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Q2 2016 Grupo Financiero Banorte SAB de CV Earnings Call

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**Carlos Macedo** *Goldman Sachs - Analyst*  
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## PRESENTATION

### Operator

Good day everyone and welcome to the Banorte Second Quarter 2016 Earnings Conference Call. Today's call is being recorded. And at this time, I'd like to turn the conference over to Ursula Wilhelm. Please go ahead.

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### Ursula Wilhelm *Grupo Financiero Banorte SAB de CV - Head of IR*

Thank you, Vicki. Good morning everyone and welcome to our second quarter earnings presentation. I am Ursula Wilhelm, Head of Investor Relations for the Group. And this morning Marcos Ramirez, Chief Executive Officer will give you details into this quarter's results. With him are Senior Managing Directors, who will also take part in the Q&A session.

Marcos, please go ahead.

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### Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO*

Thank you, Ursula. Good morning everyone. I'm pleased to report to shareholders that the Group delivered another quarter of good operating and financial results. I will start on Slide 2, commenting that earnings growth was again the result of good performance in the loan book and a strong performance on the non-bank subsidiaries, which contributed with 29% of the Group's earnings.

Continued discipline in cost management delivered savings, which more than offset slightly higher provisions for credit losses. Better than expected results in the assets recovery business also contributed to earnings. Earnings per share grew [16%] year-over-year, 4% sequentially lifting this ratio to MXN1.66 per share, in line with the upper bound of our net income guidance.

On Slide 3, the net interest margin shows a benefit of the 50 basis points rate hike of February and the good evolution of the loan book. At



the Bank, the interest margin moved up 30 basis points to 4.9% in the first half of the year. In this context, the Group's NIM grew 40 basis points to 4.8%, while for the second quarter, the Group's NIM dropped to 4.5% affected by insurance on the back of claims growing by MXN356 million and a decline of MXN912 million in retained premiums, is still reflecting the changes in accounting mythology in life premiums, that took place at the beginning of the year.

You will recall that we advised that higher income from retained premiums recorded in the first quarter will normalize in the months ahead, the decline in retained premiums during the second quarter reflected. The total revenues grew 11% supported of good expansion across all businesses. NII from banking operations grew 13% year-over-year and 3% sequentially is already moving ahead of the loan book and is supported by continued growth in low-cost demand deposits.

NII at the Group of MXN12.6 billion was up 9% annually. Yet this growth was slightly undermined by this lower growth in premiums already described. Service fee grew 10% year-over-year quarterly with good growth rates in all fee categories. In particular, fees from core banking service of MXN2.2 billion were up by 15% annually. Fees from wholesale banking declined 3% to MXN772 million, on lower investment banking and client related activity.

Trading income was MXN771 million, in-line with guidance, as we already taken a defensive position on interest rates. Other income of MXN955 million posted a strong growth of 54% during the quarter. We collect MXN92 million on the sale of assets and better than expected loan collections.

The insurance company posted MXN79 million in income from the implementation of solvency regulation. Also, registered in other income are MXN61 million revenue from operating leases, which used to be accounted for the net interest income.

Moving to expenses on the Slide 5, they total MXN7.5 billion, declining 5% sequentially. Disciplined expense management and savings from personnel reductions support this good trend. Positive operating leverage was achieved during the first half of the year. On the back of revenues growing 11% and expenses only a modest 2%; and the resulting efficiency ratio of 45.6% is 410 basis points lower than last year.

Continuing on loan growth in Slide 6, the trade book expanded 12% annual. We expect to continue growing the loan book to reach our guidance target, with higher growth coming from consumer loans. The NPL ratio remains healthy, but increased 10 basis points to reach 2.3%. This is mainly explained by the typical seasonal deterioration in the consumer books where the new NPL formation peaks in the second quarter and then declines in the following quarters.

Overall, we continue to see a stable behavior [advantages]. On the corporate book, the NPL was up 30 basis points, related to a credit exposure of MXN344 million, which became delinquent during this quarter and for which we made MXN185 million in provisions. Other than this, the credit book remains healthy.

Moving on to slide 7, loan loss provisions were MXN3.5 billion in the quarter, up 27% versus the prior year. This number includes a specific provision of MXN185 million. Also I want to highlight that in the first half of the last year, we had provision reversals of MXN944 million, which compensated the regular provision requirements and therefore the comparative growth rate of 27% is overstated. For the remainder of the year, we expect that cost of risk to remain in the 2.5% level of average loans.

This is one of the three updates we are doing to the guidance. The earlier two are: first, based on our current estimates, we expect the net interest margin to show an expansion of 20 basis points to 40 basis points for the full year. And second, we are narrowing the net income range, bringing up the lower bound to MXN19 billion. So the new range is between MXN19 billion to MXN19.6 billion. These updates shows our strong confidence that we are on track to deliver better financial and operating results in the second half of the year.

Finally, in order to continue with our efforts to be top notch in corporate governance, we'll be calling an extraordinary shareholders meeting in August to propose two amendments to the Financial Groups by-laws. First, we will propose to include that any related pre-acquisitions, which may represent an amount equal or above 5% of GFNORTE's total assets will have to be approved by shareholders. And second, as part of our efforts to improve governance of the Nominations Committee, we will propose to have a majority participation of independent

members. Additionally, we're working on establishing a formal process to select Board members.

With this, I conclude the main highlights of the quarterly results and now we are ready to take your questions. Thank you very much and good morning.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Philip Finch, UBS.

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### Philip Finch *UBS - Analyst*

Thank you Marcus and congratulations on your solid set of results. A couple of questions from my side please. In terms of your new NIM guidance, can you explain to us what does this incorporate? Does that include the latest policy rate hikes that we saw in June? And going forward, what is your expectation for policy rates for the rest of this year and for 2017?

And the second question is also related to net interest income where you gave breakdowns of the contribution from your insurance and annuity businesses. So we've seen quite a lot of volatility, part of that is clearly explained in the first quarter because of the new insurance Solvency II rules, but if you compare second quarter performance on a year-on-year basis, we still saw a downtrend. Can you elaborate a little bit more what's driving this? And going forward, how do you think we should be forecasting this line? Thank you.

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### Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO*

Thank you. We have two questions here. So the first one, the new NIM guidance, maybe Arana will answer that. And the insurance and the solvency and elaborate a little bit on that Mr. Solis is going to help us, Fernando Solis.

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### Rafael Arana de la Garza *Grupo Financiero Banorte SAB de CV - CFO*

Yes. Thank you, Philip. This is Rafael Arana. Yes, we see a continued expansion, as you mentioned, and it's very clear on the slides that we provided to you the effect that the new methodology for the insurance company causes on the NIM. The banking NIM that is really what we are really tracking very, very careful and you can compare apples-to-apples, continue to increase 50 basis points from the second quarter of 2015 to the second quarter of 2016.

So that's a continued expansion based upon two things; a continuing better mix that we continue to deliver on the consumer book and also a much better funding cost. We continue to be very, very effective in raising low cost of deposits. The mix continues to be very healthy.

So we continue to really push down the cost of funds and have a much better consumer mix that's providing the banking margin this continued expansion. That's why we are changing the guidance to include -- now to 20 basis points to 40 basis points. We are very confident that the banking book will continue to be a pretty good story and the numbers that you see on the graph that was provided to you guys by Ursula on the net interest margin, you see that big drop from 5% NIM to 4.6% on the second quarter mainly caused by this change in methodology.

Now that if you go and I will pass the second part of the question to Fernando, but first I would like you to go to page 24, if you may, on the report, on the English report and you can clearly see the big impact that is causing this big jump in the first quarter on the insurance margin and then the tendency to normalize on the following quarters, this number. Just to give you a flavor of what I've mentioned on this page, the premium income that is on the first quarter was say MXN6.3 billion and the premium income in the second quarter was MXN2.6 billion. That is much inline of what we expect for normalize.

Remember that a lot of the big accounts and premiums get renewal in the first quarter, so it's not just a change in methodology, also the



seasonality of the way the revenue flows into the Company. But I would like to pass to Fernando, the head of the Insurance Company to provide us with more information about the performance of the Company.

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**Fernando Solis *Grupo Financiero Banorte SAB de CV - Managing Director - Long Term Savings***

Well, as you mentioned, yes the insurance volatility is going to be something that we will see not only for Seguros Banorte, but for the industry as a whole. Actually, most of the players are struggling with the changes; mainly those players which have a portfolio that hinges more on long-term products in life, that's where most of the volatility comes from.

So a part of our volatility is explained because of that. That's something that was expected and that's why we have a very strong first quarter in terms of premiums and also in terms of net income. Now, in terms of taking into account -- if you take out this volatility, if you look at the insurance results without the new rules, we are mostly on track with what we also have on the guidance.

However, we do have -- also it is something that is seen the industry as a whole, we are experiencing an increment in the loss ratio mainly in car insurance and this is due to three, I would say three reasons. One, there has been a lot of competition, price competition and that means -- given the same losses, it means a higher loss ratio. Another explanation for the increment in the loss ratio is that, we are observing more cars being stolen than we'd used to see in the past.

This is just a (inaudible) experiencing 4.5% more robbery than the previous quarter and the previous months. And also we have an effect with respect to the exchange rate, because we were forecasting a lower exchange rate than the one that we are observing and since we repair many of the cars that are facing losses. Then, we are experiencing also some pressure there on the cost side.

Having said these, our forecast is still to keep our guidance -- you remember that we were expecting to increase somewhere 18% to 22% net income. However, I should say that we are more close to the lower bound now than to the upper, but perhaps we're going to be somewhere at 20% if I have to say something now, but we have to be very, very careful in this line of business. We have to implement measures. Hopefully competitors will start to increase prices, because this is something that will not be able to -- many of the players are facing losses and also reductions, important reductions in the profitability.

We are, I should say, perhaps the most resilient player and one of the most profitable [news] of the industry. We do not follow the price war but still we have been experiencing some problems in this line of business. But let me emphasize, I mean we are still keeping our forecast for the year somewhere between 18% to 22% and perhaps the mid forecast would be 20%.

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**Philip Finch *UBS - Analyst***

Thank you, Fernando. Also Mr. Casillas wants to ask something. Welcome, Casillas.

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**Gabriel Casillas Olvera *Grupo Financiero Banorte SAB de CV - Chief Economist***

Hi Philip, this is Gabriel Casillas, Chief Economist. I just want to highlight that, already Rafeal Arana mentioned, what is embedded in our new NIM guidance. However on the research department, we do think that the Central Bank of Mexico might hike another 100 basis points in the second half of the year, 50 basis points delivered in September and 50 basis points in December.

And this is mainly because of the change of reaction function of the Central Bank more towards FX rather than to other fundamentals like inflation. So in this context, we are expecting more hikes from Central Bank. However, I want to be clear on this, this is not embedded in the new NIM guidance.

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**Operator**

Jason Nolan, Scotiabank.



**Jason Nolan Scotiabank - Analyst**

Hello, everyone. My first question is related to your efficiency ratio, which showed a material improvement. Can you talk about how sustainable this is, this is an all-time low or the best efficiency level we've seen that I can remember? If you can give us some color on how you expect this to perform going forward particularly with what you just talked about with higher margins? Thank you.

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**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

Yes, it's the all-time low and we want to say something about it. So, thank you for your question and maybe Mr. Arana can help us.

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**Rafael Arana de la Garza Grupo Financiero Banorte SAB de CV - CFO**

Thank you. Let's remember that there has been a permanent effort last year. There was a big effort of around MXN1.2 billion in reduction of expenses, 60% were coming from personal expenses reduction and this year, we also announced that MXN500 million reduction in expenses was to be executed in the first quarter. Most of it happened really at the beginning of the year in January.

So we are getting a lot of the benefits of that reduction, that 60% of the MXN500 million were in personnel expenses. And also, there was a reduction in operating expenses mainly that the integration in platforms and the reduction in maintenance were related to the integration in technology is already helping.

We expect that the cost to income ratio to deteriorate a little in the second semester for two reasons. We are (inaudible) a lot the external mobile forces that are mainly on variable compensation and they are starting to deliver extremely good result, as you can see in the SME and in the mortgage book, but you see a quite big expansion also in the auto loans book.

But still even though considering that that will happen because of that, we will increase the selling process on the external mobile forces (inaudible) compensation, is. The cost to income ratio should be around 45% for the full year. So, yes it has been a good improvement in the cost. It will not stay arrears, but it will reach the 45% guidance that we anticipate to you guys in the guidance.

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**Jason Nolan Scotiabank - Analyst**

Thank you and maybe for my second question, just on loan loss provisions, you mentioned there was a specific case of a company that was not paying, if you can talk about this, I think you mentioned a MXN185 million, if you can just talk about this exposure and does this mean that you're expecting them to default and should we expect more of these kinds? Is this incorporated in your 2.5% provisions to loans expectation going forward?

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**Rafael Arana de la Garza Grupo Financiero Banorte SAB de CV - CFO**

No, it's fully embedded on the 2.5%, the MXN180 million of buildup in provisions about this client in the past. So this is the full provision for the client. So we don't expect more deterioration with this specific client in the coming months and it is fully embedded in the 2.5%.

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**Operator**

Tito Labarta, Deutsche Bank.

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**Tito Labarta Deutsche Bank - Analyst**

Hi, good morning and thank you for the call. My question is also on asset quality, more specific on the consumer book. I know you mentioned some seasonality there, but it's a surprise how big the increase was around 80 basis points for both credit cards and payroll loans. So just want to get a little bit more understanding, why it increased so much in the quarter? Anything else other than seasonality, just because it seem quite high just for seasonality and how you see this going forward and any concerns you have on the consumer book? Thank you

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

Thank you Tito, I'll start with Rafael but maybe also Mr. Casillas can add something to it.

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**Rafael Arana de la Garza *Grupo Financiero Banorte SAB de CV - CFO***

Thank you Tito, there's two reasons on the cost, there has been a specific issuer in the payroll business that is causing us deterioration not for the -- that the client [kind of solved them] because there was a movement from clients of that specific issuer that another bank provide them loans and that is creating an additional, I would say, much more risky process on those clients and the collection has been especially difficult in that, we are dealing with that issuer.

I think that will be sorted out in the second quarter, but today that is causing us a deterioration in the portfolio of MXN320 million that has been passing through for the last months. I think that's stopped now and we are starting the recovery phase, everything else on the payroll book, what you will see is -- you will continue to see an expansion on the payroll loan book.

As we speak, we are now putting in all the ATMs, specific offer for [star] origination, payroll loans to a specific clients based upon pre-approved credit lines that are a much more secure way to provide payroll loans to the clients, that's on the payroll loans. Yes, it has been a deterioration basically because one issuer has caused the amount of deterioration that I just mentioned.

On the credit card you have to remember two things, since the Good Friday start in Mexico and usually you get a seasonality that peaks on the second quarter and usually the credit card book moves from [5.5 to 6.5]. What you will see on the coming months and really the big decrease will happen in the fourth quarter.

This number will go below 6% at the end of the year. We are picking up because of the seasonality in the second quarter. We don't see any vintage deterioration on the credit card business. But I would like to pass also to Guillermo Chavez, the Head of the Credit Risk to provide more color on those.

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**Guillermo Chavez *Grupo Financiero Banorte SAB de CV - Chief Risk and Credit Officer***

I think basically Rafael has mentioned quality issues that have affected our portfolio both in the payroll and credit card. I think they are well identified. They are being taken care of. Our main challenge for the future in those two portfolios is to grow at a reasonable pace, in order to achieve the size of the portfolio that we want to have particularly in those two products.

But as a whole, in the consumer portfolio, we need to increase it as a percentage of our total lending book. We are aiming at that change and there is a tough competition, especially in payroll loans that we need to catch up with our competitors. The bad loans slowed us a little down, but they have been taken care of.

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**Tito Labarta *Deutsche Bank - Analyst***

So, I guess is it safe to say that maybe you could see some improvements in asset quality by year-end and also are any other segment where you're seeing an increase in competition?

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**Guillermo Chavez *Grupo Financiero Banorte SAB de CV - Chief Risk and Credit Officer***

Well basically people are looking at car loans. It was a sector that has been dominated by the manufacturer's financial arms. We are now moving there with very good results. Still a small portfolio in relative terms, but we are moving very well and our winner really in the portfolio has been the mortgage loan where we have been gaining a lot of percentage of the total market, with extraordinary good results in terms of behavior, that probably will be the other product where eyes will be looking at during the next month.



**Rafael Arana de la Garza *Grupo Financiero Banorte SAB de CV - CFO***

But yes, you will see an improvement on the full year for the credit card portfolio and as Guillermo says, the payroll loan book will continue to grow. We are taking care of this specific issue to sort it out this amount of provisions that we created for the deterioration.

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**Operator**

Guilherme Costa, Itau BBA.

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**Guilherme Costa *Itau BBA - Analyst***

Good morning, guys. This is Guilherme Costa from Itau BBA. I have two questions. The first one is about the effective tax rate. We saw that you show a small increase in the effective rate in this quarter, but it remains below your guidance, and I want to know, if you expect this to continue increasing in the coming quarters? And my second question is about your trading gains. Could you remind us what is your expectation for a normalized level of trading gains this quarter? I understand that you showed some recovery in this quarter; last quarter, it was really weak, but what is your normalized level for trading gains? Thank you.

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

Yes. The tax rate, the new one is around 26% to 28%. And logging to the trading gains -- the normalized situation and the budget is around MXN700 million per quarter, around that.

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**Operator**

Mario Pierry, Bank of America Merrill Lynch.

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**Mario Pierry *Bank of America Merrill Lynch - Analyst***

Good morning, everybody. Congratulations on the quarter. Let me ask you more of a question on the macro. As you mentioned, maybe there is a chance that the Central Bank increases rates by another 100 basis points second half of this year, we have the uncertainties related to the elections in the US; we have the drop in oil prices. So I'm just trying to get a better feeling from you, how are you seeing the macro environments going into 2017 and what kind of impact that could have on your loan growth and on your asset quality?

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

Thank you, Mario. Let me pass the microphone to Gabriel Casillas who is eager to give us some colors about that.

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**Gabriel Casillas Olvera *Grupo Financiero Banorte SAB de CV - Chief Economist***

Thank you very much Marcos. Mario, well the thing is, honestly, we do see the Mexican fundamentals in very good shape. On the fiscal side, the [Mr. Finance] is doing all the efforts to really get to a balanced budget by 2017. Foreign reserve levels are in good shape. I mean, everything is okay. The problem, as you mentioned, is the volatility that we might observe from the US election.

As you know Donald Trump will be very Mexico specific and we do think that the peso will absorb a lot of this volatility ahead. And in this context, we were saying the Central Bank has changed its reaction function towards the exchange rate, that's why we think the Central Bank will hike. So we're saying 50 basis points in September, 50 basis points in December.

If this is the case, honestly, I mean not in terms of Banorte, but in terms of general credit in Mexico, we don't think it will have a very important impact or aggregate demand. As you know, banking penetration continues to be low. We see it of course as an opportunity. That's something that allows the Central Bank to hike rates with having very limited impact on aggregate demand and loan growth in general. So that's more or less the way we think. Now after the election, November 8, of course we will have a better assessment of what could happen



with exchange rates and with Central Bank rates in 2017.

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**Rafael Arana de la Garza *Grupo Financiero Banorte SAB de CV - CFO***

Sorry Mario, I just want to stress one point. The more we move into pre-approved credit, I think we could really manage the growth on the credit quality on a much better terms. We have seen as you saw on the numbers, a continuous expansion, a strong expansion on the corporate business, very good growth on mortgages, good growth in auto loans, in payroll loans and in the commercial lines.

So the range that we gave for the market from 12% to 14% loan growth I think it will be pushed in the high-end and that -- what we have seen will continue for the next year, but on a much better offering for the client because mainly everything will be pre-approved in the way we issue credit in the future.

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**Mario Pierry *Bank of America Merrill Lynch - Analyst***

If you can just remind us what is your GDP forecast for this year and next year?

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

For this year it's 2.3% and for next year it's around 3%.

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**Mario Pierry *Bank of America Merrill Lynch - Analyst***

Okay, thank you.

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**Operator**

Carlos Macedo, Goldman Sachs.

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**Carlos Macedo *Goldman Sachs - Analyst***

Maybe to follow up a little bit on what Mario just asked. Your loan guidance for the year is 12% to 14%. That does imply a little bit of acceleration from where you ended up the second quarter, but we've seen the government loan balance show growth that's very much lower than that and it's 25% of your loans. I know you're talking about consumer expanding at a faster pace. Even if you get to 20%, it's only 15% of your loans. Where are we going to see the other expansion? Give us some color on the breakdown there. And if indeed the Central Bank, I know you don't see much of an impact of higher rates on aggregate demand or demand for loans and all that. Is there a risk that it will openly asset quality as you price in higher spreads and you grow faster in consumer in what is a very competitive and tight market?

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

I would say that yes, as you mentioned government, that there was a big prepayment of one of the federal entities at the end of the quarter. We'll continue to see good demand of the federal government in that piece. But even though if we stay at this level on the federal piece; but you will see now corporate is growing close to 18% on a yearly basis, commercial that was really dormant on that piece and now it's expanding above 10%. SMEs also there was no growth last year, now they're starting to grow and we expect at the end of the year SMEs to be close to 9% to 10%. So that fact that you mentioned even the current book, it's big piece of that. The federal entities group continued to do all the lines that they have with us. It's not on the state and municipality that you see a reduction.

But that has been more than offset because on the corporate lending part, we don't see the big flow of prepayments that we used to have in the last three years so that's why it's really sustaining the growth. And as I mentioned, SMEs mortgage book alpha loans payroll will continue to expand and mainly based upon what we call the pre-approved lines of credit on the consumer. So, we don't see any stress on the [quiet] because of the growth because it's a lot safer to give pre-approved loans that go into the walk-ins or through the open market. So now we see



a continuous expansion on the loan book, nothing spectacular, but I think the numbers will reach more in the 13% to 14% at the end of the year if you project those numbers and will be quite sound on the quality of the book.

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**Gabriel Casillas Olvera *Grupo Financiero Banorte SAB de CV - Chief Economist***

It's Gabriel Casillas here. If I may add one thing about when interest rates start to have an impact on asset quality. In general we ran some regressions of the recent past, year 2000 up to now, and honestly rates have to be above 10% Central Bank rates to start affecting asset quality. Now let's assume that because we have been for a long time with very low rates that maybe the new rating which could start hurting asset quality could be maybe 8%, but not less than that really. Honestly, it's going to take a while really for interest rate to start hurting asset quality.

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

Sorry, Carlos Martinez wants to chip in and then Carlos will --.

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**Carlos Martinez *Grupo Financiero Banorte SAB de CV - Head of Retail Banking***

This is Carlo Martinez, Head of Retail Banking and Government. We expect growth in government loans less than 10%. We don't think it's going to be bigger than that. But one thing that is very interesting is that the quality of the loans especially in state and municipality has been increasing so we've been having a better quality than we had a year ago. All our loans have been performing very well and the quality has been improving. Our cost of loans has been lower six months [best]. The reason that we're not growing is because demand is not growing. Said that, we don't have any trouble with any hike in rates. 60% of our loans has been called. Last year we had a very good work with the government so 60% of all the rates are swapped in long term. So, our asset quality is going to continue that way.

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**Carlos Macedo *Goldman Sachs - Analyst***

Just to understand, the delta from the government loans will grow 10% that will help push the growth to the 13%, 14% level that Rafael said is from the corporate side, right, or the commercial side?

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

The corporate and also the mortgage book. Remember the mortgage book and the corporate is really pushing up, payroll loans will be close to 16%, and commercial that has been dragging in the past will be above the 10% on the commercial loans.

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**Operator**

[Thiago Kapowski], Pactual.

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**Thiago Kapowski *BTG Pactual - Analyst***

The first one is in your non-interest income, we can see the other operating income line very strong this quarter. Just like to get some more color on why this is like this and how we can see this going forward, if this is recurring or not. And the second question, if you could give us an update on your projects on integration of CRM and all of that that could drive insurance sales that would also be great. Thank you.

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

On the interest income, Rafael Arana. And also the multichannel architecture and an update on all these, maybe Rafael you can help us here.

**Rafael Arana de la Garza Grupo Financiero Banorte SAB de CV - CFO**

Thank you for the opportunity to clarify this about the other income. If you look at the other income lines on the past two years, that number has been ranged for the full year around MXN3 billion to MXN3.2 billion. In the other income lines, you see very specific recurring earnings that this bank has and has been for many years going back in time is that the recovery unit really is performing extremely well this year and we have been anticipating some of the recovery and collections. Maybe for the full year this number will be no more than MXN3.4 million, MXN3.5 million really in line with where we have been in past years. But we have been really accelerating a lot of the recoveries because in the Northeast that we used to have I would say many assets, you're ceding there because when the crisis in the US happened in 2008, a lot of these developments were really on a non-performing basis standing still.

And since the last eight months we have seen a lot of activity from US buyers because of the depreciation of the peso coming back and buying actively those units. So, we are recovering a lot of those big developments that were just standing still in the past. The other parties, remember that in other income we also record all the recoveries that we effectively do on this year, but are really marked on past years that are provisions that we can free up because of the recoveries that we can really execute in this year. So, I would say the recovery unit is actively working on this and we have experienced extremely good year in recovery unit studies mainly our recurring earnings for us as you can see as I mentioned on the past two years and there were two lines that we're incorporating in this other income because of change in methodology.

One has to do with insurance and annuities MXN79 million and another big piece for the semester was also because of a change in methodology and it's going to be recurring the same as the insurance that is there the leasing piece. Why? It was recorded in the margin, now it's recorded in other income because of a change in methodology that was for the quarter MXN61 million, but for the full year it's close to MXN135 million. So, I would say that this will be a part of a very recurring set of earnings that we have seen in the past. We have accelerating the recovery unit of Solida and we have experienced extremely good numbers on that. Instead of the MXN3.2 billion that was to be the budget for the full year that usually is the number that we have on that, I think we can move that number around MXN3.5 billion for the full year.

On the other part on the CRM, I think we are extremely pleased of the results of what has been going on especially on the pre-approved and on the launching of the campaigns to the branch managers and to the units. And as we speak, we start this week really selling -- not selling on the 7,000 ATMs. Basically we started with the credit cards and increasing lines of pre-approved clients and also referrals from mortgages and alpha loans and in the next week, we will start selling basic insurance life and also start origination pre-approved loans on the payroll side. So, we are very pleased. We expect a pickup in the loan growth especially on the payroll book, also and increasing the lines of the credit cards. And in insurance, I think we will deliver good numbers to catch up on the basic life insurance products.

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**Operator**

Carlos Rivera, Citi.

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**Carlos Rivera Citi - Analyst**

My first one is related to your consumer loan portfolio, which is growing nicely and we're seeing the benefit in the NII of course. However within that portfolio, credit card seems to be lagging, they were flat quarter-over-quarter and I know that the system is also growing slowly there. But just wanted to get your thoughts if you think that we can expect a pickup in credit cards in the second half and if you still have as a target to get market share there? And my second question is a follow-up on asset quality specifically about the guidance for loan loss provisions, just wondering about the reason for the increase. You mentioned already two specific reasons. One, the particular case that made you book MXN185 million provisions; the other one related to payroll loans to a specific issuer. But just wondering if there is anything else that deteriorated in your mind when you revised up the provision for loan loss provision in the guidance? Thank you very much.

**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

We can start with Manuel Romo with the consumer loans and the credit card.

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**Manuel Antonio Romo Villafuerte Grupo Financiero Banorte SAB de CV - Managing Director - Payment Methods**

This is Manuel Romo, Carlos. What we are seeing in the market although the internal consumption started strongly during the first quarter of the year, second quarter became a little bit softer and so the usage of the credit cards, as you were saying, across all issuers and all market is softening up. However, this is becoming more evident in the build-up of the portfolio because of changing behavior in certain segments of the cardholders to become more transactors to [divulge] less money. So what we are seeing in the market is that sales are growing much faster than the portfolio build-up. In our case specifically we are increasing, as we have mentioned in this call, several portfolio strategies that are different than in the past because it's more targeted and with more channels. So in that sense, we expect to have a pickup in the build-up of the portfolio during the third and fourth quarter of this year.

We have also been very aggressive in open market commercial efforts. We launched in the second quarter of this year a new cashback product that we think is going to break the market and really make it something very attractive to new consumers in the mass market. As well as we are reinforcing our external sales force to address specifically pre-approved customers that we know they want the card, the relationship, and that's a huge potential of the bank. We keep working on good co-branded deals, we keep looking for good co-branded deals and to make our processes simpler not to use a credit card. That's why our guidance or our outlook for the build-up of the portfolio and the growth of the portfolio should be between 10% and 14% around that level towards the end of the year although we see that the market this trend that I mentioned at the beginning of this is we don't see a major change for the end of the year.

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**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

And maybe Ursula can give some color on the (inaudible) quality.

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**Ursula Wilhelm Grupo Financiero Banorte SAB de CV - Head of IR**

On the guidance increase for cost of risk moving it to 2.5%, basically it's an increase of 10 basis points and we increased it because we see overall higher growth in the loan books as compared to last year. So basically not a deterioration that we expect, but it's more related to provisions that will have to be made as the loan book grows in the second semester of the year.

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**Operator**

Domingos Falavina, JP Morgan.

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**Domingos Falavina JP Morgan - Analyst**

I'm having a bit of a confusion towards the net interest margins [mentioned] I think in the beginning of the call. I'm looking at the page here when we look more at the bank and indeed the NIMs expanded pretty well when we look at year-on-year. But even if we adjust for the insurance if we look sequentially, they didn't and given that Mexico hiked the rate more in December and pretty more maturely in February, what's the margin expansion? So, I just wanted to understand what's your view either a delayed effect or why exactly we didn't see a sequential more mature increase.

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**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

I think it's part of the lag effect. But if you look at really what the average reference rates for that year on the first quarter was 3.9% and then moving to second quarter to 4.1%. So, you see that on average the reference rate has been slowly moving and that's the lagging effect that you see. So, we don't see really. I think that it will continue to expand, that's why we are moving the guidance up on that and the banking book will continue to expand nicely. As we mentioned, it's a matter of the mix, but also the cost of funds are reaching record lows for the bank so that will continue to accelerate in the third and the fourth quarter. I think we have to concentrate on the banking book and the

banking book because what Fernando mentioned at the beginning, there would be a lot of volatility on that but you will see a pretty good nice expansion on the banking book in the following quarters.

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**Domingos Falavina *JP Morgan - Analyst***

Let me ask you just an additional one. You mentioned you were expecting 100 basis points increase throughout the end of the year. What would be the NIM expansion guidance if you had zero Mexico adjustments from now up to the end of the year?

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**Ursula Wilhelm *Grupo Financiero Banorte SAB de CV - Head of IR***

It's the one that we provided, Domingos. The 20 basis points to 40 basis points NIM expansion is just the guidance that already contemplates the hike of December, February, and June. And as Gabriel was very specific when he gave his expectations for policy rates for the next few months, his expectations are not part of the guidance.

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**Operator**

Neha Agarwala, HSBC.

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**Neha Agarwala *HSBC - Analyst***

The first is on the provisions. You created a specific provision for this quarter, could you tell us which sector does that corporate belong to if not the name of the corporate? The second is on the target mix of the loan book. What is the ideal mix that you are targeting if you can give us a rough idea on that? And the third one is on the US subsidiary, if we could get some estimates on how big is the subsidiary in US in terms of assets, loans, equity? And how is the sale of that, did you find any potential buyers or how is the process going in that front? Thank you so much.

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**Marcos Ramirez *Grupo Financiero Banorte SAB de CV - CEO***

Ursula is going to help us in the corporate provisions and then Rafael.

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**Ursula Wilhelm *Grupo Financiero Banorte SAB de CV - Head of IR***

We cannot disclose the borrower because of banking security. What I can tell you is that through the year there have been a lot of concerns from investors on oil related exposure. So, what I can tell you is that just the loan is not related to the oil sector. With regards to the growth, we already mentioned earlier that our aim is to increase the consumer book in the overall share of the portfolio and that's what we have been working on and that is our medium-term goal. And regarding the bank in the US, we don't have any news to update to the market so when we have something, then we will announce it.

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**Neha Agarwala *HSBC - Analyst***

Can we get an estimate on the size of the bank? I really couldn't find the data on the assets or loan book or equity. Could we have that data if possible?

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**Rafael Arana de la Garza *Grupo Financiero Banorte SAB de CV - CFO***

When we talk about the size usually speaking about exactly what because we release on the information the numbers for the [IMB]. I would say that for this year in peso we expect that bank to provide us around MXN360 million of net income and the size of the capital base, as you can see in the report, is close to MXN400 million including the goodwill. That's the capital base of the bank.

**Ursula Wilhelm** *Grupo Financiero Banorte SAB de CV - Head of IR*

And the loan book is MXN1.2 billion.

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**Operator**

German Velasco, BBVA.

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**German Velasco** *BBVA - Analyst*

The first one is with regards to the new credit card loss provisions methodology. We saw the first impact in this quarter, but can you tell us what can we expect for the coming quarters after this change? And the second question is regarding the SME's portfolio, we have already seen an improvement in this portfolio both in loan book expansion and also in the NPL ratio. You have already said that we can expect this portfolio to increase between 9% and 10% at the end of the year. What can we expect about the NPL ratio of the SME's portfolio? Thank you.

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**Rafael Arana de la Garza** *Grupo Financiero Banorte SAB de CV - CFO*

About the change of methodology, can you help us out?

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**Ursula Wilhelm** *Grupo Financiero Banorte SAB de CV - Head of IR*

Basically on the provisions for credit cards, yes, the new methodology was enforced as of April. So as you can see in the quarterly release, we mentioned that we made a charge to the equity of MXN660 million based on the additional reserves that the stock of the credit card portfolio required because of the new methodology. Going forward we don't really expect any major impact. Now probably the overall cost of risk of the credit card of the origination might increase a little bit, but it's already embedded in the guidance and we don't expect to see any volatility because of this.

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**German Velasco** *BBVA - Analyst*

The second question is how will you see the SME's improvement on the NPL ratio?

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**Marcos Ramirez** *Grupo Financiero Banorte SAB de CV - CEO*

The SMEs, as you mentioned, the NPLs are really performing extremely well. As you can see, it's at record level lows providing even a strong relief on the budget that we had for the provisions. So it's performing much better than expected and it's because the retail guys completely revamped the process along with the credit team. So we have a strong predictive models that are fully in effect now. And also all the security measures concerning the avoidance of fraud, that is something that it can be present on this market is fully taken into account on the new process.

So we are very pleased and as you know, if you look at the growth in deposits and fees for the SMEs, not just for the loan book, it is providing us close to 20% growth in the deposit side. So it's becoming, again, one of the strong terms of growth for Banorte.

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**German Velasco** *BBVA - Analyst*

Okay, thank you. And with regards to the NPL ratio, can we expect this to decrease?

**Rafael Arana de la Garza** *Grupo Financiero Banorte SAB de CV - CFO*

Yes, it will stay. No I think, it will continue to decrease and the new (inaudible) are performing at a really -- numbers well below the 4% in NPLs.

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**German Velasco** *BBVA - Analyst*

Below the 4%?

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**Rafael Arana de la Garza** *Grupo Financiero Banorte SAB de CV - CFO*

Yes.

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**Operator**

Alonso Garcia with Credit Suisse.

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**Marcelo Telles** *Credit Suisse - Analyst*

Hi, good morning everyone. This is Marcelo Telles from Credit Suisse here. I have two questions. One a little bit more specific and then a more broader one. We saw the NII on your Repo operations coming down quite sharply so that probably your NII growth would have looked even better than what it did in the quarter, if it was not for the decline in your Repo NII. I think it was almost like MXN200 million quarter-over-quarter. So what drove that decline? I mean, are you are scaling down your repo operations or there was really -- like what was the cause of potential margin compression there?

And my second question is more in terms of your 2020 targets. Where do you stand on that right now? Is this something really achievable for you? Are you comfortable you can get there at some point? If you can elaborate on that, that will be great, thank you.

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**Marcos Ramirez** *Grupo Financiero Banorte SAB de CV - CEO*

Thank you Marcelo. I will start with the second one. Yes, the 2020 is quite a challenge, but it is -- by the way 20 quarters from here today 2020 and we are down the first one and down the second one, so it's less 18 quarters and we are comfortable that we will achieve this goal. We're very happy and we're on track to go there. And the first one, the specific one about the NII and the Repo operations, I will ask Alejandro Faesi to give us some color about that. Alejandro, please.

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**Alejandro Eric Faesi Puente** *Grupo Financiero Banorte SAB de CV - Head of Global Markets & Institutional Sales*

Yes. Thank you, Marcos. The NII was affected by the rate hikes that happened first in February as we know and then in June. What happened in the second one was that, it was expected, it was already priced in like 30 basis points out of the 50 basis points that actually happened. What we expect going forward is to stabilize this.

We see, going forward, the curve fairly priced so that the cost of funding is now [revalued] correctly in terms of what we expect of the cost of funding basically related to the TA and the overnight funding going forward. I actually expect, as a trader, the hikes to be slightly different than Gabriel. I expect to be 25 basis points in August and 25 basis points in September and then 25 basis points when the Fed's hike. That I think will occur in December. So I see like 75 basis points for the full year.

And as I said, I think the curve is fairly priced with this. The US curve by the way is not that correctly priced, it has only like 10 basis points or 12 basis points and I think will happen more than this. So the NII, I think, will stabilize in the next quarters going forward as the repo rate going forward is more predictable.





**Alonso Garcia Credit Suisse - Analyst**

Perfect. And if you allow me just a follow-up on my second question, the 2020 guidance. If you were to, just to try to decompose and see how you're going to get to the 20%. I mean, is it still the case that it is going to be primarily driven by efficiency. I mean you had a remarkable performance on your operating expenses this quarter.

Is this the type of thing that we're probably going to continue to see let's say, next year for instance, and you could get quite a bit of operating leverage in that regard or there is like predict a lot of -- like I'm gaining a lot of market share, volume driven. Just to try to understand what's going to drive that? Thank you.

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**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

Yes Marcelo, Rafael has some numbers here in front of us and we will give you some numbers here.

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**Rafael Arana de la Garza Grupo Financiero Banorte SAB de CV - CFO**

Yes. As we've mentioned, we budget on the plan for the 2020. As Marcos says, on the first two quarters we are right on track for reaching the 2020. The efficiency ratio will continue to go down to reach the 2020. But we are expecting the expense ratio to be inflation plus 70 basis points to 100 basis points, that's the numbers that we budget for the model.

The loan book, we don't see extremely, I would say, accelerated expansion. We modeled the book from 13% to 14% on the coming years where we see a continuous expansion and we're already reaching those numbers is on the insurance business, the pension business also the cross-sell ratio, the cross-sell ratio that is being achieved in the first two quarters is providing us with a bit lift on the revenue.

So I would say the key drivers will continue to be very reasonable in expenses, very control expense line. The subsidiaries will continue to grow at a very high pace if that's the case. The new channels are coming alive now and for the first time in the history of the bank the next budget will accommodate, that is going to start to happen in October, will accommodate the new channels distribution capabilities of the Bank.

So that will add to the cross-sell ratio that we expect. So we are not implying a planned, I would say, accelerated growth in any of the lines. We see nice continued expansion on the mix to reach to 18% to 19% on the consumer book. Overall loan growth of 13% to 14%. Good growth in the subsidiaries continues good growth on the subsidiaries and the key element is really is cross-sell ratio.

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**Operator**

Jorge Kuri, Morgan Stanley.

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**Jorge Kuri Morgan Stanley - Analyst**

Let me ask the question about asset quality in a different way. Is it possible that maybe you're growing too fast that -- and again, I mean I think that six months ago or 12 months ago, the expectation was for the economy to grow faster. And I think all banks accelerated credit with the confidence that that what's going to play out and clearly growth has disappointed. While it hasn't been bad, it certainly has been below expectations. And so, is it possible that what's happening here is that you are growing maybe faster than you should.

If I look at your loan growth versus GDP, you're growing four times GDP, which obviously seems like an unsustainable level and bad debt formation increased in the first quarter, increased again in the second quarter, you're pointing out to one-time item here, one-time item there, but when you add those along a six month period, maybe there is more than that. Your NII on a risk-adjusted basis is growing 7% for the first half of this year, whereas your loan book is growing at 12% so that's obviously dilutive to return on the assets. So, is there a risk that maybe what happens is that you'll start slowing down from here as you realize that maybe indeed you're growing too fast?

**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

Thank you Jorge. Rafael is going to give out some color for your question.

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**Rafael Arana de la Garza Grupo Financiero Banorte SAB de CV - CFO**

I think to really look at the GDP to loan growth, if you see historically in Mexico that number doesn't really follow very well the -- I think it's much more for economies that they have a much more high credit penetration than the one in Mexico. I think the way we are looking at the potential of growth is really on our own customer base. We are not looking in the open market to achieve those level of growth.

When we incorporate 120 bankers from the commercial side last year to be fully operational this year, it is because we really see the opportunity to increase the relationship that we already have with the current clients that the bank has and the same happens in the consumer.

When we see growth in the payroll loans around 15%, it's because the penetration that we have on the base, on the payroll loan is still quite low. To look at numbers of 20% potential penetration, when we can really reach around 40% of penetration in the payroll loan that give us the necessary room to grow and achieve the numbers that we see on the 2020.

When we see the deterioration and I agree with you, it's because a specific issuer, as I mentioned, in the payroll. We don't see on the credit card, nothing wrong on the vintages that we see. It is basically the seasonality that we experience every single year. So that's why when we budget the plan for the 2020, 13% loan growth is, to be honest, nothing out of the box, when you see the history of the loan growth that has been achieved in Mexico and especially in Banorte, it's even less than some numbers in the past year.

So we are very confident that we can achieve those level of growth with the right track on the models and a very good example of that is what is happening on SME's. SME's with the new revamp with the new models are really providing extremely good numbers on the NPL formation and also on the mortgage book.

The mortgage book is also a clear example of what I mentioned. We are moving a lot more on the payroll to really be fully pre-approved, that's the ones we're going to be delivering to the market. So even if those clients have the payroll with us for X amount of months or years, now everything has to be pre-approved. So that will also help us to really level up any pickup on the book.

I think 13% is very achievable, is a reasonable growth and we are not even contemplating the hike of the [3%] GDP expansion that Gabriel is mentioning for achieving that growth. We are really staying at the numbers of 2.4% to 2.6% GDP growth for the coming years. So that's our view on that part. If we see anything really going sour on the vintages, immediately we will go and tell the market, well we have seen some pick up. This specific issuer in the payroll is creating a big number on the hike on the NPL, yes, because it's about MXN300 million effect. But that has to be sorted out in the next two quarters.

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**Jorge Kuri Morgan Stanley - Analyst**

Let me ask a second question, I appreciate the details on your response. The second question is a little bit more short-term. Are you seeing post the second quarter, any change in the indicators of economic activity from your side demand for credit from corporates, from SMEs, from consumers, any change in the level of confidence that you're hearing or sensing from your client as the US elections are closer and the consequences of the outcomes of that election, depreciation of the currency, uncertainty globally, is there anything third quarter versus second quarter that is changing in your sense of the confidence on the growth that both corporates and consumers sense?

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**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

Jorge, this is Marcos Ramirez. It's funny because everything you're reading in the papers and everything you hear is that there is a lot and -- and will come a lot of volatility. But (inaudible) we have this strong pipeline and we take a look every day and weekly and the pipeline is increasing, it's amazing but we have a lot of clients asking for early money and we have -- the strong answer is that the pipeline is getting



stronger. So everybody is talking about that but so far we don't see any changes in conduct of our clients.

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**Rafael Arana de la Garza *Grupo Financiero Banorte SAB de CV - CFO***

One metric that we follow very closely and we can immediately see that is on payroll. We continue to see employment quite strong in Mexico. We don't see any numbers on the payroll, because we can follow when we have more than 5 million payroll accounts, it's easy for us to see if there is some layoff that is out of the normal, when we see the number of deposit as we do on those accounts, not till today we haven't seen that.

We continue to see the consumer, as Manuel says, performing quite nicely, the balances are growing, are lagging a little bit about the consumption, but these numbers will cut short in the coming quarter. So now we are very vigilant about what you mentioned and we have the tools now to really be aware of anything that happens, especially on the payroll. That is where we start to see every time the first signs that the economy is reducing its expansion or the level of growth.

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**Gabriel Casillas Olvera *Grupo Financiero Banorte SAB de CV - Chief Economist***

Probably the answer is already too detailed, but I would like to add something. It's Gabriel Casillas. I mean there are three things why in general, not in terms of Banorte, why we think that credit definitely grows differently than GDP in the short run. One is the cycle that already Rafael mentioned. If you take a look to short-term correlation between GDP and credit, you'll see that it's very low, but we haven't had too many cycles because really -- already this really banking credit cycle started in year 2000. But that's very important to highlight.

The second one about the labor market, and already Rafael mention something, but one important thing to highlight is that, if you take a look to GDP and formal employment, that as you know commercial banks as us aim a lot to the formal labor market. With The Labor Market Reform, what we have seen is that, before the approval in 2012, a formal employment and GDP grew more or less at the same pace. After the approval of The Labor Market Reform, actually we have seen a formal employment increasing at a much higher pace.

Half of that is new jobs, in our view and half of that is formalization of a lot of semi-formal jobs that were in an outsourced fashion, they didn't have an -- afford a pension fund, they didn't have a payroll account. They did have perhaps a checking account, but not a payroll account. So in this context, these are shaped a lot for commercial banks to increase that despite, of course as Rafael mentioned, we are more focused on our own clients.

And the third one and I think it's important, as you know we have seen some divergences between measurements of GDP from the aggregate demand side and from the aggregate supply side. As of last year, the official one that is on the aggregate supply was 2.5% and the aggregate demand also from INEGI grew 4.1%. So you have [1.6% points of difference]. Out of those 1.6%, is we point out this to INEGI last year. We have been working together and 0.8% of those 1.6% are coming from the rates of oil, since oil productions has declined and oil prices too (inaudible) is left. So that might not be something of underestimations.

However the other 0.8% seems to be coming from an over estimation of the trade deficit. So in this context, now we can explain better while last year and part of this year, we have seen very good numbers on the aggregate demand such as retail sales, car sales and on the other hand, we have seen GDP actually not so nice.

Next week as you know INEGI will release second quarter GDP for Mexico, in the first quarter we grew 2.6%. Probably next week, the Mexican economy will post a 2.1% in the second quarter, but this in our view has nothing to, as Marcos was saying, with Trump or with any sort of confidence and reduction, these have to do a lot with government spending cut backs. So sorry, to give you such a long answer but I think it is very important.

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**Jorge Kuri *Morgan Stanley - Analyst***

Thank you. I appreciate the detailed response and I guess it's good to hear, thank you.

**Operator**

Ernesto Gabilondo, Merrill Lynch.

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**Ernesto Gabilondo Merrill Lynch - Analyst**

Hi, good morning. Thanks for taking my questions. I will appreciate if you can give us some update on the potential sale of your US banking operations. When can we expect it to happen? Thank you.

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**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

Thank you Ernesto. We have nothing yet, so we have nothing to declare. Sorry, thank you.

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**Operator**

(Operator Instructions) Claudia Benavente, Santander Bank.

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**Claudia Benavente Santander Bank - Analyst**

Hi, I just was hoping to -- if you can give us an update on the stage at which, if the consolidation of the Credit Bureau since the approval of the financial reform. I haven't heard any more. So I was wondering if you can currently access to information of all the financial institutions.

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**Marcos Ramirez Grupo Financiero Banorte SAB de CV - CEO**

Carlos?

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**Carlos Martinez Grupo Financiero Banorte SAB de CV - Head of Retail Banking**

Yes, well there has been a lot of debate on how the Credit Bureaus are working. We have the largest one by far that is owned on a majority basis by the banks and the (inaudible) that is just a nice intend to have a competition within the Credit Bureaus. The Antitrust Commission has put a lot of guidelines so that any bureau can be accessed and we can and people can get information for both of them.

We think that in the future we can expect maybe one or two large players in the market that are not currently present in Mexico to try to start their operations here. And I think in the next year we will see a big transformation regarding the players, the owners and how they interact with each other in the information they provide to the banks and to the public.

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**Claudia Benavente Santander Bank - Analyst**

But just to round up, for instance, currently with the current credit bureaus that you have, can you access financial information (inaudible) or any other financial institution, not a bank?

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**Carlos Martinez Grupo Financiero Banorte SAB de CV - Head of Retail Banking**

Sorry I cannot hear. Can you get close --

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**Claudia Benavente Santander Bank - Analyst**

Sure. I was just wondering if you currently can access the information of other kind of financial institutions, not only the banks.

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**Carlos Martinez** *Grupo Financiero Banorte SAB de CV - Head of Retail Banking*

Well the answer is no.

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**Claudia Benavente** *Santander Bank - Analyst*

Because at the end, that was one of the purposes of the Credit Bureau, right?

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**Marcos Ramirez** *Grupo Financiero Banorte SAB de CV - CEO*

Yes, that's what an area that it didn't end up in something.

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**Operator**

And at this time i would like to turn the conference back over to the CEO Marcos Ramirez for any additional or closing remarks

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**Marcos Ramirez** *Grupo Financiero Banorte SAB de CV - CEO*

Thank you. I forgot one thing. I was, at the beginning talking about the extraordinary shareholders meeting in August, that we will propose the thing about the related (inaudible) position, also the Nominations Committee and also we will be moving the dividend to 40% in this shareholder's meeting in August. We will be proposing to the Assembly to move to 40% in dividend, which is a very good news I think for you guys. That's it. Thank you very much and see you next quarter and that's it. Thank you very much.

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**Operator**

Thank you very much. That does conclude our conference for today. I'd like to thank everyone for your participation and have a wonderful day.

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