Fitch Ratings 2019 Outlook: Latin American Non-Bank Financial Institutions

Challenging Operating Environment Offset by Growth and Profitability Expectations

Fitch's Sector Outlook: Stable
Fitch Ratings' sector outlook for Latin American non-bank financial institutions (NBFIs) remains stable despite a challenging operating environment in the region, reflecting sustained growth opportunities supported by NBFIs' growing role in providing financial services, and proven track records in their specialized business models.

Rating Outlook: Stable
Fitch's rating outlook for Latin American NBFIs remains stable, reflecting expectations for moderate financial performance and adequate leverage levels, which counterbalance concentrated business models and portfolios, elevated risk appetites and more limited access to funding.

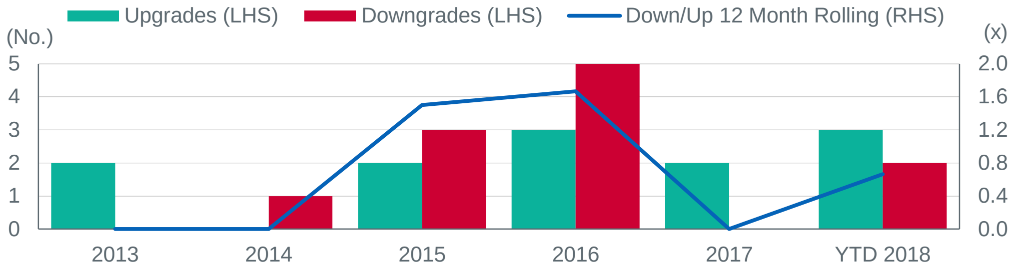
Ratings Typically Limited to 'BBB' Category
The ratings of the NBFIs in Latin American countries are typically limited to the 'BBB' rating category on a stand-alone basis, reflecting their company profiles and higher risk appetites. NBFIs are also typically non-regulated or subject to less strict regulation than banks, supporting lower ratings on a relative basis. Higher ratings may be assigned to NBFIs with strong, albeit niche, franchises, demonstrated access to diverse funding sources and a strong performance track record, as well as to support-driven entities with strong institutional or government ownership.

What to Watch

- Negative rating pressure on sovereign ratings, signaling more challenging operating environments for NBFIs.
- Mixed GDP growth trends across the region.
- Impacts of rising interest rates and inflation on NBFIs' margins and asset quality.
- Potential consolidation in some segments to drive scale and product/geographic diversity.
- Financial technology (fintech) as a potential catalyst for competitive disruption.

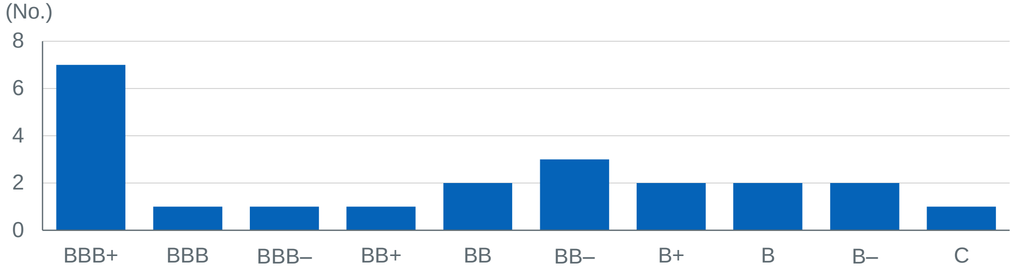
Veronica Chau, Senior Director
"Fitch expects the operating environment to be a headwind for Latin American NBFIs in 2019. GDP growth trends are mixed in the region, and uncertainty remains in some countries after the electoral agendas put forth in late 2017 and 2018. That said, Fitch believes there are still growth opportunities for NBFIs, particularly in under-banked segments or as a complement to services already provided by banks."

Latin American NBFIs — Rating Changes



Source: Fitch Ratings.

Latin American NBFIs — Rating Distribution



Source: Fitch Ratings.

Growth Expectations Remain

NBFI growth in Mexico, Colombia and Argentina is expected in 2019 despite operating environment challenges, given NBFIs' significant role in providing loans to segments underserved by banks and limited regulatory requirements. Improved market conditions are behind expected growth opportunities for NBFIs in Chile, and increased bank regulation underpins NBFIs' activity in Brazil. During 2017 and 2018, presidential elections occurred in several countries of the region, resulting in clearer operating scenarios and improved investor sentiment in countries such as Colombia and Chile, although in Mexico and Brazil, there is remaining uncertainty, which could continue to weight on consumer and investor confidence.

High Interest Rates Characterize the Activity

NBFIs across the region have been expanding lending to riskier segments of borrowers, but also charging elevated interest rates to support generally sound risk-adjusted performance. Higher interest rates provide the NBFIs with the ability to absorb higher operational and funding costs, as well as higher impairment charges through the cycle. Although profitability is expected to remain strong, some countries in the region have been experiencing increasing funding rates and inflationary pressures, which could have a moderate effect on performance and asset quality during 2019.

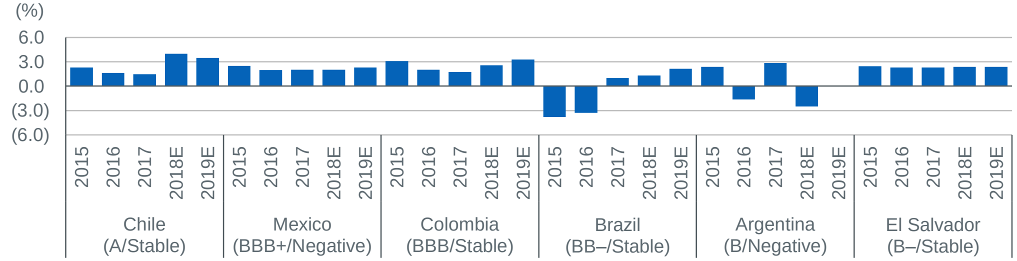
Funding Influenced by Market Sentiment

Latin American NBFIs' funding profiles are mostly reliant on wholesale sources, which are subject to market sentiment. Reduced uncertainty in countries such as Colombia and Chile could be positive for NBFIs' funding prospects; however, market sentiment and investor appetite would be a factor to monitor in 2019 in countries such as Mexico, Brazil and several Central American countries (i.e. Nicaragua, Costa Rica).

Fintech Continues to Evolve but Remains Small

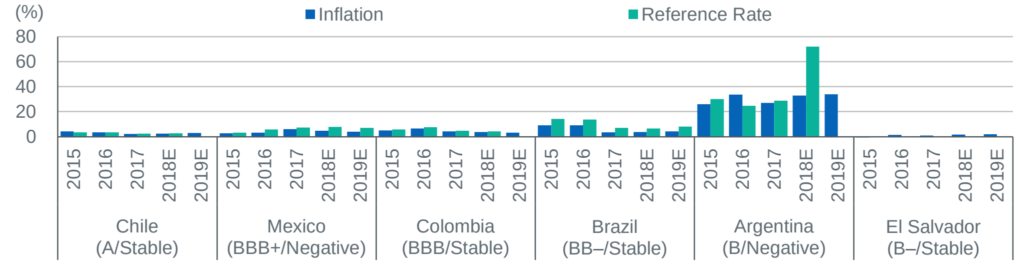
In 2018, the Regulatory Framework for Fintech took an important step in Brazil; the rules were implemented for those linked to the segments of payments and credit. As a result, Brazilian fintech companies are already in the process of being authorized to operate by the Central Bank of Brazil. In Mexico, regulation approved in 2017 was positive in defining the legal framework for these entities to operate; however, fintech companies operating in the country are still small and do not heavily compete against NBFI niche leaders or banks. Depending on the magnitude of progress Latin American fintechs achieve in 2019, they could a catalyst for competitive disruption for (or against) existing NBFIs.

Real GDP Growth



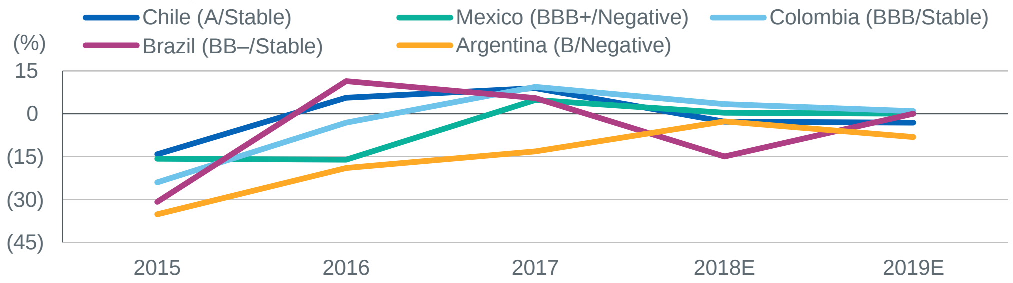
Source: Fitch Ratings.

Inflation and Reference Rates



Source: Fitch Ratings and Central Bank Data.

Local Currency Performance Relative to USD



Source: Fitch Ratings.

Payroll Lending

Brazil

Despite some subnationals' fiscal problems, which have led to late payments of salaries and are still far from being solved, appetite for payroll lending has remained high. Fitch expects that payroll lending will continue to expand, posting double-digit portfolio growth in 2019, from 5.5% and 8% growth in 2016 and 2017, respectively. Large banks will continue to dominate payroll lending to the public sector linked to pensioners and retirees, while some NBFIs will continue participating in the private sector segment, benefiting from their geographic location or acting as bank-correspondent due to limited long-term funding at reasonable costs.

Chile

Ongoing economic recovery after a prolonged economic slowdown should result in stronger loan growth and gradual asset quality improvements for payroll lenders in 2019. After four years of pressure, Fitch expects an improvement in non-performing loans (NPLs) and profitability ratios of most of the Cajas de Compensacion de Asignacion Familiar (CCAFs). While Coopeuch, a niche bank, has been able to maintain its solid performance, Fitch expects it to improve further, sustained by stronger loan growth and higher income diversification.

Colombia

Libranzas growth continues, outperforming total consumer loan growth while maintaining healthy asset quality. Payroll lenders' growing preference for pensioners, government and subnational employees increases competition amongst market participants. Fitch expects economic recovery for 2019, boosting payroll lending demand to around 10%–12%, supported by low interest rates, greater consumer confidence and stable employment. Overall profitability should moderately recover as asset growth and quality improve.

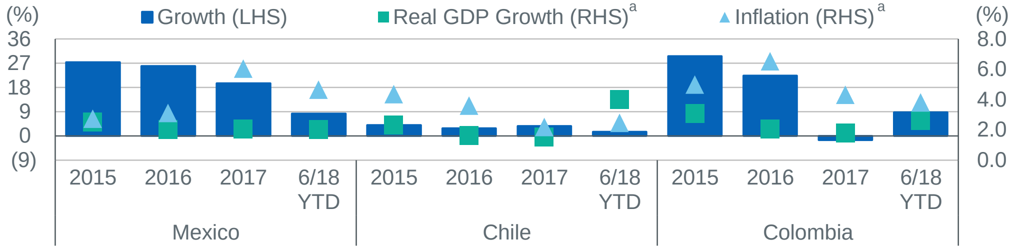
Mexico

The secured nature of the loans and employment stability of public sector employees financed should continue driving resilient NPLs through electoral cycles, especially for those NBFIs focused on lending to employees of federal government institutions. In Fitch's view, payroll lending will be able to sustain 20+% growth in 2019, driven by low credit penetration in the segment of the population they target, which also sustains their ample margins. Pensioners have become an attractive niche because of the nonexistent unemployment risk. The increasing interest rate environment will continue to be one of the main challenges, as higher funding costs result in modest margin pressure.

Key Factors to Watch

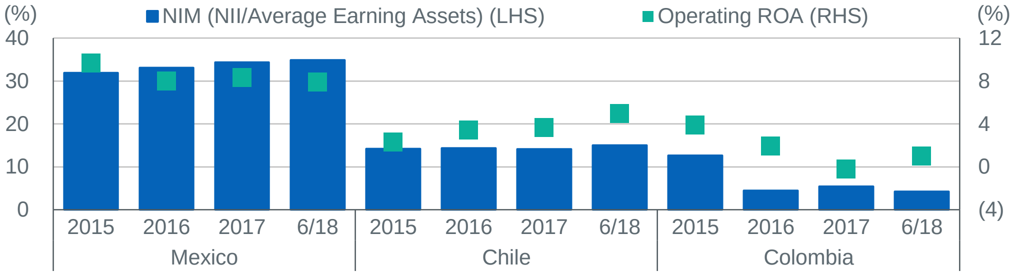
- Interest rates trends and impacts on funding costs
- Inflation could put some pressure in real income and asset quality
- Post-electoral effects: Mexico, Brazil and Colombia had presidential elections in 2018, while Chile had one in late 2017. Consumer and investor confidence could weigh on growth and funding prospects.

Payroll: Loan Growth vs. GDP and Inflation



[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions , Central Bank Data.

Payroll: Profitability



Source: Fitch Ratings, Fitch Solutions.

Consumer Unsecured Lending

Brazil

Fitch expects loan growth to expand between 10% and 11% in 2019, given better macroeconomic conditions and improved market sentiment. NBFIs with well-defined and resilient business models, strong asset-liability management and established risk/collection controls will be better positioned to manage the increasing competition and spread compression. Over the past several years, Brazilian consumer unsecured lenders have faced increased delinquency ratios, which were partially offset by high spreads. These companies have an ongoing strategy of transitioning their funding structures toward Letras de Cambio (bills of exchange), which has enabled them to better match their assets and liabilities and to reduce concentrations.

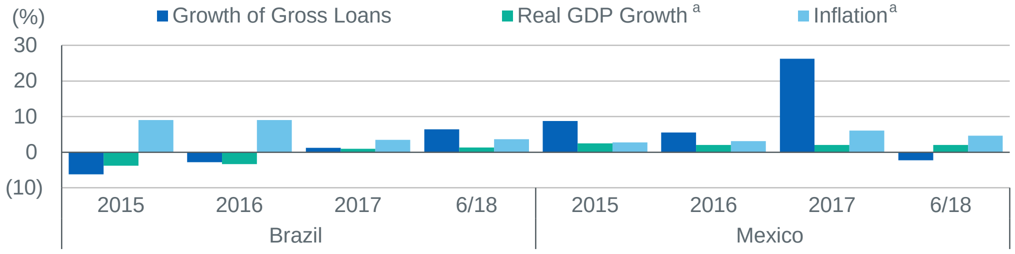
Mexico

Consumer lenders continue to benefit from uncapped interest rates for this lending type. Mexican NBFI consumer companies have been able to sustain their net interest margins (NIMs) despite rising interest costs given the short-term nature of assets, which provides the capacity to reprice portfolios more quickly. However, profitability has been modestly pressured from higher credit costs from increased indebtedness due to competition. Fitch believes asset quality could be further pressured amid higher inflation and macroeconomic uncertainty that could affect consumers' real income, payment behavior or investment decisions in the medium term. The short-term nature of the loans continues benefiting maturity matching and liquidity. Overall, Fitch expects loan growth to moderate in 2019, and lenders could become more cautious with respect to new originations.

Key Factors to Watch

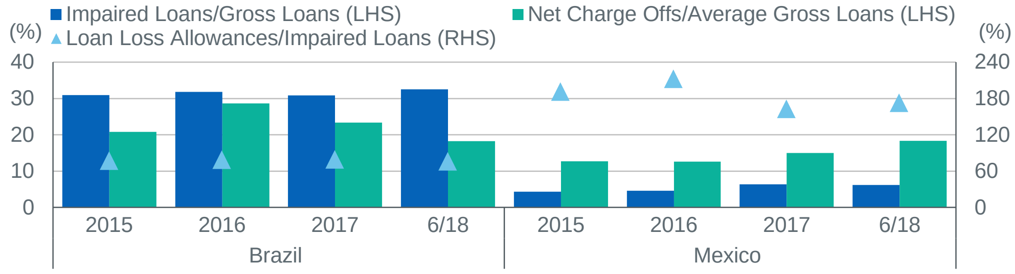
- Increasing competition driving elevated consumer indebtedness and partially impairment ratios and chargeoffs.
- Increasing interest rates could continue to have impact on funding costs and margins, which are still high.
- Real family income currently affected by inflation could continue to weigh on reserve costs.

Consumer Unsecured: Loan Growth vs. GDP and Inflation



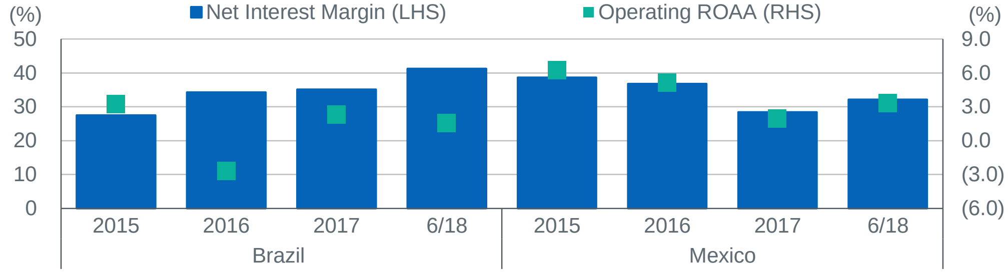
[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions, Central Bank Data.

Consumer Unsecured: Asset Quality



Source: Fitch Ratings, Fitch Solutions.

Consumer Unsecured: Earnings and Profitability



Source: Fitch Ratings, Fitch Solutions.

Leasing Companies

Mexico

Ample Growth Opportunities

Mexican leasing companies have space to continue registering high growth rates given the low penetration of leasing in Mexico as compared to some other countries, but growth will likely moderate to around 15% on average in 2019 due to economic uncertainty related to recently-elected left party President. Although there have been some recent funding cost pressures as a result of the high interest rate environment, the sector has been able to sustain relatively adequate profitability ratios due to sustained growth driven by reduced appetite in the small to medium sized enterprise (SME) segment from banks. Capital and leverage metrics are expected to continue to tighten due to expected growth.

Low Effective Credit Losses

Fitch believes asset quality could be pressured if the operating environment worsens significantly, because SMEs tend to be more sensitive to the economic cycle. However, the collateralized nature of leasing transactions should continue supporting low effective credit losses.

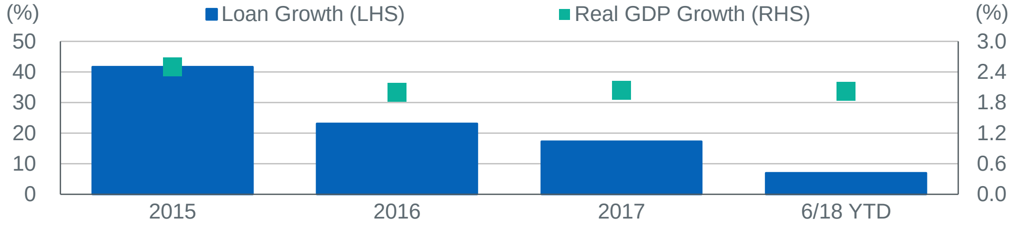
Wholesale Funding and Moderate Loss Absorption Capacity

Development banks are expected to continue serving as meaningful funding providers for leasing companies, although securitization and senior and subordinated unsecured debt in the local and international markets are also likely to continue to be used despite being more sensitive to market sentiment. Loss absorption capacity should remain moderate considering rapid portfolio expansion and earnings retention.

Key Factors to Watch

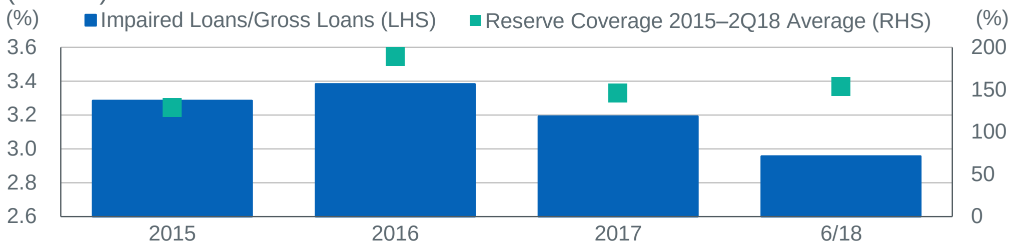
- M&A Activity: There has been appetite from some Mexican banks over the past few years in acquiring leasing companies in order to compete in this high-growth segment.
- Market sentiment could be relevant in the Mexican leasing companies' funding strategies which have access to market debt.
- IFRS 16 requires lessees to register operational leases on balance sheet; Fitch will monitor effect on the attractiveness of the product over the coming years.

Leasing Companies: Growth
(Mexico)



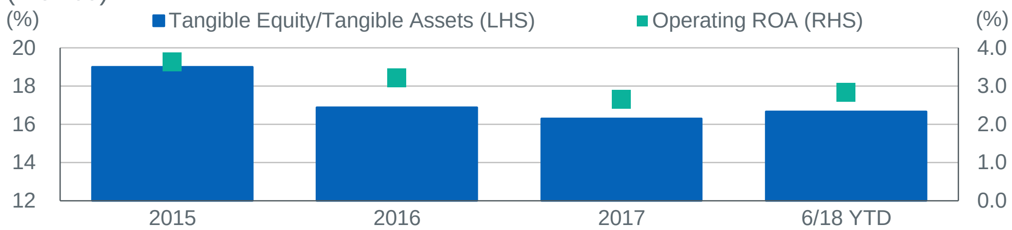
[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions.

Leasing Companies: Asset Quality
(Mexico)



Source: Fitch Ratings, Fitch Solutions.

Profitability & Capitalization
(Mexico)



Source: Fitch Ratings, Fitch Solutions.

Credit Card Lending

Argentina

Overall consumer lending in Argentina grew strongly in recent years but has markedly decelerated thus far in 2H18 in line with the sharp deterioration of the economy, a situation that Fitch expects to continue in 2019. Tarjeta Naranja's (TN, the largest credit card issuer in the country) asset quality is expected to deteriorate moderately throughout the remainder of 2018 and 2019, in line with the worsening environment. TN's profitability has been sound, driven by strong growth capacity, ample margins and fee income sourced from both customers and merchants. However, slower growth, higher credit costs and a regulatory limit on merchant fees, which will decline from 3% to 1% over four years (currently 2.35%), will likely put pressure on TN's profitability.

Brazil

Due to heightened competition, credit card companies are facing challenges related with acceptance in different acquirers, which had reduce their capability to retain and grow operations. As a result, many small players adopted a strategy to offset acceptance issues through the establishment of partnerships with larger brands.. Fitch expects that market will remain concentrated and will continue to challenge smaller players. Credit card NBFIs' impairments tend to be higher than those of the banks due to their focus on lower income segments, which are more vulnerable to current operating environment and unemployment effects.

Chile

While retailers historically had a strong presence in this market via their own credit card subsidiaries or affiliates, in 2018 the last of the original three largest (Promotora CMR Falabella SA) announced its absorption by Banco Falabella. In line with the good prospects for the Chilean economy in 2019, Fitch expects stronger credit card and consumer lending growth, as well as gradually improving asset quality, leading to stronger profitability.

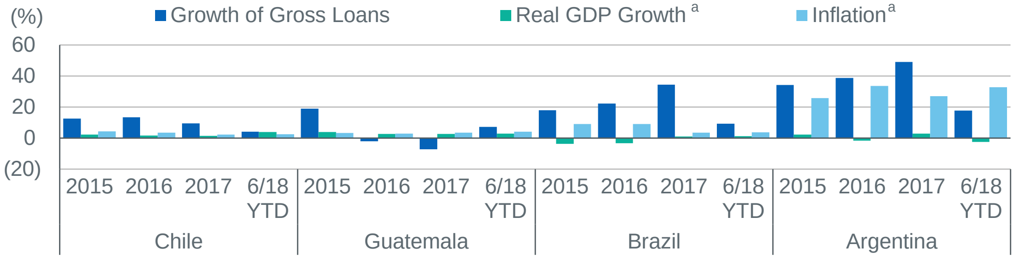
Guatemala

During 2018, credit card portfolios remained stable, after credit card law suspension. Fitch does not anticipate significant variation regarding performance and portfolio growth in the short term. Since 2017, lenders have improved their origination strategies, policies and processes, which could allow them to better control delinquency levels and drive higher profit ratios.

Key Factors to Watch

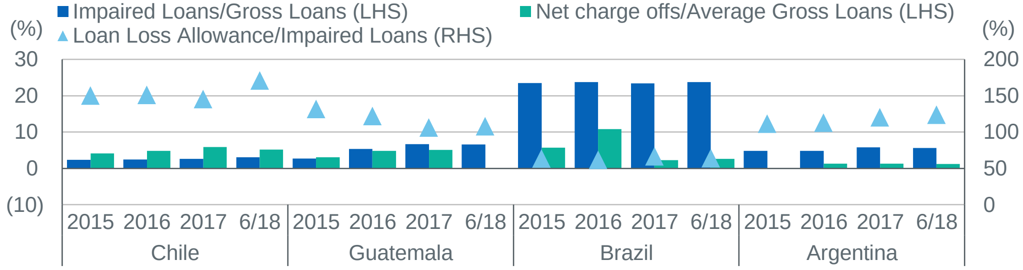
- The Brazilian Central Bank continues to enhance the regulatory framework for credit card companies, which is expected to reach gradually, a similar level of risk controls as those applied to other Brazilian financial institutions.
- No limits on interest rates expected in Guatemala after credit card law suspension which could support profitability improvement.

Credit Card Loan Growth vs. GDP and Inflation



[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions, Banco de Guatemala, Banco Central do Brasil, Banco Central de Chile.

Credit Card Asset Quality Ratios



Source: Fitch Ratings, Fitch Solutions.

Credit Unions and Cooperatives

Colombia

Colombian cooperatives have wide presence within the country through local operations. With a focus on retail products, mainly consumer, microfinance and in a minor proportion mortgage, these entities benefit from enhanced knowledge of their target markets, high capitalization and niche business models. Fitch expects the cooperative sector in Colombia to improve its performance in 2019 in line with the economic recovery. Asset quality should move in line with asset growth of around 8%–10%, and overall profitability should benefit from stable deposit structures and lower impairment charges.

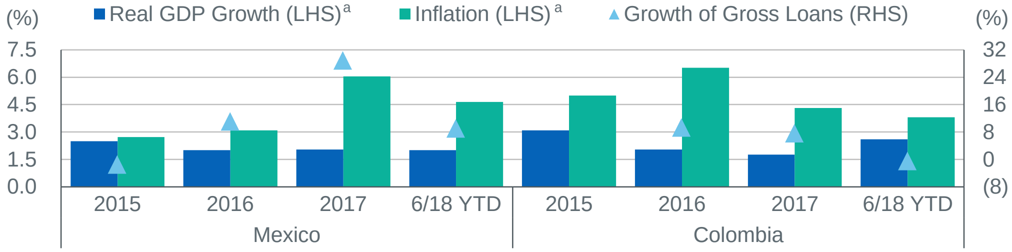
Mexico

Mexican credit unions are expected to be challenged to sustain double-digit growth rates amid economic uncertainty in Mexico, although there are still growth opportunities as a result of the focus on less-banked segments. Fitch believes loans from shareholders (quasi-deposits) will continue supporting portfolio growth and providing flexibility to weather more challenging operating environment conditions. The consistent financial performance of the largest participants in the sector, coupled with a gradually strengthening regulatory framework, could sustain access to development and commercial bank facilities; however, some changes are expected from the incoming administration, which could affect the way development bank funding operates.

Key Factors to Watch

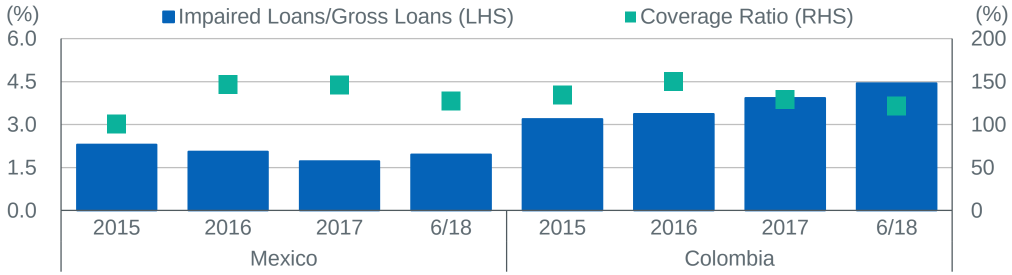
- Development banks' role under the new administration in Mexico would be key in credit unions' funding.
- President-elect's National Plan in Mexico considered regulatory changes for NBFIs to increase financial inclusion; although lower regulatory costs could improve profitability in the short term, reduced supervision or regulatory requirements could weigh on the sector's asset quality and risks management.

Credit Unions: Loan Growth vs. GDP and Inflation



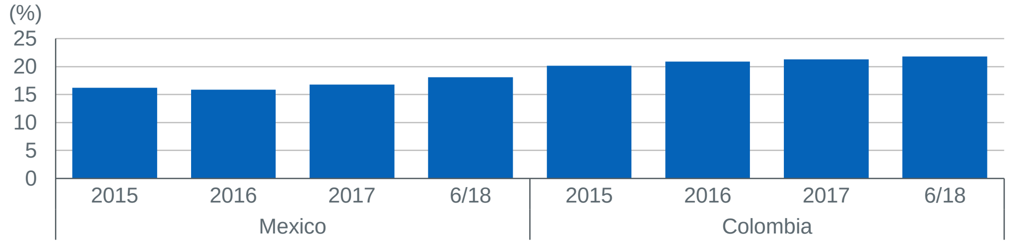
[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions, Central Bank Data.

Credit Unions: Asset Quality Ratios



Source: Fitch Ratings and Fitch Solutions.

Credit Unions: Capitalization
(Tangible Equity/Tangible Assets)



Source: Fitch Ratings and Fitch Solutions.

Auto Lending

Brazil

Auto lending market in Brazil has remained highly concentrated among captive finance companies and larger banks, especially in the new vehicle segment, which is likely to continue due to subsidized rates, longer tenors offered and, in some cases, agreements between larger banks and auto manufacturers. On a cumulative basis, vehicle sales declined 33% in Brazil from 2012–2017. However, year-to-date through October 2018, sales increased by 13%, due to a combination of lower interest rates, higher risk appetite and economic recovery. These dynamics have also had a positive impact on auto financing, driving 12% growth in the 12 months ended September 2018, with non-performing loans reaching their lowest historical level, at 3.5% as of the 3Q18. Fitch expects the growth trend will likely continue over 2019, as new car sales are expected to increase by 12%–15% for 2019.

Chile

Auto lending in Chile is primarily conducted by independent NBFI players and captive finance companies. Fitch expects the NBFI auto loan sector in Chile to maintain its good performance in 2019, despite rising interest rates. This is based on expected continued improvement in Chile's economy (forecast real GDP growth of 3.5%) which should continue to drive healthy growth in the automobile segment, allowing for sustained strong growth while maintaining adequate asset quality and profitability levels.

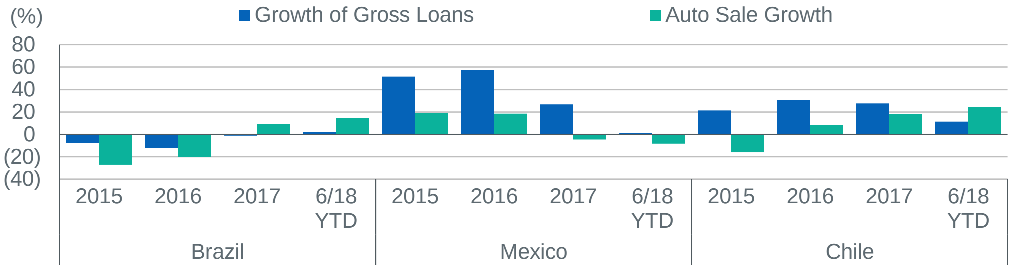
Mexico

During 2017 and 2018, a slowdown in vehicle sales in Mexico was observed, driven by higher inflation, increases in vehicle prices and gasoline, increases in imported used vehicle prices, lower government and fleet sales, and higher interest rates. Although captive finance companies continue to dominate the segment, during 2018, these entities lost some market share to banks, which have taken advantage of favorable financing opportunities. Asset quality slightly deteriorated given reduced consumer real income, consumer uncertainty and an increase in identity theft. Fitch believes moderate additional asset quality deterioration and slowing asset growth could occur in 2019 due to prevailing conditions. The Mexican Association of Automobile Dealers has an early forecast of a decrease in sales of around 1% for 2019.

Key Factors to Watch

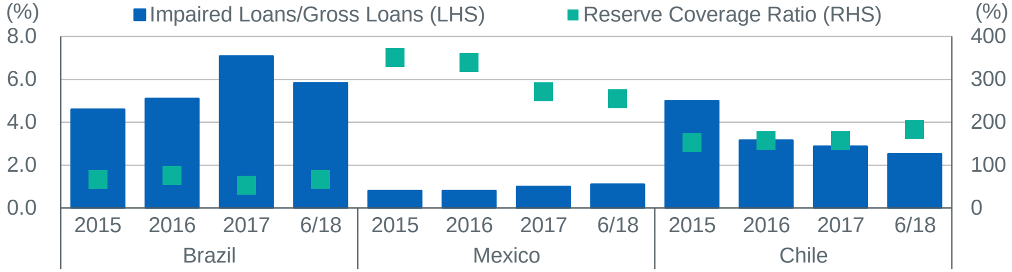
- Expected new car sales for 2019 are positive for Brazil and Chile and negative for Mexico, which will relevantly drive auto loans growth in the country.
- Used cars import regulations are core for the industry's growth prospects.
- No relevant effects are expected in the short term from USMCA deal on car sales in Mexico.

Auto Lending: Growth



Source: Fitch Ratings, Fitch Solutions, AMDA, AMFAVEA, ANAC.

Auto Lending: Asset Quality Ratios



Source: Fitch Ratings, Fitch Solutions.

Mortgage Lending

Mexico

Mortgage lending in Mexico is mainly provided by government-related NBFIs and banks, while some NBFIs participate with relatively smaller portfolios mostly targeting commercial participants. Fitch believes loan growth dynamics could be challenged by the competitive environment and current housing needs, particularly if consumers decide to delay their mortgage investment decisions under a higher inflation cycle and economic uncertainty. Mortgage interest rates have remained fairly unchanged as prevailing high competition has contained offered rates despite increasing funding expenses. Impairments have exhibited a modest increase thus far in 2018, as expected by Fitch, and the agency believes impairments could moderately increase in 2019, driven by increased inflation, counterbalanced by strengthened underwriting practices post-crisis.

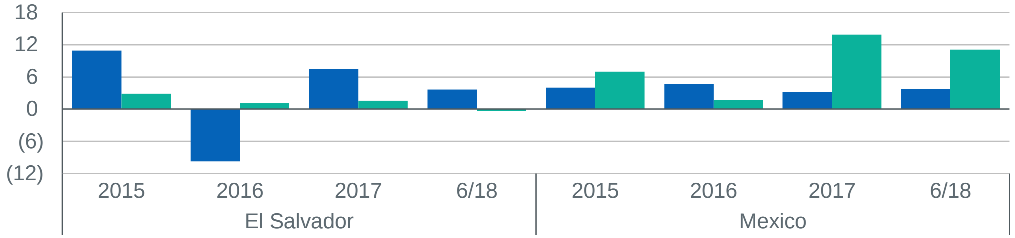
El Salvador

Salvadoran mortgage-oriented NBFIs will maintain their relevant position in the popular housing sector and will remain focused toward middle-to-low income segments. These entities will continue to serve a less dynamic market niche traditionally not served by local commercial banks. The country's housing sector could be revamped by current projects under development; however, these are oriented toward higher income segments, which are regularly served by banks. Therefore, Salvadoran NBFIs loan book would not be significantly influenced by expected growth in the overall housing sector.

Key Factors to Watch

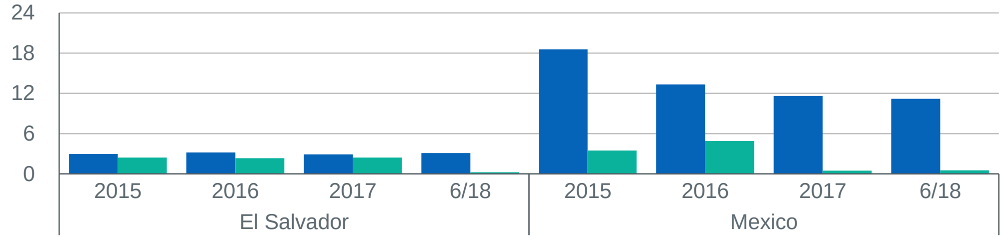
- Unemployment rate evolution and inflation will continue to influence asset quality.
- Development institutions' role definition in Mexico (i.e. Infonavit) and housing targets for the incoming administration will amply define growth prospects for the segment.

Mortage NBFIs Expansion vs. Bank's Mortgage Portfolio Expansion



Source: Fitch Ratings, Fitch Solutions, Comision Nacional Bancaria y de Valores (Mexico).

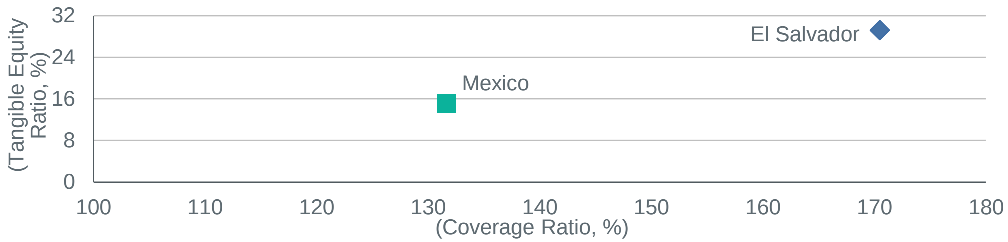
Mortgage Companies: Asset Quality



Source: Fitch Ratings, Fitch Solutions, Comision Nacional Bancaria y de Valores (Mexico).

Mortgage Lenders: Loss Absorption Capacity

(2015–2017 Average)



Source: Fitch Ratings, Fitch Solutions.

Factoring/SME Lending

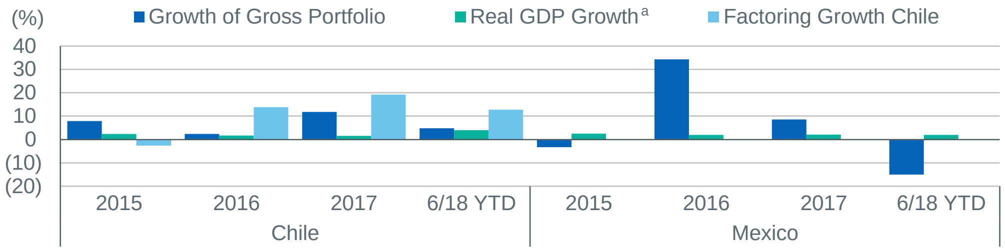
Chile

Factoring in Chile is mainly dominated primarily conducted by banks, with some NBFIs participating. Business volumes started to grow gradually in 2018 after being relatively stagnant for around two years. Fitch expects growth to accelerate in 2019, in line with stronger economic growth. In this context, asset quality remains at adequate levels, and has shown a moderate improvement thus far in 2018. Fitch expects this trend to continue in 2019. In general, profitability for the segment is sound, but has been gradually pressured by increasing competition, a trend Fitch expects to continue. On the negative side, while factoring companies rated by Fitch have in general adequate leverage levels, expected growth will likely lead to leverage increases.

Mexico

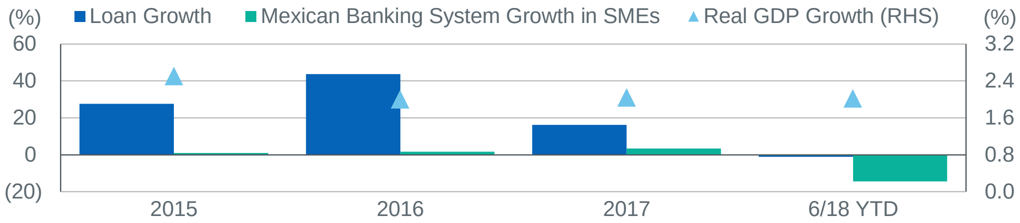
NBFIs providing SME loans have been actively growing their loans portfolios, given low credit penetration and the low appetite of banks in this segment. That said, Fitch expects growth to moderate to levels around 10% in 2019, compared to high double-digit growth registered in recent years due to sluggish economic conditions. The financial profiles of SME lenders are usually sound, but Fitch believes their performance is limited by access to funding and elevated portfolio concentrations. Funding is particularly important to meet loan growth expectations; therefore Fitch will monitor the funding strategies and opportunities in 2019. SMEs are addressed in the new government's National Plan, with strategies meant to stimulate SME niches through funding and creation of commercial associations, among others.

Factoring Companies: Portfolio Growth



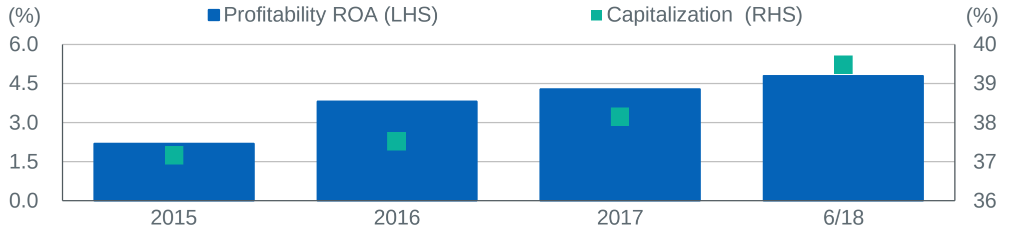
[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions.

SME Lending: Portfolio Growth
(Mexico)



[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions.

SME Lending: Profitability and Capitalization
(Mexico)



Source: Fitch Ratings, Fitch Solutions.

Key Factors to Watch

- Materialization of strategies for SMEs put forth by the new Mexican administration would be relevant for higher growth expectations and for banks' higher appetite for SMEs.
- Chilean factoring companies are active issuers of market debt, investor appetite and confidence would continue to be fundamental for expected growth.

Microfinance

Colombia

Cautious loan growth and efforts to normalize asset deterioration explain the recent performance of microfinance companies in Colombia. Customer payment capacity, high levels of indebtedness and weak/limited credit histories have limited microcredit originations. Higher delinquency rates and chargeoffs compared to previous years affected banks' and NBFIs' profitability, however high yields allow microfinance lenders to achieve acceptable risk-adjusted returns despite loan impairment charges. Fitch expects a peak in asset deterioration and a slow recovery for the next 12–18 months tied to improvements in economic conditions in the country. Overall profitability will benefit from relatively stable interest rates and a reduction in loan impairment charges.

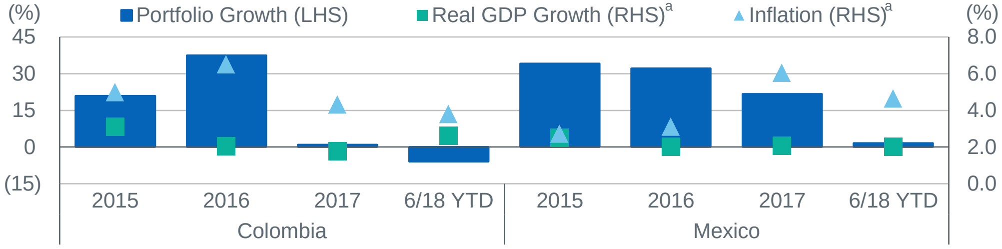
Mexico

Fitch expects overall growth in the microfinance segment to continue to be subdued in 2019, marked by the contraction of the largest player's loan portfolio (Banco Compartamos). Nevertheless, smaller participants with competitive differentiating factors may continue gaining market share and registering higher growth rates. Fitch believes that the impact of diversification efforts of the largest players toward individual loans and other products is a factor to monitor in 2019. Wide interest rate margins have been relatively resilient to increasing reference rates in Mexico, and which help offset the higher loss rates and operational expenses of the segment. When coupled with relatively controlled asset quality, Fitch expects continued sound profitability ratios. In Fitch's view there is space for further sector consolidation following the acquisition of two notable players in the segment. Consumer confidence, lower acquisition power due to inflation and funding opportunities will be key determinants of 2019 growth.

Key Factors to Watch

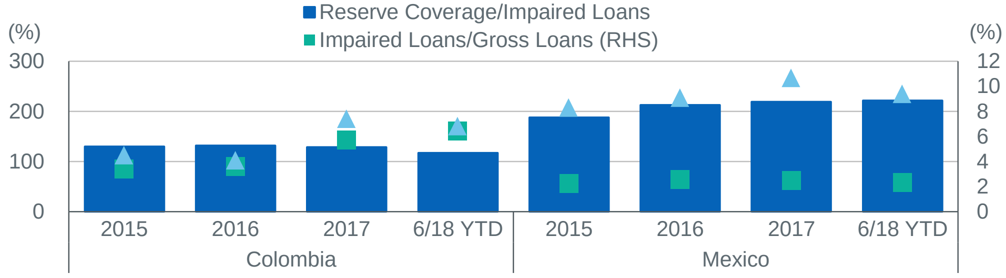
- Inflation/acquisition power will continue to weigh on already pressured asset quality.
- Some additional consolidation could be expected in Mexico during 2019 to enhance growth and reduce competition.

Microfinance: Growth vs. GDP and Inflation



[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions, Central Bank Data.

Microfinance: Asset Quality



Source: Fitch Ratings, Fitch Solutions.

Development Agencies

Brazil

Following subnational elections in October 2018, development agencies are expected to undergo changes in senior management in 2019. As a result, the strategic direction of these institutions in 2019 is still somewhat uncertain. Most of the Brazilian subnationals rated by Fitch continue to face financial challenges, given high operating expenses and a slow economic recovery. The expected growth of development agencies in 2019 is directly related to the ability of the states to allocate additional capital to the agencies and/or by a clearer indication by the National Economic and Social Development Bank (BNDES), a major source of third-party funding, of its disbursement projections. International development agencies/banks could be an alternate funding option, depending on currency volatility and associated hedging costs.

Mexico

Mexican development finance institutions are focused on increasing financial inclusion in the country. Some of them provide direct financing to individuals, such as Infonacot and Infonavit (consumer and housing finance, respectively), and some others fund SMEs and agricultural activity, such as FIFOMI and FIRA. These entities have been relevant in increasing financial intermediation in Mexico and their role has become even more relevant since the Financial Reform in 2014. There have been some statements from the incoming administration in Mexico regarding expected changes in some of the development institutions, which will define growth plans, financial performance expectations and the role for each entity from 2019. Senior management changes are also expected in most of the entities.

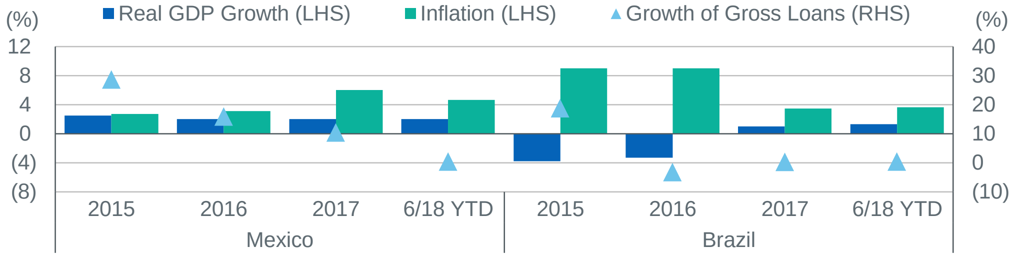
Central America

Development finance companies in the Central American region focused on infrastructure will continue to have growth potential, as it is a low penetrated sector with relevant financial needs throughout the region. Fitch estimates that rated entities under this segment will continue to exhibit double-digit growth rates given their market position and in accordance with the large-sized operations they serve. However, considering current challenging political, social and economic conditions in some countries within the region, Fitch believes development entities' performance and operations volume could be constrained.

Key Factors to Watch

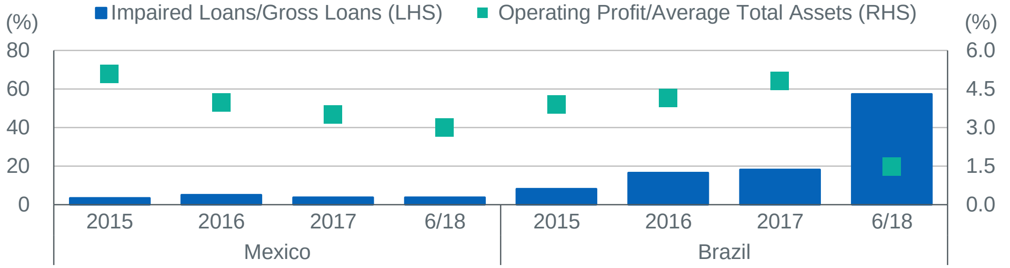
- Senior management changes expected in 2019, post-electoral cycles.
- Although there could be funding availability from international development agencies or international markets, exchange rate volatility and associated currency costs are relevant for funding decisions
- Growth plans to be highly influenced by operating environment.

GSEs: Loan Growth vs. GDP and Inflation



[a]6/18 YTD refers to 2018E.
Source: Fitch Ratings, Fitch Solutions, Banco de México, Banco Central do Brazil.

GSEs: Asset Quality and Profitability



Source: Fitch Ratings, Fitch Solutions.

Securities Firms

Brazil

Thus far in 2018, independent Brazilian brokerage firms, led by XP Investimentos, the largest in the market, have continued to grow assets under custody, mainly by increasing market share in retail relative to banks. However, with a model of open digital platforms, these companies offer different products (from different banks and different asset managers) such as fixed-income instruments, variable-income instruments and multimarket funds, among others. This trend should continue in 2019, and more brokerages should gain market share, with those that gain outsized share potentially becoming acquisition candidates for banks.

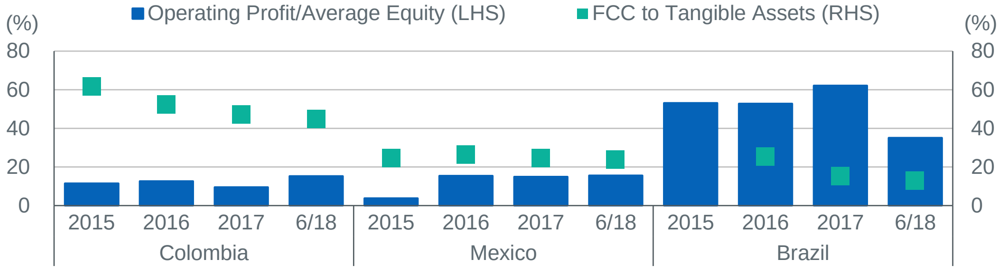
Colombia

An improving macroeconomic environment, improved liquidity and a stable political backdrop have defined a positive framework to increase fixed-income and equities trading volumes in Colombia, particularly from pension funds and foreign investors. Meanwhile, securities firms have focused on ETFs and global indices, due to the exit of important players within the local market, while competing with banks in foreign exchange and derivatives. For 2019, Fitch expects external risks to increase, volatility to put pressure on profits and more conservative strategies for wealth management portfolios.

Mexico

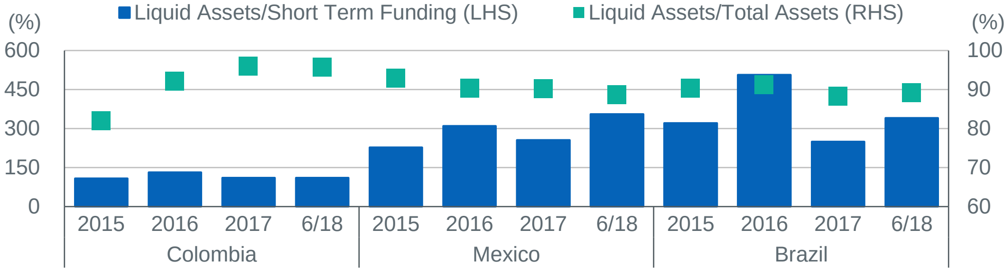
Mexican securities firms were challenged in 2018, and this is expected to continue in 2019. Profitability has been pressured since 2016 by market volatility, and such pressures persisted in 2018 due to the uncertainty in the Mexican economy. These dynamics have resulted in lower trading volumes, while some entities with relevant proprietary positions have faced negative market valuations. Fitch believes lower profitability metrics could increase pressures on capitalization and leverage metrics in the foreseeable future, mainly in those companies with larger proprietary positions or with lower income diversification. Increasing uncertainty in the operating environment could also create pressures on the market sentiment and adversely affect currently adequate liquidity positions.

Securities Firms Profitability and Capitalization



Source: Fitch Ratings, Fitch Solutions.

Securities Firms Liquidity



Source: Fitch Ratings, Fitch Solutions.

Key Factors to Watch

- Competitive dynamics: increasing competition from open digital platforms could continue to increase in Brazil. Colombia and Mexico competition continue to be from traditional market participants, while fintech initiatives are still small.
- Operating environment/market volatility will continue to be core for market volumes.
- M&A activity could be seen in Brazil during 2019.
- Mexican securities firms are now able to operate through two different exchanges, although this is not expected to relevantly increase market volumes in the short term.

Investment Managers

Colombia

Fitch expects investment managers (IMs) in Colombia to continue to face competitive pressures on fees, especially in large trusts businesses in 2019, which will further support the sector's growth in mutual funds, a sector with lower penetration compared to the region and good potential as an investment choice. Strong AUM growth (14.3% compound annual growth rate between June 2014 and June 2018) outpaced fee revenue growth (10.2%) in all products, bringing fee pressures to IMs concentrated in large trusts businesses such as pension funds or those related to public-funds management. Mutual fund growth has picked up since mid-2016 as a saving alternative for retail investors. IMs have either focused growth exclusively in mutual funds or as a complement to their existing fee revenues. Fitch considers that IMs with technological and franchise advantages (most likely bank subsidiaries) will lead this growing market and deliver greater earnings stability. Other IMs will be either niche oriented or part of a larger group strategy.

El Salvador

Fitch believes the business models of the Salvadoran Administradoras de Fondos para Pensiones (AFPs, or pension fund managers) remain highly influenced by the local operating and regulatory environment, with continued sensitivity to structural changes to the regulatory framework and potential political risks in the long term. Nevertheless, Fitch expects the AFPs to maintain their strong financial performance in 2019, based on sound cash flow generation, solid profit margins high barriers to entry, appropriate funding structures and limited or no financial debt. Currently, the local regulator is developing complimentary norms which will ease implementation of last year's approved reforms to the pension system laws. However finalization of the reforms will not be concluded until after 1Q19. Expected growth of the Salvadoran AFP industry remains linked to the country's economic performance and greater participation of formal workers in the local economy.

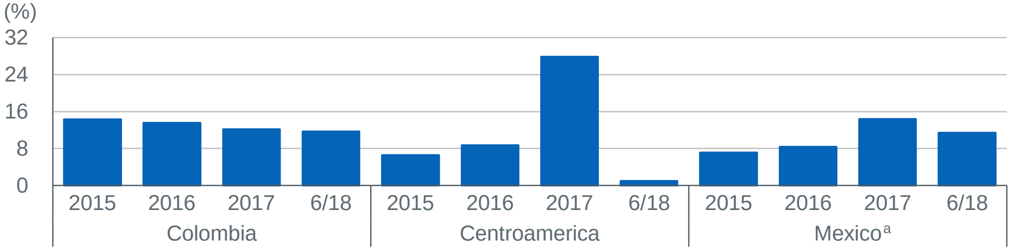
Mexico

Administradoras de Fondos para el Retiro (Afores) continue to grow their assets and accounts. The market is concentrated in 10 participants with four of them representing almost 70% of total net assets. Regulation is considered relatively strong and investment regimes have diversified, although lag in respect to some other countries such as Chile. In November 2018, the Partido del Trabajo (labor party) proposed to have a unique pension system controlled by the state; however, several market participants affirmed this proposal has a low probability to be approved. No other relevant changes are expected under the new government.

Key Factors to Watch

- Salvadoran-approved reforms to the pension system laws (secondary regulation) will be core for AFPs' business models and performance.
- Technological developments in response to profitability pressure are also entrance barriers to limit competition.

Investment Manager: AUM Growth Rate



[a]Pension Manager System's AUM Growth Rate.
Source: Fitch Ratings, Fitch Solutions.

Financial Market Infrastructure Companies

Mexico

Political and economic uncertainty in Mexico will likely affect investor sentiment and may be a driver of equities and derivatives trading volumes. Debt issuance could also slow until there is more clarity on the upcoming administration's policies.

While the recent entrance of BIVA, a new exchange operating in Mexico, is notable, Fitch does not expect a further increase in the number of issuers or market size as a result.

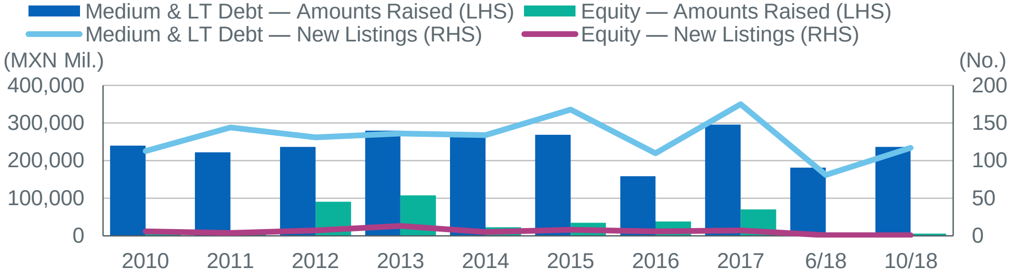
Despite having greater capital markets depth and liquidity relative to other economies in Latin America, the Mexican market will continue facing structural challenges related to market size and retail investor penetration. Positively, the number and sophistication of investment options have increased over the past few years, including Fibras (Mexican REITs), CKDs (Certificates of Capital Deployment), SPACs (Special Purpose Acquisition Vehicle) and CERPIs (Certificate of Investment Project).

Fitch will monitor the evolving competitive landscape now that BIVA is operational. However, the agency expects BMV to remain as Mexico's main exchange, considering the high barriers to entry and operational standards that characterize the majority of its business lines.

Key Factors to Watch

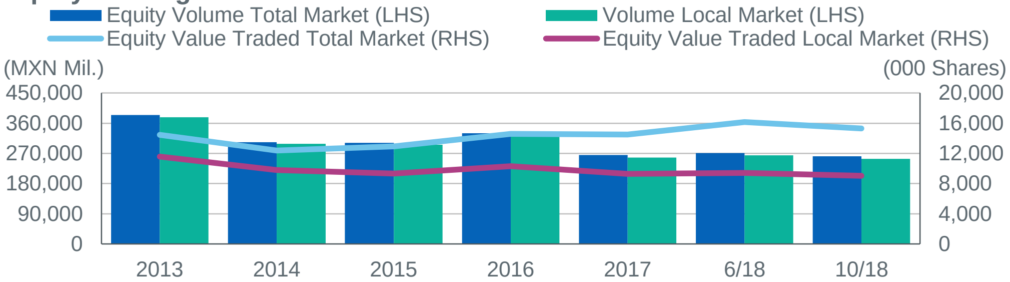
- Competitive dynamics in Mexico could be changed from BIVA incorporation to the market; effects on transaction and services pricing should be observed
- Market volatility could continue to be present from recent Mexican airport project cancellation and budget definition of the upcoming administration.
- Investor sentiment/confidence will continue to weigh on trading volumes.

Debt and Equity Listing Evolution



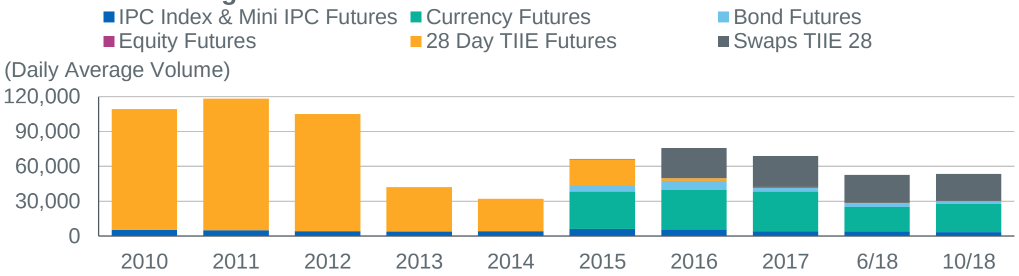
Source: Fitch with data from Bolsa Mexicana de Valores S.A.B. de C.V.

Equity Trading Evolution



Source: Fitch with data from Bolsa Mexicana de Valores S.A.B. de C.V.

Derivative Trading Evolution



Source: Fitch with data from Bolsa Mexicana de Valores S.A.B. de C.V.

Issuer Ratings (International Scale Ratings)

Issuer	NBFI Sub-Sector	Country	Rating/Outlook/ (Current)	(End-2017)
Ford Credit de Mexico S.A., de C.V. Sociedad Financiera de Objeto Multiple, E.R.	Auto Lending	Mexico	BBB/Stable	BBB/Stable
Inversiones CrediQ Business S.A.	Auto Lending	Panama	B/Stable	B/Stable
Financiera Independencia, S.A.B. de C.V. SOFOM, E.N.R.	Consumer Unsecured Lending	Mexico	BB/Stable	BB–/Stable
Tarjeta Naranja S.A.	Credit Card	Argentina	B/Negative	B/Positive
Cooperativa de Ahorro y Credito (Fucerep)	Cooperatives & Credit Unions	Uruguay	B–/Stable	B/Negative
Cooperativa del Personal de la Universidad de Chile (Coopeuch Ltda.)	Cooperatives & Credit Unions	Chile	BBB+/Stable	BBB/Positive
Agencia de Fomento do Estado de Sao Paulo — Desenvolve SP	Development Agencies	Brazil	BB–/Stable	BB/Negative
Agencia de Fomento do Estado do Rio de Janeiro S.A. — AGERIO	Development Agencies	Brazil	C	C
Instituto del Fondo Nacional de la Vivienda para los Trabajadores (Infonavit)	Development Agencies	Mexico	BBB+/Negative	BBB+/Stable
Instituto para la Proteccion al Ahorro Bancario (IPAB)	Development Agencies	Mexico	BBB+/Negative	BBB+/Stable
Tanner Servicios Financieros S.A.	Factoring	Chile	BBB–/Stable	BBB–/Stable
Bolsa Mexicana de valores, S.A.B. de C.V.	Financial Market Infrastructure	Mexico	BBB+/Stable	N.A.
Contraparte Central de Valores de Mexico, S.A. de C.V.	Financial Market Infrastructure	Mexico	BBB+/Stable	N.A.
Asigna Compensacion y Liquidacion	Financial Market Infrastructure	Mexico	BBB+/Stable	N.A.
PPLA Investments LP	Investment Management	Bermuda	B+/Stable	B+/Negative
Sura Asset Management S.A.	Investment Management	Colombia	BBB+/Stable	BBB+/Stable
Credivalores Crediservicios S.A.S.	Payroll Lending	Colombia	B+/Stable	B+/Stable
Credito Real, S.A.B. de C.V., SOFOM, E.R.	Payroll Lending	Mexico	BB+/Stable	BB+/Stable
Docuformas, S.A.P.I. de C.V.	Leasing	Mexico	BB–/Stable	B+/Stable
Engencap Holding, S. de R.L. de C.V.	Leasing	Mexico	BB–(exp)/Stable	N.A.
Unifin Financiera, S.A.B. de C. V., Sociedad Financiera de Objeto Multiple, Entidad No Regulada	Leasing	Mexico	BB/Stable	BB/Stable
Metrofinanciera, S.A.P.I. de C.V. S.O.F.O.M., E.R.	Mortgage Lending	Mexico	B–/Stable	B–/Negative

N.A. – Not applicable.
Source: Fitch Ratings.

Outlooks and Related Research

2019 Outlooks
Global Economic Outlook (September 2018)
Election Results, Prolonged NAFTA Negotiations Heighten Uncertainties for Mexican Financial Institutions (July 2018)
Fitch: Hybrid Debt a Credit Positive for Mexican Non-Bank FIs (April 2018)

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