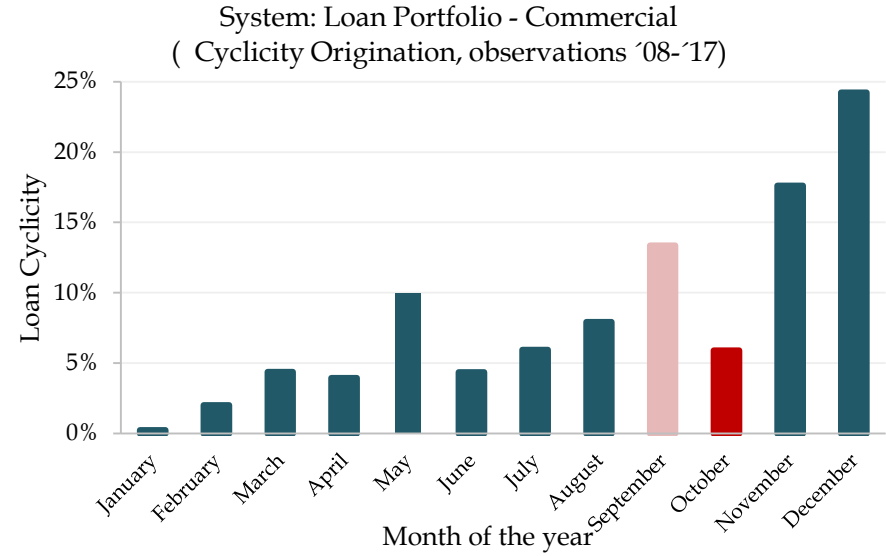
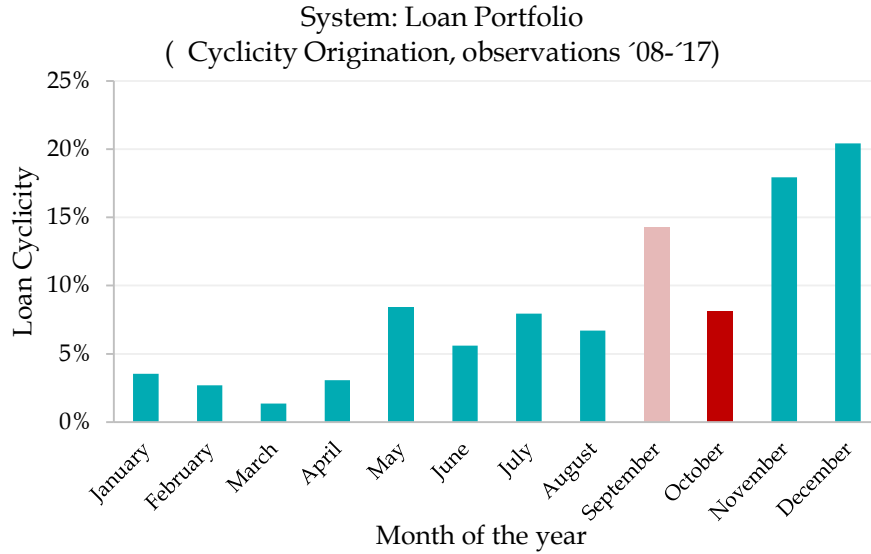


Housing NPLs
(Monthly Data as of August 2018)



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Loan credit cyclicality, Credit lending in October tends to be lower when compared to September, yet November and December have become relevant months for Commercial lending. November tends to be a relevant month for all the consumption lending segments.



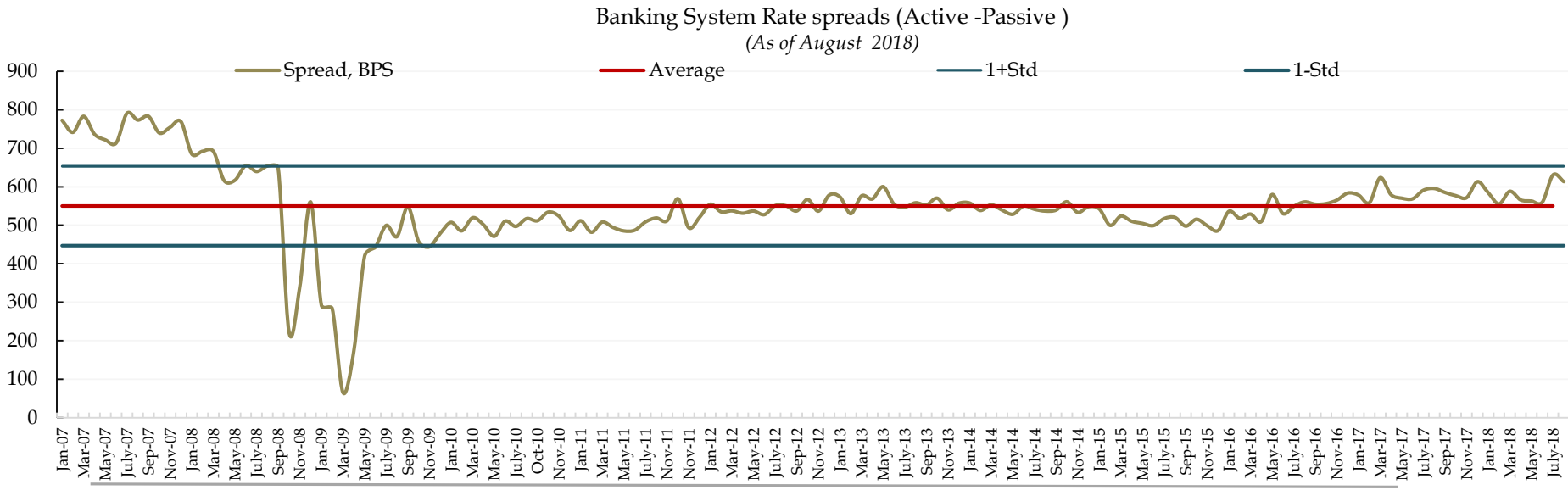
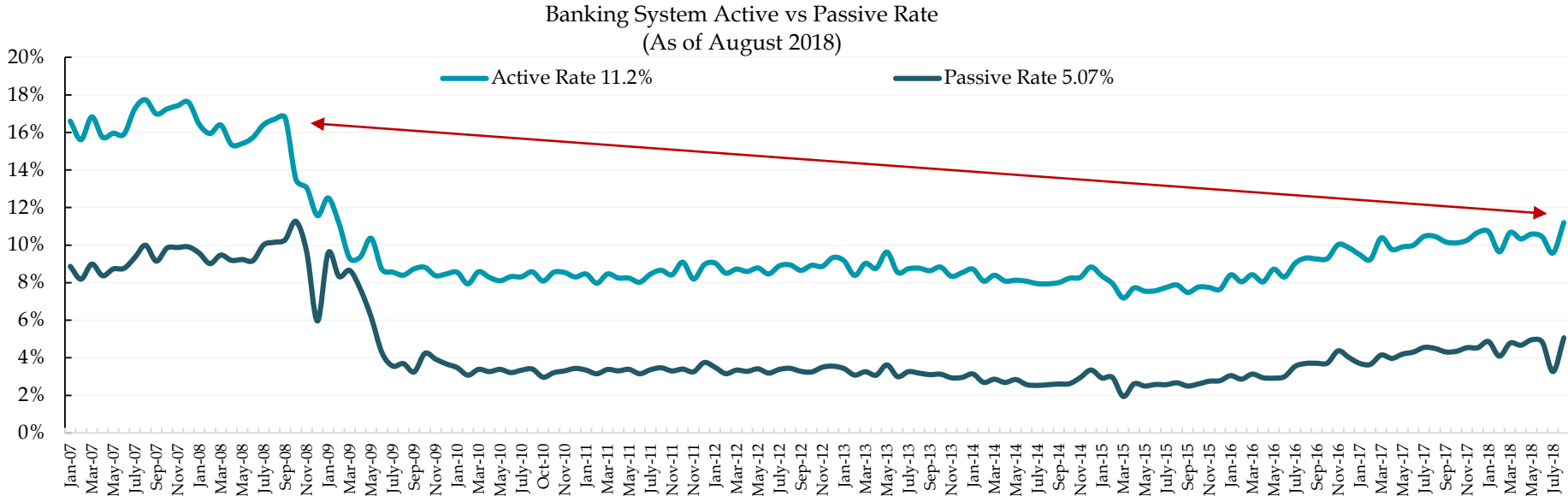
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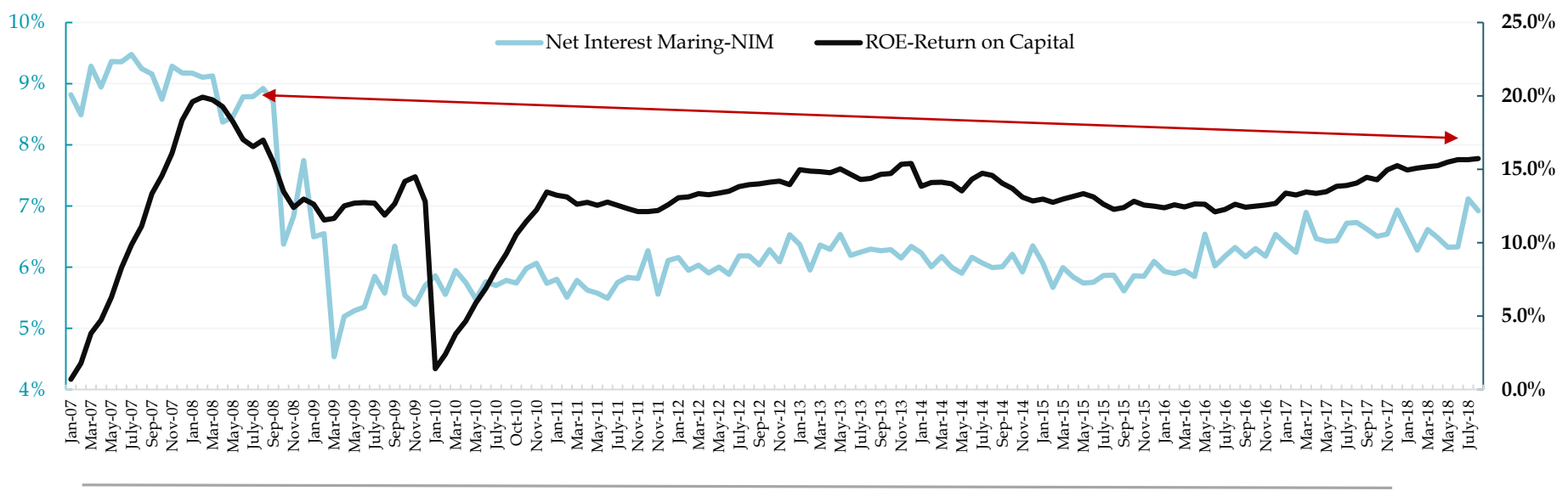
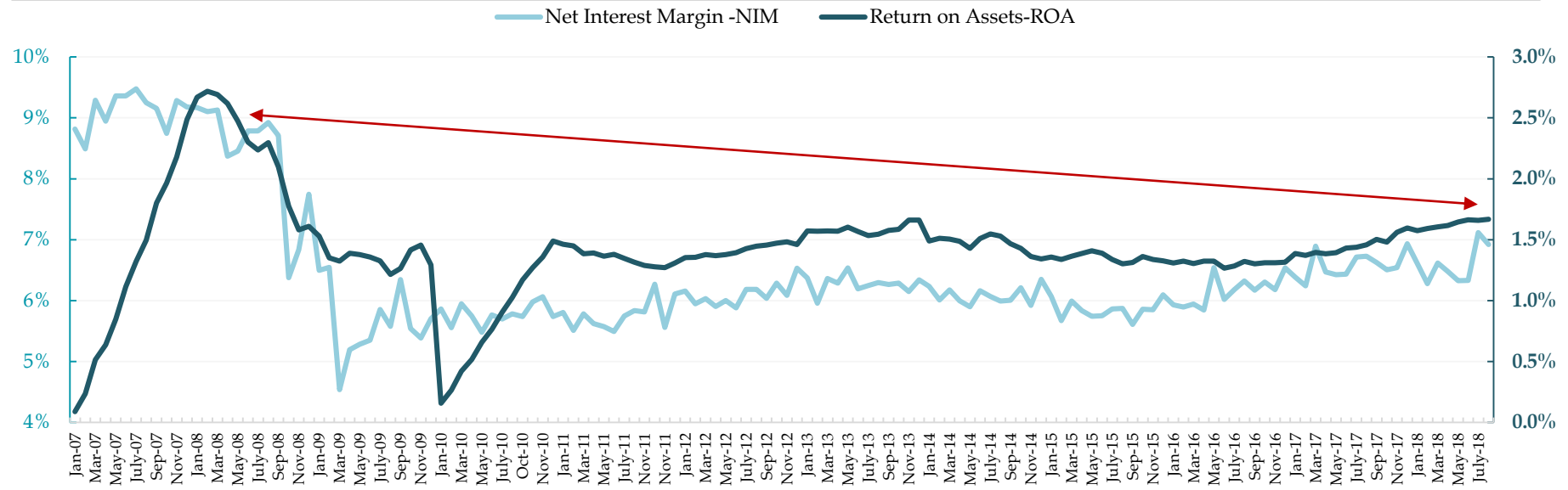
Source: PAM & CNBV

Strong competition in the Mexican Banking System hasn't allowed the Active rate to reach levels of 2007. There has been an increment on the slope of both the Passive and Active rate on recent years. Positively there is favorable momentum between the active and the passive rate.



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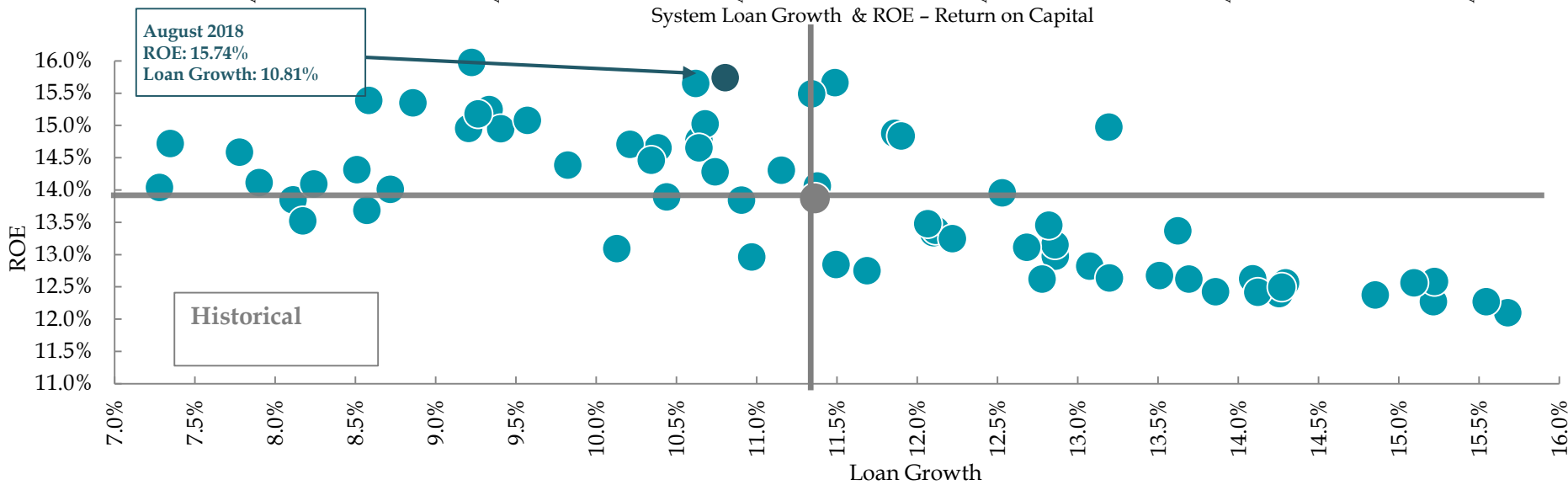
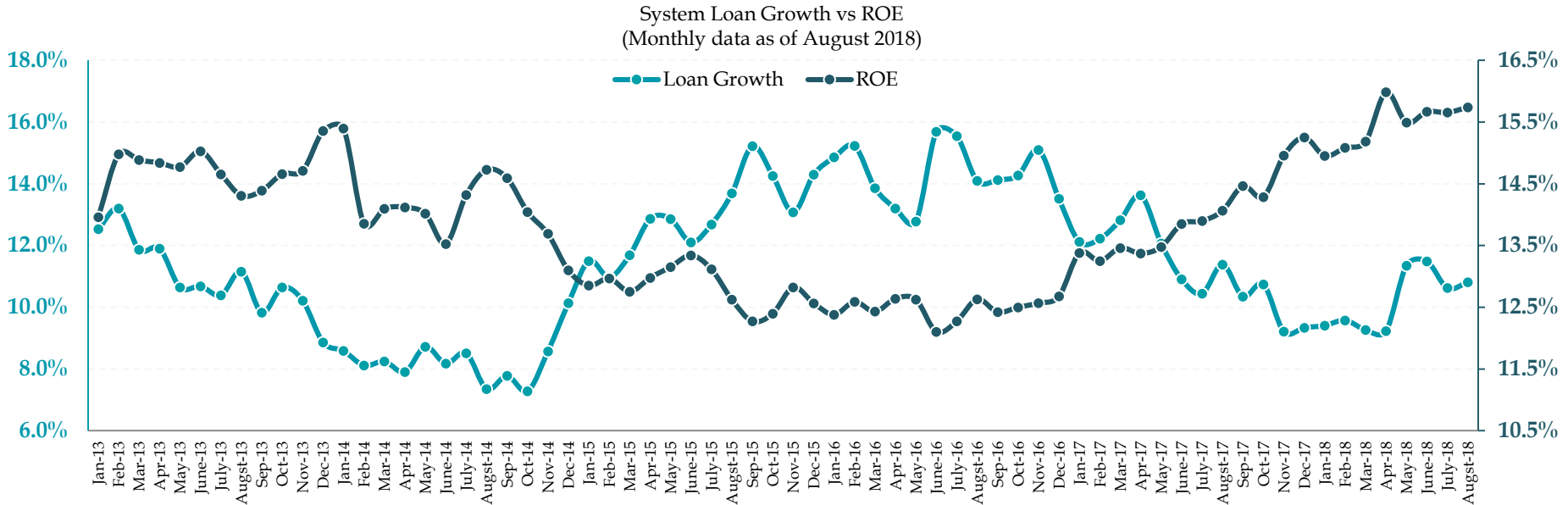
The Mexican banking system still has a wide range of recovery to past through, (as long as Non Performing loans -NPLs dynamics remain stable). Return on Capital -ROE and Return on Assets-ROA when compared to 2007, are still low. Likewise, Net Interest margins - NIMs present similar observation. Positively, and on a shorter period of analysis the banking system presents attractive recovery levels.



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Source: PAM & CNBV

Despite the fact that the active and the passive rates haven't reached levels of 2007, the banking system has been able to increment their Return on capital (ROE), even with stable loan growth. Return on Capital-ROE has reached 15.74%

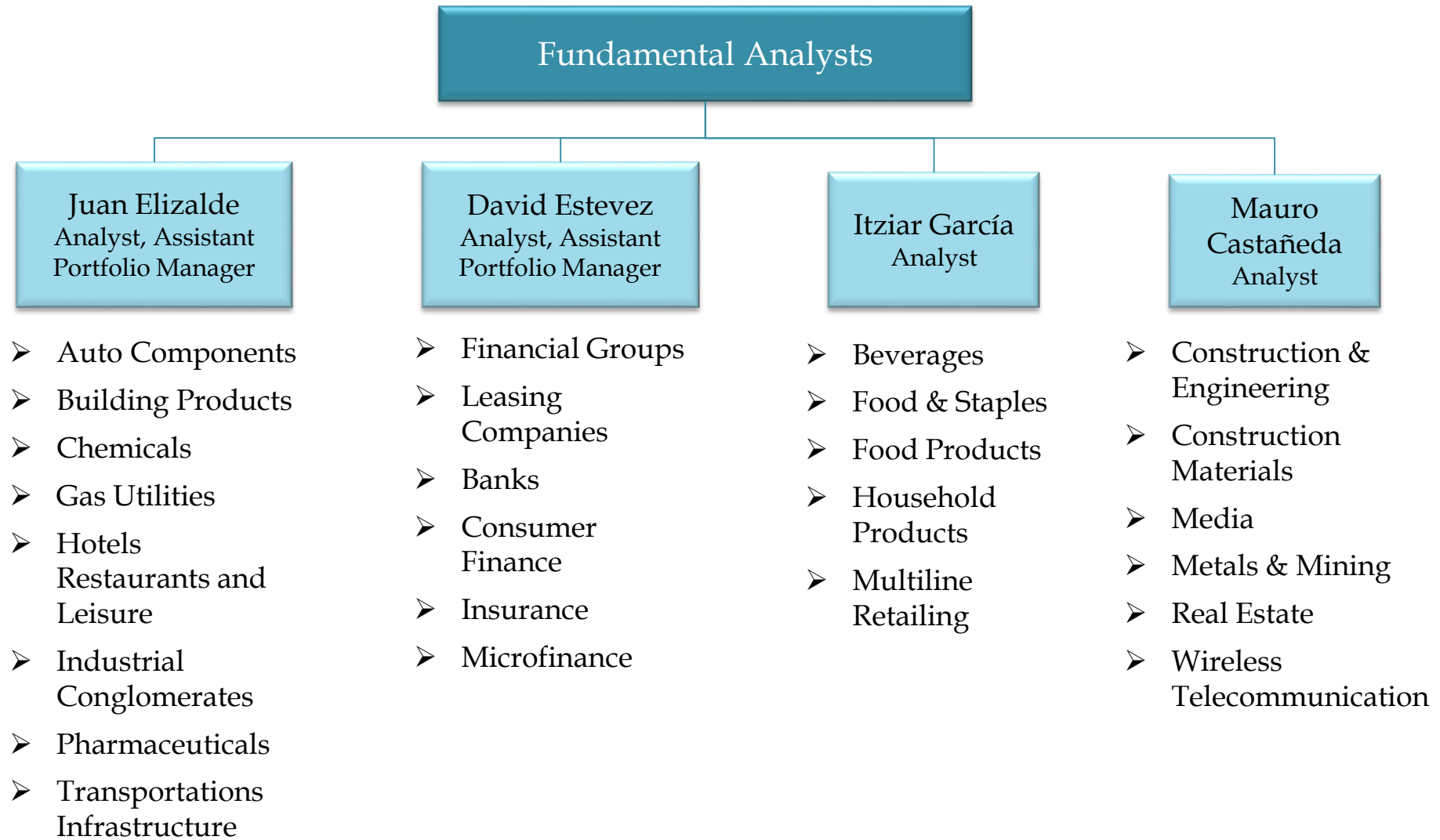


Experience

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Source: PAM & CNBV



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Compliance

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Investors should consider the Fund’s Investment objectives, risks, charges and expenses carefully before investing. Please call (414) 765-4255 for the fund performance.

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