

JUNE, 2023

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 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\$12.250/US\$13.215
Last Price²/Yield²	US\$13.500/122.930%
Credit Rating/Outlook	Fitch: Rating Withdrawn S&P: Rating Withdrawn

¹ As at May 26, 2022

OCTOBER 2022 UPDATE

On May 17, 2023, Credito Real released a Process Update on the status of its ongoing bankruptcy proceedings. On May 15, the lender announced that it had signed a preparatory agreement (Restructuring Support Agreement) with an ad hoc group of unsecured creditors. The Restructuring Support Agreement (RSA) sets forth a plan of reorganization to be included as part of a “pre-packaged” Concurso petition (bankruptcy and/or business reorganization proceeding) to be approved by a Mexican court.

Before the filing of the Concurso petition, the RSA provides that Credito Real and the ad hoc group will obtain the agreement of unsecured creditors that collectively hold more than a majority (above 50%) in principal amount of the Company’s outstanding eligible unsecured debt to enter into the RSA with sixty days. Once final and the requisite consent and approval of the Mexican Bankruptcy Court, the petition will be admitted by a court order that will allow for the implementation of the Reorganization Plan.

REORGANIZATION PLAN (RP)

The RP outlines the creation of a special purpose vehicle (SPV) under a Mexican trust agreement into which assets will be transferred for the benefit of unsecured creditors. Certain remaining assets will be retained by the Liquidator in connection with the remaining proceedings (including those required to facilitate the wind-down and dissolution of the Company in the Mexican liquidation proceedings)

The RSA provides for:

1. The withdrawal of the involuntary Chapter 11 case by the petitioning creditors within three business days following approval of the Convenio Concursal (insolvency agreement)
2. The dismissal of the Amparo proceeding² individuals from the acts or omissions of and the appeal in Mexico, as soon as the RSA is executed
3. The filing of the appropriate adjustments or amendments to the current Chapter 15 case within three business days following the commencement of the Concurso Mercantil (Commercial Bankruptcy) proceeding
4. The continuation of the Mexican liquidation by the Liquidator

The RSA also requires the Company to seek recognition of the bankruptcy proceedings and the RP under Chapter 15 of the U.S. Bankruptcy Code and to seek an order of the U.S. Bankruptcy Court giving full force and effect to the RP in the U.S. once the Chapter 11 case is dismissed.

Credito Real expects the Concurso proceeding to take five to eight months.

² Judicial action to protect an individual or individuals from the acts or omissions of the authorities that violate the human rights and guarantees protected by the Mexican Constitution

The Process Update also provided an update on the recent changes to the Company's Capital Structure outlined below:

	10/31/22 Amount	Adj. on Principal Outstanding	Current Amount ⁽¹⁾	Rate	Original Maturity
CEBURES 17	-	-	-	TIE+2.25	Nov-22
CEBURES 19	17	(17)	-	TIE+2.15	Oct-24
Secured Bank Debt	40	(40)	-	Various	Various
Total Secured Debt	\$57	(\$57)	-		
NAFIN Priority Debt ⁽²⁾	-	-	-		
Unsecured Bank Debt ⁽³⁾	248	-	248	Various	Various
Senior Notes due 2022	165	-	165	2.875%	Feb-22
Senior Notes due 2023	249	-	249	7.250%	Jun-23
Senior Notes due 2026	400	-	400	9.500%	Feb-26
Senior Notes due 2027	378	-	378	5.000%	Feb-27
Senior Notes due 2028	500	-	500	8.000%	Jan-28
Total Priority and Senior Unsec. Debt	\$1,941	-	\$1,941		
Total Debt (Excl. Sub. Debt)	\$1,998	(\$57)	\$1,941		
Subordinated Perpetual Debt	230	-	230	9.125%	Perpetual
Total Debt (Incl. Sub. Debt)	\$2,228	(\$57)	\$2,171		
Less: Cash	58	29	87		
Total Net Debt	\$2,170	(\$86)	\$2,084		

Total debt as at Oct. 31, 2022, was stated at US\$2.23B (inclusive of subordinated perpetual debt). The current amount as of May 17, 2023, was US\$2.17B following the repayment of \$57M in secured debt. The Update noted that the Liquidator repaid all the secured and priority debt at substantial discounts to par.

SHAREHOLDER DEMAND LETTER

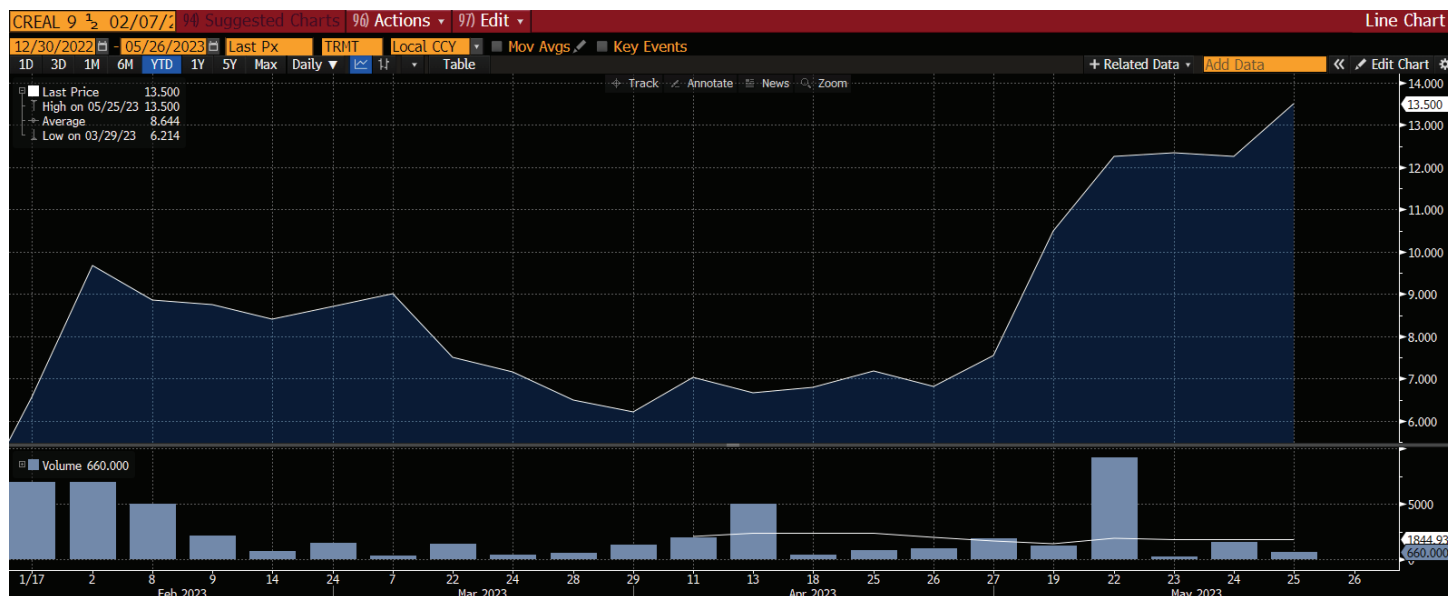
On May 24, 2023, an over 200-strong shareholder group issued a legal letter³ to the Company demanding it hold a general assembly within the next 15 business days as they seek to recover losses. The letter references a clause which allows any shareholder to call for a general assembly if one is not held in two years. The letter outlines continued requests for an assembly, access to the financial statements for 2021 and 2022, details into the private settlements between Credito Real and secured lenders, as well as a detailed audit of the remaining funds.

RECOMMENDATION

The Process Update provided the first clear insight into Credito Real's current financial position with the announcement of its current level of remaining debt after successfully negotiating with its secured creditors.

³ <https://www.reuters.com/business/finance/credito-real-shareholders-demand-general-assembly-bid-recoup-billions-2023-05-24/>

Credito Real is still amid several court proceedings, and the Restructuring Support Agreement still needs to garner the support from a majority of the bondholders. The recent developments appear to have buoyed investor sentiment, with the bonds trading up on the year, moving from US\$6.55 at the start of the year to US\$13.50.



CREAL 9.5% due 2026 year-to-date price performance

We continue to await further information on the outcome for unsecured bondholders and maintain our recommendation of Strongly Underweight.

Source: JMMB Investment & Research, Bloomberg, Credito Real

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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