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Mexico Financial Institutions | Latin America

Fintech: Disruption and Inclusion

Fintech proliferation is accelerating in Mexico, creating risks and opportunities for incumbents and startups. Unlike Brazil, we think Mexico fintech expands more than disrupts the market. We provide our vision for the future and detailed profiles of 26 leading fintech players.

Fintech proliferation is accelerating in Mexico. Hundreds of companies in multiple verticals are already operational, venture capital money is flowing, and the number of users is ramping up. In 2018, 273 fintech companies operated in Mexico serving around 6 to 8 million active users. Total annual fintech revenues reached ~US$175 million last year. And around US$800 million has been raised by Mexican fintech companies so far, with 85% of it concentrated in five players.

Inclusion more than disruption. Unlike Brazil, we think Mexico fintech expands more than disrupts the market. The financial system in Mexico has ignored or underserved a large portion of middle- and low-income consumers: Only 35% of Mexicans have a bank account, compared to 70% in Brazil (while internet and smart-phone penetration are quite close in both countries). Many fintech players are attempting to fill this very large gap with innovative and low-cost products and services. In addition, unlike Brazil, the Mexican incumbent banking system operates with relatively competitive prices; many are already highly digitalized, raising the bar for fintech players looking to disrupt via price. For Brazil fintech deep dive, please see: "From Zero to Disruption in 60 Seconds".

That said, we also think there is plenty of room for fintech to disrupt incumbents via risk-based pricing and customer experience, and, indeed, many are set to do so. Generic products, the bulk of what banks offer today, will have to evolve toward very specific, client-tailored, and risk-based pricing in order to better compete with fintech. Also, most incumbents are putting traditional bank products online and not necessarily developing innovative products and services that better leverage technology to drive customer traffic and loyalty. A more profound change needs to happen.

We like specialized fintech companies that are very good in one or few products over those that are trying to be financial supermarkets. It is better to be in specific niches where there is less regulation, where capital is less important, and where margins can be high. Fintech is also about unbundling, and we expect consumer behavior to move this way, seeking best-in-class unbundled financial services from specialized providers. Credit and payments are the largest fintech segments in Mexico. On the lending side, we like specialized, tech-driven companies that leverage disruptive risk-assessment models to offer lower rates. Companies that stand out among peers, include: Credijusto, Konfio, AlphaCredit, Creze and Kueski. On the payments side, companies that target historically underserved segments offer the biggest potential for high margins and market

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IndustryView	**No Rating**

share gains . Noteworthy players in this space, include: Clip, Sr. Pago, Conekta, and MercadoPago.

Government involvement is key in driving change, and regulators in Mexico seem to be a step behind versus their Brazilian peers. Our conversations with incumbents and startups suggest that more needs to be done by the regulator to facilitate fintech proliferation. Both parties think that the new fintech law increases the hurdles for startups, particularly due to conservative capital rules and limits on digital accounts. Lastly, both incumbent and fintech players indicated that regulators' bandwidth to deal with fintech-related issues may be constrained by the government's austerity measures.

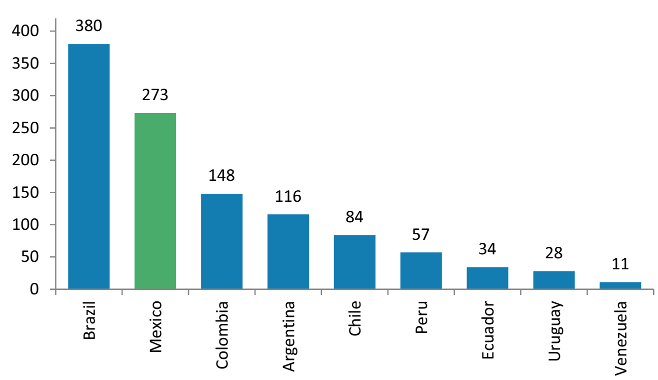
Ways to play? On the incumbent side, we think BBVA Bancomer and Banorte are well ahead in tuning their business model to migrate to digital and compete with fintech players. On the disruptor side, there are still no publicly traded vehicles to directly play fintech in Mexico. That said, we expect several, if not many, to tap the public equity markets over the next few years. In this note, we provide detailed profiles of 26 private fintech companies that we think stand out among peers.

Summary and Investment Conclusions

Fintech proliferation is accelerating in Mexico — hundreds of companies in multiple verticals are already operational, venture capital money is flowing, and the number of users is ramping up. Technology is challenging the traditional banking model at an unprecedented pace; the most forward thinking incumbents are tuning their business models to compete with fintech players. The stakes are high for startups, incumbents, and private and public investors alike.

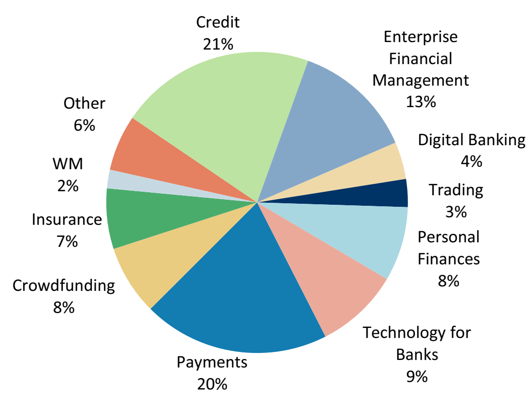
Following our 2018 deep dive into Brazil Fintech: "From Zero to Disruption in 60 Seconds," we turn our attention to Mexico. In this report, we provide an overview of the fintech industry and how we think it will shape the future of financial services. We highlight the product verticals where we see the biggest opportunities, how incumbent banks are responding to the evolving competitive landscape, and how government and regulators are dealing with fintech growth. In addition, this report includes snapshots of 26, mostly private, fintech companies operating in Mexico today. Our selection is not intended to be exhaustive, as there are hundreds of startups already. Our focus is on companies that are much larger than their peers, have more readily available information, and/or where we've gotten more inquiry from institutional investors.

Exhibit 1: Number of Fintech Companies by Country, 2018



Source: Finnovista, Inter-American Development Bank, Morgan Stanley Research.

Exhibit 2: Mexico Fintech Companies by Segment, 1Q19

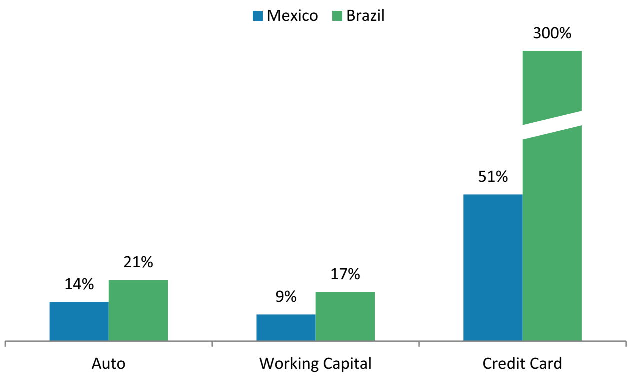


Source: Finnovista, Morgan Stanley Research.

Unlike Brazil, we think Mexico fintech expands more than disrupts the market.

Unbanked consumers represent a very large gap in the Mexican financial system, an opportunity that fintech companies are pursing aggressively. Only 35% of Mexicans over the age of 15 have a bank account, compared to 70% in Brazil. For the most part, the financial system in Mexico has ignored or underserved a large portion of middle- and low-income consumers. We found that many fintech companies in Mexico are attempting to fill this gap with innovative and low-cost products and services that have simple onboarding processes. Technology and mobile communications are highly developed in Mexico, offering an effective way to reach the masses. Internet penetration reached roughly 60% of the population in 2018, not far from Brazil's 66%. And smartphone penetration is on a par with Brazil, at roughly 55%.

Exhibit 3: Average Interest Rates by Type of Loan, L12M



Source: Brazil Central Bank, Banxico, Morgan Stanley Research.

Unlike Brazil, the incumbent banking system in Mexico operates with relatively competitive prices, with many products already highly digitalized, raising the bar for fintech players to disrupt existing bank customers via price or customer experience. As we mentioned in our 2018 Brazil fintech deep dive, the banking system has limited competition, very high prices — arguably at the very top of global banking — and generic and non-client centric products and services. Banks in Brazil, for the most part, make very attractive returns on capital without necessarily having to be leaders in efficiency, innovation, pricing, customer service, or IT; hence, the opportunity and the pool of profits up for grabs for fintech disruptors is outsized. Not the case in Mexico. For example, even though government overnight rates are higher in Mexico (8.25%) than in Brazil (6.50%), bank lending rates are significantly lower in Mexico, in many products less than half of what they are in Brazil. Also, banking fees in Mexico have been heavily regulated over the last decade and look relatively competitive, whereas fees in Brazil are arguably at the very top of global banking.

That said, we also think there is plenty of room for fintech companies to disrupt and take share away from the established bank incumbents, particularly through risk-based pricing and superior customer experience, and, indeed, many are set to do so. Among other, we think generic bank products, what most incumbents offer today, will have to evolve into very specific, client tailored, and risk-based priced offerings. Also, most incumbents are putting traditional bank products online and not necessarily developing innovative products and services that better leverage technology to drive customer traffic and loyalty. A more profound change needs to happen. Fixing the back-end, introducing risk-based pricing, leveraging data better, and improving overall customer experience remain important to do's for the incumbents, we think. Lastly, without the overhead of a bricks-and-mortar retail network, fintech companies' operating costs are greatly reduced, allowing them to offer better pricing on banking products.

We like specialized fintech companies that are very good in one or few products over those that are trying to be financial supermarkets.

We think it is better to be in specific niches where there is less regulation, where capital is less important, and where margins can be high. Fintech is also about unbundling, and we expect consumer behavior to move this way, seeking best in class unbundled financial services from specialized providers.

On a product basis, investments, P&C insurance (especially automobile), credit cards, payroll loans, and most other personal loans are likely to see significant migration to fully electronic, and fintech firms could potentially take meaningful share. Most of these products are relatively simple, with limited onboarding requirements, making them easily transferable to digital.

On the lending side, we like specialized, technologically-driven companies that leverage disruptive risk-assessment models to offer lower rates. The beforementioned combination is allowing a number of fintech companies in Mexico to offer quicker loan disbursement, a more user-friendly customer experience, and lower rates than traditional financial institutions. *Credijusto*, *Konfio*, *AlphaCredit*, *Kueski* and *Creze* seem to be making meaningful strides in this segment.

On the flip side, we think mortgages will see the slowest conversion to fully digital. Mortgages have a long origination process, which is paper-intensive, and requires a lot of hand-holding. Many consumers want live interaction and advice throughout the process.

We are also seeing the rise of digital portals and aggregators, both in lending and insurance, taking power away from the distributors and intermediates. *Prestadero* seems to be a step ahead in the lending marketplace segment.

As mentioned before, the opportunity to expand financial services to the vast unbanked population in Mexico offers an attractive runway for growth. Payment companies such as *Clip, Sr Pago*, *MercadoPago*, and *Conekta* are gaining scale in this segment.

Incumbent banks see fintech not as a threat but as an opportunity to create partnerships and expand their reach.

Consensus among incumbent banks is that they expect much less fintech disruption in Mexico than in Brazil. Ultimately, they view fintech not as a threat but as an opportunity to create partnerships, acquire successful players, capture synergies, and expand their reach. In most of our conversations with the large banks, five key themes seemed recurrent in their views about fintech disruption:

1. The expectation that banks will acquire the most successful technology players. BBVA and Banorte, for example, have made recent M&A deals with leading fintech players. BBVA acquired OpenPay, a provider of e-commerce payments solutions in Mexico, and Banorte acquired a minority stake in Clip to complete its merchant acquiring offering. Bajío, too, is considering acquisition opportunities.

2. A mutual interest in forming partnerships. BBVA and Santander, for example, are active in funding new technology ventures, while Bajío is partnering with technology players to improve digital onboarding and build credit risk algorithms.

3. Banks and fintech target different population segments. Particularly in lending, where many fintech players are targeting class C-E individuals that are below the banks' target demographic. While this indeed seems to be the status quo, the banks need to be alert and proactive as successful fintech models in the long-tail are likely to move up the ladder and potentially capture typical bank customers.

4. Challenges that payment-only companies will face in light of CoDi. Indeed, the pool of profits in payments may shrink considerably if CoDi is successful. Banks have a unique ability to focus on value-added services to drive payments margins.

5. Brand recognition and importance of physical points of service. Here we disagree with the banks' view. Technology has effectively eliminated the barrier to entry that brick-and-mortar presence previously represented. Branches are no longer needed to onboard clients, gather assets, originate loans, and/or distribute advice. Separately, yes, banks may enjoy name recognition, but they lack digital identity which is needed to succeed in fintech, we think.

We see advantages and disadvantages of fintech versus traditional banks.

Fintech companies should have significant advantage in low operating costs and flexibility, mostly from superior technology, while incumbents can be held back by their legacy systems. The best in class fintech companies have created a better consumer interface and efficient end-to-end solution that shortens the clearing time and drives major inefficiencies out of the system. This means that the traditional banks must use technology not only to improve pricing and the interface with the consumer but also to drive down costs and increase throughput with total end-to-end processing. Key disadvantages are higher funding costs, dependency on capital market access, limited client base, high client acquisition cost, and unknown brand names. On the flip side, the traditional banks enjoy advantages in name recognition — but not necessarily transferable to a digital identity, a huge customer base, trust, lower funding cost, and demonstrated asset origination capacity. Disadvantages are higher operating costs, branch-centric thinking, and legacy systems.

Exhibit 4: Variables that drive fintech versus incumbent balance of power

Propensity for Disruption	
High	**Low**
Opportunity for regulatory arbitrage	Requires high degree of collaboration
Accommodating and well-defined regulation	Sensitive to capital market funding
Enough financial data to level the playing field	Incumbents highly concentrated
Inflection in consumer behavior	Well developed financial infrastructure
Government involvement in driving change	Intensity of capital requirements

Source: Morgan Stanley Research "Fintech: A Gauntlet to Riches".

Government involvement is key in driving change, and regulators in Mexico seem to be a step behind versus their Brazilian peers.

While consumer and industry behavior can be slow to change and sometimes not conducive to disruption, a mandate from the government can help break that rhythm and push a pro-competitive agenda. In Brazil, for example, the government eliminated the lock-in on payroll loans and on credit card receivables, opening up room for competition, and also introduced regulation-light banking licenses for fintech and other smaller financial institutions, and is trying to push open banking and instant payments. Meanwhile, our conversations with Mexican incumbents and startups suggest that more is needed from the regulator to facilitate fintech proliferation. For the most part, both parties think the new fintech law increases the hurdles for new companies to enter the market, particularly due to conservative capital rules and limits on digital accounts. Lastly, both parties indicated that the bandwidth of the central bank, the finance minister, and the CNBV to deal with fintech-related issues may be constrained by the government's austerity measures.

Ways to play?

On the incumbent side, we think BBVA Bancomer and Banorte are well ahead in tuning their business model to migrate to digital and compete with fintech players.

Regrettably, Mexico's incumbent financial system has limited liquidity in the public equity markets. Three of the five largest banks are privately held. And one of the two that are listed is in the process of executing a tender for its public shares. That said, four of the top five banks in Mexico have publicly traded parent companies in the US and Europe (Citigroup, BBVA, Grupo Santander, and HSBC), so there is certainly interest in fintech disruption from shareholders abroad.

That said, as is the case in Brazil, we expect several, if not many, of the leading fintech companies to tap the public equity markets over the next few years. As mentioned before, this note contains detailed profiles of 26 fintech companies that we think stand out among peers. We are aware of potential offerings only to the extent they have been announced by companies or reported in the financial media. Our inclusion of any company in this report is intended only as part of considering the broad industry landscape, and is not a comment on potential equity offerings.

What's inside this report?

We provide an overall industry view, including the number of fintech companies operating in each of the different product/industry verticals and the amount of money raised by the leading companies. We highlight which business models and companies have made significant strides in the market, in our view. We summarize findings from our conversations with incumbent banks on their outlook and response to fintech competition. We provide a detailed overview of the new fintech law in Mexico and of the government's new payment initiative CoDi. Lastly, the bulk of this report is dedicated to profiling 26 fintech companies, mostly privately owned, that we think stand out among peers. We include companies in the payments, lending, banking services, personal finance, investments, and crowdfunding verticals.

More resources

Morgan Stanley's global banks team has written extensively on fintech. For more details on this topic, please see:

From Zero to Disruption in 60 Seconds, Brazil Fintech Roundup, A Call to Arms, Banking as the Speed of Light, A Gauntlet to Riches, Fintech Unicorns vs Bank Giants, Digitalization of Banking: On the Cusp of Operational Revolution, Takeaways from UK Banks Digital Disruption Day, Digital Disruption: Is the Future Orange, Who Will Win in E-Payments, Fintech Seminar, Categorizing US/Europe Bank Fintech Strategies.

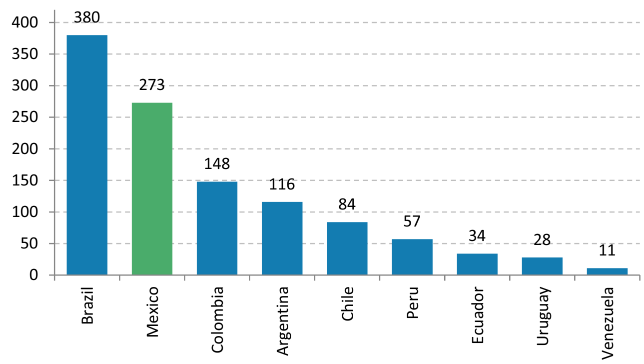
Fintech Directory Summary Table

Company	Segment	Core Product Offering	Target Client Segment	Funding (US$ 000's)	App Downloads L12M (000's)
Clip	Payments	mPOS devices	Underbanked	165,000	388
ComproPago	Payments	Cash solutions for online payments	Un/underbanked	10	NA
Conekta	Payments	Cash solutions for online payments	Un/underbanked	21,700	NA
MercadoPago	Payments	mPOS and mobile wallet	Un/underbanked	NA	1,071
PayIt	Payments	Mobile wallet and P2P payments	Banked	NA	86
Saldo.mx	Payments	Payment solutions for Mexicans living in the US	Banked	100	9
Sr.Pago	Payments	mPOS and prepaid cards	Un/underbanked	8,200	69
Un Dos Tres	Payments	Bill payments for individuals	Banked	8,200	390
AlphaCredit	Lending	Payroll loans, short-term personal loans and advances	Banked	NA	0.2
Credijusto	Lending	Secured working capital loans and leases for SMEs	Underbanked	226,600	NA
Creze	Lending	Unsecured working capital loans for SMEs	Underbanked	5,000	NA
Konfio	Lending	Unsecured working capital loans for SMEs	Underbanked	203,000	9
Kubo	Lending	P2P lending platform	Underbanked	22,200	NA
Kueski	Lending	Short-term micro loans for individuals	Un/underbanked	38,800	218
MiMoni	Lending	Short-term micro loans for individuals	Un/underbanked	44,000	6
Prestadero	Lending	Online marketplace for personal loans	Un/underbanked	909	NA
Albo	Banking	Checking account with debit card	Underbanked	8,500	226
Broxel	Banking	Checking account with debit card	Banked/underbankec	NA	245
Cuenca	Banking	Prepaid card and financing solutions	Banked/underbankec	NA	17
Flink	Banking	Checking account with debit card	Banked/underbankec	NA	21
Hey Banco	Banking	Banregio digital bank	Banked	NA	171
Bitso	Investments	Cryptocurrency exchange platform	Banked/underbankec	2,600	565
Finx	Investments	Personalized advisory for long-term investments	Banked	NA	NA
Invierte con Expertos	Investments	Online marketplace for investment advisory	Banked	650	NA
Alibre	Crowdfunding	Social savings network and crowdfunding pools	Un/underbanked	NA	NA
Moneypool	Crowdfunding	P2P crowdfunding pools and payments	Banked	NA	19

Source: Crunchbase, Company Data, Morgan Stanley Research.

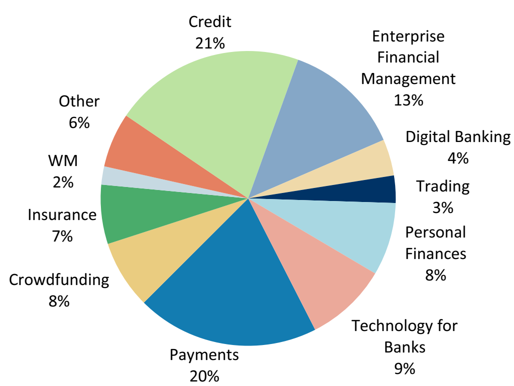
Industry Overview

Exhibit 5: Number of Fintech Companies by Country, 2018



Source: Finnovista, IADB.

Exhibit 6: Mexico Fintech Companies by Segment, 1Q19



Source: Finnovista, IADB.

Mexico is the second largest fintech market in Latin America by total number of companies, with 273 fintech players in 2018. Brazil leads Latam with the largest fintech ecosystem, with 380 companies. Colombia is third, with 148 companies. At the end of last year, Mexico accounted for 23% of the 1,166 fintech companies in Latam, serving an estimated 6-8 million active users.

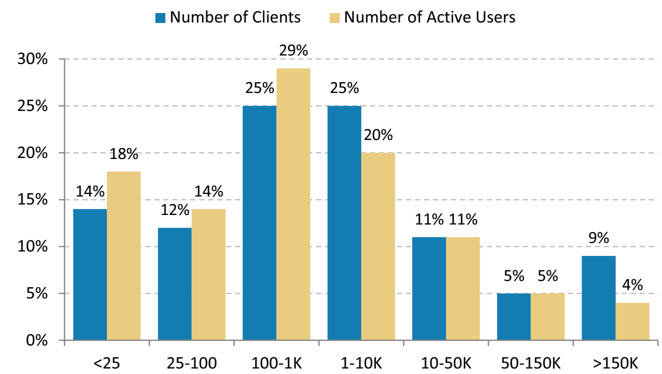
Indeed, the number of companies is growing rapidly. In 2018, the number of fintech companies in Mexico grew 52% y/y, to 273 from 180 in 2017. The more than 100 additional companies in Mexico compares well to the rest of the region. Indeed, Brazil added 150 companies last year, Colombia 64, and Argentina 44.

Credit and payments are the largest fintech segments in Mexico... Together, they account for 41% of all fintech companies in the country, with lending companies accounting for 21% and payments/remittances falling close behind at 20%. These have historically been the two largest segments in the country both by number of companies and scale of funding, client base and annual revenue. We see the same trends in Brazil where payments and lending dominate the fintech space today.

... with most segments growing relatively rapidly. Between May 2018 and May 2019, the number of payments and credit fintech companies in Mexico grew by nine and seven, respectively, corresponding to annual growth rates of 9% and 5%. Meanwhile, the number of digital banking companies grew from five to 15 during the same period (+10), and the number of enterprise technology firms for financial institutions from 23 to 36 (+13). Other relatively fast-growing segments include trading (+7) and credit scoring (+5). On the flip side, wealth management and crowdfunding both saw y/y declines, with the number of companies decreasing by 2 and 1, respectively.

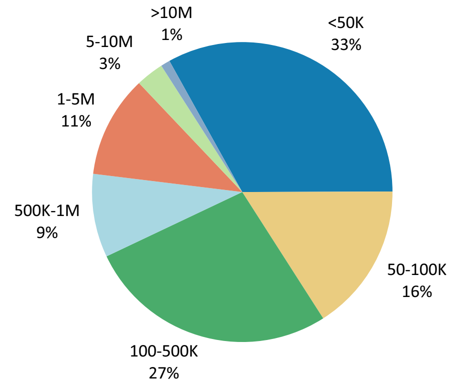
Given their young age, most fintech companies in Mexico remain very small. Over 70% of Mexican fintech names have been operating for less than 5 years and more than one-third have under 3 years under their belt. It is not surprising, then, that the vast majority remain very small in terms of client base and annual revenue. Indeed, 61% of all fintech companies in the country have less than 1,000 active users, while only 4% have over 150,000. In terms of gross transactional revenue, 33% of companies reported making under US$50,000 annually and only 15% reported making over US$1 million per year. Finnovista estimates total annual revenues for the Mexican fintech industry reached ~US$175 million in 2018. To put this into perspective, PagSeguro, one of the largest fintech companies in Brazil, reported gross revenues of over US$800 million in 2018, more than 4x higher than the entire fintech market in Mexico.

Exhibit 7: Mexico Fintech Companies by Number of Clients and Active Users, 1Q19



Source: Finnovista

Exhibit 8: Mexico Fintech Companies by Annual Revenue (US$), 1Q19



Source: Finnovista

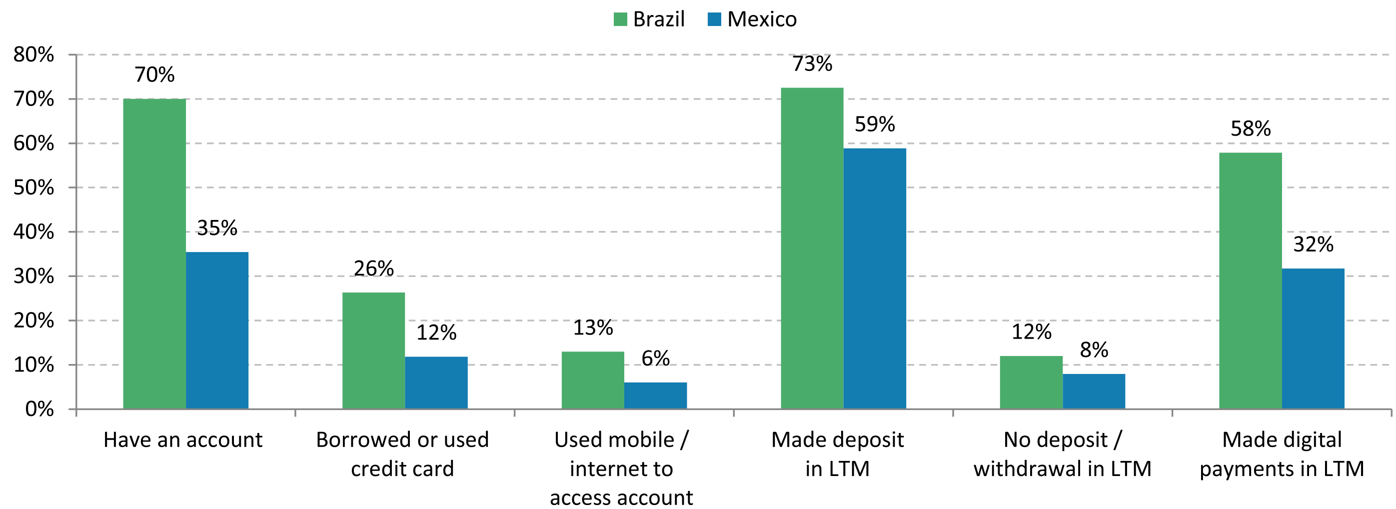
Only 21% of Mexican fintech companies have foreign operations... The overwhelming majority of Mexican fintechs only have domestic operations. Among the 21% that also have international operations, such as AlphaCredit and Invierte Con Expertos (ICE), the top foreign destinations are Colombia, the U.S., Chile, Ecuador, Guatemala and Brazil.

...but many leading international fintech players have or are launching operations in Mexico. MercadoLibre, the largest e-commerce platform in Latin America, expanded MercadoPago, its payments arm, to Mexico in 2016. By the end of last year, they had more than 11 million MercadoPago accounts in Mexico, with 20-30% of the country's TPV coming from unbanked segments. Ferratum Group, a publicly traded international fintech company headquartered in Helsinki, also operates in Mexico through Ferratum Mexico, which offers online personal loans and microcredits of up to M$5,000. Last month, the Brazilian fintech Nubank announced it was expanding to Mexico under the name "Nu," starting off with a 20-employee office in Mexico City. The company — which has around 8.5 million clients in Brazil and has raised over US$400 million from investors such as Sequoia Capital, Tiger Global Management, and Kaszek Ventures — plans to begin issuing credit and debit cards in Mexico in 2H19.

A relevant portion of fintech companies in Mexico target the unbanked and underbanked. The vast majority of fintech companies in Mexico target consumers and SMEs, while only 27% target large corporates and financial institutions. Among the 73% that target consumers and SMEs, 38% target banked consumers and SMEs, while 35% target the unbanked and underbanked. That is, over a third of fintech companies in the country are specifically dedicated to groups that have historically been excluded or underserved by traditional financial institutions.

Unbanked consumers represent an attractive opportunity for fintech companies. According to the Global Findex Survey conducted by the World Bank, only 35% of Mexicans over the age of 15 have an account at a financial institution, whether that be a bank, microfinance institution, or other regulated financial institution. Indeed, Mexico accounts for nearly 3% of the world's unbanked population. By comparison, bancarization in Brazil is twice as high, with 70% of adults having at least one account. Increasingly, fintech companies are filling this gap with innovative and low-cost solutions that have simple onboarding processes and do not require a bank account.

Exhibit 9: Mexico and Brazil Bancarization Rates (% adult population), 2017



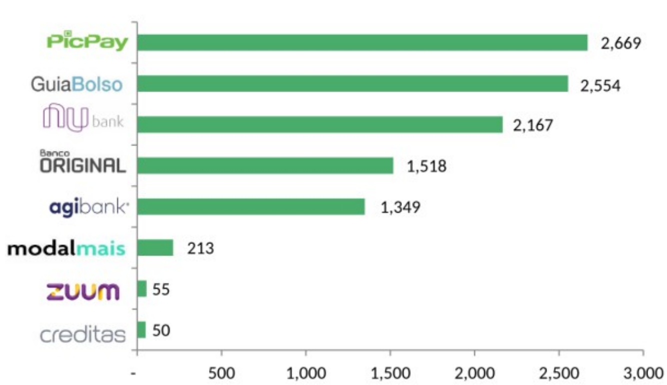
Source: World Bank, Morgan Stanley.

Smartphone penetration in Mexico is high, roughly in line with Brazil… According to the Mexican Statistics Institute (INEGI), there were 74.3 million Internet users in Mexico in 2018, corresponding to roughly 59% of the population. This is lower than Brazil, where Internet penetration was over 66% in 2018, with 139 million Internet users, according to the Brazilian Statistics Institute (IBGE). However, when it comes to smartphone penetration, Mexico is in line with Brazil, with 69.6 million smartphone users in 2018, corresponding to 55% of the country's population, compared to 57% in Brazil.

… but Mexicans use smartphones to access banking services at much lower rates. According to IBGE, only 18% of all smartphone users in Mexico have downloaded mobile apps that offer financial services. In this respect, Mexico is still far behind Brazil, where 81% of smartphone owners report accessing their bank accounts via a mobile app.

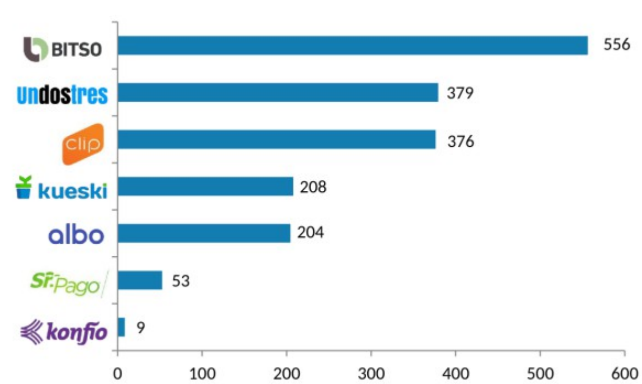
The number of app downloads for leading fintech companies in Mexico is lower than in Brazil. For example, the most downloaded payments app in Mexico, Clip, had 376 thousand downloads in the last 12 months, a fraction of the most downloaded payments app in Brazil, PicPay. Similarly, the most downloaded digital banking app in Mexico, Albo, had 204 thousand, while NuBank in Brazil had 2.2 million.

Exhibit 10: Brazil - Total App Downloads by Company, L12M (000s)



Source: Sensor Tower, Morgan Stanley Research.

Exhibit 11: Mexico - Total App Downloads by Company, L12M (000s)



Source: Sensor Tower, Morgan Stanley Research.

Winning Business Models

The most successful players are concentrated in lending and payments and are highly specialized, both in products offered and target client base. Within the fintech ecosystem in Mexico, the firms that are gaining the most traction (i.e., raising the most funding and consolidating the largest client bases) are mostly concentrated in lending and payments, where we see the most disruptive business models being developed. In our view, highly specialized lending and payments fintech companies that only focus on one or a few types of products and target specific population segments, particularly unbanked and underbanked consumers and SMEs, pose the biggest threat to traditional banking and the biggest opportunity for high margins and market share grab.

On the lending side, we like specialized, technologically-driven companies that leverage disruptive risk assessment models to offer lower rates. The combination of high specialization, superior technology, and the use of alternative data for risk assessment is allowing a number of fintech companies in Mexico to offer quicker loan disbursement, a more user-friendly customer experience, and significantly lower rates than traditional financial institutions. We particularly like companies in the SME and consumer lending space, given that they offer relatively simple products with limited onboarding requirements, which are well-suited for the conversion to digital:

- **SME lending.** *Credijusto*, for example, is exclusively focused on asset-backed loans and equipment leases for SMEs, but has already originated over US$70 million in credit and raised US$226.6 million in capital. The company relies on proprietary models to assess SMEs' credit risk, based on business metrics, such as cashflow, years in business, seasonality, market concentration, profits, growth, margins, debt level, etc. This disruptive risk model allows the company to offer competitive annual interest rates of 18-35%, while a fully digital infrastructure allows them to disburse loans in 24 hours, far quicker than the banks. We like the collaterized credit model (which allows for a higher acceptance rate, a lower delinquency ratio, and more competitive prices), as well as management's plan to launch more credit products and value-added services for SMEs. On the unsecured side, we like *Konfio*, which provides unsecured working capital loans to SMEs and has already underwritten ~US$100 million in credit. Like Credijusto, the company leverages alternative data sources, such as business and financial metrics, for more effective risk assessment. Similarly, *Creze*, which provides unsecured loans to SMEs, stands out for building proprietary credit algorithms that analyze 50+ data sources, such as billing history, account balance and cash flow, allowing them to offer monthly interest rates as low as 2.08%.

- **Consumer lending.** On the consumer side, *Kueski* stands out for being the first company to offer completely digital consumer loans in Mexico, with over 1.5 million loans issued to date, totaling more than US$200 million. The company offers short-term micro loans to underbanked individuals (first time users can borrow up to M$2,000, or roughly US$100, for a term of 1-30 days). The company leverages big data, advanced analytics, and machine learning to track and evaluate thousands of nontraditional data points, including social media presence and time taken to complete the loan application, allowing for rapid risk assessment and disbursement. Other key differentiators include: financial inclusion (14% of clients began their credit history with Kueski) and superior customer service (NPS score of 82). *AlphaCredit* specializes on providing payroll and pension loans to government employees and retirees through automatic deductions. Agreements with government agencies allow the company to access unique data points, including income, seniority, and job performance, to generate proprietary risk profiles. The company has an outstanding loan portfolio of M$8.9 billion and an NPL ratio of only 3%.

On the payments side, companies that target historically underserved segments offer the biggest potential for high margins and market share grab, in our view. We expect the most successful payments fintechs in Mexico, both in terms of funding and size of client base, to continue being those that target niche, historically overlooked segments of the population:

- **Underbanked segment.** *Clip* was the first player in Mexico to penetrate the underbanked SME segment through a mixed online/offline distribution strategy. This has allowed them to: i) solidify a strong first-to-market advantage , ii) reach outsized scale in funding (US$165 million raised to date) and reach (Clip is now the largest merchant acquirer in Mexico by number of merchants). Similar to what PAGS did in Brazil with micro merchants, the company is capitalizing on a huge, currently untapped opportunity in the acquiring market. Indeed, Clip stands out when it comes to financial inclusion (95% of its clients did not previously accept card payments) and customer service (most highly ranked app in Mexico and an NPS score of 70). We also like Clip's growth potential and cross-selling opportunities, as the company is planning to enter new verticals and launch value-added services, which should drive client acquisition and retention.

- **Unbanked segment.** *Sr.Pago* is targeting unbanked merchants by eliminating the need for a bank account, and opting, instead, for a prepaid card model. The company's focus on unbanked merchants represents an attractive opportunity to gain outsized share of wallet and high margins, in our view. *MercadoPago*, too, is increasingly targeting the unbanked, with 20-30% of the platform's TPV in Mexico coming from unbanked segments in 2018. On the consumer side, *Conekta* was the first company in Mexico to develop a cash payment solution for online purchases.

Incumbent Banks' Response

Incumbents are highly skeptical of fintech's disruption potential in Mexico. We spoke with the management teams of several banks to discuss the potential for fintech disruption in Mexico. All of the banks said they expect much less disruption in Mexico than in Brazil, and that ultimately they view fintech not as a threat but as an opportunity to create partnerships, acquire successful players, and capture synergies. Based on our conversations, we found the five key drivers of incumbents' skepticism on disruption potential in Mexico to be: i) the expectation that banks will acquire the most successful players; ii) a mutual interest in forming partnerships, iii) the fact that banks and fintech firms target different population segments, iv) banks' ability to focus on value-added services in payments, v) brand recognition and cultural importance of physical points of service.

1. **Acquisition opportunities.** BBVA predicts that only 1-2 fintech firms will end up being very successful (those that are highly verticalized and manage to expand), while the rest will most likely be acquired by the banks. BBVA recently acquired OpenPay, a provider of e-commerce payments solutions in Mexico. Similarly, Banorte recently acquired a small minority stake in Clip, the largest payments fintech in Mexico, for an undisclosed amount, in order to complete its merchant acquiring offering. With this, Banorte will be able to replace its previous mPOS offering, which was not proving successful, with Clip's. BanBajio, too, has discussed acquiring certain players, particularly to expand its digital banking offer for individuals, but has not made any concrete decisions yet.

2. **Mutual interest in forming partnerships.** Most teams emphasized that both banks and fintech companies are very open to partnering. BBVA, for example, developed a "fast track" program to identify attractive fintech partners, both in Mexico and abroad. BanBajio, meanwhile, is working with a fintech company develop digital onboard tools for individuals. They are also considering collaborating with alternative credit scoring companies to issue credit digitally and analytics companies to create comprehensive credit databases and algorithms. For banks, partnerships represent an opportunity to lower costs, improve user experience, and maximize efficiency. For fintech companies, an opportunity to reach a larger client base and develop a more sustainable business model.

3. **Different target client bases.** Nearly every team we spoke to emphasized that the most relevant fintech players are targeting unbanked and underbanked consumers, which incumbents are not currently willing or able to reach. As a result, the banks see a low risk of losing existing clients to new players. In lending, in particular, this includes Class C, D and E individuals that are considered too high risk and are below the banks' target demographic. According to Banorte, fintech companies are mostly issuing "emergency credits" with very short maturities, high daily interest rates, and much less stringent scoring requirements. Management emphasized that not only do these underwriting and risk models lack a proven track record, but the banks also have an important advantage when it comes to understanding credit cycles. For example, they added that they are already seeing tightening liquidity and unlike fintech companies, they are choosing to be cautious with SMEs. Also, BanBajio emphasized that they specializes on businesses, which they consider to be

a key competitive advantage, given that businesses tend to seek out advisory services that fintech companies do not offer.

4. **Focus on value-added services in payments.** Most management teams identified payments as the segment with the highest potential for fintech disruption in Mexico. That said, they also added that merchant acquiring is ultimately a commodity business, which, in the face of CoDi and increased competition, will offer an increasingly limited profit pool going forward. As a result, most banks are now focusing on developing value-added services to drive payments margins in the future. Santander, for example, is already working with fintech companies to develop value-added payments applications, including inventory management software and an app that will allow informal businesses to accept electronic payments at zero cost. Eventually, the banks could leverage the information gathered through these services to make highly tailored credit offers.

5. **Brand recognition and importance of physical branches.** Incumbents emphasized that they enjoy advantages in name recognition, a huge customer base, trust and lower funding costs. Also, they added that physical branches are still a very relevant point of contact in Mexico, even for digital users.

Incumbents are starting to move in the right direction… Incumbents have been gradually transforming their traditional business models by offering banking products via APIs, developing digital onboarding tools, launching digital wallets, and partnering with existing fintech companies. Santander, for example, recently rolled out 100% digital onboarding for payroll clients and is currently evaluating the possibility of launching a 100% digital bank. BanBajio launched a digital wallet for online payments, created digital transaction tools for businesses, and is currently working on developing digital onboarding capabilities. Most Banorte products are now available digitally via the app, including digital cards, transfers, payments, and personalized credit offers. And, all internal transactions at Banorte use APIs, which management said they could easily open at the right time.

… but only BBVA is adopting an aggressive enough strategy, in our view. Management estimates that BBVA is at least five years ahead of its competitors. Indeed, BBVA was the first bank to offer Level IV digital accounts in Mexico and according to management, its time to market is roughly half the competition's, largely due to the fact that many of their products and services are developed by the holding company in Spain. BBVA is also the only bank with a clear open banking initiative, designed to acquire new clients and broaden the reach of its products on third party platforms. This month, through an alliance with Uber, BBVA launched the first banking product in Mexico that operates on a third party app. By focusing on open banking, the bank is planning to gather vast amounts of transactional data, which the company can then leverage to offer more tailored products to its clients. Already, BBVA is the bank with the highest NPS score in Mexico, the most app downloads, and the highest number of active digital clients (7 million), with more than 50 thousand digital accounts being opened each month.

Total Capital Raised

Fintech funding in Mexico is highly concentrated in the three largest players. Credijusto, for example, has raised US$226.6 million in total capital, including investments from Kaszek Ventures, IGNIA, and QED Investors and a US$100 million credit facility from Goldman Sachs. Konfio, too, has raised over US$200 million, including investments from Kaszek Ventures, QED Investors, General Atlantic, and Vostok Emerging Financing. Clip has raised US$165 million, following a US$20 million investment from SoftBank in May. Beyond the major players, fintech funding remains modest, with 44% of companies reportedly raising less than US$100,000, according to Finnovista.

Exhibit 12: Total Capital Raised by Fintech Company

Company	Total Funding (US$ 000's)	Major Investors
Credijusto	226,600	IGNIA, Goldman Sachs, QED Investors, Kaszek Ventures, John J. Mack, Broadhaven, Uprising, Promecap
Konfio	203,000	QED Investors, Kaszek Ventures, Victory Park Capital, Quona Capital, Goldman Sachs, IFC, Vostok Emerging Finance
Clip	165,000	General Atlantic, SoftBank, Google Launchpad Accelerator, MissionOG, Angel Ventures, Alta Ventures Mexico, Sierra Ventures, American Express Ventures
MiMoni	44,000	IGNIA, Omidyar Network, Storm Ventures
Kueski	38,800	Angel Ventures, Richmond Global Ventures, Auria Capital, Core Ventures Group, Rise Capital, VARIV Capital, Endeavor Catalyst, CrunchFund, Angel Ventures,
Kubo	22,200	Google Launchpad Accelerator, KuE Capital, Alta Ventures Mexico, Vander Capital Partners, Bamboo Capital Partners, MONEXgroup, Wayra, Tanant Capital
Conekta	21,700	Propel Venture Partners, Conconi Growth Partners, VARIC Capital, FEMSA, Jaguar Ventures, Google Launchpad Accelerator, 500 Startups, Sean Harper
Albo	8,500	Mountain Nazca, Greyhound Capital, Magma Partners, Eric Perez Grovas, Omidyar Network
Sr.Pago	8,200	IGNIA, Defense.Net, Barrett Lyon, Center Electric
Un Dos Tres	8,200	Dalus Capital, IGNIA, InnoCells, Saba Investments, Martin Schrimpff, MassChallenge
Creze	5,000	Arc Labs, Mountain Nazca
Bitso	2,600	VARIV Capital, MONEXgroup, Xochi Ventures, MassChallenge, Digital Currency Group, FundersClub, Hard Yaka, Digital Finance Group
Prestadero	909	ALLVP
Invierte con Expertos	650	Individual investors
Saldo.mx	100	Avalancha Ventures, MassChallenge
ComproPago	10	VARIV Capital, NXTP Labs

Source: Crunchbase, Finnovista, Morgan Stanley Research.

Fintech Directory

Payments

- clip
- ComproPago
- CONEKTA
- mercado pago
- Payit
- saldo.mx
- Sr.Pago
- Undostres

Lending

- alphacredit
- Credijusto
- creze
- konfio
- kubo. financiero
- kueski
- mimoni
- Prestadero

Banking Services

- albo
- broxel
- CUENCA
- FLINK
- hey, banco

Investments

- BITSO
- Finx
- Invierte con Expertos.mx

Crowdfunding

- a libre
- moneypool

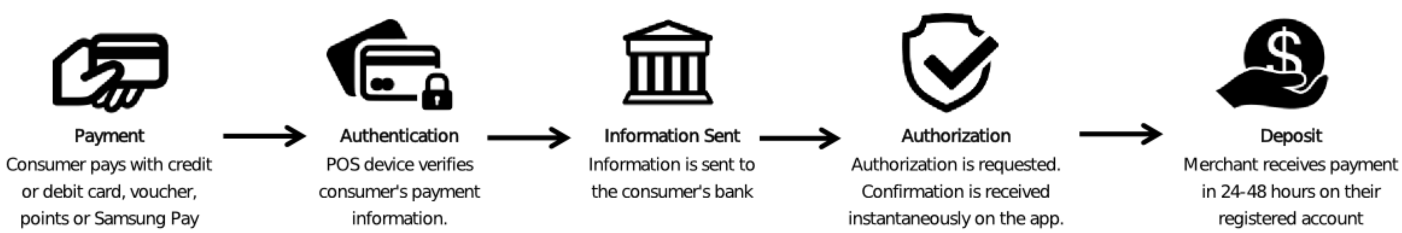
Payments

Clip

Clip is a mobile payments company that sells mPOS devices, which easily turn mobile phones into card processing terminals, allowing merchants and small businesses to accept card payments. Today, Clip is the largest merchant acquirer in Mexico by number of merchants. Similar to Square in the US, the classic Clip reader plugs into the audio jack of any mobile device, while more advanced models, called Clip Plus and Clip Pro, use Bluetooth technology. Unlike most mPOS devices in Mexico, Clip relies on integrated, in-house hardware and software. Payments are automatically transferred into merchants' bank account every 2 business days (or every 24 hours for Clip Plus and Clip Pro), with no monthly fee or minimum transaction amount required. In addition to device sales, the company derives its revenues from a 3.6% flat fee charged on every transaction. Clip accepts all major card issuers, including American Express, Visa, MasterCard, JCB, and Discover, and, according to the company, enables merchants to increase sales by ~30%.

Based in Mexico City and San Francisco, the company was founded in 2013 by CEO Adolfo Babatz, who previously worked in customer engagement at PayPal Latin America. Today, Clip has offices in Mexico City, California and Utah, with US offices mostly focusing on device design and the development of payment processing technology. The company began gaining steam in 2015, after partnering with Sam's Club to distribute Clip devices to its merchant base and updating its strategy to focus on SMEs. In 2015, the company received US$8 million in a Series A investment round from the Mexican venture capital firm Alta Ventures, American Express Ventures, and Sierra Ventures. Other investors include Mexico Ventures (Fondo de Fondos), Angel Ventures Mexico, General Atlantic, and Endeavor Catalyst. In 2019, the company received US$20 million from SoftBank, a Japanese holding company which recently launched a US$5 billion technology fund dedicated to Latin America. According to news reports, Clip's valuation after the SoftBank transaction reached US$350-400 million, with the company's total funding to date amounting to ~US$160 million.

Exhibit 13: Clip - How it Works



Source: Company Data.

Key Highlights

Clip targets SMEs that have historically been underserved by traditional financial institutions. Management emphasized that the Mexican merchant acquiring market for large corporates is highly competitive, very crowded, and among the most vertically integrated in the world, creating huge barriers to entry. Hence, a key differentiator and competitive advantage for the company is its focus on SMEs, a segment that remains mostly untapped by traditional players. Indeed, Clip stands out when it comes to financial inclusion, as 95% of its clients did not previously accept card payments. This means that Clip's business model is not necessarily capturing bank clients, but rather occupying a huge white space. Considering that card penetration among Mexican SMEs is still low, we still see plenty of room for the company to continue growing its merchant base rapidly. Indeed, management estimates that SMEs represent a potential market of 10 million merchants, only 900 thousand of which currently have payment terminals. In terms of TAM, management sees significant runway, considering that 14% of payments are carried out with cards in Mexico, roughly half as much as in Brazil.

Superior customer service is at the center of the company's value proposition. Clip has the most highly ranked app in Mexico, both by number of stars (4.9 out of 5) and number of reviews. The company has an NPS score of almost 70, ostensibly much higher than the incumbents, although the banks provide little visibility on NPS scores. The net promoter score measures consumers' willingness to recommend a product or service and their loyalty to the brand based on a satisfaction scale of 0 to 10. It is calculated by subtracting the percentage of unsatisfied consumers, those that have satisfaction levels of 6 or lower, from the percentage of consumers that are very satisfied and responded 9 or 10 and dividing that number by the total number of respondents.

Management is not worried about competition. Management considers competitive pressures to be relatively low, considering that: i) incumbents target a different segment, ii) other fintech players in the payments space lack first mover advantages and are of much smaller scale, iii) foreign players lack local infrastructure, a deep understanding of the Mexican market, and have a smaller budget in Mexico.

Exhibit 14: Clip - Total Fees by Number of Monthly Installments

No.	Clip Fee	Bank Surcharge*	Total VAT
3	3.6% + VAT	4.5% + VAT	9.40%
6	3.6% + VAT	7.5% + VAT	12.88%
9	3.6% + VAT	9.9% + VAT	15.66%
12	3.6% + VAT	11.95% + VAT	18.04%

Source: Company Data. Note: Bank surcharge is only applied on payments in installments without interest, and is charged by the acquiring bank.

Clip allows merchants to offer monthly installments. Clip clients can offer no-interest credit installment payments of up to 12 months for purchases above M$500. The service is offered through more than 16 partners, including Santander Mexico, Banorte, BanBajio, Scotiabank, American Express, and BBVA Bancomer, among others. The company charges a flat fee of 3.6% for all installment payments. That said, merchants are also subject to a surcharge fee charged by the acquiring bank, which ranges from 4.5% to 11.95%, depending on the number of monthly installments. Given the preference for installment payments in Latam, the company views this offering as a key differentiator from large foreign players, most of which are not familiar with the importance of the installment model, and key to expanding cards as a viable payment option in Mexico.

In order to better meet merchant demands, the company recently expanded its device offering, launching Clip Plus in 2018 and Clip Pro in May 2019. Both devices rely on Bluetooth technology (as opposed to audio jacks), have physical keyboards, which allows consumers to enter their security pins, and disburse payments to merchants in 24 hours, compared to 48 hours with the classic Clip. Also, in preparation for CoDi, the Clip Pro comes equipped with a 5 megapixel camera, which will allow merchants to process

QR codes. Although Clip charges the same 3.6% transaction fee for 24 hour disbursement, Clip Plus and Clip Pro devices sell at significantly higher price points (M$749 and M$3,999, respectively, versus M$199). According to the CEO of Clip, Clip Pro can substitute up to 7 standard terminals, saving merchants up to M$24,278.

Exhibit 15: Clip - Product Offering

Model	Classic Clip	Clip Plus	Clip Pro
Price	M$199.00	M$749.00	M$3999.00
Design			
Features	Audio jack connection Mobile required	Bluetooth Mobile required	Bluetooth No mobile required Free unlimited Internet
Payment	48 hours	24 hours	24 hours

Source: Company Data, Morgan Stanley Research.

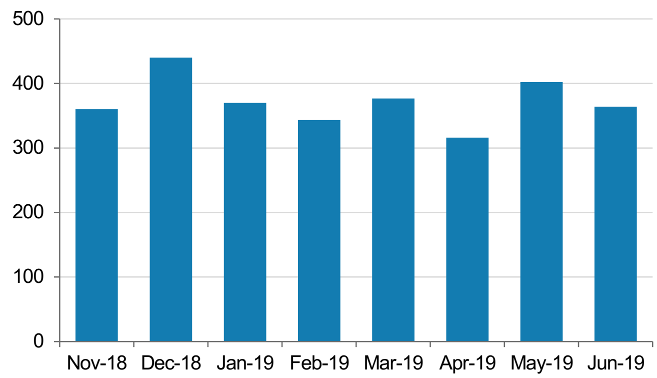
Higher functionality devices should allow Clip to gain market share in the acquiring industry. Management expects the more advanced devices to eventually replace the classic Clip. Already, Clip Plus accounts for roughly half of Clip's transactions, despite only having been launched last year. Clip Pro, which was launched this month, is also expected to capture a high number of transactions. In general, higher functionality devices are part of the company's strategy to better meet merchant needs and retain its place as the largest merchant acquirer in Mexico by number of merchants.

The company is developing new value-added services, which should drive client acquisition and retention. Now that the company has reached sufficient scale as an acquirer, management is working on a robust pipeline of products and business solutions that will be added to the Clip ecosystem. Indeed, management mentioned that 50% of funding for this year will be allocated to R&D for the development of new products. However, the company provided no details on timing or the specific verticals it plans to enter. That said, we see plenty of room for the company to sell additional products and services to its client base, such as digital banking and vertical-specific software solutions.

In June, Banorte acquired a small minority stake in Clip for an undisclosed amount. Banorte processes all of Clip's payments and has been the company's only acquiring bank. With the acquisition, the bank will be able to replace its previous mPOS offering with Clip's. Going forward, the two plan to roll out more products and services together. In general, management believes that the partnership with Banorte is highly synergistic, as the two bring distinct strengths to the table. Specifically, Banorte has a highly developed back end, while Clip has a strong front-end and a highly effective offline/online distribution strategy.

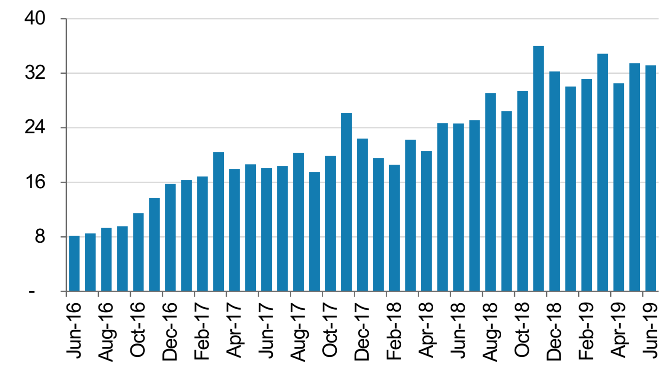
Management is skeptical that CoDi will be widely adopted in the short term. Management noted that although CoDi has the potential to meaningfully expand bancarization, adoption is likely to be slow, as incentives for implementation are low and many unbanked clients lack the high-end smartphones needed to use the platform. In the long term, however, management sees a potential for debit interchange revenues to be negatively impacted, something that could be mitigated with value-added services.

Exhibit 16: Clip - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 17: Clip - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

ComproPago

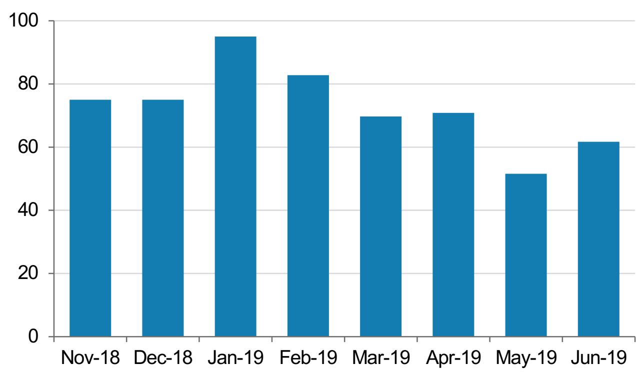
ComproPago is a payments company that allows unbanked consumers to fund online purchases with cash in over 70,000 points of sale. ComproPago solutions include payment terminals, APIs, plugins, integration with third party platforms, and payment buttons. The company was created in the hopes of increasing e-commerce penetration in Mexico. Users deposit payments in a free digital account, through which they can make unlimited transfers to other bank accounts.

The company was founded in 2013 by Rodrigo Ayala, Gabriel Islas and Carlos Toxtli, who sought to combine technology and high quality service to increase online sales in Mexico. The company charges commissions on each transaction, but no monthly or annual fees. Commissions are calculated based on the number and value of transactions made through the platform. For cash transactions, fees are 2.9% of the transaction amount plus M$3, including tax. For payments made through SPEI transfers, ComproPago charges a fee of 1.5% plus M$8.

Key Highlights

Last year, the company launched a functionality that allows Shopify merchants to accept cryptocurrency payments. The product was initially rolled out to 700 ComproPago clients, which represented ~8% of the company's total client base at the time. The cryptocurrency payment system is linked to various cryptocurrency exchanges, such as Bitso, Volabit and Ripple. When a user chooses to make a cryptocurrency payment, the platform searches for the best offer price. The payment is then done using a QR code.

Exhibit 18: ComproPago - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Consumers receive payment instructions through their mobile. In order to make the payment process faster, consumers can receive their cash payment instructions through SMS, without the need to print bank billets. Because of the ease in concluding payments, ComproPago believes that the functionality helps merchants increase their sale conversion rate.

ComproPago was incubated by NXTP Labs. At its early stages, ComproPago received funding from startup incubator NXTP Labs, which is amongst the most active fund for tech startups in Latin America. Another important investor in ComproPago was the venture capital fund Variv Capital, which has invested in several fintech companies in Mexico.

Conekta

Conekta is a digital payments company that offers businesses secure gateway solutions for online payment processing. The company provides APIs for both online payments with credit cards and cash payments for online purchases at thousands of convenience stores. Additionally, Conekta offers other alternative payment solutions, such as interest-free installment payments for high ticket products, debit card online payments and real-time bank transfers. The company mostly derives it revenue from commissions charged on each transaction.

Founded in 2013 by Hector Cardenas, Leo Fisher, and Cristina Randall, the company has raised US$21.7 million in capital. Seed investments included US$80,000 in 2011, US$265,000 in 2013, and US$1.8 million in 2015, with 500 Startups, Jaguar VC, and Escala VC as the primary investors. In 2016, the company raised an additional US$6.6 million through a Series A investment round from investors like Conconi, VARIV, and Femsa, which owns all Oxxo branches. Its most recent investment round, a Series B, raised US$13 million and included investors such as VARIV, Femsa and fintech investors from the Silicon Valley.

In 2018, Conekta processed US$250 million in payments, 48% of which were carried out in cash and 51% of which were carried out electronically. The company has 2,200 affiliated establishments, with 1.5 million consumers having already used its cash payment technology. Its clients include large corporates, such as Banorte, Femsa, TeleVía, Google, Uber, Rappi, and Bitso. Additionally, the company has had conversations with Amazon about a potential partnership.

Exhibit 19: Conekta - Commissions According to Payment Method

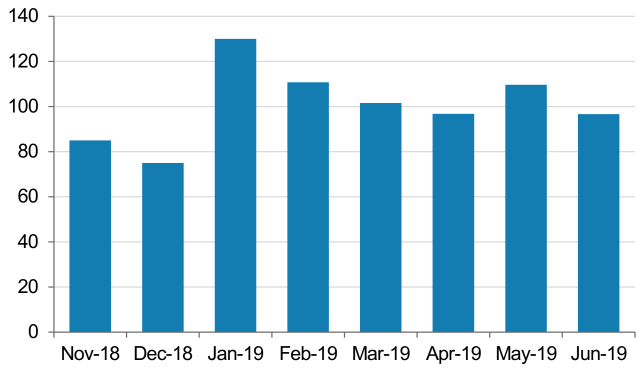
Cash Payments	3.5% + IVA + Oxxo branches will charge an additional M$12 at the check out.				
Card Payments	2.9% + IVA + M$2.50 per item.				
		3 months	6 months	9 months	12 months
Interest-free Installments	Visa & Mastercard	2.9%	2.9%	2.9%	2.9%
	Amex	2.9% + IVA	2.9% + IVA	2.9% + IVA	2.9% + IVA
SPEI Transfers	1.0% + IVA + M$8.00				

Source: Conekta, Morgan Stanley Research.

Key Highlights

The company pioneered antifraud cash payment solutions for online purchases in Mexico, being the first company to develop cash solutions for e-commerce sales in partnership with Oxxo. Oxxo Pay, which gives online merchants real-time confirmation of payments made in cash, relies on Conekta's antifraud systems, which ensure the security of each transaction. Moreover, Conekta provides payment notifications to merchants in real-time, whereas competitors offer the service in 48 hours. Since launching, the Oxxo Pay product has seen annual growth of 800%.

Exhibit 20: Conekta - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Conekta is looking to increase SME penetration. Currently, the majority of clients are small businesses. However, these represent a small portion of total payment volume, as the company also has several large clients. Starting in 2H19, the company will focus on expanding its SME segment, where it sees more attractive growth opportunities. Management believes that the company's superior security and technology systems should allow Conekta to capture a relevant portion of the SME market.

Management believes the company's business model is well-suited to increase financial inclusion. Management said Conekta's business model has the potential to boost financial inclusion and reduce the use of cash in Mexico, arguably more so than CoDi. In their view, CoDi has the potential to increase digital payments penetration in Mexico, but ultimately, it continues to rely on the interbank payment system (SPEI), which requires a Banxico-registered bank account and, hence, will likely only be adopted by already bancarized individuals. Also, management said that because CoDi eliminates debit interchange revenues, the industry has little to no incentives to push adoption and implement the necessary technology.

The company expects to process US$700 million in 2019. Conekta will leverage its new mobile payment product, which will be launched later this year, to grow its transaction volume, targeting a total of US$700 million for 2019. In 2018, the company processed US$250 million.

Mercado Pago

MercadoPago provides integrated payments solutions for online and offline purchases, allowing users to securely, easily, and promptly send and receive payments. MercadoPago is fully owned by MercadoLibre, the largest e-commerce platform in Latin America. The payments platform facilitates transactions both for its own marketplace and third-party merchants. Specifically, MercadoPago allows merchants to process transactions digitally through a branded or white label solution, as well as in brick-and-mortar stores through QR and mPOS devices. Additionally, the company offers: a mobile wallet; P2P transfers; a lending solution, called MercadoCredito, which grants working capital financing to merchants who sell more than M$5,000 per month through MercadoLibre or MercadoPago; MercadoFondo, an asset management product that allows users to invest their MercadoPago balances at competitive rates.

MercadoPago was created in 2004 to complement the MercadoLibre marketplace. Initially, MercadoPago was created to process transactions on the MercadoLibre marketplace, functioning primarily as escrow, in that it would hold the sellers' payment until the buyer received the product. As the business grew, the company began offering receivables prepayment, and eventually began processing transactions outside MercadoLibre's marketplace. In 2016, MercadoPago launched its POS offering in Mexico, following initial success in Brazil, where it launched in 2015. According to management, the platform's strategy in Mexico is in line with the rest of the continent, with Mexico lagging slightly behind the Brazil and Argentina operations, but perhaps offering an even better value proposition on account of lower banking penetration. Today, MercadoPago is available in 8 countries, including Argentina, Brazil, Mexico, Uruguay, Colombia, Chile and Peru.

Total payment volume through MercadoPago reached US$5.6 billion in 1Q19, a y/y increase of 35% in USD and 83% on an FX-neutral basis. Total payment transactions increased 94% y/y, totaling 144 million. Off-platform payment volume — which includes merchant services, mPOS and the mobile wallet business — represented 39% of MercadoLibre's total revenues, with US$2.5 billion in TPV. The mPOS business represented 44% of total off-platform TPV for the quarter and grew 260% y/y. Also, the mobile wallet reached 4x as many active users as in 1Q18, with the mobile wallet TPV reflecting triple digit growth Argentina, Brazil and Mexico.

As of 2018, MercadoPago had more than 11 million accounts in Mexico, with 20-30% of TPV coming from unbanked segments of the population, according to El Financiero. In Mexico, total net revenues reached US$54 million in 1Q19, up 227% y/y, compared to Brazil, where net revenues reached US$302 million and grew 91% y/y, and Argentina, where net revenues reached US$93 million and grew 83% y/y. As of 1Q19, the credit portfolio in Mexico accounted for roughly US$25 million of the total US$135 million credit portfolio.

Key Highlights

Mexico business is earlier stage than Brazil and Argentina, but offers huge opportunity for disruption. The company recently launched QR payments, consumer credit, and selected a partner with which to launch its asset management offering in Mexico, whereas the Brazil and Argentina operations are significantly farther ahead. That said, management emphasized that Mexico has a higher unbanked population and lower levels of competition than these two countries, representing a larger opportunity to disrupt the market. Already, the company has achieved a rapid "bancarization effect" simply by offering prepaid debit cards through their digital wallet offering.

Exhibit 21: Clip - Total Fees by Number of Monthly Installments

No.	Mercado Pago Fee	Financing Surcharge*
3	3.6% + VAT	4.5% + VAT
6	3.6% + VAT	7.5% + VAT
9	3.6% + VAT	9.9% + VAT
12	3.6% + VAT	11.95% + VAT

Source: Company Data. Note: Financing surcharge is only applied on payments in installments without interest.

Revenue streams and pricing strategy. In general, MercadoPago derives its revenues from: i) a 3.5% fee on every transaction carried out on a MercadoPago mPOS device; ii) additional fees charged for payments in installments, which range from 4.5% to 11.95%, depending on the number of monthly installments; iii) fees charged to sellers who withdraw cash from their MercadoPago accounts; iv) interest and fees from merchant and consumer credit under MercadoCredito; and v) revenues from the sale of mPOS devices. In Mexico, Mercado Pago only sells one mPOS device: the Point Blue, which sells for M$499. Merchants using the Point Blue mPOS device receive their payments instantly through their MercadoPago accounts. The funds can either be transferred to a bank account or withdrawn from an ATM using the MercadoPago debit card.

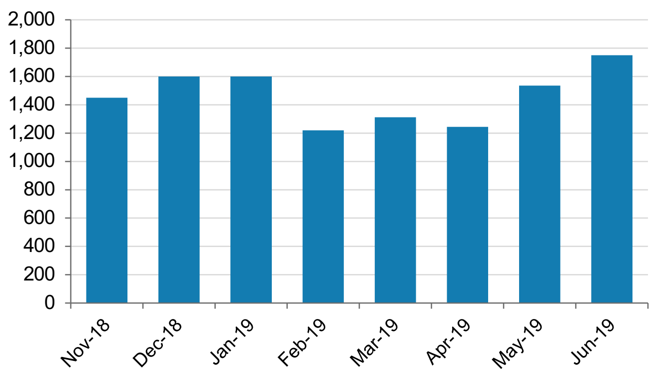
Positive adoption of credit offering offers attractive upside. In 2016, MercadoPago began offering loans and cash advances to merchants and consumers in Argentina through MercadoCrédito. In 2017, the company extended credit to merchants in Mexico and Brazil. According to management, merchant credits have tracked extremely well in Mexico, with positive adoption and the lowest default rate out of any of their markets. Indeed, since launching in Mexico less than two years ago, MercadoCrédito has disbursed around M$12 billion in merchant loans, with tickets ranging from M$3,000-M$2 million, at a 21% interest rate and no additional commissions. So far, the platform has extended loans to over 12 thousand Mexican merchants who market their products and services on MercadoLibre. According to management, rapid credit adoption in Mexico has largely been driven by inefficiencies in the country's banking system, as 70% of banked merchants currently lack a credit offering. Additionally, management emphasized that because the company has access to extensive amounts of unique data, they have been able to develop highly effective proprietary credit risk models. Also, because merchants' sales flow through MercadoLibre, the company is able to collect interest payments, meaningfully reducing credit risk. With merchant credit proving successful, the company is now planning to roll out consumer loans, which are already offered in Argentina and Brazil, in Mexico starting in July. In general, the company views credit as key to increasing client engagement and becoming an end-to-end financial solution.

In 2019, Mexico became the second country in which MercadoPago launched QR codes, following Argentina, where the company rolled out a digital wallet with QR code payment functionalities in 2018. Through the MercadoPago app, Mexican users residing in Mexico City are able to make online purchases, in-person payments, and mobile top ups using QR codes in more than 5,000 establishments already affiliated with the system, including Burger King, the EXP Hydrosina and BP gas station chains, and Dentalia. The technology can be used either as a contactless card-based payment, or as an instant transfer between two digital accounts from the company's online universe. According to El Financiero, the company is hoping to reach a base of 50 thousand affiliated establishments by the end of 2019. Users looking to pay with QR codes do not need to meet a minimum amount; however, there is a maximum transaction amount of M$10,000. Also, QR code payments are only possible if both the seller and the buyer use the MercadoPago platform.

The company recently launched an investment platform for e-wallet users in Mexico. In July, the company expanded an investment platform for e-wallet users to Mexico, a functionality that was already being offered in Argentina and Brazil. Through the platform, users can invest their outstanding account balance and earn interest.

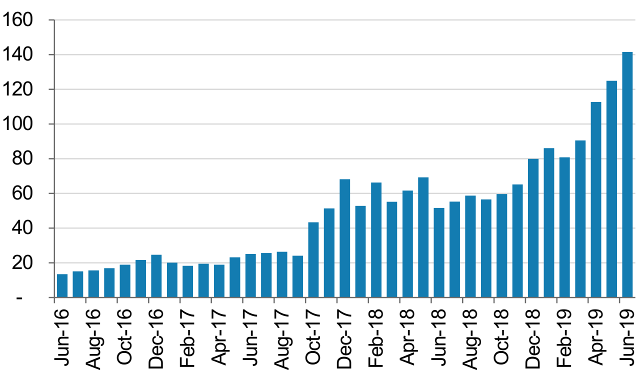
Management views CoDi as a positive catalyst for cash substitution. The company has said that CoDi could be a powerful way to leverage and accelerate the substitution of cash for plastic, which would ultimately benefit the company. MercadoPago, which is regulated by the Mexican Fintech Law, has been preparing for and involved in the implementation of CoDi, according to management. Indeed, MercadoPago participated in Banxico's public consultation on CoDi, recommending that CoDi not only apply to banks and/or regulated entities, but to all payments players. In general, management believes the current administration favors competition and financial inclusion, which should benefit fintech players such as MercadoPago.

Exhibit 22: MercadoPago - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 23: MercadoPago - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Payit

Payit is an e-wallet solution that allows users to make and collect P2P payments, and to pay bills from a mobile app. The company enables payments between users, to people outside of ecosystem through a link, and payments of over 200 services. . An account can be open online, simply syncing with a social media account. However, users are required to register a debit or credit card to fund their account. Transactions can be made using e-money in the account or using the debit and credit card. Users can also transfer money to their bank account as well as withdraw from their Payit account. Users can send messages to each other through the app or social media.

The app was launched in 2016 by Martin Mexia Poncen and Miguel Cervantes, who used to work together for the consulting company Accenture. They began working on the development of the platform in late 2014. In 2018, Payit had almost 200 thousand users and processed close to M$100 million.

In February 2019, Rappi acquired Payit for an undisclosed amount. The Colombian startup Rappi, which offers delivery services and has expanded its operations to most of Latin Amerca, acquired Payit to complement its own payment product, Rappi Pay. Payit now allows users to use their accounts to make purchases at Rappi.

Key Highlights

The company makes money form the following commissions: 3.0-5.5% per credit card transaction, M$7.5 per withdrawal, 3.0-5.5% + M$7.5 per transfer, and 2-4% + M$12 for payment of services.

Exhibit 24: Payit Pricing Details

Payit Balance	Free	Transfers	
		Debit / Credit	3% + $7.5
Withdrawls	$7.5	Amex	5.5% + $7.5
		Payit Balance	$7.5
Debit Transactions (any card)	Free		
		Payment of Services	
Credit Transactions		Debit / Credit	2.15% + $12
Visa / MasterCard	3.0%	Amex	4.14% + $12
Amex	5.5%	Payit Balance	$12

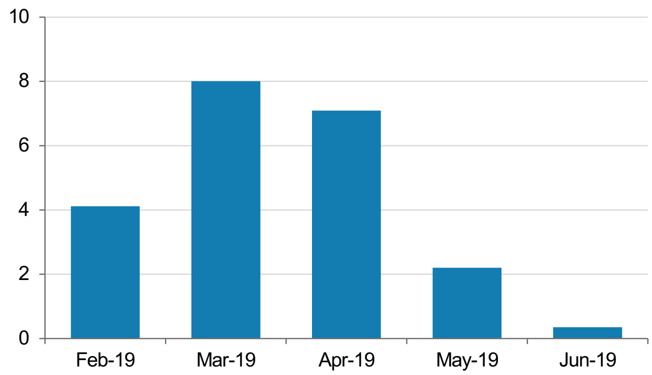
Source: Company Data.

Payit plans to offer pre-approved loans. In December 2018, the company announced a partnership with MO Tecnologias to offer pre-approved loans to the users of Payit. Eligible Payit consumers will obtain and withdraw their pre-approved loans within seconds in their Payit wallet. According to news articles, see here, "MO developed a proprietary credit scoring technology and loan management platform which uses AI and ML to calculate a credit score within seconds, pre-approving the user."

The app uses blockchain technology. All transactions done through Payit are blockchain-based. The technology was implemented in the app in October 2018 aiming to give users more control of their own transactions as well as make the entire operation more efficient and secure.

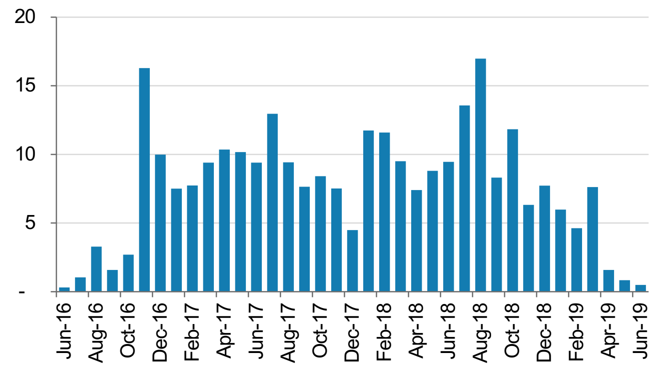
The company has filed for authorization to operate as a payment's company. Upon the issuance of the new fintech law in Mexico, Payit filed for authorization from the regulator to be register as a digital payment company. That said, the company is concerned that excessive regulation on fintech companies could be prohibitive for innovation and entrepreneurship.

Exhibit 25: Payit - Monthly Web Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 26: Payit - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Saldo

Saldo is a cross currency digital wallet that allows users in the U.S. to pay companies in Mexico using smartphones and without the need of a bank account. The company targets Mexican immigrants in the US that need to pay bills and services in Mexico, enabling them to make instant payments without having to resort to logistic companies to send cash to relatives in Mexico. Users only need to select the company or service, enter a reference number, and pay with any bank card. Services include: utility bills, cable bills, phone bills, mobile top-up, transfers to Mexican bank accounts, etc.

Headquartered in the San Jose, California, the company was founded in 2015 by Marcos Montes Neri. The entrepreneur had initially created the idea for the business in 2008, but at the time the penetration of smartphones in Mexico was low. He worked on mobile payments at a Telecom company in Mexico until he resumed the project as the environment became more favorable.

Key Highlights

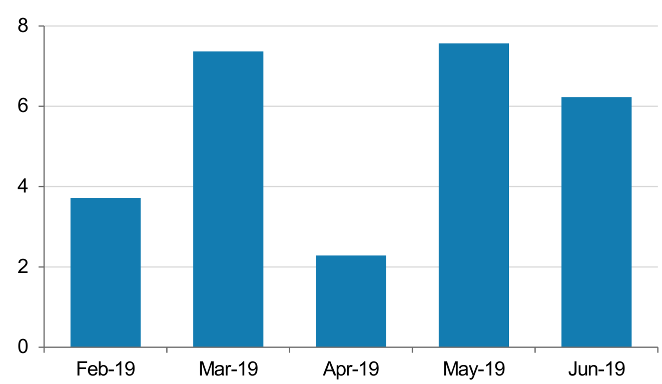
Saldo is pricing well below traditional peers. The company charges approximately US$1 per transaction, significantly lower than traditional players which charge around US$5 per transaction.

In partnership with Banco Compartamos, Saldo offers micro-insurance. The company distributes health and life insurance products to migrant's family members in Mexico to cover expenses related to accidents, illness and death. The solution, also known as "Consuelo," is based on blockchain technology and allows users to review and pay claims through their mobile.

Saldo also sells a prepaid card. Users acquire the card with a predetermined value to make payments or to use it as a gift card. This prepaid card is currently available for sale in California, New York, and New Jersey.

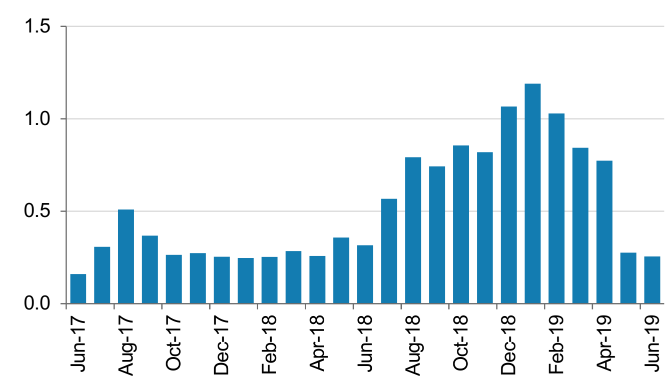
The company is waiting for its payment institution registration. The company currently operates with no supervision from Mexico financial authorities. However, the company recently filed to operate as an electronic payments institution.

Exhibit 27: Saldo.mx - Monthly Web Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 28: Saldo.mx - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Sr. Pago

Sr. Pago is an electronic payments platform with a focus on the unbanked market in Mexico, which, according to management, accounts for ~65% of the country's economically active population. Sr. Pago's main product offering is a mPOS device that enables merchants to accept payments with credit and debit cards through a smartphone or tablet. The company offers merchants instant disbursement through a prepaid debit card, which merchants can use to make purchases at most establishments or to withdraw funds from the RED ATM network. That said, merchants may also choose to receive payments through an existing bank account. Additionally, Sr. Pago allows consumers to make cash payments for digital purchases, such as Uber. Recently, the company launched an online payments solution, called Sr. e-commerce, which allows merchants to sell products and services online through a payment button, APIs or plugins added to an existing website. According to management, the company helps SMEs to increase sales by an average of 35%.

Headquartered in Mexico City, the company was founded in 2011 by now CEO Pablo González Vargas and Antonio Flores Aldama. Mr. Flores Aldama served as CTO of Sr. Pago until 2015, when he sold his participation to the Gonzalez Vargas family. The company received US$1.1 million in seed funding in 2015 and another US$1.3 million in 2016, with IGNIA acting as the lead investor in 2016. In 2017, the company received an additional US$4 million in Series A funding, also led by IGNIA. At this point, Sr. Pago was processing more than M$1,000 million annually with 38 thousand terminals. As of March 2019, Sr. Pago had a user base of around 70,000 merchants, according to news reports, with the merchant base growing at 100% per year. The company is currently working on its fourth round of funding, through which it hopes to raise US$10-25 million to expand its customer base over the next two years. To date, the company has received US$8.2 million in funding

Key Highlights

Easy set up process and prepaid card model allow unbanked segments to accept plastic, expanding the TAM of the merchant acquiring industry. By eliminating the need for a bank account, Sr. Pago enables a large number of merchants who were previously limited to cash payments to accept credit and debit cards. For unbanked merchants, the process of setting up a POS terminal takes up to 30 days with traditional financial institutions, whereas Sr. Pago gives merchants access to mPOS device in just one day. Unlike banks, which have complicated registration processes, Sr. Pago only requires users to submit a picture of a government-issued ID and proof of residence. The combination of an easy set up process and the use of prepaid debit cards provides strong incentives for unbanked merchants to accept card payments, significantly expanding the TAM of the merchant acquiring business, as a large number of SMEs in Mexico remain unbanked (~65%).

Big banks perceive the company as low threat, given different target market and smaller scale. Management emphasized that unlike the big banks, which continue to focus on the high net worth long-tail market, Sr. Pago targets unbanked merchants with low transaction volumes. Because this is not the demographic that large banks are interested in, the company believes that banks are not yet seeing Sr. Pago as a major threat. Also, management believes there is plenty of room for both types of players.

Exhibit 29: Sr. Pago - Total Fees by Number of Monthly Installments

No.	Sr.Pago Fee	Bank Surcharge*	Total Fees
3	3.6% + VAT	3.0% + VAT	6.6% + VAT
6	3.6% + VAT	6.0% + VAT	9.6% + VAT
9	3.6% + VAT	9.0% + VAT	12.6% + VAT
12	3.6% + VAT	12% + VAT	15.6% + VAT

Source: Company Data. Note: Bank surcharge is only applied on payments in installments without interest, and is charged by the acquiring bank.

The company primarily makes money as a payment processor, in addition to deriving revenues from the sale of POS devices. Sr. Pago charges a 3.6% fee for every transaction carried out on a Bluetooth reader and a 3.5% fee for every transaction carried out on a pin pad device. Merchants are not charged any monthly, annual or management fees, either for payment processing or the debit card offering. Moreover, prepaid cards are included in the purchase of mPOS devices, with the two being sold as a "bundled package." Pin pad readers are currently sold for a promotional price of M$549 (compared to M$749 normally), while the Bluetooth reader is sold for M$399. Regarding pricing pressure in the payments space, management said they are not seeing any signs of it yet, but expect to see increased competition in the next 2-3 years, particularly on POS prices.

POS devices can be purchased online or at one of the company's 14 partner distributors, which include Walmart Mexico, Sears, Radio Shack, Office Depot, Amazon Mexico, Telcel, and others. The device works using Bluetooth technology and is connected to the merchant's mobile through the Sr. Pago app. The Sr. Pago mPOS accepts all credit and debit cards, as well as any voucher issued in Mexico. Merchants have no minimum volume requirement and all payments made with Visa or MasterCard cards are disbursed within 24 hours and 48 hours for American Express.

Exhibit 30: Sr. Pago - Product Offering

Model	Bluetooth	Pin Pad
Price	M$399.00	M$549.00
Design		
Payment	24 hours	24 hours

Source: Company Data.

Merchants can offer monthly installments of up to 12 months for purchases above M$500. Payments in no-interest credit installments are available through more than 14 partners, including Bancomer, Banorte, Banamex, American Express, and HSBC, among others. The company charges the same flat transaction fee of 3.6% for installment payments. But merchants are also subject to a surcharge fee charged by the acquiring bank, which ranges from 3% to 12%, depending on the number of installments.

Sr. Pago offers white label versions of its payments products to large companies, including a co-branded mPOS devices, the payment management app, and prepaid cards, all of which are already fully developed and require no additional investments, a strategy that allows Sr. Pago to capture additional revenue streams at minimal cost. According to management, white label remains a small part of the business, relative to the core offering, and should remain that way going forward.

The company recently launched a full suite of e-commerce solutions. Specifically, the company rolled out the following under the Sr. e-commerce brand: i) Cobro Express, which allows merchants to charge clients digitally without a website of their own; ii) a payment button, which is predesigned and can be added to existing websites using HTML; iii) plugins, which can be downloaded, installed and personalized by clients; iv) APIs, which can be integrated with existing websites. According to management, Sr. Pago is one of the few fintech payments companies offering e-commerce solutions.

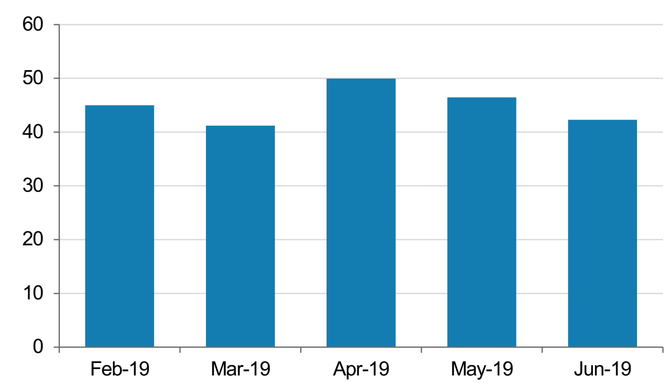
A credit pilot program is already under way. As part of management's strategy to expand the Sr. Pago ecosystem, the company recently launched a pilot program, through which they offer credit to certain merchants in partnership with another fintech company. Management said that although they are still developing their credit models, they expect to extend the program to the general user base in the next 6-12 months. Currently, the partner company assumes the credit risk.

Software offering is next. Management said they are committed to developing new merchant solutions, particularly specialized software products, but emphasized that they have not yet reached the software stage. In the future, they will focus on rolling out software offerings that will integrate with existing platforms and products. Management emphasized that integration between software and hardware will be a key part of their strategy going forward.

Regarding possible CoDi disruption, management said its client base would likely be mostly unaffected, as most of their merchants lack a bank account, which is a prerequisite for CoDi. That said, the company is already working on a CoDi pilot program, which will allow their banked merchants to accept QR code payments through a built-in camera that links to the Sr. Pago app.

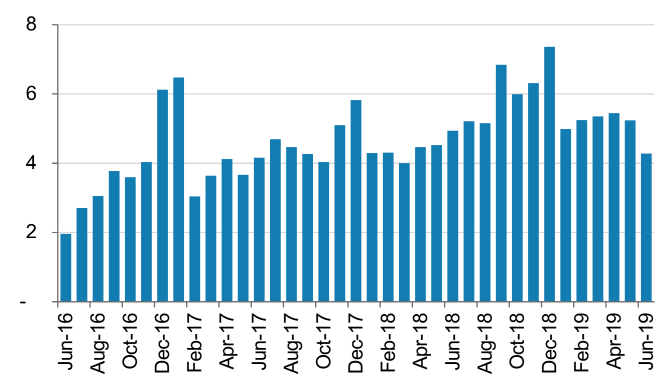
Fintech Law increases barriers to entry, possibly solidifying Sr. Pago's first mover advantage. According to management, the Fintech Law has raised barriers to entry for new entrants, given new minimum capital requirements and a number of other compliance mandates. As a result, the company looks well positioned to benefit from a first mover advantage, as Sr. Pago is one of the few companies in the space that have already reached significant scale.

Exhibit 31: Sr. Pago - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 32: Sr. Pago - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

UnDosTres

UnDosTres is a Mexican fintech company that provides instant and secure online payment solutions for a diverse range of bills and services. Among the payments that can be done through the platform are mobile top-up, movie tickets, TAG traffic recharges, and utility, phone and Infonavit bills, among others. Payments can be done instantly and at any moment of the day, through the app or website, with a debit or credit card, PayPal or the company's e-wallet.

The company was founded in 2015 by Arpit Gupta, Naveen Sharma, and Vikram Deswal. Before founding UnDosTres, Arpit Gupta had worked with a similar technology company in India, while Sharma and Deswal had been a part of the team that brought the multibrand online marketplace Linio to Mexico.

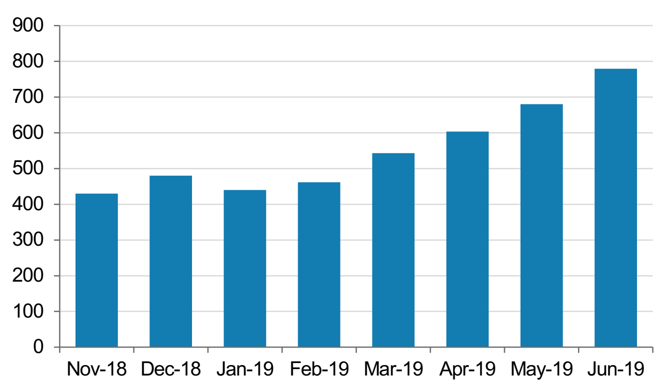
In 2018, UnDosTres received a US$6.5 million capital injection. The series A was led by IGNIA and Dalus Capital, with participation also from InnoCells, Banco Sabadell's venture fund. The company will use the money to further develop the platform and add new services. In 2017, they raised US$1.4 million in a round led by Cabiedes & Partners, and in 2016, they raised US$250 thousand.

Key Highlights

The user base is growing at 25% per month. According to founder Arpit Gupta, the strong growth of users is due the platform's ease of use and simple onboarding, as well as the fact that users don't have to pay any fees. Users can register with an email or social media account, a cell phone number, and a card of PayPal account. UnDosTres charges a fee per transaction directly to the companies, not the users. Also, the company offers cash back on transactions with selected partners.

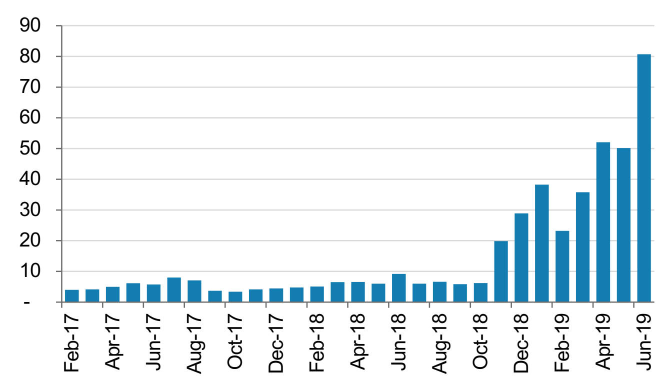
Users can also combine different payment methods. For example, if they don't have sufficient balance in their UnDosTres wallet, they can use a card to pay the remaining balance. Users can also transfers the amount in their digital wallet to other users.

Exhibit 33: UnDosTres - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 34: UnDosTres - Monthly App Downloads (000's)



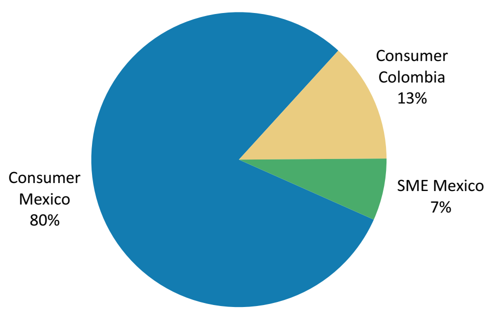
Source: SensorTower, Morgan Stanley Research.

Lending

AlphaCredit

AlphaCredit offers loans and financing solutions to consumers and SMEs through proprietary digital platforms. Specifically, the company offers payroll loans to government employees in Mexico and Colombia, pension loans via automatic deductions to retirees of the Mexican government, short-term consumer loans and earnings advances to independent contractors, and financing solutions to SMEs, including factoring and leasing services. With this model, the company targets Class C individuals who are not served by traditional financial institutions in Mexico, roughly half of which live in remote, sparsely populated rural areas. Users are able to request loans directly through the app or with the help of an intermediary, who also relies on the company's proprietary digital origination tools.

Exhibit 35: AlphaCredit - Loan Portfolio Breakdown, 1Q19



Source: Company Data.

Headquartered in Mexico City, the company was founded in 2011, initially offering only payroll loans to federal and state employees. Eventually, the company expanded its product offering with: i) pension loans via automatic deduction for retirees of the Mexican government, ii) short-term consumer loans and earnings advances for independent contractors, iii) financing solutions for SMEs, including leasing and factoring services.

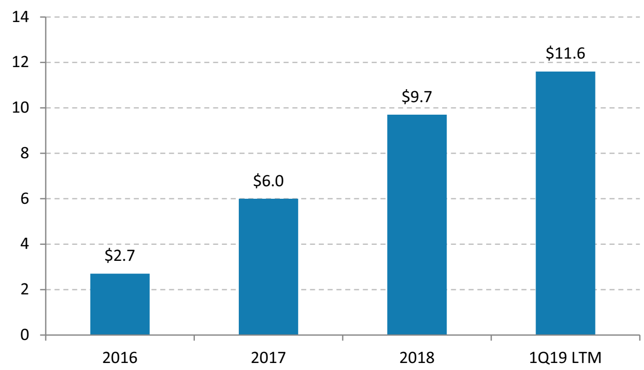
Since its inception, the company has received extensive funding, including credit facilities of: US$75 million from UBS, M$600 million from Credit Suisse, and a US$130 million syndicated facility, among others. In 2015, the company issued its first loan portfolio securitization in the Mexican stock exchange for M$400 million. In 2017, they issued an international bond of US$300 million. In 2018, the company completed an loan securitization of M$1.8 billion. In total, the company has raised US$82 million in equity, US$1.1 billion in senior debt, and US$62 million in subordinated debt.

Between 2015 and 2018, the company's total loan portfolio grew at a CAGR of 73%, reaching M$8.9 billion in 1Q19 with a NPL ratio of only 3%. AlphaCredit operates in the consumer segment through two digital platforms — AXS Access and Check! — and in the SME segment through two consumer-facing brands — Bontu and Alcanza Capital. The company's net income reached M$189 million in 2018 and M$41 million in 1Q19. In 2015, the company expanded its operations to Colombia. That same year, AlphaCredit acquired 51% of its principal loan originator, Total Credit. In 2016, AlphaCredit acquired one of its main competitors in the payroll segment, Prestaciones Finmart (Crediamigo).

The company recently repositioned itself as a financial technology company. In an effort to move toward 100% digital origination, AlphaCredit created a financial technology lab, called AlphaX, in 2018. That year, the company launched two fintech solutions designed to implement proprietary financial technology to the company's core offering, improve client satisfaction and maximize cost efficiency: i) Origination 2.0, which allows for 100% digital originations for payroll and pension loans, ii) AXS Acess, a mobile app that offers short-term loans and earnings advance solutions to independent contractors and private sector employees based on their income history. With these, the company became a true fintech company, transforming its point of service branches into training sites for their intermediary sales people.

Key Highlights

Exhibit 36: AlphaCredit - Historical Net Income (US$ million)



Source: Company Data.

In the payroll segment, AlphaCredit operates through withholding agreements with government agencies. The company has entered into withholding agreements with several government agencies in Mexico and Colombia to disburse payroll loans to federal and state employees. The government agency is responsible for deducting the capital and interest installments directly from the employee's payroll and transferring deductions to AlphaCredit through a master collection bank account. On average, the company's payroll loans in Mexico have a term of 45 months, a principal amount of US$1,960, and an annual interest rate of 46%. As of 1Q19, the company's payroll loan portfolio in Mexico had an NPL ratio of 3% and accounted for 76% of the company's total interest income, 26% of origination, and 77% of the total loan portfolio. In Colombia, the company's average payroll loan has a term of 79 months, a principal amount of US$4,570, and an annual interest rate of 0.6%. As of 1Q19, they had an NPL ratio of 0.6% and accounted for 9% of total interest income, 32% of origination, and 13% of the total portfolio.

Additionally, the company offers pension loans via automatic deduction to retirees of the Mexican government. For these loans, AlphaCredit electronically deducts monthly principal and interest payments directly from the bank account in which the pension is deposited. On average, pension loans charge an annual interest rate of 80%, have a term of 34 months, and a principal amount of M$26,100. They have an NPL ratio of 10% and account for 9% of the company's total interest income, 8% of origination and 5% of the total loan portfolio.

Intermediated and direct distribution both offer far quicker disbursement than the banks. The company offers consumer loans through both direct and intermediated distribution channels:

1. Under the intermediated distribution model, government employees and retirees meet with an AlphaCredit representative at the borrower's workplace. The intermediary uses the company's proprietary digital platform, called Check!, to offer a tailored, fixed installment solution in under 5 minutes. For the most part, these are relatively long-term with maturities of 36-42 months, and are principally used for debt consolidation. For intermediated distribution, disbursement takes place in 2-3 hours, significantly quicker than the ~10 days it takes at most Mexican banks.

2. Under the direct model, independent contractors request a loan or earnings advance through the company's proprietary app, called AXS Access, directly and without the use of an intermediary. For the most part, these are very short-term loans with terms of up to 3 months. Direct digital distribution is targeted at younger

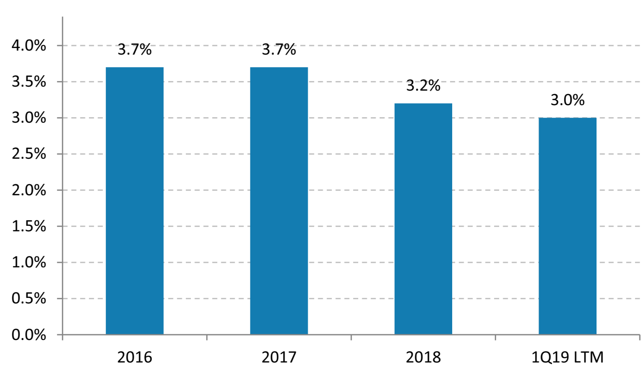
users who feel more comfortable requesting a loan digitally. It is not only more efficient, with disbursement taking place in ~1 minute, it also has significantly lower customer acquisition costs.

Today, the vast majority of consumer loans are distributed through an intermediary, as many customers prefer to be guided through the process. Going forward, however, management is hoping to increase the share of consumer loans distributed directly, with plans to eventually reduce the company's intermediary network.

In the SME segment, AlphaCredit operates through two consumer facing brands: i) Alcanza Capital, which provides leasing and factoring solutions to SMEs; ii) Bontu, which provides working capital loans to SMEs that are suppliers of e-commerce platforms, such as Amazon and MercadoLibre. The company's SME products — direct factoring, supply chain factoring, and leasing services — are specifically designed for companies with revenues above M$20 million per year. Factoring services have terms of up to 180 days with an average principal amount of ~M$185,000 per transaction, while leasing services have terms of 12-85 months and an average principal amount of ~M$1.7 million.

SME offering is 100% digital, resulting in a quicker, more efficient and more scalable approval process relative to the banks. SME clients can log on to the Alcanza Capital website to request factoring or leasing services, upload all necessary information, and receive the funds in less than one week. Suppliers of e-commerce platforms can go to the Bontu website to obtain a pre-approved working capital loan offer, with a simple 5-step online loan application and disbursement taking place in less than 24 hours.

Exhibit 37: AlphaCredit - Historical NPL Ratio



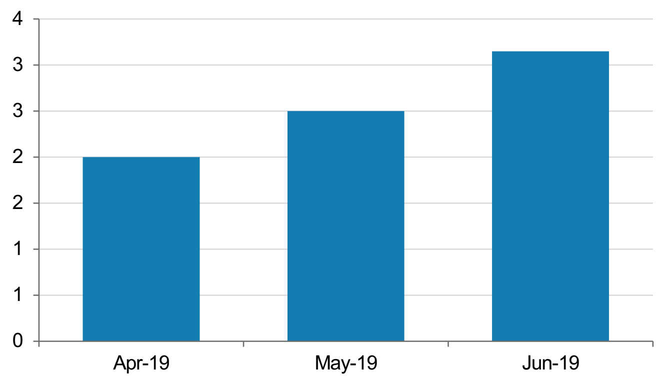
Source: Company Data.

Access to unique data points allows for better risk assessment. Because of the company's agreements with government agencies, the company has access to unique data points, including the borrower's income, seniority within the government agency, and job performance, allowing CreditAlpha to generate proprietary risk profiles for each customer. Also, management emphasized that in the SME segment, Alcanza Capital and Bontu integrate seamlessly to e-commerce platforms and government tax systems, resulting in more access to client information and hence, reduced credit risk. Indeed, the company has a particularly low NPL ratio, at only 3% in 1Q19.

The company believes it has a competitive advantage over both fintech startups and banks, as it combines key strengths of each. For example, unlike most fintech startups in Mexico, which have limited funding, a short track record, unsustainable customer acquisition models, and no clear path to profitability, the company is already profitable, with a solid track record and ample access to funding. At the same time, the company has leaner operations and offers more technology-based products than most Mexican banks, resulting in lower customer acquisition costs, lower capital expenditures, and a faster credit approval process.

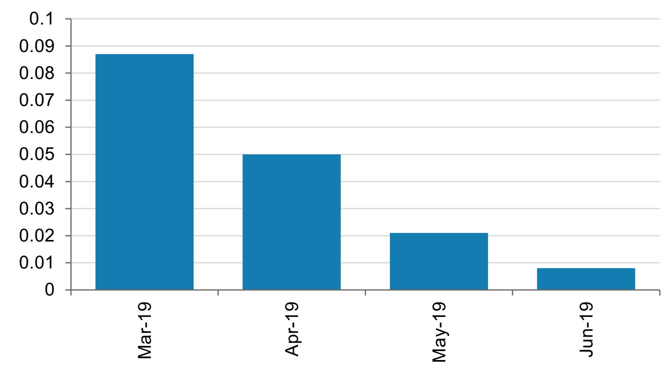
From a strategic viewpoint, the company is focused on: i) increasing credit penetration within the existing client base, ii) doubling its client base by signing agreements with more government agencies and contractors, iii) expanding the business internationally using existing funding and technology. Now that origination occurs digitally and all the technology has been developed, the business model is easy to scale domestically and, regulation permitting, abroad. Bigger picture, the company sees credit as the first step to creating a full-service financial services platform. Once the credit offering has reached enough scale, the company will likely decide to complement with other verticals.

Exhibit 38: AlphaCredit - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 39: AlphaCredit - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Exhibit 40: AlphaCredit – Summary Financials

M$ Million	2016	2017	2018
Income Statememt			
Interest Income	853	1,847	2,632
Interest Expense	448	1,026	1,893
Net Interest Income	405	820	739
Provision for Loan Losses	107	78	96
Net Interest Income after Provisions	299	743	643
Fee Income	195	241	536
Fee Expense	87	104	38
Total Non-Interest Income	109	137	498
Total Revenues	514	957	1,237
Administrative Expenses	417	768	895
Operating Income	(10)	111	246
Non-Operating Income (Expense)	12	24	(13)
Income Before Taxes and Profit Sharing	2	135	233
Income Tax (Benefit)	(29)	37	50
Minority Interest	(21)	(18)	(6)
Net Income	53	115	189
Balance Sheet			
Total Assets	10,019	16,460	17,073
Cash & Cash Equivalents	507	4,920	1,852
Gross Loans	4,673	6,019	7,700
Performing	4,501	5,792	7,430
Non-Performing	171	228	270
Allowance for Loan Losses	221	275	340
Net Loans	4,452	5,745	7,360
Loan Portfolio Held For Sale	-	293	856
Other Receivables	788	1,016	1,708
Derivative Financial Instruments	315	110	424
Property and Equipment	41	106	226
Other Assets	3,916	4,270	4,647
Total Liabilities	8,004	14,153	14,742
Borrowings and Onlendings	6,160	12,286	13,265
Sundry Creditors and Other Payables	841	1,214	826
Employee Benefits	2	3	7
Deferred Taxes	981	614	532
Minority Interest	71	54	45
Stockholders' Equity	1,944	2,253	2,286
Total Liabilities, Minority Interest, and Equity	10,019	16,460	17,073

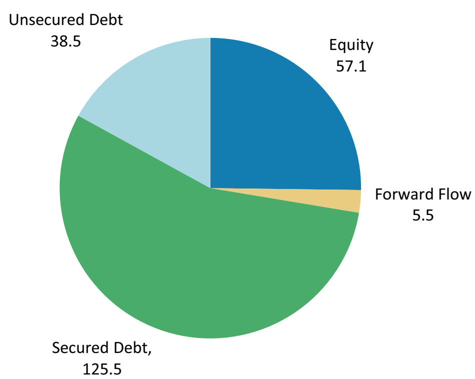
	2016	2017	2018
Key Ratios			
ROE	2.7%	5.1%	8.2%
ROA	0.5%	0.7%	1.1%
Non-Interest Income / Total Revenues	21.2%	14.3%	40.3%
NPLs / Gross Loans	3.7%	3.8%	3.5%
NPLs / Equity	8.8%	10.1%	11.8%
Loan Loss Provisions / Gross Loans	2.3%	1.3%	1.2%
Equity / Total Assets	19.4%	13.7%	13.4%
Net Loans / Total Assets	44.4%	34.9%	43.1%
Efficiency Ratio	81.2%	80.3%	72.4%
Growth			
Interest Income		116%	43%
Net Interest Income		103%	-10%
Non-Performing Loans		33%	19%
Provision for Loan Losses		-27%	23%
Fee Income		23%	122%
Non-Interest Income		26%	263%
Total Revenues		86%	29%
Administrative Expenses		84%	16%
Operating Income		-1240%	121%
Net Income		118%	63%
Net Loans		29%	28%
Total Assets		64%	4%
Total Liabilities		77%	4%
Stockholders' Equity		99%	8%

Source: Company Data, Morgan Stanley Research.

Credijusto

Credijusto specializes on providing SMEs with affordable asset-backed term loans, credit lines, and equipment leases. The company leverages technology, data science, and advanced in-house algorithms to offer financing products more efficiently and at significantly lower prices than traditional banking institutions. The platform, which is exclusively dedicated to providing SMEs with term loans, credit lines, and equipment leases, requires applicants to back their financing against a real estate collateral lien of at least 1.75x the requested amount. Since its inception, Credijusto has originated over US$82 million in credit and leases, serving more than 25,000 SMEs and growing revenues at a compounded annual growth rate of 312%. As of June 2019, the company had a total outstanding portfolio of US$55 million and over 30 million unique tax invoices in its database.

Exhibit 41: Credijusto - Breakdown of Total Capital Raised (US$ million)



Source: Company Data, Morgan Stanley Research.

The company was founded in 2015 by David Poritz and Allan Apoj. Prior to co-founding Credijusto, Poritz was co-founder and CEO of Equitable Origin, a certification system for the oil and gas industry, while Apoj worked at Vertex Private Equity. In 2018, the company raised US$11 million in Series A funding from Kaszek Ventures, QED Investors and IGNIA. Other equity investors include John J. Mack, Victory Park Capital, Elevar Equity, City Hall Capital, ARC Labs, and Broadhaven Capital Partners. Credijusto is based in Mexico City and employs 120 people, covering 31 states in Mexico and serving 225 different sectors.

Loans are balance-sheet funded. The company's funding model has evolved since its inception. For the first 18 months of operation, funding came from family offices, with recourse to the operating entities. Then, in 2018, the company received securitization-backed debt funding from Promecap, a private equity firm and credit fund headquartered in Mexico City. In March 2019, Credijusto closed a credit facility with no recourse from Goldman Sachs for up to US$100 million to expand its operations in Mexico. Also, the company closed unsecured debt loans with terms of 4-5 years this year. As of June 2019, the company had received a total of US$38.5 million in unsecured debt and US$125.5 million in secured debt. Going forward, Credijusto will focus on warehouse debt facility securitization, Mexican bond issuances, and international bond issuances, all of which it plans to issue in the next 12-24 months.

Revenue streams. The company charges annual interest rates between 24-34% for all of its products: term loans, credit lines and equipment leases. For the most part, interest rate levels are determined on the basis of three main factors: business stability, cashflow and debt levels, and credit history. Additionally, the company charges an account opening fee of 5-7.5% to cover origination costs.

Key Highlights

The company offers asset-backed term loans, credit lines, and equipment leases for SMEs. Launched in 2015, the company's term loans allow SMEs to purchase inventory and hire new staff. These loans are always backed by real estate property, which is usually owned by the primary business owner. Real estate-backed credit lines were launched in 2017 to provide SMEs with better cashflow management solutions. Most recently, the company began offering equipment leases for industrial and medical machinery in 2018. This offering competes directly with UNIFIN, one of the main providers of leasing and factoring services in Mexico. All three products have tickets ranging from US$7,500 to US$540,000 and terms of 12-48 months.

Exhibit 42: Credijusto - Product Summary

	Term Loans	Credit Lines	Equipment Leases
Launched	2015	2017	2018
Purpose	Inventory Staff	Cashflow Management	Industrial & Medical Equipment
Size	US$7,500-540,000	US$7,500-540,000	US$7,500-540,000
Term	12-48 months	12-48 months	12-48 months
Interest Rate	24% to 34%	24% to 34%	24% to 34%
Opening Fee	5% to 7.5%	5% to 7.5%	5% to 7.5%
Payment	Monthly	Monthly	Monthly
Collateral	Real Estate	Real Estate	Equipment

Source: Company Data, Morgan Stanley.

Credijusto operates across the entire SME pyramid... The company operates across the entire SME pyramind, which includes underbanked merchants, as well banked merchants with credit lines from the banks. According to management, Mexican banks tend to focus on large and medium businesses (with over US$5 million in annual revenues) looking for at least M$10 million in credit. On the flip side, micro-credit institutions tend to focus on very small businesses (with under US$200 thousand in revenues) looking for very low-ticket loans. Credijusto is unique in that it occupies that broad white space between the two. Indeed, the company's average merchant has revenues of US$2 million, 17 employees, and only 2.5 years in business.

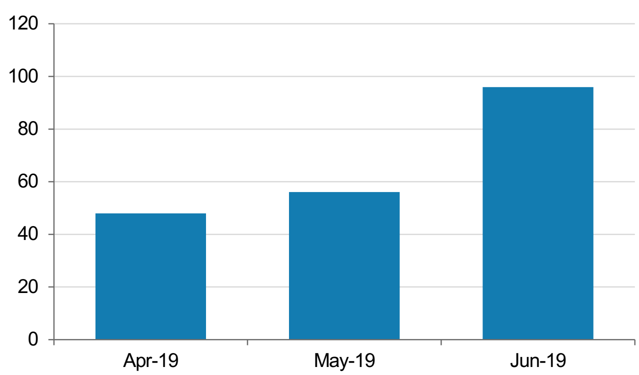
...but has been gradually increasing its client size. Currently, only a small portion of Credijusto clients have some sort of credit from the banks. That said, the company has been gradually growing the size of its SME clients and more directly competing with the banks. Also, the company has been taking advantage of better funding costs to increase the average ticket size.

The company considers its extensive data base of client information to be its core asset. According to management, Credijusto's core asset is its extensive database of client information, which accumulates data points from traditional and alternative data sources and allows them to build superior credit risk models. Also, the company has built sophisticated online and offline processes for valuing real estate property, which allows them to price secured credit risk particularly well.

Disruptive credit risk assessment and underwriting model. Within 24 hours of receiving a financing request, the company assigns an internal credit specialist to each SME. The specialist analyzes basic information, such as desired loan/lease terms and proof of identity, and decides whether to pre-approve the request. As a second step, the company receives authorization to connect to pre-approved merchants' billing systems, bank accounts, and other internal data sources to directly asses payment capacity. Indeed, one of the company's key differentials is its reliance on business and financial metrics to assess SMEs' credit risk, including: years in business, seasonality of the business, market concentration, profits, growth, margins, debt level, cash flow, etc. Once an offer is extended to the client, funds are usually disbursed in less than 24 hours, with the total process taking a total of 4-12 business days. Indeed, relative to traditional financial institutions, the platform's value proposition rests on its ability to leverage technology and alternative data to offer lower prices, quicker loan delivery and a superior customer experience.

Collateral model allows for a higher acceptance rate, a lower delinquency ratio, and more competitive prices. According to management, nine of every ten applications submitted through the Credijusto platform are approved, compared to only one of every ten at most major banks, largely due to the company's collateral model. Despite its high approval rate, the company is able to mantain a strong coverage ratio, as well as a 90-day NPL ratio below 3%. Additionally, the security of having a real estate guarantee, combined with a reliance on alternative data sources, allows the company to offer significantly lower prices. According to management, borrowers on Credijusto incur total annual costs of ~36%, on average. Additionally, users who refer a friend or family member to Credijusto are eligible for up to a 5% interest rate reduction.

Exhibit 43: Credijusto - Monthly Website Visits in Mexico (000's)



Source: SensorTower, Morgan Stanley Research.

Collections process is carried out internally at first. However, if the company is unable to recover the outstanding amount, it transfers the recovery process to an external party. Management emphasized that in general, they have a strong track record of recovering loans in a short period of time. At the moment, they have zero exposure to ~40% of all delinquent debt, either because they were able to recover the loan or because they sold the case to a collections company. The remaining 60% includes more recent delinquency cases, loans that are soon to be recovered, or cases that are still under judicial review.

The company plans to complement its current offering with new credit products and valued-added services. Looking ahead, the company is planning to become a multi-product SME lender, as well as a provider of value-added advisory services for SMEs. To this end, management has developed a robust, well-defined pipeline of products and services that will be rolled out in the next 12-24 months. At first, new products and services will be related to the company’s core competency: asset-backed lending. In later stages, the company will begin offering unsecured credit products, such as credit cards. And eventually, the company will leverage its extensive database of client information to offer value-added advisory services, such as factoring, accounting tools, credit score checks, and financial planning tools.

Creze

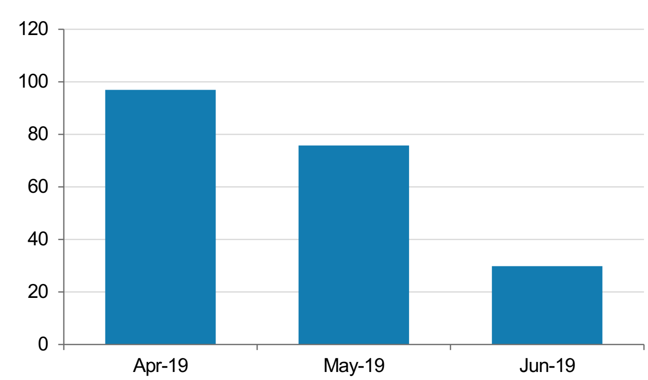
Creze is an online lending platform that provides simple unsecured loans to SMEs. The company leverages technology and proprietary algorithms to access and evaluate alternative data sources, making the credit risk assessment process quicker and more efficient. The application process is simple, with users filling out a digital form in 15-20 minutes and getting verified through a phone interview. Once approved, clients receive the money in less than 24 hours, with the whole process taking approximately 48 hours, much faster than traditional financial institutions. Borrowers may use the funds for a number of business purposes, including payment of salaries, business expansion, inventory acquisition, providing financing options to consumers, and covering extraordinary costs. Monthly interest rates start at 2.08%, with a flat fee of 4% on each loan disbursed.

Based in Mexico City, the company was founded in 2015 by David Lask, Diego Creel, and Gonzalo Cegarra, with the aim of optimizing loan disbursal for SMEs. The company was legally registered as a Sapi (Sociedad Anónima Promotora de Inversión). In 2017, the company raised M$18 million in a round of funding led by DILA Capital Funds and Mountain Nazca, as well as M$50 million in a round led by Credito Real and Fourthgreen. In 2018, the company received US$10 million in funding from Arc Labs, a credit fund in Silicon Valley focused on technology-driven companies.

In May 2019, the Mexican financial services company Polygon Fintech acquired Creze for an undisclosed amount, with Creze now operating as a subsidiary of Polygon Fintech. With the acquisition, DILA Capital and Mountain Nazca Mexico exited the company. As opposed to Creze, which is focused on providing unsecured loans to SMEs, Polygon Fintech has traditionally focused on Mexico's unbanked population. Following the acquisition, both parties will facilitate risk evaluation and streamline processes for granting loans to SMEs, according to a press release by the Mexican Association of Private Equity and Venture Capital Funds (Amexcap).

Key Highlights

Exhibit 44: Creze - Monthly Website Visits in Mexico (000's)



Source: SensorTower, Morgan Stanley Research.

Management believes working capital loans most effectively meet the needs of SMEs. Creze provides SMEs with short-term, unsecured working capital loans, payroll loans and financing for inventory acquisition. Working capital loans are the company's most popular product and, according to management, the most effective credit solution for small and medium businesses looking to grow, cover immediate necessities, or deal with day to day business needs. Specifically, the company offers loans between M$50,000 and M$2 million with a repayment period of 1-24 months, depending on the amount solicited. In order to qualify for a working capital loan, borrowers must be legally registered as a business, have been in operations at least 6 months, and process at least M$50 thousand a month.

Creze uses proprietary algorithms to assess multiple data sources and optimize risk assessment. Although the company partly relies on information from the Mexican credit bureau, Creze is unlike traditional financial institutions in that credit scores represent only one of many parameters taken into account. Indeed, the company's in-house own algorithms gather and analyze more than 50 data sources, including the SME's billing history, account balance, and cash flow. The data is used to build a comprehensive risk profile for each applicant, with the company being able to determine approval, amount disbursed, and interest rate offered in only a matter of minutes.

Users complement credit offerings from traditional financial institutions with Creze products. A significant portion of the company's client base use Creze loans to complement larger credits from traditional banking institutions. Larger companies, in particular, tend to have preestablished relationships with the banks, but choose to join the Creze platform for its speed and short-term offerings. For example, the company has a number of larger clients that rely on banks for traditional credit products, but use Creze when they have a short term, immediate need in the middle of a billing cycle.

Konfío

Konfio is an online lending platform and financial solutions provider for SMEs and independent business owners. The company's goal is to provide underserved SMEs with fast and easy access to credit lines in order to stimulate sector growth. Konfio's product offering is mostly focused on unsecured working capital loans, which are designed to meet smaller businesses' immediate needs.

Headquartered in Mexico City, the company was founded in 2014 by David Arana and Francisco Padilla. The company currently has an outstanding portfolio of US$60 million — evenly divided between SMEs and individual business owners — and has underwritten close to US$100 million in credit. Going forward, management expects to continue growing the business at ~15% per month until the end of the year, in part supported by partnerships with other platforms that already have established merchant relationships in Mexico, such as Paypal.

Since its inception, Konfio has raised over US$100 million in total capital. In 2016, the company received US$8 million in Series A funding from Quona Capital, QED Investors, Kaszek Ventures and Jaguar Ventures. In 2017, the company received an additional US$10 million in Series B funding. In 2018, the company received US$25 million in Series C funding from Vostok Emerging Finance. Additionally, the company has US$300 million in debt through two US$150 million credit facilities. The company expects to launch its Series D funding round and close a third debt facility of up to US$140 million in the second or third quarter of 2019.

Exhibit 45: Konfio Credit Lines Offers

	Independent Business Owners	SMEs
Amount	M$100,000 - M$850,000	M$200,000 - M$2,000,000
Maturity	6 - 12 months	6 - 12 months
Rate	Starting at 28%/year	Starting at 24%/year
Processing Time	6 minutes	10 minutes

Source: Konfio, Morgan Stanley Research.

Key Highlights

Konfio is looking to become the go-to SME financial solutions provider in Latin America. Management believes that the Mexican SME market offers huge growth potential, as it is currently very difficult for small companies to open bank accounts and receive unsecured loans (mostly due to a lack of credit history). Historically, many small business owners in Mexico have funded their businesses through personal credit card loans, which charge much higher rates than working capital loans. Given the current dynamics, management estimates that there is a US$160 billion market to be explored in Mexican SME lending alone. That said, the company views its current offering – unsecured lending in Mexico – as the first step in a long-term growth plan in the region.

Konfio loans are designed to meet short term business needs. Indeed, the loans have a maximum maturity of 12 months. Loan volumes range from M$100,000 to

M$2,000,000, with an average loan ticket of ~M$260,000. Interest rates charged vary depending on the credit history and revenue generation of the company. Additionally, the company charges a commission of 3-5% on each loan disbursed.

Loan requests are processed in a matter of minutes. A key differentiator for the company is the agility of its underwriting process. Indeed, the entire solicitation and processing process takes no longer than 10 minutes. Moreover, the process is done 100% digitally, eliminating the need for clients to visit branches.

Electronic invoice data analysis allows for better risk assessment. Management emphasized that, although machine learning and AI are helpful risk assessment tools, they prefer to take a data-driven approach that relies on information from the Mexican credit bureau, as well as key business metrics, such as seasonality and transactional data. Konfio is able to access a breadth of business-related data, as users provide the company with access to electronic invoices. As the company continues to gather valuable transactional data and build a robust database of valuable client information, the risk analysis process will continue to improve. Indeed, management emphasized that its first client cohort had a delinquency ratio in the mid-30s, compared to an expected loss ratio of ~10% currently.

Konfio partnered with Paypal to offer cheap loans to SMEs. Among Konfio's products is a credit line offered together with leading online payments company Paypal. The loan can be requested through the merchant's Paypal account, which is already connected to the Konfio platform. The request is then analyzed by Konfio using the merchant's Paypal data such as revenues as well as the credit history. This step of the process is done in only a few seconds. If approved, the money requested in the loan is deposited in the merchant's bank account of choice in only a few minutes. According to management, loans issued through the Paypal partnership have lower delinquency rate as they are favored by positive selection when working through a reliable partner. Konfio expects to continue developing more partnerships with players that can provide additional clients at very low acquisition cost.

The company has a partnership with Scotiabank, which they want to replicate with other banks. Besides underwriting loans off its own balance sheet, Konfio works with Scotiabank as an origination channel for the bank. The loan originated under the partnership is effectively in Scotiabank's balance sheet, but Konfio does all of the servicing, and charges a commission for that. This partnership is a service Konfio offers called Konfio Tech Services, which for now is only done with Scotiabank. Konfio Tech Services currently amounts to ~5% of Konfio's revenues. Konfio's manegement is looking to replicate the model and work with other banks in a similar way.

Before getting the loan, merchants are able to simulate how much it'll cost them. Konfio offers a loan simulator for clients to have an idea of how much the credit line will cost them over time before effectively getting it. The simulation is done in simple steps: determining what would be the value of the loan, the maturity of the loan, whether the user is an SME or independent business owner and the name of the business. Konfio then sends the merchant a standard simulation for a loan, which will be further complemented upon additional data provided by the user.

Konfio is extremely technology driven. One key aspect in how the business operates that management highlighted to us was that Konfio brings data and technology to all parts of its operation. All business units throughout the company have a tech team or person, which report to the company's CTO and founder. Moreover, 43% of the 208 employees are engineers and the company is heavily invested in acquiring new talents from the tech world, with an extensive internship program. In fact, Konfio has recently brought in some senior executives from the banking world in order to have better operational balance between the "fin" and the "tech" parts of Konfio.

Diversifying funding is essential to offer low interest rates. Management commented with us that they are very selective when it comes to partners that will provide funding, and so far they have high profile funds amongst their investor base. Konfio considers access to capital and cheap funding to be of key importance in remaining competitive and being able to offer low rates to their customers — the company began charging its AAA customers interest rates on the low twenties range, sometimes high teens. Moreover, although it could further lower funding costs, Konfio is not currently considering funding its operations with deposits, as that would require for them to be a bank. Although there have been some comments from the Mexico administration on possibly creating licenses for smaller banking companies with lighter capital requirements, management has decided to stick with capital markets funding for now.

Management believes the company is able to grow by exploring marketing inefficiencies that the banks have not addressed historically as they have always been comfortable in their competitive position. Konfio is more competitive because of its better service offering and lower acquisition cost, which is favored by the company's use of technology. Management added that banks will not be aggressive on pricing to gain market share from new entrants, but instead will partner with fintech companies to cover the segments that they still don't, such as in Konfio Tech Services.

Merchants can rely on Konfio for more than credit, as the company offers other financial services. Indeed, Konfio was created as a lending platform for SMEs, but the company has expanded its offering to include other financial services that enable businesses and business owners to better manage their finances in order to be more easily included in the financial system. Among these other products are: Koncentra, Kompás, Directorio PyMEs, and Comunidad Sin Limites.

1. **Koncentra:** This service allows business owners to refinance their personal loans as Konfio SME loans. This is available for individuals that have good credit history, are the owners of their own businesses and have pending personal debts ranging from M$100,000 to M$800,000. Koncentra allows users to avoid high personal leverage, concentrate their debts in one sole loan, pay less interest (as Konfio charges lower rates than traditional banks) and improve their credit score. This line was developed as ~80% of small merchants seek personal loans in order to invest in their businesses, which many times implies on them becomes highly in debt and paying excessive interests. The service is still at the early stages of being rolled out to customers.

2. **Kompás:** This is a free digital management platform offered by Konfio that allows merchants to check their balance and monitor sales and expenses. The tool is directed mainly at merchants that were denied a loan from a financial institutions due to lack of positive data, financial statements, cash flow etc. Clients can create their Kompás account and sync all of their financial data to the platform, ensuring that they'll have full control of finances and be able to make good and well

informed decisions to better run their business. Business owners can also add their personal credit history data to the platform and explore the best credit alternative available for them. For merchants to use Kompás they do not need to have an outstanding loan with Konfio and do not need to have requested a Konfio loan, however, management commented that through the platform they will be able to make credit offers to clients with good cash management statistics, which should be less risky for the company. Kompás currently has ~15,000 registered users.

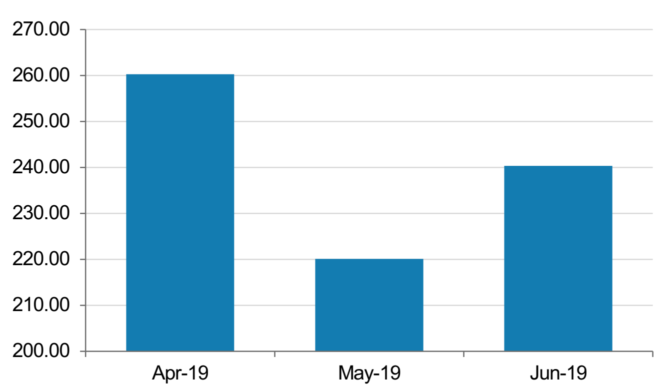
3. **Directorio PyMEs:** It's a form of social platform for businesses created by Konfio where companies can register and create a profile for themselves, increase the visibility of the business and grow the client base. The platform is a new form of digital marketing as it creates a way for companies to contact and get new clients. Consumers can access the platform and search for a type of service they are looking for and the region in Mexico where they are. The platform then displays all of the registered companies that fit such description. Each company has a profile page where they can link a contact email, website pages and consumers can write reviews.

4. **Comunidad Sin Limites:** The platform works like a shared blog where users can post different tips on improving the efficiency and financial health of their business. There are also news published regarding the main global events that impact commerce and the economy overall. The platform is a means for entrepreneurs to improve and share their financial knowledge.

The company developed the SME credit report. Backed by over 600 entrepreneurs, Konfio and Entrepreneur Mexico released in 2018 the first SME Credit Report, which provides statistics on the sector's growth and main opportunities. The 2019 version of the report can be accessed on the Comunidad Sin Limites platform.

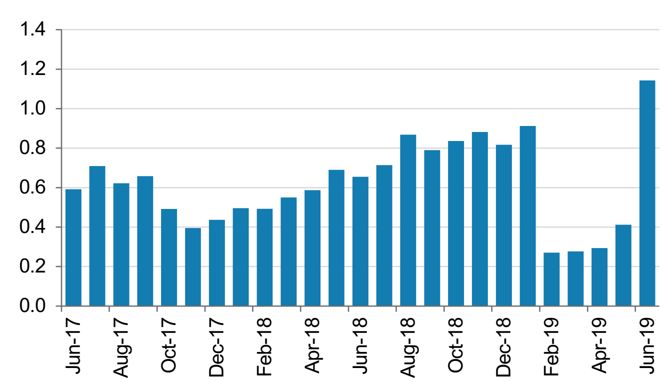
Konfio has been proactive in working with the regulators. Management said that they have been working closely with CNBV and Condusef to improve the regulatory standards for the industry. Management added that the fintech space in Mexico is not as developed as that of Brazil, and it could possibly take about two years to reach the same level.

Exhibit 46: Konfio - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 47: Konfio - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Kubo Financiero

Kubo Financiero is a P2P microlending platform that connects individuals in need of credit with individuals and businesses looking for attractive investment opportunities. For both investors and borrowers, the process takes place 100% online. All operations are pre-approved in only 5 minutes, with the money being disbursed in less than 24 hours. Borrowers can use the funds for a variety of purposes, including home renovation, educational expenses, debt liquidation, health expenses, and more. Kubo has over 15 thousand clients and has issued more than 27 thousand loans to date, with total originations amounting to M$892 million. Kubo offers an average interest rate of 44% and maintains an average historical NPL ratio of 2.6%.

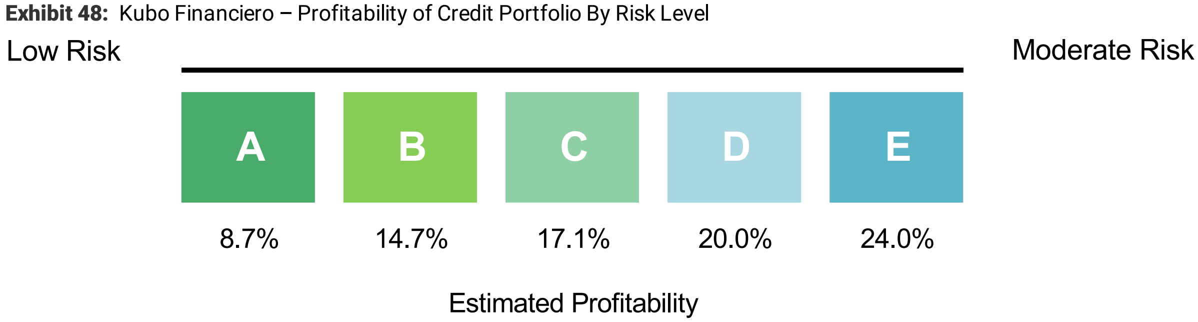
Founded in 2012 by Vicente Fenoll, Kubo was the first company to be regulated as a credit marketplace in Mexico. Before starting Kubo, Fenoll founded Fincomun, a micro-financing institution focused on providing financial services to the unbanked population in Mexico. In 2015, Kubo received authorization from Mexico's Securities Regulator (CNBV) to operate as a People's Financing Society (SOFIPO). It was the first authorization of its kind in Mexico.S ince its inception, Kubo Financiero has received over US$11 million in funding. In 2014, the company received US$1.7 million from Alta Ventures Mexico and Capital Emprendedor, as well as US$2 million from Vander Capital and Wayra. In 2016, the company announced a Series A investment round of US$7.5 million led by Bamboo Finance, Monex, and Endeavor Catalyst, among others.

Key Highlights

The company uses propriety algorithms to create personalized credit scores for each user. Kubo uses proprietary algorithms to gather and analyze historical credit data from the Mexican credit bureau and create personalized credit scores, called "kubo.scores," for each loan applicant. Investors are able to choose from a variety of loan applications, depending on the minimum credit score they are looking for and the amount of risk they are willing to take on. The platform encourages investors to spread their capital across multiple financing projects, so as to diversify their investment risk.

The platform specializes on micro loans, with credit lines ranging from M$5,000 to M$100,000. By leveraging technology and data-driven selection processes, the company is able to offer much lower interest rates than other microfinancing institutions, with an average interest rate of 44%.

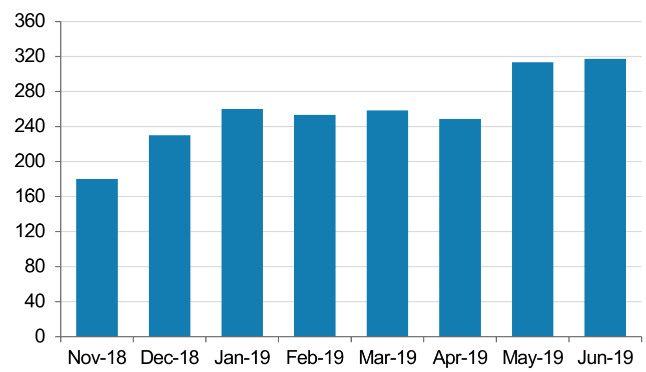
Exhibit 48: Kubo Financiero – Profitability of Credit Portfolio By Risk Level



Source: Company Data, Morgan Stanley Research.

Loan simulation tool makes the loan application process more efficient. Kubo has a loan simulation tool on its website, which gives users an idea of the payment amount and payment frequency that would be required of them. This makes the loan application process more efficient, as users can calculate the total cost of the loan before actually applying.

Exhibit 49: Kubo Financiero - Monthly Web Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

For investors, Kubo offers two types of investment products. On the investor side, the platform offers two types of products: fixed term investments and credit portfolio investments. The first product, called "kubo.plazofijo," has a low minimum investment amount of M$100. For the most part, this includes time deposits with predetermined maturities. The longer the investment period, the wider the gap between the earned investment rate and the CETES rate. The second investment product, called "kubo.impulso," allows investors to engage in P2P financingubThat is, o puts together different portfolios that combine various project with good credit ratings for users to invest in. The minimum investment amount required for this product is M$10,000. Before Kubo indicated the best portfolio for a client to invest in, they determine what are his main goals in investing and how much risk he is willing to take, For a client with stronger risk appetite, Kubo indicates riskier credit portfolios that will also yield higher returns.

Kueski

An online micro lending platform, Kueski was the first company to offer completely digital consumer loans in Mexico. The platform focuses on providing short-term micro loans to financially underserved individuals who have historically lacked access to affordable loans from traditional financial institutions. The company, which was also the first to develop a proprietary algorithm for online loan approval in Mexico, leverages big data, advanced analytics, and machine learning to build propriety credit risk models that approve or reject loan applications in a matter of seconds, with disbursements taking place within 10 minutes of customers submitting their applications. Kueski offers single payment micro loans of up to M$2,000, as well as installment loans of up to M$16,000, which allow borrowers to make payments every two weeks for 3 months.

Based in Guadalajara, Mexico, the company was founded in 2012 by now-CEO Adalberto Flores, along with former CTO Leonardo De la Cerda. Before founding Kueski, Mr. Flores started, grew and managed all operations of Ooyala Mexico, the largest international division of Ooyala. In 2014, the company received US$1.3 million in seed round funding, followed by an additional US$2.5 million in 2015. In 2016, the company received US$25 million in debt financing, as well as US$10 million in Series A funding from Richmond Global Ventures, VARIV Capital, and CrunchFund, among others. To date, the company has received a total of ~US$40 million in capital, making it one of the most highly funded fintech companies in Mexico.

Since its inception, Kueski has issued more than 1.5 million loans, totaling more than US$200 million. The number of loans grew 142% y/y in 2018, while total loan volume grew 164% y/y. Management forecasts that the number of loans will grow 178% in 2019 and 99% in 2020, while total loan volume grows 173% in 2019 and 163% in 2020. According to management, revenue growth also remains strong, with revenues growing 158% y/y in 2018, and the company forecasting revenue growth of 171% in 2019 and 198% in 2020. Moreover, the number of monthly app downloads has grown significantly over the past year, from ~1 thousand per month in July 2018 to ~26 thousand in April 2019, with more than 100 thousand downloads to date.

Today, the company has a net promoter score of 82 and employs more than 190 people, making it one of the largest fintech companies in the country. The company plans to continue expanding its headcount going forward, with a projected 220 total employees in 2019 and 300 in 2020.

Key Highlights

Rapid disbursement of short-term micro loans. First time users may borrow any amount up to M$2,000, or roughly US$100, and choose any term between 1-30 days. However, borrowers that successfully pay off their outstanding loans qualify for progressively higher credit limits. The average loan is M$2,704 and has a maturity of 22 days.

The application process is simple, customizable, and 100% online, with users selecting the amount and term they would like and then answering a series of brief questions. Once the application is submitted, users receive an answer within 30 minutes. Accepted applications are disbursed directly into the customer's bank account in less than 2 hours. Repayments may be done in cash, through a convenience store, at a Bancomer branch or

ATM, or via electronic transfer.

The company makes money by charging a fixed interest rate. Kueksi charges a fixed interest rate of 1.19% per day, corresponding to a very high annualized rate of 428.4%. That said, most of the platform's customers use the loan for only a few days, meaning that the total interest charged ends up being slightly less than the interest charged by competitors on longer-term loans, according to management.

Targeting the unbanked and underbanked population. Unlike most banks in Mexico, Kueski does not require loan applicants to have a bank account or be registered with the Mexican credit bureau in order to be eligible for a loan. This has allowed Kueski to disburse loans to consumers who have historically lacked access to credit products. Indeed, 10% of Kueski clients opened a bank account for the first time with Kueski and 14% began their credit history with a Kueski loan.

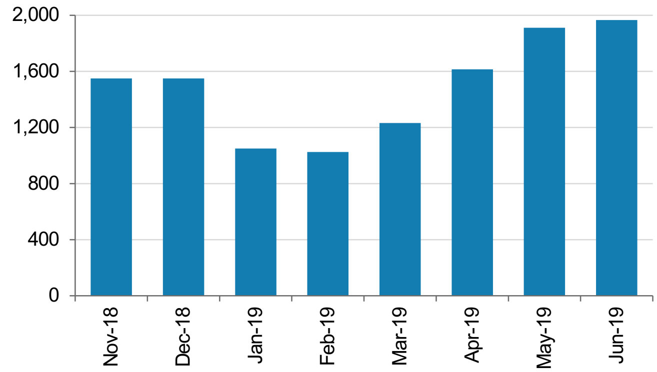
Leveraging alternative data to improve the accuracy and speed of risk assessment. Integral to the company's strategy is the use of big data and machine learning to gather alternative consumer data based on users' credit history, digital footprint, and application materials. Indeed, the company tracks and evaluates thousands of non-traditional data points, including social media presence, the amount of time taken to complete the registration questionnaire, and other information available online, to rapidly asses credit risk and disburse loans. The company's proprietary algorithms are designed to detect patterns across multiple variables and distinguish between high and low risk clients. However, unlike many fintech companies in Brazil, which use data scraping to create risk-based pricing models, the company charges a flat rate, regardless of customers' particular risk level. In addition to reducing credit risk, the company leverages its extensive database of valuable consumer data to offer more tailored solutions to its client base and increase upselling opportunities.

The company recently launched Kueski Pay, a payments platform that allows users to make purchases online and at partner retailers without having to make payments for 90 days. In the short term, management is hoping to position Kueski Pay as the go-to option for underbanked consumers looking to make credit purchases online. In the longer term, they plan to launch more money management products that complement the existing payments offering.

The consumer lending market in Mexico has a large TAM and offers big upside potential. Indeed, the company believes that the tangible addressable market for the consumer lending market in Mexico, both for single payment and installments products, is around US$8.3 billion, or around US$46.4 billion for the entire consumer credit ecosystem, including credit, debit and prepaid cards, as well as purchase financing. Relative to the US$100 million that the company has issued in loans since its inception, we believe the market offers ample of room for growth.

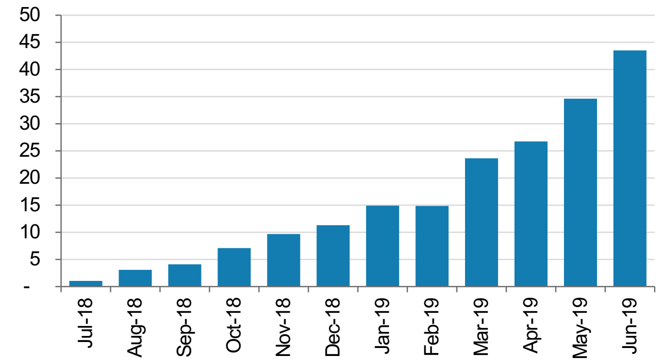
Management is considering potential partnerships with the banks. Kueski currently has limited relationships with the large Mexican banks. However, management has said that the company is exploring integrations that would allow Kueski to open bank accounts for clients, or to negotiate access to declined customers. That said, the company remains committed to serving traditionally underserved individuals, as the segment offers high growth opportunities on the back of big inefficiencies in the Mexican financial services market.

Exhibit 50: Kueski - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 51: Kueski - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

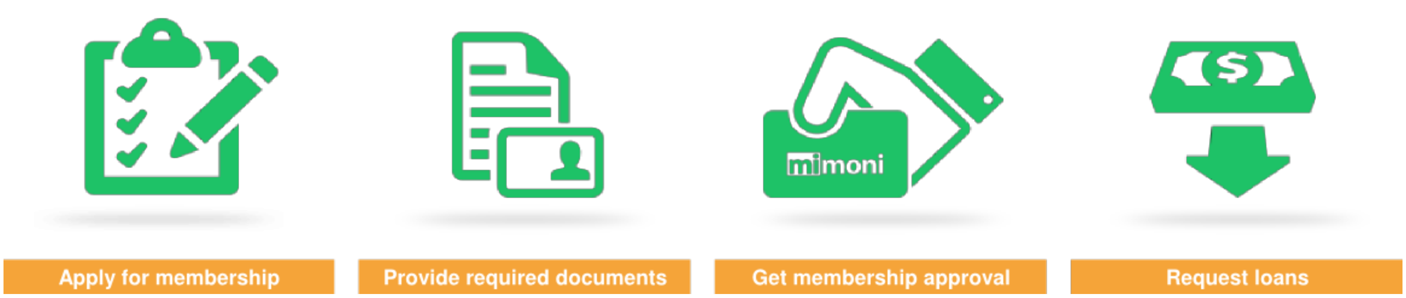
MiMoni

MiMoni is an online lending platform that offers short-term microloans designed to meet individuals's immediate financing needs. Indeed, the company has an average loan ticket of US$1,500 and an average term of 2 months. To request a loan, users are required to sign up for a membership, which grants them access to credit whenever they need it. All loans are sourced and originated 100% digitally, and are funded off the company's own balance sheet. For risk assessment, the company relies on an automated data-driven model that optimizes the credit application process. MiMoni currently has close to 20,000 customers and is growing at a monthly rate of 5%.

Headquartered in Mexico City, the platform was launched in 2013 by Gabriel Manjarrez and Pedro Zayas. Prior to starting MiMoni, the co-founders started Micel, a company that offered Internet service and mobile plans to unbanked individuals. Since its inception, MiMoni has grown to be one of the largest online short-term consumer lenders to the unbanked population in Latin America, according management. Additionally, the company recently began offering back-end technology solutions to international microfinancing institutions through its technology brand, Lumbrera. To date, company has raised over US$44 million in total capital from investors like IGNIA, Omidyar Network, and Storm Ventures.

To receive a loan, users must apply for a MiMoni membership. The process is simple and completely digital. Users are only required to submit photos of an identification document and proof of residence. The data is then analyzed by MiMoni's technology-driven, automated systems and, if approved, users are immediately sent a contract through the digital account. The entire process is carried out in no more than 24 hours. For the first loan, a member of the platform's service team contacts the user to walk them through the process for obtaining a loan. After that, subsequent loans can be requested directly from the MiMoni account.

Exhibit 52: MiMoni Lending Process



Source: MiMoni, Morgan Stanley Research.

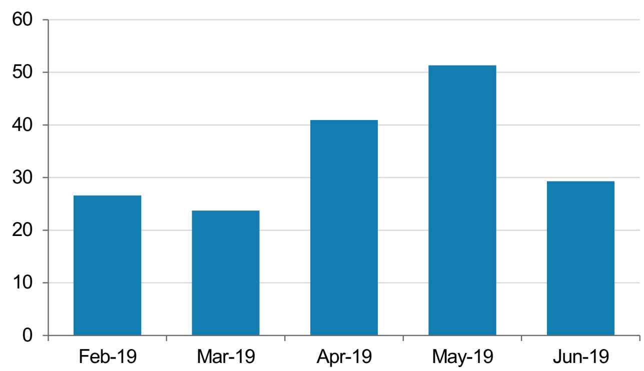
Key Highlights

The company targets unbanked and underbanked individuals without credit products from traditional financial institutions. The company's client base is mostly comprised of middle-age individuals, who are either unbanked or have a bank account but do not use it for sophisticated financial products. Most MiMoni users make loan payments in cash, as most receive their salaries on a debit card, which they only use to withdraw cash.

Under the membership model, clients only need approval once. After a client received approval to become a member, the user can request new loans without requiring additional authorizations. However, clients are not allowed to have two outstanding loans at a time. To pay off their loans, clients can go to an Oxxo store or to one of the company's three partner banks: Bancomer, Banamex, Banorte. Payment processing at bank branches takes 24 hours, compared to up to 3 days at a convenience store.

The vast majority of customers request additional loans. Management mentioned that its loan portfolio has an NPL ratio of ~10% and that 98% of customers that pay off their loans return to the platform for a new loan. Management believes that this is a key competitive advantage for the company. As MiMoni increasingly becomes a habitual solution, client acquisition and retention should increase.

Exhibit 53: MiMoni - Monthly Web Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

MiMoni plans to eventually move upmarket, as low-ticket loans have high associated costs. According to management, low-ticket loans do not generate enough revenue to cover the high costs associated to risk assessment and underwriting. As a result, the company is looking to move upmarket and begin offering higher-ticket loans with longer terms. Part of the company's strategy to move upstream includes offering loans to microbusiness owners.

Management views credit history as the most important predictor of credit risk. MiMoni relies on data from the Mexican credit bureau to run its risk analysis models. Indeed, management said that while machine learning and alternative data sources are efficient tools for assessing credit risk, personalized credit scores are necessary for accurate risk assessment and profitability.

Management considers its customer service model to be a key competitive advantage. Although the entire loan disbursement process takes place digitally, MiMoni invests heavily on its customer service team, which is responsible for guiding users through the process. According to management, this is an important advantage when it comes to working with lower income segments of the population, who tend to have little knowledge of financial products.

MiMoni's acquisition costs are significantly higher than the banks'. Management cited high acquisition costs as one of the major challenges for fintech companies looking to compete with the large banks. Currently, the company's acquisition costs are around US$15, which he believes to be considerably higher than that of the banks, especially considering that most banks are able to cross sell other products to existing clients. That said, management believes that strong user engagement and good interaction with the platform can mitigate this effect.

The company spun off its software development business. After fully developing the operational systems for MiMoni, the company decided to spin off the software development unit into another company, called Lumbrera. Through Lumbrera, the company sells back-end technology solutions to other financial institutions, including sophisticated underwriting technology, as well as machine learning and AI tools designed to optimize risk based pricing.

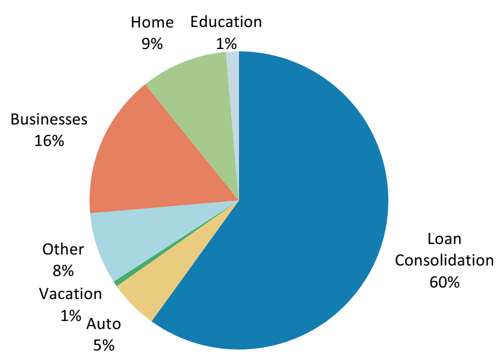
Prestadero

The first online lending marketplace in Mexico, Prestadero connects individual investors with consumers looking to take out personal loans. From the perspective of the borrower, the platform offers a cheaper, more efficient alternative to bank loans, with an average interest rate of 20% in 1Q19 and disbursement taking place within 2 business days. For individual lenders, who provide the financing capital, the platform offers attractive returns, as lenders receive the full interest payment directly from the borrower. The platform itself, on the other hand, never keeps any of the interest. Instead, Prestadero charges borrowers a 3-5% fee and lenders a flat service fee of 1%.

Founded in 2011 by Gerardo Obregon, the company has raised almost US$1 million in total capital. Today, the company receives credit applications from every state in Mexico. In 2018, Prestadero generated an estimated US$2.5 million in annual revenues, according to Crunchbase. The company has around 320 thousand registered users and has originated more than M$354 million in credit since its inception.

Key Highlights

Exhibit 54: Prestadero - Personal Loans by Use



Source: Company Data.

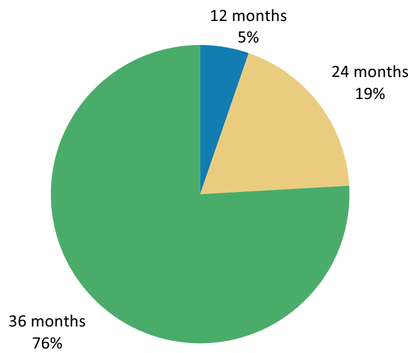
Individuals can request personal loans between M$10,000 and M$250,000. Although the company currently only offers personal loans, users can use the loan for multiple purposes, including debt consolidation — the most common use among Prestadero borrowers — small business needs, home, auto, or other. To be approved for a standard loan, borrowers are required to have at least 2 years of credit history, as well as a bank account at one of more than 25 partner banks, including BanBajio, Banorte, Santander, Scotiabank, and BBVA Bancomer, among others.

Prestadero has a relatively low approval rate, reflecting the platform's stringent risk assessment process. Indeed, only 6% of all loan applications submitted through the platform are approved. Although the company makes use of some alternative data sources, management said they mostly rely on traditional credit risk data, which they believe to be the most reliable proxy for credit risk. As of June 2019, the ratio of historical 90-day delinquencies to total disbursements was 7.2%.

Lenders can lend anywhere between M$250 and M$50 million, although Prestadero recommends that each loan be at least M$5,000, so as to diversity the investment. Currently, the average ticket size is M$105 thousand. Lenders have the option to choose which individuals to extend loans to, although the platform offers an "express" option, which pre-selects borrowers that meet the lender's criteria. According to management, investors have a high recurrence rate, with 40-45% of investors returning to the platform to make additional loans.

Applicants with poor or no credit history can apply for personal loans from friends or family through Prestapal, a sub unit of Prestadero. Interest rates at Prestapal vary from 0% to 35%, depending on the terms defined by the friend or family member. However, relative to Prestadero, Prestapal borrowers typically incur higher costs, due to higher average interest rates and an additional 5% fee on the amount disbursed. That said, application requirements for Prestapal are much lower, as borrowers are only required to have a bank account, not proof of income or credit history. Borrowers make interest payments directly to their friend or family member, and the company reports the borrower's standing to the Mexican credit bureau.

Exhibit 55: Prestadero - Loans by Maturity

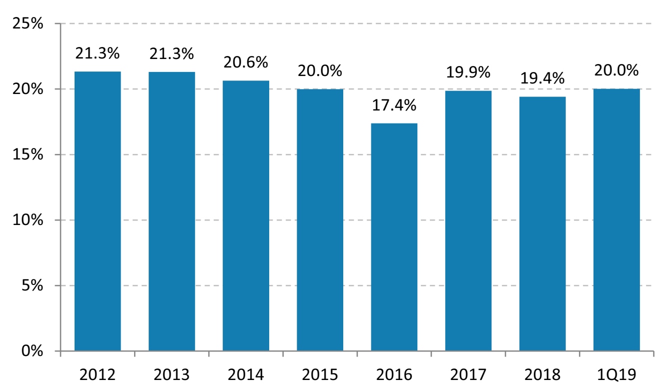


Source: Company Data.

The company charges the same flat fee of 1% to all Prestapal lenders, and is responsible for the collections process. If judicial and extra judicial collections processes fail, and the outstanding debt is not recovered, the investor bears the loss. However, the company's reported historical returns of 13.5% for Prestapal loans already accounts for these losses. According to management, the idea behind Prestapal is to tap the large informal loan market in Mexico, which they estimate is worth M$288 billion. Additionally, the programs provides financially underserved consumers with a pathway for building or improving their credit score, which, in turn, brings in new entrants into the credit market and allows borrowers in poor standing to re-enter.

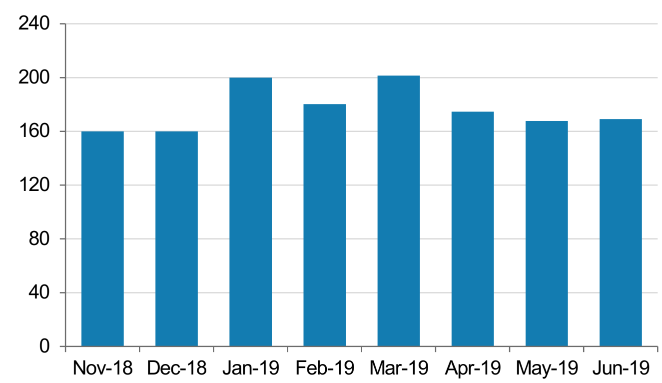
Loan maturities range from 12 to 36 months, but the average maturity of the portfolio is 30 months. According to management, it does not make much sense for the company to extend the average maturity of its loan portfolio at the moment, given that regulation prevents them from originating loans above M$300,000.

Exhibit 56: Prestadero - Average Interest Rate by Year



Source: Company Data.

Exhibit 57: Prestadero - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Banking Services

Albo

Albo provides digital banking services to underbanked individuals in Mexico. The company offers a free checking account with a MasterCard debit card and basic transaction services such as transfers, withdrawals and account benefits, all done through the mobile app. The account opening process takes no longer than 5 minutes. Clients receive their card at their home a week after the account is opened. Albo's goal is to offer transparent, just and good quality financial services to the Mexican population. By targeting the young and underbanked population in the country, Albo's addressable market consists of 15 million people and a US$10 billion opportunity. Today, the company operates with a team of 60 people and is headquartered in Mexico City.

The app was launched by Angel Sahagun in 2016. Mr. Sahagun has been working with technological innovation areas since 2010, focused on transforming users' experience with digital financial services, improving quality of life, financial education and inclusion in Mexico. Before launching Albo, Mr. Sahagun worked for a few years at traditional banks developing technologies after having launched Money Mentor, a personal finance app that helped people manage their expenses and was the basis for the development of Albo.

Albo expects to benefit from the gap between bank account and mobile phone penetration in Mexico. According to Albo, 80% of the Mexican population owns a smartphone, while only 40% have a bank account. Their goal is to accelerate the growth pace in order to have 250 thousand users by the end of 2019, and reaching 1 million users in three years. Currently, Albo has over 80,000 active users, ranging between 20-35 years old. Of these, 15% use Albo as their primary account.

The company has raised a total of US$8.5 million in funding. In January 2019, Albo raised US$7.4 million in a Series A investment round led by Mountain Nazca together with Omidyar Network and Greyhound Capital. The new funding will be a key part in Albo's strategy to leverage the new fintech regulation and increase the service scope. The company said that proceeds from the investment round will be used to expand countrywide and offer fair and transparent services.

Key Highlights

Albo is not regulated as a bank. Albo is in the process of filing for an authorization to operate as a regulated digital payments company under the Fintech Law, which should enable the company to expand the scope of its services. Management believes that the fintech regulation will legitimize the fintech industry in Mexico, which should ultimately be positive.

Clients can transfer money to and from their Albo account using SPEI, cash, or payroll. In order to be able to use their debit card, Albo clients must have a positive balance in their Albo account. Transferring money to and from the account can be done in three different ways. First, through the interbank digital transfer system (SPEI), which ensures the security of all transactions. Also, clients can fund their account by making cash deposits at any Oxxo or other retail partners of Albo. Lastly, clients can have their payroll deposited in their digital account. Almost 15% of Albo clients already do so.

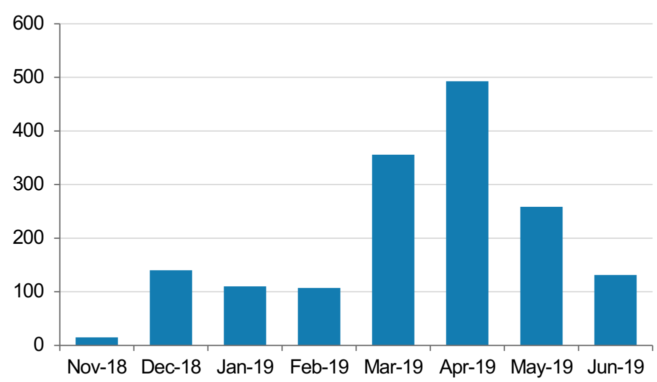
Interchange fees and interest on deposits are the main sources of revenue, but the company expects to expand its product offering. Albo currently makes money in two different ways: first, they charge an interchange fee on every debit card transaction, and secondly, they generate interests on the deposits made by clients. Going forward, the company is launching credit, savings, and investment solutions. Note: Management said that the interchange fee revenues would be negatively impacted if CoDi is successful.

Risk assessment tools are being developed. In order to properly enter the credit market, management has been resorting to experts in lending, which are working to develop Albo's risk assessment systems.

Card shipment is one of Albo's largest expenses, but activation rate is very high. According to management, operating expenses are mostly composed of costs associated with shipping debit cards and salaries, as marketing is mainly done through social media. The company did not provide the activation rate, but said it is very high.

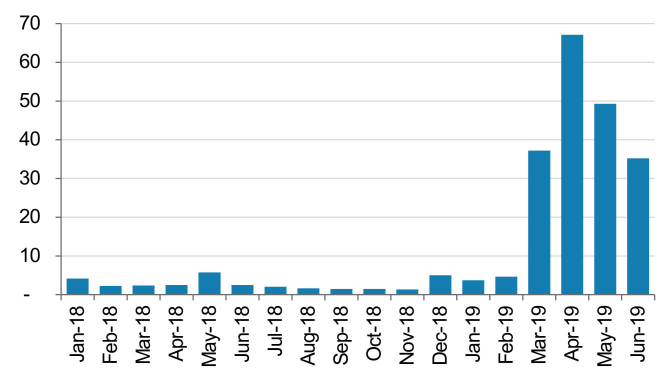
Partnerships improve user experience. Through the Albo account, users are able to pay for various services directly from the app, improving and simplifying the user experience. Services such as Neflix, Cabify, Spotify, Uber, Mercado Libre, Amazon, and utilities bills, among others, can all be paid through the app. Albo uses the Google Could Platform to ensure the security of its clients' personal data and transactions.

Exhibit 58: Albo - Monthly Web Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 59: Albo - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Broxel

Broxel provides a wide range of banking and payment services to consumers and businesses in Mexico. On the consumer side, the company offers: i) a digital account with a MasterCard prepaid card, the balance of which can be filled with cash in more than 28,000 point of service throughout Mexico; ii) a subway card for the public transportation system in Mexico City; iii) unsecured personal loans ranging from M$2,000 to M$10,000, which do not require a bank account and are disbursed directly to the Broxel card; and iv) several partnerships with retailers and service providers, which allows users to acquire products through the Broxel app at a discount. On the business side, Broxel offers: i) a wide range of corporate cards; ii) payment solutions for card issuers without their own payments infrastructure, including small financial institutions and commercial establishments; and iii) commercial credit lines that do not require a bank account.

Founded in 2011 by Mr. Gustavo Gutierrez, the company is headquartered in Mexico City and has ~800 employees. In 2017, the company was hired to issue "dual-function" subway cards in partnership with MasterCard for the Mexico City public transportation system. The card costs M$10 and allows users to: i) designate a transportation budget to purchase subway and train tickets; ii) make in-store, online or in-app purchases separately from the transportation budget. In 2018, the company launched TENGO, an employee benefits card, through which SMEs can pay for employees' transportation, meal benefits, uniforms, and more. The company currently serves more than 26 thousand commercial establishments and banks. To date, Broxel has issued 1.6 million dual-function subway cards and more than 6 million prepaid cards to individuals.

Key Highlights

Tiered account model for consumers. Consumers can open a "basic" or "premium" account, depending on the amount of information they provide. Both are free, but the basic account asks for minimal user information and allows users to fill their prepaid cards with up to M$15,000, while the premium account has no balance limit, offers personal credit lines, and has more stringent identity verification requirements.

Exhibit 60: Broxel - Card Fees

	Fee
Card issuance	M$150
Checking account transfer	M$6.90
Card replacement	M$150
Interest rate on credit starting at	30%
Interest rate on past-due credit starting at	60%
Minimum monthly interest rate payment	6%

Source: Company Data, Morgan Stanley Research.

For its corporate clients, the company offers multiple services, including: i) technology (i.e. app development, QR code technology, bank transfer technology), ii) payments (i.e., payment processing with a focus on data security and risk mitigation), iii) consulting (i.e. product development, strategy, optimization of processes), iv) card issuance (including production, distribution, and personalization services), v) back-office processing tools, vi) employee benefits. Within card issuance, the company offers multiple credit products, including a corporate card for employees' businesses-related expenditures, a purchasing card for the company to acquire inventory and other administrative expenses,and a virtual card for B2B and B2B2C businesses.

- **Corporate card.** For the corporate card, the company offers two funding avenues: credit or guaranteed credit. The product comes with a digital platform that generates expense reports and reconciliation tools for the business.

- **Purchasing card.** Designed for a business' daily expenses, the purchasing card offers extended financing and comes with a digital platform to facilitate reconciliation. The business is able to set certain expense controls on each card, including purchase limits, monthly limits, and restrictions on certain purchase categories.

- **Virtual card.** The virtual card is designed to facilitate purchases for companies with frequent and recurrent electronic transactions. It is specifically targeted at B2B and B2B2C companies, which make payments to other businesses.

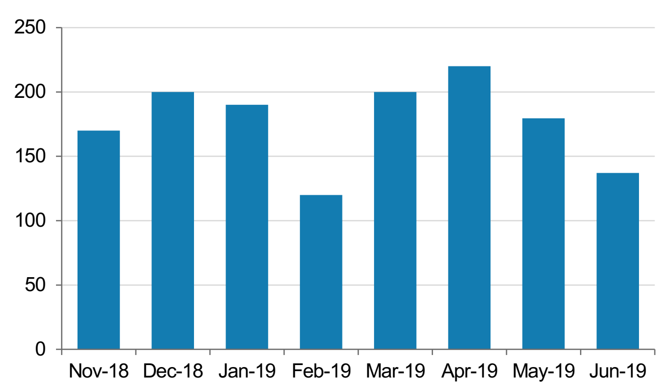
- **Benefits card.** This allows companies to dispense basic benefits, such as meal vouchers, to their employees. This card is tax deductible for up to 53% and is accepted at most convenience stores, pharmacies and grocery stores.

Individuals and SMEs can request un-collateralized loans through the Broxel website or app. Borrowers do not need credit history or a bank account in order to request to a loan. The loan amount can range anywhere from M$2,000 to M$100,000 and is disbursed directly into the account holder's Broxel card. Interest payments are automatically deducted from the card balance on a weekly or monthly basis, with an average annual interest rate of ~60%. In addition, users are charged an opening fee of 3%, a late interest rate 2x as high as the normal rate, and a payment collection fee of M$17.24. The average total annual cost (CAT) of the credit offering is 97.1%.

Broxel plans to expand internationally. In March 2019, Broxel launched its first product in the US, a prepaid card targeting Latin consumers. With the Broxel USA card, users will be able to send domestic and international remittances, make online payments, withdraw cash, and receive money in the US. According to management, the company's entry into the US market will be focused on catering to the Hispanic market and will function as a strategic pivot to trigger future growth into other geographies. The company expects this to be the first of several products rolled out in the US market.

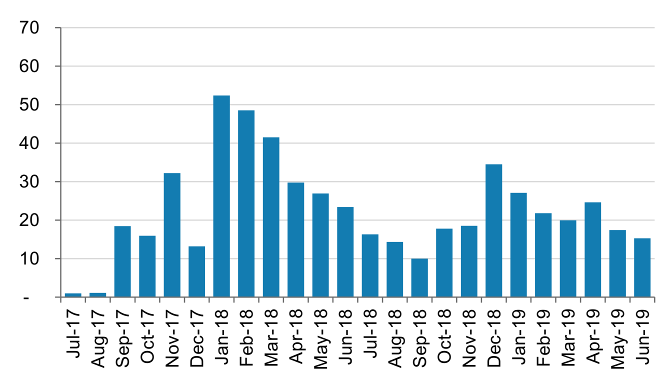
Broxel recently partnered with Google to improve its customer service. In 2019, the company announced a partnership with Google, through which it introduced a new customer service feature, called rich communication service (RCS). The tool allows clients to check their account balance, look up cash withdrawal locations, and make payments to other users of the platform. According to management, RCS has produced a better customer experience and increased users' interaction with the platform.

Exhibit 61: Broxel - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 62: Broxel - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Cuenca

Cuenca is a digital bank that allows users to make real-time money transfers and bill payments at zero cost. Through the Cuenca app, clients can send and receive money in real-time to and from any bank account in Mexico, as well as make certain bill payments, such as electricity and mobile top-up. Upon registering, all users are issued a digital Visa debit card for online purchases; additionally, clients living in Mexico City receive a physical card for point of sale purchases within 90 minutes of opening an account. The account has no minimum deposit amount and charges zero account management fees, zero transfer fees, and zero bill payment fees.

Headquartered in Mexico City, the company was founded in 2018 by now CEO Matin Tamizi. In the first year of operation, the company received US$2.2 million in seed money, including roughly US$1 million from Andreessen Horowitz — one of the leading venture capital firms in California, which has invested in companies like Airbnb and Rappi — and roughly US$1 million from Kaszek Ventures, which was created by the founders of Mercado Libre. Today, the company has 20 employees, 9 of whom are engineers. Management does not disclose the current or target number of account holders, but said they prioritize service quality over client base growth.

Key Highlights

Cuenca makes money by taking a cut of the interchange fee... Cuenca fully developed its own payment processing system that connects to the Visa infrastructure in Mexico through a third-party bank. The company generates revenue by taking a cut of the interchange fee, although management did not disclose the exact amount.

... and earning interest on customer deposits. According to management, Mexican consumers are willing to forego the interest earned on deposits if it means not having to pay any banking fees. As a result, the company has developed a no-fee business model that allows them to keep the interest earned on customer deposits, as opposed to passing it through to the client. Although the company cannot use these funds to invest or lend, interest rates in Mexico are high enough to make this a profitable business model, which, according to management, could never work in the US or Europe.

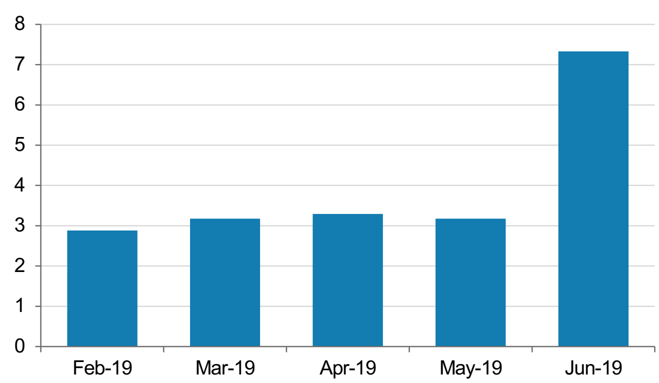
There is strong correlation between activation rate and card delivery time. According to management, one of the company's key differentiators is its ability to deliver debit cards to clients only 90 minutes after opening an account. The company considers this to be a strong competitive advantage relative to other players, as they have found a strong correlation between delivery time and card activation rate. In the eyes of management, a higher number of clients effectively using the debit card ultimately compensates for the company's higher delivery costs.

The company is focused on fostering client loyalty through high quality service. Management said they would rather grow at a slower pace but with extremely loyal, well-served customers than reach a high number of account holders that do not make full use of the platform's services. Indeed, the company is focused on developing a trust based relationship with its customer base, which is overwhelmingly under banked and has historically had little to no access to traditional banking channels or have been charged excessively high rates. So far, the company has developed a customer service model that runs on WhatsApp and is powered by both in-house customer support staff and automated language processing.

Management believes CoDi will accelerate cash substitution. Although the new CoDi system will mostly target segments of the population that are already banked, management believes the platform will incentivize users to reduce their usage of cash. The company is already preparing to integrate the CoDi system onto its platform, including adding P2P transfer functionalities. Also, management thinks the program could help encourage users to keep money in their accounts, as opposed to withdrawing their outstanding balance, which is often the case in Mexico.

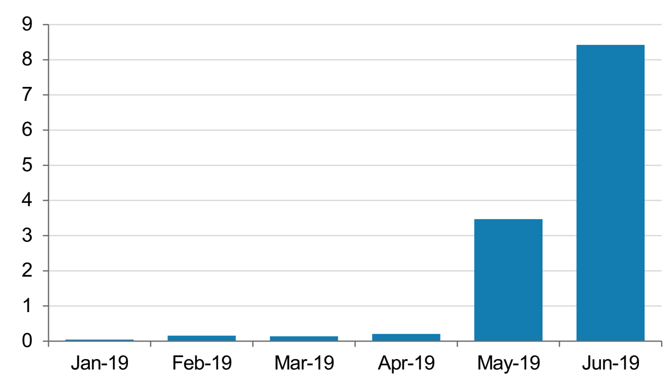
Diversified revenue streams will help mitigate interchange rate competition. Although CoDi could function as an important catalyst for cash substitution, management said it could also negatively impact the company's main revenue stream, which is interchange fees on debit card transactions. As a result, the company is working to develop new products that will complement its existing account offering and could generate additional revenue streams. However, management emphasized that before launching new products, they will focus on perfecting their core offering and continuing to build customer loyalty.

Exhibit 63: Cuenca - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 64: Cuenca - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Flink

Flink is a digital bank targeted at millennials. Account opening takes less than 5 minutes and users receive a free prepaid MasterCard in less than 24 hours. Through the platform, users are able to complete money transfers to and from any financial institution, fund their prepaid cards, and make payments online and in person. Also, users can monitor their spending, block their card in case of theft or overages, and receive 24/7 customer support. As soon as the registration process is complete, the platform analyzes the customer's profile and provides them with a number of monthly savings plans based on an automated system of daily savings targets. The digital account charges no management fees and has no minimum amount.

Headquartered in Mexico City, Flink was founded by Sergio Jiménez Amozurrutia in 2017. The company was one of ten fintech companies selected to participate in a joint startup acceleration program led by Startupbootcamp and Finnovista in 2017. The company received a convertible note of US$500 thousand from an angel investor and is currently looking to close a Series A funding round. Currently, the company has a little over 30 thousand active users, 95% of whom are between 18 and 29 years old. By the end of 2019, management is hoping to reach 100 thousand active clients. The company currently has 10 employees, 5 of whom are focused on technology and 5 of whom are responsible for operations.

Key Highlights

Flink offers unique money management solutions. Unlike most digital banks in Mexico, which only offer limited functionalities, such as checking account balance and transferring money, Flink focuses on helping young people save. Specifically, by generating automated monthly and daily budgets based on a customer's transaction history. Each transaction made with the Flink card is registered on the app to provide users with personalized analyses of their spending habits. Also, users are able to input savings goals, such as planning a trip, buying a car or saving up for a special event.

The company makes money from interchange fees. Flink keeps 90% of the interchange fee on all transactions made with the Flink card, with the remaining 10% going to MasterCard. The company charges zero fees for account opening, account management, transfers to other Flink users, and card issuance. That said, the company charges M$5 for each outside bank account transfer, but only to cover operational costs.

Operational costs are expected to come down in the short term. Management plans to issue its own debit cards in the short-term, meaning they will no longer have to rely on a third-party issuer, which currently accounts for 80% of their operational costs. With this, the company expects to become profitable in a shorter time frame, most likely after surpassing the 100 thousand active user threshold. Management highlighted that client acquisition costs are very low, roughly US$1.50 per client, as social media engagement and word of mouth promotion are driving organic growth.

Launching a full banking offering. The company plans to apply for a full banking license, in order to launch investment, credit, and insurance products in the short to medium term. For now, the investment offering will consist of allowing users to earn interest by investing in government bills. The offering will be free and will not generate revenues. In a later phase, however, the company will launch an in-app investment platform that will offer multiple, more complicated products. Similarly, management plans to enter the credit market by offering payday loans through the app, but eventually begin offering credit cards. For credit products, the company will make money by charging a commission. In the insurance space, Flink is already working with an insurance company to launch travel and smartphone insurance. However, insurance will take significantly longer to roll out due to the higher complexity of products.

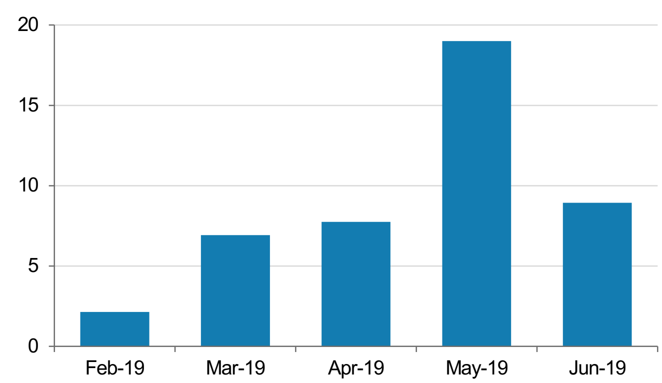
The company will use proprietary credit scores leveraging in-app data. Since many of Flink's customers lack credit history and are not registered with the Mexican credit bureau, the company plans to build its own credit scores for risk assessment. In particular, management plans to leverage extensive transactional data from clients' digital accounts and prepaid cards to build comprehensive risk profiles for each customer. Besides acting as a proxy for credit risk, this will allow the company to make personalized and tailored product offerings to its client base.

Flink will seek out partnerships to increase time to market. The company already partnered with a specialized credit fintech to develop its credit offering more efficiently. Management emphasized that other fintech companies are more attractive partners for them than traditional financial institutions.

Management views recent regulatory changes favorably. In particular, management believes that the government's decision to reduce the minimum age for opening a bank account to 15 years old will favor the company, as the platform is principally geared towards young people looking for a completely digital offering. Additionally, management believes that the Fintech Law will accelerate the substitution of cash with plastic and improve security perception on fintech platforms. Also, management noted that the Fintech Law significantly raised barriers to entry by establishing more stringent compliance requirements, which should ultimately reduce competitive pressures and grant them certain first mover advantages.

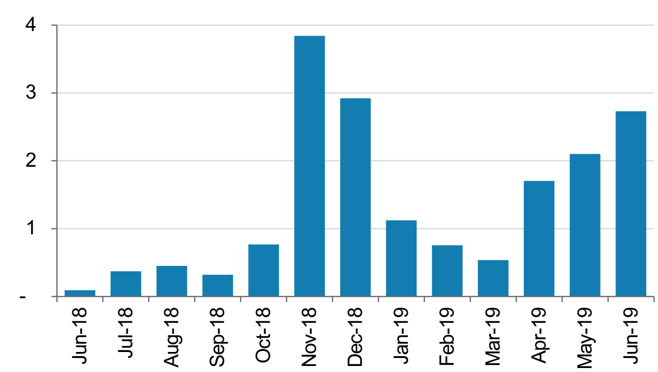
In preparation for CoDi, QR code functionalities will be added to the app. Management expects to roll out a QR code payments solution by October, and emphasized that it would be very easy for them to do so, as they are already in the SPEI system. However, management is skeptical that CoDi will be rapidly adopted in the short term.

Exhibit 65: Flink - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 66: Flink - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Hey Banco

Hey Banco is a digital solution that provides financial services to consumers in Mexico through a mobile app. The brand is owned by Banregio, one of the largest financial groups in Mexico. Hey Banco's product offering includes credit cards, mobile transfers, QR code payments and pension investments. Hey Banco currently has ~46,000 clients using the app, up from 5,000 in early 2018. By the end of 2019, Banregio's management is aiming for 100,000 users.

The app was launched in 2017, when Banregio decided to rebrand its digital initiative. The launch of the Hey Banco app was part of the controlling bank's strategy to invest in a complete, efficient and dynamic digital offering.The Hey Banco app was designed to target millennials and non bancarized individuals.

The account opening process is 100% digital, and takes only a few minutes to be concluded. The account is categorized as a level 2 account, so clients are limited to depositing ~M$17,000 per month. In order to open the account, users are required to post a picture of themselves and register using their national electoral institute (INE) credentials, which will be used to validate the user's identity. Clients can transfer money from another bank or digital account or deposit cash at any Banregio branch, Oxxo or 7Eleven. According to Banregio's management, the average balance at a Hey Banco account is M$1,500.

Key Highlights

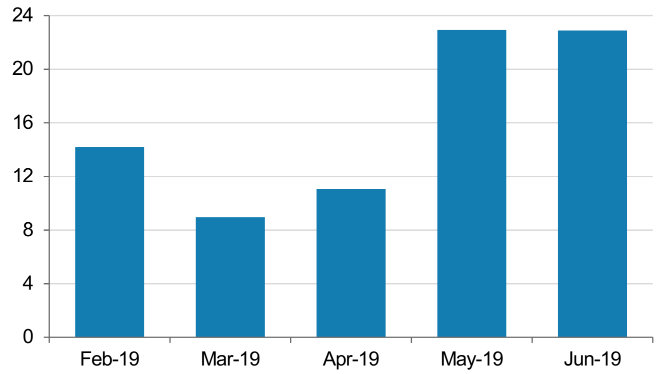
Hey Banco users are given both a virtual and physical card. All Hey Banco clients are given a Visa credit card issued by Banregio. The card charges no annuities and it can be used for online purchases, transactions on POS terminals and free withdrawals on any Banregio ATM. The credit card also offers clients a credit line through which they can request a loan from M$2,100 to M$35,000.

Prices for Hey Banco are aligned with Banregio. Although the brand of Hey Banco is positioned to draw the attention of lower income and younger clients, management said the pricing of the products within the app is the same as what is offered in the traditional bank. The difference, however, is that for a client to get credit with Banregio they need to have good credit history, while Hey Banco is bringing new people into the financial system.

Hey Banco enables a QR code solution that can be used for any credit card. In the Hey Banco app clients are able to register their credit card from any other bank to make payments using the QR code technology in any partner establishment. Using the Hey Pay solution, customers can send money to accounts from Banregio's mobile banking system as well as generate a QR code to perform other payment transactions from their Hey Banco account.

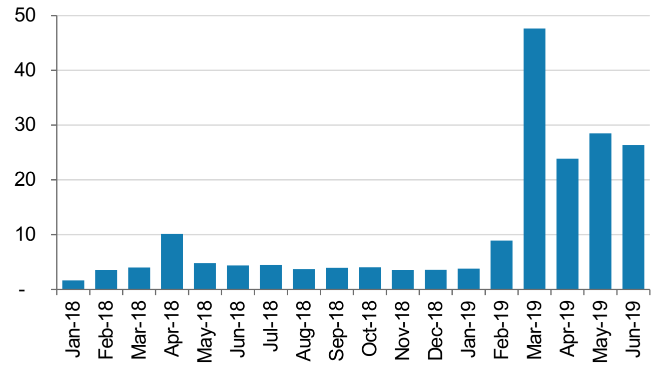
The app will also offer long term investment products from Banregio. Hey Banco will soon offer an investment product through which clients are able to schedule automatic contributions in savings accounts from any bank. Moreover, the app will include a functionality that will allow clients to set an investment target that serves as a guideline to determine how much the client needs to invest and for how long in order to reach such target. The investment made through Hey Bank will have full liquidity, so clients are able to withdraw the money from the investment account whenever needed.

Exhibit 67: Hey Banco - Monthly Web Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 68: Hey Banco - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

Investments

Bitso

Bitso is a cryptocurrency exchange platform through which users can trade Bitcoin, Ethereum, and other alternative cryptocurrencies. Currently, users can buy and sell Bitcoin, Ethereum, Ripple, Litecoin, Bitcoin Cash, TrueUSD, Decentraland, Golem, and Basic Attention Token, with the company planning to add more cryptocurrencies in the future. Specifically, users place purchase and sale orders in the Bitso market, where they are matched with other users looking to buy or sell. Also, the company offers remittance and P2P payment services using cryptocurrency technology. The company makes money by charging fees on traded volumes and, to a much lesser extent, from cash funding and withdrawal fees. Today, Bitso is the largest cryptocurrency exchange platform in Latin America with over 680,000 users.

Headquartered in Mexico City, the platform was launched in 2014 by Daniel Vogel, Ben Peters and Pablo Gonzales. Initially, the idea was to give Mexicans access to cryptocurrency trading. However, as the company grew, management decided to leverage cryptocurrency technology to offer remittances and P2P, as well. Currently, less than 10% of Bitso clients use the alternative financial solutions offered by the platform, as most of the client base still uses Bitso exclusively for asset trading. In 2105, Bitso acquired the Mexican unit of Argentine bitcoin exchange Unisend. With this, the company was able to consolidate its position as the leading cryptocurrency exchage in Mexico.

Key Highlights

Bitso derives its revenues from trading, cash funding and withdrawals.

1. **Trading fees.** Bitso has two fee models: one for trades against bitcoin and one for trades against the Mexican peso. For trades against bitcoin, maker fees range from 0.075% to 0.05%, depending on the bitcoin volume, while taker fees range from 0.098% to 0.065%. For trades against the Mexican peso, maker fees range from 0.5% to 0.1% and taker fees from 0.65% to 0.13%.

2. **Cash funding.** Users now have the option of funding their Bitso accounts with cash through Oxxo Pay, which charges a fee of 2.6% + tax. That said, the company also offers free, 24-hour funding through SPEI.

3. **Withdrawals.** The company charges a fee for a number of cryptocurrency withdrawals, including bitcoin (0.00022473 BTC), ether (0.00024150 ETH), and others. That said, SPEI, mobile phone and debit card withdrawls are free of charge.

Cash funding significantly expanded the company's addressable market. The company recently formed a partnership with the Mexican payments platform Conekta, which allows Bitso clients to fund their trading accounts with cash. Previously, Bitso clients could only fund their accounts through SPEI transfers, which significantly limited the company's addressable market, since only a small slice of the Mexican population is banked. Today, cash deposits account for more than 10% of Bitso deposits.

Also, the company leverages cryptocurrency technology to offer P2P and remittances. Bitso recently rolled out a P2P functionality, called BitsoTransfer, which allows users to transfer cryptocurrency funds to one another via e-mail, mobile or QR codes. Also, they rolled out two international products backed by blockchain: i) Bitso Remesas, which allows users to receive remittances, ii) Nvio Bitso, which allows users to make payments internationally. Still, less than 10% of its clients use these features.

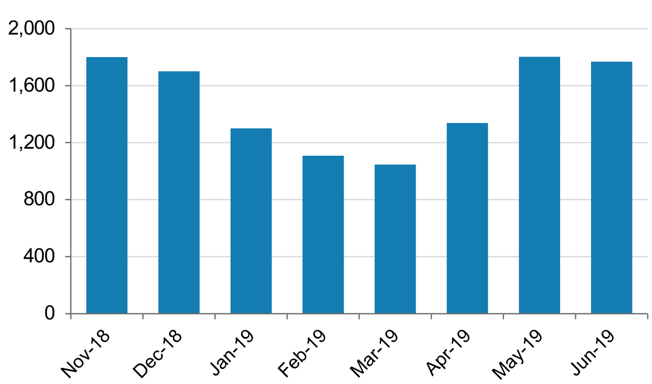
Going forward, the company plans to launch a debit card, a more sophisticated trading interface, and trading in other currencies. In order to capture more clients, the company is planning to launch a debit card, which will allow users to use their Bitso account balance to make purchases. At the time of purchase, users will be able to choose whether they would like to make the payment in cryptocurrency or pesos. Also on the pipeline is a secondary trading interface for more sophisticated users. And, the option to trade using other local Latam currencies.

In light of organic growth deceleration, the company is investing in financial literacy programs for the unbanked. When the platform first launched, it was able to grow its client base organically, mostly through word-of-mouth and without significant marketing investments. Recently, in light of slower organic growth, the company has shifted its strategy. Specifically, they are investing heavily in financial education services designed to tap the unbanked population.

The company recently received an international license to trade cryptocurrency. As of August, the cryptocurrency exchange will be able to trade under the oversight of the English regulator Gibraltar (GFSC). This puts Bitso in a unique position to push for technological and financial innovation in Latin America, as it is the first exchange in the region to be licensed by GFSC. With this, the company will be able to operate both under the Fintech Law and the international license.

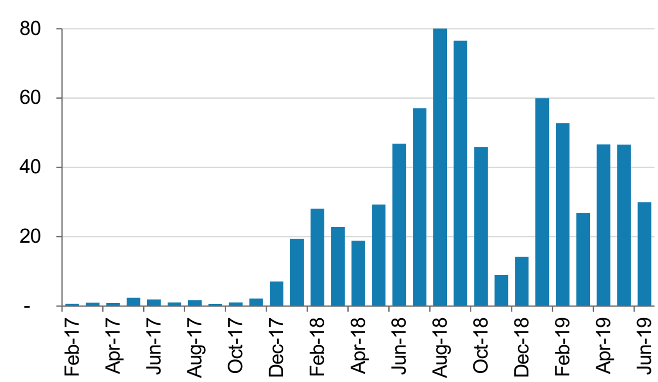
Management views the regulatory environment as favorable. In their view, the law increased transparency and security of the business and allowed them to operate with a wider range of products. Before the regulation was passed, Bitso users were unable to keep peso-denominated deposits for more than 24 hours.

Exhibit 69: Bitso - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 70: Bitso - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

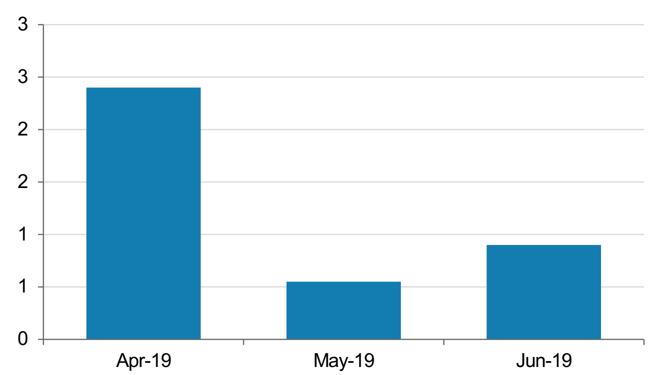
Finx

Finx is a digital platform that offers financial advisory services and long-term investment and savings products. Currently, the company provides advisory services to over 3,000 individual clients. This includes assigning a designated investment manager to each user and developing tailored investments and savings plans based on users' monthly income, monthly expenses, and financial objectives. Investment and savings plans are offered in partnership with two global insurance companies: Allianz and Old Mutual. Specifically, the company offers ETF funds, a retirement savings plan, and life insurance through Allianz México, as well as life insurance and a number of savings plans through Old Mutual México, which may be used to pay for college, buy a house, start a business, or retirement.

The company was officially launched in 2014 under the holding company Resuelve, which owns four other fintech companies: Resuelve tu Deuda, Enconta, Nexu, and La Tasa. The company was first launched as Resuelve tu Futuro in 2009, but was eventually relaunched under the name Finx to better differentiate it from the other businesses owned by the holding company. Finx is not registered as a retirement funds administrator (Afore), but is regulated both by the banking regulator and the national insurance commission (for the distribution of life insurance and pension funds).

Key Highlights

Exhibit 71: Finx - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Minimum contribution amounts for Finx savings and investment plans are relatively low. To participate, users must be able to meet minimum contribution requirements, which vary depending on the plan. For the Allianz retirement savings plan, users must be able to contribute at least M$2,500 a month for a period of 5-25 years. For the Old Mutual savings plans, minimum monthly contributions start at M$3,250 for a period of 5-25 years. Both savings plans have an average yield of 12% and include the option to add life insurance. Additionally, the company offers ETF funds through Allianz, which have a minimum initial contribution of M$50,000 and no minimum investment term. There is also a premium ETF option, which has a minimum initial contribution of M$250,000 and no minimum term.

Clients cannot withdraw any funds from their savings plans for the first 18 months. Starting on the 19th month, however, users are able to access the money they have earned from their investments. However, because most of these products are designed for long-term investment and savings, Finx discourages users from withdrawing funds in the short term.

The company conducted a survey to analyze the savings and investment patterns of young people in Mexico, and found that 93% of young people do not regularly invest in their pension funds. According to the survey, the main drivers are: lack of concern when it comes to future financial needs, fear of not having money for immediate needs, and lack of financial consistency. According to management, young people often lack set financial targets, which is where the role of the Finx advisor comes in.

Invierte con Expertos

Invierte con Expertos (ICE) is an online marketplace that connects individual investors to financial advisors with a proven track record of applying successful investment strategies. Users can choose from an extensive catalogue of "investment experts" offering diverse investment strategies, each strategy being comprised of various investment funds from one or more fund manager. Clients choose the strategy that best meets their investment criteria, including risk tolerance, investment amount, desired term and returns, and commissions charged. Account opening requires a minimum investment of M$10,000 and comes with a one-time charge of M$99. Additionally, investors pay an annual advisory fee, which varies depending on the strategy. The company keeps 35% of the fee, while the rest goes to the advisor. Moreover, the investor pays a 0.1% fee per transaction to Fóndika, the company's broker and one of the most important investment fund distributors in Mexico.

Founded in 2017 by now CEO Diego de la Campa Corcuera, the company received US$400 thousand in seed funding. Mr. Corcuera is also co-founder and CEO of Prosuma, a fintech company that distributes mutual funds. Invierte con Expertos, which is geared at small and medium investors, currently has 4,000 registered accounts, with an average investment amount of US$1,500-2,000. According to management, whereas digital investment platforms in Mexico are all targeted at people who already know how to invest, the ICE platform is unique for its mixed model, which targets both people who have and have not invested previously. By the end of 2019, management is hoping to reach 10 thousand clients.

Key Highlights

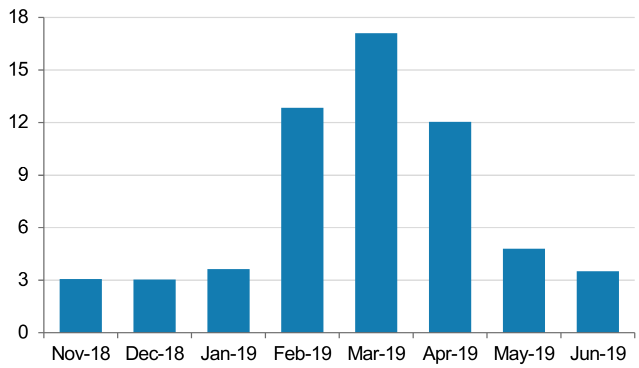
Full suite of investment strategies. The company offers several investment strategies, each of them falling under one of 5 main categories:

1. *Conservative*, which have low volatility, average returns of 9% (and up to 20% in equity funds), and an investment term of 1 year.
2. *Moderate*, which have medium volatility, average returns of 11% (up to 40% in equity funds), and a term of 2 years.
3. *Entrepreneurial*, which have medium to high volatility, average returns of 13% (up to 60% in equity funds), and a term of 3 years.
4. *Aggressive*, which have high volatility, average returns of 15% (up to 80% in equity funds), and a term of 4 years.
5. *Speculative*, which have very high volatility, average returns of 17% (up to 100% in equity funds), and an investment term of 5 years.

Stringent validation process for investment professionals. The company identifies qualified "investment experts," which are hired as contractors, through a thorough validation process that includes: a background check on past professional experiences, a phone interview, an exam testing knowledge of investment funds, and corroboration with AMIB's database.

Expansion to North and South America will greatly diversify the product offering. The company is currently in the process of registering its platform with the SEC and other country regulators, in order to incorporate investment products and professional financial advisors from the US, Canada, and other Latin American countries onto the ICE platform. This will give individual investors from any part of the world access to a diverse portfolio of Mexican, American, Canadian, and other Latin American investment funds. At first, the company will focus on adding ETF and equity funds, but will likely turn to other products later on. While the minimum investment amount in Mexico is equivalent to ~US$500, management expects the minimum investment to be significantly higher in North America, probably closer to US$2,000. That said, the company will likely utilize the same fee structure overseas, keeping 35% of the advisory commission paid by the investor, but perhaps charging zero fees for account opening. The platform is set to launch in North America by 3Q19.

Exhibit 72: ICE - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Leveraging APIs to analyze clients' site activity and bank account data. According to management, ICE is one of the only online investment platforms in Mexico that gathers data from clients' savings and checking accounts, and combines it with information from its own site to track how clients invest. This allows the company to make offers automatically and better predict user behavior. Going forward, the company plans to add robo advisors, which would be able to make use of this data, to the platform.

In the eyes of management, Mexican banks are far behind on digital, but attractive partners nonetheless. Management said that when it comes to developing digital platforms — particularly investment platforms — the banks continue to lag behind the fintech companies. Going forward, the company sees a lot of room to partner with the banks in a way that leverage both players' core competencies; for example, ICE could offer bank products on their platform or create some sort of joint debit card product that would allow individuals to invest more easily through ICE.

Crowdfunding

Alibre

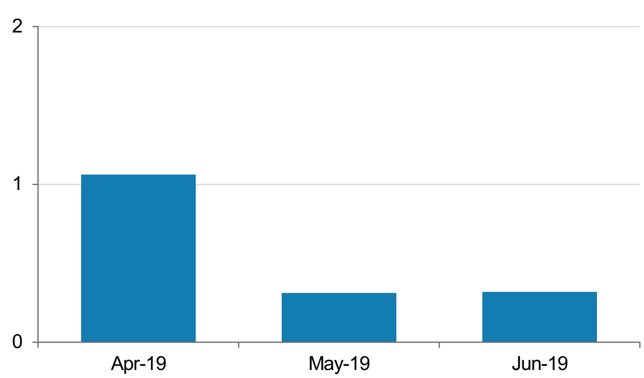
Alibre, or AhorroLibre, is a social savings network that enables consumers and small businesses to access savings and credit through an online platform. The company operates two mobile apps: Tanda and Koperacha. The first app, offers transparency to tandas or money pools, reducing fraud and theft risks for both the participants and the organizer. The second app offers an easy to use crowdfunding solution that enables a group of people to collect contributions for a common goal, such as to cover group expenses or make an investment in their community.

The company was founded by Rafael Jimenez in 2013, after the founder saw an interesting opportunity to increase financial inclusion by digitalizing non-traditional financing methods common among unbancarized consumers and communities in Mexico. Before founding Alibre, Mr. Jimenez worked as an Engagement Manager at McKinsey.

key Highlights

Tanda is a platform that enables consumers and small business to create money pools. To create a tanda, users must download the app, set up the participants, choose the contribution amount and the frequency. All participants will receive a notification to join the pool. Users can choose between a "tanda libre" or a "tanda clasica". In the tanda clasica, the organizer decides the order in which each member will receive the money in the pool. In the tanda libre, participants choose their position as they join the group. The pool is funded through automatic charges to a bank account or a debit card or with cash payments in any OXXO store. The company charges 8% per transaction/contribution.

Exhibit 73: Alibre - Monthly Web Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

The following is an example of a tanda: A group of 10 individuals agrees to pay M$50 every week. By the time the money pool reaches M$1,000, every 2 weeks, the entire pool goes to the member ranked first of the group, who can use it for any purpose. This dynamic continues until each member receives M$1,000. Interestingly, the individuals that get paid early are borrowing from the group but not having to pay interests, while the individuals getting paid latter are using the tanda as a saving solution.

Koperacha is a crowdfunding platform. The app enables a group of people gather contributions for a common goal. To create a koperacha, users must download the app, set up the participants through the app or sending a link, and choose a target amount. Users can choose between a "koperacha cuota" or a "koperacha clasica". In the koperacha cuota, the organizer decides size of the contributions and the frequency. In the koperacha clasica, the organizer set a goal and the minimum contribution, while the participants choose the amount they want to contribute. Payments can be made through automatic charges to a bank account, credit or debit cards, as well as with cash payments in any OXXO store. The company charges the organizer an 8% fee over the total amount collected.

Alibre will launch a e-wallet / savings platform. The company is planning to launch Alkancia, an app that will allow users to open digital savings accounts There is still little information available on how the app will work but it will be a part of the entire ecosystem, potentially enabling other products and services.

The company developed a last mile solution. Alibre partnered with Giveth, a group of developers focused on charity donations using blockchian technology, to create a last mile solution in Mexico. The last mile issue is exchanging crypto currencies to cash. Both companies are working together with Bitso, the online crypto exchange, and Bity, a blockchain infrastructure provider in Switzerland, to enable users to receive cryptos and convert them to pesos with Alibre's digital wallet.

Moneypool

Moneypool is a payments platform that allows users to collect money from and pay other individuals in a social media context, similar to Venmo in the US. The company offers two main types of services: crowdfunding "pools," which allow individuals to collect money from multiple users, and direct P2P payments. In both cases, users can choose to pay directly with a credit or debit card for a flat fee of 2.9%. Alternatively, they may deposit funds into a Moneypool account (similar to PayPal) in exchange for a 1.9% fee, and then use their outstanding balance to make payments free of charge. Payment recipients, on the other hand, are never charged any fees and receive funds directly in their Moneypool account. Outstanding balances may be transferred to any bank account in Mexico free of charge and in only 1 business day, although users may also opt for immediate transfer for M$9.

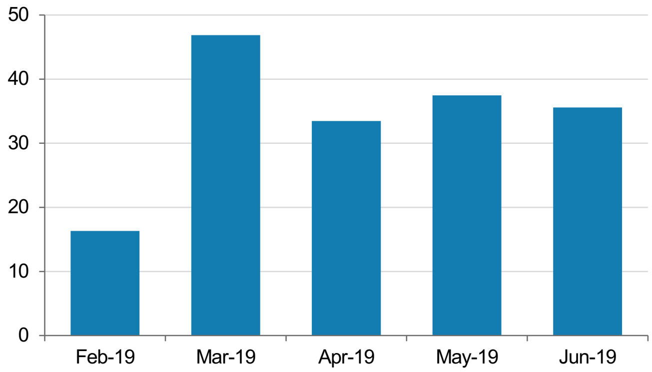
Headquartered in Nuevo León, Mexico, Moneypool was founded in 2013 by now CEO Ignacio Alvarez, CTO Gerardo Acuña, and COO Sebastian Cueva. Pior to Moneypool, Mr. Alvarez, and Mr. Cueva worked at IGNIA, an early-to-late stage venture capital firm in Mexico, where Mr. Alvarez raised equity commitments of US$60 million for his portfolio of companies. In the first year of operations, the platform gained 4,500 registered users. In 2014, the company was selected to participate in the accelerator program Naranya Labs, which provided them with seed money. At first, the company charged zero commissions for payments, instead relying on a tip model, whereby users were able to decide how much money to donate to the platform. By 2017, the company had established a fee model and reached a monthly user base growth rate of 8-10%, with more than 100 thousand transactions being made since its inception and 18,000 pools being made in 2017 alone, according to an interview with the CEO. The platform is currently implementing an organic growth strategy and is geared toward technologically savvy 27- to 35-year-olds in Mexico City, Gualajara and Monterrey.

Key Highlights

Users can pool money with others and use the combined funds to pay for a single transaction, such as purchasing a gift from multiple people, coordinating vacation or car rentals, planning events, etc. All users can see which individuals have already chipped in before making their payment. Once all the funds are collected, the pool "administrator" can withdraw the money at no cost in 24 business hours. When it first launched, each pool group collected an average of M$8,000.

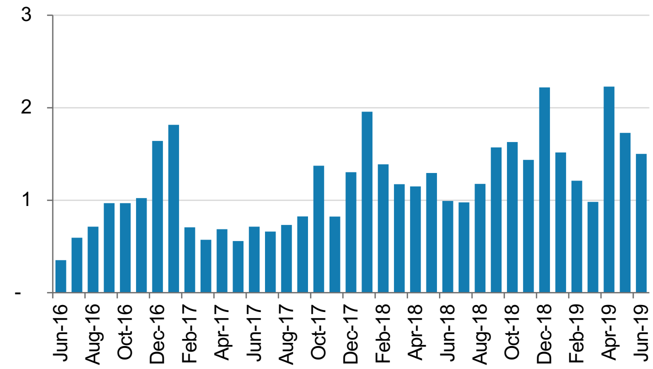
In the long term, the company is looking to become a widely accepted payment method. Management said that the 1.9-2.9% commissions charged by the company are not enough to cover all costs, which is why they are continuing to raise capital. In the long term, Moneypool is looking to position itself as a commonly accepted payment method at commercial establishments. It is at this stage, management believes, that the platform will be able to capitalize on monetization and profitability opportunities.

Exhibit 74: Moneypool - Monthly Website Visits in Mexico (000's)



Source: SimilarWeb, Morgan Stanley Research.

Exhibit 75: Moneypool - Monthly App Downloads (000's)



Source: SensorTower, Morgan Stanley Research.

What Is the Fintech Law?

Approved in March 2018, the Fintech Law establishes a regulatory framework for fintech institutions in Mexico. Under the law, financial technology institutions (FTIs) are defined as any: i) crowdfunding entity that digitally connects individuals to debt, equity and joint ownership investors; ii) electronic money institution (EMI) that issues, administers, redeems, and transfers electronic payments; iii) cryptocurrency institution engaged in the buying, selling, and receiving of virtual assets

The Fitench Law establishes as the main authorities in the financial technology industry: the Ministry of Finance and Public Credit (SHCP), the banking and securities regulator (CNBV), and the central bank (Banxico). In addition, it gives supervision powers to the National Commission for the Protection and Defense of Financial Services Users (CONDUSEF), the National Commission for Retirement Savings (CONSAR), and the National Insurance Commission (CNSF). With the law, Mexican regulators are looking to give more legal certainty to industry participants, encourage healthy competition among financial service providers, and promote financial inclusion.

To operate as a FTI, a company must obtain special written authorization, issued at the discretion of a committee comprised of two members of the SHCP, two members of the CNBV, and two members of Banxico. Companies that were carrying out activities regulated by the Fintech Law prior to its approval must submit a request for authorization no later than September 25, 2019. They may continue performing activities regulated by the Fintech Law as long as they have disclosed through their website that their authorization is pending and their activities are not currently supervised by the regulators. All companies looking to obtain FTI authorization must be incorporated as a Mexican corporation (sociedad anónima) or limited liability company (sociedad de responsabilidad limitada). Additionally, they must meet minimum capital requirements, which vary depending on the number and type of transactions performed. Given these new capital requirements, we expect an important implication of the law to be higher barriers to entry for new players, something we heard from nearly every fintech company we spoke to.

Several Fintech Law provisions require further development through secondary regulations. Although the Fintech Law officially entered into effect the day after its publication, much of the substantive content of the law will be regulated by secondary provisions. Indeed, the CNBV, the central bank, the SHCP, and CONDUSEF will be responsible for publishing the secondary regulations in periods of 6, 12, and 24 months. As a result, a number of secondary regulations are still pending, and are currently under discussion by the administrative bodies responsible for writing them. For reference, here are the deadlines for provisions:

- **By September 2019:** minimum capital requirements; limits on resources held on behalf of clients; documentation to be submitted to prevent money laundering; documentation necessary for authorization requests; limits on receipt and disbursement of cash; accounting rules.
- **By March 2019:** regulatory reports; criteria for temporary authorization of

innovative companies; define the characteristics of "virtual assets"; information to investors regarding the performance of solicitors.

- **By March 2020:** net capital; standards for data exchange through APIs; authentication mechanisms for data access; fee amount; form and terms to request information from other entities.

Main Components of the Fintech Law

1. **Minimum capital requirements.** Companies seeking authorization to operate as a FTI must meet minimum capital requirements, which vary depending on the type of transactions performed.

    a. **Crowdfunding institutions.** Crowdfunding institutions authorized to carry out only one type of transaction must maintain a minimum capital stock equivalent in Mexican pesos to 500,000 UDIs — UDIs are investment units (unidades de inversión), which are reported by Banxico on a daily basis. When authorized to carry out two or more types of transactions, they must maintain a minimum capital stock equivalent in Mexican pesos to 700,000 UDIs.

    b. **Electronic payment institutions**. E-money institutions authorized to carry out transactions in Mexican currency must maintain a minimum capital stock equivalent to 500,000 UDIs. Companies that are authorized to carry out cryptocurrency or foreign currency transactions, act as clearinghouse in payment systems networks, or to operate, design or trade derivative financial instruments with underlying virtual assets, must maintain a minimum capital stock of 700,000 UDIs.

2. **Open banking.** The law permits open banking, or the sharing of user information by financial institutions through APIs. Indeed, all FTIs will be required to establish APIs that allow connectivity and access to interfaces developed by other FTIs, financial entities, credit-scoring companies, and clearing houses. This will allow FTIs to access and use information of clients at all other regulated institutions, including the large banks, provided that users give prior authorization. The specific standards for exchanging data through APIs have yet to be defined by the necessary secondary regulations, which have a deadline of March 2020. However, the following information will apply:

    a. **Open financial information**, including the products or services offered by the company, as well as the location of its offices and points of service on which its products or services may be accessed.

    b. **Aggregated data**, defined as statistical information that does not identify an individual and is related to the company's operations.

    c. **Transactional data**, or information related to the use of a product or service, such as a deposit account, credit, or any other transactions that customers successfully made or tried to perform.

3. **Regulatory sandboxes**. Modeled after regulatory sandboxes in the UK, this will allow "innovative companies" — dedicated to using innovative methods, technologies, or processes – to obtain temporary authorization to provide their services to a reduced number of clients. Effectively, this will function as a trial period, during which these companies can test out their business model. During this time, they must also take all necessary steps to obtain permanent authorization. However, much like open banking, the specific regulatory standards have not been determined yet, but must be published before March 2019.

4. **Anti-money laundering provision**s. The SHCP set forth minimum measures and requirements that FTIs must comply with to prevent and detect money laundering. This involves detecting suspicious transactions, storing client and user information , training directors, executives and employees, internal or independent evaluations, and presentation of periodic information to the CNBV. The anti-money laundering provisions became effective in September 2018. The SCHP has still not published the reporting forms and guidelines for these provisions.

5. **Limits on receipt and disbursement of cash.** Electronic payment institutions must request authorization from the CNBV to receive and deliver cash in Mexican currency. The authorization will be subject to the following limits: (i) receipt or delivery of cash cannot exceed the equivalent of 10,000 UDIs per client, and (ii) delivery of cash cannot exceed in Mexican pesos the equivalent of 1,500 UDIs per client on a daily basis. Also, electronic payment institutions must classify all accounts according to one of three risk levels, with each risk level have different limits:

    a. **Level I.** For a single client, the total credits in these accounts cannot exceed 750 UDIs in a given month, and the balance cannot exceed 1,000 UDIs,
    b. **Level II.** Total credits in a single client's accounts cannot exceed 3,000 UDIs in a given month.
    c. **Level III.** Total credits are not subject to any limit.

6. **Loan payment in cash.** To allow clients to pay loan payments in cash, crowdfunding institutions must obtain authorization from the CNBV, up to a monthly amount equivalent to 3,000 UDIs for low-risk clients, and up to a monthly amount of 10,000 UDIs for other clients.

7. **Risk disclosure.** FTIs will be required to disclose to their clients the risks associated to transactions executed through them. Specifically, they need to make it clear on their website, mobile app, contracts, digital communications, and marketing ads that the government does not back their obligations and that there is no deposit insurance.

8. **Consumer protection compliance.** FTIs will be required to implement measures to avoid spreading false or misleading information.

9. **Cross-border issues.** The Fintech Law does not set any limits for Mexican-licensed FTIs to offer their services abroad. There is also no limitation on foreign ownership of Mexican fintech companies. Foreign fintech companies, however, are prohibited from offering their services in Mexico without a local licence.

What Is CoDi?

Cobro Digital (CoDi) is a digital payments system developed by Banxico in an effort to promote financial inclusion and reduce the use of cash. The platform allows merchants to accept instant payments — completely free of charge for both the merchant and the consumer — over the existing interbank national transfer system (SPEI), using QR codes or NFC technology. All SPEI participants will eventually be required to join the platform, following a period of testing, which is already underway. Meanwhile, all consumers with a bank account at a financial institution registered with SPEI will be able to participate

What is the objective? With CoDi, Banxico is hoping to incorporate into the financial system a sizable base of micro merchants that currently only accept cash and hence, is not part of the formal market. At the same time, they are looking to provide a free, alternative payment acceptance method to merchants that already accept debit and credit card payments (for which they are charged fees), potentially encouraging a meaningful reduction in cash usage. Although the initiative may hurt bank revenues from the interchange earned on debit card transactions, it could also expand the base of bancarized individuals that banks can offer products and services to.

Who can participate? On the consumer side, all individuals with a bank account at a financial institution registered with SPEI will be able to participate. On the receiving side, all SPEI participants — including both traditional banks and fintech companies regulated by Mexican financial authorities — will be required to receive and process CoDi payments, following a period of pilot testing.

What is required? For a payment to be carried out via CoDi, the following requirements must be met:

- The consumer, i.e., the paying end of the transaction, must have a bank account with a SPEI participant, i.e., a traditional or digital bank, and have his or her bank's mobile app downloaded. Given that a large portion of the Mexican population is unbanked, this requirement could significantly limit the program's reach.

- The vendor, i.e., the receiving end of the transaction, must have the CoDi application either on a mobile device or web portal, as well as a scanning device that is able to process QR codes.

How does it work? If the above requirements are met, online and offline vendors are able to send charges — of up to M$8,000 — to consumers through QR codes generated by the CoDi app. The consumer receives a QR code and accepts the transaction through their financial institution's mobile app. Once a charge is received, the consumer's bank app should open on the last step of the sending process for a traditional SPEI transfer, with the recipient's account information pre-populated and only the consumer's final validation required, i.e., a fingerprint, facial recognition, a password, etc. By accepting the charge, the consumer initiates an immediate, electronic interbank transfer. For the transaction to be approved, however, both parties' devices must successfully connect with Banxico to encrypt and request decryption keys. Once the purchase is validated, the payment is settled in real time and credited to the vendor in a matter of seconds, with the user and the merchant receiving a real-time notification that the payment has been processed.

What kind of transactions can CoDi be used for? CoDi payments can be used for brick and mortar and e-commerce transactions, as well as for recurrent bill payments, such as utilities or monthly subscriptions.

What is the implementation timeline? Banxico expects to fully roll out the platform by 4Q19, with all banks that have over 3,000 accounts being required to enable the technology no later than September 30. That said, a pilot version of the program was launched in April and is currently underway, with a few institutions participating voluntarily and more institutions set to join gradually. The pilot program has been divided into three stages: a government program focused on young people; an initiative aimed at medium-sized cities; and a program aimed at small communities without local bank branches. At the moment, Banxico is planning to launch the second stage of implementation in late July or early August. The second stage will be carried out in La Paz, Tulancingo, and Progreso, with 250,000, 130,000, and 50,000 inhabitants.

How do fintech companies feel about CoDi? During our conversations with leading Mexican fintech companies, many management teams expressed the following common sentiments: (i) skepticism that the platform will gain traction, given the requirement for a bank account and a data plan, which many Mexicans still lack; (ii) optimism that if CoDi were to pick up, it could serve as a positive catalyst for cash substitution, which would ultimately expand the TAM of the industry; (ii) confidence that QR code solutions would be easy to roll out, given fintechs' nimble architecture and digital DNA; (iii) a belief that banks will try to protect their interchange revenue and hence, will have low incentives to promote CoDi and install the necessary infrastructure. Also, payment companies that focus on the unbanked segment and rely on prepaid cards added that their target market would rather work with them than open a bank account for CoDi, since this would require upfront costs and force them to pay taxes.

CoDi has the potential to reduce cash usage and increase digital payments penetration... By implementing a commission-free, secure and standardized digital payments solution throughout Mexico, CoDi could, in theory, significantly reduce the use of cash and expand bancarization rates, particularly among small merchants. This, according to both leading fintech players and the banks, could potentially benefit the financial services industry as a whole, as a wider addressable market could more than make up for a possible reduction in debit interchange revenues. That said, banks believe that under a disruptive scenario, they would have an important advantage over payments-only companies, which are likely to be me more negatively impacted by a reduction in interchange revenues. However, we think highly verticalized companies with large-scale reach, such as Clip, are well-positioned, as they will likely be able to successfully enter new verticals and roll out more value-added services.

… but adoption may be limited, given that the platform runs on SPEI, which requires a Banxico-registered bank account, something many currently unbanked individuals are likely to remain resistant to; and the CoDi architecture will be hard to implement without absolute buy-in from all market participants — something that is not fully evident yet, we think.

Valuation and Risks

BBAJIOO.MX (M$37.39)

Our valuation work and price target is based on residual income analysis. Our year-end 2019 price target of M$39 assumes the shares will trade at 8.1x prospective P/E and year-end 2019 P/BV of 1.4x. Our valuation model uses a discount rate of 11.2% and long-term ROAE of 13-14%.

We consider the uncertainty in the region's economic climate as the key long-term investment concern related to Latin American banks. In the past, economic instability has resulted in great share price volatility. A scenario of economic contraction, inflation, and currency depreciation would have a significant negative impact on our outlook for the banks.

Key risks we see for Banco del Bajío are: headwinds from NAFTA negotiations given the bank is very focused on regions that are particularly sensitive to NAFTA; normalization of interest rates in the future could put pressure on margins; expansion to non-core areas could dilute profitability; and competition in the banking system.

BBVA.MC (€4.86, covered by Alvaro Serrano)

To reach our PT of €5.70, we use a SOTP/Gordon growth valuation. We use an average 12% cost of equity and 2.7% long-term growth.

Risks to price target: (1) The main risks are reflected in our bull and bear cases and include a significant deterioration or improvement in sovereign risk in Europe and, in particular, Spain. (2) GDP could fail to recover in 2019e and asset quality could deteriorate more than we expect, preventing part or all of the release in provisions we assume.

GFNORTEO.MX (M$100.41)

Our valuation work and price target is based on residual income analysis. Our year-end 2019 price target of M$112 implies the shares will trade at 8.9x prospective P/E and year-end 2019 P/BV of 1.7x. Our valuation model uses a discount rate of 12.4% and long-term ROAE of 17-18%.

We consider the uncertainty in the region's economic climate as the key long-term investment concern related to Latin American banks. In the past, economic instability has resulted in great share price volatility. A scenario of economic contraction, inflation, and currency depreciation would have a significant negative impact on our outlook for the banks.

Risks to NAFTA and political cycle represent headwinds for Mexico's growth story. Additionally for Banorte, key risks we see are rising NPL, competition in the banking system, and M&A execution risks.

Morgan Stanley is currently acting as financial advisor to Grupo Financiero Santander Mexico S.A.B DE C.V. ("Santander Mexico") with respect to Banco Santander S.A.'s proposed exchange offer for up to 25% of the outstanding common shares of Santander Mexico, as announced on April 12, 2019. The proposed acquisition is subject to the consummation of the exchange offer, required regulatory approvals and other customary closing conditions. This report and the information provided herein is also not intended to (i) provide advice with respect to the exchange offer, (ii) serve as an endorsement of the exchange offer, or (iii) result in the procurement, withholding or revocation of a tender in the exchange or any other action by a security holder. Please refer to the notes at the end of the report.

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(as of June 30, 2019)

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STOCK RATING CATEGORY	COVERAGE UNIVERSE COUNT	COVERAGE UNIVERSE % OF TOTAL	INVESTMENT BANKING CLIENTS (IBC) COUNT	IBC % OF TOTAL IBC	IBC % OF RATING CATEGORY	OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC) COUNT	MISC % OF TOTAL OTHER MISC
Overweight/Buy	**1110**	**36%**	**282**	**42%**	**25%**	**515**	**37%**
Equal-weight/Hold	**1404**	**45%**	**312**	**47%**	**22%**	**656**	**47%**
Not-Rated/Hold	**13**	**0%**	**2**	**0%**	**15%**	**2**	**0%**
Underweight/Sell	**581**	**19%**	**73**	**11%**	**13%**	**229**	**16%**
TOTAL	**3,108**		**669**			**1402**	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.
Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.
Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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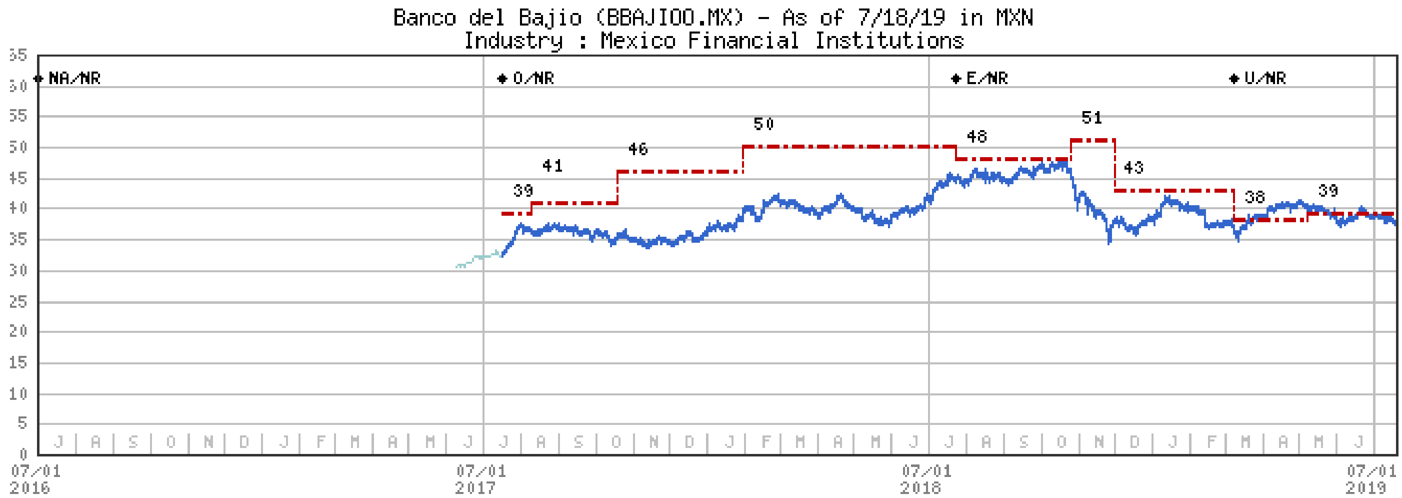
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 7/1/16 : NA/NR; 7/17/17 : O/NR; 7/24/18 : E/NR; 3/8/19 : U/NR

Price Target History: 7/17/17 : 39; 8/9/17 : 41; 10/19/17 : 46; 1/30/18 : 50; 7/24/18 : 48; 10/26/18 : 51; 11/30/18 : 43; 3/8/19 : 38; 5/7/19 : 39

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target --   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) ---   Stock Price (Covered by Current Analyst) ---
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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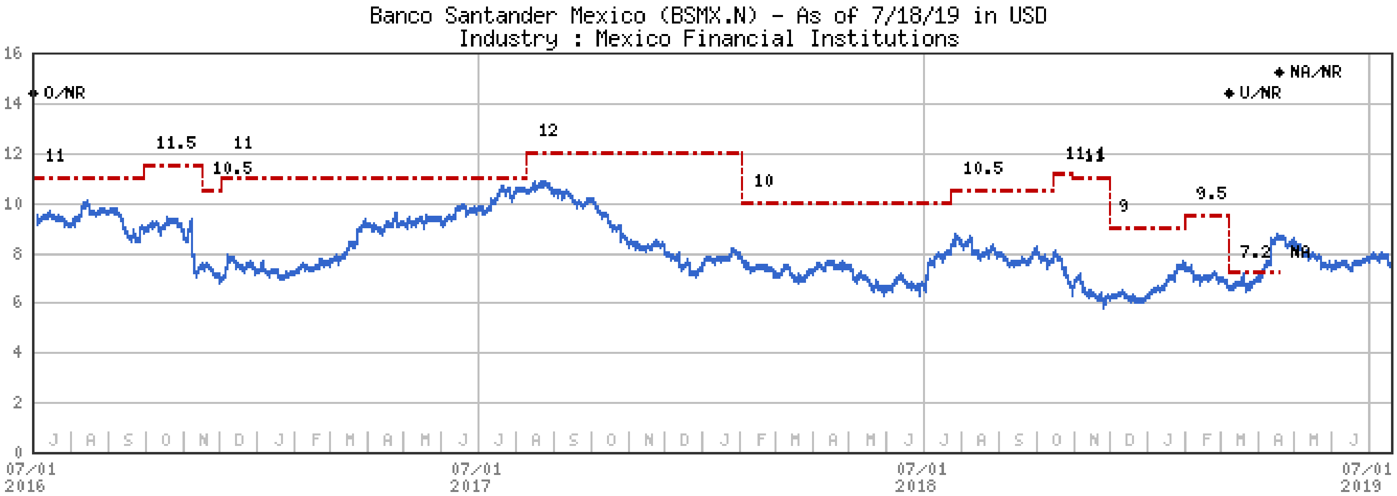
Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.



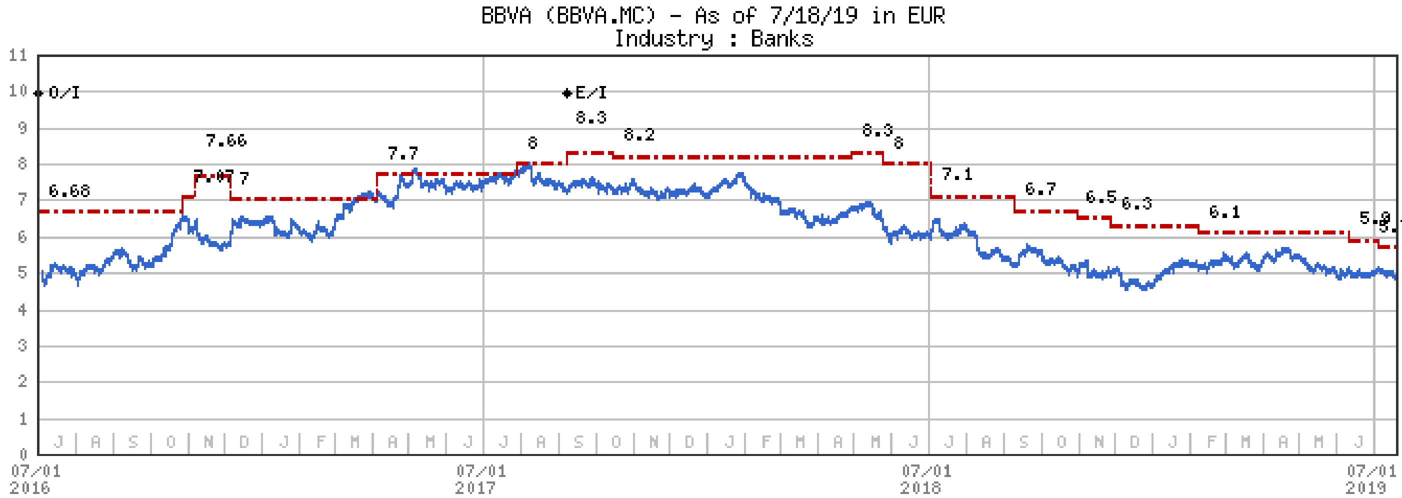
Stock Rating History: 7/1/16 : O/NR; 3/8/19 : U/NR; 4/18/19 : NA/NR

Price Target History: 5/5/16 : 11; 9/30/16 : 11.5; 11/16/16 : 10.5; 12/2/16 : 11; 8/9/17 : 12; 2/2/18 : 10; 7/24/18 : 10.5; 10/15/18 : 11.1; 10/31/18 : 11; 11/30/18 : 9; 1/31/19 : 9.5; 3/8/19 : 7.2; 4/18/19 : NA

Source: Morgan Stanley Research   Date Format : MM/DD/YY   Price Target   No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst)   Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.



Stock Rating History: 7/1/16 : O/I; 9/7/17 : E/I

Price Target History: 6/29/16 : 6.68; 10/27/16 : 7.07; 11/7/16 : 7.66; 12/5/16 : 7; 4/5/17 : 7.7; 7/28/17 : 8; 9/7/17 : 8.3; 10/16/17 : 8.2; 4/29/18 : 8.3; 5/24/18 : 8; 7/3/18 : 7.1; 9/10/18 : 6.7; 10/30/18 : 6.5; 11/27/18 : 6.3; 2/7/19 : 6.1; 6/11/19 : 5.9; 7/4/19 : 5.7

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
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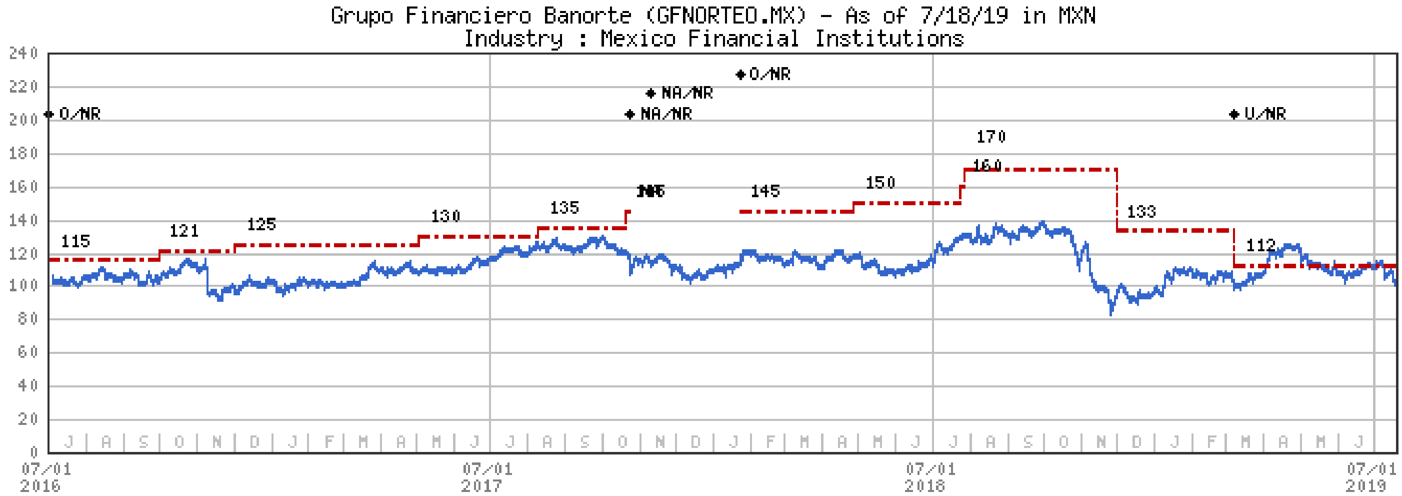

Stock Rating History: 7/1/16 : O/NR; 10/25/17 : NA/NR; 11/10/17 : NA/NR; 1/23/18 : O/NR; 3/8/19 : U/NR

Price Target History: 5/4/16 : 115; 9/30/16 : 121; 12/2/16 : 125; 5/3/17 : 130; 8/9/17 : 135; 10/20/17 : 145; 10/25/17 : NA; 1/23/18 : 145; 4/27/18 : 150; 7/24/18 : 160; 7/27/18 : 170; 11/30/18 : 133; 3/8/19 : 112

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
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INDUSTRY COVERAGE: Mexico Financial Institutions

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/18/2019)
Jorge Kuri		
Banco del Bajio (BBAJIOO.MX)	U (03/08/2019)	M$37.39
Banco Santander Mexico (BSMX.N)	++	US$7.48
Grupo Financiero Banorte (GFNORTEO.MX)	U (03/08/2019)	M$100.41

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* Historical prices are not split adjusted.