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INVESTOR UPDATE

FEB, 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 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	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%. Payable semi-annually
Bid/Ask[1]	US$30.026/US$30.376
Last Price[2]	US$30.304
Yield[2]	Yield to Maturity – 53.0306% Yield to Call – 191.935%
Credit Rating/Outlook	Fitch: B-/Negative S&P: B-/Negative
Next Call Date and Price	February 7, 2023 – US$104.750

[1] Exclusive of broker fees, as at January 28, 2022

[2] As at January 28, 2022

CREDIT RATING DOWNGRADES

On January 24, 2022, S&P Global Ratings downgraded Credito Real's long-term global scale issuer credit rating to "B-" from "B+" and maintained all its ratings on CreditWatch negative. Credito Real has a large debt maturity on February 9 (CHF 170M) and had announced several initiatives in 4Q21 to strengthen its liquidity ahead of this obligation. However, Credito Real has only completed two initiatives and as such, S&P believes its liquidity remains pressured prior to the February 9 maturity. In S&P's opinion, the delays in execution of these initiatives have raised the Company's refinancing risk, reducing its ability to obtain funding under stressful conditions.

Two days later on January 26, 2022, Fitch Ratings also downgraded its long-term foreign and local currency issuer default ratings of Credito Real to "B-" from "BB-". These ratings were also maintained on Rating Watch Negative. In line with S&P, Fitch stated that the downgrade also reflected Credito Real's slower-than-anticipated progress in its funding and liquidity plans to address the CHF 170M maturity. Fitch Ratings stated that the delays reflected "worsening business flexibility and a very weak funding and liquidity profile."

Credito Real has managed to sell and collect a portion of the Mexican and U.S. small and medium enterprise (SMEs) portfolio (MXN 1.12B or USD 55.4M), however, the rating agency noted that the origination pace has reduced partially in recent weeks. In its report, Fitch Ratings stated that information provided by Credito Real that includes current cash plus pending short-term strategies that are completely issuer-driven (not market linked i.e. near-term collections and reduced origination) account for a material portion of the upcoming maturity.

STRATEGIC INITIATIVES UPDATE

On January 17, 2022, Credito Real provided an update on the strategic initiatives announced in 4Q21 to refocus its business on core activities, improve its NPLs profile and refinance debt.

Execution of Long-term Strategic Plan

- Sale of Mexican SMEs Loan Portfolio: In October 2021, Credito Real announced an agreement to sell part of its SME business in Mexico for Ps. 1.5B. This transaction is incomplete as it is still pending approval from regulators in Mexico

- Sale of Credito Real USA Finance LLC: Credito Real has received six non-binding offers for 100% of its equity interest in its U.S. subsidiary. A majority of the bids are above the minimum threshold approved in the shareholder's meeting that instructed and authorized the sale. Submission of binding offers as part of this final phase have been requested by first week of February. The completion of this sale process is expected in 1Q22.

- Sale of Portfolio of Camino Financial – In December 2021, Credito Real announced the successful sale of a portion of a SME loan portfolio in the U.S., related to its U.S. subsidiary Camino Financial, for USD 45M, while retaining a 36.6% share of the subsidiary.

Improvement of the Non-Performing Loan position

In the first quarter of 2021, CREAL reported a sharp rise in bad debts, as the largest loan in the SME portfolio was reclassified to non-performing, leading to that business line's NPL ratio moving from 0.5% to 12.0%, and increasing the overall loan portfolio's NPL ratio to 3.9%, from 1.5% a year prior. In October 2021, Credito Real announced that it had entered into a settlement agreement in which the debtor, Nuncio Accipiens, transferred assets consisting of equity and collection rights to Credito Real. The transfer was made as payment under the non-performing loan of Ps. 695M.

Credito Real stated that, to date, it has received significant interest as well as unsolicited offers from potential buyers for these assets. However, the unsolicited offers represent a discount to the value Credito Real has assigned to the assets. The Company is continuing to explore the interest with the aim of maximizing value recovery. The resolution of the non-performing loan is expected to lead to a significant improvement in the Company's NPL ratio, with the NPL guidance for 2022 falling in the 2% to 3% range.

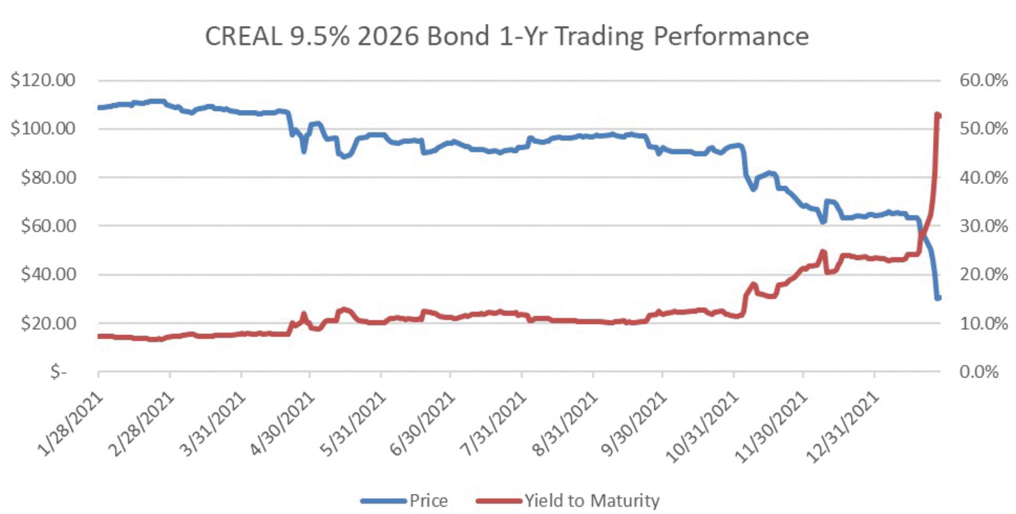
Debt Refinancing

Credito Real stated that it had made progress in its efforts to strengthen its liquidity position and was making progress in refinancing its debt via a new syndicated loan, which expects to finalize with sufficient time prior to the upcoming maturity of the Swiss bonds.

On Wednesday, January 27, 2022, Credito Real released a statement that it was still working on securing a credit facility, as well as alternatives, ahead of the CHF 170M bond payment. The note clarified a "prematurely" released draft statement from the Company "saying it had secured a funding commitment.

PRICE MOVEMENT

The chart below shows the 1-year price movement of the CREAL 2026 Bond. The bond closed at $30.52 on January 28, 2022, down 72% year-over-year. Most of this decline was seen in the past week, as the bond fell 51.0% in the past seven days. This price movement has led to a sharp rise in the yield to maturity, which moved from 7.3% to 52.7% year-over-year.



This performance is in stark contrast to that of the Swiss-denominated bonds due next month, that closed at $86.79 on Friday, January 28, 2022. One would expect that given that the company is still working on raising financing to redeem the Swiss bonds, they would be trading down in line with the 2026 bonds. We can only presume that the Swiss market is not as fairful as fearful as the US bondholders. The Swiss notes are down just 12.5% year-over-year and 7.7% year-to-date.

RECOMMENDATION

Market sentiment around Credito Real has soured significantly over the past week as investors had expected that the initiatives announced in the previous quarter would have been at a much more advanced stage, if not completed, so close to the maturity of the Swiss Notes. This is reflected in the 50% loss in principal seen over the last week. We share in this sentiment, as we believe that given the challenges faced throughout the course of the pandemic and the concerns voiced by investors, the company should have moved with expediency to arrange refinancing at a much earlier date to renew investor confidence.

We have not been able to ascertain why these losses have not carried over into the trading of the Swiss bonds outside of confidence in that market that the Company will make the payment. This is not to say that there is full confidence, as media reports are that Credito Real was unable to refinance the 2022 Notes in the Swiss market and thus made efforts to arrange a syndicated credit facility.

Credito Real made the interest payments due for its Senior Notes due 2023 and 2028 on the 20th and 21st of January on time and in full, which signals their intention to make good on their debt obligations. At the close of trading on Friday, January 28, 2022, the Wall Street Journal reported that Credito Real had hired Goldman Sachs to arrange rescue financing to pay down the Swiss Notes. Credito Real has not confirmed this news or provided an update on the previously announced syndicated secured credit line. As such, we are unsure if the syndicated credit facility that was previously announced has fallen through.

The slow execution of the previously announced deals have caused us to lower our recommendation to **Strongly Underperform/Underweight**. As the bonds have already fallen significantly in the past few days, we believe the most prudent action is to await further news considering the Company is still making interest payments and the 2026 Bond is due in four years' time.

Source: http://www.jamstockex.com, JMMB Investment & Research, Bloomberg, Company Financial Statements, 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.

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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