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INVESTOR UPDATE

JULY, 2020

CREDITO REAL UPDATE

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

EXECUTIVE SUMMARY

Credito Real is a leading financial institution in Mexico, with noted presence in the United States, Costa Rica, Panama and Nicaragua. The Company's focus is consumer lending with a diversified business platform. We recommend the 2026 Credito Real US-denominated global bond at Underweight. This investment is most suitable for investors with a moderate-to-high risk tolerance. The company enjoys a prominent market position with strong operating and profitability margins but is in the business of relatively high-risk consumer loans with a concentration risk in the payroll loans segment.

COMPANY OVERVIEW

The Company's focus is consumer lending with a diversified business platform in the following main lines of business: payroll loans, small business loans, group loans, car loans and personal loans through Instacredit. Credito Real offers its products mainly to the low and middle segments of the population that have historically been underserved by other financial institutions.

Bond Details

Issuer	Credito Real S.A.B. de C.V.
Country of Risk	Mexico
Instrument	Senior Unsecured Notes
Issue Size	US$400,000,000.00
Maturity Date	February 07, 2026
Coupon Rate/Frequency	9.50%. Coupon paid semi-annually
Bid/Ask[1]	US$102.167/US$102.951
Last Price/Yield	US$102.662; Yield to Worst – 8.782%; Yield to Maturity – 8.884% Yield to Call – 9.941%
Credit Rating/Outlook	Fitch – BB+/Negative; S&P – BB/Negative
Next Call Date and Price	February 7, 2023 – US$104.750

[1] Exclusive of broker fees

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FINANCIAL PERFORMANCE (MEXICAN PESOS) – THREE MONTHS ENDED MARCH 31

Profitability

Credito Real reported net revenues of Pesos (Ps.) 1.24B for the first three months of 2020, down 29.8% or Ps. 526.6M year-over-year. Interest income fell 4.9% to Ps. 2.69B while interest expense rose 1.3% to Ps. 1.08B, resulting in a financial margin (net interest income) of Ps. 1.61B, an 8.6% decline year-over-year. The decline in interest income was driven by lower loan origination which was attributed to: i) a softer start to the year for the Payroll business; ii) tighter origination growth pace in the SME business; and, iii) restrictive origination measures implemented due to the COVID-19 pandemic.

The increase of interest expense was attributed to a non-recurring loss of Ps. 64.0M, which stemmed from a derivative unwinding of a US$110M syndicated credit facility. Adjusting for this non-recurring loss, interest expense amounted to Ps. 1.02M for the quarter, a 4.7% decline year-over-year. The cost of funds stood at 9.4%, which is down from 13.7% in 1Q19 and 13.3% in 4Q19. The adjusted cost of funds for the non-recurring effect stood at 8.8%. Credito noted that the decline in interest expense is attributable to new funding agreements signed since 2H19 and the Mexican central bank's easing cycle. The net interest margin stood at 13.4% during the quarter, down from 18.9% a year prior.

Credito booked Ps. 459.9M in net provision for loan losses, a 36.4% increase year-over-year. This increase was driven by: a 20.1% increase in the Used Cars MX line; a 17.7% increase in Instacredit due to stronger provisions build-up against the possible effect of the COVID-19 pandemic; a 17.2% increase in the United States businesses due to higher delinquency linked to the COVID-19 outbreak; and a 0.2% increase in SMEs.

This increase was partially offset by a 14.8% decline in provision for the Payroll business and a 4.0% decrease in 'Other lines'. In 1Q20, Credito reported Ps. 118.7M in recovery of charge-off accounts, up from Ps. 48.6M in 1Q19. Credito has made solid allowances for loan losses, as expressed in the allowance for loan losses to non-performing loan portfolio ratio. The coverage ratio for loan losses stood at 219.1% in 1Q20, up from 207.9% in 1Q19.

Commissions and fees paid amounted to Ps. 64.2M, down 25.0% year-over-year while commissions and fees charged stood at zero, down from Ps. 134.8M in the prior year quarter. In December 2020, Credito decreased its equity participation in Resuelve, and as such, hereinafter, this line will not include income from Resuelve. In 2015, Credito acquired a 55.21% equity stake in CAT 60, S.A.P.I. de C.V., the holding company of Resuelve. Resuelve began operations in Colombia in 2009 and offers services to repair individuals' credit standing and restructuring customers' debt with its creditors. Commissions and fees paid reflect commissions paid for debt issuances.

Intermediation income fell 76.2% to Ps. 61.3M while other income amounted to Ps. 88.7M, a 187.1% increase from the comparable period of the previous year. Intermediation income represents the result and valuation of derivative financial instruments. During 1Q19, as a result of the derivatives unwinding of the Senior Notes due 2019, intermediation income booked a non-recurring gain of Ps. 220M.

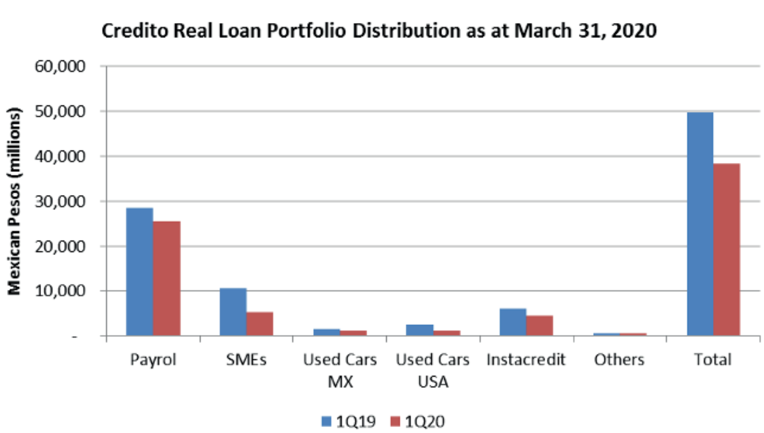
Administrative and promotional expenses declined 9.6% to Ps. 772.5M. This decrease was driven by a 14.8% decrease in Mexico, led by savings generated on a corporate level and Resuelve expenses that are no longer recognized due to its divestment, and a 0.3% decrease in Central America. As such, operating profits amounted to Ps. 465.9M, a 48.9% or Ps. 445.0M decline over the comparable period in 2019. The operating margin fell from 51.6% in 1Q19 to 37.6% in 1Q20. The main drivers behind this decline were the Ps. 274.9M decline in net interest income, the Ps. 134.8M decline in commissions and fees income and the Ps. 196.1 decline in intermediation income.

Net income amounted to Ps. 305.4M, down 51.1% or Ps. 319.2M year-over-year, despite a 51.9% decline in income taxes to Ps. 127.5M, which saw the effective tax rate fall from 29.1% to 27.4% in 1Q20. Return on assets stood at 1.8% while return on equity stood at 6.9%, compared to 5.0% and 15.7%, respectively in 1Q19, reflecting the sharp decline in net profits.

Liquidity & Solvency

Credito's total assets amounted to Ps. 72.97B at the end of the first quarter, up 43.5% or Ps. 22.13B from its balance a year earlier, driven primarily by growth in the loan portfolio and securities and derivatives transactions. The net loan portfolio amounted to Ps. 47.99b, an increase of 29.8% year-over-year driven by the contribution of all business segments, outstanding SMEs, Payroll and the United States businesses. Securities and derivatives transactions amounted to Ps. 7.43B, up from Ps. 83.2M a year prior.

The non-performing loan portfolio (NPL) amounted to Ps. 765.9M, up 21.7% year-over-year and represented 1.5% of the total loan portfolio, down from 1.64% of total loans in 1Q19. This improvement was reflective of the enhancement of loan origination and collection procedures in each business segment which Credito believes provides a firm foundation to cope with the ongoing COVID-19 outbreak. Allowances for loan losses amounted to Ps. 1.68B, up from Ps. 1.31B a year prior, which represents a coverage ratio of 219.1%, compared to 207.9% coverage in 1Q19.



Credito Real reported other accounts receivables of Ps. 7.32B up 35.3% year-over-year while other assets rose 12.0% to Ps. 5.48B. Other receivables include income paid in advance to payroll distributors, as per commercial agreements. Cash and cash equivalents rose Ps. 1.51B to Ps. 1.92B while investments in securities fell 22.8% to Ps. 865.3M. Property, furniture & fixtures fell 15.1% to Ps. 651.3M.

Total liabilities amounted to Ps. 53.83B, a 54.7% increase year-over-year. This increase was driven by a 60.6% increase in total debt to Ps. 50.85B. Senior notes amounted to Ps. 31.27B, up 47.7% while bank loans amounted to Ps. 18.45B, up 103.2% year-over-year. Notes payable fell 20.3% to Ps. 1.13B, partially offsetting the increase in senior notes and bank loans. Credito attributed the increase in senior notes payable and notes payable to the effect of the peso depreciation on the fair value of the Company's foreign-denominated debt. Other accounts payable fell 4.4% to Ps. 2.99B.

Shareholders' equity amounted to Ps. 19.14B, a 19.3% increase year-over-year. This movement was driven by 14.4% increase in 'accumulated results from prior years' and a swing in valuation of cash flow hedges from negative Ps. 137.9M to positive Ps. 937.9M, due to favourable FX movements. The debt-to-equity ratio rose to 2.66x, up from 1.97x.

Total liabilities stood at Ps. 31.72B as at September 30, 2018, up 17.3% from a year earlier as total debt rose 12.8% to Ps. 27.87B. Debt consisted of notes payable of Ps. 850.9M, senior notes of Ps. 15.45B and bank loans of Ps. 11.57B. Shareholders' equity rose 63.0% to Ps. 15.31B driven predominantly by the booking of Ps. 4.31B in perpetual notes in 4Q17. Retained profits rose 25.9% to Ps. 6.9B. The debt-to-equity ratio stood 1.82x, down from 2.63x at the end of 3Q17. The table on the following page displays CR's debt amortization schedule. The company's next major redemption is in 2023, with no major debt repayments required between 2023 and 2026. Given the company's strong profitability and solvency, we believe the company should be able to service its obligations in the short-term.

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Debt Distribution Schedule as at June 17, 2020 (Millions of MXN Pesos)			
Date	**Principal ($)**	**Interest ($)**	**Total ($)**
2020	182.60	1,140.00	1,322.60
2021	577.70	2,350.92	2,928.62
2022	7,248.32	2,264.57	9,512.89
2023	10,016.93	2,025.00	12,041.93
2024	1,008.33	1,303.32	2,311.65
2025	-	1,295.79	1,295.79
2026	8,975.35	869.46	9,844.81
2027	8,862.60	221.56	9,084.16
Undisclosed	625.00	-	625.00
Perpetual	5,160.83	1,177.31	6,338.14
Total	42,657.66	12,647.93	55,305.59

Credit Rating

On February 24, 2020, S&P Global Ratings affirmed its global scale ‘BB+’ issuer credit rating on Credito Real. S&P held the outlook at Negative. According to the rating agency, the ratings reflected Credito Real’s position as one of the top players in the non-bank, payroll-lending segment in Mexico, and its growing diversification outside of Mexico, specifically in the U.S. and Costa Rica. In addition, S&P considers Credito’s capitalization to be solid given rising internal capital generation.

The rating agency did note that Credito’s focus on lending to government employees poses challenges due to the reliance on public entities for distribution and collections, which has partially limited the ratings. However, the improved performance of Credito’s portfolio in Central America, and a higher share of SME and auto segments within the total portfolio have led to stronger asset quality metrics. S&P considers Credito to have sufficient liquidity and noted that the Company remains an active participant in capital markets to issue debt and meet its short-term maturities.

On April 21, 2020, Fitch Ratings affirmed Credito Real’s Long-Term Issuer Default Ratings (IDRs) at ‘BB+’, while revising the Rating Outlook from Stable to Negative. The negative outlook is driven by the downside risks Credito faces in the medium term from the deterioration of the operating environment in the more vulnerable segments affected by coronavirus pandemic. Fitch stated that the consumer lending and SME segments could experience weakened financial profiles, but the magnitude and financial implications are dependent on the length of the measures to control the spread of the virus.

According to Fitch, although Credito entered the economic contraction with “better-than-peer asset quality for the segment, strong earnings generation, a good funding profile and flexibility, and reasonable leverage metrics, Fitch believes asset quality could be pressured and profitability metrics could decline due to slower credit growth, higher needs of provisions and lower revenue generation, which is reflected in the revision of the rating Outlook to Negative from Stable.”

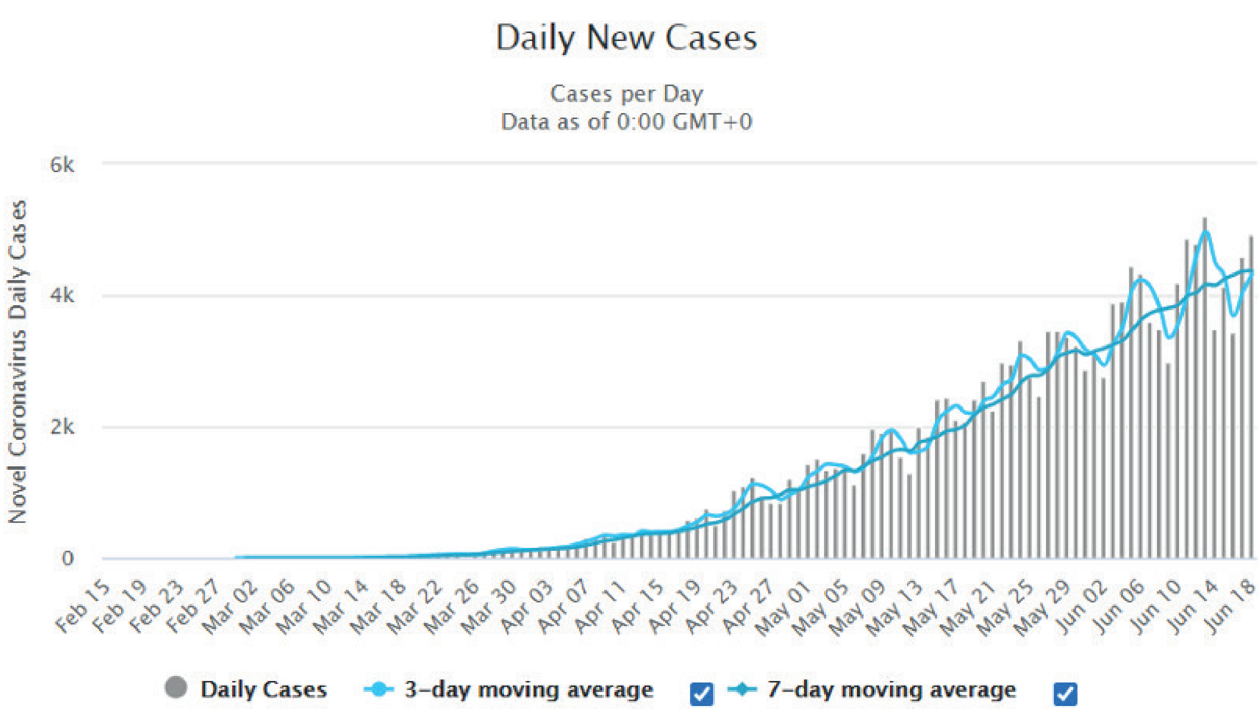
Fitch believes that Credito’s business model has proven to be resilient through economic cycles driven by its concentration (60% of total loans) on payroll (secured) loans to unionized state and federal public-sector employees, retirees and pensioners, a group that is particularly less sensitive to economic and unemployment risks. However, Fitch further stated that Credito’s foreign operations (19% of the loan portfolio) are also facing operating environment deterioration as the Sovereign ratings of Costa Rica and Panama have negative outlooks. Credito's moderate exposure to the SMEs and auto loans segment could also be adversely affected by the economic downturn, which poses additional pressures on Credito's ratings over the medium term.

Outlook & Recommendation

Mexico faced significant challenges in 2019, culminating in stagnation in economic growth. The construction industry, which represents 7.5% of economic product, recorded its weakest showing in over a decade, which weighed on the cement industry as sales plummeted to record lows. This outrun was a result of policy decisions such as: the cancellation of construction of a new Mexico City airport; suspension of residential and commercial construction projects; lower federal allocation to the national highway; and a decrease in federal housing subsidies, which pushed the industry to levels not seen in recent years.

With the ascension of Andres Manuel Lopez Obrador to President in December 2018, private investments declined on uncertainty around the policies the administration sought to implement and the extent to which they would impact investors. With the cancellation of previously announced infrastructure projects, investor confidence and private investment declined. Going forward, concerns abound as to how the current administration plans to implement more accommodative policies to boost private sector confidence, especially given the government's questionable handling of the coronavirus pandemic.

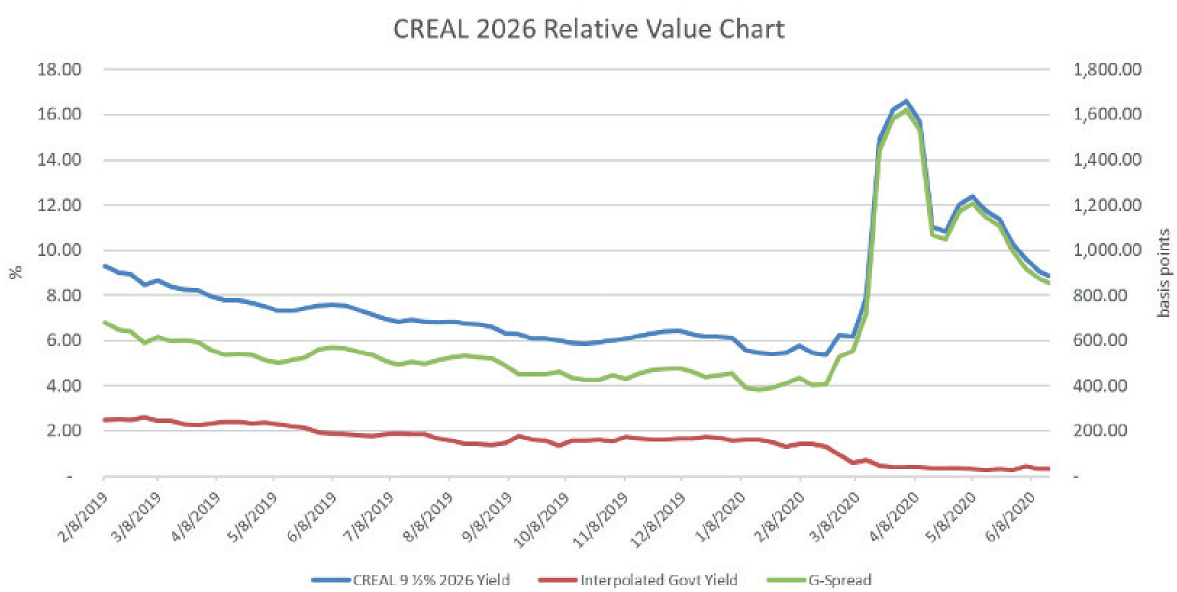
As of June 19, 2020, Mexico recorded 165,455 coronavirus cases and 19,747 deaths, making it one of the worst hit countries globally – the country has the 7th highest death toll, second only to Brazil in Latin America. The chart below displays the trend of daily new coronavirus cases, which clearly shows that new cases are trending upwards as highlighted by the 7-day moving average line.



Source: www.worldometers.info

At the time of writing, the Mexican government has begun to remove some of the restrictions it had imposed to stem the spread of COVID-19, even as deaths and new cases continue to rise. There is also concern that actual numbers are higher than reported due to insufficient testing capacity. Mexico was slow to implement protocols to stem the transmission of the coronavirus and now critics contend these measures are now being lifted too quickly. The country lost more than one million jobs but the true impact is anyone's guess due to Mexico's large informal economy.

On April 15, 2020, Fitch Ratings downgraded Mexico to 'BBB-' from 'BBB' and assigned a Stable rating outlook. The key driver behind this downgrade is the expectation that the coronavirus pandemic will lead to a severe recession in Mexico in 2020. A recovery in the second half of the year is expected to be constrained by factors that have hampered recent economic performance, which has lagged rating and income level peers. These factors include: deterioration in the business climate and a perceived erosion of the institutional strength in the regulatory framework. At the time of the downgrade, Fitch expected the Mexican economy to decline 4% in 2020. However, by May 5, 2020, Fitch revised its growth forecast to a contraction of 7.1% for 2020, driven by a "still-growing COVID-19 outbreak, a sharp contraction in growth in the U.S., and the deteriorating performance of the national oil company, Pemex.



Subsequent to the release of the 1Q20 results, Credito announced several financing initiatives. On April 24, 2020 the company signed a US$50.0M credit line with BNP Paribas with a one year term. Three days later the Company announced the establishment of a Medium-Term Note Program for up to US$1.5B, which provides Credito with access to a wide array of debt securities in various international markets, currencies and maturities. On May 4, 2020, Credito drew down Ps. 625M from a credit facility arranged with the Japanese bank Sumitomo Mitsui Banking Corporation after the bank authorized a new credit line for Ps. 800M.

On May 29, 2020, Credito renewed two lines of credit for Ps. 2.2B with two Mexican banks, Citibanamex and BBVA. On the same day the company also announced the successful drawdown of Ps. 800M from a credit facility arranged with Banco Santander Mexico, after the authorization of a new credit line with a 4-year term. These announcements underscored the confidence the Company's creditors have in the company and highlighted Credito's ability to tap into financing source. These moves also bolstered the Company's liquidity levels to support its efforts to tackle the current headwinds being faced and take advantage of any opportunities that may arise in the current economic environment.

The CREAL 9.5% 2026 bond currently trades at a price $102.66 with a yield to maturity of 8.884%. From the relative value chart, we can see that the bond's yield rose to as high as 16% at the start of April 2020, up 10 percentage points since the start of the year. This increase was driven by fears around the economic impact of the coronavirus pandemic which led to significant declines in global asset values and subsequent increases in bond yields. The yield on the CREAL 2026 has since improved, falling to just below 9% as the bond price recovered from the mid-70s to trading just around US$100.

As such, we recommend Credito Real due 2026 US-denominated global bond at Underperform/Underweight. This investment is most suitable for investors with a moderate-to-high risk tolerance. The company enjoys a prominent market position with strong operating and profitability margins but is in the business of relative high risk consumer loans with concentration risk in the payroll loans segment. This risk is being addressed as the company expands into other business lines which include: SME, used car and business loans. CR's outlook is highly dependent on that of Mexico as a serious deterioration in macroeconomic variables will sour the demand for its suite of products and also lead to deterioration in the loan book from a surge in bad debts. These risks are partially mitigated by the company's current focus on revenue and geographical diversification.

Abridged Financials

Millions of Pesos	Year Ended December 31					Three Months Ended Mar 31		
	2015	2016	2017	2018	2019	2019	2020	% Change
Net Revenue	**2,860**	**5,110**	**5,583**	**5,992**	**6,380**	**1,765**	**1,238**	**-29.9%**
Net interest income	3,312	5,042	5,831	7,080	7,262	1,765	1,613	-8.6%
Administrative & promotional expenses	**1,138**	**2,922**	**3,418**	**3,483**	**3,607**	**854**	**773**	**-9.6%**
Operating Profit	1,722	2,188	2,166	2,509	2,773	911	466	-48.9%
Net income	**1,371**	**1,819**	**1,815**	**1,955**	**1,980**	**625**	**305**	**-51.1%**
Total Assets	**25,996**	**35,915**	**41,908**	**49,563**	**61,592**	**50,839**	**72,970**	**43.5%**
Total Liabilities	**19,283**	**26,638**	**27,139**	**33,627**	**45,528**	**34,795**	**53,834**	**54.7%**
Shareholders' equity	**6,713**	**9,277**	**14,768**	**15,936**	**16,064**	**16,044**	**19,137**	**19.3%**
Key Ratios								
Net Interest Margin (%)	21.0	22.5	22.2	20.8	17.1	18.9	13.4	
Operating profit margin (%)	60.2	42.8	38.8	41.9	43.5	51.6	37.6	
Net profit margin	47.9	35.6	32.5	32.6	31.0	35.4	24.7	
Return on average assets (%)	6.0	4.2	4.5	4.2	3.6	5.0	1.8	
Return on average equity (%)	22.2	20.2	15.9	12.9	12.3	15.7	6.9	
NPL ratio (x)	2.4	2.2	2.1	1.7	1.3	1.6	1.5	
Allowances for loan losses/total past-due loans (%)	116.7	148.4	176.4	172.9	219.7	207.9	219.1	
Debt/equity (x)	2.60	2.65	1.61	1.92	2.58	1.97	2.66	

Source: http://www.jamstockex.com, JMMB Investment & Research, Bloomberg, Company Financial Statements, Fitch Ratings, S&P Global Ratings, Worldmeters

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT— As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation DEFINITIONS/ RECOMMENDATIONS.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT -
REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL -
REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKET WEIGHT -
EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY -
EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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