

AUGUST, 2022

CRÉDITO REAL (CREAL)

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

COMPANY OVERVIEW

Crédito Real (CREAL) is a leading financial institution in Mexico, with a presence in the United States and Central America. The Company's focus is consumer lending with a diversified business platform in the following main lines of business: payroll loans, small business loans, used car loans, consumer loans through Instacredit and group loans. CREAL's target market is low and middle-income segments of the population that have historically been underserved by other financial institutions.

BOND DETAILS

Issuer	Crédito 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%. Payable semi-annually
Bid/Ask¹	US\$4.704/US\$5.421
Last Price²	US\$4.607
Yield²	Yield to Maturity – 175.93% Yield to Call – 259.83%
Credit Rating/Outlook	Fitch: C/Negative S&P: Rating Withdrawn
Next Call Date and Price	February 7, 2023 – US\$104.750

¹ Exclusive of broker fees, as at July 15, 2022

² Based on last price as at July 15, 2022

JULY 2022 UPDATE

On July 14, 2022, Crédito Real announced the recognition of its dissolution by a Mexican commercial court and the ordering of its liquidation. The notice also stated that a qualified judicial liquidator was appointed by the court. The order was driven by legal action filed by an existing shareholder. Reports suggest the order was requested by none other than Crédito Real's former CEO Angel Francisco Romanos Berrondo. The Company has not provided a comment on the ex-CEO's suit. Less than 24 hours later, the Company filed for Chapter 15 bankruptcy in Delaware, U.S., a move which protects US assets during the Mexican proceedings.

The filing comes after a group of bondholders sought to force the Company into bankruptcy proceedings in the U.S. by filing an involuntary Chapter 11 bankruptcy petition in June 2022. Crédito Real filed a motion to dismiss the petition on the deadline to respond to the involuntary Chapter 11 petition. The Company also reiterated that its affairs and assets would continue to operate as if the involuntary petition had not been filed. The current negotiations between bondholders and the Company appear to be acrimonious as the Company stated that the filing was "improper and was filed as a litigation tactic in the U.S. by certain alleged minority creditors to gain leverage in negotiations with the Company."

The company woes continued as the Company announced on July 15th that its acting CEO and the General Counsel had both terminated their employment with the Company. Mr Felipe Guelfi Regules was the acting Chief Executive Officer and Chief Transformation Officer and had assumed the Chief Financial Officer's responsibilities after the former CFO, Noe Gomez, resigned on June 14, 2022. The resignations at the executive management level follow several departures at the Board level in June 2022. Currently, the Board of Directors consists of only one member, former Chairperson and CEO, Mr Angel Francisco Romanos Berrondo.

Just last month, Crédito had previously fired legal and

financial advisors who were preparing the microfinancier for a Chapter 11 bankruptcy filing in the U.S., stating that their dismissal was in the best interest of the Company as it explored options to restructure its debt.

A Chapter 11 bankruptcy involves reorganising a debtor's business affairs, debt and assets. It allows a company to stay in business while restructuring its obligations. Chapter 11 is usually the most expensive form of bankruptcy proceeding and the most complex. During a Chapter 11 bankruptcy, the business may require the permission of the courts to make some decisions such as asset sales, starting or terminating a rental agreement and stopping or expanding operations.

A Chapter 15 bankruptcy filing allows for the cooperation of U.S. and foreign courts when foreign bankruptcy proceedings impact U.S. financial interests. The goal of Chapter 15 is to make legal proceedings of international bankruptcies more predictable and fair for debtors and creditors and provide efficient administration of cross-border insolvencies that protect the interests of all creditors and other relevant entities, including the debtor.

RECOMMENDATION

With the Mexican judiciary approving the liquidation request of the former CEO and the only remaining Board member, Crédito Real's status as a going concern appears to be drawing to a close. We now await the outcome of the current court proceedings as while the liquidation has been approved in Mexican courts, Crédito Real must still contend with the involuntary Chapter 11 bankruptcy petition filed in U.S. courts by bondholders.

Crédito Real currently does not have a Board of Directors or an Audit Committee, while the executive management team has seen the departures of the CEO, CFO and General Counsel within the last few weeks. With such a material leadership vacuum, there is significant uncertainty around potential outcomes. In addition, we previously reported Crédito Real's non-compliance with regulatory deadlines to file its 2021 and 1Q22 financials, and to date, the Company has not made these submissions.

Without access to up-to-date financial records, we are challenged to assess the potential recovery value for bondholders.

A Shareholders' Meeting has been called for August 15, 2022 with the agenda including updates on: the restructuring process; the operating, financial and legal status of the Company; Credito's cash-generation status; a schematic breakdown of the Company's debt profile; and the status of the audit for the 2021FY. The call for the shareholders' meeting was requested by the CEO of Crédito Real, who has since resigned, so the status of the call is uncertain.

We continue to maintain our recommendation of Strongly Underweight. The Company has missed the extended deadline to produce its 2021 audited financials and the first quarterly report for 2022. Without these statements, we are unable to ascertain Crédito Real's current financial status and provide a more robust and up-to-date analysis on the Company. We will provide further updates as the liquidation proceedings develop.

Source: JMMB Investment & Research, Bloomberg, Crédito Real, Fitch Ratings, S&P Global Ratings

APPENDIX

IMPORTANT DISCLOSURES

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

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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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